

September 8, 2017

**VIA ELECTRONIC FILING**

Kirsten Walli, Board Secretary  
Ontario Energy Board  
P.O Box 2319  
2300 Yonge Street  
Toronto, Ontario, Canada  
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Re: *North American Electric Reliability Corporation*

Dear Ms. Walli:

The North American Electric Reliability Corporation hereby submits Notice of Filing of the North American Electric Reliability Corporation of its 2018 Business Plan and Budget and the 2018 Business Plans and Budgets of Regional Entities and of Proposed Assessments to Fund Budgets. NERC requests, to the extent necessary, a waiver of any applicable filing requirements with respect to this filing.

Please contact the undersigned if you have any questions concerning this filing.

Respectfully submitted,

/s/ Shamai Elstein

Shamai Elstein  
*Senior Counsel for the North American Electric  
Reliability Corporation*

Enclosure

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**ONTARIO ENERGY BOARD  
OF THE PROVINCE OF ONTARIO**

**NORTH AMERICAN ELECTRIC )  
RELIABILITY CORPORATION )**

**NOTICE OF FILING OF THE  
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION  
OF ITS 2018 BUSINESS PLAN AND BUDGET AND  
THE 2018 BUSINESS PLANS AND BUDGETS OF REGIONAL ENTITIES  
AND OF PROPOSED ASSESSMENTS TO FUND BUDGETS**

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September 8, 2017

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## ATTACHMENTS

**Attachment 1:** Summary tables showing NERC’s proposed 2018 budget; the proposed 2018 budget for statutory activities of each Regional Entity; and the 2018 Canadian ERO statutory assessments of NERC and the Regional Entities.

**Attachment 2:** NERC’s Proposed 2018 Business Plan and Budget

**Attachment 3:** Northeast Power Coordinating Council, Inc. Proposed 2018 Business Plan and Budget

**Attachment 4:** Discussion of Comments Received During Development of NERC’s 2018 Business Plan and Budget.

**Attachment 5:** Calculation of Adjustments to the AESO 2018 NERC Assessment, the IESO 2018 NERC Assessment, the New Brunswick 2018 NERC Assessment and the Québec 2018 NERC Assessment.

**Attachment 6:** Metrics Comparing Regional Entity Operations Based on the 2018 Budgets

**Attachment 7:** Metrics on NERC and Regional Entity Administrative (Indirect) Costs Based on the 2017 and 2018 Budgets

## **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, 2018;
- (2) the proposed Business Plan and Budget for the year ending December 31, 2018, for Northeast Power Coordinating Council, Inc. (NPCC); and
- (3) NERC's proposed allocation of the proposed ERO statutory assessment of NERC and the Regional Entities, 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 2018 budget by program, (ii) the proposed 2018 budget for statutory activities of each Regional Entity, and (iii) the aggregate ERO statutory assessment of NERC and the Regional Entities allocated to Canada.

**Attachment 2** contains NERC's detailed 2018 Business Plan and Budget and the allocation of assessments by Region and LSE to recover the resulting statutory funding requirements for 2018 (as well as the assessments to recover the statutory funding requirements of the Regional Entities).

**Attachments 3** contains the detailed 2018 Business Plan and Budget of NPCC.

**Attachment 4** describes how comments submitted by interested entities on posted drafts of NERC's 2018 Business Plan and Budget during the budgeting process were addressed in developing the final 2018 Business Plan and Budget.

**Attachment 5** contains the calculation of the adjustment to the Alberta Electric System Operator (AESO) 2018 NERC assessment, the adjustment to the Ontario Independent Electric System Operator (IESO) 2018 NERC assessment, the adjustment to the New Brunswick 2018 NERC assessment, and the adjustment to the Québec 2018 NERC assessment, for credits for certain NERC Compliance Program and Event Analysis and Situation Awareness Program costs.

**Attachment 6** provides metrics, based on the 2018 budgets, comparing Regional Entity operations.

**Attachment 7** contains metrics, based on the 2017 and 2018 budgets, on NERC and Regional Entity administrative (indirect) costs.

NERC's 2018 fiscal year will begin January 1, 2018. The filing contains the entire annual budget of the Regional Entity for statutory and non-statutory activities and includes

supporting materials, including the ERO's and the 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.

## **II. NOTICES AND COMMUNICATIONS**

Notices and communications concerning this filing may be addressed to:

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## **III. OVERVIEW OF PROPOSED BUDGETS AND FUNDING REQUIREMENTS**

### **A. Development of the 2018 Business Plans and Budgets**

NERC prepared its 2018 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, as well as by stakeholders. The process began with development and approval of the *2017-2020 ERO Enterprise Strategic Plan and Metrics*, which provides the foundation for development of the NERC and Regional Entity 2018 business plans and budgets and 2019-2020

budget projections.<sup>1</sup> During the business plan and budget development process, successive versions of the 2018 NERC and Regional Entity business plans and budgets were discussed in public meetings and conference calls of the FAC and of the full NERC Board, in each case with opportunities for stakeholders to make comments. Throughout the development of its 2018 Business Plan and Budget, NERC management also held a number of conference calls with a Business Plan and Budget Input Group formed by the NERC Member Representatives Committee (MRC). The following list highlights important steps in the preparation of the NERC and Regional Entity 2018 Business Plans and Budgets. Activities relating to stakeholder review of the WIRAB 2018 Business Plan and Budget are also noted.

- On July 13, 2016, the NERC Board requested policy input from the MRC on the draft *2017-2020 ERO Enterprise Strategic Plan and Metrics*. Responses with policy input were requested by August 3, 2016.
- On July 13, 2016, an informational session was held with the MRC which included a discussion of the draft *2017-2020 ERO Enterprise Strategic Plan and Metrics*.
- The August 10, 2016 MRC meeting included a review of the draft *2017-2020 ERO Enterprise Strategic Plan and Metrics*.
- On September 27, 2016, the NERC Board requested policy input from the MRC on a revised draft *2017-2020 ERO Enterprise Strategic Plan and Metrics*. Responses with policy input were requested by October 18, 2016.
- On October 4, 2016, an informational session was held with the MRC which included a discussion of the revised draft *2017-2020 ERO Enterprise Strategic Plan and Metrics*.
- The October 27, 2016 FAC meeting included a review of the 2018 business plan and budget preparation schedule.
- The November 1, 2016 MRC meeting included a review of the draft *2017-2020 ERO Enterprise Strategic Plan and Metrics*.
- On November 2, 2016, the NERC Board approved the *2017-2020 ERO Enterprise Strategic Plan and Metrics*.
- On November 7, 2016, a conference call was held with the MRC Business Plan and

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<sup>1</sup> NERC uses the term “ERO Enterprise” to refer to NERC and the eight Regional Entities.

#### Budget Input Group.

- On December 13, 2016, another conference call was held with the MRC Business Plan and Budget Input Group.
- During the fourth quarter of 2016 and early in the first quarter of 2017, the ERO Executive Management Group, comprised of NERC and Regional Entity chief executives or equivalents, and the ERO Finance Group, comprised of senior Finance and Accounting management personnel of NERC and the Regional Entities, met to review strategic goals and objectives for 2018.
- From October 2016 through February 2017, NERC and the Regional Entities worked collaboratively to develop and finalize common planning assumptions for 2018-2020 and key focus areas for their respective business plans and budgets.
- During the first five months of 2017, NERC and the Regional Entities worked collaboratively in the development of their 2018 business plans and budgets.
- On February 3, 2017, a conference call was held with the MRC Business Plan and Budget Input Group.
- During March and April 2017, the NERC program areas provided input to the NERC Finance and Accounting department on business plans and budget requirements for 2018.
- On March 13, 2017, a conference call was held with the MRC Business Plan and Budget Input Group.
- On April 18, 2017, quarterly meetings were held with interested trade associations and the MRC Business Plan and Budget Input Group, and included discussion of the NERC 2018 Business Plan and Budget.
- On April 18, 2017, the FAC and the Corporate Governance and Human Resources Committee (CGHRC) of the NERC Board met in closed session to review the personnel, benefits, contracts and other assumptions for the NERC 2018 Business Plan and Budget.
- In late April and early May, 2017, the Regional Entities submitted first drafts of their 2018 Business Plans and Budgets to NERC.
- The May 10, 2017 FAC meeting included a review of the first drafts of the NERC and Regional Entity 2018 business plans and budgets and the combined ERO Enterprise 2018 business plan and budget.
- On May 19, 2017, Draft #1 of the NERC 2018 Business Plan and Budget and a consolidated ERO Enterprise Business Plan and Budget overview, along with an overview document, were posted on the NERC Website for stakeholder review and comment. Notification of the posting (and of all subsequent postings) was sent by e-mail to a broad distribution list of interested persons and entities. Seven sets of written



stakeholder comments were received during the comment period that ended June 30, 2017.<sup>2</sup> These comments were posted on NERC's website.<sup>3</sup>

- Also on May 19, 2017, drafts of the Regional Entities' 2018 Business Plans and Budgets, along with an overview document for each Regional Entity Business Plan and Budget, were posted on the NERC website. The Regional Entity drafts were prepared using a common template that was similar to the common template used for the 2011 through 2017 NERC and Regional Entity Business Plans and Budgets.
- WIRAB's draft 2018 Business Plan and Budget was also posted for comment on the NERC website on May 19, 2017.
- During April and May, 2017, the Regional Entities posted drafts of their 2018 Business Plans and Budgets on their respective websites for review and comment by their stakeholders, in accordance with each Regional Entity's public review process. (See §V.A below for further discussion of the stakeholder review opportunities provided by each Regional Entity for its 2018 Business Plan and Budget.)
- On May 23, 2017, another conference call was held with the MRC Business Plan and Budget Input Group.
- On May 24, 2017, representatives of NERC, each of the Regional Entities, and WIRAB met with Federal Energy Regulatory Commission ("FERC") budget staff to provide an overview of the drafts of their respective 2018 business plans and budgets.
- On May 25, 2017, a conference call and Webinar was held for stakeholders to review Draft #1 of the NERC and Regional Entity 2018 Business Plans and Budgets, the overall ERO Enterprise 2018 business plan and budget, and the WIRAB 2018 Business Plan and Budget. In this session, the Regional Entities and WIRAB made presentations concerning their 2018 business plans and budgets to the FAC.
- At various dates from late May to early July 2017, the Boards or other governing bodies of the Regional Entities and of WIRAB approved their respective proposed 2018 Business Plans and Budgets. The approved Regional Entity and WIRAB Business Plans and Budgets were submitted to NERC in late June and early July.
- On June 27, 2017, another conference call was held with the MRC Business Plan and Budget Input Group.

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<sup>2</sup> Comments were submitted by (1) Bonneville Power Administration, (2) the Canadian Electricity Association, (3) David Bardin, (4) the ISO-RTO Council, (5) the National Rural Electric Cooperative Association, (6) the Ontario Independent Electricity System Operator, and (7) the E-ISAC Member Executive Committee. On July 17, 2017, NERC posted on its website a management response to the comments. The response is provided in **Attachment 4** to this filing.

<sup>3</sup> <http://www.nerc.com/gov/bot/FINANCE/Pages/2018-NERC-Business-Plan-and-Budget.aspx>.

- On July 13, 2017, a closed call was held with the FAC to review personnel, contracts, and other assumptions in NERC's 2018 Business Plan and Budget.
- Also on July 13, 2017, NERC management again met with the MRC Business Plan and Budget Input Group and trade associations to discuss the comments received on Draft #1 of the NERC 2018 Business Plan and Budget and to provide a preview of the second draft. The meeting was conducted in a conference call format that allowed other MRC members and stakeholders to participate.
- On July 17, 2017, Draft #2 of the NERC 2018 Business Plan and Budget was posted on the NERC website. Any additional stakeholder comments were requested with a due date of July 27, 2017. No additional stakeholder comments were submitted on Draft #2.
- Also on July 17, 2017, the final versions of the Regional Entity and WIRAB 2018 business plans and budgets, as approved by their respective boards or other governing bodies, were posted on the NERC website.
- On July 20, 2017, a conference call and Webinar with the FAC and NERC management was held to review Draft #2 of NERC's 2018 Business Plan and Budget, the final Regional Entity and WIRAB 2018 business plans and budgets, and the consolidated ERO Enterprise 2018 Business Plan and Budget.
- On July 24, 2017, a conference call was held with the MRC Business Plan and Budget Input Group.
- On August 2, 2017, the final version of the NERC 2018 Business Plan and Budget and the proposed NERC and Regional Entity 2018 assessments, were posted on the NERC website for the upcoming MRC, FAC and NERC Board meetings.
- At the August 9, 2017 open meeting of the FAC, NERC management presented the final version of the 2018 Business Plan and Budget and solicited final comments and questions from the NERC Board and stakeholders. The FAC then recommended NERC Board approval of the 2018 business plans and budgets and associated statutory assessments for NERC, the Regional Entities and WIRAB.
- During the August 9, 2017 meeting of the MRC, an additional opportunity was provided to stakeholders for input and questions regarding the final 2018 business plans and budgets of NERC and the Regional Entities.
- At its August 10, 2017 meeting, the NERC Board approved the 2018 business plans and budgets and the proposed 2018 statutory assessments for NERC, the Regional Entities and WIRAB.

