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**BEFORE THE  
RÉGIE DE L'ÉNERGIE  
THE PROVINCE OF QUÉBEC**

**NORTH AMERICAN ELECTRIC )  
RELIABILITY CORPORATION )**

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION'S  
REPORT OF COMPARISONS OF BUDGETED TO ACTUAL COSTS FOR 2010  
FOR NERC AND THE RELEVANT REGIONAL ENTITIES**

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September 26, 2011

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### ATTACHMENTS:

**Attachment 1:** North American Electric Reliability Corporation – 2010 Actual Cost-to-Budget Comparison and Audited Financial Statements

**Attachment 2:** : Midwest Reliability Organization – 2010 Actual Cost-to-Budget Comparison and Audited Financial Statements

**Attachment 3:** Northeast Power Coordinating Council, Inc. – 2010 Actual Cost-to-Budget Comparison and Audited Financial Statements

**Attachment 4:** Western Electricity Coordinating Council – 2010 Actual Cost-to-Budget Comparison and Audited Financial Statements

**Attachment 5:** Metrics Concerning Administrative Costs in 2010 NERC and Regional Entity Budgets and Actual Costs

## **I. INTRODUCTION**

The North American Electric Reliability Corporation (“NERC”) respectfully submits this filing to provide comparisons of actual to budgeted costs for the year 2010 for NERC and the three relevant Regional Entities.<sup>1</sup> FERC originally directed NERC to file, each year, comparisons of actual to budgeted costs for the preceding year, in an order issued October 18, 2007, concerning the 2008 business plans and budgets of NERC and the Regional Entities.<sup>2</sup> As described in §III below, in several subsequent orders, FERC has clarified and expanded upon the information to be included in the annual actual-to-budget cost comparisons.

The following information is provided in this filing:

A comparison of the actual funding received and costs incurred by NERC and each Regional Entity for statutory and (where applicable) non-statutory activities for the year ended December 31, 2010, to the budgets of NERC and each Regional Entity for that year, with explanations of significant actual cost-to-budget variances.

The audited financial statements of NERC and each Regional Entity for the year ended December 31, 2010.

Metrics concerning NERC and Regional Entity administrative costs in their 2010 budgets and actual results.<sup>3</sup>

This filing includes the following attachments:

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

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

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

**Attachment 1:** 2010 Actual Cost-to-Budget Comparison and Audited Financial Statements for NERC.

**Attachment 2:** 2010 Actual Cost-to-Budget Comparison and Audited Financial Statements for MRO.

**Attachment 3:** 2010 Actual Cost-to-Budget Comparison and Audited Financial Statements for NPCC.

**Attachment 4:** 2010 Actual Cost-to-Budget Comparison and Audited Financial Statements for WECC.

**Attachment 5:** Metrics Concerning Administrative Costs in 2010 NERC and Regional Entity Budgets and Actual Costs

## **II. NOTICES AND COMMUNICATIONS**

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

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## **III. COMPARISONS OF ACTUAL COSTS TO BUDGETS FOR THE YEAR ENDED DECEMBER 31, 2010**

As noted above, in the *2008 ERO Budget Order*, FERC directed NERC to make annual filings comparing the NERC and Regional Entity budgets to actual costs incurred in the preceding year, “in sufficient detail and with sufficient explanations for the Commission to determine, by program area, the reasons for deviations from the budget and the impacts of those

deviations.”<sup>4</sup> In the *June 19, 2008 Budget Compliance Order*, which addressed NERC’s April 1, 2008 compliance filing to the *2008 ERO Budget Order*, FERC provided additional direction concerning the presentation of the annual filings comparing NERC’s and the Regional Entities’ actual to budgeted expenditures:

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

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

In addition, although the following directive in the *2008 ERO Budget Order* was expressly applicable to NERC’s compliance filing due April 1, 2008 comparing actual expenses to budgets for the year ended December 31, 2007 for NERC and the Regional Entities, NERC has treated the directive as intended to apply to the annual filings comparing actual expenses to budgets for future years as well:

66. . . . [T]he Commission reminds NERC and the Regional Entities that, to the extent funding identified as statutory is used to fund non-statutory activities, those funds

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

must be reimbursed (e.g., to load serving entities or to statutory expenditures). NERC is directed to inform the Commission in the April 1, 2008 compliance filing the extent to which this has occurred and document that the funds have been or will be reimbursed.

