

November 4, 2013

**VIA ELECTRONIC FILING**

Ms. Erica Hamilton, Commission Secretary  
British Columbia Utilities Commission  
Box 250, 900 Howe Street  
Sixth Floor  
Vancouver, B.C.  
V6Z 2N3

Re: *North American Electric Reliability Corporation*

Dear Ms. Hamilton:

The North American Electric Reliability Corporation (“NERC”) hereby submits Notice of Filing of the North American Electric Reliability Corporation of its 2014 Business Plan and Budget and the 2014 Business Plans and Budgets of Regional Entities and of Proposed Assessments to Fund Budgets. NERC requests, to the extent necessary, a waiver of any applicable filing requirements with respect to this filing.

Should you have any questions, do not hesitate to contact the undersigned.

Respectfully submitted,

/S. Rebecca J. Michael

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**BEFORE THE  
BRITISH COLUMBIA UTILITIES COMMISSION  
OF THE PROVINCE OF BRITISH COLUMBIA**

**NORTH AMERICAN ELECTRIC )  
RELIABILITY CORPORATION )**

**NOTICE OF FILING OF THE  
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION  
OF ITS 2014 BUSINESS PLAN AND BUDGET AND  
THE 2014 BUSINESS PLANS AND BUDGETS OF REGIONAL ENTITIES  
AND OF PROPOSED ASSESSMENTS TO FUND BUDGETS**

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November 4, 2013

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## ATTACHMENTS

**Attachment 1:** Summary tables showing NERC’s proposed 2014 budget; the proposed 2014 budget for statutory activities of each Regional Entity; and the 2014 Canadian ERO statutory assessments of NERC and the Regional Entities.

**Attachment 2:** NERC’s Proposed 2014 Business Plan and Budget

**Attachment 3:** Western Electricity Coordinating Council Proposed 2014 Business Plan and Budget

**Attachment 4:** RCCo Proposed 2014 Business Plan and Budget

**Attachment 5:** Western Interconnection Regional Advisory Body Proposed 2014 Business Plan and Budget

**Attachment 6:** Discussion of Comments Received During Development of NERC’s 2014 Business Plan and Budget.

**Attachment 7:** Calculation of Adjustments to the AESO 2014 NERC Assessment, the IESO 2014 NERC Assessment, the New Brunswick 2014 Assessment and the Québec 2014 NERC Assessment.

**Attachment 8:** Status Report on the Achievement of NERC’s 2013 Goals

**Attachment 9:** Metrics Comparing Regional Entity Operations Based on the 2014 Budgets

**Attachment 10:** Metrics on NERC and Regional Entity Administrative (Indirect) Costs Based on the 2013 and 2014 Budgets

## I. INTRODUCTION

The North American Electric Reliability Corporation (NERC) hereby submits:

- (1) NERC's proposed Business Plan and Budget as the electric reliability organization (ERO), for the year ending December 31, 2014;
- (2) the proposed Business Plans and Budgets for the year ending December 31, 2014, for 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, 2014;
- (4) the proposed Business Plan and Budget for the year ending December 31, 2014, for the Reliability Coordination Company ("RCCo"), which is proposed to take over the Reliability Coordinator and Interchange Authority reliability functions in the Western Interconnection from WECC effective January 1, 2014;<sup>1</sup> and
- (5) NERC's proposed allocation of the proposed ERO statutory assessment of NERC, the Regional Entity, RCCo and WIRAB by country and among the Regional footprints, and the proposed assessments to the load-serving entities (LSE) within each Region to collect the allocated statutory funding requirements.

This filing includes the following attachments:

**Attachment 1** is a set of summary tables showing (i) NERC's proposed 2014 budget by program, (ii) the proposed 2014 budget for statutory activities of each Regional Entity, and (iii) the aggregate ERO statutory assessment of NERC and the Regional Entities allocated to Canada.

**Attachment 2** contains NERC's detailed 2014 Business Plan and Budget and the allocation of assessments by Region and LSE to recover the resulting statutory funding requirements for 2014 (as well as the assessments to recover the statutory funding requirements of the Regional Entities, WIRAB and RCCo).

**Attachments 3 - 5** contain the detailed 2014 Business Plans and Budgets of, respectively, WECC, RCCo and WIRAB.

**Attachment 6** contains a discussion of how comments submitted by interested entities on posted drafts of NERC's 2014 Business Plan and Budget during the budgeting process were addressed in developing the final 2014 Business Plan and Budget.

**Attachment 7** contains the calculation of the adjustment to the Alberta Electric System Operator (AESO) 2014 NERC assessment, the adjustment to the Ontario Independent Electric System Operator (IESO) 2014 NERC assessment, the adjustment to the New

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<sup>1</sup> See *Western Electricity Coordinating Council, Order on Petition for Declaratory Order*, 143 FERC ¶ 61,239 (2013), and §V.B.1 below.

Brunswick 2014 NERC assessment, and the adjustment to the Québec 2014 NERC assessment, for credits for certain NERC Compliance Program and Event Analysis and Situation Awareness Program costs.<sup>2</sup>

**Attachment 8** is a status report on progress in achieving NERC's 2013 goals.

**Attachment 9** provides metrics, based on the 2014 budgets, comparing Regional Entity operations.

**Attachment 10** contains metrics, based on the 2013 and 2014 budgets, on NERC and Regional Entity administrative (indirect) costs.

NERC's 2014 fiscal year will begin January 1, 2014. The filing contains the entire annual budget of each Regional Entity for statutory and non-statutory activities and include supporting materials, including the ERO's and each Regional Entity's complete business plan and organization chart, and explanation of the proposed collection of all dues, fees and charges and the proposed expenditure of funds collected.

## **II. NOTICES AND COMMUNICATIONS**

Notices and communications concerning this filing may be addressed to:

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<sup>2</sup> NERC has been informed that the New Brunswick System Operator (NBSO) will cease operations on or about October 1, 2013, and that NBSO's functions will be taken over by the New Brunswick Energy and Utilities Board and New Brunswick Power Corporation (NBPC).

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

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

##### **1. Organization of NERC's 2014 Business Plan and Budget**

In this filing NERC provides notice of its 2014 Business Plan and Budget. NERC's 2014 Business Plan and Budget is organized based on its statutory program areas:

- Reliability Standards
- Compliance Monitoring and Enforcement and Organization Registration and Certification; this program is comprised of two departments:
  - Compliance Operations Department
  - Compliance Enforcement Department
- Reliability Assessment and Performance Analysis
- Reliability Risk Management; this program is comprised of two departments:
  - Situation Awareness Department
  - Event Analysis Department
- Critical Infrastructure Protection, which is comprised of:
  - Critical Infrastructure Department
  - Electricity Sector Information Sharing and Analysis Center (ES-ISAC)
- Training, Education, and Operator Certification

Each of these program areas carries out or supports implementation of one or more of the activities of the ERO. Exhibit B to the 2014 Business Plan and Budget (**Attachment 2**) describes how the major activities in the 2014 Business Plan and Budget meet the criteria for determining whether a reliability activity is eligible to be funded. More detailed explanations of the functions and activities performed by each of these programs is provided at pages 10-13 of **Attachment 2** as well as in the individual subsections of Section A of **Attachment 2** where the

detailed plans, objectives and activities for each program in 2014, and its 2014 budget, are discussed.

NERC's statutory, or "direct," programs are supported by its Administrative Services, or "indirect," programs: Technical Committees and Member Forums,<sup>3</sup> General and Administrative, Legal and Regulatory, Information Technology (IT), Human Resources (HR), and Finance and Accounting. The functions and activities of each Administrative Services program are described in the individual sections on each indirect program, and in Exhibit B, to **Attachment 2**.

In its 2014 Business Plan and Budget, NERC has continued to provide increased granularity in the presentation of its planned activities and budgeted expenditures.

- NERC has previously presented individual budgets and related descriptions of functions, goals and objectives, resource requirements, and sources of variances from the previous year's budget, for five statutory programs. In the 2013 Business Plan and Budget, NERC disaggregated its presentation to provide individual budgets and the related supporting information for a total of eight statutory programs or departments, as listed above. NERC is continuing this more granular presentation in its 2014 Business Plan and Budget with additional, separate business plan and budget information provided for the ES-ISAC.
- As was done in the 2013 Business Plan and Budget, in Section A of its 2014 Business Plan and Budget (**Attachment 2**), NERC has provided a more detailed discussion of each program's or department's 2014 goals and deliverables (objectives), as well as additional detail concerning the Consultants & Contracts expenses budgeted for the program or department. Several major initiatives driven by regulatory directives that will require contractor or consultant resources in 2014 are described at pages 18-19 of **Attachment 2**.
- Also as was done in the 2013 Business Plan and Budget, in Exhibit C of the 2014 Business Plan and Budget (**Attachment 2**), NERC has provided detailed information on the activities and projects within each of the statutory programs and functions and Administrative Services departments for which Consultants & Contracts expense is budgeted.
- The 2014 Business Plan and Budget provides detailed discussions of proposed software application development projects and other infrastructure projects planned

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<sup>3</sup> No activities are planned and no budget is requested for Technical Committees and Member Forums in 2014.



for 2014. These projects are described at pages 21-22 of **Attachment 2**; in the sections on the Compliance Operations Department, the Reliability Assessment and Performance Analysis program, the Event Analysis Department, and the ES-ISAC (pages 38, 58-59, 68, and 75-76, respectively); and in the section on the IT department's 2014 budget (pages 96-99 of **Attachment 2**).

- In Exhibit D of the 2014 Business Plan and Budget (**Attachment 2**), NERC has provided detailed information on its capital financing program through which NERC would finance the development cost of certain software applications and hardware and amortize the recovery of the principal and interest payments through its budgets and assessments over several years, rather than including the entire cost of the projects in the current year assessments.
- In Exhibit E of the 2014 Business Plan and Budget, NERC provides a discussion of its working capital and operating reserves requirements, in accordance with its Working Capital and Operating Reserve Policy that was adopted in 2012.
- In its General and Administrative budget, NERC has separately identified the amounts budgeted for Board of Trustees expenses (costs of quarterly Board, Board committee and Member Representatives Committee (MRC) meetings, Trustee Travel expenses, Trustee fees, and Trustee search fees. *See* page 87 of **Attachment 2**.<sup>4</sup>
- In its Information Technology budget, NERC has provided detailed descriptions of both the Operating Expenses (budgeted as Office Costs), such as Telephone, Internet, Computer Supplies, Computer hardware and software maintenance costs and service agreements, and, as noted earlier, the software development costs included in its planned capital financing program. This more detailed presentation is responsive to stakeholder comments that greater budget granularity should be provided with respect to IT projects included in NERC's budget.
- At page 87 and in Table B-9 of its 2014 Business Plan and Budget (**Attachment 2**), NERC has provided budgeted 2014 amounts for miscellaneous expenses, employee rewards and recognition expenses, community responsibility and employee engagement expenses, and year-end holiday expenses.<sup>5</sup>

NERC's 2013 Business Plan and Budget is in **Attachment 2** to this filing. The initial section of the document, About NERC, provides an overview of NERC's organization,

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<sup>4</sup> This presentation addresses agreed Recommendations 4 (with Board of Trustees meetings defined as a "major activity") and 30 in the Settlement Agreement for FERC's 2011 financial performance audit of NERC.

<sup>5</sup> This presentation addresses agreed Recommendations 22 from FERC's 2011 financial performance audit of NERC.

membership and governance, scope of responsibilities, delegated authorities to Regional Entities, and statutory and regulatory background and funding.

The Introduction and Executive Summary summarizes NERC's total resource requirements for 2014 including total full-time equivalent employees (FTEs) in statutory programs and administrative functions, statutory expenses, and required ERO funding assessments. It shows the distribution of the total net energy for load (NEL) among the U.S., Canada and Mexico to be used for allocating the ERO funding requirement among the three countries. It also highlights NERC's strategic goals and objectives for 2014, major ongoing activities, and 2014 key business planning assumptions.<sup>6</sup> Finally, it provides an overview of NERC's funding and resource requirements for 2014, analyzed based on the budgeted costs of ongoing operations and the budgeted costs for new or incremental initiatives and activities.

NERC's 2014 strategic goals and objectives to carry out its statutory mission, as identified in the Introduction and Executive Summary of the 2014 Business Plan and Budget, include:<sup>7</sup>

- Develop clear, reasonable and technically sound mandatory reliability standards in a timely and efficient manner.
- Be a strong enforcement authority that is independent, without conflict of interest, objective and fair.
- Promote a culture of compliance which is driven by a culture of reliability excellence addressing reliability risks across the industry, through working with industry to identify standards, procedures, practices and controls to address reliability risks.
- Identify the most significant risks to reliability – identify and prioritize reliability risks, facilitate effective solutions, and monitor results.

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<sup>6</sup> A detailed statement of the 2014-2016 Shared Business Plan and Budget Assumptions developed and used by NERC and the Regional Entities in developing their 2014 Business Plans and Budgets and 2015 and 2016 budget projections is provided in Exhibit A to **Attachment 2**.

<sup>7</sup> A complete statement of the 2014 strategic goals and objectives is found at pages 7-10 of **Attachment 2**.

- Be accountable for mitigating reliability risks, through working with industry stakeholders and experts to ensure the mitigation of known risks to reliability.
- Promote a culture of reliability excellence, by facilitating a learning environment throughout the industry through event causal analysis, communication of lessons learned, tracking of recommendations, and implementation of best practices.
- Improve transparency, quality and consistency of results; operate as a collaborative enterprise; and improve efficiencies and cost effectiveness.

The 2014 strategic goals and objectives were developed through NERC's business planning process involving NERC and Regional Entity senior management, the NERC Finance and Audit Committee and full Board, and stakeholder comments and input.

The Introduction and Executive Summary of the 2014 Business Plan and Budget also identifies the ongoing and new major activities planned for 2014 in each of NERC's principal strategic areas, including standards; compliance, registration and certification; and risks to reliability (*see* pages 10-13 of **Attachment 2**).

The Introduction and Executive Summary provides an overview of the resource requirements and other factors driving NERC's proposed 2014 Budget. NERC is proposing an overall 2014 increase of \$2,103,842 (3.9%) over the 2013 Budget. The proposed increases in NERC's budget for 2014 for incremental 2014 activities and initiatives, representing a \$2,904,440, or 5.4%, increase from the 2013 budget, is offset by decreases in the costs to maintain current operations, representing a \$800,600, or 1.2%, decrease from the 2013 budget. The Introduction and Executive Summary summarizes the principal additional activities and initiatives planned for 2014 and the associated resource needs and incremental funding requirements.

NERC's 2014 resource and funding requirements reflect a variety of steps that have been taken to control costs and increase the efficiency of NERC's operations, including but not limited to:

- Establishing a formal Working Capital and Operating Reserves Policy and controls.
- Implementing policies and controls regarding expenditures of funds approved for specific purposes on unbudgeted activities.
- Increasing the detail and granularity of variance reporting, both monthly for operational purposes and quarterly for review with the NERC Finance and Audit Committee (FAC), as well as in quarterly public postings and quarterly and annual filings.
- Retaining a consulting firm to conduct a comprehensive review of employee compensation and benefits and implementing revised policies governing compensation and benefits.
- Retaining a consulting firm to review Board compensation.
- Implementing an ongoing, top to bottom review of the entire organization to determine the particular skills and competencies required to perform the tasks of each position.
- Significantly reducing the employer-cost component of employee benefits.<sup>8</sup>
- Implementing average salary increases below per group averages.<sup>9</sup>
- Implementing a workforce management system to track employee time by major activity.
- Developing additional policies and controls governing employee travel expenses.
- Strengthening NERC's resource capabilities for Regional Entity oversight.
- Establishing a risk management and internal controls framework and hiring experienced personnel to implement it.

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<sup>8</sup> NERC has reduced the employer-cost component of health and medical benefits through such actions as increasing the employee share of premiums and increasing deductibles and co-pay. Nevertheless, overall health and medical Benefits Expense is increasing significantly based on increases in the overall premiums charged by third-party insurers in the run-up to implementation of the new health care legislation. NERC believes that many employers are seeing similar increases in premiums for 2014.

<sup>9</sup> Based on information from NERC's compensation consultants, the percentage salary increases built into the 2014 Business Plan and Budget are below average for industry peer group companies; however, overall, budgeted Salaries Expense for 2014 is higher than in the 2013 Budget, due in significant part to the addition of personnel, the addition of more senior staff during 2013 and the need to pay higher compensation to attract new employees to fill vacant positions.

- Eliminating funding of non-core activities.
- Improving coordination and decision-making with the Regional Entities.

The Introduction and Executive Summary provides tables showing (1) the 2013 Budget, 2013 Projection,<sup>10</sup> 2014 Budget, and variance from the 2013 Budget to the 2014 Budget, for each of the statutory programs and in total; and (2) the FTEs per the 2013 Budget, 2013 Projection and 2014 Budget, for each of the statutory programs and Administrative Services programs. The Introduction and Executive Summary presents NERC's overall Statement of Activities, Fixed Asset Expenditures and Changes in Working Capital (Statement of Activities), with information from the approved 2013 Budget, the 2013 Projection, and proposed 2014 Budget, reflecting the proposed overall increase of \$2,103,842, or 3.9%, over the 2013 Budget.

NERC's proposed statutory assessment to LSEs is \$51,401,382, which is \$3,797,226, or 8.0%, higher than the 2013 statutory assessments, and which takes into account (1) NERC's budgeted non-assessment Funding sources in 2013 and 2014 (which in the 2014 Budget consist of \$290,000 of Penalty payments, \$50,000 of revenues from Services & Software, \$1,620,000 of Testing Fees, \$354,000 in attendance fees for Workshops, and \$20,000 in Interest, and in the aggregate are \$2,314,500 lower than in the 2013 Budget), and (2) the proceeds from capital financing activities which, net of debt amortization, is \$993,990. The variability of NERC's non-assessment funding, particularly Penalty payments, from year to year continues to be a significant factor in the variability of NERC's annual statutory assessment amounts.<sup>11</sup> For example, although the proposed 2014 statutory assessment is 8.0% higher than the 2013

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<sup>10</sup> The 2013 Projections are NERC's (and the Regional Entities') June 2013 projections of 2013 financial results.

<sup>11</sup> The Penalty collections offset was \$2,512,500 in the 2013 Budget, but, as noted, is only \$290,000 in the 2014 Budget.

assessment, it is only \$740,110, or 1.5%, higher than the assessment approved in the 2012 Budget.

Finally, the Introduction and Executive Summary presents NERC's budget projections for 2015 and 2016 (*see* §III.F below for further discussion of the 2015-2016 budget projections).

Section A of **Attachment 2** is NERC's detailed 2014 Business Plan and Budget. Section A provides detailed program scope and functional descriptions, 2014 goals and deliverables, and explanations of increases in 2014 resource requirements by major component (*e.g.*, Personnel Expense, Consultants & Contracts Expense), for each of NERC's statutory programs (and departments for those statutory programs that are comprised of more than one department<sup>12</sup>) and Administrative Services functions. Section A includes a table at the start of the subsection on each statutory program or department and Administrative Services function showing total FTEs, total direct expenses, total indirect expenses,<sup>13</sup> other non-operating expenses, increase or decrease in Fixed Assets, and total budget for the statutory program (department) or Administrative Services function for the 2014 Budget, with the comparable data from NERC's 2013 Budget and the increase or decrease from the 2013 Budget. A detailed Statement of Activities is also provided for each statutory program or department and administrative department. The Statements of Activities show funding and expense information from the 2013 Budget, the 2013 Projection and the 2014 Budget, as well as variances from the 2013 Budget to the 2013 Projection and from the 2013 Budget to the 2014 Budget.

