



NORTH AMERICAN ELECTRIC RELIABILITY COUNCIL

Princeton Forrestal Village, 116-390 Village Boulevard, Princeton, New Jersey 08540-5731

August 23, 2006

VIA OVERNIGHT MAIL

Michel L. Mantha, Secretary of the Board
National Energy Board
444 Seventh Avenue SW
Calgary, Alberta
T2P 0X8

Re: *North American Electric Reliability Council and North American
Electric Reliability Corporation*

Dear Ms. Mantha:

The North American Electric Reliability Corporation (“NERC”) hereby submits a Notice of Filing of the North American Electric Reliability Corporation 2007 Business Plan and Budget. The notice contains two attachments. Attachment A is NERC’s 2007 Business Plan and Budget, as approved by the NERC Board of Trustees. Attachment B is NERC’s filing with the U.S. Federal Energy Regulatory Commission for approval of the NERC budget. We have not included the attachments to the FERC filing but would be happy to do so upon request. In addition to the paper copy of the Notice, NERC is also submitting one CD containing a copy of the entire application. NERC requests, to the extent necessary, a waiver of any applicable filing requirements with respect to the filing of this notice.

Please contact the undersigned if you have any questions.

Respectfully submitted,

/s/ Rick Sergel
Richard P. Sergel

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Enclosures

**BEFORE THE
NATIONAL ENERGY BOARD**

NORTH AMERICAN ELECTRIC)
RELIABILITY COUNCIL)
and)
NORTH AMERICAN ELECTRIC)
RELIABILITY CORPORATION)

**NOTICE OF FILING OF THE NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION 2007 BUSINESS PLAN AND BUDGET**

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August 23, 2006

This Notice of Filing of the 2007 Business Plan and Budget is made by the North American Electric Reliability Corporation (“NERC”). On this day, a Notice of Filing of NERC’s 2007 Business Plan and Budget was filed with the Provinces of Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia, Ontario, Québec, and Saskatchewan. NERC has also filed a request for approval of the 2007 Business Plan and Budget with the U.S. Federal Energy Regulatory Commission (“FERC” or “Commission”).

I. NOTICES AND COMMUNICATIONS

Notices and communications regarding this Notice may be addressed to:

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II. DESCRIPTION OF APPLICANTS

NERC is a New Jersey nonprofit corporation. As of the date of this filing, the sole member of NERC is the North American Electric Reliability Council (“Council”), which is also a New Jersey nonprofit corporation whose members are the eight regional reliability councils. NERC was formed for the purpose of obtaining certification by the Commission and recognition by the relevant Canadian governmental authorities, and thereafter functioning, as the ERO for the United States, Canada, and Mexico. The Commission certified NERC as the ERO in its

order issued July 20, 2006, in Docket No. RR06-1-000 (the “ERO Certification Order”).¹ NERC, Council, and the eight regional reliability councils intend to approve and implement a plan, prior to December 31, 2006, pursuant to which Council and NERC will be merged, with NERC the surviving entity.

III. INTRODUCTION

On April 4, 2006, NERC submitted to this province a Notice of Filing as the Electric Reliability Organization. On that same day, NERC filed an Application for Recognition as the Electric Reliability Organization with the Provinces of Alberta, Nova Scotia, and Ontario, and a Notice of Filing as the Electric Reliability Organization with the Provinces of British Columbia, Manitoba, New Brunswick, Québec, and Saskatchewan. NERC also filed with FERC an application for certification as the Electric Reliability Organization (“ERO”). On July 20, 2006, FERC certified NERC as the ERO in the United States.

In anticipation of its recognition as the ERO, NERC prepared a business plan and budget for 2007. NERC prepared this business plan and budget by first conducting a detailed review of NERC’s commitments in its ERO filings and the provisions of its By-laws and Rules of Procedure. With this background, NERC conducted a strategic review of both long-term objectives and near-term requirements. Based on this review, NERC developed its 2007 business plan. The business plan (and consequently the 2007 budget) reflect a comprehensive reorganization of the NERC Staff, as well as addition of new personnel, in order to align NERC’s resources with its mission as the ERO.

With the business plan developed, NERC then proceeded to determine the resources required to carry out the plan. The budget was developed from a zero base, but also with a view

¹*Order Certifying North American Electric Reliability Corporation as the Electric Reliability Organization and Ordering Compliance Filing*, Docket No. RR06-1-000, 116 FERC ¶ 61,062 (July 20, 2006).

to prior year (2006) expenditures in order to consider the increased costs that could be required from end users. Senior NERC staff initially developed and proposed resource requirements by program, and NERC's CEO along with the NERC program managers prioritized the resource requests. The initial proposed budget as developed by Staff was then reviewed and modified by the Finance and Audit Committee of the NERC Board of Trustees and was presented for discussion at a meeting of Council's Stakeholders Committee on May 1, 2006. The tentative budget as modified by the Finance and Audit Committee was then posted for comment on NERC's website from June 8 to July 7, 2006. Comments received on the tentative budget were taken into account in further modifications to the budget. The proposed budget to be submitted to the NERC Board for approval was again posted on NERC's website, on July 25, 2006. Finally, the proposed budget was presented for discussion at a meeting of Council's Stakeholders Committee on August 1, 2006, and was then approved by the full NERC Board of Trustees, at its meeting on August 2, 2006, for submission to the Commission.

IV. SUMMARY OF 2007 BUDGET

NERC's 2007 Business Plan and Budget, as approved by the NERC Board of Trustees, is attached to this filing as Attachment A.

NERC's proposed budget for 2007 is \$22,546,552.² This total encompasses U.S., Canadian and Mexican activities. A portion of NERC's budget is projected to be funded through fees charged to participants and users in certain NERC programs, most notably the Operator Certification Program, and by interest earned on bank balances and short-term investments, resulting in a preliminary net funding requirement of \$21,682,552. In addition, as a contingency reserve and source of working capital, NERC seeks to increase its cash reserves balance to a

² All amounts are in U.S. dollars.

level representing 10% of the projected 2007 net funding requirement (before provision for cash reserves), which will require an additional assessment component of \$804,779. As a result, NERC’s proposed net funding requirement for 2007 (for U.S., Canadian and Mexican activities) is \$22,487,331, of which \$2,684,976 is allocated to Canada. Based on the aggregate Net Energy for Load (“NEL”) of Canada for 2005 on which the allocation of assessments is based, the proposed Canadian net funding requirement is equivalent to \$.0.000005 per kilowatt-hour (“kWh”).

NERC’s business plan and budget were developed and are organized based on the following major program elements:

<u>Program</u>	<u>2007 Budget</u>
Reliability Standards	\$2,258,433
Compliance Enforcement and Organization Registration and Certification	\$3,436,668
Reliability Readiness Audits and Improvement	\$1,650,771
Training, Education and Operator Certification	\$1,380,087
Reliability Assessment and Performance Analysis	\$2,619,128
Situation Awareness and Infrastructure Security	\$3,255,644
Administrative Services	\$7,945,821

NERC proposes an allocation of its net funding requirement of \$22,487,331 to the Regional Entities³ as follows:

- ERCOT \$1,393,656

³ The Regional Entities are Electric Reliability Council of Texas (“ERCOT”), Florida Reliability Coordinating Council (“FRCC”), Midwest Reliability Organization (“MRO”), Northeast Power Coordinating Council (“NPCC”), ReliabilityFirst Corporation (“RFC”), SERC Reliability Corporation (“SERC”), Southwest Power Pool, Inc. (“SPP”), and Western Electricity Coordinating Council (“WECC”).

- FRCC \$1,207,116
- MRO \$1,484,311⁴
- NPCC \$3,349,371⁵
- RFC \$5,134,486
- SERC \$4,952,516
- SPP \$1,109,538
- WECC \$3,856,338⁶

V. SUBMISSION TO FERC

On this day, NERC has filed with FERC a Request of the North American Electric Reliability Corporation for Acceptance of its 2007 Business Plan and Budget and the 2007 Business Plans and Budgets of Regional Entities and for Approval of Proposed Assessments to Fund Budgets. The FERC filing, minus the exhibits, is attached to this filing for informational purposes as Attachment B. Included in the filing are NERC’s proposed budgets for the Regional Entities and the Western Interconnection Regional Advisory Body, and NERC’s proposed allocation of assessments among regional entities and load serving entities (“LSE”) within each region to collect the proposed NERC, Regional Entity and Western Interconnection Regional Advisory Body funding requirements.

VI. FUNDING WITHIN CANADA

⁴The total allocation to MRO consists of \$1,238,678 allocated to the U.S. and \$245,633 allocated to Canada.

⁵The total allocation to NPCC consists of \$1,504,296 allocated to the U.S. and \$1,845,076 allocated to Canada.

⁶The total allocation to WECC consists of \$3,214,889 allocated to the U.S., \$594,266 allocated to Canada and \$47,181 allocated to Mexico.

One of the key recommendations of the U.S.-Canada Joint Task Force Report on the August 2003 Northeast blackout was that a new mechanism should be developed for funding the functions critical to maintaining bulk-power system reliability that were then and are currently performed by Council.⁷ NERC's submission to FERC represents the implementation of this new funding mechanism in the United States. NERC will also work with the relevant governmental authorities in Canada to implement this new funding mechanism. The new funding mechanism will replace completely the existing method of funding Council's activities, *i.e.*, assessments of dues to the regional reliability councils that comprise the membership of Council. NERC emphasizes that other than user-related fees for certain specific programs and services (which have been fully taken into account in the development of NERC's proposed net funding requirement), NERC will have no sources of funding for its planned programs and operations other than the assessments to owners, operators and users of the bulk-power system.

⁷See U.S.-Canada Power System Outage Task Force, *Final Report on the August 14, 2003 Blackout in the United States and Canada: Causes and Recommendations*, April 2004, at 143 (Recommendation No. 2): "Develop a regulator-approved mechanism for funding NERC and the regional reliability councils, to ensure their independence from the parties they oversee."

Respectfully submitted,

NORTH AMERICAN ELECTRIC
RELIABILITY COUNCIL

By /s/ Rick Sergel
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August 23, 2006

2007 Business Plan and Budget

North American Electric Reliability Corporation

**Approved by Board of Trustees
August 2, 2006**

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Introduction

Total NERC Resources (in whole dollars)		
	2006 Projection	2007 Budget
Total FTEs	69	85
Total Funding	\$17,732,928	\$22,546,552

The North American Electric Reliability Corporation (“NERC”) has been formed for the purpose of applying for and obtaining certification and/or recognition by the Federal Energy Regulatory Commission (“FERC” or “Commission”), applicable Canadian provincial regulatory authorities, and the National Energy Board of Canada, as the Electric Reliability Organization (“ERO”) for the bulk power systems of North America, and after obtaining certification/recognition, performing the functions of the ERO. The “ERO” is defined in Section 215(a)(2) of the Federal Power Act (“FPA”) (16 U.S.C. 8240), as added by Title XII of the Energy Policy Act of 2005, as “the organization certified by the Commission under [section 215(c)] the purpose of which is to establish and enforce reliability standards for the bulk power system, subject to review by the Commission.” FERC has promulgated rules (the “FERC Rule”) concerning implementation of Title XII including the certification of and responsibilities of the ERO (16 C.F.R. Part 39.) On July 20, 2006, FERC certified NERC as the ERO within the United States.

NERC is a not-for-profit membership corporation organized under the New Jersey NonProfit Corporation Act. At present, NERC has one member, the North American Electric Reliability Council (“Council”), which is also a New Jersey not-for-profit corporation. Council was formed in 1968 by representatives of the electric utility industry for the purpose of developing and promoting compliance with, on a voluntary basis, rules and protocols for the reliable operation of the bulk power systems of North America. Once all necessary conditions have been satisfied, Council will be merged into NERC with NERC the surviving entity. Thereafter, membership in NERC will be open to any person or entity that has an interest in the reliable operation of the North American bulk power system. NERC is governed by a Board of Trustees consisting of ten independent Trustees and the President of NERC, who is appointed by the independent Trustees. NERC’s Bylaws require that a Trustee (other than the President) cannot be an officer or employee of NERC, a member or an officer, director, or employee of a member of NERC, or an officer, director, or employee of an entity that would reasonably be perceived as having a direct financial interest in the outcome of any board decisions and cannot have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a Trustee. Trustees will be elected to three-year terms by a committee of representatives of NERC’s membership.

NERC’s principal activities will be the evaluation of proposals for development and adoption of reliability standards to ensure the reliable operation of the bulk power systems of North America and the monitoring, auditing, and enforcement (where authorized) of compliance with those reliability standards by owners, operators, and users of the bulk power systems. As described herein, NERC will perform additional functions in support and furtherance of these principal responsibilities, such as training and certification of operators of the bulk power systems of North America, and performing assessments of the adequacy and reliability of the bulk power systems of North America. All of these activities will serve a broad public purpose of helping to

ensure the reliable operation of the North American bulk power system. NERC's activities will benefit both those persons and entities that are direct owners, operators, and users of the bulk power transmission systems of North America, and also, ultimately, all persons and entities that are connected to the North American electric grid and are users and consumers of electric power — which encompasses virtually every person, business, institution, and other governmental and private entity in North America.

Actions in the United States

Section 215(b) of the FPA states that FERC is to certify an applicant as the ERO if FERC finds the applicant (1) has the ability to develop and enforce reliability standards that provide for an adequate level of reliability of the United States bulk power systems; (2) has established rules that (a) ensure the independence of the ERO from the owners, operators, and users of the bulk power system, while ensuring fair stakeholder representation in the selection of the directors of the ERO and balanced decision-making in any ERO committee or subordinate organizational structure, (b) allocate equitably reasonable dues, fees, and other charges among end-users for all activities under Section 215, (c) provide fair and impartial procedures for enforcement of reliability standards through the imposition of penalties in accordance with Section 215(e) of the FPA; (d) provide for reasonable notice and opportunity for public comment, due process, openness, and balance of interests in developing reliability standards and otherwise exercising the duties of the ERO; and (e) provide for taking, after certification, appropriate steps to gain recognition in Canada and Mexico.

The functions of the ERO are to develop and adopt reliability standards for the bulk power systems and to file such reliability standards, and any modifications to such standards, with FERC for approval (FPA, § 215(d); 16 C.F.R. §39.5); to enforce approved reliability standards by imposing a penalty on an owner, operator, or user of the bulk power system for violation of an approved reliability standard if the ERO finds, after notice and opportunity for hearing, that the owner, operator, or user of the bulk power system has violated a reliability standard (FPA, §215(e); 16 C.F.R. § 39.7(c)); and to conduct periodic assessments of the reliability and adequacy of the bulk power systems in North America (FPA, §215(g); 16 C.F.R. § 39.11.) Reliability standards developed by the ERO, or proposed modifications to reliability standards, are to be filed with FERC for approval and may be approved by FERC if it determines that the reliability standard is just, reasonable, not unduly discriminatory or preferential, and in the public interest (FPA, § 215(2)(A); 16 C.F.R. § 39.5(c).) Additionally, the FERC Rule requires the ERO to have “an audit program that provides for rigorous audits of compliance with reliability standards by users, owners and operators of the bulk power system” (16 C.F.R. § 39.7(a)) and to report its assessments of the reliability and adequacy of the bulk power system to FERC and the Secretary of Energy on a periodic basis (16 C.F.R. § 39.11.) As the ERO, NERC will perform all of the above-described functions.

To facilitate the ERO's performance of the responsibilities described in the preceding paragraph, the FERC Rule, 16 C.F.R. § 39.2(c), requires each owner, operator, and user of the bulk power system within the continental United States to register with the ERO in accordance with the rules of the ERO. In addition, the ERO may, with approval of FERC, enter into agreements with regional entities by which the ERO delegates its authority to the regional entity to develop, propose, and enforce reliability standards for specific geographic regions (FPA, §215(e)(4); 16 C.F.R. § 39.8.) NERC expects to enter into such delegation agreements with one or more regional entities.

As used in the preceding paragraphs, the “bulk-power system” is defined by Section 215(a)(1) of the FPA as facilities and control systems necessary for operating an interconnected electric energy transmission network (or any portion of such a network) and electric energy from generation facilities needed to maintain transmission system reliability, but does not include facilities used in the local distribution of electric energy. A “reliability standard” is defined by Section 215(a)(3) of the FPA as a requirement, approved by FERC, to provide for the reliable operation of the bulk power system and includes requirements for the operation of existing bulk power system components and the design of planned additions or modifications to those components to the extent necessary to provide for reliable operation of the bulk power system. “Reliable operation” is defined by Section 215(a)(4) of the FPA to mean operating the components of the bulk power system within equipment and electric system thermal, voltage, and stability limits so that instability, uncontrolled separation, or cascading failures of the system will not occur as a result of a sudden disturbance or unanticipated failure of system components.

Actions in Canada

On April 4, 2006, NERC filed “Applications for Recognition” with the appropriate provincial authorities of Alberta, Nova Scotia, and Ontario and with the National Energy Board of Canada, and filed “Notices of Filing” with the appropriate provincial authorities in British Columbia, Manitoba, New Brunswick, Quebec, and Saskatchewan.

NERC is seeking such recognition comparable to certification as the ERO in the United States as NERC believes is available under the laws of these respective Canadian jurisdictions. NERC is also working with the governmental authorities in Canada to allow for reliability standards to be made mandatory and enforceable in the relevant jurisdictions.

Actions following Certification/Recognition as the ERO

Once NERC is established as the ERO for the bulk power systems, NERC will conduct the activities described in the following sections.

Section A — 2007 Business Plan

Reliability Standards Program

Reliability Standards Program Resources (in whole dollars)		
	2006 Projection	2007 Budget
Total FTEs	10	12
Total Funding	\$1,729,774	\$2,258,433

Background

NERC will accept and evaluate proposals for, and will develop and approve, technically sound, fair, and balanced reliability standards designed to ensure the reliability of the bulk power systems in North America. NERC will submit such standards to FERC and to the appropriate Canadian governmental authorities for adoption as mandatory for bulk power system owners, operators, and users in the United States, and to applicable authorities in Canada for similar status. NERC has established, and will utilize, a reliability standards development process that has been accredited by the American National Standards Institute (“ANSI”) as meeting ANSI’s essential requirements for standards development. Volunteer technical experts and stakeholders from the electric utility industry will develop the standards under the facilitation of NERC’s professional staff, including NERC’s Standards Process Manager.

The foregoing activities of persons engaged in the reliability standards development process will be conducted, to the extent possible, by conference calls and use of e-mail, Web site postings and other means of electronic communications. In the event face-to-face meetings of participants are needed, those meetings will take place at NERC’s headquarters in Princeton, New Jersey, or at other locations in various cities within the United States and Canada, as selected from time to time for the convenience of the meeting attendees.

Based on the portion of professional/technical staff time and other resources devoted to reliability standards development, NERC estimates that it will spend 19 percent of its resources on this activity.

Standards Process

NERC’s reliability standards development process will be overseen by a Standards Committee whose purpose is to see that all stakeholder interests are fairly represented in the development of standards. The Standards Committee will be a broad-based, representative committee consisting of two representatives from each segment of the Registered Ballot Body (“RBB”). Participation in the RBB, which consists of multiple, defined segments, is open to any person or entity with an interest in the reliability of the North American bulk power system.

Among other responsibilities, the Standards Committee will review each proposal for development of a new reliability standard, or modification of an existing reliability standard, to determine if the proposal should be pursued; if it so determines, the Standards Committee will appoint a reliability standard drafting team that has the necessary technical expertise, competencies, and diversity of views needed to develop the proposed standard. Development of

each reliability standard will include at least one time period for receipt of public comment before the proposed standard is submitted for an approval vote. For the purpose of adopting each proposed reliability standard, a separate “ballot pool” will be established comprising the members of the RBB that have an interest in voting on that particular standard. After receiving an affirmative vote by the ballot pool, a reliability standard will be submitted to NERC’s Board of Trustees for approval. Finally, if approved by the Board of Trustees, the reliability standard will be filed with FERC for its approval in accordance with Section 215(d) of the FPA and 16 C.F.R. § 39.5, and to the relevant Canadian governmental authorities.

As noted earlier, FERC must find that a proposed reliability standard is just and reasonable, not unduly discriminatory or preferential, and in the public interest. Once FERC approves a standard, compliance with the standard is legally binding on all applicable owners, operators, and users of the bulk power system in the United States. A similar status for the standards will be sought with governmental authorities in eight Canadian provinces and the National Energy Board of Canada.

The standards development process is designed to build and verify consensus for each standard. The open, inclusive, balanced, and transparent process ensures that the resulting standards are just, reasonable, and nondiscriminatory. Participation by industry experts and compliance personnel ensures that the standards are technically sound, unambiguous, and measurable.

NERC coordinates its reliability standards development activities with business practices developed by the North American Energy Standards Board (NAESB) and with the ISO/RTO Council (IRC). The three organizations coordinate their activities through a Joint Interface Committee (JIC).

Transition to Electric Reliability Organization

A base set of 102 reliability standards was filed on April 4, 2006 with FERC and the appropriate governmental authorities in Canada for the purpose of making the standards mandatory for all owners, operators, and users of the bulk power system beginning January 1, 2007, or soon thereafter. The principle focus of the 2007 standards work plan is to complete the work necessary to ensure all of NERC’s existing and future standards meet statutory and regulatory requirements as ERO standards. The focus is also on completing the highest priority new standards and improving the quality of existing standards. NERC will annually review its standards work plan with FERC and the applicable governmental authorities in Canada to coordinate work priorities and expectations.

Standards Program Goals

The goals of the standards program for 2007 are to:

- Meet all directives of ERO governmental authorities with regard to standards development and procedures.
- Develop and approve all 2007 high priority standards.
- Initiate a comprehensive program to review and improve existing reliability standards to meet the quality characteristics stated in the Reliability Standards Development Procedure.
- Meet stated targets in the regional “fill-in-the-blank” standards work plan.

- Establish a baseline for consistency and quality of regional reliability standards.
- Streamline and improve the standards process and associated tools.
- Work closely with NAESB in coordinating business practices and reliability standards.
- Communicate with stakeholders and regulators regarding standards development.

Standards Program Objectives

The standards program objectives for 2007 are grouped into five categories: standards development; regional reliability standards development; standards improvement; business practice interface; and process improvement.

Standards Development

- Develop and revise standards as directed by FERC and other governmental authorities.
- Approve standards for the training of system operating personnel.
- Approve standards for certifying entities as reliability coordinators, transmission operators, and/or balancing authorities.
- Complete field tests and approve four Phase III-IV planning standards.
- Propose new standards on operator/situation awareness tools.
- Propose new standards on undervoltage load shedding.
- Propose new standards on reactive power reserves.
- Propose new standards on phasor measurements.
- Propose new standards resulting from lessons learned by other NERC programs (e.g., reliability performance assessment, compliance enforcement, readiness audits, training, situation awareness and infrastructure protection).

Regional Standards Development

- Complete first 10 highest priority regional “fill-in-the-blank” standards.
- Review and approve three regional standards development procedures.
- Review and approve 40 regional standards.

Standards Improvement

- Initiate a program to review and, as needed, update existing standards to meet the 10 quality characteristics of standards: applicability; purpose; performance requirements; measurability; technical basis; completeness; known consequences; clear language; practicality; and consistent terminology. One-third of existing standards are to be reviewed in 2007 and proposed revisions will be developed.

Business Practice Interface

- Develop three joint NERC-NAESB standards.

Standards Process Improvement

- Revise standards development rules and procedures in response to governmental agency directives.
- Timeliness — for high priority standards, shorten average development time of a standard to 12 months through stakeholder ballot.
- Develop a relational database for standards management, including an online tool for managing stakeholder comments.
- “Flatten” the standards process by increasing the number of conference calls, Web casts, and e-mail actions to greater than 50 percent of all committee and drafting team meetings.
- Evaluate and improve ballot performance (quorums and balance.)

Compliance Enforcement and Organization Registration and Certification Program

Compliance Enforcement and Organization Registration and Certification Program Resources (in whole dollars)		
	2006 Projection	2007 Budget
Total FTEs	10	20 ¹
Total Funding	\$1,441,416	\$3,436,668

Background

As the ERO, NERC will have authority, where authorized by applicable legislation or agreement, to enforce compliance with approved reliability standards by owners, operators, and users of the bulk power systems. To facilitate NERC's compliance enforcement activities, all owners, operators, and users of the bulk power system will be required to register, where authorized by applicable legislation or agreement, with NERC for each region in which the owner, operator, or user owns, operates, or uses bulk power system facilities. NERC will maintain a compliance registry for this purpose.

NERC will identify alleged violations of reliability standards through a variety of means including:

- Self-reporting by owners, operators, and users of the bulk power system, including both reports of specific incidents and events and information provided in periodic reports that registered entities will be required to submit periodically to NERC.
- Information received from other owners, operators, and users of the bulk power system and other persons and entities interested in the reliable operation of the bulk power system, including governmental entities.
- Compliance audits, and other monitoring programs conducted by NERC or regional entities with which NERC has entered into delegation agreements, of the activities of owners, operators, and users of the bulk power systems.
- Other investigations conducted by NERC and by regional entities and other sources of information including readiness audits.

Investigations of alleged violations of reliability standards will be conducted by NERC and regional entities professional staff, with assistance from time to time by volunteers from the electric industry, government, and academia. Volunteers will be utilized primarily to provide industry expertise to compliance audit teams and technical advice and recommendations to compliance staff.

NERC's compliance enforcement activities will be conducted at its headquarters in Princeton, New Jersey, at regional entity offices, at the locations of owners, operators, and users of the bulk power system (e.g., the administration of readiness and compliance audits), and at such other field locations throughout North America as are necessary to the performance of these activities,

¹ Five positions are budgeted to start on July 1, 2007

including the organization of enforcement and appeal hearings at locations that are convenient to the participants.

Monitoring, auditing, investigating, and enforcing compliance with reliability standards by owners, operators, and users of the bulk power system, like the development and adoption of the reliability standards themselves, is at the core of NERC's mission. Through a rigorous program of monitoring, audits, and investigations, and the imposition of penalties and sanctions for noncompliance with reliability standards, NERC will strive to maintain a high level of reliable operation of the bulk power system by its owners, operators, and users. Ensuring the reliable operation of the bulk power systems will benefit all owners, operators, and users of the bulk power systems and, ultimately, all users and consumers of electric power in North America, will provide a broad-based benefit to the public and will be in the public interest.

Based on the portion of its professional/technical staff time and other resources that it expects to devote to the reliability standards compliance enforcement process, NERC estimates that it will spend 32 percent of its resources on this activity.

2007 will represent a major transitional year for the Compliance Enforcement Program including the delegated regional compliance enforcement programs. Personnel and tools will need to be put in place and expanded to fully implement the functions of the ERO now that the funding mechanism for the organization has changed. As the ERO, NERC must move swiftly into a new mode of leadership with its compliance enforcement program. To achieve maximum efficiency and to provide direct assistance and oversight of the regional entity programs, NERC will provide staffing that can be drawn upon by the regional entities for conducting compliance audits or other activities. The NERC staff will also be utilized to supplement regional staff should a region find itself short of resources or the ability to effectively implement its program. This function will be established initially in 2007 with four regional program coordinators and expanded mid-year to nine coordinators in order to fully support the regional entities.

NERC will expand its efforts to assist and oversee the regional entities in carrying out their delegated compliance enforcement, registration, and certification activities. Compliance data collection, analysis, and reporting to the regulatory authorities in the United States and Canada will be formally established and enhanced based on the regulators requests and data collection, analysis, and reporting tools developed. Training will be established for all compliance auditors through NERC's training and education program, assuring competent and trained compliance auditors at NERC and in the regional entities.

Registration of the organizations responsible for complying with the standards will be an ongoing activity. Certification of certain organizations performing primary reliability responsibilities will begin in earnest with the completion of the certification standards.

Compliance Enforcement Program Objectives

- Direct and oversee the regional entities implementation of their delegated compliance enforcement program responsibilities
 - Establish working relationships between NERC and the regional entities in order to achieve maximum effectiveness and consistency of monitoring, reporting, enforcement

- actions, and appeals by direct observation of program implementation and participation in at least 20 compliance audits conducted by each regional entity.
- Assure timely mitigation of all violations of standards and requirements. For 2007 the number of violations to be tracked and mitigated is expected to increase from approximately 350 in 2006 to 700 in 2007, due to the increase in number of entities monitored from 250 to at least 1,000.
 - Provide oversight of regional entity compliance programs and conduct formal audits of at least three regional entity programs.
 - Participate in all settlement processes with regions for violations of standards as required and review all settlements for consistent application of settlement principles.
 - Review all enforcement actions for consistent application in all violations of standards.
 - Assess the effectiveness of enforcement actions in mitigating violations of standards.
- Implement a training program for compliance auditors.
 - Work with the Training, Education, and Operator Certification and Reliability Readiness Audit and Improvement Programs to implement auditor training requirements.
 - Assure that the training program requirements are delivered to all NERC compliance auditors, and all regional entity staff compliance auditors.
 - Deliver a training module for industry technical experts and audit volunteers.
 - Develop and enhance processes, data bases, and reporting tools to allow for seamless, uniform reporting of alleged and confirmed violations of standards, proposed penalty and sanction actions, and disposition of all violations.
 - Establish and maintain reporting relationships with appropriate governmental authorities in the United States, Canada, and Mexico and establish processes and procedures to report violations, levy penalties and sanctions, and remedy the violations.
 - Report all alleged violations of standards to FERC and the appropriate governmental authorities in the United States, Canada, and Mexico through established processes.
 - Make notice of penalty filings for all penalties and sanctions applied to compliance violations.
 - Maintain and enhance the reporting of violations of standards to the board compliance committee.
 - Report quarterly all confirmed violations of NERC or approved regional standards for which investigatory, decisional, and appeal processes have been completed, including the identity of the organizations involved in those violations.
 - Track the mitigation of identified violations of standards — expected to be approximately 700.

- Assess regional reliability organizations for compliance with those NERC standards for which they are accountable. Include a representative number of these standards in the annual compliance program.
- Develop, on a coordinated basis, the compliance elements for approximately 100 new or revised standards with the Reliability Standards Program.
- Manage all enforcement action appeals — estimated to be approximately 25 to 30.
- Maintain a compliance reporting process.

