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ATTACHMENTS

Attachment 1: Summary tables showing NERC's proposed 2012 budget; the proposed 2012 budget for statutory activities of each Regional Entity; and the 2012 U.S. ERO statutory assessments of NERC and the Regional Entities.

Attachment 2: NERC's Proposed 2012 Business Plan and Budget

Attachment 3: Midwest Reliability Organization Proposed 2012 Business Plan and Budget

Attachment 4: Discussion of Comments Received During Development of NERC's 2012 Business Plan and Budget.

Attachment 5: Calculation of Adjustments to the AESO 2012 NERC Assessment, the IESO 2012 NERC Assessment, the NBSO 2012 Assessment and the Québec 2012 NERC Assessment.

Attachment 6: Status Report on the Achievement of NERC's 2011 Goals

Attachment 7: Metrics Comparing Regional Entity Operations Based on the 2011 Projections and 2012 Budgets

Attachment 8: Metrics on NERC and Regional Entity Administrative (Indirect) Costs Based on the 2012 Budgets

Attachment 9: Status Report on Progress in Processing Violations of Reliability Standards

I. INTRODUCTION

The North American Electric Reliability Corporation (NERC) submits:

- (1) NERC's proposed Business Plan and Budget as the electric reliability organization (ERO), for the year ending December 31, 2012;
- (2) the proposed Business Plan and Budget for the year ending December 31, 2012, for Northeast Power Coordinating Council, Inc. (NPCC); and
- (3) NERC's proposed allocation of the proposed ERO statutory assessment of NERC, the Regional Entities and WIRAB by country and among the Regional footprints, and the proposed assessments to the load-serving entities (LSE) within each Region to collect the allocated statutory funding requirements.

This filing includes the following attachments:

Attachment 1 is a set of summary tables showing (i) NERC's proposed 2012 budget by program, (ii) the proposed 2012 budget for statutory activities of each Regional Entity, and (iii) the aggregate ERO statutory assessment of NERC and the Regional Entities allocated to the U.S. and Canada.

Attachment 2 contains NERC's detailed 2012 Business Plan and Budget and the allocation of assessments by Region and LSE to recover the resulting statutory funding requirements for 2012 (as well as the assessments to recover the statutory funding requirements of the Regional Entities and WIRAB).

Attachments 3 contains the detailed 2012 Business Plan and Budget of MRO.

Attachment 4 contains a discussion of how comments submitted by interested entities on posted drafts of NERC's 2012 Business Plan and Budget during the budgeting process were addressed in developing the final 2012 Business Plan and Budget.

Attachment 5 contains the calculation of the adjustment to the Alberta Electric System Operator (AESO) 2012 NERC assessment, the adjustment to the Ontario Independent Electric System Operator (IESO) 2012 NERC assessment, the adjustment to the New Brunswick System Operator (NBSO) 2012 NERC assessment, and the adjustment to the Québec 2012 NERC assessment, for credits for certain NERC Compliance Program and Situation Awareness and Infrastructure Security costs.

Attachment 6 is a status report on progress in achieving NERC's 2011 goals.

Attachment 7 provides metrics, based on the 2011 projections¹ and 2012 budgets, comparing Regional Entity operations.

¹ The 2011 projections are NERC's and the Regional Entities' June 2011 projected 2011 financial results.

Attachment 8 contains metrics, based on the 2012 budgets, on NERC and Regional Entity administrative (indirect) costs.

Attachment 9 provides a status report on the progress of NERC and the Regional Entities in processing violations of reliability standards, as of June 30, 2011.

FERC's regulations require the ERO to file its proposed entire annual budget for statutory and non-statutory activities with FERC 130 days before the beginning of the ERO's fiscal year. NERC's 2012 fiscal year will begin January 1, 2012. The filing must also contain the entire annual budget of each Regional Entity for statutory and non-statutory activities and include supporting materials, including the ERO's and each Regional Entity's complete business plan and organization chart, and explanation of the proposed collection of all dues, fees and charges and the proposed expenditure of funds collected. NERC anticipates that billings will be issued to the LSEs or their designees for assessments with initial payment dates commencing on or about January 1, 2012, to support the activities of NERC and the Regional Entities during 2012.

II. NOTICES AND COMMUNICATIONS

Notices and communications with respect to this filing may be addressed to:

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III. OVERVIEW OF PROPOSED BUDGETS AND FUNDING REQUIREMENTS

A. NERC's Proposed Business Plan, Budget and Funding Requirement

1. Organization of NERC's 2012 Business Plan and Budget²

In this filing NERC provides notice of its 2012 Business Plan and Budget. NERC's 2012 Business Plan and Budget is organized based on five specific program areas. Each of these program areas carries out or supports implementation of one or more of the following activities of the ERO: development of reliability standards for the bulk power system; enforcement of compliance with reliability standards, including imposition of penalties and sanctions for violations; and conducting periodic assessments of the reliability and adequacy of the bulk power system in North America. Specifically:

² The organization of the NERC 2012 Business Plan and Budget (**Attachment 2**) described in this subsection also applies to the Regional Entity 2012 Business Plan and Budget (**Attachment 3**).

- (1) The Reliability Standards Program implements the statutory activity of development of reliability standards.
- (2) The Compliance Monitoring and Enforcement and Organization Registration and Certification Program implements the statutory activity of monitoring and enforcement of compliance with reliability standards, including imposition of penalties and sanctions for violations of standards, and conducts analyses and investigations of bulk power system events.
- (3) The Reliability Assessment and Performance Analysis Program implements the statutory activity of conducting periodic assessments of the reliability and adequacy of the bulk power system in North America. This program also provides information and feedback that supports the statutory activities of development of, and achieving compliance with, reliability standards, and includes NERC's metrics and benchmarking activities.
- (4) The Training, Education and Operator Certification Program supports the statutory activity of enforcing and achieving compliance with reliability standards, and also provides information and feedback that supports the statutory activity of development of reliability standards.
- (5) The Situation Awareness and Infrastructure Security Program supports the statutory activity of enforcing and achieving compliance with reliability standards, and also provides information and feedback that supports the statutory activities of development of reliability standards and conducting assessments of the reliability and adequacy of the bulk power system. This Program is also responsible for NERC's activities regarding critical infrastructure protection (CIP) and the Electricity Sector Information Sharing and Analysis Center (ES-ISAC).

NERC's five statutory, or "direct," programs are supported by its Administrative Services, or "indirect," programs: Technical Committees and Member Forums, General and Administrative, Legal and Regulatory, Information Technology (IT), Human Resources (HR), and Finance and Accounting (FA).

NERC's 2012 Business Plan and Budget is contained in **Attachment 2** to this filing. The initial section of the document, About NERC, provides an overview of NERC's organization, scope of responsibilities, membership and governance, delegation of authorities to Regional Entities, and statutory funding.

The Introduction and Executive Summary summarizes NERC's total resource requirements for 2012 including total full-time equivalent employees (FTEs) in statutory functions, statutory expenses, and required ERO funding assessments, and shows the distribution of the total net energy for load (NEL) among the U.S., Canada and Mexico to be used for allocating the ERO funding requirement among the three countries. It also highlights NERC's principal goals, priority deliverables and the demands and challenges it faces, for 2012; its key deliverables for 2012 by program area; and the key assumptions underlying the 2012 Business Plan and Budget.³ Finally, it provides an overview of NERC's funding and resource requirements for 2012, in total and by program area.

NERC's principal goals, as identified in the Introduction and Executive Summary, to carry out its statutory mission, include:

- Develop clear, results-based reliability standards.
- Promote a culture of industry learning and reliability excellence.
- Provide effective measures of reliability and risk performance.
- Facilitate effective management of critical infrastructure tasks.
- Ensure effective and timely compliance and mitigation.
- Provide an effective and efficient ERO enterprise.
- Instill a high degree of trust and confidence in the ERO.

These goals were developed through a strategic planning initiative involving NERC and Regional Entity executive management and the NERC Board of Trustees, and have been presented to and received the general support of the NERC Member Representatives Committee

³ A detailed statement of the 2012-2015 Shared Business Plan and Budget Assumptions developed and used by NERC and the Regional Entities in developing their 2012 Business Plans and Budgets and 2013 and 2014 budget projections is provided in Exhibit A to **Attachment 2**.

(MRC), NERC's technical standing committees, and industry groups. In furtherance of these strategic goals, NERC identified a number of high priority activities for 2011 and 2012, including:

- Issuing new and revised standards, including the development of results-based standards, and working with industry, applicable governmental authorities and other stakeholders to improve the efficiency of the standards development process.
- Continuing to improve enforcement efficiency and productivity, including working with regulatory authorities and stakeholders to develop and implement an improved enforcement framework which focuses both ERO and industry resources on compliance activities which ensure and enhance the reliability of the North American bulk power system.
- Working with stakeholders, developing a long-term strategy for the ES-ISAC and related functions.
- Improving and issuing more event analysis and emerging issues reports.
- Encouraging additional self-reporting.
- Developing and implementing improvements to ERO processes, including the design and deployment of necessary IT infrastructure to facilitate process improvements, including stakeholder communications, process input and collaboration.
- Continuing to improve compliance information and education, including Compliance Application Notices (CANs), bulletins and case notes.
- Advancing the evaluation of reliability effects of geomagnetic disturbances (GMD).
- Improving metrics and modeling capabilities.
- Working closely with industry, FERC staff, Regional Entities and other stakeholders to define a long term strategy for the Situation Awareness – FERC, NERC and the Regions initiative (SAFNR), including ensuring proper protection and use of information collected through the SAFNR technology platform.
- Continuing near term support of the North American Synchro-Phasor Initiative (NASPI) as part of a plan to eliminate further funding by NERC by year-end 2013 in light of other significant public and private sector funding initiatives and support.
- Working with industry regarding a transition of the Interchange Distribution Calculator (IDC) and other tools that are not essential to NERC's operations, to a user-supported funding mechanism in connection with NERC's termination of funding of the IDC in March 2013.

- Improvements in training ERO staff and stakeholders.
- Improving the ability of industry to respond to incidents, vulnerabilities, and threats that have the potential to adversely affect bulk power system reliability.
- Continuing to work with regulatory authorities, Regional Entities, industry and other stakeholders to identify, and reduce or eliminate, resource demands associated with low priority activities, in order to improve the overall efficiency and effectiveness of the ERO while avoiding creating unnecessary resource burdens on Regional Entities or stakeholders.

The Introduction and Executive Summary also lists the key deliverables in support of these high priority activities for each NERC program area for 2012.

The critical challenges and demands faced by NERC, the Regional Entities and industry participants for 2012, as they work to achieve the ERO strategic objectives, include:

- Reprioritizing to focus on reliability risk and delivery of results.
- Rising expectations in critical infrastructure.
- Addressing regulatory mandates, particularly with respect to improving reliability standards and reducing compliance caseload.
- Addressing improvements identified in NERC's *Three-Year ERO Performance Assessment*.⁴
- Improving business processes in ways that are noticeable and supported by stakeholders, while also maintaining a focus on and managing a significant workload using existing support processes as new processes are developed and integrated.
- Balancing resource needs within financial constraints, and achieving efficiencies.
- Recruiting, integrating and retaining qualified personnel.

The Introduction and Executive Summary provides an overview of the principal resource requirements and other factors driving NERC's proposed 2012 Budget. The proposed increases in NERC's budget for 2012 are separated based on two broad causative factors: (1) increases in

⁴ *Three-Year Electric Reliability Organization Performance Assessment Report*, filed December 17, 2009 (*Three-Year ERO Performance Assessment*).

the cost of current operations (representing a \$190,527, or 0.4%, increase over the 2011 base operating budget⁵), and (2) increases due to incremental 2012 resource additions, such as additional staffing (representing a \$4,195,280, or 8.6%, increase over the 2011 base operating budget). The Introduction and Executive Summary summarizes the additional resource needs and incremental funding requirements in each of the five statutory programs and Administrative Services.

The Introduction and Executive Summary provides tables showing (1) the 2011 Budget, 2011 Projection, 2012 Budget, and variance from the 2011 Budget to the 2012 Budget, for each of the five statutory programs and in total; and (2) the FTEs per the 2011 Budget, 2011 Projection and 2012 Budget, for each of the five statutory programs and six Administrative Services programs. Finally, the Introduction and Executive Summary presents NERC's overall Statement of Activities and Capital Expenditures (Statement of Activities), with information from the approved 2011 Budget, 2011 Projection, and proposed 2012 Budget, reflecting the proposed overall increase of \$4,385,807, or 9.0%, over the 2011 Budget. Taking into account NERC's non-assessment Funding sources in 2011 and 2012 (which for 2011 included \$10,175,000 of Penalty payments, but for 2012 include no Penalty payments), the proposed increase in NERC's statutory assessments to LSEs is \$9,554,307, or 23%, over the 2011 statutory assessments.

Section A of **Attachment 2** is NERC's detailed 2012 Business Plan and Budget. Section A provides detailed program scope and functional descriptions, 2012 goals and key deliverables, and 2012 resource requirements by major component (*e.g.*, Personnel, Consultants & Contracts),

⁵ For purposes of the analysis presented in the Introduction and Executive Summary, NERC's base operating budget is defined as the costs associated with NERC's current (2011) operations, and excludes any funding requirements for Working Capital Reserves *See Attachment 2* at 16.

for each of NERC's statutory programs and Administrative Services functions. Section A includes a table at the start of the subsection on each statutory program and Administrative Services function showing FTEs, total direct expenses, total indirect expenses,⁶ increase or decrease in Fixed Assets, and total Funding requirement for the statutory program or Administrative Services function for the 2012 Budget, with the comparable data from NERC's 2011 Budget and the increase or decrease from the 2011 Budget. A detailed Statement of Activities is also provided for each program and administrative department. The Statements of Activities show funding and expense information from the 2011 Budget, the 2011 Projection and the 2012 Budget, as well as variances from the 2011 Budget to the 2011 Projection and from the 2011 Budget to the 2012 Budget.