In summary, the processes followed by NERC and the Regional Entities to develop the proposed 2018 business plans and budgets were thorough, comprehensive, open and inclusive,

involved significant input from NERC and Regional Entity management and financial and program area staffs, as well as iterative review and comment by the FAC, and provided numerous opportunities for stakeholder input and comment, including in particular from the MRC Business Plan and Budget Input Group, the full MRC, and trade associations.

## **B. NERC's 2018 Business Plan and Budget**

### **1. Organization of NERC's Business Plan and Budget**

NERC's Business Plan and Budget is organized based on its statutory program areas:

- Reliability Standards
- Compliance Monitoring and Enforcement and Organization Registration and Certification; this program is comprised of three departments:
  - Compliance Assurance
  - Compliance Analysis, Organization Registration and Certification
  - Compliance Enforcement
- Reliability Assessment and System Analysis (RASA)
- Reliability Risk Management (RRM); this program is comprised of three departments:
  - Situation Awareness
  - Event Analysis
  - Performance Analysis (PA)
- Electricity Information Sharing and Analysis Center (E-ISAC), including the Cyber Risk Information Sharing Program (CRISP)
- Training, Education, and Personnel Certification

Each of these program areas carries out or supports implementation of one or more of the statutory activities of the ERO. NERC's 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. The functions and activities of each statutory program and Administrative Services program are described in the individual sections on each program area in Section A and Exhibit B of **Attachment 2**.

The initial section of **Attachment 2**, About NERC, provides an overview of NERC's organization, international relations, membership and governance, scope of oversight responsibilities, delegated authorities to Regional Entities, the ERO Enterprise operating model, statutory and regulatory background, and source of funding.

The Introduction and Executive Summary summarizes NERC's total resource requirements for 2018 including total full-time equivalent employees (FTEs), statutory expenses, and required ERO funding assessments. It highlights NERC's strategic goals, objectives and performance metrics, its priorities and major activities for 2018, and the allocation of NERC's resources to the strategic goal areas, as well as the 2018 key business planning assumptions.<sup>4</sup> The Introduction and Executive Summary describes the ongoing focus of NERC and the Regional Entities on controlling costs and making improvements to systems and processes to improve the efficiency of operations, including thorough collaborative development of ERO Enterprise IT investments by NERC and the Regional Entities, streamlining of compliance monitoring and enforcement processes and mechanisms, and reallocation of resources from areas requiring reduced attention (such as standards development) to areas requiring greater attention (such as cyber security).

The Introduction and Executive Summary then provides an overview of the principal resource requirements and other factors driving NERC's proposed 2018 budget and funding requirements, by major expenditure area, including staffing and personnel costs, meeting and travel expenses, and contract and consultant expenses. It also identifies the major components of NERC's proposed 2018 capital budget. The Introduction and Executive Summary describes the

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<sup>4</sup> A detailed statement of the Shared Business Plan and Budget Assumptions for 2018-2020 and Key Focus Areas for 2018 developed and used by NERC and the Regional Entities in developing the 2018 business plans and budgets and 2019-2020 budget projections is provided in Exhibit A to **Attachment 2**.

2018 targets for NERC's Working Capital Reserve, the four categories of Operating Reserves, and the Assessment Stabilization Reserve. It presents NERC's overall Statement of Activities and Fixed Asset Expenditures, showing information from the 2017 budget, the 2017 projection (NERC's projection of 2017 year-end results), and the 2018 budget, and the variances between the 2017 projection and 2017 budget and between the 2018 budget and 2017 budget, for the major line item categories of Funding, Expenses and Fixed Assets expenditures and in total for NERC. The table on page 17 of **Attachment 2** shows the change in the 2018 total budget (including allocated Indirect Expenses) from the 2017 total budget for each NERC statutory department. The table on page 18 of **Attachment 2** shows budgeted 2018 staffing (FTEs) and the change from the 2017 budget for each statutory program and the Administrative programs.

The Introduction and Executive Summary discusses two additional topics with possible future resource and budget implications: (1) the development of a work plan for Geomagnetic Disturbance research as required by FERC Order No. 830,<sup>5</sup> and (2) development of a long-term strategy for expanding the capabilities and role of the E-ISAC. Finally, the Introduction and Executive Summary presents NERC's budget and assessment projections for 2019 and 2020.

Section A of **Attachment 2** is NERC's detailed 2018 Business Plan and Budget. Section A provides program scope and functional descriptions, descriptions of key efforts under way in the current year, the 2018 goals and deliverables, and explanations of increases or decreases in budgeted Personnel Expenses and Consultants & Contracts expense for 2018 over the 2017 budget, for each of NERC's statutory programs and for the Administrative Services functions. Section A includes a table at the start of the subsection on each statutory program or department, showing total FTEs, total direct expenses, total indirect expenses, other non-operating expenses,

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<sup>5</sup> *Reliability Standard for Transmission System Planned Performance for Geomagnetic Disturbance Events*, 156 FERC ¶ 61,215 (2016).

increase or decrease in Fixed Assets, and total budget for the statutory program or department for the 2018 budget, with the comparable data from NERC's 2017 budget and the increase or decrease from the 2017 budget. For Administrative Services, this table shows, for each of the Administrative Services functions and in total, the 2017 budget amount, 2018 budget amount, and the change from the 2017 budget to the 2018 budget, as well as budgeted 2017 FTEs, budgeted 2018 FTEs, and the change in FTEs from the 2017 budget to the 2018 budget. A detailed Statement of Activities and Fixed Asset Expenditures is provided for each statutory program or department, and for the Administrative Services functions in the aggregate. The Statements of Activities show funding and expenditure information from the 2017 budget, the 2017 projection and the 2018 budget, as well as the variances from the 2017 budget to the 2017 projection and from the 2017 budget to the 2018 budget.

In the Statements of Activities for each program or department, Funding is shown from the NERC Assessments and, as applicable, from other anticipated sources (Penalty collections released from the Assessment Stabilization Reserve,<sup>6</sup> Testing Fees, fees from Services & Software, fees from Workshop attendance, Interest income, Third-Party Funding, and Miscellaneous Funding).<sup>7</sup> 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); Operating Expenses (Consultants & Contracts, Office Rent, Office Costs, Professional Services, Miscellaneous, Depreciation); and Other Non-Operating Expenses. In the Statements of Activities for the statutory programs, the Indirect

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<sup>6</sup> See §IV.C below for NERC's proposal to (i) deposit Penalty collections received from July 1, 2016 through June 30, 2017 in the Assessment Stabilization Reserve, and (ii) release funds from the Assessment Stabilization Reserve to reduce the 2018 assessments.

<sup>7</sup> Some of these other sources of Funding are anticipated only for some of the statutory programs. For example, Third-Party Funding is budgeted only for the E-ISAC. Income from Testing Fees is budgeted only for the Training, Education, and Personnel Certification Program.

Expenses allocated from the Administrative Services departments are also shown. Finally, the Statements of Activities show Fixed Assets activity, comprised of Depreciation (an equal and offsetting amount to the Depreciation included in Operating Expenses), Computer & Software CapEx, Furniture & Fixtures CapEx, Equipment CapEx, Leasehold Improvements, and the Allocation of Fixed Assets activity from the Administrative Services programs.<sup>8</sup>

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 2017 budget, including analysis of the Working Capital and Operating Reserves balances and assessments to meet reserves targets (Table B-1), Penalties collected (Table B-2), Outside Funding (Table B-3), Personnel Expenses (Table B-4), Meetings Expenses (Table B-5), Rent (Table B-7), Office Costs (Table B-8), Professional Services (Table B-9), Miscellaneous Expenses (Table B-10), Other Non-Operating Expenses (Table B-11), and Fixed Assets expenditures (Table B-12).<sup>9</sup>

Section C, Non-Statutory Activity, of **Attachment 2** is empty for NERC, as NERC has no non-statutory activities. In the business plans and budgets of those Regional Entities that have non-statutory activities, Section C 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, 2016, 2017, and 2018. The data at December 31, 2016 is actual data per the independent financial audit of 2016 results; the data

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<sup>8</sup> As a result of the offset for Depreciation expense in Fixed Assets expenditures, the Funding requirement does not include funding for Depreciation.

<sup>9</sup> Table B-6 in the ERO Business Plan and Budget template is reserved for Consultants & Contracts Expenses, but NERC's Business Plan and Budget provides a more detailed breakdown of these expenses in Exhibit C. Additionally, Table B-13 in the template is reserved for 2019-2020 Budget Projections, but NERC has included its 2019-2020 budget projections in the Introduction and Executive Summary.

at December 31, 2017 is based on NERC's projection for 2017 year-end results; and the data at December 31, 2018 is based on the detailed 2018 budget.<sup>10</sup> Section D also provides NERC's 2018 Consolidated Statement of Activities, showing 2018 budgeted line-item Funding sources, Expenses, and Fixed Asset activity, in total and by statutory program and the Administrative Services functions, as well as the direct and indirect expenses for each statutory program.

The 2018 Business Plan and Budget includes the following Exhibits and Appendices:

Exhibit A – Shared Assumptions and Key Focus Areas, contains the 2018-2020 Shared Business Plan and Budget Assumptions developed and used by NERC and the Regional Entities in preparing their 2018 business plans and budgets and their 2019-2020 budget projections.

Exhibit B – Application of NERC Section 215 Criteria, describes how the major activities included in the 2018 Business Plan and Budget for NERC's direct function programs and Administrative Services functions meet the NERC written criteria for eligibility for FPA §215 funding as approved by FERC in the *FPA §215 Criteria Order*.

Exhibit C – Contractor and Consulting Costs, contains a detailed list of NERC's budgeted 2018 Consultants & Contracts expenses, by program area and by major activity or project. Exhibit C also shows the 2017 budget amounts for Consultants & Contracts expense and the change in the 2018 budget from the 2017 budget for each line item (where applicable).

Exhibit D – Capital Financing, describes proposed borrowing and repayment activity under NERC's capital financing program for certain capital expenditures. Exhibit D shows the proposed 2018 capital expenditure budget, by project (and the 2017 budgeted capital expenditures, for comparison); the projected 2017 (*i.e.*, the current projection of year-end

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<sup>10</sup> NERC's audited financial statements for 2016 were filed with FERC on May 30, 2017, in NERC's *Report of Comparisons of Budgeted to Actual Costs for 2016 for NERC and the Regional Entities (2016 Budget True-up Report)* (Docket No. RR17-04-000).



results), budgeted 2018, and projected 2019 and 2020 year-end outstanding debt balances; and the projected 2017, budgeted 2018, and projected 2019 and 2020 annual payments for debt service, including annual interest expense.

Exhibit E – Working Capital and Operating Reserve Amounts, provides the budgeted 2018 amounts for Working Capital and Operating Reserves pursuant to NERC’s Working Capital and Operating Reserve Policy (WCOR Policy) adopted in 2012 and amended in 2013 and 2015.<sup>11</sup> The WCOR Policy provides for the separate budgeting and tracking of working capital and operating reserves. Section IV.B below provides further discussion of the 2018 budgeted amounts for working capital and each category of operating reserves, and §IV.C below describes the proposed Assessment Stabilization Reserve transactions for 2018.

Exhibit F – E-ISAC Long-Term Strategy, provides the long-term strategic plan developed by executive management of the E-ISAC, at the request of the NERC Board and under the guidance of the Electricity Subsector Coordinating Council and the E-ISAC Member Executive Committee, for expanding the role, capabilities and functionality of the E-ISAC with respect to collecting and analyzing security information for the electricity industry. Exhibit F discusses potential increased capabilities and services of the E-ISAC, potential additional resource requirements including cost projections, and potential funding alternatives. Exhibit F shows the specific impact on NERC’s 2018 budget and assessments of the proposed strategic additions for the E-ISAC for 2018.