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<sup>12</sup> As noted earlier, the Compliance Monitoring and Enforcement and Organization Registration and Certification program is comprised of the Compliance Operations Department and the Compliance Enforcement Department, and the Reliability Risk Management program is comprised of the Situation Awareness Department and the Event Analysis and Investigation Department.

<sup>13</sup> Indirect expenses are the amount of Administrative Services expenditures that have been allocated to each of the statutory programs, on the basis of relative numbers of FTEs in each statutory program.

In the Statements of Activities for each program or department, Funding is shown from the ERO Assessments and from other anticipated sources (Penalty Sanctions, Testing Fees, fees from Services & Software, fees from Workshop attendance, and Interest income).<sup>14</sup> Expenses are shown by the major categories (and sub-categories) of Personnel Expenses (Salaries, Payroll Taxes, Benefits, Retirement Costs), Meeting Expenses (Meetings, Travel, Conference Calls), Operating Expenses (Consultants & Contracts, Office Rent, Office Costs, Professional Services, Miscellaneous, Depreciation), and Other Non-Operating Expenses.<sup>15</sup> Finally, the Statements of Activities show Fixed Assets activity, comprised of Depreciation (an equal and offsetting amount to the Depreciation included in Operating Expenses<sup>16</sup>), Computer & Software Capital Expenditures (CapEx), Furniture & Fixtures CapEx, Equipment CapEx, and Leasehold Improvements.

Section B of **Attachment 2** provides Supplemental Financial Information comprised of tables detailing the components of certain Funding and Expense categories and explanations of variances from the 2013 Budget, including analysis of the Working Capital and Operating Reserve balance<sup>17</sup> (Table B-1), Penalty Sanctions (Table B-2), Supplemental Funding (Table B-

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<sup>14</sup> Some of these other sources of Funding are anticipated only for certain of the statutory programs. For example, income from Testing Fees is budgeted only for the Training, Education, and Operator Certification Program. Additionally, the template for the Statements of Activities includes line items for funding from Membership Dues and Miscellaneous sources. NERC has no funding budgeted from either of these sources, but some of the Regional Entities have funding budgeted from these sources.

<sup>15</sup> In NERC's 2014 Budget, Other Non-Operating Expenses are budgeted only in General and Administrative, to cover (i) property tax obligations in Atlanta, Georgia on the value of property and equipment in NERC's Atlanta office and data center, and (ii) anticipated interest expense that will be incurred in 2014 based on NERC's plan to finance the development costs of certain software applications and other infrastructure improvements. See Table B-10 in **Attachment 2** and §IV.C below.

<sup>16</sup> As a result of this offset, the Funding amounts do not include funding for Depreciation.

<sup>17</sup> The format of Table B-1 provides more detailed information as was originally presented in the 2013 Business Plan and Budget based on NERC's Working Capital and Operating Reserve Policy adopted in 2012. See the discussion of the Working Capital and Operating Reserve in §IV.B below and in Exhibit E of **Attachment 2**.

3), Personnel Expenses (Table B-4), Office Rent (Table B-6), Office Costs (Table B-7), Professional Services (Table B-8), Miscellaneous Expenses (Table B-9), and Other Non-Operating Expenses (Table B-10). As was the case in NERC's 2013 Business Plan and Budget, Table B-5, Consultants & Contracts Expenses, which was provided the business plans and budgets for years prior to 2013, has been replaced with a more detailed analysis of Consultants & Contracts Expense in Exhibit C to **Attachment 2**.

Section C, Non-Statutory Activity, of **Attachment 2** is reserved for presentation of business plan and budget information on non-statutory activities. This section is empty for NERC, because NERC does not engage in non-statutory activities, but in the business plans and budgets of those Regional Entities that have non-statutory activities, it includes business plan and budget information on their non-statutory activities.

Section D, Supplemental Financial Statements, of **Attachment 2** provides NERC's actual and projected Statements of Financial Position at December 31, 2012, 2013, 2014, 2015 and 2016. The data at December 31, 2012 is actual data per the independent financial audit of 2012 results;<sup>18</sup> the data at December 31, 2013 is based on NERC's 2013 year-end Projection (as of June 30, 2013); the data at December 31, 2014 is based on the detailed 2014 Budget; and the data at December 31, 2015 and 2016 is based on the 2015 and 2016 budget projections included in **Attachment 2**. In addition, Section D provides NERC's 2014 Consolidated Statement of Activities, showing its 2014 budgeted line-item Funding sources, Expenses, and Fixed Asset activity, in total and by statutory program and Administrative Services function, as well as the direct expenses and indirect expenses for each statutory program.

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<sup>18</sup> The audited financial statements of NERC and each Regional Entity for 2012 were filed with FERC on May 30, 2013, in NERC's Report of Comparisons of Budgeted to Actual Costs for 2012 in Docket No. RR13-6-000 ("*2012 Budget True-Up Report*").



Exhibit A to **Attachment 2** contains the 2014-2016 Shared Business Planning and Budget Assumptions developed and used by NERC and the Regional Entities in preparing their 2014 Business Plans and Budgets.

Exhibit B to **Attachment 2** describes how the major activities included in the 2014 Business Plan and Budget for each of NERC's direct function programs and administrative services functions meet the NERC written criteria for eligibility funding.

Exhibit C to **Attachment 2** contains a detailed list of NERC's budgeted 2014 Consultants & Contracts expenses, by program area and by major activity or project, including the changes from the 2013 Budget.

Exhibit D to **Attachment 2** describes NERC's plan to finance certain enterprise software projects. Exhibit D includes a projected annual principal and interest repayment schedule for the borrowings required to finance these projects, based on projected interest rates and loan structure terms.

Exhibit E to **Attachment 2** provides the budgeted 2014 amounts in each of the categories of working capital and operating reserves pursuant to NERC's Working Capital and Operating Reserve Policy adopted in 2012. The policy provides for the separate budgeting and tracking of working capital and operating reserves.<sup>19</sup> Section IV.B below provides further discussion of the 2014 budgeted amounts for working capital and each category of operating reserves.

Appendix 1 to **Attachment 2** contains NERC's organization chart.

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, Regional Entity, RCCo and WIRAB

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<sup>19</sup> The Working Capital and Operating Reserve Policy also sets forth guidelines and authorities regarding access to Working Capital and Operating Reserve funds and approvals for personnel additions in excess of budgeted staffing.

statutory assessments, by allocation method, to each LSE and designee, for 2014.<sup>20</sup> Development of the assessments presented in the Appendices is discussed in more detail in §III.A.3 and III.D below.

The detailed information in the Introduction and Executive Summary and in Sections A and B and Exhibits A, B, C, D and E of **Attachment 2** demonstrates that the programs included in NERC's 2014 Business Plan and Budget are necessary and appropriate to carry out NERC's responsibilities as the ERO and that the specific resource requirements budgeted meet the objectives for affordability, sustainability and efficiency and effectiveness of the ERO's expenditures. The discussion in the text and exhibits of **Attachment 2**, as well as in this narrative, demonstrates how the activities and expenditures included in NERC's 2014 Business Plan and Budget lend themselves to accomplishment of NERC's statutory responsibilities and objectives as the ERO.

## **2. Development of the 2014 Business Plans and Budgets**

NERC prepared its 2014 Business Plan and Budget (and worked with the Regional Entities in the development of their business plans and budgets) through a rigorous process that provided ample opportunity for review and input by the NERC Board FAC as well as by stakeholders. During the development process, successive versions of the 2014 Business Plans and Budgets were discussed in meetings and conference calls of the FAC and of the full NERC Board, in each case with opportunities for stakeholders to make comments.<sup>21</sup> The following list

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<sup>20</sup> The NEL-based allocation factors are calculated using NEL data for 2012, which is the most current actual NEL data available as of August 2013. As has been the case in allocating the NERC and Regional Entity statutory assessments by country and by Regional footprint and calculating the assessments to LSEs or their designees for prior years' budgets, the allocation and calculation of assessments for the 2014 Budget is based on actual NEL data for the second preceding calendar year, 2012.

<sup>21</sup> During the process of developing NERC's Business Plans and Budget, comments were received from stakeholders on posted drafts of the Business Plan and Budget. **Attachment 6** discusses how concerns stated in stakeholder comments were addressed in NERC's final 2014 Business Plan and Budget.

highlights important steps in the preparation of the NERC and Regional Entity 2014 Business Plans and Budgets:

- During the August 2012 MRC meeting, NERC's Chief Financial and Administrative Officer made a presentation providing a recap of the 2012 business plan and budget process and the proposed schedule for development of the 2013 business plans and budgets. At this same meeting, the MRC created an informal working group comprised of representative of the MRC to provide input during the development of the 2013 business plans and budgets.
- During February and March 2013, the NERC program areas initially provided input to the NERC Finance and Accounting department on their business plans and budget requirements for 2014; and in April 2013 input was obtained from the Regional Entities' staffs on their 2014 business plan and budget requirements.
- During the fourth quarter of 2012 and early first quarter of 2013, the ERO Executive Management Group (ERO EMG), comprised of NERC and Regional Entity senior management, met to review strategic goals and objectives for 2014.
- On February 1, 2013, a conference call of the FAC was held, which included a review of the schedule for preparing the 2014 Business Plans and Budgets.
- On February 13, 2013, a draft of the ERO Enterprise 2013-2016 Strategic Plan was posted on the NERC website for a 28-day stakeholder comment period. Comments were received from a total of nine U.S. and Canadian entities or associations.
- Early in the first quarter of 2013, drafts of common business planning and budget assumptions for the 2014 Business Plans and Budgets were circulated for comment internally at NERC and among the Regional Entities.
- During February, March and April 2013, NERC and Regional Entity managements worked on developing the underlying assumptions and inputs into, and first drafts of, their 2014 Business Plans and Budgets.
- On April 11, 2013, NERC met with representatives of trade associations and the MRC Budget Input Group to provide a preliminary overview of its 2014 Business Plan and Budget.
- On April 12, 2013, a meeting of the FAC was held with NERC management to review personnel (staffing), contracts and consultants, and other inputs for the 2014 Business Plan and Budget.
- In mid-April 2013, the Regional Entities submitted preliminary drafts of their 2013 Business Plans and Budgets to NERC for review and feedback by the NERC program managers. These drafts were prepared using a common template that was essentially the same as the common template used for the 2011, 2012 and 2013

NERC and Regional Entity Business Plans and Budgets. NERC program managers reviewed the sections of the draft Regional Entity business plans and budgets relevant to the program manager's program area and, where necessary, provided feedback to their Regional Entity counterparts.

- On May 3, 2013, Draft #1 of the NERC 2013 Business Plan and Budget was posted on the NERC Website for stakeholder review and comment, and sent to the FAC. Notification of the posting (and of all subsequent postings) was sent by e-mail to a broad distribution list of interested persons and entities. One set of written stakeholder comments was received during this comment period.
- On May 3, 2013, a conference call and webinar providing an overview of the NERC 2014 Business Plan and Budget was conducted.
- Also on May 3, 2013, Draft #1 of each Regional Entity's 2014 Business Plan and Budget was posted on the NERC website for stakeholder comment.
- Each Regional Entity's draft 2014 Business Plan and Budget was also separately posted and available for comment on the Regional Entity's website as part of each Regional Entity's independent budget preparation, review and approval process. (*See §III.B below for further discussion of the stakeholder review opportunities provided by each Regional Entity for its 2014 Business Plan and Budget.*)
- On May 8, 2013, a meeting of the NERC FAC was held which included an update on the preparation of NERC's 2014 Business Plan and Budget as well as a review of the year-end 2012 audited financial statements for NERC and the Regional Entities.
- Also on May 8, 2013, a meeting of the NERC MRC was held, at which a presentation was made on the draft NERC 2014 Business Plan and Budget and discussion ensued.
- On May 15, 2013, representatives of NERC and of each of the Regional Entities met with Federal Energy Regulatory Commission (FERC) budget staff to provide an overview of Draft #1 of their respective 2014 Business Plans and Budgets.
- On May 20, 2013, a FAC conference call and Webinar was held to review the Regional Entities' draft 2014 Business Plans and Budgets. In this session, the Regional Entities made presentations concerning their 2014 Business Plans and Budgets to the NERC FAC.
- On June 4, 2013, NERC met with trade association representatives and the MRC Budget Input Group to discuss the draft 2014 Business Plan and Budget.
- Also on June 4, 2013, a conference call of the NERC FAC was held to enable the FAC to provide input to management on Draft #2 of NERC's 2014 Business Plan and Budget.

- On June 17, 2013, Draft #2 of NERC's 2014 Business Plan and Budget was posted on the NERC website for stakeholder comments, with comments requested by July 15, 2013. Five sets of written stakeholder comments were received during this comment period, two from U.S. organizations, one from a Canadian organization and two from individual commenters.
- At various dates from mid-June to mid-July 2013, the Boards or other governing bodies of the Regional Entities met to review and approve their respective proposed 2014 Business Plans and Budgets, and the approved Regional Entity Business Plans and Budgets were transmitted to NERC. The approved Regional Entity Business Plans and Budgets were posted on the NERC Website.
- On July 8, 2013, an additional meeting was held with trade associations to obtain comments on Draft #2 of NERC's 2014 Business Plan and Budget.
- On July 19, 2013, a FAC Webinar was held to discuss Draft #2 of the NERC 2014 Business Plan and Budget and the final Regional Entity 2014 Business Plans and Budgets that had been approved by their respective boards and submitted to NERC, including presentations to the FAC by the Regional Entities concerning their final 2014 Business Plans and Budgets.
- On August 7, 2013, the Final Draft of the NERC 2014 Business Plan and Budget, including the proposed assessments, was posted on the NERC Website and sent to the NERC MRC, FAC and Board of Trustees.
- At its August 12, 2013 meeting, the NERC FAC recommended NERC Board approval of the 2014 Business Plans and Budgets and associated statutory assessments for NERC, the Regional Entities and WIRAB. No review or action was taken regarding the RCCo Business Plan and Budget. The chair of the FAC explained that it is NERC's position that review of a Registered Entity business plan and budget would not be appropriate given NERC's role as the ERO and that NERC would simply pass the RCCo Business Plan and Budget to the applicable governmental authorities for review.
- The final 2014 Business Plans and Budgets of NERC and the Regional Entities were presented to the NERC MRC at its August 14, 2013 meeting.
- At its August 15, 2013 meeting, the NERC Board approved the 2014 Business Plans and Budgets and the proposed 2014 statutory assessments for NERC, the Regional Entities and WIRAB.

In summary, the processes followed by NERC and the Regional Entities to develop the proposed 2014 Business Plans and Budgets were thorough and comprehensive, involved significant input from NERC and Regional Entity management and financial and program area

staffs, as well as iterative review and comment by the NERC FAC, and provided numerous opportunities for stakeholder input and comment. NERC and the Regional Entities developed and used a set of shared business planning and budget assumptions (provided in Exhibit A to **Attachment 2**) and a common business plan and budget format. The process was open and inclusive at all steps.

### **3. Summary of NERC's Proposed 2014 Budget and Funding Requirement**

NERC's proposed 2014 total Funding requirement is \$53,735,382. This total encompasses U.S., Canadian and Mexican activities. The proposed 2014 Funding requirement represents an increase of \$1,482,726 (2.8%) as compared to the 2013 total Funding requirement of \$52,252,656. The 2014 Budget is comprised of \$55,605,313 of Expenses (including Depreciation) and a \$784,784 increase in Fixed Assets (Capital Expenditures of \$3,117,790 less Depreciation of \$2,333,006<sup>22</sup>). The 2014 Funding requirement reflects a negative provision for Working Capital and Operating Reserve funding of (\$1,660,724), whereas the 2013 Funding requirement included a negative provision for Working Capital and Operating Reserve Funding of (\$2,033,600); as well as (due to the capital financing plan) proceeds from financing activities of \$1,415,990 and amortization of debt principal of \$422,000.<sup>23</sup>

As in past years, a portion of NERC's 2014 Budget will be funded through Testing Fees charged to participants in certain NERC programs, including the Operator Certification Program and the Continuing Education Program (budgeted at \$1,620,000, a \$60,000 (3.6%) decrease from the 2013 Budget); by attendance fees for Workshops (budgeted at \$354,000, an \$82,000 (18.8%)

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<sup>22</sup> As noted earlier, an end result of this budget presentation is that Funding is not being requested for Depreciation expense.

<sup>23</sup> See §IV.B below and Table B-1 and Exhibit E in **Attachment 2**.

decrease from the 2013 Budget<sup>24</sup>); and by Interest earned on bank balances and short-term investments (budgeted at \$20,000, the same amount as in the 2013 Budget). NERC did not budget any revenue from Services & Software in its 2013 Budget, but is budgeting \$50,000 from this source in in 2014 Budget. Finally, the Funding sources in the 2014 Budget include \$290,000 of Penalty payments received by NERC from July 1, 2012 through June 30, 2013, which is a reduction from the \$2,512,000 of Penalty payments included in the 2013 Budget.<sup>25</sup>

These budgeted non-assessment sources of Funding are projected to be \$2,334,000 in total. Additionally, based on its plan to finance the costs of certain ERO enterprise software applications and infrastructure projects, NERC projects proceeds of \$1,415,990 in 2014 from financing activities, less \$422,000 for repayment of debt incurred in 2013. Application of these funding sources results in a 2014 net Funding requirement of \$51,401,382 to be funded by assessments to LSEs. Of this amount, \$46,708,699 is allocated to the U.S., \$4,554,567 is allocated to Canadian provinces (in the aggregate), and \$138,116 is allocated to Mexico. Based on the aggregate NEL of Canada for 2012 on which the allocation of assessments is based,<sup>26</sup> the proposed Canadian net funding requirement for NERC represents less than \$0.00001 per end user kilowatt-hour.

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<sup>24</sup> NERC strives to set Workshop fees to cover the costs of presenting the workshops, such as costs to rent meeting space and prepare printed materials. The number of Workshops planned, of course, also impacts the projected total Workshop fee revenues.

<sup>25</sup> Pursuant to the NERC policy, *Accounting, Financial Statement and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards*, Penalty payments received by NERC or a Regional Entity during the period from July 1 of the second year preceding the budget year through June 30 of the year preceding the budget year are used to offset assessments to LSEs in the U.S. for the budget year, unless an alternative treatment is approved by FERC.

<sup>26</sup> The NEL data for the U.S., Canada and Mexico, by Region and by LSE or designee, is provided in Appendix 2-A of **Attachment 2**.