In the Statements of Activities, Funding is shown from the ERO Assessments and from other anticipated sources (such as Testing Fees, revenues from sale of Services & Software, fees from Workshops, and Interest income).⁷ Expenses are shown by the major categories (and sub-categories) of Personnel Expenses (Salaries, Payroll Taxes, Benefits, Retirement Costs), Meeting Expenses (Meetings, Travel, Conference Calls), and Operating Expenses (Consultants & Contracts, Office Rent, Office Costs, Professional Services, Miscellaneous, Depreciation). Finally, the Statements of Activities show Fixed Assets activity, comprised of Depreciation (an equal and offsetting amount to the Depreciation included in Operating Expenses⁸), Computer &

⁶ Indirect expenses are the amount of Administrative Services expenditures that have been allocated to each of the statutory programs, on the basis of numbers of FTEs in each statutory program.

⁷ Some of these other sources of Funding are anticipated only for certain, but not all, of the statutory programs. For example, income from Services & Software is budgeted only for the Reliability Assessment and Performance Analysis Program, and Testing Fees are budgeted only for the Training, Education, and Operator Certification Program.

⁸ As a result of this offset, the Funding amounts do not include funding for Depreciation.

Software Capital Expenditures (CapEx), Furniture & Fixtures CapEx, Equipment CapEx, and Leasehold Improvements.

Section B of **Attachment 2** provides Supplemental Financial Information comprised of tables detailing the components of certain Funding and Expense categories and explanations of variances from the 2011 Budget, including analysis of the Working Capital Reserve balance⁹ (Table B-1), Penalty Sanctions (Table B-2), Supplemental Funding (Table B-3), Personnel Expenses (Table B-4), Consultants and Contracts Expenses (Table B-5), Office Rent (Table B-6), Office Costs (Table B-7), Professional Services (Table B-8), and Other Operating Expenses (Table B-9). Additionally, Table B-10 provides projections of NERC's 2013 and 2014 Budgets.¹⁰

Section C, Non-Statutory Activity, of **Attachment 2**, is reserved for presentation of business plan and budget information on non-statutory activities. This section is empty for NERC, but in the Business Plans and Budgets of those Regional Entities that have non-statutory activities, it includes business plan and budget information on their non-statutory activities.

Section D, Supplemental Financial Statements, of **Attachment 2**, provides NERC's actual and projected Statements of Financial Position at December 31 for 2010, 2011 and 2012. The data at December 31, 2010 is actual data per the independent financial audit of 2010 results;¹¹ the data at December 31, 2011 is based on NERC's 2011 Projection; and the data at

⁹ Table B-1 shows the Working Capital Reserve or Deficit at December 31, 2010, the projected Working Capital Reserve (Deficit) at December 31, 2011, the desired Working Capital Reserve at December 31, 2012, and the increase or decrease in Funding requirements (assessments) for 2012 necessary to achieve the desired Working Capital Reserve at December 31, 2012.

¹⁰ See §III.F below for a discussion of the 2013 and 2014 Budget projections.

¹¹ The audited financial statements of NERC and each Regional Entity for 2010 were filed with FERC on May 31, 2011, in NERC's *Report of Comparison of Budgeted to Actual Costs for 2010 for NERC and the Regional Entities*, Docket No. RR11-4-000 (2010 Budget True-up Report).

December 31, 2012 is based on the 2012 Budget. In addition, Section D provides NERC's 2012 Consolidated Statement of Activities, showing its 2012 budgeted line-item Funding sources, Expenses, and Fixed Asset activity, in total and by statutory program and Administrative Services function, as well as the direct expenses and indirect expenses for each statutory program.

Exhibit A to **Attachment 2** contains a list of the 2012-2015 Shared Business Planning and Budget Assumptions developed and used by NERC and the Regional Entities in preparing their 2012 Business Plans and Budgets and 2012 and 2013 budget projections.

Appendix 1 to **Attachment 2** contains NERC's organization chart. The organization chart is color-coded to indicate the mapping of FTEs by program area for budget purposes.

Appendix 2 to **Attachment 2** contains the calculation of the NEL-based allocation factors for each LSE and designee, and the allocation of the NERC and Regional Entity statutory assessments, by allocation method, to each LSE and designee.¹² The development of the assessments presented in the Appendices is discussed in more detail in §III.A.3 and III.D below.

The detailed information in the Introduction and Executive Summary and in Sections A and B of **Attachment 2** demonstrates that the programs included in NERC's 2012 Business Plan and Budget are necessary and appropriate to carry out NERC's responsibilities as the ERO and that the specific resource requirements budgeted meet the objectives for affordability, sustainability and efficiency and effectiveness of the ERO's expenditures. The discussion in the Introduction and Executive Summary and Section A of **Attachment 2**, as well as in this

¹² The NEL-based allocation factors are calculated using NEL data for 2010, which is the most current actual NEL data available as of August 2011. As has been the case in allocating the NERC and Regional Entity statutory assessments by country and by Regional footprint and calculating the assessments to LSEs or their designees for prior years' budgets, the allocation and calculation of assessments for the 2012 Budget is based on NEL data for the second preceding calendar year, 2010.

narrative, demonstrates how the activities and expenditures included in NERC's 2012 Business Plan and Budget lend themselves to accomplishment of NERC's statutory responsibilities and objectives as the ERO.

2. Development of the 2012 Business Plans and Budgets

NERC prepared its 2012 Business Plan and Budget (and worked with the Regional Entities in the development of their business plans and budgets) through a rigorous process that provided ample opportunity for review and input by the Finance and Audit Committee (FAC) of the NERC Board of Trustees as well as by stakeholders.¹³ During the development process, successive versions of the 2012 Business Plans and Budgets were discussed in meetings and conference calls of the FAC and of the full NERC Board, in each case with opportunities for stakeholders to make comments. The following list highlights important steps in the preparation of the NERC and Regional Entity 2012 Business Plans and Budgets:

- During January 2011, the NERC program areas initially provided input to the NERC Finance and Accounting department on their business plans and budget requirements for 2012.
- In mid-January 2011, the NERC representatives and the Regional Entity Managers Group (REMG) met to discuss preliminary strategic goals and objectives and the common business planning and budget assumptions for 2012.
- In early February 2011, an initial draft of common assumptions for the 2012 Business Plans and Budgets was circulated for comment internally at NERC and among the Regional Entities. These common assumptions were discussed in several meetings and conference calls among NERC staff, the REMG and the Regional Entity Budget Group (REBG – the Regional Entity Finance and Accounting staffs). The common assumptions were given final approval by NERC and Regional Entity management in March, and were posted on the NERC Website on March 30, 2011.

¹³ During the process of developing NERC's 2012 Business Plans and Budget, comments were received from stakeholders on posted drafts of the Business Plan and Budget. **Attachment 4** discusses how concerns expressed in stakeholder comments were addressed in NERC's final 2012 Business Plan and Budget.

- In mid-April 2011, the Regional Entities submitted preliminary drafts of their 2012 Business Plans and Budgets to NERC for review and comment by the NERC program managers. These drafts, as well as the NERC Business Plan and Budget, were prepared using a common template that was essentially the same as the common template used for the 2011 NERC and Regional Entity Business Plans and Budgets.
- On May 2, 2011, Draft #1 of the NERC 2012 Business Plan and Budget was posted on the NERC Website for stakeholder review and comment, and sent to the FAC. Notification of the posting (and of all subsequent postings) was sent by e-mail to a broad distribution list of interested persons and entities.
- On May 3, 2011, a conference call of the FAC was held to discuss Draft #1 of the NERC 2012 Business Plan and Budget; and a Webinar providing an overview of the NERC 2012 Business Plan and Budget was conducted. The Webinar materials were posted and maintained in the NERC Website for stakeholder review.
- On May 10, 2011, a meeting of the FAC was held, at which an update on development of the 2012 Business Plan and Budget was provided.
- On May 10 and 11, 2011, meetings of the NERC MRC and the NERC Board were held, at which the draft 2012 Business Plans and Budgets were discussed. The Board meeting included a briefing of the full NERC Board by the Chair of the FAC on the development of the 2012 Business Plan and Budget.
- On May 11, 2011, Draft #1's of the 2012 Business Plan and Budget of the Regional Entities were posted on the NERC Website for stakeholder review. Additionally, on May 26, a summary of Draft #1 of each Regional Entity's 2012 Business Plan and Budget was posted on the NERC Website.
- On May 12, 2011, the REBG met with members of FERC's Office of Electric Reliability, Division of Logistics and Security to present summaries of their respective Draft #1 Business Plans and Budgets.
- Each Regional Entity's Business Plan and Budget was also separately posted and available for comment on the Regional Entity's website as part of each Regional Entity's independent budget preparation, review and approval process.
- On June 2, 2011, following further meetings and discussions among NERC staff and the REBG and consideration of stakeholder comments on Draft #1, Draft #2 of the NERC 2012 Business Plan and Budget was posted on the NERC Website for stakeholder review and comment.
- Also on June 2, 2011, a conference call of the FAC was held to discuss the Draft #1's of the Regional Entity 2012 Business Plans and Budgets, with Regional Entity representatives available to discuss their respective Business Plans and Budgets.

- At various dates from mid-June to mid-July, the Boards or other governing bodies of the Regional Entities met to review and approve their respective proposed 2012 Business Plans and Budgets, and the approved Regional Entity Business Plans and Budgets were transmitted to NERC.
- On July 13, 2011, Draft #3 of NERC's 2012 Business Plan and Budget was posted on the NERC Website.
- On July 14, 2011, the Regional Entity 2012 Business Plans and Budgets, as approved by their respective boards or other governing bodies, were posted on the NERC Website.
- On July 19, 2011, a FAC conference call, and associated Webinar, were held for the purpose of discussing Draft #3 of the NERC 2012 Business Plans and Budget.
- On July 27, 2011, the final proposed version of the 2012 NERC Business Plans and Budget was sent to the members of the NERC MRC and the Board and posted on the NERC Website.
- On August 1, 2011, the proposed statutory assessments resulting from the 2012 Business Plans and Budgets were sent to the NERC Board and posted on the NERC Website.
- The final NERC and Regional Entity Business Plans and Budgets were presented to the NERC MRC at its August 3, 2011 meeting for comment, prior to the August 3 meeting of the NERC FAC.
- At its August 3, 2011 meeting, the FAC recommended NERC Board approval of the NERC, Regional Entity and WIRAB 2012 Business Plans and Budgets and associated statutory assessments.
- At its August 4, 2011 meeting, the NERC Board approved the NERC, Regional Entity and WIRAB 2012 Business Plans and Budgets, and the proposed 2012 statutory assessments.

In summary, the processes followed by NERC and the Regional Entities to develop the proposed 2012 Business Plans and Budgets were thorough and comprehensive, involved significant input from NERC and Regional Entity management and financial and program area staffs, as well as iterative review and comment by the NERC FAC, and provided several

opportunities for stakeholder input and comment.¹⁴ NERC and the Regional Entities developed and used a set of shared business planning and budget assumptions and a common business plan and budget template. The process was open and inclusive at all steps.

3. Summary of NERC's Proposed 2012 Budget and Funding Requirement

NERC's proposed 2012 Funding requirement is \$53,112,272. This total encompasses U.S., Canadian and Mexican activities. The proposed 2012 Funding requirement represents a decrease of \$614,193 (1.1%) over the 2011 Funding requirement of \$53,726,465. The 2012 Budget is comprised of \$54,240,898 of Expenses (including Depreciation) and a \$1,128,627 decrease in Fixed Assets (Capital Expenditures of \$772,090 less Depreciation of \$1,900,717¹⁵). The 2012 Funding requirement does not include any amount for Working Capital Reserve funding, whereas the 2011 Funding requirement included \$5,000,000 for Working Capital Reserve funding.¹⁶ In addition, NERC's 2011 Budget included \$750,000 budgeted as Other Non-Operating Expenses to cover expenses related to the relocation of NERC's headquarters from Princeton, New Jersey to Atlanta, Georgia, and the expansion of its Washington, D.C. office. All of the expenses for the relocation of the headquarters office and expansion of the Washington office are expected to be fully recorded in 2011, so there are no expenses for office relocation and expenses in the 2012 Budget.¹⁷

¹⁴ FERC staff was also provided with periodic updates on the development of NERC's and the Regional Entities' Business Plans and Budgets.

¹⁵ As noted earlier, an end result of this budget presentation is that Funding is not being requested for Depreciation expense.

¹⁶ See §IV.B below and Table B-1 in **Attachment 2**.

¹⁷ In the 2011 Budget, the \$750,000 of Other Non-Operating Expenses was allocated to the five statutory programs based on proportional numbers of FTEs. Therefore, the 2012 Budget for each

As in past years, a portion of NERC's 2012 Budget will be funded through Testing Fees charged to participants in certain NERC programs, including the Operator Certification Program and the Continuing Education Program (budgeted at \$2,061,000, a 6.2% increase over the 2011 Budget¹⁸); through fees charged for NERC Services and Software such as Generating Availability Data System data (budgeted at \$250,000, the same amount as in the 2011 Budget); by attendance fees for Workshops (budgeted at \$120,000, a 29.7% increase over the 2011 Budget¹⁹); and by Interest earned on bank balances and short-term investments (budgeted at \$20,000, an \$8,000 increase from the 2011 Budget).

One Funding source that is not reflected in the 2012 Budget is any Penalty payments received by NERC from registered entities for violations of reliability standards. NERC received no Penalty payment during the period July 1, 2010 through June 30, 2011. (In contrast, in NERC's 2011 Budget, its Funding sources included \$10,175,000 in Penalty payments received from registered entities during the period July 1, 2009 through June 30, 2010, which served to reduce the amount of the overall Funding requirement to be recovered through assessments to LSEs.²⁰) Additionally, the 2012 Budget does not include any payments to NERC from any

statutory program is reduced by the elimination of its allocated share of the 2011 Other Non-Operating Expenses.