The comparisons of 2010 actual-to-budget funding and expenditures for NERC and the Regional Entities are provided in **Attachments 1 through 4**, as follows:

- **Attachment 1:** NERC
- **Attachment 2:** MRO
- **Attachment 3:** NPCC
- • **Attachment 4:** WECC<sup>5</sup>

Each Attachment also includes the respective entity's audited financial report for the year ended December 31, 2010, as prepared by its independent public accounting firm.

The comparisons provided in **Attachments 1 through 4** conform to FERC's directives as quoted above:

- Each comparison contains a cover letter identifying overall actual-to-budget variances in Funding and total Expenses and in major Expense categories, and discussing reasons for major areas of actual cost-to-budget variances.
- Each comparison contains a summary table, prepared using a NERC-supplied template, showing the entity's 2010 budget, 2010 actual amounts, and the variance, for major line-item categories of Funding and Expenses.<sup>6</sup>

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<sup>5</sup> The WECC comparisons are based on the amended WECC 2010 Business Plan and Budget that was filed with FERC on April, 2010 (supplemented on May 10, 2010), in Docket No. RR10-9-000 . The purpose of WECC's amended Business Plan and Budget was to incorporate additional funding to be received by WECC as a result of three grant awards by the U.S. Department of Energy ('DOE') and related expenditures for activities for which the DOE grants were awarded.

<sup>6</sup> The NERC report, **Attachment 1**, contains separate tables comparing NERC's 2010 actual results to (i) NERC's approved 2010 budget and (ii) an adjusted 2010 budget reflecting the removal of budgeting funding and expenses for the Transmission Owners and Operators Forum, which separated from NERC at the end of 2009 and formed a separate organization (the North American Transmission Forum, Inc. ("Forum")) that operates independently from NERC. Because of this separation, in 2010 NERC received no funding from the Forum and incurred no expenses to support the Forum.

- For those entities that engaged in both statutory and non-statutory activities in 2010, the comparisons include separate summary tables for statutory programs and non-statutory activities, prepared using the NERC-supplied template, showing the entity's 2010 budget, 2010 actual amounts, and the variance, for major line-item categories of Funding and Expenses.<sup>7</sup>
- The comparisons include individual tables, also prepared using a NERC-supplied template, showing 2010 budget, 2010 actual amounts, and the variance, for major line-item categories of Funding and Expenses, for each of the statutory programs<sup>8</sup> (direct costs) and the overhead functions<sup>9</sup> (indirect costs). These tables also provide explanations for significant line-item actual-to-budget variances.<sup>10</sup>

The Attachments also address (generally in the cover letter) (i) whether any statutory funds were used in 2010 for non-statutory activities (in fact, neither NERC or any of the Regional Entities reports using statutory funds during 2010 for non-statutory activities); (ii) the impact of the entity's 2010 results on its working cash reserve for statutory programs<sup>11</sup>; (iii) whether, and if so how, indirect costs incurred during 2010 were allocated to the direct statutory programs or

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<sup>7</sup> The summary table for non-statutory activities (for those entities that had non-statutory activities) is the last table in the Attachment. NPCC and WECC had non-statutory activities in 2010 and each has provided summary tables for statutory and non-statutory activities. NERC and MRO did not have non-statutory activities in 2010.

<sup>8</sup> Reliability Standards, Compliance Monitoring and Enforcement and Organization Registration and Certification, Reliability Assessment and Performance Analysis, Training, Education and Operator Certification, and Situation Awareness and Infrastructure Security.

<sup>9</sup> Committees and Member Forums, General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Accounting and Finance.

<sup>10</sup> Generally, explanations have been provided for line-item variances that are greater than +/- 10% of the budgeted amount and greater than \$10,000 over or under the budgeted amount. Explanations have also been provided for some line item variances that are less than 10% of the budgeted amount, where the dollar amount of the variance is substantial.

