



December 18, 2009

**VIA ELECTRONIC FILING**

Neil Thomson  
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Law, Land Regulatory Affairs  
2025 Victoria Ave.  
Regina, Saskatchewan  
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Re: *North American Electric Reliability Corporation*

Dear Mr. Thomson:

The North American Electric Reliability Corporation (“NERC”) hereby submits this Notice of Filing of its 2010 Business Plan and Budget and the 2010 Business Plans and Budgets of Regional Entities and the Proposed Assessments to Fund Budgets.

The Business Plans and Budgets were approved by the NERC Board of Trustees at meetings on August 5 and August 20, 2009.

NERC’s notice consists of the following:

- This transmittal letter;
- NERC’s proposed Business Plan and Budget as the electric reliability organization (ERO), for the year ending December 31, 2010;
- the proposed Business Plans and Budgets for the year ending December 31, 2010, for the eight Regional Entities:
  - Florida Reliability Coordinating Council (FRCC),
  - Midwest Reliability Organization (MRO),
  - Northeast Power Coordinating Council, Inc. (NPCC),
  - Reliability*First* Corporation (Reliability*First*),

- SERC Reliability Corporation (SERC),
  - Southwest Power Pool Regional Entity (SPP RE),
  - Texas Regional Entity (Texas RE), an independent division of the Electric Reliability Council of Texas (ERCOT), and
  - Western Electricity Coordinating Council (WECC);
- the proposed budget of the Western Interconnection Regional Advisory Body (WIRAB) for activities under Section 215(j) of the Federal Power Act (FPA) for the year ending December 31, 2010; and
  - NERC's proposed allocation of the proposed statutory funding requirements of NERC, the Regional Entities and WIRAB by country and among the Regions, 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:** Summary tables showing NERC's proposed 2010 budget and funding requirement by program; the proposed 2010 budget for statutory activities of each Regional Entity; the 2010 funding requirement for Section 215(j) activities requested by WIRAB; and the aggregate 2010 Canadian ERO funding requirement of NERC, the Regional Entities and WIRAB.

**Attachment 2:** NERC's proposed Business Plan and Budget for 2010

**Attachment 3:** Florida Reliability Coordinating Council proposed Business Plan and Budget for 2010

**Attachment 4:** Midwest Reliability Organization proposed Business Plan and Budget for 2010

**Attachment 5:** Northeast Power Coordinating Council, Inc. proposed Business Plan and Budget for 2010

**Attachment 6:** ReliabilityFirst Corporation proposed Business Plan and Budget for 2010

**Attachment 7:** SERC Reliability Corporation proposed Business Plan and Budget for 2010

**Attachment 8:** Southwest Power Pool Regional Entity proposed Business Plan and Budget for 2010

**Attachment 9:** Texas Regional Entity proposed Business Plan and Budget for 2010

**Attachment 10:** Western Electricity Coordinating Council proposed Business Plan and Budget for 2010

**Attachment 11:** Western Interconnection Regional Advisory Body proposed Business Plan and Budget for 2010

**Attachment 12:** Discussion of Comments Received During Development of NERC's 2010 Business Plan and Budget.

**Attachment 13:** Calculation of Adjustments to the IESO 2010 NERC Assessment and the Québec 2010 NERC Assessment

**Attachment 14:** Status Report on the Achievement of NERC's 2009 Goals and Objectives, by Program.

**Attachment 15:** Metrics Comparing Regional Entity Operations Based on the 2010 Budgets

**Attachment 16:** Metrics on NERC and Regional Entity Administrative (Indirect) Costs Based on the 2010 Budgets

**Attachment 17:** NERC and Regional Entity Audited Financial Statements for 2008.

**Attachment 18:** Changes from Budget versus Actual Reconciliation for 2008 for Texas Regional Entity, filed April 1, 2009, based on its Audited 2008 Financial Statements

**Attachment 19:** Status Report on Progress in Processing of Alleged Violations of Reliability Standards

**Attachment 20:** Report on Progress in Enhancing NERC's Data Collection and Verification Process for Reliability Assessments

Please contact the undersigned if you have any questions.

Respectfully submitted,

/s/ Holly A. Hawkins

Holly A. Hawkins

*Attorney for North American Electric  
Reliability Corporation*

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**BEFORE THE  
CROWN INVESTMENT CORPORATION  
OF THE PROVINCE OF SASKATCHEWAN**

**NORTH AMERICAN ELECTRIC )  
RELIABILITY CORPORATION )**

**NOTICE OF FILING OF THE  
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION  
OF ITS 2010 BUSINESS PLAN AND BUDGET AND  
THE 2010 BUSINESS PLANS AND BUDGETS OF REGIONAL ENTITIES  
AND OF PROPOSED ASSESSMENTS TO FUND BUDGETS**

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December 18, 2009

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**ATTACHMENTS**

**Attachment 1:** Summary tables showing NERC’s proposed 2010 budget and funding requirement by program; the proposed 2010 budget for statutory activities of each Regional Entity; the 2010 funding requirement for Section 215(j) activities requested by WIRAB; and the aggregate 2010 Canadian ERO funding requirement of NERC, the Regional Entities and WIRAB.

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**Attachment 20:** Report on Progress in Enhancing NERC's Data Collection and Verification Process for Reliability Assessments

## 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, 2010;
- (2) the proposed Business Plans and Budgets for the year ending December 31, 2010, for the eight Regional Entities:
  - Florida Reliability Coordinating Council (FRCC),
  - Midwest Reliability Organization (MRO),
  - Northeast Power Coordinating Council, Inc. (NPCC),
  - Reliability*First* Corporation (Reliability*First*),
  - SERC Reliability Corporation (SERC),
  - Southwest Power Pool Regional Entity (SPP RE),
  - Texas Regional Entity (Texas RE), an independent division of the Electric Reliability Council of Texas (ERCOT), and
  - Western Electricity Coordinating Council (WECC);
- (3) the proposed budget of the Western Interconnection Regional Advisory Body (WIRAB) for activities under Section 215(j) of the Federal Power Act (FPA) for the year ending December 31, 2010; and
- (4) NERC's proposed allocation of the proposed statutory funding requirements of NERC, the Regional Entities and WIRAB by country and among the Regions, 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 2010 budget by program and its proposed funding requirement, (ii) the proposed 2010 budget for statutory activities of each Regional Entity, (iii) the budget for Section 215(j) activities requested by WIRAB, and (iv) the aggregate ERO funding requirement of NERC, the Regional Entities and WIRAB, allocated to Canada.

**Attachment 2** contains NERC's detailed 2010 Business Plan and Budget and the allocation of assessments by Region and LSE to recover the resulting statutory funding requirements for 2010 (as well as the assessments to recover the statutory funding requirements of the Regional Entities and WIRAB).



**Attachments 3 through 11** contain the detailed 2010 Business Plans and Budgets of, respectively, FRCC, MRO, NPCC, ReliabilityFirst, SERC, SPP RE, Texas RE, WECC and WIRAB.

**Attachment 12** contains a discussion of how comments submitted by interested entities on posted drafts of NERC's 2010 Business Plan and Budget during the budgeting process were addressed in the final 2010 Business Plan and Budget.

**Attachment 13** contains the calculation of the adjustment to the IESO 2010 NERC assessment and the adjustment to the Québec 2010 NERC assessment, for credits for certain NERC Compliance Program costs.

**Attachment 14** is a status report on progress in achieving the goals and objectives in NERC's 2009 Business Plan and Budget, by program.

**Attachment 15** provides metrics, based on the 2010 budgets, comparing Regional Entity operations.

**Attachment 16** contains metrics, based on the 2010 budgets, on NERC and Regional Entity administrative (indirect) costs

**Attachment 17** contains the audited financial statements of NERC and each Regional Entity for the 12 months ended December 31, 2008.

**Attachment 18** provides information on changes from the budget versus actual reconciliation for 2008 of Texas Regional Entity filed with FERC on April 1, 2009, based on Texas RE's audited financial statements for 2008, as directed in FERC's Order issued June 19, 2008 in Docket No. RR07-16-003.<sup>1</sup>

**Attachment 19** contains a status report on the progress of NERC and the Regional Entities in processing alleged violations of reliability standards, as directed in FERC's Order issued July 16, 2009, in Docket Nos. RR08-6-002 and RR07-14-003.<sup>2</sup>

**Attachment 20** contains a report on NERC's progress in enhancing its data collection and verification systems for its reliability assessments, as directed in FERC's *July 16, 2009 Budget Compliance Order*.<sup>3</sup>

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<sup>1</sup> *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 123 FERC ¶ 61,282 (2008) (*June 19, 2008 Budget Compliance Order*), at P 40.

<sup>2</sup> *North American Electric Reliability Corporation, Order on Compliance Filing*, 128 FERC ¶ 61,025 (2009) (*July 16, 2009 Budget Compliance Order*), at P 18.

<sup>3</sup> *July 16, 2009 Budget Compliance Order* at P 20.

NERC's 2010 fiscal year will begin January 1, 2010. The filing contains the entire annual budget of NERC and of each Regional Entity for statutory and non-statutory activities and includes supporting materials, including the ERO's and each Regional Entity's complete business plan and organization chart, and explanation of the proposed collection of all dues, fees and charges and the proposed expenditure of funds collected.

NERC filed these Business Plans and Budgets with the Federal Energy Regulatory Commission ("FERC") on August 24, 2009, and is filing these Business Plans and Budgets with the other applicable governmental authorities in Canada. FERC conditionally approved the filing and the proposed assessments by order issued October 15, 2009.

## II. NOTICES AND COMMUNICATIONS

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

<p>David N. Cook Vice President and General Counsel Michael Walker Chief Financial and Administrative Officer North American Electric Reliability Corporation 116-390 Village Boulevard Princeton, NJ 08540-5721 (609) 452-8060 (609) 452-9550 – facsimile <a href="mailto:david.cook@nerc.net">david.cook@nerc.net</a></p>	<p>Rebecca J. Michael Assistant General Counsel Holly A. Hawkins North American Electric Reliability Corporation 1120 G Street, N.W., Suite 990 Washington, D.C. 2005-3801 (202) 393-3998 (202) 393-3995 – facsimile <a href="mailto:Rebecca.michael@nerc.net">Rebecca.michael@nerc.net</a> <a href="mailto:holly.hawkins@nerc.net">holly.hawkins@nerc.net</a></p>
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### **III. OVERVIEW OF PROPOSED BUDGETS AND FUNDING REQUIREMENTS**

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

##### **1. Organization of NERC's 2010 Business Plan and Budget**

In this filing NERC provides notice of its 2010 Business Plan and Budget. NERC's 2010 Business Plan and Budget is organized based on five specific program areas. Each of these program areas carries out or supports implementation of one or more of the statutory activities of the ERO as specified in §215 of the Federal Power Act: development of reliability standards for the bulk power system (§215(d) of the FPA); enforcement of compliance with reliability standards, including imposition of penalties and sanctions for violations (§215(e) of the FPA); and conducting periodic assessments of the reliability and adequacy of the bulk power system in North America (§215(g) of the FPA). Specifically:

- (1) The Reliability Standards Program implements the statutory activity of development of reliability standards.
- (2) The Compliance Monitoring and Enforcement and Organization Registration and Certification Program implements the statutory activity of enforcement of compliance with reliability standards, including imposition of penalties and sanctions for violations of standards.
- (3) The Training, Education and Personnel Certification Program supports the statutory activity of enforcing and achieving compliance with reliability standards, and also provides information and feedback that supports the statutory activity of development of reliability standards.
- (4) The Reliability Assessment and Performance Analysis Program implements the statutory activity of conducting periodic assessments of the reliability and adequacy of the bulk power system in North America. This program also provides information and feedback that supports the statutory activities of development of reliability standards and achieving compliance with reliability standards, and includes NERC's metrics, benchmarking and event analysis activities.

- (5) The Situation Awareness and Infrastructure Security Program supports the statutory activity of enforcing and achieving compliance with reliability standards, and also provides information and feedback that supports the statutory activities of development of reliability standards and conducting assessments of the reliability and adequacy of the bulk power system. This Program is also responsible for NERC's activities regarding critical infrastructure protection (CIP) and the Electricity Sector Information Sharing and Analysis Center (ES-ISAC).

In terms of NERC's Business Plan and Budget, **Attachment 2** to this filing, the Introduction and Executive Summary summarizes NERC's total resource requirements for 2010 including statutory FTEs, statutory expenses, and required ERO funding assessments, and shows the distribution of the total net energy for load (NEL) to be used for allocating the ERO funding requirement among the U.S., Canada and Mexico.<sup>4</sup> It also highlights NERC's priority areas of focus for 2010, including executing NERC's mission while improving the efficiency of NERC's operations and improving efficiency among NERC and the Regional Entities, and continuing to focus on reliability enhancement initiatives. Finally, the Introduction and Executive Summary identifies the areas of NERC's activities in which additional staffing and other resources are needed for 2010, and explains the need for these additional resources.

Section A of **Attachment 2** is NERC's Business Plan for 2010. The Business Plan provides detailed scope and functional descriptions, budget assumptions and cost impacts, goals and objectives, and resource requirements for 2010 for each of NERC's statutory programs and administrative services departments. The Business Plan includes a table at the start of the section on each program and administrative department showing

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<sup>4</sup> All of NERC's programs are statutory programs. NERC has no non-statutory activities planned or budgeted for 2010.

total FTEs, total direct expenses, total indirect expenses<sup>5</sup>, increase or decrease in fixed assets, and funding requirements for the program or department as presented in the 2010 Budget with the comparable data from NERC's 2009 Budget and the increase or decrease from the 2009 Budget.<sup>6</sup> Finally, a detailed Statement of Activities, along with an explanation of significant variances from the 2009 Budget to the 2010 Budget, is provided for each program and administrative department. The Statements of Activities show funding and expense information from the 2009 Budget, the 2009 Projection<sup>7</sup> and the 2010 Budget, as well as variances from the 2009 Budget to the 2009 Projection and from the 2009 Budget to the 2010 Budget.

In the Statements of Activities, funding is shown from ERO Assessments and from other potential sources (such as testing fees and fees from workshops). Expenses are shown by the major categories (and sub-categories) of Personnel Expenses (Salaries, Payroll Taxes, Benefits and Retirement Costs), Meeting Expenses (Meeting, Travel and Conference Calls), and Operating Expenses (Consultants & Contracts, Office Rent, Office Costs, Professional Services, Depreciation and Miscellaneous). Operating Expenses also includes a line item for Efficiency Improvements, which is the portion assigned to each statutory program by management of \$750,000 in efficiency improvements and savings that are embedded in the 2010 Budget as part of a comprehensive and ongoing operations efficiency review.

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<sup>5</sup> Indirect expenses are the amount of Administrative Services expenditures that have been allocated to each of the statutory programs on the basis of numbers of FTEs in each program.

<sup>6</sup>The 2009 Budget data is from the revised 2008 Budget submitted in NERC's December 19, 2008 filing *Notice of Filing of the North American Electric Reliability Corporation of its Revised 2009 Budget Plan and Budget (December 19, 2008 Budget Revision Filing)*.

<sup>7</sup> The 2009 Projection is NERC's current projection of the actual 2009 financial results, based on the 2009 Budget and actual and anticipated results and developments during 2009.

For 2010, NERC and the Regional Entities have adopted several changes in accounting methodology for presentation of their budgets, which are detailed on page 14 of **Attachment 2**. The more significant of these changes include:

- All expenses for the administrative services programs (referred to as indirect expenses) are allocated to the statutory programs based on the ratio of their respective FTEs to the total FTEs for all the statutory programs.<sup>8</sup>
- Capital expenditures are broken out as Fixed Assets at the end of each Statement of Activities rather than being included within the related expense line items under Operating Expenses, as has been done in the previous years' budgets.<sup>9</sup> Line item capital expenditures are shown for Computers and Software, Furniture and Fixtures, Equipment, and Leasehold Improvements.
- Operating Expenses include a line item for Depreciation, however, funding is not being requested for Depreciation.<sup>10</sup> Therefore, Depreciation is deducted from the funding requirement for capital expenditures (Fixed Assets).
- The increment or decrement to assessments to achieve the desired Working Capital Reserve is reflected as the Total Change in Assets at the bottom of the Statements of Activities. In the 2009 budgets, this amount was reflected as Other Non-Operating Expenses on the Statements of Activities.

In the *2009 Budget Order*, FERC “direct[ed] NERC to include as part of the 2010 Business Plan and Budget a definition of the term ‘indirect costs’ that shall be applied consistently by NERC and each Regional Entity.”<sup>11</sup> In response to this directive, in the preparation of their 2010 budgets, NERC and the Regional Entities have specifically focused on (1) assigning to the five statutory programs all costs (but only those costs) that can be directly attributed to a statutory program (*i.e.*, direct costs), and (2) assigning all other costs to the applicable administrative services area (*i.e.*, indirect costs), to be

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<sup>8</sup> This change, in particular, may result in apparent increases in budgeted 2010 total expenses for some statutory programs over the 2009 Budget and apparent decreases in budgeted 2010 total expenses for other programs, which are in fact a function, in whole or in part, of this change in accounting methodology. This comment also applies to the Regional Entity budgets.