¹⁸ NERC strives to adjust the Testing Fees from time to time as necessary to recover the costs of administering the Operator Certification program.

¹⁹ NERC strives to set Workshop fees to cover the costs of presenting the workshops, such as costs to rent meeting space and prepare printed materials. The number of Workshops planned, of course, also impacts the projected Workshop fee revenues.

²⁰ Pursuant to the NERC policy, *Accounting, Financial Statement and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards*, Penalty payments received by NERC or a Regional Entity during the period from July 1 of the second year preceding the budget year through June 30 of the year preceding the budget year are used to offset assessments to LSEs in the U.S. for the budget year.

Regional Entities to compensate NERC for performing compliance monitoring and enforcement responsibilities over reliability functions for which the Regional Entity is the registered entity. The 2011 Budget included \$150,000 for such payments from WECC (budgeted under “Miscellaneous” funding); however, NERC, WECC and NPCC have entered into agreements pursuant to which NPCC will assume, from NERC, compliance monitoring and enforcement responsibility over WECC’s registered entity functions, and have submitted these agreements to FERC for approval with a requested effective date of January 1, 2012.²¹

These budgeted non-assessment sources of Funding are projected to be \$2,451,000 in total, resulting in a 2012 net Funding requirement of \$50,661,272 to be funded by assessments to LSEs. Of this amount, \$46,132,189 is allocated to the U.S., \$4,411,462 is allocated to Canadian provinces (in the aggregate), and \$117,621 is allocated to Mexico. Based on the aggregate NEL of Canada for 2010 on which the allocation of assessments is based,²² the proposed Canadian net funding requirement for NERC represents \$0.0000087 per end user kilowatt-hour.

NERC’s 2012 Business Plan and Budget was developed and is organized based on its five statutory programs (2011 budgeted amounts by program are shown for comparison):

<u>Program</u>	<u>2012 Budget</u>	<u>2011 Budget</u>
Reliability Standards	\$ 9,156,601	\$ 7,682,752
Compliance Enforcement and Organization Registration and Certification	\$19,514,535	\$17,457,901
Reliability Assessment and Performance Analysis	\$ 6,968,860	\$ 6,292,329
Training, Education and Personnel Certification	\$ 3,098,129	\$ 2,923,011

²¹ See *Petition of the North American Electric Reliability Corporation for Approval of Compliance Monitoring and Enforcement Agreement Between Northeast Power Coordinating Council, Inc. and Western Electricity Coordinating Council and Related Amendments to Delegation Agreements*, filed May 25, 2011 in Docket No. RR11-2-000.

²² The NEL data for the U.S., Canada and Mexico, by Region and by LSE or designee, is provided in Appendix 2-A of **Attachment 2**.

Situation Awareness and Infrastructure Security	\$14,374,147 ²³	\$14,370,473
Contribution to Working Capital Reserve	\$ <u>0</u>	\$ <u>5,000,000</u>
	<u>\$53,112,272</u>	<u>\$53,726,465</u>

The budgeted amounts for each program incorporate a total budget for Administrative Services of \$19,922,828, which has been allocated to the budgets for the five statutory programs in proportion to the numbers of FTEs budgeted for each program.

The discussion in §IV below, as well as the detailed discussion of each statutory program in **Attachment 2**, demonstrates that each of NERC’s statutory programs is necessary and appropriate to the execution of NERC’s responsibilities as the ERO. Section A of **Attachment 2** describes the activities encompassed in each statutory program (Program Scope and Functional Description), the 2012 Goals and Key Deliverables for the program, Resource Requirements for the program, and the principal causes of changes (increases or decreases) in the funding and expenditure categories for the program as compared to the 2011 Budget. A Statement of Activities and Capital Expenditures, showing the line item components of the 2012 Budget, is provided for each program. The functions of and resource requirements and budgets for each NERC Administrative Services department are also discussed in Section A of **Attachment 2**.

NERC proposes an allocation of its 2012 net funding requirement (statutory assessment) of \$50,661,272 to the Regional footprints as follows²⁴:

²³ The Situation Awareness and Infrastructure Security budget is comprised of \$6,977,999 for Situation Awareness (as compared to \$8,111,711 in the 2011 Budget) and \$7,396,148 for Critical Infrastructure Protection (as compared to \$6,258,762 in the 2011 Budget).

²⁴ As described in §III.D below, the aggregate NERC statutory assessment has been allocated to the Regional footprints on the basis of (i) 8-Region NEL, (ii) 8-Region NEL to allocate adjustments (credits) to certain Canadian entities for CMEP and Situation Awareness and Infrastructure Security costs to the remaining LSEs, and (iii) IDC Defined Shares (based on usage of the NERC Interchange Distribution Calculator). The detailed allocations of the NERC statutory assessment by allocation methodology are shown in Appendix 2 to **Attachment 2**.

•	FRCC	\$2,703,019
•	MRO	\$3,340,737 ²⁵
•	NPCC	\$6,086,861 ²⁶
•	RFC	\$10,801,822
•	SERC	\$12,370,909
•	SPP RE	\$2,636,390
•	TRE	\$3,558,395
•	WECC	\$9,163,140 ²⁷

Appendix 2 to **Attachment 2** contains tables showing (i) the development of the NEL-based allocation factors used to allocate the NERC and Regional Entity statutory assessments by country and among the Regional footprints,²⁸ and (ii) the allocation of the NERC and Regional Entity statutory assessments by country and by Region.²⁹ Appendix 2 shows the allocation of the NERC and Regional Entity assessments to the individual LSEs or designees within the footprint of each Regional Entity. These allocations are discussed in greater detail in §III.D below.³⁰

²⁵ The total allocation to MRO consists of \$2,824,600 allocated to the U.S. and \$516,137 allocated to Canadian provinces.

²⁶ The total allocation to NPCC consists of \$3,315,043 allocated to the U.S. and \$2,771,818 allocated to Canadian provinces.

²⁷ The total allocation to WECC consists of \$7,922,012 allocated to the U.S., \$1,123,507 allocated to Canadian provinces and \$117,621 allocated to Mexico.

²⁸ See Appendix 2-A to **Attachment 2**.

²⁹ See Appendices 2-B, 2-C and 2-D to **Attachment 2**.

³⁰ NERC will calculate and bill the assessments to certain entities, referred to as “designees”, based on NEL values that include the NEL for other LSEs served by the designee, or for which the designee has otherwise agreed to accept responsibility for assessments. The calculation and billing of assessments to designees is not a departure from the principle that the ERO funding requirement should be recovered through assessments to LSEs based on NEL, but rather is a matter of administrative convenience and efficiency (*e.g.*, a generation and transmission (G&T) cooperative and its member distribution cooperatives may find it more efficient for the assessment to be calculated and billed to the G&T cooperative rather than to the individual distribution cooperatives). The lists of LSEs and designees for which assessments will be

NERC's only sources of funding for its planned programs and operations will be the assessments to owners, operators and users of the bulk power system in the United States and equivalent collections from entities in Canada and Mexico, and the other sources listed as "Funding" on its Statements of Activities and described above.³¹

B. Regional Entity Proposed 2012 Budgets

The Regional Entity budgets for statutory activities that are to be funded through NERC are the budgets for the functions and activities relating to development of reliability standards; compliance monitoring and enforcement and organization registration and certification; training, education and operator certification; reliability assessment and performance analysis (including necessary data gathering activities); and situation awareness and infrastructure security, that have been delegated by NERC to the Regional Entity pursuant to the delegation agreements; as well as each Regional Entity's budgeted costs for administrative services. Funding the Regional Entities in accordance with their proposed Business Plans and Budgets will enable them to carry out the activities necessary in 2012 to meet their responsibilities under the approved delegation agreements.

calculated and billed have been provided to NERC by the Regional Entities. NERC has had no involvement in developing the lists of LSEs or in arrangements between LSEs and designees pursuant to which a designee agrees to accept responsibility for an assessment that would otherwise be calculated for and billed to the LSE and the LSE agrees to be financially responsible to reimburse the designee for the assessment, with one exception: in Exhibit E of the NERC-Texas RE Delegation Agreement, NERC and Texas RE have agreed that the Electric Reliability Council of Texas (ERCOT) is the only LSE in the Texas RE region and shall be invoiced for the entire NERC and Texas RE assessment. Additionally, the assessments for the NPCC region will be billed to ISO New England and the New York ISO (and to similar entities in Ontario, Québec, New Brunswick and Nova Scotia), each of which will be responsible for billing and collecting assessments from the LSEs within their respective footprints.

³¹ NERC's 2012 Business Plan and Budget includes no non-statutory activities; therefore, NERC has not developed or presented specific accounting processes to separate the funding of its statutory and non-statutory activities and to assure that funding derived from § 215 of the FPA will exclusively support statutory activities.

As described above in §III.A.2, NERC staff provided guidance to the Regional Entities in the development of their business plan and budget submissions, and worked collaboratively with the Regional Entities to develop a set of shared business planning and budget assumptions for the Regional Entities' 2012 Business Plans and Budgets. Further, the Regional Entities prepared their 2012 Business Plans and Budgets using a template that is essentially the same as the template used to prepare the 2011 Business Plans and Budgets. The use of the common template facilitates comparisons among the Regional Entities' budgets.³² Additionally, in developing their 2012 Business Plans and Budgets, NERC and the Regional Entities continued to use the set of consistent accounting principles for presentation of the budgets, and the common definition of administrative (indirect) costs, that were originally developed in connection with preparation of the 2010 Business Plans and Budgets.

As described in greater detail in §III.A.2, NERC management and staff worked iteratively with the REBG from January through July, 2011, on the development of the Regional Entity 2012 Business Plans and Budgets. The Regional Entities submitted initial drafts of their Business Plans and Budgets in May, 2011, after having received the initial drafts of NERC's Business Plan and Budget. More developed drafts were then submitted in late May and posted on the NERC Website. NERC staff reviewed and provided feedback on these drafts. The draft Regional Entity Business Plans and Budgets were also discussed by the NERC FAC. Where appropriate, additional information was requested and other suggested changes were made. NERC and Regional Entity management and finance staffs convened meetings and conference calls to provide feedback and refine their respective business plans and budgets. NERC's review

³² NERC and the Regional Entities originally developed a common template to use in preparing the 2008 Business Plans and Budgets, and the form of the template evolved through the development of the 2009, 2010 and 2011 Business Plans and Budgets, to the form of template used for the 2011 and 2012 Business Plans and Budgets.

focused on (1) verifying each Regional Entity's Business Plan and Budget provided for sufficient resources to adequately carry out the functions delegated to the Regional Entity under the delegation agreement, (2) verifying that the Regional Entity was using the shared business planning and budget assumptions, common budget format and presentation, and agreed accounting methodology, and (3) understanding the bases for any significant differences in amounts budgeted by different Regional Entities for the same function.

Through the processes described above and in §III.A.2, NERC has been able to satisfy itself that each Regional Entity's 2012 Business Plan and Budget provides necessary and adequate resources to carry out the Regional Entity's delegated functions.

The Regional Entities submitted their final 2012 Business Plans and Budgets, approved by their respective governing bodies, to NERC in mid-July 2011. These Business Plans and Budgets were submitted to the NERC FAC and the NERC Board of Trustees, and reviewed at their respective meetings held on August 3 and 4. The Regional Entities' 2012 Business Plans and Budgets were approved by the NERC Board at the August 4, 2011 meeting.

The table below shows the budgets for statutory and (where applicable) non-statutory functions for each Regional Entity as presented in their respective 2012 Business Plans and Budgets.³³ For all Regional Entities, the total budget amount for statutory functions includes total Expenses and Fixed Asset activity. Because each Regional Entity has one or more other sources of income (*e.g.*, attendance fees for workshops; Penalty payments received from registered entities) that will be used to offset the costs of performing delegated functions, the requested ERO funding (assessments) for the Regional Entities is less than their budgets for statutory activities. The fourth column shows the total (*i.e.*, for all jurisdictions) net statutory

³³ MRO, Reliability *First* and SERC do not plan to perform any non-statutory activities in 2012.

assessment required for each Regional Entity, taking into account other sources of income including application of Penalty payments. The statutory assessment amounts include amounts (which for some Regional Entities are negative adjustments to the funding requirement) to achieve the level of Working Capital Reserve at December 31, 2012, determined to be appropriate by each Regional Entity.

Regional Entity	Total Budget for Statutory Functions	Budget for Non-Statutory Functions	Total Net Statutory Assessment
FRCC	\$ 6,394,454	\$ 5,994,975	\$ 4,424,850
MRO	\$ 9,057,228	-----	\$ 8,349,029 ³⁴
NPCC	\$ 13,680,642	\$ 998,427	\$12,551,567 ³⁵
ReliabilityFirst	\$ 16,656,499	-----	\$13,534,272
SERC	\$ 15,594,445	-----	\$14,845,275
SPP RE	\$ 11,410,642	\$127,243,358 ³⁶	\$ 9,851,647
Texas RE	\$ 10,613,459	\$ 999,100	\$ 9,503,866
WECC	\$ 67,969,167	\$ 1,540,140	\$37,220,341 ³⁷

C. Western Interconnection Regional Advisory Board Funding Request

In its Order issued July 20, 2006, in Docket No. RR06-02-000 (*WIRAB Order*), FERC concluded that reasonable costs incurred by WIRAB can be funded through the ERO funding

³⁴ The statutory assessment for MRO consists of \$6,994,464 allocated to the U.S. and \$1,354,565 allocated to Canadian provinces.

³⁵ The statutory assessment for NPCC consists of \$7,308,162 allocated to the U.S. and \$5,243,405 allocated to Canadian provinces.

³⁶ The figure of \$127,243,358 is the total 2011 budget of Southwest Power Pool, Inc. (\$138,654,000) less the 2012 Budget of SPP RE for statutory activities of \$11,410,642. The overall annual budget of Southwest Power Pool, Inc. is prepared on a schedule that will not result in approval of its 2011 budget until October 2011. See §V.B.6 below.