<sup>11</sup> The summary comparison tables for total entity and (where applicable) statutory and non-statutory activities show "Total Change in Assets" for the 2010 Actual Funding and Expenditures. A positive "Total Change in Assets" means the entity's total Actual Funding exceeded its total Actual Expenditures for the year 2010; therefore, it was not necessary for the entity to use its cash reserves balance at December 31, 2009 to fund 2010 expenditures.

functions; and (iv) whether, and if so how, costs were allocated between statutory programs and non-statutory activities in 2010.

Because the NERC and Regional Entity reports in each Attachment identify and discuss major areas of actual-to-budget variances, and the individual tables for each direct statutory program and each indirect cost function contain specific explanations of significant variances on a line-item basis, a detailed, entity-by-entity discussion of the actual-to-budget variances experienced in 2010 by NERC and individual Regional Entities is not provided here. However, the list below describes several recurring drivers of actual-to-budget variances experienced by NERC and the Regional Entities in 2010, as identified by NERC's review of the comparisons.

- A number of entities<sup>12</sup> experienced under-budget variances in Salary Expense and related Personnel Expenses (Payroll Taxes, Employee Benefits and Savings & Retirement), in one or more program areas, due to being unable to fill budgeted positions or due to filling budgeted positions later in the year than was assumed in the budget. Additionally, having fewer personnel on staff than budgeted tended to reduce Meetings and/or Travel Expense below the budgeted amounts.
- In other cases, however, entities created and filled new positions that had not been budgeted in order to meet increasing or emerging workloads and responsibilities that had not been reflected in the budget. In these cases, the unbudgeted Salaries expense also resulted in unbudgeted Payroll Taxes, Employee Benefits and Savings & Retirement expenses.
- Several entities realized lower than budgeted costs for Employee Benefits due to receiving lower than projected medical program premium increases, successfully negotiating lower rates with providers, or switching providers to achieve lower costs.
- Some entities experienced lower than budgeted Employee Benefits and Savings & Retirement expenses due to decisions by employees not to participate in the entity's medical benefits program or due to lower than projected participation in the entity's 401(k) or other retirement plan. In some cases newly-hired employees elected to stay on the health and medical and/or retirements programs of their previous employers.<sup>13</sup>

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<sup>12</sup> The term "entities" is used here generically to include NERC as well as Regional Entities.

<sup>13</sup> In order to obtain highly qualified and experienced staff, a number of entities have hired former, long-time utility employees, some of whom have left their former employers with retirement packages that include post-retirement medical coverage; some of these personnel have had the ability to remain on their former employers' health benefits plans. Also, some employees have elected to participate in their spouses' employers' medical coverage programs.



- The actual costs incurred by NERC and many of the Regional Entities for Meetings and Travel were lower than budgeted due to continuing efforts to make greater use of teleconferencing, Webinars and other virtual meeting capabilities rather than in-person meetings. These efforts in turn tended to result in higher than budgeted costs for Conference Calls and Internet expenses (the latter expense is recorded in Office Costs).
- Further, both NERC and Regional Entities placed continued emphasis on holding meetings at the entity's facility or at participants' facilities, rather than being held at paid venues such as hotels or conference centers, thereby further reducing Meeting expenses.
- Several entities were able to spend less on Consultants and/or Contracts than budgeted due to hiring additional staff to perform work that was budgeted to be done by consultants or contractors, or as a result of determining that work budgeted to be performed by contractors and consultants could in fact be handled by existing staff.
- Several entities experienced unbudgeted, or higher than budgeted, Office Rent, Office Costs and/or Furniture & Fixtures capital expenditures, due to relocations or expansions of their offices that were not reflected in their budgets. However, in some instances, entities deferred budgeted capital expenditures at existing offices in anticipation of upcoming office relocations.
- Several Regional Entities expressly budgeted for Professional Services or other resources for one or more compliance-related hearings with registered entities; however, these Regional Entities did not have any hearings in 2010, thereby resulting in an under-budget variance.
- Due to greater than anticipated resource demands in some programs during the year (e.g., Compliance), some entities, including NERC, shifted staff between programs. These shifts created under- or over-budget variances in Personnel Expenses in the affected programs, but did not create variances for Statutory expenses in the aggregate.
- Some entities, including NERC, either budgeted certain costs as operating expenses but then recorded the expenditures as Capital Expenditures (Fixed Asset Additions); or, conversely, budgeted costs as Capital Expenditures but recorded the actual costs as operating expenses. These decisions created variances between actual and budgeted costs in the applicable operating expense or Capital Expenditure line item, but did not necessarily reflect a variance in the overall cost of the underlying activity.
- Some entities experienced higher or lower Funding from Workshop attendance fees, due to higher or lower attendance at Workshops than projected in the budget, holding more or fewer Workshops than assumed in the budget, or a combination of both factors.
- Several entities realized greater Interest or other investment income than budgeted, due to having larger than expected fund balances to invest or on deposit. A principal cause of the larger than expected balances was the receipt of penalty payments, which are not budgeted.