Exhibit G provides information on the proposed Compliance Monitoring and Enforcement Program (CMEP) Technology Project, which is a multi-year (2017-2020) project to develop a single, comprehensive ERO Enterprise automated system and database integrating all

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<sup>11</sup> The most recently amended version of the WCOR Policy was filed on September 10, 2015.

compliance functions for NERC and the Regional Entities. Estimates of annual capital expenditures (2017-2020) to develop and implement this system are provided. NERC will also be enhancing the ERO Enterprise Entity Registration process through a new tool integrated with the CMEP system.

Appendix 1 contains NERC's organization chart.

Appendix 2 contains the calculation of the net energy for load (NEL)-based allocation factors for each LSE and designee and the allocation of the NERC, Regional Entity and WIRAB statutory assessments, by allocation method, to each LSE and designee, for 2018. Development of the assessments presented in the Appendices is discussed in more detail in §III.D below.

The detailed information in the Introduction and Executive Summary and Sections A and B and the exhibits of **Attachment 2** demonstrates that the programs included in NERC's 2018 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 text and exhibits of **Attachment 2**, as well as in this narrative, demonstrates how the activities and expenditures included in NERC's 2018 Business Plan and Budget lend themselves to accomplishment of NERC's statutory responsibilities and objectives as the ERO.

## **2. Summary of NERC's Proposed 2018 Budget and Funding Requirement**

NERC is proposing an overall 2018 budget of \$73,135,156, which is an increase of \$3,532,981 (5.1%) over the 2017 Budget. This comparison includes the 2017 and 2018 budgeted expenditures for CRISP (which are included in the budget for the E-ISAC). With CRISP expenditures excluded, NERC's 2018 budget represents an increase of \$3,105,509 (also 5.1%) from its 2017 budget. The proposed 2018 budget for the E-ISAC (CRISP plus non-CRISP costs)

is \$21,850,597, which constitutes 29.9% of the total 2018 budget. NERC's 2018 budget excluding E-ISAC is \$197,724 (0.4%) higher than its 2017 budget excluding E-ISAC. The 2018 budget for the E-ISAC (including CRISP) is increased by \$3,335,256 (18.0%) over the 2017 budget for the E-ISAC.

NERC's proposed 2018 total Funding requirement is \$72,981,221, encompassing U.S., Canadian and Mexican activities. The proposed 2018 total Funding requirement represents an increase of \$2,829,561 (4.0%) over the 2017 total Funding requirement of \$70,151,660. The 2018 total Funding requirement reflects a provision for Working Capital and Operating Reserve funding of \$77,458, as well as (due to NERC's capital financing plan) proceeds from financing activities of \$1,432,000 and debt service of \$1,200,607 (resulting in net proceeds from financing activities of \$231,393),<sup>12</sup> whereas the Funding requirement in the 2017 budget included provision for Working Capital and Operating Reserve Funding of \$530,402, proceeds from financing activities of \$966,667, and debt service of \$985,750.

NERC's budgeted non-assessment sources of Funding are projected to be \$10,044,253 in total, comprised of the following sources and amounts:

- \$600,000 of Penalty payments to be released, with FERC approval, from the balance in NERC's Assessment Stabilization Reserve (this is \$500,000 less than the amount of Penalty payments released from the Assessment Stabilization Reserve in the 2017 budget),<sup>13</sup>
- \$7,324,253 of Third-Party Funding for CRISP (an increase of \$333,806 from the

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<sup>12</sup> See Table B-1 and Exhibit E in **Attachment 2**.

<sup>13</sup> The NERC policy, *Accounting, Financial Statement and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards*, and §1107.2 of the NERC Rules of Procedure (ROP), specify that Penalty payments received by NERC or a Regional Entity 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, unless an alternative treatment is approved by FERC (as allowed by ROP §1107.4). NERC received \$500,000 of Penalty payments in the period July 1, 2016 – June 30, 2017. NERC proposes to place this \$500,000 of Penalty payments into its Assessment Stabilization Reserve, and to then use \$600,000 of Penalty payments accumulated in the Assessment Stabilization Reserve to reduce the 2018 assessments. See §IV.B and IV.C below.

CRISP third-party funding provided in the 2017 budget);

- \$1,790,000 of Testing Fees charged to participants in certain NERC programs, including the System Operator Certification Program and the Continuing Education Program (this is a \$131,900 decrease from the 2017 budget);
- \$50,000 of revenues from Services & Software (the same amount budgeted in the 2017, 2016 and 2015 budgets);
- \$185,000 in attendance fees for Workshops (a \$45,000 decrease from the amount in the 2017 budget); and
- \$95,000 in Interest income (an increase of \$92,000 over the amount included in the 2017, 2016 and 2015 budgets).

In the aggregate, the non-assessment Funding sources in the 2018 budget are \$251,093 lower than in the 2017 budget. NERC's only sources of funding for its planned programs and operations will be the assessments to users, owners, and operators of the bulk power system (BPS) provided for in 18 C.F.R. §39.4(e) in the U.S. and comparable collections from entities in Canada and Mexico, the other sources listed as "Funding" on its Statements of Activities and described above, and proceeds from the 2018 capital financing.

Application of the non-assessment funding sources totaling \$10,044,253 to the total statutory Funding requirement of \$72,981,221 results in a 2018 net Funding requirement of \$62,936,968 to be funded by assessments to LSEs, which is \$3,080,655, or 5.1%, higher than the 2017 assessments.

As shown on page 18 of **Attachment 2**, the 2018 budget includes an overall increase of 9.40 FTEs in staffing from the 2017 budget, which reflects (i) an increase of 9.40 FTEs in the E-ISAC and (ii) no net change in the other statutory programs and administrative departments combined. There are increases or decreases in budgeted FTEs for Reliability Standards, Compliance Monitoring and Enforcement, Training, Education, and Personnel Certification, and Administrative Services, due principally to the reallocation of staffing from one program area to

another to match program area staffing with current workloads and resource requirements. The budgeted FTEs for each program area reflect an assumed average 6.0% vacancy rate, *i.e.*, an adjustment for such factors as personnel attrition and delays in hiring or start date delays. Total budgeted staffing for the statutory programs is increased by 11.28 FTEs, and budgeted staffing for the administrative programs is decreased by 1.88 FTEs, from the 2017 budget.

As compared to the 2017 budget, the 2018 budget reflects an increase of \$2,327,774 (6.0%) in Personnel Expenses; an increase of \$22,214 (0.7%) in Meeting Expenses; and an increase of \$1,551,682 (6.3%) in Operating Expenses. The principal contributors to the increase in Operating Expenses is an increase of \$596,437 in Consultants & Contracts expense and an increase of \$1,005,744 in Office Costs. Of the total 2018 budgeted Consultants & Contracts Expense (\$13,724,185), \$6,291,594 (45.8%) is attributable to CRISP. The largest increase in Consultants & Contracts expense is for the E-ISAC (\$603,365 increase from the 2017 budget, of which \$403,000 of the increase is for CRISP). Of the \$1,005,744 increase in Office Costs, approximately \$426,000 is due to a decision to reclassify certain equipment lease costs from Fixed Assets to Operating Expenses, and \$500,000 is due to the addition of new technology tools related to the long-term strategy for E-ISAC. NERC is budgeting \$3,874,000 of capital expenditures for 2018, a decrease of \$498,000 (11.4%) from the 2017 budget.

CRISP expenditures currently budgeted for 2018 are increased by \$427,471 (5.2%) from the 2017 budget. The budgeted CRISP expenditures, totaling \$8,719,912, will be primarily funded (\$7,324,253 (84.0%)) by participating utilities.<sup>14</sup> The remaining funding for CRISP,

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<sup>14</sup> NERC has not completed contract negotiations with Pacific Northwest National Laboratory (PNNL) for PNNL's services in operating and maintaining CRISP in 2018. Based on the outcome of these negotiations, the final 2018 budget for CRISP may change. However, NERC anticipates that any change in the budgeted CRISP expenditures would be matched by changes in the participant funding and therefore would not change NERC's proposed 2018 assessments.

totaling \$1,395,659, will come from Assessments, an allocation of Penalty collections released from the Asset Stabilization Reserve, and an allocation of NERC’s Interest income.

The following table shows NERC’s 2017 and 2018 budgets for each of its statutory programs and, where applicable, departments within each program:

<b><u>Program</u></b>	<b><u>2017 Budget</u></b>	<b><u>2018 Budget</u></b>
Reliability Standards	\$ 8,100,282	\$ 6,821,893
<b><u>Compliance Monitoring and Enforcement</u></b>		
Compliance Assurance	\$ 7,858,599	\$ 8,904,105
Compliance Analysis, Organization Reg. and Cert.	\$ 3,646,289	\$ 4,887,082
Compliance Enforcement	\$ 5,800,647	\$ 6,673,939
Reliability Assessment and System Analysis	\$ 7,535,594	\$ 7,312,956
<b><u>Reliability Risk Management</u></b>		
Situation Awareness	\$ 4,032,862	\$ 3,846,648
Event Analysis	\$ 5,446,206	\$ 5,161,490
Performance Analysis	\$ 4,908,855	\$ 4,633,422
E-ISAC (including CRISP)	\$18,515,341	\$21,850,597
Training, Education and Personnel Certification	\$ 3,757,501	\$ 3,043,024
	<b><u>\$69,602,175</u></b>	<b><u>\$73,135,156</u></b>

The 2018 budgeted amounts for the statutory programs incorporate a budget for Administrative Services of \$29,989,934 (decrease of \$1,424,899 (4.5%) from the 2017 budget). The Administrative Services expenses and Fixed Assets additions are allocated to the statutory program budgets based on the proportion of the numbers of FTEs budgeted for each statutory program to the total FTEs budgeted for the statutory programs.

### **C. Regional Entity Proposed 2018 Business Plans and Budgets**

#### **1. Overview of Regional Entity 2018 Business Plans and 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, encompassed by the delegation agreements, as well as each Regional Entity's budgeted costs for administrative services supporting these functions and activities. Funding the Regional Entities in accordance with their proposed business plans and budgets will enable them to carry out the activities necessary in 2018 to meet their responsibilities under the delegation agreements.

As described above in §III.A, NERC staff worked collaboratively with the Regional Entities to develop a set of shared business planning and budget assumptions for the Regional Entities' 2018 business plans and budgets (provided in Exhibit A of **Attachment 2**), and provided input to the Regional Entities on the development of their business plan and budget submissions. The Regional Entities' proposed business plans and budgets were also reviewed by the NERC FAC. Further, the Regional Entities prepared their 2018 business plans and budgets using a common format. The use of the common format facilitates comparisons among the Regional Entities' budgets. Additionally, in developing their 2018 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.

The table below shows the budgets for statutory and (where applicable) non-statutory functions for each Regional Entity as presented in their respective 2018 business plans and budgets.<sup>15</sup> 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

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<sup>15</sup> MRO, ReliabilityFirst and SERC do not plan to perform any non-statutory activities in 2018.

sources of income (e.g., attendance fees for workshops and Penalty payments received from registered entities) that will be used to offset the costs of performing delegated functions, the requested ERO funding (assessments) for each Regional Entity is less than its budget for statutory activities. The fourth column shows the total (i.e., for all jurisdictions) statutory assessment required for each Regional Entity, after 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 Regional Entity's target Working Capital Reserve at December 31, 2018, as determined to be appropriate by each Regional Entity.

<b>Regional Entity</b>	<b>Total Budget for Statutory Functions</b>	<b>Budget for Non-Statutory Functions</b>	<b>Statutory Funding Assessment</b>
<b>FRCC</b>	\$ 7,514,112	\$11,735,029	\$ 6,660,518
<b>MRO</b>	\$11,726,736	-----	\$10,730,106 <sup>16</sup>
<b>NPCC</b>	\$15,106,967	\$ 1,066,983	\$14,341,787 <sup>17</sup>
<b>ReliabilityFirst</b>	\$21,393,899	-----	\$20,147,707
<b>SERC</b>	\$17,182,868	-----	\$17,205,136
<b>SPP RE</b>	\$10,793,195	\$185,566,805 <sup>18</sup>	\$ 9,727,265
<b>Texas RE</b>	\$12,656,953	\$ 1,091,743	\$11,271,986
<b>WECC</b>	\$27,097,344	\$ 1,766,779	\$25,282,000 <sup>19</sup>

<sup>16</sup> The statutory assessment for MRO of \$10,730,106 consists of \$8,940,887 allocated to the U.S. and \$1,789,219 allocated to Canadian provinces.

<sup>17</sup> The statutory assessment for NPCC of \$14,341,787 consists of \$8,749,460 allocated to the U.S. and \$5,592,327 allocated to Canadian provinces.