³⁷ The assessment for WECC of \$37,220,341 includes the requested funding amount for WIRAB (discussed in the next subsection). The statutory assessment for WECC consists of \$31,507,675 allocated to the U.S., \$5,211,366 allocated to Canadian provinces and \$501,301 allocated to Mexico.

process.³⁸ As specified in P 35 of the *WIRAB Order*, WIRAB submitted to NERC a proposed 2012 Business Plan and Budget for §215(j) activities. NERC has reviewed WIRAB's submission and believes it complies with the requirements of P 35 of the *WIRAB Order*.

WIRAB's proposed 2012 Budget for expenses is \$614,677, which is a decrease of \$1,793 from its 2011 Budget. WIRAB is budgeting a small increase in staffing from its 2011 Budget, from 2.50 FTEs to 2.75 FTEs, including a full-time attorney hired in 2011. WIRAB has adopted four new, additional priorities which will increase staffing needs: (i) promote reliability of a changing power grid that includes significantly more variable wind and solar generation; (ii) promote evaluation and deployment of new cost-effective technologies to improve reliability and make more efficient use of the grid; (iii) expand WECC's role in identifying and evaluating challenges to the Western Interconnection; and (iv) educate states and provinces about cyber-security threats and responses, and identify actions that states and provinces can take to improve cyber security. WIRAB's 2012 Budget will be funded by Working Capital Reserve of \$369,828 in excess of WIRAB's target Working Capital Reserve,³⁹ interest income of \$2,000, and a proposed assessment of \$242,849 (\$76,514 lower than the 2011 assessment of \$319,363).

WIRAB's overall statutory funding request of \$242,849 for 2012 consists of \$205,937 (84.8%) allocated to the U.S., \$33,855 (13.9%) allocated to Canadian provinces and \$3,058 (1.3%) allocated to Mexico, all based on NEL. At its August 4, 2011 meeting, the NERC Board of Trustees approved WIRAB's 2012 Budget request.

³⁸*Order on Petition to Establish a Regional Advisory Body for the Western Interconnection*, Docket No. RR06-2-000, 116 FERC ¶61,061 (2006) (*WIRAB Order*), PP 33-37.

³⁹ WIRAB's target Working Capital Reserve is \$100,000.

D. Allocation of Statutory Assessments by Country, Regional Entity Footprint and LSE

The total ERO statutory funding requirement for 2012, net of other NERC and Regional Entity income sources, to be funded by assessments is \$160,942,119, consisting of \$50,661,272 for funding of NERC's programs and \$110,280,847 for funding of Regional Entity statutory activities and the WIRAB. NERC has allocated its statutory assessment of \$50,661,272 to the LSEs within each Regional footprint primarily on the basis of NEL, as described below.⁴⁰

First, the costs of operating and maintaining NERC's IDC, which is used only in the Eastern Interconnection, were allocated to the six Regional footprints in the Eastern Interconnection based on usage levels of the IDC ("IDC Defined Share"). The IDC Defined Share allocation approach is reasonable and equitable because it allocates the cost of this function based on its actual use by Region, and does not assess the costs of the IDC to entities in Texas RE and WECC. A total of \$1,619,220 of the NERC Funding requirement was allocated based on the IDC Defined Share. The IDC Defined Share allocations to the six Regional footprints in the Eastern Interconnection are shown in Appendix 2-C of **Attachment 2**.

Second, a total of \$1,242,928 of adjustments (credits) to the allocations to the AESO, the IESO, the NBSO and Québec for CMEP and Situation Awareness and Infrastructure Security costs was allocated using 8-Region NEL. In accordance with NERC's *Expanded Policy on Allocation of Certain Compliance and Enforcement Costs*, adjustments were made in the calculations of the assessments to the AESO, the IESO, the NBSO and Québec, to provide credits for certain NERC CMEP and Situation Awareness and Infrastructure Security program

⁴⁰See Appendix 2-A of **Attachment 2** for the 2010 NEL data by Regional Entity and calculation of the country allocation factors for each Region. MRO, NPCC and WECC are the only Regional Entities whose footprints encompass Canadian provinces (and for WECC, Mexico). As noted earlier, the year 2010 is the most recent calendar year for which NEL data is available.

costs. These adjustments recognize that entities in certain of these provinces (Ontario, Alberta and New Brunswick) expend resources to perform compliance and enforcement activities in those provinces that otherwise would be performed by NERC or a Regional Entity, and that the compliance and enforcement resources NERC needs for Québec are reduced due to the very small number of entities subject to compliance and enforcement activities in those provinces. These adjustments also recognize that certain NERC activities, including the SAFNR program, either overlap with Canadian regulatory programs or, as in the case of SAFNR, are not used by these Canadian provinces, and therefore these provinces were not allocated a share of these costs. **Attachment 5** shows the calculations of these adjustments to the allocations to the AESO, the IESO, the NBSO and Québec. These calculations have been reviewed with, respectively, the AESO, the IESO, the NBSO and La Régie de l'énergie du Québec, and each has agreed with and accepted the calculations. The allocation of the \$1,242,928 of adjustments (credits) to the allocations to the AESO, the IESO, the NBSO and Québec for CMEP and Situation Awareness and Infrastructure Security costs is shown in Appendix 2-C of **Attachment 2**.

Finally, an allocation based on the 8-Region NEL was used to allocate \$49,042,052 of the NERC statutory assessment to the Regional footprints. The NEL-based allocations to the eight Regional footprints are shown in Appendix 2-C of **Attachment 2**.

NEL has also been used to allocate the Regional Entity assessments, with these exceptions: First, 40% of NPCC's Compliance Monitoring and Enforcement and Organization Registration and Certification (CORC) Program costs has been allocated among the six Balancing Authority Areas in NPCC on the basis of NEL, and 60% of the CORC costs have been allocated between the U.S. and Canadian Balancing Authority Areas using a compliance audit-based methodology. The allocation of NPCC CORC Program costs, including the NPCC audit-

based methodology, was explained at pages 71-75 of the *December 15, 2008 Budget Order Compliance Filing* filed with FERC⁴¹ and at pages 26-28 and Attachment 3 of the *December 11, 2009 Budget Order Compliance Filing* filed with FERC.⁴² As directed in the *July 16, 2009 Budget Compliance Order*, PP 38-41, the portion of NPCC CORC costs allocated to the U.S. using the compliance audit-based methodology has been allocated between the New England and New York Balancing Authority Areas based on NEL.⁴³

Second, WECC's allocation of its assessment to the AESO for the Province of Alberta has been reduced by \$315,948, representing WECC CMEP costs that are duplicative of programs of the AESO. The AESO credit amount was allocated to the remainder of the LSEs (Balancing Authorities) in the WECC Region on the basis of NEL.⁴⁴

After allocating the appropriate portions of the NERC, Regional Entity and WIRAB funding requirements to Canadian provinces and Mexico (taking into account the NEL-based

⁴¹ *Compliance Filing of the North American Electric Reliability Corporation in Response to October 16, 2008 Order on 2009 Business Plans and Budgets*, filed December 16, 2008 in Docket Nos. RR08-6-002 and RR07-14-003 (*December 15, 2008 Budget Order Compliance Filing*).

⁴² *Compliance Filing of the North American Electric Reliability Corporation in response to October 15, 2009 Order on 2009 Business Plans and Budgets*, filed December 11, 2009 in Docket Nos. RR09-9-001 *et al.* (*December 11, 2009 Budget Order Compliance Filing*).

⁴³ The allocation of NPCC CORC Program costs is described in greater detail in §V.B.3 below. As described in §V.B.3, the allocation of 40% of NPCC's CORC Program costs based on NEL and 60% of its CORC Program costs based on the audit-based methodology represents a change in these allocation percentages from NPCC's 2009, 2010 and 2011 Business Plan and Budget filings.

⁴⁴ The adjustment to the WECC assessment to the AESO is provided for in a Memorandum of understanding entered into effective July 15, 2010 among NERC, WECC and the AESO. The calculation of the AESO credit originally presented in Appendix C of WECC's 2011 Business Plan and Budget did not take budgeted statutory Fixed Asset expenditures into account. The calculation of the credit presented in Appendix C of WECC's 2012 Business Plan and Budget now appropriately takes into account WECC's budgeted statutory Fixed Asset expenditures, as well as its budgeted statutory direct expenses and indirect expenses.

allocations, the adjustments to the NERC allocations to the AESO, the IESO, the NBSO and Québec, the adjustments to the NPCC allocations to the IESO and Québec, and the adjustment to the WECC assessment to the AESO), the total ERO statutory assessment for 2012 allocable to Canadian LSEs is \$16,220,798, or a 3.1% decrease over the 2011 assessment to Canadian LSEs, consisting of:

NERC Assessment: \$4,411,462 (11.6 % decrease from 2011)
 Regional Entity Assessments: \$11,809,335⁴⁵ (3.5 % increase over 2011)

The funding requirement of each Regional Entity for statutory activities is of course allocated 100% to that Region. The funding requirement for the WIRAB is allocated 100% to the WECC Region. The following table shows the allocation to each Region of the total 2012 ERO statutory assessment of \$16,220,798 for the Canadian statutory activities of NERC and the Regional Entities (including WIRAB). The table also shows the statutory assessments per kWh based on 2010 Canadian NEL of each Region.

Regional Entity	NERC Assessment	Regional Entity Assessments	Total Canadian Assessment	Assessment per kWh (2010 NEL)
MRO	\$ 516,137	\$ 1,354,565	\$ 1,870,702	0.0000440
NPCC	\$ 2,771,818	\$ 5,243,405	\$ 8,015,223	0.0000231
WECC	\$ 1,123,507	\$ 5,211,366	\$ 6,334,873	0.0000541
Total	\$ 4,411,462	\$ 11,809,335	\$ 16,220,798	0.0000320

For all Regions except NPCC, NERC obtained from the Regional Entity a listing of the LSEs or their designees in the Region and a breakdown of the Region's 2010 NEL by LSE or designee. For the NPCC region, NERC obtained from NPCC the 2010 NEL for each Balancing Authority Area (New York, New England, Ontario, Québec, Nova Scotia and New Brunswick). NERC used this information to allocate the total ERO statutory assessment allocated to each

⁴⁵ This amount includes the WIRAB funding.

Region among the LSEs, their designees or the other entities to be billed the assessments within that Region. The amount of the NERC and Regional Entity statutory assessment allocated to each LSE or designee or other entity to be billed in each Region is shown in Appendix 2-B of **Attachment 2**.⁴⁶

NERC will directly invoice the approved assessments to LSEs or designees, or to the other entities to be billed, in all Regions except WECC.⁴⁷ WECC will invoice LSEs or Balancing Authorities or their designees within the WECC footprint, collect the assessments and remit the funds to NERC. These arrangements have been provided for in Exhibit E to the delegation agreement with each Regional Entity.

E. Provision for Working Capital Reserve

In the development of their 2012 Business Plans and Budgets and their proposed assessment amounts to LSEs, NERC and the Regional Entities have taken into account the need to maintain an appropriate amount of Working Capital Reserve. This process takes into account each entity's actual and projected Working Capital Reserves at December 31, 2010 and December 31, 2011, respectively, resulting from its accumulated prior years' surpluses and deficits, and results in an incremental or decremental adjustment to each entity's proposed 2012 statutory assessment amount, in order to arrive at its target Working Capital Reserve at December 31, 2012. Table B-1, Reserve Balance, in Section B of the NERC and each Regional Entity's 2012 Business Plan and Budget, shows the calculation of the increment or decrement to

⁴⁶ For reasons of administrative convenience billing and payment by LSEs of annual assessments less than \$100 will not be required.

⁴⁷ As noted above, the assessments in the NPCC region will be billed to a single entity for each of the six Balancing Authority Areas within NPCC. (NERC also directly bills La Régie de l'énergie du Québec, which is not a LSE, for the CMEP costs allocated to Québec.)

the entity's requested 2012 assessment to achieve the entity's desired Working Capital Reserve at December 31, 2012.

The calculations shown on Table B-1 take into account (1) the entity's Working Capital Reserve (Deficit) at December 31, 2010, (2) assessment Funding, projected other Funding, and projected Expenses and Capital Expenditures for 2011, resulting in (3) the projected Working Capital Reserve at December 31, 2011, (4) the desired (target) Working Capital Reserve at December 31, 2012, (5) the budgeted Expenses and Capital Expenditures, and projected other funding sources (including Penalties collected from registered entities), for 2012,⁴⁸ resulting in (6) the increment or decrement to the requested 2012 assessments to achieve the target Working Capital Reserve at December 31, 2012. As shown on Table B-1 for the NERC and each Regional Entity, each Regional Entity (except SPP RE) has established a target Working Capital Reserve for 2012.⁴⁹ The basis for each entity's Working Capital Reserve for 2012 is stated on its Table B-1 or explained elsewhere in the text of its 2012 Business Plan and Budget.

NERC projects that its Working Capital Reserve will be \$1,798,578 at December 31, 2011, which NERC management and the NERC FAC believe is a reasonable and sufficient amount of reserves to support NERC's operations. Accordingly, NERC is not proposing to

⁴⁸ As noted earlier, Penalty payments received by NERC or a Regional Entity between July 1 of the second year preceding the budget year and June 30 of the year preceding the budget year are used to reduce the requested assessments for the budget year; Penalty payments received after June 30 will be used to reduce the requested assessments for the year following the budget year. In the case of the 2012 Budgets, all Penalty payments being used by the Regional Entities to reduce their requested 2012 assessment amounts were received during the period July 1, 2010 – June 30, 2011. NERC did not receive any Penalty payments during the period July 1, 2010 – June 30, 2011.

⁴⁹ As in prior years, SPP RE has determined that it does not need to maintain a separate Working Capital Reserve. *See* §V.B.6 below.

increase or decrease its proposed assessment amount for 2012 to increase or decrease NERC's Working Capital Reserve. See §IV.B below for further discussion.