Organization Registration and Certification Objectives

- Maintain an accurate registration of all owners, operators, and users of the bulk power system for compliance monitoring purposes.
 - Oversee the regional entities' implementation of the registration process
 - Update the registration as needed and confirm the registration with the regional entities at least annually
 - Provide necessary registration information to FERC and other appropriate governmental authorities.
 - Review the completeness of the organization registration and determine if additional efforts are necessary to identify other entities or collect more information from bulk power system owners, operators, and user.
 - Develop and maintain a process to appeal a decision to include an entity on the registration list.
- Implement organization certification within the regional entities.
 - Coordinate with the Standards Committee on the development of organization certification standards for entities covered by NERC reliability standards.
 - Maintain processes and procedures for use by NERC and the regional entities in carrying out the delegated certification activities that are required by the certification standards.
 - Provide auditors for certification audits scheduled by the regional entities expected to be approximately 20 in 2007.

Reliability Readiness Audits and Improvement Program

Reliability Readiness Audits and Improvement Program Resources (in whole dollars)		
	2006 Projection	2007 Budget
Total FTEs	11	11
Total Funding	\$1,603,411	\$1,650,771

Background

NERC will continue to carry out a Reliability Readiness Audit and Improvement Program designed to assess the readiness of operators of the bulk power system to execute their designated responsibilities for maintaining the reliable operation of the bulk power system. Readiness audits are conducted on a three-year cycle for each audited entity that includes reliability coordinators, balancing authorities, transmission operators, and other entities that provide support to them. NERC's reliability readiness audits promote excellence in operations by identifying opportunities for improvement and examples of excellence that will help the audited entity and other entities improve their ability to operate the bulk power system.

Reliability readiness audit teams consist of industry volunteers with appropriate technical expertise. A member of NERC's professional/technical staff leads each audit team. Reliability readiness audit activities largely take place at the locations of the audited entities while the associated administrative support and report preparation takes place at NERC's headquarters in Princeton, New Jersey. Audit teams prepare and publicly publish a report of the team's findings on the NERC Web site.

The Reliability Readiness Audit and Improvement Program is an important component to support NERC accomplishing its mission. The activities and functions of the operators of the bulk power systems of North America that are the subjects of the readiness audits are particularly critical to achieving the reliable operation of the bulk power systems. By implementing a continuous program of auditing the activities of these entities, as well as sharing among them best practices and examples of excellence disclosed by the audits, NERC seeks to promote an ongoing superior standard of performance by these operators in their reliability-related functions, and thereby further ensuring the reliable operation of the bulk power systems of North America. Ensuring the reliable operation of the bulk power systems will benefit all owners, operators, and users of the bulk power systems and, ultimately, all users and consumers of electric power in North America. Thus, the Reliability Readiness Audit and Improvement Program provides a broad-based benefit to the public and is in the public interest.

Based on the portion of its professional/technical staff time and other resources that it expects to devote to the Reliability Readiness Audit and Improvement Program, NERC estimates that it will spend 18 percent of its resources on this activity.

In 2006, NERC will complete its first three-year cycle of reliability readiness audits of reliability coordinators, balancing authorities, and transmission operators. NERC further expanded the coverage of its program to include local control centers that have been delegated reliability functions in support of other reliability entities and developed an assistance program to help entities implement recommendations from the readiness audits. NERC continues to promote the

examples of excellence identified through the readiness audit program through its quarterly *Examples of Excellence* bulletin.

In 2007, the Reliability Readiness Audit and Improvement Program staff will continue to pursue its primary mission: to perform readiness audits of registered reliability entities across North America and assist them to implement the audit team's recommendations. Program staff will work with industry committees and member forums to provide input from the identified examples of excellence and reliability readiness audit experiences to create useful best practice guidelines for industry participants. Also in 2007, the program staff will analyze the collection of readiness audit findings and provide meaningful guidance to the industry committees and NERC's other program areas on topics that merit additional focus toward the goal of continuous improvement. NERC will also focus on evaluating and improving the effectiveness of the reliability readiness program and staff through a self-audit of its program, by additional training of audit team members, and potential certification of audit team leads.

Reliability Readiness Audit and Improvement Objectives

- Audit one-third of the reliability coordinators, balancing authorities, and transmission operators in 2007, independent of regional compliance audits. In 2007, 70 audits are expected to be performed.
- Audit one-third of the large local control centers that have been delegated functions or provide significant support to registered reliability entities. In 2007, 12 local control center audits are planned.
- Implement a training program for reliability readiness auditors.
 - Work with the Training, Education, and Operator Certification and Compliance Enforcement Programs to implement auditor training requirements.
 - Assure that the program is delivered to all NERC reliability readiness auditors.
 - Deliver a training module for industry technical experts and audit volunteers.
- Assist 10 audited entities develop mitigation plans for implementing recommendations from the reliability readiness audits.
- Communicate to the industry 30 examples of excellence identified through the Reliability Readiness Audit and Improvement Program and other means.
- Develop enhanced tools and processes to track the implementation status of reliability readiness audit recommendations.
 - Coordinate with the Compliance Enforcement Program in the development of an enhanced reporting tool for violations of standards and readiness audit recommendations.
 - In conjunction with the regional entities, perform a detailed review of two regional entities per quarter to determine the implementation status of the readiness audit recommendations of its members.

- Maintain and enhance reporting of readiness audit recommendations to the NERC Board of Trustees.
 - Report quarterly the status and mitigation of each recommendation identified in the reliability readiness audit process.
 - Perform a critical analysis of audit recommendations and findings to determine meaningful trends and communicate this information to the industry and to the NERC board as a mechanism for improvement.
- Assure reporting of all probable violations of standards and requirements to the regional compliance officers within two weeks of the conclusion of the readiness audits.
- Provide routine feedback to the standards program on deficient areas in existing reliability standards determined during the execution of the readiness audit process.
- Coordinate with the industry's technical groups on the development of industry best practices and work with the training and education program to develop meaningful educational materials.
- Perform a self-assessment of the Reliability Readiness Audit and Improvement Program to evaluate the success and effectiveness of the program in achieving its mission.

Training, Education, and Operator Certification Program

Training, Education, and Personnel Certification Program Resources (in whole dollars)		
	2006 Projection	2007 Budget
Total FTEs	5	6
Total Funding	\$1,100,719	\$1,380,087

Background

System Operator Certification Program

The System Operator Certification Program provides a certification credential for the operating personnel of the owners, operators, and users of the bulk power system. The program initially certifies the competency of operating personnel through examinations. Operation of the program will continue to be overseen by the Personnel Certification Governance Committee (PCGC), which is a standing committee of NERC reporting to the Board of Trustees. The PCGC provides oversight to the policies and processes used to implement and maintain the integrity and independence of the System Operator Certification Program. The PCGC will continue to report to the Board of Trustees, but will have autonomy in developing and implementing system operator certification eligibility requirements (the development, administration and scoring of the system operator assessment instruments, and operational processes for the System Operator Certification Program.)

Operating personnel seeking to be certified or to maintain certification through the System Operator Certification Program pay fees for examinations and other continuing education activities. The program also includes periodic recertification of system operators through the accumulation of continuing education hours. The fees are structured so as to recover the costs of operating the System Operator Certification Program. NERC's professional/technical staff will administer the System Operator Certification Program on behalf of the PCGC on a fee-for-service basis designed to compensate NERC for its costs incurred in administering the program. In addition, NERC uses the services of a professional examination proctoring service to administer certification examinations at various locations around the United States and Canada.

The System Operator Certification Program is an important component of NERC's accomplishment of its mission. Providing a system of certification of the basic competencies of operating personnel of owners, operators, and users of the bulk power systems of North America helps achieve a high level of competence among these operating personnel in the performance of their reliability related functions, and thereby further ensures the reliable operation of the bulk power systems of North America. Ensuring the reliable operation of the bulk power systems benefits all owners, operators, and users of the bulk power systems and, ultimately, all users and consumers of electric power in North America. Reliable operation provides a broad-based benefit to the public and is in the public interest.

In 2006, the System Personnel Certification Program implemented the first phase of its expansion beyond the testing and retesting that has been the basis of the program. Certified system operators are now allowed to submit qualifying continuing education hours to maintain

their credential in lieu of recertifying via an exam. Part of this expansion required developing and implementing a new registration portal and database.

The second phase of this project, to be implemented in 2007, will improve the features of the portal and the database beyond the basic design implemented in 2006. The fully allocated costs of this project will be recovered through fees collected by the System Operator Certification Program.

Continuing Education Program

NERC continues to maintain a Continuing Education Program to foster the improvement of, and to promote quality in, the training programs used by and implemented by owners, operators, and users of the bulk power system. The program approves or accredits those activities and entities meeting NERC's continuing education requirements.

Specifically, the NERC Continuing Education Program: promotes excellence in training programs and advances improved performance for bulk power system operating personnel identified in the preceding paragraph; develops and maintains a process to approve or accredit continuing education providers and activities seeking approval or accreditation and meeting continuing education requirements approved by NERC; performs periodic audits of continuing education providers and training activities to ensure that the approved or accredited providers and training activities satisfy NERC's continuing education requirements; and develops and maintains an appeals process for disputed application reviews, interpretations of guidelines and standards, probation or suspension of approved provider status, or continuing education hour disputes.

In 2006 the Continuing Education Program was modified to align with, and support changes in, the system operator certification program. The changes enable training providers to develop and deliver training that allows system operators to earn the continuing education hours needed to fulfill operator certification maintenance requirements. Records for this program are integrated with the portal and database used by the System Operator Certification Program.

This program is expected to grow in 2007 as more system operators use continuing education hours to maintain their credential instead of retesting. The costs of implementing this program will be recovered through continuing education provider fees.

Training and Education

In addition to the programs above, NERC will also develop and maintain training and education programs for the purpose of establishing training requirements and developing materials and activities. The primary target audience of the training and education program will be bulk power system operating personnel including system operations personnel, operations support personnel (engineering and information technology), supervisors and managers, training personnel, and other personnel directly responsible for complying with reliability standards who, through their actions or inactions, may impact the real-time, or day-ahead reliability of the bulk power system.

Additionally, NERC will develop and provide educational and training resources to industry participants and regulators affected by new or changed reliability standards or compliance requirements. These resources are designed to help industry participants and regulators understand the content of the reliability standards and what is needed for compliance. The influx

of new and modified reliability standards and requirements has the industry looking to NERC for training and educational materials and activities.

NERC's activities to carry out these functions will include: conducting job task analyses for targeted bulk power system personnel to ensure that the training program content is properly aligned to the job tasks performed by those personnel; developing and maintaining training program curriculum requirements based on valid job-task analysis; periodically conducting performance surveys to determine the effectiveness of the training program and to identify areas for further training development and improvement; developing training and education materials and activities to assist bulk power system entities in implementing new or revised reliability standard requirements or other related changes; and developing and providing auditor training to persons who participate in audits and investigations conducted by NERC and its regional entities for NERC's Compliance Enforcement, Organization Registration and Certification, Reliability Readiness Audit and Improvement, and the Continuing Education Programs.

The training and education program activities will be carried out by NERC's professional/technical staff with the assistance of volunteers from the electric industry, government, and academia possessing the appropriate technical knowledge and competencies. NERC expects that training and education program activities will be carried out at its headquarters in Princeton, New Jersey, through conferences calls, exchanges of information through e-mail, Web site postings and other means of electronic communications, and in meetings and conferences at locations around the United States and Canada selected for proximity to, and ease of access by, persons seeking to participate in training and education programs.

Training developed for compliance and reliability readiness auditors in 2006 will be delivered in 2007.

Developing and maintaining training and education programs for bulk power system operating personnel and the other targeted audiences of these programs is an important component of NERC's accomplishment of its mission. Providing a training and education program for the operating personnel of owners, operators, and users of the bulk power systems of North America relating to their compliance with reliability standards and other reliability-related job functions will help to achieve a high level of knowledge and competence among these operating personnel in the performance of their reliability-related functions. It also helps to promote a culture of compliance within the industry, and thereby will help to further ensure the reliable operation of the bulk power systems of North America.

Based on the portion of its professional/technical staff time and other resources that it expects to devote to the Training, Education, and Operator Certification Program described herein, NERC estimates that it will spend 10 percent of its resources on this activity.

Training, Education, and Operator Certification Objectives

Operator Certification

- Administer the current system operator certification program.
- Implement the three-year transition to the exclusive use of continuing education hours for maintaining system operator certification in lieu of reexamination.
- Implement improvements to the system operator certification program by surveying and defining the knowledge and skills required to control the bulk power system.
- Complete phase two of the portal and database personnel use to register for the system operator certification examinations.

Continuing Education

- Assess and improve the training provider requirements.
- Raise the quality and levels of training for system operators throughout North America to ensure that delivered training meets the needs of the System Personnel Certification Program.
- Define and implement the processes to review and audit training activities being delivered by providers in order to ensure quality training for system personnel.
- Establish relationships with training vendors and consultants to improve training products used by industry trainers to augment utility training programs.
- Analyze and improve training activity application and assessment processes.
- Define and implement improvements in the database used to track continuing education activities delivered by providers.

Training and Education

- Develop training and education materials and activities for existing and new reliability standards.
- Deliver training for compliance and reliability readiness auditors.
 - Deliver training for NERC, regional entity staff, and industry technical experts who act as team leaders.
 - Deliver training for industry technical experts and volunteers who participate on compliance and reliability readiness audits.
 - Implement a process to verify and track the auditor training qualifications for those who are trained.
- Develop and deliver training activities and materials on lessons learned from the analysis of system events and system performance.
- Complete work on an operator excellence study to create a competency model that can be used for operator hiring and training across North America.

Reliability Assessment and Performance Analysis Program

Reliability Assessment and Performance Analysis Program Resources (in whole dollars)		
	2006 Projection	2007 Budget
Total FTEs	9	9
Total Funding	\$2,584,516	\$2,619,128

Background

In the United States, the ERO is required to “conduct periodic assessments of the reliability and adequacy of the bulk-power system in North America.” (FPA, § 215(g); 16 C.F.R. § 39.11.) In accordance with this responsibility and NERC’s responsibility to support the reliability of the North American bulk power system, NERC intends to prepare three reliability assessments each year: a long-term reliability assessment report, a summer assessment report, and a winter assessment report. These reports will analyze electricity demand and the adequacy of supply throughout the North American bulk power system, as well as examine the adequacy of the transmission system. NERC will also prepare special reliability assessment reports as conditions warrant or as directed by the Board of Trustees. Copies of all reliability assessment reports will be submitted to FERC, governmental authorities in Canada, and be made publicly available. Further, NERC will analyze unusual events that occur on the bulk power systems, identify the causes of such events, assess past reliability performance, disseminate its findings to the electric industry, and develop reliability performance benchmarks.

Reliability and adequacy assessments and investigations and analyses of specific events occurring on the bulk power system will be conducted by teams comprised of members of NERC’s and regional entity professional/technical staff along with volunteers from the electric industry, government, and academia possessing appropriate technical competencies. Except to the extent that site visits are necessary in conducting analyses and investigations, the work of these teams will be carried out through conference calls, exchanges of information through e-mail, Web site postings and other means of electronic communications, and, to the extent necessary, in meetings at NERC’s headquarters in Princeton, New Jersey or at meeting locations around the United States and Canada selected for proximity to and ease of access by the team members.

The purposes of NERC’s reliability and adequacy assessment activities (in addition to fulfilling its obligations under the FPA and the FERC Rule) are to: conduct, and report the results of, independent assessments of the overall reliability and adequacy of the interconnected North American bulk power systems, both as existing and as planned; investigate and analyze off-normal events on the bulk power system; identify the root causes of events that may be precursors of potentially more serious events impacting the reliable operation of the bulk power systems; assess past reliability performance for lessons learned; disseminate findings and lessons learned to the electric industry to improve reliability performance on the bulk power systems; and develop, and monitor performance against, reliability performance benchmarks. These objectives, and the performance of reliability and adequacy assessments, are important components of NERC’s accomplishment of its mission. By performing reliability and adequacy assessments of the bulk power systems as well as analyzing and determining the root causes of abnormal events occurring on the bulk power systems, NERC seeks to disseminate to owners,

operators, and users of the bulk power system, as well as to FERC and other relevant government authorities, information that can help prevent future abnormal events and further ensure the reliable operation of the bulk power systems of North America. Ensuring the reliable operation of the bulk power systems will benefit all owners, operators, and users of the bulk power systems and, ultimately, all users and consumers of electric power in North America, will provide a broad-based benefit to the public and will be in the public interest.

Based on the portion of its professional/technical staff time and other resources that it expects to devote to the performance of reliability and adequacy assessments and the investigation and analysis of specific events on the bulk power system, NERC estimates that it will spend 14 percent of its resources on this activity.

Reliability and Adequacy Assessment Objectives

- Conduct and report the results of independent assessments of the overall reliability and adequacy of the interconnected North American bulk power systems for 2007 summer, 2007/08 winter, and 2007–2016.
- Assess and report on the key issues, risks, and uncertainties that affect or have the potential to affect the reliability of existing and future electric supply and transmission — supply shortages, generating unit shutdowns, fuel supply and transportation disruptions, droughts, floods, strikes, extreme weather, etc (initiated in 2006.)
- Address potentially negative impacts on bulk power system reliability or adequacy due to concerns arising from the operation and planning of gas supply, transportation, and storage, and the operation and planning of electric systems.
- Investigate, assess, and report on the potential impacts of new and evolving electricity market practices, new or proposed regulatory procedures, and new or proposed legislation (e.g., environmental requirements) on the adequacy and operating reliability of the bulk power systems.
- Establish and maintain relationships with industry, regulatory, and governmental organizations involved with bulk power system reliability (e.g., DOE, FERC, EIA, RTOs/ISO, etc.)
- Review regional reliability assessment processes, regional criteria, and methodologies for consistency and their interdependency and impact on neighboring regions.
- Sponsor forums for sharing best practices for reliability and planning assessments; review and recommend enhancements to current interregional and interconnection-wide reliability assessments.
- Review the impact of potential fuel supply or transportation infrastructure interruptions in reliability assessments.
- Maintain a continuing working dialog on bulk power system reliability and adequacy issues with natural gas supply and transportation industry representatives.
- Develop and submit Standards Authorization Requests, as required, for any deficiencies or needs revealed by reliability assessments.
- Maintain a library of solved power flow models, a system dynamics database, and dynamics simulation cases for the Eastern Interconnection for use by the regional reliability

organizations and their members in planning and evaluating future systems and current operating conditions.

Events Analysis and Information Exchange Objectives

- Record all disturbances and other bulk power system off-normal events in the NERC Events Database, created in 2006 (in conjunction with Situational Awareness and Infrastructure Security Program.)
- Conduct NERC-level investigations, as needed, of large-scale outages, disturbances, and near misses to determine root causes and lessons learned.
- Participate in regional investigations, evaluations, and analyses as determined by NERC.
- Maintain and enhance NERC's Blackout and Disturbance Response Procedures (in conjunction with Situation Awareness and Infrastructure Security Program.)
- Direct investigation teams in the evaluation and analysis of system disturbances and other off-normal system events.
- Analyze the frequency performance of the interconnections using data from appropriate measurement systems.
- Establish a clear set of criteria for sorting reported disturbances and other bulk power system off-normal events into categories and deciding what level of investigation, evaluation, or analysis is needed, and who will undertake such investigations, evaluations, or analyses (triage function.)
- Communicate to the industry root causes of events that may be precursors of potentially more serious events and other “lessons learned” from all investigations, evaluations, and analyses.
- Analyze and identify improvements to the interaction of the transmission system with nuclear power plants, especially related to minimum voltages required by the plants.
- Develop and submit Standards Authorization Requests, as required, for any deficiencies or needs revealed by event investigations, evaluations, or analyses.
- Advise the Reliability Readiness Audit and Improvement Program of specific issues identified through investigations, evaluations, or analyses that should be included in future readiness audits.
- Advise the Compliance Enforcement Program of any potential reliability standards violations identified through disturbance investigations, evaluations, or analyses.
- Assess and report quarterly to NERC technical committees and the board on past reliability performance of the bulk power system.
- Assess and report annually to NERC technical committees and the board on past reliability performance for the previous five years.

Benchmarking Objectives

- Maintain a performance metrics “dashboard” on the NERC Web site, and develop appropriate reliability performance benchmarks (initiated in 2006.)

- Identify and track key reliability indicators (such as system control performance, TLRs, disturbances, etc.) as a means of benchmarking reliability performance and measuring reliability improvements (initiated in 2006.)
- Report on changes in reliability performance compared to established benchmarks for each reliability performance indicator (initiated in 2006.)
- Identify and continuously monitor performance indices to detect emerging trends and signs of a decline in reliability performance (initiated in 2006.)
- Develop and submit Standards Authorization Requests, as required, for any deficiencies or needs revealed by the benchmarking program.
- Maintain a Generating Availability Data System (GADS) on the performance of electric generating equipment; provide assistance to those researching information on power plant availability; support equipment reliability and availability analyses and other decision-making processes; facilitate the use of GADS data in conducting assessments of generation resource adequacy; and report on trends in generating equipment performance.
- Communicate performance results, trends, recommendations, and initiatives to those responsible to take actions; follow with confirmation of actions to correct any deficiencies identified.
- Establish and maintain a Transmission Availability Data System (TADS) and report on trends in transmission equipment performance.

Technical Integration Committee Objectives

- Reevaluate the structure, role, and deliverables of the technical integration committee(s) to ensure that the industry is able to effectively and efficiently provide its expertise in support of NERC's mission as the ERO.
- Utilize the NERC technical integration committee(s) and its subject matter expert subgroups: for technical advice and support for the Reliability Assessment and Performance Analysis Program; to serve as forums for technical discussion and integration of the outputs of each NERC program; and to provide expert technical opinions on all reliability matters to the NERC programs and the board.

Situation Awareness and Infrastructure Security Program

Situation Awareness and Infrastructure Security Program Resources (in whole dollars)		
	2006 Projection	2007 Budget
Total FTEs	3.5	4.5
Total Funding	\$2,361,491	\$3,255,644

Background

On an ongoing basis, NERC will monitor conditions on the bulk power system and provide leadership coordination, technical expertise, and assistance to the electric industry in responding to abnormal events on the bulk power systems. To perform these functions, NERC will: maintain real-time situation awareness of conditions on the bulk power system; notify the industry of significant bulk power system events that have occurred in one area, and which have the potential to impact reliability in other areas; maintain and strengthen high-level communication, coordination, and cooperation with governments and governmental authorities regarding real-time conditions on the bulk power system; and enable the reliable operation of interconnected bulk power systems by facilitating information exchange and coordination among reliability service organizations.

Additionally, NERC will provide tools and other support services for the use and benefit of bulk power system operators including reliability coordinators. Tools and support services to be provided and maintained by NERC will include the Area Control Error (ACE) and Frequency Monitoring System, the NERC Hotline, Real-time Flows, the System Data Exchange (SDX), the Reliability Coordinator Information System (RCIS), the Transmission Services Information Network (TSIN), the Interchange Distribution Calculator (IDC), the interregional Security Network (ISN), and the Central Repository for Security Events (CRC). As part of these activities, NERC will facilitate real-time voice and data exchange among bulk power system reliability coordinators.

Further, NERC will coordinate electric industry activities to promote critical infrastructure protection of the bulk power system in North America by taking a leadership role in the critical infrastructure protection of the electricity sector so as to reduce the vulnerability and improve the mitigation and protection of the critical infrastructure of the electricity sector. NERC will act as the electricity sector's Sector Coordinator and operate its Information Sharing and Analysis Center to gather and communicate information about security-related threats within the sector, the United States and Canadian governmental authorities, and other critical infrastructure sectors. NERC will also perform security planning activities focused on the critical infrastructure protection of the electricity sector, including sharing sensitive or classified information on critical infrastructure protection matters with federal, state, and provincial governmental authorities.

NERC's situation awareness and infrastructure security activities will be carried out primarily by NERC's professional/technical staff at its headquarters in Princeton, New Jersey and through meetings and conferences with governmental and other entities at other locations as necessary. Performance of these situation awareness and infrastructure security activities is an important component of achieving NERC's mission. Maintaining real-time awareness of conditions on the

interconnected bulk power systems of North America (including awareness of abnormal events, communicating information concerning system conditions and abnormal events to, and facilitating real-time communications among, system operators responsible for the reliable operation of the bulk power systems) is critical to maintaining reliable operation of the bulk power systems, as is promoting and planning for protection of the electricity sector's critical infrastructure. It also assists NERC in identifying areas where new or revised reliability standards may be required. Ensuring the reliable operation and integrity of the critical infrastructure of the bulk power systems will benefit all owners, operators, and users of the bulk power systems and, ultimately, all users and consumers of electric power in North America, will provide a broad-based benefit to the public and will be in the public interest.

Based on the portion of its professional/technical staff time and other resources that it expects to devote to the situation awareness and infrastructure security activities and functions described herein, NERC estimates that it will spend 7 percent of its resources on this activity.

The Situation Awareness and Infrastructure Security area is the combination of near real-time awareness of conditions on the bulk power system with the programs necessary to increase the physical and cyber security of the electricity infrastructure. This includes the operation and maintenance of tools and other support services for the benefit of reliability coordinators and other system operators.

The strategic objectives of the group are:

- Using risk management principles, take actions to enhance the security and resilience of the bulk electric system to address the threats and hazards.
- Establishing a robust situation awareness capability to monitor the bulk electric system and the industry's response to cyber and physical incidents affecting the reliable operation of the system.

Electricity Sector Information Sharing and Analysis Center (ESISAC) Objectives

- Operate the ESISAC to gather information and communicate security-related threats and operating incidents within the sector, to United States and Canadian governmental authorities, and to other critical infrastructure sectors.
- Improve the capability of the ESISAC to analyze security threats and incident information and provide situational assessments for the electricity sector and governmental authorities and departments.
- Collaborate and strengthen relationships with FERC, the U.S. Department of Homeland Security (DHS), the U.S. Department of Energy (DOE), Public Safety and Emergency Preparedness Canada (PSEPC), and other authorities of national, state, and provincial governments on infrastructure security matters.
 - Fill the role of the Electricity Sector Coordinating Council and coordinate with the Government Coordinating Council.
 - Coordinate with other infrastructure sectors through active participation with the other Sector Coordinating Councils, the other ISACs, and the National Infrastructure Advisory Committee.

- Encourage and participate in coordinated critical infrastructure security exercises, including interdependencies with other critical infrastructure sectors.
- Improve mechanisms for the sharing of sensitive or classified information with federal, state, and provincial governmental authorities on critical infrastructure protection matters. Likewise, work more closely with other sector ISACs to accomplish increased information sharing.
- Work with DOE and DHS to implement the National Infrastructure Protection Plan, as applicable to the electricity sector, and coordinate this work with PSEPC.

Security Planning Objectives

- Execute a risk management approach to critical infrastructure protection, considering probability and severity, and utilize mitigation, recovery, and network resilience as practical alternatives to prevention. Keep abreast of the changing threat environment through collaboration with governmental authorities.
 - Develop criteria to identify critical physical and cyber assets, assess security threats, identify risk assessment methodologies, and assess effectiveness of physical and cyber protection measures.
- Enhance the bulk power system critical spare transformer program, and encourage increased participation by asset owners. Continue to assess the need to expand this program to include other critical bulk power system equipment.
- Lead the implementation of the cyber security standards through an education program.
- Actively manage the Infrastructure Security Guideline Program.
 - Review and improve existing security guidelines.
 - Develop new security guidelines to meet the needs of the electricity sector.
 - Consider whether any guidelines should be developed into standards.
- Improve methods to better assess the impact of a possible physical attack on the bulk power system and means to deter, mitigate, and respond following an attack.
- Complete guidelines for use by electricity sector to identify critical cyber and physical assets.
- Assess the results of vulnerability assessments and enhance the security of SCADA and process control systems by developing methods to detect an emerging cyber attack and the means to mitigate impacts on the bulk electric systems.
 - Work with the National SCADA Test Bed and the Process Control Systems Forum to accelerate the development of technology that will enhance the security, safety, and reliability of process control and SCADA systems.
- Initiate a NERC standard for conducting a risk assessment of critical assets in the electricity infrastructure.

Operating Reliability Support Services Objectives

- Maintain the reliability and effectiveness of all mission-critical operating reliability support systems and services.

- Review and approve changes in the IDC as required to address changing market structures and seams between markets.
- Continue to support maintenance of a transmission provider curtailment report on the CRC site in response to FERC Order 605.
- Review the E-Tag functional requirements and specifications to ensure alignment with the IDC and other applications.
- Investigate and analyze the use of high-speed real-time system measurements, including phasors, in predicting the behavior and performance of the Eastern Interconnection.
- Facilitate real-time voice and data exchange services among reliability coordinators (e.g., Hotline, Interregional Security Network, NERCnet, System Data Exchange, etc.)
- Conduct a business analysis of the operating reliability support systems listed below to achieve lower costs and higher effectiveness. Increased use of outsourcing and off-the-shelf packages will be considered for the development and maintenance of operating reliability support services.
- Review and revise the functional requirements and specification for the TSIN Registry in coordination with NAESB; recommend funding process and allocations.
- Transition Frequency and ACE Monitoring System to include the Electric Reliability Council of Texas.
- Integrate hourly area interchange error functionality into the Frequency and ACE monitoring tool.
- Implement the Transmission Monitoring System as defined by the feasibility study included in the DOE and FERC report to Congress, as required by section 1839 of the EPAct of 2005.

NERC currently provides a number of operating reliability support services to the industry, which are listed below along with the respective NERC groups that sponsor each service.

Transmission Services Information Network (TSIN) — integrates three registration processes: OASIS, E-Tag, and transmission service attributes. Registering with TSIN is the first step to conducting business on OASIS and completing E-Tags, and is a FERC requirement.

Interchange Distribution Calculator (IDC) — used primarily as an implementation tool for the NERC Transmission Loading Relief Procedure (TLR). Each NERC reliability coordinator in the Eastern Interconnection has the option of invoking the NERC TLR or other agreed-upon local procedures to relieve network congestion.

Interregional Security Network (ISN) — provides an electronic network for timely and accurate data and information exchange among reliability coordinators and other system operators. The ISN, which operates over the frame relay NERCnet system, is a private Intranet that is also capable of handling additional applications between participants.

Real-Time System Power Flows — a system that provides market participants with a model of real-time power flows over the North American grid.

System Data eXchange (SDX) — a system that allows for exchange of electric system data between control areas and reliability coordinators. The SDX is used to exchange information related to generation and transmission outages, system load, and reserve data. Data from the SDX is used within the IDC, and by various operating entities to update calculations of available transfer capability.

Central Repository of Curtailment Events (CRC) — a limited-access website that provides transmission system curtailment information to transmission customers in accordance with FERC Order 605, at the request of the Market Interface Committee in August 2000. Many transmission providers use the site to comply with Order 605, with references or direct links to the CRC site from their OASIS sites.

