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August 24, 2009

VIA ELECTRONIC FILING

Ms. Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: North American Electric Reliability Corporation
Docket No. RR09-____-000
Request for Acceptance of 2010 Business Plans and Budgets of NERC and
Regional Entities and for Approval of Proposed Assessments to Fund Budgets**

Dear Ms. Bose:

The North American Electric Reliability Corporation (NERC) hereby submits this filing in accordance with 18 C.F.R. §39.4, requesting acceptance of the 2010 Business Plans and Budgets of NERC, the eight Regional Entities and the Western Interconnection Regional Advisory Body, and approval of the proposed assessments to fund the 2010 budgets.

NERC's filing consists of: (1) this transmittal letter, (2) the narrative text of this filing which follows this transmittal letter, and (3) Attachments 1 through 20. Pages ii and iii in the Table of Contents to the narrative text list the 20 attachments. However, Attachment 15 has not been completed and, as submitted with this filing, is only a placeholder. As stated on pages 68-69 and 79 of the narrative text, NERC is requesting an extension of time and leave to submit Attachment 15 in a supplemental filing no later than September 18, 2009.

Please contact the undersigned if you have any questions concerning this filing.

Respectfully submitted,

/s/ Owen E. MacBride
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Attorney for North American Electric
Reliability Corporation

UNITED STATES OF AMERICA
Before the
FEDERAL ENERGY REGULATORY COMMISSION

NORTH AMERICAN ELECTRIC)
RELIABILITY CORPORATION) **Docket No. RR09-__-000**
)

REQUEST OF THE
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
FOR ACCEPTANCE OF ITS 2010 BUSINESS PLAN AND BUDGET AND
THE 2010 BUSINESS PLANS AND BUDGETS OF REGIONAL ENTITIES
AND FOR APPROVAL OF PROPOSED ASSESSMENTS TO FUND BUDGETS

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August 24, 2009

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ATTACHMENTS

Attachment 1: Summary tables showing NERC’s proposed 2010 budget and funding requirement by program; the proposed 2010 budget for statutory activities of each Regional Entity; the 2010 funding requirement for Section 215(j) activities requested by WIRAB; and the aggregate 2010 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 2010

Attachment 3: Florida Reliability Coordinating Council proposed Business Plan and Budget for 2010

Attachment 4: Midwest Reliability Organization proposed Business Plan and Budget for 2010

Attachment 5: Northeast Power Coordinating Council, Inc. proposed Business Plan and Budget for 2010

Attachment 6: ReliabilityFirst Corporation proposed Business Plan and Budget for 2010

Attachment 7: SERC Reliability Corporation proposed Business Plan and Budget for 2010

Attachment 8: Southwest Power Pool Regional Entity proposed Business Plan and Budget for 2010

Attachment 9: Texas Regional Entity proposed Business Plan and Budget for 2010

Attachment 10: Western Electricity Coordinating Council proposed Business Plan and Budget for 2010

Attachment 11: Western Interconnection Regional Advisory Body proposed Business Plan and Budget for 2010

Attachment 12: Discussion of Comments Received During Development of NERC's 2010 Business Plan and Budget.

Attachment 13: Calculation of Adjustments to the IESO 2010 NERC Assessment and the Québec 2010 NERC Assessment

Attachment 14: Status Report on the Achievement of NERC's 2009 Goals and Objectives, by Program.

Attachment 15: Metrics Comparing Regional Entity Operations Based on the 2010 Budgets (to be submitted in a supplemental filing by September 18, 2009).

Attachment 16: Metrics on NERC and Regional Entity Administrative (Indirect) Costs Based on the 2010 Budgets

Attachment 17: NERC and Regional Entity Audited Financial Statements for 2008.

Attachment 18: Changes from Budget versus Actual Reconciliation for 2008 for Texas Regional Entity, filed April 1, 2009, based on its Audited 2008 Financial Statements

Attachment 19: Status Report on Progress in Processing of Alleged Violations of Reliability Standards

Attachment 20: Report on Progress in Enhancing NERC's Data Collection and Verification Process for Reliability Assessments

I. INTRODUCTION

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

- (1) NERC's proposed Business Plan and Budget as the electric reliability organization (ERO), for the year ending December 31, 2010;
- (2) the proposed Business Plans and Budgets for the year ending December 31, 2010, for the eight Regional Entities:
 - 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 Regional Entity (SPP RE),
 - Texas Regional Entity (Texas RE), an independent division of the Electric Reliability Council of Texas (ERCOT), 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 Federal Power Act (FPA) for the year ending December 31, 2010; and
- (4) NERC's proposed allocation of the proposed statutory funding requirements of NERC, the Regional Entities and WIRAB by country and among the Regions, and the proposed assessments to the load-serving entities (LSE) within each Region to collect the allocated statutory funding requirements.

This filing includes the following attachments:

Attachment 1 is a set of summary tables showing (i) NERC's proposed 2010 budget by program and its proposed funding requirement, (ii) the proposed 2010 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 2010 Business Plan and Budget and the allocation of assessments by Region and LSE to recover the resulting statutory funding requirements for 2010 (as well as the assessments to recover the statutory funding requirements of the Regional Entities and WIRAB).

Attachments 3 through 11 contain the detailed 2010 Business Plans and Budgets of, respectively, FRCC, MRO, NPCC, ReliabilityFirst, SERC, SPP RE, Texas RE, WECC and WIRAB.

Attachment 12 contains a discussion of how comments submitted by interested entities on posted drafts of NERC's 2010 Business Plan and Budget during the budgeting process were addressed in the final 2010 Business Plan and Budget.

Attachment 13 contains the calculation of the adjustment to the IESO 2010 NERC assessment and the adjustment to the Québec 2010 NERC assessment, for credits for certain NERC Compliance Program costs.

Attachment 14 is a status report on progress in achieving the goals and objectives in NERC's 2009 Business Plan and Budget, by program.

Attachment 15 provides metrics, based on the 2010 budgets, comparing Regional Entity operations. **Attachment 15** has not been completed, and NERC is requesting leave to submit this Attachment in a supplemental filing by September 18, 2009.

Attachment 16 contains metrics, based on the 2010 budgets, on NERC and Regional Entity administrative (indirect) costs

Attachment 17 contains the audited financial statements of NERC and each Regional Entity for the 12 months ended December 31, 2008.

Attachment 18 provides information on changes from the budget versus actual reconciliation for 2008 of Texas Regional Entity filed with the Commission on April 1, 2009, based on Texas RE's audited financial statements for 2008, as directed in the Commission's Order issued June 19, 2008 in Docket No. RR07-16-003.¹

Attachment 19 contains a status report on the progress of NERC and the Regional Entities in processing alleged violations of reliability standards, as directed in the Commission's Order issued July 16, 2009, in Docket Nos. RR08-6-002 and RR07-14-003.²

Attachment 20 contains a report on NERC's progress in enhancing its data collection and verification systems for its reliability assessments, as directed in the *July 16, 2009 Budget Compliance Order*.³

¹ *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 123 FERC ¶ 61,282 (2008) (*June 19, 2008 Budget Compliance Order*), at P 40.

² *North American Electric Reliability Corporation, Order on Compliance Filing*, 128 FERC ¶ 61,025 (2009) (*July 16, 2009 Budget Compliance Order*), at P 18.

³ *July 16, 2009 Budget Compliance Order* at P 20.

The Commission's regulations require the ERO to file its proposed entire annual budget for statutory and non-statutory activities with the Commission 130 days before the beginning of the ERO's fiscal year. NERC's 2010 fiscal year will begin January 1, 2010. The filing must also contain the entire annual budget of each Regional Entity for statutory and non-statutory activities and include supporting materials, including the ERO's and each Regional Entity's complete business plan and organization chart, and explanation of the proposed collection of all dues, fees and charges and the proposed expenditure of funds collected.⁴ The information required by 18 C.F.R. §39.4(b) is included in this filing. In accordance with 18 C.F.R. §39.4(c), NERC requests issuance of an order by November 2, 2009, accepting the proposed Business Plans and Budgets, and approving the proposed assessments, submitted in this filing.⁵ Entry of the Commission's order by November 2, 2009 will enable billings to be issued to the LSEs or their designees for assessments with initial payment dates commencing on or about January 1, 2010, to support the activities of NERC and the Regional Entities during 2010.

⁴ 18 C.F.R. §39.4(b).

⁵ 18 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." For reference, NERC notes that: (i) the Commission conditionally approved NERC's 2007 budget and funding requirement and the proposed 2007 budgets and funding requirements of the Regional Entities and WIRAB in an order issued October 24, 2006 and two subsequent orders (*North American Electric Reliability Corp.*, 117 FERC ¶ 61,091 (2006) (*2007 Budget Order*), *order on reh'g and establishing technical conference*, 118 FERC ¶ 61,111, *order on reh'g*, 119 FERC ¶ 61,059 (2007)); (ii) the Commission conditionally approved NERC's 2008 budget and funding requirement and the proposed 2008 budgets and funding requirements of the Regional Entities and WIRAB in an order issued October 18, 2007 (*North American Electric Reliability Corp.*, 121 FERC ¶ 61,057 (2007) (*2008 Budget Order*)); and (iii) the Commission approved NERC's 2009 budget and funding requirement and the proposed 2009 budgets and funding requirements of the Regional Entities and WIRAB in an order issued October 16, 2008 (*North American Electric Reliability Corp.*, 125 FERC ¶ 61,056 (2008) (*2009 Budget Order*)) and the *July 16, 2009 Budget Compliance Order*.

II. NOTICES AND COMMUNICATIONS

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

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III. OVERVIEW OF PROPOSED BUDGETS AND FUNDING REQUIREMENTS

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

1. Organization of NERC's 2010 Business Plan and Budget

In this filing NERC seeks acceptance of its 2010 Business Plan and Budget. NERC's 2010 Business Plan and Budget is organized based on five specific program areas. Each of these program areas carries out or supports implementation of one or more of the statutory activities of the ERO as specified in §215 of the FPA and the Commission's regulations: development of reliability standards for the bulk power system (§215(d) of the FPA; 18 C.F.R. §39.5); enforcement of compliance with reliability standards, including imposition of penalties and sanctions for violations (§215(e) of the FPA; 18 C.F.R. §39.7); and conducting periodic assessments of the reliability and adequacy of the bulk power system in North America (§215(g) of the FPA; 18 C.F.R. §39.11). Specifically:

- (1) The Reliability Standards Program implements the statutory activity of development of reliability standards.
- (2) The Compliance Monitoring and Enforcement and Organization Registration and Certification Program implements the statutory activity of enforcement of compliance with reliability standards, including imposition of penalties and sanctions for violations of standards.
- (3) The Training, Education and Personnel Certification Program supports the statutory activity of enforcing and achieving compliance with reliability standards, and also provides information and feedback that supports the statutory activity of development of reliability standards.
- (4) The Reliability Assessment and Performance Analysis Program implements the statutory activity of conducting periodic assessments of the reliability and adequacy of the bulk power system in North America. This program also provides information and feedback that supports the statutory activities of development of reliability standards and achieving compliance with reliability standards, and includes NERC's metrics, benchmarking and event analysis activities.
- (5) The Situation Awareness and Infrastructure Security Program supports the statutory activity of enforcing and achieving compliance with reliability standards, and also provides information and feedback that supports the statutory activities of development of reliability standards and conducting assessments of the reliability and adequacy of the bulk power system. This Program is also responsible for NERC's activities regarding critical infrastructure protection (CIP) and the Electricity Sector Information Sharing and Analysis Center (ES-ISAC).

The information required by 18 C.F.R. §39.4(b) is contained in NERC's Business Plan and Budget, **Attachment 2** to this filing. The Introduction and Executive Summary summarizes NERC's total resource requirements for 2010 including statutory FTEs, statutory expenses, and required ERO funding assessments, and shows the distribution of the total net energy for load (NEL) to be used for allocating the ERO funding requirement among the U.S., Canada and Mexico.⁶ It also highlights NERC's priority areas of focus for 2010, including executing NERC's mission while improving the efficiency of NERC's operations and improving efficiency

⁶ All of NERC's programs are statutory programs. NERC has no non-statutory activities planned or budgeted for 2009.

among NERC and the Regional Entities, and continuing to focus on reliability enhancement initiatives. Finally, the Introduction and Executive Summary identifies the areas of NERC's activities in which additional staffing and other resources are needed for 2010, and explains the need for these additional resources.

Section A of **Attachment 2** is NERC's Business Plan for 2010. The Business Plan is designed to address the requirements of 18 C.F.R. §39.4(b), the Commission's Order certifying NERC as the ERO,⁷ and applicable directives in subsequent Commission orders. The Business Plan provides detailed scope and functional descriptions, budget assumptions and cost impacts, goals and objectives, and resource requirements for 2010 for each of NERC's statutory programs and administrative services departments. The Business Plan includes a table at the start of the section on each program and administrative department showing total FTEs, total direct expenses, total indirect expenses⁸, increase or decrease in fixed assets, and funding requirements for the program or department as presented in the 2010 Budget with the comparable data from NERC's 2009 Budget and the increase or decrease from the 2009 Budget.⁹ Finally, a detailed Statement of Activities, along with an explanation of significant variances from the 2009 Budget to the 2010 Budget, is provided for each program and administrative department. The Statements of Activities show funding and expense information from the 2009 Budget, the 2009

⁷ *Order Certifying North American Electric Reliability Corporation as the Electric Reliability Corporation and Ordering Compliance Filing*, 116 FERC ¶ 61,062 (2006) (*ERO Certification Order*), at P 202.

⁸ Indirect expenses are the amount of Administrative Services expenditures that have been allocated to each of the statutory programs on the basis of numbers of FTEs in each program.

⁹The 2009 Budget data is from the revised 2008 Budget submitted in NERC's December 15, 2008 compliance filing to the 2009 Budget Order. *Compliance Filing of the North American Electric Reliability Corporation in Response to October 16, 2008 Order on 2009 Business Plans and Budgets*, filed December 15, 2008 (*December 15, 2008 Budget Compliance Filing*).

Projection¹⁰ and the 2010 Budget, as well as variances from the 2009 Budget to the 2009 Projection and from the 2009 Budget to the 2010 Budget.

In the Statements of Activities, funding is shown from ERO Assessments and from other potential sources (such as testing fees and fees from workshops). Expenses are shown by the major categories (and sub-categories) of Personnel Expenses (Salaries, Payroll Taxes, Benefits and Retirement Costs), Meeting Expenses (Meeting, Travel and Conference Calls), and Operating Expenses (Consultants & Contracts, Office Rent, Office Costs, Professional Services, Depreciation and Miscellaneous). Operating Expenses also includes a line item for Efficiency Improvements, which is the portion assigned to each statutory program by management of \$750,000 in efficiency improvements and savings that are embedded in the 2010 Budget as part of a comprehensive and ongoing operations efficiency review.

For 2010, NERC and the Regional Entities have adopted several changes in accounting methodology for presentation of their budgets, which are detailed on page 14 of **Attachment 2**.

The more significant of these changes include:

- All expenses for the administrative services programs (referred to as indirect expenses) are allocated to the statutory programs based on the ratio of their respective FTEs to the total FTEs for all the statutory programs.¹¹
- Capital expenditures are broken out as Fixed Assets at the end of each Statement of Activities rather than being included within the related expense line items under Operating Expenses, as has been done in the previous years' budgets.¹² Line item

¹⁰ The 2009 Projection is NERC's current projection of the actual 2009 financial results, based on the 2009 Budget and actual and anticipated results and developments during 2009.

¹¹ This change, in particular, may result in apparent increases in budgeted 2010 total expenses for some statutory programs over the 2009 Budget and apparent decreases in budgeted 2010 total expenses for other programs, which are in fact a function, in whole or in part, of this change in accounting methodology. This comment also applies to the Regional Entity budgets.

¹² NERC and the Regional Entities have not previously shown capital expenditures separately in their budgets and actual financial results. The development and presentation of separate

capital expenditures are shown for Computers and Software, Furniture and Fixtures, Equipment, and Leasehold Improvements.

- Operating Expenses include a line item for Depreciation, however, funding is not being requested for Depreciation.¹³ Therefore, Depreciation is deducted from the funding requirement for capital expenditures (Fixed Assets).
- The increment or decrement to assessments to achieve the desired Working Capital Reserve is reflected as the Total Change in Assets at the bottom of the Statements of Activities. In the 2009 budgets, this amount was reflected as Other Non-Operating Expenses on the Statements of Activities.

In the *2009 Budget Order*, the Commission “direct[ed] NERC to include as part of the 2010 Business Plan and Budget a definition of the term ‘indirect costs’ that shall be applied consistently by NERC and each Regional Entity.”¹⁴ In response to this directive, in the preparation of their 2010 budgets, NERC and the Regional Entities have specifically focused on (1) assigning to the five statutory programs all costs (but only those costs) that can be directly attributed to a statutory program (*i.e.*, direct costs), and (2) assigning all other costs to the applicable administrative services area (*i.e.*, indirect costs), to be allocated to the statutory programs on the basis stated in the first bullet above. Thus, “indirect costs” are those costs that cannot be directly attributed to one of the five statutory programs.¹⁵

Section B of **Attachment 2** presents NERC’s detailed proposed 2010 Budget. Section B contains a Statement of Activities for the overall 2010 Budget (Table 1) in the same format and

operating and capital expenditure budgets is consistent with generally accepted accounting principles (GAAP).

¹³ NERC and the Regional Entities have not previously shown Depreciation as a separate operating expense line item in their budgets and actual financial results.

¹⁴ *2009 Budget Order* at P 51.

¹⁵ Further granularity in charging administrative costs to individual statutory programs could be achieved with more sophisticated cost tracking systems and devoting more resources to this task, but achieving greater granularity would involve a cost-benefit trade-off between the value of the more detailed information and the additional costs that would need to be expended to obtain it.

level of detail (and reflecting the changes in accounting methodology) as described above. It also contains NERC's organizational charts for 2009 and 2010 (Tables 3 and 4) and an analysis of FTEs and changes by program area in the 2009 Budget, 2009 Projection and 2010 Budget (Table 2¹⁶). Section B contains an analysis of NERC's Working Capital Reserve for 2009 and 2010, showing the calculation of the adjustment to the proposed 2010 assessments necessary to achieve the desired working capital reserve at December 31, 2010 (Table 5).¹⁷ Table 6 of Section B shows the 2008 NEL by Regional Entity and by country and the total 2008 NEL by country, which data is used in allocating the NERC and Regional Entity funding requirements.¹⁸ Table 7 provides NERC's projections of funding requirements and expenses for 2011 and 2012. Tables B-1 through B-7 in Section B provide more detailed data for the several funding and expense categories, for the 2009 Budget, 2009 Projection and 2010 Budget.¹⁹

¹⁶ In the NERC and Regional Entity 2010 Business Plans and Budgets, Table 2 has been revised from the format used in previous years, to identify shared FTEs (if any), by program, in the entity's 2010 budget. A "shared FTE" is an employee who performs both statutory and non-statutory functions.

¹⁷ As shown on Table 5 in **Attachment 2**, NERC projects a Working Capital Reserve deficit of \$469,043 at December 31, 2009, and is budgeting to return the Working Capital Reserve to \$0 at December 31, 2010, which requires an increment of \$469,043 to the requested 2010 assessments. Although the NERC Board has previously established a Working Capital Reserve target of \$2,500,000, the Board has determined, in light of the need for increases in other areas of the 2010 Budget, that NERC will rely on its available \$4,000,000 line of credit to fund temporary cash flow shortfalls during 2010.

¹⁸ NEL data for 2008 is the most current actual NEL data available as of August 2009. As was the case in allocating the NERC and Regional Entity statutory funding requirements by country and by Region and calculating the assessments to LSEs or their designees for 2007, 2008 and 2009, the allocation of funding requirements and calculation of assessments for the 2010 Budget is based on NEL data for the second preceding calendar year, 2008.

¹⁹ The funding and expense categories detailed in these tables are Penalty Sanctions Received Prior to June 30, 2009; Supplemental (*i.e.*, non-assessment) Funding; Personnel Expenses; Consultants and Contracts; Office Rent; Office Costs; and Professional Services.

Section C of **Attachment 2** is reserved for presentation of business plan and budget information on non-statutory activities. This section is empty for NERC, but includes business plan and budget information for those Regional Entities that have non-statutory activities.

Section D of **Attachment 2** provides NERC's Statement of Financial Position – 2008 Audited, 2009 Projection, and 2010 Budget. NERC and the Regional Entities have not previously provided statements of financial position (assets and liabilities) in their budgets. Provision of this information is consistent with the movement to a budgeting and financial reporting system that is more consistent with GAAP.

Appendix 1 to **Attachment 2** contains a list of the principal assumptions developed and used by NERC and the Regional Entities in preparing their 2010 Business Plans and Budgets.

Appendix 2 to **Attachment 2** contains the calculation of the NEL-based allocation factors for each LSE and designee, and the allocation of the NERC and Regional Entity statutory funding requirements (assessments), by allocation methodology, to each LSE and designee. The allocations presented in the Appendices are discussed in more detail in §III.A.3 and §III.D.

The detailed information in Sections A and B of **Attachment 2** demonstrates that the programs included in NERC's 2010 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.²⁰ The discussion in Section A of **Attachment 2**, as

²⁰ *ERO Certification Order*, P 202 (budget principle (5)). The 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. NERC formally adopted these budget principles as part of its October 18, 2006 compliance filing in response to the *ERO Certification Order*. (*Compliance Filing of the North American Electric Reliability Corporation and North American Electric Reliability Council Addressing Non-Governance Issues*, at 5; see NERC Rules of Procedure, §1103.3.) The

well as in this narrative, demonstrates how the activities and expenditures included in NERC's 2010 Business Plan and Budget, lend themselves to accomplishment of NERC's statutory responsibilities and objectives as the ERO.²¹

2. Development of NERC's 2009 Business Plan and Budget

NERC prepared its 2010 Business Plan and Budget (and worked with the Regional Entities in the development of their business plans and budgets) through a rigorous process that provided ample opportunity for review by the Finance and Audit Committee of the NERC Board of Trustees, and for stakeholder comment, during the process.²² On February 3, 2009, the Finance and Audit Committee (FAC) of the NERC Board approved the proposed timeline for development of the NERC and Regional Entity 2010 Business Plans and Budgets to begin the budget process. NERC Finance and Accounting representatives met with the managers of the Regional Entities in March 2009 to discuss and agree upon a set of coordinated budget assumptions (*see* Appendix 1 to **Attachment 2**). NERC Finance and Accounting staff also met

Commission approved this aspect of that filing in its January 18, 2007, Order in Docket No. RR06-1-003, accepting in part and rejecting in part the October 18, 2006 compliance filing. *North American Electric Reliability Corp., Order on Compliance Filing* (Jan. 18, 2007).

²¹ *ERO Certification Order*, P 202 (budget principle (2)).

²² During the process of developing the 2010 Business Plans and Budget, comments (including specific comments on draft versions as well as comments on more general issues) were received from the Canadian Electricity Association; Edison Electric Institute (EEI); Electric Power Supply Association; Exelon Corporation; FRCC; Hydro-Québec TransÉnergie; the Ontario Independent Electric System Operator; the ISO-RTO Council Standards Review Committee; Manitoba Hydro; National Rural Electric Cooperative Association; NPCC; Pacific Power, a Division of PacifiCorp; PNGC Power; SERC; and Southern Company Services, Inc. Additionally, comments were received from the following entities on the topic of allocation of responsibility between NERC and the Regional Entities for reviewing and processing technical feasibility exceptions (TFEs) to certain CIP standards, which impacts the 2010 Business Plans and Budgets: American Transmission Company, Bonneville Power Administration, Duke Energy, EEI, Southwestern Power Administration, Tampa Electric Company, Virginia Electric and Power Company, and We Energies. **Attachment 12** discusses how concerns expressed in the comments were addressed in NERC's final 2010 Business Plan and Budget.

with counterparts from the Regional Entities in March 2009 to discuss the coordinated budget assumptions agreed to by NERC and the Regional Managers, changes in accounting methodology to be implemented in the 2010 budget process, and the 2010 budget template which had been distributed prior to the meeting. During March and April of 2009, NERC management and staff provided detailed input on program goals and objectives and personnel and spending requirements for 2010. Based on this input, an initial overview draft (Draft 1) of the NERC 2010 Business Plan and Budget, dated May 5, 2009, was provided to the FAC. The FAC discussed Draft 1 at a meeting on May 5, which was open to stakeholder representatives.

Thereafter, full-text drafts of the Business Plan and Budget were posted for comment on the NERC website on June 24 (Draft 2) and July 22, 2009 (Draft 3). Draft 2, and the comments that had been received on Draft 2, were discussed at a FAC meeting (conference call) on July 17, 2009, which was also open to stakeholder representatives. Draft 3 of the Business Plan was reviewed and discussed at meetings of the FAC (with the Member Representatives Committee (MRC) participating) on August 4, 2009, and the full NERC Board of Trustees on August 5, 2009. At its August 5 meeting, Draft 3 was approved by the Board as the final Business Plan and Budget for submission to the Commission. At the August 5 meeting, the NERC Board also approved the 2010 Business Plans and Budgets of the Regional Entities, the 2009 budget submitted by WIRAB, and the proposed assessments to recover the related funding requirements. Subsequently, in a meeting on August 20, 2009, the NERC Board approved revised versions of the 2010 Business Plans and Budgets of MRO, ReliabilityFirst, Texas RE and SPP RE which had been supplemented to include additional resources these Regional Entities had determined were needed to adequately carry out their responsibilities for processing TFEs to certain CIP reliability standards (see further discussion in §III.B and §V). In the August 20 meeting, the

NERC Board also approved the proposed 2010 assessments to LSEs and designees to recover the 2010 statutory funding requirements for NERC, the Regional Entities and WIRAB.

In summary, the processes followed by NERC to develop its proposed 2010 Business Plan and Budget were thorough and comprehensive, involved significant input from NERC executive management and senior staff as well as iterative review and comment by the Finance and Audit Committee of the NERC Board and the MRC, and provided significant opportunity for stakeholder input and comment. The process was open and inclusive at all steps.

3. Summary of NERC's Proposed 2010 Budget and Funding Requirement

NERC's proposed 2010 Budget is \$40,088,365. This total encompasses U.S., Canadian and Mexican activities. The proposed 2010 Budget represents an increase of \$4,082,137 (11.3%) over the 2009 Budget and an increase of \$3,917,071 (10.8%) over the 2009 Projection. The 2010 Budget is comprised of \$39,618,567 of Expenses (including Depreciation); a \$469,797 increase in Fixed Assets (Capital Expenditures of \$1,222,785 less Depreciation of \$752,988²³); and \$469,043 provision for the Working Capital Reserve.²⁴

As in past years, a portion of NERC's 2010 Budget will be funded through fees charged to participants and users in certain NERC programs, including the Operator Certification Program and the Continuing Education Program; through dues charged to participants in the Transmission Owners and Operators Forum;²⁵ through fees charged for NERC software and

²³ As noted earlier, an end result of this budget presentation is that funding is not being requested for Depreciation expense.

²⁴ The development of the budgeted \$469,043 provision for the Working Capital Reserve is discussed in §IV.B below and shown in Table 5 of Section B of **Attachment 2**.

²⁵ The Transmission Owners and Operators Forum is structured so that the Forum's costs are entirely funded by dues paid by the participants, so that assessment funding is not used to pay for the Forum's activities.

services such as Generating Availability Data System (“GADS”) data and pc-GAR; and by interest earned on bank balances and short-term investments.²⁶ In addition, the 2010 Budget reflects payments NERC will receive from certain Regional Entities for NERC’s performance of the compliance monitoring and enforcement function over reliability functions for which the Regional Entity is the registered entity.²⁷ These non-assessment sources of funding are projected to be \$3,493,839, resulting in a 2010 net funding requirement of \$37,063,569 to be funded by assessments to LSEs. Of this amount, \$33,257,992 is allocated to the U.S. Based on the

²⁶ Another potential source of non-assessment funding is penalty assessments paid by registered entities to NERC on or prior to June 30, 2009; however, as of that date, NERC had not received any penalty assessment payments. Several Regional Entities had received penalty assessment payments prior to June 30, 2009 that are being used as offsets to those Regional Entities’ overall funding requirements.

²⁷ The arrangements, including the compensation mechanisms and amounts, by which compliance monitoring and enforcement services will be provided for the reliability functions for which FRCC and SPP RE are the registered entities, have not been finalized. FRCC and SPP RE have been in discussions with SERC to perform this compliance role, and have indicated they will submit a proposed form of agreement to NERC in the near future. In the event an agreement is reached which is acceptable to all parties, NERC would not anticipate requiring the level of resources it has budgeted to perform this work in 2010. However, in the event such an agreement is not reached, NERC will need to add the resources it has budgeted for this work in 2010 (or perhaps sooner given the Commission’s directive that NERC perform audits of the SPP registered functions, *see Southwest Power Pool, Inc., Order Approving Audit Report, Determining Issue of Separation of Functions, and Directing Compliance and Other Corrective Actions*, 126 FERC ¶ 61,045 (2009)). Assuming NERC is the entity to perform the compliance enforcement function with respect to these FRCC and SPP RE reliability functions, NERC will also need to negotiate and put in place an agreement(s) with FRCC and SPP RE concerning performance of these compliance services and reimbursement for the costs, as was the case for NERC’s compliance enforcement role over WECC’s reliability coordinator function. (*See Further Status Report of the North American Electric Reliability Corporation and Western Electricity Coordinating Council in Response to Paragraph 226 of March 21, 2008 Commission Order*, and Attachment 1 thereto, filed November 21, 2008 in Docket Nos. RR06-1, RR07-7 and RR09-1.) With respect to WECC, NERC anticipates putting in place, during 2010, procedures to track and bill WECC for NERC’s fully allocated costs for performing these services.

aggregate NEL of the United States for 2008 on which the allocation of assessments is based,²⁸ the proposed U.S. net funding requirement for NERC represents \$0.0000084 per kilowatt-hour.

NERC’s 2010 Business Plan and Budget was developed and is organized based on its five statutory programs plus the Transmission Owners and Operators Forum (which, as noted, is completely self-funded) and the budgeted contribution to the Working Capital Reserve:

<u>Program</u>	<u>2010 Budget</u>
Reliability Standards	\$ 6,248,620
Compliance Enforcement and Organization Registration and Certification	\$14,717,513
Training, Education and Personnel Certification	\$ 2,713,631
Reliability Assessment and Performance Analysis	\$ 6,631,858
Situation Awareness and Infrastructure Security	\$ 8,148,934
Transmission Owners and Operators Forum	\$ 1,617,808
Contribution to Working Capital Reserve	<u>\$ 469,043</u>
	<u>\$40,557,407</u> ²⁹

The budgeted amounts for each program incorporate a total budget for Administrative Services (excluding the budget for the Transmission Owners and Operators Forum and \$10,000 of budgeted Administrative Services Expense that was offset by budgeted Interest Income) of \$11,268,789 which has been allocated to the budgets for the five statutory programs in proportion to the numbers of FTEs budgeted for each program.

The discussion in §IV below as well as the detailed discussion of each program in **Attachment 2** demonstrates that each of the statutory programs is necessary and appropriate to

²⁸ The NEL data for the U.S., Canada and Mexico, by Region, is provided in summary format on Table 6 of Section B of **Attachment 2**.

²⁹ Total shown of \$40,557,407 (rather than \$40,447,407) reflects that \$10,000 of budgeted Administrative Services Expense was offset by budgeted Interest Income prior to allocation of Administrative Services costs to the statutory programs.

the execution of NERC’s responsibilities as the ERO. Section A of **Attachment 2** describes the activities encompassed in each statutory program, including the 2010 assumptions, goals and objectives, and resource requirements for each statutory program, and provides the line item components of the budget for each program. The functions of and resource requirements (FTEs and external resources) and budgets for the NERC Administrative Services departments are also discussed in Section A of **Attachment 2**.

NERC proposes an allocation of its net funding requirement of \$37,063,569 to the Regional Entities as follows³⁰:

•	FRCC	\$1,974,371
•	MRO	\$2,473,517 ³¹
•	NPCC	\$4,788,703 ³²
•	RFC	\$7,854,376
•	SERC	\$8,649,090
•	SPP RE	\$1,886,912
•	TRE	\$2,481,329
•	WECC	\$6,955,272 ³³

³⁰ As described in §III.D below, the aggregate NERC funding requirement has been allocated to the Regions on the basis of (i) 8-Region NEL, (ii) 8-Region NEL excluding certain entities outside the U.S. from certain compliance and enforcement costs, and (iii) IDC Defined Shares (based on usage of the NERC interchange distribution calculator (“IDC”)). In addition, a portion of the assessment represents negotiated payments to NERC from La Régie de l’énergie du Québec (“Régie”) for providing certain compliance monitoring and enforcement services to the Régie for the Province of Québec. The detailed allocations of the NERC statutory funding requirement by allocation methodology are shown in Appendix 2 to **Attachment 2**.

³¹ The total allocation to MRO consists of \$2,065,574 allocated to the U.S. and \$407,943 allocated to Canadian provinces.

³² The total allocation to NPCC consists of \$2,444,385 allocated to the U.S. and \$2,344,317 allocated to Canadian provinces.

³³ The total allocation to WECC consists of \$5,901,955 allocated to the U.S., \$965,010 allocated to Canadian provinces and \$88,308 allocated to Mexico.

Appendix 2 to **Attachment 2** contains tables showing (i) the development of the NEL-based allocation factors used to allocate the NERC and Regional Entity funding requirements by country and among the Regional Entities,³⁴ and (ii) the allocation of the NERC and Regional Entity funding requirements by country and by Region.³⁵ Appendix 2 also contains tables showing the allocation of the NERC and Regional Entity funding requirements to the individual LSEs or designees within the footprint of each Regional Entity. These allocations are discussed in greater detail in §III.D below.³⁶

Other than user-related dues and fees for certain specific programs and services, payments from certain Regional Entities for performing the compliance monitoring and enforcement function over activities for which the Regional Entity is a registered entity, and interest on cash balances and short-term investments (all of which, as noted above, have been

³⁴ See Appendix 2A to **Attachment 2**.

³⁵ See Appendix 2B to **Attachment 2**.

³⁶ NERC will calculate and bill the assessments to certain entities, referred to as “designees”, based on NEL values that include the NEL for other LSEs served by the designee, or for which the designee 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. Additionally, the assessments for the NPCC region will be billed to ISO New England and the New York ISO (and to similar entities in Ontario, Québec, New Brunswick and Nova Scotia), each of which will be responsible for billing and collecting assessments from the LSEs within their respective footprints. Similarly, the assessments for the Texas RE region will be billed entirely to ERCOT, which will be responsible for collecting the aggregate regional assessment from entities within Texas RE.

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 18 C.F.R. §39.4(e) and equivalent collections from entities in Canada (including payments from the Québec Régie) and Mexico.³⁷

B. Regional Entity Proposed 2010 Budgets

Section 39.4(b) of the Commission's regulations 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 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 2010 is provided in the individual Regional Entity Business Plans and Budgets in **Attachments 3 through 10**.

The Regional Entity budgets for statutory activities that are to be funded through NERC are the budgets for the functions and activities relating to development of reliability standards; compliance monitoring and enforcement and organization registration and certification; training, education and personnel certification; reliability assessment and performance analysis (including

³⁷ In the *2007 Budget Order*, the *2008 Budget Order* and the *2009 Budget Order*, the Commission found that the five NERC programs on which the 2010 Business Plan and Budget is based are statutory activities. *2007 Budget Order* at P 28; *2008 Budget Order* at P 21; *2009 Budget Order* at P 18. As noted earlier, NERC's 2010 Business Plan and Budget includes no non-statutory activities, and the Transmission Owners and Operators Forum is funded completely by its members' dues. Therefore, NERC has not developed or presented specific accounting processes to separate the funding of its statutory and non-statutory activities and to assure that funding derived from § 215 of the FPA will exclusively support statutory activities.

necessary data gathering activities); and situation awareness and infrastructure security, that have been delegated by NERC to the Regional Entity pursuant to the Commission-approved delegation agreements; as well as each Regional Entity's budgeted costs for administrative services.³⁸ Funding the Regional Entities will enable them to carry out the activities necessary in 2010 to meet their responsibilities under the approved delegation agreements.

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."³⁹ NERC staff provided guidance to the Regional Entities on the expected scope and content of their business plan and budget submissions, and worked collaboratively with the Regional Entities to develop a template for the Regional Entities' 2010 Business Plans and Budgets. The template represents a further evolution of the templates that were used for the Regional Entities' 2008 and 2009 Business Plans and Budgets, and facilitates increased ability to make comparisons among the Regional Entities' budgets. NERC and the Regional Entities also worked collaboratively to develop (1) a set of consistent, common business plan and budget assumptions for 2010 to be used by each Regional Entity in preparing its budget, (2) a set of consistent accounting principles for presentation of the budgets, including the changes in accounting methodology listed on page 14 of **Attachment 2**, and (3) a definition of

³⁸ WECC's proposed budget for statutory functions includes the cost of WECC's reliability coordinator function. In its order on rehearing issued April 19, 2007, in Docket No. RR06-3-001, the Commission determined WECC's reliability coordinator function is a statutory activity the costs of which can be recovered through the statutory funding and assessment mechanism. *North American Electric Reliability Corp., Order on Rehearing*, 119 FERC ¶61,059 (2007).

³⁹ *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*), at P 229.

administrative (indirect) costs that would be applied consistently (as described in greater detail below and in **Attachment 16**).

NERC provided a business plan and budget template and a budget procedures document to the Regional Entities in early March 2009. After meeting with the Regional Managers, NERC and Regional Entity finance and accounting representatives met on March 19 to discuss changes to the 2010 business plan and budget development process from the process used in prior years. During March and April of 2009, NERC worked with the Regional Entities to further develop the standard format, budgeting assumptions and accounting methodology to be used in preparation of the individual Regional Entity business plans and budgets and to make them consistent and transparent. A conference call was held on April 19, 2009 to further discuss changes in accounting methodologies in the 2010 budget and the definition and allocation of indirect costs. The Regional Entities submitted initial drafts of their 2010 Business Plans and Budgets to NERC in early May 2009, submitted revised drafts in late May, and submitted final, complete versions of their 2010 Business Plans and Budgets (including non-statutory activities), as approved by their respective governing bodies, to NERC in early July 2009.⁴⁰

The draft Business Plans and Budgets submitted by the Regional Entities were reviewed by NERC's Finance and Accounting staff during May, June, July and August, 2009; where appropriate, additional information was requested and other suggestions for changes were made. NERC staff also both reviewed and commented on the draft business plans and budgets submitted by the Regional Entities, and reviewed the internal processes used by each Regional Entity to develop its budget, to verify that these processes were rigorous. These reviews

⁴⁰ However, as discussed below, following the August 5 NERC Board meeting, several Regional Entities submitted revised Business Plans and Budgets which included additional resources for reviewing and processing Technical Feasibility Exceptions to certain CIP standards; these revised Business Plans and Budgets were approved by the NERC Board on August 20, 2009.

included individual conferences with each Regional Entity. NERC's reviews focused on (1) verifying each Regional Entity's Business Plan and Budget provided for sufficient resources to adequately carry out the functions delegated to the Regional Entity under the delegation agreement, (2) verifying that the Regional Entity was using the common budgeting assumptions, common budget format and presentation, and agreed accounting methodology, and (3) understanding the bases for any significant differences in amounts budgeted by different Regional Entities for the same function. Through the processes described above (including NERC's review of the revised Business Plans and Budgets submitted by several Regional Entities to add resources necessary for reviewing and processing TFEs), NERC has been able to satisfy itself that each Regional Entity's 2010 Business Plan and Budget provides for necessary and adequate resources to carry out the Regional Entity's delegated functions.⁴¹

The Regional Entities submitted their final 2010 Business Plans and Budgets, approved by their respective governing bodies, to NERC, in early July 2009. These Business Plans and Budgets were submitted to the NERC MRC, the Finance and Audit Committee of the NERC Board, and the NERC Board of Trustees, which discussed them at the meetings held on August 4 and 5 (full Board), 2009. The Regional Entities' 2010 Business Plans and Budgets were approved by the NERC Board of Trustees at the August 5, 2009 meeting.⁴²

⁴¹ As noted in §III.A.3 above, the compensation mechanisms and amounts by which those Regional Entities that are performing registered entity functions will compensate another entity for performing the compliance monitoring and enforcement role with respect to those functions, are still being finalized by NERC and the applicable Regional Entities.

⁴² In reviewing the Regional Entity Business Plans and Budgets, and in accordance with the Commission's directive in the *ERO Certification Order*, NERC afforded the proposed Regional Entity Business Plans and Budgets no presumption of reasonableness due to having been approved by the Regional Entities' governing bodies. See *ERO Certification Order* at P 203.

The budgeting of resources for reviewing, processing and auditing TFEs to certain CIP standards claimed by registered entities, which will be a new activity expected to begin in late 2009 or in 2010, has been a source of particular difficulty in the development of the Regional Entity (and NERC) 2010 Business Plans and Budgets. The allocation of responsibility for receiving, reviewing, processing and auditing TFEs has been a subject of considerable discussion and comment among NERC, the Regional Entities, registered entities and other stakeholders during the period of March through August, 2009. In mid-March 2009, NERC posted for a 45-day comment period a proposed new Appendix to its Rules of Procedure addressing the submission, processing and auditing of TFEs. Under this draft TFE Procedure, TFEs would be submitted to NERC, most of the review and processing of TFEs would be done by NERC, and Regional Entities would have limited or no role in reviewing and processing TFEs. Consistent with this proposal, initial drafts of the NERC Business Plan and Budget contained resources for processing TFEs, while drafts of the Regional Entity Business Plans and Budgets did not include resources for this activity. However, many commenters (including some Regional Entities) on the proposed TFE Procedure expressed the opinion that the Regional Entities, not NERC, should have primary responsibility for receiving, reviewing, processing, and auditing TFEs, with NERC performing an oversight function over the Regional Entities' activities.⁴³ (Similar views were expressed by a number of commenters on posted drafts of NERC and Regional Entity Business Plans and Budgets.)

On July 1, 2009, NERC issued NERC Compliance Process #2009-006 to provide guidance concerning the applicability and implementation of CIP standards that provide for

⁴³ The originally-posted proposed TFE Procedure, and the comments received from stakeholders, are available at <http://www.nerc.com/page.php?cid=1/8/169>.

TFEs, pending adoption of a permanent program to address TFEs.⁴⁴ Compliance Process #2009-006 provides for registered entities to submit TFEs to the applicable Regional Entity, not to NERC, and for Regional Entities to review, process and audit TFE submittals.

Consistent with the general direction of the comments on the proposed TFE Procedure and the approach taken in Compliance Process #2009-006, Drafts 2 and 3 of the NERC Business Plan and Budget removed resources originally included for processing TFEs; however, the Regional Entity Business Plans and Budgets that were being finalized in June and submitted to NERC in early July, and were approved by the NERC Board on August 5, 2009, did not include specific provision for resources or funding for the activities of reviewing, processing and auditing TFEs. Accordingly, following the August 5 Board meeting, and based on consultation among NERC and the Regional Entities, four Regional Entities (MRO, ReliabilityFirst, SPP RE and Texas RE) submitted revised Business Plans and Budgets to include additional resources that these Regional Entities determined were necessary to carry out their responsibilities for reviewing and processing TFEs. The revised Business Plans and Budgets of these four Regional Entities were approved by the NERC Board on August 20, 2009. The other four Regional Entities (FRCC, NPCC, SERC, WECC) have not submitted revised Business Plans and Budgets with specific resources provided for the TFE review and processing activities. These latter four Regional Entities believe they can handle any work required during 2010 to process TFEs with

⁴⁴ Available at http://www.nerc.com/files/2009-006_Public%20Notice-V1.pdf.

existing (budgeted) staffing and resources and, if needed, can fund these activities by drawing on their Working Capital Reserves during 2010.⁴⁵

However, because the scope of work and resources that will be required to review, process and audit TFEs are still uncertain and will become clear only with experience, it is possible that one or more Regional Entities will need to submit a supplemental budget and funding request during 2010 to provide for additional resources and funding for its TFE processing activities. The same is true for NERC as the scope of its oversight role over the Regional Entities' TFE processing and audit activities, and the resources required for this role, evolve during 2010.

The table below shows the total budget amounts for statutory and (where applicable) non-statutory functions for each Regional Entity as presented in their respective Business Plans and Budgets (**Attachments 3-10**).⁴⁶ In addition, because several Regional Entities have other sources of income (*e.g.*, fees for workshops) 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 shows the statutory funding requested for each Regional Entity, taking into account other sources of income. For all Regional Entities, the budget for statutory functions includes total expenses and fixed asset acquisitions. The requested statutory funding amounts include amounts to achieve the level of Working Capital Reserve at December 31, 2010, determined to be appropriate by each Regional Entity.

⁴⁵ The discussion of the individual Regional Entity Business Plans and Budgets in §V below provides further information on the provision each Regional Entity has made for 2010 for carrying out and funding its TFE processing activities.

⁴⁶ MRO, Reliability*First* and SERC do not plan to perform any non-statutory activities in 2009.

Regional Entity	Budget for Statutory Functions	Budget for Non-Statutory Functions	Requested Statutory Funding
FRCC	\$ 5,421,187	\$ 4,205,049	\$ 4,938,176
MRO	\$ 7,366,117	-----	\$ 7,503,745 ⁴⁷
NPCC	\$ 11,354,085	\$ 1,099,307	\$11,500,439 ⁴⁸
ReliabilityFirst	\$ 14,184,713	-----	\$14,345,192
SERC	\$ 10,701,683	-----	\$ 9,831,277
SPP RE	\$ 8,138,783	\$106,114,217 ⁴⁹	\$ 6,755,854
Texas RE	\$ 6,920,642	\$1,153,772	\$ 6,660,377
WECC	\$39,508,558	\$ 882,348	\$39,132,458 ⁵⁰

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 215(j) of the FPA can be funded through the overall ERO funding process.⁵¹ As specified in P 35 of the *WIRAB Order*, WIRAB submitted to NERC a proposed 2010 Business Plan and Budget for Section 215(j) activities, which is included in **Attachment 11**. NERC has reviewed WIRAB’s submission and believes it complies with the requirements of P 35 of the *WIRAB Order*. WIRAB’s proposed 2010 Budget for expenses is \$616,810, which is an increase of

⁴⁷ The requested ERO funding for MRO consists of \$6,266,196 allocated to the U.S. and \$1,237,549 allocated to Canadian provinces.

⁴⁸ The requested ERO funding for NPCC consists of \$6,551,760 allocated to the U.S. and \$4,948,679 allocated to Canadian provinces.

⁴⁹ The figure of \$106,174,217 is the total 2009 budget of Southwest Power Pool, Inc. less the 2010 Budget of the SPP Regional Entity for statutory activities of \$8,138,783. The overall annual budget of Southwest Power Pool, Inc. is prepared on a schedule that will not result in approval of its 2010 budget until October 2009. See §V.B.6 below and pages 54-55 of **Attachment 8**.

⁵⁰ The requested ERO funding for WECC consists of \$33,469,113 allocated to the U.S., \$5,162,566 allocated to Canadian provinces and \$500,779 allocated to Mexico.

⁵¹ *Order on Petition to Establish a Regional Advisory Body for the Western Interconnection*, Docket No. RR06-2-000, 116 FERC ¶61,061 (2006) (*WIRAB Order*), P 33-37.

\$21,000 from the 2009 Budget. The 2010 Budget will be funded by estimated unspent funds at the end of 2008 of \$174,862, interest income of \$3,567, and a proposed assessment of \$438,381.

WIRAB's overall statutory funding request of \$438,381 for 2010 consists of \$371,992 allocated to the U.S., \$60,823 allocated to Canadian provinces and \$5,566 allocated to Mexico. At its August 5, 2009 meeting, the NERC Board of Trustees approved WIRAB's 2010 Budget request.

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

The total ERO assessment funding requirement for 2010 (net of other NERC and Regional Entity income sources) is \$138,169,469, consisting of \$37,063,569 for funding of NERC's programs, \$100,667,519 for funding of Regional Entity statutory activities, and \$438,381 to fund the WIRAB. NERC has allocated its net funding requirement of \$37,063,569 to the Regions primarily on the basis of NEL, with the exceptions described below.⁵²

First, the costs of operating and maintaining NERC's IDC, which is used only in the Eastern Interconnection, were allocated to the six Regions in the Eastern Interconnection based on usage levels of the IDC ("IDC Defined Share"). The IDC Defined Share allocation approach is reasonable and equitable because it allocates the cost of this function based on its actual use by region, and does not assess the costs of the IDC to entities in Texas RE and WECC.

Second, an allocation based on the 8-Region NEL was used to allocate \$18,347,473 of the total NERC funding requirement to the Regions. In accordance with its "Expanded Policy on Allocation of Certain Compliance and Enforcement Costs," NERC has made adjustments in the

⁵²See Table 6 in Section B of **Attachment 2** for the 2008 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 Canadian provinces (and in the case of WECC, Mexico). As noted earlier, the year 2008 is the most recent calendar year for which NEL data is available.

calculations of the assessments to the IESO and to Québec, to provide credits for certain NERC Compliance Program costs. These adjustments recognize that one entity outside the U.S. (the IESO) expends resources to perform compliance and enforcement activities outside the U.S. that otherwise would be performed by NERC or a Regional Entity, and that the compliance and enforcement resources NERC needs for another jurisdiction outside the U.S. (Québec) are reduced due to the very small number of entities subject to compliance and enforcement activities in that jurisdiction.⁵³ **Attachment 13** shows the calculations of these adjustments to the allocations to the IESO and Québec. These calculations have been reviewed with the IESO and La Régie de l'énergie du Québec, and they have each agreed with and accepted the calculations.

NEL has also been used to allocate the Regional Entity assessments, with these exceptions: First, 55% of NPCC's Compliance Monitoring and Enforcement and Organization Registration and Certification (CORC) Program costs have been allocated among the six Balancing Authority Areas in NPCC on the basis of NEL, and 45% of the CORC costs have been allocated between the U.S. and Canadian Balancing Authority Areas using a compliance audit-based methodology. The NPCC audit-based methodology was explained at pages 71-75 of the *December 15, 2008 Budget Compliance Filing*. As directed in the *July 16, 2009 Budget Compliance Order*, at PP 38-41, the portion of NPCC CORC costs allocated to the U.S. using the compliance audit-based methodology has been allocated between the New England and New York Balancing Authority Areas on the basis of NEL.

⁵³ The Commission accepted NERC's "Expanded Policy on Allocation of Certain Compliance Costs" in the *July 16, 2009 Budget Compliance Order*, at P 42, finding that the Expanded Policy "provides reasonable guidelines for cost allocation in specific circumstances described in the document."

Second, WECC’s allocation of its assessment to the Alberta Electric System Operator (AESO) for the Province of Alberta has been reduced by \$289,238, representing WECC Compliance Monitoring and Enforcement Program costs that are duplicative of programs of the AESO. WECC, NERC and the AESO are in the process of negotiating a memorandum of understanding concerning the relationship among the three entities that would establish a basis for such credits in the assessments to AESO, but the memorandum has not yet been finalized. The AESO credit amount was allocated to the remainder of the LSEs (Balancing Authorities) in the WECC Region on the basis of NEL.⁵⁴

After allocating the appropriate portions of the NERC, Regional Entity and WIRAB funding requirements to Canadian provinces and Mexico (taking into account the NEL-based allocations, the adjustments to the NERC and NPCC allocations to the IESO and Québec based on the “Expanded Policy on Allocation of Certain Compliance and Enforcement Costs,” and the adjustment to the WECC assessment to AESO), the total ERO funding requirement for 2010 allocable to U.S. end users for which Commission approval is sought in this filing is \$122,447,930, consisting of:

NERC Funding:	\$33,257,992
Regional Entity Funding:	\$88,817,946
WIRAB Funding:	\$ 371,992

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

⁵⁴ See Table 6 on page 66, and Appendix 1 on page 85, of the WECC 2010 Business Plan and Budget, **Attachment 10** to this filing. Appendix 1 shows the calculation of the \$289,238 adjustment to the assessment to AESO.

2010 ERO funding requirement of \$122,447,930 for U.S. statutory activities of NERC, the Regional Entities and WIRAB. The table also shows the funding requirements per kWh based on 2008 U.S. NEL of each Regional Entity.

