

July 10, 2014

**VIA ELECTRONIC FILING**

Jim Crone  
Director, Energy Division  
Manitoba Innovation, Energy and Mines  
1200-155 Carlton Street  
Winnipeg MB R3C 3H8

Re: *North American Electric Reliability Corporation*

Dear Mr. Crone:

The North American Electric Reliability Corporation (“NERC”) hereby submits North American Electric Reliability Corporation’s Report of Comparisons of Budgeted to Actual Costs for 2013 for NERC and the Regional Entities. NERC requests, to the extent necessary, a waiver of any applicable filing requirements with respect to this filing. This filing is for informational purposes only, and NERC is not requesting any action with regard to this filing.

Please contact the undersigned if you have any questions.

Respectfully submitted,

*/s/ Willie L. Phillips*  
Willie L. Phillips  
*Assistant General Counsel for*  
*North American Electric Reliability*  
*Corporation*

Enclosure

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**BEFORE THE  
PROVINCE OF MANITOBA**

**NORTH AMERICAN ELECTRIC )  
RELIABILITY CORPORATION )**

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION'S  
REPORT OF COMPARISONS OF BUDGETED TO ACTUAL COSTS FOR 2013  
FOR NERC AND THE REGIONAL ENTITIES**

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July 10, 2014

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### ATTACHMENTS:

**Attachment 1:** North American Electric Reliability Corporation – 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements

**Attachment 2:** Florida Reliability Coordinating Council, Inc. – 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements

**Attachment 3:** Midwest Reliability Organization – 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements

**Attachment 4:** Northeast Power Coordinating Council, Inc. – 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements

**Attachment 5:** ReliabilityFirst Corporation – 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements

**Attachment 6:** SERC Reliability Corporation – 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements

**Attachment 7:** Southwest Power Pool Regional Entity – 2013 Actual Cost-to-Budget Comparison; Audited Financial Statements of Southwest Power Pool, Inc.

**Attachment 8:** Texas Reliability Entity, Inc. – 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements

**Attachment 9:** Western Electricity Coordinating Council – 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements

**Attachment 10:** Metrics Concerning Administrative Costs in 2013 NERC and Regional Entity Budgets and Actual Costs

## **I. INTRODUCTION**

The North American Electric Reliability Corporation (“NERC”) respectfully submits this filing to provide comparisons of actual to budgeted costs for the year 2013 for NERC and the eight Regional Entities.<sup>1</sup> The Federal Energy Regulatory Commission (“FERC”) originally directed NERC to file, each year, comparisons of actual to budgeted costs for the preceding year, in an order issued October 18, 2007 concerning the 2008 business plans and budgets of NERC and the Regional Entities.<sup>2</sup> As described in §III below, in several subsequent orders, FERC has clarified and expanded upon the information to be included in the annual actual-to-budget cost comparisons.

The following information is provided in this filing:

- A comparison of the actual funding received and costs incurred by NERC and each Regional Entity for statutory and (where applicable) non-statutory activities for the year ended December 31, 2013, to the budgets of NERC and each Regional Entity for that year, with explanations of significant actual cost-to-budget variances.
- Audited financial statements of NERC and each Regional Entity for the year ended December 31, 2013.
- Metrics concerning NERC and Regional Entity administrative costs in their 2013 budgets and actual results.<sup>3</sup>

This filing includes the following attachments:

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

<sup>2</sup> *North American Electric Reliability Corporation, Order Conditionally Accepting 2008 Business Plan and Budget of the North American Electric Reliability Corporation and Ordering Compliance Filings*, 121 FERC ¶ 61,057 (2007) (“2008 ERO Budget Order”).

<sup>3</sup> The metrics information is provided in response to P 39 of FERC’s Order issued June 19, 2008. *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 123 FERC ¶61,282 (2008) (“June 19, 2008 Budget Compliance Order”).

**Attachment 1:** 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements for NERC.

**Attachment 2:** 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements for FRCC.

**Attachment 3:** 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements for MRO.

**Attachment 4:** 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements for NPCC.

**Attachment 5:** 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements for ReliabilityFirst.

**Attachment 6:** 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements for SERC.

**Attachment 7:** 2013 Actual Cost-to-Budget Comparison for SPP RE and 2012 Audited Financial Statements for Southwest Power Pool, Inc.

