December 17, 2013

VIA ELECTRONIC FILING

Veronique Dubois
Régie de l'énergie
Tour de la Bourse
800, Place Victoria
Bureau 255
Montréal, Québec H4Z 1A2

Re: *North American Electric Reliability Corporation*

Dear Ms. Dubois:

The North American Electric Reliability Corporation ("NERC") hereby submits Notice of Filing of the North American Electric Reliability Corporation Regarding Modifications to the 2014 Business Plan and Budget and North American Electric Reliability Corporation's Filing of Corrected Appendix 2 to its 2014 Business Plan and Budget. NERC requests, to the extent necessary, a waiver of any applicable filing requirements with respect to this filing.

Please contact the undersigned if you have any questions.

Respectfully submitted,

/s/ Rebecca J. Michael
Rebecca J. Michael
Associate General Counsel for
Corporate and Regulatory Matters
North American Electric Reliability
Corporation

Enclosures

BEFORE THE
RÉGIE DE L'ÉNERGIE
THE PROVINCE OF QUÉBEC

NORTH AMERICAN ELECTRIC	**)**
RELIABILITY CORPORATION	**)**

NOTICE OF FILING OF THE
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
REGARDING MODIFICATIONS TO THE 2014 BUSINESS PLAN AND BUDGET

I. INTRODUCTION

The North American Electric Reliability Corporation ("NERC") respectfully submits this filing, which contains modifications to the NERC 2014 Business Plan and Budget resulting from a directive contained in P 23 of the Federal Energy Regulatory Commission's ("FERC") November 1, 2013 Order.[1] The 2014 Budget Order accepted the 2014 Business Plans and Budgets of NERC and the Regional Entities but directed NERC to submit a compliance filing concerning one item in NERC's Working Capital and Operating Reserve accounts. Specifically, in P 23, FERC cited to a $3.8 million amount referred to in NERC's Business Plan and Budget as "restricted" working capital to offset future liabilities regarding lease agreements, and directed NERC to submit a compliance filing within 30 days "indicating how NERC will allocate the $3.8 million consistent with NERC's [Working Capital and Operating] Reserve Policy."

In this filing, NERC: (1) describes the background and accounting for the amounts relating to its office leases that are the subject of P 23 and why NERC believes that its treatment of these amounts in its 2014 Business Plan and Budget is consistent with NERC's Working Capital and Operating Reserve Policy (the "WCOR Policy"), and (2) provides an amended

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[1] *North American Electric Reliability Corporation, Order on 2014 Business Plan and Budget of the North American Electric Reliability Corporation and Ordering Compliance Filing*, 145 FERC ¶ 61,097 (2013) ("2014 Budget Order").

WCOR Policy that has been adopted by the NERC Board of Trustees, which is intended to provide clarification relating to the treatment of items such as the amount relating to the office leases that is the subject of P 23. Additionally, NERC is submitting a revised Exhibit E, "Working Capital and Operating Reserve Amounts," to its 2014 Business Plan and Budget to (1) correct an error as to the amount of the Working Capital Reserve for 2014 and (2) describe the Working Capital Reserve component that is the subject of P 23, and its permitted uses, in a manner consistent with the amended WCOR Policy.

Attachments 1 and **2** to this filing are clean and redlined copies, respectively, of the amended WCOR Policy. Because the amended WCOR Policy includes a revision to one of the defined terms in the WCOR Policy, NERC is submitting the amended WCOR Policy. **Attachments 3** and **4** to this filing are clean and redlined copies, respectively, of revised Exhibit E to NERC's 2014 Business Plan and Budget.

II. NOTICES AND COMMUNICATIONS

Notices and communications concerning this filing may be addressed to:

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III. DISCUSSION

A. Explanation of the Treatment of the Amounts Held for Future Liabilities Under NERC's Office Lease Agreements

The amounts discussed in P 22 of the 2014 Budget Order represent the difference between (i) the budgeted lease expense, determined in accordance with Generally Accepted Accounting Principles ("GAAP"), for NERC's Atlanta and Washington, D.C. offices, and (ii) the cash rent requirement for the year based on the terms of the leases. This difference, referred to as deferred rent liability, arises because (i) GAAP requires that the total rent expense over the life of the lease be recorded on a straight line basis so that the same amount of rent expense is recorded in operating expenses in each year of the lease term, but (ii) the actual cash rent obligation is not the same amount in each year of the lease. The actual cash rent obligation is not the same amount in each year of the lease due to factors such as: (i) the abatement of rent in the initial period of the Atlanta office lease, as provided for in the lease agreement, (ii) a cash contribution received from the landlord of the Washington, D.C. office which was negotiated to offset liabilities remaining under the lease for NERC's previous Washington office, (iii) refunds of excess tenant improvement allowances associated with both the Washington, D.C. and Atlanta office leases, and (iv) escalations in the annual amount of rent over the term of the leases as provided for in those agreements. In prior years, as well as in its 2014 budget, NERC has included the "straight-line" rent expense required by GAAP in its budgets submitted to the applicable governmental authorities and has included the difference between the GAAP rent expense and the cash rent requirement in deferred rent on its Statement of Financial Position. This deferred rent liability represents amounts that NERC is liable to pay to the landlords over the remaining lives of the leases.[2]

In earlier years, the deferred rent liability balance was relatively low; for example, it was

[2] The accounting and budgeting employed by NERC is consistent with typical regulatory rate setting practices for regulated utilities in that it spreads the rent expense *pro rata* over the life of the lease so that customers of the utility pay for the same rent expense, in their rates, in each year of the lease.

$165,559 in 2010. In 2011 and 2012, as a result of NERC's move to a new headquarters office in Atlanta and to new office space in Washington, D.C., and the terms of the new lease agreements described in the preceding paragraph, the balance of the deferred rent liability increased significantly. In both its 2012 Business Plan and Budget, filed in August 2011 and its 2013 Business Plan and Budget filed in September 2012, NERC, as it did in its 2014 Business Plan and Budget filing, took the significant non-cash component of office rent expense into account in determining whether additional Working Capital Reserve was needed in the budget and, specifically, in determining that no additional provision for Working Capital Reserve was needed in the budget and assessments for the respective year.[3] However, in the 2012 and 2013 Budgets, NERC did not specifically include the deferred rent liability balance in Working Capital Reserve.

Due to the significant increase in the balance of the deferred rent liability, and because this balance will be amortized over the lives of the leases, which extend to the year 2023, during 2013 NERC management reviewed the deferred rent liability balance to determine the current and noncurrent portion of the deferred rent liability, and calculated the beginning balance in NERC's Working Capital and Operating Reserve by including the current portion of the deferred rent liability in the calculation. As a result of this analysis and based on consultation with its outside auditors, NERC adjusted the beginning Working Capital and Operating Reserve balance to include the non-current portion of the deferred rent liability, so that funds needed for future liabilities under the leases would not be expended in the current year, and would be subject to the controls and oversight requirements of the WCOR Policy. Management further indicated that it

[3] *See* NERC's filing of the 2012 Business Plan and Budget, at 50-51, where NERC, in discussing the development of the working capital reserve component of the 2012 budget, described the straight-line amortization of office rent expense required by GAAP and the significant rent abatement under the Atlanta office lease for 2012 which contributed to the available working capital balance. NERC's treatment of the deferred rent liability balance in 2011, 2012 and 2013 was transparently reported and reflected in various documents available to stakeholders and the applicable governmental authorities, including NERC's quarterly variance reports and Finance and Audit Committee agenda and meeting minutes.

would evaluate the balance in Working Capital and Operating Reserves necessary to manage NERC's ongoing operations in connection with development of NERC's 2014 Business Plan and Budget.[4]

NERC's current WCOR Policy defines the "working capital requirement" as:

> the amount necessary to satisfy projected annual cash flow and cash balance requirements. Annual cash flow and cash balance requirements shall be determined based on a review of (a) the company's projected cash flow needs over the applicable year and (b) cash balances required to satisfy any covenant under the terms of any loan, credit or other agreement to which the company is a party.

This provision also states that:

> To the extent that during the year the cash balances required to satisfy covenant obligations under the terms of any loan, credit or other agreement are reduced, such excess cash balances will be transferred to the company's operating reserve for unforeseen contingencies.

In its 2014 Budget, NERC included the deferred rent liability balance – funds that have been received and are being retained to satisfy future liabilities under its lease agreements – as Working Capital Reserves under the definition of "working capital requirement" in the WCOR Policy. The deferred rent liability balance is the amount needed to satisfy NERC's future rent payment covenants under its Atlanta and Washington, D.C. lease agreements.