2010 Funding					
Regional Entity	NERC Funding	Regional Entity Funding	WIRAB Funding	Total Allocation	Allocation per kWh (2008 NEL)
FRCC	\$ 1,974,371	\$ 4,938,177	--	\$ 6,912,548	\$0.0000296
MRO	\$ 2,065,574	\$ 6,266,196	--	\$ 8,331,770	\$0.0000362
NPCC	\$ 2,444,385	\$ 6,551,760	--	\$ 8,996,145	\$0.0000303
RFC	\$ 7,854,376	\$14,345,192	--	\$22,199, 568	\$0.0000239
SERC	\$ 8,649,090	\$ 9,831,277	--	\$18,480,367	\$0.0000179
SPP RE	\$ 1,886,912	\$ 6,755,854	--	\$ 8,642,766	\$0.0000415
TRE	\$ 2,481,329	\$ 6,660,377	--	\$ 9,141,706	\$0.0000294
WECC	\$ 5,901,955	\$33,469,113	\$ 371,992	\$39,743,060	\$0.0000538
Total	\$33,257,992	\$88,817,946	\$ 371,992	\$122,447,930	\$0.0000308

For all Regions except NPCC and Texas RE, NERC obtained from the Regional Entity a listing of the LSEs or their designees in the Region and a breakdown of the Regional Entity's 2008 NEL by LSE or designee. For the NPCC region, NERC obtained from NPCC the 2008 NEL for each Balancing Authority Area (New York, New England, Ontario, Québec, Nova Scotia and New Brunswick). For Texas RE, NERC obtained from Texas RE the 2008 NEL for ERCOT. NERC used this information to further allocate the total ERO funding requirement allocated to each Regional Entity among the LSEs, their designees or the other entities to be billed the assessments within that Regional Entity's footprint.⁵⁵ The amount of the NERC and Regional Entity funding requirement allocated to each LSE or designee or other entity to be billed in each Regional Entity's footprint is shown in Appendix 2B of **Attachment 2**. NERC

⁵⁵ Certain LSEs in MRO and WECC serve end users only in Canada or Mexico and not in the U.S. These LSEs were not allocated any portion of the ERO funding requirement allocated to U.S. end users, but were allocated appropriate portions, based on NEL (except as noted above), of the ERO funding requirement allocated to Canadian provinces or Mexico, as applicable.

requests that the Commission approve the funding amounts allocated to each LSE or designee, as shown in Appendix 2B, so that the LSEs and their designees may be billed for these assessments in accordance with 18 C.F.R. §39.4(e).⁵⁶

NERC intends to directly invoice assessments to LSEs or designees, or to the other entities to be billed, in all Regions except WECC.⁵⁷ WECC will invoice LSEs or Balancing Authorities or their designees within the WECC footprint, collect the assessments and remit the funds to NERC. These arrangements have been provided for in Exhibit E to the delegation agreement with each Regional Entity.

E. Treatment of Prior Years' Budget Surpluses or Deficits/Working Capital Reserve

In the *2008 Budget Order*, the Commission approved NERC's proposal to authorize a one-year suspension of NERC's policy of taking account of anticipated year-end budget surpluses in calculating the assessments required for the following year, and instead use anticipated 2007 year-end budget surpluses of NERC and the Regional Entities as reserves should the costs required to carry out statutory duties in 2008 – the first full year of operation in monitoring and enforcing compliance with Commission-approved mandatory and enforceable Reliability Standards – exceed the NERC and Regional Entity budgets.⁵⁸ In the 2009 NERC and Regional Entity business plans and budgets (filed in August 2008), any accumulated 2007 and anticipated 2008 surpluses (deficits) were used to reduce (increase) the assessments requested for

⁵⁶ As approved by the Commission in the *ERO Certification Order* at P 218, for reasons of administrative convenience billing and payment by LSEs of annual assessments less than \$100 will not be required.

⁵⁷ As noted above, the assessments in the NPCC region will be billed to a single entity for each of the six Balancing Authority Areas within NPCC (*see* Table 6 in Section B of **Attachment 5**); and the assessments in the Texas RE region will be billed to ERCOT.

⁵⁸ *2008 Budget Order* at P 40.

2009, taking into account NERC and each Regional Entity's target Working Capital Reserve and the increment or decrement that was included in calculating each entity's requested assessments in order to reach the targeted Working Capital Reserve at December 31, 2009.⁵⁹ The same process has been followed in preparing the proposed 2010 budgets and assessments.

Table 5, Reserve Analysis 2009-2010, in Section B of the NERC and each Regional Entity's 2010 Business Plan and Budget, shows the calculation of the increment or decrement to the entity's requested 2010 assessment to achieve the entity's desired Working Capital Reserve at December 31, 2010. These calculations take into account (1) the entity's Working Capital Reserve (Deficit) at December 31, 2008, (2) assessment funding, projected other funding, and projected expenses and capital expenditures for 2009, resulting in (3) the projected Working Capital Reserve at December 31, 2009, (4) the desired (target) Working Capital Reserve, (5) the requested assessment for budgeted expenses and capital expenditures, and projected other funding sources (including penalties collected from registered entities), for 2010⁶⁰, resulting in (6) the increment or decrement to the requested 2010 assessments to achieve the target Working Capital Reserve at December 31, 2010. As shown on the NERC and Regional Entity Table 5's, each Regional Entity (except SPP RE) has established a target Working Capital Reserve;

⁵⁹ See *Request of the North American Electric Reliability Corporation for Acceptance of its 2009 Business Plan and Budget and the 2009 Business Plans and Budgets of Regional Entities and for Approval of Proposed Assessments to Fund Assessments*, filed in Docket No. RR08-6-000 (corrected version filed September 2, 2008) (*2009 Budget Filing*), at 24-25. An exception was SPP RE, which does not maintain a Working Capital Reserve, for reasons explained in greater detail at pages 53-54 of the *December 15, 2008 Budget Compliance Filing*.

⁶⁰ NERC's budget policy is that penalty sanction payments received by NERC or a Regional Entity on or prior to June 30 of the year preceding the budget year should be used to reduce the requested assessments for the budget year; penalty sanction payments received after June 30 will be used to reduce the requested assessments for the year following the budget year. In the case of the 2010 budgets, all penalty sanction payments being used by Regional Entities to reduce their requested 2010 assessment amounts were received prior to June 30, 2009.

however, for various reasons (such as to limit the overall level of assessment increases), NERC and some Regional Entities have elected not to include in their requested 2010 assessments the full increment necessary to achieve the desired Working Capital Reserve at December 31, 2010.

For ease of reference, the table below shows the 2010 target Working Capital Reserve and the basis for the target, for NERC and each Regional Entity. The table also shows whether the entity has a line of credit available and in what amount:

Entity	2010 Target Working Capital Reserve	Basis for 2010 Target Working Capital Reserve	Line of Credit
NERC	\$ 0	Rely on Line of Credit to fund short term cash flow shortfalls	\$4,000,000
FRCC	\$542,119	10% of budgeted annual statutory expenses	No
MRO	\$ 286,972	15 days of budgeted statutory expenses and capital expenditures (1/3 of target of 45 days budgeted statutory expenses)	\$2,000,000
NPCC	\$2,270,817	20% of budgeted Regional Entity expenses	No
ReliabilityFirst	\$1,418,471	10% of 2010 assessment for expenses and capital expenditures	\$1,000,000
SERC	\$1,009,555	Up to 10% of budgeted annual statutory operating costs	\$250,000
SPP RE	\$ 0	Access to SPP, Inc. \$20 million credit facility	No (but SPP, Inc. has \$20,000,000)
Texas RE	\$1,370,718	Approx. 75 days of operating expenses	No
WECC	\$1,577,472	Building to 3 months of expenses; 2010 target is approximately 45 days	No

The following table shows, for NERC and each Regional Entity, the surplus (deficit) of assessment revenues and other statutory revenues over (under) statutory expenses (including capital expenditures) for 2007 and 2008 and the projected surplus (deficit) of assessment revenues and other statutory revenues over (under) statutory expenses and capital expenditures for 2009:

Entity	2007 ⁶¹	2008 ⁶²	2009 ⁶³
NERC	\$1,046,155	\$ 439,159	\$(1,414,596)
FRCC	\$ 246,617	\$ 913,113	\$(409,721)
MRO	\$ 628,335	\$ 66,963	\$ 0
NPCC	\$ 284,735	\$ 247,572	\$(14,947)
ReliabilityFirst	\$2,497,880	\$ 431,447	\$(2,809,839)
SERC	\$ 582,394	\$ 171,438	\$ 601,690
SPP RE	\$ (438,754)	\$ 214,632	\$ 1,168,296
Texas RE	\$3,290,858	\$(16,282)	\$(1,646,059)
WECC	\$ (875,648)	\$ 966,427	\$ 453,436

F. Projected Costs for 2011 and 2012

As it did in its 2008 and 2009 Business Plans and Budgets, NERC is providing a projection of its expected revenues and expenses for the two years following the budget year (*i.e.*, 2011 and 2012). This information is provided in Table 7 in Section B of **Attachment 2**. NERC is providing these projections for informational purposes only. The NERC Board of Trustees has not approved these projections as budgets, and NERC is not seeking approval of the projections by the Commission or other governmental authorities. The projections provided in Table 7 are based solely on overhead and expense escalations from the 2010 Budget, and do not include any additional FTE requirements or resources beyond the 2010 Budget associated with any programs, including auditing for compliance with CIP standards at nuclear power plant

⁶¹ The amounts in this column are taken from Schedule 1, column 4 (Change in Net Assets – Statutory – 12/31/2007) in the *Compliance Filing of the North American Electric Reliability Corporation in Response to June 19, 2008 Order* in Docket No. RR07-16-004.

⁶² The amounts in this column are taken from the *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; Additional Compliance Items for SPP Regional Entity*, filed April 1, 2009 in Docket No. RR07-16-001 (*2008 Budget True-Up Filing*), except the amount shown for Texas RE which is taken from **Attachment 18** of this filing.

⁶³ The amounts in this column are the “Total Change in Assets” for the 2009 Projection shown in Table 1 of Section B of the 2010 Business Plan and Budget of NERC and each Regional Entity.

balance of plant facilities, or the processing of TFEs. Based on these assumptions, NERC's 2011 expenses and change in fixed assets are projected to be approximately \$3,246,851 higher than its 2010 Budget, and its 2011 assessments for NERC funding are estimated to be approximately \$2,616,000 higher than the requested amount for 2010. The 2012 expenses and change in fixed assets are projected to be approximately \$1,834,000 higher than the amount estimated for 2011, and the 2012 assessments are projected to be approximately \$1,703,000 higher than the estimated 2011 assessments.

IV. DISCUSSION OF NERC BUSINESS PLAN AND BUDGET

A. 2010 Business Plans and Budgets by Program

This section summarizes NERC's proposed 2010 Business Plan and Budget by statutory program and Administrative Services department.⁶⁴

As noted earlier, a number of changes in accounting methodology have been adopted in the NERC (and Regional Entity) 2010 Business Plans and Budgets. Four changes of particular significance for comparisons of the 2009 and 2010 Budgets are:

- (1) All costs that can be attributed to a statutory program (direct costs) are assigned to the applicable statutory program, and all other costs (indirect costs) are assigned to the applicable Administrative Services area.
- (2) All Administrative Services expenses are allocated to the five statutory programs based on the ratios of their respective FTEs to the total FTEs for all statutory programs.
- (3) Capital Expenditures are broken out as Fixed Assets rather than being included in their related lines in the Operating Expenses section, as was done in the past.

⁶⁴ **Attachment 14** is a status report on NERC's progress in achieving its goals and objectives for 2009 that were stated in its 2009 Business Plan and Budget. Similar status reports on achievement of the 2007 and 2008 goals and objectives were provided in, respectively, the 2008 and 2009 Business Plan and Budget Filings.

(4) Expenses now include Depreciation, however, funding is not being requested for Depreciation; therefore, Depreciation is deducted from the funding requirement for Capital Expenditures.

As a result of the changes in accounting methodology, there may be apparent increases in total costs over the 2009 Budget for some statutory programs, and apparent decreases for other statutory programs, that are in fact driven in whole or in part by the changes in accounting methodology.

1. Reliability Standards Program

The Reliability Standards Program develops and maintains standards designed to ensure the reliability of the bulk power system in North America. The stakeholder Standards Committee provides oversight to the standards development process, while NERC staff coordinators facilitate standards drafting team activities, assist the drafting teams in adhering to the integrity of the standards development process, and ensure that the quality of the documents produced are appropriate for approval. The assumptions, goals and objectives of the Reliability Standards Program for 2010 are presented in detail at pages 16-19 in Section A of **Attachment 2**, and include prioritizing standards development activities to focus on key reliability concerns; continuing development of revisions to CIP standards in response to Order No. 706; developing new or modified standards to support the System Protection Initiative and System Modeling Initiative and standards relating to Real-Time Tools, Undervoltage Load Shedding, and Voltage and Reactive Control; and responding to requests for interpretations of standards in a timely manner.

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), significant NERC professional staff resources are needed to facilitate and coordinate the work of industry

volunteers and to administer the process. NERC has budgeted 17.5 FTEs for the Reliability Standards Program for 2010, which is an increase of 3.0 FTEs from the 2009 Budget (one of these three additional FTEs is expected to be added during 2009). NERC is planning to add a second standards process manager (presently there is only one); and two standards process administrators, whose principal responsibility will be to manage processing and responding to requests for interpretations of standards in a timely manner. The 2010 budgeted direct expenses for this program are \$4,189,050, which is an increase of \$589,595 over the 2009 Budget.⁶⁵ The principal direct cost components of the 2009 Budget are Personnel Expenses (\$3,028,775), Meeting Expenses (including Travel) (\$550,000), and Consultants & Contracts (\$717,000). The budget for Consultants & Contracts represents an increase of \$167,000 over the 2009 Budget, of which \$67,000 is for IT support to maintain and improve the standards balloting and registered ballot body applications, and \$100,000 is for contracts for subject matter experts to support standards development activities on highly technical concepts. The allocation of Administrative Services expenses to this program is \$1,983,954 and the allocation of Fixed Asset additions is \$75,616.

2. Compliance Monitoring and Enforcement and Organization Registration and Certification Program

Under the Compliance Monitoring and Enforcement and Organization Registration and Certification Program, NERC monitors, audits, investigates and enforces compliance with the approved Reliability Standards by owners, operators and users of the bulk power system, in order to maintain a high level of reliable operation of the bulk power system. This program also includes registering owners, operators and users of the bulk power system as responsible for complying with Reliability Standards and maintaining a Compliance Registry (provided for in

⁶⁵ See table on page 15 in Section A of **Attachment 2**.

Section 500 of the NERC Rules of Procedure), to facilitate NERC's and the Regional Entities' compliance monitoring and enforcement activities. The NERC Compliance Registry now lists over 1,800 Registered Entities which have been registered to be responsible for almost 4,500 functions affecting the reliability of some portion of the bulk power system.

The detailed 2010 program assumptions, goals and objectives for Compliance Monitoring and Enforcement and Organization Registration and Certification are provided at pages 23-26 in Section A of **Attachment 2**. The CMEP goals and objectives for 2010 include eliminating the existing backlog of alleged violations that have not been processed to completion; processing new, incoming violations and associated mitigation plans in an efficient and expeditious manner;⁶⁶ processing and executing Compliance Violation Investigations (CVI) in an expeditious manner; and completing the triennial audits of the Regional Entity compliance programs. NERC expects to lead approximately 10 CVIs and 40 Compliance Inquiries (CIQ) per year. The CMEP budget also includes NERC's expenses for performing the compliance monitoring and enforcement role for those reliability functions for which a Regional Entity is the registered entity; NERC will be reimbursed by the affected Regional Entities for this part of the CMEP budget.⁶⁷

The budgeted direct expenses for this program for 2010 total \$9,359,703, which is an increase of \$2,026,167 over the 2009 Budget.⁶⁸ NERC is budgeting for 45.75 FTEs for the Compliance Monitoring and Enforcement and Organization Registration and Certification

⁶⁶ The current inflow of newly-identified alleged violations averages 85 per month after dismissals of possible violations that are determined not to be alleged violations.

⁶⁷ This reimbursement is reflected on the Statement of Activities for the NERC CMEP as the "Miscellaneous" line under "Funding."

⁶⁸ See Table on page 22 in Section A of **Attachment 2**.

Program in 2010, an increase of 10.25 FTEs over the 2009 Budget (some of these additional positions have already been filled during 2009). Four of the additional FTEs will support the compliance violation backlog reduction efforts; 0.5 FTE will support timely issuance of notices of mitigation plan approvals to Regional Entities and registered entities in accordance with the NERC Rules of Procedure; and one of the additional FTEs will assist in reporting, tracking, and analysis of compliance information. In addition, two of the additional FTEs will be compliance violation investigators added to the Compliance Program staff. Finally, 2.5 of the additional FTEs will support NERC's activities in performing the compliance monitoring and enforcement role for reliability functions for which a Regional Entity is the registered entity. The 2010 CMEP budget also includes \$1,100,000 for Consultants & Contracts, which is the same amount as in the 2009 Budget. Of this amount, \$300,000 is for subject-matter experts to support NERC staff in CVIs and CIQs; \$250,000 is for consultants assisting in the triennial audits of the Regional Entity compliance programs; and \$500,000 is for software development support in implementing the Compliance Reporting, Analysis, and Tracking System.

The major direct cost budget components for the Compliance Monitoring and Enforcement and Organization Registration and Certification Program are Personnel Expenses (\$7,555,795); Meeting Expenses (including Travel) (\$928,417); and Consultants & Contracts (\$1,100,000). The \$128,750 increase for Travel Expenses in the 2010 Budget primarily reflects costs of travel by the additional FTEs to perform their job responsibilities. The allocation of Administrative Services expenses to this program is \$5,186,621 and the allocation of Fixed Asset additions less Depreciation is \$171,188.

3. Reliability Assessment and Performance Analysis Program

The Reliability Assessment and Performance Analysis Program enables 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.”⁶⁹ NERC prepares three reliability assessments each year: a long-term reliability assessment report, a summer assessment report, and a winter assessment report. These reports analyze electricity demand and adequacy of supply throughout the North American bulk power system and examine the adequacy of the transmission system. NERC also prepares special reliability assessment reports as conditions warrant or as directed by the NERC Board. During 2009, NERC will continue work on analyzing the reliability impacts of climate change initiatives.

The Reliability Assessment and Performance Analysis Program also includes analyzing significant bulk power system events and other off-normal events occurring 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 system; assessing past reliability performance for lessons learned; disseminating findings and lessons learned to the electric industry to improve reliability performance; and developing reliability performance metrics and benchmarks and monitoring performance against those metrics and benchmarks. These activities are intended to help prevent future abnormal system events and thereby to promote and improve reliable operation of the bulk power system. During 2009, NERC launched a comprehensive System Protection Initiative designed to coordinate efforts to improve the performance of power system protection and control systems with the goal of limiting the scope and severity of future system disturbances caused by these misoperations. This initiative, which is the responsibility of the Reliability Assessment and Performance Analysis Program, will continue in 2010.

Additionally, the Reliability Assessment and Performance Analysis Program is responsible for maintaining the Generating Availability Data System (GADS), and for continued

⁶⁹ Section 215(g) of the FPA and 18 C.F.R. §39.11.

development of the Transmission Availability Data System (TADS). GADS provides performance benchmarks for improving individual generating unit reliability and availability and statistics for tracking generating unit availability. NERC receives revenues from the sale of GADS software and services, which are reflected as Funding in the budget.

Detailed 2010 assumptions, goals and objectives for the Reliability Assessment and Performance Analysis Program are provided at pages 31-35 in Section A of **Attachment 2**.

NERC's budgeted direct expense for the Reliability Assessment and Performance Analysis Program for 2010 is \$4,620,377, which represents an increase of \$628,963 over the 2009 Budget.⁷⁰ The 2010 Budget reflects 16 FTEs for this program, which is an increase of 1.5 FTEs over the 2009 Budget (these positions were already added during 2009). The Reliability Assessment Program is also budgeting an increase of \$148,625 in Travel Expense over the 2009 Budget, primarily for staff involved in reliability assessments and metrics and benchmarking activities. Additionally, the 2010 budget for Consultants & Contracts for this program is \$1,149,400, which is an increase of \$388,130 over the 2009 Budget. Consultant and contract support is budgeted for Phase III of the Reliability Impacts of Climate Change Initiatives study (\$100,000); subject matter expert support for the System Protection Initiative (\$179,000); event analysis (\$132,000); a Modeling Improvement Initiative focused on generation and turbine control modeling (\$50,000); continued development of TADS (\$294,900); GADS programming support (\$135,000); and consultant support (including for software development) for various aspects of the reliability assessments studies and processes (\$258,000).

The direct expenses in the 2010 Budget for the Reliability Assessment and Performance Analysis Program include Personnel Expenses (\$2,851,150), Meetings Expense (including

⁷⁰ See table on page 30 in Section A of **Attachment 2**.

Travel) (\$630,000); and Consultants & Contracts (\$1,149,400). The program budget also includes \$196,575 of Computer & Software Capital Expenditures, and an allocation of Fixed Asset Additions of \$69,315, less Depreciation of (\$68,129), for a net spend on capital of \$197,581. The allocation of Administrative Services expenses to this program is \$1,813,900. Revenues from the sale of GADS software and services are projected to be \$250,000, which is a decrease of \$200,000 from the 2009 Budget, reflecting 2009 year-to-date sales experience.

4. Training, Education, and Personnel Certification Program

The Training, Education, and Personnel Certification Program encompasses (i) the System Operator Certification Program, (ii) NERC's Continuing Education Program ("CEP") for owners, operators and users of the bulk power system and their operating personnel, and (iii) NERC's Education Program for NERC and Regional Entity staff. NERC maintains the credentials for over 5,000 system operators, effectively licensing them to work in system control centers across North America.

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, which are designed to test specific knowledge of job skills and reliability standards and to prepare operators to ensure standards are met and to quickly and confidently react when unexpected situations occur. Certification is maintained or renewed through use of approved continuing education. The System Operator Certification Program is administered by NERC professional and technical staff and is overseen by the Personnel Certification Governance Committee, which is a NERC standing committee reporting to the Board of Trustees. Fees are charged for the certification examinations and renewals of credentials, which are structured to fully recover the costs of operating the System Operator Certification Program.

The objective of the NERC CEP is to foster improvement of and promote quality in the training programs used and implemented 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 and of other continuing education providers. 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. The costs of administering the CEP are fully recovered through fees paid by the continuing education providers.

In the Education Program, NERC develops and maintains learning materials and activities to establish training requirements for NERC and Regional Entity staff. NERC also provides educational activities and tools to industry stakeholders, participants and regulators. These activities are carried out by NERC professional and technical staff and contractors with the assistance of industry volunteers possessing appropriate technical knowledge and competencies.

Detailed 2010 assumptions, goals and objectives for the Training, Education and Personnel Certification Program are provided at pages 38-40 of Section A of **Attachment 2**.

The direct expense budgeted for the Training, Education and Personnel Certification Program for 2010 is \$1,919,226, which is an increase of \$356,747 over the 2009 Budget.⁷¹ NERC has budgeted 6.75 FTEs for this Program in 2010, which is an increase of 1.25 FTEs over the 2009 Budget. Of this budgeted increase, 0.5 FTE was added in 2009, and an FTE is scheduled to be added in the second quarter of 2010 and therefore is reflected as 0.75 FTE in the 2010 Budget. NERC is also budgeting an increase of \$158,500 for Meetings, Travel and

⁷¹ See table on page 38 in Section A of **Attachment 2**.

Conference Calls, primarily due to increased meetings and travel associated with development of new operator certification examinations in 2010. Additionally, Consultant & Contracts expense of \$563,800 is budgeted for 2010, which is an increase of \$102,400 over the 2009 Budget. The increased Consultants & Contracts expense is primarily due to the use of consultants to review exams, as volunteer time devoted to this activity is diminishing. Further, an increase of \$46,000 is budgeted in Office Costs for merchant card fees (*i.e.*, fees charged by credit card companies when credit cards are used to pay the fees for system operator certification exams), which were budgeted in Administrative Services in 2009.

The direct cost components of the 2010 Budget for the Training, Education, and Personnel Certification Program are Personnel Expenses (\$988,270), Meetings, Travel and Conference Call expenses (\$339,725), and Consultants & Contracts (\$563,800), and Office Costs (\$59,300). The allocation of Administrative Services expenses to this program is \$765,239 and the allocation of Fixed Asset additions is \$29,166. As noted above, NERC charges fees for system operator certification examinations and continuing education providers which are intended to cover the costs of the certification examination program and the certification of the continuing education providers. The 2010 Budget for this program reflects projected revenues from these fees and charges totaling \$1,118,750, an increase of \$138,750 over the 2009 Budget. Fees charged for attendance at NERC-sponsored workshops, which were not budgeted in 2009, are budgeted to be \$92,500 in 2010.

5. Situation Awareness and Infrastructure Security

NERC's Situation Awareness and Infrastructure Security Program coordinates all of NERC's efforts to improve physical and cyber security for the North American bulk power system as it relates to reliability. These efforts include standards development, compliance enforcement, assessments of risk and preparedness, disseminating critical information by alerts

to industry, and raising awareness of key issues. The Situation Awareness and Infrastructure Security Program is also home to the Electricity Sector Information Sharing and Analysis Center, and monitors the bulk power system to provide real-time situation awareness and leadership and coordination services to the electric industry. The ES-ISAC was formed by NERC in 1999 and has subsequently expanded its scope to include information about all types of threats to the reliability of the bulk power system, including natural disasters, power system operational issues, and physical and cyber security. In May 2008, the NERC Board created the Electricity Sector Steering Group (ESSG) to enhance strategic and policy guidance to the ES-ISAC and to provide broad electricity sector participation and support on critical infrastructure security matters.

Through the Situation Awareness and Infrastructure Security Program, NERC provides tools and other support services for the use and benefit of bulk power system operators including reliability coordinators. These tools provide situation awareness and rapid communications capability, help implement transmission loading relief procedures, and meet requirements for same-time information to market participants and others. The tools and support services NERC provides to the industry under this program are important to promoting and maintaining reliable operation of the bulk power system. Further, to the best of NERC's knowledge, no other organization is proposing to make the tools and support services with these functionalities that NERC provides available to owners, operators and users of the bulk power system and other bulk power system participants.⁷² The Situation Awareness and Infrastructure Security Program is

⁷² See P 188 of the *ERO Certification Order*, where the Commission stated: “[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.”

managing the North American SynchroPhasor Initiative (“NASPI”) project which was initiated in 2009.⁷³

During 2010, NERC will continue to pursue and coordinate the Situation Awareness, FERC, NERC and Regional Entities (SAFNR) project and operate it to the agreed protocol procedure for all parties. The Situation Awareness and Infrastructure Security Program will also collaborate with the industry to coordinate voluntary assessments of cyber risk and preparedness for critical electric infrastructure (Cyber Risk Preparedness Assessments).

Detailed 2010 assumptions, goals and objectives for the Situation Awareness and Infrastructure Security Program are provided at pages 43-46 in Section A of **Attachment 2**.

The budgeted direct expense for 2010 for the Situation Awareness and Infrastructure Security Program is \$7,047,344, which is an increase of \$1,590,939 over the 2009 Budget.⁷⁴ The 2010 Budget reflects 9.75 FTEs in this program, an increase of 2.75 FTEs over the staffing in the 2009 Budget.⁷⁵ Two of the FTEs are being added to improve the quality of NERC’s Situation Awareness services and provided dedicated expertise to the execution of NERC’s ES-ISAC responsibilities. An increase of \$325,000 in Meetings and Travel Expense is budgeted for this program, to support additional personnel and activities including the cyber risk and threat assessment projects and the ESSG. Additionally, Consultant & Contracts expense of \$4,606,157

⁷³The NASPI is the successor to the Eastern Interconnection Phasor Project and to the phasor development work done in the Western Interconnection. NASPI is the international project to advance the application of phasor measurement technology in all interconnections in North America. The objective of NASPI 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 operators to monitor and control the bulk power system.

⁷⁴ See table on page 43 in Section A of **Attachment 2**.

⁷⁵ Of this increase, one FTE has been added in 2009, one FTE is budgeted to be added as of January 2, 2010, and one FTE is planned to be added in the second quarter of 2010 and therefore is reflected as 0.75 FTE in the 2010 Budget.

is budgeted for this program, which is an increase of \$779,557 over the 2009 Budget. The primary drivers of the increased Consultant & Contract expenses are (i) contractor fees to support, coordinate, and conduct secret-level classified briefings for industry executives and CIP and security staff, including support of government-led issues development and analysis (\$100,000); contractor costs for software development, testing and deployment for NERC's secure, internet-based portal for issuing industry alerts (\$313,000); contractor fees to assist in developing a Cyber Risk Preparedness Assessment toolkit for use by the industry (\$200,000); and purchases of published domestic and international studies and information to support analysis of potential cyber security threats, risks and vulnerabilities (\$100,000). Finally, an increase of \$117,126 in Office Costs is budgeted for this program over the 2009 Budget for purchase of published information and commissioned specialized papers.

The direct cost components of the 2010 Budget for the Situation Awareness and Infrastructure Security Program include Personnel Expenses (\$1,894,593), Meetings Expense (including Travel) (\$520,161), and Consultants & Contracts (\$4,606,157). The allocation of Administrative Services expenses to this program in the 2010 Budget is \$1,105,346. The budget also includes an allocation of Fixed Asset additions of \$42,129, less Depreciation of (\$45,884), for a net reduction in Fixed Assets of (\$3,755).

6. Administrative Services

The Administrative Services departments support the other NERC programs. Administrative Services comprises the following functions: (i) Technical Committees and Members' Forums; (ii) General and Administrative; (iii) Legal and Regulatory; (iv) Information Technology (IT); (iv) Human Resources, and (v) Finance and Accounting. Detailed descriptions and planned 2010 activities, goals and objectives for each of the functions included in Administrative Services are provided at pages 49-70 in Section A of **Attachment 2**.

Technical Committees and Members' Forums – NERC's Rules of Procedure provide for members' forums that serve the interests of stakeholders within individual industry sectors and as a result help to improve the reliability of the bulk power system. NERC presently has one such forum, the Transmission Owners and Operators Forum. The budgeted direct expenses for 2010 for Technical Committees and Member Forums is \$1,617,808, which is an increase of \$857,572 over the 2009 Budget. The expenses for the Transmission Owners and Operators Forum are completely reimbursed through dues and other charges to the participants, and therefore do not impact the assessments to LSEs. Further, the 2010 Budget includes \$300,000 for reimbursement by the Transmission Owners and Operators Forum to NERC for administrative services provided by NERC to the Forum (reflected in the budget for this function as Consultants & Contracts expense).⁷⁶ Therefore, the entire \$1,617,808 2010 Budget for this function will be covered by the dues of the Forum participants. The 2010 Budget reflects five FTEs in this function, which is an increase of three FTEs over the 2009 Budget (two of these additional FTEs have already been added during 2009). The Transmission Owners and Operators Forum has determined that additional FTEs are necessary to carry out the Forum's programs; however, as noted, the costs for these additional FTEs will be entirely covered by dues and other charges to the Forum participants.⁷⁷

⁷⁶ NERC is discussing with the Transmission Owners and Operators' Forum the possibility of separating the Forum from NERC into a stand-alone organization. Should this occur prior to or during 2010, NERC would lose some or all of the \$300,000 reimbursement from the Forum for administrative services. In this event, however, NERC would have difficulty in reducing its Administrative Services costs by this amount, and therefore could face a shortfall in funding for Administrative Services in 2010.

⁷⁷ This function previously also included the management of the NERC Technical Committees; however, in 2009 that responsibility has been shifted to the Reliability Assessment and Performance Analysis and the Situational Awareness and Infrastructure Security programs.

General and Administrative – The General and Administrative area includes the NERC President and CEO and an administrative assistant. Expenses allocated to General and Administrative also include Office Rent, certain Office Costs, fees and expenses of the Board of Trustees, and communications and public relations.

The 2010 Budget for General and Administrative is \$3,768,310, which is a decrease of \$1,700,675 over the 2009 Budget. A significant portion of this decrease is due to the fact that the provision for addition to the Working Capital Reserve (which was \$1,393,496 in the 2009 Budget) is no longer budgeted in this area. In addition, the 2010 Budget reflects a decrease in FTEs in this area from 6.0 to 4.0 as compared to the 2009 Budget. The Meetings and Travel Expenses budgeted under General and Administrative include meeting and travel expenses for the CEO, the Board and Board committees; and the Professional Services budgeted in this area are the Trustee fees. Meeting Expense in the 2010 Budget for General and Administrative is lower by \$29,222 compared to the 2009 Budget (in part due to the reduction in FTEs assigned to this area). Professional Services are increased by \$105,000 over the 2009 Budget, reflecting the anticipated addition of a tenth independent trustee to the Board in 2010.⁷⁸ In addition, the reimbursement by the Transmission Owners and Operators Forum to NERC for administrative services is reflected as a \$300,000 credit to Consultants & Contracts in the General and Administrative budget.

Office Rent in the 2010 Budget for NERC's two offices in Princeton, New Jersey and Washington, D.C., is higher by \$255,611 in the aggregate over the 2009 Budget. Rent expense for the Princeton office is increasing due to an increase in the rate per square foot per the lease agreement, while rent expense for the Washington office is increasing due to both an increase in

⁷⁸ See *Petition for Approval of Amendments to the Bylaws of the North American Electric Reliability Corporation*, filed August 6, 2009 in Docket No. RR09-8-000.

the rate per square foot per the lease agreement, and an expansion of the office into additional space. The 2010 Budget for Office Costs is increased by \$103,277, primarily due to increased telephone expense resulting from the larger number of FTEs in the overall NERC 2010 Budget. Finally, the 2010 Budget for General and Administrative includes \$100,000 for Furniture and Fixtures Capital Expenditures, an increase of \$45,000 over the 2009 Budget.

Legal and Regulatory – The Legal and Regulatory function provides legal counsel 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; maintains relationships with governmental entities in the U.S., Canada and Mexico; reviews contracts entered into by NERC; and retains and oversees outside counsel. The 2010 Budget for Legal and Regulatory is \$2,333,329, which is a decrease of \$653,181 over the 2009 Budget. The primary reason for the reduction in the budget for this area is that the Legal and Regulatory 2009 Budget included the one-time expense associated with performing the three-year ERO performance assessment, required by the Commission’s regulations, during 2009.⁷⁹ The Legal and Regulatory 2010 Budget reflects the addition of two attorneys and an administrative assistant to the current staffing, resulting in 7.0 FTEs for this area (the General Counsel, four other attorneys, one paralegal and one administrative assistant). The Legal and Regulatory budget also includes the expense for NERC’s retained Canadian affairs representative.

IT – NERC’s IT program supports employee technology, computing and voice and electronic communications needs. IT also supports, manages and maintains a number of Reliability Tools for the industry. The 2010 Budget for IT is \$2,519,307, which is an increase

⁷⁹ NERC filed its *Three-Year Electric Reliability Organization Performance Assessment Report*, required by 18 C.F.R. §39.3(c), with the Commission on July 20, 2009; that filing is now the subject of Docket No. RR09-7-000.

of \$779,352 over the 2009 Budget. The 2010 Budget reflects 7.75 FTEs in this function, which is a decrease of 0.25 FTE from the 2009 Budget. Initiatives of the IT program for 2010 include designing and deploying a secure electronic file system to support more stringent confidentiality requirements of NERC's Compliance, CIP and Event Analysis programs and activities; and designing, implementing and maintaining a knowledge management infrastructure that will be supported on the Microsoft OfficePoint SharePoint Server (MOSS). The latter initiative will require a dedicated FTE from the IT staff; this position will be added in the second quarter of 2010 and is budgeted as 0.75 FTE. One FTE is transferring from IT to another NERC program. The IT budget for 2010 reflects an increase of \$373,341 in Office Costs over the 2009 Budget, due to the costs of purchasing laptops, printers and computer supplies for new NERC staff; and an increase of \$263,635 in Computer and Software Capital Expenditures for additional servers, replacement of computer equipment that has reached the end of its useful life, acquisition of additional software to support various tools, and software and hardware costs associated with implementation of the MOSS document sharing platform.

Human Resources – Human Resources manages all of NERC's human resources functions, including new hires, benefits and employee functions, as well as overseeing employee performance appraisals and the incentive structure process. The 2010 Budget for Human Resources is \$1,008,912, which is an increase of \$340,619 over the 2009 Budget. The 2010 Budget reflects 3.5 FTEs in this function, which is a decrease of one FTE over the 2009 Budget. The 2010 Budget includes \$350,000 in Consultant & Contracts expense, an increase of \$100,000 over the 2009 Budget; these expenses are for executive staff training and development and for executive search fees. The 2010 Budget also includes \$20,000 in Capital Expenditures for a Human Resources Information System.

Finance and Accounting – Finance and Accounting manages all of NERC’s finance and accounting functions, including employee payroll, 401(k) plans, travel and expense reporting, monthly financial reporting, sales and use taxes, meeting/events planning and services, insurance, internal audit, and facilities management. Finance and Accounting has overall responsibility for development of the annual business plan and budget. The 2010 Budget for Finance and Accounting is \$1,235,201, which is an increase of \$378,755 from the 2009 Budget. The increased budget is primarily driven by an increase in FTEs in Finance and Accounting. The 2010 Budget reflects 8.5 FTEs in this function, which is an increase of 3.5 FTEs over the 2009 Budget. This increase is comprised of (i) 3.0 FTEs that have transferred to Finance and Accounting during 2009, (ii) one FTE position that was reduced to part-time during 2009, and (iii) addition of a CPA to the finance staff in 2010 to support moving from a quarterly to a monthly closing process, which will increase operational efficiency and enable implementation of additional cost control measures.

B. Working Capital Reserve

NERC’s 2010 Budget includes \$469,043 to achieve a Working Capital Reserve of \$0 at December 31, 2010. For purposes of NERC’s 2009 Business Plan and Budget, the NERC Board established a target Working Capital Reserve of \$2,500,000 at December 31, 2009.⁸⁰ However, NERC now projects a Working Capital Reserve (deficit) of \$(469,043) at December 31, 2009.⁸¹ The NERC Board determined that, in light of the overall increase in assessments needed to fund

⁸⁰ See *2009 Budget Filing* at 44-45, and Table 5 in Section B of the 2009 Business Plan and Budget.

⁸¹ See Table 5 in Section B of **Attachment 2**. One reason for the projected deficit at December 31, 2009 is that, as explained in the *December 15 Budget Compliance Filing*, NERC determined, after submission of its 2009 Business Plan and Budget in August 2008, to add additional FTEs and other resources in several programs, including Reliability Standards and Compliance Monitoring and Enforcement, but not to request an increase in its assessments to LSEs.

NERC's budgeted expenses for 2010, NERC will not request the assessments necessary to achieve the target Working Capital Reserve of \$2,500,000 at December 31, 2010.⁸² Instead, NERC is proposing an increment to its 2010 assessments of only \$469,043 in order to bring the Working Capital Reserve to \$0 at December 31, 2009. Although this means that NERC will have essentially no Working Capital Reserve to draw on during 2010, NERC has available a \$4,000,000 line of credit from a major financial institution, which NERC can draw on to handle short-term cash flow shortfalls that may occur due to timing differences between incurrence of expenses and receipt of assessments and other revenues.⁸³

V. REGIONAL ENTITY BUSINESS PLANS AND BUDGETS

A. Consistency Among Regional Entity Budgets

In developing the 2010 Regional Entity Business Plans and Budgets, NERC and the Regional Entities worked to build on the substantial efforts they devoted to achieving consistency of format and presentation of information in the 2008 and 2009 Business Plans and Budgets. NERC and the Regional Entities believe even greater consistency has been achieved in the 2010 Business Plans and Budgets that are being submitted with this filing (**Attachments 3 through 10**), as a result of (i) the changes in accounting methodology that have been developed collaboratively, and agreed to, among NERC and the Regional Entities; (ii) the set of common 2010 budget assumptions that have been developed collaboratively and used by each Regional Entity; and (iii) a common definition of administrative (indirect) costs. NERC believes that achieving and maintaining consistency among the Regional Entity business plans and budgets is an ongoing process, and that although significant improvements have been realized in the

⁸² Achieving a Working Capital reserve of \$2,500,000 at December 31, 2010 would require an incremental assessment of almost \$3,000,000 for 2010.

⁸³ See Table 5 in Section B of **Attachment 2**.

consistency of the Regional Entity business plans and budgets since the initial, 2007 budget submissions, the degree of consistency in presentation and format will continue to improve over time.

The Regional Entity Business Plans and Budgets follow a similar format to that used for the NERC Business Plan and Budget. Each Regional Entity Business Plan and Budget begins with an Introduction section that presents a table showing Total Regional Entity Resources for 2010, including statutory and non-statutory FTEs and expenses, the proposed ERO (statutory) funding assessment to recover the Regional Entity's statutory costs and the assessments or charges to members and others to recover other costs; and the Regional Entity NEL, allocated if applicable between the U.S., Canadian provinces and Mexico. The Introduction section also provides general information on the Regional Entity, including its membership and governance, as well as its 2010 goals and key objectives and an overview of 2010 cost impacts.

The Regional Entity Business Plans next contain separate sections on each statutory program and administrative department or function of the Regional Entity. These sections are presented in similar format to the NERC Business Plan (Section A of **Attachment 2**), including (i) a table for each statutory program showing total FTEs, total direct expenses, total indirect expenses, increase or decrease in fixed assets, and total expenses and fixed assets, and (ii) a Statement of Activities for the program showing funding, expenses and capital expenditures by major line item categories. Information is presented in each of the Statements of Activities for the 2009 Budget, the 2009 Projection and the 2010 Budget. The text of these sections for each statutory program includes discussion of the key assumptions, goals and key deliverables, and reasons for increases or decreases in costs, for the program in 2010.

Section B of each Regional Entity Business Plan and Budget presents the Regional Entity's detailed 2010 Budget. Section B contains a Statement of Activities (Table 1), by major funding and expense categories, for all the Regional Entity's statutory programs and costs, with information presented for the 2009 Budget, the 2009 Projection and the 2010 Budget. Table 2 shows the Regional Entity's FTEs by statutory program and for Administrative Services, for the 2009 Budget, the 2009 Projection and the 2010 Budget. Tables 3 and 4 are the Regional Entity's organization charts for 2009 and 2010. Table 5 provides the calculation of the increment or decrement to the assessment in 2010 to achieve the Regional Entity's target Working Capital Reserve at December 31, 2010, and the resulting total net assessment requested by the Regional Entity.⁸⁴ Subsequent tables (B-1 through B-8) in Section B provide more detailed information on funding and expenses for the major expense categories, comparable to the detailed tables in Section B of the NERC 2010 Business Plan and Budget.

Section C of each Regional Entity Business Plan and Budget provides (where applicable) information on the Regional Entity's non-statutory activities for 2010, including program descriptions and objectives, budget information, FTEs and organization charts.⁸⁵

Finally, Section D of the Regional Entity Business Plans and Budgets provides: (1) a 2010 Consolidated Statement of Activities showing the Regional Entity's 2010 budgeted line-item funding sources, expenses, and fixed asset activity, in total, by statutory and (if applicable) non-statutory, and by statutory program and administrative department, as well as the direct

⁸⁴ SPP RE has determined that it does not need to maintain a working capital reserve.

⁸⁵ MRO, ReliabilityFirst and SERC do not plan to have, and have not budgeted for, any non-statutory activities in 2010. As explained in its Business Plan and Budget, SPP RE is unable to provide a non-statutory budget for 2010 because its planning and budgeting cycle does not result in finalization and Board approval of the overall SPP budget until October. SPP has included its overall 2009 budget for information.

expenses and indirect expenses (overheads) for each statutory program; and (2) with the exception of FRCC, a combined (statutory and, where applicable, non-statutory) Statement of Financial Position, showing 2008 audited, 2009 Projection, and 2010 budgeted information.

B. Discussion of Individual Regional Entity Business Plans and Budgets

This section discusses highlights of the individual Regional Entity Business Plans and Budgets.

1. FRCC

FRCC's total statutory budget for 2010 is \$5,421,187, an increase of \$1,443,319 from its 2009 Budget; \$1,041,334 of this increase is in Personnel Expense. FRCC plans total staffing for statutory and administrative programs of 22.67 FTEs, an increase of 4.33 FTEs over its 2009 Budget. FRCC is budgeting increased resources for its CMEP for 2010, by adding 3.31 FTEs in this program over its 2009 Budget. FRCC has not budgeted additional resources specifically for processing TFEs, but rather plans to draw on its Working Capital Reserve if needed to support this activity during 2010. FRCC's 2010 Budget also reflects an increase of 0.54 FTE in Reliability Assessment and Performance Analysis. FRCC is budgeting lower Operating Expenses in 2010 than for 2009 for Consultants & Contracts, Office Costs and Professional Services, but is budgeting increased costs for Office Rent due to moving the FRCC offices to larger space to accommodate the growth in staffing FRCC has experienced.

FRCC's desired Working Capital Reserve is \$542,119, based on 10% of budgeted annual statutory expenses. FRCC currently projects a Working Capital Reserve of \$892,708; therefore, FRCC's requested 2010 assessment amount is reduced by \$350,589 due to the Working Capital Reserve being in excess of the target level. As noted, FRCC's Working Capital Reserve may be impacted by the need to draw on it to support the function of processing TFEs during 2010.

FRCC's 2010 Budget for non-statutory activities is \$4,205,049.

2. MRO

MRO's total statutory budget for 2010 is \$7,366,117, an increase of \$960,393 over its 2009 Budget.⁸⁶ MRO plans total staffing for statutory and administrative programs of 29.0 FTEs, an increase of 2.5 FTEs over its 2009 Budget. MRO is budgeting increased resources for its CMEP and Organization Registration and Certification Program for 2010, with a plan to increase FTEs in this program by 3.60 FTEs over the 2009 Budget. MRO plans to use consultants and contractors, as needed, to process TFEs during 2010, and has budgeted Consultants & Contracts expense of \$647,500 in its CMEP, which is an increase of \$501,900 over its 2009 Budget for this program; \$480,000 of the budgeted expense for Consultants & Contracts is specified for processing TFEs.⁸⁷ MRO is also budgeting increases of 1.65 FTEs for its Reliability Assessment and Performance Analysis Program, and 1.00 FTE for Situation Awareness and Infrastructure Security, over the 2009 Budget. In addition to increases in Personnel Expense, MRO is also budgeting a significant increase in Travel Expense (\$224,075) over the 2009 Budget.

MRO has identified a desired Working Capital Reserve of 45 days' expenses, but has targeted funding to only one-third of that level for 2010, resulting in an interim target Working Capital Reserve of \$286,972. MRO currently projects a Working Capital Reserve of \$74,344 at December 31, 2009, necessitating an increment of \$212,628 in its 2010 assessments to reach the

⁸⁶ The comparisons in this section to MRO's 2009 Budget do not incorporate the \$1,120,000 of additional funding requested for 2009 in MRO's supplemental budget and funding request filed on August 6, 2009. *Request of the North American Electric Reliability Corporation for Approval of Supplemental 2009 Budget and Funding Request for the Midwest Reliability Organization*, (filed Aug. 6, 2009). That filing is still pending before the Commission (Docket RR08-6-003). The supplemental budget and funding request was to obtain funding for a one-time cost MRO is incurring in 2009 in connection with termination of its multiple-employer, defined benefit pension plan, which is being replaced with a defined contribution plan.

⁸⁷ See Table B-4 on page 71 of **Attachment 4**.

interim Working Capital Reserve. MRO plans no non-statutory activities in 2010 and therefore has no 2010 Budget for non-statutory activities.

3. NPCC

NPCC's statutory budget for 2010 is \$11,354,085, an increase of \$1,345,200 over its 2009 Budget. NPCC plans total staffing for statutory and administrative programs of 27.41 FTEs, an increase of 4.01 FTEs over its 2009 Budget.⁸⁸ NPCC's 2010 Budget for CMEP and Organization Registration and Certification reflects a staffing increase of 4.0 FTEs over the 2009 Budget,⁸⁹ as well as a substantial increase (from \$404,604 to \$1,207,000) in Consultant & Contract resources for this program, primarily to assist in compliance violation investigations and compliance audits. NPCC is budgeting increased resources for Compliance and Organization Registration due to expansion of the compliance audit program to begin auditing compliance with CIP standards, full implementation of NPCC's Memoranda of Understanding concerning compliance activities in Canadian provinces, increased maintenance of compliance-related documents and data, and increased monitoring and maintenance of the NPCC Compliance Registry. NPCC has not budgeted specific resources for processing TFEs, but rather presently expects to draw on its Working Capital Reserve if needed during 2010 to fund this activity. However, if necessary based on the costs being incurred to process TFEs, NPCC may

⁸⁸ NPCC's 2009 Business Plan and Budget filed with the Commission showed 27.2 FTEs budgeted for 2009. However, in its 2009 and earlier years' business plans and budgets, NPCC counted certain contract resources as FTEs. For the 2010 Business Plan and Budget, NPCC (consistent with the other Regional Entities) is including only NPCC employees in its FTE count. For presentation purposes in the 2010 Business Plan and Budget, 2009 FTE information has been revised accordingly, with the result that the 2010 Business Plan and Budget shows 23.4 FTEs as having been budgeted for 2009. (*See, e.g.*, Table 5 in Section B.)

⁸⁹ One of these positions has already been added during 2009.

file a supplemental budget and funding request during 2010 to obtain additional resources for processing TFEs.

NPCC is also budgeting an additional FTE for the Reliability Assessment and Performance Analysis Program over the 2009 Budget. Increases in Personnel Expense, Travel Expense and Consultants & Contracts are the primary areas of increase in NPCC's 2010 statutory budget. These increases are partially offset by decreases totaling \$870,158 in the 2010 Budget for capital expenditures for Furniture & Fixtures, Equipment, and Leasehold Improvements, reflecting the fact that NPCC is incurring significant one-time Capital Expenditures in 2009 due to relocating its office.

NPCC's target Working Capital Reserve at December 31, 2010 is \$2,270,817 (based on 20% of its total Regional Entity budget). NPCC currently projects a Working Capital Reserve of \$2,124,463 at December 31, 2009; therefore, an increment to the 2010 assessments of \$146,354 is needed to reach the target Working Capital Reserve. As noted, NPCC's Working Capital Reserve may be impacted by the need to draw on it to support the function of processing TFEs during 2010. NPCC's total non-statutory (Criteria Services Division) budget for 2010 is \$1,099,308.

For purposes of determining the assessments to recover NPCC's statutory funding requirement, the statutory funding requirement is allocated among the Balancing Authority Areas within NPCC in the U.S. (New York and New England), Ontario, Québec, New Brunswick and Nova Scotia. A portion (55%) of NPCC's statutory costs for the Compliance and Organization Registration Program is allocated between the U.S. and Canadian Balancing Authority Areas on the basis of NEL and a portion (45%) of these costs is allocated between the U.S. and the Canadian provinces using an audit-based methodology. The portion of the costs allocated to the

U.S using the audit-based methodology is then allocated between the New York and New England Balancing Authority Areas on the basis of NEL, as required by the Commission's *July 16, 2009 Budget Compliance Order*.⁹⁰ Table 6 on page 78 of NPCC's Business Plan and Budget (**Attachment 5**) shows the development of the 2010 assessments by Balancing Authority Area within NPCC to recover NPCC's statutory funding requirement.

4. ReliabilityFirst

ReliabilityFirst has a total statutory budget for 2010 of \$14,184,713, an increase of \$2,750,512 over its 2009 Budget. However, ReliabilityFirst's requested assessments, which were significantly reduced in its 2009 Budget due to a significant balance in its Working Capital Reserve in excess of the target level, are increasing from \$8,833,834 in 2009 to \$14,345,192 for 2010. ReliabilityFirst's required assessments are reduced by \$180,000 of penalties collected from registered entities and \$40,000 of budgeted Interest income.

ReliabilityFirst plans total staffing for statutory and administrative programs of 58 FTEs, an increase of 14 FTEs over its 2009 Budget. ReliabilityFirst is budgeting 36.5 FTEs for its CMEP and Organization Registration and Certification Program, an increase of 13.5 FTEs over the 2009 Budget for this program, as well as an increase in budgeted expense for Consultants & Contracts expense for this program from \$120,000 to \$354,706. Four of the additional FTEs budgeted in the CMEP are being added to support processing of TFEs, while two of the additional FTEs are being added to support auditing of compliance with CIP standards. The additional Contract resources for Compliance are needed to supplement staff resources in the areas of spot checks, compliance audits, investigations and CIP activities. ReliabilityFirst is also budgeting an increase of \$739,576 of direct expense and an increase of 3 FTEs (two of which are

⁹⁰ *July 16, 2009 Budget Compliance Order* at PP 38-41.

being re-allocated from other programs) for the Reliability Assessment and Performance Analysis Program.

ReliabilityFirst's target Working Capital Reserve is \$1,418,471, representing approximately 10% of the 2010 assessment for expenses and capital expenditures. ReliabilityFirst currently projects a Working Capital Reserve at December 31, 2009 of \$1,037,992. Therefore, ReliabilityFirst's requested assessment amount for 2010 reflects an increment of \$380,479 to reach the desired Working Capital Reserve. ReliabilityFirst plans no non-statutory activities in 2010 and therefore has no 2010 Budget for non-statutory activities.