**Attachment 8:** 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements for Texas RE.

**Attachment 9:** 2013 Actual Cost-to-Budget Comparison and Audited Financial Statements for WECC.

**Attachment 10:** Metrics Concerning Administrative Costs in 2013 NERC and Regional Entity Budgets and Actual Costs

## **II. NOTICES AND COMMUNICATIONS**

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

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### **III. COMPARISONS OF ACTUAL COSTS TO BUDGETS FOR THE YEAR ENDED DECEMBER 31, 2013**

As noted above, in the *2008 ERO Budget Order*, FERC directed NERC to make annual filings comparing the NERC and Regional Entity budgets to actual costs incurred in the preceding year, “in sufficient detail and with sufficient explanations for the Commission to determine, by program area, the reasons for deviations from the budget and the impacts of those deviations.”<sup>4</sup> In the *June 19, 2008 Budget Compliance Order*, which addressed NERC’s April 1, 2008 compliance filing to the *2008 ERO Budget Order*, FERC provided additional direction concerning the presentation of the annual filings comparing NERC’s and the Regional Entities’ actual to budgeted expenditures:

37. To promote consistency and transparency, the Commission directs the use of certain practices and formats in future true-up filings. In particular, Regional Entities must provide a cover letter discussing major areas of actual cost-to-budget variances for all of the Regional Entity’s statutory programs in the aggregate. Regional Entities should also follow NERC’s template for the presentation of actual costs and budgeted costs on a program-by-program and line-item basis. Significant variances must be explained on a line-item basis with enough particularized information to clearly support each such variance. Regional Entities should refrain from using generic, program area summaries to support significant variances. The cause for each such variance should therefore be clear on its face. Further, each Regional Entity must provide an explanation of the allocation methods it used to allocate indirect costs to the direct statutory program or functional areas, as well as any allocation between any statutory and non-statutory activities.

38. Cash reserves are meant to handle expenses which exceed the amount budgeted, as well as unforeseen events that could occur at any time. However, in the future, the Commission expects NERC and the Regional Entities to justify the use of cash reserves as variances in the April true-up. Cash reserves should not become a means to fund expected projects outside of the budget approval process. The Commission expects that as NERC and the Regional Entities develop experience in planning and functioning under their budgets the amounts and number of variance will decrease. In addition, the Commission expects that with experience, the explanations for the variances will improve.

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

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<sup>4</sup> *2008 ERO Budget Order* at P 23.

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

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

The comparisons of 2012 actual-to-budget funding and expenditures for NERC and the Regional Entities are provided in **Attachments 1 through 9**, as follows:

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

Each Attachment also includes the respective entity's audited financial report for the year ended December 31, 2013, as prepared by its independent public accounting firm.

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

- Each comparison contains a cover letter identifying overall actual-to-budget variances in Funding and total Expenses and in major Expense categories, and discussing reasons for major areas of actual cost-to-budget variances.
- Each comparison contains a summary table, prepared using a NERC-supplied template, showing the entity's 2013 budget, 2013 actual amounts, and the variance,

for major line-item categories of Funding and Expenses.

- For those entities that engaged in both statutory and non-statutory activities in 2013, the comparisons include separate summary tables for statutory programs and non-statutory activities, prepared using the NERC-supplied template, showing the entity's 2013 budget, 2013 actual amounts, and the variance, for major line-item categories of Funding and Expenses.<sup>5</sup>
- The comparisons include individual tables, also prepared using a NERC-supplied template, showing 2013 budget, 2013 actual amounts, and the variance, for major line-item categories of Funding and Expenses, for each of the statutory programs<sup>6</sup> (direct costs) and the overhead functions<sup>7</sup> (indirect costs). These tables also provide explanations for significant line-item actual-to-budget variances.<sup>8</sup>

The Attachments also address (generally in the cover letter) (i) where applicable, whether any statutory funds were used in 2013 for non-statutory activities (neither NERC nor any Regional Entity reports using statutory funds for non-statutory activities during 2013); (ii) the impact of the entity's 2013 results on its working cash reserve for statutory programs (*e.g.*, whether working cash reserves were used to fund expenditures during 2013)<sup>9</sup>; (iii) how indirect

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<sup>5</sup> FRCC, NPCC, Texas RE and WECC had non-statutory activities in 2013 and each has provided summary tables for statutory and non-statutory activities. NERC, MRO, ReliabilityFirst, SERC and SPP RE did not have non-statutory activities in 2013 (although SPP RE's parent organization, Southwest Power Pool, Inc. had non-statutory activities).

<sup>6</sup> Reliability Standards, Compliance Operations, Enforcement and Organization Registration, Reliability Assessment and Performance Analysis, Training, Education and Operator Certification, and Situation Awareness and Infrastructure Security (including Critical Infrastructure Protection). NERC and SERC have each provided separate tables for (i) Compliance Operations and Organization Registration and (ii) Compliance Enforcement. In addition, NERC has also provided separate tables for Event Analysis and Investigations and for Critical Infrastructure Protection and ES-ISAC (Electricity Sector Information Sharing and Analysis Center).