In the 2014 Business Plan and Budget, in presenting its Working Capital and Operating Reserve in Table B-1 and Exhibit E, NERC described the deferred rent liability balance as a "restricted" working capital reserve in order to convey that these funds are segregated and reserved to satisfy NERC's future payment obligations under its lease agreements, and are not available for funding current operations. Segregation of the deferred rent liability balance in this manner was consistent with both NERC's current and its former financial reporting and approach, ***i.e.***, the deferred rent liability balance was always regarded as segregated and reserved for use to meet the future payment obligations under the lease agreements. Specifically, the

[4] The change in the treatment of the deferred rent liability in the calculation of Working Capital and Operating Reserve balances was described in NERC's May 2013 quarterly budget variance report.

segregation of the $3.6 million deferred rent liability balance in NERC's Working Capital Reserve was consistent with both the existing WCOR Policy and with prudent financial planning for known future contractual obligations under existing lease agreements.[5]

B. Amended WCOR Policy

In light of FERC's attention to the treatment of the deferred rent liability balance in the Working Capital and Operating Reserve component of NERC's 2014 Budget, NERC determined that the existing WCOR Policy should be amended to provide clarity with respect to the treatment of balances held in respect of future contractual obligations, including with respect to the Guidelines and Authorities Applicable to Expenditure of Working Capital and Operating Reserves as they apply to such deferred liability balance amounts. **Attachment 1** and **Attachment 2** to this filing are clean and redlined versions of the amended WCOR Policy. The amended WCOR Policy was approved by the Finance and Audit Committee of the NERC Board on November 15, 2013, and was approved by the NERC Board on November 21, 2013.

The amended WCOR Policy is intended to make it clear that future covenant, financial other obligations under any loan, credit or lease agreements to which NERC is a party may be taken into account in setting its Working Capital Reserve levels. The amended WCOR Policy also expressly memorializes NERC's existing practice of segregating such funds in the working capital account. Finally, the amended WCOR Policy makes certain conforming changes to the Guidelines and Authorities Applicable to Expenditure of Working Capital and Operating Reserves.

Specifically, the amendments revise the first paragraph of the WCOR Policy as follows:

> This policy governs the determination of the company's annual working capital and operating reserve requirements <u>which are included in the company's annual</u>

[5] Use of a different approach in which the deferred rent liability balance is used to reduce current year assessments would result in an uneven and volatile pattern of assessments over time, as in the later years of the lease terms, assessments to load-serving entities would need to be increased to meet the higher cash rent obligations, rather than having the deferred rent liability balance segregated in the Working Capital Reserve to draw down to meet the higher lease agreement obligations.

> business plan and budget and the authorization of management to access these funds.

The amendments then revise the paragraph defining NERC's "working capital requirement" to read as follows:

> The company's working capital requirement shall be the amount necessary to satisfy projected cash flow and cash balance requirements. Cash flow and cash balance requirements shall be determined based on a review of (a) cash flow needs and (b) cash balances reasonably necessary to meet current and future obligations under any covenant, financial or other obligation under the terms of any loan, credit, or lease agreement to which the company is a party. To the extent that during the year the working capital cash balances maintained to satisfy any covenant, financial or other obligations under the terms of any loan, credit or lease agreement are reduced, such excess cash balance will be transferred to the company's operating reserve for unforeseen contingencies and subject to the guidelines and authorities applicable to expenditures thereof set forth below.

Additionally, paragraphs 1 and 4 of the Guidelines and Authorities Applicable to Expenditure of Working Capital and Operating Reserves are amended, and a new paragraph 5 is added, as shown below:

1. The Chief Financial and Administrative Officer shall have the authority to draw on budgeted working capital reserves to the extent necessary to satisfy daily cash flow ~~requirements. Any~~ and cash balance requirements. To the extent necessary to meet projected cash flow and cash balance requirements, any such draws of working capital reserves shall to the extent possible be promptly replenished from future excess cash flow.

4. For ~~expenditure~~ expenditures of operating reserves budgeted for unforeseen contingencies, including the expenditure of excess working capital reserves which are transferred to the company's operating reserve for unforeseen contingencies, and for unbudgeted expenditures of excess funds associated with the Personnel Certification and Operator Training Program:

    i. The president and chief executive officer shall have authority to make expenditures up to $250,000;

    ii. For expenditures greater than $250,000 but less than $500,000 prior approval of the Finance and Audit Committee is required; and

    iii. For expenditures in excess of $500,000 approval of the Board of Trustees is required, after notice to and recommendation by the Finance and Audit Committee.