NERC's 2014 Business Plan and Budget was developed and is organized based on its statutory programs and, where applicable, departments within each program (2013 budgeted amounts by program are shown for comparison<sup>27</sup>):

<b><u>Program</u></b>	<b><u>2014 Budget</u></b>	<b><u>2013 Budget</u></b>
Reliability Standards	\$10,167,369	\$ 9,775,088
<b><u>Compliance Monitoring and Enforcement</u></b>		
Compliance Operations	\$ 9,496,446	\$ 8,928,994
Compliance Enforcement	\$ 6,395,091	\$ 6,725,004
Reliability Assessment and Performance Analysis	\$ 8,350,598	\$ 7,762,436
<b><u>Reliability Risk Management</u></b>		
Situation Awareness	\$ 4,583,264	\$ 5,324,311
Event Analysis	\$ 4,048,371	\$ 3,738,430
<b><u>Critical Infrastructure Protection</u></b>		
Critical Infrastructure Department	\$ 5,668,027	\$ 5,299,502
ES-ISAC	\$ 3,943,457	\$ 3,160,725
Training, Education and Operator Certification	\$ 3,737,472	\$ 3,571,766
	<b><u>\$56,390,096</u></b>	<b><u>\$54,286,256</u></b>

The budgeted amounts for each program incorporate a total budget for Administrative Services of \$25,235,473 (an increase of \$1,858,618 (8.0%) from the 2013 Budget), which has been allocated to the budgets for the direct function programs in proportion to the numbers of FTEs budgeted for each direct function program.

The discussion in §IV below, as well as the detailed discussion of the individual programs (or of individual departments where the presentation is disaggregated to the department level within a program) in **Attachment 2**, demonstrates that each of NERC's programs is

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<sup>27</sup> The 2013 Budget amounts are based on the 2013 Business Plan and Budget Update that NERC filed on September 24, 2012. Numbers in the table do not include the negative provision for Working Capital and Operating Reserves. For 2014, NERC has broken the Critical Infrastructure budget into the Critical Infrastructure Department and ES-ISAC components and has similarly broken out the 2013 budget into these components for comparison purposes.



necessary and appropriate to the execution of NERC’s responsibilities as the ERO. Section A of **Attachment 2** describes the activities encompassed in each program or department (Background and Scope), the 2014 Goals and Deliverables (Objectives) for the Program, and the 2014 Resource Requirements for the program, including the principal causes of changes (increases or decreases) in the funding and expenditure categories for the program as compared to the 2014 Budget. A Statement of Activities, showing the line item components of the 2014 Budget (as well as, for comparison, the 2013 Budget and the 2013 Projection), is provided for each program or department. The functions of and resource requirements and budgets for each Administrative Services department are also provided and discussed in Section A of **Attachment 2**.

NERC proposes an allocation of its 2014 net funding requirement (statutory assessment) of \$51,401,382 to the Regional footprints as follows<sup>28</sup>:

•	FRCC	\$ 2,609,814
•	MRO	\$ 3,368,027 <sup>29</sup>
•	NPCC	\$ 6,293,948 <sup>30</sup>
•	Reliability <i>First</i>	\$10,668,630
•	SERC	\$12,047,164
•	SPP RE	\$ 2,574,391
•	TRE	\$ 3,841,797
•	WECC	\$ 9,997,611 <sup>31</sup>

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<sup>28</sup> As described in §III.D below, the aggregate NERC statutory assessment has been allocated to the Regional footprints on the basis of (i) 8-Region NEL and (ii) 8-Region NEL to allocate adjustments (credits) to certain Canadian entities for CMEP, Event Analysis and Investigations and Situation Awareness costs to the remaining LSEs. The detailed allocations of the NERC statutory assessment by allocation methodology are shown in Appendix 2 to **Attachment 2**.

<sup>29</sup> The total allocation to MRO consists of \$2,833,341 allocated to the U.S. and \$534,686 allocated to Canadian provinces.

<sup>30</sup> The total allocation to NPCC consists of \$3,440,461 allocated to the U.S. and \$2,853,487 allocated to Canadian provinces.

<sup>31</sup> The total allocation to WECC consists of \$8,693,102 allocated to the U.S., \$1,166,394 allocated to Canadian provinces and \$138,116 allocated to Mexico.

Appendix 2 to **Attachment 2** contains tables showing (i) the development of the NEL-based allocation factors used to allocate the NERC and Regional Entity statutory assessments by country and among the Regional footprints (Appendix 2-A), and (ii) the allocation of the NERC and Regional Entity statutory assessments by country and by Region (Appendices 2-B, 2-C and 2-D). Appendix 2 shows the allocation of the NERC and Regional Entity assessments to the individual LSEs or designees within the footprint of each Regional Entity. These allocations are discussed in greater detail in §III.D below.<sup>32</sup> NERC's only sources of funding for its planned programs and operations will be the assessments to users, owners, and operators of the bulk power system in the U.S. and equivalent collections from entities in Canada and Mexico, and the other sources listed as "Funding" on its Statements of Activities and described above and financing proceeds.<sup>33</sup>

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<sup>32</sup> NERC will calculate and bill the assessments to certain entities, referred to as "designees," based on NEL values that include the NEL for other LSEs served by the designee, or for which the designee is otherwise responsible for assessments. The calculation and billing of assessments to designees is not a departure from the principle that the ERO funding requirement should be recovered through assessments to LSEs based on NEL, but rather is a matter of administrative convenience and efficiency (*e.g.*, a generation and transmission (G&T) cooperative and its member distribution cooperatives may find it more efficient for the assessment to be calculated and billed to the G&T cooperative rather than to the individual distribution cooperatives). The lists of LSEs and designees for which assessments will be calculated and billed have been provided to NERC by the Regional Entities. NERC has had no involvement in developing the lists of LSEs or in arrangements between LSEs and designees pursuant to which a designee agrees to accept responsibility for an assessment that would otherwise be calculated for and billed to the LSE and the LSE agrees to be financially responsible to reimburse the designee for the assessment. 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. The assessments for the Texas RE region will be billed to the Electric Reliability Council of Texas (ERCOT), which will bill and collect assessments from the LSEs in ERCOT.

<sup>33</sup> NERC's 2014 Business Plan and Budget includes no non-statutory activities; therefore, NERC has not developed or presented specific accounting processes to separate the funding of its statutory and non-statutory activities.

## **B. Regional Entity Proposed 2014 Business Plans and Budgets**

This relevant Regional Entity Business Plan and Budget is contained in **Attachment 3**.<sup>34</sup>

The Regional Entity budgets for statutory activities that are to be funded through NERC are the budgets for the functions and activities relating to development of reliability standards; compliance monitoring and enforcement and organization registration and certification; training, education and operator certification; reliability assessment and performance analysis (including necessary data gathering activities); and situation awareness and infrastructure security, that have been delegated by NERC to the Regional Entity pursuant to the delegation agreements; as well as each Regional Entity's budgeted costs for administrative services. Funding the Regional Entities in accordance with their proposed Business Plans and Budgets will enable them to carry out the activities necessary in 2014 to meet their responsibilities under the approved delegation agreements.

As described above in §III.A.2, NERC staff provided guidance to the Regional Entities in the development of their business plan and budget submissions, and worked collaboratively with the Regional Entities to develop a set of shared business planning and budget assumptions for the Regional Entities' 2014 Business Plans and Budgets. Further, the Regional Entities prepared their 2014 Business Plans and Budgets using a format that is essentially the same as the format used to prepare the 2011, 2012 and 2013 Business Plans and Budgets.<sup>35</sup> The use of the

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<sup>34</sup> Additionally, **Attachment 4** is the 2014 Business Plan and Budget for the RCCo, which has been developed and presented in the same format as the Regional Entity Business Plans and Budgets.

<sup>35</sup> NERC and the Regional Entities originally developed a common format to use in preparing the 2008 Business Plans and Budgets, and the format evolved through the development of the 2009, 2010 and 2011 Business Plans and Budgets, to the format used for the 2011, 2012 and 2013 Business Plans and Budgets and now the 2014 Business Plans and Budgets.

common format facilitates comparisons among the Regional Entities' budgets.<sup>36</sup> Additionally, in developing their 2014 Business Plans and Budgets, NERC and the Regional Entities continued to use the set of consistent accounting principles for presentation of the budgets, and the common definition of administrative (indirect) costs, that were originally developed in connection with preparation of the 2010 Business Plans and Budgets.

As described in greater detail in §III.A.2 above, NERC management and staff worked iteratively with the Regional Entities from January through June, 2013, on the development of the Regional Entity 2014 Business Plans and Budgets. The Regional Entities submitted initial drafts of their Business Plans and Budgets to NERC early in the second quarter of 2013, for internal review and feedback by NERC program area managers. In early May 2013, more developed drafts (referred to as "Draft #1) of each Regional Entity's 2014 Business Plan and Budget were submitted to NERC and posted on the NERC Website for stakeholder comment. NERC staff also reviewed and provided feedback on these drafts. The draft Regional Entity Business Plans and Budgets were also the subject of presentations and discussion at meetings of the NERC FAC.

Additionally, each Regional Entity posted one or more drafts of its 2014 Business Plan and Budget on its own website for comment by its stakeholders, and/or provided other opportunities for stakeholder input, as follows:

**FRCC:** FRCC posts its proposed budget to the FRCC Website and sends a copy (along with all presentation materials that will be presented to the FRCC Board) to each Board Member, Alternate Board Member, all Standing Committee Chairs, and all Voting

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<sup>36</sup> Although the eight Regional Entities and NERC used a common format for their 2014 Business Plans and Budgets, the Regional Entities continue to present their 2014 Business Plans and Budgets based on the five statutory programs of Reliability Standards; CMEP; Reliability Assessment and Performance Analysis; Training, Education and Operator Certification; and Situation Awareness and Infrastructure Security; whereas NERC has presented 2014 business plan and budget information disaggregated into two departments or functions for the CMEP, two departments or functions for Situation Awareness and Infrastructure Security, and two departments or functions for Critical Infrastructure Protection.

Members from the Supplier, Non-Investor-Owned Utility Wholesale, Load Serving Entity, Generating Load Serving Entity, Investor Owned Utility, and General Sectors of the membership, approximately 45 days prior to the expected FRCC Board vote date. The recipients are encouraged to contact FRCC with any comments or questions, so they can be resolved prior to the Board meeting date. Ten days prior to the Board meeting at which the vote on the budget will take place, another distribution is made to the same recipients, and posted to the FRCC Website with any changes from the first version. After approval is finalized the process is repeated with a copy marked as Final with the Approval Date.

**MRO:** MRO posted its draft 2014 Business Plan and Budget for comments on May 3, 2013. MRO's 2014 Business Plan and Budget was presented in several meetings of the MRO Board and its stakeholder. On June 27, 2013 MRO's Board of Directors approved a resolution that approved the 2014 budget, re-affirmed our reserves policy of 45 days, and affirmed that the budget is sufficient to complete our delegated responsibilities. The final version was posted on July 8, 2013.

**NPCC:** On April 30, 2013, a preliminary draft of NPCC's 2014 Business Plan and Budget was presented to the Board for comments. On May 8, NPCC posted Draft #1 of its 2014 Business Plan and Budget on its website for stakeholder review and comment. Draft #1 was presented to the NPCC Reliability Coordinating Committee for comment, the Regional Standards Committee and the Compliance Committee at their respective meetings following this posting. NPCC did not receive any formal comments from either the posting or various presentations to the stakeholders on any of its draft 2014 Business Plans and Budgets. On June 25<sup>th</sup>, a "Draft for Approval" of the 2014 Business Plan and Budget was presented to the NPCC Board, and following incorporation of Board input, a final version was unanimously approved.

**ReliabilityFirst:** ReliabilityFirst's Board of Directors approved the first draft of its 2014 Business Plan and Budget on April 26, 2013. On April 29<sup>th</sup>, the 2014 Business Plan and Budget was posted to the ReliabilityFirst website for a 30 day industry review and comment period. A request for comments was also included in the ReliabilityFirst's April and May monthly newsletters. One set of comments was received. The responses to these comments were addressed with the Board of Directors and then posted to the ReliabilityFirst website. The final 2014 Business Plan and Budget was approved by the ReliabilityFirst Board of Directors on June 21, 2013.

**SERC:** The SERC Board approved Draft #1 of the SERC 2014 Business Plan and Budget at its April 2013 meeting, after which it was posted on the SERC Website for a 30-day comment period (*i.e.*, during the month of May). Any comments received would be reviewed by the SERC President and the Director of Finance and Human Resources and responses to the comments would be presented to the Board Executive Committee and incorporated into the Business Plan and Budget before final approval; however, for the 2014 Business Plan and Budget, no comments were received, and the final version was approved and posted on July 10, 2013.

**SPP RE:** SPP RE presented a summary of the preliminary budget at the Trustees meeting on April 29, 2013. The final proposed SPP RE 2013 Business Plan and Budget was presented to the SPP RE Trustees for approval at the June 18, 2013 meeting. SPP RE posts all Board of Trustee materials on its website prior to the meetings. SPP RE received no formal comments from stakeholders regarding the 2014 budget.

**Texas RE:** Texas RE's 2014 Business Plan and Budget was presented in multiple meetings of the Texas RE Board and member representatives committee. There were no written or oral challenges to the 2014 Business Plan and Budget. Texas RE posted the draft 2014 Business Plan and Budget on June 7, 2013. The Board of Directors approved Texas RE's 2014 Business Plan and Budget on June 14, 2013.

**WECC:** WECC posted drafts of the WECC and RCCo 2014 Business Plans and Budgets on its website on May 3, 2013 for a two-week comment period, and also sent a notice of the posting to its Board of Directors and WECC Members on May 3, 2013. No comments were received from stakeholders on the draft 2014 Business Plans and Budgets. Separately from this process, NERC received comments from WIRAB, dated July 17, 2013, on the draft WECC and RCCo Business Plans and Budgets, which were also provided to WECC. The WIRAB comments (1) recommended approval of the WECC budget, but noted a concern that the event analysis and Technical Committees and Member Forums functions may warrant additional staffing, and (2) recommended that a higher amount of Working Capital Reserves be provided for the RCCo.<sup>37</sup> WECC's Board approved WECC's and the RCCo's 2014 Business Plans and Budgets on June 28, 2013.

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

1. an assessment of the adequacy of the resources and activities to perform delegated functions;
2. the alignment of the Regional Entity's goals, objectives and major activities to the ERO Strategic Plan;
3. the quality and completeness of the financial information presented, including:
  - a. conformance with budget reporting requirements,

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<sup>37</sup> NERC management reviewed the areas of the WECC budget cited in the WIRAB comments and concluded that WECC was providing for adequate resources to carry out its responsibilities in these areas.

- b. separation of statutory and non-statutory activities,
  - c. supporting detail for projections, and
  - d. working capital and operating reserve budgets, polices and controls; and
4. descriptions of any efforts to improve efficiency and control costs.

In addition to reviewing and providing feedback to the Regional Entities on the draft of each Regional Entity's 2014 business plan and budget, NERC management also reviewed the findings and recommendations contained in the recently conducted FERC audits of regional entity responsibilities and budgeting practices for MRO, ReliabilityFirst, NPCC and WECC and made a number of recommendations.

Through the processes described above and in §III.A.2, NERC has been able to satisfy itself that each Regional Entity's 2014 Business Plan and Budget provides necessary and adequate resources to carry out the Regional Entity's delegated functions in 2014.<sup>38</sup>

The Regional Entities submitted their final 2014 Business Plans and Budgets, approved by their respective governing bodies, to NERC in mid-July 2013. These Business Plans and Budgets were submitted to the NERC FAC and the NERC Board of Trustees, and reviewed at their respective meetings held on August 14 and 15. The Regional Entities' 2014 Business Plans and Budgets were approved by the NERC Board at the August 15, 2013 meeting.

The table below shows the budgets for statutory and (where applicable) non-statutory functions for each Regional Entity as presented in their respective 2014 Business Plans and Budgets.<sup>39</sup> For all Regional Entities, the total budget amount for statutory functions includes

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<sup>38</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.

<sup>39</sup> MRO, ReliabilityFirst and SERC do not plan to perform any non-statutory activities in 2013.

total Expenses and Fixed Asset activity. Because each Regional Entity has one or more other sources of income (*e.g.*, attendance fees for workshops; Penalty payments received from Registered Entities) that will be used to offset the costs of performing delegated functions, the requested ERO funding (assessments) for the Regional Entities is less than their budgets for statutory activities. The fourth column shows the total (*i.e.*, for all jurisdictions) net statutory assessment required for each Regional Entity, taking into account other sources of income including application of Penalty payments. The statutory assessment amounts include amounts (which for some Regional Entities are negative adjustments to the Funding requirement) to achieve the level of target Working Capital Reserve at December 31, 2014, determined to be appropriate by each Regional Entity.

<b>Regional Entity</b>	<b>Total Budget for Statutory Functions</b>	<b>Budget for Non-Statutory Functions</b>	<b>Total Net Statutory Assessment</b>
<b>FRCC</b>	\$ 6,794,932	\$ 7,194,181	\$ 5,488,057
<b>MRO</b>	\$ 9,744,799	-----	\$ 8,741,444 <sup>40</sup>
<b>NPCC</b>	\$ 14,129,006	\$ 1,065,100	\$13,611,880 <sup>41</sup>
<b>ReliabilityFirst</b>	\$ 18,063,201	-----	\$15,159,784
<b>SERC</b>	\$ 16,877,288	-----	\$13,734,499
<b>SPP RE</b>	\$ 11,823,629	\$150,802,371 <sup>42</sup>	\$ 9,219,123
<b>Texas RE</b>	\$ 11,771,248	\$ 932,028	\$10,509,308
<b>WECC</b>	\$ 25,638,084	\$ 1,658,980	\$15,630,852 <sup>43</sup>

<sup>40</sup> The statutory assessment for MRO of \$8,741,444 consists of \$7,339,364 allocated to the U.S. and \$1,403,080 allocated to Canadian provinces.

<sup>41</sup> The statutory assessment for NPCC of \$13,611,880 consists of \$8,447,921 allocated to the U.S. and \$5,163,960 allocated to Canadian provinces.

<sup>42</sup> The figure of \$150,802,371 is the total 2013 budget of Southwest Power Pool, Inc. (\$162,626,000) less the 2014 Budget of SPP RE for statutory activities of \$11,823,629. The overall annual budget of Southwest Power Pool, Inc. is prepared on a schedule that will not result in approval of its 2014 budget until October 2013.

<sup>43</sup> The statutory assessment for WECC of \$15,630,852 consists of \$13,571,774 allocated to the U.S., \$1,798,468 allocated to Canadian provinces and \$260,610 allocated to Mexico.



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

In its Order issued July 20, 2006, in Docket No. RR06-02-000 (*WIRAB Order*), FERC concluded that reasonable costs incurred by WIRAB for activities under §215(j) of the FPA can be funded through the ERO funding process.<sup>44</sup> As specified in P 35 of the *WIRAB Order*, WIRAB submitted to NERC a proposed 2014 Business Plan and Budget for §215(j) activities, which is included in **Attachment 5**. NERC has reviewed WIRAB's submission and believes it complies with the requirements of P 35 of the *WIRAB Order*.

WIRAB's proposed 2014 Budget for expenses is \$703,700, which is an increase of \$108,520 (18.2%) from its 2013 Budget. In light of the proposed separation of the RCCo from WECC, WIRAB anticipates monitoring the activities of, and potentially offering advice to, both organizations. WIRAB is planning an increase in staffing of 0.10 FTE from its 2013 Budget, to 2.85 FTEs. With increased staffing, WIRAB's budgeted 2014 Personnel Expenses increase by \$14,100 (5.7%) over its 2013 Budget. Additionally, WIRAB's 2014 Budget includes \$150,000 for Consultants & Contracts Expense (as compared to \$75,000 in the 2013 Budget) to provide technical expertise to WIRAB on issues related to improved grid operating practices, Reliability Standards, and compliance, and supporting WIRAB in providing advice to WECC and RCCo. WIRAB is also budgeting increases in Meetings and Travel Expenses in light of the need to monitor the activities (*e.g.*, attending board meetings) of both WECC and RCCo.