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

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

<sup>9</sup> The summary comparison tables for total entity and (where applicable) statutory and non-statutory activities show the "Change in Working Capital" (or in "Operating Reserves") for the 2013 Actual Funding and Expenditures. A positive "Change in Working Capital" means the entity's total Actual Funding exceeded its total Actual Expenditures for the year 2013; therefore, it was not necessary for the entity to use a portion of its cash reserves balance at December 31, 2012 to fund 2013 expenditures.



costs were allocated to the direct statutory programs or functions; and (iv) where applicable, whether, and if so how, costs were allocated between statutory programs and non-statutory activities in 2013.

NERC has provided additional information in its 2013 report in **Attachment 1** on (1) actual cost to budget variances for Consultants and Contracts expense, and (2) a detailed analysis and comparison of the major sources of changes in its working capital and operating reserves for 2013, as budgeted and per actual results. The analysis of working capital and operating reserves includes a breakdown of the changes in working capital and operating reserves due to 2013 budgeted operations and to differences in actual funding or expenditures from amounts budgeted, including unbudgeted or above-budget expenditures funded from the Known Contingency Reserve or the Unknown Contingency Reserve. This additional information is also responsive to recommendations adopted in the approved Settlement Agreement for FERC's financial performance audit of NERC.<sup>10</sup> The table on page 4 of **Attachment 1** shows the actual cost to budget variances for Consultants and Contracts expense for 2013 by NERC program area, and is followed by a detailed narrative discussion of the reasons for actual cost-to-budget variances for Consultants and Contracts expense in each program area (pages 4-5). The analysis of changes in working capital and operating reserves is provided on pages 8-9 of **Attachment 1**, including the table on page 9 which shows the major sources of generation and additions to operating reserves in 2013 and the major expenditures of operating reserves in 2013.

In addition, in its 2013 report, NERC has also provided (1) details relating to

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<sup>10</sup> See *North American Electric Reliability Corporation, Order Approving Settlement Agreement*, 142 FERC ¶ 61,054 (2013), Attachment (Settlement Agreement) at §II(8)(a), specifying that NERC will “[i]ncrease the granularity of the NERC budget filings by identifying proposed budgeted expenditures, at a minimum, by the major activities to be undertaken by each program area” (Audit Staff Recommendation 4). NERC also agreed with Audit Staff Recommendation 5 to “[i]ncrease the granularity of the NERC true-up filings in line with the budget filings.”

Miscellaneous Expense, reporting actual expenses for employee rewards and recognition, community responsibility activities and charitable contributions (*see* page 6 of **Attachment 1**); and (2) an actual cost-to budget comparison of 2013 Board of Trustees expenses, detailed by Meetings and Travel Expense (Quarterly Board Meetings and Trustee Travel expense) and Professional Services (Independent Trustee Fees and Trustee Search Fees). The information relating to Board of Trustees expenses is provided on page 7 of **Attachment 1**.

Because the NERC and Regional Entity reports in each Attachment identify and discuss major areas of actual-to-budget variances, and the individual tables for each direct statutory program and each indirect cost function contain specific explanations of significant variances on a line-item basis, a detailed, entity-by-entity discussion of the actual-to-budget variances experienced in 2013 by NERC and individual Regional Entities is not provided here. However, the list below describes several recurring drivers of actual-to-budget variances experienced by NERC and the Regional Entities in 2013, as identified by NERC's review of the comparisons.

- A number of entities<sup>11</sup> experienced under-budget variances in Salary Expense and related Personnel Expenses (Payroll Taxes, Employee Benefits and Savings & Retirement), in one or more program areas, due to being unable to fill budgeted positions, due to filling budgeted positions later in the year than was assumed in the budget, or due to employees in existing positions leaving the entity, resulting in a vacant position for a portion of the year. Additionally, having fewer personnel on staff than budgeted tended to reduce Meetings and/or Travel Expense below the budgeted amounts.<sup>12</sup>
- In some instances, due to the difficulty in filling budgeted positions, the entity may have found it necessary (i) to pay higher compensation than budgeted to fill a new or vacant position, and/or (ii) to incur costs for temporary staffing services while budgeted positions were vacant.

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<sup>11</sup> The term "entities" is used in this discussion to include NERC as well as Regional Entities.

<sup>12</sup> In the development of their annual budgets, NERC and some of the Regional Entities have begun to address this "vacant position" variance issue by including an "attrition factor" or "labor float factor" into their budget calculations. The attrition factor recognizes that, as in any organization, a portion of the budgeted positions will be vacant during a part of the year due to delays in filling new or vacant positions and unexpected/unbudgeted departures of existing employees.