<sup>18</sup> The figure of \$185,566,805 is the total 2017 budget of Southwest Power Pool, Inc. (\$196,360,000) less the 2018 Budget of SPP RE for statutory activities of \$10,793,195. The overall annual budget of Southwest Power Pool, Inc. is prepared on a schedule that will not result in approval of its 2018 budget until October 2017. See §V.D.6 below.

<sup>19</sup> The statutory assessment for WECC of \$25,282,000 consists of \$21,841,793 allocated to the U.S., \$3,004,443 allocated to Canadian provinces and \$435,765 allocated to Mexico. The \$25,282,000 amount does not include the WIRAB assessment.



## **2. Dissolution of SPP Regional Entity**

On July 25, 2017, Southwest Power Pool, Inc. (SPP) announced that SPP and NERC have agreed to terminate their delegation agreement, subject to approval by the NERC Board and FERC and to development and implementation of a plan to transition the registered entities for which SPP RE currently is the compliance enforcement authority (CEA) to one or more other electric reliability CEAs. These actions, if and when completed, will result in dissolution of SPP RE. However, SPP RE will continue to function as the CEA for the SPP region until the transition is successfully completed, which SPP has targeted to occur by December 31, 2018.

NERC is working, and will continue to work, closely with SPP RE on all aspects of the transition, including financial and budgetary impacts. Given that the timeline for and components of the transition, including identification and implementation of the successor CEA(s), are not fully known at this time, and various regulatory and corporate approvals will be required, NERC and SPP RE anticipate that SPP RE will function as the CEA for a considerable portion of 2018. Therefore, NERC is submitting the SPP RE 2018 Business Plan and Budget and related assessments to LSEs, as approved by the NERC Board, for FERC approval. Depending on the timing of the transition, it is possible that NERC, SPP RE and the successor CEA(s) will need to submit a supplemental budget and assessment filing for FERC approval during 2018, which may include, as necessary, a true-up of assessments previously billed to and collected from LSEs in the SPP region.<sup>20</sup>

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<sup>20</sup> Pursuant to Exhibit E of the Delegation Agreement between NERC and SPP RE, NERC bills the SPP RE annual assessment to LSEs in the SPP region in four quarterly installments, with payments due from LSEs by January 1, April 1, July 1 and October 1, and quarterly payment of the assessment amounts to SPP RE on January 15, April 15, July 15 and October 15.

#### **D. Allocation of Statutory Assessments**

The total ERO statutory funding requirement for 2018, net of other NERC and Regional Entity income sources, to be funded by assessments is \$179,014,499 consisting of \$62,936,968 for funding of NERC's programs and \$116,077,531 for funding of Regional Entity statutory activities and the WIRAB.

NERC's proposed 2017 assessment amount of \$62,936,968 is allocated as follows: \$56,968,506 to the U.S., \$5,778,945 to Canadian provinces (in the aggregate), and \$189,517 to Mexico. Based on the aggregate NEL of Canada for 2016 on which the allocation of assessments is based, the proposed Canadian net funding requirement for NERC represents approximately \$0.0000113 per end-user kilowatt-hour.<sup>21</sup>

NERC proposes an allocation of its 2018 assessment of \$62,936,968 to the Regional footprints as follows:

• FRCC	\$ 3,353,279
• MRO	\$ 4,150,326 <sup>22</sup>
• NPCC	\$ 7,694,691 <sup>23</sup>
• ReliabilityFirst	\$12,807,701
• SERC	\$14,644,708
• SPP RE	\$ 3,258,023
• Texas RE	\$ 5,055,866
• WECC	\$11,972,373 <sup>24</sup>

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<sup>21</sup> The NEL-based allocation factors are calculated using NEL data for 2016, which is the most current actual NEL data available as of August 2017. 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 2018 Budget is based on actual NEL data for the second preceding calendar year, 2016.

<sup>22</sup> The allocation to MRO consists of \$3,461,314 allocated to the U.S. and \$689,012 allocated to Canadian provinces.

<sup>23</sup> The allocation to NPCC consists of \$4,084,733 allocated to the U.S. and \$3,609,958 allocated to Canadian provinces.

Appendix 2 to **Attachment 2** contains tables showing (i) NEL data for the U.S., Canada and Mexico, by Region and by LSE or designee, (ii) 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 (Appendix 2-A), and (iii) the allocation of the NERC and Regional Entity statutory assessments by country and by Region (Appendices 2-B, 2-C and 2-D). 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.

NERC has allocated its statutory assessment of \$62,936,968 to the LSEs within each Regional footprint primarily on the basis of NEL, as described below.

First, a total of \$1,498,002 of adjustments (credits) to the allocations to the AESO, the IESO, New Brunswick and Québec for certain CMEP, Event Analysis and Situation Awareness (Situation Awareness – FERC, NERC and the Regions (SAFNR)) costs and the true-up of 2016 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, New Brunswick and Québec, to provide credits for certain activity 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 Alberta and 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 (1) certain compliance costs related to maintenance of the CMEP database are budgeted in the Information

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<sup>24</sup> The allocation to WECC consists of \$10,302,881 allocated to the U.S., \$1,479,975 allocated to Canadian provinces and \$189,517 allocated to Mexico.

Technology program; and (2) 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. In addition, these adjustments included a true-up of credits provided in 2016, based upon actual costs incurred in 2016. The credit amounts were allocated to all other LSEs (Balancing Authorities) on the basis of NEL. **Attachment 8** shows the calculations of these adjustments to the allocations to the AESO, the IESO, New Brunswick and Québec. The allocation of the \$1,498,002 of adjustments (credits) to the allocations to the AESO, the IESO, New Brunswick and Québec is reflected in Appendix 2-C of **Attachment 2**.

Second, an allocation of \$600,000 of Penalty payments to be released (with FERC approval) from the Assessment Stabilization Reserve was made to U.S. LSEs. Because the Penalty payments are collected solely from U.S. Registered Entities, the Penalty payments are allocated solely to offset statutory assessments to U.S. LSEs.

Third, an allocation of \$47,714 was made to LSEs to correct an error in the allocation of the 2017 NERC assessments caused by an error in the 2015 NEL data used for the allocation of the 2017 assessments. The net effect of the allocation of this \$47,714 correction on the 2018 assessments was zero.<sup>25</sup>

Fourth, an allocation based on the 8-Region NEL was used to allocate NERC statutory assessment of \$63,536,968 (*i.e.*, the \$62,936,968 NERC assessment before application of the

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<sup>25</sup> There was an error in the 2015 NEL data for Public Service Company of Colorado (PSC), located in the WECC region, used to calculate the allocation of the 2017 assessments. The NEL data error resulted in higher 2017 NERC, WECC and WIRAB assessments allocated to PSC than it would have received based on correct 2015 NEL data. PSC agreed to pay the (incorrect) 2017 assessments on condition that it would receive compensatory credits in the 2018 assessment calculations. The correction for the 2017 WECC NEL data error allocates (i) the 2018 credit to PSC of \$47,714 for its 2017 NERC assessment overpayment to all other LSEs, and (ii) the 2018 credit to PSC of \$108,750 for its 2017 WECC (\$105,124) and WIRAB (\$3,626) assessment overpayment to the other LSEs in WECC.

\$600,000 to be released from the Assessment Stabilization Reserve). 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, 22.11% of NPCC's Compliance Monitoring and Enforcement and Organization Registration and Certification (CORC) Program costs, representing CORC program fundamentals, has been allocated among the six Balancing Authority Areas in NPCC on the basis of NEL; 55.67% of the CORC costs has been allocated between the U.S. and Canadian Balancing Authority Areas in NPCC using a compliance audit-based methodology; and the remaining 22.22% of the CORC costs has been allocated between the U.S. and Canadian Balancing Authority Areas using an enforcement activity-based methodology. As directed by FERC in a previous order,<sup>26</sup> the portion of NPCC CORC costs allocated to the U.S. using the compliance audit-based methodology and the portion of NPCC CORC costs allocated to the U.S. using the enforcement activity-based methodology has then been re-allocated between the New England and New York Balancing Authority Areas based on NEL.<sup>27</sup>

Second, WECC's allocation of its assessment to the AESO for the Province of Alberta has been reduced by \$964,368, representing WECC CMEP costs that are duplicative of programs of the AESO.<sup>28</sup> The AESO credit amount was allocated to the remainder of the LSEs (Balancing Authorities) in the WECC Region on the basis of NEL.

After allocating the appropriate portions of the NERC, Regional Entity and WIRAB

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<sup>26</sup> *North American Electric Reliability Corp.*, 128 FERC ¶ 61,025 (2009) (*July 16, 2009 Budget Compliance Order*).

<sup>27</sup> The allocation of NPCC CORC Program costs is described in greater detail at pages 60-62 of the NPCC 2018 Business Plan and Budget, **Attachment 3**.

<sup>28</sup> See Appendix C of the WECC 2018 Business Plan and Budget, which shows the calculation of the \$964,368 adjustment to the WECC assessment to the AESO. 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.

funding requirements to Canadian provinces and Mexico (taking into account the NEL-based allocations, the adjustments to the NERC allocations to the AESO, the IESO, New Brunswick and Québec, the adjustments to the NPCC allocations to Canadian provinces, and the adjustment to the WECC assessment to the AESO), the total ERO statutory assessment for 2018 allocable to Canadian LSEs is \$16,266,168, comprised of:

NERC Assessment: \$5,778,945  
 Regional Entity Assessments: \$10,487,223 (includes the WIRAB assessment)

The funding requirement of each Regional Entity for statutory activities is 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 2018 ERO statutory assessment of \$16,266,168 for Canadian statutory activities of NERC and the Regional Entities (including WIRAB). The table also shows the statutory assessments per kWh based on the 2016 Canadian NEL of each Region.

<b>Regional Entity</b>	<b>NERC Assessment</b>	<b>Regional Entity Assessment</b>	<b>Total Canadian Assessment</b>	<b>Assessment per kWh (2016 NEL)</b>
<b>MRO</b>	\$ 689,012	\$ 1,789,219	\$ 2,478,231	\$0.0000521
<b>NPCC</b>	\$ 3,609,958	\$ 5,592,327	\$ 9,202,285	\$0.0000268
<b>WECC</b>	\$ 1,479,975	\$ 3,105,677 <sup>29</sup>	\$ 4,585,652	\$0.0000378
<b>Total</b>	\$ 5,778,945	\$ 10,487,223	\$ 16,266,168	\$0.0000317

NERC obtained from each Regional Entity a listing of the LSEs or their designees in the Region and a breakdown of the Region’s 2016 NEL by LSE or designee.<sup>30</sup> NERC used this information to allocate the total ERO statutory assessment allocated to each Region among the

<sup>29</sup> The number for WECC includes the portion of the WIRAB assessment allocated to Canada

<sup>30</sup> For the NPCC Region, assessments are allocated on the basis of NEL in each Balancing Authority Area (New York, New England, Ontario, Québec, Nova Scotia and New Brunswick).

LSEs, their designees or the other entities to be billed the assessments within that Region.<sup>31</sup> The amount of the NERC and Regional Entity statutory assessments allocated to each LSE or designee or other entity to be billed in each Region is shown in Appendix 2-B of **Attachment 2.**<sup>32</sup> (For reasons of administrative convenience, billing and payment by LSEs of annual assessments less than \$100 will not be required.)

As provided for in Exhibit E to the delegation agreement with each Regional Entity, NERC will directly invoice the approved assessments to LSEs or designees, or to the other entities to be billed, in all Regions except WECC.<sup>33</sup> WECC will invoice LSEs or Balancing Authorities or their designees within the WECC footprint, collect the assessments and remit the funds collected for the NERC, WECC and WIRAB assessments to NERC.

#### **IV. DISCUSSION OF NERC BUSINESS PLAN AND BUDGET**

##### **A. 2018 Business Plan and Budget by Program**

This section summarizes NERC's proposed 2018 Business Plan and Budget by statutory program and Administrative Services department. The proposed 2018 staffing and expenditure

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<sup>31</sup> Certain LSEs in MRO and WECC serve end users only in Canada or Mexico and not in the U.S. These LSEs were not allocated any portion of the ERO funding requirement allocated to U.S. end users, but were allocated appropriate portions, based on NEL (except as noted above), of the ERO funding requirement allocated to Canadian provinces or Mexico, as applicable.

<sup>32</sup> 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 is otherwise responsible 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 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 billed to the LSE and the LSE agrees to be financially responsible to reimburse the designee for the assessment.

<sup>33</sup> 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.

budgets for the individual NERC departments and programs are described in the subsections below. However, several factors impact the budgets for all programs and departments.