F. Budget Projections for 2013 and 2014

As it did in its 2008, 2009, 2010 and 2011 Business Plans and Budgets, NERC is providing budget projections for the two years following the budget year (*i.e.*, 2013 and 2014).⁵⁰ This information is provided in Table B-10 in Section B of **Attachment 2**.⁵¹ These budget projections show that NERC's 2013 total Expenses plus any increase or decrease in Fixed Assets are projected to be \$2,191,845, or 4.1%, higher than in its 2012 Budget; and its 2013 statutory assessments are projected to be \$2,145,845, or 4.2%, higher than its requested 2012 assessments. For 2014, NERC's total Expenses plus change in Fixed Assets are projected to be \$701,640, or 1.3%, lower than the amount projected for 2013, and the 2014 assessments are projected to be \$761,640, or 1.5%, lower than the projected 2013 assessments. Due to the uncertainty associated with future program staffing needs at this time, the budget projections assume that staffing levels in 2013 and 2014 are kept even with the 2012 budgeted staffing levels. A summary is provided with Table B-10 in **Attachment 2** of other principal assumptions used in developing the 2013 and 2014 budget projections, including anticipated changes in the use of consultants and contractors and the related Operating Expenses.

⁵⁰ The 2012 Business Plan and Budget of each Regional Entity also includes budget projections for 2013 and 2014.

⁵¹ The NERC Board of Trustees has not approved the 2013-2014 projections as official budgets, and NERC is not seeking approval of these budget projections by the applicable governmental authorities.

IV. DISCUSSION OF NERC BUSINESS PLAN AND BUDGET

A. 2012 Business Plan and Budget by Program

This section summarizes NERC's proposed 2012 Business Plan and Budget by statutory program and Administrative Services department.⁵²

1. Reliability Standards Program

The Reliability Standards Program develops and maintains standards designed to ensure the reliability of the bulk power system in North America. The stakeholder Standards Committee provides oversight to the standards development process, verifying that the standards development process has been faithfully executed and ensuring the quality of the work product, while NERC staff standards development advisors and other standards staff facilitate standards drafting team activities, assist the drafting teams in adhering to the standards development process, and ensure that the quality of the documents produced are appropriate for approval. The NERC standards staff and other technical staff provide technical and development process comments during the standards development process to aid the development of technically sound standards that can obtain regulatory approval. The standards staff also supports the Regional Entities' standards development processes by providing final quality review of Regional standards, presentation to the NERC Board, and submission to the applicable regulatory authorities for adoption.

The goals and key deliverables of the Reliability Standards Program for 2012 are described at page 27 of **Attachment 2**.

Although much of the work in the Reliability Standards Development Process is performed by committees and task groups comprised of volunteer technical experts from the

⁵² **Attachment 6** is a status report on NERC's progress in achieving its 2011 goals.

industry, government and academia (including the Standards Committee), significant NERC professional staff resources are needed to facilitate and coordinate the work of industry volunteers, to administer the process and help ensure that it functions efficiently, and to provide input to support development of technically sound standards. NERC has budgeted 24.92 FTEs for the Reliability Standards Program for 2012, which is an increase of 4.84 FTEs from the 2011 Budget, and reflects the addition of four new staff members during 2012.⁵³ Specifically, NERC is planning to add (i) a regulatory coordination position to more effectively support regulatory communications and standards processing; (ii) a new position to support maintaining standards-related content on the NERC Website, in order to help keep industry and regulators apprised of the status of standards; and (iii) two standards specialists with technical writing skills to assist drafting teams in the drafting of standards and associated documents developed during the standards development process (such as the technical justifications for the proposed standards requirements).

Although NERC is increasing staffing in the Reliability Standards Program for 2012, it is reducing budgeted Consultants & Contracts expense by \$476,000 from the 2011 Budget, to \$15,000. This reduction reflects (i) completion of certain work that was being performed by consultants and contractors, (ii) the reduced need for outside resources due to the proposed staffing additions, and (iii) transfer of \$92,000 of budgeted costs for standards-related IT projects to the Information Technology budget. Budget and funding responsibility associated with IT infrastructure to support standards development and processing activities, including Website

⁵³ The indicated increase of 4.84 FTEs reflects the timing of the addition of the new staff members during 2012, as well as allocation of a portion of the costs of NERC's senior reliability officer and support personnel which are allocated across several programs.

applications, has been transferred to the IT department in order to provide for better integration and more efficient support of NERC's technology infrastructure.

The 2012 budgeted direct expenses for this program are \$5,307,943, which is an increase of \$444,805 (9.1%) over the 2011 Budget,⁵⁴ with the principal driver of the increase being the increased staffing. The principal direct cost components of the 2011 Budget are Personnel Expenses (\$4,570,151) and Meeting Expenses (including Travel) (\$663,975). As noted above, budgeted Consultants & Contracts expense has been significantly reduced, with the result that budgeted Operating Expenses are reduced from \$544,394 to \$73,818. The allocation of Administrative Services expenses to this program is \$4,011,842, and the Allocation of Fixed Assets from the Administrative Services Programs decreases the Reliability Standards Program budget \$163,184.

2. Compliance Monitoring and Enforcement and Organization Registration and Certification Program

The Compliance Monitoring and Enforcement and Organization Registration and Certification Program (CMEP) is comprised of Compliance Operations, Compliance Enforcement, and Event Analysis and Investigations. Compliance Operations is responsible for Regional Entity compliance operations coordination and collaboration, compliance audit training and oversight, development and oversight of the annual CMEP Implementation Plan and the Annual Report, maintenance of the Reliability Standards Audit Worksheets, the organization registration and certification functions, interface and outreach to the industry, and staff support to the NERC Compliance and Certification Committee. Compliance Enforcement conducts all of NERC's enforcement activities, including docketing of all possible violations coming into the NERC enforcement program, prosecution of compliance violation matters arising out of NERC-

⁵⁴ See table on page 26 of **Attachment 2**.

led investigations and audits, review of all mitigation plans and dismissals approved by Regional Entities, processing of all compliance violations prosecuted by Regional Entities, and development and analysis of compliance statistics. Event Analysis and Investigations is responsible for all event analysis activities and compliance investigation and complaint activities. Event Analysis and Investigations also supports activities of Reliability Standards, Compliance Operations, Compliance Enforcement, Training, and Legal and Regulatory.

The principal objectives of the CMEP for 2012 are (1) the implementation of risk-based methodologies to more effectively and efficiently support compliance monitoring activities, (2) developing revisions to the NERC Rules of Procedure to improve the efficiency of Compliance Operations and Enforcement, and (3) continuing to develop and implement streamlined mechanisms to expedite the disposition of minor, administrative violations of standards and seek to gain more discretion to disposition minor violations without the full enforcement process and record development. The 2012 goals and key deliverables of each of the three departments in the CMEP are summarized at pages 33-34, 35-36, and 40-41, respectively, of **Attachment 2**.

The budgeted CMEP staffing for 2012 is 55.67 FTEs, which is an increase of 8.6 FTEs over the budgeted 2011 staffing. The increased staffing reflects unbudgeted staffing additions during 2011 as well as planned additional hires in 2012. Specifically, two FTEs were added to Compliance Operations during 2011 and one FTE will be transferred to Compliance Operations in 2012. These additional personnel will support organization registration activities and oversight of compliance audits. Three new FTEs will be added to Enforcement in 2012. These personnel are being added to improve processing time for alleged violations. The projected Enforcement staffing needs are based on detailed analysis of violations processing time, taking into account historic data, assumptions of increased efficiency, and the role and resources of the

Regional Entities.⁵⁵ One new FTE (0.5 FTE based on anticipated date of hiring) will be added to Event Analysis and Investigations in 2012 to support Event Analysis activities and dissemination of information to the industry to assist in implementing reliability improvements and mitigating compliance violation risks. Finally, 1.6 FTEs represents the allocation of NERC's senior reliability officer and support personnel which are allocated across the four areas falling under the CRO's oversight responsibility (Standards, Compliance Operations, Event Analysis and Investigations, and Situation Awareness).

Consultants & Contracts expense is budgeted to be reduced significantly, from \$1,195,000 in the 2011 Budget to \$120,000 (\$1,075,000 reduction). A significant portion of this reduction is due to (1) transfer of budget responsibility for contracts for development of Compliance-related software to the IT Department, and (2) transfer of expenses for consultant support for audits of Regional Entity compliance programs to Finance and Accounting, as part of the consolidation of the risk management function in that department. In addition, funding for consultants and contractors for development of an event analysis tool is being eliminated.

The budgeted direct expenses for the CMEP for 2012 total \$11,137,257, which is an increase of \$313,158 (2.9%) over the 2011 Budget,⁵⁶ with the primary driver of the increased expense being the increased staffing. The principal direct cost budget components for the CMEP in the 2012 Budget are Personnel Expenses (\$9,685,959) and Meeting Expenses (including Travel) (\$1,014,410). As noted above, Consultant & Contracts expense is being significantly reduced; as a result, total Operating Expenses are reduced from \$1,305,494 in the 2011 Budget to \$436,888 in the 2012 Budget (\$868,606 reduction). The allocation of Administrative Services

⁵⁵ The analysis of trends in numbers of possible violations entering the enforcement system, processing times, and staffing needs is discussed at pages 35-39 of **Attachment 2**.

⁵⁶ See Table on page 32 of **Attachment 2**.

expenses to this program is \$8,960,638, Fixed Assets (net of Depreciation) are budgeted to decrease by \$218,882, and the allocation of Fixed Asset additions decreases the CMEP budget by \$364,478.

3. Reliability Assessment and Performance Analysis Program

The Reliability Assessment and Performance Analysis Program enables NERC to meet its responsibility as the ERO to conduct periodic assessments of the reliability and adequacy of the bulk power system in North America. The Reliability Assessment and Performance Analysis Program prepares annual seasonal (summer and winter) and long-term reliability assessment reports, which assess the short-term and long-term resource adequacy and operating reliability of the bulk power system in North America, both existing and planned. This program also identifies and assesses risk and severity in reliability performance, measures progress in improving current reliability, tracks leading indicators of future reliability, and provides risk-informed input to NERC's standards and compliance processes. To support these activities, the Reliability Assessment and Performance Analysis Program maintains detailed databases measuring the ongoing reliability performance of generation, transmission, and demand response resources. Finally, this program identifies and analyzes key issues that may affect reliability, and conducts special reliability assessments based on specific issues as warranted.

The 2012 goals and key deliverables for the Reliability Assessment and Performance Analysis Program are summarized at pages 45-46 of **Attachment 2**. A major objective of this program for 2012 is to complete development (through collaboration with industry stakeholders and NERC standing committees), and obtain NERC Board approval, of a revised definition of "adequate level of reliability" of the bulk electric system.

The budgeted direct expense for the Reliability Assessment and Performance Analysis Program for 2012 is \$4,437,753, which represents an increase of \$137,736 (3.2%) from the 2011

Budget.⁵⁷ The 2012 budgeted staffing for this program is 16.50 FTEs, which is an increase of 2.75 FTEs from the 2011 Budget. One additional FTE will be hired in 2012 (projected for the second quarter) to support interconnection power flow and dynamic modeling and validation efforts. In addition, one of the added FTEs represents the transfer of contractor costs to a full-time position, and the final added FTE represents the transfer of an employee who supports the NERC Planning Committee from the Situation Awareness and Infrastructure Security program to the Reliability Assessment and Performance Analysis Program.

The 2012 budget for Consultants & Contracts for this program is reduced by \$162,000 (14.0%) from the 2011 Budget. Consultants and contractors will be used to (i) evaluate the reliability impacts of geomagnetic disturbances and provide oversight of the Spare Equipment Database (SED); (ii) improve reliability assessment benchmarking databases (the need to improve these databases was recognized in the *Three-Year ERO Performance Assessment*); (iii) prepare a probabilistic assessment of resource adequacy (the need for this assessment was also recognized in the *Three-Year ERO Performance Assessment* as well as by the NERC Planning Committee); (iv) provide programming and oversight for the Generator Availability Data System (GADS) and Transmission Availability Data System (TADS) to support performance analysis, risk/severity assessments, and Planning Committee and Operating Committee activities; and (v) improve static and dynamic modeling efforts needed to support activities and requirements of NERC, the Regional Entities, and the Planning, Operating and Standards Committees.

The principal components of the 2012 budgeted direct expenses for the Reliability Assessment and Performance Analysis Program are Personnel Expenses (\$2,911,090), Meetings Expense (including Travel) (\$413,825); and Consultants & Contracts (\$998,000). The allocation

⁵⁷ See table on page 45 of **Attachment 2**.

of Administrative Services expenses to this program is \$2,656,316, and the allocation of Fixed Asset Additions reduces the overall budget of this program by \$108,047. Revenues from the sale of Services and Software are projected to be \$250,000, which is the same amount included in the 2011 Budget.

4. Training, Education, and Operator Certification Program

The Training, Education, and Operator Certification Program provides oversight and coordination of the delivery of training programs that support the training needs of the Reliability Standards, Compliance Operations, Compliance Enforcement, and Event Analysis and Investigations departments. The Training, Education, and Operator Certification Program also supports NERC's System Operator Certification and Continuing Education Programs for owners, operators and users of the bulk power system and their operating personnel. NERC maintains the credentials for over 6,000 system operators, effectively licensing them to work in system control centers across North America. The certification exams are created by the Personnel Certification Governance Committee, a group of operational experts, trainers and supervisors.

The 2012 goals and deliverables of the Training, Education, and Operator Certification Program are summarized at pages 50-51 of **Appendix 2**. In 2012, NERC will enhance its training programs in response to the industry's recognition, as identified in the *Three-Year ERO Performance Assessment*, of the need for more and ongoing training opportunities for auditors and investigators to achieve consistent application of reliability standards. Training and education opportunities will be expanded for NERC and Regional Entity staff, registered entities, and other stakeholders. For NERC and Regional Entity staff, the training and education will focus on consistent audit and investigation techniques and application of standards. For registered entities, training and education will focus on objectives related to various standards including how best to comply with reliability standards and improve bulk power system

reliability. Training and education opportunities will be provided through workshops hosted by NERC and the Regional Entities, Webinars, training courses, and vendor-provided training modules and other offerings.