- In order to address unfilled positions or emergent needs in particular program areas, some entities transferred one or more employees from one program area to another during 2013, or had shared FTEs who spent a greater portion of their time working in one program area and a lesser portion of time in another program area than was reflected in the budget. This resulted in actual cost-to-budget variances in Personnel Expenses and related Meeting and Travel expenses for the program areas involved in such transfers, although not necessarily for the entity as a whole.
- The inability to fill budgeted positions as planned, or the departure of existing employees, also resulted in some instances in higher-than budgeted Consultants & Contracts expense, due to either or both the need to use consultants or contractors to perform work that would have been done by employees, or the need to make greater use than budgeted of personnel recruiting services and search firms.
- Generally, NERC and the Regional Entities allocate Indirect Expenses to the direct statutory programs on the basis of numbers of FTEs in each statutory program. Therefore, due to differences in actual versus budgeted FTEs during the year in individual statutory programs, some entities experienced variances from budget in the amounts of Indirect Expenses allocated to the individual direct statutory programs.
- Some entities experienced higher or lower Employee Benefits expenses than budgeted due to actual renewal rates from services providers for their health and medical benefits programs being different than projected at the time of budget preparation.
- Some entities experienced lower than budgeted Employee Benefits expenses due to decisions by employees not to participate in the entity's medical benefits program. In some cases employees elected to stay on the health and medical programs of previous employers or of their spouse's employer.
- Some entities experienced either higher or lower costs than budgeted for Retirement costs due to greater or lesser participation by employees in the entity's retirement plan than was assumed in the budget.
- A number of entities realized lower than budgeted actual costs for Meetings and Travel due to (i) continuing efforts to make greater use of teleconferencing, Webinars and other virtual meeting capabilities rather than in-person meetings; (ii) holding several meetings in the same hotel or other outside facility, thereby obtaining lower charges; and/or (iii) scheduling meetings at NERC or Regional Entity facilities or the facilities of stakeholders (*e.g.* at the offices of Regional Entity members) rather than in rented, third-party meeting spaces.
- In particular with respect to Meetings and Travel expense, several entities which moved to new offices with larger meeting spaces, or expanded existing offices, in 2013 or in recent prior years have been able to reduce Meetings and Travel expense by holding more meetings in the entity's office rather than in outside facilities.
- Some entities incurred lower than budgeted costs for Conference Calls due to entering into a new contract for teleconferencing services with the existing provider, or entering into a contract with a new provider of these services, at lower costs, during

the course of the year.

- Several entities were able to spend less on Consultants and Contracts and/or Professional Services than budgeted, as a result of having work budgeted to be performed by contractors and consultants handled by internal staff of the entity. As some entities have increased their staffing over time, they have seen less need to use outside services, due to increased in-house staff capabilities.
- Some entities experienced lower than budgeted Consultants and Contracts expense due to timing delays or deferrals in planned projects.
- Some entities experienced variances in Office Rent or Office Costs due to new or changed office lease terms (including as a result of moving to a new office or taking additional space in the existing office facility), or due to implementing changes in the manner in which the entity accounted for Office Rent or Office Costs, as compared to the terms or accounting reflected in the budget.
- In addition, some entities which moved to new offices or expanded existing offices to accommodate increased staffing, incurred additional costs for capital expenditures (Furniture & Fixtures CapEx, Equipment CapEx, Computer & Software CapEx, and/or Leasehold Improvements) associated with the move to the new office or expansion of the existing office.
- Some actual cost-to-budget variances within program areas are due to the entity budgeting certain costs entirely in one program area but then recording the actual costs in the program area responsible for incurring the cost (*e.g.*, budgeting all outside legal services in Legal and Regulatory but recording actual outside legal expenses in the program area(s) whose activities necessitate the services).
- Some entities budget Professional Services expense for one or two contested compliance hearing per year (*e.g.*, for outside counsel to handle the hearing or for hearing officer services); if no contested hearings occur during the year, an under-budget variance in Professional Services expenses results.
- For some entities, Information Technology projects or Fixed Asset purchases (*e.g.*, office furniture purchases) that were included in the 2013 budget were either (i) completed, or at least initiated, in late 2012, (ii) not carried out in 2013 (*i.e.*, delayed/deferred to 2014), or (iii) initiated later in 2013 than assumed in the budget and therefore not completed in 2013. This resulted in reduced actual IT costs, Capital Expenditures, and/or Consultants and Contracts expense (where the project was to require the use of consulting services or outside contracts). In other cases, projects that were planned and budgeted for execution and completion in 2012 were not fully completed in 2012 or were delayed or deferred into 2013, resulting in unbudgeted expenditures in 2013.
- Some entities budgeted certain expenditures as expenses (*e.g.*, as Office Costs), but then determined that the expenditure(s) needed to be capitalized (*i.e.*, recorded as Fixed Asset additions, such as Computer & Software Capital Expenditures or Equipment Capital Expenditures) based on the entity's capitalization policy. The determination to capitalize rather than expense these expenditures also resulted in

additional Depreciation expense.

