NERC
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

June 8, 2016

VIA ELECTRONIC FILING

Kirsten Walli, Board Secretary
Ontario Energy Board
P.O Box 2319
2300 Yonge Street
Toronto, Ontario, Canada
M4P 1E4

Re: *North American Electric Reliability Corporation*

Dear Ms. Walli:

The North American Electric Reliability Corporation hereby submits North American Electric Reliability Corporation's Report of Comparisons of Budgeted to Actual Costs for 2015 for NERC and the Regional Entities.

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

Respectfully submitted,

/s/ Holly A. Hawkins

Holly A. Hawkins
Associate General Counsel for the North American Electric Reliability Corporation

Enclosure

3353 Peachtree Road NE
Suite 600, North Tower
Atlanta, GA 30326
404-446-2560 | www.nerc.com

ONTARIO ENERGY BOARD
OF THE PROVINCE OF ONTARIO

NORTH AMERICAN ELECTRIC	**)**
RELIABILITY CORPORATION	**)**

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION'S REPORT OF COMPARISONS OF BUDGETED TO ACTUAL COSTS FOR 2015 FOR NERC AND THE REGIONAL ENTITIES

Gerald W. Cauley
President and Chief Executive Officer
Michael Walker
Senior Vice President and Chief Financial
and Administrative Officer
North American Electric Reliability Corporation
3353 Peachtree Road
Suite 600, North Tower
Atlanta, GA 30326
(404) 446-2560
(404) 446-9765 – facsimile

Charles A. Berardesco
Senior Vice President and General Counsel
North American Electric Reliability Corporation
1325 G Street, N.W., Suite 600
Washington, D.C. 20005
(202) 400-3000
(202) 644-8099 – facsimile
charles.berardesco@nerc.net

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ATTACHMENTS:

I. INTRODUCTION

The North American Electric Reliability Corporation ("NERC") respectfully submits this filing to provide comparisons of actual to budgeted costs for the year 2015 for NERC and the eight Regional Entities.[1] NERC is also submitting a comparison of actual to budgeted costs for 2015 for Peak Reliability, Inc. ("Peak"). The Federal Energy Regulatory Commission ("FERC") originally directed NERC to file, each year, comparisons of actual to budgeted costs for the preceding year, in an order issued October 18, 2007 concerning the 2008 business plans and budgets of NERC and the Regional Entities.[2] In several subsequent orders, FERC has clarified and expanded upon the information to be included in the annual actual-to-budget cost comparisons filings.

The following information is provided in this filing:

- A comparison of the actual funding received and costs incurred by NERC and each Regional Entity, and by Peak, for statutory and (where applicable) non-statutory activities for the year ended December 31, 2015, to the budgets of NERC and each Regional Entity for that year, with explanations of significant actual cost-to-budget variances.
- Audited financial statements of NERC, each Regional Entity, and Peak, for the year ended December 31, 2015.
- Tables showing metrics concerning NERC and Regional Entity administrative costs in their 2015 budgets and actual results.

This filing includes the following attachments:

Attachment 1: 2015 Actual Cost-to-Budget Comparison and Audited Financial Statements for NERC.

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[1] The eight Regional Entities are the Florida Reliability Coordinating Council, Inc. ("FRCC"), Midwest Reliability Organization ("MRO"), Northeast Power Coordinating Council, Inc. ("NPCC"), ReliabilityFirst Corporation ("ReliabilityFirst"), SERC Reliability Corporation ("SERC"), Southwest Power Pool, Inc. Regional Entity ("SPP RE"), Texas Reliability Entity, Inc. ("Texas RE"), and Western Electricity Coordinating Council ("WECC").

[2] *North American Electric Reliability Corporation, Order Conditionally Accepting 2008 Business Plan and Budget of the North American Electric Reliability Corporation and Ordering Compliance Filings*, 121 FERC ¶ 61,057 (2007) ("*2008 ERO Budget Order*").

Attachment 2: 2015 Actual Cost-to-Budget Comparison and Audited Financial Statements for FRCC.

Attachment 3: 2015 Actual Cost-to-Budget Comparison and Audited Financial Statements for MRO.

Attachment 4: 2015 Actual Cost-to-Budget Comparison and Audited Financial Statements for NPCC.

Attachment 5: 2015 Actual Cost-to-Budget Comparison and Audited Financial Statements for ReliabilityFirst.

Attachment 6: 2015 Actual Cost-to-Budget Comparison and Audited Financial Statements for SERC.