Reliability Coordinator Information System (RCIS) — an on-line, real-time, messaging system that connects all reliability coordinators and many control areas, which permits reliability coordinators to share emergency alerts. RCIS also displays information related to ACE, frequency, and selected outages.

Area Control Error (ACE) and Abnormal Frequency System Monitoring — allows reliability coordinators and control areas to monitor one-minute area control error (ACE) and alerts system operators when abnormal frequency excursions occur. Such monitoring allows better compliance with NERC reliability standards and facilitates the investigation of system disturbances reflected in frequency excursions.

NERC Hotline — a conference line bridge used by reliability coordinators to quickly share critical information.

OASIS II and Electronic Scheduling — Since March 2000, NERC has supported two industry-wide collaborative efforts to address OASIS II and electronic scheduling. The Electronic Scheduling Collaborative and the OASIS Standards Collaborative completed their work at the end of 2003. The groups provided their deliverables to NERC and the North American Energy Standards Board (NAESB) for further work. NERC and NAESB continue to work together to define the interrelated business practices and reliability standards needed to implement OASIS II, which will define the electronic communication interfaces between market participants, support reliability entity communications, ensure data is collected to support reliability analysis, and facilitate the operational management of the electric grid.

Administrative Services

Administrative Program Resources (in whole dollars)		
	2006 Projection	2007 Budget
Total FTEs	20.5	22.5
Total Funding	\$6,911,607	\$7,945,821

NERC has and will continue to make sweeping internal changes to enhance its organizational effectiveness and efficiency including modifying its internal structure, reorganizing existing staff, and proposing increases to staff resources. With these changes, NERC will be best positioned to take on the responsibilities of the ERO.

Members' Forums

The success of the NERC programs will depend on the active and direct participation of industry stakeholders, including its members. The stakeholders are the source of expertise in the industry, and provide the force that raises the bar for enhancing reliability through technical excellence.

NERC has established and facilitates members' forums that serve the interests of stakeholders within specific NERC sectors, and general, technical committees that integrate the "deliverables" of NERC programs. NERC and its committees and forums follow four guiding principles: provide expertise; have a clear purpose; promote efficiency; and participate for the community good.

Members' Forums Objectives

- Prepare forums and general technical committee charters.
- Assist forum and committee officers in their leadership responsibilities.

Information Technology

NERC's Information Technology team ensures information assets and the environment in which they operate are secure. IT will develop and maintain systems used by the electric industry to monitor system conditions in near-real time. NERC will maintain a co-located disaster recovery site for its mission- and business-critical information technology systems and a backup site for continuity of essential operations in the event that its primary location becomes uninhabitable.

Responsibilities encompass a variety of complex technical, administrative, and supervisory work in the development, installation, and maintenance of information technology systems. IT goals include, but are not limited to:

- Establishing and directing the strategic long-term goals, policies, and procedures of NERC's information technology department.
- Creating an information security program aimed at reducing risk to acceptable levels.
- Determining long-term systems needs and hardware acquisitions.
- Developing and implementing information security standards and procedures.

- Ensuring all information systems are functional and secure, and that all applications running on those systems meet business requirements for performance, availability, and security.
- Planning and implementing organization-wide information systems, services, and network facilities, including local area networks, wide-area networks, and peripheral systems.

Information Technology Objectives

- Develop the second phase of the Standards Information Management System (comment and response handling).
- Rewrite information security policies and procedures to meet the requirements of CIP-002–009.

Legal and Regulatory

NERC will explore an effective way to open an office in Washington, D.C. and seek to hire an additional attorney with regulatory and compliance expertise, who will be based in that Washington office. The legal department will provide a chief legal advisor to the CEO, Board of Trustees, staff, and stakeholders on all legal and regulatory matters affecting NERC; review items filed with governmental units for legal sufficiency; review all contracts; and retain and oversee work of outside counsel.

Legal and Regulatory Objectives

- Implement its electric reliability organization functions.
- Reorganize the North American Electric Reliability Council and the North American Electric Reliability Corporation.
- Implement all delegation agreements with regional entities.
- Obtain recognition of NERC as the electric reliability organization in all nine Canadian jurisdictions.

Human Resources

NERC has assembled a highly qualified senior management team and professional and technical staff to lead its activities as the ERO. Presently, NERC has a staff of more than 50 management, professional, and technical employees. The newly created human resources department will design, plan, and implement human resources policies and procedures, including staffing, compensation, benefits, employee relations, and training and development.

Human Resources Objectives

- Recruit stellar employees.
- Conduct surveys on competitive salaries.
- Provide management training programs.
- Revamp employee manual.
- Review employee benefits.

Finance and Accounting

In the United States, NERC will file its proposed annual budget for statutory and non-statutory activities, including the statutory and non-statutory activities of each regional entity, to FERC. In Canada, NERC will file its proposed annual budget with each of the relevant governmental authorities. This includes supporting materials such as each regional entity's complete business plan and organizational chart, explaining the proposed collection of all dues, fees, and charges, and the proposed expenditure of funds collected in sufficient detail to justify the requested funding collection and budget expenditures.

The Finance and Accounting department will: direct the overall financial plans and accounting practices of the organization; oversee treasury, accounting, budget, tax, and audit activities; and oversee financial and accounting system controls and standards.

Finance and Accounting Objectives

- Implement new a funding/collection mechanism for ERO funding.
- Evaluate and advise on the impact of long-range planning, introduction of new programs/strategies and regulatory action.
- Develop a reliable cash flow projection process and reporting mechanism that includes minimum cash threshold to meet operating needs.
- Provide advice from the financial perspective on contracts into which the organization may enter.

Section B — 2007 Budget

2006 Projection and 2007 Budget Comparison

Table 1 shows the 2006 projection and the 2007 budget in a *Statement of Activities* format. Anticipated expenses for 2006 are projected to be \$469,030 higher than budgeted. The 2007 budget represents the first year of operations for the ERO under the new funding scheme. Total ERO funding required for operations in 2007 is \$21,682,552. A summary explanation of each line is shown below. Detailed analysis of funding and expenses by program area and by each line item is contained in the attached appendices.

Table 1

Statement of Activities 2007 Budget	2006 Projection Total	2007 Budget Total	Variance
Funding			
ERO Funding	-	21,682,552	21,682,552
Membership Dues	16,369,898	-	(16,369,898)
Testing Fees	600,000	570,000	(30,000)
Services & Software	210,000	210,000	-
Interest	84,000	84,000	-
Total Funding	17,263,898	22,546,552	5,282,654
Expenses			
Personnel Expenses			
Salaries	8,356,170	10,133,182	1,777,012
Payroll Taxes	491,427	609,545	118,118
Benefits	1,020,187	1,492,584	472,398
Retirement Costs	984,685	1,118,891	134,206
Total Personnel Expenses	10,852,468	13,354,202	2,501,734
Meeting Expenses			
Meetings	713,000	713,000	-
Travel	966,500	1,316,000	349,500
Conference Calls	113,000	113,000	-
Total Meeting Expenses	1,792,500	2,142,000	349,500
Operating Expenses			
Consultants	385,000	1,405,000	1,020,000
Contracts	2,186,760	2,751,160	564,400
Office Rent	481,300	647,200	165,900
Office Costs	554,900	646,690	91,790
Professional Services	1,181,000	1,189,800	8,800
Computer Purchase & Maint.	244,000	350,000	106,000
Furniture & Equipment	55,000	60,500	5,500
Total Operating Expenses	5,087,960	7,050,350	1,962,390
Total Expenses	17,732,928	22,546,552	4,813,624
Change in Assets	(469,030)	-	469,030

Summary Explanation

Funding

- **ERO Funding (2007 only)** — New mandatory funding mechanism. Funding required through the LSEs (or designee) is the net of total expenses less funding from all other sources detailed below. Does not include additional funding to return reserve balances to approved levels.
- **Membership Dues (2006 only)** — Funding from regional reliability councils under voluntary membership agreements.
- **Testing Fees** — Fees charged to system operators for administration of system operator certification program.
- **Services and Software** — Fees charged to support the maintenance of various services and software programs (see Appendices A and B for details)
- **Interest** — Interest earned on bank balances.

Expenses

- **Salaries** — Expenses to support 69 FTEs in 2006 and 85 FTEs in 2007.
- **Payroll Taxes** — Applicable company-paid payroll taxes (social security, medicare, state disability, etc.)
- **Benefits** — Health, dental, life, and long-term care insurances.
- **Savings & Retirement** — 401(k) and supplemental executive retirement contributions..
- **Meetings** — Expenses for support of meetings.
- **Travel** — NERC staff travel in support of NERC or industry related meetings.
- **Contracts & Consultants** — Contracts with third parties to support various programs and tools maintained by NERC for the industry (see **Appendices A** and **B** for details).
- **Office Rent** — Office space in Princeton, New Jersey and estimated acquisition of additional office space in Washington D.C. in late 2006.
- **Office Costs** — Administrative costs to support operations (telephone, copying, office supplies, etc).
- **Professional Services** — Fees paid to trustees, expenses for legal and accounting services.
- **Computer Purchases and Maintenance** — Purchase of new and replacement computer-related equipment (servers, desktops, laptops, and peripherals).
- **Furniture & Equipment** — Furniture and equipment for expanded operations.

Detailed analysis of income and expenses are contained in the following appendices:

- **Appendix A** — 2006 projection and 2007 budget by program category. Each program's sources of funding and related expenses are analyzed.
- **Appendix B** — 2006 projection and 2007 budget by statement of activity section. An expanded view of each line item on the statement of activities is shown.

- **Appendix C** — 2007 ERO Assessments by load-serving entity (LSE) (or designee)
- **Appendix D** — 2006 projection by program category including system of accounts code detail. Shown are detailed schedules by funding, personnel, meetings, and operations.
- **Appendix E** — 2007 budget by program category including system of accounts code detail. Shown are detailed schedules by funding, personnel, meetings, and operations.

Personnel Analysis

By far, NERC largest expense is its staff. Personnel related costs make up over 59 percent of NERC's total funding needs. Table 2 shows staffing by program area for both 2006 and 2007. 2007 budget levels show an increase of 16.0 FTE compared to the 2006 projection.

Table 2

Total FTE's by Program Area	2006²	2007³	Change
Operational Programs			
Reliability Standards Program	10	12	+2
Compliance Enforcement and Organization and Certification Program	10	20	+10
Reliability Readiness Audits and Improvement Program	11	11	0
Training, Education and Personnel Certification Program	5	6	+1
Reliability Assessment and Performance Analysis Program	9	9	0
Situational Awareness and Infrastructure Security Program	3.5	4.5	+1
Operational Programs Total FTEs	48.5	62.5	+14
Administrative Program			
Members Forums	1	3	+2
General and Administrative	2	2	0
Information Technology	8	7	-1
Legal and Regulatory	3	4	+1
Human Resources	2.5	2.5	0
Finance and Accounting	4	4	0
Administrative Programs Total FTEs	20.5	22.5	+2
Total FTEs	69	85	+16

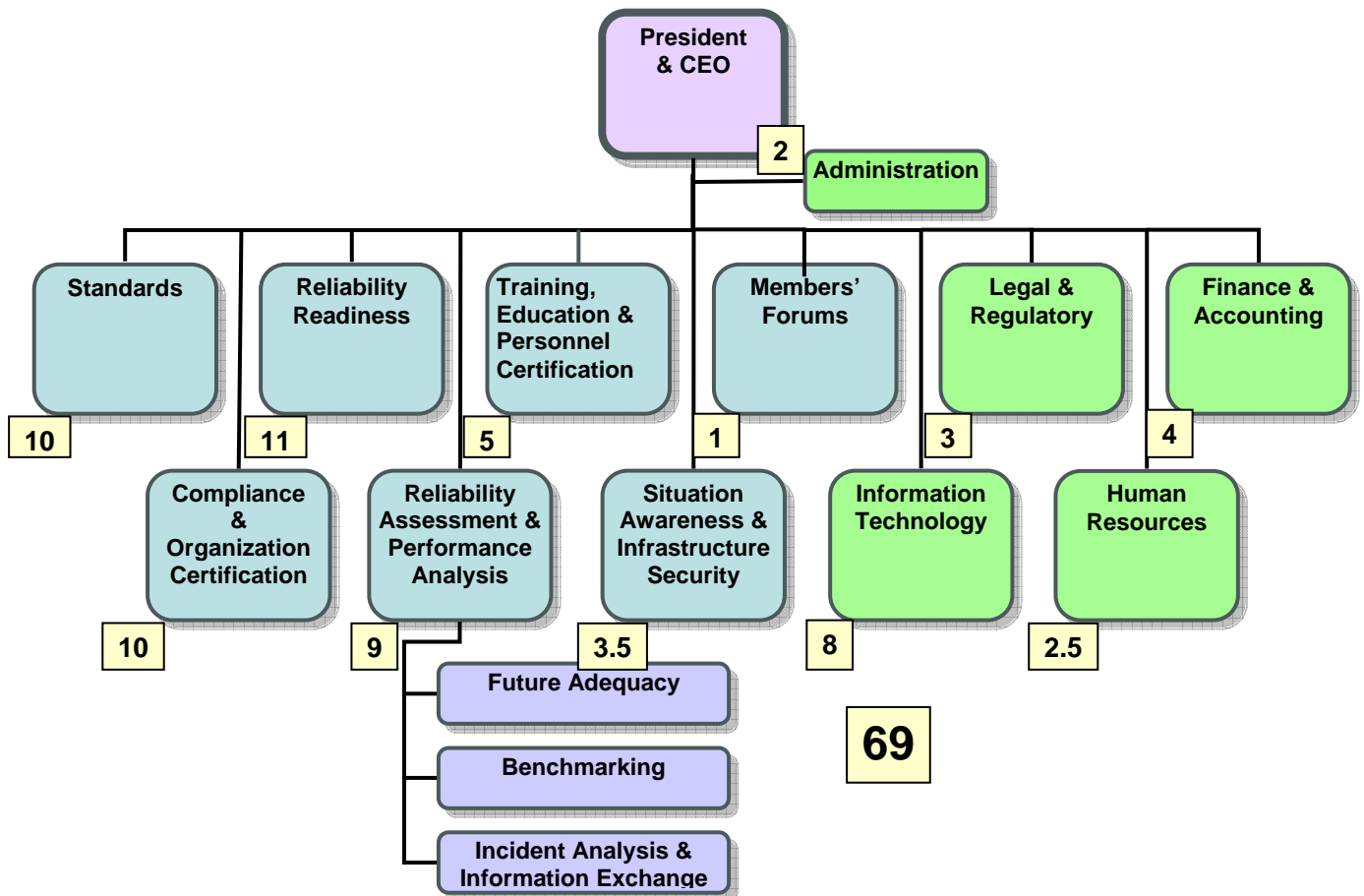
² Total FTEs are projected by year-end. As of this draft, there were 61 FTEs on staff leaving 8 positions to be filled.

³ Total FTEs are projected to be 80 as of January 1, 2007. Five additional compliance positions are projected for a July 1, 2007 start date.

2006 Organizational Chart

Shown below in Table 3 is the organizational chart for 2006, including the staff expected to be hired in each program area by the end of 2006.

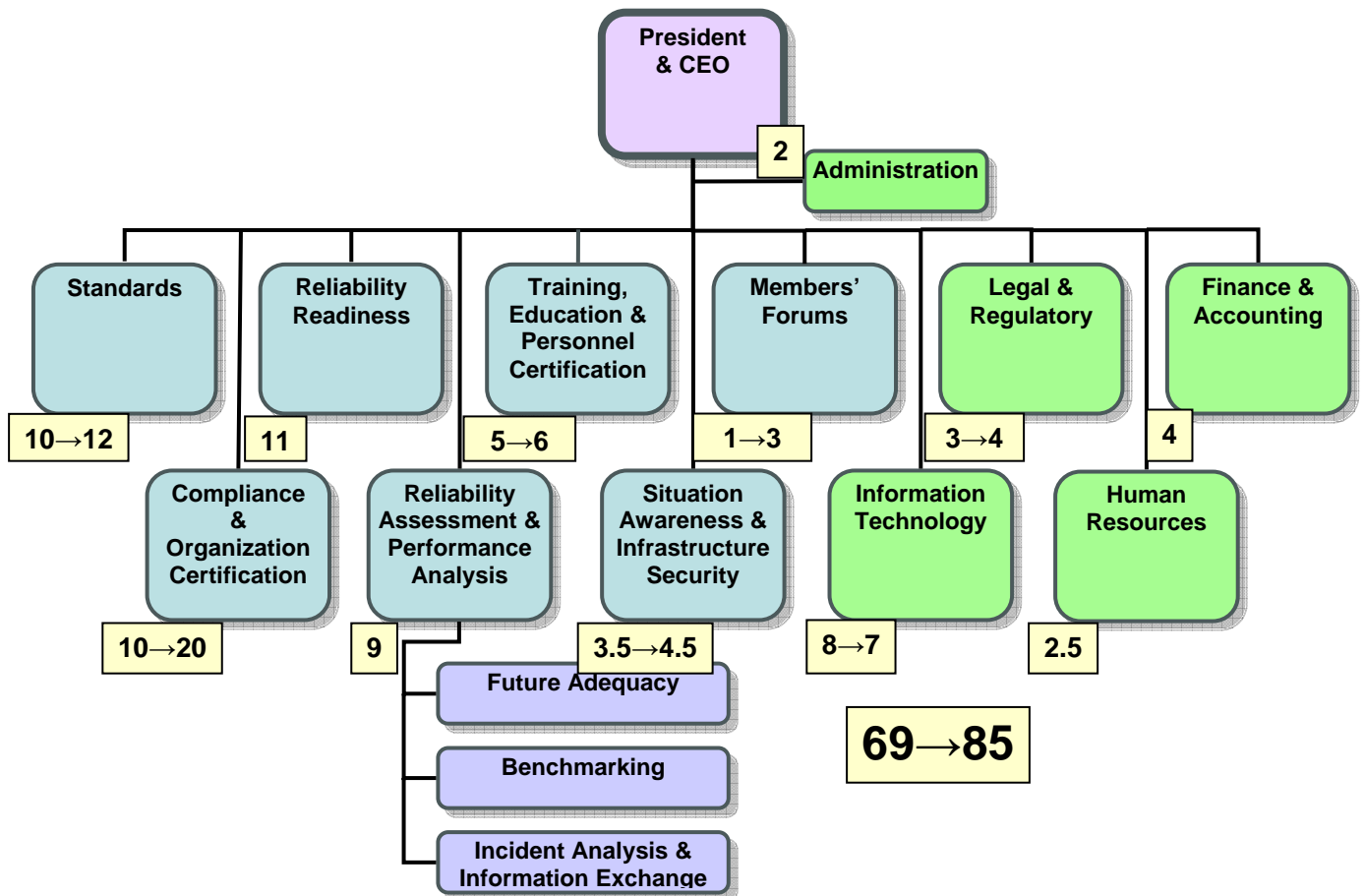
Table 3



2007 Organizational Chart

Shown below in Table 4 is the organizational chart for 2007 with the 2006 staffing levels, plus the additional staff that will be hired to support the increased ERO activities in 2007.

Table 4



Reserve Balance

Table 5 shows the analysis of the cash needed to fund the 2007 budgeted expenses and return the cash reserves to 10% by the end of 2007. An assumption is made in this calculation that the cash on hand (along with all other assets and liabilities) at the time of the merger of NERC Council and NERC Corporation will be transferred to NERC Corporation.

The 2007 assessment (the funding needed to run NERC in 2007) and the reserve adjustment will be combined and the total amount will be billed to the LSEs (or designee).

Table 5

Reserve Analysis 2006-07	
Cash Available 2006:	
Cash Balance @ 12/31/05	1,832,506
2006 Membership Dues (from regions)	16,369,898
2006 other funding sources (Cash basis)	894,000
Change in assets ¹	-
Total Cash Available 2005	<u>19,096,404</u>
Cash Needed 2005:	
Projected Expenses 2006 (Cash basis)	(17,732,928)
Change in liabilities ²	-
Total Cash Needed 2006	<u>(17,732,928)</u>
Projected Ending Cash Balance @ 12/31/05	<u>1,363,476</u>
Desired Cash Balance @ 12/31/07 (10% of Assessments)	2,168,255
Less:	
Projected Cash Balance @ 12/31/06	<u>1,363,476</u>
Increase in assessments needed to raise cash balance	<u>804,779</u>
2007 Assessment	\$ 20,701,432
Adjustment to increase cash balance	804,779
2007 Assessment and reserve adjustment	<u>\$ 21,506,211</u>

¹ Assumes all other assets remain at same levels as 12/31/05

² Assumes all other liabilities remain at same levels as 12/31/05

ERO Assessment Analysis

The ERO assessments for 2007 will fund over 96 percent of the total amount necessary to support NERC's operations. The remaining funding will be provided through charges to users who directly benefit from the various services provided by NERC. NERC uses three different funding allocations to equitably allocate costs to LSEs (or designee). The three methods are: eight regions — 100 percent NEL; six regions — 100 percent NEL; and IDC defined shares. The basis for each assessment is explained below.

Basis for each method of assessment:

- Eight region 100 percent NEL — this method is the default method of funding and will be used to allocate all expenses except those noted in the other two methods. Each region is asked to compile a list of all LSEs (or designee) and their 2005 NEL within each regional footprint. This list is combined to determine the proportional share of each entity's portion of ERO funding. For 2007 this method will also be used to return the cash reserves to board-approved levels.
- Six region 100 percent NEL — For expenses benefiting only the six regions in the Eastern Interconnection, the default formula is modified to exclude the LSEs (or designee) in the Western and Texas interconnections.
- IDC defined shares — to support expenses benefiting the users of the interchange distribution calculator (IDC), a formula has been developed to allocate the costs to users based on a usage level. This formula takes into account the number of tags entered in to the system, the number of transmission loading relief (TLRs) called, and a pro-rata share.

Table 6 shows the total funding (in aggregate by regional entity) that will be allocated based on the methods described above. The detailed calculations of allocations by LSE (or designee) are detailed in **Appendix C**.

Table 6

Region	8 Region NEL	6 Region NEL	IDC Defined Shared	Fund Balance Replenish	Total Assessment
ERCOT	1,339,613	-	-	54,042	1,393,656
FRCC	1,058,154	14,606	91,669	42,688	1,207,116
MRO	1,170,379	16,155	250,562	47,215	1,484,311
NPCC	3,046,895	42,056	137,503	122,917	3,349,371
RFC	4,424,363	61,069	470,567	178,487	5,134,486
SERC	4,343,048	59,947	374,315	175,206	4,952,516
SPP	859,786	11,868	203,199	34,685	1,109,538
WECC	3,706,799	-	-	149,539	3,856,338
Total	\$ 19,949,037	\$ 205,700	\$ 1,527,815	\$ 804,779	\$ 22,487,331

Assessments by Country

NERC will request authorization of its funding from each governmental authority in proportion to the NEL by country. Table 7 shows the NEL proportional share by country. Detailed calculations by LSE (or designee) are shown in **Appendix C**.

Table 7

Data Year	Regional Entity	Total NEL	U.S. NEL	Canada NEL	Mexico NEL	% of ERO total	US Total	Canada total	Mexico total	% of Eastern Interconnection (EI) total	US EI Total	Canada EI total
Summary by Regional Entity												
2005	ERCOT	297,218,000	297,218,000	-	-	6.715%	6.715%	0.000%	0.000%	0.000%	0.000%	0.000%
2005	FRCC	234,771,000	234,771,000	-	-	5.304%	5.304%	0.000%	0.000%	7.100%	7.100%	0.000%
2005	MRO	259,670,322	216,698,277	42,972,045	-	5.867%	4.896%	0.971%	0.000%	7.854%	6.554%	1.300%
2005	NPCC	676,010,000	303,615,000	372,395,000	-	15.273%	6.860%	8.414%	0.000%	20.445%	9.183%	11.263%
2005	RFC	981,627,000	981,627,000	-	-	22.178%	22.178%	0.000%	0.000%	29.688%	29.688%	0.000%
2005	SERC	963,585,730	963,585,730	-	-	21.771%	21.771%	0.000%	0.000%	29.143%	29.143%	0.000%
2005	SPP	190,759,451	190,759,451	-	-	4.310%	4.310%	0.000%	0.000%	5.769%	5.769%	0.000%
2005	WECC	822,422,000	685,624,000	126,736,000	10,062,000	18.581%	15.491%	2.863%	0.227%	0.000%	0.000%	0.000%
		4,426,063,503	3,873,898,458	542,103,045	10,062,000	100.000%	87.525%	12.248%	0.227%	100.000%	87.438%	12.562%

Breakdown by Program Category

Reliability Standards Program

Funding sources and related expenses for the reliability standards section of the 2007 business plan are shown in Table A-1.

Table A-1
Reliability Standards

Statement of Activities 2006 Projection and 2007 Budget	2006 Projection Total	2007 Budget Total	Variance	Variance Percentage
Funding				
ERO Funding	\$ -	\$ 2,258,433	\$ 2,258,433	100.0%
Membership Dues	1,729,774	-	(1,729,774)	0.0%
Testing Fees	-	-	-	0.0%
Services & Software	-	-	-	0.0%
Workshops	-	-	-	0.0%
Interest	-	-	-	0.0%
Miscellaneous	-	-	-	0.0%
Total Funding	\$ 1,729,774	\$ 2,258,433	\$ 528,659	100.0%
Expenses				
Personnel Expenses				
Salaries	\$ 966,469	\$ 1,281,833	\$ 315,364	32.6%
Payroll Taxes	60,085	82,276	22,192	36.9%
Benefits	132,322	179,635	47,312	35.8%
Retirement Costs	100,898	137,689	36,791	36.5%
Total Personnel Expenses	\$ 1,259,774	\$ 1,681,433	\$ 421,659	33.5%
Meeting Expenses				
Meetings	\$ 108,000	\$ 149,000	\$ 41,000	38.0%
Travel	122,000	188,000	66,000	54.1%
Conference Calls	-	-	-	0.0%
Total Meeting Expenses	\$ 230,000	\$ 337,000	\$ 107,000	46.5%
Operating Expenses				
Consultants	\$ 240,000	\$ 240,000	\$ -	0.0%
Contracts	-	-	-	0.0%
Office Rent	-	-	-	0.0%
Office Costs	-	-	-	0.0%
Professional Services	-	-	-	0.0%
Computer Purchase & Maint.	-	-	-	0.0%
Furniture & Equipment	-	-	-	0.0%
Total Operating Expenses	\$ 240,000	\$ 240,000	\$ -	0.0%
Total Expenses	\$ 1,729,774	\$ 2,258,433	\$ 528,659	30.6%
Change in Assets	\$ -	\$ -	\$ -	0.0%

Summary of 2006 Projection and 2007 Budgeted Funding and Expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan section of this document:

Funding Sources

- Funding for this section of the business plan is provided through assessments to the regions in 2006, and through the mandatory funding mechanism in 2007.

Personnel Expenses

- Salary, payroll taxes, benefits, and savings and retirement expenses for 10.0 FTEs for the 2006 projection and 12.0 FTEs for the 2007 budget. The 12.0 FTEs requested for 2007 include: a program director; four manager positions (process, development, business practice interface, and regional standards); five standards coordinators; one technical writer; and two administrative positions. Staff resources are used to support the administration of the standards process, interface with development of business practices, and to facilitate the Standard Authorization Request Drafting Teams (SAR DT) and Standard Drafting Teams (SDT).

Meeting Expenses

- Meeting, staff and consultant travel, and conference call expenses in support of the SAR DTs, the SDTs, and the Standards committee.

Operating Expenses

- Consultant expenses
 - Consultant expenses to assist in the standards administration process and facilitation of SAR DTs and SDTs.

Compliance Enforcement and Organization Registration and Certification Program

Funding sources and related expenses for the compliance enforcement and organization registration and certification section of the 2007 business plan are shown in Table A-2.

Table A-2

Compliance and Organization Registration and Certification

Statement of Activities 2006 Projection and 2007 Budget	2006 Projection Total	2007 Budget Total	Variance	Variance Percentage
Funding				
ERO Funding	\$ -	\$ 3,436,668	\$ 3,436,668	100.0%
Membership Dues	1,441,416	-	(1,441,416)	0.0%
Testing Fees	-	-	-	0.0%
Services & Software	-	-	-	0.0%
Workshops	-	-	-	0.0%
Interest	-	-	-	0.0%
Miscellaneous	-	-	-	0.0%
Total Funding	\$ 1,441,416	\$ 3,436,668	\$ 1,995,252	100.0%
Expenses				
Personnel Expenses				
Salaries	\$ 945,114	\$ 1,947,805	\$ 1,002,691	106.1%
Payroll Taxes	59,808	130,726	70,918	118.6%
Benefits	152,904	352,169	199,265	130.3%
Retirement Costs	89,590	144,968	55,377	61.8%
Total Personnel Expenses	\$ 1,247,416	\$ 2,575,668	\$ 1,328,252	106.5%
Meeting Expenses				
Meetings	\$ 54,000	\$ 54,000	\$ -	0.0%
Travel	90,000	317,000	227,000	252.2%
Conference Calls	-	-	-	0.0%
Total Meeting Expenses	\$ 144,000	\$ 371,000	\$ 227,000	157.6%
Operating Expenses				
Consultants	\$ 50,000	\$ 490,000	\$ 440,000	880.0%
Contracts	-	-	-	0.0%
Office Rent	-	-	-	0.0%
Office Costs	-	-	-	0.0%
Professional Services	-	-	-	0.0%
Computer Purchase & Maint.	-	-	-	0.0%
Furniture & Equipment	-	-	-	0.0%
Total Operating Expenses	\$ 50,000	\$ 490,000	\$ 440,000	880.0%
Total Expenses	\$ 1,441,416	\$ 3,436,668	\$ 1,995,252	138.4%
Change in Assets	\$ -	\$ -	\$ -	0.0%

Summary of 2006 projection and 2007 budgeted funding and expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan.

Funding Sources

- Funding for this section of the business plan is provided through assessments to the regions in 2006, and through the mandatory funding mechanism in 2007.

Personnel Expenses

- Salary, payroll taxes, benefits, and savings and retirement expenses for 10.0 FTEs the 2006 projection and 20.0 FTE for the 2007 budget. The 20.0 FTEs requested for 2007 include: one program director; four manager positions (reporting, enforcement and mitigation, regional oversight, and organization registration); nine regional compliance coordinators; two compliance enforcement coordinators; one certification coordinator; one technical analyst; and two administrative positions. Staff resources are used to support the objectives of the compliance enforcement program as defined in the business plan.