- Some entities experienced higher or lower Funding from Workshop attendance fees, or other programs conducted for industry participants, due to higher or lower attendance at workshops or other programs than projected in the budget, holding more or fewer Workshops than assumed in the budget, making a determination not to charge fees (or charging lower fees) for some programs for which fees had been budgeted, or a combination of these factors.

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

NERC and the Regional Entities are taking the actual cost-to-budget comparisons for 2013, as well as year-to-date actual cost-to-budget comparisons for 2014, into account in developing their business plans and budgets for 2015, which are to be submitted to the NERC Board for approval, and then filed with the applicable governmental authorities. In addition, the Regional Entities' working capital and operating reserve policies are being reviewed as part of the 2015 business plan and budget review process.

#### **IV. METRICS CONCERNING ADMINISTRATIVE COSTS IN 2014 NERC AND REGIONAL ENTITY BUDGETS AND ACTUAL COSTS**

In the *June 19, 2008 Budget Compliance Order*, FERC directed NERC to develop additional metrics analyzing its administrative expenses and those of the Regional Entities, and to present these metrics in future annual actual cost-to-budget filings and Business Plan and Budget filings:

39. Our analysis of the Regional Entities' true-up statements indicates that many Regional Entities spent a significant percentage of their 2007 budgets on various administrative functions to support their statutory functions.<sup>13</sup> The

amounts spent on administrative functions vary widely among the Regional Entities. . . We recognize that 2007 is the first year that these Regional Entities have prepared a budget for statutory functions and that there are some startup costs that will be unique to 2007. The Commission anticipates, however, that such effects will diminish as NERC and the Regional Entities gain experience preparing their budgets. To promote better transparency, the Commission directs NERC to develop additional metrics to identify, in a uniform manner, information detailing its total expenses for administrative functions as well as the expenses for administrative functions for each Regional Entity. For example, one of the matrices should be the percentage spent by the Regional Entity on administrative functions as a portion of its total approved budgeted funding similar to the information provided in the table attached to this order. These new metrics should be designed to enhance the Commission's ability to compare information provided by the Regional Entities on administrative costs and to understand the reasons for any significant differences in amounts budgeted by different Regional Entities for the same function. The Commission therefore directs NERC to develop these additional metrics for use in the true-up filings for NERC's 2008 and 2009 budgets and for use in NERC's subsequent business plans and budgets beginning with NERC's 2010 Business Plan and Budget.

<sup>13</sup> The Commission considered the amount each Regional Entity spent on administrative functions as a percentage of its total budgeted funding. The administrative functions included in staff's analysis are: Committees and Member Forums, General and Administration, Legal and Regulatory, Information Technology, Human Resources, and Accounting and Finance. A table of administrative expenses spent by each Regional Entity as a percentage of its budgeted funding is included as Attachment A to this order.

The administrative functions cited in footnote 13 of the *June 19, 2008 Budget Compliance Order* (Committees and Member Forums, General and Administration, Legal and Regulatory, Information Technology, Human Resources and Accounting and Finance) are the functions that NERC and the Regional Entities refer to as "indirect costs" in their business plans and budgets and reports of actual expenses. It is appropriate to analyze these indirect costs in the aggregate (as FERC did in P 39 and footnote 13 of the *June 19, 2008 Budget Compliance Order*), rather than by individual function, due to certain necessary inconsistencies among the Regional Entities in budgeting and recording these costs. For example, as noted earlier, some of the Regional Entities budget and record all Salary expense for Legal and Regulatory, Human Resources and/or Accounting and Finance under General and Administrative, because they have only one or two

employees in each of these functions, and therefore reporting the budgeted and actual Salary expense for these individual functional categories could reveal salary information of individual employees.<sup>13</sup> As stated earlier, the actual cost-to-budget comparisons for 2013, as well as year-to-date actual cost-to-budget comparisons for 2014, are being taken into account in developing the NERC and Regional Entity business plans and budgets for 2015.

**Attachment 10** provides the following three sets of metrics comparisons for NERC and the Regional Entities for their 2013 budgets and 2013 actual costs. In addition, **Attachment 10** provides a comparison of these metrics values for 2011, 2012 and 2013 actual results.