In addition to the above-described causes of actual-to-budget variances that were experienced by more than one entity, NERC and the Regional Entities experienced other above- or below-budget variances in actual Funding, Expenses and Fixed Asset Additions in individual line items due to particular events and circumstances impacting the particular entity. These variances are identified in the individual actual cost-to-budget comparisons presented in **Attachments 1 through 4.**

#### **IV. METRICS CONCERNING ADMINISTRATIVE COSTS IN 2010 NERC AND REGIONAL ENTITY BUDGETS AND ACTUAL COSTS**

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

39. Our analysis of the Regional Entities' true-up statements indicates that many Regional Entities spent a significant percentage of their 2007 budgets on various administrative functions to support their statutory functions.<sup>13</sup> The amounts spent on administrative functions vary widely among the Regional Entities. . . . We recognize that 2007 is the first year that these Regional Entities have prepared a budget for statutory functions and that there are some startup costs that will be unique to 2007. The Commission anticipates, however, that such effects will diminish as NERC and the Regional Entities gain experience preparing their budgets. To promote better transparency, the Commission directs NERC to develop additional metrics to identify, in a uniform manner, information detailing its total expenses for administrative functions as well as the expenses for administrative functions for each Regional Entity. For example, one of the matrices should be the percentage spent by the Regional Entity on administrative functions as a portion of its total approved budgeted funding similar to the information provided in the table attached to this order. These new metrics should be designed to enhance the Commission's ability to compare information provided by the Regional Entities on administrative costs and to understand the reasons for any significant differences in amounts budgeted by different Regional Entities for the same function. The Commission therefore directs NERC to develop these additional metrics for use in the true-up filings for NERC's 2008 and 2009 budgets and for use in NERC's subsequent business plans and budgets beginning with NERC's 2010 Business Plan and Budget.

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

The administrative functions cited in footnote 13 of the *June 19, 2008 Budget Compliance Order* (Committees and Member Forums, General and Administration, Legal and Regulatory, Information Technology, Human Resources and Accounting and Finance) are the functions that NERC and the Regional Entities refer to as "indirect costs" in their business plans and budgets and reports of actual expenses. It is appropriate to analyze these indirect costs in the aggregate (as FERC did in P 39 and footnote 13 of the *June 19, 2008 Budget Compliance Order*), rather than by individual function, due to certain necessary inconsistencies among the Regional Entities in budgeting and recording these costs. For example, some of the Regional Entities budget and record all Salary expense for Legal and Regulatory, Human Resources and/or Accounting and Finance under General and Administrative, because they have only one or two employees in each of these functions and therefore reporting the budgeted and actual Salary expense for these individual functional categories could reveal salary information of individual employees.<sup>14</sup>

**Attachment 5** provides the following three sets of metrics comparisons for NERC and the Regional Entities for their 2010 budgets and 2010 actual costs:

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<sup>14</sup> In addition, in some instances NERC or a Regional Entity has budgeted all of its projected costs for indirect functions such as General and Administrative, Legal and Regulatory or Information Technology in the indirect program, but has recorded some or all of the actual costs incurred for the function in the statutory program in which work was performed (*e.g.*, recording Personnel Expenses for Legal and Regulatory personnel involved in Compliance Monitoring and Enforcement Program activities as expenses of the Compliance Program, or recording the actual costs of information technology initiatives in the statutory program or programs that utilized the resulting product ).