5. To the extent that working capital reserves include reserves to satisfy future financial, covenant or other obligations, the company shall segregate such funds to ensure they are available for use in satisfying such future financial, covenant or

> other obligations; provided however that such funds shall also be available to satisfy any coverage and liquidity requirements under the terms of any loan or credit agreement to which the company is a party.

New paragraph 5 of the Guidelines and Authorities Applicable to Expenditure of Working Capital and Operating Reserves expressly memorializes the practice of segregating reserve balances held for the purpose of satisfying future financial, covenant or other obligations under the terms of any loan, credit, or lease agreement to which NERC is a party. In addition, new paragraph 5 also makes it clear that such funds shall be deemed available to satisfy coverage and liquidity requirements under any loan or credit agreement to which NERC is a party. This will mitigate the need to increase NERC's budget and assessments to provide additional funds to satisfy such coverage and liquidity requirements.

C. Revised Exhibit E to NERC's 2014 Business Plan and Budget

NERC is submitting a revised Exhibit E, "Working Capital and Operating Reserve Amounts," to its 2014 Business Plan and Budget. **Attachment 3** is a clean version of revised Exhibit E. **Attachment 4** is a redlined version of revised Exhibit E.

The revised Exhibit E is being submitted for two purposes. First, original Exhibit E incorrectly stated the Working Capital amount as $3.6 million. The correct figure is $3,867,055, as shown on revised Exhibit E. The correct required Working Capital amount of $3,867,055 was shown on Table B-1, Reserve Balance, on page 112 of the 2014 Business Plan and Budget and was used in the calculation of NERC's 2014 budget and assessments. Therefore, the correction of this figure on revised Exhibit E does not necessitate any change to NERC's 2014 budget and assessments.

Second, the fourth paragraph of the Working Capital section of Exhibit E is being revised consistent with the revised WCOR Policy, as follows:

> NERC has collected funding to offset future liabilities under lease agreements for the Atlanta and Washington, DC offices. The projected $3,867,055 yearend balance of these funds is being held as a ~~restricted~~ segregated working capital reserve to offset these future liabilities. Pursuant to the company's Working

> Capital and Operating Reserve Policy these funds may also be made available to satisfy debt service reserve and liquidity requirements as set forth therein. [Footnote omitted.]

Respectfully submitted,

/s/ Rebecca J. Michael

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COMPLIANCE FILING OF THE

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

ATTACHMENT 1

AMENDED WORKING CAPITAL AND OPERATING RESERVE POLICY

CLEAN VERSION

Working Capital and Operating Reserve Policy

This policy governs the determination of the company's annual working capital and operating reserve requirements which are included in the company's annual business plan and budget and the authorization of management to access these funds.

The company's working capital requirement shall be the amount necessary to satisfy projected cash flow and cash balance requirements. Cash flow and cash balance requirements shall be determined based on a review of projected (a) cash flow needs and (b) cash balances reasonably necessary to meet current and future obligations under any covenant, financial or other obligation under the terms of any loan, credit, or lease agreement to which the company is a party. To the extent that during the year the working capital cash balances maintained to satisfy any covenant, financial or other obligations under the terms of any loan, credit or lease agreement are reduced, such excess cash balance will be transferred to the company's operating reserve for unforeseen contingencies and subject to the guidelines and authorities applicable to expenditures thereof set forth below.

The company's operating reserves shall include (1) an amount necessary to satisfy known contingencies where the specific timing and amount is uncertain, (2) an amount available to be utilized for unforeseen contingency and (3) excess funds applicable to the Personnel Certification and Operator Training Program.

The amount of the company's working capital and operating reserves, by category, shall be separately identified and quantified each year in the business plan and budget submitted to and approved by the Board of Trustees. Transfers of working capital to operating reserves and transfers of operating reserve funds between categories shall require approval of the Board of Trustees, after review and recommendation by the Finance and Audit Committee.

The following guidelines shall apply to the determination of the company's operating reserves.

(1) <u>Known Contingencies Where the Amount and Timing Are Uncertain</u>
This category of operating reserves represents estimated funding reserves known contingencies where the timing and amount of funding to satisfy the contingency when it materializes is uncertain. An example would be the need for additional resources to address a requirement or process where regulatory or other governmental authorizations or directives are pending or anticipated but an order has not yet been issued so the amount of the impact and timing is uncertain, but management has nevertheless concluded that additional resources are likely to be required.