- Statutory indirect expenditures as a percent of total statutory expenditures,<sup>14</sup> and statutory direct expenditures per dollar of statutory indirect expenditures (top row of tables on **Attachment 10**).<sup>15</sup>
- Statutory indirect full-time equivalent employees (“FTE”) as a percent of total statutory FTE, and ratio of statutory direct FTE to statutory indirect FTE (middle row of tables on **Attachment 10**).
- Total statutory expenditures per total FTE, statutory direct expenditures per direct FTE, statutory indirect expenditures per indirect FTE, and statutory indirect expenditures per total FTE (bottom row of tables on **Attachment 10**).

These are the same metrics that NERC provided in its previous annual filings comparing actual-to-budget costs for NERC and the Regional Entities for 2008, 2009, 2010, 2011 and 2012.<sup>16</sup> In the *June 29, 2009 Budget Compliance Order*, FERC indicated that these metrics were

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<sup>13</sup> In addition, in some instances NERC or a Regional Entity has budgeted all of its projected costs for indirect functions such as General and Administrative, Legal and Regulatory or Information Technology in the indirect program, but has recorded some or all of the actual costs incurred for the function in the statutory program in which work was performed (*e.g.*, recording Professional Services expenses budgeted in Legal and Regulatory in the direct program for which outside legal services were performed).

<sup>14</sup> This is the metric shown in Attachment A to the *June 19, 2008 Budget Compliance Order*.

<sup>15</sup> The term “expenditures” is used in this discussion to mean expenses plus capital expenditures (fixed asset additions net of depreciation).

<sup>16</sup> *Additional Compliance Filing of the North American Electric Reliability Corporation in Response to October 18, 2007 Order – Comparisons of Budgeted to Actual Costs for 2008 for NERC and the Regional Entities*, filed April 1, 2009 in Docket No. RR07-16-005; *North American Electric Reliability Corporation’s Report of Comparisons of Budgeted to Actual Costs for 2009 for NERC and the Regional*

acceptable.<sup>17</sup>

In reviewing indirect expenditures, it is important to take into consideration that NERC's indirect expenses support more than NERC's internal operations. NERC's indirect expenditures also include support of software applications that interface with Regional Entities. Costs for outside audit resources in connection with Regional Entity oversight, as well as Compliance and Certification Committee oversight of NERC's compliance with its Rules of Procedure, are also included in indirect expenses. In addition, expenses incurred in NERC's legal and executive (General and Administrative) operations, as well as those of the Regional Entities, directly support the activities of the standards, compliance and enforcement, and other statutory program areas. NERC's legal department, as well as those of the Regional Entities, devotes considerable resources to supporting standards development, compliance enforcement and registration matters.

The following subsections provide discussion and analysis of the metrics provided in **Attachment 10**.

**Statutory indirect expenditures as a percent of total statutory expenditures, and statutory direct expenditures per dollar of statutory indirect expenditures**

The data and metrics in the top row of tables on **Attachment 10** measure the portions of the total statutory expenditures of NERC and each Regional Entity, and the Electric Reliability Organization ("ERO") in the aggregate, that are being expended on statutory direct functions and on statutory indirect functions. Based on 2013 actual data, statutory indirect expenditures averaged 33.61% of total statutory expenditures for NERC and the Regional Entities, and the

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*Entities*, filed June 1, 2010 in Docket No. RR08-6-000; *North American Electric Reliability Corporation's Report of Comparisons of Budgeted to Actual Costs for 2010 for NERC and the Regional Entities*, filed May 31, 2011 in Docket No. RR11-4-000; *2011 True-Up Filing*; *2012 True-Up Filing*.

<sup>17</sup> *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 127 FERC ¶ 61,307 (2009) ("*June 29, 2009 Budget Compliance Order*"), at PP 13-14.



average statutory direct expenditure per dollar of statutory indirect expenditure was \$1.98.<sup>18</sup> The actual average statutory indirect expenditure percentage was almost equal, and the actual average statutory direct expenditure per dollar of indirect expenditure was equal, to the averages based on the NERC and Regional Entity budgets (33.51% and 1.98, respectively). Further, the 2011 and 2012 actual results are not significantly different from the 2013 actual results for these metrics. The 2013 actual average statutory indirect expenditure percentage was 33.61% while the 2011 and 2012 actual average statutory indirect expenditure percentages were 31.06% and 30.35%, respectively. The three-year average for this metric for 2011, 2012 and 2013 combined was 31.72%. The 2013 actual average statutory direct expenditure per dollar of indirect expenditure was \$1.98 while the 2011 and 2012 statutory direct expenditure per dollar of statutory indirect expenditure was \$2.22 and \$2.29, respectively. The three-year average for 2011, 2012 and 2013 combined for this metric was \$2.15.