5. SERC

SERC's total statutory budget for 2010 is \$10,701,683, an increase of \$606,137 over its 2009 Budget. SERC plans total staffing for statutory and administrative programs of 45.5 FTEs, an increase of 2.5 FTEs over its 2009 Budget. SERC's most significant budget increase over its 2009 Budget is in the Situation Awareness and Infrastructure Security Program, in which SERC is budgeting an increase of 1.80 FTEs and \$414,281 of direct expense over the 2009 Budget. SERC is also budgeting increased expenses in Administrative Services of \$887,812 over its 2009 Budget. However, of this amount, \$329,803 is due to recording the budgeted expenses for Office Rent, Office Costs and Professional Services under General and Administrative rather than recording these expenses under the individual statutory programs. Further, \$730,429 of SERC's budgeted Administrative Services expense is for Technical Committees and Member Forums.

SERC has not budgeted additional resources in its 2010 Business Plan and Budget specifically for processing TFEs. SERC anticipates performing this activity with existing staff and drawing on its Working Capital Reserve if additional funds are needed for this activity. However, as the resource requirements for processing TFE become clearer during 2010, it is

possible that SERC may need to submit a supplemental budget and funding request for additional resources for this activity.

SERC's target Working Capital Reserve at December 31, 2010 is \$1,009,555, based on a target of up to 10% of budgeted annual statutory operating costs. SERC currently projects a Working Capital Reserve at December 31, 2009 of \$1,587,555, which includes \$578,000 of penalty sanction payments received prior to June 30, 2009. SERC's required assessments for 2010 are reduced by the \$578,000 of penalties collected from registered entities, \$272,406 of budgeted Workshop fees, and \$20,000 of budgeted Interest income.

SERC plans no non-statutory activities in 2010 and therefore has no 2010 Budget for non-statutory activities.

6. SPP RE

SPP RE's total 2010 statutory budget is \$8,138,783, an increase of \$1,657,747 over its 2009 Budget. SPP RE plans total staffing for statutory and administrative programs of 24.3 FTEs, an increase of 7.1 FTEs over its 2009 Budget. SPP RE is budgeting increased resources for its CMEP and Organization Registration and Certification Program for 2010, with a plan to increase FTEs in this program by 6 (from 8 to 14) over the 2009 Budget and a budgeted increase in direct expenses of \$3,772,644 (156%) for this program over its 2009 Budget. In addition to the FTE increase, SPP RE is budgeting an increase of \$765,000 for Consultants & Contracts (from \$330,000 to \$1,095,000) and \$131,000 for Travel Expense for the Compliance program. The substantial increase in budgeted Consultants & Contracts expense is primarily due to SPP RE's plan to use consultants and contractors to review and process TFEs during 2010. SPP RE is also budgeting an increase in direct expenses of \$99,550, including 0.5 additional FTE, for the Reliability Standards program; and an increase of \$90,642, including 0.6 additional FTE, in the Reliability Assessment and Performance Analysis Program, over the 2009 Budget. SPP RE is

budgeting a decrease in direct expenses from the 2009 Budget in the Training, Education and Personnel Certification Program, and an increase of only \$5,480 in direct expenses over the 2009 Budget in the Situation Awareness and Infrastructure Security Program.

With respect to Administrative Services, SPP RE is budgeting an increase in total expenses and capital expenditures of \$233,961. However, SPP RE has reduced the hourly indirect expense allocation rate for support services performed by SPP, Inc. to \$64.49 per hour of direct statutory program activity.⁹¹ In previous years' budgets and actual results, the indirect expense allocation rate has been in the range of \$100 to \$110 per hour of direct statutory program activity. The calculation of the indirect expense rate used in the 2010 Budget is shown in Section E on page 57 of **Attachment 8**. The calculation follows the procedure and format detailed in Attachment 7 to the *2008 Budget True-up Filing*, which the Commission accepted in its June 29, 2009 Order.⁹²

As noted earlier, SPP RE has determined it does not need to establish or budget for a Working Capital Reserve, because it has access to operating cash balances and bank lines of credit for short-term funding needs. However, as shown in Table 5 on page 44 of **Attachment 8**, SPP RE projects it will have a Working Capital Reserve of \$1,382,928 at December 31, 2009. Accordingly, SPP RE has reduced its requested 2010 assessment amount by \$1,382,928.

As in prior years' filings, SPP RE is unable to provide a 2010 Budget for SPP, Inc.'s non-statutory activities because SPP, Inc.'s overall annual budget for 2010 will not be approved, in

⁹¹ The hourly indirect expense rate used in the 2010 Budget is the estimated rate for 2010. As the year progresses and better estimates can be made, this rate may be adjusted. At the end of the year, an actual indirect charge rate is calculated and used to finalize SPP RE's actual expenses for the year.

⁹² *Order Conditionally Accepting Compliance Filings*, 127 FERC ¶61,307 (2009) (*June 29, 2009 True-Up Order*), at PP 15-22.

accordance with SPP, Inc.'s normal planning and budgeting cycle, until October 2009. SPP RE has included its 2009 budget for non-statutory activities (as previously filed with the Commission in Docket No. RT04-1) in Section C of its Business Plan and Budget, for information.⁹³

7. Texas RE

Texas RE's total 2010 statutory budget is \$6,920,641, an increase of \$753,615 over its 2009 Budget. Texas RE plans total staffing for statutory and administrative programs of 34 FTEs, an increase of 7.05 FTEs over its 2009 Budget. Texas RE is budgeting increased resources for its CMEP and Organization Registration and Certification Program for 2010, with a plan to increase FTEs in this program by 7.59 FTE over the 2009 Budget, to 21.74 FTEs, and a budgeted increase in direct expenses of \$1,837,055 (113%) for this program over its 2009 Budget. Three of the FTEs being added in the Compliance Program are for the purpose of reviewing, processing and managing a database for TFEs. Texas RE is budgeting an increase of \$428,660 in Professional Services for the Compliance program due to the direct costing of external legal (for enforcement and registration appeals) and other professional service expenses directly attributed to hosting Texas RE's portal for the benefit of this program, as opposed to recording these costs in Legal and Regulatory and then allocating the costs among all five statutory programs on the basis of FTEs. Texas RE is also budgeting increases in direct expenses of \$152,320 for the Training, Education and Operator Certification Program and \$232,778 for the Situation Awareness and Infrastructure Security program (including an increase of 1.53 FTEs) over the 2009 Budget.

⁹³ See pages 53-55 of **Attachment 8**.

Texas RE's 2010 Budget for Administrative Services shows decreases of \$558,365 and 3.04 FTEs; however, these indicated decreases are largely due to assigning directly to the statutory programs certain costs previously budgeted in Administrative Services. Texas RE receives facilities, treasury, finance, human resources, legal and IT support from ERCOT, pursuant to a memorandum of understanding (MOU) between Texas RE and ERCOT that sets forth the details of the support and services provided by ERCOT and the rates or other bases by which Texas RE will be charged for associated expenses. A copy of the MOU and the exhibits thereto is included at the end of Texas RE's Business Plan and Budget, **Attachment 9**. Texas RE and ERCOT have amended the MOU effective February 16, 2009. In order that the Commission may see the changes to the MOU from the version that was included with Texas RE's 2009 Business Plan and Budget, a redline of the revised MOU is also included in **Attachment 9**. Texas RE believes that, in general, the revised MOU provides greater specificity and discreteness in the rates and other bases at which Texas RE is charged for indirect services provided by ERCOT.

Most of the costs billed under the MOU are reflected in Texas RE's budgets under either Consultants & Contracts or Office Rent. The 2010 budgeted expense for Consultants & Contracts has increased over the 2009 Budget by \$185,345, while the 2010 budgeted expense for Office Rent has decreased by \$189,950. From the 2009 Budget to the 2010 Budget, the net effect of the MOU costs is a decrease of approximately \$4,600. Notably, in February 2009, Texas RE relocated its offices to be physically separate from ERCOT ISO's location to a new building with a lower cost per rentable square foot than budgeted in Texas RE's 2009 Budget.

Texas RE's desired Working Capital Reserve at December 31, 2010 is \$1,370,718, representing an approximately 75 day cash reserve. Texas RE currently projects a Working

Capital Reserve of \$855,000 at December 31, 2009. In addition, in accordance with its accounting procedures and GAAP, it expects to use unspent prior year funds (releasing revenue from its Long-Term Regulatory Liability account) of \$593,983 for unspent assessments; this effectively increases the Working Capital Reserve to \$1,448,983. Accordingly, Texas RE's requested 2010 assessment amount includes a decremental adjustment of \$(78,264) to achieve the desired Working Capital Reserve.

Texas RE's total non-statutory budget for 2010 is \$1,153,772, as shown on page 64 of **Attachment 9**.

8. WECC

WECC's 2010 total statutory budget is \$39,508,558, an increase of \$1,816,790 over its 2009 Budget. WECC plans total staffing for statutory and administrative programs of 172.5 FTEs, an increase of 32.5 FTEs over its 2009 Budget. Of WECC's total budgeted FTEs, 60.3 FTEs are in the Situation Awareness and Infrastructure Security program, which includes WECC's reliability coordinator registered entity function. WECC is budgeting significantly increased resources for its CMEP and Organization Registration and Certification Program for 2010, with a plan to increase FTEs in this program by 20 FTEs over the 2009 Budget (from 30 FTEs to 50 FTEs) and a budgeted increase in direct expenses of \$3,298,029 for this program over its 2009 Budget. WECC also has budgeted increases in Meetings and Travel Expense and a \$313,000 increase in Consultants & Contracts for the Compliance program. WECC is increasing resources for CMEP and Organization Registration in order to continue to process outstanding compliance violations, process new violations in a timely manner, address ongoing registration workload and issues, and handle the additional workload of auditing registered entities for compliance with CIP standards.

WECC has not budgeted additional resources in its 2010 Business Plan and Budget specifically for processing TFEs. WECC anticipates performing this activity with existing staff, and drawing on its Working Capital Reserve if additional funds are needed for this activity. However, as the resource requirements for processing TFE become clearer during 2010, it is possible that WECC may need to submit a supplemental budget and funding request for additional resources for this activity.

WECC is budgeting increases in direct expenses for the Reliability Assessment and Performance Analysis Program over the 2009 Budget, including the addition of two FTEs, primarily to address the higher penetrations of variable resources in the WECC region. WECC is also budgeting a reduction of \$375,568 for Consultants & Contracts over the 2009 budget for this program. WECC is budgeting steady or somewhat reduced levels of direct expenses for the other statutory programs. WECC expects to repay the balance of the borrowing incurred in 2008 (budgeted under the Situation Awareness and Infrastructure Security program) to fund the accelerated completion and operation of the two new WECC-owned Reliability Coordination Centers in Vancouver, Washington and Fort Collins, Colorado, by March 1, 2010.⁹⁴

WECC is budgeting an increase of 7.2 FTEs in the Administrative Services functions over the 2009 Budget. The FTE increase includes the addition of four positions in Legal and Regulatory, largely to provide legal support for Compliance activities. FTE increases are also

⁹⁴ In its order issued April 17, 2008 in Docket No. RR07-16-002, the Commission approved the amendment to WECC's 2008 Budget to provide for the increased expenditures for the accelerated completion of the Reliability Coordination Strategic Initiative and the use of a \$6 million line of credit in 2008 to fund these increased expenditures, and also approved the inclusion of loan repayment and interest costs in WECC's 2009 and 2010 assessments. *Order Approving Amendment to Western Electricity Coordinating Council Business Plan and Budget*, 123 FERC ¶ 61,031 (2008).

budgeted in Technical Committees and Member Forums, IT, Finance and Accounting. Some of these FTE increases are internal transfers from other program areas.

WECC's target Working Capital Reserve at December 10, 2009 is \$1,577,472, which represents approximately 45 days of expenses. WECC currently projects a Working Capital Reserve at December 31, 2009 of \$577,472; accordingly, WECC's requested 2010 assessment amount includes an increment of \$1,000,000 to reach the target Working Capital Reserve. As indicated above, WECC's Working Capital Reserve may be impacted by the need to draw on it to fund TFE processing activities during 2010. WECC's total non-statutory budget for 2010 is \$1,045,372.

WECC's allocation of its assessment to the AESO for the Province of Alberta has been reduced by \$289,238, representing WECC Compliance Monitoring and Enforcement Program costs that are duplicative of programs of the AESO. The AESO credit amount was allocated to the remainder of the LSEs (Balancing Authorities) in the WECC Region on the basis of NEL.⁹⁵ Appendix 1 to **Attachment 10** shows the calculation of the \$289,238 adjustment to the assessment to AESO.

C. Metrics Related to Regional Entity Budgets

In its 2008 and 2009 Business Plan and Budget filings, NERC included attachments providing metrics developed by NERC and the Regional Entities to be used as a further aid to understanding where and why differences exist among the Regional Entities' activities and budgets. In the *2008 Budget Order* and *2009 Budget Order*, the Commission reviewed these attachments, noted that they were generally useful, indicated additional metrics that NERC and the Regional Entities should develop and present in the future, and encouraged NERC and the

⁹⁵ See Table 6 on page 66, and Appendix 1 on page 85, of **Attachment 10**.

Regional Entities to continue the development, analysis and explanation of the metrics in future filings.⁹⁶ Among other comments, the Commission stated in the *2009 Budget Order*:

The Commission appreciates NERC's improvements to the metrics pursuant to the 2008 Budget Order. While the metrics provide a valuable tool for benchmarking and comparing Regional Entity budgets, there are two specific matters that need further refinement. First, the metrics lack a uniform description regarding the types of audits which the Regional Entities perform. Specifically, it is not clear among the Regional Entities what constitutes a "large audit," "medium audit," "small audit," "tabletop audit," "offsite audit," or "other audit." It appears that these terms are used interchangeably among the Regional Entities and that the terms may mean different things to different entities. This lack of uniformity limits the usefulness of the data. The Commission, therefore, directs NERC to include in its compliance filing (1) standardized terminology regarding the different types of audits, and (2) revised audit-related metrics applying the standardized terminology.⁹⁷

NERC provided the additional information on compliance audits requested in the *2009 Budget Order* in the *December 15, 2008 Budget Compliance Filing*.⁹⁸ The Commission found this information to be acceptable in the *July 16, 2009 Budget Compliance Order*.⁹⁹

NERC and the Regional Entities have devoted considerable effort and discussion during the current business planning and budgeting cycle to developing appropriate metrics on Regional Entity operations for presentation and analysis. However, due to the late revisions to the 2010 Business Plans and Budgets of four Regional Entities to include resources for processing TFEs (*see* §III.B above), which were approved by the NERC Board on August 20, 2009 (only two business days before the due date of this filing), there was not sufficient time before the filing date to calculate and validate the final metrics values to be provided in **Attachment 15** nor to

⁹⁶ *See, e.g., 2008 Budget Order* at PP 34-35; *2009 Budget Order* at PP 47-48.

⁹⁷ *2009 Budget Order* at P 47.

⁹⁸ *December 15, 2008 Budget Compliance Filing* at 36-39 and Attachment 4.

⁹⁹ *July 16, 2009 Budget Compliance Order* at PP 29-31.

conduct the accompanying analysis and prepare a discussion of the metrics for inclusion in **Attachment 15**.¹⁰⁰ NERC is therefore requesting an extension of time and leave to submit **Attachment 15**, containing the calculated metrics and accompanying analysis and discussion for the 2010 Regional Entity Business Plans and Budgets, in a supplemental filing on or before September 18, 2009.

In the *June 19, 2008 Budget Compliance Order*, the Commission directed NERC to develop additional metrics on the Regional Entities' administrative costs, such as the data presented in Attachment A to that Order, to be presented in future annual budget-to-actual cost true up filings and in the annual Business Plan and Budget filings beginning with the filing for 2010.¹⁰¹ In response, NERC developed a set of metrics on NERC's and the Regional Entities' administrative costs, which it provided in the *2008 Budget True-up Filing*. These metrics included:

- Statutory indirect expenses as a percent of total statutory expenses, and statutory direct expenses per dollar of statutory indirect expenses
- Statutory indirect FTEs as a percent of total statutory FTEs, and ratio of direct statutory FTEs to indirect statutory FTEs.
- Total statutory expenses per total FTE, statutory direct expenses per direct FTE, statutory indirect expenses per indirect FTE, and statutory indirect expenses per total FTE.¹⁰²

In the *June 29, 2009 True-up Order*, the Commission indicated the metrics on administrative costs provided in the *2008 Budget True-up Filing* were generally useful, although the Commission expressed concern that metrics on FRCC's indirect costs were not included.¹⁰³

¹⁰⁰ The late revisions to these Regional Entity business plans and budgets affected in particular the data and information on Compliance program resources budgeted for 2010.

¹⁰¹ *June 19, 2008 Budget Compliance Order* at P 39.

¹⁰² See *2008 Budget True-up Filing* at 8-13 and Attachment 10.

Attachment 16 presents, for the 2010 NERC and Regional Entity budgets, the same metrics on administrative costs that were provided in the *2008 Budget True-up Filing* for 2008 actual costs. **Attachment 16** also provides comparable metrics on administrative costs based on the NERC and Regional Entity 2009 budgets, as well as discussion of the 2010 metrics including analysis of the changes in the administrative cost metrics from the 2009 budgets to the 2010 budgets. Reflecting the consensus reached among NERC and the Regional Entities on the definition of and methodology for determining administrative (indirect) costs, administrative cost metrics for FRCC are now included in **Attachment 16**.

VI. NERC AND REGIONAL ENTITY AUDITED FINANCIAL STATEMENTS FOR 2008, AND ADDITIONAL RECONCILIATION OF 2008 BUDGETED VERSUS ACTUAL EXPENSES FOR TEXAS RE BASED ON ITS AUDITED 2008 FINANCIAL STATEMENTS

Section 1105.1 of the NERC Rules of Procedure specifies that the annual Business Plan and Budget filing must include the previous year's audited financial statements for NERC and the Regional Entities. Therefore, the audited 2008 financial statements for NERC and the Regional Entities, including the report of each entity's independent auditor, are provided in **Attachment 17**.¹⁰⁴

In the *2008 Budget Order*, the Commission directed NERC to prepare and file, by April 1 of the following year, a reconciliation of each year's annual Commission-approved NERC and Regional Entity budgets against actual expenditures, beginning with a reconciliation for 2007.¹⁰⁵

¹⁰³ *June 29, 2009 True-up Order* at PP 10-14.

¹⁰⁴ In **Attachment 17**, NERC's 2008 audited financial statements are presented first, followed by the 2008 audited financial statements of the Regional Entities, in alphabetical order. The audited financial statements provided for SPP are the audited financial statements for Southwest Power Pool, Inc., since the SPP Regional Entity is not a separate corporate entity.

¹⁰⁵ *2008 Budget Order* at P 23 and ordering paragraph (G).

NERC provided these reconciliations for 2007 in the *2007 Budget True-up Filing*, but noted that because, pursuant to the approved delegation agreements, the Regional Entities are not required to provide their audited financial statements for a calendar year to NERC until 150 days following the end of that year, the reconciliations presented in the *2007 Budget True-up Filing* were based on unaudited financial statements for all but one of the Regional Entities.¹⁰⁶ In the *June 19, 2008 Budget Compliance Order*, the Commission directed that NERC's 2009 Business Plan and Budget Filing include an additional reconciliation(s), if necessary, showing any changes from the 2007 budget versus actual reconciliations provided in the *2007 Budget True-up Filing* based on the audited financial statements for 2007.¹⁰⁷ NERC has treated this directive as a continuing requirement for future annual business plan and budget filings.¹⁰⁸

The reconciliations provided in the *2008 Budget True-up Filing* were in fact based on the 2008 audited financial statements for NERC and six of the Regional Entities (FRCC, MRO, NPCC, ReliabilityFirst, SERC and WECC), and were based on unaudited 2008 financials only for SPP RE and Texas RE. Further, the audited 2008 financial statements of SPP RE resulted in no changes to the unaudited financials that were used to prepare the reconciliation provided in the *2008 Budget True-up Filing*. Therefore, no further reconciliations are needed, or presented with this filing, for NERC, FRCC, MRO, NPCC, ReliabilityFirst, SERC, SPP RE or WECC.

¹⁰⁶ *Additional Compliance Filing of the North American Electric Reliability Corporation in Response to October 18, 2007 Order*, filed April 1, 2008 in Docket No. RR07-16-003 (*2007 Budget True-up Filing*), at 17.

¹⁰⁷ *June 19, 2008 Budget Compliance Order* at P 40.

¹⁰⁸ However, in the *June 29, 2009 True-Up Order*, the Commission granted NERC's request that the filing date for the annual budget-to-actual cost reconciliations be moved from April 1 to May 30 so that the reconciliation could be based on NERC's and the Regional Entities' audited financial statements, thereby obviating the need to include this information in the annual business plan and budget filings. *June 29, 2009 True-Up Order* at PP 23-24. This revised filing date will go into effect for the reconciliations of budgets to actual costs for 2009.

However, the audited 2008 financial statements of Texas RE did in fact result in some changes to its unaudited financial statements used to prepare the reconciliation for Texas RE that was provided in the *2008 Budget True-Up Filing*. Accordingly, **Attachment 18** provides a revised reconciliation of budgeted to actual costs for 2008 for Texas RE based on its audited 2008 financial statements. **Attachment 18** shows the 2008 actual funding and expenses per the *2008 Budget True-up Filing*; the 2008 actual funding and expenses per Texas RE's 2008 audit; the variances between the actual 2008 funding and expenses provided in the *2008 Budget True-up Filing* and in Texas RE's 2008 audit; and explanations of the causes of the variances. This information is provided for statutory funding and expenses, for non-statutory funding and expenses, and in total.

VII. UPDATE ON STATUS OF PROCESSING ALLEGED VIOLATIONS OF RELIABILITY STANDARDS

In the *December 15, 2008 Budget Compliance Filing*, NERC and the Regional Entities provided a report on the status of alleged violations of reliability standards that had not been processed to completion, and NERC's and the Regional Entities' plans for processing these alleged violations to completion.¹⁰⁹ In the *July 16, 2009 Budget Compliance Order*, the Commission stated:

While we accept NERC's proposal to increase the FTEs that support the Compliance Monitoring and Enforcement Program, we remain concerned regarding the continuing backlog in processing alleged violations. We therefore direct NERC to provide the Commission with a report on the status of the remaining unprocessed violations in its 2010 business plan and budget filing.¹¹⁰

In response to this directive, **Attachment 19** provides a status report on the progress achieved by NERC and the Regional Entities, since the fourth quarter of 2008, in reducing the backlog of

¹⁰⁹ *December 15, 2008 Budget Compliance Filing* at 17-18 and Attachment 3.

¹¹⁰ *July 16, 2009 Budget Compliance Order* at P 18.

alleged violations not yet processed to completion, as well the initiatives undertaken by NERC and the Regional Entities to process new allegations of violation in a more expeditious manner.

VIII. ENHANCEMENTS TO NERC'S DATA COLLECTION AND CHECKING PROCESSES FOR RELIABILITY ASSESSMENTS

In the *July 16, 2009 Budget Compliance Order*, the Commission stated:

With respect to the Reliability Assessment and Performance Analysis Program, the Commission accepts NERC's proposal to review and enhance its current data collections process by introducing additional independent, automated data checking systems. We will accept this proposal but will direct NERC to provide a status report on its progress in its 2010 business plan and budget filing.¹¹¹

Although the above-quoted directive is the result of a series of filings and orders beginning with and relating to NERC's 2009 Business Plan and Budget filed in August 2008, in fact NERC has separately identified and implemented a number of actions to enhance data collection and verification for its reliability assessments. These initiatives are described in NERC's *2009 Summer Reliability Assessment*¹¹² as well as in its *Three-Year ERO Performance Assessment Report* filed July 20, 2009. **Attachment 20** provides a discussion of steps NERC has already taken, and additional steps that have been identified for possible implementation, to enhance data collection and verification for NERC's reliability assessments.

IX. UPDATE ON RELIABILITY ENHANCEMENT PROGRAMS

In the *2009 Budget Order*, the Commission stated:

The Commission understands that many aspects of the implementation of the Energy Policy Act of 2005 are still in a state of evolution and that, because of this, the ability of NERC to make a meaningful enhancement filing may be somewhat compromised. Nonetheless, the Commission emphasizes that the development and promotion of "best practices" programs is an ongoing role of

¹¹¹ *July 16, 2009 Budget Compliance Order* at P 20.

¹¹² *North American Electric Reliability Corporation, 2009 Summer Reliability Assessment*, issued May 2009, available at <http://www.nerc.com/files/summer2009.pdf>.

the ERO. Given NERC's and the Regional Entities' obligations to address the new enforcement activities, new cybersecurity Reliability Standards, and ongoing questions on the adequacy of resources, the Commission acknowledges that during 2008 NERC and the Regional Entities may still be in the transition phase of their development. Therefore, the Commission accepts NERC's 2008 enhancement filing and directs NERC to include in its 2010 Business Plan and Budget a further update of the enhancement programs. The information provided in the next business plan and budget must demonstrate more thoroughly developed reliability enhancement programs and sufficient funding to support such programs. The business plan and budget must also include a schedule or action plan that shows the staged development of the enhancement programs with specific, measurable timing and goals.¹¹³

The Commission's reference to "NERC's 2008 enhancement filing" was to a compliance filing made by NERC on July 21, 2008 describing several reliability enhancement programs and activities that NERC had initiated or expanded during the preceding year directed to improving the reliability of the bulk power system.¹¹⁴ The following reliability enhancement programs and activities were described in the *2008 Reliability Enhancement Programs Filing*:

- Development of NERC's Five-Year Strategic Plan
- Critical Infrastructure Protection
- Continued Efforts to Enhance Reliability Metrics and Benchmarking Program
- Reliability Assessment Improvement Program
- Establishing New Reliability Databases for Availability Performance of Transmission Facilities and Demand Response Programs
- Development of Definition of Adequate Level of Reliability
- Development of a Reliability Concepts Document
- Development and Implementation of the NERC Alerts Program
- Improving Reliability Tools and Support Services

¹¹³ *2009 Budget Order* at P 71 (footnote omitted).

¹¹⁴ *Compliance Filing of the North American Electric Reliability Corporation in Response to FERC Order on Filing of Reliability Enhancement Programs*, filed July 21, 2008 in Docket No. RR07-14-000 (*2008 Reliability Enhancement Programs Filing*).

In addition to describing these specific programs and activities, NERC reported in the *2008 Reliability Enhancement Programs Filing* that it and the Regional Entities continued to expend a significant amount of effort on further improving the efficiency and effectiveness of the Reliability Standards Development, Compliance Monitoring and Enforcement, and Reliability Assessment and Performance Analysis programs, and that reports on these improvement activities had been and would continue to be the subject of other filings with the Commission.¹¹⁵

NERC also stated in the *2008 Reliability Enhancement Programs Filing* that it was keenly aware of programs and activities of other organizations, such as the Nuclear Regulatory Commission (NRC), Institute of Nuclear Power Operations (INPO), and the Financial Industry Regulatory Authority¹¹⁶ (FINRA), and was interested in incorporating some of the elements of these programs into NERC's programs as NERC sought to further improve its own reliability enhancement programs and activities. The programs and activities of these other organizations that were of particular interest to NERC included the "Best Practices" program of INPO, the "Significance Determination Process" and "Action Matrix" that are part of the Reactor Oversight Process of the NRC, and the "Compliance Tools" program of FINRA.¹¹⁷ NERC stated, however, that it believed it was not in a position, during the period of ERO start-up and transition (to mandatory and enforceable reliability standards), to propose the design and implementation of a full array of specific programs for NERC comparable to the specific programs of the nuclear power industry (*i.e.*, NRC and INPO) and other entities (*e.g.*, FINRA) as discussed in *Order No. 672*. Nonetheless, NERC indicated that some of the reliability enhancement programs and

¹¹⁵ *2008 Reliability Enhancement Programs Filing* at 1.

¹¹⁶ Formerly the National Association of Securities Dealers.

¹¹⁷ *2008 Reliability Enhancement Programs Filing* at 1-2.

initiatives NERC is implementing take into account some features of these programs where possible, and that NERC will continue to be informed by these programs and strive to incorporate the most appropriate elements of them into its own reliability enhancement programs.¹¹⁸ That is still the case today.

In its *Three-Year ERO Performance Assessment Report*, prepared in accordance with the Commission's regulations at 18 C.F.R. §39.3(c) and filed with the Commission on July 20, 2009, NERC provided a detailed discussion of how NERC continues to meet the criteria of 18 C.F.R. §39.3(b) for ERO certification, as well as detailed discussions of the principal activities, achievements and effectiveness of each of the NERC statutory programs in enhancing the reliability of the bulk power system since NERC was certified as the ERO in 2006.¹¹⁹ The *Three-Year ERO Performance Assessment Report* also included summaries of comments and recommendations for improvement that were submitted by stakeholders and Regional Entities concerning each of the NERC program areas, NERC's discussion of and responses to these comments and recommendations, and specific actions NERC is taking or plans to take in light of the comments and recommendations.¹²⁰ These actions involve all of NERC's statutory programs. Many of these actions, if implemented, would serve to enhance the reliability of the bulk power system.

As noted, the *Three-Year ERO Performance Assessment Report* is (as required by the Commission's regulations) currently the subject of a Commission proceeding, with a public comment period in progress through September 3, 2009. Under 18 C.F.R. §39.3(c), the

¹¹⁸ *2008 Reliability Enhancement Programs Filing* at 2.

¹¹⁹ *See Three-Year ERO Performance Assessment Report*, Overview and Attachment 1.

¹²⁰ *See Three-Year ERO Performance Assessment Report*, Attachment 2.

Commission is required to issued an order on the *Three-Year ERO Performance Assessment Report*. Further, although many of the NERC actions identified in Attachment 2 of the *Three-Year ERO Performance Assessment Report* are capable of being achieved with NERC's existing staffing and resources, for many others of the NERC actions, specific resources have not yet been budgeted. As a result, either the Commission (and applicable governmental authorities in Canada) or NERC's management and Board of Trustees may conclude that some of the NERC actions identified in the *Three-Year ERO Performance Assessment Report* should not be undertaken, and the Commission (or applicable Canadian governmental authorities) or NERC's management and Board may determine that other actions not identified in the *Three-Year ERO Performance Assessment Report* should be undertaken. Nonetheless, NERC expects that many of the specific actions identified in the *Three-Year ERO Performance Assessment Report* will be implemented and will be reflected in the NERC and Regional Entity business plans and budgets in future years.

As NERC stated in the *Three-Year ERO Performance Assessment Report*, in the coming months, NERC will be developing the schedules, budgets and resource allocations, and the tracking mechanisms, that will be necessary to implement these actions and to monitor results, subject to the decisions and other responses of the Commission and applicable Canadian governmental authorities.¹²¹ It is these schedules, budgets and resource allocations that will ultimately provide the basis for staged development of the reliability enhancement programs activities embodied in the *Three-Year ERO Performance Assessment Report*, with specific, measurable timing and goals.

¹²¹ See Appendix A to the Overview section of the *Three-Year ERO Performance Assessment Report*, at 1.

X. CONCLUSION

Based on the information in this filing, including its Attachments, NERC requests that the Commission issue an order pursuant to 18 C.F.R. §39.4, on or before November 2, 2009: (1) accepting NERC's proposed 2010 Business Plan and Budget in **Attachment 2**; (2) accepting the proposed 2010 Business Plans and Budgets of the eight Regional Entities for statutory activities in **Attachments 3 through 10**; (3) accepting the proposed budget and funding requirement of WIRAB for 2010 in **Attachment 11**; and (4) approving the proposed assessments to each load-serving entity or designee or other entities to be billed within each Region, as set forth in Appendix 2 to **Attachment 2**, to be billed to and paid by each such load-serving entity or designee or other entity to fund the portion of NERC's 2010 funding requirement allocated to the United States and the 2010 funding requirement for statutory activities of each Regional Entity allocated to the United States. NERC also requests an extension of time and leave to submit **Attachment 15** (as described in §V.C) in a supplemental filing by September 18, 2009.

Respectfully submitted,

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DOCKET NO. RR09-__-000

**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

2010 BUSINESS PLAN AND BUDGET FILING

ATTACHMENT 1

SUMMARY TABLES FOR NERC AND REGIONAL ENTITY

PROPOSED 2010 BUSINESS PLANS AND BUDGETS

AND FUNDING REQUIREMENTS

Attachment 1

NERC's proposed budget and funding requirement by program

NERC Program	Budget for Statutory Functions 2009	Budget for Statutory Functions 2010
Reliability Standards	\$ 6,223,042	\$ 6,248,620
Compliance Enforcement and Organization Registration and Certification	\$ 13,167,908	\$ 14,717,513
Reliability Readiness Evaluation and Improvement	\$ 485,729	\$ 0
Training, Education and Operator Certification	\$ 2,593,173	\$ 2,713,631
Reliability Assessment and Performance Analysis	\$ 6,643,477	\$ 6,631,858
Situational Awareness and Infrastructure Security	\$ 6,893,198	\$ 8,148,934
Unallocated Administrative Services Costs		\$ 1,627,808 ¹
Total Budget	\$ 36,006,228 ²	\$ 40,088,365
Less: Non-Assessment Revenues	\$ 2,522,572	\$ 3,493,839
Plus: Provision for Reserves	[See footnote 2]	\$469,043
Total Funding Requirement	\$ 31,925,048	\$ 37,063,569
Allocation of Funding to U.S. Entities	\$ 28,668,409	\$33,257,992
Administrative Services (allocated to program areas)	\$13,305,335	\$11,268,789

¹ Includes \$1,617,808 for the Transmission Owners and Operators Forum which is totally funded by member fees and \$10,000 of budgeted Administrative Services Expense offset by interest income.

² Includes provision for working capital reserve of \$1,393,496, which has been allocated to the statutory programs and included in the budgeted statutory program costs listed above.

Proposed budget for statutory activities of each regional entity

Regional Entity	Budget for Statutory Functions 2009	Allocation to U.S. 2009	Budget for Statutory Functions 2010	Allocation to U.S. 2010
FRCC	\$ 3,977,868	\$ 3,977,868	\$ 5,421,187	\$ 4,938,176
MRO	\$ 6,405,724	\$ 5,416,569	\$ 7,366,117	\$ 6,266,196
NPCC	\$10,008,885	\$ 5,328,803	\$11,354,085	\$ 6,551,760
RFC	\$11,434,201	\$11,434,201	\$14,184,713	\$14,345,192
SERC	\$10,095,546	\$10,095,546	\$10,701,683	\$ 9,831,277
SPP	\$ 7,123,827	\$ 7,123,827	\$ 8,138,783	\$ 6,755,854
TRE	\$ 6,167,024	\$ 6,167,024	\$ 6,920,642	\$ 6,660,377
WECC	\$38,691,767	\$32,868,109	\$39,508,558	\$33,469,113
Total	\$93,904,842	\$82,411,947	\$93,904,842	\$82,411,947

Funding requirement for Section 215(j) activities requested by WIRAB

2009 Funding				
Regional Advisory Body Funding	U.S. Funding	Canadian Funding	Mexico Funding	Total Allocation
WIRAB	\$ 321,336	\$ 52,365	\$ 4,571	\$ 378,272

2010 Funding				
Regional Advisory Body Funding	U.S. Funding	Canadian Funding	Mexico Funding	Total Allocation
WIRAB	\$ 371,992	\$ 60,823	\$ 5,566	\$ 438,381

Aggregate U.S. ERO funding requirement of NERC, the regional entities and WIRAB for which approval is requested

2009 Funding					
Regional Entity	NERC Funding	Regional Entity Funding	WIRAB Funding	Total Allocation	Allocation per kWh (2007 NEL)
FRCC	\$ 1,695,602	\$ 3,898,438	--	\$ 5,594,040	\$0.0000235
MRO	\$1,846,842	\$ 5,391,836	--	\$ 7,238,678	\$0.0000314
NPCC	\$ 2,090,999	\$ 5,328,802	--	\$ 7,419,801	\$0.0000246
RFC	\$ 6,909,527	\$ 8,833,834	--	\$ 15,743,361	\$0.0000166
SERC	\$ 7,439,650	\$ 9,652,546	--	\$17,092,196	\$0.0000163
SPP	\$ 1,592,876	\$ 7,123,827	--	\$ 8,716,703	\$0.0000427
TRE	\$2,140,806	\$3,430,700	--	\$5,571,506	\$0.0000174
WECC	\$ 4,952,107	\$ 31,506,071	\$ 321,336	\$ 36,779,514	\$0.0000498
Total	\$28,668,409	\$ 75,166,054	\$ 321,336	\$104,155,799	\$0.0000258

2010 Funding					
Regional Entity	NERC Funding	Regional Entity Funding	WIRAB Funding	Total Allocation	Allocation per kWh (2008 NEL)
FRCC	\$ 1,974,371	\$ 4,938,177	--	\$ 6,912,548	\$0.0000296
MRO	\$ 2,065,574	\$ 6,266,196	--	\$ 8,331,770	\$0.0000362
NPCC	\$ 2,444,385	\$ 6,551,760	--	\$ 8,996,145	\$0.0000303
RFC	\$ 7,854,376	\$14,345,192	--	\$22,199, 568	\$0.0000239
SERC	\$ 8,649,090	\$9,831,277	--	\$18,480,367	\$0.0000179
SPP RE	\$ 1,886,912	\$ 6,755,854	--	\$ 8,642,766	\$0.0000415
TRE	\$ 2,481,329	\$ 6,660,377	--	\$ 9,141,706	\$0.0000294
WECC	\$ 5,901,955	\$33,469,113	\$ 371,992	\$39,743,060	\$0.0000538
Total	\$33,285,082	\$88,717,946	\$ 371,992	\$122,447,930	\$0.0000308

DOCKET NO. RR09-__-000

**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

2010 BUSINESS PLAN AND BUDGET FILING

ATTACHMENT 2

**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

PROPOSED 2010 BUSINESS PLAN AND BUDGET

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

2010 Business Plan and Budget

August 5, 2009

to ensure
the reliability of the
bulk power system

August 2009

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About NERC

NERC is a not-for-profit corporation organized under the New Jersey Nonprofit Corporation Act with a mission to ensure the reliability of the bulk power system in North America. Membership in NERC is open to any person or entity that has an interest in the reliable operation of the North American bulk power system.

NERC has been certified by the Federal Energy Regulatory Commission (FERC) as the Electric Reliability Organization (ERO) within the United States to establish and enforce reliability standards for the bulk power system. NERC is also subject to ongoing regulatory oversight by the FERC. In Canada, NERC presently has memorandums of understanding in place with provincial authorities in Ontario, New Brunswick, Nova Scotia, Québec and Saskatchewan, and with the Canadian National Energy Board. NERC standards are mandatory and enforceable in Ontario and New Brunswick as a matter of provincial law. NERC has an agreement with Manitoba Hydro, making reliability standards mandatory for that entity, and Manitoba has recently adopted legislation setting out a framework for standards to become mandatory for users, owners, and operators in the province. In addition, NERC has been designated as the “electric reliability organization” under Alberta’s Transportation Regulation, and certain reliability standards have been approved in that jurisdiction; others are pending. NERC and the Northeast Power Coordinating Council (NPCC) have been recognized as standards setting bodies by the Régie de l’énergie of Québec, and Québec has the framework in place for reliability standards to become mandatory. Nova Scotia and British Columbia also have the framework in place for reliability standards to become mandatory and enforceable. NERC is working with the other governmental authorities in Canada to achieve equivalent recognition.

During 2009, NERC continues to lead the development, improvement, and adoption of reliability standards across North America and the monitoring, evaluating, and enforcement (where authorized) of compliance with those reliability standards by users, owners, and operators of the bulk power system. In addition, NERC’s activities included conducting assessments of the reliability and future adequacy of the North American bulk power system. NERC also certifies bulk power system operators and maintains situation awareness of events that may threaten the reliability of the bulk power system. All of these activities serve the broad public purpose of helping to improve reliability of the bulk power system.

Delegated Authorities

In executing part of its responsibilities, NERC delegates authority to Regional Entities to perform certain functions through delegation agreements. This is consistent with the business model described in the strategic plan and the Energy Policy Act of 2005. FERC has approved delegation agreements between NERC and eight Regional Entities (Florida Reliability Coordinating Council, Midwest Reliability Organization, Northeast Power Coordinating Council, Inc., ReliabilityFirst Corporation, SERC Reliability Corporation, Southwest Power Pool, Inc., Texas Regional Entity, and the Western Electricity Coordinating Council.) These delegation agreements describe the enforcement authority delegated to the Regional Entities in the United States. NERC expects Regional Entities with cross-border responsibilities to perform equivalent functions in those jurisdictions. The funding for Regional Entities is approved separately with each Regional Entity submitting its own business plan and budget for consideration by NERC and regulatory authorities. The Regional Entity business plans and budgets may be found on the following Web site:

http://www.nerc.com/filez/regional_entity_business_plan_2010.html

2010 Business Plan and Budget

Approved by Board of Trustees on August 5, 2009

Introduction and Executive Summary

Total NERC Resources (in whole dollars)				
	2010 Budget	U.S.	Canada	Mexico
Statutory FTEs	131.5			
Non-statutory FTEs	0.0			
Total FTEs	131.5			
Total Operating Expenses	\$39,618,567			
Inc(Dec) in Fixed Assets	\$469,797			
Working Capital Requirement	\$469,043			
Total Funding Requirement	\$40,588,365			
ERO Funding Assessments	\$37,063,569	\$33,257,992	\$3,717,270	\$88,308
NEL	4,523,316,626	3,981,798,893	530,454,715	11,063,018
NEL %	100.000%	88.028%	11.727%	0.245%

The Board of Trustees and management of the North American Electric Reliability Corporation (NERC) have worked over the last three years to transition the organization into a fully-functioning Electric Reliability Organization (ERO). NERC has also been working to fulfill its responsibilities as the Electricity Sector Information Sharing and Analysis Center (ES-ISAC). The 2010 Business Plan and Budget, evidences NERC's efforts to progress from a start-up phase towards building an efficient and platform for ongoing operations.

Priority Measures: Efficiency Improvements

As the organization begins to mature, efforts are ongoing to identify and implement efficiency improvements across the organization. A focus on improved operational efficiency will be a key element of NERC's business planning strategy in 2010 and the years ahead.. Key initiatives either implemented or underway include:

- Embedding \$750,000 in unspecified efficiency improvements and savings in the 2010 budget as part of a comprehensive and ongoing operations efficiency review
- Re-organizing Human Resources, Meetings Services, and Finance and Accounting to be lead by a Chief Financial and Administrative Officer to maximize resource synergies
- Making greater use of multi-disciplinary project teams, where appropriate, to address emerging reliability issues and make better use of internal subject-matter expertise
- Instituting a new employee performance evaluation system to further enhance the alignment between individual, department, and corporate priorities
- Reducing meeting, travel, and other operating expenses

- Placing budget limits on available funding for annual salary increases and bonuses
- Increasing use of budgetary metrics and feedback to program managers, including migration from quarterly to monthly financial variance reporting
- Working with industry leadership to evaluate technical committee structures and operations to improve the efficiency and effectiveness of the committees in support of NERC's overall mission, reduce committee administrative requirements, and lower costs
- Making efforts to identify and implement management planning improvements within and between all Program areas

As NERC seeks to improve efficiency and effectively manage its resources, the organization will continually review ongoing activities to ensure alignment between fiscal objectives and its core mission of ensuring the reliability of the bulk power system in North America. Achieving this balance involves much more than focusing on standards and compliance. NERC firmly believes that appropriate focus must be given to all of the responsibilities outlined in its Rules of Procedure, including: increasing education opportunities for industry; conducting thorough and complete event analyses; providing adequate wide-area situation awareness; and assessing emerging reliability issues – including potential impacts of legislative or regulatory activities on the reliability of the bulk power system.

Efficiency Improvements Among NERC and the Regional Entities

Work continues on the development and execution of efficiency improvements in the regional delegation model. Resolving the inherent challenges of ensuring consistency and avoiding duplication of efforts and resources across eight regional entities and NERC continues to be a primary focus for NERC and the Regional organizations. Through consistent, open, and frequent communication and collaboration, significant efforts are being taken to identify synergies, improve efficiency and effectiveness, and manage overall costs. Particular areas of focus include developing a common database and process platform to manage new and existing compliance violations, comprehensive auditor training, and improved coordination of data collection and validation for assessments.

In the development of this 2010 Business Plan and Budget, NERC and the eight Regional Entities worked closely to ensure consistency, efficiency, and accountability for planned activities. Between February and March 2009, NERC and the eight Regional Entities developed a common set of business planning assumptions, as shown in Appendix 1. NERC and the Regional Entities undertook this work recognizing there may be unique factors that drive differences in each organization's final business plan.

Streamlining NERC's Technical Committee Structure

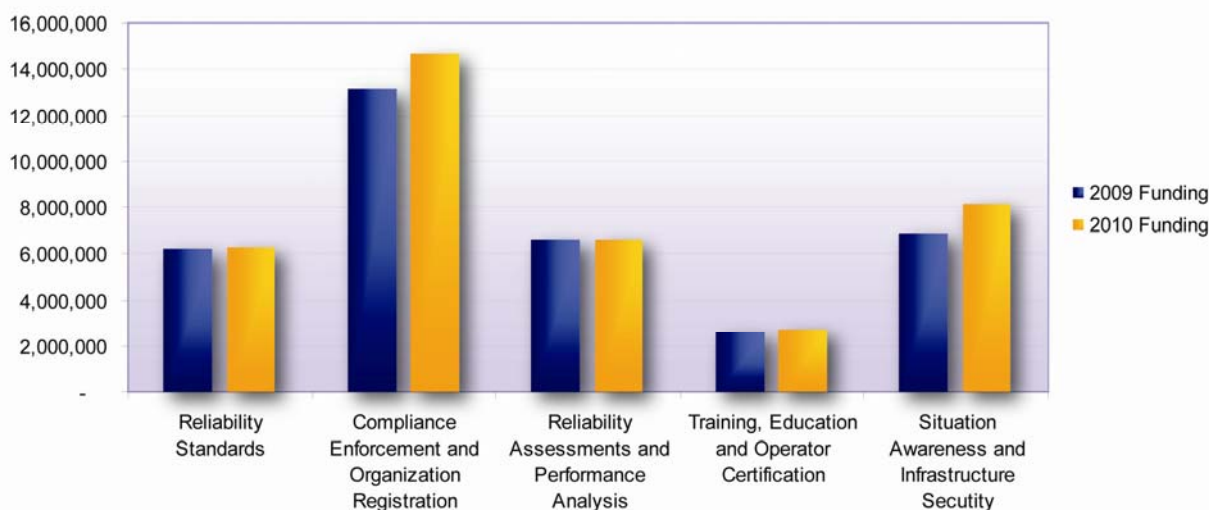
NERC's technical committees provide a strong foundation of industry expertise for NERC's efforts. Ever changing, the scope and responsibilities of NERC's over 50 committees, subcommittees, working groups, and task forces cover a broad range of issues from the integration of variable generation to the real-time application of phasor-measurement units. In the interests of making the best use of NERC's industry volunteers' time, reducing meeting and travel costs, and managing the significant administrative responsibilities involved in coordinating the activities of these many groups, NERC is working with committee leadership to review the current committee structure and streamline activities in 2010 and the years ahead. These efforts will be a critical element to achieving long term overall efficiency objectives.

The effort to improve efficiency and effectiveness will be a continued area of focus as the organizations work together to update and enhance the Regional Delegation Agreements in 2010, as per the schedule established in the original agreements.

Priority Measures: Executing NERC's Mission

The 2010 Business Plan and Budget recognizes the need to add certain required resources to reinforce several critical operating areas, improve service to NERC's stakeholders, and further support NERC's core mission of ensuring the reliability of the bulk power system in North America. These incremental resource additions specifically address increased workload, emerging priorities, and begin to lay the foundation to support the initiatives and objectives outlined in NERC's Three-Year Performance Assessment.

Comparison of 2010 to 2009 Budgeted Funding Requirements



* This graphical representation does not include an allocation of working capital requirements among the Program Areas or funding requirements for the Transmission Owners and Operators Forums, which is self-funding.

Areas where resource additions are projected in the 2010 budget include:

Keeping Pace with Current Flow of Violations and Reducing Compliance Backlog

NERC and the Regional Entities have encountered a significantly higher than expected volume of alleged violations since NERC standards became mandatory and enforceable in the United States on June 18, 2007. The current inflow of alleged violations is averaging (after dismissals) 85 per month, which has resulted in a significant backlog of compliance violations. NERC recognizes that additional resources alone will not be sufficient to efficiently process the volume of projected violations on an ongoing basis. As a result, NERC is proposing to modify procedures, including an evaluation of a mechanism to expedite processing of low-severity, low-risk violations, in addition to adding resources, to increase the efficiency of the process and reduce the number of man-hours spent on each violation. Minimum resources required to achieve these objectives include four additional mid-level full-time staff equivalents (FTEs) in the Compliance Monitoring and Enforcement Program to help address the current violation processing backlog and execute changes designed to improve the efficiency of violation processing on an ongoing basis.

Providing Better Education Opportunities for Stakeholders Seeking Information and Guidance on Compliance with NERC Standards

NERC recognizes that, in addition to developing standards and enforcing compliance, education is essential to ensuring the reliability of the bulk power system in North America. As a result, NERC is working to provide and facilitate more educational opportunities for stakeholders on reliability issues and NERC standards. NERC will require a minimum of one additional FTE in the Training, Education, and Operator Certification program to support this initiative.

Coordinating Industry and Government Efforts to Protect the Bulk Power System from Cyber Threats and Vulnerabilities

Protecting North America's critical electric infrastructure from cyber threats and vulnerabilities is one of the top reliability priorities for NERC and industry stakeholders. NERC has been instrumental in coordinating these efforts and continues to provide vital services to the electric industry as the ES-ISAC, including monitoring critical infrastructure information and driving coordination and collaboration between the intelligence community, government, and the electricity sector. Current resources cannot sustain the level of service required to adequately address emerging threats and vulnerabilities and fulfill the responsibilities of the ES-ISAC. To address this need, the minimum resources NERC will require are two additional FTEs in the Situation Awareness and Infrastructure Security program to improve situational awareness monitoring and services and provide dedicated expertise in the execution of NERC's ES-ISAC responsibilities. Work is underway to develop a comprehensive management plan for this program area, where resource synergies and cross-functional responsibilities are more clearly identified and the role of NERC stakeholders, through appropriate technical committees and advisory groups, is highlighted.

Developing Technically Excellent and Applicable Standards

As NERC continues its work with the Standards Committee to develop and execute its three-year work plan, prioritizing development efforts continues to be an industry-driven process. Areas of focus in 2010 will include completing phase-two revisions on the Critical Infrastructure Protection standards, continued work on the "fill-in-the-blank" standards, and efforts to support NERC's System Protection Initiative. In order to ensure this process continues to result in technically excellent and applicable standards, minimum resource requirements include the addition of a Standards Process Manager in the Standards area, and the addition of two Standards Process Coordinators to assist on requests for interpretation.

NERC will also continue to focus on reliability enhancement initiatives in 2010, using the framework established in NERC's Three-Year Performance Assessment to guide its efforts. Initiatives will include:

Alerts and lessons learned from event analyses — One of the most important reliability enhancement mechanisms ongoing at NERC is information sharing via advisories, recommendations, and essential action notifications. These "alerts" disseminate critical reliability information to asset owners, including lessons learned from event analyses, critical infrastructure protection information, and trends identified as part of NERC's reliability metrics program. NERC will continue to improve the alerts mechanism, with a particular focus on the timely release of lessons learned from event analyses.

Improved benchmarking and reliability metrics development — NERC worked closely with industry through the Reliability Metrics Working Group in 2009 to develop an improved suite of reliability metrics. Efforts to collect, compile, and analyze needed data will continue as metrics are revised and improved. Metrics provide a critical feedback loop to the standards and compliance enforcement process, identifying areas where new or improved standards may be needed and/or where compliance activities should be focused.

North American Synchro-Phasor Initiative — A cornerstone for the development of better wide-area system monitoring and the transmission-system “smart grid,” the North American Synchro-Phasor Initiative has led to the deployment of approximately 75 synchro-phasor devices across the North American bulk power system over the past two years. This important network of technology provides critical grid visualization tools that will facilitate the integration of new variable resources and enable system operators to more quickly and confidently identify and react to system disturbances. NERC will continue to support this initiative, recognizing that alternative management and funding strategies may be appropriate as this initiative progresses.

System Protection Initiative — Announced in April, 2009, NERC’s System Protection Initiative coordinates work to address the leading cause of system disturbances in 2008: system protection misoperations and failures. Efforts underway as part of this initiative include standards development, technical reference materials, outreach, and education.