Meeting Expenses

- Meeting, staff and consultant travel, and conference call expenses to support the committees, subcommittees, and working groups in place to support the Compliance Enforcement and Organization Registration and Certification Program.

Operating Expenses

- Consultant expenses to assist in the enforcement area. (\$50,000)
- Software development costs to support the development of a database to track all compliance actions. (\$490,000) (**NEW IN 2007.**)

Reliability Readiness Audits and Improvement Program

Funding sources and related expenses for the reliability readiness audits and improvement section of the 2007 business plan are shown in Table A-3.

Table A-3

Reliability Readiness Audit and Improvement

Statement of Activities 2006 Projection and 2007 Budget	2006 Projection Total	2007 Budget Total	Variance	Variance Percentage
Funding				
ERO Funding	\$ -	\$ 1,650,771	\$ 1,650,771	100.0%
Membership Dues	1,603,411	-	(1,603,411)	0.0%
Testing Fees	-	-	-	0.0%
Services & Software	-	-	-	0.0%
Workshops	-	-	-	0.0%
Interest	-	-	-	0.0%
Miscellaneous	-	-	-	0.0%
Total Funding	\$ 1,603,411	\$ 1,650,771	\$ 47,360	100.0%
Expenses				
Personnel Expenses				
Salaries	\$ 1,109,293	\$ 1,124,482	\$ 15,189	1.4%
Payroll Taxes	79,192	79,854	662	0.8%
Benefits	160,446	163,999	3,553	2.2%
Retirement Costs	94,480	123,436	28,956	30.6%
Total Personnel Expenses	\$ 1,443,411	\$ 1,491,771	\$ 48,360	3.4%
Meeting Expenses				
Meetings	\$ -	\$ -	\$ -	0.0%
Travel	160,000	159,000	(1,000)	-0.6%
Conference Calls	-	-	-	0.0%
Total Meeting Expenses	\$ 160,000	\$ 159,000	\$ (1,000)	-0.6%
Operating Expenses				
Consultants	\$ -	\$ -	\$ -	0.0%
Contracts	-	-	-	0.0%
Office Rent	-	-	-	0.0%
Office Costs	-	-	-	0.0%
Professional Services	-	-	-	0.0%
Computer Purchase & Maint.	-	-	-	0.0%
Furniture & Equipment	-	-	-	0.0%
Total Operating Expenses	\$ -	\$ -	\$ -	0.0%
Total Expenses	\$ 1,603,411	\$ 1,650,771	\$ 47,360	3.0%
Change in Assets	\$ -	\$ -	\$ -	0.0%

Summary of 2006 projection and 2007 budgeted funding and expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan.

Funding Sources

- Funding for this section of the business plan is provided through assessments to the regions in 2006, and through the mandatory funding mechanism in 2007.

Personnel Expenses

- Salary, payroll taxes, benefits, and savings and retirement expenses for 11.00 FTE for the 2006 projection and 2007 budget. The 11.0 FTEs requested for 2007 include: one program director; seven readiness auditor positions; one technical writer; one technical analyst; and one administrative position. Staff resources are used to support the objectives of the Reliability Readiness Audits and Improvement Program as defined in the business plan.

Meeting Expenses

- Meeting, staff and consultant travel, and conference call expenses to support the facilitation of readiness audits of control areas and reliability coordinators.

Training, Education, and Operator Certification Program

Funding sources and related expenses for the training, education, and operator certification section of the 2007 business plan are shown in Table A-4.

Table A-4
Training and Education

Statement of Activities 2006 Projection and 2007 Budget	2006 Projection Total	2007 Budget Total	Variance	Variance Percentage
Funding				
ERO Funding	\$ -	\$ 810,087	\$ 810,087	100.0%
Membership Dues	500,719	-	(500,719)	0.0%
Testing Fees	600,000	570,000	(30,000)	-5.0%
Services & Software	-	-	-	0.0%
Workshops	-	-	-	0.0%
Interest	-	-	-	0.0%
Miscellaneous	-	-	-	0.0%
Total Funding	\$ 1,100,719	\$ 1,380,087	\$ 279,368	25.4%
Expenses				
Personnel Expenses				
Salaries	\$ 498,758	\$ 647,789	\$ 149,031	29.9%
Payroll Taxes	28,935	37,148	8,214	28.4%
Benefits	47,706	78,384	30,678	64.3%
Retirement Costs	72,320	71,965	(355)	-0.5%
Total Personnel Expenses	\$ 647,719	\$ 835,287	\$ 187,568	29.0%
Meeting Expenses				
Meetings	\$ 50,000	\$ 50,000	\$ -	0.0%
Travel	50,000	70,000	20,000	40.0%
Conference Calls	-	-	-	0.0%
Total Meeting Expenses	\$ 100,000	\$ 120,000	\$ 20,000	20.0%
Operating Expenses				
Consultants	\$ 20,000	\$ 100,000	\$ 80,000	400.0%
Contracts	333,000	324,800	(8,200)	-2.5%
Office Rent	-	-	-	0.0%
Office Costs	-	-	-	0.0%
Professional Services	-	-	-	0.0%
Computer Purchase & Maint.	-	-	-	0.0%
Furniture & Equipment	-	-	-	0.0%
Total Operating Expenses	\$ 353,000	\$ 424,800	\$ 71,800	20.3%
Total Expenses	\$ 1,100,719	\$ 1,380,087	\$ 279,368	25.4%
Change in Assets	\$ -	\$ -	\$ -	0.0%

Summary of 2006 and 2007 Budgeted Funding and Expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan section of this document:

Funding Sources

- Funding for this section of the business plan is provided through assessments to the regions in 2006, and through the mandatory funding mechanism in 2007. Testing fees collected for the system operator certification examination fully support the operator certification program.

Personnel Expenses

- Salary, payroll taxes, benefits, and savings and retirement expenses for 5.0 FTEs for the 2006 projection and 6.0 FTE for the 2007 budget. The 6.0 FTEs requested for 2007 include: one program director; three manager positions (personnel certification, continuing education, and education and information exchange); and two administrative positions. Staff resources are used to support the objectives of the Training, Education, and Operator Certification Program as defined in the business plan.

Meeting Expenses

- Meeting, staff and consultant travel, and conference call expenses to support the committees, subcommittees, and working groups in place to support the Training, Education, and Operator Certification Program.

Operating Expenses

- Consultants to support staff in education materials development. (\$100,000) (**NEW in 2007.**)
- Contracts to support system operator testing administration, test development, database development. (\$324,8000)

Reliability Assessment and Performance Analysis Program

Funding sources and related expenses for the reliability assessment and performance analysis section of the 2007 business plan are shown in Table A-5.

Table A-5
Reliability Assessment and Performance Analysis

Statement of Activities 2006 Projection and 2007 Budget	2006 Projection Total	2007 Budget Total	Variance	Variance Percentage
Funding				
ERO Funding	\$ -	\$ 2,469,128	\$ 2,469,128	100.0%
Membership Dues	2,434,516	-	(2,434,516)	0.0%
Testing Fees	-	-	-	0.0%
Services & Software	150,000	150,000	-	0.0%
Workshops	-	-	-	0.0%
Interest	-	-	-	0.0%
Miscellaneous	-	-	-	0.0%
Total Funding	\$ 2,584,516	\$ 2,619,128	\$ 34,611	100.0%
Expenses				
Personnel Expenses				
Salaries	\$ 1,503,368	\$ 1,421,976	\$ (81,391)	-5.4%
Payroll Taxes	81,561	78,158	(3,402)	-4.2%
Benefits	151,848	165,159	13,312	8.8%
Retirement Costs	222,041	210,134	(11,906)	-5.4%
Total Personnel Expenses	\$ 1,958,816	\$ 1,875,428	\$ (83,389)	-4.3%
Meeting Expenses				
Meetings	\$ 80,000	\$ 80,000	\$ -	0.0%
Travel	207,000	200,000	(7,000)	-3.4%
Conference Calls	-	-	-	0.0%
Total Meeting Expenses	\$ 287,000	\$ 280,000	\$ (7,000)	-2.4%
Operating Expenses				
Consultants	\$ 75,000	\$ 75,000	\$ -	0.0%
Contracts	263,700	388,700	125,000	47.4%
Office Rent	-	-	-	0.0%
Office Costs	-	-	-	0.0%
Professional Services	-	-	-	0.0%
Computer Purchase & Maint.	-	-	-	0.0%
Furniture & Equipment	-	-	-	0.0%
Total Operating Expenses	\$ 338,700	\$ 463,700	\$ 125,000	36.9%
Total Expenses	\$ 2,584,516	\$ 2,619,128	\$ 34,611	1.3%
Change in Assets	\$ -	\$ -	\$ (0)	0.0%

Summary of 2006 and 2007 Budgeted Funding and Expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan.

Funding Sources

- Funding for this section of the business plan is provided through assessments to the regions in 2006, and through the mandatory funding mechanism in 2007. Additional funding is obtained through the sale of the Generating Availability Data System (GADS) and Electricity Supply and Demand (ES&D) software.

Personnel Expenses

- Salary, payroll taxes, benefits, and savings and retirement expenses for 9.0 FTEs for the 2006 projection and the 2006 budget. The 6.0 FTEs requested for 2007 include: one program director; four manager positions (events analysis, assessments, benchmarking, and GADS); two analysis coordinators; one technical analyst; and one administrative position. Staff resources are used to support the objectives of the Reliability Assessment and Performance Analysis Program as defined in the business plan.

Meeting Expenses

- Meeting, staff and consultant travel, and conference call expenses to support the committees, subcommittees, working group, and task forces, currently in place to assess and report on the adequacy of the bulk power system.

Operating Expenses

- Consultants to support staff in event analysis. (\$75,000)
- Contractual expenses
 - Support of GADS software development (\$50,000)
 - Event analysis software (\$125,000)
 - MMWG power flows and dynamics contract (\$203,700)
 - Resource adequacy studies (\$10,000)

Situation Awareness and Infrastructure Security Program

Funding sources and related expenses for the situation awareness and infrastructure security section of the 2007 business plan are shown in Table A-6.

Table A-6
Situational Awareness and Infrastructure Security

Statement of Activities 2006 Projection and 2007 Budget	2006 Projection Total	2007 Budget Total	Variance	Variance Percentage
Funding				
ERO Funding	\$ -	\$ 3,195,644	\$ 3,195,644	100.0%
Membership Dues	2,301,491	-	(2,301,491)	0.0%
Testing Fees	-	-	-	0.0%
Services & Software	60,000	60,000	-	0.0%
Workshops	-	-	-	0.0%
Interest	-	-	-	0.0%
Miscellaneous	-	-	-	0.0%
Total Funding	\$ 2,361,491	\$ 3,255,644	\$ 894,153	37.9%
Expenses				
Personnel Expenses				
Salaries	\$ 485,846	\$ 624,384	\$ 138,538	28.5%
Payroll Taxes	28,592	37,404	8,812	30.8%
Benefits	23,565	46,802	23,237	98.6%
Retirement Costs	51,428	57,394	5,967	11.6%
Total Personnel Expenses	\$ 589,431	\$ 765,984	\$ 176,553	30.0%
Meeting Expenses				
Meetings	\$ 121,000	\$ 121,000	\$ -	0.0%
Travel	61,000	81,000	20,000	32.8%
Conference Calls	-	-	-	0.0%
Total Meeting Expenses	\$ 182,000	\$ 202,000	\$ 20,000	11.0%
Operating Expenses				
Consultants	\$ -	\$ 250,000	\$ 250,000	100.0%
Contracts	1,590,060	2,037,660	447,600	28.1%
Office Rent	-	-	-	0.0%
Office Costs	-	-	-	0.0%
Professional Services	-	-	-	0.0%
Computer Purchase & Maint.	-	-	-	0.0%
Furniture & Equipment	-	-	-	0.0%
Total Operating Expenses	\$ 1,590,060	\$ 2,287,660	\$ 697,600	43.9%
Total Expenses	\$ 2,361,491	\$ 3,255,644	\$ 894,153	37.9%
Change in Assets	\$ -	\$ -	\$ -	0.0%

Summary of 2006 and 2007 Budgeted Funding and Expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan.

Funding Sources

- Funding for this section of the business plan is provided through assessments to the regions in 2006, and through the mandatory funding mechanism in 2007. Additional funding is obtained through the fees charged to TSIN users and royalties collected on the FIST software.

Personnel Expenses

- Salary, payroll taxes, benefits, and savings and retirement expenses for 3.5 FTEs for the 2006 projection and 4.5 FTEs for the 2007 budget. The 4.5 FTEs requested for 2007 include: one program director; three manager positions (situation awareness, emergency response, and reliability support services); and one-half of an administrative position. Staff resources are used to support the objectives of the Situational Awareness and Infrastructure Security Program as defined in the business plan.

Meeting Expenses

- Meeting, staff and consultant travel, and conference call expenses to support the committees, subcommittees, and working groups in place to support the Situational Awareness and Infrastructure Security Program.

Operating Expenses

- Consultants to support phasor project (\$250,000)
- Contractual expenses
 - IDC and SDX contracts and maintenance (\$1,482,860)
 - NERCnet support (NERC office only) (\$90,800)
 - ICCP contracts (\$42,000)
 - RCIS contracts (\$23,000)
 - Frequency monitoring tools (\$399,000)

Members' Forums

Funding sources and related expenses for the Members' Forums section of the 2007 business plan are shown in Table A-7.

Table A-7
Member Forums

Statement of Activities 2006 Projection and 2007 Budget	2006 Projection Total	2007 Budget Total	Variance	Variance Percentage
Funding				
ERO Funding	\$ -	\$ 777,394	\$ 777,394	100.0%
Membership Dues	547,328	-	(547,328)	0.0%
Testing Fees	-	-	-	0.0%
Services & Software	-	-	-	0.0%
Workshops	-	-	-	0.0%
Interest	-	-	-	0.0%
Miscellaneous	-	-	-	0.0%
Total Funding	\$ 547,328	\$ 777,394	\$ 230,066	100.0%
Expenses				
Personnel Expenses				
Salaries	\$ 285,664	\$ 474,610	\$ 188,946	66.1%
Payroll Taxes	13,509	26,022	12,514	92.6%
Benefits	28,515	73,912	45,396	159.2%
Retirement Costs	32,640	36,850	4,210	12.9%
Total Personnel Expenses	\$ 360,328	\$ 611,394	\$ 251,066	69.7%
Meeting Expenses				
Meetings	\$ 145,000	\$ 104,000	\$ (41,000)	-28.3%
Travel	42,000	62,000	20,000	47.6%
Conference Calls	-	-	-	0.0%
Total Meeting Expenses	\$ 187,000	\$ 166,000	\$ (21,000)	-11.2%
Operating Expenses				
Consultants	\$ -	\$ -	\$ -	0.0%
Contracts	-	-	-	0.0%
Office Rent	-	-	-	0.0%
Office Costs	-	-	-	0.0%
Professional Services	-	-	-	0.0%
Computer Purchase & Maint.	-	-	-	0.0%
Furniture & Equipment	-	-	-	0.0%
Total Operating Expenses	\$ -	\$ -	\$ -	0.0%
Total Expenses	\$ 547,328	\$ 777,394	\$ 230,066	42.0%
Change in Assets	\$ -	\$ -	\$ -	0.0%

Summary of 2006 and 2007 Budgeted Funding and Expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan.

Funding Sources

- Funding for this section of the business plan is provided through assessments to the regions in 2006, and through the mandatory funding mechanism in 2007.

Personnel Expenses

- Salary, payroll taxes, benefits, and savings and retirement expenses for 1.0 FTE for the 2006 projection and 3.0 FTEs for the 2007 budget. The 3.0 FTEs requested for 2007 include: one program director; and two facilitation coordinator positions. Staff resources are used to support the objectives of the Members' Forum Program as defined in the business plan.

Meeting Expenses

- Meeting, staff and consultant travel, and conference call expenses to support the anticipated formation of several member forums.

Operating Expenses

- None.

General and Administrative

Funding sources and related expenses for the administrative section of the 2007 business plan are shown in Table A-7.

Table A-8
General and Administrative

Statement of Activities 2006 Projection and 2007 Budget	2006 Projection Total	2007 Budget Total	Variance	Variance Percentage
Funding				
ERO Funding	\$ -	\$ 2,804,181	\$ 2,804,181	100.0%
Membership Dues	2,132,285	-	(2,132,285)	-100.0%
Testing Fees	-	-	-	0.0%
Services & Software	-	-	-	100.0%
Workshops	-	-	-	0.0%
Interest	84,000	84,000	-	0.0%
Miscellaneous	-	-	-	0.0%
Total Funding	\$ 2,216,285	\$ 2,888,181	\$ 671,896	30.3%
Expenses				
Personnel Expenses				
Salaries	\$ 635,780	\$ 589,163	\$ (46,617)	-7.3%
Payroll Taxes	24,843	18,291	(6,552)	-26.4%
Benefits	22,091	37,184	15,093	68.3%
Retirement Costs	65,401	81,853	16,452	25.2%
Total Personnel Expenses	\$ 748,115	\$ 726,491	\$ (21,624)	-2.9%
Meeting Expenses				
Meetings	\$ 152,000	\$ 152,000	\$ -	0.0%
Travel	137,000	137,000	-	0.0%
Conference Calls	113,000	113,000	-	0.0%
Total Meeting Expenses	\$ 402,000	\$ 402,000	\$ -	0.0%
Operating Expenses				
Consultants	\$ -	\$ -	\$ -	0.0%
Contracts	-	-	-	0.0%
Office Rent	481,300	647,200	165,900	34.5%
Office Costs	362,900	411,690	48,790	13.4%
Professional Services	636,000	640,300	4,300	0.7%
Computer Purchase & Maint.	51,000	56,100	5,100	10.0%
Furniture & Equipment	4,000	4,400	400	10.0%
Total Operating Expenses	\$ 1,535,200	\$ 1,759,690	\$ 224,490	14.6%
Total Expenses	\$ 2,685,315	\$ 2,888,181	\$ 202,866	7.6%
Change in Assets	\$ (469,030)	\$ -	\$ 469,030	-100.0%

Summary of 2006 and 2007 Budgeted Funding and Expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan.

Funding Sources

- Funding for this section of the business plan is provided through assessments to the regions in 2006, and through the mandatory funding mechanism in 2007. Additional funding from the interest on cash balances.

Personnel Expenses

- Salary, payroll taxes, benefits, and savings and retirement expenses for 2.0 FTE for the 2006 projection and 2.0 FTEs for the 2007 budget. The 2.0 FTEs requested for 2007 include: one senior executive; and one administrative position.

Meeting Expenses

- Meeting, staff and consultant travel, and conference call expenses to support the board of trustees and members representative committee.

Operating Expenses

All office related expenses are charged to this program area including:

- Office Rent — additional office space to be acquired in both Princeton, N.J. and Washington, D.C. (\$647,200)
- Office costs (\$411,690)
- Professional Services (trustee fees and insurance) (\$640,300)
- Furniture and Equipment (\$61,600)

Information Technology

Funding sources and related expenses for the information technology section of the 2007 business plan are shown in Table A-9.

Table A-9
Information Technology

Statement of Activities 2006 Projection and 2007 Budget	2006 Projection Total	2007 Budget Total	Variance	Variance Percentage
Funding				
ERO Funding	\$ -	\$ 1,864,056	\$ 1,864,056	100.0%
Membership Dues	1,537,772	-	(1,537,772)	0.0%
Testing Fees	-	-	-	0.0%
Services & Software	-	-	-	0.0%
Workshops	-	-	-	0.0%
Interest	-	-	-	0.0%
Miscellaneous	-	-	-	0.0%
Total Funding	\$ 1,537,772	\$ 1,864,056	\$ 326,284	100.0%
Expenses				
Personnel Expenses				
Salaries	\$ 786,725	\$ 703,231	\$ (83,494)	-10.6%
Payroll Taxes	54,878	48,802	(6,075)	-11.1%
Benefits	124,867	146,055	21,188	17.0%
Retirement Costs	106,303	101,968	(4,334)	-4.1%
Total Personnel Expenses	\$ 1,072,772	\$ 1,000,056	\$ (72,716)	-6.8%
Meeting Expenses				
Meetings	\$ -	\$ -	\$ -	0.0%
Travel	29,000	29,000	-	0.0%
Conference Calls	-	-	-	0.0%
Total Meeting Expenses	\$ 29,000	\$ 29,000	\$ -	0.0%
Operating Expenses				
Consultants	\$ -	\$ 250,000	\$ 250,000	100.0%
Contracts	-	-	-	0.0%
Office Rent	-	-	-	0.0%
Office Costs	192,000	235,000	43,000	22.4%
Professional Services	-	-	-	0.0%
Computer Purchase & Maint.	244,000	350,000	106,000	43.4%
Furniture & Equipment	-	-	-	0.0%
Total Operating Expenses	\$ 436,000	\$ 835,000	\$ 399,000	91.5%
Total Expenses	\$ 1,537,772	\$ 1,864,056	\$ 326,284	21.2%
Change in Assets	\$ -	\$ -	\$ -	0.0%

Summary of 2006 and 2007 Budgeted Funding and Expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan.

Funding Sources

- Funding for this section of the business plan is provided through assessments to the regions in 2006, and through the mandatory funding mechanism in 2007.

Personnel Expenses

- Salary, payroll taxes, benefits, and savings and retirement expenses for 8.0 FTE for the 2006 projection and 7.0 FTEs for the 2007 budget. The 7.0 FTEs requested for 2007 include: one program director; one manager position (projects); one software developer; two network administrators; and two technology specialists.

Meeting Expenses

- Expenses in this area are mainly for staff travel in support of business plan objectives.

Operating Expenses

- Consultants
 - Policy and procedures document development for cyber security standards (\$125,000) (**NEW in 2007.**)
 - Standards database development (\$125,000)
- Office costs — internet expenses and computer maintenance (\$235,000)
- Computer purchases (desktops, laptops, and servers) (\$350,000)

Legal and Regulatory

Funding sources and related expenses for the general and administrative section of the 2007 business plan are shown in Table A-10.

Table A-10
Legal and Regulatory

Statement of Activities 2006 Projection and 2007 Budget	2006 Projection Total	2007 Budget Total	Variance	Variance Percentage
Funding				
ERO Funding	\$ -	\$ 1,452,039	\$ 1,452,039	100.0%
Membership Dues	1,249,895	-	(1,249,895)	0.0%
Testing Fees	-	-	-	0.0%
Services & Software	-	-	-	0.0%
Workshops	-	-	-	0.0%
Interest	-	-	-	0.0%
Miscellaneous	-	-	-	0.0%
Total Funding	\$ 1,249,895	\$ 1,452,039	\$ 202,144	100.0%
Expenses				
Personnel Expenses				
Salaries	\$ 533,232	\$ 691,323	\$ 158,091	29.6%
Payroll Taxes	23,217	32,548	9,331	40.2%
Benefits	57,846	92,164	34,318	59.3%
Retirement Costs	76,600	72,004	(4,596)	-6.0%
Total Personnel Expenses	\$ 690,895	\$ 888,039	\$ 197,144	28.5%
Meeting Expenses				
Meetings	\$ 3,000	\$ 3,000	\$ -	0.0%
Travel	56,000	61,000	5,000	8.9%
Conference Calls	-	-	-	0.0%
Total Meeting Expenses	\$ 59,000	\$ 64,000	\$ 5,000	8.5%
Operating Expenses				
Consultants	\$ -	\$ -	\$ -	0.0%
Contracts	-	-	-	0.0%
Office Rent	-	-	-	0.0%
Office Costs	-	-	-	0.0%
Professional Services	500,000	500,000	-	0.0%
Computer Purchase & Maint.	-	-	-	0.0%
Furniture & Equipment	-	-	-	0.0%
Total Operating Expenses	\$ 500,000	\$ 500,000	\$ -	0.0%
Total Expenses	\$ 1,249,895	\$ 1,452,039	\$ 202,144	16.2%
Change in Assets	\$ -	\$ -	\$ -	0.0%

Summary of 2006 and 2007 Budgeted Funding and Expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan.

Funding Sources

- Funding for this section of the business plan is provided through assessments to the regions in 2006, and through the mandatory funding mechanism in 2007.

Personnel Expenses

- Salary, payroll taxes, benefits, and savings and retirement expenses for 3.0 FTE for the 2006 projection and 4.0 FTEs for the 2007 budget. The 4.0 FTEs requested for 2007 include: one general counsel; one manager (government affairs); one attorney; and one administrative position.

Meeting Expenses

- Expenses in this area are mainly for staff travel in support of business plan objectives.

Operating Expenses

- Legal fees (\$500,000)

Human Resources

Funding sources and related expenses for the human resources section of the 2007 business plan are shown in Table A-11.

Table A-11
Human Resources

Statement of Activities 2006 Projection and 2007 Budget	2006 Projection Total	2007 Budget Total	Variance	Variance Percentage
Funding				
ERO Funding	\$ -	\$ 351,363	\$ 351,363	100.0%
Membership Dues	329,222	-	(329,222)	0.0%
Testing Fees	-	-	-	0.0%
Services & Software	-	-	-	0.0%
Workshops	-	-	-	0.0%
Interest	-	-	-	0.0%
Miscellaneous	-	-	-	0.0%
Total Funding	\$ 329,222	\$ 351,363	\$ 22,142	100.0%
Expenses				
Personnel Expenses				
Salaries	\$ 224,436	\$ 224,088	\$ (348)	-0.2%
Payroll Taxes	13,823	13,605	(218)	-1.6%
Benefits	60,240	80,848	20,608	34.2%
Retirement Costs	23,223	25,823	2,600	11.2%
Total Personnel Expenses	\$ 321,722	\$ 344,363	\$ 22,642	7.0%
Meeting Expenses				
Meetings	\$ -	\$ -	\$ -	0.0%
Travel	7,500	7,000	(500)	-6.7%
Conference Calls	-	-	-	0.0%
Total Meeting Expenses	\$ 7,500	\$ 7,000	\$ (500)	-6.7%
Operating Expenses				
Consultants	\$ -	\$ -	\$ -	0.0%
Contracts	-	-	-	0.0%
Office Rent	-	-	-	0.0%
Office Costs	-	-	-	0.0%
Professional Services	-	-	-	0.0%
Computer Purchase & Maint.	-	-	-	0.0%
Furniture & Equipment	-	-	-	0.0%
Total Operating Expenses	\$ -	\$ -	\$ -	0.0%
Total Expenses	\$ 329,222	\$ 351,363	\$ 22,142	6.7%
Change in Assets	\$ -	\$ -	\$ -	0.0%

Summary of 2006 and 2007 Budgeted Funding and Expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan.

Funding Sources

- Funding for this section of the business plan is provided through assessments to the regions in 2006, and through the mandatory funding mechanism in 2007.

Personnel Expenses

- Salary, payroll taxes, benefits, and savings and retirement expenses for 2.5 FTE for the 2006 projection and for the 2007 budget. The 2.5 FTEs requested for 2007 include: one program manager; one meeting planner; and one-half of an administrative position.

Meeting Expenses

- Expenses in this area are mainly for staff travel in support of business plan objectives.

Operating Expenses

- None.

Accounting and Finance

Funding sources and related expenses for the accounting and finance section of the 2007 business plan are shown in Table A-12.

Table A-12
Accounting and Finance

Statement of Activities 2006 Projection and 2007 Budget	2006 Projection Total	2007 Budget Total	Variance	Variance Percentage
Funding				
ERO Funding	\$ -	\$ 612,787	\$ 612,787	100.0%
Membership Dues	562,069	-	(562,069)	0.0%
Testing Fees	-	-	-	0.0%
Services & Software	-	-	-	0.0%
Workshops	-	-	-	0.0%
Interest	-	-	-	0.0%
Miscellaneous	-	-	-	0.0%
Total Funding	\$ 562,069	\$ 612,787	\$ 50,718	100.0%
Expenses				
Personnel Expenses				
Salaries	\$ 381,485	\$ 402,498	\$ 21,013	5.5%
Payroll Taxes	22,986	24,709	1,723	7.5%
Benefits	57,835	76,272	18,438	31.9%
Retirement Costs	49,763	54,807	5,044	10.1%
Total Personnel Expenses	\$ 512,069	\$ 558,287	\$ 46,218	9.0%
Meeting Expenses				
Meetings	\$ -	\$ -	\$ -	0.0%
Travel	5,000	5,000	-	0.0%
Conference Calls	-	-	-	0.0%
Total Meeting Expenses	\$ 5,000	\$ 5,000	\$ -	0.0%
Operating Expenses				
Consultants	\$ -	\$ -	\$ -	0.0%
Contracts	-	-	-	0.0%
Office Rent	-	-	-	0.0%
Office Costs	-	-	-	0.0%
Professional Services	45,000	49,500	4,500	10.0%
Computer Purchase & Maint.	-	-	-	0.0%
Furniture & Equipment	-	-	-	0.0%
Total Operating Expenses	\$ 45,000	\$ 49,500	\$ 4,500	10.0%
Total Expenses	\$ 562,069	\$ 612,787	\$ 50,718	9.0%
Change in Assets	\$ -	\$ -	\$ (0)	0.0%

Summary of 2006 and 2007 Budgeted Funding and Expenses

Funding and expenses in this section provide for the following items to meet the objectives as defined in the business plan.

Funding Sources

- Funding for this section of the business plan is provided through assessments to the regions in 2006, and through the mandatory funding mechanism in 2007.

Personnel Expenses

- Salary, payroll taxes, benefits, and savings and retirement expenses for 4.0 FTE for the 2006 projection and for the 2007 budget. The 4.0 FTEs requested for 2007 include: one program director; one financial analyst; one administrative services coordinator; and one bookkeeper.

Meeting Expenses

- Expenses in this area are mainly for staff travel in support of business plan objectives.

Operating Expenses

- Professional services – financial audit and payroll services (\$48,400)

Breakdown by Statement of Activity Sections

This appendix provides detailed schedules in support of Table 1 in Section B of the 2007 NERC Business Plan and Budget. All significant variances have been disclosed as detailed in Appendix A.