Attachment 7: 2015 Actual Cost-to-Budget Comparison for SPP RE and Audited Financial Statements for Southwest Power Pool, Inc.

Attachment 8: 2015 Actual Cost-to-Budget Comparison and Audited Financial Statements for Texas RE.

Attachment 9: 2015 Actual Cost-to-Budget Comparison and Audited Financial Statements for WECC.

Attachment 10: 2015 Actual Cost-to-Budget Comparison and Audited Financial Statements for Peak.

Attachment 11: Metrics Concerning Administrative Costs in 2015 NERC and Regional Entity Budgets and Actual Costs

II. NOTICES AND COMMUNICATIONS

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

Gerald W. Cauley
President and Chief Executive Officer
Michael Walker
Senior Vice President and Chief Financial
and Administrative Officer
North American Electric
Reliability Corporation
3353 Peachtree Road
North Tower, Suite 600
Atlanta, GA 30326
(404) 446-2560
(404) 446-9765 – facsimile

Charles A. Berardesco
Senior Vice President and General Counsel
North American Electric Reliability Corporation
1325 G Street, N.W., Suite 600
Washington, D.C. 20005
(202) 400-3000
(202) 644-8099 – facsimile
charles.berardesco@nerc.net

III. COMPARISONS OF ACTUAL COSTS TO BUDGETS FOR THE YEAR ENDED DECEMBER 31, 2015 – NERC AND REGIONAL ENTITIES

As noted above, in the *2008 ERO Budget Order*, FERC directed NERC to make annual filings comparing the NERC and Regional Entity budgets to actual costs incurred in the preceding year, "in sufficient detail and with sufficient explanations for the Commission to determine, by program area, the reasons for deviations from the budget and the impacts of those deviations."[3] In its June 19, 2008 Order addressing NERC's April 1, 2008 compliance filing to the *2008 ERO Budget Order*, FERC provided additional direction concerning the presentation of the annual filings comparing NERC's and the Regional Entities' actual to budgeted expenditures:

> 37. To promote consistency and transparency, the Commission directs the use of certain practices and formats in future true-up filings. In particular, Regional Entities must provide a cover letter discussing major areas of actual cost-to-budget variances for all of the Regional Entity's statutory programs in the aggregate. Regional Entities should also follow NERC's template for the presentation of actual costs and budgeted costs on a program-by-program and line-item basis. Significant variances must be explained on a line-item basis with enough particularized information to clearly support each such variance. Regional Entities should refrain from using generic, program area summaries to support significant variances. The cause for each such variance should therefore be clear on its face. Further, each Regional Entity must provide an explanation of the allocation methods it used to allocate indirect costs to the direct statutory program or functional areas, as well as any allocation between any statutory and non-statutory activities.
>
> 38. Cash reserves are meant to handle expenses which exceed the amount budgeted, as well as unforeseen events that could occur at any time. However, in the future, the Commission expects NERC and the Regional Entities to justify the use of cash reserves as variances in the April true-up. Cash reserves should not become a means to fund expected projects outside of the budget approval process. The Commission expects that as NERC and the Regional Entities develop experience in planning and functioning under their budgets the amounts and number of variance will decrease. In addition, the Commission expects that with experience, the explanations for the variances will improve.[4]

In addition, although the following directive in the *2008 ERO Budget Order* was

[3] *2008 ERO Budget Order* at P 23.

[4] *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 123 FERC ¶61,282 (2008) ("*June 19, 2008 Budget Compliance Order*"), PP 37-38.

expressly applicable to NERC's compliance filing comparing actual expenses to budgets for the year ended December 31, 2007 for NERC and the Regional Entities, NERC has treated the directive as intended to apply to the annual filings comparing actual expenses to budgets for future years as well:

> 66. . . . [T]he Commission reminds NERC and the Regional Entities that, to the extent funding identified as statutory is used to fund non-statutory activities, those funds must be reimbursed (e.g., to load serving entities or to statutory expenditures). NERC is directed to inform the Commission in the . . . compliance filing the extent to which this has occurred and document that the funds have been or will be reimbursed.

The comparisons of 2015 actual-to-budget funding and expenditures for NERC and the Regional Entities are provided in **Attachments 1 through 9**, as follows:

- **Attachment 1:** NERC
- **Attachment 2:** FRCC
- **Attachment 3:** MRO
- **Attachment 4:** NPCC
- **Attachment 5:** ReliabilityFirst
- **Attachment 6:** SERC
- **Attachment 7:** SPP RE
- **Attachment 8:** Texas RE
- **Attachment 9:** WECC

Each Attachment also includes the respective entity's audited financial report for the year ended December 31, 2015, as prepared by its independent public accounting firm.