First, in developing their budgeted staffing (FTEs) and related Personnel Expenses for 2018, all NERC programs and departments have applied a 6% average vacancy rate reduction to FTEs to account for attrition and hiring delays. The vacancy rate adjustment reflects that actual staffing is typically less than budgeted staffing due to factors such as employees leaving NERC for other jobs and new positions being filled at a later date than was assumed in preparing the budget. The vacancy rate adjustment used for budgeting purposes is reviewed each year, based on historical attrition and the time it takes to recruit and onboard new staff, and is adjusted if appropriate. The 6% vacancy rate adjustment is the same value used in the 2017 NERC budget.

Second, in the development of Personnel Expense in the 2018 budget, market-based compensation and salary adjustments were assumed, based on guidelines established by the NERC CGHRC, market information provided by a nationally recognized compensation and benefits consulting firm, and other available data. An updated market compensation study was completed in late 2015 under the oversight of the CGHRC and was utilized in developing the budgeted compensation and salary adjustments for purposes of the 2018 budget.

Third, budgeted Benefits Expense for all programs reflects anticipated market increases in medical and dental plan cost from the 2017 budget, based on information provided by NERC's benefits consultants.

Fourth, budgeted Meetings Expenses are relatively flat in the 2018 budget from the 2017 budget (increase of \$22,214 (0.7%)), reflecting the significant actions NERC has taken over the past several years to reduce these expenses, including by working with Regional Entities to share meeting space where possible, to help reduce meetings costs.



Fifth, there are increases in budgeted staffing for some of the statutory programs and decreases in budgeted staffing for other statutory programs, compared to the 2017 budget. The overall change in budgeted staffing for the statutory programs is an increase of 9.40 FTEs from the 2017 budget. The budgeted expenses and Fixed Assets expenditures for the Administrative Services programs (Indirect Expenses) are allocated to the statutory direct programs on the basis of the ratio of the budgeted FTEs in each statutory program to the total budgeted statutory program FTEs. Therefore, the changes in the numbers of FTEs budgeted for each statutory direct program for 2018 as compared to the 2017 budget impact the allocation of the Administrative Services costs among the statutory direct programs. However, as noted earlier, total budgeted expenses and Fixed Assets expenditures for the Administrative departments in the 2018 budget are \$1,424,899 lower than in the 2017 budget, meaning that a smaller total amount of Indirect Expenses is being allocated to the statutory program budgets.

#### **1. Reliability Standards Program**

In **Attachment 2**, the major activities of the Reliability Standards Program are described at pages 25-27. The key activities of the Reliability Standards Program underway in 2017 are described at pages 26-27 and the 2018 goals and deliverables for this program are described at page 27. The total budget for the Reliability Standards Program for 2018 is \$6,821,893, which is a decrease of \$1,278,389 (15.8%) from the 2017 budget. The 2018 budgeted direct expenses for this program are \$3,332,944, which is a decrease of \$528,722 (13.7%) from the 2017 budget. NERC has budgeted 15.51 FTEs for the Reliability Standards Program for 2018, which is a decrease of 1.65 FTEs from the 2017 budget and reflects the realignment of staffing among programs and departments to match current needs. As was the case in the 2014, 2015, 2016 and 2017 budgets, no Consultant & Contracts expense is budgeted for this program for 2018.

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

The Compliance Monitoring and Enforcement and Organization Registration and Certification Program is comprised of three operational groups: Compliance Assurance (addressing compliance monitoring), Compliance Analysis, Organization Registration and Certification (addressing assurance, organization registration and organization certification), and Compliance Enforcement.

### **a. Compliance Assurance**

In **Attachment 2**, the major activities of Compliance Assurance are described at pages 29-32. The key activities under way in 2017 for Compliance Assurance are described at page 31 and the specific 2018 goals and deliverables for Compliance Assurance are described at page 32. The total budget for Compliance Assurance for 2018 is \$8,904,105, which is an increase of \$1,045,506 (13.3%) from the 2017 budget. The 2018 budgeted direct expenses for this program are \$4,520,550, which is an increase of \$703,625 (18.4%) from the 2017 budget. The budgeted staffing for Compliance Assurance for 2018 is 19.27 FTEs, which is an increase of 3.76 FTEs from the 2017 budget, reallocated from other departments. The staffing increase is the result of NERC's plan to strengthen the implementation and oversight of the risk-based CMEP, risk analysis and feedback loops. Budgeted Consultants & Contracts Expense is \$50,000, the same amount included in the 2017 budget.

### **b. Compliance Analysis, Organization Registration and Certification**

In **Attachment 2**, the major activities of the Compliance Analysis, Organization Registration and Certification group are described at pages 35-36. The 2018 goals and deliverables for this group are described at page 36. The total budget for the Compliance Analysis, Organization Registration and Certification group for 2018 is \$4,887,082, which is an

increase of \$1,240,793 (34.0%) from the 2017 budget. The 2018 budgeted direct expenses for this program are \$2,148,762, which is an increase of \$462,073 (27.4%) from the 2017 budget. The increase in the total budget for this group includes an increase in Computer & Software CapEx of \$600,000 from the 2017 budget, which is for development of the Entity Registration Tool. Budgeted staffing for Compliance Analysis, Organization Registration and Certification for 2018 is 9.40 FTEs, which is an increase of 1.88 FTEs from the 2017 budget, reflecting the overall effort to realign staffing among the departments to match current needs. As in the 2017 budget, no Consultants & Contracts Expense is budgeted for this group for 2018.

### **c. Compliance Enforcement**

In **Attachment 2**, the major activities of the Compliance Enforcement Group are described at pages 39-43. The 2018 goals and deliverables for the Compliance Enforcement Group are described at page 43. The total budget for the Compliance Enforcement group for 2018 is \$6,673,939, which is an increase of \$873,292 (15.1%) over the 2017 budget. The 2018 budgeted direct expenses for Compliance Enforcement are \$2,451,137, which is an increase of \$79,790 (3.4%) from the 2017 budget. The 2018 budget for Compliance Enforcement includes an increase of \$1,548,000 in Computer & Software Capital Expenditures over the 2017 budget for the integrated ERO Enterprise CMEP Tool. The budgeted staffing for Compliance Enforcement for 2018 is 12.22 FTEs, which is a decrease of 0.94 FTE from the 2017 Budget and reflects the overall effort to realign staffing among the departments to match current needs. As in the budgets for each of the years 2012 through 2017, no Consultants & Contracts Expense is budgeted for Compliance Enforcement for 2018.

### **3. Reliability Assessment and System Analysis (RASA)**

In **Attachment 2**, the major activities of the Reliability Assessment and System Analysis Program are described at pages 45-50. The major activities of the RASA Program underway in

2017 are described at pages 47-48, and the 2018 goals and deliverables for the RASA Program are described at pages 49-50. The total budget for the RASA Program for 2018 is \$7,312,956, which is a decrease of \$222,638 (3.0%) from the 2017 budget. The 2018 budgeted direct expenses for this program are \$4,256,247, which is an increase of \$269,282 (6.8%) from the 2017 budget. The budgeted staffing for the RASA Program for 2018 is 14.10 FTEs, which is the same as the 2017 budget. RASA is budgeting \$525,000 for Consultants & Contracts Expense for 2018, which is the same amount provided for in the 2017 budget. The budgeted consultant and contractor resources will support research concerning reliability effects of geo-magnetic disturbances and provide support for increased use of probabilistic analysis, particularly in RASA's resource adequacy assessments; development, analysis and assessment of Essential Reliability Services; and analysis of reliability effects of environmental regulations.

#### **4. Reliability Risk Management (RRM)**

The Reliability Risk Management (RRM) group has three departments: Situation Awareness, Event Analysis, and Performance Analysis (PA).

##### **a. Situation Awareness**

In **Attachment 2**, the major activities of the Situation Awareness Department are described at pages 52-54. The 2018 goals and deliverables for Situation Awareness are described at pages 53-54. The total budget for the Situation Awareness Department for 2018 is \$3,846,648, which is a decrease of \$186,214 (4.6%) from the 2017 budget. The 2018 budgeted direct expenses for this program are \$2,566,215, which is a decrease of \$4,613 (0.2%) from the 2017 budget. The budgeted staffing for Situation Awareness for 2018 is 5.64 FTEs, the same as in the 2017 budget. The 2018 Consultants & Contracts budget for Situation Awareness is \$1,295,495, virtually unchanged from the 2017 budget. The budgeted 2018 Consultants &

Contracts Expense includes costs for reliability tools (\$600,595, a decrease of \$18,555); continued use of the Secure Alerting System (\$96,000, the same amount as in the 2017 budget); SAFNR – Version 2 (\$523,900, an increase of \$18,200); and costs for the communications network that replaced NERCnet (\$75,000, the same amount as in the 2017 budget).

**b. Event Analysis**

In **Attachment 2**, the major activities of the Event Analysis Department are described at pages 56-57. The 2018 goals and deliverables for Event Analysis are described at page 57. The total budget for the Event Analysis Department for 2018 is \$5,161,490, which is a decrease of \$284,717 (5.2%) from the 2017 budget. The 2018 budgeted direct expenses for this program are \$2,680,449, which is an increase of \$88,061 (3.4%) from the 2017 budget. The budgeted staffing for Event Analysis for 2018 is 11.28 FTEs, which is the same staffing provided for in the 2017 budget. As in the 2017 budget, no Consultants & Contracts Expense is budgeted for Event Analysis for 2018.

**c. Performance Analysis (PA)**

In **Attachment 2**, the major activities of the Performance Analysis Program are described at pages 59-63. The major activities of PA under way in 2017 are described at pages 61-62, and the 2018 goals and deliverables for PA are described at pages 62-63. The total budget for PA for 2018 is \$4,633,422, which is a decrease of \$275,433 (5.6%) from the 2017 budget. The 2018 budgeted direct expenses for this program are \$2,639,101, which is an increase of \$179,746 (7.3%) from the 2017 budget. The budgeted staffing for PA for 2018 is 9.40 FTEs, which is the same staffing provided for in the 2017 budget. Budgeted 2017 Consultants & Contracts Expense for PA is \$572,030, which is a \$43,948 (8.3%) increase from the 2017 budget. The consulting and contractor expenditures are for the Transmission Availability Data System, Generator

Availability Data System, and Demand Response Availability Data System.

## **5. Electricity Information Sharing and Analysis Center (E-ISAC)**

In **Attachment 2**, the major activities of the E-ISAC are described at pages 65-68; in addition, the E-ISAC Long-Term Strategy is discussed at pages 21-22 and in Exhibit F. In addition to operating the Electricity Sector Information Sharing and Analysis Center, this program performs the management role for CRISP, a public-private partnership whose purpose is to facilitate the sharing of cyber threat information and develop situation awareness tools that enhance the Electricity Subsector's ability to identify, prioritize, and coordinate the protection of its critical infrastructure. CRISP provides critical infrastructure owners and operators the capability to voluntarily share cyber threat data, analyze this data, and receive machine-to-machine mitigation measures.

The total budget for the E-ISAC for 2018 is \$21,850,597, which is an increase of \$3,335,256 (18.0%) over the 2017 budget. The total budget includes \$8,719,912 for CRISP.<sup>34</sup> The 2018 budgeted direct expenses for the E-ISAC are \$15,056,942, which is an increase of \$2,780,253 (22.6%) from the 2017 budget. The budgeted staffing for the E-ISAC for 2018 is 29.14 FTEs, which is an increase of 9.40 FTEs from the 2017 budget. The E-ISAC accounts for all of the overall net increase in staffing (FTEs) in NERC's 2018 budget over the 2017 budget. The increased staffing for the E-ISAC is primarily to address immediate needs for analytical capabilities. The budgeted 2018 expense for Consultants & Contracts for E-ISAC is \$7,391,794, which is an increase of \$603,365 (8.9%) from the 2017 budget. Of this total, \$6,291,594 is budgeted for CRISP, which is an increase of \$403,000 (6.8%) over the amount budgeted for CRISP in 2017. In 2018, NERC anticipates continuing to subcontract to PNNL the majority of

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<sup>34</sup> See footnote 17 in §III.B.2 above.

the resource requirements and associated costs to operate and maintain CRISP. In the non-CRISP portion of the E-ISAC's Consultants & Contracts expense, \$770,000 is budgeted for program level capabilities (an increase of \$417,000 from the 2017 budget), partially offset by a decrease of \$208,000 in support for the biennial Grid Security Exercise, which will be held in 2017 and will not be held in 2018.