Supplemental Funding

Table B-1

Outside Funding Breakdown By Program (excluding ERO Assessments)	2006 Projection	2007 Budget	Variance %
Reliability Assessment and Performance Analysis			
pc-GAR Software	\$ 60,000	\$ 60,000	0.0%
GADS Services	90,000	90,000	0.0%
Total	\$ 150,000	\$ 150,000	0.0%
Training and Education			
SO Test Fees	\$ 520,000	\$ 540,000	3.8%
PJM Test Fees	50,000	-	-100.0%
CEH Fees	30,000	30,000	0.0%
Total	\$ 600,000	\$ 570,000	-5.0%
Situational Awareness and Infrastructure Security			
ESD Software	\$ 15,000	\$ 15,000	0.0%
FIST Royalties	20,000	20,000	0.0%
TSIN Fees	25,000	25,000	0.0%
Total	\$ 60,000	\$ 60,000	0.0%
General and Administrative			
Interest Income	\$ 84,000	\$ 84,000	0.0%
Total	\$ 84,000	\$ 84,000	0.0%
Total Outside Funding	\$ 894,000	\$ 864,000	-3.4%

Personnel Expenses

Table B-2

Personnel Expenses	Projection 2006	Budget 2007	Variance	Variance %
Salaries				
Salary	8,310,170	10,087,182	1,777,012	21.4%
Employment Agency Fees	16,000	16,000	-	0.0%
Temporary Office Services	30,000	30,000	-	0.0%
Total Salaries	8,356,170	10,133,182	1,777,012	21.3%
Payroll Taxes				
FICA	339,831	426,948	87,117	25.6%
Medicare	117,842	143,222	25,379	21.5%
SUI	29,722	34,672	4,950	16.7%
FUI	4,032	4,704	672	16.7%
Total Payroll Taxes	491,427	609,545	118,118	24.0%
Benefits				
Workers Compensation	21,000	36,000	15,000	71.4%
Medical Insurance	699,887	1,083,663	383,776	54.8%
Life-LTD Insurance	112,800	128,922	16,121	14.3%
Education	40,000	60,000	20,000	50.0%
Relocation	146,500	184,000	37,500	25.6%
Total Benefits	1,020,187	1,492,584	472,398	46.3%
Retirement				
Profit Sharing Plan / SERP	653,846	735,753	81,908	12.5%
Savings Plan	330,839	383,138	52,298	15.8%
Total Retirement	984,685	1,118,891	134,206	13.6%
Total Personnel Costs	10,852,468	13,354,202	2,501,734	23.1%

Meeting Expenses

Table B-3

Meeting Expenses by Business Plan Category	Projection 2006	Budget 2007	Variance %
Reliability Standards	\$ 108,000	\$ 149,000	38.0%
Compliance and Organization Registration and Certification	54,000	54,000	0.0%
Reliability Assessment and Performance Analysis	80,000	80,000	0.0%
Training and Education	50,000	50,000	0.0%
Situational Awareness and Infrastructure Security	121,000	121,000	0.0%
Committee and Member Forums	145,000	104,000	-28.3%
General and Administrative	152,000	152,000	0.0%
Legal and Regulatory	3,000	3,000	0.0%
Total Meeting Expenses	\$ 713,000	\$ 713,000	0.0%

Travel Expenses by Business Plan Category	Projection 2006	Budget 2007	Variance %
Reliability Standards	\$ 122,000	\$ 188,000	54.1%
Compliance and Organization Registration and Certification	90,000	317,000	252.2%
Reliability Readiness Audit and Improvement	160,000	159,000	-0.6%
Reliability Assessment and Performance Analysis	207,000	200,000	-3.4%
Training and Education	50,000	70,000	40.0%
Situational Awareness and Infrastructure Security	61,000	81,000	32.8%
Committee and Member Forums	42,000	62,000	47.6%
General and Administrative	137,000	137,000	0.0%
Legal and Regulatory	56,000	61,000	8.9%
Information Technology	29,000	29,000	0.0%
Human Resources	7,500	7,000	-6.7%
Accounting and Finance	5,000	5,000	0.0%
Total Travel Expenses	\$ 966,500	\$ 1,316,000	36.2%

Conference Call Expenses by Business Plan Category	Projection 2006	Budget 2007	Variance %
General and Administrative	\$ 113,000	\$ 113,000	0.0%
Total Conference Calls	\$ 113,000	\$ 113,000	0.0%

Operating Expenses

Table B-4

Consultants	2006 Projection	2007 Budget	Variance	Variance %
Consultants				
Reliability Standards	240,000	240,000	-	0.0%
Compliance and Org. Registration and Cert.	50,000	490,000	440,000	880.0%
Reliability Assessment and Performance Analysis	75,000	75,000	-	0.0%
Training and Education	20,000	100,000	80,000	400.0%
Situational Awareness and Infrastructure Security		250,000	250,000	100.0%
Information Technology		250,000	250,000	100.0%
Total Consultants	385,000	1,405,000	1,020,000	100.0%

Table B-5

Contracts	2006 Projection	2007 Budget	Variance	Variance %
Contracts - Software				
GADS Programming Support	50,000	50,000	-	0.0%
Analysis Software	-	125,000	125,000	100.0%
MMWG Powerflow Contractor	85,500	85,500	-	0.0%
MMWG Dynamics Contractor	118,200	118,200	-	0.0%
Resource Adequacy Studies	10,000	10,000	-	0.0%
Dynamics Database Enhancements	-	-	-	0.0%
General Maintenance	10,000	10,000	-	0.0%
PKI Cyber Security	-	-	-	0.0%
NERCnet Maintenance	20,000	20,000	-	0.0%
NERCnet (NERC Office)	38,000	38,000	-	0.0%
NERCnet (IDC Support)	22,800	22,800	-	0.0%
Data Services Maintenance	30,000	30,000	-	0.0%
NERC ICCP Maintenance Contract	6,000	6,000	-	0.0%
NERC ICCP Backup Node	6,000	6,000	-	0.0%
RCIS Support	20,000	20,000	-	0.0%
Real-Time TagNet Displays	3,000	3,000	-	0.0%
Area Control Error (ACE) Project	50,000	106,000	56,000	112.0%
Inadvertent Interchange	-	58,000	58,000	100.0%
AIE Monitoring	-	80,000	80,000	100.0%
CPS1-Balancing Authority ACE Limit Monitoring	-	50,000	50,000	100.0%
Frequency Monitoring	-	105,000	105,000	100.0%
Contracts - Software Total	469,500	943,500	474,000	101.0%
Contract - IDC				
SDX Support	75,400	74,000	(1,400)	-1.9%
IDC Maintenance	50,000	50,000	-	0.0%
DF Support Services Contract	19,200	19,200	-	0.0%
IDC Client Contracts	202,000	202,000	-	0.0%
IDC Client Billing	(202,000)	(202,000)	-	0.0%
IDC Base Contract	1,189,660	1,289,660	100,000	8.4%
E-Tag Maintenance	50,000	50,000	-	0.0%
Contracts - IDC Total	1,384,260	1,482,860	98,600	7.1%
Education and Training				
System Operator Testing Expenses	82,500	75,900	(6,600)	-8.0%
System Operator Examination Development	94,500	94,400	(100)	-0.1%
Database Development	150,000	150,000	-	100.0%
Registration Costs	6,000	4,500	(1,500)	-25.0%
Education and Training Total	333,000	324,800	(8,200)	-2.5%
Total Contracts	2,186,760	2,751,160	564,400	25.8%

Table B-6

Office Rent	Projection 2006	Budget 2007	Variance	Variance %
Office Rent	481,300	647,200	165,900	34.5%
Total Office Rent	481,300	647,200	165,900	34.5%

Table B-7

Office Costs	Projection 2006	Budget 2007	Variance	Variance %
Telephone	125,000	150,000	25,000	20.0%
Internet	92,000	125,000	33,000	35.9%
Office Supplies	57,000	62,700	5,700	10.0%
Computer Supplies and Maintenance	100,000	110,000	10,000	10.0%
Publications & Subscriptions	40,000	44,000	4,000	10.0%
Dues	27,000	29,700	2,700	10.0%
Postage	9,600	10,560	960	10.0%
UPS, Express Mail, etc.	19,400	21,340	1,940	10.0%
Copying	28,500	31,350	2,850	10.0%
Reports - Graphics	2,000	2,200	200	10.0%
Stationary Forms	5,000	5,500	500	10.0%
Equipment Repair/Service Contracts	12,000	13,200	1,200	10.0%
Bank Charges	7,000	7,700	700	10.0%
Sales & Use Taxes	4,600	5,060	460	10.0%
Merchant Card Fees	25,800	28,380	2,580	10.0%
Total Office Costs	554,900	646,690	91,790	16.5%

Table B-8

Professional Services	Projection 2006	Budget 2007	Variance	Variance %
Independent Trustee Fees	593,000	593,000	-	0.0%
Outside Legal	500,000	500,000	-	0.0%
Accounting & Auditing Fees	45,000	49,500	4,500	10.0%
Insurance Commercial	43,000	47,300	4,300	10.0%
Total Services	1,181,000	1,189,800	8,800	0.7%

Table B-9

Computer	Projection 2006	Budget 2007	Variance	Variance %
Purchase and Lease	244,000	350,000	106,000	43.4%
Total Computer	244,000	350,000	106,000	43.4%

Table B-10

Furniture & Equipment	Projection 2006	Budget 2007	Variance	Variance %
Furniture	40,000	44,000	4,000	10.0%
Equipment	11,000	12,100	1,100	10.0%
Miscellaneous	4,000	4,400	400	10.0%
Total Furniture & Fixtures	55,000	60,500	5,500	10.0%

Allocation of NERC Costs to Load Serving Entities (or designee)

				Total NERC Funding				NERC COSTS										
Data Year	Regional Entity	Entity	Country	Total	US Total	Canada total	Mexico total	8 Region NEL Funding and Fund Balance Replenish				6 Region NEL Funding			6 Region IDC Funding			
								Total	US Total	Canada total	Mexico total	Eastern Interconnection Total	U.S. Eastern Interconnection	Canadian Eastern Interconnection	Eastern Interconnection Total	U.S. Eastern Interconnection	Canadian Eastern Interconnection	
2005	WECC	Alberta Electric System Operator	Canada	310,703	-	310,703	-	310,703	-	310,703	-	-	-	-	-	-	-	
2005	WECC	Arizona Public Service Co.	U.S.	138,396	138,396	-	-	138,396	138,396	-	-	-	-	-	-	-	-	
2005	WECC	Avista Corp	U.S.	76,689	76,689	-	-	76,689	76,689	-	-	-	-	-	-	-	-	
2005	WECC	Bonneville Power Admin.	U.S.	219,084	219,084	-	-	219,084	219,084	-	-	-	-	-	-	-	-	
2005	WECC	British Columbia Transmission Corp.	Canada	283,563	-	283,563	-	283,563	-	283,563	-	-	-	-	-	-	-	
2005	WECC	California ISO	U.S.	1,044,475	1,044,475	-	-	1,044,475	1,044,475	-	-	-	-	-	-	-	-	
2005	WECC	Comision Federal de Electricidad	Mexico	47,181	-	-	47,181	47,181	-	-	-	-	-	-	-	-	-	
2005	WECC	Duke - Arlington Valley	U.S.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2005	WECC	El Paso Electric Company	U.S.	34,399	34,399	-	-	34,399	34,399	-	-	-	-	-	-	-	-	
2005	WECC	Gila River Maricopa Arizona	U.S.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2005	WECC	Harquahala Generator Maricopa Arizona	U.S.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2005	WECC	Idaho Power Company	U.S.	74,222	74,222	-	-	74,222	74,222	-	-	-	-	-	-	-	-	
2005	WECC	Imperial Irrigation District	U.S.	15,877	15,877	-	-	15,877	15,877	-	-	-	-	-	-	-	-	
2005	WECC	LA Dept. of Water & Power	U.S.	135,850	135,850	-	-	135,850	135,850	-	-	-	-	-	-	-	-	
2005	WECC	Nevada Power Company	U.S.	109,071	109,071	-	-	109,071	109,071	-	-	-	-	-	-	-	-	
2005	WECC	NorthWestern Energy	U.S.	46,974	46,974	-	-	46,974	46,974	-	-	-	-	-	-	-	-	
2005	WECC	PacifiCorp (PACE)	U.S.	193,923	193,923	-	-	193,923	193,923	-	-	-	-	-	-	-	-	
2005	WECC	PacifiCorp (PACW)	U.S.	120,437	120,437	-	-	120,437	120,437	-	-	-	-	-	-	-	-	
2005	WECC	Portland General Electric	U.S.	95,768	95,768	-	-	95,768	95,768	-	-	-	-	-	-	-	-	
2005	WECC	Public Service Co. of Colorado	U.S.	183,406	183,406	-	-	183,406	183,406	-	-	-	-	-	-	-	-	
2005	WECC	Public Service Co. of New Mexico	U.S.	67,062	67,062	-	-	67,062	67,062	-	-	-	-	-	-	-	-	
2005	WECC	PUD No. 1 of Chelan County	U.S.	13,800	13,800	-	-	13,800	13,800	-	-	-	-	-	-	-	-	
2005	WECC	PUD No. 1 of Douglas County	U.S.	6,054	6,054	-	-	6,054	6,054	-	-	-	-	-	-	-	-	
2005	WECC	PUD No. 2 of Grant County	U.S.	14,648	14,648	-	-	14,648	14,648	-	-	-	-	-	-	-	-	
2005	WECC	Puget Sound Energy	U.S.	112,799	112,799	-	-	112,799	112,799	-	-	-	-	-	-	-	-	
2005	WECC	Sacramento Municipal Utility District	U.S.	65,041	65,041	-	-	65,041	65,041	-	-	-	-	-	-	-	-	
2005	WECC	Salt River Project	U.S.	122,383	122,383	-	-	122,383	122,383	-	-	-	-	-	-	-	-	
2005	WECC	Seattle City Light	U.S.	45,497	45,497	-	-	45,497	45,497	-	-	-	-	-	-	-	-	
2005	WECC	Sierra Pacific Power Company	U.S.	52,775	52,775	-	-	52,775	52,775	-	-	-	-	-	-	-	-	
2005	WECC	Tacoma Power	U.S.	22,643	22,643	-	-	22,643	22,643	-	-	-	-	-	-	-	-	
2005	WECC	Tucson Electric Power Company	U.S.	55,349	55,349	-	-	55,349	55,349	-	-	-	-	-	-	-	-	
2005	WECC	Turlock Irrigation District	U.S.	694	694	-	-	694	694	-	-	-	-	-	-	-	-	
2005	WECC	Western Area Power Admin.-WACM	U.S.	94,136	94,136	-	-	94,136	94,136	-	-	-	-	-	-	-	-	
2005	WECC	Western Area Power Admin.-WALC	U.S.	50,810	50,810	-	-	50,810	50,810	-	-	-	-	-	-	-	-	
2005	WECC	Western Area Power Admin.-WAUW	U.S.	2,627	2,627	-	-	2,627	2,627	-	-	-	-	-	-	-	-	
				3,856,336	3,214,889	594,266	47,181	3,856,336	3,214,889	594,266	47,181	-	-	-	-	-	-	-
Total				22,487,331	19,755,180	2,684,976	47,181	20,753,816	18,164,715	2,541,923	47,181	205,700	179,861	25,842	1,527,815	1,410,604	117,211	
Summary by Regional Entity																		
2005	ERCOT			1,393,656	1,393,656	-	-	1,393,656	1,393,656	-	-	-	-	-	-	-	-	
2005	FRCC			1,207,118	1,207,118	-	-	1,100,844	1,100,844	-	-	14,605	14,605	-	91,669	91,669	-	
2005	MRO			1,484,313	1,238,678	245,635	-	1,217,594	1,016,098	201,496	-	16,157	13,483	2,674	250,562	209,097	41,465	
2005	NPCC			3,349,371	1,504,296	1,845,076	-	3,169,812	1,423,651	1,746,161	-	42,056	18,888	23,168	137,503	61,757	75,747	
2005	RFC			5,134,487	5,134,487	-	-	4,602,851	4,602,851	-	-	61,069	61,069	-	470,567	470,567	-	
2005	SERC			4,952,517	4,952,517	-	-	4,518,254	4,518,254	-	-	59,948	59,948	-	374,315	374,315	-	
2005	SPP			1,109,539	1,109,539	-	-	894,472	894,472	-	-	11,868	11,868	-	203,199	203,199	-	
2005	WECC			3,856,336	3,214,889	594,266	47,181	3,856,336	3,214,889	594,266	47,181	-	-	-	-	-	-	
				22,487,337	19,755,180	2,684,976	47,181	20,753,819	18,164,715	2,541,923	47,181	205,703	179,861	25,842	1,527,815	1,410,604	117,211	

Allocation of NERC and Regional Entity Costs to Load Serving Entities (or designee)

Data Year	Regional Entity	Entity	Country	Total ERO Funding (w/ RE costs)				Total NERC Funding				Regional Entity Funding (including RAB funding)			
				Total	US Total	Canada total	Mexico total	Total	US Total	Canada total	Mexico total	Total	US Total	Canada total	Mexico Total
2005	ERCOT	ERCOT	U.S.	6,264,411	6,264,411	-	-	1,393,656	1,393,656	-	-	4,870,755	4,870,755	-	-
				<u>6,264,411</u>	<u>6,264,411</u>	<u>-</u>	<u>-</u>	<u>1,393,656</u>	<u>1,393,656</u>	<u>-</u>	<u>-</u>	<u>4,870,755</u>	<u>4,870,755</u>	<u>-</u>	<u>-</u>
2005	FRCC	Alachua, City of	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Bartow, City of	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Beaches Energy Services of Jacksonville Beach	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Bushnell, City of	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Central Florida Electric Cooperative, Inc	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Chattahoochee, City of	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Clay Electric Cooperative, Inc	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Clewiston, City of	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Florida Keys Electric Cooperative Assn	U.S.	7,692	7,692	-	-	3,708	3,708	-	-	3,985	3,985	-	-
2005	FRCC	Florida Municipal Power Agency	U.S.	76,195	76,195	-	-	36,722	36,722	-	-	39,473	39,473	-	-
2005	FRCC	Florida Power & Light Co.	U.S.	1,187,429	1,187,429	-	-	572,274	572,274	-	-	615,155	615,155	-	-
2005	FRCC	Florida Public Utilities Company	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Fort Meade, City of	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Ft. Pierce Utilities Authority	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Gainesville Regional Utilities	U.S.	22,213	22,213	-	-	10,706	10,706	-	-	11,507	11,507	-	-
2005	FRCC	Glades Electric Cooperative, Inc	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Green Cove Springs, City of	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Havana, Town of	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Homestead, City of	U.S.	4,331	4,331	-	-	2,088	2,088	-	-	2,244	2,244	-	-
2005	FRCC	JEA	U.S.	146,118	146,118	-	-	70,421	70,421	-	-	75,697	75,697	-	-
2005	FRCC	Key West, City of	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Kissimmee Utility Authority	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Lake Worth, City of	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Lakeland Electric	U.S.	31,579	31,579	-	-	15,219	15,219	-	-	16,360	16,360	-	-
2005	FRCC	Lee County Electric Cooperative, Inc	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Leesburg, City of	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Moore Haven, City of	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Mount Dora, City of	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	New Smyrna Beach, Utilities Commission of	U.S.	4,236	4,236	-	-	2,042	2,042	-	-	2,194	2,194	-	-
2005	FRCC	Newberry, City of	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Ocala Electric Utility	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Okefenoke Rural Electric Membership	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Orlando Utilities Commission	U.S.	72,279	72,279	-	-	34,834	34,834	-	-	37,445	37,445	-	-
2005	FRCC	Peace River Electric Cooperative, Inc	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Progress Energy Florida	U.S.	500,124	500,124	-	-	241,031	241,031	-	-	259,092	259,092	-	-
2005	FRCC	Quincy, City of	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Reedy Creek Improvement District	U.S.	13,421	13,421	-	-	6,468	6,468	-	-	6,953	6,953	-	-
2005	FRCC	Seminole Electric Cooperative	U.S.	183,255	183,255	-	-	88,319	88,319	-	-	94,936	94,936	-	-
2005	FRCC	St. Cloud, City of (OUC)	U.S.	5,505	5,505	-	-	2,653	2,653	-	-	2,852	2,852	-	-
2005	FRCC	Starke, City of	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Sumter Electric Cooperative, Inc	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Suwannee Valley Electric Cooperative, Inc	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Tallahassee, City of	U.S.	30,801	30,801	-	-	14,844	14,844	-	-	15,956	15,956	-	-
2005	FRCC	Talquin Electric Cooperative, Inc	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Tampa Electric Company	U.S.	219,507	219,507	-	-	105,790	105,790	-	-	113,717	113,717	-	-
2005	FRCC	Tri-County Electric Cooperative, Inc	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Vero Beach, City of	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Wauchula, City of	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Whithlaochee River Electric Cooperative, Inc	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Williston, City of	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
2005	FRCC	Winter Park, City of	U.S.	-	-	-	-	-	-	-	-	-	-	-	-
				<u>2,504,686</u>	<u>2,504,686</u>	<u>-</u>	<u>-</u>	<u>1,207,118</u>	<u>1,207,118</u>	<u>-</u>	<u>-</u>	<u>1,297,568</u>	<u>1,297,568</u>	<u>-</u>	<u>-</u>

2006 NERC Projection

Statement of Activities 2006 Projection	2006 Budget Total	2006 Projection Total	Variance	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 500)	Reliability Readiness Audit and Improvement (Section 700)	Reliability Assessment and Performance Analysis (Section 800)	Training and Education (Section 900)	Situational Awareness and Infrastructure Security (Section 1000)	Committee and Member Forums	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance
Funding															
ERO Funding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Membership Dues	16,369,898	16,369,898	-	1,729,774	1,441,416	1,603,411	2,434,516	500,719	2,301,491	547,328	2,132,285	1,249,895	1,537,772	329,222	562,069
Testing Fees	400,000	600,000	200,000	-	-	-	-	600,000	-	-	-	-	-	-	-
Services & Software	298,000	210,000	(88,000)	-	-	-	150,000	-	60,000	-	-	-	-	-	-
Workshops	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	45,000	84,000	39,000	-	-	-	-	-	-	-	84,000	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Funding	17,112,898	17,263,898	151,000	1,729,774	1,441,416	1,603,411	2,584,516	1,100,719	2,361,491	547,328	2,216,285	1,249,895	1,537,772	329,222	562,069
Expenses															
Personnel Expenses															
Salaries	8,050,508	8,356,170	305,662	966,469	945,114	1,109,293	1,503,368	498,758	485,846	285,664	635,780	533,232	786,725	224,436	381,485
Payroll Taxes	464,071	491,427	27,356	60,085	59,808	79,192	81,561	28,935	28,592	13,509	24,843	23,217	54,878	13,823	22,986
Benefits	1,010,098	1,020,187	10,089	132,322	152,904	160,446	151,848	47,706	23,565	28,515	22,091	57,846	124,867	60,240	57,835
Retirement Costs	1,182,556	984,685	(197,871)	100,898	89,590	94,480	222,041	72,320	51,428	32,640	65,401	76,600	106,303	23,223	49,763
Total Personnel Expenses	10,707,233	10,852,468	145,235	1,259,774	1,247,416	1,443,411	1,958,816	647,719	589,431	360,328	748,115	690,895	1,072,772	321,722	512,069
Meeting Expenses															
Meetings	663,000	713,000	50,000	108,000	54,000	-	80,000	50,000	121,000	145,000	152,000	3,000	-	-	-
Travel	1,041,850	966,500	(75,350)	122,000	90,000	160,000	207,000	50,000	61,000	42,000	137,000	56,000	29,000	7,500	5,000
Conference Calls	103,800	113,000	9,200	-	-	-	-	-	-	-	113,000	-	-	-	-
Total Meeting Expenses	1,808,650	1,792,500	(16,150)	230,000	144,000	160,000	287,000	100,000	182,000	187,000	402,000	59,000	29,000	7,500	5,000
Operating Expenses															
Consultants	342,000	385,000	43,000	240,000	50,000	-	75,000	20,000	-	-	-	-	-	-	-
Contracts	2,109,115	2,186,760	77,645	-	-	-	263,700	333,000	1,590,060	-	-	-	-	-	-
Office Rent	456,300	481,300	25,000	-	-	-	-	-	-	-	481,300	-	-	-	-
Office Costs	590,500	554,900	(35,600)	-	-	-	-	-	-	-	362,900	-	192,000	-	-
Professional Services	834,700	1,181,000	346,300	-	-	-	-	-	-	-	636,000	500,000	-	-	45,000
Computer Purchase & Maint.	236,300	244,000	7,700	-	-	-	-	-	-	-	-	-	244,000	-	-
Furniture & Equipment	28,100	55,000	26,900	-	-	-	-	-	-	-	55,000	-	-	-	-
Total Operating Expenses	4,597,015	5,087,960	490,945	240,000	50,000	-	338,700	353,000	1,590,060	-	1,535,200	500,000	436,000	-	45,000
Total Expenses	17,112,898	17,732,928	620,030	1,729,774	1,441,416	1,603,411	2,584,516	1,100,719	2,361,491	547,328	2,685,315	1,249,895	1,537,772	329,222	562,069
Change in Assets	-	(469,030)	(469,030)	-	-	-	-	-	-	-	(469,030)	-	-	-	-

2006 NERC Projection

2006 Projection Funding Schedule	NSOA Account Number	Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 500)	Reliability Readiness Audit and Improvement (Section 700)	Reliability Assessment and Performance Analysis (Section 800)	Training and Education (Section 900)	Situational Awareness and Infrastructure Security (Section 1000)	Committee and Member Forums	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance
ERO Funding (41000 Series)														
Assessments	41000	-												
Penalty Sanctions	41100	-												
Total ERO Funding		-	-	-	-	-	-	-	-	-	-	-	-	-
Membership Dues (42000) - REs Only														
Membership Dues	42000	16,369,898	1,729,774	1,441,416	1,603,411	2,434,516	500,719	2,301,491	547,328	2,132,285	1,249,895	1,537,772	329,222	562,069
Total Membership Dues		16,369,898	1,729,774	1,441,416	1,603,411	2,434,516	500,719	2,301,491	547,328	2,132,285	1,249,895	1,537,772	329,222	562,069
Testing Fees (45000 Series) - ERO Only														
SO Test Fees	45000	520,000					520,000							
PJM Test Fees	45100	50,000					50,000							
CEH Fees	45200	30,000					30,000							
Total Testing Fees		600,000	-	-	-	-	600,000	-	-	-	-	-	-	-
Services & Software (46000 Series) - REs may have more categories under this section														
IDC - Subscriptions	46000	-												
Frame Relay Fees	46100	-												
ESD Software	46200	15,000						15,000						
pc-GAR Software	46300	60,000				60,000								
GADS Services	46400	90,000				90,000								
FIST Royalties	46500	20,000						20,000						
TSIN Fees	46600	25,000						25,000						
Total Services & Software		210,000	-	-	-	150,000	-	60,000	-	-	-	-	-	-
Workshops (47000 Series)														
Workshops	47000	-												
Total Workshops		-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Income (49000 Series)														
Interest Income	49000	84,000								84,000				
Total Interest		84,000	-	-	-	-	-	-	-	84,000	-	-	-	-
Miscellaneous														
Misc. Income	49900	-												
Total Miscellaneous Income		-	-	-	-	-	-	-	-	-	-	-	-	-
Total Funding		17,263,898	1,729,774	1,441,416	1,603,411	2,584,516	1,100,719	2,361,491	547,328	2,216,285	1,249,895	1,537,772	329,222	562,069

2006 NERC Projection

2006 Projection Personnel Schedule	NSOA Account Number	Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 500)	Reliability Readiness Audit and Improvement (Section 700)	Reliability Assessment and Performance Analysis (Section 800)	Training and Education (Section 900)	Situational Awareness and Infrastructure Security (Section 1000)	Committee and Member Forums	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance
Salary (51000 Series)														
Direct Salaries	51000	8,310,170	966,469	945,114	1,109,293	1,503,368	498,758	485,846	285,664	635,780	533,232	786,725	178,436	381,485
Employment Agency Fee	51200	16,000	-	-	-	-	-	-	-	-	-	-	16,000	-
Temporary Office Services	51300	30,000	-	-	-	-	-	-	-	-	-	-	30,000	-
Total Personnel Costs		8,356,170	966,469	945,114	1,109,293	1,503,368	498,758	485,846	285,664	635,780	533,232	786,725	224,436	381,485
Payroll Taxes (52000 Series)														
Payroll Taxes-FICA	52000	339,831	42,160	41,631	58,127	55,170	20,015	19,759	8,609	14,374	14,219	39,966	9,925	15,875
Payroll Taxes-Medicare	52100	117,842	13,706	13,488	15,908	21,234	7,044	6,958	3,962	9,063	7,591	11,161	2,491	5,236
Payroll Taxes-SUI	52200	29,722	3,715	4,128	4,541	4,541	1,651	1,651	826	1,238	1,238	3,302	1,238	1,651
Payroll Taxes-FUI	52300	4,032	504	560	616	616	224	224	112	168	168	448	168	224
Total Payroll Taxes		491,427	60,085	59,808	79,192	81,561	28,935	28,592	13,509	24,843	23,217	54,878	13,823	22,986
Employee Benefits (54000 Series)														
Benefits-Education Reimbursement	54000	40,000	-	-	-	-	-	-	-	-	-	-	40,000	-
Benefits-Medical	54100	699,887	96,407	84,610	113,813	125,772	42,340	16,499	19,453	-	18,966	114,402	16,597	51,029
Benefits-Life Insurance -WC	54200	112,800	13,416	13,794	16,633	18,576	5,367	7,066	9,062	1,091	6,880	10,466	3,643	6,806
Vacation Expense	54300	21,000	-	-	-	-	-	-	-	21,000	-	-	-	-
Benefits-Relocation	54400	-	-	-	-	-	-	-	-	-	-	-	-	-
Benefits-Relocation	54600	146,500	22,500	54,500	30,000	7,500	-	-	-	-	32,000	-	-	-
Total Employees Benefits		1,020,187	132,322	152,904	160,446	151,848	47,706	23,565	28,515	22,091	57,846	124,867	60,240	57,835
Retirement Costs (55000)														
Profit Sharing - SERP Contribution	55000	653,846	59,930	54,665	44,562	163,701	49,876	33,097	21,000	47,141	59,966	70,900	15,193	33,815
Employee Savings Plan	55100	330,839	40,967	34,925	49,918	58,340	22,444	18,331	11,640	18,260	16,635	35,403	8,030	15,948
Savings Admin	55200	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Retirement Costs		984,685	100,898	89,590	94,480	222,041	72,320	51,428	32,640	65,401	76,600	106,303	23,223	49,763
Total Personnel Costs		10,852,468	1,259,774	1,247,416	1,443,411	1,958,816	647,719	589,431	360,328	748,115	690,895	1,072,772	321,722	512,069