<sup>9</sup> NERC and the Regional Entities have not previously shown capital expenditures separately in their budgets and actual financial results. The development and presentation of separate operating and capital expenditure budgets is consistent with generally accepted accounting principles (GAAP).

<sup>10</sup> NERC and the Regional Entities have not previously shown Depreciation as a separate operating expense line item in their budgets and actual financial results.

<sup>11</sup> *2009 Budget Order* at P 51.

allocated to the statutory programs on the basis stated in the first bullet above. Thus, “indirect costs” are those costs that cannot be directly attributed to one of the five statutory programs.<sup>12</sup>

Section B of **Attachment 2** presents NERC’s detailed proposed 2010 Budget. Section B contains a Statement of Activities for the overall 2010 Budget (Table 1) in the same format and level of detail (and reflecting the changes in accounting methodology) as described above. It also contains NERC’s organizational charts for 2009 and 2010 (Tables 3 and 4) and an analysis of FTEs and changes by program area in the 2009 Budget, 2009 Projection and 2010 Budget (Table 2<sup>13</sup>). Section B contains an analysis of NERC’s Working Capital Reserve for 2009 and 2010, showing the calculation of the adjustment to the proposed 2010 assessments necessary to achieve the desired working capital reserve at December 31, 2010 (Table 5).<sup>14</sup> Table 6 of Section B shows the 2008 NEL by Regional Entity and by country and the total 2008 NEL by country, which data is used in allocating the NERC and Regional Entity funding requirements.<sup>15</sup> Table 7 provides NERC’s projections of funding requirements and expenses for 2011 and 2012.

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<sup>12</sup> Further granularity in charging administrative costs to individual statutory programs could be achieved with more sophisticated cost tracking systems and devoting more resources to this task, but achieving greater granularity would involve a cost-benefit trade-off between the value of the more detailed information and the additional costs that would need to be expended to obtain it.

<sup>13</sup> In the NERC and Regional Entity 2010 Business Plans and Budgets, Table 2 has been revised from the format used in previous years, to identify shared FTEs (if any), by program, in the entity’s 2010 budget. A “shared FTE” is an employee who performs both statutory and non-statutory functions.

<sup>14</sup> As shown on Table 5 in **Attachment 2**, NERC projects a Working Capital Reserve deficit of \$469,043 at December 31, 2009, and is budgeting to return the Working Capital Reserve to \$0 at December 31, 2010, which requires an increment of \$469,043 to the requested 2010 assessments. Although the NERC Board has previously established a Working Capital Reserve target of \$2,500,000, the Board has determined, in light of the need for increases in other areas of the 2010 Budget, that NERC will rely on its available \$4,000,000 line of credit to fund temporary cash flow shortfalls during 2010.

<sup>15</sup> NEL data for 2008 is the most current actual NEL data available as of August 2009. As was the case in allocating the NERC and Regional Entity statutory funding requirements by country and by Region and calculating the assessments to LSEs or their designees for 2007, 2008 and 2009, the allocation of funding requirements and calculation of assessments for the 2010 Budget is based on NEL data for the second preceding calendar year, 2008.

Tables B-1 through B-7 in Section B provide more detailed data for the several funding and expense categories, for the 2009 Budget, 2009 Projection and 2010 Budget.<sup>16</sup>

Section C of **Attachment 2** is reserved for presentation of business plan and budget information on non-statutory activities. This section is empty for NERC, but includes business plan and budget information for those Regional Entities that have non-statutory activities.

Section D of **Attachment 2** provides NERC's Statement of Financial Position – 2008 Audited, 2009 Projection, and 2010 Budget. NERC and the Regional Entities have not previously provided statements of financial position (assets and liabilities) in their budgets. Provision of this information is consistent with the movement to a budgeting and financial reporting system that is more consistent with GAAP.

Appendix 1 to **Attachment 2** contains a list of the principal assumptions developed and used by NERC and the Regional Entities in preparing their 2010 Business Plans and Budgets.

Appendix 2 to **Attachment 2** contains the calculation of the NEL-based allocation factors for each LSE and designee, and the allocation of the NERC and Regional Entity statutory funding requirements (assessments), by allocation methodology, to each LSE and designee. The allocations presented in the Appendices are discussed in more detail in §III.A.3 and §III.D.

The detailed information in Sections A and B of **Attachment 2** demonstrates that the programs included in NERC's 2010 Business Plan and Budget are necessary and

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<sup>16</sup> The funding and expense categories detailed in these tables are Penalty Sanctions Received Prior to June 30, 2009; Supplemental (*i.e.*, non-assessment) Funding; Personnel Expenses; Consultants and Contracts; Office Rent; Office Costs; and Professional Services.



appropriate to carry out NERC's responsibilities as the ERO and that the specific resource requirements budgeted meet FERC's objectives for affordability, sustainability and efficiency and effectiveness of the ERO's expenditures. The discussion in Section A of **Attachment 2**, as well as in this narrative, demonstrates how the activities and expenditures included in NERC's 2010 Business Plan and Budget, lend themselves to accomplishment of NERC's statutory responsibilities and objectives as the ERO.

## 2. Development of NERC's 2010 Business Plan and Budget

NERC prepared its 2010 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 by the Finance and Audit Committee of the NERC Board of Trustees, and for stakeholder comment, during the process.<sup>17</sup> On February 3, 2009, the Finance and Audit Committee (FAC) of the NERC Board approved the proposed timeline for development of the NERC and Regional Entity 2010 Business Plans and Budgets to begin the budget process. NERC Finance and Accounting representatives met with the managers of the Regional Entities in March 2009 to discuss and agree upon a set of coordinated budget assumptions (*see* Appendix 1 to **Attachment 2**). NERC Finance and Accounting staff also met with counterparts from

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<sup>17</sup> During the process of developing the 2010 Business Plans and Budget, comments (including specific comments on draft versions as well as comments on more general issues) were received from the Canadian Electricity Association; Edison Electric Institute (EEI); Electric Power Supply Association; Exelon Corporation; FRCC; Hydro-Québec TransÉnergie; the Ontario Independent Electric System Operator; the ISO-RTO Council Standards Review Committee; Manitoba Hydro; National Rural Electric Cooperative Association; NPCC; Pacific Power, a Division of PacifiCorp; PNGC Power; SERC; and Southern Company Services, Inc. Additionally, comments were received from the following entities on the topic of allocation of responsibility between NERC and the Regional Entities for reviewing and processing technical feasibility exceptions (TFEs) to certain CIP standards, which impacts the 2010 Business Plans and Budgets: American Transmission Company, Bonneville Power Administration, Duke Energy, EEI, Southwestern Power Administration, Tampa Electric Company, Virginia Electric and Power Company, and We Energies. **Attachment 12** discusses how concerns expressed in the comments were addressed in NERC's final 2010 Business Plan and Budget.

the Regional Entities in March 2009 to discuss the coordinated budget assumptions agreed to by NERC and the Regional Managers, changes in accounting methodology to be implemented in the 2010 budget process, and the 2010 budget template which had been distributed prior to the meeting. During March and April of 2009, NERC management and staff provided detailed input on program goals and objectives and personnel and spending requirements for 2010. Based on this input, an initial overview draft (Draft 1) of the NERC 2010 Business Plan and Budget, dated May 5, 2009, was provided to the FAC. The FAC discussed Draft 1 at a meeting on May 5, which was open to stakeholder representatives.

Thereafter, full-text drafts of the Business Plan and Budget were posted for comment on the NERC website on June 24 (Draft 2) and July 22, 2009 (Draft 3). Draft 2, and the comments that had been received on Draft 2, were discussed at a FAC meeting (conference call) on July 17, 2009, which was also open to stakeholder representatives. Draft 3 of the Business Plan was reviewed and discussed at meetings of the FAC (with the Member Representatives Committee (MRC) participating) on August 4, 2009, and the full NERC Board of Trustees on August 5, 2009. At its August 5 meeting, Draft 3 was approved by the Board as the final Business Plan and Budget for submission to the applicable governmental authorities. At the August 5 meeting, the NERC Board also approved the 2010 Business Plans and Budgets of the Regional Entities, and the 2010 budget submitted by WIRAB. Subsequently, in a meeting on August 20, 2009, the NERC Board approved revised versions of the 2010 Business Plans and Budgets of MRO, Reliability *First*, Texas RE and SPP RE which had been supplemented to include additional resources these Regional Entities had determined were needed to adequately

carry out their responsibilities for processing TFEs to certain CIP reliability standards (see further discussion in §III.B and §V). In the August 20 meeting, the NERC Board also approved the proposed 2010 assessments to LSEs and designees to recover the 2010 statutory funding requirements for NERC, the Regional Entities and WIRAB.

In summary, the processes followed by NERC to develop its proposed 2010 Business Plan and Budget were thorough and comprehensive, involved significant input from NERC executive management and senior staff as well as iterative review and comment by the Finance and Audit Committee of the NERC Board and the MRC, and provided significant opportunity for stakeholder input and comment. The process was open and inclusive at all steps.

### **3. Summary of NERC's Proposed 2010 Budget and Funding Requirement**

NERC's proposed 2010 Budget is \$40,088,365. This total encompasses U.S., Canadian and Mexican activities. The proposed 2010 Budget represents an increase of \$4,082,137 (11.3%) over the 2009 Budget and an increase of \$3,917,071 (10.8%) over the 2009 Projection. The 2010 Budget is comprised of \$39,618,567 of Expenses (including Depreciation) and a \$469,797 increase in Fixed Assets (Capital Expenditures of \$1,222,785 less Depreciation of \$752,988<sup>18</sup>). In addition, NERC's provision for the Working Capital Reserve is \$469,043.<sup>19</sup>

As in past years, a portion of NERC's 2010 Budget will be funded through fees charged to participants and users in certain NERC programs, including the Operator

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<sup>18</sup> As noted earlier, an end result of this budget presentation is that funding is not being requested for Depreciation expense.

<sup>19</sup> The development of the budgeted \$469,043 provision for the Working Capital Reserve is discussed in §IV.B below and shown in Table 5 of Section B of **Attachment 2**.

Certification Program and the Continuing Education Program; through fees charged for NERC software and services such as Generating Availability Data System (“GADS”) data and pc-GAR; and by interest earned on bank balances and short-term investments.<sup>20</sup> In addition, the 2010 Budget reflects payments NERC will receive from certain Regional Entities for NERC’s performance of the compliance monitoring and enforcement function over reliability functions for which the Regional Entity is the registered entity.<sup>21</sup> These non-assessment sources of funding are projected to be \$3,493,839, resulting in a 2010 net funding requirement of \$37,063,569 to be funded by assessments to LSEs. Of

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<sup>20</sup> Another potential source of non-assessment funding is penalty assessments paid by registered entities to NERC on or prior to June 30, 2009; however, as of that date, NERC had not received any penalty assessment payments. Several Regional Entities had received penalty assessment payments prior to June 30, 2009 that are being used as offsets to those Regional Entities’ overall funding requirements.

<sup>21</sup> The arrangements, including the compensation mechanisms and amounts, by which compliance monitoring and enforcement services will be provided for the reliability functions for which FRCC and SPP RE are the registered entities, have not been finalized. FRCC and SPP RE have been in discussions with SERC to perform this compliance role, and have indicated they will submit a proposed form of agreement to NERC in the near future. In the event an agreement is reached which is acceptable to all parties, NERC would not anticipate requiring the level of resources it has budgeted to perform this work in 2010. However, in the event such an agreement is not reached, NERC will need to add the resources it has budgeted for this work in 2010 (or perhaps sooner given FERC’s directive that NERC perform audits of the SPP registered functions, *see Southwest Power Pool, Inc., Order Approving Audit Report, Determining Issue of Separation of Functions, and Directing Compliance and Other Corrective Actions*, 126 FERC ¶ 61,045 (2009)). Assuming NERC is the entity to perform the compliance enforcement function with respect to these FRCC and SPP RE reliability functions, NERC will also need to negotiate and put in place an agreement(s) with FRCC and SPP RE concerning performance of these compliance services and reimbursement for the costs, as was the case for NERC’s compliance enforcement role over WECC’s reliability coordinator function. (*See Further Status Report of the North American Electric Reliability Corporation and Western Electricity Coordinating Council in Response to Paragraph 226 of March 21, 2008 Commission Order*, and Attachment 1 thereto, filed November 21, 2008 in Docket Nos. RR06-1, RR07-7 and RR09-1.) With respect to WECC, NERC anticipates putting in place, during 2010, procedures to track and bill WECC for NERC’s fully allocated costs for performing these services.

this amount, \$3,717,270 is allocated to Canada. Based on the aggregate NEL of Canada for 2008 on which the allocation of assessments is based,<sup>22</sup> the proposed Canadian. net funding requirement for NERC represents \$0.000007 per kilowatt-hour.

NERC's 2010 Business Plan and Budget was developed and is organized based on its five statutory programs plus the budgeted contribution to the Working Capital Reserve:

<u>Program</u>	<u>2010 Budget</u>
Reliability Standards	\$ 6,248,620
Compliance Enforcement and Organization Registration and Certification	\$14,717,513
Training, Education and Personnel Certification	\$ 2,713,631
Reliability Assessment and Performance Analysis	\$ 6,631,858
Situation Awareness and Infrastructure Security	\$ 8,148,934
Transmission Owners and Operators Forum <sup>23</sup>	\$ 1,617,808
Contribution to Working Capital Reserve	<u>\$ 469,043</u>
	<u>\$40,557,407<sup>24</sup></u>

The budgeted amounts for each program incorporate a total budget for Administrative Services (excluding the budget for the Transmission Owners and Operators Forum and \$10,000 of budgeted Administrative Services Expense that was offset by budgeted

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<sup>22</sup> The NEL data for the U.S., Canada and Mexico, by Region, is provided in summary format on Table 6 of Section B of **Attachment 2**.

<sup>23</sup> Although the budget as submitted to FERC included revenues and expenses associated with the Transmission Owners and Operators Forum, the Forum has terminated its administrative relationship with NERC, effective December 31, 2009. Thus, the revenues and expenses associated with the Forum will not be experienced in 2010.

<sup>24</sup> Total shown of \$40,557,407 (rather than \$40,447,407) reflects that \$10,000 of budgeted Administrative Services Expense was offset by budgeted Interest Income prior to allocation of Administrative Services costs to the statutory programs.

Interest Income) of \$11,268,789 which has been allocated to the budgets for the five statutory programs in proportion to the numbers of FTEs budgeted for each program.

The discussion in §IV below as well as the detailed discussion of each program in **Attachment 2** demonstrates that each of the statutory programs is necessary and appropriate to the execution of NERC’s responsibilities as the ERO. Section A of **Attachment 2** describes the activities encompassed in each statutory program, including the 2010 assumptions, goals and objectives, and resource requirements for each statutory program, and provides the line item components of the budget for each program. The functions of and resource requirements (FTEs and external resources) and budgets for the NERC Administrative Services departments are also discussed in Section A of **Attachment 2**.

NERC proposes an allocation of its net funding requirement of \$37,063,569 to the Regional Entities as follows<sup>25</sup>:



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<sup>25</sup> As described in §III.D below, the aggregate NERC funding requirement has been allocated to the Regions on the basis of (i) 8-Region NEL, (ii) 8-Region NEL excluding certain entities outside the U.S. from certain compliance and enforcement costs, and (iii) IDC Defined Shares (based on usage of the NERC interchange distribution calculator (“IDC”). In addition, a portion of the assessment represents negotiated payments to NERC from La Régie de l’énergie du Québec (“Régie”) for providing certain compliance monitoring and enforcement services to the Régie for the Province of Québec. The detailed allocations of the NERC statutory funding requirement by allocation methodology are shown in Appendix 2 to **Attachment 2**.

<sup>26</sup> The total allocation to MRO consists of \$2,065,574 allocated to the U.S. and \$407,943 allocated to Canadian provinces.

<sup>27</sup> The total allocation to NPCC consists of \$2,444,385 allocated to the U.S. and \$2,344,317 allocated to Canadian provinces.

- SERC \$8,649,090
- SPP RE \$1,886,912
- TRE \$2,481,329
- WECC \$6,955,272<sup>28</sup>

Appendix 2 to **Attachment 2** contains tables showing (i) the development of the NEL-based allocation factors used to allocate the NERC and Regional Entity funding requirements by country and among the Regional Entities,<sup>29</sup> and (ii) the allocation of the NERC and Regional Entity funding requirements by country and by Region.<sup>30</sup> Appendix 2 also contains tables showing the allocation of the NERC and Regional Entity funding requirements to the individual LSEs or designees within the footprint of each Regional Entity. These allocations are discussed in greater detail in §III.D below.<sup>31</sup>

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<sup>28</sup> The total allocation to WECC consists of \$5,901,955 allocated to the U.S., \$965,010 allocated to Canadian provinces and \$88,308 allocated to Mexico.