Computer & Software Capital Expenditures in the 2018 E-ISAC budget are reduced by \$1,000,000 (90.9%), reflecting the anticipated completion of the E-ISAC portal replacement project in 2017. However, budgeted Office Costs for 2018 are increased by \$475,435 and include approximately \$350,000 for ongoing portal maintenance and licensing costs.

The E-ISAC budget for 2018 is supported by \$7,324,253 of Third-Party Funding, which is the funding being provided by participating utilities and other entities, under the CRISP master services agreement, to support NERC's participation and activities as program manager for CRISP. The Third-Party Funding is equal to 84% of the CRISP budget. Third-Party Funding for CRISP is deposited in a separate account. Any underrun in the CRISP budget which is allocated to and funded by CRISP participants will be applied as a credit against future CRISP participant funding requirements, pursuant to the terms of the CRISP agreements.

## **6. Training, Education, and Personnel Certification Program**

In **Attachment 2**, the major activities of the Training, Education, and Personnel Certification Program are described at pages 71-73. The major activities of this program in 2017 are described at page 72, and the 2018 goals and deliverables for this program are described at pages 72-73. The total budget for Training, Education, and Personnel Certification for 2018 is \$3,043,024, a decrease of \$714,477 (19.0%) from the 2017 budget. The 2018 budgeted direct expenses for this program are \$1,708,013, which is a decrease of \$214,282 (11.1%) from the

2017 budget. The budgeted staffing for the Training, Education, and Personnel Certification Program for 2018 is 5.88 FTEs, which is a decrease of 1.18 FTEs from the 2017 budget and reflects the ongoing effort to reallocate staffing among the programs to match current needs. The budgeted Consultants & Contracts Expense for 2018 of \$598,900 for this program is an increase of \$18,300 (3.2%) from the 2017 budget, and reflects an increase of \$30,900 for Personnel Certification purposes, partially offset by a decrease of \$12,600 for Training and Education.

The System Operator Certification Program generates revenues from fees charged for system operator certification examinations, which are intended to recover the costs (including an allocation of indirect expenses) of the program. In addition, fees charged to continuing education providers offset costs associated with the review of courses taken by certified operators to maintain their certification. The 2018 budget includes projected revenues from Testing Fees totaling \$1,790,000, which is a decrease of \$131,900 (6.9%) from the 2017 budget.

Under NERC's WCOR Policy, a separate Operating Reserve account is established for any revenues realized by the System Operator Certification Program in excess of expenses incurred for the program, to be used solely for operator certification needs as determined by NERC management and the Personnel Certification Governance Committee. The target Operating Reserve balance for the System Operator Certification Program at December 31, 2018 is \$700,300, and the projected Operating Reserve balance for the program at December 31, 2017 is \$622,842, resulting in an adjustment to the 2018 assessments of \$77,458 to achieve the target Operating Reserve balance at December 31, 2018.

## **7. Administrative Services**

The Administrative Services departments support the NERC statutory programs. Administrative Services comprises the following functions: (i) Technical Committees and



Members' Forums (which has no budgeted resources for 2018); (ii) General and Administrative (which includes senior executive and administration and Board functions); (iii) Legal and Regulatory; (iv) Information Technology (IT); (v) Human Resources (HR); and (vi) Finance and Accounting. Descriptions of the responsibilities of each of the functions included in Administrative Services are provided at pages 76-85 of **Attachment 2**.

The total amount budgeted for expenses and Fixed Assets in Administrative Services for 2018 (before provision for Working Capital and Operating Reserves) is \$29,989,934, which is a decrease of \$1,424,899 (4.5%) from the 2017 budget. The increases and decreases in the 2018 budget from the 2017 budget for the individual administrative departments are: General and Administrative, decrease of \$109,829 (1.1%); Legal and Regulatory, decrease of \$378,002 (11.5%); IT, decrease of \$1,214,220 (9.7%); HR, increase of \$95,876 (6.0%); Finance and Accounting, increase of \$181,276 (4.7%). The decrease in the 2018 IT budget reflects reductions in staffing (0.94 FTE), Consultants & Contracts expense (\$188,821), and the IT Fixed Asset budget (\$1,796,000). The total budgeted staffing for the Administrative Services departments for 2018 is 67.45 FTEs, which is a decrease of 1.88 FTEs from the 2017 budget. Compared to the 2017 budget, budgeted staffing is decreased by 0.94 FTE for each of General and Administrative, Legal and Regulatory and IT, and increased by 0.94 FTE for Finance and Accounting, with no change for HR.

Consultants & Contracts Expense budgeted in Administrative Services for 2018 is \$3,290,966, which is a decrease of \$68,821 (2.0%) from the 2017 budget. Budgeted 2018 Office Costs for the Administrative programs is increased by \$598,246 (18.3%) over the 2017 budget, while budgeted Computer & Software CapEx are decreased by \$1,171,000 (79.6%) and budgeted Equipment CapEx are reduced by \$625,000 (34.7%). The increase in budgeted Office

Costs and decreases in Fixed Asset expenditures reflect in part the reclassification of approximately \$426,000 of costs for audio-visual equipment and hardware leases from Fixed Assets (capital) to Office Costs (expense). The overall 2018 budget for capital expenditures for Administrative Services is \$1,476,000, comprised of \$301,000 for Computer & Software CapEx and \$1,175,000 for Equipment CapEx.

The budgeted amount for Independent Trustee expenses for 2018 (included in General and Administrative) is decreased by \$67,500 (3.9%) from the 2017 budget, reflecting a decrease of \$79,000 (20.1%) in budgeted expenses for quarterly Board meetings and Trustee travel based on recent historical experience. Budgeted Independent Trustee fees are increased by \$11,500 (0.9%) over the 2017 budget. The Independent Trustee compensation is supported by a compensation study performed by an independent compensation consultant, and was approved by the NERC Board in August 2015 based on the recommendation of the CGHRC of the Board.<sup>35</sup> Based on its review of the compensation study and other industry information, as well as the increasing workload for NERC Trustees and overall budgetary constraints, the Board, in August 2015, determined to: (1) maintain an annual retainer structure (rather than per-event or time-based payments), as consistent with industry best practices; (2) phase in a new annual retainer amount for Trustees of \$112,500 in installments over a three-year period (2016-2018); (3) make no change to the annual retainer amount for Board committee chairs and for the Board member serving on the Electricity Subsector Coordinating Council; (4) phase in a new target annual retainer for the Board Chair of \$160,000 in installments over a three-year period (2016-2018); and (5) make no change to the annual retainer amount for the Board Vice Chair. The

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<sup>35</sup> A copy of the compensation study, performed by the Towers Watson consulting firm (*Board of Trustee Remuneration Review*, July 2015) was provided to NERC's 2016 Business Plan and Budget Filing (2016 Business Plan and Budget Filing).

increase in Independent Trustee fees in the 2018 budget represents the third and final step of the three-year phase-in of the increased annual retainer amounts for Trustees and for the Board Chair (items (2) and (4) listed above). In accordance with Paragraph 12(a) of the Settlement Agreement for FERC's 2011 financial performance audit of NERC, which requires the NERC Board to review Trustee compensation on an annual basis, the CGHRC, at its April 18, 2017 meeting, reviewed the Trustee compensation plan, including the three-year phase-in schedule, that the Board approved in August 2015 based on the comprehensive third-party compensation study.<sup>36</sup> The CGHRC concluded that for purposes of the 2018 Business Plan and Budget, there is no need to depart from the approved Trustee compensation plan and phase-in schedule. At its August 10, 2017 meeting, the NERC Board adopted this recommendation as part of its approval of the 2018 Business Plan and Budget.

All expenses and Fixed Asset additions budgeted in Administrative Services are allocated to the statutory programs on the basis of the proportion of the number of budgeted FTEs in each statutory program to the total FTEs budgeted for the statutory programs.

## **B. Working Capital and Operating Reserves**

NERC's Working Capital and Operating Reserve (WCOR) Policy, adopted by the NERC Board in 2012 and amended in 2013 and in 2015, provides for separation of Working Capital from Operating Reserves, establishes criteria and authorities for funding and access to Working Capital and Operating Reserves and transfers of funds between the reserve accounts, establishes controls and authorities regarding the reallocation of budgeted funds to other uses, and establishes transparent reporting requirements. The 2015 amendments to the WCOR Policy established the categories of Operating Reserves maintained by NERC: Future Obligations

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<sup>36</sup> Annual review of Trustee compensation is also required by the CGHRC's mandate and by NERC's Governance Guidelines.

Reserve, Operating Contingency Reserve, System Operator Certification Program Reserve, and CRISP Reserve, as well as the Assessment Stabilization Reserve. Table B-1 and Exhibit E in **Attachment 2** show and explain the amounts of Working Capital and Operating Reserves proposed to be budgeted, and reflected in the setting of NERC's assessments, for 2018, as well as the proposed transactions in the Assessment Stabilization Reserve (see §IV.C below).

The amounts budgeted for 2018 for each Working Capital and Operating Reserve category (target balances at December 31, 2018) are as follows:

Working Capital:     \$0

NERC maintains a \$4,000,000 line of credit with a major financial institution, and based on its cash flow projections and the timing by which the NERC assessments are billed and paid, does not anticipate a need to access working capital in 2018 to meet monthly cash flow needs.

Operating Reserves:   \$5,904,734

Future Obligations Reserve:   \$1,752,468

The target level for the Future Obligations Reserve at December 31, 2017, as presented in NERC's 2017 Business Plan and Budget, was \$2,646,709; therefore, the target level for this reserve is being reduced by \$894,241.

Operating Contingency Reserve:   \$2,951,965

The WCOR Policy specifies that except as otherwise approved by the NERC Board, the budgeted Operating Contingency Reserve level is to be between 3.5% - 7.0% of NERC's total expenses and Fixed Assets budget excluding the budgets for the System Operator Certification Program and CRISP, which have their own reserves. Based on the budgeted 2018 expenses and Fixed Assets, the target amount for the Operating Contingency Reserve at December 31, 2018 is within this range (4.7%).

System Operator Certification Program Reserve:   \$700,300

The projected December 31, 2017 reserve balance of the System Operator Certification Program is \$622,842; therefore, an increase to the 2018 assessment of \$77,458 is included to reach the target balance for the System Operator Certification Program Reserve at December 31, 2018.

CRISP:   \$500,000

The CRISP Operating Reserve is used solely for certain contingencies in connection with CRISP. The target level is equal to the original CRISP reserve, established in 2015, which was funded by the participating utilities in CRISP.

Assessment Stabilization Reserve: \$1,571,000

NERC proposes to (1) deposit the \$500,000 of Penalty revenues received during the period July 1, 2016 – June 30, 2017, into the Assessment Stabilization Reserve, and (2) release \$600,000 of funds in the Assessment Stabilization Reserve to reduce 2018 assessments. These actions will leave a balance of \$1,571,000 in the Assessment Stabilization Reserve at December 31, 2018 for use to offset and stabilize assessments in future years' budgets.

Total Desired Working Capital, Operating Reserve and Assessment Stabilization Reserve at 12/31/2018: \$7,475,734.

Based on the beginning Working Capital and Operating Reserve balances at December 31, 2016, the projected funding and expenditures for 2017, the budgeted funding and expenditures for 2018, the proposed transactions in the Assessment Stabilization Reserve, the impacts of the capital financing program for 2018 (*see* §IV.D below) and the desired Working Capital and Operating Reserve balances at December 31, 2018, Table B-1 on page 82 of **Attachment 2** shows the calculation of the resulting adjustment (increase) of \$77,458 to NERC's 2018 statutory assessment. To the extent NERC's actual year-end 2017 Working Capital and Operating Reserves balances are higher than the projected amounts shown on Table B-1, the excess funds will be included in the Operating Contingency Reserve account, System Operator Certification Program Reserve account, or CRISP Reserve account, as applicable, and subject to the limitations and authorities regarding their use as set forth in the WCOR Policy.

### **C. Proposed Assessment Stabilization Reserve Transactions**

The NERC policy, *Accounting, Financial Statement and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards*, and §1107.2 of the NERC ROP, specify that 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, unless an alternative treatment is approved by FERC. For the period July 1, 2016 through June

30, 2017, NERC received \$500,000 of Penalty collections. NERC proposes to deposit the \$500,000 of Penalty collections into the Assessment Stabilization Reserve created by the amended WCOR Policy. NERC also proposes to use \$600,000 of accumulated Penalty sanctions revenues in the Assessment Stabilization Reserve to reduce 2018 assessments, as shown on Table B-1 of **Attachment 2**. Therefore, in accordance with ¶19 of FERC's June 18, 2015 Order in Docket No. RR15-8-000, and pursuant to §1107.4 of the NERC ROP, NERC had requested in its 2018 Business Plan and Budget Filing to FERC an exception to §1107.2 of the ROP to permit it to place \$500,000 of Penalty collections received during the 12 months ended June 30, 2017 into the Assessment Stabilization Reserve. NERC had also requested FERC's approval to use \$600,000 of accumulated Penalty collections in the Assessment Stabilization Reserve to reduce 2018 assessments.