WIRAB's proposed statutory assessment for 2014 is \$588,408, which is an increase of \$53,716 (10.0%) from its 2013 assessment. The assessment increase is less than the budget increase because the assessment calculation reflects a \$114,792 decremental adjustment for Working Capital Reserve as compared to a \$59,688 decremental adjustment in the 2013 Budget.

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<sup>44</sup>*Order on Petition to Establish a Regional Advisory Body for the Western Interconnection*, Docket No. RR06-2-000, 116 FERC ¶61,061 (2006) (*WIRAB Order*), PP 33-37.

This decremental adjustment to the assessment is based on a target Working Capital Reserve amount of \$100,000 at December 31, 2014 and a projected Working Capital Reserve at December 31, 2013 of \$214,792.

WIRAB's overall statutory funding (assessment) request of \$588,408 for 2014 consists of \$499,050 (84.81%) allocated to the U.S., \$81,478 (13.85%) allocated to Canadian provinces, and \$7,880 (1.34%) allocated to Mexico, all based on NEL. At its August 15, 2013 meeting, the NERC Board of Trustees approved WIRAB's 2013 Budget request.

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

The total ERO statutory funding requirement for 2014, net of other NERC and Regional Entity income sources, to be funded by assessments is \$144,084,738, consisting of \$51,401,382 for funding of NERC's programs and \$92,683,356 for funding of Regional Entity statutory activities and the WIRAB. (These amounts do not include the assessment for the RCCo, which is discussed separately below.) NERC has allocated its statutory assessment of \$51,401,382 to the LSEs within each Regional footprint primarily on the basis of NEL, as described below.<sup>45</sup>

First, a total of \$1,437,708 of adjustments (credits) to the allocations to the AESO, the IESO, New Brunswick and Québec for certain CMEP, Event Analysis and Investigations and Situation Awareness (SAFNR<sup>46</sup>) costs was allocated using 8-Region NEL. In accordance with NERC's *Expanded Policy on Allocation of Certain Compliance and Enforcement Costs*, adjustments were made in the calculations of the assessments to the AESO, the IESO, New

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<sup>45</sup>See Appendix 2-A of **Attachment 2** for the 2012 NEL data by Regional Entity and calculation of the country allocation factors for each Region. MRO, NPCC and WECC are the only Regional Entities whose footprints encompass Canadian provinces (and for WECC, Mexico). As noted earlier, the year 2012 is the most recent calendar year for which NEL data is available.

<sup>46</sup> SAFNR = Situation Awareness – FERC, NERC and Regional Entities.

Brunswick and Québec, to provide credits for certain activity costs.<sup>47</sup> These adjustments recognize that entities in certain of these provinces (Ontario, Alberta and New Brunswick) expend resources to perform compliance and enforcement activities in those provinces that otherwise would be performed by NERC or a Regional Entity, and that the compliance and enforcement resources NERC needs for Alberta and Québec are reduced due to the very small number of entities subject to compliance and enforcement activities in those provinces. These adjustments also recognize that certain NERC activities, including the SAFNR program, either overlap with Canadian regulatory programs or, as in the case of SAFNR, are not used by these Canadian provinces, and therefore these provinces were not allocated a share of these costs.

**Attachment 7** shows the calculations of these adjustments to the allocations to the AESO, the IESO, New Brunswick and Québec. These calculations have been reviewed with, respectively, the AESO, the IESO, NBSO and La Régie de l'énergie du Québec, and each has agreed with and accepted the calculations.<sup>48</sup> The allocation of the \$1,437,708 of adjustments (credits) to the allocations to the AESO, the IESO, New Brunswick and Québec for certain CMEP, Event Analysis and Situation Awareness (SAFNR) costs is reflected in Appendix 2-C of **Attachment 2**.

Second, an allocation based on the 8-Region NEL was used to allocate \$51,401,382 of the NERC statutory assessment – comprised of \$51,691,382 of assessments less \$290,000 of

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<sup>47</sup> NERC has been advised that the NBSO will cease to operate effective October 1, 2013. NERC understands that the New Brunswick Energy and Utilities Board and NBPC will assume NBSO's functions in New Brunswick including responsibilities (i) for compliance monitoring and enforcement activities and (ii) for billing and collecting the NERC and NPCC assessments applicable to New Brunswick. NERC is currently working with the New Brunswick entities to confirm these understandings and arrangements.

<sup>48</sup> As noted above, NERC is working to determine successor arrangements to NBSO in New Brunswick.

Penalty payments – to the Regional footprints.<sup>49</sup> The NEL-based allocations to the eight Regional footprints are shown in Appendix 2-C of **Attachment 2**.

NEL has also been used to allocate the Regional Entity assessments, with these exceptions: First, 22.43% of NPCC's Compliance Monitoring and Enforcement and Organization Registration and Certification (CORC) Program costs, representing CORC program fundamentals, has been allocated among the six Balancing Authority Areas in NPCC on the basis of NEL, 51.32% of the CORC costs has been allocated between the U.S. and Canadian Balancing Authority Areas in NPCC using a compliance audit-based methodology, and the remaining 26.25% of the CORC costs has been allocated between the U.S. and Canadian Balancing Authority Areas using an enforcement activity-based methodology. As directed in the *July 16, 2009 Budget Compliance Order*, PP 38-41, the portion of NPCC CORC costs allocated to the U.S. using the compliance audit-based methodology and the portion of NPCC CORC costs allocated to the U.S. using the enforcement activity-based methodology has then been re-allocated between the New England and New York Balancing Authority Areas based on NEL.<sup>50</sup>

Second, WECC's allocation of its assessment to the AESO for the Province of Alberta has been reduced by \$834,955, representing WECC CMEP costs that are duplicative of programs of the AESO. The AESO credit amount was allocated to the remainder of the LSEs (Balancing Authorities) in the WECC Region on the basis of NEL.<sup>51</sup>

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

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<sup>49</sup> Because the \$290,000 of Penalty payments are collected solely from U.S. Registered Entities, the Penalty payments are allocated solely to offset statutory assessments to U.S. LSEs.

<sup>50</sup> The allocation of NPCC CORC Program costs is described in greater detail at pages 73-75 of the NPCC 2014 Business Plan and Budget.

<sup>51</sup> See Appendix C of the WECC 2014 Business Plan and Budget, **Attachment 3** to this filing, which shows the calculation of the \$834,955 adjustment to the WECC assessment to the AESO. The adjustment to the WECC assessment to the AESO is provided for in a memorandum of understanding entered into effective July 15, 2010 among NERC, WECC and the AESO.

funding requirements to Canadian provinces and Mexico (taking into account the NEL-based allocations, the adjustments to the NERC allocations to the AESO, the IESO, New Brunswick and Québec, the adjustments to the NPCC allocations to Canadian provinces, the adjustment to the WECC assessment to the AESO, the total ERO statutory assessment for 2014 allocable to Canadian LSEs is \$17,094,893, comprised of:

NERC Assessment: \$4,554,567  
 Regional Entity Assessments: \$12,540,326<sup>52</sup>

The funding requirement of each Regional Entity for statutory activities is of course allocated 100% to that Region. The funding requirement for the WIRAB is allocated 100% to the WECC Region. The following table shows the allocation to each Region of the total 2014 ERO statutory assessment of \$17,094,893 for the Canadian activities of NERC and the Regional Entities (including WIRAB). The table also shows the statutory assessments per kWh based on 2012 Canadian NEL of each Region.

<b>Regional Entity</b>	<b>NERC Assessment</b>	<b>Regional Entity Assessments</b>	<b>Total Canadian Assessment</b>	<b>Assessment per kWh (2012 NEL)</b>
<b>MRO</b>	\$534,686	\$1,402,080	\$1,936,766	\$0.0000431
<b>NPCC</b>	\$2,853,487	\$5,163,960	\$8,017,447	\$0.0000229
<b>WECC</b>	\$1,166,394	\$5,974,286	\$7,140,680	\$0.0000595
<b>Total</b>	\$4,554,567	\$12,540,326	\$17,094,893	\$0.0000332

In addition to the NERC, Regional Entity and WIRAB assessments, the proposed 2014 statutory assessment for the RCCo is \$29,568,031, which is allocated 100% to the WECC region

<sup>52</sup> This amount includes the WIRAB assessment.

and is allocated jurisdictionally as follows: \$25,077,715 to U.S. LSEs, \$4,094,340 to Canadian entities, and \$395,976 to Mexican entities.<sup>53</sup>

For all Regions except NPCC, NERC obtained from the Regional Entity a listing of the LSEs or their designees in the Region and a breakdown of the Region's 2012 NEL by LSE or designee. For the NPCC Region, NERC obtained from NPCC the 2012 NEL for each Balancing Authority Area (New York, New England, Ontario, Québec, Nova Scotia and New Brunswick). Additionally, for Texas RE, NERC obtained from Texas RE the 2012 NEL for ERCOT, which acts as the billing agent for the Texas RE Region. NERC used this information to allocate the total ERO statutory assessment allocated to each Region among the LSEs, their designees or the other entities to be billed the assessments within that Region.<sup>54</sup> The amount of the NERC and Regional Entity statutory assessments (and the RCCo assessment in the WECC Region) allocated to each LSE or designee or other entity to be billed in each Region is shown in Appendix 2-B of **Attachment 2**. Additionally, as noted, the proposed RCCo statutory assessments to LSEs are set forth in Appendix 2-B of **Attachment 2** and are presented for review.

NERC will directly invoice the approved assessments to LSEs or designees, or to the

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<sup>53</sup> NERC and WECC have been advised that the AESO will be providing reliability coordinator services for the Province of Alberta. The RCCo assessment to Canadian entities of \$4,094,340 assumes that the AESO pays its allocated share of the RCCo assessment. As further explained in §V.B.1.e below, this matter is the subject of continuing discussions and, if it proves to be the case that revisions to the RCCo assessments are necessary, NERC will promptly determine the revised RCCo assessments and submit them in a supplemental filing.

<sup>54</sup> Certain LSEs in MRO and WECC serve end users only in Canada or Mexico and not in the U.S. These LSEs were not allocated any portion of the ERO funding requirement allocated to U.S. end users, but were allocated appropriate portions, based on NEL (except as noted above), of the ERO funding requirement allocated to Canadian provinces or Mexico, as applicable (including, in the WECC Region, a portion of the RCCo assessment).

other entities to be billed, in all Regions except WECC.<sup>55</sup> WECC will invoice LSEs or Balancing Authorities or their designees within the WECC footprint, collect the assessments and remit the funds collected for the NERC, WECC and WIRAB assessments to NERC. These arrangements are provided for in Exhibit E to the delegation agreement with each Regional Entity. WECC's invoice will also include, as a separate line item, the RCCo assessment to the LSEs in the WECC Region. WECC will remit the collections on the RCCo assessment directly to the RCCo. However, if an LSE's payment on the invoice is less than the total amount of the invoice, WECC will be permitted to allocate the shortfall among all the assessments received from the LSE only if WECC does not know and, after due inquiry with the LSE submitting the underpayment and consultation with NERC, is unable to determine which invoiced item(s) accounts for the shortfall. (*See* further discussion in §V.B.1.d below.)

#### **E. Provision for Working Capital Reserve**

In the development of their 2014 Business Plans and Budgets and their proposed assessment amounts to LSEs, NERC and the Regional Entities have taken into account the need to maintain appropriate amounts of working capital and operating reserves. In 2012, NERC developed a new Working Capital and Operating Reserves Policy under which working capital and operating reserves are separately budgeted and accounted for.<sup>56</sup> The NERC Working Capital and Operating Reserves Policy also sets forth guidelines and authorities for accessing Working Capital and Operating Reserves and for use of funds for activities in excess of budgeted amounts, as well as for hiring personnel in excess of budgeted staffing levels. The amounts that NERC

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<sup>55</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; and the assessments in the Texas RE region will be billed to ERCOT. (NERC also directly bills La Régie de l'énergie du Québec, which is not a LSE, for the CMEP costs allocated to Québec.)

<sup>56</sup> The NERC Working Capital and Operating Reserves Policy was provided in Exhibit C to NERC's 2013 Business Plan and Budget filed on September 24, 2012.

has budgeted for 2014 in the various reserves categories under its Policy, and the impacts on NERC's 2014 proposed statutory assessments, are discussed in detail in §IV.B below and in Exhibit E to **Attachment 2**. The remainder of the discussion in this §III.E describes the development of the Regional Entities' Working Capital Reserve amounts and associated adjustments to assessments for 2014.

The process takes into account each Regional Entity's actual and projected Working Capital Reserves at December 31, 2012 and December 31, 2013, respectively, resulting from its accumulated prior years' surpluses and deficits, and results in an incremental or decremental adjustment to each Regional Entity's proposed 2014 statutory assessment amount, in order to arrive at its target Working Capital Reserve at December 31, 2014. Table B-1, Reserve Balance, in Section B of each Regional Entity's 2014 Business Plan and Budget, shows the calculation of the increment or decrement to the Regional Entity's requested 2014 assessment to achieve the Regional Entity's desired Working Capital Reserve at December 31, 2014. The calculations shown on Table B-1 take into account: (1) the Regional Entity's actual Working Capital Reserve (Deficit) at December 31, 2012, (2) assessment Funding, projected other Funding, and projected Expenses and Capital Expenditures for 2013, resulting in (3) the projected Working Capital Reserve at December 31, 2013, (4) the desired (target) Working Capital Reserve at December 31, 2014, (5) the budgeted Expenses and Capital Expenditures, and projected other funding sources (including Penalties collected,<sup>57</sup> from Registered Entities), for 2014, resulting in (6) the increment or decrement to the requested 2014 assessments to achieve the target Working Capital

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<sup>57</sup> As noted earlier, Penalty payments received by NERC or a Regional Entity between July 1 of the second year preceding the budget year and June 30 of the year preceding the budget year are used to reduce the requested assessments for the budget year; Penalty payments received after June 30 will be used to reduce the requested assessments for the year following the budget year. In the case of the 2014 Budgets, all Penalty payments being used by NERC and the Regional Entities to reduce their requested 2014 assessment amounts were received during the period July 1, 2012 – June 30, 2013.



Reserve at December 31, 2014.

As shown on Table B-1 in each Regional Entity's 2014 Business Plan and Budget, each Regional Entity (except SPP RE) has established a target Working Capital Reserve for 2014. The basis for each entity's Working Capital Reserve for 2014 is stated on its Table B-1 or explained elsewhere in the text of its 2014 Business Plan and Budget. Further discussion of the adjustment (increase or decrease) to each Regional Entity's proposed 2014 statutory assessment to achieve its target Working Capital Reserve is provided in the discussions of the individual Regional Entity 2014 Business Plans and Budgets in §V.B below.

#### **F. Budget Projections for 2015 and 2016**

As it did its Business Plans and Budgets for each of the years 2008 through 2013, NERC is providing preliminary budget projections for the two years following the budget year (*i.e.*, 2015 and 2016).<sup>58</sup> This information is provided on pages 27-28 of **Attachment 2**.<sup>59</sup> These budget projections show that NERC's 2015 total Expenses plus (minus) any increase (decrease) in Fixed Assets are projected to be \$4,125,919, or 7.36%, higher than the amounts in the 2014 Budget. For 2016, NERC's total Expenses plus change in Fixed Assets are projected to be \$553,872, or 0.9%, lower than the amount projected for 2015. The 2015 projections reflect a \$1.023 million increase in Personnel Expenses over the 2014 Budget due to salary increases and increased Benefits expenses for existing staff; and a \$314,600 increase in Consultants & Contracts expense from the 2014 Budget. The 2016 projections reflect budgeted salary increases and projected increases in Benefits expenses. Incremental personnel additions have not been included in the projections for 2015 or 2016.

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<sup>58</sup> The 2014 Business Plan and Budget of each Regional Entity also includes budget projections for 2015 and 2016.

<sup>59</sup> The NERC Board of Trustees has not approved the 2015-2016 projections as official budgets, and NERC is not seeking approval of these budget projections by the applicable governmental authorities.

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

##### **A. 2014 Business Plan and Budget by Program**

This section summarizes NERC's proposed 2014 Business Plan and Budget by statutory program and Administrative Services department.<sup>60</sup>

In presenting their budgeted staffing (FTEs) and related Personnel Expenses for 2014, all NERC programs and departments have applied a 4% personnel attrition factor. This attrition factor reflects that actual staffing is typically less than budgeted staffing due to factors such as employees leaving the company for other jobs and new positions being filled at a later date than was assumed in the preparation of the budget.

##### **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. NERC's American National Standards Institute-accredited standards development process was reaccredited in 2013 and was found to be open, balanced and transparent. The major activities of the Reliability Standards Program include (1) delivering high-quality, continent-wide Reliability Standards, (2) facilitating continent-wide industry engagement in the standards development process, and (3) conducting balloting, disseminating information, and supporting regulatory filings on proposed standards. The standards development process involves NERC and Regional Entity staff and industry volunteer technical experts. NERC manages the work of over 200 industry contributors serving on the NERC Standards Committee and subgroups as well as informal development, standards drafting, and other project teams for the development of Reliability Standard. Additionally, thousands of industry volunteers within hundreds of Registered Entities and other entities review, comment on and vote on the products of the standard drafting teams, and all of this input

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<sup>60</sup> **Attachment 8** is a status report on NERC's progress in achieving its 2013 goals.

must be reviewed and taken into account in the standards development process. The NERC Reliability Standards Program staff also supports the Regional Entities' regional reliability standards development processes by providing technical advice, final quality review of Regional standards, presentation to the NERC Board, and submission to the applicable regulatory authorities in the U.S. and Canada for adoption.

The key standards production efforts of the Reliability Standards Program underway in 2013 are described at pages 30-31 of **Attachment 2**, and include ensuring that standards development projects that either support high-risk reliability issues or emerging reliability issues are initiated or remain on schedule; initiating the five-year reviews of Reliability Standards which were due for assessment and have not been revised in recent development projects; and addressing FERC directives in previous orders. Two major initiatives under way as part of these efforts are the "Paragraph 81" initiative, in response to FERC's March 15, 2012 Order on NERC's Find, Fix, Track and Report program, to identify specific Reliability Standards or Requirements that need to be revised or retired based on lack of meaningful benefit to bulk power system reliability,<sup>61</sup> and the results-based standards initiative to ensure that Reliability Standards are focused on required actions or results and not necessarily on the methods by which to accomplish them. Additionally, NERC has formed a Standards Independent Expert Review Panel to evaluate existing standards Requirements for content and quality and make recommendations to retire or improve Requirements.

The 2014 goals and deliverables for the Reliability Standards Program are provided at page 31 of **Attachment 2**, and they focus on three areas: (1) transforming NERC's Reliability

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<sup>61</sup> *North American Electric Reliability Corporation, Order Accepting with Conditions the Electric Reliability Organization's Petition Requesting Approval of New Enforcement Mechanisms and Requiring Compliance Filing*, 138 FERC ¶ 61,193 (2012), at P81.