Assessments and analysis of cyber- and security-related risk — NERC has begun several projects with industry to assess and analyze cyber- and security-related risks to the bulk power system. Efforts such as the Cyber Risk Preparedness Assessment and the High Impact, Low Probability partnership with the U.S. Department of Energy will inform standards development activities, alert the industry to potential areas of concern, and identify areas where research and development investment is needed.

System Modeling Improvements Initiative — Recent event analyses have shown that flaws exist in current system models and modeling practices. This 2010 initiative will seek to improve modeling of generators and the transmission system, including power electronic devices such as static-var compensators, statcoms, and back-to-back DC terminals. Additionally, the initiative will promote and facilitate coordinated modeling of variable generation and other new technologies.

Frequency Performance Initiative — Declining frequency performance on the Eastern Interconnection has been flagged as an area of concern in NERC’s standards development, benchmarking, event analysis, and reliability assessment efforts. This coordinated initiative will work with industry to further analyze this issue, determine the root cause of frequency events, and consider appropriate mitigations.

Demand Response availability and performance — As bulk power system planners and operators incorporate more demand response into reliability planning and operations, having a more thorough understanding of the resource’s operational characteristics will be vital to ensuring reliability. Study efforts and the launch of the Demand Response Availability Data System will be important components of the industry’s efforts on this front.

Transmission Availability Data System — Completing the development work for the Transmission Availability Data System is expected to provide important insights on transmission system reliability, allowing operators to take preventative measures to improve performance.

Reliability impacts of new and emerging technologies — NERC’s landmark effort to assess the impacts of the integration of large-scale variable generation into the system is one example of the critical coordination efforts that will be needed to ensure reliability is maintained as new resources are added to the grid. Future efforts of the Integration of Variable Generation Task Force and other groups may include more detailed analysis of smart grid, distribution level generation (i.e. rooftop solar panels), and plug-in hybrid electric vehicles.

Auditing of Critical Infrastructure Protection Standards at Nuclear Facilities and Technical Feasibility Exceptions

The current 2010 Business Plan and Budget does not specifically incorporate any incremental resources to address the undertaking of critical infrastructure protection standards (CIPS) audits at nuclear facilities.

With respect to nuclear CIPS audits, NERC and the Nuclear Regulatory Commission (NRC) have engaged in discussions regarding the development of an agreement through which NERC would contract with the NRC for the NRC to perform the audits of nuclear plant owners and operators with respect to compliance with NERC CIP Reliability Standards. NRC cyber security standards would apply to NRC-jurisdictional nuclear plant systems, structures and components and NERC CIP Reliability Standards would apply to NERC/FERC jurisdictional Balance of Plant/Continuity of Power systems, structures and components. Scheduled audits involving the respective NRC and NERC standards are expected to occur concurrently for efficiency and administrative ease. Significant issues remain open concerning the legal mechanism to compensate the NRC services it provides. Discussions with the NRC, FERC and NERC on these issues remain ongoing as these and other details are addressed and agreed upon.

In terms of timing and impact on the 2010 budget, it does not appear likely at this time that the 2010 NERC or Regional Entity budgets will need to include resources and associated costs for full implementation of a nuclear CIPS auditing program. Incremental costs for training NRC inspectors, piloting a CIP audit at a nuclear plant, and developing a program management and coordination capability may, however, be required in 2010. NERC management is currently assessing whether and to what extent incremental resources will be needed to undertake these activities.

With respect to the processing of Technical Feasibility Exceptions (“TFE”), NERC’s management team is working with the Regional Entities and industry stakeholders to develop uniform procedures for TFE processing, with the Regional Entities being responsible for TFE processing and NERC providing oversight and guidance. A draft proposal will be posted on NERC’s website for stakeholder review and comment. From a resource perspective, NERC is not planning on adding additional staff or consultants. Should this materially change, NERC management will develop and review additional recommendations to address these needs with the Finance and Audit Committee of the Board of Trustees. Each of the Regional Entities has evaluated the potential impact on its resources associated with TFE processing based on the

information available to date. Several of the Regional Entities including the Midwest Reliability Organization, Reliability First Corporation, Southwest Power Pool Regional Entity, and Texas Regional Entity have added resources to their 2010 Business Plans and Budgets, in the form of additional consulting amounts, personnel, or both, to address projected TFE processing requirements. The other Regional Entities have not proposed resource additions to their budgets at this time and plan to rely on reserves and/or existing resources, or a combination of both, to address any near term resource needs. Each of these Regional Entities may seek to amend their budgets in the future to provide for supplemental funding if required. For more information see http://www.nerc.com/filez/regional_entity_business_plan_2010.html

Section A

2010 Business Plan



Changes in Accounting Methodology

In 2010, NERC and all the Regional Entities agreed to formatting changes to the *Statement of Activities* within each functional program area as follows:

- The ERO assessment and penalty sanctions are only allocated across the delegated functions, except that ERO assessments needed to fund working capital are reflected in the general and administrative program within administrative services.
- The increase or decrease in assessments to achieve the desired working capital reserve balance is reflected as the Total Change in Assets. In 2009, this amount was reflected as Other Non-Operating Expenses on the Statement of Activities.
- All personnel and meeting expenses are accounted for within their associated department's budget.
- Where possible, operating expenses are accounted for within their related department's budget. If an expense cannot be specifically linked to a department, it is included in the general and administrative program, within administrative services.
- All expenses for the administrative services programs, referred to as indirect expenses, are allocated to statutory program areas based upon the ratio of their respective Full Time Equivalents to the Total Full Time Equivalents for all statutory program areas. This allocation provides improved financial perspective for the delegated functions.
- Capital expenditures are broken out as fixed assets at the end of each statement of activities rather than being included in their related lines in the operating expenses section.
- Expenses include depreciation, but since funding is not being requested for depreciation expense, it has been deducted from the funding requirement for capital expenditures.
- The result of these changes may be an apparent increase in total costs for each statutory program area, since in 2009 the allocated indirect expenses were not depicted on the Statement of Activities and were instead only reflected on the individual Program Area resources table.

Reliability Standards Program

Reliability Standards Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	14.5	17.5	3.0
Total Direct Expenses	\$ 3,599,455	\$ 4,189,050	\$ 589,595
Total Indirect Expenses ¹	\$ 2,623,587	\$ 1,983,954	(\$ 639,633)
Inc(Dec) in Fixed Assets	0	\$ 75,616	\$ 75,616
Total Funding Requirement	\$ 6,223,042	\$ 6,248,620	\$ 25,578

Program Scope and Functional Description

NERC's reliability standards program develops and maintains standards designed to ensure the reliability of the bulk power system in North America. NERC's ANSI-accredited standards development process is open, balanced, and transparent, relying on industry subject matter experts to scope, draft, and ultimately approve the standards for adoption by NERC's Board of Trustees and filing with regulatory authorities in the United States and Canada.

NERC staff coordinators facilitate standards drafting team activities, assist the drafting teams in adherence to the integrity of the development process, and ensure that the quality of documents produced are appropriate for approval. Each standard must be technically excellent, timely, just, reasonable, not unduly discriminatory or preferential, in the public interest, and consistent with other applicable standards or regulations in order to be approved.

The stakeholder Standards Committee provides oversight, verifying that the standards development process has been adequately executed. The committee is also responsible for the development and implementation of the three-year Reliability Standards Development Plan used to guide standard development activities.

¹ Indirect funding is calculated by allocating all administrative services funding to the operational program areas on a proportional FTE basis.

2010 Assumptions and Cost Impacts

- NERC is committed to the use of the industry model to develop reliability standards.
- NERC will continue to implement its published three-year Reliability Standards Development Plan for standards development, including regional standard development, subject to incremental updates.
- NERC will continue to address emergent high-priority issues to improve the quality of reliability standard requirements.
- NERC and Regional Entities will collaborate in the conduct of special workshops, in addition to the regular schedule of workshops, to focus on most-violated standards to improve the understanding of requirements by registered entities.
- NERC and Regional Entities will continue to support coordinated and consistent response to requests for both formal interpretations and informal clarifications of the reliability standards.
- NERC will receive 40 requests for interpretation in 2010.
- Regional Entities will develop no more than one or two regional reliability standards per region in 2010. Scheduling of regional standards initiatives continues to depend on determination of North American performance requirements.
- NERC and the Regional Entities will continue to support the Regional Reliability Standards Working Group to enhance consistency and quality of regional standards development.
- NERC will continue to coordinate with NAESB on standards efforts with respect to transmission loading relief, available transfer capability, balancing authority controls, interchange, and related tools, as well as in the use of consistent terms.
- NERC will continue to provide administrative support to the Standards Committee and its subgroups.

2010 Goals & Objectives

- Assess standards to deliver adequate level of reliability – The structure for integrating the definition for adequate level of reliability, and the metrics to support the integrations need to be developed and each proposed and existing standard assessed to ensure the delivery of an adequate level of reliability.
- Revised standards addressing Order No. 706 directives regarding critical infrastructure protection will be substantially completed by the end of 2010.
- Develop new or modified standards to support NERC’s System Protection Initiative, System Modeling Initiative, and standards related to Real-Time Tools, Undervoltage Load Shedding, and Voltage and Reactive Control.
- Develop and revise standards that are responsive to the formal directives of regulatory authorities.
- Interact with regulatory authorities as necessary during the standard development and revision process to help ensure approval of such standards when filed.

- Work to streamline standards to include only requirements material to reliability of the bulk power system.
- Continue to address emergent high-priority issues to improve the quality of reliability standard requirements.
 - NERC will implement the recommendations from the Generator Requirements at the Transmission Interface Ad Hoc group, which may include standards development or registration impacts.
- In coordination with the Regional Entities, establish improved mechanisms to capture lessons learned from event analysis, compliance enforcement, and other activities, in the form of recommendations to improve reliability standards to prevent future similar root causes.
- Respond to requests for interpretation in a timely fashion.
- Continue to support the Regional Reliability Standards Working Group to enhance consistency and quality of regional standards development.
- Continue to coordinate with NAESB on standards efforts with respect to transmission loading relief, available transfer capability, balancing authority controls, interchange, and related tools, as well as in the use of consistent terms.
- Single-Topic Development Process — To improve efficiency of processing narrowly-focused changes to standards (such as interpretation requests, improvements to a single requirement or standard element) and to improve the utilization of burdened industry resources, implement an expedited development process that does not require initiation of a subsequent standards development activity.
- For high priority standards, identify mechanisms to “fast-track” development time to 12 months through stakeholder ballot (exclusive of field testing.)
- Establish benchmarks for standards process activities using metrics developed in 2009.
- Educate and inform industry stakeholders through an effective standards workshop.
 - Consider innovative methods to increase industry participation, such as presentation of workshops through use of videotaping, Webinars, or WebEx’s.
- Increase the outreach to industry stakeholders (to specifically include trade organizations,) to obtain input to the reliability standards development plan and standards processes.
- Continually improve NERC’s standards web site, with the goal of creating the “one-stop” for all supporting materials pertaining to the standards, including associated compliance elements.

2010 Resource Requirements

Administrative requirements to ensure consistency and manage NERC’s stakeholder-driven standards development process to achieve timely results involve the assignment of a staff coordinator to each development project. NERC currently has 65 standards development projects under way, covering the development of new standards and the improvement of others. These projects include 38 continent-wide standard proposals or revisions, 19 interpretation requests, and eight regional standard proposals. In 2008, NERC and its stakeholders handled

nearly 90 standards as work continued on violation severity levels, violation risk factors, interpretation requests, and development.

Resource requirements for the Reliability Standards Program are projected to remain relatively flat between 2009 and 2010, reflecting the program's achievement of the resources needed to complete the scope of activities outlined in the three-year development plan.

Among its other goals and objectives, NERC will be working in the following areas to improve efficiency of standards development activities:

Maintain Excellence in Standards Development

NERC's standards program is at significant risk with respect to the standards process manager function, which is responsible for ensuring the integrity of the standards development process and consistency of quality and completeness of the reliability standards. The standards process manager performs the quality assurance review of each continent-wide development project and also serves as secretary to the Standards Committee. NERC presently has one FTE assigned to this function.

Minimum resource requirements for maintaining the quality and integrity of NERC's standards development process are:

- One additional standards process manager to manage workload and back up existing staff; and
- \$67,000 for IT-related support to maintain and improve the standards balloting and registered ballot body applications.

Prioritize Standards Development to Focus on Key Reliability Concerns

NERC prioritizes key development projects through the annual development of the program's three-year development plan (available at: <http://www.nerc.com/page.php?cid=2|247|290>). Key projects currently under way include efforts to revise NERC's eight cyber security-focused CIP standards, support NERC's System Protection and Modeling Initiatives, and address declining frequency performance on the Eastern Interconnection.

NERC will implement a triage process to prioritize standards development and interpretation requests from stakeholders, other NERC programs, and regulatory authorities not contemplated in the development plan. This will include the development of processes to use lessons learned from NERC's compliance, events analysis, situation awareness, and assessments programs to drive standards development activities. In order to ensure appropriate areas are being addressed, NERC expects to conduct a technical conference of subject matter experts to discuss NERC's Reliability Standards, identify reliability gaps, and establish development plan priorities.

To improve the efficiency of processing narrowly-focused changes to standards (such as interpretation requests or improvements to a single requirement or standard element) and to improve the utilization of burdened industry resources, NERC will implement an expedited development process that does not require initiation of a subsequent standards development activity. Through this process, NERC will work to identify mechanisms to "fast-track" development time to 12 months through stakeholder ballot (exclusive of field testing). The

process will be results-driven, with appropriate emphasis placed on quality and technical excellence.

Minimum resource requirements for identifying priority projects, facilitating process improvements, and ensuring projects remain on track are:

- Accelerated development of the cyber security standards will continue to require near full-time support to meet mandated milestones. NERC has opted to continue its 2009 use of contractor support for this short-duration project without an increase in costs, at \$400,000 in 2010.
- Use of external subject matter expertise beyond that available on staff is needed to support other standards development activities on highly-technical concepts, including field testing, data analyses, and technical opinions. Specific areas where subject matter expertise is particularly needed include voltage and reactive control, underfrequency and undervoltage load shedding, balancing authority controls, generator verification and performance, and generator real and reactive power capability. A minimum of \$250,000 in contractor expenses will be required to ensure key projects remain technically excellent and on schedule.

Respond to High Volume of Interpretation Requests in a Timely Manner

NERC has received a higher number of interpretation requests than projected in earlier budgets – exceeding the projected targets for 2009 in March of this year. NERC now expects to respond to nearly 40 requests for interpretation in 2009 and 2010. Each interpretation request requires a staff coordinator to devote approximately 80 hours in response development and filing support as appropriate. A minimum of two additional full-time employees will be required to process and respond to the higher-than-expected volume of interpretation requests in 2010.

Funding sources and related expenses for the Reliability Standards section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Standards					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 3,041,445	\$ 3,041,445	\$ -	\$ 6,248,620	\$ 3,207,175
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 3,041,445	\$ 3,041,445	\$ -	\$ 6,248,620	\$ 3,207,175
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 3,041,445	\$ 3,041,445	\$ -	\$ 6,248,620	\$ 3,207,175
Expenses					
Personnel Expenses					
Salaries	\$ 1,927,670	\$ 1,998,388	\$ 70,718	\$ 2,268,010	\$ 340,340
Payroll Taxes	122,162	133,859	11,697	151,919	29,757
Benefits	208,368	251,383	43,015	285,300	76,932
Retirement Costs	275,384	289,766	14,382	323,547	48,163
Total Personnel Expenses	\$ 2,533,584	\$ 2,673,396	\$ 139,812	\$ 3,028,775	\$ 495,191
Meeting Expenses					
Meetings	\$ 168,120	\$ 168,120	\$ (0)	\$ 190,000	\$ 21,880
Travel	300,000	300,000	-	350,000	50,000
Conference Calls	10,000	10,000	-	10,000	-
Total Meeting Expenses	\$ 478,120	\$ 478,120	\$ (0)	\$ 550,000	\$ 71,880
Operating Expenses					
Consultants & Contracts	\$ 550,000	\$ 550,000	\$ -	\$ 717,000	\$ 167,000
Office Rent	-	-	-	-	-
Office Costs	37,750	37,750	(0)	20,500	(17,250)
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Efficiency Improvements	-	-	-	(127,225)	(127,225)
Total Operating Expenses	\$ 587,750	\$ 587,750	\$ (0)	\$ 610,275	\$ 22,525
Total Direct Expenses	\$ 3,599,455	\$ 3,739,266	\$ 139,811	\$ 4,189,050	\$ 589,595
Indirect Expenses	\$ -	\$ -	\$ -	\$ 1,983,954	\$ 1,983,954
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 3,599,455	\$ 3,739,266	\$ 139,811	\$ 6,173,004	\$ 2,573,549
Change in Assets	\$ (558,010)	\$ (697,821)	\$ (139,811)	\$ 75,616	\$ 633,626
Fixed Assets					
Depreciation	-	-	-	-	-
Computer & Software CapEx	0	0	0	0	0
Furniture & Fixtures CapEx	0	0	0	0	0
Equipment CapEx	0	0	0	0	0
Leasehold Improvements	0	0	0	0	0
(Inc)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	-	0	-	(75,616)	(75,616)
Total (Inc)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ (75,616)	\$ (75,616)
TOTAL CHANGE IN ASSETS	\$ (558,010)	\$ (697,821)	\$ (139,811)	\$ 0	\$ 558,010

Explanations of Variances - 2010 Budget versus 2009 Budget

Funding Sources

- Due to a change in accounting methodology as explained on page 13, indirect expenses are allocated to the statutory program areas, resulting in an increase in ERO assessments to fund this Program above the requirement for added resources as noted below.

Personnel Expenses

- Due to the addition of one standards process manager and two standards development coordinators. The 3.0 additional FTEs are assumed to be hired within the first quarter and therefore full year salary and benefits costs have been budgeted.

Meeting Expenses

- The increase in the budget for travel expenses associated with the additional three FTEs.

Operating Expenses

- \$67,000 of the increase is in support of the standards balloting and registered ballot body applications. \$100,000 of the increase is for subject matter experts needed to support standards development activities on highly-technical concepts.

Indirect Expenses

- Due to a change in accounting methodology as explained on page 13, Indirect Expenses are allocated to the statutory program areas in 2010.

Compliance Monitoring and Enforcement and Organization Registration and Certification Program

Compliance Monitoring and Enforcement and Organization Registration and Certification Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	35.5	45.75	10.25
Total Direct Expenses	\$7,333,536	\$ 9,359,703	\$ 2,026,167
Total Indirect Expenses	\$ 5,809,372	\$ 5,186,621	(\$ 622,751)
Inc(Dec) in Fixed Assets	\$25,000	\$171,188	\$146,188
Total Funding Requirement	\$ 13,167,908	\$ 14,717,513	\$ 1,549,605

Program Scope and Functional Description

NERC's Compliance Monitoring and Enforcement Program fairly and consistently enforces compliance with NERC standards throughout North America. Subject to oversight by the FERC in the U.S. and governmental authorities in Canada, NERC's compliance program serves as an international enforcement organization for reliability standards. Many of NERC's compliance functions are delegated to the eight Regional Entities through formal agreements.

NERC's first priority in compliance monitoring and enforcement is addressing critical reliability issues. NERC and the Regional Entities work closely with each user, owner, or operator to review and monitor mitigation plans to resolve any deficiencies with adherence to reliability standards.

NERC conducts its compliance monitoring and enforcement activities via a number of methods, including regular compliance audits, spot checks, and specific investigations as warranted by indications of a standards violation. NERC strongly encourages self-reporting of any possible non-compliance with reliability standards and prompt mitigation actions.

While industry stakeholders played an important role in developing NERC's compliance process, specific enforcement actions and penalty decisions are independently made by NERC's Board of Trustees.

2010 Assumptions and Cost Impacts

- NERC will complete the audits of the Regional Entity Compliance Monitoring and Enforcement Programs and monitor the implementation of recommendations for improvement as required by the NERC Rules of Procedure on a three-year cycle. The 2010 Budget includes \$250,000 in Consulting Expense needed to complete this effort.
- NERC will continue to lead approximately 10 Compliance Violation Investigations and 40 Compliance Inquiries per year and will staff those investigations to provide a high level of responsiveness and consistency in conducting formal investigations. The Budget also includes \$300,000 for subject matter experts to support NERC staff in these investigations and hearings.
- NERC will work to modify procedures, including an evaluation of a mechanism to expedite processing of low-severity, low-risk violations to increase the efficiency of the process and reduce the number of man-hours spent on each violation.
- In the absence of alternative arrangements between NERC and the Regional Entities, NERC will serve as the Compliance Enforcement Authority in situations where the registered entity and the Regional Entity are either the same or have potential conflicts. The costs of these activities will be fully funded by the Load Serving Entities within the Regional Entity.
- NERC will continue to provide oversight of the Regional Entities through audits of the field work conducted by the Regional Entities and through audits of the Regional Entity Compliance Monitoring and Enforcement Programs.
- NERC will continue to implement the Compliance Reporting, Analysis, and Tracking System (C-RATS) using an outside software developer. NERC has budgeted \$500,000 for this project in 2010.
- The budget does not include any expenses associated with Order 706-B requirements to monitor and enforce compliance with CIP standards at nuclear generating facilities or expenses associated with processing requests for Technical Feasibility Exceptions. Refer to further discussion on page 11.
- NERC will continue to provide administrative support to the Compliance and Certification Committee and its subgroups.
- NERC and the Regional Entities will complete the scheduled re-negotiation of the Regional Delegation Agreements.

2010 Goals and Objectives

- Eliminate the existing compliance backlog
- Process high volumes of incoming violations in an expedited manner, ensuring mitigation plans are submitted and approved as quickly as possible
- Focus compliance activities on high-impact reliability issues
- Expedite processing and execution of Compliance Violation Investigations
- Act as the Compliance Enforcement Authority for certain registered entities where the Regional Entity is a registered entity or other potential conflicts exist

- Execute process improvements to reduce the number of man-hours required to process each violation.
- Deploy and utilize a new database and document management platform to manage compliance data and improve efficiency of internal and NERC/Regional operations
- Continue efforts to improve the efficiency and effectiveness of Regional compliance delegation model
- Improve coordination with other NERC program areas including standards, events analysis, and assessments to prioritize work and share lessons learned

2010 Resource Requirements

Compliance, enforcement, and the legal resources required to support these activities will represent a significant portion of NERC's budgetary requirements in 2010, highlighting the organization's commitment to addressing violations of the industry's carefully crafted reliability standards and ensuring those violations are processed in an efficient and timely manner. NERC recognizes that the value of its compliance efforts lies in ensuring mitigation plans are approved and completed and emphasis must be placed on addressing violations with a high risk to reliability.

Among its other goals, NERC will focus on the following areas of improvement in its compliance program in 2010:

Eliminate the Compliance Backlog, Expedite Processing of New Violations, and Provide Official Notice of Mitigation Plan Approvals

NERC and the Regional Entities have encountered a significantly higher-than expected volume of violations since NERC standards became mandatory and enforceable in the United States on June 18, 2007. The current inflow of alleged violations (after dismissals) averages 85 violations per month, which has resulted in the accumulation of a significant backlog of compliance violations. While more resources are required in this area, NERC recognizes that additional resources alone will not be sufficient to efficiently and effectively process the volume of projected violations on an ongoing basis.

The need for additional NERC resources in 2010 is principally tied to FERC's directive that NERC, as the ERO, must undertake its own independent and substantive review and analysis of each violation proceeding (e.g. Notice of Confirmed Violation or settlement) prepared and submitted to NERC by the Regional Entities. This must be done in advance of its preparation of the ERO Notice of Penalty for that proceeding.

NERC is working with the Regional Entities to streamline the compliance monitoring and enforcement process to improve overall efficiency and achieve a processing level sufficient to address both the incoming flow of new alleged violations and address the accumulated violations backlog.

FERC recently approved a modification to section 6.5 of the Compliance Monitoring and Enforcement Program (CMEP.) This will require NERC to notify registered entities of its approval or remand of a mitigation plan that has been submitted to NERC by the Regional Entity. NERC is obligated to review and approve or remand all mitigation plans within 30-days.

Minimum Resources required to implement these process improvements and effectively expedite the processing of violations include:

- Four full-time staff to support backlog reduction efforts
- 0.5 FTEs to support noticing of mitigation plan approvals
- One technical analyst to assist in reporting, tracking, and analysis of compliance information through process database

Expedite the Processing of Compliance Violation Investigations (CVIs)

NERC presently has 19 active CVIs, ten of which NERC is leading, and eight of which are being led by the Regional Entities. Additionally, NERC is presently participating in five FERC-led investigations and has 11 active compliance inquiries and nine that require an inquiry. To manage the volume of investigative compliance actions, NERC implemented a compliance inquiry process in 2009, designed to quickly analyze events to determine whether a CVI is required.

With the current staffing level, NERC has reached the limit of investigation teams it can put in the field and relies on the Regional Entities to augment staffing for key investigations. Due to the highly confidential nature of these investigations, use of subject matter expertise in other areas of the organization is intentionally limited.

Minimum Resources required to effectively expedite the handling of compliance violation investigations are two additional full-time compliance violation investigators.

Enhance Efficiency of the Regional Model, Focusing on Consistency of Compliance and Enforcement Actions across the Eight Regional Entities

While the Regional model for compliance enforcement provides distinct benefits to NERC's compliance efforts, it has also presented mutual challenges associated with striving for consistency and effectiveness across eight separate programs. To facilitate this process, NERC has developed a specific functional area within the compliance program dedicated to coordination with the Regional Entities and oversight of delegated authorities. In 2009, NERC hired a director of regional operations to act as the single point of contact for the Regional Entities and NERC's internal compliance audit staff. Efforts to continue improvements through the scheduled renegotiation of the Regional Delegation Agreements will be a priority for NERC and the Regional Entities in 2010.

Act as the Compliance Enforcement Authority for Certain Registered Entities Where the Regional Entity is a Registered Entity or Other Potential Conflicts Exist

NERC has become the Compliance Enforcement Authority for certain Registered Entities where the Regional Entity is the Registered Entity or other potential conflicts exist. Three Regional Entities have become Registered Entities responsible for compliance with NERC Reliability Standards applicable to the functions for which they are registered. One additional region is currently being considered for this registration requirement. Two additional compliance auditors with administrative support (total of 2.5 FTEs) are required to support this function. All expenses associated with these resource additions will be allocated to the Regional Entities

where the Compliance Enforcement Authority function is executed by NERC, for inclusion in the Regional Entity's assessment to the Load Serving Entities in its geographic footprint.

Funding sources and related expenses for the Compliance Enforcement and Organization Registration and Certification section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Compliance and Organization Registration and Certification					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 6,481,457	\$ 6,481,457	\$ -	\$ 14,312,732	\$ 7,831,275
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 6,481,457	\$ 6,481,457	\$ -	\$ 14,312,732	\$ 7,831,275
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous ¹	-	-	-	404,781	404,781
Total Funding	\$ 6,481,457	\$ 6,481,457	\$ -	\$ 14,717,513	\$ 8,236,056
Expenses					
Personnel Expenses					
Salaries	\$ 4,093,866	\$ 4,752,477	\$ 658,611	\$ 5,654,331	\$ 1,560,465
Payroll Taxes	277,144	318,310	41,166	378,714	101,570
Benefits	467,835	611,155	143,320	727,131	259,296
Retirement Costs	554,025	689,109	135,084	795,620	241,595
Total Personnel Expenses	\$ 5,392,869	\$ 6,371,051	\$ 978,182	\$ 7,555,795	\$ 2,162,926
Meeting Expenses					
Meetings	\$ 32,500	\$ 32,500	\$ -	\$ 32,500	\$ -
Travel	762,167	762,167	-	890,917	128,750
Conference Calls	5,000	5,000	-	5,000	-
Total Meeting Expenses	\$ 799,667	\$ 799,667	\$ -	\$ 928,417	\$ 128,750
Operating Expenses					
Consultants & Contracts	\$ 1,100,000	\$ 1,100,000	\$ -	\$ 1,100,000	\$ -
Office Rent	-	-	-	-	-
Office Costs	41,000	41,000	-	42,500	1,500
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	22,367	22,367	26,494	26,494
Efficiency Improvements	-	-	-	(293,503)	(293,503)
Total Operating Expenses	\$ 1,141,000	\$ 1,163,367	\$ 22,367	\$ 875,491	\$ (265,509)
Total Direct Expenses	\$ 7,333,536	\$ 8,334,085	\$ 1,000,549	\$ 9,359,703	\$ 2,026,167
Indirect Expenses	\$ -	\$ -	\$ -	\$ 5,186,621	\$ 5,186,621
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 7,333,536	\$ 8,334,085	\$ 1,000,549	\$ 14,546,324	\$ 7,212,788
Change in Assets	\$ (852,079)	\$ (1,852,628)	\$ (1,000,549)	\$ 171,188	\$ 1,023,267
Fixed Assets					
Depreciation	\$ -	\$ (22,367)	\$ (22,367)	\$ (26,494)	\$ (26,494)
Computer & Software CapEx	25,000	25,000	-	-	(25,000)
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Inc)Dec in Fixed Assets	\$ (25,000)	\$ (2,633)	\$ 22,367	\$ 26,494	\$ 51,494
Allocation of Fixed Assets	-	-	-	(197,683)	(197,683)
Total (Inc)Dec in Fixed Assets	\$ (25,000)	\$ (2,633)	\$ 22,367	\$ (171,188)	\$ (146,188)
TOTAL CHANGE IN ASSETS	\$ (877,079)	\$ (1,855,261)	\$ (978,182)	\$ (0)	\$ 877,079

Explanations of Variances - 2010 Budget versus 2009 Budget

Funding Sources

- Due to a change in accounting methodology as explained on page 14, indirect expenses are allocated to the statutory program areas, resulting in an increase in ERO assessments to fund this Program above the requirement for added resources as noted below.
- Miscellaneous funding represents the amount billed to the Regional Entities to recover all costs associated with NERC serving as the compliance enforcement authority function within the Region.

Personnel Expenses

- Estimated increased cost of adding 11.0 new staff. The budget assumes 8.0 FTEs will be hired as of January 2, 2010 (including the Director of Regional Compliance Operations who was added to staff, but not budgeted, in 2009) and 3.0 of the new hires will be added in the second quarter 2010. FTEs added in the second quarter of 2010 are counted as 0.75 FTEs, (2.25 FTEs in total) and salary and benefits are based upon 75% of annual costs.

Meeting Expenses

- NERC continues to look for ways to reduce travel and meeting costs and has not assumed an inflationary increase for current staff. The increase in the budget for travel expenses is associated with adding 10.25 FTEs.

Indirect Expenses

- Due to a change in accounting methodology as explained on page 14, indirect expenses are allocated to the statutory program areas in 2010.

Fixed Asset Additions

- The 2009 budget included the purchase of software to support violation investigations. Additional software licenses are not required.

Reliability Readiness Evaluation and Improvement Program

Reliability Readiness Evaluation and Improvement Program Resources			
<small>(in whole dollars)</small>			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	-		-
Total Direct Expenses	\$ 485,429	-	(\$ 485,429)
Total Indirect Expenses			
Total Funding Requirement	\$ 485,429		(\$ 485,429)

Program Scope and Functional Description

The Reliability Readiness Evaluation and Improvement Program was eliminated during the 2009 budget process. Based on the direction provided by the NERC Board of Trustees, the readiness evaluation program completed the remaining scheduled readiness reviews and was closed in 2009.

Reliability Assessment and Performance Analysis Program

Reliability Assessment and Performance Analysis Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	14.5	16.0	1.5
Total Direct Expenses	\$ 3,991,414	\$ 4,620,377	\$628,963
Total Indirect Expenses	\$ 2,529,888	\$ 1,813,900	(\$ 715,988)
Inc(Dec) in Fixed Assets	\$122,175	\$197,581	\$75,406
Total Funding Requirement	\$ 6,643,477	\$ 6,631,859	(\$ 11,618)

Program Scope and Functional Description

NERC's reliability assessment program conducts annual seasonal and long-term reliability assessments, designed to assess the short and long-term resource adequacy and operating reliability of the bulk power system in North America, both existing and planned. The assessments program also identifies and analyzes key issues that may affect reliability, such as market practices, technology developments, industry trends, or proposed public policy measures. The reliability assessment program also conducts special assessments of specific reliability issues or situations, as needed.

NERC's reliability assessment program is supported by the Planning and Operating Committees, the Reliability Assessment Subcommittee, Load Forecasting Working Group, Data Coordination Working Group, Reliability Assessment Guidebook Task Force, and other groups as needed.

NERC reliability assessments are based primarily on data supplied by users, owners, and operators of the bulk power system and gathered and analyzed by the eight Regional Entities under delegated authority from NERC. This "bottom up" approach provides greater confidence that local and regional issues are understood and accounted for, whereas an exclusively top-down model could overlook them. NERC validates its data against other publicly available projections along with a comprehensive data checking program. NERC supplements the information and analysis provided by the Regional Entities with input from outside consultants, as necessary, to address specific issues related to fuel supply and delivery, environmental issues, etc.

NERC's event analysis and information exchange program conducts detailed analyses of significant bulk power system events to determine root causes, uncover lessons learned, and alert the industry to potential reliability issues through advisories, recommendations, and essential action alerts to industry. In addition to issuing these "alerts," NERC's event analysis team also issues a set of recommendations directly to the entity(ies) involved in an event, offering expert perspective on suggested reliability improvements. Event analyses are entirely separate from

NERC's compliance and enforcement function, though findings are shared between the programs as appropriate.

NERC's reliability metrics and benchmarking program identifies and analyzes reliability performance metrics to measure progress in improving current reliability and track leading indicators of future reliability. Findings are published on NERC's website and highlighted in seasonal and long-term reliability assessments as appropriate.

The event analysis and reliability metrics and benchmarking programs use NERC staff and industry subject matter experts to deliver technically robust analyses and create the impetus for needed reliability improvements. Various NERC groups support these programs, notably including the Reliability Metrics Working Group, System Protection and Controls Subcommittee, and Transmission Issues Subcommittee.

2010 Assumptions and Cost Impacts

- NERC will continue to issue three annual assessments: Summer and Winter seasonal assessments and a 10-year long term reliability assessment.
- NERC will continue to coordinate, write, and issue special reports on key reliability issues, including assessments of fuel supply and delivery adequacy, technology developments, reliability impacts of extreme weather events (e.g. droughts, major storms), market practices, policy efforts, and industry trends.
- NERC will continue to execute the Reliability Assessment Improvement Plan, as approved by the NERC Planning Committee.
- NERC will continue to evaluate, track, and analyze 10–15 reliability metrics – including the maintenance of an online reliability metrics interface.
- NERC will continue to operate the Generating Availability Data System (GADS) and to develop the Transmission Availability Data System (TADS), as the economic underpinnings of these programs are further evaluated.
- NERC will continue to launch its Demand response Availability Data System (DADS).
- NERC will continue to charge and collect subscription fees for use of its data systems, with the ultimate goal of making the GADS program entirely self-funded.
- NERC will perform one NERC-level Event Analysis and participate in three regional detailed analyses in 2010. If a region is unable to perform a Regional detailed analysis, NERC may direct the Regional analysis team, which would increase NERC's contractor and travel costs. This scenario is not included in the 2010 budget.
- NERC Event Analysis will continue to sponsor the System Protection Initiative in 2010.
- NERC will continue to provide administrative support to the Planning and Operating Committees and their subgroups.

2010 Goals and Objectives

- Fortify the internal data collection and validation processes in concert with the current data analysis system used for reliability assessment by designing, creating, testing, and implementing additional data checking systems to accommodate the increasing amount of data NERC collects for its long-term and seasonal reliability assessments
- Develop rigorous assessments to evaluate and measure risks to reliability from key issues and uncertainties (such as supply shortages, generating unit shutdowns, fuel supply and transportation disruptions, extreme weather, identified policy objectives, and new technologies like demand response, smart grid, and variable generation)
- Review international practices on emerging reliability issues and incorporate them into reliability assessment reports
- Review Regional reliability assessment processes, criteria, and methods for consistency, with a goal of understanding interregional impacts and interdependencies
- Identify the need for standard authorization requests for any deficiencies or needs revealed by reliability assessments
- Perform Phase III of the Reliability Impacts of Climate Change Initiatives study, to include deeper and broader scenario assessments
- Develop a centralized data collection process and tools to automate and improve the collection and reporting of reliability metrics and benchmarks
- Track industry actions on recommendations made through NERC's assessments, benchmarking, and data system initiatives.
- Complete an annual reliability metrics report that documents performance results and recommends industry actions and initiatives
- Track industry actions on recommendations made through NERC's assessments, benchmarking, and data system initiatives
- Expedite the public release of initial findings and lessons learned of NERC and Regional event analyses for category 3.5 events and higher
- Sponsor a System Modeling Improvements Initiative designed to focus on generation and turbine control modeling, offering subject matter expertise support for related standards development activities
- Coordinate with the Standards Program to execute a Frequency Performance Initiative, working with industry to further analyze this issue, determine the root cause of frequency events, and consider appropriate mitigations.
- Conduct detailed tracking of recommendations made to individual entities as part of NERC's event analyses
- Issue timely alerts on relevant findings, ensuring that lessons learned are promptly shared with industry as appropriate
- Develop and maintain a library of lessons learned from event analyses on NERC's website

- Begin developing seasonal forensic-ready power flow and dynamics cases
- Develop the Events Analysis Sequence of Events database
- Establish a systematic, sustainable NERC staff capability for analyzing generator response to system events
- Study and analyze declining frequency performance on the Eastern Interconnection
- Implement Phase II of TADS
- Continue to explore options for making greater use of GADS metrics in NERC's reliability assessments and benchmarking programs

2010 Resource Requirements

The Reliability Assessment and Performance Analysis Program has experienced significant growth over the past two years, adding contractor resources and a number of full-time employees to support reliability assessment improvement initiatives, the launch of the reliability benchmarking and Transmission Availability Data System programs, and adding needed support to NERC's event analysis and information exchange program. The 1.5 FTE increase as shown in the resource table on page 27 have been added in 2009. NERC believes these staff additions are sufficient to sustain and continue improvement in these areas, though some incremental contracting expenses will be needed to provide support and subject matter expertise on several key initiatives:

Continue Independent Assessment and Validation of Fuel Supply/Delivery and Demand and Capacity Projections

Continue to contract with Energy Ventures Associates to provide capacity and fuel projections used to assess and validate the long-term and seasonal reliability data. Expected contractor cost is \$20,000.

Assess Risk and Measure Impacts of Emerging Issues on Bulk Power System Reliability

NERC's Rules of Procedure identify the organization's responsibility to conduct special assessments on key reliability issues, including the potential impacts of new or proposed legislation on the reliability of the bulk power system. Climate legislation currently before the U.S. Congress has the potential to dramatically impact the planning and operation of the bulk power system. As a result, NERC has worked with the Planning and Operating Committee's Reliability Impacts of Climate Change Initiatives Task Force to assess scenarios and provide general analysis of potential reliability impacts that must be considered to maintain reliability.

The first two phases of the Reliability Impacts of Climate Change Initiatives study will be completed in 2009: Phase I provides a high level documentation of initiative reliability considerations and Phase II completes an evaluation of a limited number of scenarios. Phase III will build on these results with deeper analysis of the high-level scenarios in Phase II including power system analysis to determine planning, design and operational challenges and recommendations. Expected cost of Phase III study is \$100,000.

NERC will also acquire risk assessment software to perform rigorous assessments of the impacts of this and other emerging issues, including scenario assessments. Expected cost of software and high level consultation is \$35,000.

Develop a Centralized Data Collection Process and Tools to Automate the Collection and Reporting Processes

The tool will support frequent updates (now limited to quarterly) and provide a user query feature to call different views of for NERC’s online “Reliability Indicators” that is database driven, rather than the static files employed today. Expected cost is \$80,000.

Continue to Improve Benchmarking and Reliability Metrics Development

NERC worked closely with industry through the Reliability Metrics Working Group in 2009 to develop an improved suite of reliability metrics. Efforts to collect, compile, and analyze needed data will continue as metrics are revised and improved. Metrics provide a critical feedback loop to the standards and compliance enforcement process, identifying areas where new or improved standards may be needed and/or where compliance activities should be focused. The public reliability indicators portal on NERC's website is currently manually updated each quarter. As part of efforts to improve the granularity and accessibility of the information presented on this site, NERC will purchase Automatic Reliability Reports (ARR) software, with the goal of providing daily, monthly, and annual reports produced by the Consortium for Electric Reliability Technology Solutions (CERTS). The report will provide a summary of historical load-generation resource adequacy and control performance for the Eastern, Western and ERCOT Interconnections. Expected cost of ARR application software is \$75,000.

System Protection Initiative

Misoperation of system protection and control systems has been a leading cause of bulk power system disturbances in North America for a number of years, causing nearly 45 percent of category two and higher disturbances in 2007. As part of its mission to "ensure the reliability of the bulk power system in North America," NERC launched a comprehensive initiative designed to coordinate many valuable ongoing efforts to improve the performance of power system protection and control systems in 2009 with the goal of limiting the scope and severity of future system disturbances caused by these misoperations. Event Analysis will continue to sponsor the "System Protection Initiative" into 2010. Work during that timeframe will require use of subject matter expert contractors in the area of generation protection and controls to augment staff expertise. Resource requirements to adequately fund this work are \$179,000.

Modeling Improvements Initiative

Event Analysis will sponsor a Modeling Improvements Initiative. This will require the employment of subject matter experts in generation and turbine control modeling with an estimated cost impact of \$50,000.

Launch Phase II of the Transmission Availability Data System (TADS)

Work on NERC's Transmission Availability Data System has continued in 2009, with the release of Phase I data scheduled in 2009. The second phase of this initiative will begin to show meaningful statistics about the availability of, and outage rates for, transmission facilities across North America. As additional data is collected, TADS will become an invaluable resource to event analysis efforts and provide important insights into the reliability of the bulk power system. NERC will report data obtained for the TADS to the U.S. Department of Energy's Energy Information Administration beginning in 2011.

Funding sources and related expenses for the reliability assessment and performance analysis section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Assessment and Performance Analysis					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 3,540,071	\$ 3,540,071	\$ -	\$ 6,381,859	\$ 2,841,787
Penalty Sanctions				-	
Total ERO Funding	\$ 3,540,071	\$ 3,540,071	\$ -	\$ 6,381,859	\$ 2,841,787
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	450,000	450,000	-	250,000	(200,000)
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 3,990,071	\$ 3,990,071	\$ -	\$ 6,631,859	\$ 2,641,787
Expenses					
Personnel Expenses					
Salaries	\$ 2,055,910	\$ 2,138,307	\$ 82,397	\$ 2,146,240	\$ 90,330
Payroll Taxes	123,566	139,356	15,791	133,043	9,477
Benefits	245,226	257,288	12,062	264,460	19,235
Retirement Costs	283,896	304,892	20,995	307,407	23,510
Total Personnel Expenses	\$ 2,708,598	\$ 2,839,843	\$ 131,245	\$ 2,851,150	\$ 142,552
Meeting Expenses					
Meetings	\$ 184,000	\$ 184,000	\$ -	\$ 200,000	\$ 16,000
Travel	271,375	271,375	-	420,000	148,625
Conference Calls	10,000	10,000	-	10,000	-
Total Meeting Expenses	\$ 465,375	\$ 465,375	\$ -	\$ 630,000	\$ 164,625
Operating Expenses					
Consultants & Contracts	\$ 761,270	\$ 761,270	\$ -	\$ 1,149,400	\$ 388,130
Office Rent	-	-	-	-	-
Office Costs	56,171	56,171	-	51,650	(4,521)
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	35,366	35,366	68,129	68,129
Efficiency Improvements	-	-	-	(129,952)	(129,952)
Total Operating Expenses	\$ 817,441	\$ 852,807	\$ 35,366	\$ 1,139,227	\$ 321,786
Total Direct Expenses	\$ 3,991,414	\$ 4,158,025	\$ 166,611	\$ 4,620,377	\$ 628,963
Indirect Expenses				\$ 1,813,900	\$ 1,813,900
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 3,991,414	\$ 4,158,025	\$ 166,611	\$ 6,434,277	\$ 2,442,863
Change in Assets	\$ (1,343)	\$ (167,953)	\$ (166,611)	\$ 197,581	\$ 198,924
Fixed Assets					
Depreciation	\$ -	\$ (35,366)	\$ (35,366)	\$ (68,129)	\$ (68,129)
Computer & Software CapEx	122,175	122,175	-	196,575	74,400
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Inc)Dec in Fixed Assets	\$ (122,175)	\$ (86,809)	\$ 35,366	\$ (128,447)	\$ (6,272)
Allocation of Fixed Assets				(69,135)	(69,135)
Total (Inc)Dec in Fixed Assets	\$ (122,175)	\$ (86,809)	\$ 35,366	\$ (197,581)	\$ (75,406)
TOTAL CHANGE IN ASSETS	\$ (123,518)	\$ (254,762)	\$ (131,245)	\$ -	\$ 123,518

Explanations of Variances - 2010 Budget versus 2009 Budget

Funding Sources

- Due to a change in accounting methodology as explained on page 14, indirect expenses are allocated to the statutory program areas, resulting in an increase in ERO assessments to fund the Program above the requirement for added resources as noted below.
- Based upon the current trend in 2009, estimated revenue from the GADS program are expected to decrease.

Personnel Expenses

- The costs associated with the addition of 1.5 FTEs and incremental costs for current staff are offset by the elimination of temporary staffing that had been used to support the GADS Program.

Meeting Expenses

- The increase in meeting expenses is related to travel for assessments and benchmarking staff.

Operating Expenses

- The increase in Contracts and Consultants is for \$75,000 to support development of Automatic Reliability Reports; \$206,500 for the System Protection Initiative generation and support; \$50,000 for the event analysis modeling initiative;

Indirect Expenses

- Due to a change in accounting methodology as explained on page 14, indirect expenses are allocated to the statutory program areas in 2010.

Fixed Asset Additions

- \$35,000 for risk assessment software; \$39,400 for events analysis software

Training, Education, and Operator Certification Program

Training, Education, and Operator Certification Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	5.5	6.75	1.25
Total Direct Expenses	\$1,562,478	\$1,919,226	\$356,747
Total Indirect Expenses	\$1,030,695	\$765,239	(\$265,456)
Inc(Dec) in Fixed Assets		\$29,166	\$29,166
Total Funding Requirement	\$2,593,173	\$2,713,631	\$120,458

Program Scope and Functional Description

NERC's System Operator Certification and Continuing Education programs ensure the personnel operating the bulk power system have the skills, training, and qualifications needed to operate the system reliably. NERC maintains the credentials for over 5,000 system operators, effectively licensing them to work in system control centers across North America.

NERC's system operator certification exam is designed to: test specific knowledge of job skills and reliability standards; and prepare operators to ensure standards are met and quickly and confidently react when unexpected situations occur. Once an operator passes the certification exam, he or she is required to maintain certification through completing NERC-approved continuing education activities.

The certification exam is created by the Personnel Certification Governance Committee, a group of operational experts, trainers, and supervisors. Exams are updated on an 18-month cycle.

2010 Assumptions and Cost Impacts

- NERC is committed to improving the education and information provided to stakeholders on its processes, standards, and compliance. While budgetary pressures will require NERC to limit the amount of direct additional funding available in 2010 to fund training and education programs, NERC is nevertheless committed to working with stakeholders to provide additional training and education opportunities, including exploring alternative means and funding sources for these programs.
- NERC will continue to deliver the existing curriculum to new NERC and Regional Entity compliance staff on basic auditing skills and support the auditor training needs associated with an increase in auditing for compliance with CIP standards requirements.
- NERC will continue to certify system operators and expand the certification program.

- NERC will continue to require use of continuing education hours to maintain a credential
- NERC will continue to improve the operation of the database used to track certification and continuing education hours for credential maintenance
- NERC will develop and release new versions of certification examinations in 2010.
- NERC will conduct workshops in support of Standards, GADS and the North American Synchro Phasor Initiative (NASPI).
- 45% of the costs of this program area are offset by certification fees, testing fees and workshop fees.
- NERC will continue to provide administrative support to the Personnel Certification Governance Committee and its subgroups.

2010 Goals and Objectives

- Work with the Personnel Certification Governance Committee to continue research on an advanced system operator certification credential
- Facilitate more education opportunities for stakeholders seeking to learn about compliance with NERC standards
- Implement a new system operator exam, in accordance with the 18-month revision cycle
- Conduct 20 industry webinars
- Train new NERC and Regional Critical Infrastructure Protection Auditors

2010 Resource Requirements

The Training, Education, and Operator Certification Program has increased its workload over the past two years as system operators have transitioned from maintaining credentials through exams to maintaining credentials through continuing education hours. Beyond NERC's system operator certification and continuing education functions, the education program also coordinates with communications in NERC's efforts to provide learning opportunities to the electric industry on key reliability issues.

Specific areas of focus for the education program in 2010 are:

Providing Better Education Opportunities for Stakeholders Seeking to Comply with NERC Standards

NERC recognizes that developing standards and enforcing compliance are only part of what is needed to truly "ensure the reliability of the bulk power system in North America." As a result, NERC is working to provide more educational opportunities for stakeholders on reliability issues as well as its standards. NERC's monthly webinar series regularly hosts 500–600 industry participants and features speakers from across the industry. NERC is looking to employ similar mechanisms to educate the industry on priority standards and work with the trade associations to facilitate additional learning opportunities for stakeholders. NERC will require a minimum of one additional FTE in the Training, Education, and Operator Certification program to support these objectives.

Continue Improvements to System Operator Certification Database

In 2008, NERC tracked nearly 400,000 Continuing Education hours, maintaining credentials for nearly 5,000 system operators across North America. Maintaining this volume of information was made possible by a complex database NERC began developing in 2007. The System Operator Certification and Continuing Education Database (SOCCED) allows system operators to register for exams and track the status of maintaining their credential with approved continuing education hours. As part of the three-year implementation to achieve full database functionality, improvements to be made to the database in 2010 will expand accounting and reporting features for the administrators and improve the accuracy of displaying and accounting for the courses listed on the operator's transcripts. System operator demographics will also be added to the database. As system operators register to take a certification exam or to renew an existing certification credential they will be asked to provide certain information about their background, age group, and job experience. With this demographic information, NERC will be able to develop reports that will aid the industry in identifying training needs. NERC will also be able to ascertain the experience levels of system operators within each of the four credentials to shed more light on aging workforce issues. The SOCCED has been identified as the best source to gather this information in the industry. The cost of these database improvements is estimated to be \$30,000.

Support Efforts to Ensure Consistency in Compliance Auditing Across the Eight Regional Entities

Providing a clear and consistent training platform for NERC and Regional Entity compliance auditors is a critical component of NERC's efforts to ensure consistency and efficiency in the execution of regionally-delegated ERO responsibilities. NERC will continue to provide these services, with specific focus on developing core training materials for auditors with Critical Infrastructure Protection Standards auditing responsibilities.

Funding sources and related expenses for the training, education, and operator certification section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Training and Education					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 582,478	\$ 582,478	\$ -	\$ 1,502,381	\$ 919,903
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 582,478	\$ 582,478	\$ -	\$ 1,502,381	\$ 919,903
Membership Dues	-	-	-	-	-
Testing Fees	980,000	980,000	-	1,118,750	138,750
Services & Software	-	-	-	-	-
Workshops	-	-	-	92,500	92,500
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 1,562,478	\$ 1,562,478	\$ -	\$ 2,713,631	\$ 1,151,153
Expenses					
Personnel Expenses					
Salaries	\$ 705,708	\$ 640,850	\$ (64,858)	\$ 730,840	\$ 25,133
Payroll Taxes	48,932	45,113	(3,819)	51,656	2,724
Benefits	52,872	90,820	37,948	103,427	50,555
Retirement Costs	99,362	89,930	(9,432)	102,347	2,985
Total Personnel Expenses	\$ 906,873	\$ 866,713	\$ (40,161)	\$ 988,270	\$ 81,396
Meeting Expenses					
Meetings	\$ 55,000	\$ 55,000	\$ -	\$ 187,500	\$ 132,500
Travel	51,225	51,225	-	72,225	21,000
Conference Calls	75,000	75,000	-	80,000	5,000
Total Meeting Expenses	\$ 181,225	\$ 181,225	\$ -	\$ 339,725	\$ 158,500
Operating Expenses					
Consultants & Contracts	\$ 461,400	\$ 461,400	\$ -	\$ 563,800	\$ 102,400
Office Rent	-	-	-	-	-
Office Costs	12,980	12,980	-	59,300	46,320
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Efficiency Improvements	-	-	-	(31,869)	(31,869)
Total Operating Expenses	\$ 474,380	\$ 474,380	\$ -	\$ 591,231	\$ 116,851
Total Direct Expenses	\$ 1,562,478	\$ 1,522,318	\$ (40,161)	\$ 1,919,226	\$ 356,747
Indirect Expenses				\$ 765,239	\$ 765,239
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 1,562,478	\$ 1,522,318	\$ (40,161)	\$ 2,684,465	\$ 1,121,986
Change in Assets	\$ (0)	\$ 40,160	\$ 40,161	\$ 29,166	\$ 29,167
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Inc)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets				(29,166)	(29,166)
Total (Inc)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ (29,166)	\$ (29,166)
TOTAL CHANGE IN ASSETS	\$ (0)	\$ 40,160	\$ 40,161	\$ (0)	\$ 0

Explanations of Variances - 2010 Budget versus 2009 Budget

Funding Sources

- Due to a change in accounting methodology as explained on page 14 indirect expenses are allocated to the statutory program areas, resulting in an increase in ERO assessments to fund this Program area above the requirement for added resources as noted below.
- System operator test fees and certificate renewal fees are projected to increase in 2010 based upon 2008 actual and trends in 2009.