<sup>29</sup> See Appendix 2A to **Attachment 2**.

<sup>30</sup> See Appendix 2B to **Attachment 2**.

<sup>31</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 has otherwise agreed to accept responsibility for assessments. The calculation and billing of assessments to designees is not a departure from the principle that the ERO funding requirement should be recovered through assessments to LSEs based on NEL, but rather is a matter of administrative convenience and efficiency (*e.g.*, a generation and transmission (G&T) cooperative and its member distribution cooperatives may find it more efficient for the assessment to be calculated and billed to the G&T cooperative rather than to the individual distribution cooperatives). The lists of LSEs and designees for which assessments will be calculated and billed have been provided to NERC by the Regional Entities. NERC has had no involvement in developing the lists of LSEs or in arrangements between LSEs and designees pursuant to which a designee agrees to accept responsibility for an assessment that would otherwise be calculated for and billed to the LSE and the LSE agrees to be financially responsible to reimburse the designee for the assessment. Additionally, the assessments for the NPCC region will be billed to ISO New England and the New York ISO (and to similar entities in Ontario, Québec, New Brunswick and Nova Scotia), each of which will be responsible for billing and collecting assessments from the LSEs within their respective footprints. Similarly, the assessments for the Texas RE region will be billed entirely to ERCOT,

Other than user-related dues and fees for certain specific programs and services, payments from certain Regional Entities for performing the compliance monitoring and enforcement function over activities for which the Regional Entity is a registered entity, and interest on cash balances and short-term investments (all of which, as noted above, have been taken into account in the development of NERC's proposed net funding requirement), NERC will have no sources of funding for its planned programs and operations other than the assessments to owners, operators and users of the bulk power system provided for in the U.S. and equivalent collections from entities in Canada (including payments from the Québec Régie) and Mexico.<sup>32</sup>

**B. Regional Entity Proposed 2010 Budgets**

The individual Regional Entity Business Plans and Budgets are provided in **Attachments 3 through 10**.

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 personnel certification; reliability assessment and performance analysis (including necessary data gathering activities); and situation awareness and infrastructure security, that have been delegated by NERC to the Regional Entity pursuant to the delegation agreements; as well as each Regional Entity's

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which will be responsible for collecting the aggregate regional assessment from entities within Texas RE.

<sup>32</sup> As noted earlier, NERC's 2010 Business Plan and Budget includes no non-statutory activities, and the Transmission Owners and Operators Forum is funded completely by its members' dues. Therefore, NERC has not developed or presented specific accounting processes to separate the funding of its statutory and non-statutory activities and to assure that funding derived from § 215 of the FPA will exclusively support statutory activities.



budgeted costs for administrative services.<sup>33</sup> Funding the Regional Entities will enable them to carry out the activities necessary in 2010 to meet their responsibilities under the approved delegation agreements.

NERC staff provided guidance to the Regional Entities on the expected scope and content of their business plan and budget submissions, and worked collaboratively with the Regional Entities to develop a template for the Regional Entities' 2010 Business Plans and Budgets. The template represents a further evolution of the templates that were used for the Regional Entities' 2008 and 2009 Business Plans and Budgets, and facilitates increased ability to make comparisons among the Regional Entities' budgets. NERC and the Regional Entities also worked collaboratively to develop (1) a set of consistent, common business plan and budget assumptions for 2010 to be used by each Regional Entity in preparing its budget, (2) a set of consistent accounting principles for presentation of the budgets, including the changes in accounting methodology listed on page 14 of **Attachment 2**, and (3) a definition of administrative (indirect) costs that would be applied consistently (as described in greater detail below and in **Attachment 16**).

NERC provided a business plan and budget template and a budget procedures document to the Regional Entities in early March 2009. After meeting with the Regional Managers, NERC and Regional Entity finance and accounting representatives met on March 19 to discuss changes to the 2010 business plan and budget development process from the process used in prior years. During March and April of 2009, NERC worked

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<sup>33</sup> WECC's proposed budget for statutory functions includes the cost of WECC's reliability coordinator function.

with the Regional Entities to further develop the standard format, budgeting assumptions and accounting methodology to be used in preparation of the individual Regional Entity business plans and budgets and to make them consistent and transparent. A conference call was held on April 19, 2009 to further discuss changes in accounting methodologies in the 2010 budget and the definition and allocation of indirect costs. The Regional Entities submitted initial drafts of their 2010 Business Plans and Budgets to NERC in early May 2009, submitted revised drafts in late May, and submitted final, complete versions of their 2010 Business Plans and Budgets (including non-statutory activities), as approved by their respective governing bodies, to NERC in early July 2009.<sup>34</sup>

The draft Business Plans and Budgets submitted by the Regional Entities were reviewed by NERC's Finance and Accounting staff during May, June, July and August, 2009; where appropriate, additional information was requested and other suggestions for changes were made. NERC staff also both reviewed and commented on the draft business plans and budgets submitted by the Regional Entities, and reviewed the internal processes used by each Regional Entity to develop its budget, to verify that these processes were rigorous. These reviews included individual conferences with each Regional Entity. NERC's reviews focused on (1) verifying each Regional Entity's Business Plan and Budget provided for sufficient resources to adequately carry out the functions delegated to the Regional Entity under the delegation agreement, (2) verifying that the Regional Entity was using the common budgeting assumptions, common budget

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<sup>34</sup> However, as discussed below, following the August 5 NERC Board meeting, several Regional Entities submitted revised Business Plans and Budgets which included additional resources for reviewing and processing Technical Feasibility Exceptions to certain CIP standards; these revised Business Plans and Budgets were approved by the NERC Board on August 20, 2009.

format and presentation, and agreed accounting methodology, and (3) understanding the bases for any significant differences in amounts budgeted by different Regional Entities for the same function. Through the processes described above (including NERC's review of the revised Business Plans and Budgets submitted by several Regional Entities to add resources necessary for reviewing and processing TFEs), NERC has been able to satisfy itself that each Regional Entity's 2010 Business Plan and Budget provides for necessary and adequate resources to carry out the Regional Entity's delegated functions.<sup>35</sup>

The Regional Entities submitted their final 2010 Business Plans and Budgets, approved by their respective governing bodies, to NERC, in early July 2009. These Business Plans and Budgets were submitted to the NERC MRC, the Finance and Audit Committee of the NERC Board, and the NERC Board of Trustees, which discussed them at the meetings held on August 4 and 5 (full Board), 2009. The Regional Entities' 2010 Business Plans and Budgets were approved by the NERC Board of Trustees at the August 5, 2009 meeting.<sup>36</sup>

The budgeting of resources for reviewing, processing and auditing TFEs to certain CIP standards claimed by registered entities, which will be a new activity expected to begin in late 2009 or in 2010, has been a source of particular difficulty in the development of the Regional Entity (and NERC) 2010 Business Plans and Budgets. The

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<sup>35</sup> As noted in §III.A.3 above, the compensation mechanisms and amounts by which those Regional Entities that are performing registered entity functions will compensate another entity for performing the compliance monitoring and enforcement role with respect to those functions, are still being finalized by NERC and the applicable Regional Entities.

<sup>36</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.

allocation of responsibility for receiving, reviewing, processing and auditing TFEs has been a subject of considerable discussion and comment among NERC, the Regional Entities, registered entities and other stakeholders during the period of March through August, 2009. In mid-March 2009, NERC posted for a 45-day comment period a proposed new Appendix to its Rules of Procedure addressing the submission, processing and auditing of TFEs. Under this draft TFE Procedure, TFEs would be submitted to NERC, most of the review and processing of TFEs would be done by NERC, and Regional Entities would have limited or no role in reviewing and processing TFEs. Consistent with this proposal, initial drafts of the NERC Business Plan and Budget contained resources for processing TFEs, while drafts of the Regional Entity Business Plans and Budgets did not include resources for this activity. However, many commenters (including some Regional Entities) on the proposed TFE Procedure expressed the opinion that the Regional Entities, not NERC, should have primary responsibility for receiving, reviewing, processing, and auditing TFEs, with NERC performing an oversight function over the Regional Entities' activities.<sup>37</sup> (Similar views were expressed by a number of commenters on posted drafts of NERC and Regional Entity Business Plans and Budgets.)

On July 1, 2009, NERC issued NERC Compliance Process #2009-006 to provide guidance concerning the applicability and implementation of CIP standards that provide for TFEs, pending adoption of a permanent program to address TFEs.<sup>38</sup> Compliance Process #2009-006 provides for registered entities to submit TFEs to the applicable

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<sup>37</sup> The originally-posted proposed TFE Procedure, and the comments received from stakeholders, are available at <http://www.nerc.com/page.php?cid=1/8/169>.

<sup>38</sup> Available at [http://www.nerc.com/files/2009-006\\_Public%20Notice-V1.pdf](http://www.nerc.com/files/2009-006_Public%20Notice-V1.pdf).

Regional Entity, not to NERC, and for Regional Entities to review, process and audit TFE submittals.

Consistent with the general direction of the comments on the proposed TFE Procedure and the approach taken in Compliance Process #2009-006, Drafts 2 and 3 of the NERC Business Plan and Budget removed resources originally included for processing TFEs; however, the Regional Entity Business Plans and Budgets that were being finalized in June and submitted to NERC in early July, and were approved by the NERC Board on August 5, 2009, did not include specific provision for resources or funding for the activities of reviewing, processing and auditing TFEs. Accordingly, following the August 5 Board meeting, and based on consultation among NERC and the Regional Entities, four Regional Entities (MRO, Reliability*First*, SPP RE and Texas RE) submitted revised Business Plans and Budgets to include additional resources that these Regional Entities determined were necessary to carry out their responsibilities for reviewing and processing TFEs. The revised Business Plans and Budgets of these four Regional Entities were approved by the NERC Board on August 20, 2009. The other four Regional Entities (FRCC, NPCC, SERC, WECC) have not submitted revised Business Plans and Budgets with specific resources provided for the TFE review and processing activities. These latter four Regional Entities believe they can handle any work required during 2010 to process TFEs with existing (budgeted) staffing and

resources and, if needed, can fund these activities by drawing on their Working Capital Reserves during 2010.<sup>39</sup>

However, because the scope of work and resources that will be required to review, process and audit TFEs are still uncertain and will become clear only with experience, it is possible that one or more Regional Entities will need to submit a supplemental budget and funding request during 2010 to provide for additional resources and funding for its TFE processing activities. The same is true for NERC as the scope of its oversight role over the Regional Entities' TFE processing and audit activities, and the resources required for this role, evolve during 2010.

The table below shows the total budget amounts for statutory and (where applicable) non-statutory functions for each Regional Entity as presented in their respective Business Plans and Budgets (**Attachments 3-10**).<sup>40</sup> In addition, because several Regional Entities have other sources of income (*e.g.*, fees for workshops) that will be used to offset the costs of performing delegated functions, the requested ERO funding for these Regional Entities is less than their budgets for statutory activities. The fourth column shows the statutory funding requested for each Regional Entity, taking into account other sources of income. For all Regional Entities, the budget for statutory functions includes total expenses and fixed asset acquisitions. The requested statutory funding amounts include amounts to achieve the level of Working Capital Reserve at December 31, 2010, determined to be appropriate by each Regional Entity.

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<sup>39</sup> The discussion of the individual Regional Entity Business Plans and Budgets in §V below provides further information on the provision each Regional Entity has made for 2010 for carrying out and funding its TFE processing activities.

<sup>40</sup> MRO, ReliabilityFirst and SERC do not plan to perform any non-statutory activities in 2009.

<b>Regional Entity</b>	<b>Budget for Statutory Functions</b>	<b>Budget for Non-Statutory Functions</b>	<b>Requested Statutory Funding</b>
<b>FRCC</b>	\$ 5,421,187	\$ 4,205,049	\$ 4,938,176
<b>MRO</b>	\$ 7,366,117	-----	\$ 7,503,745 <sup>41</sup>
<b>NPCC</b>	\$ 11,354,085	\$ 1,099,307	\$11,500,439 <sup>42</sup>
<b>ReliabilityFirst</b>	\$ 14,184,713	-----	\$14,345,192
<b>SERC</b>	\$ 10,701,683	-----	\$ 9,831,277
<b>SPP RE</b>	\$ 8,138,783	\$106,114,217 <sup>43</sup>	\$ 6,755,854
<b>Texas RE</b>	\$ 6,920,642	\$1,153,772	\$ 6,660,377
<b>WECC</b>	\$39,508,558	\$ 882,348	\$39,132,458 <sup>44</sup>

### **C. Western Interconnection Regional Advisory Board Funding Request**

WIRAB submitted to NERC a proposed 2010 Business Plan and Budget for Section 215(j) activities, which is included in **Attachment 11**. WIRAB's proposed 2010 Budget for expenses is \$616,810, which is an increase of \$21,000 from the 2009 Budget. The 2010 Budget will be funded by estimated unspent funds at the end of 2009 of \$174,862, interest income of \$3,567, and a proposed assessment of \$438,381.

WIRAB's overall statutory funding request of \$438,381 for 2010 consists of \$371,992 allocated to the U.S., \$60,823 allocated to Canadian provinces and \$5,566 allocated to Mexico. At its August 5, 2009 meeting, the NERC Board of Trustees approved WIRAB's 2010 Budget request.

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<sup>41</sup> The requested ERO funding for MRO consists of \$6,266,196 allocated to the U.S. and \$1,237,549 allocated to Canadian provinces.

<sup>42</sup> The requested ERO funding for NPCC consists of \$6,551,760 allocated to the U.S. and \$4,948,679 allocated to Canadian provinces.

<sup>43</sup> The figure of \$106,174,217 is the total 2009 budget of Southwest Power Pool, Inc. less the 2010 Budget of the SPP Regional Entity for statutory activities of \$8,138,783. The overall annual budget of Southwest Power Pool, Inc. is prepared on a schedule that will not result in approval of its 2010 budget until October 2009. See §V.B.6 below and pages 54-55 of **Attachment 8**.

<sup>44</sup> The requested ERO funding for WECC consists of \$33,469,113 allocated to the U.S., \$5,162,566 allocated to Canadian provinces and \$500,779 allocated to Mexico.

**D. Overall Funding Requirement and Allocations by Country, Region and LSE**

The total ERO assessment funding requirement for 2010 (net of other NERC and Regional Entity income sources) is \$138,169,469, consisting of \$37,063,569 for funding of NERC's programs, \$100,667,519 for funding of Regional Entity statutory activities, and \$438,381 to fund the WIRAB. NERC has allocated its net funding requirement of \$37,063,569 to the Regions primarily on the basis of NEL, with the exceptions described below.<sup>45</sup>

First, the costs of operating and maintaining NERC's IDC, which is used only in the Eastern Interconnection, were allocated to the six Regions in the Eastern Interconnection based on usage levels of the IDC ("IDC Defined Share"). The IDC Defined Share allocation approach is reasonable and equitable because it allocates the cost of this function based on its actual use by region, and does not assess the costs of the IDC to entities in Texas RE and WECC.

Second, an allocation based on the 8-Region NEL was used to allocate \$18,347,473 of the total NERC funding requirement to the Regions. In accordance with its "Expanded Policy on Allocation of Certain Compliance and Enforcement Costs," NERC has made adjustments in the calculations of the assessments to the IESO and to Québec, to provide credits for certain NERC Compliance Program costs. These adjustments recognize that one entity outside the U.S. (the IESO) expends resources to perform compliance and enforcement activities outside the U.S. that otherwise would be

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<sup>45</sup>See Table 6 in Section B of **Attachment 2** for the 2008 NEL data by Regional Entity and calculation of the country allocation factors for each Regional Entity. MRO, NPCC and WECC are the only Regional Entities whose footprints encompass Canadian provinces (and in the case of WECC, Mexico). As noted earlier, the year 2008 is the most recent calendar year for which NEL data is available.



performed by NERC or a Regional Entity, and that the compliance and enforcement resources NERC needs for another jurisdiction outside the U.S. (Québec) are reduced due to the very small number of entities subject to compliance and enforcement activities in that jurisdiction. **Attachment 13** shows the calculations of these adjustments to the allocations to the IESO and Québec. These calculations have been reviewed with the IESO and La Régie de l'Énergie du Québec, and they have each agreed with and accepted the calculations.

NEL has also been used to allocate the Regional Entity assessments, with these exceptions: First, 55% of NPCC's Compliance Monitoring and Enforcement and Organization Registration and Certification (CORC) Program costs have been allocated among the six Balancing Authority Areas in NPCC on the basis of NEL, and 45% of the CORC costs have been allocated between the U.S. and Canadian Balancing Authority Areas using a compliance audit-based methodology. The NPCC audit-based methodology was explained at pages 70-73 of the *December 19, 2008 Budget Revision Filing*.