Standards to high quality, world-class results-based standards; (2) developing a bulk power system reliability risk profile; and (3) developing methods to assess and manage the cost effectiveness (benefit) of new Reliability Standards. Major activities of the Reliability Standards Program for 2014 will include integrating the plan developed by the Standards Independent Expert Review Panel during 2013 into the NERC Reliability Standards Development Plan, completing Reliability Standards revisions identified in the “Paragraph 81” initiative, and accelerating delivery of the number of Reliability Standards that meet quality criteria and the results-based construct.

Although much of the work in the standards development process is performed by committees and task groups comprised of volunteer technical experts, significant NERC professional staff resources are needed to facilitate and coordinate the work of industry volunteers, to administer the process and help ensure that it functions efficiently, and to provide input to support development of technically sound standards. NERC has budgeted 25.92 FTEs for the Reliability Standards Program for 2014, which is a slight decrease of 0.58 FTEs from the 2013 Budget and reflects the application of the 4% personnel attrition. In accordance with its 2013 Business Plan and Budget, NERC has added 3 positions in the Reliability Standards Program in 2013.

The 2014 budgeted direct expenses for this program are \$5,150,854, which is an increase of \$16,115 (0.3%) from the 2013 Budget. Budgeted Personnel Expenses are increased by \$89,867 (2.1%) over the 2013 Budget, due to an increase in Benefits Expense. Budgeted Meetings Expense is increased by a total of \$63,748 (9.9%), based on the large number of standards initiatives underway that will require travel and meetings attendance by Reliability Standards Program staff. No consultant or contractor expense is budgeted for this program for

2014, which is a reduction of \$150,000 from the 2013 Budget. The allocation of Administrative Services expenses to this program is \$4,872,999, the Allocation of Fixed Assets from the Administrative Services programs is \$143,517, and no Fixed Asset additions or Depreciation Expense are included in the 2014 Budget for the Reliability Standards Program.

**2. Compliance Monitoring and Enforcement and Organization Registration and Certification Program<sup>62</sup>**

The Compliance Monitoring and Enforcement and Organization Registration and Certification Program (CMEP) carries out NERC's statutory responsibility to monitor, enforce and achieve compliance with mandatory bulk power system Reliability Standards. The NERC CMEP is comprised of the Compliance Operations Department and the Compliance Enforcement Department.

**a. Compliance Operations**

Compliance Operations works collaboratively with the Regional Entities to ensure consistent and effective implementation of the compliance monitoring and enforcement program. Compliance Operations is responsible for the following major activities and functions: (i) consistent implementation of the risk-based compliance monitoring program, including registration and certification, for reliability improvements; (ii) the ERO education programs that support industry compliance, and integration of risk assessment and internal controls; (iii) development of minimum baseline monitoring requirements; (iv) oversight of the Regional Entities' delegated compliance functions, including CMEP planning, implementation, and reporting, compliance operations and coordination, and auditor training; (v) development and

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<sup>62</sup> Comparisons in this section to the 2013 Budget are based on the 2013 Budget filed on September 24, 2012.

maintenance of the Reliability Standards Audit Worksheets; and (vi) supporting the NERC Compliance and Certification Committee.

Compliance Operations' 2014 goals and deliverables are described at pages 36-40 of **Attachment 2**, and are focused on the Reliability Assurance Initiative (RAI) activities including identifying and implementing process improvements to the self-reporting process, implementing enhancements to the Find, Fix, Track and Report process, developing an auditor handbook and checklist for use by compliance auditors, and initiating small prototype and pilot programs focused on developing entity risk assessments and developing processes for evaluating and testing internal controls. Three major RAI activities planned for 2014 are developing a training program to support implementation of the common audit procedures developed in 2013; assessment of the existing compliance, reporting, analysis and tracking system and other tools used to support compliance registration and enforcement activities; and developing prototypes and pilot programs to support development of Registered Entity reliability risk assessments and compliance monitoring scoping projects. In addition, during 2014, Compliance Operations, in coordination with the Regional Entities, will continue Registered Entity mapping activities to ensure the Compliance Registry criteria are accurate and that gaps and duplicate registrations and compliance monitoring do not occur. Further, Compliance Operations will continue its efforts to ensure that all Registered Entities understand their compliance obligations and how compliance will be assessed, with the objective that Registered Entities have effective compliance programs and internal controls. Finally, Compliance Operations will oversee compliance audits conducted by Regional Entities and will conduct Key Reliability Standard Spot Checks.

The budgeted staffing for Compliance Operations for 2014 is 23.04 FTEs, which is a decrease of 0.96 FTEs from the 2013 Budget and reflects solely the application of the 4%

personnel attrition adjustment factor. No actual staffing changes are planned for 2014. Budgeted Personnel Expenses are increased by \$66,335 from the 2013 Budget due to a budgeted increase of \$78,732 in Benefits Expenses based on anticipated higher costs from providers. Compliance Operations is budgeting a significant decrease in Meetings Expense of \$155,503 from the 2013 Budget. Compliance Operations has budgeted \$400,000 in Consultants & Contracts Expense for 2014, versus zero in 2013. Of the budgeted amount, \$150,000 is budgeted for consulting support for development of auditor training materials and \$250,000 is budgeted for consulting support to assist in assessments of existing software applications supporting compliance, registration and enforcement operations and the definition of the business requirements to update the existing applications.

The budgeted total direct expenses for Compliance Operations for 2013 are \$5,037,321, which is an increase of \$250,278 (5.2%) from the 2014 Budget, with the primary driver of the increase being Consultants & Contacts Expense, as described above. The allocation of Administrative Services expenses to Compliance Operations is \$4,331,554, Fixed Assets allocated to Compliance Operations are \$127,570, and Fixed Asset additions net of Depreciation are budgeted to increase by \$134,668 over the 2013 Budget.

**b. Compliance Enforcement**

Compliance Enforcement is responsible for overseeing enforcement processes, application of Penalties or sanctions and activities to mitigate and prevent recurrence of remediated issues or confirmed violations of Reliability Standards. Compliance Enforcement monitors Regional Entities' enforcement processes; collects and analyzes compliance enforcement and violation data and trends to identify emerging risks and inform the development of enforcement policy and processes; files notices of penalties and other submittals associated

with violations discovered through Regional Entity compliance, enforcement and monitoring activities or through NERC-led investigations and audits; and dockets possible violations coming into the NERC enforcement program. The 2014 goals and deliverables for Compliance Enforcement are described on pages 44-47 of **Attachment 2**, and are focused on continuing compliance enforcement reform initiatives, performing violation trend analysis, and continuing to reduce the outstanding caseload and increase processing efficiencies.

The budgeted staffing for Compliance Enforcement for 2014 is 18.24 FTEs, which is a reduction of 2.76 FTEs from the 2013 Budget. However, no actual staffing reductions are planned for 2014; the 2.76 FTE reduction reflects the transfer of 2.0 FTEs to other departments in 2013 and application of the 4% personnel attrition factor to the existing staff of 19 FTEs. Budgeted Personnel Expenses are reduced by \$84,675 from the 2013 Budget due primarily to the reduced staffing from the 2013 Budget. The 2014 budget for Travel Expenses is reduced by \$100,702 (54.0%) from the 2013 Budget. As in the 2012 and 2013 Budgets, Compliance Enforcement is budgeting no Consultants & Contracts expense for 2014; outside consulting assistance to conduct an assessment of the compliance and registration tool has been budgeted for in the Compliance Operations Department.

The budgeted total direct expenses for Compliance Enforcement for 2014 are \$2,864,951, is a decrease of \$182,796 (6.4%) from the 2013 Budget, with the primary drivers of the decrease being lower Personnel Expenses and lower Travel Expenses, as described above. The allocation of Administrative Services expenses to Compliance Enforcement is \$3,429,147, the allocation of Fixed Asset additions to Compliance Enforcement is \$100,993, and Fixed Asset additions net of Depreciation are budgeted to increase by \$54,152 over the 2013 Budget.



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

The Reliability Assessment and Performance Analysis Program carries out NERC's statutory responsibility to conduct periodic assessments of the reliability and adequacy of the bulk power system in North America. The activities of the Reliability Assessment and Performance Analysis Program also support identification of reliability performance issues and areas of concern, including equipment performance and reliability issues, for possible consideration in the development of new, or modification of existing, Reliability Standards, or other initiatives that enhance overall reliability. This program works to develop a solid technical framework and understanding of the reliability risks facing the industry and to communicate guidance and information to the industry to enhance reliability.

The efforts of the Reliability Assessment and Performance Analysis Program are focused in four areas: reliability assessment (including preparation of the annual Long-Term and Summer and Winter Reliability Assessment reports and special and scenario reliability assessments); performance analysis; reliability risk analysis and control; and reliability initiatives and system analysis. In addition, during 2013, this Program has worked closely with the Regional Entities to develop software applications and business processes to implement the revised Bulk Electric System (BES) definition and exceptions process.

The 2014 goals and deliverables for the Reliability Assessment and Performance Analysis Program are summarized at pages 53-54 of **Attachment 2**. The 2014 goals and objectives include issuing reliability assessment reports, guidelines, recommendations, and alerts as needed (including the annual 10-year Long-Term Reliability Assessment and Summer and Winter Reliability Assessments, an annual State of Reliability Report, a report on geomagnetic disturbance (GMD) BES effects and vulnerability assessment, and an additional special assessments on a key reliability issue); oversight of the Generating, Transmission and Demand

Response Availability Data Systems (GADs, TADS and DADS) and the Spare Equipment Database (SED); strengthening the Program's data collection and validation processes; providing periodic updates in trends and measures of bulk power system reliability; developing a risk registry and systematic prioritization process consistent with the Reliability Issues Steering Committee framework and to support bulk power system risk profile measurement and the assessment of standards; developing risk control strategies and plans across the ERO to address the highest priority existing or emerging risks to bulk power system reliability, and measuring the results; supporting NERC standards development and responses to FERC directives by providing technical and system analysis expertise and supporting the technical foundation development for Reliability Standards; assisting in development of approaches to registration and maintenance of the Actively-Monitored List based on reliability trends, risks and historical information; and conducting major event investigations, analysis and reporting of major findings and recommendations that will improve reliability.

The budgeted staffing for the Reliability Assessment and Performance Analysis Program for 2014 is 18.99 FTEs, which is an increase of 0.24 FTEs over the 2013 Budget. The staffing increase reflects the addition of one engineer to support risk management initiatives and technical analysis, the anticipated timing of this hire, and the application of the 4% personnel attrition factor. Budgeted 2013 Personnel Expense is increased by \$278,331 over the 2013 Budget, reflecting increased Salary Expenses of \$174,468 and increased Benefits Expenses of \$70,479 from the 2013 Budget.

The budgeted 2014 expense for Consultants & Contracts for the Reliability Assessment and Performance Analysis Program is \$638,085, which is a decrease of \$46,915 from the 2013 Budget. The budgeted consultant and contractor resources will support the following activities:

(1) research concerning reliability effects and vulnerability assessment of GMD; (2) the Long-Term and special reliability assessments and the State of Reliability analysis; and (3) licensing and support of existing data bases, including GADS, TADS, DADS and SED as well as maintenance and enhancement of the metrics data collection, analysis and display tools. In addition, NERC plans to commence work in 2014 on (1) research to validate the technical foundation supporting the inclusion within the Gallet Equation in Reliability Standard FAC-003 of factors for the Minimum Vegetation Clearance Distance, and (2) issues surrounding access for vegetation and related maintenance for transmission assets crossing public lands. With respect to the FAC-003-related research, NERC will be exploring potential sources of third party funding for a portion of the costs, deferring a portion of its funding beyond 2014, and relying on operating reserves for partial funding of this initiative in 2014. NERC expects the research concerning vegetation management on public lands to be financially supported by existing industry groups, and that NERC will not provide direct financial support in 2014 for this research. All of these activities are described in detail on pages 54-59 and in Exhibit D of **Attachment 2**.

The total budgeted direct expense for the Reliability Assessment and Performance Analysis Program for 2014 is \$4,903,304, which represents an increase of \$386,685 (8.6%) from the 2013 Budget. The Reliability Assessment and Performance Analysis Program is budgeting \$50,000 of revenue from Services & Software and \$40,000 of revenue from Workshop attendance fees in 2014. The allocation of Administrative Services expenses to this program is \$3,570,148, the allocation of Fixed Asset additions to this program is \$105,146, and Fixed Asset additions net of Depreciation are budgeted to decrease by \$127,226 from the 2013 Budget.

#### **4. Reliability Risk Management**

The Reliability Risk Management group carries out NERC's statutory responsibility to perform assessments (including real-time or near-real-time assessments) of the reliability and adequacy of the bulk power system, as well as identifying potential issues of concern relating to system, equipment, entity and human performance that may indicate a possible need to develop new or modified Reliability Standards. The Reliability Risk Management group includes four primary functions – (i) bulk power system awareness, (ii) event analysis and investigations and determination of root and contributing causes, (iii) assessment of human performance challenges affecting reliability and identification of improvement opportunities, and (iv) support of the NERC Operating Committee – and two departments, Situation Awareness and Event Analysis. The 2014 budgets for Situation Awareness and Event Analysis are discussed separately below.

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

NERC's Situation Awareness Department works with Registered Entities to monitor present conditions on the bulk power system using various software tools and applications. It also communicates and coordinates with Regional Entities and Registered Entities to notify them of various types of disturbances that could negatively impact their ability to deliver power to end users. When significant bulk power system disturbances occur, Situation Awareness facilitates coordination of communications between Registered Entities and applicable governmental authorities. Situation Awareness is responsible for overseeing the design, operation and maintenance of software, hardware and communications networks, including the SAFNR platform, and funding support for a number of reliability tools. However, NERC will be ending its direct funding of the North American Synchronphasor Initiative (NASPI) at the end of 2013. Ending funding of the NASPI and transitioning the SAFNR activities from development to

operation and maintenance of the SAFNR software application reduces expenditures for the Situation Awareness Department by approximately \$1 million in the 2014 Budget as compared to the 2013 Budget.

The 2014 goals and deliverables for Situation Awareness are described on page 64 of **Attachment 2** and include ensuring that the ERO is aware of all bulk power system events above a threshold of impact, ensuring the sharing of data and information to facilitate wide area situation awareness, and keeping the industry informed of emerging reliability threats and risks to the bulk power system, including any expected actions.

The 2014 budgeted staffing for Situation Awareness is 6.24 FTEs, which is a reduction of 0.26 FTEs from the 2013 Budget. The change is based solely on application of the 4% personnel attrition factor. Budgeted Personnel Expenses are increased by \$89,210 over the 2013 Budget. Budgeted Meetings Expense is decreased by \$91,655 over the 2013 Budget. The Situation Awareness budget includes \$75,000 in revenues from Workshop fees.

The 2013 Consultants & Contracts budget for Situation Awareness of \$1,289,108 is a reduction of \$1,454,072 (53.0%) from the 2013 Budget. As noted above, NERC is ending its funding support for the NASPI at the end of 2013 and development of the SAFNR software will have been completed. The 2013 budget for Consultants & Contracts included a total of \$810,000 for NASPI and \$725,500 for SAFNR as well as \$458,000 for the Interchange Distribution Calculator (IDC) contract which terminated on March 31, 2013 with the IDC contract being transitioned to other entities. The 2014 Budget includes \$531,825 for SAFNR and \$27,816 for NERC's access to the IDC. Itemized information on the activities and initiatives supported by the 2014 Consultants & Contracts budget for Situation Awareness is provided in Exhibit C of **Attachment 2**.

The total budgeted direct expense for Situation Awareness for 2014 is \$2,891,092, which represents a decrease of \$1,302,415 (31.1%) from the 2013 Budget. The allocation of Administrative Services expenses to this program is \$1,173,129, the allocation of Fixed Asset additions to this program is \$34,550, and Fixed Asset additions net of Depreciation are budgeted to increase by \$511,940 from the 2013 Budget.

**b. Event Analysis**

The Event Analysis Department supports the ERO's reliability goals by evaluating bulk power system events, conducting analysis to determine causes of events, assuring tracking of corrective actions to prevent recurrence, and providing lessons learned to the industry. Event Analysis manages all NERC activities with respect to event analysis, assuring consistent, timely and coordinated results. It also reviews formal complaints, conducts non-public compliance investigations, assists in reviewing Registered Entity compliance assessments to verify compliance gaps are assessed in all reportable events, and supports NERC's Reliability Standards development and compliance monitoring and enforcement functions.

The 2014 goals and deliverables for Event Analysis are described at pages 68-69 of **Attachment 2**, and include ensuring that all reportable events are analyzed for sequence of events, root cause, risk to reliability and mitigation; ensuring that the industry is well informed of bulk power system events, emerging trends, risk analysis, lessons learned and expected actions; and conducting major event investigations, analysis and reporting of major findings and recommendations that will improve reliability. Additionally, Event Analysis along with the Reliability Assessment and Performance Analysis Department are working with the Regional Entities to develop a software application known as the Events Information Data System (EIDS),

with the objective to create an ERO-wide tool to collect, analyze and report detailed information regarding events impacting the reliability of the bulk power system.

The 2014 budgeted staffing for Event Analysis is 9.60 FTEs, which is an increase of 0.10 FTEs from the 2013 Budget, and reflects the transfer of 0.5 FTE from another department during 2013 and application of the 4% personnel attrition factor.<sup>63</sup> Budgeted 2014 Personnel Expense is increased by \$196,211 over the 2013 Budget. Budgeted Meetings expense is increased by \$36,864 over the 2013 Budget, due primarily to increases in Conference Calls Expenses, which was not budgeted in 2013. Consultants & Contracts expense is budgeted to decrease from \$120,000 in the 2013 Budget to zero.

The total budgeted direct expense for Event Analysis for 2014 is \$2,384,069, which represents an increase of \$309,161 (14.9%) from the 2013 Budget. The allocation of Administrative Services expenses to this function is \$1,804,814, the allocation of Fixed Asset additions to this function is \$53,154, and Fixed Asset additions net of Depreciation are budgeted to decrease by \$161,702 from the 2013 Budget.

## **5. Critical Infrastructure Protection**

The NERC Critical Infrastructure Protection function, comprised of the Critical Infrastructure Department (CID) and the ES-ISAC, supports the development and administration of CIP Reliability Standards initiatives, CMEP oversight functions with respect to CIP standards, and critical infrastructure and cyber information sharing, incident analysis, risk assessment, and coordination between industry and government. The CID supports industry-led activities and organizations including the NERC CIP Committee and the Electricity Sub-sector Coordinating

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<sup>63</sup> Comparisons discussed in this subsection between the 2014 Budget and the 2013 Budget for the Event Analysis Department are based on the 2013 Budget that was filed on September 24, 2012.

Council (ESCC).<sup>64</sup> The primary function of the ES-ISAC is the rapid and secure sharing of information with the electric industry and governmental entities regarding real and potential cyber related threats to the electricity sector and methods and tools to avoid or mitigate the potential impact from these threats. The ES-ISAC gathers and shares information from and with industry participants and government about security-related events, disturbances and off-normal occurrences. The ES-ISAC maintains a secure private information-sharing portal to receive voluntary reports from industry, which may be submitted on an unattributed basis to encourage information reporting. The ES-ISAC develops alerts and notifications for distribution to Registered Entities.