#### **D. Capital Expenditures Financing**

As described in Exhibit D to NERC's 2014 Business Plan and Budget, NERC is financing the development costs of certain software applications and IT hardware and amortizing these investments over a multi-year period. As described in Exhibit D to **Attachment 2** of this 2018 Business Plan and Budget filing, NERC initiated the capital financing program in January 2014, establishing a \$7,500,000 non-revolving credit facility; and closed a similar non-revolving credit facility in November 2016 totaling \$5,000,000. The November 2016 credit facility is available to finance certain capital expenditures made from January 2017 to December 2019. Authorized annual borrowings under the credit facilities are limited to the amounts authorized by the NERC Board and FERC in each year's Business Plan and Budget. Borrowings are amortized over a three-year period and can be prepaid without penalty.

The outstanding debt balance at December 31, 2017 is projected to be \$2,561,961. For

2018, NERC's proposed capital expenditures budget is \$3,874,000, of which NERC is proposing to finance approximately \$2,148,000. The capital expenditures in the 2018 budget are listed on page 142 of **Attachment 2**, in Exhibit D, and include \$2,148,000 for ERO Application Development; \$805,000 for Hardware such as data storage and servers; \$370,000 for other equipment; \$100,000 for disaster recovery hardware; \$301,000 for Software licenses; and \$150,000 for Leasehold Improvements.

The tables included in Exhibit D (pages 142-43) of **Attachment 2** show the projected year-end outstanding debt balances and annual payments for debt service for 2017, 2018, 2019 and 2020 under the capital financing program. The projections assume an average interest rate of 4.0% over the life of the financing, which is consistent with the modest general increase currently occurring in market interest rates. The actual interest expense (based on the actual interest rate) will be reflected in the quarterly budget-to-actual variance reports that NERC posts on its website, reviews in open session with the NERC FAC and files with FERC. Any savings in interest expense compared to the budgeted expense will be captured and reported as a contribution to NERC's Operating Reserves, the expenditures from which are subject to the terms of the WCOR Policy.

## **V. REGIONAL ENTITY BUSINESS PLANS AND BUDGETS**

### **A. Development of the Regional Entity Business Plans and Budgets**

As described in §III.A above, NERC management and staff worked iteratively with the Regional Entities on the development of the Regional Entity 2018 Business Plans and Budgets. Drafts of each Regional Entity's 2018 Business Plan and Budget were submitted to NERC for posting on the NERC website on May 19, 2017 for stakeholder comment. NERC also reviewed and provided feedback on these drafts. The draft Regional Entity Business Plans and Budgets were also the subject of presentations and discussion at meetings of the NERC FAC.

Additionally, each Regional Entity posted one or more drafts of its 2018 Business Plan and Budget on its own website for comment by its stakeholders, and/or provided other opportunities for stakeholder input, as follows:

**FRCC:** FRCC posts its proposed budget to the FRCC website and sends a copy (along with all presentation materials that will be presented to the FRCC Board) to each Board Member, Corporate Compliance Finance and Audit Committee Member, Alternate Board Member, all Standing Committee Chairs, and all Voting Members from the Supplier, Non-Investor-Owned Utility Wholesale, Load Serving Entity, Generating Load Serving Entity, Investor Owned Utility, and General Sectors of the membership, approximately 45 days prior to the expected FRCC Board vote date. The recipients are encouraged to contact FRCC with any comments or questions, so they can be resolved prior to the Board meeting date. Ten days prior to the Board meeting at which the vote on the budget will take place, another distribution is made to the same recipients, and posted to the FRCC website with any changes from the first version. After approval is finalized, the process is repeated with a copy marked as Final with the Approval Date. The FRCC Board approved FRCC's 2018 Business Plan and Budget on June 30, 2017.

**MRO:** MRO posted its draft 2018 Business Plan and Budget for comments on May 1, 2017. MRO's 2018 Business Plan and Budget was presented in multiple meetings of the MRO Board and its stakeholders. There were no written or oral challenges to the 2018 Business Plan and Budget. On June 22, 2017, MRO's Board of Directors approved a resolution that approved the 2018 budget, approved MRO's reserves policy, and affirmed that the budget is sufficient to complete MRO's delegated responsibilities.

**NPCC:** On April 25, 2017, a preliminary 2018 total NPCC Expense Budget was presented to NPCC's Finance and Audit Committee (NPCC FAC) for review and discussion. Draft #1 of the NPCC 2018 Business Plan and Budget was presented to NPCC's Board of Directors on May 3, 2017. On May 5, 2017, NPCC posted Draft #1 on its website for stakeholder review and comment. Draft #1 was presented to the NPCC Reliability Coordinating Committee for comment following this posting. NPCC did not receive any formal comments from either the posting or various presentations to the stakeholders on its draft 2018 Business Plans and Budget during the posting period. There were several questions received from the Régie de l'énergie after the May 31 comment period closed. The questions, primarily related to compliance costs, were addressed via email and resulted in no changes to the 2018 Business Plan and Budget. The NPCC FAC unanimously endorsed the "Draft for Approval" as presented and on June 28, 2017, the "Draft for Approval" was presented to the NPCC Board, and was unanimously approved.

**ReliabilityFirst:** On April 26, 2017, the ReliabilityFirst Board of Directors approved the first draft of its 2017 Business Plan and Budget, after which it was posted to the ReliabilityFirst website for a 30-day industry review and comment period.



ReliabilityFirst did not receive any comments. The final 2018 Business Plan and Budget was approved by the ReliabilityFirst Board on June 1, 2017.

**SERC:** SERC made a draft of the 2018 Business Plan and Budget available to the SERC Board of Directors on April 16, 2017. The SERC Board approved the draft 2018 Business Plan and Budget at its April 26, 2017 meeting. The draft was then posted on the SERC public website for a 30-day comment period beginning May 3, 2017. No comments were received from registered entities on the draft 2018 Business Plan and Budget. The final version of the Business Plan and Budget was approved by the Board Executive Committee on June 28, 2017.

**SPP RE:** SPP RE presented a summary of the preliminary 2018 budget at the SPP RE Trustees public meeting on April 24, 2017. SPP RE's April 2017 newsletter indicated that the budget would be posted for comments through May 31, 2017. The final SPP RE 2018 Business Plan and Budget was presented at a public meeting held on June 28, 2017, with approval by the Trustees on June 30, 2017 via teleconference. SPP RE posts all Board of Trustee materials on its public website prior to the meetings. SPP RE received no formal comments from stakeholders regarding the 2018 budget.

**Texas RE:** Texas RE's 2018 Business Plan and Budget was presented in multiple meetings of the Texas RE Board and Member Representatives Committee. Texas RE posted the draft 2018 Business Plan and Budget on April 25, 2017. There were no written or oral challenges to the 2018 Business Plan and Budget. The Board of Directors approved Texas RE's 2018 Business Plan and Budget on May 24, 2017.

**WECC:** WECC's draft 2018 Business Plan and Budget was posted on its website on May 1, 2017 for a twelve business day comment period. The WECC Board of Directors and WECC Members were notified of the posting. One set of comments was received from stakeholders on the draft 2018 Business Plan and Budget. WECC's Board approved WECC's 2018 Business Plan and Budget on June 21, 2017.

Throughout the process of NERC's review of the draft Regional Entity business plans and budgets, where appropriate, additional information was requested and other suggested changes were made. As needed, NERC and Regional Entity management and finance staffs convened meetings and conference calls to obtain and provide feedback and refine their respective business plans and budgets. NERC's review focused on:

1. Adequacy of the resources and activities to perform delegated functions;
2. Alignment of the Regional Entity's goals, objectives and major activities to the ERO Strategic Plan;

3. Description of efforts to improve efficiency and control costs;
4. Quality and completeness of the financial information presented, including:
  - a. Conformance with FERC budget reporting requirements and with the common presentation format,
  - b. Separation of statutory and non-statutory activities,
  - c. Supporting detail for projections, including explanations for significant changes from the entity's 2017 budget, and
  - d. Working capital and operating reserve budgets, policies and controls.

Through the processes described above and in §III.A, NERC has been able to satisfy itself that each Regional Entity's 2018 Business Plan and Budget provides necessary and adequate resources to carry out the Regional Entity's delegated functions in 2018.<sup>37</sup>

The Regional Entities submitted their final 2018 Business Plans and Budgets, approved by their respective governing bodies, to NERC in late June and early July 2017. These Business Plans and Budgets were submitted to the NERC FAC and Board and were reviewed at the FAC's meetings held on July 20 and August 9, 2017, and at the Board's August 10, 2017 meeting. The Regional Entities' 2018 Business Plans and Budgets were approved by the NERC Board at the August 10 meeting, for submission to the applicable governmental authorities.

In developing the 2018 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 business plans and budgets for the years 2008 through 2017. NERC and the Regional Entities: (i) used a common and consistent format for the 2018 Business Plan and Budget documents, (ii) continued to use the consistent accounting

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<sup>37</sup> In reviewing the Regional Entity Business Plans and Budgets, NERC afforded the proposed Regional Entity Business Plans and Budgets no presumption of reasonableness due to having been approved by the Regional Entities' governing bodies.

methodologies that were developed in connection with the 2010 Business Plans and Budgets, (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) again developed and used extensive Shared Business Plan and Budget Assumptions for 2018-2020 and Key Focus Areas for 2018 in preparing their 2018 Business Plans and Budgets. The Shared Business Plan and Budget Assumptions for 2018-2020 and Key Focus Areas for 2018 are provided in Exhibit A to the NERC 2018 Business Plan and Budget (**Attachment 2**) and are cross-referenced in the individual Regional Entity Business Plans and Budgets. Additionally, each Regional Entity has highlighted entity-specific assumptions in its business plan and budget.

#### **B. Organization of the Regional Entity Business Plans and Budgets**

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 2018 including statutory and (where applicable) non-statutory FTEs and expenses; 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 also provides general information on the Regional Entity, including information on its organization, membership and governance; provides the Regional Entity's key assumptions and its goals and key deliverables for 2018; and provides an overview of the primary cost impacts to the Regional Entity's 2018 budget. The Introduction section includes a table showing the Regional Entity's 2017 budget, 2017 projection, 2018 budget, and variance between the 2017 budget and 2018

budget, for each of the statutory programs. It also contains a chart comparing the Regional Entity's 2017 to 2018 budgeted expenditures by statutory program; and a table showing the Regional Entity's FTEs, by statutory program and administrative department, for its 2017 budget, 2017 projection, and 2018 budget. Finally, the Introduction section includes the Regional Entity's overall statutory Statement of Activities, with information presented for its 2017 budget, 2017 projection, variance between its 2017 budget and 2017 projection, 2018 budget, and variance between its 2018 budget and 2017 budget.

The Regional Entity Business Plans and Budgets next contain, in Section A – Statutory Programs, separate subsections on each statutory program and on the administrative services functions of the Regional Entity. These sections are presented in similar format to Section A of the NERC Business Plan and Budget, including: (i) a table for each statutory program showing total FTEs, total Direct Expenses, total Indirect Expenses, increase or decrease in Fixed Assets, and total Funding Requirement, for the 2017 budget and 2018 budget and the Increase or Decrease; (ii) a table for Administrative Services showing the 2017 and 2018 budgeted Expenses and Fixed Assets and budgeted FTEs and the changes in budgeted expenditures and FTEs, for each Administrative Services function; and (iii) a Statement of Activities for the statutory program or for Administrative Services showing Funding, Expenses and Fixed Asset activity by major line item categories, Total Budget and Total Change in Working Capital.<sup>38</sup> Information is presented in each of the Statements of Activities for the 2017 budget, the 2017 projection and the 2018 budget, and the variances between the 2017 budget and 2017 projection and between the 2018 budget and 2017 budget. The text of these sections for each statutory program includes discussion of the program scope and functional description, 2018 key assumptions, and goals and

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<sup>38</sup> All Expenses and Fixed Asset activity for the Administrative Services functions are allocated to, and included in the Funding Requirements for, the statutory programs.

deliverables for 2018. Reasons for significant increases or decreases in funding sources and costs in the 2018 budget for the program are provided in the narrative discussion and/or in the notes to the applicable table in Section B of the Regional Entity's Business Plan and Budget.