2006 NERC Projection

2006 Projection Meeting Schedule	NSOA Account Number	Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 500)	Reliability Readiness Audit and Improvement (Section 700)	Reliability Assessment and Performance Analysis (Section 800)	Training and Education (Section 900)	Situational Awareness and Infrastructure Security (Section 1000)	Committee and Member Forums	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance
Meeting Expenses (61000 Series)														
Meeting Expense	61000	713,000	108,000	54,000	-	80,000	50,000	121,000	145,000	152,000	3,000	-	-	-
Workshop Exp	61100	-												
Total Meeting Expenses		713,000	108,000	54,000	-	80,000	50,000	121,000	145,000	152,000	3,000	-	-	-
Travel Expenses (62000 Series)														
Travel	62000	966,500	122,000	90,000	160,000	207,000	50,000	61,000	42,000	137,000	56,000	29,000	7,500	5,000
Auto Expense	62100	-												
Total Travel Expenses		966,500	122,000	90,000	160,000	207,000	50,000	61,000	42,000	137,000	56,000	29,000	7,500	5,000
Communications (63000 Series)														
Conference Calls	61200	65,000	-	-	-	-	-	-	-	65,000	-	-	-	-
Online Meetings	61300	48,000	-	-	-	-	-	-	-	48,000	-	-	-	-
Total Communications Expense		113,000	-	-	-	-	-	-	-	113,000	-	-	-	-
Total Meeting Costs		1,792,500	230,000	144,000	160,000	287,000	100,000	182,000	187,000	402,000	59,000	29,000	7,500	5,000

2006 NERC Projection

2007 Projection Operating Expenses Schedule	NSOA Account Number	Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 500)	Reliability Readiness Audit and Improvement (Section 700)	Reliability Assessment and Performance Analysis (Section 800)	Training and Education (Section 900)	Situational Awareness and Infrastructure Security (Section 1000)	Committee and Member Forums	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance
Contracts & Consultants (63000 Series)														
Contracts - Consultants	65000	385,000	240,000	50,000	-	75,000	20,000	-	-	-	-	-	-	-
Contracts - Software & Testing	65100	802,500	-	-	-	263,700	333,000	205,800	-	-	-	-	-	-
Contract - IDC	65200	1,384,260	-	-	-	-	-	1,384,260	-	-	-	-	-	-
Contract - Frame Relay	65300	-	-	-	-	-	-	-	-	-	-	-	-	-
Industry Support	65400	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Contracts & Consultants		2,571,760	240,000	50,000	-	338,700	353,000	1,590,060	-	-	-	-	-	-
Office Rent (70000 Series)														
Office Rent	70000	481,300	-	-	-	-	-	-	-	481,300	-	-	-	-
Total Office Rent		481,300	-	-	-	-	-	-	-	481,300	-	-	-	-
Office Costs (71000 and 72000 Series)														
Telephone	71000	125,000	-	-	-	-	-	-	-	125,000	-	-	-	-
Internet Expense	71100	92,000	-	-	-	-	-	-	-	-	-	92,000	-	-
Office Supplies	71200	57,000	-	-	-	-	-	-	-	57,000	-	-	-	-
Computer Supplies & Maintenance	71300	100,000	-	-	-	-	-	-	-	-	-	100,000	-	-
Subscriptions & Publications	71400	40,000	-	-	-	-	-	-	-	40,000	-	-	-	-
Dues	71500	27,000	-	-	-	-	-	-	-	27,000	-	-	-	-
Postage	71600	9,600	-	-	-	-	-	-	-	9,600	-	-	-	-
Express Shipping	71700	19,400	-	-	-	-	-	-	-	19,400	-	-	-	-
Copying	71800	28,500	-	-	-	-	-	-	-	28,500	-	-	-	-
Reports	71900	2,000	-	-	-	-	-	-	-	2,000	-	-	-	-
Stationary & Office Forms	72000	5,000	-	-	-	-	-	-	-	5,000	-	-	-	-
Equipment Repair/Srv. Contracts	72100	12,000	-	-	-	-	-	-	-	12,000	-	-	-	-
Bank Charges	72200	7,000	-	-	-	-	-	-	-	7,000	-	-	-	-
Sales & Use Tax	72300	4,600	-	-	-	-	-	-	-	4,600	-	-	-	-
Merchant Credit Card Fee	72400	25,800	-	-	-	-	-	-	-	25,800	-	-	-	-
Total Office Costs		554,900	-	-	-	-	-	-	-	362,900	-	192,000	-	-
Professional Services (75000 Series)														
BOT Fee	75000	593,000	-	-	-	-	-	-	-	593,000	-	-	-	-
BOT Search fee	75100	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal - Reorganization	75200	500,000	-	-	-	-	-	-	-	-	500,000	-	-	-
Accounting and Auditing Fees	75300	45,000	-	-	-	-	-	-	-	-	-	-	-	45,000
Legal Fees - Other	75400	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance - Commercial	75500	43,000	-	-	-	-	-	-	-	43,000	-	-	-	-
Total Professional Services		1,181,000	-	-	-	-	-	-	-	636,000	500,000	-	-	45,000
Capital Expenditures (90000 Series) (Cash projections only - to be capitalized)														
Furniture Purchase	90100	40,000	-	-	-	-	-	-	-	40,000	-	-	-	-
Equipment Purchase	90200	11,000	-	-	-	-	-	-	-	11,000	-	-	-	-
Computer Purchase and Lease	90300	244,000	-	-	-	-	-	-	-	-	-	244,000	-	-
Total Capital Expenditures		295,000	-	-	-	-	-	-	-	51,000	-	244,000	-	-
Depreciation Expense (95000 Series) (Actual only)														
Depreciation Expense-Equipment	95100	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation Expense-Computers	95200	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation - Software	95250	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation Expenses-Furniture	95300	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation Expense - L.I.	95400	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Depreciation Expense		-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous Expenses (99000 Series)														
Miscellaneous Expense	99000	4,000	-	-	-	-	-	-	-	4,000	-	-	-	-
Provision for Allowance	99100	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from Sale of Assets	99200	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Miscellaneous Expenses		4,000	-	-	-	-	-	-	-	4,000	-	-	-	-
Total Operating Expenses		5,087,960	240,000	50,000	-	338,700	353,000	1,590,060	-	1,535,200	500,000	436,000	-	45,000

2007 NERC Budget

Statement of Activities 2007 Budget	2006 Projection Total	2007 Budget Total	Variance	Reliability Standards (Section 300)	Compliance and Registration and Certification (Section 400 & 500)	Reliability Readiness Audit and Improvement (Section 700)	Reliability Assessment and Performance Analysis (Section 800)	Training and Education (Section 900)	Situational Awareness and Infrastructure Security (Section 1000)	Committee and Member Forums	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance
Funding															
ERO Funding	-	21,682,552	21,682,552	2,258,433	3,436,668	1,650,771	2,469,128	810,087	3,195,644	777,394	2,804,181	1,452,039	1,864,056	351,363	612,787
Membership Dues	16,369,898	-	(16,369,898)	-	-	-	-	-	-	-	-	-	-	-	-
Testing Fees	600,000	570,000	(30,000)	-	-	-	-	570,000	-	-	-	-	-	-	-
Services & Software	210,000	210,000	-	-	-	-	150,000	-	60,000	-	-	-	-	-	-
Workshops	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	84,000	84,000	-	-	-	-	-	-	-	-	84,000	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Funding	17,263,898	22,546,552	5,282,654	2,258,433	3,436,668	1,650,771	2,619,128	1,380,087	3,255,644	777,394	2,888,181	1,452,039	1,864,056	351,363	612,787
Expenses															
Personnel Expenses															
Salaries	8,356,170	10,133,182	1,777,012	1,281,833	1,947,805	1,124,482	1,421,976	647,789	624,384	474,610	589,163	691,323	703,231	224,088	402,498
Payroll Taxes	491,427	609,545	118,118	82,276	130,726	79,854	78,158	37,148	37,404	26,022	18,291	32,548	48,802	13,605	24,709
Benefits	1,020,187	1,492,584	472,398	179,635	352,169	163,999	165,159	78,384	46,802	73,912	37,184	92,164	146,055	80,848	76,272
Retirement Costs	984,685	1,118,891	134,206	137,689	144,968	123,436	210,134	71,965	57,394	36,850	81,853	72,004	101,968	25,823	54,807
Total Personnel Expenses	10,852,468	13,354,202	2,501,734	1,681,433	2,575,668	1,491,771	1,875,428	835,287	765,984	611,394	726,491	888,039	1,000,056	344,363	558,287
Meeting Expenses															
Meetings	713,000	713,000	-	149,000	54,000	-	80,000	50,000	121,000	104,000	152,000	3,000	-	-	-
Travel	966,500	1,316,000	349,500	188,000	317,000	159,000	200,000	70,000	81,000	62,000	137,000	61,000	29,000	7,000	5,000
Conference Calls	113,000	113,000	-	-	-	-	-	-	-	-	113,000	-	-	-	-
Total Meeting Expenses	1,792,500	2,142,000	349,500	337,000	371,000	159,000	280,000	120,000	202,000	166,000	402,000	64,000	29,000	7,000	5,000
Operating Expenses															
Consultants	385,000	1,405,000	1,020,000	240,000	490,000	-	75,000	100,000	250,000	-	-	-	250,000	-	-
Contracts	2,186,760	2,751,160	564,400	-	-	-	388,700	324,800	2,037,660	-	-	-	-	-	-
Office Rent	481,300	647,200	165,900	-	-	-	-	-	-	-	647,200	-	-	-	-
Office Costs	554,900	646,690	91,790	-	-	-	-	-	-	-	411,690	-	235,000	-	-
Professional Services	1,181,000	1,189,800	8,800	-	-	-	-	-	-	-	640,300	500,000	-	-	49,500
Computer Purchase & Maint.	244,000	350,000	106,000	-	-	-	-	-	-	-	-	-	350,000	-	-
Furniture & Equipment	55,000	60,500	5,500	-	-	-	-	-	-	-	60,500	-	-	-	-
Total Operating Expenses	5,087,960	7,050,350	1,962,390	240,000	490,000	-	463,700	424,800	2,287,660	-	1,759,690	500,000	835,000	-	49,500
Total Expenses	17,732,928	22,546,552	4,813,624	2,258,433	3,436,668	1,650,771	2,619,128	1,380,087	3,255,644	777,394	2,888,181	1,452,039	1,864,056	351,363	612,787
Change in Assets	(469,030)	-	469,030	-	-	-	-	-	-	-	-	-	-	-	-

2007 NERC Budget

2007 Budget Funding Schedule	NSOA Account Number	Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 500)	Reliability Readiness Audit and Improvement (Section 700)	Reliability Assessment and Performance Analysis (Section 800)	Training and Education (Section 900)	Situational Awareness and Infrastructure Security (Section 1000)	Committee and Member Forums	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance
ERO Funding (41000 Series)														
Assessments	41000	21,682,552	2,258,433	3,436,668	1,650,771	2,469,128	810,087	3,195,644	777,394	2,804,181	1,452,039	1,864,056	351,363	612,787
Penalty Sanctions	41100	-												
Total ERO Funding		21,682,552	2,258,433	3,436,668	1,650,771	2,469,128	810,087	3,195,644	777,394	2,804,181	1,452,039	1,864,056	351,363	612,787
Membership Dues (42000) - REs Only														
Membership Dues	42000	-												
Total Membership Dues		-	-	-	-	-	-	-	-	-	-	-	-	-
Testing Fees (45000 Series) - ERO Only														
SO Test Fees	45000	540,000					540,000							
PJM Test Fees	45100	-												
CEH Fees	45200	30,000					30,000							
Total Testing Fees		570,000	-	-	-	-	570,000	-	-	-	-	-	-	-
Services & Software (46000 Series) - REs may have more categories under this section														
IDC - Subscriptions	46000	-												
Frame Relay Fees	46100	-												
ESD Software	46200	15,000						15,000						
pc-GAR Software	46300	60,000				60,000								
GADS Services	46400	90,000				90,000								
FIST Royalties	46500	20,000						20,000						
TSIN Fees	46600	25,000						25,000						
Total Services & Software		210,000	-	-	-	150,000	-	60,000	-	-	-	-	-	-
Workshops (47000 Series)														
Workshops	47000	-												
Total Workshops		-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Income (49000 Series)														
Interest Income	49000	84,000								84,000				
Total Interest		84,000	-	-	-	-	-	-	-	84,000	-	-	-	-
Miscellaneous														
Misc. Income	49900	-												
Total Miscellaneous Income		-	-	-	-	-	-	-	-	-	-	-	-	-
Total Funding		22,546,552	2,258,433	3,436,668	1,650,771	2,619,128	1,380,087	3,255,644	777,394	2,888,181	1,452,039	1,864,056	351,363	612,787

2007 NERC Budget

2007 Budget Personnel Schedule	N S O A A c c o u n t N u m b e r	T o t a l	R e l i a b i l i t y S t a n d a r d s (S e c t i o n 3 0 0)	C o m p l i a n c e a n d O r g a n i z a t i o n R e g i s t r a t i o n a n d C e r t i f i c a t i o n (S e c t i o n 4 0 0 & 5 0 0)	R e l i a b i l i t y R e a d i n e s s A u d i t a n d I m p r o v e m e n t (S e c t i o n 7 0 0)	R e l i a b i l i t y A s s e s s m e n t a n d P e r f o r m a n c e A n a l y s i s (S e c t i o n 8 0 0)	T r a i n i n g a n d E d u c a t i o n (S e c t i o n 9 0 0)	S i t u a t i o n a l A w a r e n e s a n d I n f r a s t r u c t u r e S e c u r i t y (S e c t i o n 1 0 0 0)	C o m m i t t e e a n d M e m b e r F o r u m s	G e n e r a l a n d A d m i n i s t r a t i v e	L e g a l a n d R e g u l a t o r y	I n f o r m a t i o n T e c h n o l o g y	H u m a n R e s o u r c e s	A c c o u n t i n g a n d F i n a n c e
Salary (51000 Series)														
Direct Salaries	51000	10,087,182	1,281,833	1,947,805	1,124,482	1,421,976	647,789	624,384	474,610	589,163	691,323	703,231	178,088	402,498
Allocated Salaries & Benefits	51100	-												
Employment Agency Fee	51200	16,000											16,000	
Temporary Office Services	51300	30,000											30,000	
Total Personnel Costs		10,133,182	1,281,833	1,947,805	1,124,482	1,421,976	647,789	624,384	474,610	589,163	691,323	703,231	224,088	402,498
Payroll Taxes (52000 Series)														
Payroll Taxes-FICA	52000	426,948	58,803	93,791	58,569	53,321	26,175	26,093	17,856	8,967	20,789	35,536	9,754	17,294
Payroll Taxes-Medicare	52100	143,222	18,279	28,027	16,129	20,149	8,629	8,967	6,760	8,387	9,883	9,985	2,486	5,540
Payroll Taxes-SUI	52200	34,672	4,579	7,843	4,541	4,128	2,064	2,064	1,238	826	1,651	2,890	1,197	1,651
Payroll Taxes-FUI	52300	4,704	616	1,064	616	560	280	280	168	112	224	392	168	224
Total Payroll Taxes		609,545	82,276	130,726	79,854	78,158	37,148	37,404	26,022	18,291	32,548	48,802	13,605	24,709
Employee Benefits (54000 Series)														
Benefits-Education Reimbursement	54000	60,000	-	-	-	-	-	-	-	-	-	-	60,000	-
Benefits-Medical	54100	1,083,663	147,640	229,231	147,332	147,551	64,209	30,940	48,481	-	44,377	135,939	18,770	69,195
Benefits-Life	54200	128,922	16,995	23,438	16,667	17,609	6,675	8,362	10,431	1,184	8,288	10,116	2,078	7,078
Insurance -WC	54300	36,000	-	-	-	-	-	-	-	36,000	-	-	-	-
Vacation Expense	54400	-	-	-	-	-	-	-	-	-	-	-	-	-
Benefits-Relocation	54600	184,000	15,000	99,500	-	-	7,500	7,500	15,000	-	39,500	-	-	-
Total Employees Benefits		1,492,584	179,635	352,169	163,999	165,159	78,384	46,802	73,912	37,184	92,164	146,055	80,848	76,272
Retirement Costs (55000)														
Profit Sharing - SERP Contribution	55000	735,753	84,956	79,512	73,604	151,213	47,579	32,672	22,000	69,659	49,731	70,323	17,809	36,695
Employee Savings Plan	55100	383,138	52,733	65,455	49,832	58,922	24,387	24,722	14,850	12,193	22,273	31,645	8,014	18,112
Pension & Savings Admin	55200	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Retirement Costs		1,118,891	137,689	144,968	123,436	210,134	71,965	57,394	36,850	81,853	72,004	101,968	25,823	54,807
Total Personnel Costs		13,354,202	1,681,433	2,575,668	1,491,771	1,875,428	835,287	765,984	611,394	726,491	888,039	1,000,056	344,363	558,287

2007 NERC Budget

2007 Budget Meeting Schedule	N SOA Account Number	Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 500)	Reliability Readiness Audit and Improvement (Section 700)	Reliability Assessment and Performance Analysis (Section 800)	Training and Education (Section 900)	Situational Awareness and Infrastructure Security (Section 1000)	Committee and Member Forums	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance
Meeting Expenses (61000 Series)														
Meeting Expense	61000	713,000	149,000	54,000	-	80,000	50,000	121,000	104,000	152,000	3,000	-	-	-
Workshop Exp	61100	-												
Total Meeting Expenses		713,000	149,000	54,000	-	80,000	50,000	121,000	104,000	152,000	3,000	-	-	-
Travel Expenses (62000 Series)														
Travel	62000	1,316,000	188,000	317,000	159,000	200,000	70,000	81,000	62,000	137,000	61,000	29,000	7,000	5,000
Total Travel Expenses		1,316,000	188,000	317,000	159,000	200,000	70,000	81,000	62,000	137,000	61,000	29,000	7,000	5,000
Communications (63000 Series)														
Conference Calls	61200	65,000								65,000				
Online Meetings	61300	48,000								48,000				
Total Communications Expense		113,000	-	-	-	-	-	-	-	113,000	-	-	-	-
Total Meeting Costs		2,142,000	337,000	371,000	159,000	280,000	120,000	202,000	166,000	402,000	64,000	29,000	7,000	5,000

2007 NERC Budget

2007 Budget Operating Expenses Schedule	NSOA Account Number	Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 500)	Reliability Readiness Audit and Improvement (Section 700)	Reliability Assessment and Performance Analysis (Section 800)	Training and Education (Section 900)	Situational Awareness and Infrastructure Security (Section 1000)	Committee and Member Forums	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance
Contracts & Consultants (63000 Series)														
Contracts - Consultants	65000	1,405,000	240,000	490,000	-	75,000	100,000	250,000	-	-	-	250,000	-	-
Contracts - Software & Testing	65100	1,268,300	-	-	-	388,700	324,800	554,800	-	-	-	-	-	-
Contract - IDC	65200	1,482,860	-	-	-	-	-	1,482,860	-	-	-	-	-	-
Contract - Frame Relay	65300	-	-	-	-	-	-	-	-	-	-	-	-	-
Industry Support	65400	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Contracts & Consultants		4,156,160	240,000	490,000	-	463,700	424,800	2,287,660	-	-	-	250,000	-	-
Office Rent (70000 Series)														
Office Rent	70000	647,200	-	-	-	-	-	-	-	647,200	-	-	-	-
Total Office Rent		647,200	-	-	-	-	-	-	-	647,200	-	-	-	-
Office Costs (71000 and 72000 Series)														
Telephone	71000	150,000	-	-	-	-	-	-	-	150,000	-	-	-	-
Internet Expense	71100	125,000	-	-	-	-	-	-	-	-	-	125,000	-	-
Office Supplies	71200	62,700	-	-	-	-	-	-	-	62,700	-	-	-	-
Computer Supplies & Maintenance	71300	110,000	-	-	-	-	-	-	-	-	-	110,000	-	-
Subscriptions & Publications	71400	44,000	-	-	-	-	-	-	-	44,000	-	-	-	-
Dues	71500	29,700	-	-	-	-	-	-	-	29,700	-	-	-	-
Postage	71600	10,560	-	-	-	-	-	-	-	10,560	-	-	-	-
Express Shipping	71700	21,340	-	-	-	-	-	-	-	21,340	-	-	-	-
Copying	71800	31,350	-	-	-	-	-	-	-	31,350	-	-	-	-
Reports	71900	2,200	-	-	-	-	-	-	-	2,200	-	-	-	-
Stationary & Office Forms	72000	5,500	-	-	-	-	-	-	-	5,500	-	-	-	-
Equipment Repair/Srv. Contracts	72100	13,200	-	-	-	-	-	-	-	13,200	-	-	-	-
Bank Charges	72200	7,700	-	-	-	-	-	-	-	7,700	-	-	-	-
Sales & Use Tax	72300	5,060	-	-	-	-	-	-	-	5,060	-	-	-	-
Merchant Credit Card Fee	72400	28,380	-	-	-	-	-	-	-	28,380	-	-	-	-
Total Office Costs		646,690	-	-	-	-	-	-	-	411,690	-	235,000	-	-
Professional Services (75000 Series)														
BOT Fee	75000	593,000	-	-	-	-	-	-	-	593,000	-	-	-	-
BOT Search fee	75100	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal - Reorganization	75200	500,000	-	-	-	-	-	-	-	-	500,000	-	-	-
Accounting and Auditing Fees	75300	49,500	-	-	-	-	-	-	-	-	-	-	-	49,500
Legal Fees - Other	75400	-	-	-	-	-	-	-	-	-	-	-	-	-
Insurance - Commercial	75500	47,300	-	-	-	-	-	-	-	47,300	-	-	-	-
Total Professional Services		1,189,800	-	-	-	-	-	-	-	640,300	500,000	-	-	49,500
Capital Expenditures (90000 Series) (Cash projections only - to be capitalized)														
Furniture Purchase	90100	44,000	-	-	-	-	-	-	-	44,000	-	-	-	-
Equipment Purchase	90200	12,100	-	-	-	-	-	-	-	12,100	-	-	-	-
Computer Purchase and Lease	90300	350,000	-	-	-	-	-	-	-	-	-	350,000	-	-
Total Capital Expenditures		406,100	-	-	-	-	-	-	-	56,100	-	350,000	-	-
Depreciation Expense (95000 Series) (Actual only)														
Depreciation Expense-Equipment	95100	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation Expense-Computers	95200	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation - Software	95250	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation Expenses-Furniture	95300	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation Expense - L.I.	95400	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Depreciation Expense		-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous Expenses (99000 Series)														
Miscellaneous Expense	99000	4,400	-	-	-	-	-	-	-	4,400	-	-	-	-
Provision for Allowance	99100	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from Sale of Assets	99200	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Miscellaneous Expenses		4,400	-	-	-	-	-	-	-	4,400	-	-	-	-
Total Operating Expenses		7,050,350	240,000	490,000	-	463,700	424,800	2,287,660	-	1,759,690	500,000	835,000	-	49,500

UNITED STATES OF AMERICA
Before the
FEDERAL ENERGY REGULATORY COMMISSION

NORTH AMERICAN ELECTRIC)
RELIABILITY COUNCIL and) **Docket No. _____**
NORTH AMERICAN ELECTRIC)
RELIABILITY CORPORATION)

REQUEST OF THE
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
FOR ACCEPTANCE OF ITS 2007 BUSINESS PLAN AND BUDGET AND
THE 2007 BUSINESS PLANS AND BUDGETS OF REGIONAL ENTITIES
AND FOR APPROVAL OF PROPOSED ASSESSMENTS TO FUND BUDGETS

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August 23, 2006

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ATTACHMENTS

Attachment 1: Summary tables showing NERC's proposed budget and funding requirement by program; proposed budget for statutory activities of each regional entity; funding requirement for Section 215(j) activities requested by WIRAB; and aggregate U.S. ERO funding requirement of NERC, the regional entities and WIRAB for which approval is requested.

Attachment 2: NERC's proposed business plan and budget for 2007; proposed assessments to load-serving entities and designees to recover the ERO funding requirement; and proposed business plans and budgets of the regional entities.

Attachment 3: Budget for statutory functions of FRCC as adjusted by NERC and resulting assessments to load-serving entities in the FRCC region.

Attachment 4: Resolution of the NERC Board of Trustees adopted August 2, 2006.

Attachment 5: Letters from regional entities stating intentions to enter into regional delegation agreements with NERC.

Attachment 6: Form of notice for the *Federal Register*.

UNITED STATES OF AMERICA
Before the
FEDERAL ENERGY REGULATORY COMMISSION

NORTH AMERICAN ELECTRIC)
RELIABILITY COUNCIL and) **Docket No.** _____
NORTH AMERICAN ELECTRIC)
RELIABILITY CORPORATION)

REQUEST OF THE
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
FOR ACCEPTANCE OF ITS 2007 BUSINESS PLAN AND BUDGET AND
THE 2007 BUSINESS PLANS AND BUDGETS OF REGIONAL ENTITIES
AND FOR APPROVAL OF PROPOSED ASSESSMENTS TO FUND BUDGETS

I. INTRODUCTION

In accordance with 18 C.F.R. § 39.4, the North American Electric Reliability Corporation (“NERC”) submits for the Commission’s acceptance:

- (1) NERC’s initial proposed business plan and budget as the electric reliability organization (“ERO”), for the year ending December 31, 2007;
- (2) the proposed business plans and budgets for the year ending December 31, 2007, for statutory activities of the following regional entities:¹
 - Electric Reliability Council of Texas (“ERCOT” or Texas Regional Entity),
 - Florida Reliability Coordinating Council (“FRCC”),
 - Midwest Reliability Organization (“MRO”),
 - Northeast Power Coordinating Council (“NPCC”),
 - Reliability*First* Corporation (“RFC”),

¹NERC acknowledges that the listed entities are not “regional entities” as defined in § 215(a)(6) of the Federal Power Act (“FPA”) and 18 C.F.R. § 39.1 until they have entered into regional delegation agreements (“RDA”) with NERC that have been approved by the Commission. As shown by the documents in Attachment 5 hereto, each of the entities is actively engaged in negotiation of, and intends to enter into, a RDA with NERC. For convenience, the term “regional entity” is used throughout this filing to describe these entities.

- SERC Reliability Corporation (“SERC”),
 - Southwest Power Pool, Inc. (“SPP”), and
 - Western Electricity Coordinating Council (“WECC”);
- (3) the proposed budget of the Western Interconnection Regional Advisory Body (“WIRAB”) for activities under Section 215(j) of the FPA; and
- (4) NERC’s proposed allocation of assessments among regional entities and load serving entities (“LSE”) within each region to collect the proposed NERC, regional entity and WIRAB funding requirements.

This filing includes the following attachments:

Attachment 1 is a set of summary tables showing (i) NERC’s proposed budget by program and its proposed funding requirement, (ii) the proposed budget for statutory activities of each regional entity, (iii) the budget for Section 215(j) activities requested by WIRAB, and (iv) the aggregate ERO funding requirement of NERC, the regional entities and WIRAB, allocated to the U.S., for which approval is requested.

Attachment 2 contains NERC’s detailed business plan and budget, the detailed business plans and budgets of the regional entities (for both statutory and non-statutory activities), WIRAB’s budget, and the allocation of assessments by region and LSE to recover the resulting funding requirements.²

Attachment 3 contains schedules showing funding and assessment amounts for the performance of statutory functions by FRCC based on NERC’s categorization of statutory functions, which differs from FRCC’s view of its statutory functions, and the resultant assessments to LSEs and designees in the FRCC region to recover the ERO funding requirement for that region.

Attachment 4 is the resolution of the NERC Board of Trustees, adopted at its August 2, 2006, meeting, approving the proposed business plans and budgets of NERC and the regional entities and the proposed budget of WIRAB for submission to the Commission.

²Attachment 2 includes the budget for statutory functions submitted by FRCC to NERC and the resulting assessments to recovery the FRCC budget. As discussed in §VI below, it is NERC’s belief that additional functions, and therefore additional budgeted amounts, should be included in FRCC’s budget for statutory functions. Attachment 3 contains the FRCC budget after reclassification by NERC of certain activities classified by FRCC as non-statutory, and the resulting assessments to LSEs and designees in the FRCC region. The Commission should approve the adjusted FRCC budget for statutory functions, and the related assessments to collect the ERO funding requirement, shown in Attachment 3.

Attachment 5 contains a letter of intent from each regional entity stating that it is engaged in good faith negotiations with NERC concerning, and intends to enter into, a RDA with NERC to perform delegated statutory compliance and enforcement functions.

Attachment 6 is a proposed form of notice for the *Federal Register*.

In accordance with 18 C.F.R. § 39.4(c), NERC requests issuance of an order by November 2, 2006 accepting the proposed business plans and budgets and approving the proposed assessments.³ Entry of the Commission's order by November 2, 2006, will enable billings to be issued to the LSEs or their designees for assessments with initial payment dates commencing on or about January 1, 2007, to support the activities of NERC and the regional entities during NERC's first year of operations as the ERO.⁴

³18 C.F.R. § 39.4(c) states: "The Commission, after public notice and opportunity for hearing, shall issue an order either accepting, rejecting, remanding or modifying the proposed Electric Reliability Organization budget and business plan no later than sixty (60) days in advance of the beginning of the Electric Reliability Organization's fiscal year." NERC's 2007 fiscal year will begin on January 1, 2007. While NERC recognizes that § 39.4(c) requires the Commission to provide public notice and opportunity for hearing on the proposed business plans and budgets, NERC urges the Commission to set an expedited notice and comment period to support issuance of an order on or before November 2, 2006.

⁴As indicated at pages 75-76 of NERC's Request for Certification as the ERO (*Request of the North American Electric Reliability Council and the North American Electric Reliability Corporation for Certification as the Electric Reliability Organization*, Docket No. RR06-1-000, filed April 4, 2006), NERC will calculate and bill assessments to certain entities, referred to herein as "designees", based on NEL values that include the NEL for other LSEs served by the designee, or for which the designee has otherwise agreed to accept responsibility for assessments. The calculation and billing of assessments to designees is not a departure from the principle that the ERO funding requirement should be recovered through assessments to LSEs based on NEL, but rather is a matter of administrative convenience and efficiency (*e.g.*, a generation and transmission ("G&T") cooperative and its member distribution cooperatives may find it more efficient for the assessment to be calculated and billed to the G&T cooperative rather than to the individual distribution cooperatives). The lists of LSEs and designees for which assessments will be calculated and billed have been provided to NERC by the regional entities; NERC has had no involvement in developing the lists of LSEs or in arrangements between LSEs and designees pursuant to which a designee agrees to accept responsibility for an assessment that would otherwise be calculated for and billed to the LSE and the LSE agrees to be financially responsible to reimburse the designee for the assessment.