The 2014 goals and deliverables for Critical Infrastructure Protection are described on pages 72-73 of **Attachment 2**. They include supporting CIP standards development; supporting compliance enforcement process improvement initiatives; through the ES-ISAC, providing rapid dissemination of cyber threat, vulnerability information and mitigation strategies to industry; conducting security incident analysis and working with industry experts to evaluate, track and identify lessons learned and security metrics that enhance the sector's security posture; and conducting Cyber Risk Preparation Assessments (CRPA) and sufficiency reviews and developing CRPA tools for industry to conduct self assessments.

The 2014 budgeted staffing for the CID (excluding the ES-ISAC) is 12.48 FTEs, which is a decrease of 0.02 FTE from the 2013 Budget and reflects application of the 4% personnel attrition factor. The 2014 budgeted staffing for the ES-ISAC is 7.72 FTEs, which is an increase of 0.97 FTEs over the 2013 Budget. This staffing increase reflects addition of one additional staff position in the ES-ISAC during 2014, in order to increase analytical capabilities, monitoring

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<sup>64</sup> The NERC Board has approved a transition of the ESSC outside of NERC, but NERC will continue to provide support for the ESSC.



of the secure information portal and information sharing, and shift staffing on the National Cybersecurity and Communications Integration Center floor, as well as application of the 4% personnel attrition factor. Budgeted Personnel Expenses for Critical Infrastructure Protection are increased by \$543,149 (15.1%) over the 2013 Budget.

Budgeted Meeting Expenses for Critical Infrastructure Protection are reduced by \$82,997 (14.1%) due to a \$91,572 reduction in the budget for Travel Expenses. The 2014 budgeted Consultants & Contracts expense for Critical Infrastructure Protection is \$976,450, which is an increase of \$191,450 (24.4%) over the 2013 Budget. The Consultant & Contracts budget includes \$190,000 to support the ESSC, an increase of \$60,000 from the 2013 Budget. Consultant and contractor support is also budgeted to fund existing and added tools and technology for the activities of the ES-ISAC, including enhancements to the ES-ISAC portal, intelligence reporting services, CPRAs, Aurora webinars and technical support, secure bi-directional communications, cyber awareness monitoring, software integration support services, and analyst workbench. NERC is also evaluating supporting the DOE's Cyber Federated Model (CRM) and Cyber Risk Information Sharing Program (CRISP) as DOE moves to private funding for the commercialization of these programs; however, NERC has not budgeted specific funding for these programs in the 2014 Budget. These tools and activities are described in greater detail at pages 75-78 of **Attachment 2** and more detailed information on specific amounts budgeted for Consultants & Contracts for specific activities in the CID, including the ES-ISAC, is provided in Exhibit C of **Attachment 2**.

The budgeted direct expense for 2014 for the CID (excluding the ES-ISAC) is \$3,257,012, which is an increase of \$146,351 (4.7%) from the 2013 Budget. The allocation of Administrative Services expenses to the CID (excluding the ES-ISAC) is \$2,299,170. The

budgeted direct expense for 2014 for the ES-ISAC is \$2,444,997, which is an increase of \$466,251 (23.6%) from the 2013 Budget. The allocation of Administrative Services expenses to the ES-ISAC is \$1,498,460. The allocation of Fixed Assets to Critical Infrastructure Protection is \$111,846, and Fixed Asset additions net of Depreciation are budgeted to increase by \$68,909 over the 2013 Budget.

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

The Training, Education, and Operator Certification Program provides oversight and coordination of the delivery of training programs that support the ERO's statutory responsibilities, by providing training and education to NERC and Regional Entity staff, including compliance auditors, relating to their job responsibilities, and to industry participants on the requirements of Reliability Standards, the standards development process, and the compliance monitoring and enforcement process. The Training, Education, and Operator Certification Program also supports NERC's System Operator Certification and Continuing Education Programs (SOCCED) for owners, operators and users of the bulk power system and their operating personnel, which ensure that personnel operating the bulk power system have the skills, training and qualifications needed to operate the system reliably. NERC maintains the credentials required to work in system control centers across North America for over 6,000 system operators. Certification exams are created by the Personnel Certification Governance Committee (PCGC), an industry group of operational experts, trainers and supervisors. Once an operator achieves certification by passing the examination, the operator's certification is maintained by completing NERC-approved continuing education courses and activities, under the oversight of the NERC Personnel Subcommittee.

The 2014 goals and deliverables of the Training, Education, and Operator Certification

Program are described at page 82 of **Appendix 2**. A primary objective, in response to stakeholder and Regional Entity feedback, is to continue to further expand and focus training and education opportunities for NERC, Regional Entity and Registered Entity personnel, including on topics such as how best to comply with Reliability Standards and improve bulk power system reliability, cyber security-related topics, consistent audit and investigation techniques, standards compliance reviews, compliance auditor skills, and other topics listed at page 82 of **Attachment 2**. Training and education opportunities will be provided through workshops hosted by NERC and the Regional Entities, webinars, training courses, and vendor-provided training modules and other offerings.

The budgeted staffing for the Training, Education, and Operator Certification Program for 2014 is 8.16 FTEs, which is a slight increase of 0.16 FTEs over the 2013 Budget. The increase of 0.16 FTE reflects the transfer of 0.5 FTE to this program from another department in 2013 and application of the 4% personnel attrition factor. Budgeted 2014 Personnel Expense is virtually unchanged from the 2013 Budget, although budgeted Benefits Expense is increased by 27.4%. The budgeted Consultants & Contracts Expense for 2014 of \$848,830 is also virtually the same as the 2013 Budget. Consultant and Contracts expense includes testing services to administer certification exams; hosting and maintenance fees for, and improvements to, the SOCCED database; support for the Continuing Education Review Panel (comprised of industry volunteers), which reviews and audits proposed individual learning activities and continuing education provider applications; and the provision of various training and education programs for NERC and Regional Entity staff and industry personnel.

The direct expense budgeted for the Training, Education, and Operator Certification Program for 2014 is \$2,158,199, which is a small decrease of \$12,707 (0.6%) from the 2013

Budget. The allocation of Administrative Services expenses to this Program is \$1,534,092, the allocation of Fixed Assets to this Program is \$45,181, and Fixed Asset additions net of Depreciation are budgeted to increase by \$27,337 over the 2013 Budget.

This System Operator Certification Program generates revenues from fees charged for system operator certification examinations and fees charged to continuing education providers, which are intended to recover the costs (including an allocation of indirect expenses) of the Program. The 2014 Budget includes projected revenues from Testing Fees totaling \$1,620,000, which is a decrease of \$60,000 (3.6%) from the 2013 Budget.

Under NERC's Working Capital and Operating Reserves Policy, a separate Operating Reserve account is established for any revenues realized by the System Operator Certification Program in excess of expenses incurred for the Program, to be used solely for operator training and certification needs as determined by NERC management and the PCGC. NERC has established a target Operating Reserve for this program of \$768,493, and is projecting a \$1,206,746 Operating Reserve balance for the System Operator Certification Program at December 31, 2013, resulting in a reduction of \$438,253 in the Operating Reserve account attributable to this program. The PCGC reduced fees for system operator certification examinations and certificate renewals in 2013 as part of a 3-year plan to reduce the Operating Reserve.

## **7. Administrative Services**

The Administrative Services departments support the NERC statutory programs. Administrative Services comprises the following functions: (i) Technical Committees and Members' Forums (which has no budget for 2014); (ii) General and Administrative (which includes senior executive and operations functions); (iii) Legal and Regulatory; (iv) Information

Technology; (v) Human Resources, and (vi) Finance and Accounting. Descriptions of the responsibilities of each of the functions included in Administrative Services are provided in the text at pages 86-109 of **Attachment 2**.

The total amount budgeted for Administrative Services for 2014 (before provision for Working Capital and Operating Reserves) is \$24,513,515, which is an increase of \$1,434,434 (6.2%) over the 2013 Budget and is reflective of the scope and depth of resources required to effectively support the ERO operations. All Administrative Services expenses and Fixed Asset additions are allocated to the statutory programs on the basis of proportional numbers of budgeted FTEs in the statutory programs. The total budgeted staffing for the Administrative Services departments for 2014 is 59.14 FTEs, which is an increase of 6.39 FTEs over the 2013 Budget.

The following paragraphs provide further detail on the 2014 activities and budget requirements for the individual Administrative Services departments.

**Technical Committees and Members' Forums** – While NERC management and staff will continue to interact with and support numerous reliability-related industry forums during 2014, including the North American Transmission Forum and the North American Generator Forum, the 2014 Budget does not include any specific projected expense or funding for any forum activities.

**General and Administrative** – The General and Administrative function is responsible for administration and general management of NERC. Expenses budgeted in this area include Office Rent; Personnel Expense and related costs of the Chief Executive Officer (CEO), the Chief Operating Officer, and the CEO's executive assistant; communications and public relations; and costs related to the Board of Trustees. Budgeted staffing for this function for 2014

is 10.56 FTEs, which is an increase of 2.56 FTE over the 2013 Budget. The 2.56 FTE increase is due to additions and transfers into this department during 2013 net of the 4% personnel attrition adjustment.

The 2014 budgeted Direct Expense for General and Administrative is \$8,171,736, which is an increase of \$846,180 (11.6%) over the 2013 Budget. The most significant component of this increase is a \$790,712 (45.6%) increase in Personnel Expenses. Budgeted Travel Expense is increased by \$99,482 (30.9%) over the 2013 Budget. These increases are partially offset by decreases in Contracts & Consultants Expense of \$75,000 (50%) and in Office Rent of \$139,540 (5.1%) from the 2013 Budget.<sup>65</sup> The budgeted decrease in Office Rent is based on the terms of NERC's leases and a change in accounting relating to refunds of excess tenant improvement issues.

NERC is budgeting a total amount of \$1,459,000 for Board of Trustee costs in 2014, comprised of \$234,000 for costs of quarterly Board, Board committee and MRC meetings, \$155,000 for Trustee Travel expense for all their NERC activities (*i.e.*, not just travel in connection with the quarterly Board meetings), \$1,000,000 for Trustee fees, and \$70,000 for Trustee search fees for a search to replace a trustee leaving the Board in February 2015. This total is \$90,000 higher than the 2013 Budget of \$1,369,000, with the increase due to a small increase in Trustee fees of \$20,000 (2.0%) and the \$70,000 for Trustee search fees (no Trustee search fees were budgeted in 2013). The table on page 87 of **Attachment 2** details the budgeted Board of Trustees expenses.

The General and Administrative budget includes \$50,000 of Other Non-Operating Expenses to cover NERC's property tax obligations in Atlanta, Georgia. In addition, the

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<sup>65</sup> Office Rent for all NERC facilities is budgeted in General and Administrative.

budgeted Other Non-Operating Expenses includes \$94,000 of Interest expense, which is the projected Interest expense for 2014 under NERC's plan to finance certain IT capital projects. See §IV.C below.

**Legal and Regulatory** – The Legal and Regulatory function provides legal and regulatory support to the organization. Increasing demands for Legal and Regulatory support continue to come primarily from Compliance Operations, Investigations and Reliability Standards. In addition, Legal and Regulatory is responsible for providing a wide range of legal support to the organization in corporate, commercial, contractual, employment, real estate, intellectual property and other legal matters.

The 2014 Budget for Legal and Regulatory is \$4,298,813, an increase of \$253,084 (6.3%) over the 2013 Budget. Budgeted staffing for 2014 for Legal and Regulatory is increased from 14.0 FTEs to 15.15 FTEs, reflecting the transfer of one FTE into this function in 2013, the addition of one FTE in 2014 to provide administrative support to both the Legal and Compliance Enforcement functions, and the 4% personnel attrition adjustment. Budgeted Travel expense is decreased by \$24,500 from the 2013 Budget and budgeted Professional Services expense is reduced by \$190,000.

**Information Technology** – NERC's IT department is responsible for planning, designing, implementing and operating technology in support of the ERO's goals and objectives. In addition to continuing its responsibilities for maintaining and improving NERC's internal IT applications and infrastructure, the IT department is placing significant emphasis and resources on working collaboratively with the Regional Entities to build enterprise applications to replace numerous time-consuming and manual efforts, reduce duplicative input by Registered Entities, and build a foundation for business intelligence and analytics regarding reliability risks. During

2014, the IT Department will continue to manage the development and implementation of a number of replacement software applications for legacy applications, as well as the development of new ERO enterprise applications. Descriptions of these projects and the 2014 budget together with preliminary budget projections for 2015 and 2016 for the projects are provided on pages 21-22, 96-100 and 101-102 of **Attachment 2**. External consultants and contracting firms are used to support software application development projects. In addition, this department is responsible for IT operating expenses including telephone, internet, computers, computer supplies, maintenance and service agreements and software; these expenses are described in detail on pages 100-101 of **Attachment 2**.

The 2014 budgeted expense for the IT Department is \$8,320,845, which is an increase of \$342,140 (4.3%) over the 2013 Budget. The 2014 Budget reflects 18.07 FTEs in this function, which is an increase of 1.32 FTEs over the 2013 Budget. The staffing increase reflects the addition of two positions in 2014 (a database analyst and a webmaster), the anticipated timing of filling these positions during 2014, and the 4% personnel attrition factor. The 2014 budgeted Personnel Expense is increased by \$528,411 (24.4%) over the 2013 Budget, with the primary drivers of this increase being the increased staffing and increased employee Benefits Expenses.

The 2014 budget for Consultants & Contracts for IT is \$1,944,000, which is a decrease of \$777,000 (28.6%) from the 2013 Budget. The Consultants & Contracts expense is comprised of \$1,524,000 for ongoing operations and \$420,000 for enterprise application consulting services, as shown in Exhibit C of **Attachment 2**. The projects for which Consultants & Contracts expense is budgeted are described at pages 94-99 of **Attachment 2**, and include projects relating to security and vulnerability testing; maintenance and redesign of NERC legacy applications;



disaster recovery planning; further redesign of the NERC website; development of a standards issue database; and several ERO enterprise applications.

The 2014 IT Budget includes \$2,279,770 for Office Costs, which is an increase of \$386,045 (20.4%) from the 2013 Budget. The Office Costs budget includes \$225,000 for Telephone expenses, \$275,000 for Internet expenses, \$4,500 for Computers expense (expenses for items that are not large enough to be capitalized), \$95,400 for Computer Supplies, \$1,539,370 for Maintenance & Service Agreements, and \$140,500 for Software. Additional description of the costs budgeted in these expense categories is provided at pages 100-101 of **Attachment 2**.

Finally, the 2014 IT Budget includes a total of \$2,471,800 for Computer & Software Capital Expenditures and Equipment Capital Expenditures, which is an increase of \$699,700 (39.5%) over the 2013 Budget. The IT Capital Expenditures budget includes both expenditures for major applications development and implementation projects and costs for software, servers, laptops and other hardware to support NERC's daily operations.

**Human Resources** – HR manages all of NERC's human resources functions, including new hires, benefits and employee functions, and oversees employee performance appraisals and the incentive structure process. The 2014 goals and objectives for HR are summarized at pages 105-106 of **Attachment 2**, and are focused on executive training and development, staff development, use of compensation consultants to provide market data, stakeholder surveys including surveys of Board of Trustee effectiveness, succession planning, and automation of HR products and services.

The 2014 Budget for HR is \$1,104,974, which is a decrease of \$422,823 (27.7%) from the 2013 Budget. The 2014 budgeted staffing is 2.88 FTEs in this function, which is a reduction

of 0.12 FTEs from the 2013 Budget and is due to application of the 4% personnel attrition factor; no additions or deletions of positions is planned. Benefits Expense in the 2014 HR budget is decreased by \$523,198 from the 2013 Budget primarily due to the allocation of education, training and relocation benefits across all departments; in 2013 and prior years, these benefits were budgeted solely in Human Resources. The budgeted Consultants & Contracts expense for HR in 2014 of \$257,500 is \$31,000 lower than the 2013 Budget amount, due primarily to a reduced budget for Consultant & Contractor support for staff training and development. As shown in Exhibit C of **Attachment 2**, use of consultants and contractors for HR is budgeted in the areas of executive training and development, staff training and development, compensation consulting, stakeholder surveys, succession planning, and improvements to employee-facing HR processes. The 2014 Professional Services budget for HR is increased by \$57,002 over the 2013 Budget, due to primarily to a reclassification of performance management software costs from Office Costs to Professional Services and additional services related to automated benefits enrollment.

**Finance and Accounting** – Finance and Accounting manages all of NERC’s finance and accounting functions, including employee payroll, retirement 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 primary responsibility for development of the annual business plan and budget, and for NERC’s internal controls and risk management function.

The 2014 budgeted expense for Finance and Accounting is \$2,617,147, which is an increase of \$415,852 (18.9%) from the 2013 Budget. The 2014 budgeted staffing for this function is 12.48 FTEs, which is an increase of 1.48 FTEs from the 2013 Budget. The 1.48 FTE

increase reflects additions in this department during 2013 and application of the 4% personnel attrition factor; no new position additions are planned for 2014. As a result of the staffing additions and increased Benefits Expense, budgeted 2014 Personnel Expenses are increased by \$243,850 over the 2013 Budget.

The 2014 budgeted expense for Consultants & Contracts for Finance and Accounting is increased by \$75,000 over the 2013 Budget, primarily for outside professional support for risk management and internal control initiatives as well as finance and accounting support for regular operations. Additionally, the 2014 budgeted expense for Professional Services is increased by \$94,000 over the 2013 Budget, primarily due to implementation of new expense management systems.

**B. Working Capital and Operating Reserves**

NERC's Working Capital and Operating Reserve Policy, adopted by the NERC Board in 2012, provides for separation of Working Capital from Operating Reserves, establishes criteria and authorities for funding and access to Working Capital and Operating Reserves and transfers of funds between the reserve accounts, establishes controls and authorities regarding the reallocation of budgeted funds to other uses, establishes controls regarding annual headcount and FTE budgets, and establishes transparent reporting requirements. Exhibit E of **Attachment 2** sets forth and explains the amounts of Working Capital and Operating Reserves proposed to be budgeted, and reflected in the setting of NERC's assessments, for 2014.

The amounts budgeted for 2014 for each Working Capital and Operating Reserve category are as follows:

Working Capital:     \$3,800,000.

(Represents funding NERC has collected and is reserving to offset future liabilities in connection with lease agreements for the Atlanta and Washington DC offices.)

Operating Reserves:     \$2,700,000.

Known Contingencies where timing and amount are uncertain: \$1,000,000.

(based on (i) funding of outside consultants in connection with FAC-003 vegetation research, (ii) higher than projected data base support and maintenance expenses, (iii) additional costs to develop a replacement PC-GAR application, (iv) financing expense associated with higher than projected software development and hardware costs and acceleration of development of the RADS application to 2014 from 2015, and (v) funding of the cost of additional CONRAD devices to support ES-ISAC secure bi-directional communications<sup>66</sup>)

Unforeseen Contingencies: \$1,000,000.

(Represents contingency for unknowns including significant litigation, compliance with new governmental or regulatory mandates, major system event investigations, etc.)

System Operator Certification Program: \$768,493.

(Represents the difference between the December 31, 2013 projected ending balance of \$1,206,746 and the budgeted net loss in 2014 of \$438,253.)

Total Desired Working Capital and Operating Reserve: \$6,635,548.