Personnel Expenses

- 0.5 FTE was added in 2009. The other new hire is assumed to be added in the second quarter of 2010, and has been counted as 0.75 additional FTEs. Salary and benefits costs associated with the 0.75 FTE are budgeted at 75% annualized costs.

Meeting Expenses

- The increase in meeting and travel expenses is related to the development of new operator certification exams.

Operating Expenses

- \$102,000 increase due to the use of consultants to review exams as volunteer time devoted to this activity is diminishing; \$46,000 in Office Costs related to merchant card fees allocated to the program which were previously charged to general and administrative.

Indirect Expenses

- Due to a change in accounting methodology as explained on page 14 indirect expenses are allocated to the statutory program areas in 2010.

Situation Awareness and Infrastructure Security Program

Situation Awareness and Infrastructure Security Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	7.0	9.75	2.75
Total Direct Expenses	\$5,456,405	\$7,047,344	\$1,590,939
Total Indirect Expenses	\$1,311,793	\$1,105,346	(\$206,447)
Inc(Dec) in Fixed Assets	\$125,000	(\$3,755)	(\$128,755)
Total Funding Requirement	\$6,893,198	\$8,148,935	\$1,255,737

Program Scope and Functional Description

The Situation Awareness and Infrastructure Security program coordinates all of NERC's efforts to improve physical and cyber security for the bulk power system of North America, as it relates to reliability. These efforts include standards development, compliance enforcement, assessments of risk and preparedness, disseminating critical information via alerts to industry, and raising awareness of key issues.

Additionally, the program is home to the ES-ISAC and monitors the bulk power system to provide real-time situation awareness leadership and coordination services to the electric industry.

NERC's Critical Infrastructure Protection Committee (CIPC) supports and provides technical subject matter expertise. Additional guidance for program activities is provided by the Electricity Sector Steering Group (ESSG) and Electricity Sector Coordinating Council (ESCC).

2010 Assumptions and Cost Impacts

- NERC will continue to act as the ES-ISAC.
- Roughly 90 incidents will be reported to the ES-ISAC per month, consistent with current levels.
- Roughly 20 new security vulnerabilities will be discovered and require analysis and dissemination via alerts or awareness bulletins in 2010.
- The Situation Awareness and Infrastructure Security Program will continue to provide subject matter expertise to Critical Infrastructure Protection standards development and compliance enforcement efforts.

- Situation Awareness and Infrastructure Security will continue to support the North American Synchro-Phasor Initiative (NASPI.)
- NERC will continue to pursue and coordinate the Situation Awareness, FERC, NERC and Regional Entities (SAFNR) project and operate to the agreed upon protocol procedure for all participants.
- NERC will continue to lead coordination efforts between the intelligence community, government, and the electric industry on critical infrastructure protection issues.
- NERC will continue to provide administrative support to the CIPC and its subgroups.
- NERC will continue to facilitate the HYDRA energy security professionals network.

2010 Goals and Objectives

- Coordinate and facilitate cross-border secured briefings on emerging cyber security issues for industry executives
- Complete Phase II of the revisions to NERC's CIP Standards
- Collaborate with the industry to conduct voluntary assessments of cyber risk and preparedness for critical electric infrastructure
- Continue improvements to NERC's secure alerting portal
- Engage technology vendors in an initiative to assess and enhance the security of critical grid technologies
- Continue to coordinate and support industry efforts to address key vulnerabilities
- Support ongoing North American Energy Standards Board (NAESB)/National Institute of Standards and Technology (NIST) standards development efforts for smart grid technologies, conduct an independent assessment of potential bulk power system security concerns associated with large-scale smart grid technology deployments
- Monitor SAFNR in real-time, and operate to the agreed open project protocol procedures
- Work with the industry to drill and improve coordination during wide-area system disturbances
- Complete follow-on work to develop the Cyber Risk Preparedness Assessment materials into a toolkit for broad industry use

2010 Resource Requirements

Protecting North America's critical electric infrastructure from cyber threats and vulnerabilities is one of the industry's top reliability priorities. NERC has been instrumental in coordinating these efforts thus far and continues to provide vital services to the electric industry as the ES-ISAC, including monitoring critical infrastructure information and driving coordination and collaboration between the intelligence community, government, and the electric sector.

The chart below provides a rough view of resources primarily dedicated to critical infrastructure protection activities. The SAIS and CIP programs are critically interwoven, however, and resources are shared between the programs in practice. NERC considers this arrangement an organizational efficiency measure. Work is underway to develop a comprehensive management

plan for this program area, where resource synergies and cross-functional responsibilities are more clearly identified and the role of NERC stakeholders, through appropriate technical committees and advisory groups, is highlighted.

Critical Infrastructure Protection Resources			
(Included in Total Resources of the Situation Awareness and Infrastructure Security Program)			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	2.0	3.0	1.0
Total Direct Expenses	\$333,678	\$577,445	\$243,767

Specific areas of focus for the Situation Awareness and Infrastructure Security program in 2010 will be:

Coordinating Industry and Government Efforts to Protect the Bulk Power System from Cyber Threats and Vulnerabilities

Current dedicated resources cannot sustain the level of service required to adequately address emerging threats and vulnerabilities and fulfill the responsibilities of the ES-ISAC. It is anticipated that growing coordination requests from the U.S. and Canadian governments will demand greater breadth and depth of available critical infrastructure threat, preparedness, and reliability information. To address this need, the minimum resource requirements are two FTEs in NERC's Situation Awareness and Infrastructure Security program to improve the quality of NERC's Situational Awareness services and provide dedicated expertise to the execution of NERC's ES-ISAC responsibilities. An additional \$100,000 in contractor fees will be required to support, coordinate, and conduct secret-level classified briefings for industry executives and CIP and security staff, including support of government-led issues development and analysis. NERC will provide a more active role in analyzing security incidents and conducting cyber event analysis to help entities understand technical challenges and learn from current cyber security incidents.

Providing Timely and Secure Distribution of Information on Emerging Vulnerabilities, Threats, and Risks via NERC Alerts

As described in Section 810 of NERC's Rules of Procedure, NERC periodically issues Advisories, Recommendations, and Essential Action Notifications to alert the electric industry to emerging reliability threats, risks, and vulnerabilities. As NERC began to make greater use of this system in 2008, it became clear that the existing, e-mail based process was insufficient to provide and collect information regarding these alerts in a secure, easy-to-use manner. Using industry feedback as a key driver, NERC employed a software development company to develop a secure, internet-based portal specifically designed to facilitate the alerting process. Initial testing on the portal has already begun. \$313,000 in contractor expenses will be required at a minimum to complete the development, testing, and deployment of this tool in 2010.

Providing and Coordinating Needed Risk and Preparedness Assessments for the Electric Industry

In 2009, NERC worked with industry to launch the Cyber Risk Preparedness Assessment to assess detection, response, and mitigation capabilities for cyber incidents across the industry. The assessment is an important part of NERC's efforts to ensure reliability beyond its standards, seeking to identify practices, procedures, and technologies that contribute to cyber preparedness across the industry. Generalized, aggregated results from the assessment will be used to inform standards development activities, alert the industry to potential areas of concern, and identify areas where research and development investment is needed. At the close of the limited initial assessment, NERC plans to develop a preparedness toolkit that individual entities can use to assess their own systems and potentially conduct a series of workshops designed to identify effective practices, promote information sharing, and spur investment in needed research and development. A minimum of \$200,000 in contractor fees will be required to complete this work.

Assessing Bulk Power System Security Concerns Associated with Smart Grid Technology Deployments

As smart grid technology deployments proliferate across North America and legacy control systems receive greater inspection, developing a keen understanding of potential security vulnerabilities associated with these technologies will be vital to ensuring the reliability of the bulk power system. In coordination with the Reliability Assessment and Performance Analysis program, the Situation Awareness and Infrastructure Security Program will be working with industry and technology vendors to assess potential threats, risks, and vulnerabilities. A minimum resource requirement of \$100,000 for the purchase of published domestic and international studies and information will be needed to adequately perform these efforts.

Funding sources and related expenses for the Situation Awareness and Infrastructure Security section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Situation Awareness and Infrastructure Security					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 5,546,405	\$ 5,546,405	\$ -	\$ 8,148,935	\$ 2,602,530
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 5,546,405	\$ 5,546,405	\$ -	\$ 8,148,935	\$ 2,602,530
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	35,000	35,000	-	-	(35,000)
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 5,581,405	\$ 5,581,405	\$ -	\$ 8,148,935	\$ 2,567,530
Expenses					
Personnel Expenses					
Salaries	\$ 1,128,361	\$ 1,185,913	\$ 57,553	\$ 1,453,624	\$ 325,264
Payroll Taxes	60,213	71,157	10,944	87,221	27,007
Benefits	71,821	127,259	55,438	155,987	84,166
Retirement Costs	143,375	150,688	7,313	197,761	54,386
Total Personnel Expenses	\$ 1,403,770	\$ 1,535,018	\$ 131,248	\$ 1,894,593	\$ 490,823
Meeting Expenses					
Meetings	\$ 65,000	\$ 65,000	\$ -	\$ 300,000	\$ 235,000
Travel	125,161	125,161	-	220,161	95,000
Conference Calls	5,000	5,000	-	-	(5,000)
Total Meeting Expenses	\$ 195,161	\$ 195,161	\$ -	\$ 520,161	\$ 325,000
Operating Expenses					
Consultants & Contracts	\$ 3,826,600	\$ 4,094,600	\$ 268,000	\$ 4,606,157	\$ 779,557
Office Rent	-	-	-	-	-
Office Costs	30,874	30,874	-	148,000	117,126
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	28,027	28,027	45,884	45,884
Efficiency Improvements	-	-	-	(167,451)	(167,451)
Total Operating Expenses	\$ 3,857,474	\$ 4,153,501	\$ 296,027	\$ 4,632,590	\$ 775,116
Total Direct Expenses	\$ 5,456,405	\$ 5,883,680	\$ 427,275	\$ 7,047,344	\$ 1,590,939
Indirect Expenses	\$ -	\$ -	\$ -	\$ 1,105,346	\$ 1,105,346
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 5,456,405	\$ 5,883,680	\$ 427,275	\$ 8,152,690	\$ 2,696,285
Change in Assets	\$ 125,000	\$ (302,275)	\$ (427,275)	\$ (3,755)	\$ (128,755)
Fixed Assets					
Depreciation	\$ -	\$ (28,027)	\$ (28,027)	\$ (45,884)	\$ (45,884)
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	125,000	125,000	-	-	(125,000)
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Inc)Dec in Fixed Assets	\$ (125,000)	\$ (96,973)	\$ 28,027	\$ 45,884	\$ 170,884
Allocation of Fixed Assets	-	-	-	(42,129)	(42,129)
Total (Inc)Dec in Fixed Assets	\$ (125,000)	\$ (96,973)	\$ 28,027	\$ 3,755	\$ 128,755
TOTAL CHANGE IN ASSETS	\$ (0)	\$ (399,248)	\$ (399,248)	\$ (0)	\$ 0

Explanations of Variances - 2010 Budget versus 2009 Budget

Funding Sources

- Due to a change in accounting methodology as explained on page 14, indirect expenses are allocated to the Statutory program areas, resulting in an increase in ERO assessments to fund this Program above the requirement for added resources as noted below.

Personnel Expenses

- Of the 3.0 new hires planned for the Program, 1.0 FTE has been added in 2009, 1.0 FTE is planned to be added in the first quarter 2010 and 1.0 FTE is planned for the second quarter 2010. The new hire planned for second quarter is counted as 0.75 FTEs and the salary and benefits costs are calculated at 75% of annual expense.

Meeting Expenses

- Meeting and travel costs are projected to increase significantly to support additional personnel and activities including the cyber risk and threat assessment projects, as well as the newly formed Electricity Sector Steering Group.

Operating Expenses

- \$400,000 increase in consulting costs to support the cyber risk preparedness assessment, the threat assessment program and NERC system mapping updates
- \$313,000 in contract costs for a secure, internet-based portal specifically designed to facilitate the alerting process
- \$100,000 for purchases of published information and commissioned specialized papers on issues such as advanced metering security

Indirect Expenses

- Due to a change in accounting methodology as explained on page 14, indirect expenses are allocated to the statutory program areas in 2010.

Fixed Asset Additions

- The 2009 budget included \$125,000 to outfit the emergency response room. No additional expenses are anticipated in 2010.

Administrative Services

Administrative Services Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	29.5	35.75	6.25
Total Indirect Expenses	\$13,305,335	\$12,482,868	(\$822,467)
Inc(Dec) in Fixed Assets		\$413,729	\$413,729
Less: Other Funding		(\$ 1,627,808)	(\$ 1,627,808)
Net Indirect Expenses Allocated to Statutory Programs	\$13,305,335	\$11,268,789	(\$2,036,546)

Program Scope and Functional Description

NERC's Administrative Services area includes all business and administrative functions of the organization, including technical committees and member forums, legal and regulatory, human resources, information technology, finance and accounting, and general expenses. Costs incurred for these services are allocated as indirect expenses across NERC's other program areas.

2010 Assumptions and Cost Impacts

All expenses for the Administrative Services Programs, referred to as indirect expenses, are allocated to the delegated program areas by their respective FTEs. This allocation provides improved financial perspective for the delegated functions. (Refer to Changes in Accounting Methodology on page 13 of this document.)

The reduction in Net Indirect Expenses in the 2010 Budget versus the 2009 Budget is the result of the following:

- Elimination of \$1,050,000 in consulting costs associated with the three-year ERO Assessment
- Indirect expenses which are offset by other funding are not allocated to the statutory program areas. In 2010, Other Funding is made up of \$1,617,808 in membership fees collected by the Transmission Owners and Operators Forum and \$10,000 in interest income.

Administrative Services

Technical Committees and Members' Forum Program

Technical Committees and Members' Forum Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	2.0	5.0	3.0
Total Direct Expenses	\$857,572	\$1,617,808	\$760,236
Inc(Dec) in Fixed Assets			
Less: Other Funding		(\$1,617,808)	(\$1,617,808)
Net Indirect Expenses Allocated	\$857,572	\$0	(\$857,572)

Program Scope and Functional Description

The Transmission Owners and Operators Forum (the Forum) is the only NERC Committee/Members' Forum included in this section. Expenses incurred as a result of the administration and facilitation of NERC's other technical committees are included as direct expenses in the appropriate program areas.

Forums

NERC's Rules of Procedure provide for forums that serve the interest of NERC members within individual industry sectors, and as a result, also help improve the reliability of the bulk power system.

NERC presently has one forum — the Transmission Owners and Operators Forum — whose purpose is to improve the reliability and security of the bulk power system by facilitating the pursuit of operational excellence through a forum where transmission owners and operators can identify and exchange information on best practices for reliable operations, evaluate their own performances against those best practices, disseminate lessons learned from disturbances and near misses, and facilitate the utilization of such information in a timely manner, among other things.

NERC forums are financially self-sufficient and therefore do not rely on funds from NERC's assessments. However, the Forum's charter specifies that the NERC board approve the Forum's budget. Membership dues received from Forum members are functionally separated from ERO assessments received from load-serving entities or their designees. To the extent Forum membership dues exceed Forum expenses in any year, such excess will be held for Forum use and not used to support NERC activities.

The Transmission Owners and Operators Forum reimburses NERC for administrative services. In 2010, the amount budgeted for this service is \$300,000 and is reflected as Contract and Consulting Expense.

Funding sources and related expenses for the Transmission Owners and Operators Forum are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Transmission Owners and Operators Forum					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ -		\$ -	\$ -	\$ -
Penalty Sanctions					
Total ERO Funding	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Membership Dues	857,572	1,356,648	499,076	1,617,808	760,236
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ 857,572</u>	<u>\$ 1,356,648</u>	<u>\$ 499,076</u>	<u>\$ 1,617,808</u>	<u>\$ 760,236</u>
Expenses					
Personnel Expenses					
Salaries	\$ 502,740	\$ 719,240	\$ 216,500	\$ 839,989	\$ 337,249
Payroll Taxes	21,438	39,702	18,264	46,349	24,911
Benefits	51,837	68,094	16,257	77,775	25,938
Retirement Costs	72,897	98,800	25,903	118,695	45,798
Total Personnel Expenses	<u>\$ 648,912</u>	<u>\$ 925,836</u>	<u>\$ 276,924</u>	<u>\$ 1,082,808</u>	<u>\$ 433,896</u>
Meeting Expenses					
Meetings	\$ 30,000	\$ 44,000	\$ 14,000	\$ 30,000	\$ -
Travel	18,660	40,000	21,340	78,000	59,340
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ 48,660</u>	<u>\$ 84,000</u>	<u>\$ 35,340</u>	<u>\$ 108,000</u>	<u>\$ 59,340</u>
Operating Expenses					
Consultants & Contracts	\$ 160,000	\$ 160,000	\$ -	\$ 300,000	\$ 140,000
Office Rent	-	-	-	-	-
Office Costs	-	41,400	41,400	59,000	59,000
Professional Services	-	228,000	228,000	68,000	68,000
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Efficiency Improvements	-	-	-	-	-
Total Operating Expenses	<u>\$ 160,000</u>	<u>\$ 429,400</u>	<u>\$ 269,400</u>	<u>\$ 427,000</u>	<u>\$ 267,000</u>
Total Direct Expenses	<u>\$ 857,572</u>	<u>\$ 1,439,236</u>	<u>\$ 581,664</u>	<u>\$ 1,617,808</u>	<u>\$ 760,236</u>
Indirect Expenses				\$ -	\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	<u>\$ 857,572</u>	<u>\$ 1,439,236</u>	<u>\$ 581,664</u>	<u>\$ 1,617,808</u>	<u>\$ 760,236</u>
Change in Assets	<u>\$ -</u>	<u>\$ (82,588)</u>	<u>\$ (82,588)</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx					-
Furniture & Fixtures CapEx					-
Equipment CapEx					-
Leasehold Improvements					-
(Inc)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets					
Total (Inc)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL CHANGE IN ASSETS	<u>\$ -</u>	<u>\$ (82,588)</u>	<u>\$ (82,588)</u>	<u>\$ -</u>	<u>\$ -</u>

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- The Forum budget is fully funded through dues charged to its members. The increase in funding represents the additional dues required to fund the 2010 budgeted expenses.

Personnel Expenses

- The increases in personnel expenses are related to adding 3.0 FTEs, 2 of which were added in 2009.

Meeting Expenses

- Meeting expenses are increasing in order to provide additional workshops and peer reviews.

Operating Expenses

- Consultant and Contract expenses represents the Forum's reimbursement to NERC for NERC's provision of administrative services.
- The reduction in Professional Services is the result of a one-time implementation expense for the metrics project in 2009.

Administrative Services

General and Administrative

General and Administrative Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	6.0	4.0	(2.0)
Total Direct Expenses	\$5,468,985	\$3,768,310	(\$1,700,675)
Inc(Dec) in Fixed Assets		\$4,714	\$4,714
Less: Other Funding		(\$10,000)	(\$10,000)
Net Indirect Expenses Allocated	\$5,468,985	\$3,763,025	(\$1,705,960)

Program Scope and Functional Description

The General and Administrative area is responsible for the administration and general management of the organization. Expenses allocated in this area include office rent, the CEO, the Board of Trustees, the executive assistant, and communications and public relations.

2010 Assumptions and Cost Impacts

- As explained previously under Changes in Accounting Methodology on page 14, funding to increase the working capital reserve was reflected as Other Non-Operating Expenses in 2009. In 2010, funding for the working capital reserve is reflected as the TOTAL CHANGE IN ASSETS, which follows the Statement of Activities and Fixed Asset Budget on page 49. This change accounts for (\$1,393,496) of the total reduction of (\$1,705,960) in Net Indirect Expenses Allocated noted in the above General and Administrative Resources Table.
- Rent expense is increasing in 2010 for the offices in Washington, D.C. due to an increase in the rate per square foot for existing space pursuant to the lease agreement and the expansion into additional adjacent space. Total rental expense for the Washington, D.C. office is expected to be \$321,730 in 2010, an increase of approximately \$218,500 when compared to 2009.
- Rent expense for the Princeton office is also increasing due to an increase in the rate per square foot pursuant to the lease agreement. Total rent expense for the Princeton office is expected to be \$644,500 in 2010, an increase of approximately \$36,200 when compared to 2009.
- The increases in rent and other operating expenses have been offset by a reduction in FTEs.
- The Transmission Owners and Operators Forum will continue to reimburse NERC for administrative services in 2010. The allocation of these costs to the Forum is reflected as

a credit in Contracts and Consultants in the amount of (\$300,000) for the 2010 Budget and (\$160,000) for the 2009 Budget.

2010 Resource Requirements

NERC has reduced the number of FTE allocated to the General and Administrative area from 2009 to 2010.

Pursuant to a proposed amendment to its bylaws, subject to approval by the NERC Board of Trustees and FERC, NERC will be adding an independent trustee to its Board in 2010.

General and Administrative

Funding sources and related expenses for the General and Administrative section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
General and Administrative					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 5,268,985	\$ 5,268,985	\$ -	\$ 469,043	\$ (4,799,942)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 5,268,985	\$ 5,268,985	\$ -	\$ 469,043	\$ (4,799,942)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	200,000	10,000	(190,000)	10,000	(190,000)
Miscellaneous	-	-	-	-	-
Total Funding	\$ 5,468,985	\$ 5,278,985	\$ (190,000)	\$ 479,043	\$ (4,989,942)
Expenses					
Personnel Expenses					
Salaries	\$ 1,391,965	\$ 926,375	\$ (465,590)	\$ 870,200	\$ (521,765)
Payroll Taxes	52,549	41,918	(10,631)	39,376	(13,173)
Benefits	159,472	136,745	(22,726)	141,485	(17,987)
Retirement Costs	201,835	134,324	(67,510)	112,630	(89,205)
Total Personnel Expenses	\$ 1,805,820	\$ 1,239,363	\$ (566,457)	\$ 1,163,691	\$ (642,129)
Meeting Expenses					
Meetings	\$ 172,200	\$ 172,200	\$ -	\$ 172,200	\$ -
Travel	198,850	198,850	-	168,500	(30,350)
Conference Calls	83,872	83,872	-	85,000	1,128
Total Meeting Expenses	\$ 454,922	\$ 454,922	\$ -	\$ 425,700	\$ (29,222)
Operating Expenses					
Consultants & Contracts	\$ (160,000)	\$ (160,000)	\$ -	\$ (300,000)	\$ (140,000)
Office Rent	711,523	711,523	-	967,134	255,611
Office Costs	494,223	494,223	-	597,500	103,277
Professional Services	710,000	710,000	-	815,000	105,000
Miscellaneous	4,000	4,000	-	4,000	-
Depreciation	-	83,150	83,150	95,286	95,286
Efficiency Improvements	-	-	-	-	-
Total Operating Expenses	\$ 1,759,747	\$ 1,842,897	\$ 83,150	\$ 2,178,920	\$ 419,173
Total Direct Expenses	\$ 4,020,489	\$ 3,537,181	\$ (483,307)	\$ 3,768,310	\$ (252,178)
Indirect Expenses	\$ -	\$ -	\$ -	\$ (3,758,310)	\$ (3,758,310)
Other Non-Operating Expenses	\$ 1,393,496	\$ -	\$ (1,393,496)	\$ -	\$ (1,393,496)
Total Expenses	\$ 5,413,985	\$ 3,537,181	\$ (1,876,803)	\$ 10,000	\$ (5,403,985)
Change in Assets	\$ 55,000	\$ 1,741,804	\$ 1,686,803	\$ 469,043	\$ 414,043
Fixed Assets					
Depreciation	\$ -	\$ (83,150)	\$ (83,150)	\$ (95,286)	\$ (95,286)
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	55,000	55,000	-	100,000	45,000
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Inc)Dec in Fixed Assets	\$ (55,000)	\$ 28,150	\$ 83,150	\$ (4,714)	\$ 50,286
Allocation of Fixed Assets	-	-	-	4,714	4,714
Total (Inc)Dec in Fixed Assets	\$ (55,000)	\$ 28,150	\$ 83,150	\$ -	\$ 55,000
TOTAL CHANGE IN ASSETS	\$ 0	\$ 1,769,954	\$ 1,769,953	\$ 469,043	\$ 469,043

The TOTAL CHANGE IN ASSETS of \$470,260 represents the funding required to return the working capital reserve to \$0.00. This calculation is presented in Table 5 on page 76.

Explanations of Variances - 2010 Budget versus 2009 Budget

Funding Sources

- ERO Assessments - Due to a change in accounting methodology as explained on page 14, indirect expenses are allocated to the Statutory program areas, resulting in the elimination of ERO assessments to separately fund this Program for its resources requirements. The ERO assessments remaining are to fund the working capital reserve as shown in Table 5 on page 76.
- With interest rates at low rates, and with no working capital reserve projected during 2010, the estimated interest income in 2010 is based upon 2009 results to date.

Personnel Expenses

- 2.0 FTEs have been eliminated from the General and Administrative program.

Meeting Expenses

- NERC continues to look for ways to reduce travel and meeting costs and has not assumed an inflationary increase for current staff. Travel has been reduced though the elimination of 2.0 FTEs, offset by the addition one Trustee to its Board of Trustees.

Operating Expenses

- (\$140,000) in Consultants and Contracts represents the increase in costs reimbursed to NERC by the Transmission Owners and Operators Forum for administrative and benefits services provided by NERC.
- The increase in Office Rent is due to added space in the DC office and rent escalation provisions in both NJ and DC leases.
- The increase in Office Costs primarily relates to telephone expenses associated with the total increase in FTEs
- The increase in Professional Services relates to adding a Trustee to NERC's Board of Trustees, together with increases in insurance.

Indirect Expenses

- As explained on page 14 under Changes in Accounting Methodolgy, direct costs of this program, less funding received from other sources are allocated to the statutory program areas as Indirect Expenses. The credit of (\$3,758,310) represents total Personnel, Meeting and Operating Expenses, less \$10,000 of Interest Income allocated as Indirect Expenses.

Other Non-Operating Expenses

- For the 2009 Budget, this amount represented the amount needed to fund the working capital reserve. In 2010, this is reflected as TOTAL CHANGE IN ASSETS.

Fixed Asset Additions

- Furniture and fixtures needed for the expanded space in the Washington, DC office and personnel additions in the Princeton office.

- The net change in Fixed Assets is allocated to the statutory programs on the ‘Allocation of Fixed Assets’ line.

Administrative Services

Legal and Regulatory

Legal and Regulatory Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	4.0	7.0	3.0
Total Direct Expenses	\$2,986,510	\$2,333,329	(\$653,181)
Inc(Dec) in Fixed Assets	\$0	\$0	\$0
Less: Other Funding	\$0	\$0	\$0
Net Indirect Expenses Allocated	\$2,986,510	\$2,333,329	(\$653,181)

Program Scope and Functional Description

The Legal and Regulatory area provides legal and governmental relations support to the organization. Expenses allocated to this area include: General Counsel, attorneys, and Canadian governmental affairs.

2010 Assumptions and Cost Impacts

Two attorneys and one administrative assistant will be added to NERC's legal staff to support the significant increase in the volume, timing and complexity of the compliance and regulatory workload at NERC, including the support and coordination with the Regional Entities.

Contract expenditures are associated with a Canadian Affairs representative.

Professional Services of \$550,000 are budgeted in 2010 to cover anticipated costs associated primarily with legal services to prepare and process certain required filings with regulatory authorities in the United States and the Canadian Provinces, as well as various corporate matters arising from day to day operations.

The overall reduction in budgeted expenses is the result of the elimination of \$1,050,000 in budgeted consulting fees associated with the three-year ERO Assessment

Legal and Regulatory

Funding sources and related expenses for the Legal and Regulatory section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Legal and Regulatory					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 2,986,510	\$ 2,986,510	\$ -	\$ -	\$ (2,986,510)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 2,986,510	\$ 2,986,510	\$ -	\$ -	\$ (2,986,510)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 2,986,510	\$ 2,986,510	\$ -	\$ -	\$ (2,986,510)
Expenses					
Personnel Expenses					
Salaries	\$ 961,205	\$ 882,085	\$ (79,120)	\$ 1,237,000	\$ 275,795
Payroll Taxes	38,817	44,078	5,260	61,813	22,995
Benefits	83,870	95,849	11,980	134,415	50,545
Retirement Costs	133,937	122,912	(11,025)	159,601	25,664
Total Personnel Expenses	\$ 1,217,830	\$ 1,144,924	\$ (72,905)	\$ 1,592,829	\$ 374,999
Meeting Expenses					
Meetings	\$ 3,000	\$ 3,000	\$ -	\$ -	\$ (3,000)
Travel	49,000	49,000	-	65,000	16,000
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 52,000	\$ 52,000	\$ -	\$ 65,000	\$ 13,000
Operating Expenses					
Consultants & Contracts	\$ 1,158,000	\$ 1,158,000	\$ -	\$ 108,000	\$ (1,050,000)
Office Rent	-	-	-	-	-
Office Costs	8,680	8,680	-	17,500	8,820
Professional Services	550,000	550,000	-	550,000	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Efficiency Improvements	-	-	-	-	-
Total Operating Expenses	\$ 1,716,680	\$ 1,716,680	\$ -	\$ 675,500	\$ (1,041,180)
Total Direct Expenses	\$ 2,986,510	\$ 2,913,604	\$ (72,905)	\$ 2,333,329	\$ (653,181)
Indirect Expenses				\$ (2,333,329)	\$ (2,333,329)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 2,986,510	\$ 2,913,604	\$ (72,905)	\$ -	\$ (2,986,510)
Change in Assets	\$ -	\$ 72,905	\$ 72,905	\$ -	\$ -
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Inc)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets				-	
Total (Inc)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CHANGE IN ASSETS	\$ -	\$ 72,905	\$ 72,905	\$ -	\$ -

Explanations of Variances - 2010 Budget versus 2009 Budget

Funding Sources

- ERO Assessments - Due to a change in accounting methodology as explained on page 14, indirect expenses are allocated to the Statutory program areas, resulting in the elimination of ERO assessments to fund this Program for its resources requirements.

Personnel Expenses

- The increase in personnel expenses is related to adding 3.0 FTEs, all planned for the first quarter of 2010, and incremental costs associated with existing staff.

Meeting Expenses

- NERC continues to look for ways to reduce travel and meeting costs and has not assumed an inflationary increase for current staff. Travel costs are projected to increase as a result of .the program area workload supported by staff additions.

Operating Expenses

- Consultants and Contracts reduction reflects the elimination of costs budgeted in 2009 to perform the 3-year ERO Assessment.

Indirect Expenses

- As explained on page 14 under Changes in Accounting Methodolgy, direct costs of this program, less funding received from other sources are allocated to the statutory program areas as Indirect Expenses. The credit of (\$2,333,329) represents total Personnel, Meeting and Operating Expenses allocated as Indirect Expenses.

Administrative Services

Information Technology

Information Technology Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	8.0	7.75	(0.25)
Total Direct Expenses	\$1,739,955	\$2,519,307	\$779,352
Inc(Dec) in Fixed Assets	\$727,575	\$390,795	(\$336,810)
Less: Other Funding	\$0	\$0	\$0
Net Indirect Expenses Allocated	\$2,467,530	\$2,910,072	\$442,542

Program Scope and Functional Description

The Information Technology Program supports employee technology, computing, and voice/electronic communications needs. Staff in this program area also supports, manages, and maintains a number of Reliability Tools for the industry.

2010 Goals and Objectives

Enhance NERC's network to support a growing staff in multiple locations:

- Expand D.C. office network to support more local services for efficiency reasons
- Expand telecommunications in Princeton as necessary to support voice communications for additional personnel.
- Introduce direct power management of network and system devices.

Enhance internal computer systems to support recovery of critical business systems in the event of an emergency

- Automate failover of reliability data collection systems
- Acquire necessary hardware and software to implement data storage failover capabilities in co-located computing facility.
- Acquire necessary hardware and software to implement failover capability of cyber-security controls in co-located computing facilities.

Acquire additional security tools to ensure ongoing compliance with NERC CIP Standards:

- Additional forensic tools for network and systems to assist in the discovery and analysis of security incidents
- Vulnerability testing tools for networks and systems to assess security on an ongoing basis

- Improved file integrity checking tools
- Log management solution to allow for consolidation and management of IT system event logs

Design and deploy a secure electronic file system to support new, stringent confidentiality requirements of NERC's compliance, CIP, and events analysis programs. An expert consultant will assist in both the design and deployment stages to ensure the resultant system is flexible while maintaining all security objectives.

Design, implement, and maintain a "knowledge management infrastructure," (supported on the MOSS (Microsoft Office SharePoint Server) platform) to provide:

- Consistency and transparency in standards and compliance areas,
- Improved data and document management capabilities across all business programs,
- Integration with public web site to facilitate user-driven content,
- Support for blogs, RSS, and wiki features

2010 Resource Requirements

NERC will be implementing the Microsoft SharePoint document sharing platform. When fully deployed over the course of the next several years, both internal users and external stakeholders will rely on this system to push and pull information from NERC. The new system will also allow a high degree of collaboration between individual users, work groups, committees, and more. Given the depth and breadth of this system and its business criticality, an FTE within the IT program area must be dedicated to its ongoing support and maintenance. Specifically, this FTE will be responsible for the following:

- Installation and management of SharePoint servers and related systems in the test, staging, production and disaster recovery environments.
- Maintenance of SharePoint policy and security architecture.
- Administration of SharePoint website structure and design integrity.
- Administration of access controls and user premissioning for internal, extranet, and public users.
- Technical support for internal, extranet, and public users.

The addition of the FTE dedicated to the ongoing support and maintenance of the Microsoft SharePoint document sharing platform is planned for second quarter 2010, and is therefore counted as .75 FTEs for budget purposes. This is being offset by (1.0) FTE that transferred to another program area, resulting in a net reduction of (0.25) FTEs in the Information Technology Program.

Information Technology

Funding sources and related expenses for the Information Technology section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Information Technology					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 2,467,530	\$ 2,467,530	\$ -	\$ -	\$ (2,467,530)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 2,467,530	\$ 2,467,530	\$ -	\$ -	\$ (2,467,530)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 2,467,530	\$ 2,467,530	\$ -	\$ -	\$ (2,467,530)
Expenses					
Personnel Expenses					
Salaries	\$ 911,812	\$ 738,390	\$ (173,422)	\$ 789,767	\$ (122,045)
Payroll Taxes	66,280	51,507	(14,773)	55,091	(11,189)
Benefits	118,967	115,936	(3,031)	124,003	5,036
Retirement Costs	132,213	107,066	(25,146)	112,477	(19,735)
Total Personnel Expenses	\$ 1,229,271	\$ 1,012,899	\$ (216,372)	\$ 1,081,337	\$ (147,934)
Meeting Expenses					
Meetings	\$ 5,500	\$ 5,500	\$ -	\$ -	\$ (5,500)
Travel	31,000	31,000	-	20,000	(11,000)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 36,500	\$ 36,500	\$ -	\$ 20,000	\$ (16,500)
Operating Expenses					
Consultants & Contracts	\$ 270,000	\$ 270,000	\$ -	\$ 325,000	\$ 55,000
Office Rent	-	-	-	-	-
Office Costs	204,184	204,184	-	577,525	373,341
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	419,467	419,467	515,445	515,445
Efficiency Improvements	-	-	-	-	-
Total Operating Expenses	\$ 474,184	\$ 893,651	\$ 419,467	\$ 1,417,970	\$ 943,786
Total Direct Expenses	\$ 1,739,955	\$ 1,943,050	\$ 203,095	\$ 2,519,307	\$ 779,352
Indirect Expenses				\$ (2,519,307)	\$ (2,519,307)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 1,739,955	\$ 1,943,050	\$ 203,095	\$ -	\$ (1,739,955)
Change in Assets	\$ 727,575	\$ 524,480	\$ (203,095)	\$ -	\$ (727,575)
Fixed Assets					
Depreciation	\$ -	\$ (419,467)	\$ (419,467)	\$ (515,445)	\$ (515,445)
Computer & Software CapEx	642,575	642,575	-	906,210	263,635
Furniture & Fixtures CapEx	85,000	85,000	-	-	(85,000)
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Inc)Dec in Fixed Assets	\$ (727,575)	\$ (308,108)	\$ 419,467	\$ (390,765)	\$ 336,810
Allocation of Fixed Assets				390,765	390,765
Total (Inc)Dec in Fixed Assets	\$ (727,575)	\$ (308,108)	\$ 419,467	\$ -	\$ 727,575
TOTAL CHANGE IN ASSETS	\$ -	\$ 216,372	\$ 216,372	\$ -	\$ -

Explanations of Variances - 2010 Budget versus 2009 Budget

Funding Sources

- ERO Assessments - Due to a change in accounting methodology as explained on page 14, indirect expenses are allocated to the Statutory program areas, resulting in the elimination of ERO assessments to fund this Program for its resources requirements.

Personnel Expenses

- The decrease in Personnel Expenses is due to the reduction of (1.0) FTEs and the budget assumptions related to the funding available for salary and bonus costs.

Meeting Expenses

- Budgeted travel expenses have been reduced based upon 2008 actual results and 2009 trends for the IT Program.

Operating Expenses

- Consultant and Contracts – The increase is primarily needed to support the ERO Membership and ‘MyAccount’ functions of the NERC website.
- Office Costs – Includes the cost of purchasing laptops, printers and other computer supplies for new staff. The 2010 budget also assumes an increase in the cost of software maintenance contracts.

Indirect Expenses

- As explained on page 14 under Changes in Accounting Methodolgy, direct costs of this program, less funding received from other sources are allocated to the statutory program areas as Indirect Expenses. The credit of (\$2,519,307) represents total Personnel, Meeting and Operating Expenses allocated as Indirect Expenses.

Fixed Asset Additions

- Increased costs to implement additional servers in the co-located computing facility; replacement of existing equipment that has reached the end of its useful life; software costs related to adding forensic tools for network and systems; software and hardware costs associated with implementation of Microsoft SharePoint document sharing platform.
- The net change in Fixed Assets is allocated to the statutory programs on the ‘Allocation of Fixed Assets’ line.

Administrative Services

Human Resources Program

Human Resources Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	4.5	3.5	(1.0)
Total Direct Expenses	\$668,293	\$1,008,912	\$340,619
Inc(Dec) in Fixed Assets		\$20,000	\$20,000
Less: Other Funding	\$0	\$0	\$0
Net Indirect Expenses Allocated	\$668,293	\$1,028,912	\$360,619

Program Scope and Functional Description

The Human Resources area manages all of NERC's human resources functions, including new-hires, benefits, and employee functions. This area also oversees NERC's employee performance appraisal and incentive structure process.

2010 Assumptions and Cost Impacts

- \$50,000 for background checks for new hires and current employees (required to conduct new background check every 7 years)
- \$100,000 for relocation expenses associated with new hires
- \$20,000 for Human Resources Information System
- \$200,000 for executive staff development and training
- \$150,000 for executive search fees associated with new hires
- The (1.0) FTE reduction is due to an employee transfer to another program.

2010 Goals and Objectives

- Recruit and retain qualified employees to fulfill the activities of the ERO
- Provide training/staff development activities
- Ongoing review of compensation and benefits
- Launch a Human Resources Information System, designed to facilitate the tracking of employee information and records

Human Resources

Funding sources and related expenses for the Human Resources section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Human Resources					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 668,293	\$ 668,293	\$ -	\$ -	\$ (668,293)
Penalty Sanctions	\$ -	\$ -	-	-	-
Total ERO Funding	\$ 668,293	\$ 668,293	\$ -	\$ -	\$ (668,293)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 668,293	\$ 668,293	\$ -	\$ -	\$ (668,293)
Expenses					
Personnel Expenses					
Salaries	\$ 378,722	\$ 337,344	\$ (41,378)	\$ 384,337	\$ 5,616
Payroll Taxes	25,351	19,491	(5,860)	22,206	(3,145)
Benefits	111,549	111,549	-	202,560	91,011
Retirement Costs	38,820	34,579	(4,241)	41,809	2,989
Total Personnel Expenses	\$ 554,443	\$ 502,963	\$ (51,479)	\$ 650,912	\$ 96,470
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	7,500	7,500	-	5,000	(2,500)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 7,500	\$ 7,500	\$ -	\$ 5,000	\$ (2,500)
Operating Expenses					
Consultants & Contracts	\$ 100,000	\$ 100,000	\$ -	\$ 350,000	\$ 250,000
Office Rent	-	-	-	-	-
Office Costs	6,350	6,350	-	3,000	(3,350)
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Efficiency Improvements	-	-	-	-	-
Total Operating Expenses	\$ 106,350	\$ 106,350	\$ -	\$ 353,000	\$ 246,650
Total Direct Expenses	\$ 668,293	\$ 616,813	\$ (51,479)	\$ 1,008,912	\$ 340,620
Indirect Expenses				\$ (1,008,912)	\$ (1,008,912)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 668,293	\$ 616,813	\$ (51,479)	\$ -	\$ (668,293)
Change in Assets	\$ 0	\$ 51,480	\$ 51,479	\$ -	\$ (0)
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	20,000	20,000
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Inc)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ (20,000)	\$ (20,000)
Allocation of Fixed Assets				20,000	20,000
Total (Inc)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CHANGE IN ASSETS	\$ 0	\$ 51,480	\$ 51,479	\$ -	\$ (0)

Explanations of Variances - 2010 Budget versus 2009 Budget

Funding Sources

- ERO Assessments - Due to a change in accounting methodology as explained on page 14, indirect expenses are allocated to the Statutory program areas, resulting in the elimination of ERO assessments to fund this Program for its resources requirements.

Personnel Expenses

- The decrease in Personnel Expenses is due to the reduction of (1.0) FTEs and the budget assumptions related to the funding available for salary and bonus costs.

Operating Expenses

- Consultant and Contract costs increases are for executive staff development and training and for executive search fees.

Indirect Expenses

- As explained on page 14 under Changes in Accounting Methodolgy, direct costs of this program, less funding received from other sources are allocated to the statutory program areas as Indirect Expenses. The credit of (\$1,008,912) represents total Personnel, Meeting and Operating Expenses allocated as Indirect Expenses.

Fixed Asset Additions

- The \$20,000 in 2010 is for a Human Resources Information System.
- The net change in Fixed Assets is allocated to the statutory programs on the 'Allocation of Fixed Assets' line.

Administrative Services

Finance and Accounting

Finance and Accounting Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	5.0	8.5	3.5
Total Direct Expenses	\$856,446	\$1,235,201	\$378,755
Inc(Dec) in Fixed Assets		(\$1,750)	(\$1,750)
Less: Other Funding	\$0	\$0	\$0
Net Indirect Expenses Allocated	\$856,446	\$1,233,451	\$377,005

Program Scope and Functional Description

NERC's Finance and Accounting area manages all finance and accounting functions, including employee payroll, 401(k) plan, travel and expense reporting, monthly financial reporting, sales and use tax, meeting/events planning and services, insurance, internal auditing, and facilities management. This area also holds primary responsibility for the development of the annual business plan and budget.

2010 Resource Requirements

A junior CPA will be added to the finance staff to support movement from a quarterly to monthly closing process, which was recommended by the company's outside auditors and supported by management as a means to increase operational efficiency. This will also facilitate the preparation of monthly budget variance reports for management and the implementation of additional cost control procedures.

In addition, during 2009, 3.0 FTEs transferred to Finance and Accounting from other programs and 1.0 full-time position was reduced to part time.

Finance and Accounting

Funding sources and related expenses for the Finance and Accounting section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Finance and Accounting					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 856,446	\$ 856,446	\$ -	\$ -	\$ (856,446)
Penalty Sanctions				-	
Total ERO Funding	\$ 856,446	\$ 856,446	\$ -	\$ -	\$ (856,446)
Membership Dues					
Testing Fees					
Services & Software					
Workshops					
Interest					
Miscellaneous					
Total Funding	\$ 856,446	\$ 856,446	\$ -	\$ -	\$ (856,446)
Expenses					
Personnel Expenses					
Salaries	\$ 550,482	\$ 737,228	\$ 186,747	\$ 812,808	\$ 262,326
Payroll Taxes	36,060	49,754	13,694	54,854	18,795
Benefits	68,865	117,133	48,268	129,142	60,277
Retirement Costs	79,820	106,898	27,078	109,647	29,827
Total Personnel Expenses	\$ 735,226	\$ 1,011,013	\$ 275,787	\$ 1,106,451	\$ 371,225
Meeting Expenses					
Meetings	\$ 4,000	\$ 4,000	\$ -	\$ 4,000	\$ -
Travel	15,000	15,000	-	19,000	4,000
Conference Calls					
Total Meeting Expenses	\$ 19,000	\$ 19,000	\$ -	\$ 23,000	\$ 4,000
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent					
Office Costs	2,220	2,220	-	4,000	1,780
Professional Services	100,000	100,000	-	100,000	-
Miscellaneous					
Depreciation		1,750	1,750	1,750	1,750
Efficiency Improvements					
Total Operating Expenses	\$ 102,220	\$ 103,970	\$ 1,750	\$ 105,750	\$ 3,530
Total Direct Expenses	\$ 856,446	\$ 1,133,983	\$ 277,537	\$ 1,235,201	\$ 378,755
Indirect Expenses				\$ (1,235,201)	\$ (1,235,201)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 856,446	\$ 1,133,983	\$ 277,537	\$ -	\$ (856,446)
Change in Assets	\$ -	\$ (277,537)	\$ (277,537)	\$ -	\$ -
Fixed Assets					
Depreciation	\$ -	\$ (1,750)	\$ (1,750)	\$ (1,750)	\$ (1,750)
Computer & Software CapEx					
Furniture & Fixtures CapEx					
Equipment CapEx					
Leasehold Improvements					
(Inc)Dec in Fixed Assets	\$ -	\$ 1,750	\$ 1,750	\$ 1,750	\$ 1,750
Allocation of Fixed Assets				(1,750)	
Total (Inc)Dec in Fixed Assets	\$ -	\$ 1,750	\$ 1,750	\$ -	\$ 1,750
TOTAL CHANGE IN ASSETS	\$ -	\$ (275,787)	\$ (275,787)	\$ -	\$ 1,750

Explanations of Variances - 2010 Budget versus 2009 Budget

Funding Sources

- ERO Assessments - Due to a change in accounting methodology as explained on page 14, indirect expenses are allocated to the Statutory program areas, resulting in the elimination of ERO assessments to fund this Program for its resources requirements.

Personnel Expenses

- The increase is related to the addition of 3.5 FTEs, 2.5 of which transferred into this area in 2009 and the 1.0 new addition in 2010, assumed to be on staff no later than the first quarter of 2010.

Meeting Expenses

- The increase in the 2010 budget for Travel is related to the additional FTEs in this Program.

Indirect Expenses

- As explained on page 14 under Changes in Accounting Methodolgy, direct costs of this program, less funding received from other sources are allocated to the statutory program areas as Indirect Expenses. The credit of (\$1,235,201) represents total Personnel, Meeting and Operating Expenses allocated as Indirect Expenses.

Fixed Asset Additions

- While no fixed asset additions are planned in 2010, previously purchased capitalized software is being depreciated and therefore, the net change in Fixed Assets related to depreciation is allocated to the statutory programs on the 'Allocation of Fixed Assets' line.

Section B

2010 Budget Schedules



2009 Budget and Projection and 2010 Budget Comparisons

Table 1

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
STATUTORY					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 31,925,049	\$ 31,925,049	\$ -	\$ 37,063,569	\$ 5,138,520
Penalty Sanctions ⁽¹⁾	-	-	-	-	-
Total ERO Funding	\$ 31,925,049	\$ 31,925,049	\$ -	\$ 37,063,569	\$ 5,138,520
Membership Dues	857,572	1,356,648	499,076	1,617,808	760,236
Testing Fees	980,000	980,000	-	1,118,750	138,750
Services & Software	485,000	485,000	-	250,000	(235,000)
Workshops	-	-	-	92,500	92,500
Interest	200,000	10,000	(190,000)	10,000	(190,000)
Miscellaneous ⁽²⁾	-	-	-	404,781	404,781
Total Funding	\$ 34,447,621	\$ 34,756,697	\$ 309,076	\$ 40,557,408	\$ 6,109,787
Expenses					
Personnel Expenses					
Salaries	\$ 14,957,115	\$ 15,405,274	\$ 448,158	\$ 17,187,146	\$ 2,230,030
Payroll Taxes	903,209	984,941	81,733	1,082,240	179,031
Benefits	1,673,685	2,016,216	342,531	2,345,685	672,000
Retirement Costs	2,065,661	2,179,062	113,401	2,381,540	315,879
Total Personnel Expenses	\$ 19,599,670	\$ 20,585,493	\$ 985,823	\$ 22,996,611	\$ 3,396,941
Meeting Expenses					
Meetings	\$ 719,320	\$ 733,320	\$ 14,000	\$ 1,116,200	\$ 396,880
Travel	1,848,938	1,870,278	21,340	2,308,803	459,865
Conference Calls	188,872	188,872	-	190,000	1,128
Total Meeting Expenses	\$ 2,757,130	\$ 2,792,470	\$ 35,340	\$ 3,615,003	\$ 857,872
Operating Expenses					
Consultants & Contracts	\$ 8,227,270	\$ 8,495,270	\$ 268,000	\$ 8,919,357	\$ 692,087
Office Rent	711,523	711,523	0	967,134	255,611
Office Costs	898,388	939,787	41,400	1,580,475	682,087
Professional Services	1,360,000	1,588,000	228,000	1,533,000	173,000
Miscellaneous	4,000	4,000	-	4,000	-
Depreciation	8,333	598,460	590,127	752,988	744,654
Efficiency Improvements	-	-	-	(750,000)	(750,000)
Total Operating Expenses	\$ 11,209,514	\$ 12,337,041	\$ 1,127,526	\$ 13,006,954	\$ 1,797,439
Total Direct Expenses	\$ 33,566,315	\$ 35,715,003	\$ 2,148,688	\$ 39,618,567	\$ 6,052,252
Indirect Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Other Non-Operating Expenses	\$ 1,393,496	\$ -	\$ (1,393,496)	\$ -	\$ (1,393,496)
Total Expenses	\$ 34,959,811	\$ 35,715,003	\$ 755,193	\$ 39,618,567	\$ 4,658,756
Change in Assets	\$ (512,190)	\$ (958,306)	\$ (446,117)	\$ 938,841	\$ 1,451,030
Fixed Assets					
Depreciation	\$ (8,333)	\$ (598,460)	\$ (590,127)	\$ (752,988)	\$ (744,654)
Computer & Software CapEx	789,750	789,750	-	1,122,785	333,035
Furniture & Fixtures CapEx	265,000	265,000	-	100,000	(165,000)
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
Change in Fixed Assets	\$ (1,046,417)	\$ (456,290)	\$ 590,127	\$ (469,797)	\$ 576,619
TOTAL CHANGE IN ASSETS	\$ (1,558,606)	\$ (1,414,596)	\$ 144,010	\$ 469,043	\$ 2,027,650

⁽¹⁾ Reflects penalty sanctions collected prior to June 30, 2009.

⁽²⁾ Funds to be collected from the Regional Entities in which NERC serves as the Compliance Enforcement Authority where the registered entity and Regional Entity are the same.

Personnel Analysis

FTEs are defined as full-time employees only. Fractional FTEs reflect part-time employees or employees who worked in fewer than all four quarters of the year.