II. NOTICES AND COMMUNICATIONS

Notices and communications regarding this application may be addressed to:

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David N. Cook
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III. DESCRIPTION OF APPLICANT

NERC is a New Jersey nonprofit corporation. As of the date of this filing, the sole member of NERC is the North American Electric Reliability Council (“Council”), which is also a New Jersey nonprofit corporation whose members are the eight regional reliability councils. NERC was formed for the purpose of obtaining certification by the Commission, and thereafter functioning, as the ERO for the United States in accordance with § 215 of the FPA⁵ and 18 C.F.R. Part 39 (the “ERO Rule”). The Commission certified NERC as the ERO in its order issued July 20, 2006, in Docket No. RR06-1-000 (the “ERO Certification Order”).⁶ NERC, Council, and the eight regional reliability councils intend to approve and implement a plan, prior to December 31, 2006, pursuant to which Council and NERC will be merged, with NERC the surviving entity.

⁵Pub. L. No. 109-58, Title XII, Subtitle A, 119 Stat. 594, 941 to be codified at 16 U.S.C. 824o (2005).

⁶*Order Certifying North American Electric Reliability Corporation as the Electric Reliability Organization and Ordering Compliance Filing*, Docket No. RR06-1-000, 116 FERC ¶ 61,062 (July 20, 2006).

IV. OVERVIEW OF PROPOSED BUDGETS AND FUNDING REQUIREMENTS

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

In this filing NERC seeks acceptance of its first business plan and budget as the ERO. The information required by § 39.4(b) of the Commission's ERO Rule is contained in Attachment 2. Section A of Attachment 2 is NERC's business plan for 2007. The business plan is designed to address the requirements of P 202 of the Commission's ERO Certification Order. The business plan provides detailed program descriptions and program objectives for 2007 for each of NERC's programs. Section B of Attachment 2 is NERC's proposed budget for 2007. The budget contains personnel requirements by program, organization charts, and line item budget detail for each program, among other information.

The detailed information in Sections A and B of Attachment 2 demonstrates that the programs included in NERC's 2007 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 Commission's objectives for affordability, sustainability and efficiency and effectiveness of the ERO's expenditures.⁷ The discussion in Sections A and B of Attachment 2, as well as in this filing, demonstrates how the activities included in NERC's 2007 budget support the accomplishment of NERC's statutory objectives as the ERO.⁸

⁷ERO Certification Order, P 202 (budget principle (5)).

⁸*Id.* (budget principle (2)).

NERC prepared its business plan and budget by first conducting a detailed review of the statutory requirements for the ERO established in Section 215 of the FPA, Order No. 672⁹ and the ERO Rule, as well as NERC's commitments in its ERO certification application¹⁰ and the provisions of its By-laws and Rules of Procedure. With this background, NERC conducted a strategic review of both long-term objectives and near-term requirements. Based on this review, NERC developed its 2007 business plan. The business plan (and consequently the 2007 budget) reflect a comprehensive reorganization of the NERC Staff, as well as addition of new personnel, in order to align NERC's resources with its mission as the ERO.¹¹

With the business plan developed, NERC proceeded to determine the resources required to carry out the plan. The budget was developed from a zero base, but also with a view to prior year (2006) expenditures in order to consider the increased costs that could be required from end users. Senior NERC staff initially developed and proposed resource requirements by program, and NERC's CEO along with the NERC program managers prioritized the resource requests. The initial proposed budget as developed by Staff was then reviewed and modified by the Finance and Audit Committee of the NERC Board of Trustees and was presented for discussion at a meeting of Council's Stakeholders Committee on May 1, 2006. The tentative budget as modified by the Finance and Audit Committee was posted for comment on NERC's website from June 8 to July 7, 2006. Comments received on the tentative budget were taken into account

⁹*Rules Concerning Certification of the Electric Reliability Organization; Procedures for the Establishment, Approval and Enforcement of Electric Reliability Standards*, Order No. 672, FERC Stats. & Regs. ¶ 31,204 (2006) ("Order No. 672").

¹⁰*Request of the North American Electric Reliability Council and the North American Electric Reliability Corporation for Certification as the Electric Reliability Organization*, Docket No. RR06-1-000, filed April 4, 2006.

¹¹Attachment 2 includes tables that compare Council's full-time equivalent ("FTE") personnel, by program area, in 2006, to the FTE personnel budgeted for each NERC program for 2007.

in further modifications to the budget. The proposed budget to be submitted to the NERC Board for approval was again posted on NERC's website, on July 25, 2006. Finally, the proposed budget was presented for discussion at a meeting of Council's Stakeholders Committee on August 1, 2006, and was approved by the full NERC Board of Trustees, at its meeting on August 2, 2006, for submission to the Commission.

In summary, the processes followed by NERC to develop its proposed 2007 business plan and budget were thorough and comprehensive, and provided significant opportunity for stakeholder input. The process was open and inclusive at all steps.¹²

NERC's proposed budget for 2007 is \$22,546,552. This total encompasses U.S., Canadian and Mexican activities. A portion of NERC's budget will be funded through fees charged to participants and users in certain NERC programs, including the Operator Certification Program, and by interest earned on bank balances and short-term investments, resulting in a preliminary net funding requirement of \$21,682,552. In addition, as a contingency reserve and source of working capital, NERC seeks to increase its cash reserves balance to a level representing 10% of the projected 2007 net funding requirement (before provision for cash reserves), which requires an additional assessment component of \$804,779. As a result, NERC's proposed net funding requirement for 2007 is \$22,487,331, of which \$19,755,180 is allocated to the U.S. Based on the aggregate Net Energy for Load ("NEL") of the United States for 2005 on

¹²The budget principles listed by the Commission in P 202 of the ERO Certification Order include specification of a method for calculating budget estimates, identification of who prioritizes competing needs, and transparency. Although NERC has not yet adopted formal budget principles as required by the ERO Certification Order (but will do so for the compliance filing specified by the ERO Certification Order), the budget development process used to formulate NERC's 2007 budget addresses these principles.

which the allocation of assessments is based¹³, the proposed U.S. net funding requirement is equivalent to \$0.000005 per kilowatt-hour (“kWh”).

NERC’s business plan and budget were developed and are organized based on the following major program elements:

<u>Program</u>	<u>2007 Budget</u>
Reliability Standards	\$2,258,433
Compliance Enforcement and Organization Registration and Certification	\$3,436,668
Reliability Readiness Audits and Improvement	\$1,650,771
Training, Education and Operator Certification	\$1,380,087
Reliability Assessment and Performance Analysis	\$2,619,128
Situation Awareness and Infrastructure Security	\$3,255,644
Administrative Services	\$7,945,821

The discussion in §V below as well as the detailed discussion in Attachment 2 demonstrates that each of these programs is necessary and appropriate to the execution of NERC’s responsibilities as the ERO. Sections A and B of Attachment 2 describe the activities encompassed in each program and provide the line item components of the budget for each program.

NERC proposes an allocation of its net funding requirement of \$22,487,331 to the regional entities as follows¹⁴:

¹³See Table 7 on page 40 of Attachment 2.

¹⁴See Table 6 on page 39 of Attachment 2. As described in §IV.D below, the aggregate NERC funding requirement has been allocated to the regions on the basis of (i) 8-Region NEL, (ii) 6-Region NEL (for certain costs benefiting only the Eastern Interconnection), and (iii) IDC Defined Shares (based on usage of the NERC interchange distribution calendar (“IDC”)).

- ERCOT \$1,393,656
- FRCC \$1,207,116
- MRO \$1,484,311¹⁵
- NPCC \$3,349,371¹⁶
- RFC \$5,134,486
- SERC \$4,952,516
- SPP \$1,109,538
- WECC \$3,856,338¹⁷

Section C of Attachment 2 contains tables showing the development of the NEL-based allocation factors used to allocate the NERC and regional entity funding requirements by country and among the regional entities, and the allocation of the NERC and regional entity funding requirements by country and by regional entity. Section C also contains tables showing the allocation of the NERC and regional entity funding requirements to the LSEs within the footprint of each regional entity. These allocations are discussed in greater detail in §IV.D below.

NERC notes that one of the key recommendations of the U.S.-Canada Joint Task Force Report on the August 2003 Northeast blackout was that a new mechanism should be developed for funding the functions critical to maintaining bulk-power system reliability that were then and

¹⁵The total allocation to MRO consists of \$1,238,678 allocated to the U.S. and \$245,633 allocated to Canada.

¹⁶The total allocation to NPCC consists of \$1,504,296 allocated to the U.S. and \$1,845,076 allocated to Canada.

¹⁷The total allocation to WECC consists of \$3,214,889 allocated to the U.S., \$594,266 allocated to Canada and \$47,181 allocated to Mexico.

are currently performed by Council.¹⁸ Section 215 as added to the FPA by the Energy Policy Act of 2005, and the Commission's ERO Rule, have created that new funding mechanism. This filing, and the Commission's order accepting the proposed NERC and regional entity budgets for 2007 and approving the funding requirements and assessments proposed herein, represent the initial implementation of the new funding mechanism. The new funding mechanism will replace completely the existing method of funding Council's activities, *i.e.*, assessments of dues to the regional reliability councils that comprise the membership of Council. NERC emphasizes that other than user-related fees for certain specific programs and services (which have been fully taken into account in the development of NERC's proposed net funding requirement), NERC will have no sources of funding for its planned programs and operations other than the assessments to owners, operators and users of the bulk-power system provided for in § 39.4(e) of the ERO Rule.¹⁹

B. Regional Entity Proposed Budgets

Section 39.4(b) of the Commission's ERO Rule requires that the ERO's annual budget submission include "the entire annual budget for statutory and non-statutory activities for each Regional Entity, with supporting materials, including . . . each Regional Entity's complete business plan and organization chart, explaining . . . the proposed expenditure of funds collected

¹⁸See U.S.-Canada Power System Outage Task Force, *Final Report on the August 14, 2003 Blackout in the United States and Canada: Causes and Recommendations*, April 2004, at 143 (Recommendation No. 2): "Develop a regulator-approved mechanism for funding NERC and the regional reliability councils, to ensure their independence from the parties they oversee."

¹⁹In P 184 of the ERO Certification Order, the Commission specified that NERC should identify a specific accounting process for the funding of its statutory and non-statutory activities, including the costs of billing for those activities, to assure that funding derived from § 215 of the FPA will exclusively support statutory activities. Because NERC believes that all the activities in its 2007 business plan and budget are statutory activities necessary and appropriate to carry out NERC's responsibilities as the ERO, NERC has not presented such an accounting process.

in sufficient detail to justify the requested funding collection and budget expenditures” Section 39.4(b) further states that the ERO’s annual budget submission “shall include the line item budgets for the activities of each Regional Entity that are delegated or assigned to each Regional Entity pursuant to § 39.8.” This information for 2007 is provided in Sections D and E of Attachment 2. Section D provides a set of high-level regional entity budget summaries and comparisons prepared by NERC staff for use by Council’s Stakeholders Committee and the NERC Board of Trustees in reviewing the proposed regional entity budgets. Section E contains the business plans, organization charts and budgets of each regional entity for 2007.

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 enforcement, organization registration and certification, reliability readiness audit and improvement, reliability assessment and performance analysis (including necessary data gathering activities), training and education and situational awareness and infrastructure security, that will be delegated by NERC to the regional entity pursuant to a Commission-approved RDA.²⁰ As of the date of this filing, NERC has not submitted any RDAs to the Commission for approval and in fact has not completed negotiation of an RDA with any of the regional entities.

²⁰As discussed in §VI below, the budgets for statutory functions submitted to NERC by FRCC, NPCC and WECC do not in all respects conform to NERC’s view of the delegated, statutory activities to be performed by the regional entities. As discussed in §VI, FRCC has not included in its budget for statutory functions (contained in Attachment 2) provision for all the activities, listed in the text above, that NERC believes should be included in delegated statutory functions. NPCC has taken a similar position, although the NPCC budget for statutory functions as provided in Attachment 2 encompasses NERC’s complete list of statutory activities. (All other regional entities have made provision for these activities in their budgets for statutory functions.) Attachment 3 provides the adjusted (by NERC, based on data supplied by FRCC) FRCC budget to include provision for the additional activities NERC believes should be included in delegated statutory functions. With respect to WECC, its budget for statutory functions included in Attachment 2 includes the cost of WECC’s reliability coordinator function, which NERC did not identify to the regional entities as a statutory function and which other regional entities have not included in their budgets for statutory functions.

NERC is in the process of completing negotiations with the regional entities on the RDAs. NERC anticipates that it will have complete RDAs to present to the NERC Board of Trustees for approval at its November 1, 2006 meeting, and that the RDAs will be filed with the Commission promptly thereafter. To help assure the Commission that the parties are continuing to negotiate the terms of the RDAs in good faith, and that the regional entities whose proposed budgets are being submitted in this filing intend to enter into RDAs with NERC, NERC is including in Attachment 5 letters of intent from each of the eight regional entities stating the regional entity's intention to complete good faith negotiations and enter into a RDA with NERC.

Further, although negotiation of the RDAs has not been completed, the functions that will be delegated to the regional entities are for the most part well understood. Therefore, the regional entities have been able to prepare business plans and budgets for 2007 for their anticipated delegated statutory activities (as well as non-statutory activities). Funding the intended regional entities will enable them to carry out the activities necessary in 2007 to meet their responsibilities under the RDAs once the RDAs are approved and reliability standards are approved by the Commission and become mandatory and enforceable.

In Order No. 672, the Commission stated that "The ERO must determine, at a minimum, whether each Regional Entity's proposed budget is adequate to carry out the functions delegated to it."²¹ The year 2007 will, of course, be the first year that regional entity business plans and budgets will be submitted to NERC, and ultimately to the Commission for review and acceptance. Even though NERC was not certified as the ERO until July 20, 2006, NERC was able to provide guidance and to work closely with the regional entities throughout the preparation of their 2007 business plans and budgets.

²¹Order No. 672, P 229.

Initially, NERC staff provided guidance to the regional entities on the expected scope and content of their budget submissions, and provided a template to be used in supplying budget information. Budgets submitted by the regional entities were reviewed by NERC's finance and accounting staff; where appropriate, additional information was requested. NERC staff also reviewed the internal processes used by each regional entity to develop its budget, in order to verify that these processes were rigorous. However, in reviewing the regional entity budgets, and in accordance with the Commission's directive in the ERO Certification Order, NERC afforded the budgets no presumption of reasonableness due to having been approved by the regional entities' governing bodies.²²

The regional budgets were then submitted to the Finance and Audit Committee of the NERC Board of Trustees, which requested additional information. Two particular foci of NERC's review were (1) verifying that the regional entity's business plan and budget provided for sufficient resources to adequately carry out the functions expected to be delegated to the regional entity under the RDA, and (2) understanding the bases for any significant differences in amounts budgeted by different regional entities for the same function.²³ Throughout this

²²See ERO Certification Order, P 203. The governing bodies of seven of the eight regional entities (ERCOT, FRCC, MRO, NPCC, RFC, SERC and WECC) have approved the budgets submitted to NERC. The board of directors of SPP is scheduled to consider and approve SPP's 2007 budget at its October 25, 2006 meeting.

²³As one example, RFC's proposed budget is significantly larger than SERC's proposed budget because RFC has a significantly larger staff, including a staff of full-time independent auditors. SERC, in contrast, intends at this time to place greater reliance on industry volunteers for audit functions. There are advantages and disadvantages to each approach. At this time, NERC did not believe it appropriate to dictate to the regional entities specific methods of service delivery. Instead, NERC's review focused on whether each regional entity would have sufficient resources available, through its chosen approach, to adequately discharge its delegated functions. NERC will continue to monitor and compare the different approaches chosen by different regions on this and other matters as to the efficiency and effectiveness of service delivery and the level of success in maintaining bulk power system reliability. In the future, it is possible that NERC (and

process, NERC staff held regular meetings with the regional entity managers and numerous one-on-one meetings with regional entity staff on budget preparation matters. This consultation with the regional entities occurred during June and July, 2006.

Through this process, NERC has been able to satisfy itself that for the transitional year of 2007, each regional entity's business plan and budget provide for necessary and adequate resources to carry out the regional entity's anticipated delegated functions.²⁴ (However, as discussed in §VI below, NERC disagrees with FRCC's categorizations of statutory and non-statutory functions used in developing its budget.) The regional entity budgets were submitted to and approved by the NERC Board of Trustees at its August 2, 2006 meeting.

The following table shows the total budget amounts for statutory and (where applicable) non-statutory functions for each regional entity as reflected in the detailed submissions in Section E of Attachment 2.²⁵ In addition, because several of the regional entities have other sources of income (such as attendance fees for workshops and interest on bank deposits) that will be used to offset the costs of performing delegated functions, the requested ERO funding for these regional entities is less than their budgets for statutory activities. The fourth column in the table below shows the ERO funding requested for each regional entity for 2007.

the Commission) will determine there is a need to be more prescriptive with respect to the means used by regional entities to carry out delegated statutory activities.

²⁴Order No. 672, P 229.

²⁵The budget amounts shown for FRCC are the budget amounts as adjusted by NERC to make provision for additional statutory functions, as presented on Attachment 3. MRO, RFC and SERC do not plan to perform any, and have not developed a budget for, non-statutory activities.

Regional Entity	Budget for Statutory Functions	Budget for Non-Statutory Functions	Requested ERO Funding
ERCOT	\$ 4,870,755	\$ 643,464	\$ 4,870,755
FRCC	\$ 2,450,294	\$ 2,153,620	\$ 2,450,294
MRO	\$ 5,021,588	-----	\$ 5,021,588 ²⁶
NPCC	\$ 5,214,361	\$ 2,142,549	\$ 5,214,361 ²⁷
RFC	\$ 9,443,972	-----	\$ 9,372,472
SERC	\$ 5,702,055	-----	\$ 5,518,555
SPP	\$ 3,181,026	\$58,941,230 ²⁸	\$ 3,176,026
WECC	\$17,832,369	\$ 1,184,732	\$16,943,168 ²⁹

C. Western Interconnection Regional Advisory Board Funding Request

In its Order issued July 20, 2006, in Docket No. RR06-02-000 (the “WIRAB Order”), the Commission concluded that reasonable costs incurred by WIRAB for activities under Section

²⁶Requested ERO funding for MRO consists of \$4,190,581 allocated to the U.S. and \$831,007 allocated to Canada.

²⁷Requested ERO funding for NPCC consists of \$2,341,915 allocated to the U.S. and \$2,872,446 allocated to Canada.

²⁸SPP’s budget for non-statutory activities is substantially larger than the budgets for non-statutory activities of other regional entities because SPP’s budget includes amounts necessary to support its activities as a regional transmission organization.

²⁹Requested ERO funding for WECC consists of \$14,124,917 allocated to the U.S., \$2,610,958 allocated to Canada and \$207,292 allocated to Mexico. As discussed in §VI, WECC’s budget for statutory activities includes approximately \$6.9 million for WECC’s reliability coordinator function, which is an activity that the other regional entities have not included in their budgets for statutory activities.

215(j) of the FPA can be funded as part of the overall ERO funding process.³⁰ As specified in P 35 of the WIRAB Order, WIRAB has submitted to NERC an organization chart and a proposed 2007 budget for Section 215(j) activities. WIRAB's organization chart and budget are included in Attachment 2. NERC has reviewed WIRAB's submission and believes it complies with the requirements of P 35 of the WIRAB Order. WIRAB's overall funding request of \$477,260 consists of \$397,875 allocated to the U.S., \$73,546 allocated to Canada and \$5,839 allocated to Mexico.

D. Overall Funding Requirement and Allocations by Region and by LSE

The total ERO funding requirement for 2007 (net of other NERC and regional entity income sources) is \$75,531,810, consisting of \$22,487,331 for funding of NERC's programs, \$52,567,219 for funding of regional entity statutory activities, and \$477,260 to fund the WIRAB. NERC has allocated its total funding requirement of \$22,487,331 to the regions primarily on the basis of NEL. An allocation based on the 8-Region NEL was used to allocate most (\$20,753,816) of the total NERC funding requirement (including the adjustment to increase NERC's cash reserves) to the regions. An allocation based on the NEL of all regions except ERCOT and WECC (*i.e.*, the NEL of the Eastern Interconnection) was used to allocate certain NERC costs that benefit only the six regions in the Eastern Interconnection. Finally, the costs of operating and maintaining NERC's IDC were allocated to the six regions in the Eastern Interconnection based on usage levels of the IDC ("IDC Defined Share"). The IDC Defined

³⁰*Order on Petition to Establish a Regional Advisory Body for the Western Interconnection*, Docket No. RR06-2-000, 116 FERC ¶ 61,061 (July 20, 2006), P 33-37.

Share allocation approach is reasonable and equitable because it allocates the cost of this function based on its actual use by region.³¹

The total ERO funding requirement includes costs attributable to maintaining bulk-power system reliability in the U.S., Canada and Mexico. NERC expects to receive funding from end-users in each country based on the proportion of aggregate NEL by country. Accordingly, to determine the portions of the total ERO funding requirement allocable to U.S. end users, NERC allocated the NERC, regional entity and WIRAB funding requirements among the U.S., Canada and Mexico based on 2005 NEL for each country.³² After allocating the appropriate portions of the NERC, regional entity and WIRAB funding requirements to Canada and Mexico, the total ERO funding requirement for 2007 allocable to U.S. end users for which Commission approval is sought in this filing is \$66,198,570, consisting of:

NERC Funding:	\$19,755,180
Regional Entity Funding:	\$46,045,515
WIRAB Funding:	\$ 397,875

The funding requirement of each regional entity for statutory activities is of course allocated 100% to that regional entity. The funding requirement for the WIRAB is allocated 100% to WECC. The following table shows the allocation to each regional entity of the total ERO funding requirement of \$66,198,570 for U.S. activities of NERC, the regional entities and

³¹Table 6 on page 39 of Attachment 2 shows the allocation of the total NERC funding requirement of \$22,487,331 among the eight regional entities using the three allocation methods described above.

³²See Table 7 on page 40 of Attachment 2 for the NEL data by regional entity and calculation of the country allocation factors for each regional entity. MRO, NPCC and WECC are the only regional entities whose footprints encompass Canada (and in the case of WECC, Mexico). The year 2005 is the most recent calendar year for which NEL data is available.

WIRAB. The table also shows the funding requirement per kWh based on 2005 U.S. NEL of each regional entity.

Regional Entity	NERC Funding	Regional Entity Funding	WIRAB Funding	Total Allocation	Allocation per kWh (2005 NEL)
ERCOT	\$ 1,393,656	\$ 4,870,755	--	\$ 6,264,411	\$0.000021
FRCC	\$ 1,207,118	\$ 2,450,294	--	\$ 3,657,412	\$0.000016
MRO	\$ 1,238,678	\$ 4,190,581	--	\$ 5,429,259	\$0.000025
NPCC	\$ 1,504,296	\$ 2,341,915	--	\$ 3,846,211	\$0.000013
RFC	\$ 5,134,487	\$ 9,372,472	--	\$14,506,959	\$0.000015
SERC	\$ 4,952,517	\$ 5,518,555	--	\$10,471,072	\$0.000011
SPP	\$ 1,109,539	\$ 3,176,026	--	\$ 4,285,565	\$0.000022
WECC	\$ 3,214,889	\$14,124,917	\$ 397,875	\$17,737,681	\$0.000027
Total	\$19,755,180	\$46,045,515	\$ 397,875	\$66,198,570	\$0.000017

NERC obtained from each regional entity a listing of the LSEs or their designees in the region and a breakdown of the regional entity's NEL by LSE or designee. NERC used this information to further allocate the total ERO funding requirement allocated to each regional entity among the LSEs or their designees in that regional entity's footprint.³³ The amount of the NERC and regional entity funding requirement allocated to each LSE or designee in each regional entity's footprint is shown in Appendix C3 of Section B of Attachment 2, with two exceptions.³⁴ NERC requests that the Commission approve the funding amounts allocated to

³³Certain LSEs in MRO, NPCC 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, of the ERO funding requirement allocated to Canada or Mexico, as applicable.

³⁴The exceptions are NPCC, for which the determination of assessments is shown only to the RTO/ISO level, and FRCC, for which the amount of the regional entity funding requirement (as adjusted by NERC) allocated to each LSE or designee is shown in Attachment 3. The members of NPCC initially decided that NERC should invoice each ISO or RTO, and that will still be the case for NPCC's Canadian members. On July 25, 2006, NPCC notified NERC that NPCC's U.S. members had changed their position and now wanted NERC to directly invoice the LSE's within NPCC's U.S. footprint. NPCC is preparing a listing of LSE's within the New York ISO and ISO-New England, including the NEL of each LSE, for submission to NERC. NERC will supplement this filing to show the assessment amounts for each LSE in the New York ISO and

each LSE or designee, as shown in Appendix C3 (or as shown on Attachment 3 in the case of FRCC), so that the LSEs and their designees may be billed for these assessments in accordance with § 39.4(e) of the ERO Rule.³⁵

NERC intends to directly invoice assessments to LSEs or designees in all regions except WECC. WECC will invoice LSEs or designees within the WECC footprint, collect the assessments and remit the funds to NERC. These arrangements will be provided for in Exhibit E to the RDA with each regional entity. This is a change from the approach NERC described in its April 4, 2006 application for certification as the ERO, in which NERC stated that each regional entity would bill and collect the assessments to the LSEs in that region.

V. DETAILED DISCUSSION OF NERC BUDGET

This section summarizes NERC's proposed business plan and budget for 2007 by program area, in order to demonstrate that each of the programs is appropriately included in NERC's business plan and budget for the purpose of carrying out NERC's responsibilities as the Commission-certified ERO.

A. Organization of NERC's 2007 Business Plan and Budget

Complete, detailed discussions of the business plan and budget by program are provided in Sections A and B of Attachment 2, which are NERC's 2007 business plan and budget as approved by its Board of Trustees. The detailed NERC business plan includes, for each program:

ISO-New England promptly after NERC receives the listing of LSEs and their respective NELs from NPCC. In the meantime, individual LSEs can calculate their assessments by multiplying their respective U.S. NELs by the NPCC per-kWh allocation of \$0.000013.

³⁵As NERC proposed in Docket RR06-1-000, and as approved by the Commission in the ERO Certification Order at P 218, for reasons of administrative convenience payment by LSEs of annual assessments less than \$100 will not be required.

- Description of the program;
- Specific objectives of the program for 2007, detailed by sub-category within the program where appropriate;³⁶
- Total full-time equivalent (“FTE”) NERC Staff personnel budgeted for the program for 2007 and comparison to 2006 FTE in the comparable program of Council; and
- Total 2007 budget amount for the program and comparison to the amount budgeted by Council in 2006 for the program.

The detailed NERC budget includes the following information:

- 2007 budget amounts by revenue and expense category and comparisons to Council’s projected 2006 expenditures for corresponding activities;³⁷
- Explanation of revenue and expense categories used in the budget;
- Comparison of FTE personnel budgeted by NERC for each program in 2007 to Council’s FTE personnel for the comparable program in 2006;³⁸
- 2007 organization chart for NERC and 2006 organization chart for Council;³⁹
- Analysis of NERC’s cash reserves balance and calculation of the funding requirement for 2007 needed to bring the cash reserves balance to the targeted level of 10% of the total projected NERC assessment;⁴⁰

³⁶It is NERC’s intention that business plan submissions in future years will include a discussion of whether and to what extent the objectives of each program in the previous year were achieved, factors that may have contributed to the inability to achieve all objectives, and actions NERC plans to take in the upcoming year to meet unfulfilled objectives from the previous year and to provide greater assurance that objectives for the upcoming year will be met. Similarly, NERC’s budget submissions in future years will include a variance analysis and reconciliation of the prior year’s budget against actual expenditures with explanations of reasons for variances between budgeted and actual expenditures.

³⁷See Table 1 on page 32 of Attachment 2.

³⁸See Table 2 on page 35 of Attachment 2.

³⁹See Tables 3 and 4 on pages 36-37 of Attachment 2.

⁴⁰See Table 5 on page 38 of Attachment 2.

- Description of the methods used by NERC to allocate its 2007 funding requirement among the regional entities, including the amounts allocated to each region using each method and in total;⁴¹
- Development of the NEL-based factors used to allocate NERC's proposed 2007 funding requirement by regional entity and by country (U.S., Canada and Mexico);⁴²
- For each program, the proposed 2007 budget amounts by revenue and expense category and a comparison to Council's projected 2006 expenditures for the comparable programs;
- For each program, a discussion of the major expense categories for the program including identification of the budgeted FTE personnel included in the program for 2007;
- Tables showing the amounts in the major revenue and expense categories in the 2007 budget, broken out by program; and
- Breakdowns of the major expense categories included in NERC's 2007 budget (*i.e.*, personnel expenses, meeting and travel expenses, other operating expenses) into sub-categories, and comparisons of the amounts budgeted in these categories and sub-categories for 2007 to Council's projected 2006 expenditures.⁴³

B. Discussion of Programs Included in NERC's 2007 Budget

1. Reliability Standards Program

In this program NERC will accept and evaluate proposals for, and develop and approve, bulk-power system reliability standards to be submitted to the Commission (and to appropriate government authorities in Canada) for approval. NERC will use its Reliability Standards Development Process, which has been accredited by the American National Standards Institute. Principal goals and objectives of the Reliability Standards Program for 2007 include:

⁴¹See Table 6 on page 39 of Attachment 2.

⁴²See Table 7 on page 40 of Attachment 2.

⁴³For example, personnel expenses are broken down by salaries expense, various sub-categories of payroll taxes, various sub-categories of benefits expense, and various sub-categories of retirement expense. See Table B-2 on page 2 of Appendix B to Attachment 2.

- Meeting all directives of governmental authorities with respect to standards development and procedures;
- Developing and obtaining approval for reliability standards designated as “high priority” for 2007, including obtaining approval for standards for training of system operating personnel, and for certifying entities as reliability coordinators, transmission operators and/or balancing authorities; completing field testing and obtaining approval for four Phase III-IV planning standards; and proposing new standards on operator/situation awareness tools, undervoltage load shedding, reactive power reserves and phasor measurement as well as new standards resulting from lessons learned from other NERC programs;
- Initiating a program to review and, as needed, update existing reliability standards to meet the ten quality characteristics of standards, with one-third of existing standards to be reviewed, and revisions developed, during 2007;⁴⁴
- Meeting stated targets in the work plan for completion of regional “fill-in-the-blank” reliability standards; and
- Improving the standards development process, including by shortening the average development time for a high priority standard to 12 months and by utilizing conference calls, Web casts and e-mail actions for more than 50 percent of all committee and drafting team meetings.