- Statutory indirect expenditures as a percent of total statutory expenditures,<sup>15</sup> and statutory direct expenditures per dollar of statutory indirect expenditures (top row of tables on **Attachment 5**).<sup>16</sup>
- Statutory indirect full-time equivalent employees (“FTE”) as a percent of total statutory FTE, and ratio of statutory direct FTE to statutory indirect FTE (middle row of tables on **Attachment 5**).
- Total statutory expenditures per total FTE, statutory direct expenditures per direct FTE, statutory indirect expenditures per indirect FTE, and statutory indirect expenditures per total FTE (bottom row of tables on **Attachment 5**).

These are the same metrics that NERC provided in its April 1, 2009 filing with FERC comparing actual-to-budget costs for NERC and the Regional Entities for 2008 and in its June 1, 2010 filing with FERC comparing actual-to-budget costs for NERC and the Regional Entities for 2009.<sup>17</sup> In the *June 29, 2009 Budget Compliance Order*, FERC indicated that these metrics were acceptable.

The following subsections provide discussion and analysis of the metrics provided in **Attachment 5**.

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

Based on 2010 actual data, statutory indirect expenditures averaged 30.45% of total statutory expenditures for NERC and the Regional Entities, and the average statutory direct

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<sup>15</sup> This is the metric shown in Attachment A to the *June 19, 2008 Budget Compliance Order*.

<sup>16</sup> The term “expenditures” is used in this discussion to mean expenses plus capital expenditures (fixed asset additions net of depreciation).

<sup>17</sup> *Additional Compliance Filing of the North American Electric Reliability Corporation in Response to October 18, 2007 Order – Comparisons of Budgeted to Actual Costs for 2008 for NERC and the Regional Entities*, filed April 1, 2009 in Docket No. RR07-16-005 (“2008 True-up Filing”); *North American Electric Reliability Corporation’s Report of Comparisons of Budgeted to Actual Costs for 2009 for NERC and the Regional Entities*, filed June 1, 2010 in Docket No. RR08-6-000 (“2009 True-Up Filing”).

expenditure per dollar of statutory indirect expenditure was \$2.28.<sup>18</sup> The actual average statutory indirect expenditure percentage was higher, and the actual average statutory direct expenditure per dollar of indirect expenditure was lower, than the averages based on the NERC and Regional Entity budgets (26.67% and \$2.75, respectively). Therefore, in terms of reducing indirect expenditures as a percentage of total expenditures and spending a greater portion of the overall ERO resources on statutory direct program activities, actual 2010 results did not match the expectations reflected in the 2010 budgets. However, the 2010 actual results do represent modest improvement over 2009 actual results for these metrics. The 2010 actual average statutory indirect expenditure percentage of 30.45% was lower, and the 2010 actual average statutory direct expenditure per dollar of indirect expenditure of \$2.28 was higher, than the averages based on actual 2009 results (31.89% and \$2.14, respectively). Further, the 2009 actual average statutory indirect expenditure percentage was lower, and the 2009 actual average statutory direct expenditure per dollar of indirect expenditure was higher, than the averages based on actual 2008 results (35.05% and \$1.85, respectively).<sup>19</sup> Therefore, on the basis of actual results, NERC and the Regional Entities have, in the aggregate, a three-year trend of

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<sup>18</sup> These figures are essentially weighted averages, *i.e.*, they are calculated using the sums of the total statutory expenditures, total statutory direct expenditures, and total statutory indirect expenditures, for NERC and the eight Regional Entities. Since NERC's and WECC's expenditures are substantially larger than those of the other Regional Entities, the NERC and WECC results significantly influence the weighted averages. (The significance of the WECC data to the averages is even greater for 2010 than for prior years due to the amount of U.S. Department of Energy grant funds and related expenditures included in WECC's 2010 budget and actual results.) The arithmetic averages for these two metrics are 33.20% for statutory indirect expenditures as a percent of total statutory expenditures, and \$2.55 for statutory direct expenditures per dollar of statutory indirect expenditures.