The direct expense budgeted for the Training, Education, and Operator Certification Program for 2012 is \$2,055,656, which is an increase of \$10,118 (0.5%) over the 2011 Budget.⁵⁸ Staffing of 6.75 FTEs is budgeted for 2012, which is an increase of 0.50 FTE from the 2011 Budget. One new position (budgeted as 0.5 FTE based on timing of hiring) will be added to support training and educational programs. In addition, Consultants & Contracts expense is budgeted to increase by \$108,790 over the 2011 Budget, due primarily to the need for external support to more rapidly develop and deploy additional training programs.

The principal direct expense components of the 2012 Budget for the Training, Education, and Operator Certification Program are Personnel Expenses (\$1,164,808), Meetings, Travel and Conference Call expenses (\$230,550), and Consultants & Contracts (\$596,448). The allocation of Administrative Services expenses to this program is \$1,086,675, and the allocation of Fixed Asset additions is a decrease of \$44,201 to the total budget for this program. This program generates revenues from fees charged for system operator certification examinations and to continuing education providers, and for training and education workshops, which are intended to recover the costs (including an allocation of indirect expenses) of these programs. The 2012 Budget includes projected revenues from Testing Fees totaling \$2,061,000, which is an increase of \$121,000 (6.2%) over the 2011 Budget; and projected revenues from Workshops of \$120,000, which is an increase of \$27,000 (29.7%) over the 2011 Budget. Testing Fee revenue is projected to increase over 2011 due to an increase in the number of examinations taken and in the number

⁵⁸ See table on page 50 of **Attachment 2**.

of certificate renewals and due to an increase in the fees charged to administer system operator examinations, for certificate renewals and to evaluate continuing education courses, in order to continue to recover the costs of these activities. Workshop revenues are projected to increase to due plans to offer a greater number of workshops, particularly relating to the Reliability Standards and CIP Programs and NASPI.

5. Situation Awareness and Infrastructure Security

NERC's Situation Awareness and Infrastructure Security Program is comprised of two departments, Situation Awareness and Critical Infrastructure Protection. These departments are responsible for gathering and disseminating information regarding bulk power system vulnerabilities and system and cyber events, and for coordinating industry-wide exercises and drills in conjunction with government authorities.

The Situation Awareness department works closely with situation awareness personnel at the Regional Entities and applicable governmental authorities to share information regarding system events and risks to the reliability of the bulk power system, using NERC's secure alert system and other communications as appropriate. Situation Awareness also works closely with the CIP department regarding CIP and cyber information sharing. In 2011, Situation Awareness began implementation of the SAFNR platform, which allows NERC, the Regional Entities and governmental entities to collect and display key information on bulk power system conditions with common forms and formats. SAFNR established a single data-sharing process and protocol as opposed to multiple processes and protocols, thereby eliminating duplication of effort; however, it was not designed, and is not intended to be used, to direct registered entity operations. During 2012, Situation Awareness will continue implementation of SAFNR, and will continue to work with stakeholders to clarify the long-term role of SAFNR in the context of NERC's statutory responsibilities. Finally, Situation Awareness is responsible for NERC's

activities with respect to NASPI. The primary objective of NASPI is to develop a secure and flexible “appliance” (phasor measurement devices installed throughout the grid) that will serve as the gateway for real-time exchanges between utility control centers and other control centers, utilities, and regulatory and oversight entities. The 2012 goals and deliverables for Situation Awareness are shown on page 57 of **Attachment 2**.

The overall strategic objective of CIP department, on both a short-term and long-term basis, is to establish NERC as the authoritative voice regarding critical infrastructure and security matters affecting the reliability of the North American bulk power system. Going forward, the activities of the CIP department will be focused in four main areas: (1) continued support of the CIP standards development process and providing assistance to industry in understanding and developing approaches to comply with CIP standards requirements; (2) facilitating the timely exchange of threat and vulnerability information between NERC and industry; (3) providing knowledge and information to support both the response to and recovery from CIP-related events; and (4) supporting the CIP aspects of NERC’s lessons learned initiatives. The CIP department also operates and maintains the Electricity Sector Information Sharing and Analysis Center (ES-ISAC) to monitor the bulk power system and provide situation awareness leadership and coordination services to the electric industry. The ES-ISAC sends alerts and notifications, developed with federal government partners such as the Department of Homeland Security and Department of Energy (DOE) National Laboratories, to registered entities. It is an objective of NERC to work closely with stakeholders to develop a long-term plan for the ES-ISAC consistent with NERC’s role as the ERO. The goals and key deliverables, and other projects and initiatives in progress, for the CIP department in 2012 are described on pages 61-62 of **Attachment 2**.

The budgeted direct expense for 2012 for the Situation Awareness and Infrastructure Security Program is \$10,534,732, which is a decrease of \$254,737 (2.4%) from the 2011 Budget.⁵⁹ On a departmental basis, the budgeted direct expense for 2012 for the Situation Awareness department is \$5,320,469, which is a \$1,233,972 (18.8%) decrease from the 2011 budget;⁶⁰ while the budgeted direct expense for 2012 for the CIP department is \$5,214,262, which is a \$979,235 (23.1%) increase from the 2011 Budget.⁶¹ The 2012 Budget reflects 25.16 FTEs in this program, a decrease of 0.67 FTEs from the staffing in the 2011 Budget. The budgeted staffing for the Situation Awareness department is 8.17 FTEs, which is a decrease of 3.16 FTEs from the 2011 Budget, while the budgeted staffing for the CIP department is 17.0 FTEs, which is an increase of 2.50 FTEs over the staffing in the 2011 Budget. The reduction in budgeting staffing in Situation Awareness reflects personnel reductions during 2011, the transfer of one FTE to the Compliance Operations department and the transfer of one FTE to the Reliability Assessment and Performance Analysis program. The transferred employees spend a substantial amount of time support NERC Operating Committee and Planning Committee activities, which are closely tied with the functions of the departments to which the employees are being transferred. In the CIP department, two CIP security specialists will be added in 2012 to support additional increases in CIP standards and security incident workload associated with ES-ISAC information sharing and risk management activities. These added personnel are needed to further develop and implement CIP program risk management activities, meeting

⁵⁹ See first table on page 55 of **Attachment 2**.

⁶⁰ See second table on page 55 of **Attachment 2**.

⁶¹ See table on page 59 of **Attachment 2**.

federal coordination requirements in the U.S. and Canada, and respond to the growing need for expert cyber security and CIP standards subject matter expert support.

Budgeted Consultants & Contracts expense for 2012 for Situation Awareness and Infrastructure Security is \$4,383,116, which is a \$198,442 (4.3%) reduction from the 2011 Budget. For the Situation Awareness department, budgeted expense for Consultants & Contracts is \$458,442 lower than the 2011 Budget. Consultants & Contracts expense for this department is primarily driven by ongoing contractual commitments in support of SAFNR and NASPI. For the CIP department, budgeted expense for Consultants & Contracts is approximately \$260,000 higher than the 2011 Budget, and includes support and subject matter expertise for Cyber Risk Preparedness Assessments of bulk power system entities, the National Institute of Standards/DOE Risk Management Project, the Electricity Sub-sector Coordinating Council, the NERC Critical Infrastructure Protection Committee, and the ES-ISAC.

The Situation Awareness and Infrastructure Security budget also includes funding for various tools which NERC supports on behalf of reliability coordinators and other industry participants. NERC continues to evaluate its continued funding of these tools as part of its ERO operations, and plans to eliminate funding of tools which are not essential to NERC's core operations, including elimination of funding support for the IDC by March 2013, with funding support for tools that have commercial value being transitioned to users through industry vendors.

The principal direct cost components of the 2012 Budget for the Situation Awareness and Infrastructure Security Program include Personnel Expenses (\$5,177,996), Meetings Expense (including Travel) (\$828,315), and Consultants & Contracts (\$4,383,116). The allocation of

Administrative Services expenses to this program is \$4,052,089, and the allocation of Fixed Asset additions results in a decrease of \$164,821 to the budget for this program.

6. Administrative Services

The Administrative Services departments support the other NERC programs. Administrative Services comprises the following functions: (i) Technical Committees and Members' Forums (which has no budget in 2012); (ii) General and Administrative; (iii) Legal and Regulatory; (iv) Information Technology; (v) Human Resources, and (vi) Finance and Accounting. Detailed descriptions and planned 2012 activities, goals and objectives for each of the functions included in Administrative Services are provided in the text at pages 67-87 of **Attachment 2**.

The total budget for the Administrative Services departments for 2012 is \$20,767,559, which is an increase of \$5,746,366 (38.3%) over the 2011 Budget. Three primary drivers of this increase are (1) increased Office Rent expense of \$1,284,106, reflecting rent for NERC's new Atlanta headquarters and expanded Washington, D.C. office; (2) transfer of budgeted expenses and Fixed Asset additions for certain IT-related projects from statutory programs to the IT department; and (3) transfer of budget responsibility for outside auditors supporting audits of Regional Entities from Compliance Operations to Finance and Accounting. All Administrative Services expenses and Fixed Asset additions are allocated to the five statutory programs on the basis of proportional numbers of budgeted FTEs in the statutory programs.

The following paragraphs provide further detail on the 2011 activities and budget requirements for the individual Administrative Services departments.

Technical Committees and Members' Forums – While NERC management and staff will continue to interact with and support numerous reliability-related industry forums during 2012, the 2012 budget does not include any specific expense or funding for any forum activities.

General and Administrative – The General and Administrative function is responsible for administration and general management of NERC. Expenses budgeted in this area include Office Rent; personnel and related costs of the CEO, a senior advisor to the CEO, the CEO’s executive assistant; the communications and public relations staff; and costs related to the Board of Trustees. Budgeted staffing for this function for 2012 is 7.00 FTEs, which is the same staffing as in the 2012 Budget.

The 2012 budgeted Direct Expense for General and Administrative is \$6,800,249, which is an increase of \$1,503,865 (28.4%) over the 2010 Budget. The most significant component of this increase is the increase of \$1,284,106 in Office Rent expense.⁶² In addition, budgeted Depreciation Expense is increased by \$160,489 over the 2011 Budget as the result of investments in leasehold improvements and the relocation of NERC’s primary data center. Budgeted Personnel expense is increased by only \$38,567 (1.9%), and budgeted Professional Services expense is decreased by \$50,000, as compared to the 2011 Budget.

Legal and Regulatory – The Legal and Regulatory function provides legal, regulatory and governmental relations support to the organization. Expenses budgeted in this area include the General Counsel, attorneys, and Canadian governmental affairs. Increased demands for Legal and Regulatory support are coming primarily from three areas: Reliability Standards (for drafting assistance to standards drafting teams, quality review of standards projects, and greater involvement in preparing filings for approval of standards), Compliance Operations (for support for significant audits), and Event Analysis and Investigations (for support for investigation

⁶² As described in §IV.B on Working Capital Reserve, below, a significant portion of the Office Rent expense is a non-cash item due to abatement of the rent on the Atlanta office until October 2012 pursuant to the lease.

teams). In addition, Legal and Regulatory is responsible for providing a wide range of legal support in corporate, commercial and contractual matters.

The 2012 Budget for Legal and Regulatory is \$4,021,294, which is an increase of \$1,286,419 (47.0%) over the 2011 Budget. Budgeted staffing for 2012 for Legal and Regulatory is increased from 8.0 FTEs to 13.0 FTEs, reflecting the unbudgeted addition of two attorneys during 2011 and the planned addition of two attorneys and additional administrative support in 2012. Budgeted Consultants & Contracts expense and Professional Services expense is increased by a total of \$91,750 (11.5%) over the 2011 Budget to reflect increased volume and complexity of required filings with governmental authorities and corporate matters arising from ongoing operations.

Information Technology – NERC’s IT function is responsible for the design, procurement, implementation, and management of NERC’s technology infrastructure, including network servers, databases, applications, and telecommunications, and for implementing and managing logical and physical security controls to protect critical business assets. IT staff develops applications and similar technology initiatives in close coordination with statutory program staff, consultants and vendors. IT staff also currently supports, manages and maintains a number of reliability tools and related infrastructure on behalf of the industry. During 2011, NERC is relocating its primary IT backbone support infrastructure to a hosted, third-party data center to improve infrastructure availability and reliability. The 2012 goals and key deliverables of the IT function are summarized at pages 76-77 of **Attachment 2**.

The 2012 budgeted expense for IT is \$6,629,579, which is an increase of \$2,090,327 (46.1%) over the 2011 Budget. The 2012 Budget reflects 12.75 FTEs in this function, which is an increase of 2.00 FTEs from the 2011 Budget. The additional FTEs are comprised of a new

project manager position responsible for managing all stages of complex IT projects, and one FTE of transitional support to the IT group as it transitions certain critical IT personnel who will not be relocating to NERC's Atlanta headquarters. The 2012 budget for Consultants & Contracts is increased by \$385,000 over the 2011 Budget, which reflects the transfer to the IT department of approximately \$552,000 of expense for IT projects from Reliability Standards, Compliance Operations and Finance and Accounting in order to consolidate management and responsibility for these initiatives in the IT function. Office Costs budgeted in IT are increased by \$382,326 (25.2%) over the 2011 Budget, reflecting primarily costs of computers, software, cell phones and mobile broadband service for the increased numbers of FTEs at NERC, and an increase in software maintenance agreements covering investments in the new NERC primary data center. Finally, budgeted Depreciation expense is increased by \$844,830 over the 2011 Budget due to the investments in Fixed Assets in NERC's new headquarters in Atlanta, its expanded office in Washington, D.C., and the new primary data center.