Section B of the Regional Entity Business Plans and Budgets presents additional financial information supporting the Regional Entity's 2018 statutory budget. Section B contains tables detailing the development of the adjustment to the Regional Entity's 2018 assessment to achieve its target Working Capital Reserve at December 31, 2018 (Table B-1); Penalty payments received in the 12 months ended June 30, 2017, to be used as an offset to the Regional Entity's funding requirement (Table B-2); budgeted Supplemental Funding (*e.g.*, Workshop fees and Interest income) (Table B-3); budgeted Personnel Expenses (Table B-4); budgeted Meeting Expense (Table B-5); budgeted Consultants & Contracts expense (Table B-6); budgeted Office Rent (Table B-7); budgeted Office Costs (Table B-8); budgeted Professional Services expense (Table B-9); budgeted Miscellaneous Expense (Table B-10); budgeted Other Non-Operating Expenses (Table B-11); and budgeted Fixed Assets additions (Table B-12). Tables B-3 through B-12 are followed, where applicable, by explanations of significant variances between the Regional Entity's 2017 and 2018 budgets for the funding or cost category. Finally, Table B-13 provides the Regional Entity's statutory budget projections for 2019 and 2020.<sup>39</sup>

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 2017, including program descriptions and objectives, budget information, and FTEs.<sup>40</sup>

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<sup>39</sup> WECC has included its budget projections for 2019 and 2020 in Appendix B to its 2018 Business Plan and Budget, rather than in Table B-13 of Section B. Additionally, WECC has no Miscellaneous Expenses and has not included a separate table for Miscellaneous Expense.

<sup>40</sup> MRO, ReliabilityFirst and SERC do not plan to have, and have not budgeted for, any non-statutory activities in 2018. SPP RE is unable to provide a non-statutory budget for 2018 because its planning and

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 2018 Consolidated Statement of Activities, Fixed Asset Expenditures and Changes in Working Capital showing the Regional Entity’s 2018 budgeted line-item funding sources, expenses, and Fixed Asset activity, in total, by statutory and (if applicable) non-statutory, and by statutory program and for Administrative Services, 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, 2016, based on 2016 actual audited results;<sup>41</sup> (ii) December 31, 2017, based on the Regional Entity’s 2017 projection; and (iii) December 31, 2018, based on the Regional Entity’s 2018 budget; and (3) the Regional Entity’s organization chart(s) for 2017 and 2018 (presented either as two separate charts or a combined chart displaying staffing numbers for each year), showing staffing comparisons for 2017 and 2018.

**C. Provision for Working Capital Reserves in Regional Entity Budgets**

In developing their 2018 Business Plans and Budgets and proposed assessment amounts to LSEs, the Regional Entities have taken into account the need to maintain appropriate amounts of working capital and operating reserves. The process takes into account each Regional Entity’s actual Working Capital Reserve at December 31, 2016 and projected Working Capital Reserve at December 31, 2017, resulting from its accumulated prior years’ surpluses and deficits, and results in an incremental or decremental adjustment to each Regional Entity’s proposed 2018 statutory assessment amount, in order to arrive at its target Working Capital Reserve at December 31, 2018. Table B-1, Reserve Balance (Working Capital Reserve Balance), in Section

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budgeting cycle does not result in finalization and SPP Board approval of the overall SPP, Inc. budget until October. SPP RE has provided the overall SPP, Inc. 2017 budget and 2016 actual income statement.

<sup>41</sup> The audited financial statements of each Regional Entity for 2016 were filed with FERC on May 30, 2017, in NERC’s *2016 Budget True-up Report* (Docket No. RR17-04-000).

B of each Regional Entity's 2018 Business Plan and Budget, shows the calculation of the increment or decrement to the Regional Entity's requested 2018 assessment to achieve the Regional Entity's desired Working Capital Reserve at December 31, 2018. The calculations shown on Table B-1 take into account: (1) the Regional Entity's actual Working Capital Reserve at December 31, 2016, (2) assessment Funding, projected other Funding, and projected Expenses and Capital Expenditures for 2017, resulting in (3) a projected Working Capital Reserve at December 31, 2017, (4) the desired (target) Working Capital Reserve at December 31, 2018, (5) the budgeted Expenses and Capital Expenditures, and projected other funding sources (including Penalties collected from Registered Entities during the 12 months ended June 30, 2017), for 2018, resulting in (6) the increment or decrement to the Regional Entity's requested 2018 assessments in order to achieve the target Working Capital Reserve at December 31, 2018.

As shown on Table B-1 in each Regional Entity's 2018 Business Plan and Budget, each Regional Entity (except SPP RE; *see* §V.D.6 below) has established a target Working Capital Reserve for 2018. The basis for each entity's Working Capital Reserve for 2018 is stated on its Table B-1 or explained elsewhere in the text of its 2018 Business Plan and Budget.

#### **D. Discussion of Relevant Regional Entity Business Plan and Budget**

##### **1. NPCC**

**Attachment 3** is NPCC's proposed 2018 Business Plan and Budget. NPCC's statutory budget for 2018 is \$15,106,967, a decrease of \$40,087 (0.3%) from its 2017 budget. NPCC's 2018 assessment is \$14,341,787, an increase of \$86,726 (0.6%) from its 2017 budget. The increase in assessments is the net result of (i) the decreased budget, (ii) an increase in Penalty collections from zero in the 2017 budget to \$75,000 in the 2018 budget, and (iii) a decremental adjustment for reserves of \$626,180 versus a decremental adjustment of \$827,994 in the 2017 budget (*i.e.*, the adjustment to assessments for reserves reduces the 2018 assessment by \$201,813

less than in the 2017 budget). The smaller decremental adjustment to the 2018 assessment for reserves is due in part to the need to fund a separate Business Continuity Reserve established by the NPCC Board of Directors, as discussed below.

NPCC's 2018 budget does not reflect any change in total staffing in its statutory and administrative programs from its 2017 budget (nor from its 2016, 2015 and 2014 budgets). Budgeted total staffing is 36.86 FTEs, comprised of 28.86 FTEs for the statutory programs and 8.00 FTEs for the administrative programs. Both of these staffing figures are the same as in the 2017 budget, although in the statutory programs, staffing is reduced by 1.0 FTE in the Compliance Monitoring and Enforcement and Organization Registration and Certification Program and increased by 1.0 FTE in the Situation Awareness and Infrastructure Security Program, based on changing workloads. NPCC's budgeted 2018 Administrative Services expenditures are \$5,422,278, a decrease of \$24,441 (0.4%) from its 2017 budget.<sup>42</sup>

NPCC's target Working Capital and Operating Reserve at December 31, 2018 is \$2,933,713, comprised of \$1,674,849 for Operating Reserve and \$1,258,864 for Working Capital. As approved by the NPCC Board of Directors, the Operating Reserve target is within the range of 30 days (8.33%) and 90 days (25.00%) of budgeted expenditures, while the Working Capital target is 30 days (8.33%) of budgeted expenditures. In addition, the NPCC Board of Directors has established a Business Continuity Reserve of \$1,000,000, allocated between the NPCC Regional Entity Division (\$940,000) and the Criteria Service Division (\$60,000). Therefore, the total target reserve amount at December 31, 2018, is \$3,873,713. NPCC's Table B-1 shows a projected Working Capital and Operating Reserve at December 31, 2017 of

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<sup>42</sup> NPCC budgets Office Rent, Office Costs, Professional Services, Miscellaneous Operating Expense, and Depreciation as Indirect Expenses, rather than budgeting these costs individually in the statutory program budgets, and allocates them to the statutory programs on the basis of the proportion of direct statutory FTEs in each program.



\$4,499,893 (Operating Reserve - \$3,241,030; Working Capital - \$1,258,864); thus, NPCC's 2018 assessment amount is reduced by \$626,180 to reach its desired Working Capital and Operating Reserve and fund the new Business Continuity Reserve at December 31, 2018.

For purposes of determining the assessments to recover NPCC's statutory funding requirement, the statutory funding requirement is allocated among the Balancing Authority Areas within NPCC in the U.S. (New York and New England), Ontario, Québec, New Brunswick and Nova Scotia. A portion (22.11%) of NPCC's statutory costs for the Compliance and Organization Registration Program (CORC) is allocated between the U.S. and Canadian Balancing Authority Areas on the basis of NEL; a portion (55.67%) of the CORC costs is allocated between the U.S. and the Canadian provinces using a compliance audit-based methodology; and the remaining portion (22.22%) of the CORC costs, representing mitigation and enforcement-related costs, is allocated between the U.S. and Canadian Balancing Authority Areas using an enforcement activity-based methodology.<sup>43</sup> The portion of the costs allocated to the U.S. using the audit-based methodology and the enforcement activity-based methodology is then re-allocated between the New York and New England Balancing Authority Areas on the basis of NEL, as required by PP 40-41 of the FERC *July 16, 2009 Budget Compliance Order*. In addition, any NPCC sub-regional reliability assessment costs that will be incurred in response to U.S.-only regulatory initiatives will be considered for allocation to U.S.-only Balancing Authority Areas, consistent with §1102 of the NERC ROP. The narrative discussion on pages 60-61, and the table on page 62, of NPCC's Business Plan and Budget (**Attachment 3**), explain and show the development of the 2018 assessments by Balancing Authority Area within NPCC

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<sup>43</sup> These allocation percentages reflect the respective scopes of work to be performed by NPCC and the relevant provincial governmental and/or regulatory authorities in the Compliance area, as negotiated between NPCC and the relevant authorities in each of the provinces and reflected in the Memorandum of Understanding between NPCC and the relevant authorities for each province.

to recover NPCC's statutory funding requirement. Appropriate adjustments to the costs to be allocated are made for Penalty payments received by NPCC from U.S. registered entities (used solely to offset costs to be charged to U.S. Balancing Authority Areas).

NPCC's total non-statutory (Criteria Services Division) Funding Requirement for 2018 is \$1,019,141.

## **VI. METRICS RELATED TO NERC AND REGIONAL ENTITY BUDGETS**

Consistent with NERC's February 25, 2015 *Request to Revise Certain "Metrics" Filing Components for its Annual Business Plan and Budget Filings and its Annual Actual Cost-to-Budget True-Up Filings*, and FERC's June 15, 2015 letter order approving NERC's request, NERC is providing the metrics information listed below in **Attachment 6** and **Attachment 7** to this filing.

**Attachment 6** provides the following information relating to the Regional Entities' operations based on their 2018 Business Plans and Budgets:

1. Numbers of registered entities
2. Numbers of registered functions
3. Total NEL (GWh)
4. NEL (GWh) per registered entity
5. Total ERO Funding (sum of assessments plus Penalty sanctions collections)
6. ERO Funding per registered entity
7. ERO Funding per registered function
8. Total Budget (sum of Total Expenses plus Capital Expenditures)
9. Total Budget per registered entity
10. Total Budget per registered function
11. Total Statutory FTEs (FTEs are based on working 2,080 hours per year)

12. Registered entities per Statutory FTE
13. Registered functions per Statutory FTE
14. Total Compliance Budget (sum of Direct Expenses, Indirect Expenses allocated to the Compliance Program, and Capital Expenditures)
15. Compliance budget per registered entity
16. Compliance budget per registered function
17. Total Compliance FTEs
18. Registered entities per Compliance FTE
19. Registered functions per Compliance FTE

In addition, **Attachment 6** provides the following metrics and graphics based on the Regional Entities' 2018 Business Plans and Budgets:

20. Compliance Budget per Number of Registered Functions and per Number of Registered Entities.
21. Number of Registered Functions per Registered Entity
22. Compliance Program Budget as a Function of Number of Registered Entities and Number of Registered Functions
23. Number of Registered Entities per Compliance Program FTE and Number of Registered Functions per Compliance Program FTE
24. Comparisons of Number of Registered Entities per Compliance program FTE and Number of Registered Functions per Compliance Program FTE for the current year (2017) and the budget year (2018).

**Attachment 7** provides the following metrics on the budgeted Administrative Services costs of NERC and each Regional Entity, based on their budgets for 2017 and 2018:

1. Statutory Indirect Budget as a Percentage of Total Statutory Budget, for 2017 and 2018.
2. Ratio of Statutory Direct Budget to Statutory Indirect Budget, for 2017 and 2018.
3. Statutory Indirect (Administrative) FTEs as a Percentage of Total Statutory FTEs, for 2017 and 2018.

4. Number of Direct Statutory FTEs per Indirect (Administrative) FTE, for 2017 and 2018.

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**ATTACHMENTS 1 – 7**