Second, WECC's allocation of its assessment to the Alberta Electric System Operator (AESO) for the Province of Alberta has been reduced by \$289,238, representing WECC Compliance Monitoring and Enforcement Program costs that are duplicative of programs of the AESO. WECC, NERC and the AESO are in the process of negotiating a memorandum of understanding concerning the relationship among the three entities that would establish a basis for such credits in the assessments to AESO, but the memorandum has not yet been finalized. The AESO credit amount was allocated to the

remainder of the LSEs (Balancing Authorities) in the WECC Region on the basis of NEL.<sup>46</sup>

After allocating the appropriate portions of the NERC, Regional Entity and WIRAB funding requirements to the U.S. and Mexico, and taking into account the NEL-based allocations, the adjustments to the NERC and NPCC allocations to the IESO and Québec based on the “Expanded Policy on Allocation of Certain Compliance and Enforcement Costs,” and the adjustment to the WECC assessment to AESO, the total ERO funding requirement for 2010 allocable to Canadian end users is \$15,126,888, consisting of:

NERC Funding:	\$ 3,717,270
Regional Entity Funding:	\$11,348,795
WIRAB Funding:	\$ 60, 823

The funding requirement of each Regional Entity for statutory activities is of course allocated 100% to that Regional Entity. The funding requirement for the WIRAB is allocated 100% to WECC. The following table shows the allocation to each of the relevant Regional Entities of the total 2010 ERO funding requirement of \$15,126,888 for Canadian statutory activities of NERC, the Regional Entities and WIRAB. The table also shows the funding requirements per kWh based on 2008 Canadian NEL of each of the relevant Regional Entities.

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<sup>46</sup> See Table 6 on page 66, and Appendix 1 on page 85, of the WECC 2010 Business Plan and Budget, **Attachment 10** to this filing. Appendix 1 shows the calculation of the \$289,238 adjustment to the assessment to AESO.

<b>2010 Funding</b>					
<b>Regional Entity</b>	<b>NERC Funding</b>	<b>Regional Entity Funding</b>	<b>WIRAB Funding</b>	<b>Total Allocation</b>	<b>Allocation per kWh (2008 NEL)</b>
<b>MRO</b>	\$ 407,943	\$1,237,549		\$1,645,492	\$0.0000362
<b>NPCC</b>	\$2,344,317	\$4,948,679		\$7,292,997	\$0.0000200
<b>WECC</b>	\$ 965,010	\$5,162,566	\$ 60,823	\$6,188,399	\$0.0000512
<b>Total</b>	\$3,717,270	\$11,348,795	\$ 60,823	\$15,126,888	\$0.0000285

For all Regions except NPCC and Texas RE, NERC obtained from the Regional Entity a listing of the LSEs or their designees in the Region and a breakdown of the Regional Entity's 2008 NEL by LSE or designee. For the NPCC region, NERC obtained from NPCC the 2008 NEL for each Balancing Authority Area (New York, New England, Ontario, Québec, Nova Scotia and New Brunswick). For Texas RE, NERC obtained from Texas RE the 2008 NEL for ERCOT. NERC used this information to further allocate the total ERO funding requirement allocated to each Regional Entity among the LSEs, their designees or the other entities to be billed the assessments within that Regional Entity's footprint.<sup>47</sup> The amount of the NERC and Regional Entity funding requirement allocated to each LSE or designee or other entity to be billed in each Regional Entity's footprint is shown in Appendix 2B of **Attachment 2**. NERC intends to directly invoice assessments to LSEs or designees, or to the other entities to be billed,

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<sup>47</sup> Certain LSEs in MRO and WECC serve end users only in Canada or Mexico and not in the U.S. These LSEs were allocated appropriate portions, based on NEL (except as noted above), of the ERO funding requirement allocated to Canadian provinces or Mexico, as applicable.

in all Regions except WECC.<sup>48</sup> WECC will invoice LSEs or Balancing Authorities or their designees within the WECC footprint, collect the assessments and remit the funds to NERC. These arrangements have been provided for in Exhibit E to the delegation agreement with each Regional Entity.

**E. Treatment of Prior Years' Budget Surpluses or Deficits/Working Capital Reserve**

In the *2008 Budget Order*, FERC approved NERC's proposal to authorize a one-year suspension of NERC's policy of taking account of anticipated year-end budget surpluses in calculating the assessments required for the following year, and instead use anticipated 2007 year-end budget surpluses of NERC and the Regional Entities as reserves should the costs required to carry out statutory duties in 2008 – the first full year of operation in monitoring and enforcing compliance with mandatory and enforceable Reliability Standards – exceed the NERC and Regional Entity budgets.<sup>49</sup> In the 2009 NERC and Regional Entity business plans and budgets (filed in September 2008), any accumulated 2007 and anticipated 2008 surpluses (deficits) were used to reduce (increase) the assessments requested for 2009, taking into account NERC and each Regional Entity's target Working Capital Reserve and the increment or decrement that was included in calculating each entity's requested assessments in order to reach the targeted Working Capital Reserve at December 31, 2009.<sup>50</sup> The same process has been followed in preparing the proposed 2010 budgets and assessments.

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<sup>48</sup> As noted above, the assessments in the NPCC region will be billed to a single entity for each of the six Balancing Authority Areas within NPCC (*see* Table 6 in Section B of **Attachment 5**); and the assessments in the Texas RE region will be billed to ERCOT.

<sup>49</sup> *2008 Budget Order* at P 40.

<sup>50</sup> *See Notice of Filing of the North American Electric Reliability Corporation of its 2009 Business Plan and Budget and the 2009 Business Plans and Budgets of Regional Entities*

Table 5, Reserve Analysis 2009-2010, in Section B of the NERC and each Regional Entity's 2010 Business Plan and Budget, shows the calculation of the increment or decrement to the entity's requested 2010 assessment to achieve the entity's desired Working Capital Reserve at December 31, 2010. These calculations take into account (1) the entity's Working Capital Reserve (Deficit) at December 31, 2008, (2) assessment funding, projected other funding, and projected expenses and capital expenditures for 2009, resulting in (3) the projected Working Capital Reserve at December 31, 2009, (4) the desired (target) Working Capital Reserve, (5) the requested assessment for budgeted expenses and capital expenditures, and projected other funding sources (including penalties collected from registered entities), for 2010<sup>51</sup>, resulting in (6) the increment or decrement to the requested 2010 assessments to achieve the target Working Capital Reserve at December 31, 2010. As shown on the NERC and Regional Entity Table 5's, each Regional Entity (except SPP RE) has established a target Working Capital Reserve; however, for various reasons (such as to limit the overall level of assessment increases), NERC and some Regional Entities have elected not to include in their requested 2010 assessments the full increment necessary to achieve the desired Working Capital Reserve at December 31, 2010.

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*and of Proposed Assessments to Fund Assessments*, (filed September 17, 2008) (2009 Budget Filing), at 21.

<sup>51</sup> NERC's budget policy is that penalty sanction payments received by NERC or a Regional Entity on or prior to June 30 of the year preceding the budget year should be used to reduce the requested assessments for the budget year; penalty sanction payments received after June 30 will be used to reduce the requested assessments for the year following the budget year. In the case of the 2010 budgets, all penalty sanction payments being used by Regional Entities to reduce their requested 2010 assessment amounts were received prior to June 30, 2009.

For ease of reference, the table below shows the 2010 target Working Capital Reserve and the basis for the target, for NERC and each Regional Entity. The table also shows whether the entity has a line of credit available and in what amount:

<b>Entity</b>	<b>2010 Target Working Capital Reserve</b>	<b>Basis for 2010 Target Working Capital Reserve</b>	<b>Line of Credit</b>
<b>NERC</b>	\$ 0	Rely on Line of Credit to fund short term cash flow shortfalls	\$4,000,000
<b>FRCC</b>	\$542,119	10% of budgeted annual statutory expenses	No
<b>MRO</b>	\$ 286,972	15 days of budgeted statutory expenses and capital expenditures (1/3 of target of 45 days budgeted statutory expenses)	\$2,000,000
<b>NPCC</b>	\$2,270,817	20% of budgeted Regional Entity expenses	No
<b>ReliabilityFirst</b>	\$1,418,471	10% of 2010 assessment for expenses and capital expenditures	\$1,000,000
<b>SERC</b>	\$1,009,555	Up to 10% of budgeted annual statutory operating costs	\$250,000
<b>SPP RE</b>	\$ 0	Access to SPP, Inc. \$20 million credit facility	No (but SPP, Inc. has \$20,000,000)
<b>Texas RE</b>	\$1,370,718	Approx. 75 days of operating expenses	No
<b>WECC</b>	\$1,577,472	Building to 3 months of expenses; 2010 target is approximately 45 days	No

The following table shows, for NERC and each Regional Entity, the surplus (deficit) of assessment revenues and other statutory revenues over (under) statutory expenses (including capital expenditures) for 2007 and 2008 and the projected surplus (deficit) of assessment revenues and other statutory revenues over (under) statutory expenses and capital expenditures for 2009:

Entity	2007 <sup>52</sup>	2008 <sup>53</sup>	2009 <sup>54</sup>
NERC	\$1,046,155	\$ 439,159	\$(1,414,596)
FRCC	\$ 246,617	\$ 913,113	\$( 409,721)
MRO	\$ 628,335	\$ 66,963	\$ 0
NPCC	\$ 284,735	\$ 247,572	\$( 14,947)
ReliabilityFirst	\$2,497,880	\$ 431,447	\$(2,809,839)
SERC	\$ 582,394	\$ 171,438	\$ 601,690
SPP RE	\$ (438,754)	\$ 214,632	\$ 1,168,296
Texas RE	\$3,290,858	\$( 16,282)	\$(1,646,059)
WECC	\$ (875,648)	\$ 966,427	\$ 453,436

#### F. Projected Costs for 2011 and 2012

As it did in its 2008 and 2009 Business Plans and Budgets, NERC is providing a projection of its expected revenues and expenses for the two years following the budget year (*i.e.*, 2011 and 2012). This information is provided in Table 7 in Section B of **Attachment 2**. NERC is providing these projections for informational purposes only. The NERC Board of Trustees has not approved these projections as budgets, and NERC is not seeking approval of the projections by FERC or other governmental authorities. The projections provided in Table 7 are based solely on overhead and expense escalations from the 2010 Budget, and do not include any additional FTE requirements or resources beyond the 2010 Budget associated with any programs, including auditing for compliance

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<sup>52</sup> The amounts in this column are taken from Schedule 1, column 4 (Change in Net Assets – Statutory – 12/31/2007) in the *Compliance Filing of the North American Electric Reliability Corporation in Response to June 19, 2008 Order* made to FERC.

<sup>53</sup> The amounts in this column are taken from the *Additional Compliance Filing of the North American Electric Reliability Corporation in Response to October 18, 2007 Order – Comparisons of Budgeted to Actual Costs for 2008 for NERC and the Regional Entities; Additional Compliance Items for SPP Regional Entity*, filed April 1, 2009 with FERC (*2008 Budget True-Up Filing*), except the amount shown for Texas RE which is taken from **Attachment 18** of this filing.

<sup>54</sup> The amounts in this column are the “Total Change in Assets” for the 2009 Projection shown in Table 1 of Section B of the 2010 Business Plan and Budget of NERC and each Regional Entity.

with CIP standards at nuclear power plant balance of plant facilities, or the processing of TFEs. Based on these assumptions, NERC's 2011 expenses and change in fixed assets are projected to be approximately \$3,246,851 higher than its 2010 Budget, and its 2011 assessments for NERC funding are estimated to be approximately \$2,616,000 higher than the requested amount for 2010. The 2012 expenses and change in fixed assets are projected to be approximately \$1,834,000 higher than the amount estimated for 2011, and the 2012 assessments are projected to be approximately \$1,703,000 higher than the estimated 2011 assessments.

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

##### **A. 2010 Business Plans and Budgets by Program**

This section summarizes NERC's proposed 2010 Business Plan and Budget by statutory program and Administrative Services department.<sup>55</sup>

As noted earlier, a number of changes in accounting methodology have been adopted in the NERC (and Regional Entity) 2010 Business Plans and Budgets. Four changes of particular significance for comparisons of the 2009 and 2010 Budgets are:

- (1) All costs that can be attributed to a statutory program (direct costs) are assigned to the applicable statutory program, and all other costs (indirect costs) are assigned to the applicable Administrative Services area.
- (2) All Administrative Services expenses are allocated to the five statutory programs based on the ratios of their respective FTEs to the total FTEs for all statutory programs.

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<sup>55</sup> **Attachment 14** is a status report on NERC's progress in achieving its goals and objectives for 2009 that were stated in its 2009 Business Plan and Budget. Similar status reports on achievement of the 2007 and 2008 goals and objectives were provided in, respectively, the 2008 and 2009 Business Plan and Budget Filings.



(3) Capital Expenditures are broken out as Fixed Assets rather than being included in their related lines in the Operating Expenses section, as was done in the past.

(4) Expenses now include Depreciation, however, funding is not being requested for Depreciation; therefore, Depreciation is deducted from the funding requirement for Capital Expenditures.

As a result of the changes in accounting methodology, there may be apparent increases in total costs over the 2009 Budget for some statutory programs, and apparent decreases for other statutory programs, that are in fact driven in whole or in part by the changes in accounting methodology.

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

The Reliability Standards Program develops and maintains standards designed to ensure the reliability of the bulk power system in North America. The stakeholder Standards Committee provides oversight to the standards development process, while NERC staff coordinators facilitate standards drafting team activities, assist the drafting teams in adhering to the integrity of the standards development process, and ensure that the quality of the documents produced are appropriate for approval. The assumptions, goals and objectives of the Reliability Standards Program for 2010 are presented in detail at pages 16-19 in Section A of **Attachment 2**, and include prioritizing standards development activities to focus on key reliability concerns; continuing development of revisions to CIP standards in response to Order No. 706; developing new or modified standards to support the System Protection Initiative and System Modeling Initiative and standards relating to Real-Time Tools, Undervoltage Load Shedding, and Voltage and Reactive Control; and responding to requests for interpretations of standards in a timely manner.

Although much of the work in the Reliability Standards Development Process is performed by committees and task groups comprised of volunteer technical experts from the electric industry, government and academia (including the Standards Committee), significant NERC professional staff resources are needed to facilitate and coordinate the work of industry volunteers and to administer the process. NERC has budgeted 17.5 FTEs for the Reliability Standards Program for 2010, which is an increase of 3.0 FTEs from the 2009 Budget (one of these three additional FTEs is expected to be added during 2009). NERC is planning to add a second standards process manager (presently there is only one); and two standards process administrators, whose principal responsibility will be to manage processing and responding to requests for interpretations of standards in a timely manner. The 2010 budgeted direct expenses for this program are \$4,189,050, which is an increase of \$589,595 over the 2009 Budget.<sup>56</sup> The principal direct cost components of the 2010 Budget are Personnel Expenses (\$3,028,775), Meeting Expenses (including Travel) (\$550,000), and Consultants & Contracts (\$717,000). The budget for Consultants & Contracts represents an increase of \$167,000 over the 2009 Budget, of which \$67,000 is for IT support to maintain and improve the standards balloting and registered ballot body applications, and \$100,000 is for contracts for subject matter experts to support standards development activities on highly technical concepts. The allocation of Administrative Services expenses to this program is \$1,983,954 and the allocation of Fixed Asset additions is \$75,616.

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<sup>56</sup> See table on page 15 in Section A of **Attachment 2**.

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

Under the Compliance Monitoring and Enforcement and Organization Registration and Certification Program, NERC monitors, audits, investigates and enforces compliance with the approved Reliability Standards by owners, operators and users of the bulk power system, in order to maintain a high level of reliable operation of the bulk power system. This program also includes registering owners, operators and users of the bulk power system as responsible for complying with Reliability Standards and maintaining a Compliance Registry (provided for in Section 500 of the NERC Rules of Procedure), to facilitate NERC's and the Regional Entities' compliance monitoring and enforcement activities. The NERC Compliance Registry now lists over 1,800 Registered Entities which have been registered to be responsible for almost 4,500 functions affecting the reliability of some portion of the bulk power system.