(2) <u>Unforeseen Contingencies</u>
This category of operating reserves represents a funding reserve for unknown contingencies which were not anticipated at the time of preparation and approval of the business plan and budget. Examples of unforeseen contingencies might include supplemental resources required to assist in the evaluation of significant unforeseen

events affecting the bulk power system, such as the February Cold Weather Event and Southwest Outage or to address unforeseen regulatory directives.

(3) Excess Funds applicable to the Personnel Certification and Operator Training Program
In the event the company realizes higher levels of funding from operator certification and training above incurred expenses, this excess funding shall constitute a separate category of operating reserve and shall be used solely for operator training and certification needs, as determined by the company and the Personnel Certification Governance Committee. This is consistent with the intent of Section 604.4.10 of the Rules of Procedures.

Guidelines and Authorities Applicable to Expenditures of Working Capital and Operating Reserves

The following guidelines, limitations and authorities shall apply to expenditures of working capital and operating reserves.

1. The Chief Financial and Administrative Officer shall have the authority to draw on budgeted working capital reserves to the extent necessary to satisfy daily cash flow and cash balance requirements. To the extent necessary to meet projected cash flow and cash balance requirements, any such draws of working capital reserves shall to the extent possible be promptly replenished from future excess cash flow.
2. For expenditures of operating reserves for budgeted known contingencies, the company's president and chief executive officer is authorized to expend such reserves up to the amount set forth in the company's budget.
3. For budgeted expenditures of excess funds associated with the Personnel Certification and Operator Training Program, the company's president and chief executive officer is authorized to expend such reserves up to the amount set forth in the company's budget.
4. For expenditures of operating reserves budgeted for unforeseen contingencies, including the expenditure of excess working capital reserves which are transferred to the company's operating reserve for unforeseen contingencies, and for unbudgeted expenditures of excess funds associated with the Personnel Certification and Operator Training Program:
    i. The president and chief executive officer shall have authority to make expenditures up to $250,000;
    ii. For expenditures greater than $250,000 but less than $500,000 prior approval of the Finance and Audit Committee is required; and
    iii. For expenditures in excess of $500,000 approval of the Board of Trustees is required, after notice to and recommendation by the Finance and Audit Committee.
5. To the extent that working capital reserves include reserves to satisfy future financial, covenant or other obligations, the company shall segregate such funds to ensure they are available for use in satisfying such future financial, covenant or other obligations;

provided however that such funds shall also be available to satisfy any coverage and liquidity requirements under the terms of any loan or credit agreement to which the company is a party.

6. Any expenditure of funds in excess of the company's approved budget, inclusive of budgeted working capital and operating reserves, requires the prior approval of the Board of Trustees, after notice to and recommendation of the Finance and Audit Committee.

All expenditures of contingency funds are subject to other applicable company policies and procedures, including currently effective procurement policies and delegations of authority, and shall be separately reported in the budget variance reports prepared by management and included in the quarterly Finance and Audit Committee agenda materials, which are posted on the company's website.

The procedures set forth in Section 1108 of the Rules of Procedure, including Board of Trustees and FERC approval, shall continue to apply in circumstances where the company requires funding between normal annual budget cycles in excess of amounts available through approved assessments, working capital and operating reserve resources.

Guidelines and Authorities Required to Reallocate Budgeted Expenditures on an Intra-year Basis

During the course of the year events may unfold such that some approved budget areas may run below budget, making funds available to satisfy other resource needs based on changing priorities. In the event such under runs occur, these excess funds shall be added to the unforeseen contingency operating reserve and the president and chief executive officer shall have the authority to expend such funds, and management shall also be responsible for reporting such expenditures, in the same manner as the expenditure of funds for other unforeseen contingencies set forth above.

Addition of Unbudgeted FTE or Headcount Additions

Any FTE or headcount additions, regardless of the source of and availability of funding, which are in excess of the total FTEs or total headcount, respectively, set forth in the company's approved business plan and budget for the applicable budget year shall require approval of the Board of Trustees, after review by the Corporate Governance and Human Resources Committee and the Finance and Audit Committee.