Looking at the 2013 values of these metrics for the individual entities compared to the 2013 averages, the percentages of actual statutory indirect expenditures to total statutory expenditures for NERC and SPP RE were noticeably higher than the overall weighted and arithmetic averages, and their 2013 ratios of actual statutory direct expenditures to statutory indirect expenditures were noticeably lower than the overall weighted and arithmetic averages.

For NERC, its total actual direct statutory expenditures were approximately \$337,600 less than budgeted while its total statutory indirect expenditures exceeded budget by

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<sup>18</sup> These figures are essentially weighted averages, *i.e.*, they are calculated using the sums of the total statutory expenditures, total statutory direct expenditures, and total statutory indirect expenditures, for NERC and the eight Regional Entities. Since NERC's and WECC's expenditures are substantially larger than those of the other Regional Entities, the NERC and WECC results significantly influence the weighted averages. (The significance of the WECC data to the averages is further magnified due to the amount of U.S. Department of Energy grant funds and related expenditures included in WECC's 2013 budget and actual results.) The arithmetic averages for these two metrics are 34.53% for statutory indirect expenditures as a percent of total statutory expenditures, and \$2.57 for statutory direct expenditures per dollar of statutory indirect expenditures.

approximately \$766,300, resulting in its percentage of statutory indirect expenditures to total statutory expenditures rising from 43.06% in its budget to 44.13% actual. NERC's lower-than budgeted direct statutory expenditures was primarily due to: (1) lower than budgeted Personnel Expenses, which were collectively under budget \$581,200, due to unfilled positions in the Compliance Enforcement, Situation Awareness and Training, Education, and Operator Certification departments; (2) lower than budgeted Meetings, Travel and Conferencing expenses, which were collectively \$620,600 under budget, due primarily to management initiatives to lower these expenses; and (3) higher than budgeted Fixed Asset expenditures due to the capitalization (rather than expensing) of the Enterprise Bulk Electric System Exceptions application and the standards balloting software application.

SPP RE's actual 2013 indirect expense amount was in fact lower than budgeted (by approximately \$337,500, or about 6%), but SPP RE's 2012 statutory direct expenditures were also lower than budgeted (by approximately \$1,500,000, or about 25%), with the result that SPP RE's percentage of statutory indirect expenditures to total statutory expenditures increased from 47.33% as budgeted to 52.81% actual, and its ratio of statutory direct expenditures to statutory indirect expenditures fell from \$1.11 as budgeted to \$0.89 actual. In other words, the principal reason for SPP RE's actual percentage of statutory indirect expenditures to total statutory expenditures being higher than budgeted for 2013 was that SPP RE's actual direct statutory expenditures were much lower than budgeted, not that its actual indirect expenses were higher than budgeted.

As shown by the data provided on the second page of **Attachment 10**, comparisons of the actual 2013 results for this first set of metrics to the actual results for 2012 and 2011 for these metrics show that, over this three-year period, NERC and the Regional Entities, in the aggregate,

spent about the same portion of their total statutory expenditures on statutory indirect costs. Further, with only limited exceptions, each entity's annual values for these metrics were fairly consistent over the three-year period. This three-year view indicates that as their organizations and programs mature, with seven years of ERO and delegated function activities, each entity is reaching a steady state in terms of the portions of its total resources that are expended on statutory direct program costs and statutory indirect costs.

**Statutory indirect FTE as a percent of total statutory FTE, and ratio of statutory direct FTE to statutory indirect FTE**

On average for NERC and the Regional Entities, 2013 actual statutory indirect FTEs were 24.28% of total statutory FTEs, and on average NERC and the Regional Entities had 3.12 statutory direct FTEs per statutory indirect FTE in 2013. The 2013 actual value for statutory indirect FTEs as a percent of total statutory FTEs was slightly lower than the 2012 value for this metric of 24.65% and slightly higher than the 2011 value for this metric of 23.42%; while the 2013 actual value for the number of statutory direct FTEs per statutory indirect FTE was slightly higher than the 2012 value for this metric of 3.06, and lower than the 2011 value for this metric of 3.27. Overall, however, the annual averages for this metric were fairly consistent across the three-year period 2011-2013.

In 2013, the actual percentage of statutory indirect FTEs to statutory total FTEs was less than 25% for each entity in the ERO except NERC (for which the percentage was 30.84%) and SERC (26.94%); and NERC and each Regional Entity had at least 2.24 statutory direct FTE per statutory indirect FTE. Among the Regional Entities, FRCC, MRO, Texas RE and WECC each had a lower actual percentage of statutory indirect FTEs to statutory total FTEs in 2013 than in 2012 and 2011. NPCC and SERC each experienced higher actual percentages of statutory indirect FTEs to statutory total FTEs in 2013 than in 2012 and 2011. NERC's actual percentage

of statutory indirect FTEs to statutory total FTEs in 2013 was approximately equal to its value for this metric in 2012 and was somewhat higher than its value for this metric in 2011. ReliabilityFirst's actual percentage of statutory indirect FTEs to statutory total FTEs in 2013 was lower than its value for this metric in 2012 and higher than its value for this metric in 2011.