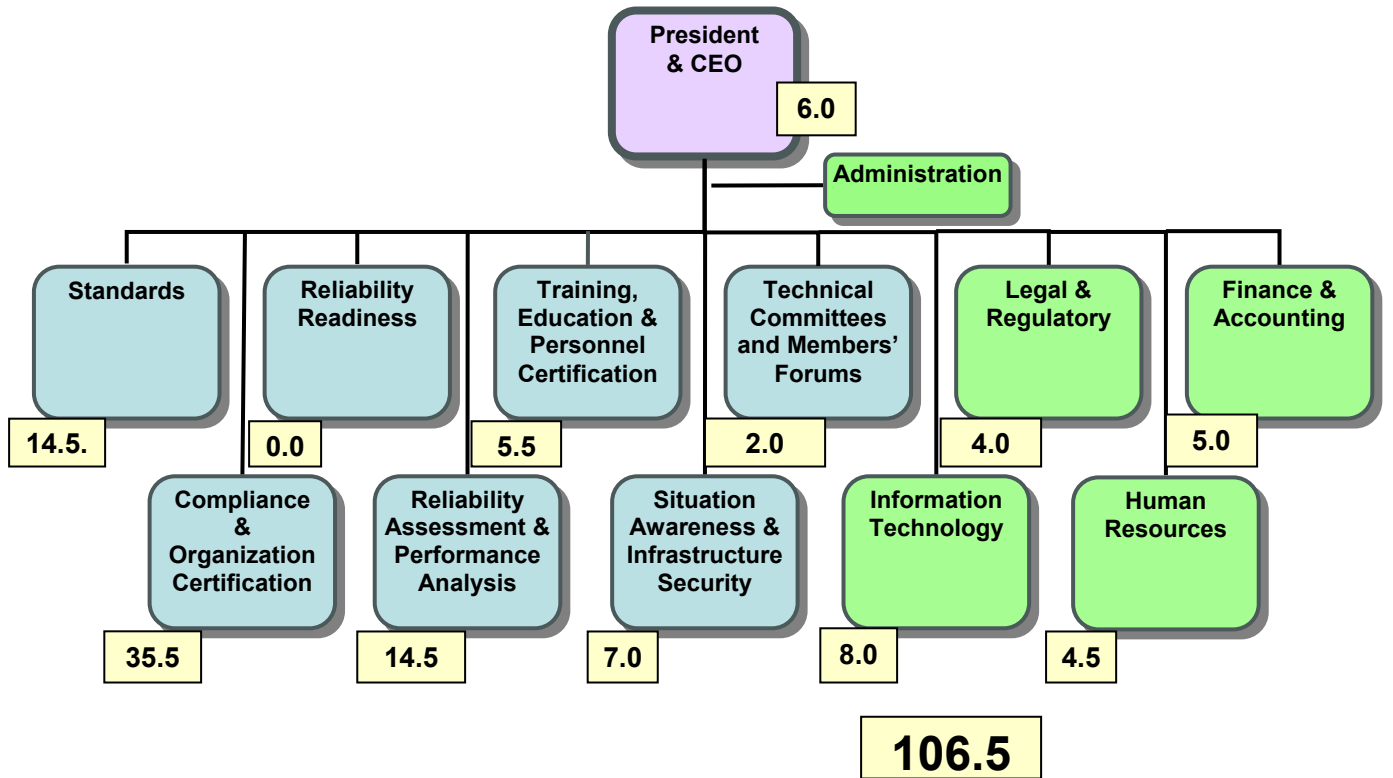
Table 2

Total FTE's by Program Area	Budget 2009	Projection 2009	Direct FTEs 2010 Budget	Shared FTEs ¹ 2010 Budget	Budget 2010	Change from 2009 Budget
STATUTORY						
Operational Programs						
Reliability Standards	14.50	15.50	17.50		17.50	3.00
Compliance and Organization Registration and Certification	35.50	39.50	45.75		45.75	10.25
Reliability Readiness Evaluation and Improvement	0.00	0.00	0.00		0.00	0.00
Training and Education	5.50	6.00	6.75		6.75	1.25
Reliability Assessment and Performance Analysis	14.50	16.50	16.00		16.00	1.50
Situational Awareness and Infrastructure Security	7.00	8.00	9.75		9.75	2.75
Total FTEs Operational Programs	77.00	85.50	95.75	0.00	95.75	18.75
Administrative Programs						
Member Forums	2.00	4.00	5.00		5.00	3.00
General & Administrative	6.00	4.00	4.00		4.00	-2.00
Information Technology	8.00	7.00	7.75		7.75	-0.25
Legal and Regulatory	4.00	4.00	7.00		7.00	3.00
Human Resources	4.50	3.50	3.50		3.50	-1.00
Accounting	5.00	7.75	8.50		8.50	3.50
Total FTEs Administrative Programs	29.50	30.25	35.75	0.00	35.75	6.25
Total FTEs	106.50	115.75	131.50	0.00	131.50	25.00

¹A shared FTE is defined as an employee who performs both Statutory and Non-Statutory functions.

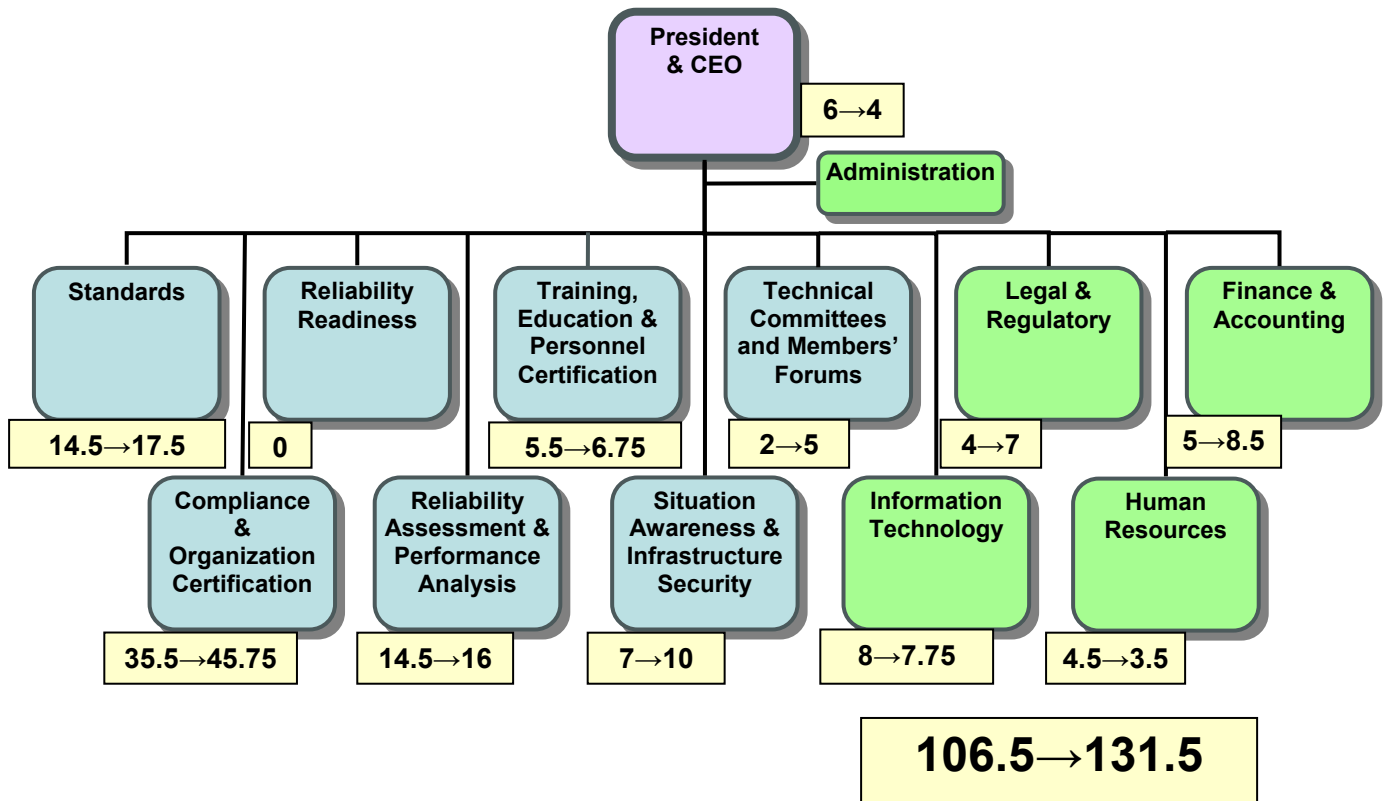
2009 Organizational Chart

Table 3



2010 Organizational Chart

Table 4



Reserve Analysis 2009–2010

Table 5

Working Capital Reserve Analysis 2009-2010	
STATUTORY	
Beginning Working Capital Reserve (Deficit), December 31, 2008	945,553
Less: Penalty sanctions being held to be used as offset to 2010 assessments ¹	0
Plus: 2009 ERO Funding (from LSEs or designees)	31,925,049
Plus: 2009 Other funding sources	2,831,648
Less: '2009 Projected expenses & capital expenditures	(36,171,293)
Projected Working Capital Reserve (Deficit), December 31, 2009	<u><u>(469,043)</u></u>
 Desired Working Capital Reserve, December 31, 2010	 0 ²
Less: Projected Working Capital Reserve, December 31, 2009	469,043
Increase(decrease) in assessments to achieve desired Working Capital Reserve	<u><u>469,043</u></u>
2010 Assessment for Expenses and Capital Expenditures	40,088,365
Less: Penalty Sanctions ¹	0
Less: Other Funding Sources	(3,493,839)
Adjustment to achieve desired Working Capital Reserve	469,043
2010 Assessment	<u><u>37,063,569</u></u>

¹ Represents collections on or prior to June 30, 2009. See page 82 for details.

² The approved 2009 Business Plan and Budget included a working capital reserve of \$2,500,000. The current assumption for the 2010 Business Plan and Budget is that NERC will not fund a working capital reserve but will rely on its \$4,000,000 Line of Credit to fund contingencies. The \$469,043 in additional assessments collected in 2010 will bring the working capital reserve balance to \$0.00.

Regional Entity Assessment Analysis

NEL by Country

Table 6 shows the 2008 NEL proportional share by Regional Entity and country.

Table 6

Data Year	Regional Entity	Total NEL	U.S. NEL	Canada NEL	Mexico NEL	% of ERO Total	US Total	Canada Total	Mexico Total
Summary by Regional Entity									
2008	FRCC	233,457,900	233,457,900	-	-	5.161%	5.161%	0.000%	0.000%
2008	MRO	275,258,769	229,861,933	45,396,836	-	6.085%	5.082%	1.004%	0.000%
2008	NPCC	661,525,000	297,362,000	364,163,000	-	14.625%	6.574%	8.051%	0.000%
2008	RFC	930,242,692	930,242,692	-	-	20.566%	20.566%	0.000%	0.000%
2008	SERC	1,032,621,018	1,032,621,018	-	-	22.829%	22.829%	0.000%	0.000%
2008	SPP	208,009,387	208,009,387	-	-	4.599%	4.599%	0.000%	0.000%
2008	TRE	310,856,852	310,856,852	-	-	6.872%	6.872%	0.000%	0.000%
2008	WECC	871,345,007	739,387,110	120,894,879	11,063,018	19.263%	16.346%	2.673%	0.245%
	TOTAL	4,523,316,626	3,981,798,893	530,454,715	11,063,018	100.000%	88.028%	11.727%	0.245%

2011–2012 Projected Revenues and Expenses

Table 7 is a projection of expected revenues and expenses for 2011 and 2012. NERC is providing this analysis for informational purposes only and is not seeking approval of these projections by the NERC Board of Trustees or any governmental authorities. These projections do not include additional FTE requirements or resources associated with any programs, including nuclear CIPS auditing or the processing of technical feasibility exceptions. Increases in projected funding and expenses are based solely on overhead and expense escalations. NERC senior management will be working to further refine these estimates as part of its overall business and management planning processes.

Table 7

**Statement of Activities
2011 and 2012 Projections**

	2010 Budget	2011 Projection	\$ Change 10 v 11	% Change 10 v 11	2012 Projection	\$ Change 11 v 12	% Change 11 v 12
Funding							
ERO Funding							
ERO Assessments	\$ 37,063,569	\$ 39,679,569	\$ 2,616,000	7.06%	\$ 41,382,118	\$ 1,702,549	4.1%
Penalty Sanctions	-	-	-	-	-	-	-
Total ERO Funding	\$ 37,063,569	\$ 39,679,569	\$ 2,616,000	107.1%	\$ 41,382,118	\$ 1,702,549	4.1%
Membership Dues	1,617,808	1,747,232	129,425	8.00%	1,852,066	104,834	6.0%
Testing Fees	1,118,750	1,118,750	-	0.00%	1,118,750	-	0.0%
Services & Software	250,000	250,000	-	0.00%	250,000	-	0.0%
Workshops	92,500	92,500	-	0.00%	92,500	-	0.0%
Interest	10,000	10,000	-	0.00%	10,000	-	0.0%
Miscellaneous	404,781	437,164	32,382	8.00%	463,393	26,230	6.0%
Total Funding	\$ 40,557,408	\$ 43,335,215	\$ 2,777,807	6.8%	\$ 45,168,827	\$ 1,833,612	4.2%
Expenses							
Personnel Expenses							
Salaries	\$ 17,187,146	\$ 18,819,573	\$ 1,632,427	9.5%	\$ 19,395,291	\$ 575,718	3.1%
Payroll Taxes	1,082,240	1,185,031	102,791	9.5%	1,221,282	36,252	3.1%
Benefits	2,345,685	2,776,985	431,299	18.4%	3,026,336	-	0.0%
Retirement Costs	2,381,540	2,728,838	347,298	14.6%	2,812,317	83,479	3.1%
Total Personnel Expenses	\$ 22,996,611	\$ 25,510,426	\$ 2,513,815	10.9%	\$ 26,455,227	\$ 695,449	2.7%
Meeting Expenses							
Meetings	\$ 1,116,200	\$ 1,116,200	\$ -	0.0%	\$ 1,116,200	-	0.0%
Travel	2,308,803	2,539,683	230,880	10.0%	2,793,651	253,968	10.0%
Conference Calls	190,000	200,000	10,000	5.3%	250,000	50,000	25.0%
Total Meeting Expenses	\$ 3,615,003	\$ 3,855,883	\$ 240,880	6.7%	\$ 4,159,851	\$ 303,968	7.9%
Operating Expenses							
Consultants & Contracts	\$ 8,919,357	\$ 9,365,325	445,968	5.0%	\$ 9,833,591	468,266	5.0%
Office Rent	967,134	977,606	10,472	1.1%	985,297	7,691	0.8%
Office Costs	1,580,475	1,612,085	31,610	2.0%	1,644,326	32,242	2.0%
Professional Services	1,533,000	1,516,650	(16,350)	-1.1%	1,568,350	51,700	3.4%
Miscellaneous	4,000	-	(4,000)	-100.0%	-	-	-
Depreciation	752,988	752,988	-	0.0%	752,988	-	0.0%
Efficiency Improvements	(750,000)	(750,000)	-	0.0%	(750,000)	-	0.0%
Total Operating Expenses	\$ 13,006,954	\$ 13,474,653	\$ 467,700	3.6%	\$ 14,034,552	\$ 559,898	4.2%
Total Direct Expenses	\$ 39,618,567	\$ 42,840,962	\$ 3,222,395	8.1%	\$ 44,649,630	\$ 1,559,316	3.6%
Indirect Expenses	\$ -	\$ -	\$ -	-	\$ -	\$ -	-
Other Non-Operating Expenses	\$ -	\$ -	\$ -	-	\$ -	\$ -	-
Total Expenses	\$ 39,618,567	\$ 42,840,962	\$ 3,222,395	8.1%	\$ 44,649,630	\$ 1,808,667	4.2%
Change in Assets	\$ 938,841	\$ 494,253	\$ (444,588)	-47.4%	\$ 519,198	\$ 24,945	5.0%
Fixed Assets							
Depreciation	\$ (752,988)	\$ (752,988)	\$ -	0.0%	\$ (752,988)	\$ -	0.0%
Computer & Software CapEx	\$ 1,122,785	1,145,241	22,456	2.0%	1,168,146	22,905	2.0%
Furniture & Fixtures CapEx	\$ 100,000	102,000	2,000	2.0%	104,040	2,040	2.0%
Equipment CapEx	\$ -	-	-	-	-	-	-
Leasehold Improvements	\$ -	-	-	-	-	-	-
Change in Fixed Assets	\$ (469,797)	\$ (494,253)	\$ (24,456)	5.2%	\$ (519,198)	\$ (24,945)	5.0%
TOTAL CHANGE IN ASSETS	\$ 469,043	\$ (0)	\$ (469,043)	-100.0%	\$ 0	\$ 0	0.0%

Breakdown by Statement of Activity Sections

The following detailed schedules are in support of Table 1, page 72, of the 2010 Business Plan and Budget. All significant variances have been disclosed by program area in the preceding pages.

Penalty Sanctions

Penalty monies received prior to June 30, 2009 are to be used to offset assessments in the 2010 Budget, as documented in the NERC Policy *Accounting, Financial Statement and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards*. Penalty monies received between July 1, 2009 and June 30, 2010 will be used to offset assessments in the 2011 Budget.

As of the date of this draft, no penalty monies have been received.

Penalty Sanctions

Table B-1

Penalty Sanctions Received Prior to June 30, 2009	Date Receive	Amount Received
Name of Entity		
Total Penalties Received		\$ -

Supplemental Funding

Table B-2

Outside Funding Breakdown By Program (excluding ERO Assessments & Penalty Sanctions)	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Reliability Assessment and Performance Analysis					
pc-GAR Software	\$ 150,000	\$ 150,000	\$ 75,000	\$ (75,000)	-50.00%
GADS Services	300,000	300,000	175,000	(125,000)	-41.67%
Total	\$ 450,000	\$ 450,000	\$ 250,000	\$ (200,000)	-44.44%
Training and Education					
SO Test Fees	\$ 315,000	\$ 315,000	\$ 400,000	\$ 85,000	26.98%
Certificate Renewals	\$ 175,000	\$ 175,000	\$ 275,000	100,000	57.14%
PJM Test Fees	-	-	33,750	33,750	
CEH Fees	490,000	490,000	410,000	(80,000)	-16.33%
Total	\$ 980,000	\$ 980,000	\$ 1,118,750	\$ 138,750	14.16%
Training and Education					
Workshop Fees	\$ -	\$ -	\$ 92,500	\$ 92,500	100.00%
Total	\$ -	\$ -	\$ 92,500	\$ 92,500	100.00%
Situational Awareness and Infrastructure Security					
ESD Software	\$ 20,000	\$ 20,000		\$ (20,000)	-100.00%
FIST Royalties	15,000	15,000		(15,000)	-100.00%
TSIN Fees	-	-	-	-	
Total	\$ 35,000	\$ 35,000	\$ -	\$ (35,000)	-100.00%
Technical Committees and Member Forums					
Transmission Owners and Operators Forum Dues	\$ 857,572	\$ 857,572	\$ 1,617,808	\$ 760,236	88.65%
Total	\$ 857,572	\$ 857,572	\$ 1,617,808	\$ 760,236	88.65%
General and Administrative					
Interest Income	\$ 200,000	\$ 10,000	\$ 10,000	\$ (190,000)	-95.00%
Total	\$ 200,000	\$ 10,000	\$ 10,000	\$ (190,000)	-95.00%
Compliance Monitoring and Enforcement					
Miscellaneous			\$ 404,781	\$ 404,781	100.00%
Total	\$ -	\$ -	\$ 404,781	\$ 404,781	100.00%
Total Outside Funding	\$ 2,522,572	\$ 2,332,572	\$ 3,493,839	\$ 971,267	38.50%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

Reliability Assessment and Performance Analysis - pc-Gar and GADS Services 2010 budget has been reduced based upon the 2009 actual year-to-date trend. 2008 price increases for these products have not yet resulted in increased funding.

Training and Education

- Based upon 2008 actual receipts and 2009 trends, funding from testing fees and certificate renewals are increasing and the 2010 budget reflects this trend.
- In 2009, Workshop Fees were not reflected as funding, but as an offset to Meeting Expense. For consistency with the Regional Entities, workshop fees and expenses are recorded in the Training and Education Program.

Technical Committees and Member Forums – The increase is for dues paid by the Transmission Owners and Operators Forum to cover 100% of the Forum's 2010 budget.

General and Administrative – With interest rates at historic lows, the interest income budget for 2010 is based upon 2009 actual trends.

Compliance Monitoring and Enforcement - Represents the amount to be billed to the Regional Entities to recover all costs associated with NERC serving as the compliance enforcement authority function within the Region. Agreements will be negotiated or amended with the Regional Entities regarding the provision of these services and/or cost recovery.

Personnel Expenses**Table B-3**

Personnel Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Salaries					
Salary	\$ 14,911,115	\$ 15,359,274	\$ 17,091,146	\$ 2,180,030	14.6%
Background Checks			50,000	50,000	
Employment Agency Fees	16,000	16,000	16,000	-	0.0%
Temporary Office Services	30,000	30,000	30,000	-	0.0%
Total Salaries	\$ 14,957,115	\$ 15,405,274	\$ 17,187,146	\$ 2,230,030	14.9%
Total Payroll Taxes	\$ 902,066	\$ 984,941	\$ 1,082,240	\$ 180,174	20.0%
Benefits					
Workers Compensation	\$ 32,200	\$ 50,000	\$ 60,000	\$ 27,800	86.3%
Medical, Dental, LTC Insurance	1,407,735	1,732,466	1,886,209	478,475	34.0%
Life-LTD Insurance	143,750	143,750	249,476	105,726	73.5%
Education	30,000	30,000	50,000	20,000	66.7%
Relocation	60,000	60,000	100,000	40,000	66.7%
Total Benefits	\$ 1,673,685	\$ 2,016,216	\$ 2,345,685	\$ 672,001	40.2%
Retirement	\$ 2,064,988	\$ 2,178,463	\$ 2,381,540	\$ 316,552	15.3%
Total Personnel Costs	\$ 19,597,855	\$ 20,584,893	\$ 22,996,611	\$ 3,398,756	17.3%
FTEs	106.5	111.5	129.0	22.5	21.1%
Cost per FTE					
Salaries	\$ 140,442	\$ 138,164	\$ 133,234	(7,209)	-5.1%
Payroll Taxes	8,470	8,834	8,389	(81)	-1.0%
Benefits	15,715	18,083	18,184	2,468	15.7%
Retirement	19,390	19,538	18,462	(928)	-4.8%
Total Cost per FTE	\$ 184,017	\$ 184,618	\$ 178,268	\$ (5,749)	-3.1%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

Salaries – The increase is related to the addition of 24.5 FTEs over the 2009 budget, offset by limits on available funding for annual salary increases and bonuses.

Payroll Taxes – In addition to increased staffing levels, assumptions include an increase in social security tax limits.

Benefits

- The 2009 Budget for Workers Compensation was underestimated, as reflected by the increase identified in the 2009 Projection. The 2010 Budget assumes additional increases as a result of adding staff.
- Medical, Dental LTC Insurance – Insurance rates are assumed to increase by 9.2% over 2009. Estimated costs have been applied to all employees based upon the assumed date of hire.
- The 2009 budget did not include the cost of officers' life premiums.
- The increase in budgeted Education costs is based upon 2008 actual costs.

- Relocation expenses are based on assumptions that 8 to 10 FTEs will relocate to either the Princeton, NJ or Washington, DC offices.

Retirement – The increase in retirement costs is consistent with the increase in salaries.

Consultants and Contracts

Table B-4

Consultants	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Consultants					
Reliability Standards	\$ 550,000	\$ 550,000	\$ 717,000	\$ 167,000	30.36%
Compliance and Organization Registration and Certification	1,100,000	1,100,000	1,100,000	-	0.00%
Reliability Assessment and Performance Analysis	376,270	376,270	689,400	313,130	83.22%
Training and Education	95,000	95,000	175,000	80,000	84.21%
Situational Awareness and Infrastructure Security Committee and Member Forums	1,453,000	1,453,000	1,853,000	400,000	27.53%
General and Administrative	-	-	-	-	-
Legal and Regulatory-Self Assessment	1,050,000	1,050,000	-	(1,050,000)	1050.00%
Information Technology	270,000	270,000	325,000	55,000	20.37%
Human Resources	100,000	100,000	350,000	250,000	250.00%
Accounting and Finance	-	-	-	-	-
Consultants Total	\$ 4,994,270	\$ 4,994,270	\$ 5,209,400	\$ 215,130	4.31%
Contracts	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Contracts					
GADS Programming Support	135,000	135,000	135,000	-	-
Assessment Studies and Automatic Reliability Reports	100,000	100,000	175,000	75,000	-
TADS Development	150,000	150,000	150,000	-	-
Subtotal - Reliability Assessment Contracts	\$ 385,000	\$ 385,000	\$ 460,000	\$ 75,000	19.48%
RCIS Support	20,000	20,000	20,000	-	-
Resource Adequacy Tool (Srv. Agreement)	75,000	75,000	75,000	-	-
Inadvertent Interchange (Srv. Agreement)	30,000	30,000	30,000	-	-
AIE Monitoring (Srv. Agreement)	15,000	15,000	25,000	10,000	-
CPS1-BA ACE Limit Monitoring (Srv. Agreement)	35,000	35,000	35,000	-	-
Frequency Monitoring (Srv. Agreement)	40,000	40,000	40,000	-	-
Intelligent Alarms/DARA (Srv. Agreement)	40,000	40,000	50,000	10,000	-
Resources Subcommittee Maintenance	120,000	120,000	120,000	-	-
Secure Alerting System		228,000	227,796	227,796	-
Secure Alerting System Help Desk		40,000	85,416	85,416	-
Subtotal - Situational Awareness Contracts	\$ 375,000	\$ 643,000	\$ 708,212	\$ 333,212	10.14%
Frame Relay	\$ 312,000	\$ 312,000	\$ 398,320	\$ 86,320	27.67%
Contract - IDC					
IDC Base Contract	1,415,400	1,415,400	1,508,625	93,225	-
IDC Maintenance	50,000	50,000	50,000	-	-
SDX Support (Srv. Agreement)	72,000	72,000	-	(72,000)	-
SDX Maintenance	20,000	20,000	20,000	-	-
DF Support Services Agreement	19,200	19,200	19,200	-	-
NERC Factor Viewer (NFV)	11,000	11,000	-	(11,000)	-
Book of Flowgate Database	29,000	29,000	28,800	(200)	-
Book of Flowgate Database-Maintenance	20,000	20,000	20,000	-	-
E-Tag Maintenance	50,000	50,000	-	-	-
Contracts - IDC Total	\$ 1,686,600	\$ 1,686,600	\$ 1,646,625	\$ 10,025	-2.37%
Education and Training					
System Operator Testing Expenses	59,400	59,400	61,800	2,400	-
SO Job Analysis	15,000	15,000	50,000	35,000	-
System Operator Examination Development	92,000	92,000	97,000	5,000	-
Database Development	60,000	60,000	60,000	-	-
Course Dev.-Compliance, Standards and Readiness	125,000	125,000	10,000	(125,000)	-
Design a Course	15,000	15,000	10,000	(5,000)	-
Exam Reviews			110,000	110,000	-
Education and Training Total	\$ 366,400	\$ 366,400	\$ 388,800	\$ 110,000	6.11%
Canadian Affairs	\$ 108,000	\$ 108,000	\$ 108,000	\$ -	0.00%
Contracts Total	\$ 3,233,000	\$ 3,501,000	\$ 3,709,957	\$ 614,557	5.97%
Total Consulting and Contracts	\$ 8,227,270	\$ 8,495,270	\$ 8,919,357	\$ 692,087	4.99%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

Variances in Consulting and Contract costs have been explained after the Statement of Activities within each Program area in Section A of this Business Plan.

Table B-5

Office Rent	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Office Rent	\$ 711,523	\$ 711,523	\$ 967,134	\$ 255,611	35.92%
Utilities	-	-	-	-	
Maintenance	-	-	-	-	
Security	-	-	-	-	
Total Office Rent	\$ 711,523	\$ 711,523	\$ 967,134	\$ 255,611	35.92%

The increase in rent is due to added space in the Washington, DC office and escalations in monthly lease costs for existing space.

Table B-6

Office Costs	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Telephone	\$ 202,746	\$ 202,746	\$ 285,000	\$ 82,254	
Internet	76,416	76,416	105,000	28,584	
Office Supplies	133,500	174,899	162,050	(12,849)	
Computer Supplies and Maintenance	233,246	233,246	660,675	427,429	
Publications & Subscriptions	26,042	26,042	129,800	103,758	
Dues	35,188	35,188	40,500	5,312	
Postage	20,000	20,000	13,750	(6,250)	
Express Shipping	35,000	35,000	5,500	(29,500)	
Copying	43,000	43,000	71,500	28,500	
Reports - Graphics	12,500	12,500	-	(12,500)	
Stationary Forms	10,000	10,000	2,500	(7,500)	
Equipment Repair/Service Contracts	15,000	15,000	31,000	16,000	
Bank Charges	8,000	8,000	5,000	(3,000)	
Sales & Use Taxes	7,500	7,500	10,000	2,500	
Merchant Card Fees	30,250	30,250	48,200	17,950	
Presentation & Publicity	10,000	10,000	10,000	-	
Total Office Costs	\$ 898,388	\$ 939,787	\$ 1,580,475	\$ 640,688	68.17%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

Telephone – The 2010 Budget is based upon the average cost per employee as calculated from 2008 actual results, though 2009 is trending at a lower rate as of the date of this draft.

Office Supplies – Assumed increased costs for added staff.

Computer Supplies and Maintenance – Includes the cost of purchasing new computers and necessary software for new hires, replacement of computers that have reached the end of their

useful lives, and an increase in software maintenance contracts due to the increase in the number of employees.

Publications and Subscriptions - \$100k for purchases of published information and commissioned specialized papers as explained in the Situation Awareness and Infrastructure Security Program in Section A of this Business Plan.

Merchant Card Fees – Fees for accepting credit card payments are increasing in connection with increased receipts for system operator testing fees, certificate renewals and workshop fees.

Table B-7

Professional Services	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Independent Trustee Fees	\$ 660,000	\$ 660,000	\$ 760,000	\$ 100,000	15.15%
Outside Legal	550,000	550,000	550,000	-	0.00%
Accounting & Auditing Fees	100,000	100,000	100,000	-	0.00%
Insurance Commercial	50,000	50,000	55,000	5,000	10.00%
Total Services	\$ 1,360,000	\$ 1,360,000	\$ 1,465,000	\$ 105,000	7.72%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

Independent Trustee Fees are increasing due to the planned addition of one Trustee to the NERC Board of Trustees.

Insurance Commercial – The increase is based upon recently received renewals.

Section C

2009 Non-Statutory Business Plan and Budget

(in whole dollars)			
	2009 Budget	2009 Projection	2010 Budget
Total FTEs			
Total Direct Expenses			
Total Indirect Expenses			
Total Expenses			

NERC does not have Non-Statutory activity.

Section D — Additional Financial Data

Statement of Financial Position

2008 Per Audited Financials

2009 Projected

2010 Budget

2010 Consolidated Statement of Activities by Program, Statutory and Non-Statutory

**Statement of Financial Position
2008 Audited, 2009 Projection, and 2010 Budget**

STATUTORY

	(Per Audit) 31-Dec-08	Projected 31-Dec-09	Budget 31-Dec-10
ASSETS			
Cash	13,832,185	12,417,589	12,886,632
Trade Accounts receivable, net of allowance for uncollectible accounts of \$10,576	1,680,769	1,680,769	1,680,769
Other Receivables	1,185	1,185	1,185
Prepaid expenses and other current assets	148,923	148,923	148,923
Security deposit	15,767	15,767	15,767
Cash value of insurance policies	345,845	345,845	345,845
Property and equipment	1,151,301	1,607,591	2,077,388
Total Assets	17,175,975	16,217,669	17,156,509
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accrued expenses	905,901	905,901	905,901
Deferred income	5,729,392	5,729,392	5,729,392
Regional assessments collected in advance	6,936,108	6,936,108	6,936,108
Deferred compensation	489,026	489,026	489,026
Accrued retirement liabilities	1,018,692	1,018,692	1,018,692
Total Liabilities	15,079,119	15,079,119	15,079,119
Net Assets - unrestricted	2,096,856	1,138,550	2,077,390
Total Liabilities and Net Assets	17,175,975	16,217,669	17,156,509

APPENDIX 1

NERC and Regional Entities 2010 Business Plan and Budget Coordinated Assumptions

General Assumptions

The international, industry-based Self Regulatory Organization (SRO) model continues to be used and no material changes to the SRO model impacting 2010 emerge from the ERO 3-year assessment.

The framework for delegation remains constant. The scope of delegated authorities and responsibilities remains relatively constant, with incremental improvements according to recommendations developed in the ERO 3-year assessment.

NERC and the Regional Entities are not budgeted in 2010 for unknown material changes to scope and are unable to undertake unfunded mandates, such as new initiatives stemming from the United States federal stimulus package on energy. Any mandated material changes to scope will impact cash reserves.

The current economic downturn continues into 2010, resulting in cost pressures on NERC and Regional Entities to do more with less. The industry experiences lower electricity demand and may defer capital projects in some areas and may reduce or hold Operation and Maintenance (O&M) budgets flat. Cost pressures result in less travel and strain stakeholder participation in NERC and Regional Entity activities.

Regional Entities are audited by FERC and NERC by year-end 2010 and the audits of any Region by NERC and FERC are not concurrent. NERC is required to audit each Regional Entity by year end 2010.

Compliance, Registration, and Certification Assumptions

The number of registered entities is assumed to remain relatively constant in 2010 compared to 2009, with some risk that the number of registered entities could increase as early as 2009 based on application of CIP standards to generators below 100 kV. Other incremental adjustments to the registry, such as related to interchange authority or changes in Bulk Electric System definitions by Regional Entities, will continue. Registration will be principally a maintenance issue in 2010.

Non-CIP audits will continue under the schedule to complete Balancing Authority, Transmission Operator, and Reliability Coordinator audits every three years and other entities every six years. The number of CIP audits will increase substantially to complete CIP audits of all "Table 1" entities by 2010 year-end. Also, "Table 2" entities begin to become CIP auditable in the second half of 2010. Regional Entities will continue to be constrained in removing CIP information from the entity site through 2010, impacting the need to have face-to-face CIP audits.

There is a risk of a policy or directive from the regulator clarifying the expectations of the CIP-002 risk-based methodology that results in a substantially expanded number of entities and standards to be monitored for CIP.

The number of spot checks increases in 2010 recognizing that closure of each mitigation plan requires a spot check review to confirm closure. There is also moderate risk that the number of spot checks may increase as follow up to completed events analyses.

The number of non-CIP possible violations discovered continues at a pace comparable to 2009 due to continuing first-time audits of entities. The number of non-CIP related violations is expected to be 1,400 to 1,500 for the year across North America, with that number distributed

across Regions in a similar proportion to historical experience. Decreasing numbers of new violations may begin to be seen after 2010.

2010 is expected to see a substantial upswing in the number of CIP possible violations, as CIP audits continue to ramp up. CIP possible violations may add 400 to 800 additional new possible violations to be processed on top of the violations listed above for non-CIP violations.

No major rules changes are anticipated in the Compliance Monitoring and Enforcement Program in 2010.

A large majority of possible violations will be handled through a settlement process. Process efficiencies and experience offset the increased complexity of compliance cases and the level of effort for a settlement remains approximately the same as 2009.

Regulatory approved short-form settlement process in 2009. This process will be available for lower and medium risk, document-related violations with favorable mitigating factors.

NERC will continue to provide required training for auditors and investigators. Programs are developed in NERC training and education and implemented through NERC compliance.

The number of hearings conducted will remain low, averaging well below one per Region.

NERC will conduct two event-based inquiries per month in 2010 and one compliance violation investigation per month (24 and 12 for the year, respectfully.) Regional Entities will collectively review approximately 50–60 events of interest and 12–15 compliance violation investigations.

All unplanned, multiple-facility trips will be considered candidates for these reviews. The number of reviews and CVIs will vary by Region and each Region will have a unique set of assumptions that collectively will approximate these gross estimates.

NERC will begin implementation of the new organization certification program in 2010, transitioning away from the legacy procedures for certifying entities.

NERC and the Regional Entities will continue to pursue integration of compliance information systems with the near-term priority being a seamless interface for management of compliance information from the reporting of discovery to the filing of a Notice of Penalty or settlement and closure. The cost impact of achieving this development and integration is between \$1M and \$2M collectively across NERC and the Regions for 2010.

Standards

NERC will continue implementing its published three-year work plan for standards development, subject to incremental updates.

Regional Entities will facilitate a stakeholder review of the standards, for the purpose of identifying opportunities to streamline the standards to be more focused on reliability performance, leading to the submittal of inputs to the NERC 3-year work plan and possibly Standards Authorization Requests (SARs.)

NERC and the Regional Entities will establish in 2010 improved mechanisms to capture lessons learned from event analysis, compliance enforcement, and other activities, in the form of recommendations to improve reliability standards to prevent future similar root causes.

Regional Entities will develop no more than one or two Regional Reliability Standards per Region in 2010. Scheduling of Regional standards initiatives continues to depend on determination of North American performance requirements.

The current economic downturn will continue into 2010 and adversely affect stakeholder travel budgets and resourcing for work in standards development. NERC and the Regions need to develop methods to encourage active involvement with less travel and face-to-face meetings. Stakeholder participation that has already shown signs of being strained will reach low points in 2009 and 2010.

NERC and the Regional Entities will collaborate in the conduct of special workshops, in addition to the regular schedule of workshops, to focus on most-violated standards to improve the understanding of requirements by registered entities.

NERC and the Regional Entities will continue to support coordinated and consistent responses to requests for both formal interpretations and informal clarifications of the reliability standards. NERC will deploy an information system to make the current and historical versions of standards and requirements available online for registered entities and regional compliance personnel.

Reliability Assessments

NERC will continue to incrementally improve the definitions and metrics used in reliability assessments.

NERC and the Regional Entities are at risk of being requested to gather data or perform analyses in support of federal initiatives related to the stimulus package, climate change, or renewable energy initiatives. NERC and the Regional Entities are not funded for such initiatives and any unfunded mandates may impact cash reserves.

There will be a startup planning effort in 2010 to begin demand response data collection initiative and probabilistic risk assessment data in 2011.

Some Regional Entities continue to experience a shift of work effort in developing reliability assessments from stakeholders to staff.

NERC will develop analysis of TADS data in 2010; some regions may develop regional analysis.

Situation Awareness

Situation awareness will be separated from CIP in the business plan and accounting during 2010. Situation awareness is more related to event analysis and should be accounted in the same area than CIP. CIP, given its unique technical requirements and importance should be budgeted separately.

NERC and each Regional Entity will independently evaluate its needs for a situation tool to supplement or mirror the FERC tool and will each fund its own work. The FERC situation awareness tool will continue to be developed in 2010 to meet regulator, NERC, Regional Entity and stakeholder needs. Reliability coordinators will bear the cost of providing systems and information to meet FERC requirements.

The synchro-phasor project will not impact Regional Entity budgets in 2010.

Events Analysis and Investigations

The number of events requiring review and analysis will continue at a level of 50–60 per year across North America. NERC will conduct approximately 24 inquiries and 12 CVIs related to events.

Critical Infrastructure Protection

CIP activities will continue to increase significantly on all fronts, including compliance and non-compliance activities.

There will be an increased need and demand for CIP-related training and workshops.

CIP compliance activities are budgeted within compliance.

NERC will deploy a secure portal for the management of alerts.

Training and Education

Regional Entities account for training and workshops using different approaches; some budgeting as statutory and others as non-statutory. Some allocate training to a training and education function and others to the specific program area. 2010 budgets need to achieve greater consistency in this area, particularly allocating training costs.

No significant changes are expected in operator certification CEU requirements for 2010.

Reliability Readiness and Improvement

NERC and the Regional Entities assume FERC will not reinstitute onsite reliability readiness reviews in 2010, however, some risk remains as FERC considers this issue.

Information Technology

NERC or a Regional Entity or collaborative of Regional Entities will develop and implement certification procedures to allow vendors providing common reliability services to registered entities, such as tagging services, to become certified on CIP standards CIP-003 to CIP-009. This effort will provide a cost effective alternative to holding individual registered entities accountable for the CIP compliance of a vendor providing such services.

Finance and Administrative

Given the complexities and uncertainties described above, NERC and each Regional Entity will develop its own risk management strategies and budget accordingly to address those risks.

2008 NEL Calculations and Allocations to Load Serving Entities (or Designee) for the 2010 NERC and RE Assessments

APPENDIX 2

Data Year	Regional Entity	ID	Entity	Country	Total NEL (MWh)	U.S. NEL	Canada NEL	Mexico NEL	% of RE total	US Total	Canada Total	Mexico Total	% of ERO Total	US Total	Canada Total	Mexico Total
2008	FRCC	1074	Alachua, City of	U.S.	126,500	126,500			0.054%	0.054%	0.000%	0.000%	0.003%	0.003%	0.000%	0.000%
2008	FRCC	1075	Bartow, City of	U.S.	294,400	294,400			0.126%	0.126%	0.000%	0.000%	0.007%	0.007%	0.000%	0.000%
2008	FRCC	1076	Chattahoochee, City of	U.S.	43,400	43,400			0.019%	0.019%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	FRCC	1077	Florida Keys Electric Cooperative Assn	U.S.	691,700	691,700			0.296%	0.296%	0.000%	0.000%	0.015%	0.015%	0.000%	0.000%
2008	FRCC	1078	Florida Power & Light Co.	U.S.	110,040,000	110,040,000			47.135%	47.135%	0.000%	0.000%	2.433%	2.433%	0.000%	0.000%
2008	FRCC	1079	Florida Public Utilities Company	U.S.	430,500	430,500			0.184%	0.184%	0.000%	0.000%	0.010%	0.010%	0.000%	0.000%
2008	FRCC	1080	Gainesville Regional Utilities	U.S.	2,079,000	2,079,000			0.891%	0.891%	0.000%	0.000%	0.046%	0.046%	0.000%	0.000%
2008	FRCC	1081	Homestead, City of	U.S.	483,000	483,000			0.207%	0.207%	0.000%	0.000%	0.011%	0.011%	0.000%	0.000%
2008	FRCC	1082	JEA	U.S.	13,142,400	13,142,400			5.629%	5.629%	0.000%	0.000%	0.291%	0.291%	0.000%	0.000%
2008	FRCC	1083	Lakeland Electric	U.S.	2,975,000	2,975,000			1.274%	1.274%	0.000%	0.000%	0.066%	0.066%	0.000%	0.000%
2008	FRCC	1084	Mount Dora, City of	U.S.	95,100	95,100			0.041%	0.041%	0.000%	0.000%	0.002%	0.002%	0.000%	0.000%
2008	FRCC	1085	New Smyrna Beach, Utilities Commission of	U.S.	385,800	385,800			0.165%	0.165%	0.000%	0.000%	0.009%	0.009%	0.000%	0.000%
2008	FRCC	1086	Orlando Utilities Commission	U.S.	5,680,000	5,680,000			2.433%	2.433%	0.000%	0.000%	0.126%	0.126%	0.000%	0.000%
2008	FRCC	1087	Progress Energy Florida	U.S.	47,658,000	47,658,000			20.414%	20.414%	0.000%	0.000%	1.054%	1.054%	0.000%	0.000%
2008	FRCC	1088	Quincy, City of	U.S.	152,000	152,000			0.065%	0.065%	0.000%	0.000%	0.003%	0.003%	0.000%	0.000%
2008	FRCC	1089	Reedy Creek Improvement District	U.S.	1,238,000	1,238,000			0.530%	0.530%	0.000%	0.000%	0.027%	0.027%	0.000%	0.000%
2008	FRCC	1090	St. Cloud, City of (OUC)	U.S.	585,000	585,000			0.251%	0.251%	0.000%	0.000%	0.013%	0.013%	0.000%	0.000%
2008	FRCC	1091	Tallahassee, City of	U.S.	2,833,700	2,833,700			1.214%	1.214%	0.000%	0.000%	0.063%	0.063%	0.000%	0.000%
2008	FRCC	1092	Tampa Electric Company	U.S.	19,898,800	19,898,800			8.524%	8.524%	0.000%	0.000%	0.440%	0.440%	0.000%	0.000%
2008	FRCC	1093	Wauchula, City of	U.S.	65,000	65,000			0.028%	0.028%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	FRCC	1094	Williston, City of	U.S.	34,800	34,800			0.015%	0.015%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	FRCC	1095	Winter Park, City of	U.S.	445,000	445,000			0.191%	0.191%	0.000%	0.000%	0.010%	0.010%	0.000%	0.000%
2008	FRCC	1072	Florida Municipal Power Agency	U.S.	7,010,000	7,010,000			3.003%	3.003%	0.000%	0.000%	0.155%	0.155%	0.000%	0.000%
2008	FRCC	1073	Seminole Electric Cooperative	U.S.	17,070,800	17,070,800			7.312%	7.312%	0.000%	0.000%	0.377%	0.377%	0.000%	0.000%
TOTAL FRCC					233,457,900	233,457,900	-	-	100.000%	100.000%	0.000%	0.000%	5.161%	5.161%	0.000%	0.000%
2008	MRO	1199	Basin Electric Power Cooperative	US	9,799,588	9,799,588	-	-	3.560%	3.560%	0.000%	0.000%	0.217%	0.217%	0.000%	0.000%
2008	MRO	1201	Central Iowa Power Cooperative (CIPCO)	US	2,736,502	2,736,502	-	-	0.994%	0.994%	0.000%	0.000%	0.060%	0.060%	0.000%	0.000%
2008	MRO	1204	Corn Belt Power Cooperative	US	1,742,131	1,742,131	-	-	0.633%	0.633%	0.000%	0.000%	0.039%	0.039%	0.000%	0.000%
2008	MRO	1207	Dairyland Power Cooperative	US	5,198,100	5,198,100	-	-	1.888%	1.888%	0.000%	0.000%	0.115%	0.115%	0.000%	0.000%
2008	MRO	1210	Great River Energy	US	13,468,473	13,468,473	-	-	4.893%	4.893%	0.000%	0.000%	0.298%	0.298%	0.000%	0.000%
2008	MRO	1222	Minnkota Power Cooperative, Inc.	US	3,694,601	3,694,601	-	-	1.342%	1.342%	0.000%	0.000%	0.082%	0.082%	0.000%	0.000%
2008	MRO	1230	Nebraska Public Power District	US	12,758,788	12,758,788	-	-	4.635%	4.635%	0.000%	0.000%	0.282%	0.282%	0.000%	0.000%
2008	MRO	1232	Omaha Public Power District	US	10,659,536	10,659,536	-	-	3.873%	3.873%	0.000%	0.000%	0.236%	0.236%	0.000%	0.000%
2008	MRO	1237	Southern Montana Generation and Transmission	US	4,252	4,252	-	-	0.002%	0.002%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	MRO	1240	Western Area Power Administration (UM)	US	8,420,799	8,420,799	-	-	3.059%	3.059%	0.000%	0.000%	0.186%	0.186%	0.000%	0.000%
2008	MRO	1239	Western Area Power Administration (LM)	US	33,383	33,383	-	-	0.012%	0.012%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	MRO	1217	Manitoba Hydro	CAN	25,228,836		25,228,836		9.165%	0.000%	9.165%	0.000%	0.558%	0.000%	0.558%	0.000%
2008	MRO	1235	SaskPower	CAN	20,168,000		20,168,000		7.327%	0.000%	7.327%	0.000%	0.446%	0.000%	0.446%	0.000%
2008	MRO	1195	Alliant Energy (Alliant East - WPL & Alliant West IPL)	US	29,698,155	29,698,155	-	-	10.789%	10.789%	0.000%	0.000%	0.657%	0.657%	0.000%	0.000%
2008	MRO	1216	Madison, Gas and Electric	US	3,478,315	3,478,315	-	-	1.264%	1.264%	0.000%	0.000%	0.077%	0.077%	0.000%	0.000%
2008	MRO	1220	MidAmerican Energy Company	US	22,413,453	22,413,453	-	-	8.143%	8.143%	0.000%	0.000%	0.496%	0.496%	0.000%	0.000%
2008	MRO	1221	Minnesota Power	US	13,085,448	13,085,448	-	-	4.754%	4.754%	0.000%	0.000%	0.289%	0.289%	0.000%	0.000%
2008	MRO	1226	Montana-Dakota Utilities Co.	US	2,596,990	2,596,990	-	-	0.943%	0.943%	0.000%	0.000%	0.057%	0.057%	0.000%	0.000%
2008	MRO	1231	NorthWestern Energy	US	1,404,547	1,404,547	-	-	0.510%	0.510%	0.000%	0.000%	0.031%	0.031%	0.000%	0.000%
2008	MRO	1233	Otter Tail Power Company	US	4,290,114	4,290,114	-	-	1.559%	1.559%	0.000%	0.000%	0.095%	0.095%	0.000%	0.000%
2008	MRO	1243	Integrus Energy Group (WPS and UPPCO)	US	13,984,716	13,984,716	-	-	5.081%	5.081%	0.000%	0.000%	0.309%	0.309%	0.000%	0.000%
2008	MRO	1244	Xcel Energy Company (NSP)	US	46,800,555	46,800,555	-	-	17.002%	17.002%	0.000%	0.000%	1.035%	1.035%	0.000%	0.000%
2008	MRO	1196	Ames Municipal Electric System	US	753,720	753,720	-	-	0.274%	0.274%	0.000%	0.000%	0.017%	0.017%	0.000%	0.000%
2008	MRO	1476	Badger Power Marketing Authority of Wisconsin, Inc.	US	374,375	374,375	-	-	0.136%	0.136%	0.000%	0.000%	0.008%	0.008%	0.000%	0.000%
2008	MRO	1200	Cedar Falls Municipal Utilities	US	520,176	520,176	-	-	0.189%	0.189%	0.000%	0.000%	0.011%	0.011%	0.000%	0.000%
2008	MRO	1477	Central Minnesota Municipal Power Agency (CMMMPA)	US	410,687	410,687	-	-	0.149%	0.149%	0.000%	0.000%	0.009%	0.009%	0.000%	0.000%
2008	MRO	1203	Escanaba Municipal Electric Utility	US	154,043	154,043	-	-	0.056%	0.056%	0.000%	0.000%	0.003%	0.003%	0.000%	0.000%
2008	MRO	1205	Falls City Water & Light Department	US	38,181	38,181	-	-	0.014%	0.014%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	MRO	1206	Fremont Department of Utilities	US	440,918	440,918	-	-	0.160%	0.160%	0.000%	0.000%	0.010%	0.010%	0.000%	0.000%