The comparisons provided in **Attachments 1** through **9** conform to FERC's directives as quoted above:

- Each comparison contains a cover letter or an overview or summary section identifying overall actual-to-budget variances in Funding and total Expenses and in major Expense categories, and discussing reasons for major areas of actual cost-to-budget variances.
- Each comparison contains a summary table, prepared using a NERC-supplied

template, showing the entity's 2015 budget, 2015 actual amounts, and the variance, for major line-item categories of Funding and Expenses.

- For those entities that engaged in both statutory and non-statutory activities in 2015, the comparisons include separate summary tables for statutory programs and non-statutory activities, prepared using the NERC-supplied template, showing the entity's 2015 budget, 2015 actual amounts, and the variance, for major line-item categories of Funding and Expenses.[5]
- The comparisons include individual tables, also prepared using a NERC-supplied template, showing 2015 budget, 2015 actual amounts, and the variance, for major line-item categories of Funding and Expenses, for each of the statutory programs[6] (direct costs) and the overhead functions[7] (indirect costs). Explanations for significant line-item actual-to-budget variances are provided following each table, either below the table or on the immediately following page(s).[8]

The Attachments also address (generally in the cover letter or overview section) (i) where applicable, whether any statutory funds were used in 2015 for non-statutory activities (neither NERC nor any Regional Entity reports using statutory funds for non-statutory activities during 2015); (ii) the impact of the entity's 2015 results on its working cash reserve for statutory programs (*e.g.*, whether working cash reserves were used to fund expenditures during 2015)[9]; (iii) how indirect costs were allocated to the direct statutory programs or functions; and (iv)

[5] FRCC, NPCC, Texas RE and WECC had non-statutory activities in 2015 and each has provided summary tables for statutory and non-statutory activities. NERC, MRO, ReliabilityFirst, SERC and SPP RE did not have non-statutory activities in 2015 (although SPP RE's parent organization, Southwest Power Pool, Inc. had non-statutory activities).

[6] Statutory programs encompass Reliability Standards, Compliance Operations and Enforcement, Reliability Assessment and Performance Analysis, Training, Education and Operator Certification, and Situation Awareness and Infrastructure Security (including Critical Infrastructure Protection).

[7] Committees and Member Forums, General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Accounting and Finance. Some of the Regional Entities report budget and actual expenditure information for some or all of the overhead functions on a combined basis, in order to protect the confidentiality of compensation information for departments that have a limited number of staff members.

[8] Generally, explanations have been provided for line-item variances that are greater than +/- 10% of the budgeted amount and greater than $10,000 over or under the budgeted amount.

[9] The summary comparison tables for total entity and (where applicable) statutory and non-statutory activities show the "Change in Working Capital" (or in "Operating Reserves") for the 2015 Actual Funding and Expenditures. A positive "Change in Working Capital" means the entity's total Actual Funding exceeded its total Actual Expenditures for the year 2015; therefore, it was not necessary for the entity to use a portion of its cash reserves balance at December 31, 2014 to fund 2015 expenditures.

where applicable, whether, and if so how, costs were allocated between statutory programs and non-statutory activities in 2015.

NERC has provided additional information in its 2015 report in **Attachment 1** on (1) actual cost to budget variances for Consultants and Contracts expense, and (2) an analysis and comparison of the major sources of changes in its working capital and operating reserves for 2015, as budgeted and per actual results. The analysis of working capital and operating reserves includes a breakdown of the changes in working capital and operating reserves due to 2015 budgeted operations (differences in actual funding or expenditures from amounts budgeted) and due to approved uses of reserves, for (as applicable) the Future Obligations Reserve, the Operating Contingency Reserve, the System Operator Reserve, and the Cyber Risk Information Sharing Program ("CRISP") Reserve. The table on page 3 of **Attachment 1** shows the actual cost to budget variances for Consultants and Contracts expense for 2015 by NERC program area, and is followed by a narrative discussion of the reasons for actual cost-to-budget variances for Consultants and Contracts expense in each program area. The analysis of changes in working capital and operating reserves is provided on pages 8-9 of **Attachment 1**, including a table which shows changes in reserves from current year (2015) operations for the Future Obligations Reserve, the Operating Contingency Reserve, the System Operator Reserve, the CRISP Reserve, and the Assessment Stabilization Reserve (there was no activity in the last-listed Reserve). In addition, in its 2015 report, NERC has provided an actual cost-to budget comparison of 2015 Board of Trustees expenses, detailed by Meetings and Travel Expense (Quarterly Board Meetings and Trustee Travel expense) and Professional Services (Independent Trustee Fees and Trustee Search Fees). *See* pages 6-7 of **Attachment 1**.