The detailed 2010 program assumptions, goals and objectives for Compliance Monitoring and Enforcement and Organization Registration and Certification are provided at pages 23-26 in Section A of **Attachment 2**. The CMEP goals and objectives for 2010 include eliminating the existing backlog of alleged violations that have not been processed to completion; processing new, incoming violations and associated mitigation plans in an efficient and expeditious manner;<sup>57</sup> processing and executing Compliance Violation Investigations (CVI) in an expeditious manner; and completing the triennial audits of the Regional Entity compliance programs. NERC expects to lead approximately 10 CVIs and 40 Compliance Inquiries (CIQ) per year. The CMEP budget

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<sup>57</sup> The current inflow of newly-identified alleged violations averages 85 per month after dismissals of possible violations that are determined not to be alleged violations.

also includes NERC's expenses for performing the compliance monitoring and enforcement role for those reliability functions for which a Regional Entity is the registered entity; NERC will be reimbursed by the affected Regional Entities for this part of the CMEP budget.<sup>58</sup>

The budgeted direct expenses for this program for 2010 total \$9,359,703, which is an increase of \$2,026,167 over the 2009 Budget.<sup>59</sup> NERC is budgeting for 45.75 FTEs for the Compliance Monitoring and Enforcement and Organization Registration and Certification Program in 2010, an increase of 10.25 FTEs over the 2009 Budget (some of these additional positions have already been filled during 2009). Four of the additional FTEs will support the compliance violation backlog reduction efforts; 0.5 FTE will support timely issuance of notices of mitigation plan approvals to Regional Entities and registered entities in accordance with the NERC Rules of Procedure; and one of the additional FTEs will assist in reporting, tracking, and analysis of compliance information. In addition, two of the additional FTEs will be compliance violation investigators added to the Compliance Program staff. Finally, 2.5 of the additional FTEs will support NERC's activities in performing the compliance monitoring and enforcement role for reliability functions for which a Regional Entity is the registered entity. The 2010 CMEP budget also includes \$1,100,000 for Consultants & Contracts, which is the same amount as in the 2009 Budget. Of this amount, \$300,000 is for subject-matter experts to support NERC staff in CVIs and CIQs; \$250,000 is for consultants assisting in the triennial audits

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<sup>58</sup> This reimbursement is reflected on the Statement of Activities for the NERC CMEP as the "Miscellaneous" line under "Funding."

<sup>59</sup> See Table on page 22 in Section A of **Attachment 2**.

of the Regional Entity compliance programs; and \$500,000 is for software development support in implementing the Compliance Reporting, Analysis, and Tracking System.

The major direct cost budget components for the Compliance Monitoring and Enforcement and Organization Registration and Certification Program are Personnel Expenses (\$7,555,795); Meeting Expenses (including Travel) (\$928,417); and Consultants & Contracts (\$1,100,000). The \$128,750 increase for Travel Expenses in the 2010 Budget primarily reflects costs of travel by the additional FTEs to perform their job responsibilities. The allocation of Administrative Services expenses to this program is \$5,186,621 and the allocation of Fixed Asset additions less Depreciation is \$171,188.

### **3. Reliability Assessment and Performance Analysis Program**

The Reliability Assessment and Performance Analysis Program enables NERC to meet its responsibility as the ERO to “conduct periodic assessments of the reliability and adequacy of the bulk power system in North America.”<sup>60</sup> NERC prepares three reliability assessments each year: a long-term reliability assessment report, a summer assessment report, and a winter assessment report. These reports analyze electricity demand and adequacy of supply throughout the North American bulk power system and examine the adequacy of the transmission system. NERC also prepares special reliability assessment reports as conditions warrant or as directed by the NERC Board. During 2010, NERC will continue work on analyzing the reliability impacts of climate change initiatives.

The Reliability Assessment and Performance Analysis Program also includes analyzing significant bulk power system events and other off-normal events occurring on the bulk power system; identifying the root causes of events that may be precursors of

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<sup>60</sup> Section 215(g) of the FPA and 18 C.F.R. §39.11.

potentially more serious events impacting the reliable operation of the bulk power system; assessing past reliability performance for lessons learned; disseminating findings and lessons learned to the electric industry to improve reliability performance; and developing reliability performance metrics and benchmarks and monitoring performance against those metrics and benchmarks. These activities are intended to help prevent future abnormal system events and thereby to promote and improve reliable operation of the bulk power system. During 2009, NERC launched a comprehensive System Protection Initiative designed to coordinate efforts to improve the performance of power system protection and control systems with the goal of limiting the scope and severity of future system disturbances caused by these misoperations. This initiative, which is the responsibility of the Reliability Assessment and Performance Analysis Program, will continue in 2010.

Additionally, the Reliability Assessment and Performance Analysis Program is responsible for maintaining the Generating Availability Data System (GADS), and for continued development of the Transmission Availability Data System (TADS). GADS provides performance benchmarks for improving individual generating unit reliability and availability and statistics for tracking generating unit availability. NERC receives revenues from the sale of GADS software and services, which are reflected as Funding in the budget.

Detailed 2010 assumptions, goals and objectives for the Reliability Assessment and Performance Analysis Program are provided at pages 31-35 in Section A of **Attachment 2**.

NERC's budgeted direct expense for the Reliability Assessment and Performance Analysis Program for 2010 is \$4,620,377, which represents an increase of \$628,963 over the 2009 Budget.<sup>61</sup> The 2010 Budget reflects 16 FTEs for this program, which is an increase of 1.5 FTEs over the 2009 Budget (these positions were already added during 2009). The Reliability Assessment Program is also budgeting an increase of \$148,625 in Travel Expense over the 2009 Budget, primarily for staff involved in reliability assessments and metrics and benchmarking activities. Additionally, the 2010 budget for Consultants & Contracts for this program is \$1,149,400, which is an increase of \$388,130 over the 2009 Budget. Consultant and contract support is budgeted for Phase III of the Reliability Impacts of Climate Change Initiatives study (\$100,000); subject matter expert support for the System Protection Initiative (\$179,000); event analysis (\$132,000); a Modeling Improvement Initiative focused on generation and turbine control modeling (\$50,000); continued development of TADS (\$294,900); GADS programming support (\$135,000); and consultant support (including for software development) for various aspects of the reliability assessments studies and processes (\$258,000).

The direct expenses in the 2010 Budget for the Reliability Assessment and Performance Analysis Program include Personnel Expenses (\$2,851,150), Meetings Expense (including Travel) (\$630,000); and Consultants & Contracts (\$1,149,400). The program budget also includes \$196,575 of Computer & Software Capital Expenditures, and an allocation of Fixed Asset Additions of \$69,315, less Depreciation of (\$68,129), for a net spend on capital of \$197,581. The allocation of Administrative Services expenses to this program is \$1,813,900. Revenues from the sale of GADS software and

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<sup>61</sup> See table on page 30 in Section A of **Attachment 2**.

services are projected to be \$250,000, which is a decrease of \$200,000 from the 2009 Budget, reflecting 2009 year-to-date sales experience.

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

The Training, Education, and Personnel Certification Program encompasses (i) the System Operator Certification Program, (ii) NERC's Continuing Education Program ("CEP") for owners, operators and users of the bulk power system and their operating personnel, and (iii) NERC's Education Program for NERC and Regional Entity staff. NERC maintains the credentials for over 5,000 system operators, effectively licensing them to work in system control centers across North America.

The System Operator Certification Program provides a certification credential for operating personnel of owners, operators and users of the bulk power system. Initial certification is obtained through examinations, which are designed to test specific knowledge of job skills and reliability standards and to prepare operators to ensure standards are met and to quickly and confidently react when unexpected situations occur. Certification is maintained or renewed through use of approved continuing education. The System Operator Certification Program is administered by NERC professional and technical staff and is overseen by the Personnel Certification Governance Committee, which is a NERC standing committee reporting to the Board of Trustees. Fees are charged for the certification examinations and renewals of credentials, which are structured to fully recover the costs of operating the System Operator Certification Program.

The objective of the NERC CEP is to foster improvement of and promote quality in the training programs used and implemented by owners, operators and users of the bulk power system. Through the CEP, NERC approves or accredits training programs of



owners, operators and users of the bulk power system and of other continuing education providers. Among other functions, the CEP conducts periodic audits of continuing education providers and training activities to ensure that approved and accredited providers and training activities satisfy NERC's continuing education requirements. The costs of administering the CEP are fully recovered through fees paid by the continuing education providers.

In the Education Program, NERC develops and maintains learning materials and activities to establish training requirements for NERC and Regional Entity staff. NERC also provides educational activities and tools to industry stakeholders, participants and regulators. These activities are carried out by NERC professional and technical staff and contractors with the assistance of industry volunteers possessing appropriate technical knowledge and competencies.

Detailed 2010 assumptions, goals and objectives for the Training, Education and Personnel Certification Program are provided at pages 38-40 of Section A of **Attachment 2**.

The direct expense budgeted for the Training, Education and Personnel Certification Program for 2010 is \$1,919,226, which is an increase of \$356,747 over the 2009 Budget.<sup>62</sup> NERC has budgeted 6.75 FTEs for this Program in 2010, which is an increase of 1.25 FTEs over the 2009 Budget. Of this budgeted increase, 0.5 FTE was added in 2009, and an FTE is scheduled to be added in the second quarter of 2010 and therefore is reflected as 0.75 FTE in the 2010 Budget. NERC is also budgeting an increase of \$158,500 for Meetings, Travel and Conference Calls, primarily due to

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<sup>62</sup> See table on page 38 in Section A of **Attachment 2**.

increased meetings and travel associated with development of new operator certification examinations in 2010. Additionally, Consultant & Contracts expense of \$563,800 is budgeted for 2010, which is an increase of \$102,400 over the 2009 Budget. The increased Consultants & Contracts expense is primarily due to the use of consultants to review exams, as volunteer time devoted to this activity is diminishing. Further, an increase of \$46,000 is budgeted in Office Costs for merchant card fees (*i.e.*, fees charged by credit card companies when credit cards are used to pay the fees for system operator certification exams), which were budgeted in Administrative Services in 2009.

The direct cost components of the 2010 Budget for the Training, Education, and Personnel Certification Program are Personnel Expenses (\$988,270), Meetings, Travel and Conference Call expenses (\$339,725), and Consultants & Contracts (\$563,800), and Office Costs (\$59,300). The allocation of Administrative Services expenses to this program is \$765,239 and the allocation of Fixed Asset additions is \$29,166. As noted above, NERC charges fees for system operator certification examinations and continuing education providers which are intended to cover the costs of the certification examination program and the certification of the continuing education providers. The 2010 Budget for this program reflects projected revenues from these fees and charges totaling \$1,118,750, an increase of \$138,750 over the 2009 Budget. Fees charged for attendance at NERC-sponsored workshops, which were not budgeted in 2009, are budgeted to be \$92,500 in 2010.

## **5. Situation Awareness and Infrastructure Security**

NERC's Situation Awareness and Infrastructure Security Program coordinates all of NERC's efforts to improve physical and cyber security for the North American bulk power system as it relates to reliability. These efforts include standards development,

compliance enforcement, assessments of risk and preparedness, disseminating critical information by alerts to industry, and raising awareness of key issues. The Situation Awareness and Infrastructure Security Program is also home to the Electricity Sector Information Sharing and Analysis Center, and monitors the bulk power system to provide real-time situation awareness and leadership and coordination services to the electric industry. The ES-ISAC was formed by NERC in 1999 and has subsequently expanded its scope to include information about all types of threats to the reliability of the bulk power system, including natural disasters, power system operational issues, and physical and cyber security. In May 2008, the NERC Board created the Electricity Sector Steering Group (ESSG) to enhance strategic and policy guidance to the ES-ISAC and to provide broad electricity sector participation and support on critical infrastructure security matters.

Through the Situation Awareness and Infrastructure Security Program, NERC provides tools and other support services for the use and benefit of bulk power system operators including reliability coordinators. These tools provide situation awareness and rapid communications capability, help implement transmission loading relief procedures, and meet requirements for same-time information to market participants and others. The tools and support services NERC provides to the industry under this program are important to promoting and maintaining reliable operation of the bulk power system. Further, to the best of NERC's knowledge, no other organization is proposing to make the tools and support services with these functionalities that NERC provides available to owners, operators and users of the bulk power system and other bulk power system participants. The Situation Awareness and Infrastructure Security Program is managing

the North American SynchroPhasor Initiative (“NASPI”) project which was initiated in 2009.<sup>63</sup>

During 2010, NERC will continue to pursue and coordinate the Situation Awareness, FERC, NERC and Regional Entities (SAFNR) project and operate it to the agreed protocol procedure for all parties. The Situation Awareness and Infrastructure Security Program will also collaborate with the industry to coordinate voluntary assessments of cyber risk and preparedness for critical electric infrastructure (Cyber Risk Preparedness Assessments).

Detailed 2010 assumptions, goals and objectives for the Situation Awareness and Infrastructure Security Program are provided at pages 43-46 in Section A of **Attachment 2**.

The budgeted direct expense for 2010 for the Situation Awareness and Infrastructure Security Program is \$7,047,344, which is an increase of \$1,590,939 over the 2009 Budget.<sup>64</sup> The 2010 Budget reflects 9.75 FTEs in this program, an increase of 2.75 FTEs over the staffing in the 2009 Budget.<sup>65</sup> Two of the FTEs are being added to improve the quality of NERC’s Situation Awareness services and provided dedicated expertise to the execution of NERC’s ES-ISAC responsibilities. An increase of \$325,000

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<sup>63</sup>The NASPI is the successor to the Eastern Interconnection Phasor Project and to the phasor development work done in the Western Interconnection. NASPI is the international project to advance the application of phasor measurement technology in all interconnections in North America. The objective of NASPI is to use phasor measurement technology to provide grid operators with expanded interconnection visibility and improved situational awareness and to supplement the tools available to operators to monitor and control the bulk power system.

<sup>64</sup> See table on page 43 in Section A of **Attachment 2**.

<sup>65</sup> Of this increase, one FTE has been added in 2009, one FTE is budgeted to be added as of January 2, 2010, and one FTE is planned to be added in the second quarter of 2010 and therefore is reflected as 0.75 FTE in the 2010 Budget.

in Meetings and Travel Expense is budgeted for this program, to support additional personnel and activities including the cyber risk and threat assessment projects and the ESSG. Additionally, Consultant & Contracts expense of \$4,606,157 is budgeted for this program, which is an increase of \$779,557 over the 2009 Budget. The primary drivers of the increased Consultant & Contract expenses are (i) contractor fees to support, coordinate, and conduct secret-level classified briefings for industry executives and CIP and security staff, including support of government-led issues development and analysis (\$100,000); contractor costs for software development, testing and deployment for NERC's secure, internet-based portal for issuing industry alerts (\$313,000); contractor fees to assist in developing a Cyber Risk Preparedness Assessment toolkit for use by the industry (\$200,000); and purchases of published domestic and international studies and information to support analysis of potential cyber security threats, risks and vulnerabilities (\$100,000). Finally, an increase of \$117,126 in Office Costs is budgeted for this program over the 2009 Budget for purchase of published information and commissioned specialized papers.

The direct cost components of the 2010 Budget for the Situation Awareness and Infrastructure Security Program include Personnel Expenses (\$1,894,593), Meetings Expense (including Travel) (\$520,161), and Consultants & Contracts (\$4,606,157). The allocation of Administrative Services expenses to this program in the 2010 Budget is \$1,105,346. The budget also includes an allocation of Fixed Asset additions of \$42,129, less Depreciation of (\$45,884), for a net reduction in Fixed Assets of (\$3,755).

## **6. Administrative Services**

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

Members' Forums; (ii) General and Administrative; (iii) Legal and Regulatory; (iv) Information Technology (IT); (iv) Human Resources, and (v) Finance and Accounting. Detailed descriptions and planned 2010 activities, goals and objectives for each of the functions included in Administrative Services are provided at pages 49-70 in Section A of **Attachment 2**.

**Technical Committees and Members' Forums** – NERC's Rules of Procedure provide for members' forums that serve the interests of stakeholders within individual industry sectors and as a result help to improve the reliability of the bulk power system. NERC presently has one such forum, the Transmission Owners and Operators Forum. The budgeted direct expenses for 2010 for Technical Committees and Member Forums is \$1,617,808, which is an increase of \$857,572 over the 2009 Budget. The expenses for the Transmission Owners and Operators Forum are completely reimbursed through dues and other charges to the participants, and therefore do not impact the assessments to LSEs. Further, the 2010 Budget includes \$300,000 for reimbursement by the Transmission Owners and Operators Forum to NERC for administrative services provided by NERC to the Forum (reflected in the budget for this function as Consultants & Contracts expense).<sup>66</sup> Therefore, the entire \$1,617,808 2010 Budget for this function will be covered by the dues of the Forum participants. The 2010 Budget reflects five FTEs in this function, which is an increase of three FTEs over the 2009 Budget (two of

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<sup>66</sup> The Forum has terminated its administrative relationship with NERC effective December 31, 2009, so NERC will not experience revenues and expenses associated with the Forum in 2010. NERC will lose some or all of the \$300,000 reimbursement from the Forum for administrative services. NERC will have difficulty in reducing its Administrative Services costs by this amount, and therefore could face a shortfall in funding for Administrative Services in 2010.

these additional FTEs have already been added during 2009). The Transmission Owners and Operators Forum has determined that additional FTEs are necessary to carry out the Forum's programs; however, as noted, the costs for these additional FTEs will be entirely covered by dues and other charges to the Forum participants.<sup>67</sup>

**General and Administrative** – The General and Administrative area includes the NERC President and CEO and an administrative assistant. Expenses allocated to General and Administrative also include Office Rent, certain Office Costs, fees and expenses of the Board of Trustees, and communications and public relations.