COMPLIANCE FILING OF THE

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

<u>ATTACHMENT 2</u>

AMENDED WORKING CAPITAL AND OPERATING RESERVE POLICY

<u>REDLINED VERSION</u>

Working Capital and Operating Reserve Policy

This policy governs the determination of the company's annual working capital and operating reserve requirements which are included in the company's annual business plan and budget and the authorization of management to access these funds.

The company's working capital requirement shall be the amount necessary to satisfy projected ~~annual~~ cash flow and cash balance requirements. ~~Annual cash~~Cash flow and cash balance requirements shall be determined based on a review of ~~(a) the company's~~ projected (a) cash flow needs ~~over the applicable year~~ and (b) cash balances ~~required~~reasonably necessary to ~~satisfy~~ meet current and future obligations under any covenant ~~under the terms of any loan, credit~~, financial or other obligation under the terms of any loan, credit, or lease agreement to which the company is a party. To the extent that during the year the working capital cash balances ~~required~~maintained to satisfy any covenant, financial or other obligations under the terms of any loan, credit or ~~other~~lease agreement are reduced, such excess cash balance will be transferred to the company's operating reserve for unforeseen contingencies ~~described below.~~ and subject to the guidelines and authorities applicable to expenditures thereof set forth below.

The company's operating reserves shall include (1) an amount necessary to satisfy known contingencies where the specific timing and amount is uncertain, (2) an amount available to be utilized for unforeseen contingency and (3) excess funds applicable to the Personnel Certification and Operator Training Program.

The amount of the company's working capital and operating reserves, by category, shall be separately identified and quantified each year in the business plan and budget submitted to and approved by the Board of Trustees. Transfers of working capital to operating reserves and transfers of operating reserve funds between categories shall require approval of the Board of Trustees, after review and recommendation by the Finance and Audit Committee.

The following guidelines shall apply to the determination of the company's operating reserves.

(1) Known Contingencies Where the Amount and Timing Are Uncertain
This category of operating reserves represents estimated funding reserves known contingencies where the timing and amount of funding to satisfy the contingency when it materializes is uncertain. An example would be the need for additional resources to address a requirement or process where regulatory or other governmental authorizations or directives are pending or anticipated but an order has not yet been issued so the amount of the impact and timing is uncertain, but management has nevertheless concluded that additional resources are likely to be required.

(2) Unforeseen Contingencies
This category of operating reserves represents a funding reserve for unknown contingencies which were not anticipated at the time of preparation and approval of the

business plan and budget. Examples of unforeseen contingencies might include supplemental resources required to assist in the evaluation of significant unforeseen events affecting the bulk power system, such as the February Cold Weather Event and Southwest Outage or to address unforeseen regulatory directives.

(3) Excess Funds applicable to the Personnel Certification and Operator Training Program
In the event the company realizes higher levels of funding from operator certification and training above incurred expenses, this excess funding shall constitute a separate category of operating reserve and shall be used solely for operator training and certification needs, as determined by the company and the Personnel Certification Governance Committee. This is consistent with the intent of Section 604.4.10 of the Rules of Procedures.

Guidelines and Authorities Applicable to Expenditures of Working Capital and Operating Reserves

The following guidelines, limitations and authorities shall apply to expenditures of working capital and operating reserves.

1. The Chief Financial and Administrative Officer shall have the authority to draw on budgeted working capital reserves to the extent necessary to satisfy daily cash flow ~~requirements. Any~~and cash balance requirements. To the extent necessary to meet projected cash flow and cash balance requirements, any such draws of working capital reserves shall to the extent possible be promptly replenished from future excess cash flow.

2. For expenditures of operating reserves for budgeted known contingencies, the company's president and chief executive officer is authorized to expend such reserves up to the amount set forth in the company's budget.

3. For budgeted expenditures of excess funds associated with the Personnel Certification and Operator Training Program, the company's president and chief executive officer is authorized to expend such reserves up to the amount set forth in the company's budget.

4. For ~~expenditure~~expenditures of operating reserves budgeted for unforeseen contingencies, including the expenditure of excess working capital reserves which are transferred to the company's operating reserve for unforeseen contingencies, and for unbudgeted expenditures of excess funds associated with the Personnel Certification and Operator Training Program:

   i. The president and chief executive officer shall have authority to make expenditures up to $250,000;

   ii. For expenditures greater than $250,000 but less than $500,000 prior approval of the Finance and Audit Committee is required; and

   iii. For expenditures in excess of $500,000 approval of the Board of Trustees is required, after notice to and recommendation by the Finance and Audit Committee.