2008 NEL Calculations and Allocations to Load Serving Entities (or Designee) for the 2010 NERC and RE Assessments

Data Year	Regional Entity	ID	Entity	Country	Total NEL (MWh)	U.S. NEL	Canada NEL	Mexico NEL	% of RE total	US Total	Canada Total	Mexico Total	% of ERO Total	US Total	Canada Total	Mexico Total
2008	MRO	1208	Geneseo Municipal Utilities	US	72,639	72,639	-	-	0.026%	0.026%	0.000%	0.000%	0.002%	0.002%	0.000%	0.000%
2008	MRO	1209	Grand Island Utilities Department	US	691,461	691,461	-	-	0.251%	0.251%	0.000%	0.000%	0.015%	0.015%	0.000%	0.000%
2008	MRO	1211	Hastings Utilities	US	428,033	428,033	-	-	0.156%	0.156%	0.000%	0.000%	0.009%	0.009%	0.000%	0.000%
2008	MRO	1212	Heartland Consumers Power District	US	666,683	666,683	-	-	0.242%	0.242%	0.000%	0.000%	0.015%	0.015%	0.000%	0.000%
2008	MRO	1213	Hutchinson Utilities Commission	US	319,643	319,643	-	-	0.116%	0.116%	0.000%	0.000%	0.007%	0.007%	0.000%	0.000%
2008	MRO	1214	Iowa Association of Municipal Utilities	US	573,346	573,346	-	-	0.208%	0.208%	0.000%	0.000%	0.013%	0.013%	0.000%	0.000%
2008	MRO	1215	Lincoln Electric System	US	3,294,678	3,294,678	-	-	1.197%	1.197%	0.000%	0.000%	0.073%	0.073%	0.000%	0.000%
2008	MRO	1218	Manitowoc Public Utilities	US	583,012	583,012	-	-	0.212%	0.212%	0.000%	0.000%	0.013%	0.013%	0.000%	0.000%
2008	MRO	1223	Missouri River Energy Services	US	2,226,300	2,226,300	-	-	0.809%	0.809%	0.000%	0.000%	0.049%	0.049%	0.000%	0.000%
2008	MRO	1224	MN Municipal Power Agency (MMPA)	US	1,365,972	1,365,972	-	-	0.496%	0.496%	0.000%	0.000%	0.030%	0.030%	0.000%	0.000%
2008	MRO	1227	Municipal Energy Agency of Nebraska	US	756,921	756,921	-	-	0.275%	0.275%	0.000%	0.000%	0.017%	0.017%	0.000%	0.000%
2008	MRO	1228	Muscatine Power and Water	US	900,497	900,497	-	-	0.327%	0.327%	0.000%	0.000%	0.020%	0.020%	0.000%	0.000%
2008	MRO	1229	Nebraska City Utilities	US	167,706	167,706	-	-	0.061%	0.061%	0.000%	0.000%	0.004%	0.004%	0.000%	0.000%
2008	MRO	1234	Rochester Public Utilities	US	4,514	4,514	-	-	0.002%	0.002%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	MRO	1236	Southern Minnesota Municipal Power Agency	US	3,061,258	3,061,258	-	-	1.112%	1.112%	0.000%	0.000%	0.068%	0.068%	0.000%	0.000%
2008	MRO	1241	Willmar Municipal Utilities	US	260,945	260,945	-	-	0.095%	0.095%	0.000%	0.000%	0.006%	0.006%	0.000%	0.000%
2008	MRO	1242	Wisconsin Public Power, Inc. (East and West regions)	US	5,527,779	5,527,779	-	-	2.008%	2.008%	0.000%	0.000%	0.122%	0.122%	0.000%	0.000%
TOTAL MRO					275,258,769	229,861,933	45,396,836	-	100.00%	83.508%	16.492%	0.000%	6.085%	5.082%	1.004%	0.000%
2008	NPCC	1336	New England	U.S.	131,749,000	131,749,000	-	-	19.916%	19.916%	0.000%	0.000%	2.913%	2.913%	0.000%	0.000%
2008	NPCC	1339	New York	U.S.	165,613,000	165,613,000	-	-	25.035%	25.035%	0.000%	0.000%	3.661%	3.661%	0.000%	0.000%
2008	NPCC	1337	Ontario	Canada	148,676,000	-	148,676,000	-	22.475%	0.000%	22.475%	0.000%	3.287%	0.000%	3.287%	0.000%
2008	NPCC	1341	Quebec	Canada	188,799,000	-	188,799,000	-	28.540%	0.000%	28.540%	0.000%	4.174%	0.000%	4.174%	0.000%
2008	NPCC	1338	New Brunswick	Canada	14,149,000	-	14,149,000	-	2.139%	0.000%	2.139%	0.000%	0.313%	0.000%	0.313%	0.000%
2008	NPCC	1340	Nova Scotia	Canada	12,539,000	-	12,539,000	-	1.895%	0.000%	1.895%	0.000%	0.277%	0.000%	0.277%	0.000%
TOTAL NPCC					661,525,000	297,362,000	364,163,000	-	100.000%	44.951%	55.049%	0.000%	14.625%	6.574%	8.051%	0.000%
2008	RFC	1096	Alger Delta Cooperative Electric Association	U.S.	59,714	59,714	-	-	0.006%	0.006%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	RFC	1097	American Municipal Power	U.S.	3,235,256	3,235,256	-	-	0.348%	0.348%	0.000%	0.000%	0.072%	0.072%	0.000%	0.000%
2008	RFC	1104	Bay City	U.S.	338,489	338,489	-	-	0.036%	0.036%	0.000%	0.000%	0.007%	0.007%	0.000%	0.000%
2008	RFC	1098	Village of Bethel	U.S.	30,758	30,758	-	-	0.003%	0.003%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	RFC	1101	Buckeye Power Inc. (DUKE-CIN)	U.S.	270,760	270,760	-	-	0.029%	0.029%	0.000%	0.000%	0.006%	0.006%	0.000%	0.000%
2008	RFC	1100	Buckeye Power Inc. (ATSI)	U.S.	1,040,546	1,040,546	-	-	0.112%	0.112%	0.000%	0.000%	0.023%	0.023%	0.000%	0.000%
2008	RFC	1102	Cannelton Utilities	U.S.	19,148	19,148	-	-	0.002%	0.002%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	RFC	1105	City of Chelsea	U.S.	96,698	96,698	-	-	0.010%	0.010%	0.000%	0.000%	0.002%	0.002%	0.000%	0.000%
2008	RFC	1106	City of Croswell	U.S.	46,606	46,606	-	-	0.005%	0.005%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	RFC	1107	City of Crystal Falls	U.S.	14,008	14,008	-	-	0.002%	0.002%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	RFC	1108	City of Eaton Rapids	U.S.	94,695	94,695	-	-	0.010%	0.010%	0.000%	0.000%	0.002%	0.002%	0.000%	0.000%
2008	RFC	1110	City of Hamilton	U.S.	328,939	328,939	-	-	0.035%	0.035%	0.000%	0.000%	0.007%	0.007%	0.000%	0.000%
2008	RFC	1111	City of Hart	U.S.	39,159	39,159	-	-	0.004%	0.004%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	RFC	1490	City of Lansing	U.S.	2,417,000	2,417,000	-	-	0.260%	0.260%	0.000%	0.000%	0.053%	0.053%	0.000%	0.000%
2008	RFC	1112	City of Marquette Board of Light & Power	U.S.	343,073	343,073	-	-	0.037%	0.037%	0.000%	0.000%	0.008%	0.008%	0.000%	0.000%
2008	RFC	1165	City of Painesville	U.S.	46,605	46,605	-	-	0.005%	0.005%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	RFC	1114	City of Portland	U.S.	36,061	36,061	-	-	0.004%	0.004%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	RFC	1116	City of St. Louis	U.S.	40,322	40,322	-	-	0.004%	0.004%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	RFC	1117	City of Williamstown KY	U.S.	59,953	59,953	-	-	0.006%	0.006%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	RFC	1118	City of Wyandotte	U.S.	12,386	12,386	-	-	0.001%	0.001%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	RFC	1119	Cleveland Public Power	U.S.	1,701,516	1,701,516	-	-	0.183%	0.183%	0.000%	0.000%	0.038%	0.038%	0.000%	0.000%
2008	RFC	1120	Cloverland Electric Cooperative	U.S.	240,913	240,913	-	-	0.026%	0.026%	0.000%	0.000%	0.005%	0.005%	0.000%	0.000%
2008	RFC	1122	CMS ERM Michigan LLC	U.S.	245,583	245,583	-	-	0.026%	0.026%	0.000%	0.000%	0.005%	0.005%	0.000%	0.000%
2008	RFC	1124	Constellation New Energy (MECS-CONS)	U.S.	269,838	269,838	-	-	0.029%	0.029%	0.000%	0.000%	0.006%	0.006%	0.000%	0.000%
2008	RFC	1123	Constellation New Energy (MECS-DET)	U.S.	833,634	833,634	-	-	0.090%	0.090%	0.000%	0.000%	0.018%	0.018%	0.000%	0.000%
2008	RFC		Constellation New Energy Inc.	U.S.	154,424	154,424	-	-	0.017%	0.017%	0.000%	0.000%	0.003%	0.003%	0.000%	0.000%
2008	RFC	1125	Constellation New Energy Inc. (DUKE-CIN)	U.S.	354,302	354,302	-	-	0.038%	0.038%	0.000%	0.000%	0.008%	0.008%	0.000%	0.000%
2008	RFC	1126	Consumers Energy Company	U.S.	35,610,692	35,610,692	-	-	3.828%	3.828%	0.000%	0.000%	0.787%	0.787%	0.000%	0.000%

2008 NEL Calculations and Allocations to Load Serving Entities (or Designee) for the 2010 NERC and RE Assessments

Data Year	Regional Entity	ID	Entity	Country	Total NEL (MWh)	U.S. NEL	Canada NEL	Mexico NEL	% of RE total	US Total	Canada Total	Mexico Total	% of ERO Total	US Total	Canada Total	Mexico Total
2008	RFC	1128	Detroit Edison Company	U.S.	50,539,793	50,539,793			5.433%	5.433%	0.000%	0.000%	1.117%	1.117%	0.000%	0.000%
2008	RFC	1129	Dominion Retail (ATSI)	U.S.	60,989	60,989			0.007%	0.007%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	RFC	1130	Dominion Retail Inc. (DUKE-CIN)	U.S.	122,412	122,412			0.013%	0.013%	0.000%	0.000%	0.003%	0.003%	0.000%	0.000%
2008	RFC	1131	DTE Energy Trading	U.S.	48,665	48,665			0.005%	0.005%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	RFC	1166	Duke Energy Indiana	U.S.	30,908,706	30,908,706			3.323%	3.323%	0.000%	0.000%	0.683%	0.683%	0.000%	0.000%
2008	RFC	1179	Duke Energy Kentucky	U.S.	4,399,406	4,399,406			0.473%	0.473%	0.000%	0.000%	0.097%	0.097%	0.000%	0.000%
2008	RFC	1178	Duke Energy Ohio	U.S.	21,496,203	21,496,203			2.311%	2.311%	0.000%	0.000%	0.475%	0.475%	0.000%	0.000%
2008	RFC	1132	Edison Sault Electric Co.	U.S.	671,104	671,104			0.072%	0.072%	0.000%	0.000%	0.015%	0.015%	0.000%	0.000%
2008	RFC		Energy International Power Marketing	U.S.	215	215			0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	RFC	1135	Ferdinand Municipal Light & Water	U.S.	41,506	41,506			0.004%	0.004%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	RFC	1138	FirstEnergy U.S.		50,545,480	50,545,480			5.434%	5.434%	0.000%	0.000%	1.117%	1.117%	0.000%	0.000%
2008	RFC	1137	FirstEnergy Solutions (ATSI)	U.S.	10,894,671	10,894,671			1.171%	1.171%	0.000%	0.000%	0.241%	0.241%	0.000%	0.000%
2008	RFC		FirstEnergy Solutions (MECS-DET)	U.S.	37,040	37,040			0.004%	0.004%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	RFC		FirstEnergy Solutions (DUKE-CIN)	U.S.	14,031	14,031			0.002%	0.002%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	RFC	1141	Georgetown	U.S.	57,437	57,437			0.006%	0.006%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	RFC	1143	Hamersville	U.S.	5,845	5,845			0.001%	0.001%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	RFC	1144	Holland Board of Public Works	U.S.	734,734	734,734			0.079%	0.079%	0.000%	0.000%	0.016%	0.016%	0.000%	0.000%
2008	RFC	1145	Hoosier Energy	U.S.	7,004,756	7,004,756			0.753%	0.753%	0.000%	0.000%	0.155%	0.155%	0.000%	0.000%
2008	RFC	1148	Indiana Municipal Power Agency (DUKE CIN)	U.S.	3,047,503	3,047,503			0.328%	0.328%	0.000%	0.000%	0.067%	0.067%	0.000%	0.000%
2008	RFC	1485	Indiana Municipal Power Agency (NIPSCO)	U.S.	403,313	403,313			0.043%	0.043%	0.000%	0.000%	0.009%	0.009%	0.000%	0.000%
2008	RFC	1486	Indiana Municipal Power Agency (SIGE)	U.S.	613,985	613,985			0.066%	0.066%	0.000%	0.000%	0.014%	0.014%	0.000%	0.000%
2008	RFC	1149	Indianapolis Power & Light Co.	U.S.	15,979,927	15,979,927			1.718%	1.718%	0.000%	0.000%	0.353%	0.353%	0.000%	0.000%
2008	RFC		Integrays Energy Services (DUKE-CIN)	U.S.	23,513	23,513			0.003%	0.003%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	RFC		Integrays Energy Services (MECS-CONS)	U.S.	97,335	97,335			0.010%	0.010%	0.000%	0.000%	0.002%	0.002%	0.000%	0.000%
2008	RFC		Integrays Energy Services (MECS-DET)	U.S.	229,630	229,630			0.025%	0.025%	0.000%	0.000%	0.005%	0.005%	0.000%	0.000%
2008	RFC	1151	Lebanon	U.S.	290,393	290,393			0.031%	0.031%	0.000%	0.000%	0.006%	0.006%	0.000%	0.000%
2008	RFC	1154	Michigan Public Power Agency	U.S.	1,250,994	1,250,994			0.134%	0.134%	0.000%	0.000%	0.028%	0.028%	0.000%	0.000%
2008	RFC	1155	Michigan South Central Power Agency	U.S.	628,118	628,118			0.068%	0.068%	0.000%	0.000%	0.014%	0.014%	0.000%	0.000%
2008	RFC	1158	MidAmerican Energy Company Retail	U.S.	1,550	1,550			0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	RFC	1163	Northern Indiana Public Service Co.	U.S.	17,573,884	17,573,884			1.889%	1.889%	0.000%	0.000%	0.389%	0.389%	0.000%	0.000%
2008	RFC	1164	Ontonagon County Rural Electrification Assoc.	U.S.	27,849	27,849			0.003%	0.003%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	RFC		Penn Power	U.S.	20,116	20,116			0.002%	0.002%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	RFC	1265	PJM Interconnection, LLC	U.S.	619,072,504	619,072,504			66.550%	66.550%	0.000%	0.000%	13.686%	13.686%	0.000%	0.000%
2008	RFC	1167	Public Lighting Department of Detroit	U.S.	595,870	595,870			0.064%	0.064%	0.000%	0.000%	0.013%	0.013%	0.000%	0.000%
2008	RFC	1170	Ripley	U.S.	20,899	20,899			0.002%	0.002%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	RFC		Sempra Energy Solutions (ATSI)	U.S.	5,839	5,839			0.001%	0.001%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	RFC	1172	Sempra Energy Solutions (MECS-CONS)	U.S.	180,625	180,625			0.019%	0.019%	0.000%	0.000%	0.004%	0.004%	0.000%	0.000%
2008	RFC	1171	Sempra Energy Solutions (MECS-DET)	U.S.	96,090	96,090			0.010%	0.010%	0.000%	0.000%	0.002%	0.002%	0.000%	0.000%
2008	RFC	1173	Direct Energy (fks:Strategic Energy) (ATSI)	U.S.	411,123	411,123			0.044%	0.044%	0.000%	0.000%	0.009%	0.009%	0.000%	0.000%
2008	RFC	1175	Direct Energy (fka:Strategic Energy LLC) (DUKE-CIN)	U.S.	214,863	214,863			0.023%	0.023%	0.000%	0.000%	0.005%	0.005%	0.000%	0.000%
2008	RFC	1176	Direct Energy (fka:Strategic Energy,LLC) (MECS-CONS)	U.S.	60,851	60,851			0.007%	0.007%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	RFC	1174	Direct Energy (fka:Strategic Energy,LLC) (MECS-DET)	U.S.	121,114	121,114			0.013%	0.013%	0.000%	0.000%	0.003%	0.003%	0.000%	0.000%
2008	RFC		Spartan Renewable Energy	U.S.	53,533	53,533			0.006%	0.006%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	RFC	1180	Thumb Electric Cooperative	U.S.	164,739	164,739			0.018%	0.018%	0.000%	0.000%	0.004%	0.004%	0.000%	0.000%
2008	RFC	1181	Vectren Energy Delivery of IN	U.S.	5,607,242	5,607,242			0.603%	0.603%	0.000%	0.000%	0.124%	0.124%	0.000%	0.000%
2008	RFC	1099	Village of Blanchester	U.S.	83,339	83,339			0.009%	0.009%	0.000%	0.000%	0.002%	0.002%	0.000%	0.000%
2008	RFC	1183	Village of Sebewaing	U.S.	44,746	44,746			0.005%	0.005%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	RFC	1184	Wabash Valley Power Association Inc. (DUKE CIN)	U.S.	2,648,091	2,648,091			0.285%	0.285%	0.000%	0.000%	0.059%	0.059%	0.000%	0.000%
2008	RFC	1487	Wabash Valley Power Association Inc. (MECS CONS)	U.S.	146,524	146,524			0.016%	0.016%	0.000%	0.000%	0.003%	0.003%	0.000%	0.000%
2008	RFC	1488	Wabash Valley Power Association Inc.(NIPSCO)	U.S.	1,594,270	1,594,270			0.171%	0.171%	0.000%	0.000%	0.035%	0.035%	0.000%	0.000%
2008	RFC	1185	Wisconsin Electric Power Co.	U.S.	29,840,167	29,840,167			3.208%	3.208%	0.000%	0.000%	0.660%	0.660%	0.000%	0.000%
2008	RFC	1189	Wolverine Power Marketing Cooperative	U.S.	945,362	945,362			0.102%	0.102%	0.000%	0.000%	0.021%	0.021%	0.000%	0.000%
2008	RFC	1191	Wolverine Power Supply Cooperative	U.S.	2,454,557	2,454,557			0.264%	0.264%	0.000%	0.000%	0.054%	0.054%	0.000%	0.000%
2008	RFC	1190	Wolverine Power Marketing Cooperative	U.S.	95,956	95,956			0.010%	0.010%	0.000%	0.000%	0.002%	0.002%	0.000%	0.000%
2008	RFC	1194	Zelienople U.S.		32,208	32,208			0.003%	0.003%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%

2008 NEL Calculations and Allocations to Load Serving Entities (or Designee) for the 2010 NERC and RE Assessments

Data Year	Regional Entity	ID	Entity	Country	Total NEL (MWh)	U.S. NEL	Canada NEL	Mexico NEL	% of RE total	US Total	Canada Total	Mexico Total	% of ERO Total	US Total	Canada Total	Mexico Total
2008	SERC	1309	Illinois Municipal Electric Agency	US	1,845,505	1,845,505	-	-	0.179%	0.179%	0.000%	0.000%	0.041%	0.041%	0.000%	0.000%
2008	SERC	1480	Itta Bena, MS	US	16,781	16,781	-	-	0.002%	0.002%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	SERC		Jefferson Davis Electric Cooperative, Inc.	US	209,321	209,321	-	-	0.020%	0.020%	0.000%	0.000%	0.005%	0.005%	0.000%	0.000%
2008	SERC		Jonesboro City Water and Light	US	31,990	31,990	-	-	0.003%	0.003%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	SERC	1481	Kosciusko, MS	US	72,786	72,786	-	-	0.007%	0.007%	0.000%	0.000%	0.002%	0.002%	0.000%	0.000%
2008	SERC	1482	Leland, MS	US	33,527	33,527	-	-	0.003%	0.003%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	SERC	1313	McCormick Commission of Public Works	US	22,000	22,000	-	-	0.002%	0.002%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	SERC	1314	Mississippi Power Company	US	9,879,556	9,879,556	-	-	0.957%	0.957%	0.000%	0.000%	0.218%	0.218%	0.000%	0.000%
2008	SERC	1315	Municipal Electric Authority of Georgia	US	10,958,000	10,958,000	-	-	1.061%	1.061%	0.000%	0.000%	0.242%	0.242%	0.000%	0.000%
2008	SERC	1316	N.C. Electric Membership Corp.	US	12,100,700	12,100,700	-	-	1.172%	1.172%	0.000%	0.000%	0.268%	0.268%	0.000%	0.000%
2008	SERC	1317	North Carolina Eastern Municipal Power Agency	US	7,519,337	7,519,337	-	-	0.728%	0.728%	0.000%	0.000%	0.166%	0.166%	0.000%	0.000%
2008	SERC	1318	North Carolina Municipal Power Agency #1	US	4,751,000	4,751,000	-	-	0.460%	0.460%	0.000%	0.000%	0.105%	0.105%	0.000%	0.000%
2008	SERC		Northeast Louisiana Power Cooperative, Inc.	US	281,787	281,787	-	-	0.027%	0.027%	0.000%	0.000%	0.006%	0.006%	0.000%	0.000%
2008	SERC		Northern Virginia Electric Cooperative	US	3,379,430	3,379,430	-	-	0.327%	0.327%	0.000%	0.000%	0.075%	0.075%	0.000%	0.000%
2008	SERC	1319	Old Dominion Electric Cooperative	US	5,628,241	5,628,241	-	-	0.545%	0.545%	0.000%	0.000%	0.124%	0.124%	0.000%	0.000%
2008	SERC	1320	Owensboro (KY) Municipal Utilities	US	922,000	922,000	-	-	0.089%	0.089%	0.000%	0.000%	0.020%	0.020%	0.000%	0.000%
2008	SERC	1321	Piedmont EMC in Duke and Progress Areas	US	499,000	499,000	-	-	0.048%	0.048%	0.000%	0.000%	0.011%	0.011%	0.000%	0.000%
2008	SERC	1323	Piedmont Municipal Power Agency (PMPA)	US	2,323,530	2,323,530	-	-	0.225%	0.225%	0.000%	0.000%	0.051%	0.051%	0.000%	0.000%
2008	SERC		Pointe Coupee Electric Memb. Corp.	US	262,192	262,192	-	-	0.025%	0.025%	0.000%	0.000%	0.006%	0.006%	0.000%	0.000%
2008	SERC	1266	PowerSouth Energy	US	9,005,000	9,005,000	-	-	0.872%	0.872%	0.000%	0.000%	0.199%	0.199%	0.000%	0.000%
2008	SERC	1330	Prairie Power, Inc.	US	1,628,000	1,628,000	-	-	0.158%	0.158%	0.000%	0.000%	0.036%	0.036%	0.000%	0.000%
2008	SERC	1324	Progress Energy Carolinas	US	46,321,567	46,321,567	-	-	4.486%	4.486%	0.000%	0.000%	1.024%	1.024%	0.000%	0.000%
2008	SERC	1325	Rutherford EMC	US	1,275,000	1,275,000	-	-	0.123%	0.123%	0.000%	0.000%	0.028%	0.028%	0.000%	0.000%
2008	SERC	1326	South Carolina Electric & Gas Company	US	23,078,711	23,078,711	-	-	2.235%	2.235%	0.000%	0.000%	0.510%	0.510%	0.000%	0.000%
2008	SERC	1327	South Carolina Public Service Authority	US	11,198,664	11,198,664	-	-	1.084%	1.084%	0.000%	0.000%	0.248%	0.248%	0.000%	0.000%
2008	SERC		South Louisiana Electric Cooperative Association	US	604,432	604,432	-	-	0.059%	0.059%	0.000%	0.000%	0.013%	0.013%	0.000%	0.000%
2008	SERC	1328	South Mississippi Electric Power Association	US	9,913,159	9,913,159	-	-	0.960%	0.960%	0.000%	0.000%	0.219%	0.219%	0.000%	0.000%
2008	SERC	1329	Southern Illinois Power Cooperative	US	1,487,000	1,487,000	-	-	0.144%	0.144%	0.000%	0.000%	0.033%	0.033%	0.000%	0.000%
2008	SERC		Southwest Louisiana Electric Membership Corporation	US	2,377,005	2,377,005	-	-	0.230%	0.230%	0.000%	0.000%	0.053%	0.053%	0.000%	0.000%
2008	SERC	1331	Tennessee Valley Authority	US	179,521,975	179,521,975	-	-	17.385%	17.385%	0.000%	0.000%	3.969%	3.969%	0.000%	0.000%
2008	SERC	1332	Tombigbee Electric Cooperative Inc.	US	124,470	124,470	-	-	0.012%	0.012%	0.000%	0.000%	0.003%	0.003%	0.000%	0.000%
2008	SERC		Town of Black Creek, N.C.	US	10,964	10,964	-	-	0.001%	0.001%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	SERC		Town of Lucama, N.C.	US	18,812	18,812	-	-	0.002%	0.002%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	SERC		Town of Sharpsburg, N.C.	US	19,972	19,972	-	-	0.002%	0.002%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	SERC		Town of Stantonsburg, N.C.	US	20,834	20,834	-	-	0.002%	0.002%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	SERC	1333	Town of Waynesville NC	US	100,109	100,109	-	-	0.010%	0.010%	0.000%	0.000%	0.002%	0.002%	0.000%	0.000%
2008	SERC	1334	Town of Winnsboro SC	US	72,391	72,391	-	-	0.007%	0.007%	0.000%	0.000%	0.002%	0.002%	0.000%	0.000%
2008	SERC	1335	Town of Winterville NC	US	51,762	51,762	-	-	0.005%	0.005%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	SERC		Valley Electric Membership Corporation, Inc	US	721,631	721,631	-	-	0.070%	0.070%	0.000%	0.000%	0.016%	0.016%	0.000%	0.000%
2008	SERC		Washington-St.Tammany Electric Cooperative, Inc.	US	1,106,977	1,106,977	-	-	0.107%	0.107%	0.000%	0.000%	0.024%	0.024%	0.000%	0.000%
TOTAL SERC					1,032,621,018	1,032,621,018	-	-	100.000%	100.000%	0.000%	0.000%	22.829%	22.829%	0.000%	0.000%
2008	SPP	1246	American Electric Power	US	35,944,633	35,944,633	-	-	17.280%	17.280%	0.000%	0.000%	0.795%	0.795%	0.000%	0.000%
2008	SPP	1435	Arkansas Electric Cooperative Corporation (AEP)	US	3,959,242	3,959,242	-	-	1.903%	1.903%	0.000%	0.000%	0.088%	0.088%	0.000%	0.000%
2008	SPP	1247	Board of Public Utilities (Kansas City KS)	US	2,513,100	2,513,100	-	-	1.208%	1.208%	0.000%	0.000%	0.056%	0.056%	0.000%	0.000%
2008	SPP	1468	Cap Rock Energy	US	777,392	777,392	-	-	0.374%	0.374%	0.000%	0.000%	0.017%	0.017%	0.000%	0.000%
2008	SPP	1469	Central Valley Electric Cooperative	US	805,239	805,239	-	-	0.387%	0.387%	0.000%	0.000%	0.018%	0.018%	0.000%	0.000%
2008	SPP		City of Bentonville	US	571,602	571,602	-	-	0.275%	0.275%	0.000%	0.000%	0.013%	0.013%	0.000%	0.000%
2008	SPP		City of Clarksdale, Mississippi	US	184,803	184,803	-	-	0.089%	0.089%	0.000%	0.000%	0.004%	0.004%	0.000%	0.000%
2008	SPP		City of Hope	US	299,450	299,450	-	-	0.144%	0.144%	0.000%	0.000%	0.007%	0.007%	0.000%	0.000%
2008	SPP		City of Minden	US	161,917	161,917	-	-	0.078%	0.078%	0.000%	0.000%	0.004%	0.004%	0.000%	0.000%
2008	SPP	1248	City Power & Light, Independence, MO	US	1,136,989	1,136,989	-	-	0.547%	0.547%	0.000%	0.000%	0.025%	0.025%	0.000%	0.000%
2008	SPP	1436	City Utilities of Springfield, MO	US	3,207,600	3,207,600	-	-	1.542%	1.542%	0.000%	0.000%	0.071%	0.071%	0.000%	0.000%
2008	SPP	1249	Cleco Power LLC	US	11,001,507	11,001,507	-	-	5.289%	5.289%	0.000%	0.000%	0.243%	0.243%	0.000%	0.000%
2008	SPP	1437	East Texas Electric Coop, Inc.	US	380,248	380,248	-	-	0.183%	0.183%	0.000%	0.000%	0.008%	0.008%	0.000%	0.000%

2008 NEL Calculations and Allocations to Load Serving Entities (or Designee) for the 2010 NERC and RE Assessments

Data Year	Regional Entity	ID	Entity	Country	Total NEL (MWh)	U.S. NEL	Canada NEL	Mexico NEL	% of RE total	US Total	Canada Total	Mexico Total	% of ERO Total	US Total	Canada Total	Mexico Total
2008	SPP	1250	The Empire District Electric Company	US	5,493,653	5,493,653			2.641%	2.641%	0.000%	0.000%	0.121%	0.121%	0.000%	0.000%
2008	SPP	1470	Farmers' Electric Coop	US	403,329	403,329			0.194%	0.194%	0.000%	0.000%	0.009%	0.009%	0.000%	0.000%
2008	SPP	1438	Golden Spread Electric Coop	US	4,332,196	4,332,196			2.083%	2.083%	0.000%	0.000%	0.096%	0.096%	0.000%	0.000%
2008	SPP	1251	Grand River Dam Authority	US	4,500,198	4,500,198			2.163%	2.163%	0.000%	0.000%	0.099%	0.099%	0.000%	0.000%
2008	SPP	1252	Kansas City Power & Light (KCPL)	US	16,212,223	16,212,223			7.794%	7.794%	0.000%	0.000%	0.358%	0.358%	0.000%	0.000%
2008	SPP	1439	Kansas Electric Power Coop., Inc	US	2,037,670	2,037,670			0.980%	0.980%	0.000%	0.000%	0.045%	0.045%	0.000%	0.000%
2008	SPP	1440	Kansas Municipal Energy Agency (KCPL)	US	732,520	732,520			0.352%	0.352%	0.000%	0.000%	0.016%	0.016%	0.000%	0.000%
2008	SPP		KCP&L GMOC (Greater Missouri Operations Company)	US	8,698,656	8,698,656			4.182%	4.182%	0.000%	0.000%	0.192%	0.192%	0.000%	0.000%
2008	SPP	1471	Lafayette Utilities System	US	2,057,637	2,057,637			0.989%	0.989%	0.000%	0.000%	0.045%	0.045%	0.000%	0.000%
2008	SPP	1472	Lea County Electric Coop	US	1,220,396	1,220,396			0.587%	0.587%	0.000%	0.000%	0.027%	0.027%	0.000%	0.000%
2008	SPP	1253	Louisiana Energy & Power Authority (LEPA)	US	966,305	966,305			0.465%	0.465%	0.000%	0.000%	0.021%	0.021%	0.000%	0.000%
2008	SPP	1441	Midwest Energy Inc.	US	1,592,420	1,592,420			0.766%	0.766%	0.000%	0.000%	0.035%	0.035%	0.000%	0.000%
2008	SPP	1443	Missouri Joint Municipal Electric Utility Commission	US	2,201,669	2,201,669			1.058%	1.058%	0.000%	0.000%	0.049%	0.049%	0.000%	0.000%
2008	SPP	1442	Northeast Texas Electric Cooperative, Inc.	US	3,120,913	3,120,913			1.500%	1.500%	0.000%	0.000%	0.069%	0.069%	0.000%	0.000%
2008	SPP	1255	Oklahoma Gas and Electric Co.	US	28,457,261	28,457,261			13.681%	13.681%	0.000%	0.000%	0.629%	0.629%	0.000%	0.000%
2008	SPP	1444	Oklahoma Municipal Power Authority	US	2,488,384	2,488,384			1.196%	1.196%	0.000%	0.000%	0.055%	0.055%	0.000%	0.000%
2008	SPP		Public Service Commission of Yazoo City of Mississippi	US	120,752	120,752			0.058%	0.058%	0.000%	0.000%	0.003%	0.003%	0.000%	0.000%
2008	SPP	1473	Roosevelt County Electric Coop	US	206,000	206,000			0.099%	0.099%	0.000%	0.000%	0.005%	0.005%	0.000%	0.000%
2008	SPP	1258	Southwestern Power Administration (SPA)	US	4,259,000	4,259,000			2.048%	2.048%	0.000%	0.000%	0.094%	0.094%	0.000%	0.000%
2008	SPP	1257	Southwestern Public Service Co. (SPS-XCEL)	US	19,934,523	19,934,523			9.583%	9.583%	0.000%	0.000%	0.441%	0.441%	0.000%	0.000%
2008	SPP	1256	Sunflower Electric Cooperative (SECI)	US	4,625,936	4,625,936			2.224%	2.224%	0.000%	0.000%	0.102%	0.102%	0.000%	0.000%
2008	SPP	1445	Tex - La Electric Cooperative of Texas	US	447,115	447,115			0.215%	0.215%	0.000%	0.000%	0.010%	0.010%	0.000%	0.000%
2008	SPP	1475	Tri County Electric Coop	US	400,641	400,641			0.193%	0.193%	0.000%	0.000%	0.009%	0.009%	0.000%	0.000%
2008	SPP	1260	Westar Energy, Inc.	US	23,330,411	23,330,411			11.216%	11.216%	0.000%	0.000%	0.516%	0.516%	0.000%	0.000%
2008	SPP	1259	Western Farmers Electric Cooperative	US	7,350,057	7,350,057			3.534%	3.534%	0.000%	0.000%	0.162%	0.162%	0.000%	0.000%
2008	SPP	1501	West Texas Municipal Power Agency	US	1,875,800	1,875,800			0.902%	0.902%	0.000%	0.000%	0.041%	0.041%	0.000%	0.000%
			TOTAL SPP		208,009,387	208,009,387	-	-	100.000%	100.000%	0.000%	0.000%	4.599%	4.599%	0.000%	0.000%
2008	TRE	1019	ERCOT	U.S.	310,856,852	310,856,852			100.000%	100.000%	0.000%	0.000%	6.872%	6.872%	0.000%	0.000%
					310,856,852	310,856,852	-	-	100.000%	100.000%	0.000%	0.000%	6.872%	6.872%	0.000%	0.000%
2008	WECC		Alberta Electric System Operator	Canada	58,002,386		58,002,386		6.657%	0.000%	6.657%	0.000%	1.282%	0.000%	1.282%	0.000%
2008	WECC		Bonneville Power Administration – Transmission Business Line	U.S.	56,696,816	56,696,816			6.507%	6.507%	0.000%	0.000%	1.253%	1.253%	0.000%	0.000%
2008	WECC		British Columbia Transmission Corporation	Canada	62,892,493		62,892,493		7.218%	0.000%	7.218%	0.000%	1.390%	0.000%	1.390%	0.000%
2008	WECC		California Independent System Operator	U.S.	239,781,969	239,781,969			27.519%	27.519%	0.000%	0.000%	5.301%	5.301%	0.000%	0.000%
2008	WECC		Comision Federal de Electricidad	Mexico	11,063,018			11,063,018	1.270%	0.000%	0.000%	1.270%	0.245%	0.000%	0.000%	0.245%
2008	WECC		El Paso Electric Company	U.S.	7,669,160	7,669,160			0.880%	0.880%	0.000%	0.000%	0.170%	0.170%	0.000%	0.000%
2008	WECC		Imperial Irrigation District	U.S.	3,733,717	3,733,717			0.429%	0.429%	0.000%	0.000%	0.083%	0.083%	0.000%	0.000%
2008	WECC		PacifiCorp U.S.	U.S.	46,893,380	46,893,380			5.382%	5.382%	0.000%	0.000%	1.037%	1.037%	0.000%	0.000%
2008	WECC		PacifiCorp – Merchant Function	U.S.	22,205,447	22,205,447			2.548%	2.548%	0.000%	0.000%	0.491%	0.491%	0.000%	0.000%
2008	WECC		Public Utility District No. 1 of Chelan County	U.S.	3,289,733	3,289,733			0.378%	0.378%	0.000%	0.000%	0.073%	0.073%	0.000%	0.000%
2008	WECC		Public Utility District No. 1 of Douglas County	U.S.	1,440,108	1,440,108			0.165%	0.165%	0.000%	0.000%	0.032%	0.032%	0.000%	0.000%
2008	WECC		Public Utility District No. 2 of Grant County	U.S.	3,670,729	3,670,729			0.421%	0.421%	0.000%	0.000%	0.081%	0.081%	0.000%	0.000%
2008	WECC		Puget Sound Energy	U.S.	23,593,146	23,593,146			2.708%	2.708%	0.000%	0.000%	0.522%	0.522%	0.000%	0.000%
2008	WECC		Salt River Project	U.S.	31,906,203	31,906,203			3.662%	3.662%	0.000%	0.000%	0.705%	0.705%	0.000%	0.000%
2008	WECC		Seattle City Light	U.S.	10,362,794	10,362,794			1.189%	1.189%	0.000%	0.000%	0.229%	0.229%	0.000%	0.000%
2008	WECC		Tacoma Power	U.S.	5,293,256	5,293,256			0.607%	0.607%	0.000%	0.000%	0.117%	0.117%	0.000%	0.000%
2008	WECC		Tucson Electric Power Company	U.S.	13,506,010	13,506,010			1.550%	1.550%	0.000%	0.000%	0.299%	0.299%	0.000%	0.000%
2008	WECC		Aguila Irrigation District - APS	U.S.	35,682	35,682			0.004%	0.004%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	WECC		Buckeye Water Conservation and Drainage District - APS	U.S.	20,736	20,736			0.002%	0.002%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	WECC		Electrical District No. 6 of Pinal County - APS	U.S.	2,422	2,422			0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	WECC		Electrical District No. 7 of Mariopa County - APS	U.S.	20,972	20,972			0.002%	0.002%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	WECC		Electrical District No. 8 of Mariopa County - APS	U.S.	258,337	258,337			0.030%	0.030%	0.000%	0.000%	0.006%	0.006%	0.000%	0.000%
2008	WECC		Harquahala Valley Power District - APS	U.S.	75,203	75,203			0.009%	0.009%	0.000%	0.000%	0.002%	0.002%	0.000%	0.000%
2008	WECC		Maricopa County Municipal Water Conservation District No. 1 - APS	U.S.	50,569	50,569			0.006%	0.006%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%

2008 NEL Calculations and Allocations to Load Serving Entities (or Designee) for the 2010 NERC and RE Assessments

Data Year	Regional Entity	ID	Entity	Country	Total NEL (MWh)	U.S. NEL	Canada NEL	Mexico NEL	% of RE total	US Total	Canada Total	Mexico Total	% of ERO Total	US Total	Canada Total	Mexico Total
2008	WECC		Western Area Power Administration - WALC	U.S.	2,191,039	2,191,039			0.251%	0.251%	0.000%	0.000%	0.048%	0.048%	0.000%	0.000%
2008	WECC		Basin Electric Power Cooperative	U.S.	45,708	45,708			0.005%	0.005%	0.000%	0.000%	0.001%	0.001%	0.000%	0.000%
2008	WECC		Montana Dakota Utilities	U.S.	22,239	22,239			0.003%	0.003%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	WECC		Northwestern Energy, LLC	U.S.	296,903	296,903			0.034%	0.034%	0.000%	0.000%	0.007%	0.007%	0.000%	0.000%
2008	WECC		Bonneville Power Administration	U.S.	17,953	17,953			0.002%	0.002%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
2008	WECC		Western Area Power Administration - WAUM	U.S.	240,198	240,198			0.028%	0.028%	0.000%	0.000%	0.005%	0.005%	0.000%	0.000%
TOTAL WECC					871,345,007	739,387,110	120,894,879	11,063,018	100.000%	84.532%	14.132%	1.336%	19.263%	16.315%	2.700%	0.249%

Summary by Regional Entity

2008	FRCC				233,457,900	233,457,900	-	-	100.000%	100.000%	0.000%	0.000%	5.161%	5.161%	0.000%	0.000%
2008	MRO				275,258,769	229,861,933	45,396,836	-	100.000%	83.508%	16.492%	0.000%	6.085%	5.082%	1.004%	0.000%
2008	NPCC				661,525,000	297,362,000	364,163,000	-	100.000%	44.951%	55.049%	0.000%	14.625%	6.574%	8.051%	0.000%
2008	RFC				930,242,692	930,242,692	-	-	100.000%	100.000%	0.000%	0.000%	20.566%	20.566%	0.000%	0.000%
2008	SERC				1,032,621,018	1,032,621,018	-	-	100.000%	100.000%	0.000%	0.000%	22.829%	22.829%	0.000%	0.000%
2008	SPP				208,009,387	208,009,387	-	-	100.000%	100.000%	0.000%	0.000%	4.599%	4.599%	0.000%	0.000%
2008	TRE				310,856,852	310,856,852	-	-	100.000%	100.000%	0.000%	0.000%	6.872%	6.872%	0.000%	0.000%
2008	WECC				871,345,007	739,387,110	120,894,879	11,063,018	100.000%	84.532%	14.132%	1.336%	19.263%	16.315%	2.700%	0.249%
Total					4,523,316,626	3,981,798,893	530,454,715	11,063,018	800.000%	712.991%	85.673%	1.336%	100.000%	87.997%	11.755%	0.249%

Allocations to Load Serving Entities (or Designee) for the 2010 NERC and Regional Entity Assessments

Data Year	Regional Entity	ID	Entity	Country	Total ERO Funding (NERC, RE & WIRAB Costs)				Total NERC Funding				Total Regional Entity Funding (Including WIRAB Funding)			
					Total	US Total	Canada Total	Mexico Total	Total	US Total	Canada Total	Mexico Total	Total	US Total	Canada Total	Mexico Total
2008	MRO	1218	Manitowoc Public Utilities	US	21,132	21,132	-	-	5,239	5,239	-	-	15,893	15,893	-	-
2008	MRO	1223	Missouri River Energy Services	US	80,696	80,696	-	-	20,006	20,006	-	-	60,690	60,690	-	-
2008	MRO	1224	MN Municipal Power Agency (MMPA)	US	49,512	49,512	-	-	12,275	12,275	-	-	37,237	37,237	-	-
2008	MRO	1227	Municipal Energy Agency of Nebraska	US	27,436	27,436	-	-	6,802	6,802	-	-	20,634	20,634	-	-
2008	MRO	1228	Muscatine Power and Water	US	32,640	32,640	-	-	8,092	8,092	-	-	24,548	24,548	-	-
2008	MRO	1229	Nebraska City Utilities	US	6,079	6,079	-	-	1,507	1,507	-	-	4,572	4,572	-	-
2008	MRO	1234	Rochester Public Utilities	US	164	164	-	-	41	41	-	-	123	123	-	-
2008	MRO	1236	Southern Minnesota Municipal Power Agency	US	110,961	110,961	-	-	27,509	27,509	-	-	83,452	83,452	-	-
2008	MRO	1241	Willmar Municipal Utilities	US	9,458	9,458	-	-	2,345	2,345	-	-	7,114	7,114	-	-
2008	MRO	1242	Wisconsin Public Power, Inc. (East and West regions)	US	200,365	200,365	-	-	49,673	49,673	-	-	150,691	150,691	-	-
TOTAL MRO					9,977,262	8,331,770	1,645,492	-	2,473,517	2,065,574	407,943	-	7,503,745	6,266,196	1,237,549	-
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2008	NPCC	1336	New England	U.S.	3,985,826	3,985,826	-	-	1,083,008	1,083,008	-	-	2,902,818	2,902,818	-	-
2008	NPCC	1339	New York	U.S.	5,010,319	5,010,319	-	-	1,361,378	1,361,378	-	-	3,648,942	3,648,942	-	-
2008	NPCC	1337	Ontario	Canada	2,838,881	-	2,838,881	-	881,091	-	881,091	-	1,957,790	-	1,957,790	-
2008	NPCC	1341	Quebec	Canada	3,832,125	-	3,832,125	-	1,243,845	-	1,243,845	-	2,588,281	-	2,588,281	-
2008	NPCC	1338	New Brunswick	Canada	302,625	-	302,625	-	116,308	-	116,308	-	186,316	-	186,316	-
2008	NPCC	1340	Nova Scotia	Canada	319,365	-	319,365	-	103,074	-	103,074	-	216,292	-	216,292	-
TOTAL NPCC					16,289,142	8,996,145	7,292,997	-	4,788,703	2,444,385	2,344,317	-	11,500,439	6,551,760	4,948,679	-
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2008	RFC	1096	Alger Delta Cooperative Electric Association	U.S.	1,425	1,425	-	-	504	504	-	-	921	921	-	-
2008	RFC	1097	American Municipal Power	U.S.	77,207	77,207	-	-	27,316	27,316	-	-	49,891	49,891	-	-
2008	RFC	1104	Bay City	U.S.	8,078	8,078	-	-	2,858	2,858	-	-	5,220	5,220	-	-
2008	RFC	1098	Village of Bethel	U.S.	734	734	-	-	260	260	-	-	474	474	-	-
2008	RFC	1101	Buckeye Power Inc. (DUKE-CIN)	U.S.	6,461	6,461	-	-	2,286	2,286	-	-	4,175	4,175	-	-
2008	RFC	1100	Buckeye Power Inc. (ATSI)	U.S.	24,832	24,832	-	-	8,786	8,786	-	-	16,046	16,046	-	-
2008	RFC	1102	Cannelton Utilities	U.S.	457	457	-	-	162	162	-	-	295	295	-	-
2008	RFC	1105	City of Chelsea	U.S.	2,308	2,308	-	-	816	816	-	-	1,491	1,491	-	-
2008	RFC	1106	City of Croswell	U.S.	1,112	1,112	-	-	394	394	-	-	719	719	-	-
2008	RFC	1107	City of Crystal Falls	U.S.	334	334	-	-	118	118	-	-	216	216	-	-
2008	RFC	1108	City of Eaton Rapids	U.S.	2,260	2,260	-	-	800	800	-	-	1,460	1,460	-	-
2008	RFC	1110	City of Hamilton	U.S.	7,850	7,850	-	-	2,777	2,777	-	-	5,073	5,073	-	-
2008	RFC	1111	City of Hart	U.S.	935	935	-	-	331	331	-	-	604	604	-	-
2008	RFC	1490	City of Lansing	U.S.	57,680	57,680	-	-	20,408	20,408	-	-	37,272	37,272	-	-
2008	RFC	1112	City of Marquette Board of Light & Power	U.S.	8,187	8,187	-	-	2,897	2,897	-	-	5,290	5,290	-	-
2008	RFC	1165	City of Painesville	U.S.	1,112	1,112	-	-	394	394	-	-	719	719	-	-
2008	RFC	1114	City of Portland	U.S.	861	861	-	-	304	304	-	-	556	556	-	-
2008	RFC	1116	City of St. Louis	U.S.	962	962	-	-	340	340	-	-	622	622	-	-
2008	RFC	1117	City of Williamstown KY	U.S.	1,431	1,431	-	-	506	506	-	-	925	925	-	-
2008	RFC	1118	City of Wyandotte	U.S.	296	296	-	-	105	105	-	-	191	191	-	-
2008	RFC	1119	Cleveland Public Power	U.S.	40,605	40,605	-	-	14,367	14,367	-	-	26,239	26,239	-	-
2008	RFC	1120	Cloverland Electric Cooperative	U.S.	5,749	5,749	-	-	2,034	2,034	-	-	3,715	3,715	-	-
2008	RFC	1122	CMS ERM Michigan LLC	U.S.	5,861	5,861	-	-	2,074	2,074	-	-	3,787	3,787	-	-
2008	RFC	1124	Constellation New Energy (MECS-CONS)	U.S.	6,439	6,439	-	-	2,278	2,278	-	-	4,161	4,161	-	-
2008	RFC	1123	Constellation New Energy (MECS-DET)	U.S.	19,894	19,894	-	-	7,039	7,039	-	-	12,855	12,855	-	-
2008	RFC		Constellation New Energy Inc.	U.S.	3,685	3,685	-	-	1,304	1,304	-	-	2,381	2,381	-	-
2008	RFC	1125	Constellation New Energy Inc. (DUKE-CIN)	U.S.	8,455	8,455	-	-	2,991	2,991	-	-	5,464	5,464	-	-
2008	RFC	1126	Consumers Energy Company	U.S.	849,823	849,823	-	-	300,674	300,674	-	-	549,149	549,149	-	-
2008	RFC	1128	Detroit Edison Company	U.S.	1,206,096	1,206,096	-	-	426,726	426,726	-	-	779,370	779,370	-	-
2008	RFC	1129	Dominion Retail (ATSI)	U.S.	1,455	1,455	-	-	515	515	-	-	941	941	-	-
2008	RFC	1130	Dominion Retail Inc. (DUKE-CIN)	U.S.	2,921	2,921	-	-	1,034	1,034	-	-	1,888	1,888	-	-
2008	RFC	1131	DTE Energy Trading	U.S.	1,161	1,161	-	-	411	411	-	-	750	750	-	-
2008	RFC	1166	Duke Energy Indiana	U.S.	737,614	737,614	-	-	260,973	260,973	-	-	476,640	476,640	-	-
2008	RFC	1179	Duke Energy Kentucky	U.S.	104,989	104,989	-	-	37,146	37,146	-	-	67,843	67,843	-	-
2008	RFC	1178	Duke Energy Ohio	U.S.	512,991	512,991	-	-	181,500	181,500	-	-	331,491	331,491	-	-
2008	RFC	1132	Edison Sault Electric Co.	U.S.	16,015	16,015	-	-	5,666	5,666	-	-	10,349	10,349	-	-
2008	RFC		Energy International Power Marketing	U.S.	5	5	-	-	2	2	-	-	3	3	-	-
2008	RFC	1135	Ferdinand Municipal Light & Water	U.S.	991	991	-	-	350	350	-	-	640	640	-	-
2008	RFC	1138	FirstEnergy U.S.	U.S.	1,206,231	1,206,231	-	-	426,774	426,774	-	-	779,457	779,457	-	-
2008	RFC	1137	FirstEnergy Solutions (ATSI)	U.S.	259,993	259,993	-	-	91,988	91,988	-	-	168,006	168,006	-	-
2008	RFC		FirstEnergy Solutions (MECS-DET)	U.S.	884	884	-	-	313	313	-	-	571	571	-	-
2008	RFC		FirstEnergy Solutions (DUKE-CIN)	U.S.	335	335	-	-	118	118	-	-	216	216	-	-

Allocations to Load Serving Entities (or Designee) for the 2010 NERC and Regional Entity Assessments