Because the NERC and Regional Entity reports in each Attachment identify and discuss

major areas of actual cost-to-budget variances, and the individual tables for each direct statutory program and each indirect cost function contain specific explanations of significant variances on a line-item basis, a detailed, entity-by-entity discussion of the actual-to-budget variances experienced in 2015 by NERC and individual Regional Entities is not provided here. However, the list below describes several recurring drivers of actual cost-to-budget variances experienced by NERC and the Regional Entities in 2015, as identified by NERC's review of the comparisons.

- A number of entities[10] experienced under-budget variances in Salary Expense and related Personnel Expenses (Payroll Taxes, Employee Benefits and Retirement Expense), in one or more program areas, due to being unable to fill budgeted positions, due to higher vacancy rates (*i.e.*, higher number of unfilled positions), or to filling budgeted positions later in the year, than was assumed in the budget.[11]
- Additionally, having fewer personnel on staff than budgeted was a factor tending to reduce Meetings, Travel Expense, and/or Office Costs (each of which is related, to some extent, to staffing levels) below the budgeted amounts.
- In some instances, due to the difficulty in filling budgeted positions, some of the entities found it necessary to incur costs for temporary staffing services while budgeted positions were vacant.
- The inability to fill budgeted positions as planned also resulted in some instances in higher-than budgeted Consultants and Contracts or Professional Services expense, due to either or both (i) the need to use consultants or contractors to perform work that would have been performed by employees in unfilled positions, or (ii) the need to make greater use than budgeted of personnel recruiting services and search firms.
- Some entities experienced higher or lower Employee Benefits expenses than budgeted due to actual renewal rates from services providers for their health and medical benefits programs being different than projected at the time of budget preparation.
- Some entities experienced lower than budgeted Employee Benefits expenses due to decisions by employees not to participate in the entity's medical benefits program. (For example, employees may have elected to stay on the health and medical

[10] The term "entities" is used in this discussion to include NERC as well as Regional Entities.

[11] In the development of their annual budgets, NERC and some of the Regional Entities attempt to address this "vacant position" variance issue by including an "attrition factor," "vacancy factor" or "labor float factor" into their budget calculations. The use of these factors recognizes that, as in any organization, a portion of the budgeted positions will be vacant during a part of the year due to delays in filling new or vacant positions and unexpected/unbudgeted departures of existing employees. Nonetheless, variances between the projected and actual attrition factor, vacancy factor or labor float factor can result in variances between budgeted and actual Personnel Expenses.

programs of previous employers or of their spouse's employer, if available to them). Employee Benefits expense was also lower than budgeted for some entities due to employees not using educational or training program benefits to the full extent assumed in the budget.

- Some entities experienced either higher or lower costs than budgeted for Retirement costs due to greater or lesser participation by employees in the entity's retirement plan than was assumed in the budget.
- In order to address unfilled positions or emergent needs in particular program areas, some entities transferred one or more employees from one program area to another during 2015, or had shared FTEs who spent a greater portion of their time working in one program area and a lesser portion of time in another program area than was reflected in the budget. This resulted in actual cost-to-budget variances in Personnel Expenses and related Meeting and Travel expenses for the program areas involved in such transfers, although not necessarily for the entity as a whole.
- Some entities experienced lower than budgeted expenses in their Compliance Monitoring and Enforcement Programs ("CMEP") for Personnel Expenses, Travel, Consultants and Contracts, and/or Professional Services, in connection with compliance audits and other CMEP functions, due to the implementation of risk-based compliance monitoring and other changes to CMEP processes that resulted in less time being required at registered entities' sites for audits and introduced other efficiencies. (However, NERC experienced higher than budgeted expenses in these categories in Compliance Assurance due to its efforts to drive the implementation of risk-based compliance monitoring across the ERO.)
- Some entities were able to spend less on Consultants and Contracts than budgeted as a result of having work that was budgeted to be performed by contractors and consultants handled by internal staff of the entity. As some entities have increased their staffing over time, they have seen less need to use outside services, due to increased in-house staff capabilities. Further, increased experience and expertise gained by entity staffs, and implementation of process efficiencies based on experience, has enabled entity staffs to perform and complete work for which consultants or contractors were previously used.
- A number of entities realized lower than budgeted actual costs for Meetings and Travel due to (i) continued efforts to make greater use of teleconferencing, Webinars and other virtual meeting capabilities rather than in-person meetings; (ii) scheduling meetings at NERC or Regional Entity facilities or those of stakeholders (*e.g.* at the offices of Regional Entity members) rather than in rented, third-party meeting spaces; or (iii) overall increased corporate attention to controlling travel and meeting costs.
- In particular with respect to Meetings and Travel expense, several entities which moved to new offices with larger meeting spaces, or expanded existing offices, in 2015 or in recent prior years, have been able to reduce Meetings and Travel expense by holding more meetings in the entity's office rather than in outside facilities.
- Unbudgeted Consultants & Contracts expenses or Professional Services expenses were incurred by several entities for fees for searches to replace a member of the