Similarly, FRCC, MRO, Texas RE and WECC each had a higher actual ratio of statutory direct FTEs per statutory indirect FTE in 2013 than in 2012 and 2011, while NPCC and SERC each had lower actual ratios of statutory direct FTEs per statutory indirect FTE in 2013 than in 2012 and 2011. NERC's actual ratio of statutory direct FTEs per statutory indirect FTE in 2013 was equal to its 2012 value, and lower than its 2011 value, for this metric. ReliabilityFirst's actual ratio of statutory direct FTEs per statutory indirect FTE in 2013 was higher than its value for this metric in 2012 and lower than its value for this metric in 2011.

The three-year average percentage of actual statutory indirect FTEs to total statutory FTEs was 24.14%. The three-year average actual ratio of statutory direct FTEs per statutory indirect FTE was 3.14. As noted above in the discussion of the first set of metrics, comparisons of the actual 2013 results for this second set of metrics to the actual results for 2012 and 2011 for these metrics show that, over this three-year period, NERC and the Regional Entities, in the aggregate, had about the same percentage of indirect FTEs to total statutory FTEs and about the same ratio of statutory direct FTEs per statutory indirect FTEs for each of the three years (*i.e.*, the highest annual average value for each metric was within 7% or less of the lowest annual average value for the metric).

**Total statutory expenditures per total FTE,  
statutory direct expenditures per direct FTE,  
statutory indirect expenditures per indirect FTE,  
and statutory indirect expenditures per total FTE**

The bottom row of metrics in the tables in **Attachment 10** shows the (i) total statutory

expenditures per total FTE (total statutory expenditures divided by total number of statutory FTE), (ii) statutory direct expenditures per direct FTE, (iii) statutory indirect expenditures per indirect FTE, and (iv) statutory indirect expenditures per total FTE (statutory indirect expenditures divided by total number of FTE), for NERC and each Regional Entity. For NERC and the eight Regional Entities, in the aggregate:

- The actual average total statutory expenditures per statutory FTE were approximately 7.6% higher than budgeted (\$273,210 actual versus \$253,971 budgeted).
- The actual average statutory direct expenditures per statutory direct FTE were also approximately 7.6% higher than budgeted (\$239,565 actual versus \$222,630 budgeted).
- The actual average statutory indirect expenditures per statutory indirect FTE were 7.3% higher than budgeted (\$378,131 actual versus \$352,402 budgeted).
- The actual average statutory indirect expenditures per total statutory FTE were higher than budgeted by 7.9% (\$91,815 actual versus \$85,109).

Overall, for NERC and the Regional Entities in the aggregate, the actual 2013 value for each of the first three metrics was lower than the actual values for 2012 and 2011, with only one exception:

- The actual average total statutory expenditures per statutory FTE were \$273,210 in 2013, as compared to \$278,306 in 2012 and as compared to \$291,503 in 2011. The three-year average value for this metric was \$281,007.
- The actual average statutory direct expenditures per statutory direct FTE were \$239,565 in 2013 as compared to \$257,242 in 2012 and as compared to \$262,409 in 2011. The three-year average value for this metric was \$253,072.
- The actual average statutory indirect expenditures per statutory indirect FTE were \$378,131 in 2013 as compared to \$342,707 in 2012 and as compared to \$386,650 in 2011. The three-year average value for this metric was \$369,163.

This latter comparison shows that from 2011 to 2013, the ERO's FTE staffing (both direct function and indirect function personnel) grew faster than statutory expenditures grew, indicating an increase in the efficiency of use of the ERO's personnel.

A final, overall observation on the entire set of metrics data presented in **Attachment 10** (similar to the observation stated earlier based on the first set of metrics), is that, after seven years of ERO operations, as their organizations and programs mature, with only limited exceptions, each of the nine entities appears to be reaching a steady state in terms of the portions of its total statutory expenditures and personnel resources that are being devoted to statutory direct program activities and to statutory indirect activities. While some differences remain in the individual metrics values among the entities, these differences (*i.e.* each entity's metrics values) can be seen as becoming ingrained in their organizational and program structures.

Respectfully submitted,

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## **ATTACHMENTS 1 – 11**

**(Available on the NERC Website at**

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