Based on the beginning Working Capital and Operating Reserve at December 31, 2012, the projected funding and expenditures for 2013, the budgeted funding and expenditures for 2014, and the desired Working Capital and Operating Reserve at December 31, 2014, Table B-1 on page 112 of **Attachment 2** shows the calculation of the resulting adjustment (decrease) to NERC's 2014 statutory assessment of \$1,660,724. (As shown on Table B-1, there are additional adjustments to the 2014 assessment calculation for (1) anticipated proceeds from financing activities, and amortization of debt principal, as discussed in the next section.) To the extent NERC's actual year-end 2013 Working Capital and Operating Reserves are higher than projected (as shown on Table B-1), the excess funds will be included in the Working Capital, Unforeseen Contingency Operating Reserve account or System Operator Certification Program account, as applicable, and subject to the limitations and authorities regarding their use set forth in the Working Capital and Operating Reserves Policy.

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<sup>66</sup> CONRAD = Contested Operational Network for Reporting and Defense. See page 77 of **Attachment 2**.

### **C. Plan to Finance Certain Capital Expenditures**

As further described in Exhibit D to NERC's 2014 Business Plan and Budget (**Attachment 2**), NERC plans to finance the development costs of certain software applications and IT hardware and amortize these investments over a three year period. The capital costs which NERC plans to finance include (1) the costs incurred in 2013 associated with the development of software applications to (a) facilitate NERC and Regional Entity processing of BES exception requests (BES Application) and (b) gather and analyze bulk power system events (the EIDS Application), (2) the costs to develop or procure a replacement software application to issue and manage alerts to industry regarding critical or impending reliability and security threats (Alerts Application), (3) costs to develop a reliability assessment data store (RADS Application) and (4) hardware associated with the foregoing applications, as well as supporting NERC's internal operations.<sup>67</sup> The BES, EIDS and RADS Applications will be used by both NERC and the Regional Entities to perform required business functions using a single application and thereby reducing the need and cost for multiple disparate applications and databases. No overlap in funding for these applications is contained in the 2014 Regional Entity business plans and budgets. Development of the RADS Application is listed as commencing in 2015, with potential acceleration of the development of this application into 2014 subject to the availability of funding to cover 2014 debt service payments associated with the financing of the development costs of this project. NERC is also evaluating options to reduce the projected 2014 cost of the replacement Alerts Application to free up funds for the development of the RADS Application. NERC management will provide periodic (no less than quarterly) briefings to the NERC FAC

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<sup>67</sup> The BES Application and RADS are discussed in §IV.A.3 above concerning the Reliability Assessment and Performance Analysis program. The EIDS is discussed in §IV.A.4.b above concerning the Event Analysis Department.

and the NERC Standards Oversight and Technology Committee regarding the status of the development of these applications, as well as incurred and projected development costs. This information will also be provided to FERC as part of NERC's quarterly unaudited budget variance reporting.

In the fourth quarter of 2013, NERC proposes to finance approximately \$1.27 million in development costs for the BES and EIDS Applications, with interest only payments until the fourth quarter 2014 and a three-year principal repayment schedule commencing in the fourth quarter of 2014. In 2014, NERC is proposing to finance approximately \$1.42 million in software development costs and hardware, with interest only payments until January 1, 2015 and a three-year principal repayment schedule commencing January 1, 2015. A 3.5% interest rate has been assumed for the financings. The actual interest rate and interest rate expense will be reflected in the quarterly budget-to-actual variance reports that NERC posts on its website, reviews in open session with the NERC FAC and files with FERC. Any savings in interest expense compared to the budgeted expense will be captured and reported as a contribution to NERC's operating reserves, the expenditures of which are subject to the terms of its Working Capital and Operating Reserve Policy.

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

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

In developing the 2014 Regional Entity Business Plans and Budgets, NERC and the Regional Entities continued the substantial efforts they devoted to achieving consistency of format and presentation of information in the 2008, 2009, 2010, 2011, 2012 and 2013 Business Plans and Budgets. NERC and the Regional Entities: (i) used a common and consistent format for the 2014 Business Plan and Budget documents, (ii) continued to use the more consistent accounting methodologies that were developed in connection with the 2010 Business Plans and

Budgets, (iii) continued to use the common definition of administrative (indirect) costs that was originally developed in connection with the 2010 Business Plans and Budgets, and (iv) again developed and used extensive Shared Business Plan and Budget Assumptions for their 2014 Business Plans and Budgets. The Shared Business Plan and Budget Assumptions are provided in Exhibit A to the NERC 2014 Business Plan and Budget (**Attachment 2**) and are cross-referenced in each of the Regional Entity Business Plans and Budgets.<sup>68</sup>

In preparing their 2014 Business Plans and Budgets, the Regional Entities have developed and applied adjustments to Personnel Expenses for labor “float” or “attrition.” Use of this factor reflects the fact that, historically, the Regional Entities (and NERC) have often been unable to achieve or maintain budgeted staffing levels throughout the year due to (i) unanticipated departures of individual employees (*e.g.*, employees leave to take positions with other employers, and (ii) inability to fill budgeted positions within the time periods anticipated in preparing the budget (*e.g.*, is assumed that a new position can be filled by the start of the second quarter but in fact it is not filled until the start of the third quarter). As a result, actual Personnel Expenses have often been less than budgeted. To recognize this experience in their 2014 Budgets, the Regional Entities have applied labor float factors to their budgeted staffing numbers (FTEs) or budgeted Personnel Expenses. Some Regional Entities have applied to their labor float factors to budgeted FTEs to derive a (reduced) staffing level that is more representative of what can be realistically expected during 2014, and then determined Personnel Expenses using the reduced staffing (number of FTEs) figures. Other Regional Entities have estimated 2014 Personnel Expenses based on budgeted 2014 staffing levels but applied their labor float factors

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<sup>68</sup> The Shared Business Plan and Budget Assumptions have been developed for the 2014-2016 period, and therefore are applicable to the NERC and Regional Entity 2015 and 2016 budget projections as well as to their 2014 Business Plans and Budgets.

directly to the Personnel Expenses; this approach produces a more realistic estimate of Personnel Expenses for 2014 but leaves staffing numbers (FTEs) for 2014 at the planned levels. Each Regional Entity has developed its own labor float or labor attrition factor based on its experience.

Additionally, the Regional Entities have jointly retained a coordinator, employed by SERC, to manage joint Regional Entity projects, including development of common IT applications, that are being conducted under the auspices of the Regional Entity Management Group. The development and implementation of common IT applications and other processes on a joint basis among the Regional Entities results in (i) lower costs for each Regional Entity and (ii) adoption of systems and processes that are consistent across the Regions, to the benefit of stakeholders, particularly stakeholders operating in multiple Regions. Each Regional Entity's 2014 Budget includes an expense for the Regional Entity's share of the costs for the coordinator position, which are paid to SERC.

NERC believes that achieving and maintaining consistency among the Regional Entity business plans and budgets is an ongoing process, and NERC intends to continue to work collaboratively with the Regional Entities to maintain and enhance consistency in the presentation of the NERC and Regional Entity business plans and budgets in the future.

The Regional Entity Business Plans and Budgets follow a similar format to that used for the NERC Business Plan and Budget. Each Regional Entity Business Plan and Budget begins with an Introduction section that presents a table showing the Regional Entity's budgeted Total Resources for 2014, including statutory and (where applicable) non-statutory FTEs and expenses; the proposed increases or decreases in statutory and non-statutory Fixed Assets and Working Capital Requirement; the total statutory and non-statutory Funding Requirement; and the proposed Assessments to recover the Regional Entity's statutory Funding Requirement,



allocated (where applicable) among the U.S., Canadian provinces and Mexico.<sup>69</sup> The Introduction also provides general information on the Regional Entity, including information on its organization, membership and governance; provides the Regional Entity's goals and key deliverables and key assumptions for 2014; and provides an overview of the primary cost impacts to the Regional Entity's 2014 Budget. The Introduction section includes a table showing the Regional Entity's 2013 Budget, 2013 Projection, 2014 Budget, and Variance between the 2013 Budget and 2014 Budget, for each of the five statutory programs. It also contains charts comparing the Regional Entity's 2013 to 2014 budgeted expenses by statutory program and showing the percent change in funding for each statutory program from the 2013 Budget to the 2014 Budget; and a table showing the Regional Entity's FTEs, by statutory program and administrative department, for its 2013 Budget, 2013 Projection, and 2014 Budget. Finally, the Introduction section includes the Regional Entity's overall statutory Statement of Activities, with information presented for its 2013 Budget, 2013 Projection, Variance between its 2013 Budget and 2013 Projection, 2014 Budget, and variance between its 2014 Budget and 2013 Budget.

The Regional Entity Business Plans and Budgets next contain, in Section A – Statutory Programs, separate subsections on each statutory program and administrative department or function of the Regional Entity. These sections are presented in similar format to the NERC Business Plan (Section A of **Attachment 2**), including: (i) a table for each statutory program and administrative function showing total FTEs, total Direct Expenses, total Indirect Expenses, increase or decrease in Fixed Assets, and total Funding Requirement, for the 2013 Budget and 2014 Budget as well as the Increase/(Decrease), and (ii) a Statement of Activities for the

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<sup>69</sup> Information on non-statutory FTEs, expenses, and funding is, of course, only provided in the business plans and budgets of the Regional Entities that have non-statutory activities – FRCC, NPCC, SPP, Texas RE and WECC.

statutory program or administrative function showing Funding, Expenses and Fixed Asset activity by major line item categories, Total Budget and Total Change in Working Capital.<sup>70</sup> Information is presented in each of the Statements of Activities for the 2013 Budget, the 2013 Projection and the 2014 Budget, and the Variances between the 2013 Budget and 2013 Projection and between the 2014 Budget and 2013 Budget.<sup>71</sup> The text of these sections for each statutory program includes discussion of the program scope and functional description, 2014 key assumptions, goals and key deliverables for 2014, and reasons for increases or decreases in funding sources and costs in 2014, for the program.

Section B of each Regional Entity Business Plan and Budget presents supplemental financial information supporting the 2014 statutory Budget. Section B contains tables detailing the development of the adjustment to the Regional Entity's 2014 assessment to achieve its desired Working Capital Reserve at December 31, 2014 (Table B-1); Penalty payments received in the 12 months ended June 30, 2013, to be used as an offset to the Regional Entity's funding requirement (Table B-2); Supplemental Funding (*e.g.*, Workshop fees and Interest income) (Table B-3); Personnel Expenses (Table B-4); Consultants & Contracts expense (Table B-5); Office Rent (Table B-6); Office Costs (Table B-7); Professional Services expense (Table B-8); and Other Non-Operating Expenses (Table B-9). Tables B-3 through B-9 are followed, where applicable, by explanations of significant variances between the Regional Entity's 2013 and

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<sup>70</sup> The FRCC 2014 Business Plan and Budget provides a consolidated summary table, Statement of Activities, and discussion for General and Administrative covering all its administrative functions, and does not include separate tables, Statements of Activity and discussion for each individual administrative function.

<sup>71</sup> The Statement of Activities for each Regional Entity's General and Administrative function shows its proposed adjustment, if any, to its 2014 statutory assessment to provide for Working Capital Reserve as a Funding Requirement (positive or negative) for the General and Administrative function. All Expenses and Fixed Asset activity for the administrative programs are allocated to, and included in the Funding Requirements for, the statutory programs; therefore, no other Funding Requirement is shown for any of the Regional Entity's administrative functions.

2014 Budgets for the funding or cost category. Finally, Table B-10 provides the Regional Entity's statutory budget projections for 2015 and 2016 (along with, for comparison, its 2014 budget), in Statement of Activities format.<sup>72</sup>

Section C – Non-Statutory Activities of each Regional Entity Business Plan and Budget provides (where applicable) information on the Regional Entity's non-statutory activities for 2014, including program descriptions and objectives, budget information, and FTEs.<sup>73</sup>

Following Section C, each Regional Entity Business Plan and Budget also provides, in Section D – Additional Consolidated Financial Statements, or in separate appendices: (1) a 2014 Consolidated Statement of Activities, Fixed Asset Expenditures and Changes in Working Capital showing the Regional Entity's 2014 budgeted line-item funding sources, expenses, and Fixed Asset activity, in total, by statutory and (if applicable) non-statutory, and by statutory program and Administrative Services department, as well as the Direct Expenses and Indirect Expenses for each statutory program; (2) a combined (statutory and, where applicable, non-statutory) Statement of Financial Position at (i) December 31, 2012, based on 2012 actual audited results;<sup>74</sup> (ii) December 31, 2013, based on the Regional Entity's 2013 Projection; and (iii) December 31, 2014, based on the Regional Entity's 2014 Budget; and (3) the Regional Entity's organization chart, showing staffing comparisons for 2014 versus 2013.

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<sup>72</sup> MRO has included its budget projections for 2015 and 2016 in Section D of its 2013 Business Plan and Budget, and WECC has included its budget projections for 2013 and 2014 in Appendix B to its 2013 Business Plan and Budget, rather than in Table B-10 of Section B.

<sup>73</sup> MRO, ReliabilityFirst and SERC do not plan to have, and have not budgeted for, any non-statutory activities in 2014. SPP RE is unable to provide a non-statutory budget for 2014 because its planning and budgeting cycle does not result in finalization and Board approval of the overall SPP, Inc. budget until October. SPP RE has included the overall SPP, Inc. 2013 budget and 2012 actual income statement, for information.

<sup>74</sup> The audited financial statements of each Regional Entity for 2012 were filed with FERC on May 30, 2012, in NERC's 2012 Budget True-up Report.

## **B. Discussion of Relevant Regional Entity 2014 Business Plans and Budgets**

This section summarizes highlights of the relevant Regional Entity 2014 Business Plans and Budgets.

### **1. WECC and RCCo**

#### **a. WECC-RCCo Separation**

FERC conditionally granted WECC's request for a declaratory order authorizing WECC to transfer its Reliability Coordinator (RC) and Interchange Authority (IA) registered functions to a newly-formed company, referred to as the Reliability Coordination Company or RCCo, which will be independent from WECC.<sup>75</sup> FERC also approved WECC's proposal to resume responsibility for Compliance Enforcement Authority functions with respect to the WECC Region RC and IA functions when those functions are taken over by the RCCo.<sup>76</sup> In the *WECC Declaratory Order*, FERC approved WECC's proposal that the RC and IA registered functions, when assumed by the RCCo, would continue to be considered statutory functions under FPA §215 to be funded by statutory assessments to LSEs in the WECC Region; and that the RCCo's annual business plans and budgets would be submitted to the applicable governmental authorities for approval as part of the NERC and Regional Entity annual business plan and business filing. These arrangements are scheduled to become effective January 1, 2014.<sup>77</sup>

NERC will be separately filing an amended Delegation Agreement with WECC, including amended WECC Bylaws, to be effective January 1, 2014, reflecting that WECC will

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<sup>75</sup> *Western Electricity Coordinating Council, Order on Petition for Declaratory Order*, 143 FERC ¶ 61,239 (2013) (*WECC Declaratory Order*). NERC has learned that the new company will be named "Peak Reliability," but it is referred to as RCCo throughout this filing.

<sup>76</sup> At present, NPCC performs the CEA responsibilities with respect to WECC's RC and IA registered functions, pursuant to an agreement between NPCC and WECC.

<sup>77</sup> FERC originally ruled that WECC's costs to perform the RC function in the WECC Region could be funded through statutory assessments pursuant to §215 in an order on rehearing issued April 19, 2007. *North American Electric Reliability Corp., Order on Rehearing*, 119 FERC ¶ 61,059 (2007).

no longer perform the RC and IA functions for the WECC Region; and that WECC will assume responsibility for the CEA functions for the RC and IA registered functions in the WECC Region. WECC will bill to LSEs in the WECC Region, and collect, the statutory assessment to fund the RCCo budget, along with the billing and collection of the NERC assessment allocated to the WECC Region, the WECC assessment, and the WIRAB assessment. The billing and collection arrangements are discussed in greater detail in §V.B.1 below. Additionally, WECC will be separately filing an agreement to terminate the NPCC-WECC Compliance Enforcement Authority Agreement, effective December 31, 2013, and for approval of the RCCo bylaws and related agreements, as required by the *WECC Declaratory Order*. In this filing, NERC is submitting WECC's proposed 2014 Business Plan and Budget, reflecting the elimination of the RC and IA functions and the associated costs from WECC's activities, and the RCCo's proposed initial budget for 2014. The proposed statutory assessments to LSEs in the WECC Region to fund the operations of WECC and of the RCCo, based on these budgets, are shown in Appendix 2 to the NERC 2014 Business Plan and Budget (**Attachment 2**).

**b. WECC 2014 Business Plan and Budget**

In previous years, WECC has budgeted its RC and IA functions in its Situation Awareness and Infrastructure Security Program. The direct costs to perform the RC and IA functions comprised virtually all of WECC's Situation Awareness and Infrastructure Security Program costs. For 2014, the RC and IA functions (including the personnel in this Program and the related costs) are being transferred to the RCCo. Additionally, some General and Administrative personnel and costs are being transferred to the RCCo, resulting in reduced General and Administrative Costs for WECC. As the result of the formation of the RCCo and the transfer of these personnel and costs to it, the budgeted direct costs for WECC's other four

statutory programs for 2014 can readily be compared to the 2013 budgeted costs, but the budgeted 2014 General and Administrative costs, and WECC's total statutory budget, cannot.

WECC's 2014 total statutory budget is \$25,638,084 before provision for Working Capital, a decrease of \$25,387,008 from its 2013 Budget. The principal reason for the reduction is the elimination of \$24,409,340 of costs budgeted in the Situation Awareness and Infrastructure Security Program for 2013. Additionally, WECC's budgeted Administrative Services expenses are reduced by \$3,304,510 from the 2013 Budget, in large part due to the transfer of some Administrative Services personnel to the RCCo and the reduction in Indirect Expenses enabled by the elimination of the RC and IA functions. WECC's proposed statutory assessment for 2014 is \$15,630,852 (as compared to \$40,962,547 in its 2013 Budget). With respect to the other Funding sources: (i) Penalty Sanction collections, at \$2,933,050, are approximately the same amount as in the 2013 Budget; (ii) Funding from Federal Grants is reduced by \$2,287,297, due in significant part to the expected completion of the U.S. Department of Energy (DOE)-funded Western Interconnection Synchrophasor Program (WISP) by December 31, 2013 (which, had it continued beyond that date, would have been taken over by the RCCo);<sup>78</sup> (iii) revenues from Workshops are projected to increase by \$72,629 (8.2%) from the 2013 budget; (iv) budgeted Interest income is reduced by \$221,911 (76.3%), in part due to the transfer of a portion of WECC's reserves to the RCCo; and (v) budgeted Miscellaneous revenues (which were only budgeted at \$3,879 in the 2013 Budget) are zero.

WECC's budgeted total staffing for statutory and administrative programs for 2014 is 135.0 FTEs, which is a reduction of 81.3 FTEs from the budgeted 2013 staffing of 216.3 FTEs. The staffing is comprised of 88.1 FTEs in statutory programs and 46.9 FTEs in Administrative

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<sup>78</sup>Correspondingly, the costs for the WISP, which were funded by the DOE grant, are eliminated.

programs. The decreased staffing is due to elimination of 84.5 FTEs in the Situation Awareness and Infrastructure Security Program and 9.4 FTEs in Administrative programs, offset by budgeted increases in staffing in the other four statutory programs. WECC is budgeting an increase in staffing of 7.5 FTEs for its CMEP, 0.5 FTE in each of the Reliability Standards and Training and Education Programs, and 4.0 FTEs in the Reliability Assessment and Performance Analysis Program, as well as 1.4 FTEs in Technical Committees and Member Forums.