The 2010 Budget for General and Administrative is \$3,768,310, which is a decrease of \$1,700,675 over the 2009 Budget. A significant portion of this decrease is due to the fact that the provision for addition to the Working Capital Reserve (which was \$1,393,496 in the 2009 Budget) is no longer budgeted in this area. In addition, the 2010 Budget reflects a decrease in FTEs in this area from 6.0 to 4.0 as compared to the 2009 Budget. The Meetings and Travel Expenses budgeted under General and Administrative include meeting and travel expenses for the CEO, the Board and Board committees; and the Professional Services budgeted in this area are the Trustee fees. Meeting Expense in the 2010 Budget for General and Administrative is lower by \$29,222 compared to the 2009 Budget (in part due to the reduction in FTEs assigned to this area). Professional Services are increased by \$105,000 over the 2009 Budget, reflecting the anticipated

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<sup>67</sup> This function previously also included the management of the NERC Technical Committees; however, in 2009 that responsibility has been shifted to the Reliability Assessment and Performance Analysis and the Situational Awareness and Infrastructure Security programs.

addition of a tenth independent trustee to the Board in 2010.<sup>68</sup> In addition, the reimbursement by the Transmission Owners and Operators Forum to NERC for administrative services is reflected as a \$300,000 credit to Consultants & Contracts in the General and Administrative budget.

Office Rent in the 2010 Budget for NERC's two offices in Princeton, New Jersey and Washington, D.C., is higher by \$255,611 in the aggregate over the 2009 Budget. Rent expense for the Princeton office is increasing due to an increase in the rate per square foot per the lease agreement, while rent expense for the Washington office is increasing due to both an increase in the rate per square foot per the lease agreement, and an expansion of the office into additional space. The 2010 Budget for Office Costs is increased by \$103,277, primarily due to increased telephone expense resulting from the larger number of FTEs in the overall NERC 2010 Budget. Finally, the 2010 Budget for General and Administrative includes \$100,000 for Furniture and Fixtures Capital Expenditures, an increase of \$45,000 over the 2009 Budget.

**Legal and Regulatory** – The Legal and Regulatory function provides legal counsel to the NERC CEO, Board of Trustees, staff and committees on legal and regulatory matters affecting NERC; is responsible for preparing or overseeing filings with governmental entities; maintains relationships with governmental entities in the U.S., Canada and Mexico; reviews contracts entered into by NERC; and retains and oversees outside counsel. The 2010 Budget for Legal and Regulatory is \$2,333,329, which is a decrease of \$653,181 over the 2009 Budget. The primary reason for the reduction in the budget for this area is that the Legal and Regulatory 2009 Budget

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<sup>68</sup> See Notice of Filing of Amendments to the Bylaws of the North American Electric Reliability Corporation, filed this date.



included the one-time expense associated with performing the three-year ERO performance assessment during 2009.<sup>69</sup> The Legal and Regulatory 2010 Budget reflects the addition of two attorneys and an administrative assistant to the current staffing, resulting in 7.0 FTEs for this area (the General Counsel, four other attorneys, one paralegal and one administrative assistant). The Legal and Regulatory budget also includes the expense for NERC's retained Canadian affairs representative.

**IT** – NERC's IT program supports employee technology, computing and voice and electronic communications needs. IT also supports, manages and maintains a number of Reliability Tools for the industry. The 2010 Budget for IT is \$2,519,307, which is an increase of \$779,352 over the 2009 Budget. The 2010 Budget reflects 7.75 FTEs in this function, which is a decrease of 0.25 FTE from the 2009 Budget. Initiatives of the IT program for 2010 include designing and deploying a secure electronic file system to support more stringent confidentiality requirements of NERC's Compliance, CIP and Event Analysis programs and activities; and designing, implementing and maintaining a knowledge management infrastructure that will be supported on the Microsoft OfficePoint SharePoint Server (MOSS). The latter initiative will require a dedicated FTE from the IT staff; this position will be added in the second quarter of 2010 and is budgeted as 0.75 FTE. One FTE is transferring from IT to another NERC program. The IT budget for 2010 reflects an increase of \$373,341 in Office Costs over the 2009 Budget, due to the costs of purchasing laptops, printers and computer supplies for new NERC staff; and an increase of \$263,635 in Computer and Software Capital Expenditures for additional servers, replacement of computer equipment that has reached

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<sup>69</sup> NERC is filing its *Three-Year Electric Reliability Organization Performance Assessment Report* this date.

the end of its useful life, acquisition of additional software to support various tools, and software and hardware costs associated with implementation of the MOSS document sharing platform.

**Human Resources** – Human Resources manages all of NERC’s human resources functions, including new hires, benefits and employee functions, as well as overseeing employee performance appraisals and the incentive structure process. The 2010 Budget for Human Resources is \$1,008,912, which is an increase of \$340,619 over the 2009 Budget. The 2010 Budget reflects 3.5 FTEs in this function, which is a decrease of one FTE over the 2009 Budget. The 2010 Budget includes \$350,000 in Consultant & Contracts expense, an increase of \$100,000 over the 2009 Budget; these expenses are for executive staff training and development and for executive search fees. The 2010 Budget also includes \$20,000 in Capital Expenditures for a Human Resources Information System.

**Finance and Accounting** – Finance and Accounting manages all of NERC’s finance and accounting functions, including employee payroll, 401(k) plans, travel and expense reporting, monthly financial reporting, sales and use taxes, meeting/events planning and services, insurance, internal audit, and facilities management. Finance and Accounting has overall responsibility for development of the annual business plan and budget. The 2010 Budget for Finance and Accounting is \$1,235,201, which is an increase of \$378,755 from the 2009 Budget. The increased budget is primarily driven by an increase in FTEs in Finance and Accounting. The 2010 Budget reflects 8.5 FTEs in this function, which is an increase of 3.5 FTEs over the 2009 Budget. This increase is comprised of (i) 3.0 FTEs that have transferred to Finance and Accounting during 2009,

(ii) one FTE position that was reduced to part-time during 2009, and (iii) addition of a CPA to the finance staff in 2010 to support moving from a quarterly to a monthly closing process, which will increase operational efficiency and enable implementation of additional cost control measures.

### **B. Working Capital Reserve**

NERC's 2010 Budget includes \$469,043 to achieve a Working Capital Reserve of \$0 at December 31, 2010. For purposes of NERC's 2009 Business Plan and Budget, the NERC Board established a target Working Capital Reserve of \$2,500,000 at December 31, 2009.<sup>70</sup> However, NERC now projects a Working Capital Reserve (deficit) of \$(469,043) at December 31, 2009.<sup>71</sup> The NERC Board determined that, in light of the overall increase in assessments needed to fund NERC's budgeted expenses for 2010, NERC will not request the assessments necessary to achieve the target Working Capital Reserve of \$2,500,000 at December 31, 2010.<sup>72</sup> Instead, NERC is proposing an increment to its 2010 assessments of only \$469,043 in order to bring the Working Capital Reserve to \$0 at December 31, 2009. Although this means that NERC will have essentially no Working Capital Reserve to draw on during 2010, NERC has available a \$4,000,000 line of credit from a major financial institution, which NERC can draw on to

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<sup>70</sup> See *2009 Budget Filing* at 38-40, and Table 5 in Section B of the 2009 Business Plan and Budget.

<sup>71</sup> See Table 5 in Section B of **Attachment 2**. One reason for the projected deficit at December 31, 2009 is that, as explained in the *December 19 Budget Revision Filing*, NERC determined, after submission of its 2009 Business Plan and Budget in August 2008, to add additional FTEs and other resources in several programs, including Reliability Standards and Compliance Monitoring and Enforcement, but not to request an increase in its assessments to LSEs.

<sup>72</sup> Achieving a Working Capital reserve of \$2,500,000 at December 31, 2010 would require an incremental assessment of almost \$3,000,000 for 2010.

handle short-term cash flow shortfalls that may occur due to timing differences between incurrence of expenses and receipt of assessments and other revenues.<sup>73</sup>

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

### **A. Consistency Among Regional Entity Budgets**

In developing the 2010 Regional Entity Business Plans and Budgets, NERC and the Regional Entities worked to build on the substantial efforts they devoted to achieving consistency of format and presentation of information in the 2008 and 2009 Business Plans and Budgets. NERC and the Regional Entities believe even greater consistency has been achieved in the 2010 Business Plans and Budgets that are being submitted with this filing (**Attachments 3 through 10**), as a result of (i) the changes in accounting methodology that have been developed collaboratively, and agreed to, among NERC and the Regional Entities; (ii) the set of common 2010 budget assumptions that have been developed collaboratively and used by each Regional Entity; and (iii) a common definition of administrative (indirect) costs. NERC believes that achieving and maintaining consistency among the Regional Entity business plans and budgets is an ongoing process, and that although significant improvements have been realized in the consistency of the Regional Entity business plans and budgets since the initial, 2007 budget submissions, the degree of consistency in presentation and format will continue to improve over time.

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 Total Regional

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<sup>73</sup> See Table 5 in Section B of **Attachment 2**.

Entity Resources for 2010, including statutory and non-statutory FTEs and expenses, the proposed ERO (statutory) funding assessment to recover the Regional Entity's statutory costs and the assessments or charges to members and others to recover other costs; and the Regional Entity NEL, allocated if applicable between the U.S., Canadian provinces and Mexico. The Introduction section also provides general information on the Regional Entity, including its membership and governance, as well as its 2010 goals and key objectives and an overview of 2010 cost impacts.

The Regional Entity Business Plans next contain separate sections on each statutory program and administrative department or function of the Regional Entity. These sections are presented in similar format to the NERC Business Plan (Section A of **Attachment 2**), including (i) a table for each statutory program showing total FTEs, total direct expenses, total indirect expenses, increase or decrease in fixed assets, and total expenses and fixed assets, and (ii) a Statement of Activities for the program showing funding, expenses and capital expenditures by major line item categories. Information is presented in each of the Statements of Activities for the 2009 Budget, the 2009 Projection and the 2010 Budget. The text of these sections for each statutory program includes discussion of the key assumptions, goals and key deliverables, and reasons for increases or decreases in costs, for the program in 2010.

Section B of each Regional Entity Business Plan and Budget presents the Regional Entity's detailed 2010 Budget. Section B contains a Statement of Activities (Table 1), by major funding and expense categories, for all the Regional Entity's statutory programs and costs, with information presented for the 2009 Budget, the 2009 Projection and the 2010 Budget. Table 2 shows the Regional Entity's FTEs by statutory

program and for Administrative Services, for the 2009 Budget, the 2009 Projection and the 2010 Budget. Tables 3 and 4 are the Regional Entity's organization charts for 2009 and 2010. Table 5 provides the calculation of the increment or decrement to the assessment in 2010 to achieve the Regional Entity's target Working Capital Reserve at December 31, 2010, and the resulting total net assessment requested by the Regional Entity.<sup>74</sup> Subsequent tables (B-1 through B-8) in Section B provide more detailed information on funding and expenses for the major expense categories, comparable to the detailed tables in Section B of the NERC 2010 Business Plan and Budget.

Section C of each Regional Entity Business Plan and Budget provides (where applicable) information on the Regional Entity's non-statutory activities for 2010, including program descriptions and objectives, budget information, FTEs and organization charts.<sup>75</sup>

Finally, Section D of the Regional Entity Business Plans and Budgets provides: (1) a 2010 Consolidated Statement of Activities showing the Regional Entity's 2010 budgeted line-item funding sources, expenses, and fixed asset activity, in total, by statutory and (if applicable) non-statutory, and by statutory program and administrative department, as well as the direct expenses and indirect expenses (overheads) for each statutory program; and (2) with the exception of FRCC, a combined (statutory and, where

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<sup>74</sup> SPP RE has determined that it does not need to maintain a working capital reserve.

<sup>75</sup> MRO, ReliabilityFirst and SERC do not plan to have, and have not budgeted for, any non-statutory activities in 2010. As explained in its Business Plan and Budget, SPP RE is unable to provide a non-statutory budget for 2010 because its planning and budgeting cycle does not result in finalization and Board approval of the overall SPP budget until October. SPP has included its overall 2009 budget for information.

applicable, non-statutory) Statement of Financial Position, showing 2008 audited, 2009 Projection, and 2010 budgeted information.

**B. Discussion of Individual Regional Entity Business Plans and Budgets**

This section discusses highlights of the individual Regional Entity Business Plans and Budgets.

**1. FRCC**

FRCC's total statutory budget for 2010 is \$5,421,187, an increase of \$1,443,319 from its 2009 Budget; \$1,041,334 of this increase is in Personnel Expense. FRCC plans total staffing for statutory and administrative programs of 22.67 FTEs, an increase of 4.33 FTEs over its 2009 Budget. FRCC is budgeting increased resources for its CMEP for 2010, by adding 3.31 FTEs in this program over its 2009 Budget. FRCC has not budgeted additional resources specifically for processing TFEs, but rather plans to draw on its Working Capital Reserve if needed to support this activity during 2010. FRCC's 2010 Budget also reflects an increase of 0.54 FTE in Reliability Assessment and Performance Analysis. FRCC is budgeting lower Operating Expenses in 2010 than for 2009 for Consultants & Contracts, Office Costs and Professional Services, but is budgeting increased costs for Office Rent due to moving the FRCC offices to larger space to accommodate the growth in staffing FRCC has experienced.

FRCC's desired Working Capital Reserve is \$542,119, based on 10% of budgeted annual statutory expenses. FRCC currently projects a Working Capital Reserve of \$892,708; therefore, FRCC's requested 2010 assessment amount is reduced by \$350,589 due to the Working Capital Reserve being in excess of the target level. As noted, FRCC's Working Capital Reserve may be impacted by the need to draw on it to support the function of processing TFEs during 2010.

FRCC's 2010 Budget for non-statutory activities is \$4,205,049.

## 2. MRO

MRO's total statutory budget for 2010 is \$7,366,117, an increase of \$960,393 over its 2009 Budget.<sup>76</sup> MRO plans total staffing for statutory and administrative programs of 29.0 FTEs, an increase of 2.5 FTEs over its 2009 Budget. MRO is budgeting increased resources for its CMEP and Organization Registration and Certification Program for 2010, with a plan to increase FTEs in this program by 3.60 FTEs over the 2009 Budget. MRO plans to use consultants and contractors, as needed, to process TFEs during 2010, and has budgeted Consultants & Contracts expense of \$647,500 in its CMEP, which is an increase of \$501,900 over its 2009 Budget for this program; \$480,000 of the budgeted expense for Consultants & Contracts is specified for processing TFEs.<sup>77</sup> MRO is also budgeting increases of 1.65 FTEs for its Reliability Assessment and Performance Analysis Program, and 1.00 FTE for Situation Awareness and Infrastructure Security, over the 2009 Budget. In addition to increases in Personnel Expense, MRO is also budgeting a significant increase in Travel Expense (\$224,075) over the 2009 Budget.

MRO has identified a desired Working Capital Reserve of 45 days' expenses, but has targeted funding to only one-third of that level for 2010, resulting in an interim target

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<sup>76</sup> The comparisons in this section to MRO's 2009 Budget do not incorporate the \$1,120,000 of additional funding requested for 2009 in MRO's supplemental budget and funding request filed with FERC on August 6, 2009. *Request of the North American Electric Reliability Corporation for Approval of Supplemental 2009 Budget and Funding Request for the Midwest Reliability Organization*, which FERC approved on October 2, 2009. The supplemental budget and funding request was to obtain funding for a one-time cost MRO is incurring in 2009 in connection with termination of its multiple-employer, defined benefit pension plan, which is being replaced with a defined contribution plan.

<sup>77</sup> See Table B-4 on page 71 of **Attachment 4**.



Working Capital Reserve of \$286,972. MRO currently projects a Working Capital Reserve of \$74,344 at December 31, 2009, necessitating an increment of \$212,628 in its 2010 assessments to reach the interim Working Capital Reserve. MRO plans no non-statutory activities in 2010 and therefore has no 2010 Budget for non-statutory activities.

### 3. NPCC

NPCC's statutory budget for 2010 is \$11,354,085, an increase of \$1,345,200 over its 2009 Budget. NPCC plans total staffing for statutory and administrative programs of 27.41 FTEs, an increase of 4.01 FTEs over its 2009 Budget.<sup>78</sup> NPCC's 2010 Budget for CMEP and Organization Registration and Certification reflects a staffing increase of 4.0 FTEs over the 2009 Budget,<sup>79</sup> as well as a substantial increase (from \$404,604 to \$1,207,000) in Consultant & Contract resources for this program, primarily to assist in compliance violation investigations and compliance audits. NPCC is budgeting increased resources for Compliance and Organization Registration due to expansion of the compliance audit program to begin auditing compliance with CIP standards, full implementation of NPCC's Memoranda of Understanding concerning compliance activities in Canadian provinces, increased maintenance of compliance-related documents and data, and increased monitoring and maintenance of the NPCC Compliance Registry. NPCC has not budgeted specific resources for processing TFEs, but rather presently

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<sup>78</sup> NPCC's 2009 Business Plan and Budget showed 27.2 FTEs budgeted for 2009. However, in its 2009 and earlier years' business plans and budgets, NPCC counted certain contract resources as FTEs. For the 2010 Business Plan and Budget, NPCC (consistent with the other Regional Entities) is including only NPCC employees in its FTE count. For presentation purposes in the 2010 Business Plan and Budget, 2009 FTE information has been revised accordingly, with the result that the 2010 Business Plan and Budget shows 23.4 FTEs as having been budgeted for 2009. (*See, e.g.*, Table 5 in Section B.)