Human Resources – HR manages all of NERC's human resources functions, including new hires, benefits and employee functions, and oversees employee performance appraisals and the incentive structure process. The 2012 goals and objectives for HR are summarized at page 81 of **Attachment 2**. The 2012 Budget for HR is \$1,444,141, which is an increase of \$202,641 (16.3%) over the 2011 Budget. The 2012 Budget reflects 6.00 FTEs in this function, which is an increase of 0.50 FTE over the 2011 Budget, and reflects the conversion of a part-time to a full-time position to provide support for benefits administration and other HR services to employees.⁶³ Budgeted Consultants & Contracts expense for HR is increased by \$40,000

⁶³ Two of the FTEs in Human Resources are receptionist positions for the Atlanta and Washington offices. In addition to performing receptionist duties, these employees provide general administrative and clerical support for each office.

(16.0%) over the 2011 Budget to provide for additional executive level training and staff development.

Finance and Accounting – Finance and Accounting manages all of NERC’s finance and accounting functions, including employee payroll, 401(k) plans, travel and expense reporting, monthly financial reporting, sales and use taxes, meeting/events planning and services, insurance, internal audit, and facilities management. Finance and Accounting has overall responsibility for development of the annual business plan and budget, and for NERC’s proposed ERO risk management framework.

The 2012 budgeted expense for Finance and Accounting is \$1,872,296, which is an increase of \$663,115 (54.8%) from the 2011 Budget. The 2012 Budget reflects 9.00 FTEs in this function, which is an increase of 2.50 FTEs from the 2011 Budget. One FTE is being added for establishment of a risk management framework and support function, which will focus on NERC’s compliance with its internal operating procedures and controls, corporate ethics policies, codes of conduct, conflicts of interest and reputational risk factors, and will monitor compliance by NERC and the Regional Entities with applicable Rules of Procedure and applicable governmental authorizations, regulations and orders. However, the risk management function will not be responsible for evaluation of bulk power system reliability risks. The responsibilities of the risk management staff will include management of audits of Regional Entity programs. The remaining increase of 1.5 FTEs represents the transfer of an administrative assistant from another department and the conversion of a payroll and general accounting support position from part-time to full time.

Additionally, the 2012 budgeted expense for Consultants & Contracts is increased from \$5,000 in the 2011 Budget to \$320,000, reflecting the transfer of budget responsibility for

outside auditors supporting audits of Regional Entities from Compliance Operations to Finance and Accounting. However, the budgeted 2012 expense for this outside auditor support, although transferred internally within NERC, is the same as in the 2011 Budget.

B. Working Capital Reserve

NERC is not proposing any adjustment to its proposed 2012 assessment amount for Working Capital Reserve. In its 2010 Business Plan and Budget, NERC included a \$469,043 component in its assessment amount for Working Capital Reserve, which was the amount necessary to restore the Working Capital Reserve to zero at December 31, 2010. NERC's Working Capital Reserve had been negatively affected by, among other factors, the impact of certain accounting adjustments to its balance sheet at December 31, 2009 that were required due to NERC's shift to accrual accounting for certain costs. In order to mitigate the overall assessment increase in 2010 over 2009, NERC elected to include only enough assessment funding to restore its Working Capital Reserve to zero. In its 2011 Business Plan and Budget, however, NERC included a \$5,000,000 component in its assessment amount in order to rebuild its Working Capital Reserve.⁶⁴ As shown on Table B-1 in **Attachment 2**, NERC is projecting a Working Capital Reserve of \$1,798,578 at December 31, 2011.⁶⁵ NERC management and the NERC FAC have determined that this amount of Working Capital Reserve is reasonable and sufficient to support NERC's operations, particularly in light of two factors: (1) While under generally-accepted accounting principles, NERC is required to reflect on its income statement

⁶⁴ Although the \$5,000,000 amount for Working Capital Reserve was a substantial adjustment to NERC's 2011 assessments, the impact was mitigated due to the fact that the overall 2011 assessment amount was reduced by \$10,175,000 of Penalty payments received by NERC between July 1, 2009 and June 30, 2010.

⁶⁵ The target Working Capital Reserve established for purposes of the 2011 Budget was \$2,500,000 at December 31, 2011.

the amortization of its leasehold for its new Atlanta office, under the terms of the lease, the actual rent is abated for a significant portion of 2012, thereby enhancing NERC's free cash flow during 2012. (2) NERC continues to maintain a \$4,000,000 line of credit with a major financial institution. Accordingly, NERC is not proposing to include a component for Working Capital Reserve in its assessment amount for 2012.

V. REGIONAL ENTITY BUSINESS PLANS AND BUDGETS

A. Consistency Among Regional Entity Budgets

In developing the 2012 Regional Entity Business Plans and Budgets, NERC and the Regional Entities continued the substantial efforts they devoted to achieving consistency of format and presentation of information in the 2008, 2009, 2010 and 2011 Business Plans and Budgets. NERC and the Regional Entities (i) used a common and consistent format (template) for their 2012 Business Plan and Budget documents, (ii) continued to use the more consistent accounting methodologies that were developed collaboratively in connection with the 2010 Business Plans and Budgets, and agreed to, among NERC and the Regional Entities, (iii) continued to use the common definition of administrative (indirect) costs that was originally developed in connection with the 2010 Business Plans and Budgets, and (iv) developed and used an extensive set of Shared Business Planning and Budget Assumption for their 2012 Business Plans and Budgets. The Shared Business Planning and Budget Assumptions are provided in Exhibit A to the NERC 2012 Business Plan and Budget (**Attachment 2**), which is cross-referenced in each of the Regional Entity Business Plans and Budgets. NERC believes that achieving and maintaining consistency among the Regional Entity business plans and budgets is an ongoing process, and NERC intends to continue to work collaboratively with the Regional

Entities to maintain and enhance consistency in the presentation of the NERC and Regional Entity business plans and budgets in the future.

The Regional Entity Business Plans and Budgets follow a similar format to that used for the NERC Business Plan and Budget. Each Regional Entity Business Plan and Budget begins with an Introduction section that presents a table showing the Regional Entity's budgeted Total Resources for 2012, including statutory and non-statutory FTEs and expenses;⁶⁶ the proposed increases or decreases in statutory and non-statutory Fixed Assets and Working Capital Requirement; the total statutory and non-statutory Funding Requirement; and the proposed Assessments to recover the Regional Entity's statutory Funding Requirement, allocated (where applicable) among the U.S., Canadian provinces and Mexico. The Introduction section also provides general information on the Regional Entity, including information on its membership and governance; provides the Regional Entity's key business plan and budget assumptions and goals and key deliverables for 2012; and provides an overview of the primary cost impacts to the Regional Entity's 2012 Budget. The Introduction section includes a table showing the Regional Entity's 2011 Budget, 2011 Projection, 2012 Budget, and Variance between the 2011 Budget and 2012 Budget, for each of the five statutory programs.⁶⁷ It also contains charts comparing the Regional Entity's 2011 to 2012 budgeted funding requirements by statutory program and showing the percent change in funding for each statutory program from the 2011 Budget to the 2012 Budget; and a table showing the Regional Entity's FTEs, by statutory program and

⁶⁶ Information on non-statutory FTEs, expenses, and funding is, of course, only provided in the business plans and budgets of the Regional Entities that have non-statutory activities – FRCC, NPCC, SPP, Texas RE and WECC.

⁶⁷ The budget numbers displayed in this table do not include the Regional Entity's proposed 2012 provision for its Working Capital Reserve, and in the case of ReliabilityFirst also do not include an allocation of certain administrative costs which have been offset by Interest income within the Administrative Services budget.

administrative department, for its 2011 Budget, 2011 Projection, and 2012 Budget. Finally, the Introduction section includes the Regional Entity's overall statutory Statement of Activities and Capital Expenditures, with information presented for its 2011 Budget, 2011 Projection, Variance between its 2011 Budget and 2011 Projection, 2012 Budget, and variance between its 2012 Budget and 2011 Budget.

The Regional Entity Business Plans and Budgets next contain, in Section A – Statutory Programs, separate subsections on each statutory program and administrative department or function of the Regional Entity. These sections are presented in similar format to the NERC Business Plan (Section A of **Attachment 2**), including (i) a table for each statutory program and administrative function showing total FTEs, total Direct Expenses, total Indirect Expenses, increase or decrease in Fixed Assets, and total Funding Requirement, for the 2011 Budget and the 2012 Budget, and (ii) a Statement of Activities for the statutory program or administrative function showing Funding, Expenses and Fixed Asset activity by major line item categories. Information is presented in each of the Statements of Activities for the 2011 Budget, the 2011 Projection and the 2012 Budget, and the Variances between the 2011 Budget and 2011 Projection and between the 2012 Budget and the 2011 Budget.⁶⁸ The text of these sections for each statutory program includes discussion of the program scope and functional description, key assumptions, goals and key deliverables for 2012, and reasons for increases or decreases in funding and costs in 2012, for the program.

⁶⁸ The Statement of Activities for each Regional Entity's General and Administrative function shows its proposed adjustment, if any, to its 2012 statutory assessment to provide for Working Capital Reserve as a Funding Requirement for the General and Administrative function. All Expenses and Fixed Asset activity for the administrative programs are allocated to, and included in the Funding Requirements for, the statutory programs; therefore, no other Funding Requirement is shown for any of the Regional Entity's administrative functions.

Section B of each Regional Entity Business Plan and Budget presents supplemental financial information supporting the 2012 statutory Budget. Section B contains tables detailing the development of the adjustment to the Regional Entity's 2012 assessment to achieve its desired Working Capital Reserve at December 31, 2012 (Table B-1); Penalty payments received, to be used as an offset to the Regional Entity's funding requirement (Table B-2); Supplemental Funding (*e.g.*, Workshop fees and Interest income) (Table B-3); Personnel Expenses (Table B-4); Consultants & Contracts expense (Table B-5); Office Rent (Table B-6); Office Costs (Table B-7); Professional Services expense (Table B-8); and Other Non-Operating Expenses (Table B-9). Tables B-3 through B-9 are followed, where applicable, by explanations of significant variances between the Regional Entity's 2011 and 2012 Budgets for the funding or cost category. Finally, Table B-10 provides the Regional Entity's statutory budget projections for 2013 and 2014 in Statement of Activities format.⁶⁹

Section C – Non-Statutory Activities of each Regional Entity Business Plan and Budget provides (where applicable) information on the Regional Entity's non-statutory activities for 2012, including program descriptions and objectives, budget information, and FTEs.⁷⁰

Following Section C, each Regional Entity Business Plan and Budget also provides, in Section D – Additional Consolidated Financial Statements, or in separate appendices: (1) a 2012 Consolidated Statement of Activities and Capital Expenditures showing the Regional Entity's

⁶⁹ MRO has included its budget projections for 2013 and 2014 in Section D of its 2012 Business Plan and Budget, and WECC has included its budget projections for 2013 and 2014 in Appendix B to its 2012 Business Plan and Budget, rather than in Table B-10 of Section B.

⁷⁰ MRO, ReliabilityFirst and SERC do not plan to have, and have not budgeted for, any non-statutory activities in 2012. SPP RE is unable to provide a non-statutory budget for 2012 because its planning and budgeting cycle does not result in finalization and Board approval of the overall SPP, Inc. budget until October. SPP RE has included the overall SPP, Inc. 2011 budget and 2010 actual income statement, for information.

2011 budgeted line-item funding sources, expenses, and Fixed Asset activity, in total, by statutory and (if applicable) non-statutory, and by statutory program and Administrative Services department, as well as the Direct Expenses and Indirect Expenses for each statutory program; (2) a combined (statutory and, where applicable, non-statutory) Statement of Financial Position at (i) December 31, 2010, based on 2010 actual audited results;⁷¹ (ii) December 31, 2011, based on the Regional Entity's 2011 Projection; and (iii) December 31, 2012, based on the Regional Entity's 2012 Budget; and (3) the Regional Entity's organization chart, showing staffing comparisons for 2012 versus 2011.

B. Discussion of Relevant Regional Entity 2012 Business Plan and Budget

This section summarizes highlights of the MRO Regional Entity 2012 Business Plan and Budget.

MRO's total statutory budget for 2012, before adjustment for Working Capital Reserve, is \$9,057,228, an increase of \$926,404 (11.4%) over its 2011 Budget. However, MRO's statutory assessment for 2012 is only \$88,526 (1.1%) higher than its 2011 assessments, reflecting (i) \$418,500 of Penalty payment offsets, as compared to \$137,000 of Penalty payment offsets in its 2011 Budget; and (ii) a decremental adjustment (reduction) to its assessments of \$289,699 for Working Capital Reserve, as compared to an incremental adjustment (increase) of \$266,678 for this purpose in its 2011 Budget.

MRO's budgeted 2012 staffing for statutory and administrative programs is 37.0 FTEs, an increase of 2.5 FTEs over its 2011 Budget. MRO's budgeted staffing for its CMEP for 2012 is 19.16 FTEs, which is 1.69 FTEs more than in the 2011 Budget; however, the FTE increase reflects unbudgeted personnel additions to the CMEP during 2011, and no new staff additions

⁷¹ The audited financial statements of each Regional Entity for 2010 were filed with FERC on May 31, 2011, in NERC's *2010 True-up Report*.

are planned during 2012. Consultants & Contracts expense in the 2012 Budget for the CMEP is \$302,000, an increase of \$156,000 over the 2011 Budget. This increase is primarily due to increased expenditures on contracts for enhancements to existing IT applications; expenditures on consultants is budgeted to decrease due to the increased staffing in the CMEP. The overall increase in budgeted expenditures for the CMEP over the 2011 Budget is \$779,736 (15.2%). MRO is also budgeting increased expenditures of \$411,908 (20.4%) in the Reliability Assessment and Performance Analysis program over the 2011 Budget, which includes an increase in staffing of 1.29 FTEs to provide further support to Event Analysis.