Although WECC is budgeting an increase in staffing of 7.5 FTEs for its CMEP, to 58.0 FTEs, its budgeted Personnel Expenses for this program are reduced by \$251,479 (3.9%) due primarily to implementing a 15% adjustment to Personnel Expenses for labor float. Budgeted Consultants & Contracts Expense for this program decreases by \$45,200 (9.6%) from the 2013 Budget based on an expectation of reduced need for outside support for CMEP activities. Budgeted Office Costs for this program decrease by \$43,753 (8.8%) from the 2013 Budget, reflecting that significant software enhancements were completed in 2013.

The budgeted changes in total costs for each of the four statutory programs (other than Situation Awareness and Infrastructure Security) from the 2013 Budget are as follows: (i) Reliability Standards, increase of \$47,699 (4.9%); (ii) CMEP, increase of \$1,604,067 (12.2%); Reliability Assessment and Performance Analysis, increase of \$1,691,043 (23.0%); and (iv) Training, Education and Operator Certification, increase of \$156,019 (29.3%). For each of these four programs, the allocated Indirect Expenses increases over the 2013 Budget. Although total Administrative Services expenses are reduced by \$3,304,510 from the 2013 Budget, due largely to the transfer of personnel and other costs to the RCCo, the allocation of virtually all of the Indirect Expenses to these four direct function programs rather than to five direct function programs (of which the Situation Awareness and Infrastructure Security Program previously had

the largest number of FTEs), results in overall increases in the Indirect Expenses allocated to each of the four programs.<sup>79</sup> Additionally, in the Reliability Assessment and Performance Analysis Program, budgeted Personnel Expenses increase by \$137,726 (5.6%) from the 2013 Budget, due to increased staffing; and Consultants & Contracts Expenses increase by \$840,459 (33.2%) due to additional activities being undertaken under the DOE Regional Transmission Expansion Planning grant (these increased costs are supported in part by increased grant funding) and to continued development of the Base Case Coordination System and additional model development and system validation work by the Model Validation Working Group.

Under General and Administrative, budgeted 2014 Personnel Expenses are reduced by \$530,756 from the 2013 Budget, due primarily to the reduction in staffing and application of the 15% labor float adjustment. Office Rent is reduced by \$271,164 due to the transfer of two office facilities (the Vancouver, Washington and Loveland, Colorado RC Centers) to the RCCo, and Office Costs are reduced by \$79,619 from the 2013 Budget, partially due to the formation of and transfer of functions to the RCCo and partially due to bank charges and property taxes being budgeted and accounted for in 2014 in the Finance and Accounting Program. Additionally, WECC over-budgeted Depreciation Expense in 2013; budgeted Depreciation Expense for 2014 is reduced by \$297,179 (59.2%) to more accurately reflect actual Depreciation experience.

WECC's target Working Capital Reserve at December 31, 2014 is \$2,072,292, which is based on an objective of one month of Personnel Expenses and Operating Expenses, to be achieved by 2016. In its 2013 Business Plan and Budget, WECC's target Working Capital Reserve at December 31, 2013 was \$10,756,455. WECC is planning (i) to transfer \$5,874,245

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<sup>79</sup> WECC will continue to have a Situation Awareness and Infrastructure Security Program; however, for 2014 the Situation Awareness and Infrastructure Security Program is budgeted to have staffing of only 0.5 FTE and direct expenses of only \$60,156.



of non-statutory Working Capital Reserves, which were on-hand when WECC originally entered into its Delegation Agreement with NERC in 2006, to statutory Working Capital Reserves, and (ii) to transfer \$5,811,568 of Working Capital Reserves to the RCCo to provide it with a starting Working Capital Reserve. The non-statutory Working Capital Reserves have not been used for any purposes since 2006, and WECC management and the WECC Board have concluded that it would be prudent to use these non-statutory reserves to provide Working Capital Reserves for the RCCo and to minimize the impacts on the assessments for both WECC and the RCCo in 2014 and future years resulting from the formation of the RCCo and other cost increases. As a result, WECC's proposed 2014 assessments reflects a decremental adjustment of \$2,418,946 to achieve the target Working Capital Reserve for WECC at December 31, 2014.

WECC's non-statutory budget for 2014 is \$1,658,980, and its total non-statutory Funding requirement is \$1,903,800. WECC's non-statutory activity is the maintenance and operation of the Western Renewable Energy Generation Information System.

WECC's allocation of its assessment to the AESO for the Province of Alberta has been reduced by \$834,955, representing WECC CMEP costs (including allocated Indirect Costs and Fixed Asset Expenditures) that are considered duplicative of Compliance and Enforcement Programs of the AESO. The AESO credit amount is allocated to the remainder of the LSEs (Balancing Authorities) in the WECC Region on the basis of NEL. Appendix C to the 2014 WECC Business Plan and Budget (**Attachment 3**) shows the calculation of the \$834,955 adjustment to the assessment to AESO.

**c. RCCo 2014 Business Plan and Budget**

In accordance with the process approved by FERC in the *WECC Declaratory Order*, the RCCo has submitted its proposed 2014 Business Plan and Budget to NERC for inclusion in this

Business Plan and Budget filing. Because the RCCo is not a Regional Entity and will not be performing delegated functions (although it will perform functions that FERC has determined to be statutory functions), NERC has not participated in the development of the RCCo Business Plan and Budget, or substantively reviewed and approved the RCCo Business Plan and Budget in the same manner that NERC does for Regional Entity Business Plans and Budgets. NERC management has, however, reviewed the RCCo 2014 Business Plan and Budget for form and for consistency with the WECC 2014 Business Plan and Budget. The following paragraphs provide a brief summary of the RCCo's proposed 2014 Business Plan and Budget, which is **Attachment 4** to this filing.

The RCCo has presented its Business Plan and Budget in the same format as the Regional Entity Business Plans and Budgets. However, the RCCo has only one direct function program, which the RCCo has labeled its Situation Awareness and Infrastructure Security Program. It is through this program that the RCCo will perform the RC and IA registered functions for the WECC Region. The RCCo has also organized its Administrative Services functions under the same program categories used by NERC and the Regional Entities: Technical Committees and Member Forums, General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Finance and Accounting.

The RCCo's proposed budget for 2014, before provision for Working Capital, is \$32,958,648. The RCCo's proposed statutory assessment is \$29,568,031. The RCCo's only other budgeted source of funding, besides the assessment, is Interest Income of \$156,000. However, as discussed below, the RCCo will also use a portion of the Working Capital Reserves being transferred from WECC to reduce assessments for 2014.

The RCCo's total proposed staffing for 2014 is 149.08 FTEs, comprised of 119.08 FTEs

in the Situation Awareness and Infrastructure Security Program and 30.0 FTEs in Administrative Services. In WECC's 2013 Budget, staffing for its Situation Awareness and Infrastructure Security Program (which was engaged almost entirely in performing the RC and IA functions) was 85.00 FTEs. Therefore, the RCCo is increasing the staffing for these functions by 34.08 FTEs. Thirty of the new positions are being added as the result of the recommendations of the Reliability Coordination Task Force, which was appointed by the WECC Board, to enhance the ability of the RC to carry out its functions. The new positions will be focused primarily on the areas of operations planning, real-time operations, and IT applications, engineering and support.

The RCCo's Administrative Services programs will be staffed as follows according to its 2014 Budget: General and Administrative, 12.0 FTEs; Legal and Regulatory, 7.0 FTEs; IT, 3.0 FTEs; Human Resources, 3.0 FTEs; and Finance and Accounting, 5.0 FTEs. Although it is expected that some WECC Administrative Services personnel will transfer to the RCCo, it is necessary for the RCCo to develop and support a complete, standalone Administrative Services organization sufficient to support the administrative and support needs of the organization.

The RCCo's total budgeted Personnel Expenses for 2014 are \$19,397,409. In budgeting its Personnel Expenses, the RCCo, like WECC, has applied a 15% labor float adjustment factor. The RCCo is also budgeting \$1,267,500 in Consultants & Contracts Expense, of which \$822,000 is budgeted for consulting costs relating to the Enhanced Curtailment Calculator. The RCCo will assume responsibility for the leased RC facilities in Vancouver, Washington and Loveland, Colorado and has budgeted Office Rent for 2014 of \$1,276,278. The RCCo will require additional space in these facilities due to its additional staffing (as compared to the WECC Situation Awareness and Infrastructure Security Program) and the need to house its Administrative Services organization in these facilities. Similarly, the RCCo is budgeting

\$6,986,326 for Office Costs, primarily for maintenance and service agreements for RC equipment and software and other Office Costs (such as telephone, office supplies and copying costs) to support the standalone organization. The RCCo is budgeting \$663,280 in Professional Services Expenses, including \$362,280 for directors' fees for the RCCo's independent Board members and \$168,000 for insurance costs. Finally, the 2014 Budget includes \$2,212,000 of Fixed Asset Additions for Computer & Software, Furniture & Fixtures, and Equipment Capital Expenditures.

The RCCo has established a target Working Capital Reserve amount at December 31, 2014 of \$2,576,951, which is equal to approximately 8% of the budgeted 2014 expenses and capital expenditures. In connection with the formation of the RCCo, WECC is splitting its Working Capital Reserves between the RCCo and WECC in order to provide starting Working Capital Reserves for the new entity. WECC reserves in the amount of \$5,811,568 will be transferred to the RCCo. As a result, as shown in Table B-1 of **Attachment 4**, the RCCo's proposed 2014 assessment reflects a decremental adjustment of \$3,234,617 to achieve the target Working Capital Reserve amount at December 31, 2014.

**d. Assessment Collection and Distribution**

As it does currently in accordance with Exhibit E of the NERC-WECC Delegation Agreement, WECC will continue to issue a single annual invoice to the WECC Region LSEs for the annual NERC (allocated WECC Region portion), WECC and WIRAB statutory assessments. WECC will continue to promptly remit amounts collected for the NERC, WECC and WIRAB assessments to NERC, and NERC will distribute the WECC assessment portion of collections back to WECC and the WIRAB assessment portion of collections to WIRAB. Going forward, WECC will also include the annual assessment for the RCCo as a separate line item on the

annual invoice to the WECC Region LSEs. WECC will distribute the amounts collected on behalf of the RCCo directly to the RCCo. In the event that a LSE pays less than the full amount of the invoice, WECC will be permitted to allocate the shortfall among all the assessments received from the LSE only if WECC does not know and, after due inquiry with the LSE submitting the underpayment and consultation with NERC, is unable to determine, which invoiced item(s) accounts for the shortfall. As a result, NERC will not bear the collections risk for the RCCo funding in the same manner as it bears that risk for the WECC and WIRAB funding. Additionally, WECC will not bear any collection risk for the RCCo funding.

**e. Action by the AESO**

On September 11, 2013, the AESO Board approved the AESO Management's proposal to assume all responsibilities that relate to the functions of the RC, effective January 1, 2014. The AESO Management subsequently advised WECC and NERC of this approval. Accordingly, the AESO does not intend to obtain RC services for the Province of Alberta from the RCCo, although the AESO does intend to rely on the RCCo for the IA function. At this time, the RCCo has prepared its budget, and the RCCo assessments for 2014 have been calculated, under the assumption that the AESO will take RC services from the RCCo in 2014 and that the AESO will pay its full allocated share of the RC assessment. This matter is the subject of continuing discussions among the AESO, WECC and NERC. If it proves to be the case that revisions to the RCCo assessments are necessary, NERC will promptly determine the revised RCCo assessments and submit them in a supplemental filing.

**C. Metrics Related to Regional Entity Budgets**

Beginning with its 2008 Business Plan and Budget filing, NERC has included, as part of these annual filings, attachments providing and discussing metrics developed by NERC and the Regional Entities to be used as a further aid to understanding where and why differences exist

among the Regional Entities' activities and budgets. The presentations in these attachments have been revised and expanded over time based on NERC's and the Regional Entities' analysis of appropriate and useful metrics, and directives in FERC's Orders.<sup>80</sup> In attachments to the 2010, 2011, 2012 and 2013 Business Plan and Budget filings, NERC provided two sets of metrics information. The metrics in the first attachment depicted and compared the Regional Entities' total statutory budgets and staffing, CMEP budgets and staffing, total statutory budget and CMEP budget dollars per registered entity and per registered function, registered entities and registered functions per statutory FTE and per CMEP FTE, numbers of "small," "medium" and "large" non-CIP compliance audits and "small" and "large" CIP compliance audits, and cost per compliance audit by type and size of audit. The metrics in the second attachment focused on the NERC and Regional Entity administrative (indirect) costs and staffing relative to total and direct program costs and staffing, including

- 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.

**Attachment 9** and **Attachment 10** of this 2014 Business Plan and Budget filing provide the same metrics information, in the same format, as presented in the attachments to the 2010, 2011, 2012 and 2013 Business Plan and Budget filings, from NERC's and the Regional Entities' 2014 Business Plans and Budgets. Each Attachment contains analysis and discussion of the metrics information presented in that Attachment.

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<sup>80</sup> See, e.g., *2008 Budget Order* at PP 34-35; *2009 Budget Order* at PP 47-48; *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 123 FERC ¶ 61,282 (2008), at P 39; *2012 Budget Order* at PP 23-27.

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

In its 2010, 2011, 2012 and 2013 Business Plan and Budget filings, NERC provided status reports on the progress achieved by NERC and the Regional Entities in reducing the backlog of alleged violations of reliability standards that had not been processed to completion.<sup>81</sup> The status reports also described the initiatives being undertaken by NERC and the Regional Entities to process new allegations of violations in a more expeditious manner. In the *2011 Budget Order*, FERC reviewed the status report submitted in the 2011 Business Plan and Budget filing and stated the following observations and directives:

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

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

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<sup>81</sup> A status report on processing alleged violations was originally included in the 2010 Business Plan and Budget filing, in response to a FERC directive in the *July 16, 2009 Budget Compliance Order*, at P 18. The status reports were in attachments to the 2010 Business Plan and Budget filing, the 2011 Business Plan and Budget filing, and the 2012 Business Plan and Budget filing. In the 2013 Business Plan and Budget filing, the status report was incorporated into the Compliance Enforcement section of NERC's Business Plan and Budget.

in NERC's 2010 business plan and budget.<sup>42</sup> The Commission directs NERC to include this table in its compliance filing.

<sup>41</sup> NERC Application at 39-43.

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

Following the approach used in its 2013 Business Plan and Budget filing, NERC has incorporated the status report onto violations processing into the Compliance Enforcement section of its Business Plan and Budget, at pages 45-47 of **Attachment 2**. The information presented shows that NERC and the Regional Entities have made steady progress in continuing to close out older violations. As of June 30, 2013, approximately 85% of the active non-CIP violations and 72% of the active CIP violations were discovered since January 1, 2012 (*i.e.*, were discovered in the preceding 18 months).<sup>82</sup> At June 30, 2013, there were no active non-CIP violations that were discovered prior to January 1, 2010 and only 12 active non-CIP violations that were discovered in 2010. There were only 16 active CIP violations that were discovered in 2009 and 91 active CIP violations that were discovered in 2010. Further, for the 12 months ended June 30, 2013, the number of violations dismissed or filed with FERC exceeded the number of new violations opened by 680 violations.

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<sup>82</sup> The number of "active violations" excludes violations that are being held by an appeal, a regulator or a court.



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**ATTACHMENT 1**

**SUMMARY TABLES FOR NERC AND REGIONAL ENTITY**

**PROPOSED 2014 BUDGETS AND ASSESSMENTS**

**NERC'S Proposed Budget by Program<sup>1</sup>**

NERC Program	2013 Budget for Statutory Functions	2014 Budget for Statutory Functions
Reliability Standards	\$ 9,775,088	\$ 10,167,369
Compliance Monitoring and Enforcement		
Compliance Operations	\$ 8,928,994	\$ 9,496,446
Compliance Enforcement	\$ 6,725,004	\$ 6,395,091
Reliability Assessments and Performance Analysis	\$ 7,762,436	\$ 8,350,598
Training, Education and Operator Certification	\$ 3,571,766	\$ 3,737,472
Reliability Risk Management		
Event Analysis	\$ 3,738,430	\$ 4,048,371
Situation Awareness	\$ 5,324,311	\$ 4,583,264
Critical Infrastructure Department		
Critical Infrastructure Protection	\$ 5,299,502	\$ 5,668,027
ES-ISAC	\$ 3,160,725	\$ 3,943,457
Total Budget	\$ 54,286,256	\$ 56,390,096

<sup>1</sup>Does not include the proposed provision for Working Capital reserve funding

**Proposed Budget for Statutory Activities of NERC, each Regional Entity and WIRAB<sup>1</sup>**

	2013 Budget for Statutory Functions	2014 Budget for Statutory Functions
NERC	\$ 54,286,256	\$ 56,390,096
FRCC	\$ 6,531,782	\$ 6,794,932
MRO	\$ 9,283,539	\$ 9,744,799
NPCC	\$ 13,879,226	\$ 14,129,006
RFC	\$ 17,426,838	\$ 18,063,201
SERC	\$ 15,907,603	\$ 16,877,288
SPP RE	\$ 11,514,818	\$ 11,823,629
TRE	\$ 10,935,780	\$ 11,771,248
WECC	\$ 51,025,092	\$ 25,638,084
WIRAB	\$ 595,180	\$ 703,700
<b>Total Budget</b>	<b>\$ 191,386,114</b>	<b>\$ 171,935,983</b>
RCCo		\$ 32,958,648

<sup>1</sup>Does not include the proposed provision for Working Capital reserve funding

**Proposed Assessments for Statutory Activities of NERC and each Regional Entity**

	Assessments for Statutory Functions 2013		Allocation to Canada 2013		Assessments for Statutory Functions 2014		Allocation to Canada 2014	
NERC	\$	47,604,156	\$	4,443,246	\$	51,401,382	\$	4,554,567
FRCC	\$	5,957,971	\$	-	\$	5,488,057	\$	-
MRO	\$	9,098,927	\$	1,426,681	\$	8,741,444	\$	1,402,080
NPCC	\$	12,352,264	\$	4,910,573	\$	13,611,881	\$	5,163,960
RFC	\$	14,165,848	\$	-	\$	15,159,784	\$	-
SERC	\$	13,829,878	\$	-	\$	13,734,499	\$	-
SPP RE	\$	8,530,054	\$	-	\$	9,219,123	\$	-
TRE	\$	8,152,520	\$	-	\$	10,509,308	\$	-
WECC <sup>1</sup>	\$	41,497,239	\$	5,443,579	\$	16,219,260	\$	5,974,286
<b>Total Budget</b>	<b>\$</b>	<b>161,188,857</b>	<b>\$</b>	<b>16,224,079</b>	<b>\$</b>	<b>144,084,738</b>	<b>\$</b>	<b>17,094,893</b>

<sup>1</sup> Includes assessments for WECC and WIRAB

## **ATTACHMENT 2—10**

(Available on the NERC Website

at [http://www.nerc.com/FilingsOrders/ca/Canadian%20Filings%20and%20Orders%20DL/Attachments\\_2014budget\\_WECC\\_filing.pdf](http://www.nerc.com/FilingsOrders/ca/Canadian%20Filings%20and%20Orders%20DL/Attachments_2014budget_WECC_filing.pdf))