entity's board who resigned before the expiration of his or her term.

- Some entities experienced lower than budgeted Consultants and Contracts expense due to timing delays or deferrals in planned projects, while other entities experienced higher than budgeted Consultants and Contracts expense due to acceleration of projects requiring consultant or contractor assistance.
- Some entities experienced variances in Office Rent or Office Costs due to new or changed office lease terms resulting from office lease renewals, from moving to a new office, or from taking additional space in the existing office facility, as compared to the terms reflected in the budget.
- Some entities which moved to new offices or expanded existing offices in 2014 or 2015 to accommodate increased staffing, incurred additional costs for capital expenditures (Furniture & Fixtures CapEx, Equipment CapEx, Computer & Software CapEx, and/or Leasehold Improvements) associated with the move to the new office or expansion of the existing office.
- Some actual cost-to-budget variances within program areas are due to the entity budgeting certain costs in one program area but then recording the actual costs in the program area responsible for incurring, or benefitting from, the cost (*e.g.*, budgeting all outside legal services in Legal and Regulatory but recording actual outside legal expenses in the program area(s) whose activities necessitate the services; or budgeting costs for information technology projects in the Information Technology budget but recording the actual costs in the program areas that utilize the particular projects or programs).
- Some entities budget Professional Services expense for one or two contested compliance hearing per year (*e.g.*, for outside counsel to handle the hearing or for hearing officer services); if no contested hearings occur during the year, an under-budget variance in Professional Services expenses results.
- For some entities, Information Technology projects or Fixed Asset purchases (*e.g.*, office furniture purchases) that were included in the 2015 budget were either (i) completed, or at least initiated, in late 2014, (ii) not carried out in 2015 (*i.e.*, delayed/deferred to 2016), or (iii) initiated later in 2015 than assumed in the budget and therefore not completed in 2015. This resulted in reduced actual IT costs, Capital Expenditures, and/or Consultants and Contracts expense (where the project was to require the use of consulting services or outside contracts compared to the budget). In other cases, projects that were planned and budgeted for execution and completion in 2014 were not fully completed in 2014 or were delayed or deferred into 2015, resulting in unbudgeted or over-budget expenditures in 2015.
- Some entities budgeted certain expenditures as expenses (*e.g.*, as Office Costs), but then determined that the expenditure(s) needed to be capitalized (*i.e.*, recorded as Fixed Asset additions, such as Computer & Software Capital Expenditures or Equipment Capital Expenditures), based on the entity's capitalization policy or the capitalization requirements of Generally Accepted Accounting Principles. In other instances, the reverse occurred. Capitalizing rather than expensing these expenditures (or vice versa) also impacted actual versus budgeted Depreciation expense.

- Generally, NERC and the Regional Entities allocate Indirect Expenses to the direct statutory programs on the basis of numbers of FTEs in each statutory program. Therefore, due to differences in actual versus budgeted FTEs during the year in individual statutory programs, some entities experienced variances from budget in the amounts of Indirect Expenses allocated to the individual direct statutory programs.
- Some entities experienced higher or lower Funding from Workshop attendance fees, or other programs conducted for industry participants, due to higher or lower attendance at workshops or other programs than projected in the budget, holding more or fewer Workshops than were planned in the budget, or making a determination not to charge fees (or charging lower fees) for some programs for which fees had been budgeted.
- Additionally, some entities held one or more workshops or similar programs at their offices, rather than at third-party facilities as assumed in the budget, resulting in lower Meeting expense and correspondingly lower Workshop revenue where the attendance fees charged are based on the costs of presenting the event.