<sup>19</sup> Actual 2008 and 2009 figures in this discussion are taken from the administrative cost metrics presented in Attachment 10 to each of the *2008 True-Up Filing* and *2009 True-Up Filing*. Note also that all averages for 2010 include data for FRCC, whereas the averages for 2009 and 2008 did not include data for FRCC.

reducing indirect expenditures as a percentage of total expenditures and expending an increasingly higher percentage of total ERO resources on statutory direct program activities.<sup>20</sup>

The percentages of actual statutory indirect expenditures to total statutory expenditures for SPP RE and Texas RE were noticeably higher than the overall weighted and arithmetic averages, and their ratios of actual statutory direct expenditures to statutory indirect expenditures were noticeably lower than the overall weighted and arithmetic averages. During 2010, Texas RE experienced significantly higher total statutory indirect expenditures than in 2009; however, this increase was due primarily to costs associated with the transition from Texas Regional Entity, a division of ERCOT, to the independent Texas RE as the regional entity. In order to complete this transition, a larger percentage of corporate overhead costs were incurred, which are recorded as indirect costs. These costs should not recur in future years and therefore Texas RE's indirect cost percentage should be lower in the future. SPP RE has the second smallest total expenditures of the Regional Entities; since there is a "base" level of administrative costs necessary to run the organization regardless of size, and overall indirect costs would not be expected to increase proportionately to an increase in direct costs, it is not necessarily surprising that SPP RE had the second highest percentage of statutory indirect expenditures to total statutory expenditures and the second lowest ratio of statutory direct expenditures to statutory indirect expenditures. SPP RE's 2010 values for these two metrics were approximately the same as its 2009 actual values. (Both the 2010 and 2009 actual values, however, represent improvement from the 2008 actual values.) The 2010 actual hourly rate used to charge SPP RE

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<sup>20</sup> The distinction between statutory direct and indirect expenditures and personnel is not, of course, a bright line. Many expenditures classified as "indirect" contribute directly to the performance of statutory direct functions. For example, Legal and Regulatory and Information Technology personnel, who are classified in indirect functions, participate directly in the performance of statutory direct activities such as Reliability Standards development, Compliance Monitoring and Enforcement and Situation Awareness and Infrastructure Security.

for indirect services provided by SPP, Inc. was \$71.04 versus an actual rate of \$69.35 in 2009 (2.4% higher), so SPP RE's 2010 indirect cost metrics were not impacted by a material change in this hourly indirect cost rate over 2009.

NERC, MRO, NPCC and WECC experienced lower actual percentages of statutory indirect expenditures to total statutory expenditures in 2010 than in 2009, with MRO's percentage being significantly lower. (In 2009, MRO's indirect expenses included a significant one-time expense associated with the termination of its defined benefit pension plan.) ReliabilityFirst, SERC, SPP RE and Texas RE experienced higher actual percentages of statutory indirect expenditures to total statutory expenditures in 2010 than in 2009 (although SPP RE's actual 2010 percentage was only slightly higher than its actual 2009 number). With respect to direct statutory expenditures per dollar of statutory indirect expenditures, NERC, MRO, NPCC and WECC also experienced higher actual values in 2010 than in 2009, with the values for MRO and NPCC each being significantly higher. ReliabilityFirst, SERC, SPP RE and Texas RE experienced lower actual values for this metric for 2010 as compared to 2009, although for SPP RE, as indicated above, the difference between the values for the two years was small.

Comparisons of the actual 2010 results for these metrics to the actual results for 2009 (and 2008) show that, overall, NERC and the Regional Entities continue to reduce their indirect costs as a percentage of their total costs, and in devoting greater portions of their total statutory expenditures to direct statutory activities; however, for 2010, improvement in these metrics over 2009 actual results was experienced by some, but not all, of the individual entities.

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

On average for NERC and the Regional Entities, 2010 actual statutory indirect FTEs were 23.15% of total statutory FTEs, and on average NERC and the Regional Entities had 3.32

statutory direct FTE per statutory indirect FTE in 2010. These 2010 actual values depict lower percentages of statutory indirect FTEs and higher percentages of statutory direct FTEs as compared to the actual values for 2009 of (in the aggregate) 24.31% statutory indirect FTEs to statutory total FTEs and 3.11 direct statutory FTEs per indirect statutory FTE. In 2010, the actual percentage of statutory indirect FTEs to statutory total FTEs was less than 25% for each entity except NERC (for which the percentage was only 25.73%), SERC (26.53%) and Texas RE (27.92%); and NERC and each Regional Entity had at least 2.58 statutory direct FTE per statutory indirect FTE. NERC, MRO, NPCC, *ReliabilityFirst* and SPP RE each had a lower actual percentage of statutory indirect FTEs to statutory total FTEs in 2010 than in 2009, and WECC's percentages of statutory indirect FTEs to statutory total FTEs for the two years were approximately equal. SERC and Texas RE experienced somewhat higher actual percentages of statutory indirect FTEs to statutory total FTEs in 2010 than in 2009. The increase in statutory indirect FTEs as a percentage of statutory total FTEs for Texas RE was primarily due to the need for additional FTEs to assist in completing the transition from Texas Regional Entity to Texas RE as the regional entity. Texas RE's value for this metric should be lower again in the future.