<sup>79</sup> One of these positions has already been added during 2009.

expects to draw on its Working Capital Reserve if needed during 2010 to fund this activity. However, if necessary based on the costs being incurred to process TFEs, NPCC may file a supplemental budget and funding request during 2010 to obtain additional resources for processing TFEs.

NPCC is also budgeting an additional FTE for the Reliability Assessment and Performance Analysis Program over the 2009 Budget. Increases in Personnel Expense, Travel Expense and Consultants & Contracts are the primary areas of increase in NPCC's 2010 statutory budget. These increases are partially offset by decreases totaling \$870,158 in the 2010 Budget for capital expenditures for Furniture & Fixtures, Equipment, and Leasehold Improvements, reflecting the fact that NPCC is incurring significant one-time Capital Expenditures in 2009 due to relocating its office.

NPCC's target Working Capital Reserve at December 31, 2010 is \$2,270,817 (based on 20% of its total Regional Entity budget). NPCC currently projects a Working Capital Reserve of \$2,124,463 at December 31, 2009; therefore, an increment to the 2010 assessments of \$146,354 is needed to reach the target Working Capital Reserve. As noted, NPCC's Working Capital Reserve may be impacted by the need to draw on it to support the function of processing TFEs during 2010. NPCC's total non-statutory (Criteria Services Division) budget for 2010 is \$1,099,308.

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 (55%) of NPCC's statutory costs for the Compliance and Organization Registration Program is allocated between the U.S.

and Canadian Balancing Authority Areas on the basis of NEL and a portion (45%) of these costs is allocated between the U.S. and the Canadian provinces using an audit-based methodology. Table 6 on page 78 of NPCC's Business Plan and Budget (**Attachment 5**) shows the development of the 2010 assessments by Balancing Authority Area within NPCC to recover NPCC's statutory funding requirement.

#### **4. ReliabilityFirst**

ReliabilityFirst has a total statutory budget for 2010 of \$14,184,713, an increase of \$2,750,512 over its 2009 Budget. However, ReliabilityFirst's requested assessments, which were significantly reduced in its 2009 Budget due to a significant balance in its Working Capital Reserve in excess of the target level, are increasing from \$8,833,834 in 2009 to \$14,345,192 for 2010. ReliabilityFirst's required assessments are reduced by \$180,000 of penalties collected from registered entities and \$40,000 of budgeted Interest income.

ReliabilityFirst plans total staffing for statutory and administrative programs of 58 FTEs, an increase of 14 FTEs over its 2009 Budget. ReliabilityFirst is budgeting 36.5 FTEs for its CMEP and Organization Registration and Certification Program, an increase of 13.5 FTEs over the 2009 Budget for this program, as well as an increase in budgeted expense for Consultants & Contracts expense for this program from \$120,000 to \$354,706. Four of the additional FTEs budgeted in the CMEP are being added to support processing of TFEs, while two of the additional FTEs are being added to support auditing of compliance with CIP standards. The additional Contract resources for Compliance are needed to supplement staff resources in the areas of spot checks, compliance audits, investigations and CIP activities. ReliabilityFirst is also budgeting an increase of \$739,576 of direct expense and an increase of 3 FTEs (two of which are being re-

allocated from other programs) for the Reliability Assessment and Performance Analysis Program.

ReliabilityFirst's target Working Capital Reserve is \$1,418,471, representing approximately 10% of the 2010 assessment for expenses and capital expenditures. ReliabilityFirst currently projects a Working Capital Reserve at December 31, 2009 of \$1,037,992. Therefore, ReliabilityFirst's requested assessment amount for 2010 reflects an increment of \$380,479 to reach the desired Working Capital Reserve. ReliabilityFirst plans no non-statutory activities in 2010 and therefore has no 2010 Budget for non-statutory activities.

## **5. SERC**

SERC's total statutory budget for 2010 is \$10,701,683, an increase of \$606,137 over its 2009 Budget. SERC plans total staffing for statutory and administrative programs of 45.5 FTEs, an increase of 2.5 FTEs over its 2009 Budget. SERC's most significant budget increase over its 2009 Budget is in the Situation Awareness and Infrastructure Security Program, in which SERC is budgeting an increase of 1.80 FTEs and \$414,281 of direct expense over the 2009 Budget. SERC is also budgeting increased expenses in Administrative Services of \$887,812 over its 2009 Budget. However, of this amount, \$329,803 is due to recording the budgeted expenses for Office Rent, Office Costs and Professional Services under General and Administrative rather than recording these expenses under the individual statutory programs. Further, \$730,429 of SERC's budgeted Administrative Services expense is for Technical Committees and Member Forums.

SERC has not budgeted additional resources in its 2010 Business Plan and Budget specifically for processing TFEs. SERC anticipates performing this activity with existing

staff and drawing on its Working Capital Reserve if additional funds are needed for this activity. However, as the resource requirements for processing TFE become clearer during 2010, it is possible that SERC may need to submit a supplemental budget and funding request for additional resources for this activity.

SERC's target Working Capital Reserve at December 31, 2010 is \$1,009,555, based on a target of up to 10% of budgeted annual statutory operating costs. SERC currently projects a Working Capital Reserve at December 31, 2009 of \$1,587,555, which includes \$578,000 of penalty sanction payments received prior to June 30, 2009. SERC's required assessments for 2010 are reduced by the \$578,000 of penalties collected from registered entities, \$272,406 of budgeted Workshop fees, and \$20,000 of budgeted Interest income.

SERC plans no non-statutory activities in 2010 and therefore has no 2010 Budget for non-statutory activities.

## **6. SPP RE**

SPP RE's total 2010 statutory budget is \$8,138,783, an increase of \$1,657,747 over its 2009 Budget. SPP RE plans total staffing for statutory and administrative programs of 24.3 FTEs, an increase of 7.1 FTEs over its 2009 Budget. SPP RE is budgeting increased resources for its CMEP and Organization Registration and Certification Program for 2010, with a plan to increase FTEs in this program by 6 (from 8 to 14) over the 2009 Budget and a budgeted increase in direct expenses of \$3,772,644 (156%) for this program over its 2009 Budget. In addition to the FTE increase, SPP RE is budgeting an increase of \$765,000 for Consultants & Contracts (from \$330,000 to \$1,095,000) and \$131,000 for Travel Expense for the Compliance program. The substantial increase in budgeted Consultants & Contracts expense is primarily due to SPP

RE's plan to use consultants and contractors to review and process TFEs during 2010. SPP RE is also budgeting an increase in direct expenses of \$99,550, including 0.5 additional FTE, for the Reliability Standards program; and an increase of \$90,642, including 0.6 additional FTE, in the Reliability Assessment and Performance Analysis Program, over the 2009 Budget. SPP RE is budgeting a decrease in direct expenses from the 2009 Budget in the Training, Education and Personnel Certification Program, and an increase of only \$5,480 in direct expenses over the 2009 Budget in the Situation Awareness and Infrastructure Security Program.

With respect to Administrative Services, SPP RE is budgeting an increase in total expenses and capital expenditures of \$233,961. However, SPP RE has reduced the hourly indirect expense allocation rate for support services performed by SPP, Inc. to \$64.49 per hour of direct statutory program activity.<sup>80</sup> In previous years' budgets and actual results, the indirect expense allocation rate has been in the range of \$100 to \$110 per hour of direct statutory program activity. The calculation of the indirect expense rate used in the 2010 Budget is shown in Section E on page 57 of **Attachment 8**. The calculation follows the procedure and format detailed in Attachment 7 to the *2008 Budget True-up Filing*, which FERC accepted in its June 29, 2009 Order.<sup>81</sup>

As noted earlier, SPP RE has determined it does not need to establish or budget for a Working Capital Reserve, because it has access to operating cash balances and bank

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<sup>80</sup> The hourly indirect expense rate used in the 2010 Budget is the estimated rate for 2010. As the year progresses and better estimates can be made, this rate may be adjusted. At the end of the year, an actual indirect charge rate is calculated and used to finalize SPP RE's actual expenses for the year.

<sup>81</sup> *Order Conditionally Accepting Compliance Filings*, 127 FERC ¶61,307 (2009) (*June 29, 2009 True-Up Order*), at PP 15-22.

lines of credit for short-term funding needs. However, as shown in Table 5 on page 44 of **Attachment 8**, SPP RE projects it will have a Working Capital Reserve of \$1,382,928 at December 31, 2009. Accordingly, SPP RE has reduced its requested 2010 assessment amount by \$1,382,928.

As in prior years' filings, SPP RE is unable to provide a 2010 Budget for SPP, Inc.'s non-statutory activities because SPP, Inc.'s overall annual budget for 2010 will not be approved, in accordance with SPP, Inc.'s normal planning and budgeting cycle, until October 2009. SPP RE has included its 2009 budget for non-statutory activities (as previously filed with FERC in Docket No. RT04-1) in Section C of its Business Plan and Budget, for information.<sup>82</sup>

## **7. Texas RE**

Texas RE's total 2010 statutory budget is \$6,920,641, an increase of \$753,615 over its 2009 Budget. Texas RE plans total staffing for statutory and administrative programs of 34 FTEs, an increase of 7.05 FTEs over its 2009 Budget. Texas RE is budgeting increased resources for its CMEP and Organization Registration and Certification Program for 2010, with a plan to increase FTEs in this program by 7.59 FTE over the 2009 Budget, to 21.74 FTEs, and a budgeted increase in direct expenses of \$1,837,055 (113%) for this program over its 2009 Budget. Three of the FTEs being added in the Compliance Program are for the purpose of reviewing, processing and managing a database for TFEs. Texas RE is budgeting an increase of \$428,660 in Professional Services for the Compliance program due to the direct costing of external legal (for enforcement and registration appeals) and other professional service expenses

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<sup>82</sup> See pages 53-55 of **Attachment 8**.

directly attributed to hosting Texas RE's portal for the benefit of this program, as opposed to recording these costs in Legal and Regulatory and then allocating the costs among all five statutory programs on the basis of FTEs. Texas RE is also budgeting increases in direct expenses of \$152,320 for the Training, Education and Operator Certification Program and \$232,778 for the Situation Awareness and Infrastructure Security program (including an increase of 1.53 FTEs) over the 2009 Budget.

Texas RE's 2010 Budget for Administrative Services shows decreases of \$558,365 and 3.04 FTEs; however, these indicated decreases are largely due to assigning directly to the statutory programs certain costs previously budgeted in Administrative Services. Texas RE receives facilities, treasury, finance, human resources, legal and IT support from ERCOT, pursuant to a memorandum of understanding (MOU) between Texas RE and ERCOT that sets forth the details of the support and services provided by ERCOT and the rates or other bases by which Texas RE will be charged for associated expenses. A copy of the MOU and the exhibits thereto is included at the end of Texas RE's Business Plan and Budget, **Attachment 9**. Texas RE and ERCOT have amended the MOU effective February 16, 2009. In order that FERC may see the changes to the MOU from the version that was included with Texas RE's 2009 Business Plan and Budget, a redline of the revised MOU is also included in **Attachment 9**. Texas RE believes that, in general, the revised MOU provides greater specificity and discreteness in the rates and other bases at which Texas RE is charged for indirect services provided by ERCOT.

Most of the costs billed under the MOU are reflected in Texas RE's budgets under either Consultants & Contracts or Office Rent. The 2010 budgeted expense for



Consultants & Contracts has increased over the 2009 Budget by \$185,345, while the 2010 budgeted expense for Office Rent has decreased by \$189,950. From the 2009 Budget to the 2010 Budget, the net effect of the MOU costs is a decrease of approximately \$4,600. Notably, in February 2009, Texas RE relocated its offices to be physically separate from ERCOT ISO's location to a new building with a lower cost per rentable square foot than budgeted in Texas RE's 2009 Budget.

Texas RE's desired Working Capital Reserve at December 31, 2010 is \$1,370,718, representing an approximately 75- day cash reserve. Texas RE currently projects a Working Capital Reserve of \$855,000 at December 31, 2009. In addition, in accordance with its accounting procedures and GAAP, it expects to use unspent prior year funds (releasing revenue from its Long-Term Regulatory Liability account) of \$593,983 for unspent assessments; this effectively increases the Working Capital Reserve to \$1,448,983. Accordingly, Texas RE's requested 2010 assessment amount includes a decremental adjustment of \$(78,264) to achieve the desired Working Capital Reserve.

Texas RE's total non-statutory budget for 2010 is \$1,153,772, as shown on page 64 of **Attachment 9**.

## **8. WECC**

WECC's 2010 total statutory budget is \$39,508,558, an increase of \$1,816,790 over its 2009 Budget. WECC plans total staffing for statutory and administrative programs of 172.5 FTEs, an increase of 32.5 FTEs over its 2009 Budget. Of WECC's total budgeted FTEs, 60.3 FTEs are in the Situation Awareness and Infrastructure Security program, which includes WECC's reliability coordinator registered entity function. WECC is budgeting significantly increased resources for its CMEP and Organization Registration and Certification Program for 2010, with a plan to increase

FTEs in this program by 20 FTEs over the 2009 Budget (from 30 FTEs to 50 FTEs) and a budgeted increase in direct expenses of \$3,298,029 for this program over its 2009 Budget. WECC also has budgeted increases in Meetings and Travel Expense and a \$313,000 increase in Consultants & Contracts for the Compliance program. WECC is increasing resources for CMEP and Organization Registration in order to continue to process outstanding compliance violations, process new violations in a timely manner, address ongoing registration workload and issues, and handle the additional workload of auditing registered entities for compliance with CIP standards.

WECC has not budgeted additional resources in its 2010 Business Plan and Budget specifically for processing TFEs. WECC anticipates performing this activity with existing staff, and drawing on its Working Capital Reserve if additional funds are needed for this activity. However, as the resource requirements for processing TFE become clearer during 2010, it is possible that WECC may need to submit a supplemental budget and funding request for additional resources for this activity.

WECC is budgeting increases in direct expenses for the Reliability Assessment and Performance Analysis Program over the 2009 Budget, including the addition of two FTEs, primarily to address the higher penetrations of variable resources in the WECC region. WECC is also budgeting a reduction of \$375,568 for Consultants & Contracts over the 2009 budget for this program. WECC is budgeting steady or somewhat reduced levels of direct expenses for the other statutory programs. WECC expects to repay the balance of the borrowing incurred in 2008 (budgeted under the Situation Awareness and Infrastructure Security program) to fund the accelerated completion and operation of the

two new WECC-owned Reliability Coordination Centers in Vancouver, Washington and Fort Collins, Colorado, by March 1, 2010.

WECC is budgeting an increase of 7.2 FTEs in the Administrative Services functions over the 2009 Budget. The FTE increase includes the addition of four positions in Legal and Regulatory, largely to provide legal support for Compliance activities. FTE increases are also budgeted in Technical Committees and Member Forums, IT, Finance and Accounting. Some of these FTE increases are internal transfers from other program areas.

WECC's target Working Capital Reserve at December 10, 2009 is \$1,577,472, which represents approximately 45 days of expenses. WECC currently projects a Working Capital Reserve at December 31, 2009 of \$577,472; accordingly, WECC's requested 2010 assessment amount includes an increment of \$1,000,000 to reach the target Working Capital Reserve. As indicated above, WECC's Working Capital Reserve may be impacted by the need to draw on it to fund TFE processing activities during 2010. WECC's total non-statutory budget for 2010 is \$1,045,372.

WECC's allocation of its assessment to the AESO for the Province of Alberta has been reduced by \$289,238, representing WECC Compliance Monitoring and Enforcement Program costs that are duplicative of programs of the AESO. The AESO credit amount was allocated to the remainder of the LSEs (Balancing Authorities) in the WECC Region on the basis of NEL.<sup>83</sup> Appendix 1 to **Attachment 10** shows the calculation of the \$289,238 adjustment to the assessment to AESO.

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<sup>83</sup> See Table 6 on page 66, and Appendix 1 on page 85, of **Attachment 10**.