In addition to the above-described causes of actual-to-budget variances, NERC and the Regional Entities experienced other above- or below-budget variances in actual Funding, Expenses and Fixed Asset Additions in individual line items due to particular events and circumstances impacting the particular entity. These variances are identified in the individual actual cost-to-budget comparisons presented in **Attachments 1** through **9**.

NERC and the Regional Entities are taking the actual cost-to-budget comparisons for 2015, as well as year-to-date actual cost-to-budget comparisons for 2016, into account in developing their business plans and budgets for 2017, which are to be submitted to the NERC Board for approval, and then filed with the applicable governmental authorities.

IV. COMPARISON OF ACTUAL COSTS TO BUDGET FOR THE YEAR ENDED DECEMBER 31, 2015 – PEAK RELIABILITY, INC.

Attachment 10 is a comparison of actual costs to budget for 2015 prepared by Peak. Because Peak's 2015 Business Plan and Budget was included in NERC's 2015 Business Plan and Budget Filing in Docket No. RR14-6-000, NERC and Peak are providing an actual cost-to-budget report for Peak for 2015 as part of this filing. Similar to its approach to reviewing Peak's business plans and budgets, NERC has not substantively reviewed and critiqued Peak's 2015

actual cost-to-budget report in the same manner that it reviews the Regional Entities' reports. NERC has, however, reviewed Peak's 2015 actual cost-to-budget report for consistency in presentation and level of detail of information provided with the report format used by the Regional Entities.

V. METRICS CONCERNING ADMINISTRATIVE COSTS IN 2015 NERC AND REGIONAL ENTITY BUDGETS AND ACTUAL COSTS

In the *June 19, 2008 Budget Compliance Order*, FERC directed NERC to develop additional metrics analyzing its administrative services expenses and those of the Regional Entities, and to present these metrics in future annual actual cost-to-budget filings and Business Plan and Budget filings. NERC has provided administrative cost metrics for NERC and the Regional Entities in its annual actual cost-to-budget reports for the ensuing years. In accordance with the *June 19, 2008 Budget Compliance Order,* the costs incurred by NERC and the Regional Entities in the following functions are considered to be the administrative services costs: Committees and Member Forums, General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Accounting and Finance.[12]

Attachment 11 provides the following three sets of metrics comparisons for NERC and the Regional Entities for their 2015 budgets and 2015 actual costs. In addition, **Attachment 11** provides a comparison of these metrics values for 2013, 2014 and 2015 actual results.

- Statutory indirect expenditures as a percent of total statutory expenditures, and statutory direct expenditures per dollar of statutory indirect expenditures (top row of tables on page 1 of **Attachment 11**). (The term "expenditures" as used here means expenses plus capital expenditures (fixed asset additions net of depreciation).)
- Statutory indirect FTE as a percent of total statutory FTE, and ratio of statutory direct FTE to statutory indirect FTE (middle row of tables on page 1 of **Attachment 11**).
- Total statutory expenditures per total FTE, statutory direct expenditures per direct

[12] *See June 19, 2008 Budget Compliance Order*, footnote 13.

FTE, statutory indirect expenditures per indirect FTE, and statutory indirect expenditures per total FTE (bottom row of tables on page 1 of **Attachment 11**).

These are the same administrative cost metrics that NERC has provided in its previous annual filings comparing actual-to-budget costs for NERC and the Regional Entities for the years 2008 through 2014.

Respectfully submitted,

/s/ *Charles A. Berardesco*

Gerry W. Cauley
President and Chief Executive Officer
Michael Walker
Senior Vice President and Chief Financial and Administrative Officer
North American Electric Reliability Corporation
3353 Peachtree Road
Suite 600, North Tower
Atlanta, GA 30326
(404) 446-2560
(404) 446-9765 – facsimile

Charles A. Berardesco
Senior Vice President and General Counsel
North American Electric Reliability Corporation
1325 G Street, N.W., Suite 600
Washington, D.C. 20005
(202) 400-3000
(202) 644-8099 – facsimile
charles.berardesco@nerc.net

ATTACHMENTS 1—11

(Available on the NERC Website at

http://www.nerc.com/FilingsOrders/ca/Canadian%20Filings%20and%20Orders%20DL/Attach_NERC_2015_TrueUp_Report.pdf)