Similarly, NERC, MRO, NPCC, *ReliabilityFirst* and SPP RE each had a higher actual ratio of statutory direct FTEs per statutory indirect FTEs in 2010 than in 2009, and WECC's ratios of statutory direct FTEs per statutory indirect FTE for the two years were approximately equal. SERC and Texas RE each had lower actual ratios of statutory direct FTEs per statutory indirect FTE in 2010 than in 2009.

These results show (consistent with the observation in the preceding subsection) that, overall, NERC and the Regional Entities continue to devote increasingly higher proportions of their personnel resources to their direct statutory functions, and a lower proportion to indirect



functions, although not all of the individual entities were able to experience improvement in this metric in 2010 over 2009.

Total actual statutory direct function FTE staffing for NERC and the eight Regional Entities for 2010 was 412.13 FTEs, which was slightly lower than the budgeted total of 432.06 FTEs. As reported in their individual actual-to-budget analyses in the Attachments, a number of the entities experienced difficulty in filling some budgeted positions in 2010, and/or filled positions at later points in the year than had been assumed in the budget development. However, NERC and each Regional Entity (excluding FRCC, for which a direct-indirect breakdown was not available in 2009) had higher statutory direct function staffing (FTEs) in 2010 than in 2009. As compared to 2009 actual values, NERC and the seven Regional Entities (excluding FRCC) increased total statutory FTEs by approximately 80 FTEs (18%), increased total direct statutory FTEs by approximately 66 FTEs (20%), and increased total statutory indirect FTEs by approximately 14 (13%).

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

The bottom row of tables on **Attachment 5** shows the 2010 actual and budgeted (i) total statutory expenditures per total FTE (total statutory expenditures divided by total number of statutory FTE), (ii) statutory direct expenditures per direct FTE, (iii) statutory indirect expenditures per indirect FTE, and (iv) statutory indirect expenditures per total FTE (statutory indirect expenditures divided by total number of FTE), for NERC and each Regional Entity. For NERC and the eight Regional Entities, in the aggregate:

- The actual average total statutory expenditures per statutory FTE were lower than budgeted, by approximately 10% (\$265,263 actual versus \$295,976 budgeted).

- The actual average statutory direct expenditures per statutory direct FTE were lower than budgeted, by 14.6% (\$240,052 actual versus \$281,139 budgeted).
- The actual average statutory indirect expenditures per statutory indirect FTE were slightly higher than budgeted, by less than 1% (\$348,964 actual versus \$346,221 budgeted).
- The actual average statutory indirect expenditures per total statutory FTE were slightly higher than budgeted, by 2.3% (\$80,779 versus \$78,932).

Further, for NERC and the Regional Entities in the aggregate, the actual 2010 value for each of these four metrics was either lower than, or approximately equal to, the actual value for 2009:

- The actual average total statutory expenditures per statutory FTE was \$265,263 in 2010 as compared to \$266,986 in 2009.
- The actual average statutory direct expenditures per statutory direct FTE was \$240,052 in 2010 as compared to \$240,240 in 2009.
- The actual average statutory indirect expenditures per statutory indirect FTE was \$348,964 in 2010 as compared to \$350,275 in 2009.
- The actual average statutory indirect expenditures per total statutory FTE was \$80,779 in 2010 as compared to \$85,141 in 2009.

Overall, these results show that NERC and the Regional Entities continue to reduce administrative costs as a percentage of total costs and to reduce administrative costs per FTE.

Respectfully submitted,

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## **ATTACHMENTS 1 – 5**

(Available on the NERC Website At

[http://www.nerc.com/fileUploads/File/Filings/Attachments\\_TrueUP.pdf](http://www.nerc.com/fileUploads/File/Filings/Attachments_TrueUP.pdf))