5. To the extent that working capital reserves include reserves to satisfy future financial, covenant or other obligations, the company shall segregate such funds to ensure they are available for use in satisfying such future financial, covenant or other obligations; provided however that such funds shall also be available to satisfy any coverage and liquidity requirements under the terms of any loan or credit agreement to which the company is a party.

~~5.~~6. Any expenditure of funds in excess of the company's approved budget, inclusive of budgeted working capital and operating reserves, requires the prior approval of the Board of Trustees, after notice to and recommendation of the Finance and Audit Committee.

All expenditures of contingency funds are subject to other applicable company policies and procedures, including currently effective procurement policies and delegations of authority, and shall be separately reported in the budget variance reports prepared by management and included in the quarterly Finance and Audit Committee agenda materials, which are posted on the company's website.

The procedures set forth in Section 1108 of the Rules of Procedure, including Board of Trustees and FERC approval, shall continue to apply in circumstances where the company requires funding between normal annual budget cycles in excess of amounts available through approved assessments, working capital and operating reserve resources.

Guidelines and Authorities Required to Reallocate Budgeted Expenditures on an Intra-year Basis

During the course of the year events may unfold such that some approved budget areas may run below budget, making funds available to satisfy other resource needs based on changing priorities. In the event such under runs occur, these excess funds shall be added to the unforeseen contingency operating reserve and the president and chief executive officer shall have the authority to expend such funds, and management shall also be responsible for reporting such expenditures, in the same manner as the expenditure of funds for other unforeseen contingencies set forth above.

Addition of Unbudgeted FTE or Headcount Additions

Any FTE or headcount additions, regardless of the source of and availability of funding, which are in excess of the total FTEs or total headcount, respectively, set forth in the company's approved business plan and budget for the applicable budget year shall require approval of the Board of Trustees, after review by the Corporate Governance and Human Resources Committee and the Finance and Audit Committee.

COMPLIANCE FILING OF THE

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

ATTACHMENT 3

REVISED EXHBIT E TO NERC'S 2014 BUSINESS PLAN AND BUDGET

CLEAN VERSION

Exhibit E - Working Capital and Operating Reserve Amounts

Working Capital – $3.867,055M

Based on its 2013 cash flow projection and taking into account the historic manner in which NERC's assessments have been billed and paid (including the fact that WECC collects and pays its entire annual allocated share of the NERC assessments during the first quarter of the year), NERC does not anticipate needing access to working capital in 2013 to meet monthly cash flow needs. In the unlikely event NERC experiences a temporary cash flow shortage, it has the ability to either request authorization from the Finance and Audit Committee and Board of Trustees to temporarily access operating reserve funds, or draw on its $4M line of credit, as long as NERC is in compliance with the covenants under its bank credit agreement.

Per its credit agreement, NERC must maintain a minimum of $1.250M in net assets (total assets minus intangible assets minus total liabilities). As of December 31, 2012, NERC's unrestricted net assets were $9.7M. (Refer to Section D, Supplemental Financial Statements.)

NERC has also posted letters of credit totaling approximately $101,236 in lieu of cash security deposits in connection with its offices leases. In the event these lines of credit are drawn upon, NERC is required to reimburse the draws in full. Management does not recommend at this time that working capital be maintained as security for this reimbursement obligation, as cash flows are projected to be sufficient in 2013–2014 to support timely payment of office rent without the letters of credit being drawn on.

NERC has collected funding to offset future liabilities under lease agreements for the Atlanta and Washington, DC offices. The projected $3.867,055M[1] yearend balance of these funds is being held as a segregated working capital reserve to offset these future liabilities. Pursuant to the company's Working Capital and Operating Reserve Policy these funds may also be made available to satisfy debt service reserve and liquidity requirements as set forth therein.

Operating Reserves – $2.8M Total (Known Contingency Category ($1.M) + Unforeseen Contingency Category ($1M) + Personnel Certification and Operating Training Excess Revenues ($767k))

Operating reserve amounts are divided into three categories: (1) known contingencies, (2) unknown contingencies, and (3) excess revenues from the Personnel Certification and Operator Training Programs. Management's proposal with respect to the amount of 2013 reserves for each of these categories is set forth below.