Although much of the work in the reliability standards development process is performed by committees and task groups comprised of volunteer technical experts from the electric industry, government and academia (including the Standards Committee, which oversees the standards development process with the objective of seeing that all stakeholder interests are fairly represented in the development of standards), significant NERC professional staff resources are needed to facilitate and coordinate the work of industry volunteers and to administer the standards development process. NERC has budgeted 12 FTE personnel for the Reliability Standards Program for 2007, which is an increase of two FTE staff over Council’s 2006 staffing. The budgeted expenses for this program for 2007 are \$2,258,433, which is an

⁴⁴The ten quality characteristics of standards are applicability; purpose; performance requirements; measurability; technical basis; completeness; known consequences; clear language; practicality; and consistent terminology.

increase of \$528,659 over Council's 2006 projected expenses for this program. Approximately 80% of the increase from 2006 is due to increased personnel expense. The principal components of the 2007 budget are personnel expenses (\$1,681,433), meetings and travel expense (\$337,000) and contracts and consultants (\$240,000 – no increase over Council's 2006 projected expense).

2. Compliance Enforcement and Organization Registration and Certification Program

Under the Compliance Enforcement and Organization Registration and Certification Program, NERC will monitor, audit, investigate and enforce compliance with approved reliability standards by owners, operators and users of the bulk-power systems. This program also includes registering all owners, operators and users of the bulk-power system for each region in which the entity owns, operates or uses bulk-power system facilities, and maintaining a compliance registry, to facilitate NERC's compliance enforcement activities. The principal objective of this program is to maintain a high level of reliable operation of the bulk-power system by its owners, operators and users.

The year 2007 will be a major transitional year for this program as NERC assumes its responsibilities as the ERO. NERC will need to continue and complete development of the initial compliance registry; put in place and expand personnel and tools to fully implement the functions of the ERO; implement and expand its efforts to direct, oversee and assist the regional entities in implementing and carrying out their delegated compliance enforcement, registration and certification activities including providing supplemental staffing to assist the regional entities as needed as they develop their own programs; establish training for compliance auditors to assure there is a sufficient body of competent auditors at NERC and the regional entities; and begin certification (based on approved certification standards) of organizations performing primary bulk-power system reliability responsibilities (reliability coordinators, transmission

operators and balancing authorities). Quantitative activity projections included in the budget for this program include:

- The number of entities monitored is projected to increase from 250 in 2006 to at least 1,000 in 2007.
- The number of violations to be tracked and mitigated is projected to increase from approximately 350 in 2006 to approximately 700 in 2007.
- Formal audits will be conducted of at least three regional entity compliance and enforcement programs during 2007.
- In coordination with the Reliability Standards Program, compliance elements will be developed for approximately 100 new or revised reliability standards during 2007.
- The number of appeals of enforcement actions in 2007 is projected to be 25 to 30.
- Auditors will be provided for approximately 20 certification audits of bulk-power system participants to be conducted by regional entities in 2007.

Reflecting the significant increase in compliance, enforcement, registration and certification activities in 2007 as NERC begins to perform its responsibilities as the ERO, NERC has budgeted for 20 FTE staff for the Compliance and Enforcement and Organization Registration and Certification Program in 2007, an increase of 10 FTE personnel over Council's staffing for this function in 2006. Five of the new positions are budgeted to start on July 1, 2007.

The budgeted expenses for this program for 2007 total \$3,436,668, which is an increase of \$1,995,252 over Council's projected expenses for this program in 2006.⁴⁵ Approximately 66% of the overall expense increase is increased personnel expense. Additionally, NERC has budgeted \$490,000 for contracts and consultants for this program, an increase of \$440,000 over Council's projected expense for 2006. The increased expense budgeted in this category is for

⁴⁵See Table A-2 on page 3 of Appendix A to Section B of Attachment 2.

software development expenses to support development of a new data base to track all compliance actions. The increased expense budgeted for contracts and consultants constitutes 22% of the total increased expense budgeted for this program over 2007. The other major budget component for the Compliance and Enforcement and Organization Registration and Certification Program is meetings and travel (\$371,000). In particular, the increased compliance and enforcement responsibilities and activities in 2007, including working with regional entities and performing audits, necessitates a significant increase in budgeted travel expense over Council's projected travel expense for 2006.

3. Reliability Readiness Audits and Improvements Program

Under this program NERC will conduct audits to assess the readiness of reliability coordinators, transmission operators and balancing authorities, and other entities that provide support to them, to execute their designated responsibilities for maintaining the reliable operation of the bulk-power system. The functions performed by these entities are particularly critical to achieving reliable operation of the bulk-power systems. Readiness audits will be specifically focused on addressing the capabilities of entities to identify and respond to conditions that could impact reliable operation of the bulk-power systems. Readiness audits will be conducted on a three-year cycle for each audited entity.⁴⁶

The functions of this program also include assisting audited entities in implementing the recommendations of the audit teams. Additionally, any probable violations of reliability standards identified in a readiness audits are to be reported to the applicable regional entity compliance officer(s) within two weeks of conclusion of the readiness audit. The principal objective of this program is to promote excellence in operations by the audited entities, and

⁴⁶The first one-third of these audits in the three-year cycle are being completed in 2006.

thereby to improve compliance with reliability standards and enhance the overall reliability of the bulk-power system, by identifying opportunities for improvement by audited entities as well as identifying examples of excellence in operations.

Quantitative objectives for the Reliability Readiness Audits and Improvement Program in 2007 include:

- Conduct 70 readiness audits of reliability coordinators, transmission operators and balancing authorities, representing approximately one-third of these reliability entities.
- Conduct audits of 12 local control centers, representing about one-third of large local control centers.
- Assist 10 audited entities to develop mitigation plans for implementing recommendations from the reliability readiness audits.
- Communicate to the industry at least 30 examples of excellence identified through the Reliability Readiness Audits and Improvement Program and other means.

Additional program objectives for 2007 include implementing a training program for reliability readiness auditors and developing enhanced tools and processes to track the implementation status of reliability readiness audit recommendations.

NERC has budgeted \$1,650,771 for the Reliability Readiness Audits and Improvement Program for 2007, which is an increase of only 3.0% over Council's projected 2006 expenses for this program. The budget reflects a FTE staff of 11 for this program in 2006, the same staffing as Council has maintained in 2006. The 2007 budget for this program consists almost entirely of personnel-related expenses (\$1,491,771), with travel expenses (\$159,000) the only other component of the budget.⁴⁷

⁴⁷See Table A-3 on page 5 of Appendix A to Section B of Attachment 2.

4. Training, Education and Operator Certification Program

This program encompasses (i) the System Operator Certification Program, (ii) NERC's continuing education program, and (iii) the development of additional training requirements and related materials and activities.

The System Operator Certification Program provides a certification credential for operating personnel of owners, operators and users of the bulk-power system. Initial certification is obtained through examinations, and periodic recertification will be obtained through accumulating continuing education hours. The System Operator Certification Program is, and will continue to be, overseen by the Personnel Certification Governance Committee, which is a standing committee of NERC reporting to the Board of Trustees. Objectives for 2007 include completing a transition to recertification based solely on continuing education hours rather than on re-examinations, and implementing improvements to the system operator certification program by surveying and further defining the knowledge and skills needed to control the bulk-power systems. The System Operator Certification Program is an important component of NERC's mission as the ERO to promote and maintain reliable operation of the bulk-power systems. Providing a training and education program for the operating personnel of owners, operators and users of the bulk-power systems relating to their compliance with reliability standards and other reliability-related job functions will both promote compliance with reliability standards and, more broadly, help to achieve a high level of knowledge and competence among these operating personnel in the performance of their reliability-related functions and promote a culture of compliance within the industry.

The objective of the NERC Continuing Education Program ("CEP") is to foster improvement of and promote quality in the training programs used by owners, operators and users of the bulk-power system. Through the CEP, NERC approves or accredits training

programs of owners, operators and users of the bulk-power system. Among other functions, the CEP conducts periodic audits of continuing education providers and training activities to ensure that approved and accredited providers and training activities satisfy NERC's continuing education requirements. Through these activities, the CEP helps to ensure that continuing education and training programs offered by owners, operators and users of the bulk-power system are designed and implemented to promote knowledge of and compliance with bulk-power system reliability standards.

In addition to the System Operator Certification Program and the CEP, NERC will also develop and maintain training and education programs for the purpose of establishing training requirements and developing training materials and activities. The primary targets of these programs will be bulk-power system operating personnel including systems operations personnel, operations support personnel (engineering and information technology), supervisors and managers, training personnel, and other personnel directly responsible for complying with reliability standards whose actions or inactions may impact the reliability of the bulk-power systems. NERC will also develop and provide educational and training resources designed to help industry participants understand the content of reliability standards, particularly newly-adopted reliability standards, and what is required for compliance. These continuing education resources and activities will help to promote understanding of and compliance with reliability standards among owners, operators and users of the bulk-power system and their operating personnel.

NERC has budgeted six FTE personnel for these programs in 2007, an increase of one FTE over Council's staffing in 2006. The budgeted expense for this program in 2007 totals

\$1,380,087.⁴⁸ Of this amount, \$835,287 is budgeted for personnel-related expenses, \$120,000 is budgeted for meetings and travel, and \$424,800 is budgeted for contracts and consultants. The latter amount includes budgeted expense of \$324,800 for contracts to support system operator testing, test development and data base development.

NERC charges fees for system operator certification examinations. The fee structure is established to fully cover the costs of the System Operator Certification Program. NERC's 2007 budget reflects projected revenues from testing fees of \$570,000. Accordingly, the net funding required for the Training, Education and System Operator Certification Program is \$810,087.⁴⁹

5. Reliability Assessment and Performance Analysis Program

The Reliability Assessment and Performance Analysis Program is intended to enable NERC to meet its responsibility as the ERO to “conduct periodic assessments of the reliability and adequacy of the bulk-power system in North America.”⁵⁰ NERC intends to prepare three reliability assessments each year: a long-term reliability assessment report, a summer assessment report, and a winter assessment report. These reports will analyze electricity demand and adequacy of supply throughout the North American bulk-power system, as well as examine the adequacy of the transmission system.

The Reliability Assessment and Performance Analysis Program is responsible for maintaining the Generating Availability Data System (“GADS”) and the Electricity Supply & Demand (“ES&D”) software. GADS provides performance benchmarks for improving

⁴⁸See Table A-4 on page 7 of Appendix A to Section B of Attachment 2.

⁴⁹*Id.*

⁵⁰Section 215(g) of the FPA and § 39.11 of the ERO Rule.

individual unit reliability and availability and statistics for tracking generating unit availability. ES&D provides the underlying data base for the supply and demand components used in developing NERC's periodic reliability assessments.

This program will also include collecting reports and information on, and investigating and analyzing, off-normal events on the bulk-power system; identifying the root causes of events that may be precursors of potentially more serious events impacting the reliable operation of the bulk-power systems; disseminating findings and lessons learned to the electric industry to improve reliability performance; and developing reliability performance benchmarks and monitoring performance against those benchmarks. This program includes maintenance of NERC's Blackout and Disturbance response procedures. These activities are intended to help prevent future abnormal events and to thereby promote reliable operation of the bulk-power systems.

NERC's budgeted expense for this program is \$2,619,128, which represents an increase of only 1.3% over Council's projected expenditures for these activities in 2006. The 2007 budget reflects nine FTE staff dedicated to this program, which is the same level of staffing utilized by Council in 2006. Approximately \$1,875,000 of the budgeted expense is for personnel-related costs, while \$280,000 is budgeted for meetings and travel expenses. Finally, \$463,700 is budgeted for contracts and consultants for this program. Contractual expenses (approximately \$389,000) include costs for support of GADS software development, event analysis software, the Multi-regional Model Working Group ("MMWG") power flow and

dynamics contract,⁵¹ and resource adequacy studies. Consultant expenses (\$75,000) reflect budgeted costs for consultants to support NERC staff in event analysis.⁵²

The 2007 budget for this program also reflects projected revenues of \$150,000 from sales of GADS and ES&D software. Therefore, the net funding requirement for this program projected for 2007 is \$2,469,128.

6. Situation Awareness and Infrastructure Security

Under this program NERC will monitor conditions on the bulk-power system and provide leadership coordination, technical expertise and assistance to the electric industry in responding to abnormal events on the bulk-power systems. To perform these functions, NERC will:

- Maintain real-time situation awareness of conditions on the bulk-power system;
- Notify the industry of significant bulk-power system events that have occurred in one area and have the potential to impact reliability in other areas of the bulk-power system;
- Maintain and strengthen high-level communication, coordination and cooperation with governmental authorities regarding real-time conditions on the bulk-power systems; and
- Facilitate information exchange and coordination among reliability service organizations.

As part of this program NERC will provide tools and other support services for the use and benefit of reliability coordinators and other bulk-power system operators. These tools and support services include:

- Area Control Error (“ACE”) and Abnormal Frequency System Monitoring;

⁵¹The MMWG is responsible for developing and maintaining a library of solved power flow models and associated dynamics simulation models of the Eastern Interconnection. These models are used by the regional entities and their member systems in evaluating current operating conditions on the interconnected bulk-power systems in the Eastern Interconnection as well as for planning future performance.

⁵²See Table A-5 on page 9 of Appendix A to Section B of Attachment 2.

- NERC Hotline;
- Real-Time System Power Flows;
- System Data Exchange (“SDX”);
- Reliability Coordinator Information System (“RCIS”);
- Transmission Services Information Network (“TSIN”);
- Interchange Distribution Calculator (“IDC”);
- Interregional Security Network (“ISN”); and
- Central Repository of Curtailment Events (“CRC”).⁵³

As part of the above activities, NERC will facilitate real-time voice (via the NERC Hotline) and data (via NERCnet) exchanges among bulk-power system reliability coordinators.

The tools and support services NERC will provide to the industry under this program, as listed above, are important to promoting and maintaining reliable operation of the bulk-power systems. Further, to the best of NERC’s knowledge, it is the only organization making tools and support services with these functionalities available to owners, operators and users of the bulk-power system and other bulk-power system participants. The Commission stated in the ERO Certification Order with respect to NERC’s provision of these tools and support services:

[T]hese services are extremely useful for the provision of adequate reliability, because they relate specifically to compliance with existing standards and they proactively help avert Reliability Standard violations and system disturbances. At this time, in the absence of an independent organization stepping forward to provide some of these services as with the example of INPO in the nuclear industry, adequate reliability on the Bulk-Power System is better assured if the ERO offers to provide them.⁵⁴

⁵³These tools and support services are described on pages 27-28 of the NERC 2007 business plan, Section A of Attachment 2.

⁵⁴ERO Certification Order at P 188.

As an additional component of this program, NERC will coordinate electric industry activities to promote critical infrastructure protection of the bulk-power systems by taking a leadership role in the critical infrastructure protection of the electricity sector so as to reduce the vulnerability and improve the mitigation and protection of the critical infrastructure of the sector. NERC will act as the electricity sector's Sector Coordinator and operate its Information Sharing and Analysis Center to gather and communicate information about security-related threats within and among the sector, U.S. and Canadian governmental authorities, and other critical infrastructure sectors. Finally, NERC will perform security planning activities focused on the critical infrastructure protection of the electricity sector.

The functions that NERC will perform under this program, including the tools and support services it will maintain and provide to the industry, are critical components of NERC's execution of its overall responsibility as the ERO to promote reliable operation of the bulk-power systems. Maintaining real-time awareness of conditions on the bulk-power systems (including maintaining awareness of abnormal events, and communicating information concerning system conditions and abnormal events to, and facilitating real-time communications among, system operators responsible for reliable operation of the bulk-power system) is critical to reliable operation of the bulk-power system. In Order No. 672, the Commission concluded, correctly, that § 215 of the FPA provides for federal authorization for funding for "monitoring the reliability of the Bulk-Power System."⁵⁵ Promoting and planning for protection of the electric industry's critical infrastructure is also critical to reliable operation of the bulk-power system. Finally, performance of the functions included in this program will assist NERC in identifying areas for which new or revised reliability standards may be required.

⁵⁵Order No. 672, P 202.

NERC has budgeted \$3,255,644 for the Situation Awareness and Infrastructure Security Program for 2007.⁵⁶ This is an increase of \$894,153 over Council's projected 2006 expenditures for these activities. The 2007 budget reflects 4.5 FTE staff dedicated to this program in 2007, an increase of one FTE position over Council's staffing in 2006. Personnel expenses, totaling \$765,984, constitute \$176,553 of the budgeted increase in expenses for 2007 over Council's projected 2006 expenditures. The largest component of the 2007 budget for this program is Contracts & Consultants, totaling \$2,287,660, which is a 44% increase over Council's projected expenditures in 2006 for this operating expense component. Contract and Consultant expenses in the 2007 budget consist of: (i) contracts and maintenance for IDC and SDX (\$1,482,860); (ii) NERCnet support (\$90,800);⁵⁷ (iii) contracts for the Inter-Control Center Communications Protocol ("ICCP") (\$42,000)⁵⁸; (iv) RCIS contracts (\$23,000); (v) frequency monitoring tools (ACE and Abnormal Frequency System Monitoring) (\$399,000); and (vi) costs for consultants to support the North American Phasor Project ("NAPP") (\$250,000).⁵⁹

⁵⁶See Table A-6 on page 11 of Appendix A to Section B of Attachment 2.

⁵⁷NERCnet is the facility provided by NERC for real-time data exchanges among bulk-power system reliability coordinators.

⁵⁸The ICCP is the protocol that provides for a secure method of transferring information over wide-area networks ("WANs"), and allows NERC to communicate over NERCnet with all of the control centers. The budgeted software and maintenance contracts support ICCP's operations and functionality.

⁵⁹The NAPP is the successor to the Eastern Interconnection Phasor Project and to the phasor development work done in the Western Interconnection. NAPP will be the international project to advance the application of phasor measurement technology in all interconnections in North America. The objective of NAPP is to use phasor measurement technology to provide grid operators with expanded interconnection visibility and improved situational awareness and to supplement the tools available to the operator to monitor and control the bulk-power system.

7. Administrative Services

The Administrative Services program supports each of the other NERC programs. The Administrative Services program comprises the following functions: (i) Members' Forums; (ii) Information Technology ("IT"); (iii) Legal and Regulatory; (iv) Human Resources; and (v) Finance and Accounting.

Members' Forums – NERC has established and will facilitate members' forums that serve the interests of stakeholders within specific NERC sectors and general, technical committees. The members' forums are intended to serve as a vehicle for exchanges of information and expertise among participants in particular areas of interest. NERC's 2007 budget reflects 3 FTE staff members in this function.

IT – NERC's IT team performs typical IT development and maintenance functions needed for organizational support.⁶⁰ IT will also maintain a co-located disaster recovery site for NERC's mission- and business-critical IT systems and a backup site for continuity of essential operations in the event NERC's primary location becomes uninhabitable. Additionally, NERC's IT team will develop and maintain systems used by the electric industry to monitor system conditions in real time. NERC's 2007 budget reflects 7 FTE staff members in this function.

Legal and Regulatory – The Legal function provides a chief legal advisor to the NERC CEO, Board of Trustees, staff and committees on legal and regulatory matters affecting NERC; is responsible for preparing or overseeing filings with governmental entities; reviews contracts entered into by NERC; and retains and oversees outside counsel. For 2007, NERC plans to explore an effective way to open an office in Washington, D.C., and to add an additional attorney

⁶⁰These functions include ensuring all information systems are functional and secure; ensuring all applications running on those systems meet business requirements for performance, availability and security; and planning and implementing organization-wide information systems, services and network facilities including local-area networks, WANS and peripheral systems.

with regulatory and compliance experience who would be based in the Washington office. NERC's 2007 budget reflects 4 FTE staff members in this function.

Human Resources – Human Resources designs, plans and implements human resources policies and procedures for staffing, compensation, benefits, employee relations and training and development. NERC's 2007 budget reflects 2.5 FTE staff members in this function.

Finance and Accounting – Finance and Accounting directs the overall financial and accounting practices of NERC; oversees treasury, accounting, budgeting, tax and audit activities; and oversees financial and accounting system controls and standards. Finance and Accounting will have principal responsibility for preparation of NERC's annual budget packages (including those of the regional entities) for filing with the Commission and appropriate governmental authorities in Canada. NERC's 2007 budget reflects 4 FTE staff members in this function.

In addition to the numbers of personnel budgeted for the functions described above, the Administrative Services staffing includes the CEO and the CEO's assistant, resulting in total Administrative Services staffing in the 2007 budget of 22.5 FTE personnel.

The total proposed 2007 budget for Administrative Services is \$7,945,821.⁶¹ Of this total, \$4,128,631 is budgeted for personnel-related expenses. An additional \$673,000 is budgeted for meetings, travel and conference call costs. Office-related expenses, totaling \$3,144,190, consist of costs for office rent (\$647,000), other office costs (\$646,690), computer purchases and maintenance (\$406,100) and furniture and equipment (\$4,400). The budget for office-related expenses reflects the anticipated opening of an office in Washington, D.C. in addition to NERC's main office in Princeton, New Jersey. Finally, the Administrative Services

⁶¹ See Tables A-7 (Member Forums), A-8 (Administrative and General), A-9, A-10, A-11 and A-12 on pages 13, 15, 17, 19, 21 and 23 of Appendix A to Section B of Attachment 2.

budget includes \$1,189,800 for outside professional services, which include legal and audit fees, compensation of the Trustees and directors and officers insurance coverage.

The 2007 Administrative Services budget is offset by \$84,000 in interest projected on bank balances and short-term investments. As a result, the net 2007 funding requirement for Administrative Services is \$7,861,821.

8. Cash Reserves Balance

In addition to the budgeted expenditures, NERC is requesting additional funding sufficient to enable it to build its cash reserves balance to 10% of requested 2007 assessments (before the adjustment to increase the cash reserves balance). This 10% objective is consistent with the recent historical practice of Council's Board of Trustees in budgeting and establishing assessment levels to its members. The cash reserves balance is a source of short-term working capital that will provide flexibility to accommodate periodic variations during the year between receipts and expenditures⁶², and represents a more economical approach than relying on bank lines of credit or similar facilities for this purpose. Additionally, the cash reserves balance provides a source of contingency funds should some expenses exceed budgeted levels or should unbudgeted costs occur.

The additional 2007 funding requirement in order to establish a cash reserves balance at December 31, 2007 equal to 10% of 2007 assessments is \$804,779. Table 5 on page 38 of Section B of Attachment 2 shows the development of this figure. The calculation assumes that at the date of the merger of Council into NERC (expected to occur later this year), Council's entire cash balance will be transferred to NERC. The projected cash balance of NERC and/or Council at December 31, 2006 is \$1,363,476.

⁶²NERC intends to bill annual assessments to LSEs and designees to be paid in four quarterly installments that will be due on or about January 1, April 1, July 1 and October 1.

VI. ISSUES RELATING TO SCOPE OF STATUTORY FUNCTIONS INCLUDED IN THE BUDGETS OF CERTAIN REGIONAL ENTITIES

There are two issues, regarding the scope of activities to be provided for in the budget for statutory functions of a regional entity, that require resolution by the Commission. Since 2007 will be the first year in which regional entity budgets will be funded through the mechanism established in § 39.4 of the ERO Rule, it is important that the Commission resolve these issues in its order accepting the NERC and regional entity budgets submitted with this filing and approving the assessments to recover the ERO funding requirement allocated to the U.S. and to each regional entity.

First, as noted in §IV.B, NERC believes the regional entity budgets for statutory activities to be funded through NERC should include provision for functions and activities relating to development of reliability standards, compliance enforcement, organization registration and certification, reliability readiness audit and improvement, reliability assessment and performance analysis, training and education, and situational awareness and infrastructure security, that will be delegated by NERC to the regional entities pursuant to RDAs. These statutory activities parallel the programs included in NERC's own budget. Six of the eight regional entities submitted to NERC budgets for statutory activities encompassing the foregoing functions; however, two, FRCC and NPCC, did not.

FRCC submitted a budget for statutory activities (included in Attachment 2) that encompassed only the following activities: development of reliability standards, compliance enforcement, organization registration, reliability readiness audits and reliability assessments. FRCC's budget for statutory activities did not encompass organization certification, reliability readiness improvement, reliability performance analysis, training and education or situational awareness and infrastructure security. However, FRCC provided NERC with budget

information that could be used to increase the budget FRCC submitted for statutory activities so as to make provision for the additional activities that NERC and the other seven regional entities have included in their budgets for statutory activities. As shown on Attachment 3, including provision for the projected costs of the activities that FRCC omitted from its statutory functions budget increases the FRCC budget by \$1,152,726 for 2007.

NPCC included in its business plan all the programs NERC identified as statutory activities, but NPCC has drawn the same conclusion as FRCC as to what it believes are statutory activities (*i.e.*, development of reliability standards, compliance enforcement, organization registration, reliability readiness audits and reliability assessments). Because of the way in which NPCC presented its budget, NERC was able to include the amounts reflecting NERC's categorization of statutory functions in the budget and assessment information presented in Attachment 2.

NERC believes the regional entity budgets for statutory activities that are approved by the Commission and provide the basis for assessments to LSEs must be consistent across all eight regional entities. Further, for the reasons shown in §V above, the functions omitted by FRCC are in fact appropriately within the scope of NERC's statutory activities, the costs of which can be recovered through the §39.4 funding mechanism. Therefore, these functions must also be provided for in each regional entity's budget for statutory activities that is approved by the Commission, and in the resulting assessment to LSEs within each region.

For these reasons, the Commission should accept the adjusted 2007 FRCC budget for statutory activities presented in Attachment 3 and the resulting assessments to LSEs and designees in the FRCC region to recover the portion of the ERO funding requirement allocated to the FRCC region.

Second, NERC notes that the WECC budget for statutory functions submitted to NERC and shown in Attachment 2 includes approximately \$6.9 million for performance of WECC's reliability coordinator function. The reliability coordinator function has not been listed by NERC as a statutory function, and it was not included by any of the other seven regional entities in the budgets for statutory activities that they submitted to NERC and that are included in Attachment 2. The WECC budget and the assessments to LSEs and designees in the WECC region NERC has submitted in Attachment 2 for approval by the Commission include WECC's budgeted costs for the reliability coordinator function. However, the Commission should decide in its order in this docket approving the NERC and regional entity budgets and the assessments to recover the ERO funding requirement for the U.S., whether costs for the reliability coordinator function should be included in WECC's budget and in the resulting assessments.

VII. QUESTIONS RELATING TO INTRA-YEAR CHANGES IN THE NEL ON WHICH THE ASSESSMENT TO AN LSE OR DESIGNEE WAS BASED

As noted earlier, NERC has developed the proposed assessments to recover the ERO funding requirement using lists of LSEs and designees and their NELs provided to NERC by each regional entity. The data used to calculate the allocations and assessments is 2005 NEL, which is the most recent calendar year NEL data available at the time of preparation of this submission. On an ongoing basis, the proposed assessments for a year that NERC submits to FERC in August of the preceding year for approval will be based on NEL data for the second preceding year (*e.g.*, the assessments for 2007 that NERC is submitting in August 2006 are based on 2005 NEL).

Questions have been raised as to whether NERC will, or should be required to, adjust an LSE's assessment if, during the course of the year to which the assessment applies or the preceding year, the LSE's NEL changes materially from what it was in the year from which NEL

data was used to calculate the assessments. For example, a major end user served by an LSE during Year 1, and included in the LSE's NEL, could switch to another LSE as its power supplier during Year 3. As a general matter, NERC believes the assessments to each LSE or designee should be based on the NEL data NERC receives from the regional entities and uses to develop the assessments submitted to the Commission in the annual budget filings, and once the assessments are approved by the Commission they should not be thereafter modified to reflect subsequent changes in an LSE's NEL. NERC also believes the regional entities should be responsible for identifying to NERC the LSEs and designees to be billed for assessments and their NEL data that is to be used to calculate the assessments, and NERC should be entitled to rely on the information it receives from the regional entities.

Consistent with these principles, if changes in a LSE's NEL from the Year 1 amount (due to, for example, the loss or gain of customers during Year 2 or the upcoming loss or gain of customers in Year 3 based on contractual arrangements) are communicated to the relevant regional entity and established to the satisfaction of the regional entity, then the regional entity may reflect the post-Year 1 change in NEL in the data it submits to NERC for use in calculating the Year 3 assessments. In short, it would be appropriate for the regional entity to adjust Year 1 NEL data consistent with the recognized public utility ratemaking principle of "known and measurable changes" to "test year" (*i.e.*, Year 1) data occurring or recognized after the end of Year 1 (but before NERC must submit the proposed Year 3 assessments to the Commission for approval).

In other circumstances in which, for example, a LSE's NEL declines materially during Year 3 due to loss of a major end use customer, NERC believes the LSE should continue to be responsible for the full assessment approved by the Commission, at least from the perspective of

NERC's billing and collection activities. On a going forward basis, LSEs can begin to address the possibility of such situations occurring through appropriate contractual arrangements with their customers.

NERC requests that the Commission ratify the foregoing principles in its order accepting the proposed budgets and approving the assessments submitted in this filing.

VIII. CONCLUSION

Based on the information presented above and submitted in Attachments 1 through 5 of this filing, the North American Electric Reliability Council requests that the Commission issue an order pursuant to § 39.4 of the ERO Rule, on or before November 2, 2006: (1) accepting NERC's proposed business plan and budget for 2007 as set forth in Attachment 2 hereto; (2) accepting the proposed business plans and budgets of the eight regional entities for statutory activities for 2007 set forth in Attachment 2 hereto (modified, in the case of FRCC, as shown in Attachment 3 hereto); (3) accepting the proposed budget and funding requirement of the Western Interconnection Regional Advisory Board for 2007 set forth in Attachment 2 hereto; and (4) approving the proposed assessments to each regional entity and to each load-serving entity or designee within each region, as set forth in Attachment 2 hereto (in the case of FRCC, as modified as shown in Attachment 3 hereto), to be billed to and paid by each such load-serving entity or designee to fund the portion of NERC's funding requirement for 2007 allocated to the United States and the funding requirement for 2007 for statutory activities of each of the regional entities allocated to the United States.

Respectfully submitted,

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