MRO is not planning significant staffing increases in any other statutory programs or administrative departments, and in fact is budgeting lower expenditures in 2012 for the Reliability Standards program and the Situation Awareness and Infrastructure Security program. MRO's budgeted Consultants & Contracts expense for 2012 for the IT function is \$120,700 (76.5%) higher than in the 2011 Budget, due primarily to security requirements and a higher number of FTEs requiring security licensing or credentials. Additionally, MRO is planning to move to a new office facility in the Minneapolis-St. Paul area in 2012; as a result, the 2012 Budget reflects an increase of \$167,880 (75%) in Office Rent over the 2011 Budget, and \$77,484 of Other Non-Operating Expense for one-time relocation costs to the new facility.

MRO has identified a desired Working Capital Reserve at December 31, 2012, of \$1,116,645, representing 45 days of cash. MRO currently projects a Working Capital Reserve of \$1,406,344 at December 31, 2011, resulting in a decremental adjustment (decrease) of \$289,699 to its 2012 assessments.

MRO plans no non-statutory activities in 2012 and therefore has no 2012 Budget for non-statutory activities.

C. Metrics Related to Regional Entity Budgets

Beginning with its 2008 Business Plan and Budget filing, NERC has included, as part of these annual filings, attachments providing and discussing metrics developed by NERC and the Regional Entities to be used as a further aid to understanding where and why differences exist among the Regional Entities' activities and budgets. The presentations in these attachments have been revised and expanded over time based on NERC's and the Regional Entities' analysis of appropriate and useful metrics, and directives in FERC's Orders.⁷² In Attachments 15 and 16 of the 2010 Business Plan and Budget filing and Attachments 7 and 8 of the 2011 Business Plan and Budget filing, NERC provided two sets of metrics information. The metrics in Attachment 15 and Attachment 7, respectively, depicted and compared the Regional Entities' total statutory budgets and staffing, CMEP budgets and staffing, total statutory budget and CMEP budget dollars per registered entity and per registered function, registered entities and registered functions per statutory FTE and per CMEP FTE, numbers of "small," medium" and "large" non-CIP compliance audits and "small" and "large" CIP compliance audits, and cost per compliance audit by type and size of audit.⁷³ The metrics in Attachment 16 and Attachment 8, respectively, focused on the NERC and Regional Entity administrative (indirect) costs and staffing relative to total and direct program costs and staffing, including

⁷² See, e.g., *2008 Budget Order* at PP 34-35; *2009 Budget Order* at PP 47-48; *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 123 FERC ¶ 61,282 (2008), at P 39

⁷³ Metrics information on CIP audits was provided for the first time in Attachment 7 to the 2011 Business Plan and Budget filing. For the metrics provided in this filing, the definitions of CIP audit sizes have been revised from the definitions used to develop the metrics in the 2011 Business Plan and Budget filing. There are now two categories of CIP audit sizes identified, "small" and "large," with the key distinguishing factor between the two audit sizes being whether or not the registered entity has any critical cyber assets. See **Attachment 7** for a complete statement of the revised definitions of "small" and "large" CIP audits.

- Statutory indirect expenses as a percent of total statutory expenses, and statutory direct expenses per dollar of statutory indirect expenses
- Statutory indirect FTEs as a percent of total statutory FTEs, and ratio of direct statutory FTEs to indirect statutory FTEs.
- Total statutory expenses per total FTE, statutory direct expenses per direct FTE, statutory indirect expenses per indirect FTE, and statutory indirect expenses per total FTE.

In the *2011 Budget Order*, FERC generally approved the metrics information presented in the 2011 Business Plan and Budget filing, but directed NERC to provide additional metrics information in future Business Plan and Budget filings:

NERC provides metrics on Regional Entity operations in Attachments 15 and 16 of its Application. The Commission directs NERC to make additions to the section regarding metrics used to analyze the Regional Entities operations in future business plan and budget filings. NERC should include an analysis of the current fiscal year in addition to the “Metrics for Budget Submission” for the next budget year, specifically a “projected” versus “budgeted” amount, similar to the way NERC presents its budget information within its business plan and budget filing.⁷⁴

Attachment 7 and **Attachment 8** provide the same metrics information, in the same format, as presented in Attachments 15 and 16 of the 2010 Business Plan and Budget filing and Attachments 7 and 8 of the 2011 Business Plan and Budget filing, from NERC’s and the Regional Entities’ 2012 Business Plans and Budgets. In addition, in response to P 38 of the *2011 Budget Order*, Attachment 7 has been expanded to include metrics based on the NERC and Regional Entity 2011 projections included in their respective 2012 Business Plans and Budgets.⁷⁵ Each Attachment contains analysis and discussion of the metrics information presented in that Attachment.

⁷⁴ *2011 Budget Order* at P 38.

⁷⁵ The “Metrics for Budget Submission” referred to in P 38 of the *2011 Budget Order* were provided in Attachment 7 to the 2011 Business Plan and Budget Filing.

Paragraph 38 of the 2011 Budget Order

As noted above, the *2011 Budget Order* directed NERC to make additions to the section regarding metrics used to analyze the Regional Entities' operations in future business plan and budget filings, namely, to include an analysis of the current fiscal year in addition to the "Metrics for Budget Submission" for the next budget year, specifically a "projected" versus "budgeted" amount similar to the way this information is presented in the business plan and budget filings. At the time the *2011 Budget Order* was received, NERC and the Regional Entities anticipated being able to provide the additional metrics based on current year projections.

Subsequent to the issuance of the *2011 Budget Order*, however, NERC and the Regional Entities engaged in extensive discussions regarding the development of a set of metrics to measure Regional Entity performance under the delegation agreements, as well as the overall effectiveness of ERO operations.⁷⁶ The Finance and Accounting staffs of NERC and the Regional Entities also spent considerable time discussing the extensive resources required to prepare and track, as well as the overall design and usefulness of, the various metrics (based on upcoming year budget information) which have previously been developed and submitted in the annual business plan and budget filings; and the additional resources required to compile and present comparable metrics based on the current year projections. Further, each annual budget (which for practical purposes, must be prepared and essentially completed by about May 31 of the prior year) reflects the knowledge and experience gained during the second preceding year (e.g., 2010 in the case of the 2012 budgets) regarding the cost and resources required to

⁷⁶ For example, at its August 4, 2011 board meeting, the NERC Board of Trustees approved an initial set of metrics for measuring performance under the delegation agreements (*see* http://www.nerc.com/docs/bot/agenda_items/9-1-Proposed%20RDA%20Metrics%20-%20July%2013%202011.pdf).

undertake activities the metrics seek to measure. NERC and the Regional Entities are engaged in ongoing efforts to analyze and better understand the differences in budgeted Compliance Program and compliance audit costs among the Regional Entities. NERC and the Regional Entities are also engaged in ongoing efforts to improve the efficiency and effectiveness of NERC's financial and operational auditing of the Regional Entities' operations.

Additionally, although NERC and the Regional Entities do present current year "projections" in their business plans and budgets (which typically represent each entity's projections of the final current year financial results as of May or June of the current year), these projections are not prepared with the level of consistency used to prepare the entities' annual budgets, and therefore make the usefulness of any metrics comparison using this information questionable. For example, different Regional Entities may choose to reflect new information on resource requirements, gained since their current year budgets were filed with FERC, in different ways in developing their current year projections. One Regional Entity may decide that a new requirement that arose since the start of the current year should be explicitly reflected as an adjustment to the current year budget, in arriving at a current year projection, while another Regional Entity may conclude that the new requirement will not necessitate sufficient incremental resources to warrant an adjustment to the current year budget. NERC and the Regional Entities have not developed a set of guidelines and criteria for making such decisions. Moreover, comparing year-to-date results for the first four or five months against the pro rata budget numbers and then extrapolating the variance for the full year is not appropriate, because a Regional Entity will not necessarily incur one-twelfth of its budgeted costs for the year in each month (*i.e.*, activities do not occur, and are not assumed to occur, uniformly on a monthly basis throughout the year). As a result, presenting comparisons of metrics based on the current year

“projection” to metrics based on the upcoming year’s budget does not provide meaningful comparative information, and could be misleading, because the two sets of underlying numbers are not necessarily prepared with the same levels of consistency.⁷⁷

NERC and the Regional Entities already prepare and file with FERC, by May 31 of each year, a detailed report comparing their final, actual, audited statutory costs to their budgeted costs for the preceding year, with explanations of significant variances on a total entity basis and on a line-item basis by program. That filing includes metrics based on both budgeted costs and actual costs for the preceding year.⁷⁸ That annual filing provides a meaningful comparison between the budgeted costs and the actually incurred costs of NERC and the Regional Entities for the year just concluded.

In **Attachment 7** to this filing, in response to P 38 of the *2011 Budget Order*, NERC has provided certain of the metrics based on NERC’s and the Regional Entities’ 2011 projections (as well as on their 2012 budgets) as presented in the 2012 Business Plans and Budgets.⁷⁹ However, for the reasons described above, NERC respectfully submits that the development of metrics

⁷⁷ NERC acknowledges that the procedures used to develop the current year projections have not been discussed in previous business plan and budget filings and would not have been known to FERC. NERC and the Regional Entities are also engaged in ongoing efforts to improve the quality and consistency of annual and long-term budget projections, and the discussion presented in this filing regarding the development of metrics using current fiscal year projections should not be construed as an indication of any lack of attention or diligence by the individual Regional Entities in developing these projections.

⁷⁸ NERC and the Regional Entities also prepare detailed statements of activities presenting actual, budgeted and projected costs by entity on a quarterly basis.

⁷⁹ In **Attachment 7**, NERC has not included metrics based on the 2011 projections for the costs of, and other resources used in, the various sizes and types of compliance audits. The NERC and Regional Entity current year projections are developed at a much higher level of aggregation (*i.e.*, by total entity and by statutory program and administrative function); they are not developed at a level of detail that would enable a Regional Entity to develop a revised (from the budget) projection of the costs of the different sizes and types of compliance audits.

based on the current year “projections,” and the comparison of those metrics to the metrics based on the budgets for the upcoming year, does not provide meaningful or useful information and that any incremental knowledge gleaned from such metrics does not justify the resources required to develop the additional metrics. Development of metrics and comparisons based on the current year “projections” does not provide any material benefit in terms of analyzing, understanding and improving the (relative) efficiencies of Regional Entity or overall ERO operations, beyond what can be gained from continuing to analyze and improve the collective understanding of the extensive budget information and metrics NERC and the Regional Entities already prepare, as well as devoting resources and attention to improving the efficiency and effectiveness of NERC’s auditing of Regional Entity operations. NERC and the Regional Entities remain committed to the ongoing development of meaningful metrics based on their budgets and actual results, and to exchanging actual and projected budget, cost and resource information to improve the overall efficiency and effectiveness of NERC and Regional Entity resource utilization.

Accordingly, NERC requested that FERC, for purposes of future years’ NERC and Regional Entity business plan and budget filings, waive or terminate the requirement in P 38 of the *2011 Budget Order* that NERC and the Regional Entities present metrics based on current year financial projections.

VI. STATUS REPORT ON PROGRESS IN PROCESSING ALLEGED VIOLATIONS OF RELIABILITY STANDARDS

In its 2010 and 2011 Business Plan and Budget filings, NERC provided status reports on the progress achieved by NERC and the Regional Entities in reducing the backlog of alleged

violations of reliability standards that had not been processed to completion.⁸⁰ The status reports also described the initiatives being undertaken by NERC and the Regional Entities to process new allegations of violations in a more expeditious manner. In the *2011 Budget Order*, FERC reviewed the status report submitted in Attachment 17 of the 2011 Business Plan and Budget filing and stated the following observations and directives:

36. The Commission commends NERC for its efforts to reduce the number of alleged violations pending before December 31, 2008. However, Regional Entities and NERC are still actively considering a number of alleged violations from 2009 and 2010, including analyzing whether violations occurred and the penalty amounts that should be imposed, or engaging in settlement discussions. The Commission's expectation is that NERC will take appropriate measures if its budgeted resources are not enough to achieve desired efficiencies in enforcement processing to diminish the number of alleged violations under active consideration, especially those that are more than six months old.

37. The Commission, to that end, directs NERC to include in its future business plan and budget filings NERC's progress in processing violations. The business plan and budget filings should include an assessment of violations status by region and also provide background on NERC's caseload and caseload management. The status of NERC's active violations should be broken down into six month time frames and reach back to NERC's earliest active violation. Moving forward, NERC should remove any time periods that no longer contain active violations. Additionally, NERC's discussion and compliance statistics contained in the Compliance Enforcement section of NERC's business plan should also be included in this status report.⁴¹ In this regard, the Commission notes that Attachment 17 to NERC's Application lacks a summary of all current outstanding violations, summarized by state and region, similar to what was filed in NERC's 2010 business plan and budget.⁴² The Commission directs NERC to include this table in its compliance filing.

⁴¹ NERC Application at 39-43.

⁴² NERC Petition, Docket No. RR09-09-000, at Attachment 19 Table 4 (filed August 24, 2009).

Attachment 9 to this filing is a status report, as of June 30, 2011, on the processing of

⁸⁰ A status report on processing alleged violations was originally included in the 2010 Business Plan and Budget filing, in response to a FERC directive in the *July 16, 2009 Budget Compliance Order*, at P 18. The status reports were Attachment 19 to the 2010 Business Plan and Budget filing and Attachment 10 to the 2011 Business Plan and Budget filing.

alleged violations by NERC and the Regional Entities conforming to the requirements in P 37 of the *2011 Budget Order*. In response to P 37, the information provided in **Attachment 9** has been expanded from Attachment 17 to the 2010 Business Plan and Budget filing, and also includes tables in the form referred to in the last sentence of P 37. As directed in P 37, NERC will continue to provide a status report in this format (or as modified by directives in future Commission Orders) in future annual business plan and budget filings.

Respectfully submitted,

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ATTACHMENTS 1- 9

(Available on the NERC Website at
http://www.nerc.com/fileUploads/File/Filings/Attachments_2012_BP_B_Central.pdf)