(1) Known Contingencies where timing and amount uncertain — $1M

a. 2014 known contingencies include (i) funding of outside consultants in connection with FAC 3 vegetation research, (ii) higher than projected data base support and maintenance expenses, (iii) additional costs to develop a replacement PC-GAR applications (iv) financing expense associated with the higher than projected

[1] See Table B-1

software development and hardware costs and acceleration of the development of the RADS application to 2014 from 2015 and (v) funding of the cost of additional CONRAD devices to support ES-ISAC bi-directional communications.

(2) Unforeseen Contingencies — $1M

a. Represents a contingency for unknowns, including significant litigation, compliance with new governmental or regulatory mandates, consulting expense for experts in connection with review of significant system events and investigations, etc.

(3) System Operator Certification Program — $767k - The projected 12/31/13 reserve balance of the System Operator Certification Program is $1,206,746. The 2014 budget for expenses is $438,253 higher than anticipated funding from testing fees and certificate renewals, leaving a budgeted balance of $767,363 as of 12/31/14.

Total Working Capital + Operating Reserves – $6.667,055M

COMPLIANCE FILING OF THE

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

ATTACHMENT 4

REVISED EXHBIT E TO NERC'S 2014 BUSINESS PLAN AND BUDGET

REDLINED VERSION

Exhibit E - Working Capital and Operating Reserve Amounts

Working Capital – $3.~~6~~867,055M

Based on its 2013 cash flow projection and taking into account the historic manner in which NERC's assessments have been billed and paid (including the fact that WECC collects and pays its entire annual allocated share of the NERC assessments during the first quarter of the year), NERC does not anticipate needing access to working capital in 2013 to meet monthly cash flow needs. In the unlikely event NERC experiences a temporary cash flow shortage, it has the ability to either request authorization from the Finance and Audit Committee and Board of Trustees to temporarily access operating reserve funds, or draw on its $4M line of credit, as long as NERC is in compliance with the covenants under its bank credit agreement.

Per its credit agreement, NERC must maintain a minimum of $1.250M in net assets (total assets minus intangible assets minus total liabilities). As of December 31, 2012, NERC's unrestricted net assets were $9.7M. (Refer to Section D, Supplemental Financial Statements.)

NERC has also posted letters of credit totaling approximately $101,236 in lieu of cash security deposits in connection with its offices leases. In the event these lines of credit are drawn upon, NERC is required to reimburse the draws in full. Management does not recommend at this time that working capital be maintained as security for this reimbursement obligation, as cash flows are projected to be sufficient in 2013–2014 to support timely payment of office rent without the letters of credit being drawn on.

NERC has collected funding to offset future liabilities under lease agreements for the Atlanta and Washington, DC offices. The projected $3.~~6~~867,055M[1] yearend balance of these funds is being held as a ~~restricted~~segregated working capital reserve to offset these future liabilities. Pursuant to the company's Working Capital and Operating Reserve Policy these funds may also be made available to satisfy debt service reserve and liquidity requirements as set forth therein.

Operating Reserves – $2.8M Total (Known Contingency Category ($1.M) + Unforeseen Contingency Category ($1M) + Personnel Certification and Operating Training Excess Revenues ($767k))

Operating reserve amounts are divided into three categories: (1) known contingencies, (2) unknown contingencies, and (3) excess revenues from the Personnel Certification and Operator Training Programs. Management's proposal with respect to the amount of 2013 reserves for each of these categories is set forth below.

(1) Known Contingencies where timing and amount uncertain — $1M

   a. 2014 known contingencies include (i) funding of outside consultants in connection with FAC 3 vegetation research, (ii) higher than projected data base support and maintenance expenses, (iii) additional costs to develop a replacement PC-GAR applications (iv) financing expense associated with the higher than projected

[1] See Table B-1

software development and hardware costs and acceleration of the development of the RADS application to 2014 from 2015 and (v) funding of the cost of additional CONRAD devices to support ES-ISAC bi-directional communications.

(2) Unforeseen Contingencies — $1M

a. Represents a contingency for unknowns, including significant litigation, compliance with new governmental or regulatory mandates, consulting expense for experts in connection with review of significant system events and investigations, etc.

(3) System Operator Certification Program — $767k - The projected 12/31/13 reserve balance of the System Operator Certification Program is $1,206,746. The 2014 budget for expenses is $438,253 higher than anticipated funding from testing fees and certificate renewals, leaving a budgeted balance of $767,363 as of 12/31/14.

Total Working Capital + Operating Reserves – $6.4667,055M