### C. Metrics Related to Regional Entity Budgets

In its 2008 and 2009 Business Plan and Budget filings, NERC included attachments providing metrics developed by NERC and the Regional Entities to be used as a further aid to understanding where and why differences exist among the Regional Entities' activities and budgets. In the *2008 Budget Order* and *2009 Budget Order*, FERC reviewed these attachments, noted that they were generally useful, indicated additional metrics that NERC and the Regional Entities should develop and present in the future, and encouraged NERC and the Regional Entities to continue the development, analysis and explanation of the metrics in future filings.<sup>84</sup> Among other comments, FERC stated in the *2009 Budget Order*:

The Commission appreciates NERC's improvements to the metrics pursuant to the 2008 Budget Order. While the metrics provide a valuable tool for benchmarking and comparing Regional Entity budgets, there are two specific matters that need further refinement. First, the metrics lack a uniform description regarding the types of audits which the Regional Entities perform. Specifically, it is not clear among the Regional Entities what constitutes a "large audit," "medium audit," "small audit," "tabletop audit," "offsite audit," or "other audit." It appears that these terms are used interchangeably among the Regional Entities and that the terms may mean different things to different entities. This lack of uniformity limits the usefulness of the data. The Commission, therefore, directs NERC to include in its compliance filing (1) standardized terminology regarding the different types of audits, and (2) revised audit-related metrics applying the standardized terminology.<sup>85</sup>

NERC provided the additional information on compliance audits requested in the *2009 Budget Order* in the *December 19, 2008 Budget Revision Filing*.<sup>86</sup> FERC found this information to be acceptable in the *July 16, 2009 Budget Compliance Order*.<sup>87</sup>

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<sup>84</sup> See, e.g., *2008 Budget Order* at PP 34-35; *2009 Budget Order* at PP 47-48.

<sup>85</sup> *2009 Budget Order* at P 47.

<sup>86</sup> *December 19, 2008 Budget Revision Filing* at 36-39 and Attachment 4.

<sup>87</sup> *July 16, 2009 Budget Compliance Order* at PP 29-31.

NERC and the Regional Entities have devoted considerable effort and discussion during the current business planning and budgeting cycle to developing appropriate metrics on Regional Entity operations for presentation and analysis. The completed calculation of the budget metrics and accompanying analysis and discussion is contained in Attachment 15.

In the *June 19, 2008 Budget Compliance Order*, FERC directed NERC to develop additional metrics on the Regional Entities' administrative costs, such as the data presented in Attachment A to that Order, to be presented in future annual budget-to-actual cost true up filings and in the annual Business Plan and Budget filings beginning with the filing for 2010.<sup>88</sup> In response, NERC developed a set of metrics on NERC's and the Regional Entities' administrative costs, which it provided in the *2008 Budget True-up Filing*. These metrics included:

- Statutory indirect expenses as a percent of total statutory expenses, and statutory direct expenses per dollar of statutory indirect expenses
- Statutory indirect FTEs as a percent of total statutory FTEs, and ratio of direct statutory FTEs to indirect statutory FTEs.
- Total statutory expenses per total FTE, statutory direct expenses per direct FTE, statutory indirect expenses per indirect FTE, and statutory indirect expenses per total FTE.<sup>89</sup>

In the *June 29, 2009 True-up Order*, FERC indicated the metrics on administrative costs provided in the *2008 Budget True-up Filing* were generally useful, although FERC expressed concern that metrics on FRCC's indirect costs were not included.<sup>90</sup>

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<sup>88</sup> *June 19, 2008 Budget Compliance Order* at P 39.

<sup>89</sup> See *2008 Budget True-up Filing* at 8-13 and Attachment 10.

<sup>90</sup> *June 29, 2009 True-up Order* at PP 10-14.

**Attachment 16** presents, for the 2010 NERC and Regional Entity budgets, the same metrics on administrative costs that were provided in the *2008 Budget True-up Filing* for 2008 actual costs. **Attachment 16** also provides comparable metrics on administrative costs based on the NERC and Regional Entity 2009 budgets, as well as discussion of the 2010 metrics including analysis of the changes in the administrative cost metrics from the 2009 budgets to the 2010 budgets. Reflecting the consensus reached among NERC and the Regional Entities on the definition of and methodology for determining administrative (indirect) costs, administrative cost metrics for FRCC are now included in **Attachment 16**.

**VI. NERC AND REGIONAL ENTITY AUDITED FINANCIAL STATEMENTS FOR 2008, AND ADDITIONAL RECONCILIATION OF 2008 BUDGETED VERSUS ACTUAL EXPENSES FOR TEXAS RE BASED ON ITS AUDITED 2008 FINANCIAL STATEMENTS**

Section 1105.1 of the NERC Rules of Procedure specifies that the annual Business Plan and Budget filing must include the previous year's audited financial statements for NERC and the Regional Entities. Therefore, the audited 2008 financial statements for NERC and the Regional Entities, including the report of each entity's independent auditor, are provided in **Attachment 17**.<sup>91</sup>

In the *2008 Budget Order*, FERC directed NERC to prepare and file, by April 1 of the following year, a reconciliation of each year's annual NERC and Regional Entity

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<sup>91</sup> In **Attachment 17**, NERC's 2008 audited financial statements are presented first, followed by the 2008 audited financial statements of the Regional Entities, in alphabetical order. The audited financial statements provided for SPP are the audited financial statements for Southwest Power Pool, Inc., since the SPP Regional Entity is not a separate corporate entity.

budgets against actual expenditures, beginning with a reconciliation for 2007.<sup>92</sup> NERC provided these reconciliations for 2007 in the *2007 Budget True-up Filing*, but noted that because, pursuant to the approved delegation agreements, the Regional Entities are not required to provide their audited financial statements for a calendar year to NERC until 150 days following the end of that year, the reconciliations presented in the *2007 Budget True-up Filing* were based on unaudited financial statements for all but one of the Regional Entities.<sup>93</sup> In the *June 19, 2008 Budget Compliance Order*, FERC directed that NERC's 2009 Business Plan and Budget Filing include an additional reconciliation(s), if necessary, showing any changes from the 2007 budget versus actual reconciliations provided in the *2007 Budget True-up Filing* based on the audited financial statements for 2007.<sup>94</sup> NERC has treated this directive as a continuing requirement for future annual business plan and budget filings.<sup>95</sup>

The reconciliations provided in the *2008 Budget True-up Filing* were in fact based on the 2008 audited financial statements for NERC and six of the Regional Entities (FRCC, MRO, NPCC, ReliabilityFirst, SERC and WECC), and were based on unaudited 2008 financials only for SPP RE and Texas RE. Further, the audited 2008 financial

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<sup>92</sup> *2008 Budget Order* at P 23 and ordering paragraph (G).

<sup>93</sup> *Additional Compliance Filing of the North American Electric Reliability Corporation in Response to October 18, 2007 Order*, filed April 1, 2008 in Docket No. RR07-16-003 (*2007 Budget True-up Filing*), at 17.

<sup>94</sup> *June 19, 2008 Budget Compliance Order* at P 40.

<sup>95</sup> However, in the *June 29, 2009 True-Up Order*, FERC granted NERC's request that the filing date for the annual budget-to-actual cost reconciliations be moved from April 1 to May 30 so that the reconciliation could be based on NERC's and the Regional Entities' audited financial statements, thereby obviating the need to include this information in the annual business plan and budget filings. *June 29, 2009 True-Up Order* at PP 23-24. This revised filing date will go into effect for the reconciliations of budgets to actual costs for 2009.

statements of SPP RE resulted in no changes to the unaudited financials that were used to prepare the reconciliation provided in the *2008 Budget True-up Filing*. Therefore, no further reconciliations are needed, or presented with this filing, for NERC, FRCC, MRO, NPCC, ReliabilityFirst, SERC, SPP RE or WECC. However, the audited 2008 financial statements of Texas RE did in fact result in some changes to its unaudited financial statements used to prepare the reconciliation for Texas RE that was provided in the *2008 Budget True-Up Filing*. Accordingly, **Attachment 18** provides a revised reconciliation of budgeted to actual costs for 2008 for Texas RE based on its audited 2008 financial statements. **Attachment 18** shows the 2008 actual funding and expenses per the *2008 Budget True-up Filing*; the 2008 actual funding and expenses per Texas RE's 2008 audit; the variances between the actual 2008 funding and expenses provided in the *2008 Budget True-up Filing* and in Texas RE's 2008 audit; and explanations of the causes of the variances. This information is provided for statutory funding and expenses, for non-statutory funding and expenses, and in total.

## **VII. UPDATE ON STATUS OF PROCESSING ALLEGED VIOLATIONS OF RELIABILITY STANDARDS**

In the *December 19, 2008 Budget Revision Filing*, NERC and the Regional Entities provided a report on the status of alleged violations of reliability standards that had not been processed to completion, and NERC's and the Regional Entities' plans for processing these alleged violations to completion.<sup>96</sup> In the *July 16, 2009 Budget Compliance Order*, FERC stated:

While we accept NERC's proposal to increase the FTEs that support the Compliance Monitoring and Enforcement Program, we remain concerned

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<sup>96</sup> *December 19, 2008 Budget Revision Filing* at 13-15 and Attachment 3.



regarding the continuing backlog in processing alleged violations. We therefore direct NERC to provide the Commission with a report on the status of the remaining unprocessed violations in its 2010 business plan and budget filing.<sup>97</sup>

In response to this directive, **Attachment 19** provides a status report on the progress achieved by NERC and the Regional Entities, since the fourth quarter of 2008, in reducing the backlog of alleged violations not yet processed to completion, as well the initiatives undertaken by NERC and the Regional Entities to process new allegations of violation in a more expeditious manner.

### **VIII. ENHANCEMENTS TO NERC'S DATA COLLECTION AND CHECKING PROCESSES FOR RELIABILITY ASSESSMENTS**

In the *July 16, 2009 Budget Compliance Order*, FERC stated:

With respect to the Reliability Assessment and Performance Analysis Program, the Commission accepts NERC's proposal to review and enhance its current data collections process by introducing additional independent, automated data checking systems. We will accept this proposal but will direct NERC to provide a status report on its progress in its 2010 business plan and budget filing.<sup>98</sup>

Although the above-quoted directive is the result of a series of filings and orders beginning with and relating to NERC's 2009 Business Plan and Budget filed in August 2008, in fact NERC has separately identified and implemented a number of actions to enhance data collection and verification for its reliability assessments. These initiatives are described in NERC's *2009 Summer Reliability Assessment*<sup>99</sup> as well as in its *Three-Year ERO Performance Assessment Report*. **Attachment 20** provides a discussion of steps NERC has already taken, and additional steps that have been identified for possible

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<sup>97</sup> *July 16, 2009 Budget Compliance Order* at P 18.

<sup>98</sup> *July 16, 2009 Budget Compliance Order* at P 20.

<sup>99</sup> *North American Electric Reliability Corporation, 2009 Summer Reliability Assessment*, issued May 2009, available at <http://www.nerc.com/files/summer2009.pdf>.

implementation, to enhance data collection and verification for NERC's reliability assessments.

## **IX. UPDATE ON RELIABILITY ENHANCEMENT PROGRAMS**

In the *2009 Budget Order*, FERC stated:

The Commission understands that many aspects of the implementation of the Energy Policy Act of 2005 are still in a state of evolution and that, because of this, the ability of NERC to make a meaningful enhancement filing may be somewhat compromised. Nonetheless, the Commission emphasizes that the development and promotion of "best practices" programs is an ongoing role of the ERO. Given NERC's and the Regional Entities' obligations to address the new enforcement activities, new cybersecurity Reliability Standards, and ongoing questions on the adequacy of resources, the Commission acknowledges that during 2008 NERC and the Regional Entities may still be in the transition phase of their development. Therefore, the Commission accepts NERC's 2008 enhancement filing and directs NERC to include in its 2010 Business Plan and Budget a further update of the enhancement programs. The information provided in the next business plan and budget must demonstrate more thoroughly developed reliability enhancement programs and sufficient funding to support such programs. The business plan and budget must also include a schedule or action plan that shows the staged development of the enhancement programs with specific, measurable timing and goals.<sup>100</sup>

FERC's reference to "NERC's 2008 enhancement filing" was to a compliance filing made by NERC on July 21, 2008 describing several reliability enhancement programs and activities that NERC had initiated or expanded during the preceding year directed to improving the reliability of the bulk power system.<sup>101</sup> The following reliability enhancement programs and activities were described in the *2008 Reliability Enhancement Programs Filing*:

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<sup>100</sup> *2009 Budget Order* at P 71 (footnote omitted).

<sup>101</sup> *Compliance Filing of the North American Electric Reliability Corporation in Response to FERC Order on Filing of Reliability Enhancement Programs*, filed July 21, 2008 in Docket No. RR07-14-000 (*2008 Reliability Enhancement Programs Filing*).

- Development of NERC's Five-Year Strategic Plan
- Critical Infrastructure Protection
- Continued Efforts to Enhance Reliability Metrics and Benchmarking Program
- Reliability Assessment Improvement Program
- Establishing New Reliability Databases for Availability Performance of Transmission Facilities and Demand Response Programs
- Development of Definition of Adequate Level of Reliability
- Development of a Reliability Concepts Document
- Development and Implementation of the NERC Alerts Program
- Improving Reliability Tools and Support Services

In addition to describing these specific programs and activities, NERC reported in the *2008 Reliability Enhancement Programs Filing* that it and the Regional Entities continued to expend a significant amount of effort on further improving the efficiency and effectiveness of the Reliability Standards Development, Compliance Monitoring and Enforcement, and Reliability Assessment and Performance Analysis programs, and that reports on these improvement activities had been and would continue to be the subject of other filings.<sup>102</sup>

NERC also stated in the *2008 Reliability Enhancement Programs Filing* that it was keenly aware of programs and activities of other organizations, such as the Nuclear Regulatory Commission (NRC), Institute of Nuclear Power Operations (INPO), and the Financial Industry Regulatory Authority<sup>103</sup> (FINRA), and was interested in incorporating some of the elements of these programs into NERC's programs as NERC sought to further improve its own reliability enhancement programs and activities. The programs and activities of these other organizations that were of particular interest to NERC

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<sup>102</sup> *2008 Reliability Enhancement Programs Filing* at 1.

<sup>103</sup> Formerly the National Association of Securities Dealers.

included the “Best Practices” program of INPO, the “Significance Determination Process” and “Action Matrix” that are part of the Reactor Oversight Process of the NRC, and the “Compliance Tools” program of FINRA.<sup>104</sup> NERC stated, however, that it believed it was not in a position, during the period of ERO start-up and transition (to mandatory and enforceable reliability standards), to propose the design and implementation of a full array of specific programs for NERC comparable to the specific programs of the nuclear power industry (*i.e.*, NRC and INPO) and other entities (*e.g.*, FINRA) as discussed in *Order No. 672*. Nonetheless, NERC indicated that some of the reliability enhancement programs and initiatives NERC is implementing take into account some features of these programs where possible, and that NERC will continue to be informed by these programs and strive to incorporate the most appropriate elements of them into its own reliability enhancement programs.<sup>105</sup> That is still the case today.

In its *Three-Year ERO Performance Assessment Report*, NERC provided a detailed discussion of how NERC continues to meet the criteria of 18 C.F.R. §39.3(b) for ERO certification, as well as detailed discussions of the principal activities, achievements and effectiveness of each of the NERC statutory programs in enhancing the reliability of the bulk power system.<sup>106</sup> The *Three-Year ERO Performance Assessment Report* also included summaries of comments and recommendations for improvement that were submitted by stakeholders and Regional Entities concerning each of the NERC program areas, NERC’s discussion of and responses to these comments and recommendations, and specific actions NERC is taking or plans to take in light of the comments and

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<sup>104</sup> *2008 Reliability Enhancement Programs Filing* at 1-2.

<sup>105</sup> *2008 Reliability Enhancement Programs Filing* at 2.

<sup>106</sup> *See Three-Year ERO Performance Assessment Report*, Overview and Attachment 1.

recommendations.<sup>107</sup> These actions involve all of NERC's statutory programs. Many of these actions, if implemented, would serve to enhance the reliability of the bulk power system.

Although many of the NERC actions identified in Attachment 2 of the *Three-Year ERO Performance Assessment Report* are capable of being achieved with NERC's existing staffing and resources, for many others of the NERC actions, specific resources have not yet been budgeted. As a result, either FERC or the other applicable governmental authorities in Canada or NERC's management and Board of Trustees may conclude that some of the NERC actions identified in the *Three-Year ERO Performance Assessment Report* should not be undertaken, and FERC or the other applicable Canadian governmental authorities or NERC's management and Board may determine that other actions not identified in the *Three-Year ERO Performance Assessment Report* should be undertaken. Nonetheless, NERC expects that many of the specific actions identified in the *Three-Year ERO Performance Assessment Report* will be implemented and will be reflected in the NERC and Regional Entity business plans and budgets in future years.

As NERC stated in the *Three-Year ERO Performance Assessment Report*, in the coming months, NERC will be developing the schedules, budgets and resource allocations, and the tracking mechanisms, that will be necessary to implement these actions and to monitor results, subject to the decisions and other responses of the applicable governmental authorities.<sup>108</sup> It is these schedules, budgets and resource allocations that will ultimately provide the basis for staged development of the reliability

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<sup>107</sup> See *Three-Year ERO Performance Assessment Report*, Attachment 2.

<sup>108</sup> See Appendix A to the Overview section of the *Three-Year ERO Performance Assessment Report*, at 1.

enhancement programs activities embodied in the *Three-Year ERO Performance Assessment Report*, with specific, measurable timing and goals.

Respectfully submitted,

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## Attachments 1 – 20

(Available on the NERC Website at

<http://www.nerc.com/fileUploads/File/Filings/2010-BPB-Attachments.pdf>)