Data Year	Regional Entity	ID	Entity	Country	Total ERO Funding (NERC, RE & WIRAB Costs)				Total NERC Funding				Total Regional Entity Funding (Including WIRAB Funding)			
					Total	US Total	Canada Total	Mexico Total	Total	US Total	Canada Total	Mexico Total	Total	US Total	Canada Total	Mexico Total
2008	RFC	1141	Georgetown	U.S.	1,371	1,371	-	-	485	485	-	-	886	886	-	-
2008	RFC	1143	Hamersville	U.S.	139	139	-	-	49	49	-	-	90	90	-	-
2008	RFC	1144	Holland Board of Public Works	U.S.	17,534	17,534	-	-	6,204	6,204	-	-	11,330	11,330	-	-
2008	RFC	1145	Hoosier Energy	U.S.	167,163	167,163	-	-	59,144	59,144	-	-	108,020	108,020	-	-
2008	RFC	1148	Indiana Municipal Power Agency (DUKE CIN)	U.S.	72,726	72,726	-	-	25,731	25,731	-	-	46,995	46,995	-	-
2008	RFC	1485	Indiana Municipal Power Agency (NIPSCO)	U.S.	9,625	9,625	-	-	3,405	3,405	-	-	6,219	6,219	-	-
2008	RFC	1486	Indiana Municipal Power Agency (SIGE)	U.S.	14,652	14,652	-	-	5,184	5,184	-	-	9,468	9,468	-	-
2008	RFC	1149	Indianapolis Power & Light Co.	U.S.	381,349	381,349	-	-	134,924	134,924	-	-	246,425	246,425	-	-
2008	RFC		Integrus Energy Services (DUKE-CIN)	U.S.	561	561	-	-	199	199	-	-	363	363	-	-
2008	RFC		Integrus Energy Services (MECS-CONS)	U.S.	2,323	2,323	-	-	822	822	-	-	1,501	1,501	-	-
2008	RFC		Integrus Energy Services (MECS-DET)	U.S.	5,480	5,480	-	-	1,939	1,939	-	-	3,541	3,541	-	-
2008	RFC	1151	Lebanon	U.S.	6,930	6,930	-	-	2,452	2,452	-	-	4,478	4,478	-	-
2008	RFC	1154	Michigan Public Power Agency	U.S.	29,854	29,854	-	-	10,563	10,563	-	-	19,291	19,291	-	-
2008	RFC	1155	Michigan South Central Power Agency	U.S.	14,990	14,990	-	-	5,303	5,303	-	-	9,686	9,686	-	-
2008	RFC	1158	MidAmerican Energy Company Retail	U.S.	37	37	-	-	13	13	-	-	24	24	-	-
2008	RFC	1163	Northern Indiana Public Service Co.	U.S.	419,388	419,388	-	-	148,383	148,383	-	-	271,005	271,005	-	-
2008	RFC	1164	Ontonagon County Rural Electrification Assoc.	U.S.	665	665	-	-	235	235	-	-	429	429	-	-
2008	RFC		Penn Power	U.S.	480	480	-	-	170	170	-	-	310	310	-	-
2008	RFC	1265	PJM Interconnection, LLC	U.S.	14,773,717	14,773,717	-	-	5,227,053	5,227,053	-	-	9,546,663	9,546,663	-	-
2008	RFC	1167	Public Lighting Department of Detroit	U.S.	14,220	14,220	-	-	5,031	5,031	-	-	9,189	9,189	-	-
2008	RFC	1170	Ripley	U.S.	499	499	-	-	176	176	-	-	322	322	-	-
2008	RFC		Sempra Energy Solutions (ATSI)	U.S.	139	139	-	-	49	49	-	-	90	90	-	-
2008	RFC	1172	Sempra Energy Solutions (MECS-CONS)	U.S.	4,310	4,310	-	-	1,525	1,525	-	-	2,785	2,785	-	-
2008	RFC	1171	Sempra Energy Solutions (MECS-DET)	U.S.	2,293	2,293	-	-	811	811	-	-	1,482	1,482	-	-
2008	RFC	1173	Direct Energy (fka:Strategic Energy) (ATSI)	U.S.	9,811	9,811	-	-	3,471	3,471	-	-	6,340	6,340	-	-
2008	RFC	1175	Direct Energy (fka:Strategic Energy LLC) (DUKE-CIN)	U.S.	5,128	5,128	-	-	1,814	1,814	-	-	3,313	3,313	-	-
2008	RFC	1176	Direct Energy (fka:Strategic Energy,LLC) (MECS-CONS)	U.S.	1,452	1,452	-	-	514	514	-	-	938	938	-	-
2008	RFC	1174	Direct Energy (fka:Strategic Energy,LLC) (MECS-DET)	U.S.	2,890	2,890	-	-	1,023	1,023	-	-	1,868	1,868	-	-
2008	RFC		Spartan Renewable Energy	U.S.	1,278	1,278	-	-	452	452	-	-	826	826	-	-
2008	RFC	1180	Thumb Electric Cooperative	U.S.	3,931	3,931	-	-	1,391	1,391	-	-	2,540	2,540	-	-
2008	RFC	1181	Vectren Energy Delivery of IN	U.S.	133,813	133,813	-	-	47,344	47,344	-	-	86,469	86,469	-	-
2008	RFC	1099	Village of Blanchester	U.S.	1,989	1,989	-	-	704	704	-	-	1,285	1,285	-	-
2008	RFC	1183	Village of Sebawaing	U.S.	1,068	1,068	-	-	378	378	-	-	690	690	-	-
2008	RFC	1184	Wabash Valley Power Association Inc. (DUKE CIN)	U.S.	63,195	63,195	-	-	22,359	22,359	-	-	40,836	40,836	-	-
2008	RFC	1487	Wabash Valley Power Association Inc. (MECS CONS)	U.S.	3,497	3,497	-	-	1,237	1,237	-	-	2,260	2,260	-	-
2008	RFC	1488	Wabash Valley Power Association Inc.(NIPSCO)	U.S.	38,046	38,046	-	-	13,461	13,461	-	-	24,585	24,585	-	-
2008	RFC	1185	Wisconsin Electric Power Co.	U.S.	712,114	712,114	-	-	251,951	251,951	-	-	460,163	460,163	-	-
2008	RFC	1189	Wolverine Power Marketing Cooperative	U.S.	22,560	22,560	-	-	7,982	7,982	-	-	14,578	14,578	-	-
2008	RFC	1191	Wolverine Power Supply Cooperative	U.S.	58,576	58,576	-	-	20,725	20,725	-	-	37,852	37,852	-	-
2008	RFC	1190	Wolverine Power Marketing Cooperative	U.S.	2,290	2,290	-	-	810	810	-	-	1,480	1,480	-	-
2008	RFC	1194	Zelenople U.S.	U.S.	769	769	-	-	272	272	-	-	497	497	-	-
TOTAL RELIABILITYFIRST					22,199,568	22,199,568	-	-	7,854,376	7,854,376	-	-	14,345,192	14,345,192	-	-
2008	SERC	1267	Alabama Municipal Electric Authority	US	64,911	64,911	-	-	30,379	30,379	-	-	34,532	34,532	-	-
2008	SERC	1268	Alabama Power Company	US	1,053,491	1,053,491	-	-	493,049	493,049	-	-	560,441	560,441	-	-
2008	SERC	1269	Ameren - Illinois	US	778,071	778,071	-	-	364,149	364,149	-	-	413,922	413,922	-	-
2008	SERC	1271	Ameren - Missouri	US	757,597	757,597	-	-	354,567	354,567	-	-	403,030	403,030	-	-
2008	SERC	1272	APGI - Yadkin Division	US	483	483	-	-	226	226	-	-	257	257	-	-
2008	SERC	1273	Associated Electric Cooperative Inc.	US	350,952	350,952	-	-	164,251	164,251	-	-	186,701	186,701	-	-
2008	SERC		Beauregard Electric Cooperative, Inc.	US	17,993	17,993	-	-	8,421	8,421	-	-	9,572	9,572	-	-
2008	SERC	1462	Benton Utility District	US	4,922	4,922	-	-	2,303	2,303	-	-	2,618	2,618	-	-
2008	SERC	1274	Big Rivers Electric Corporation	US	197,954	197,954	-	-	92,645	92,645	-	-	105,308	105,308	-	-
2008	SERC	1275	Black Warrior EMC	US	7,976	7,976	-	-	3,733	3,733	-	-	4,243	4,243	-	-
2008	SERC	1276	Blue Ridge EMC	US	20,903	20,903	-	-	9,783	9,783	-	-	11,120	11,120	-	-
2008	SERC	1463	Canton, MS	US	2,300	2,300	-	-	1,076	1,076	-	-	1,224	1,224	-	-
2008	SERC	1277	Central Electric Power Cooperative Inc.	US	259,810	259,810	-	-	121,595	121,595	-	-	138,215	138,215	-	-
2008	SERC	1278	City of Blountstown FL	US	661	661	-	-	310	310	-	-	352	352	-	-
2008	SERC	1279	City of Camden SC	US	3,671	3,671	-	-	1,718	1,718	-	-	1,953	1,953	-	-
2008	SERC	1280	City of Collins MS	US	790	790	-	-	370	370	-	-	420	420	-	-
2008	SERC	1281	City of Columbia MO	US	24,823	24,823	-	-	11,617	11,617	-	-	13,205	13,205	-	-
2008	SERC	1282	City of Conway AR (Conway Corporation)	US	17,574	17,574	-	-	8,225	8,225	-	-	9,349	9,349	-	-
2008	SERC	1284	City of Evergreen AL	US	1,096	1,096	-	-	513	513	-	-	583	583	-	-

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					Total	US Total	Canada Total	Mexico Total	Total	US Total	Canada Total	Mexico Total	Total	US Total	Canada Total	Mexico Total
2008	WECC		Comision Federal de Electricidad	Mexico	594,652	-	-	594,652	88,308	-	-	88,308	506,345	-	-	506,345
2008	WECC		EI Paso Electric Company	U.S.	412,228	412,228	-	-	61,217	61,217	-	-	351,011	351,011	-	-
2008	WECC		Imperial Irrigation District	U.S.	200,692	200,692	-	-	29,803	29,803	-	-	170,889	170,889	-	-
2008	WECC		PacifiCorp U.S.		2,520,583	2,520,583	-	-	374,314	374,314	-	-	2,146,269	2,146,269	-	-
2008	WECC		PacifiCorp – Merchant Function	U.S.	1,193,573	1,193,573	-	-	177,249	177,249	-	-	1,016,324	1,016,324	-	-
2008	WECC		Public Utility District No. 1 of Chelan County	U.S.	176,828	176,828	-	-	26,259	26,259	-	-	150,568	150,568	-	-
2008	WECC		Public Utility District No. 1 of Douglas County	U.S.	77,408	77,408	-	-	11,495	11,495	-	-	65,912	65,912	-	-
2008	WECC		Public Utility District No. 2 of Grant County	U.S.	197,307	197,307	-	-	29,301	29,301	-	-	168,006	168,006	-	-
2008	WECC		Puget Sound Energy	U.S.	1,268,164	1,268,164	-	-	188,326	188,326	-	-	1,079,838	1,079,838	-	-
2008	WECC		Salt River Project	U.S.	1,715,002	1,715,002	-	-	254,683	254,683	-	-	1,460,319	1,460,319	-	-
2008	WECC		Seattle City Light	U.S.	557,014	557,014	-	-	82,718	82,718	-	-	474,296	474,296	-	-
2008	WECC		Tacoma Power	U.S.	284,520	284,520	-	-	42,252	42,252	-	-	242,268	242,268	-	-
2008	WECC		Tucson Electric Power Company	U.S.	725,966	725,966	-	-	107,808	107,808	-	-	618,158	618,158	-	-
2008	WECC		Agua Irrigation District - APS	U.S.	1,918	1,918	-	-	285	285	-	-	1,633	1,633	-	-
2008	WECC		Buckeye Water Conservation and Drainage District - APS	U.S.	1,115	1,115	-	-	166	166	-	-	949	949	-	-
2008	WECC		Electrical District No. 6 of Pinal County - APS	U.S.	130	130	-	-	19	19	-	-	111	111	-	-
2008	WECC		Electrical District No. 7 of Maricopa County - APS	U.S.	1,127	1,127	-	-	167	167	-	-	960	960	-	-
2008	WECC		Electrical District No. 8 of Maricopa County - APS	U.S.	13,886	13,886	-	-	2,062	2,062	-	-	11,824	11,824	-	-
2008	WECC		Harquahala Valley Power District - APS	U.S.	4,042	4,042	-	-	600	600	-	-	3,442	3,442	-	-
2008	WECC		Maricopa County Municipal Water Conservation District No. 1 - APS	U.S.	2,718	2,718	-	-	404	404	-	-	2,314	2,314	-	-
2008	WECC		McMullen Valley Water Conservation & Drainage District - APS	U.S.	3,547	3,547	-	-	527	527	-	-	3,020	3,020	-	-
2008	WECC		Roosevelt Irrigation District - APS	U.S.	1,959	1,959	-	-	291	291	-	-	1,668	1,668	-	-
2008	WECC		Tonopah Irrigation District - APS	U.S.	1,311	1,311	-	-	195	195	-	-	1,117	1,117	-	-
2008	WECC		Town of Wickenburg - APS	U.S.	1,656	1,656	-	-	246	246	-	-	1,410	1,410	-	-
2008	WECC		Tohono O'odham Utility Authority - APS	U.S.	4,025	4,025	-	-	598	598	-	-	3,427	3,427	-	-
2008	WECC		City of Williams - APS	U.S.	2,239	2,239	-	-	332	332	-	-	1,906	1,906	-	-
2008	WECC		Electrical Districts 1 & 3 - APS	U.S.	32,493	32,493	-	-	4,825	4,825	-	-	27,668	27,668	-	-
2008	WECC		Ajo Improvement District - APS	U.S.	780	780	-	-	116	116	-	-	664	664	-	-
2008	WECC		Ak-Chin - APS	U.S.	1,658	1,658	-	-	246	246	-	-	1,412	1,412	-	-
2008	WECC		Yuma Irrigation District - APS	U.S.	183	183	-	-	27	27	-	-	156	156	-	-
2008	WECC		Yuma-Mesa Irrigation District - APS	U.S.	10	10	-	-	1	1	-	-	8	8	-	-
2008	WECC		Navajo Tribal Utility Authority - APS	U.S.	2,247	2,247	-	-	334	334	-	-	1,913	1,913	-	-
2008	WECC		San Carlos Indian Irrigation Project - APS	U.S.	8	8	-	-	1	1	-	-	7	7	-	-
2008	WECC		Unit B Irrigation District - APS	U.S.	1	1	-	-	0	0	-	-	1	1	-	-
2008	WECC		Unisource Electric - APS	U.S.	36,688	36,688	-	-	5,448	5,448	-	-	31,240	31,240	-	-
2008	WECC		Arizona Public Service Company - APS	U.S.	1,660,072	1,660,072	-	-	246,525	246,525	-	-	1,413,547	1,413,547	-	-
2008	WECC		Big Bend Electric Cooperative, Inc.	U.S.	8,356	8,356	-	-	1,241	1,241	-	-	7,115	7,115	-	-
2008	WECC		Clearwater Power Company	U.S.	8,959	8,959	-	-	1,330	1,330	-	-	7,629	7,629	-	-
2008	WECC		Inland Power & Light Company	U.S.	24,027	24,027	-	-	3,568	3,568	-	-	20,459	20,459	-	-
2008	WECC		Kootenai Electric Cooperative, Inc.	U.S.	24,667	24,667	-	-	3,663	3,663	-	-	21,004	21,004	-	-
2008	WECC		Modern Electric Water Company	U.S.	12,842	12,842	-	-	1,907	1,907	-	-	10,935	10,935	-	-
2008	WECC		Northern Lights Inc.	U.S.	1,983	1,983	-	-	294	294	-	-	1,688	1,688	-	-
2008	WECC		PUD No. 1 of Pend Oreille County	U.S.	4,818	4,818	-	-	716	716	-	-	4,103	4,103	-	-
2008	WECC		PUD No. 2 of Grant County	U.S.	53,810	53,810	-	-	7,991	7,991	-	-	45,819	45,819	-	-
2008	WECC		Avista Corporation	U.S.	537,440	537,440	-	-	79,811	79,811	-	-	457,629	457,629	-	-
2008	WECC		Oregon Trail Electric Cooperative	U.S.	21,215	21,215	-	-	3,150	3,150	-	-	18,064	18,064	-	-
2008	WECC		The United States Bureau of Reclamation	U.S.	10,648	10,648	-	-	1,581	1,581	-	-	9,067	9,067	-	-
2008	WECC		Raft River Electric Cooperative	U.S.	13,664	13,664	-	-	2,029	2,029	-	-	11,635	11,635	-	-
2008	WECC		Priority Firm Bonneville Power Customers	U.S.	44,365	44,365	-	-	6,588	6,588	-	-	37,777	37,777	-	-
2008	WECC		Idaho Power Company	U.S.	857,880	857,880	-	-	127,398	127,398	-	-	730,483	730,483	-	-
2008	WECC		The City of Burbank - LDWP	U.S.	67,563	67,563	-	-	10,033	10,033	-	-	57,529	57,529	-	-
2008	WECC		The City of Glendale - LDWP	U.S.	66,601	66,601	-	-	9,890	9,890	-	-	56,710	56,710	-	-
2008	WECC		Los Angeles Department of Water and Power - LDWP	U.S.	1,514,263	1,514,263	-	-	224,872	224,872	-	-	1,289,390	1,289,390	-	-
2008	WECC		City of Boulder City - NEVP	U.S.	9,833	9,833	-	-	1,460	1,460	-	-	8,373	8,373	-	-
2008	WECC		Colorado River Commission of Nevada - NEVP	U.S.	46,122	46,122	-	-	6,849	6,849	-	-	39,273	39,273	-	-
2008	WECC		Las Vegas Valley Water District - NEVP	U.S.	5,180	5,180	-	-	769	769	-	-	4,410	4,410	-	-
2008	WECC		Lincoln County Power District No. 1 - NEVP	U.S.	21,972	21,972	-	-	3,263	3,263	-	-	18,709	18,709	-	-
2008	WECC		City of Needles - NEVP	U.S.	1,719	1,719	-	-	255	255	-	-	1,464	1,464	-	-
2008	WECC		Nevada Power Company - NEVP	U.S.	1,191,482	1,191,482	-	-	176,938	176,938	-	-	1,014,544	1,014,544	-	-
2008	WECC		Overton Power District #5 - NEVP	U.S.	4,570	4,570	-	-	679	679	-	-	3,892	3,892	-	-
2008	WECC		Southern Nevada Water Authority - NEVP	U.S.	45,963	45,963	-	-	6,826	6,826	-	-	39,137	39,137	-	-
2008	WECC		Valley Electric Association, Inc. - NEVP	U.S.	25,786	25,786	-	-	3,829	3,829	-	-	21,957	21,957	-	-

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2008	WECC		Northwestern Energy	U.S.	483,078	483,078	-	-	71,738	71,738	-	-	411,339	411,339	-	-
2008	WECC		Bonneville Power Administration	U.S.	39,859	39,859	-	-	5,919	5,919	-	-	33,939	33,939	-	-
2008	WECC		Western Area Power Administration	U.S.	10,271	10,271	-	-	1,525	1,525	-	-	8,745	8,745	-	-
2008	WECC		Idaho Power Company	U.S.	6,062	6,062	-	-	900	900	-	-	5,161	5,161	-	-
2008	WECC		Central Montana Electric Power Coop	U.S.	9,326	9,326	-	-	1,385	1,385	-	-	7,941	7,941	-	-
2008	WECC		Southern Montana Electric G & T	U.S.	28,454	28,454	-	-	4,226	4,226	-	-	24,229	24,229	-	-
2008	WECC		PacifiCorp West (PACW)	U.S.	387	387	-	-	58	58	-	-	330	330	-	-
2008	WECC		Bonneville Power Administration - Power Business Line- PGN	U.S.	28,992	28,992	-	-	4,305	4,305	-	-	24,686	24,686	-	-
2008	WECC		Constellation New Energy, Inc. - PGN	U.S.	9,309	9,309	-	-	1,382	1,382	-	-	7,926	7,926	-	-
2008	WECC		EPCOR Merchant and Capital (US) Inc. - PGN	U.S.	3,664	3,664	-	-	544	544	-	-	3,120	3,120	-	-
2008	WECC		Sempra Energy Solutions - PGN	U.S.	121,412	121,412	-	-	18,030	18,030	-	-	103,382	103,382	-	-
2008	WECC		Portland General Electric Company - PGN	U.S.	1,005,907	1,005,907	-	-	149,380	149,380	-	-	856,527	856,527	-	-
2008	WECC		Public Service Company of New Mexico	U.S.	550,717	550,717	-	-	81,783	81,783	-	-	468,934	468,934	-	-
2008	WECC		Navopache Electric Cooperative	U.S.	26,161	26,161	-	-	3,885	3,885	-	-	22,276	22,276	-	-
2008	WECC		Incorporated County of Los Alamos, NM	U.S.	20,711	20,711	-	-	3,076	3,076	-	-	17,635	17,635	-	-
2008	WECC		Navaho Tribal Utility Authority	U.S.	11,389	11,389	-	-	1,691	1,691	-	-	9,697	9,697	-	-
2008	WECC		Tri-State Generation & Transmission Association	U.S.	130,124	130,124	-	-	19,324	19,324	-	-	110,800	110,800	-	-
2008	WECC		City of Gallop, NM	U.S.	12,114	12,114	-	-	1,799	1,799	-	-	10,315	10,315	-	-
2008	WECC		National Nuclear Security Administration - Kirtland Air Force Base	U.S.	25,852	25,852	-	-	3,839	3,839	-	-	22,013	22,013	-	-
2008	WECC		City of Aztec, NM	U.S.	2,067	2,067	-	-	307	307	-	-	1,760	1,760	-	-
2008	WECC		Public Service Company of Colorado	U.S.	1,634,602	1,634,602	-	-	242,743	242,743	-	-	1,391,859	1,391,859	-	-
2008	WECC		Platte River Power Authority	U.S.	172,519	172,519	-	-	25,620	25,620	-	-	146,899	146,899	-	-
2008	WECC		Aquila Networks	U.S.	105,139	105,139	-	-	15,613	15,613	-	-	89,525	89,525	-	-
2008	WECC		Western Area Power Administration	U.S.	30,314	30,314	-	-	4,502	4,502	-	-	25,813	25,813	-	-
2008	WECC		TSG&T	U.S.	101,512	101,512	-	-	15,075	15,075	-	-	86,437	86,437	-	-
2008	WECC		City of Burlington	U.S.	213	213	-	-	32	32	-	-	181	181	-	-
2008	WECC		Town of Center	U.S.	724	724	-	-	107	107	-	-	616	616	-	-
2008	WECC		Holy Cross Energy	U.S.	61,225	61,225	-	-	9,092	9,092	-	-	52,133	52,133	-	-
2008	WECC		Yampa Valley Electric Association	U.S.	33,007	33,007	-	-	4,902	4,902	-	-	28,105	28,105	-	-
2008	WECC		Grand Valley Electric Association	U.S.	12,744	12,744	-	-	1,893	1,893	-	-	10,852	10,852	-	-
2008	WECC		Intermountain Rural Electric Association	U.S.	113,278	113,278	-	-	16,822	16,822	-	-	96,456	96,456	-	-
2008	WECC		Sacramento Municipal Utility District - SMUD	U.S.	629,931	629,931	-	-	93,547	93,547	-	-	536,385	536,385	-	-
2008	WECC		Western (WAPA-Sierra Nevada Region) - SMUD	U.S.	67,539	67,539	-	-	10,030	10,030	-	-	57,509	57,509	-	-
2008	WECC		City of Roseville - SMUD	U.S.	69,647	69,647	-	-	10,343	10,343	-	-	59,305	59,305	-	-
2008	WECC		Modesto Irrigation District - SMUD	U.S.	143,516	143,516	-	-	21,313	21,313	-	-	122,204	122,204	-	-
2008	WECC		City of Redding - SMUD	U.S.	45,310	45,310	-	-	6,729	6,729	-	-	38,582	38,582	-	-
2008	WECC		City of Shasta Lake - SMUD	U.S.	10,171	10,171	-	-	1,510	1,510	-	-	8,660	8,660	-	-
2008	WECC		Barrick Goldstrike Mines Inc. - SPP	U.S.	59,488	59,488	-	-	8,834	8,834	-	-	50,654	50,654	-	-
2008	WECC		City of Fallon - SPP	U.S.	6,508	6,508	-	-	966	966	-	-	5,541	5,541	-	-
2008	WECC		Harney Electric Cooperative, Inc. - SPP	U.S.	4,268	4,268	-	-	634	634	-	-	3,634	3,634	-	-
2008	WECC		Mt. Wheeler Power Company - SPP	U.S.	27,338	27,338	-	-	4,060	4,060	-	-	23,278	23,278	-	-
2008	WECC		Sierra Pacific Power Company - SPP	U.S.	494,093	494,093	-	-	73,374	73,374	-	-	420,719	420,719	-	-
2008	WECC		Truckee Donner Public Utility District - SPP	U.S.	8,254	8,254	-	-	1,226	1,226	-	-	7,028	7,028	-	-
2008	WECC		Wells Rural Electric Cooperative - SPP	U.S.	34,932	34,932	-	-	5,188	5,188	-	-	29,745	29,745	-	-
2008	WECC		Merced Irrigation District - TIDC	U.S.	23,749	23,749	-	-	3,527	3,527	-	-	20,222	20,222	-	-
2008	WECC		Turlock Irrigation District	U.S.	105,197	105,197	-	-	15,622	15,622	-	-	89,575	89,575	-	-
2008	WECC		Basin Electric Power Cooperative	U.S.	167,989	167,989	-	-	24,947	24,947	-	-	143,042	143,042	-	-
2008	WECC		Black Hills Power & Light Company	U.S.	178,164	178,164	-	-	26,458	26,458	-	-	151,706	151,706	-	-
2008	WECC		Colorado Springs Utilities	U.S.	237,043	237,043	-	-	35,202	35,202	-	-	201,842	201,842	-	-
2008	WECC		Municipal Energy Agency of Nebraska	U.S.	39,773	39,773	-	-	5,906	5,906	-	-	33,867	33,867	-	-
2008	WECC		PacifiCorp	U.S.	48,084	48,084	-	-	7,141	7,141	-	-	40,944	40,944	-	-
2008	WECC		Public Service Company of Colorado	U.S.	14,222	14,222	-	-	2,112	2,112	-	-	12,110	12,110	-	-
2008	WECC		Rocky Mountain Generation Cooperative, Inc.	U.S.	1,819	1,819	-	-	270	270	-	-	1,549	1,549	-	-
2008	WECC		Tri-State Generation & Transmission Association, Inc.	U.S.	362,761	362,761	-	-	53,871	53,871	-	-	308,890	308,890	-	-
2008	WECC		Wyoming Municipal Power Agency	U.S.	11,100	11,100	-	-	1,648	1,648	-	-	9,452	9,452	-	-
2008	WECC		Western Area Power Administration - WACM	U.S.	108,238	108,238	-	-	16,074	16,074	-	-	92,164	92,164	-	-
2008	WECC		Aha Macav Power Service	U.S.	2,152	2,152	-	-	320	320	-	-	1,833	1,833	-	-
2008	WECC		City of Needles, Needles Public Utilities Authority	U.S.	1,662	1,662	-	-	247	247	-	-	1,415	1,415	-	-
2008	WECC		Colorado River Agency-Bureau of Indian Affairs	U.S.	154	154	-	-	23	23	-	-	131	131	-	-
2008	WECC		Deseret Generation & Transmission Co-Operative	U.S.	4,313	4,313	-	-	641	641	-	-	3,673	3,673	-	-
2008	WECC		Electrical District #2	U.S.	9,227	9,227	-	-	1,370	1,370	-	-	7,857	7,857	-	-
2008	WECC		Farmington Electric Utility System	U.S.	64,658	64,658	-	-	9,602	9,602	-	-	55,056	55,056	-	-

Allocations to Load Serving Entities (or Designee) for the 2010 NERC and Regional Entity Assessments

Data Year	Regional Entity	ID	Entity	Country	Total ERO Funding (NERC, RE & WIRAB Costs)				Total NERC Funding				Total Regional Entity Funding (Including WIRAB Funding)			
					Total	US Total	Canada Total	Mexico Total	Total	US Total	Canada Total	Mexico Total	Total	US Total	Canada Total	Mexico Total
2008	WECC		Town of Fredonia	U.S.	151	151	-	-	22	22	-	-	129	129	-	-
2008	WECC		City of Mesa	U.S.	15,509	15,509	-	-	2,303	2,303	-	-	13,206	13,206	-	-
2008	WECC		Page Electric Utility	U.S.	851	851	-	-	126	126	-	-	725	725	-	-
2008	WECC		Southwest Transmission Cooperative, Inc.	U.S.	135,934	135,934	-	-	20,187	20,187	-	-	115,748	115,748	-	-
2008	WECC		U.S. Army Yuma Proving Ground	U.S.	955	955	-	-	142	142	-	-	814	814	-	-
2008	WECC		Wellton-Mohawk Irrigation & Drainage District	U.S.	1,007	1,007	-	-	150	150	-	-	857	857	-	-
2008	WECC		Western Area Power Administration - WALC	U.S.	117,771	117,771	-	-	17,489	17,489	-	-	100,282	100,282	-	-
2008	WECC		Basin Electric Power Cooperative	U.S.	2,457	2,457	-	-	365	365	-	-	2,092	2,092	-	-
2008	WECC		Montana Dakota Utilities	U.S.	1,195	1,195	-	-	178	178	-	-	1,018	1,018	-	-
2008	WECC		Northwestern Energy, LLC	U.S.	15,959	15,959	-	-	2,370	2,370	-	-	13,589	13,589	-	-
2008	WECC		Bonneville Power Administration	U.S.	965	965	-	-	143	143	-	-	822	822	-	-
2008	WECC		Western Area Power Administration - WAUM	U.S.	12,911	12,911	-	-	1,917	1,917	-	-	10,994	10,994	-	-
TOTAL WECC					46,526,111	39,743,060	6,188,399	594,652	6,955,272	5,901,955	965,010	88,308	39,570,839	33,841,105	5,223,389	506,345
Summary by Regional Entity																
2008	FRCC				6,912,548	6,912,548	-	-	1,974,371	1,974,371	-	-	4,938,177	4,938,177	-	-
2008	MRO				9,977,262	8,331,770	1,645,492	-	2,473,517	2,065,574	407,943	-	7,503,745	6,266,196	1,237,549	-
2008	NPCC				16,289,142	8,996,145	7,292,997	-	4,788,703	2,444,385	2,344,317	-	11,500,439	6,551,760	4,948,679	-
2008	RFC				22,199,568	22,199,568	-	-	7,854,376	7,854,376	-	-	14,345,192	14,345,192	-	-
2008	SERC				18,480,367	18,480,367	-	-	8,649,090	8,649,090	-	-	9,831,277	9,831,277	-	-
2008	SPP				8,642,766	8,642,766	-	-	1,886,912	1,886,912	-	-	6,755,854	6,755,854	-	-
2008	TRE				9,141,706	9,141,706	-	-	2,481,329	2,481,329	-	-	6,660,377	6,660,377	-	-
2008	WECC				46,526,111	39,743,060	6,188,399	594,652	6,955,272	5,901,955	965,010	88,308	39,570,839	33,841,105	5,223,389	506,345
Total					138,169,469	122,447,929	15,126,888	594,652	37,063,569	33,257,992	3,717,270	88,308	101,105,900	89,189,937	11,409,618	506,345

DOCKET NO. RR09-__-000

**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

2010 BUSINESS PLAN AND BUDGET FILING

ATTACHMENT 3

FLORIDA RELIABILITY COORDINATING COUNCIL

PROPOSED 2010 BUSINESS PLAN AND BUDGET



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Final - Approved

2010 Business Plan and Budget

Florida Reliability Coordinating Council, Inc.

June 10, 2009

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Introduction

Total Regional Entity Resources				
(in whole dollars)				
	2010 Budget	U.S.	Canada	Mexico
Statutory FTEs	22.67			
Non-statutory FTEs	8.86			
Total FTEs	31.53			
Statutory Expenses	\$5,421,187	\$5,421,187		
Non-statutory Expenses	\$4,205,049	\$4,205,049		
Total Expenses	\$9,626,236	\$9,626,236		
Statutory Funding Assessments*	\$4,938,177	\$4,938,177		
Member Funding Assessments*	\$3,939,466	\$3,939,466		
Total Funding Assessments*	\$8,877,643	\$8,877,643		
NEL	233,457,900	233,457,900		
NEL %	100.00%	100.00%		

*Includes a Cash Reserve requirement

Organizational Overview

The Florida Reliability Coordinating Council (FRCC) is a Florida not-for-profit corporation that was formed in 1996 and is one of the eight regions of the North American Electric Reliability Corporation (NERC). The FRCC's mission is to ensure and enhance the reliability and adequacy of the bulk power system in Florida now and into the future. The FRCC's Web site is www.frcc.com. The FRCC Region is comprised of all of Florida east of the Apalachicola River. Florida's unique geography and its highly integrated transmission system coupled with its single interface boundary to the rest of the Eastern Interconnection required the development of a reliability focus in the FRCC Region. Membership in the FRCC's Regional Entity Division is open to any entity, without cost, that has a material interest in the reliability of the bulk power system in the FRCC Region. Currently there are 70 Registered Entities within the FRCC Region. The FRCC is governed by a balanced stakeholder Board of Directors, and accomplishes its activities through standing committees which have balanced stakeholder governance.

The FRCC standing committees actively participate in the development and approval of their committee's budget. The budgets reflect activities of each committee's responsibilities, such as resource adequacy, stability studies, transmission studies, reliability assessments, operations tools, system operator training, telecommunications infrastructure and tools. Each year, the total FRCC budget is presented to the FRCC Board of Directors in the second quarter of each year for informational purposes prior to final approval in June. The purpose of this is to give all FRCC members advanced indication of the funding level, both statutory and non-statutory, which will be required for the coming fiscal year (January 1 – December 31). This allows for a timely inclusion of each member's funding responsibility to be included in their individual budgeting process. The final budget is presented for approval to the FRCC Board of Directors in June of each year and is then submitted to NERC upon approval by the FRCC Board of Directors.

The FRCC provides the statutory functions and services for the FRCC Region through its Regional Entity Division. Non-statutory services for the FRCC Region are provided through its Member Services Division. This divisional structure provides an efficient and effective means of clearly separating statutory and non-statutory activities including related funding for each. The revised FRCC By-Laws, creating this divisional structure, were approved by the Federal Energy Regulatory Commission (“FERC”) on March 21, 2008.

The FRCC Regional Entity Division will work to enhance the reliability of the bulk power system in the FRCC Region through the development of regional reliability standards, assessment of reliability, and compliance monitoring and enforcement of reliability standards pursuant to the approved Regional Delegation Agreement with the Electric Reliability Organization (“ERO”) under the authority of the FERC.

The FRCC Member Services Division will also promote the reliable and efficient operation of the bulk power system in the FRCC Region through establishment of regionally-specific criteria, coordination of system planning, design and operations, and monitoring compliance with such non-mandatory criteria.

Membership and Governance

The FRCC's Members in the Regional Entity Division and the Member Services Division include investor-owned utilities, cooperative utilities, municipal utilities, power marketers, independent power producers and a general membership category. There are projected to be 27 FRCC Members.

The FRCC has six (6) membership sectors which include the following:

- Non-Investor Owned Utility Wholesale
- Load Serving Entity
- Generating Load Serving Entity
- Investor Owned Utility
- Suppliers
- General

There are currently two (2) members in the General Sector in the Regional Entity Division. Currently, there are no members in the General Sector in the Member Services Division.

The activities of FRCC are governed by its Board of Directors. The Board is comprised of senior level executives from members of FRCC.

Delegated Authority and the Regional Entities

As part of its responsibilities, NERC, as the ERO, delegates its authority to Regional Entities to perform certain functions through delegation agreements. On December 19, 2008, FERC approved revised delegation agreements between NERC and the eight (8) Regional Entities. These delegation agreements describe the enforcement authority delegated to the Regional Entities. The funding for Regional Entities is approved separately with each Regional Entity submitting its own business plan and budget for consideration by NERC and FERC.

Statutory Functional Scope

The FRCC carries out its delegated functions as outlined in the delegation agreement and detailed in Exhibits C, D and E of the delegation agreement. These delegated functions as defined by the NERC Rules of Procedures include:

- Reliability Standards Development (Section 300)
- Compliance Monitoring and Enforcement (Section 400)
- Organization Registration and Certification (Section 500) – This program has been combined with the Compliance Monitoring and Enforcement function
- Reliability Readiness Evaluation and Improvement (Section 700) – This program has been eliminated effective 1/1/2009
- Reliability Assessment and Performance Analysis (Section 800) (including necessary data gathering activities)
- Training, Education and Operator Certification (Section 900)
- Situational Awareness and Infrastructure Security (Section 1000)

2010 Key Assumptions

The FRCC, along with the other seven (7) Regional Entities and NERC, had several meetings in March 2009 to discuss and agree upon common planning assumptions for the 2010 budget year. The purpose of this effort is to promote consistency, efficiency, and accountability in the 2010 business plans and budgets of NERC and the Regional Entities by coordinating underlying business plan assumptions, goals and metrics. The assumptions that are reflected in the FRCC business plan include the following:

2010 Key Assumptions

- The international, industry-based Self Regulatory Organization (SRO) model continues to be used and no material changes to the SRO model impacting 2010 emerge from the ERO 3-year self assessment.
- The framework for delegation remains constant. The scope of delegated authorities and responsibilities remains relatively constant, with incremental improvements according to recommendations developed in the ERO 3-year self assessment.
- NERC and the Regional Entities are not budgeted in 2010 for unknown material changes to scope and are unable to take on unfunded mandates, such as new initiatives stemming from the American Recovery and Reinvestment Act of 2009 (ARRA) on energy. Any mandated material changes to scope will impact cash reserves.
- The current economic downturn continues into 2010, resulting in cost pressures on NERC and Regional Entities to do more with less. The industry experiences lower electricity demand and may defer capital projects in some areas and may reduce or hold O&M budgets flat. Cost pressures result in less travel and strain stakeholder participation in NERC and Regional Entity activities.

2010 Goals and Key Deliverables (Regional Entity Division)

- Continued implementation of the FRCC Regional Reliability Standards Development Process as outlined in Exhibit C of the delegation agreement.
- Working with NERC and the other seven (7) Regional Entities, develop further refinements of the Compliance Monitoring and Enforcement Program (“CMEP”) to streamline the process and ensure consistency among the Regions.
- Development of all forms, and infrastructure necessary to carry out timely hearings and settlements within the FRCC region.
- Improve communications to Registered Entities on compliance by (a) developing and conducting at least three (3) FRCC Compliance Workshops and/or WebEx conferences to educate registered entities; (b) conducting training seminars on Reliability Standards; (c) continued collaboration with NERC and the regions on the joint website which posts guidance on sufficient evidence necessary to demonstrate compliance; and (d) improving the timeliness of processing compliance audit reports and compliance violations.
- Work closely with the other Regional Entities and NERC to ensure that the delegated functions are implemented consistently and rationally.
- Gain FERC approval of at least two (2) Regional Reliability Standards.
- Conduct workshops and training seminars for Registered Entities to assist them in correctly understanding what evidence is necessary to demonstrate compliance with reliability standards.

2010 Overview of Cost Impacts

The FRCC’s proposed 2010 Statutory Budget is \$5,070,000, a \$1,092,000 increase over the 2009 budget. The major drivers of this increase are:

- Further development of the CMEP software
- Addition of three (3) positions to support Compliance Monitoring and Enforcement (one enforcement position to be hired in 2009)
- Moving the FRCC Offices to a larger space to accommodate the growth

Changes in Statutory Accounting Methodology

For the 2010 Business Plan and Budget, NERC changed the formatting to the *Statement of Activities* within each functional Program Area. The FRCC in order to be consistent with all the regions has modified its accounting reporting as follows:

- The ERO Assessment and penalty sanctions are only allocated across the delegated functions, except that ERO assessments needed to fund working capital are reflected in the General and Administrative Program within Administrative Services.

- The increase or decrease in assessments to achieve the desired working capital reserve balance is reflected as the Total Change in Assets. In 2009, this amount is reflected as Other Non-Operating Expense on the Statement of Activities as filed and approved by FERC for 2009.
- The majority of the Operating Expenses are accounted for within their related department's budget. If an expense cannot be specifically linked to a department, it is included in the General and Administrative Program, within Administrative Services.
- All expenses for the Administrative Services Programs, referred to as indirect expenses for 2010, are allocated to the delegated program areas by their respective FTEs and are shown on one line of each delegated program area as "Indirect Expenses". In 2009 those costs are also allocated to the delegated program areas by their respective FTEs however, they are included within each of the detail line items (such as Salaries, Payroll Taxes, etc.) as was filed and approved by FERC for 2009.
- Capital expenditures are broken out as fixed assets at the end of each statement of activities rather than being included in their related lines in the operating expenses section.
- Expenses include depreciation, but since funding is not being requested for depreciation expense, it has been deducted from the funding requirement for capital expenditures.

Detailed Business Plans and Budgets by Program

Details of the planning, operation, review, and adjustment for each program area are included in Section A. The corresponding budget details are shown in Section B.

Section A — 2010 Business Plan

Reliability Standards Development Program

Reliability Standards Development Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	1.76	1.41	(.35)
Total Direct Expenses	\$326,568	\$304,967	(\$21,601)
Total Indirect Expenses ¹	63,094	59,025	(4,069)
Increase (Decrease) in Fixed Assets	4,308	(3,824)	(8,132)
Total Expenses & Fixed Assets	\$393,970	\$360,168	(\$33,802)

Program Scope and Functional Description

The FRCC may develop, through the FRCC Regional Reliability Standard Development Process, separate Regional Reliability Standards that are specific to the FRCC Region and go beyond, add detail to, or implement NERC Reliability Standards. FRCC Regional Reliability Standards will not be inconsistent with or less stringent than NERC Reliability Standards.

The FRCC Regional Reliability Standard Development Process is an open, balanced and fair process that ensures all interested and affected parties have an opportunity to participate in the development of FRCC Regional Reliability Standards for the FRCC Region and has the following characteristics:

- **Due Process** – Any interested party, or any entity that is directly and materially affected by the reliability of the FRCC Bulk Power System has a right to participate in this process.
- **Openness** – Participation is open to any interested party or any entity that is directly and materially affected by the reliability of the FRCC Bulk Power System. Participation shall not be conditional upon membership in the FRCC. All FRCC Regional Reliability Standards development meetings will be open and noticed on the FRCC website.
- **Balance** – The FRCC Regional Reliability Standard Development Process shall balance the interests of its membership. In this regard, no two interest categories of members can, on their own, approve a matter brought to a vote, and no single interest category of members can, on its own, defeat a matter brought to a vote.

FRCC Regional Reliability Standards uphold NERC's Reliability Principles and Market Interface Principles. Each FRCC Regional Reliability Standard shall enable or support one or more of

¹ Indirect funding is calculated by allocating all administrative services funding to the operational program areas on a proportional FTE basis.

NERC's Reliability Principles and must accommodate competitive electricity markets by being consistent with NERC's Market Interface Principles.

Standards Process

The FRCC Regional Reliability Standard Development Process is overseen by the FRCC Operating Committee (OC) and the FRCC Planning Committee (PC) whose purpose, in addition to other activities, is to ensure that all stakeholder interests are fairly represented in the development of Regional Reliability Standards. The OC and PC are balanced stakeholder committees consisting of members from each of the six (6) FRCC sectors. Membership is open to any entity that has a material interest in the reliability of the Bulk Power System in the FRCC region.

The FRCC OC and PC will review all requests submitted to develop, modify or withdraw a FRCC Regional Reliability Standard to determine if the request will be accepted or rejected. If the standard request is accepted, the OC and/or the PC will assign and direct a Standard Drafting Team (SDT) to develop the draft Regional Reliability Standard. The SDT will consist of technical experts, such as FRCC Subcommittees, Working Groups, Task Forces, Industry Volunteers or the FRCC Staff, and will develop the details of the FRCC Regional Reliability Standard, consider and respond to industry comments and assist in the implementation of approved standards.

Development of each Regional Reliability Standard will provide at least one opportunity for the submission of stakeholder comments prior to a voting activity.

The Registered Ballot Body (RBB) comprises potential ballot participants for the voting on standards. FRCC membership is not a requirement to participate in the development of and voting on FRCC Regional Reliability Standards. Any entity or person that has a material interest in the reliability of the FRCC Bulk Power System shall be allowed to register as potential ballot participants in the RBB. A separate ballot pool for each voting activity will be established to allow RBB members to register and participate in the vote.

The FRCC Board of Directors considers for adoption as FRCC Regional Reliability Standards, those standards that have been developed and approved by this process. Upon adoption by the Board of Directors, such standards are submitted to NERC for approval. When approved by NERC, they will be submitted to FERC for approval.

The FRCC Regional Reliability Standard Development Process shall be administered by the FRCC Standards Process Manager. The FRCC Standards Process Manager will ensure the integrity of the process and the consistency of quality and completeness of the FRCC Regional Reliability Standards. The FRCC Standards Process Manager will facilitate all steps in this process.

2010 Key Assumptions

- NERC will continue implementing its published three-year work plan for standards development, subject to incremental updates.
- Regions will facilitate a stakeholder review of the standards, for the purpose of identifying opportunities to streamline the standards to be more focused on reliability

performance, leading to the submittal of inputs to the NERC 3-year work plan and possibly SARs.

- NERC and Regional Entities will establish in 2010 improved mechanisms to capture lessons from event analysis, compliance enforcement, and other activities, in the form of recommendations to improve reliability standards to prevent future similar root causes.
- Regional Entities will develop no more than one or two regional reliability standards per region in 2010. Scheduling of regional standards initiatives continues to depend on determination of North American performance requirements and reliability needs of the region.
- The current economic downturn will continue into 2010 and adversely affect stakeholder travel budgets and resourcing for work in standards development. NERC and regions will develop methods to encourage active involvement with less travel and face-to-face meetings. Stakeholder participation that has already shown signs of being strained will reach low points in 2009 and 2010.
- NERC and Regional Entities will collaborate in the conduct of special workshops, in addition to the regular schedule of workshops, to focus on most-violated standards to improve the understanding of requirements by registered entities resulting in increased reliability.
- NERC and Regional Entities will continue to support coordinated and consistent response to requests for both formal interpretations and informal clarifications of the reliability standards.
- NERC will deploy an information system to make the current and historical versions of standards and requirements available online for registered entities and regional compliance personnel.

2010 Goals and Key Deliverables

The Standards Program objectives for 2010 are outlined below:

- Continue to follow and participate in NERC's revision and development of "Fill-in-the blank" standards and develop any needed Regional Reliability Standards as appropriate.
- Continue the development of Regional Reliability Standards that are required by NERC standards or are needed for reliability within the FRCC region.
- Participate in the development and approval of NERC Reliability Standards.
- Educate and inform industry stakeholders through standards workshops and other available means.

Section 215 Regional Entity Reliability Standards Development

The FRCC currently has under development the following Regional Reliability Standards:

- PRC-002-FRCC-01 FRCC Regional Disturbance Monitoring and Reporting Requirements
- PRC-003-FRCC-01 FRCC Regional Procedure for Analysis of Misoperations of Transmission and Generation Protection Systems
- PRC-006-FRCC-01 FRCC Automatic Under Frequency Load Shedding Program
- PRC-024-FRCC-01 FRCC Regional Generator Performance During Frequency and Voltage Excursions

Funding Requirements — Explanation of Increase (Decrease)

Personnel Expenses – A change was made to report all training in the Training, Education and Operator Certification function to be consistent with the other regions. Personnel Expenses reflects this change.

Meeting and Travel Costs – It is estimated that the Reliability Standards Manager will take a more active role in the various regional and NERC Standards Committee activities, therefore more travel will be involved.

Operating Expenses – A change was made to report all training in the Training, Education and Operator Certification function to be consistent with the other regions. Operating Expenses reflects this change.

Reliability Standards Development Program

Funding sources and related expenses for the reliability standards section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Standards Development					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 393,970	\$ 393,970	\$ -	\$ 360,168	\$ (33,802)
Penalty Sanctions					
Total ERO Funding	\$ 393,970	\$ 393,970	\$ -	\$ 360,168	\$ (33,802)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 393,970	\$ 393,970	\$ -	\$ 360,168	\$ (33,802)
Expenses					
Personnel Expenses					
Salaries	\$ 235,573	\$ 155,744	\$ (79,829)	\$ 170,504	\$ (65,069)
Payroll Taxes	15,305	10,676	(4,629)	11,172	(4,133)
Benefits	23,207	29,620	6,413	17,408	(5,799)
Retirement Costs	33,133	24,184	(8,949)	24,755	(8,378)
Total Personnel Expenses	\$ 307,218	\$ 220,224	\$ (86,994)	\$ 223,839	\$ (83,379)
Meeting Expenses					
Meetings	\$ 1,195	\$ 1,195	\$ -	\$ 1,224	\$ 29
Travel	21,922	49,915	27,993	49,915	27,993
Conference Calls	837	837	-	634	(203)
Total Meeting Expenses	\$ 23,954	\$ 51,947	\$ 27,993	\$ 51,773	\$ 27,819
Operating Expenses					
Consultants & Contracts			\$ -		\$ -
Office Rent	27,655	27,655	-	10,476	(17,179)
Office Costs	21,374	21,374	-	9,565	(11,809)
Professional Services	12,123	12,123	-	5,490	(6,633)
Miscellaneous	-	-	-	-	-
Depreciation	-	3,824	3,824	3,824	3,824
Total Operating Expenses	\$ 61,152	\$ 64,976	\$ 3,824	\$ 29,355	\$ (31,797)
Total Direct Expenses	\$ 392,324	\$ 337,147	\$ (55,177)	\$ 304,967	\$ (87,357)
Indirect Expenses				\$ 59,025	\$ 59,025
Other Non-Operating Expenses	\$ (2,662)	\$ -	\$ 2,662	\$ -	\$ 2,662
Total Expenses	\$ 389,662	\$ 337,147	\$ (52,515)	\$ 363,992	\$ (25,670)
Change in Assets	\$ 4,308	\$ 56,823	\$ 52,515	\$ (3,824)	\$ (8,132)
Fixed Assets					
Depreciation	-	(3,824)	(3,824)	(3,824)	(3,824)
Total Fixed Asset Purchases	4308	4308	-	-	(4,308)
Change in Fixed Assets	\$ (4,308)	\$ (484)	\$ 3,824	\$ 3,824	\$ 8,132
TOTAL CHANGE IN ASSETS	\$ -	\$ 56,339	\$ 56,339	\$ 0	\$ 0

Compliance Monitoring and Enforcement Program and Organization Registration and Certification Program

Compliance Monitoring and Enforcement Program and Organization Registration and Certification Program Resources			
<small>(in whole dollars)</small>			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	9.26	12.57	3.31
Total Direct Expenses	\$1,843,759	\$2,765,989	\$922,230
Total Indirect Expenses ²	344,187	526,200	182,013
Increase (Decrease) in Fixed Assets	180,058	278,744	98,686
Total Expenses & Fixed Assets	\$2,368,004	\$3,570,933	\$1,202,929

Program Scope and Functional Description

Monitoring, evaluating, investigating, and enforcing compliance with reliability standards by owners, operators, and users of the bulk power system, as well as the development and adoption of the reliability standards themselves, are at the core of FRCC's mission. Compliance and enforcement activities are carried out by the FRCC Compliance Staff and are independent of all users, owners, and operators of the bulk power system. Compliance activities are governed by the delegation agreement between the North American Electric Reliability Corporation (NERC) and the FRCC. Portions of NERC's authority as the Electric Reliability Organization (ERO) have been delegated under Section 215 of the Federal Power Act, to FRCC (the "FRCC/NERC Delegation Agreement").

Through a rigorous program of monitoring, evaluating and enforcing if necessary, the imposition of penalties and sanctions for noncompliance with reliability standards, FRCC will strive to increase the level of reliable operation of the bulk power system in the FRCC Region. Reliable operation of the bulk power system is in the public interest, because it will benefit all owners, operators, and users of the bulk power system, and, ultimately, all users and consumers of electric power in the FRCC Region.

The FRCC Compliance Monitoring and Enforcement Program (CMEP) is the program used by the FRCC to monitor, assess, and enforce compliance with Reliability Standards within the FRCC Region. This is accomplished through compliance monitoring and rigorous proactive compliance audits and other monitoring methods.

The 2009 staffing of the compliance function consists of: the Manager of Compliance, two Compliance Program Administrators, and six Compliance Engineers/Auditors. There will be a significant increase in workload resulting from the additional monitoring and enforcement

² Indirect funding is calculated by allocating all administrative services funding to the operational program areas on a proportional FTE basis.

activities including a growing number of settlement requests that are necessary to meet the obligations under the delegation agreement. In addition the cyber security standards will significantly increase in 2010 therefore, FRCC included additional positions to perform the compliance program functions. The 2010 budget includes the addition of three (3) compliance positions.

In 2010, FRCC expects to complete sixteen (16) on-site compliance audits, one (1) CIP on-site audit, seven (7) on-site CIP Spot Checks, 70 self-certifications, 56 spot checks, and 840 periodic data submittals compared to sixteen (16) on-site compliance audits, zero (0) CIP on-site audits, four (4) CIP Spot Checks, 70 self-certifications, 72 spot checks, and 840 periodic data submittals scheduled for 2009.

2010 Highlights Compliance Monitoring and Enforcement Processes

The FRCC will monitor, assess and enforce compliance with Reliability Standards using eight (8) monitoring processes (Compliance Audits, Self-Certifications, Spot Checking, Compliance Violation Investigations, Self-Reporting, Periodic Data Submittals, Exception Reporting, and Complaints) to collect information in order to make assessments of compliance to Reliability Standards.

Registration and Certification

The FRCC has registered the organizations responsible for complying with Reliability Standards in accordance with Section 500 of the NERC Rules of Procedure. Maintaining a complete and accurate database will be an ongoing activity. The FRCC will develop, maintain, and provide to NERC an accurate FRCC Compliance Registry with updates as changes occur.

Enforcement and Mitigation

Enforcement actions taken by FRCC through the CMEP may include the imposition of remedial actions, sanctions, and penalties, when applicable, which shall be based on the schedule of penalties and sanctions approved for implementation by FERC. Mitigation of violations of the approved Reliability Standards remains central to the FRCC's CMEP. Registered Entities found in violation of a Reliability Standard will be required to mitigate the violation regardless of any enforcement actions taken.

Technical Feasibility Exceptions

The Critical Infrastructure Protection (CIP) Standards allow for registered entities to request Technical Feasibility Exceptions (TFEs) to the standard requirements in certain instances. Once these requests are made, they must be reviewed and approved, and then short and long-term plans to mitigate the use of TFEs must also be evaluated, approved and monitored to completion. Based upon feedback and input NERC received in response to the public posting of its proposed 2010 Business Plan and Budget, they requested the Regions to develop proposals to deal with TFE processing. Also at this time, registered entities are being asked to review their designation of critical cyber assets which will significantly impact the number of potential TFEs likely to be requested. Since the volume of TFE work is uncertain and the development of an

accurate estimate of resource requirements and associated cost estimates is not possible at this time, FRCC plans to absorb the cost of TFE processing for 2010 from the operating reserves. Accurate information will be obtained as the TFE process is implemented and future budgets will account for the resources and costs associated as appropriate.

2010 Key Assumptions

- The number of Registered Entities is assumed to remain relatively stable in 2010 compared to 2009, with some risk that the number of Registered Entities could increase as early as 2009 based on application of CIP standards to generators below 100 kV. Other incremental adjustments to the registry, such as those related to the interchange authority function, will continue but not significantly increase the number of Registered Entities. It is expected that registration will be principally a maintenance issue in 2010.
- Non-CIP audits will continue under the schedule to complete BA, TOP, and RC audits every three years and other entities every six years.
- The number of CIP audits will increase substantially to include CIP audits of all “Table 1” entities by 2010 yearend. Also, “Table 2” entities begin to become CIP auditable in the second half of 2010. Regional Entities will continue to be constrained in removing CIP information from the entity site through 2010, resulting in a need to conduct onsite CIP audits.
- There is a risk of a policy or directive from the regulator clarifying the expectations of the CIP-002 risk-based methodology that results in a substantially expanded number of entities and standards to be monitored for CIP.
- NERC will review and address all requests for CIP technical feasibility exceptions and will address the issue of being able to access information offsite.
- The number of spot checks increases in 2010 recognizing that closure of each mitigation plan requires a spot check review to confirm closure. There is also moderate risk that the number of spot checks may increase as follow up to completed events analyses.
- The number of non-CIP possible violations discovered continues at a pace comparable to 2009 due to continuing first-time audits of entities. The number of non-CIP related violations is expected to be 1,400 to 1,500 for the year across North America, with that number distributed across regions in a similar proportion to historical experience. Decreasing numbers of new violations may begin to be seen after 2010.
- 2010 is expected to see a substantial upswing in the number of CIP possible violations, as CIP audits continue to ramp up. CIP possible violations may add 400 to 800 additional new possible violations to be processed on top of the violations listed above for non-CIP violations.
- No major rules changes are anticipated in the Compliance Monitoring and Enforcement Program in 2010.

- A large majority of possible violations will be handled through a settlement process. Process efficiencies and experience will partially offset the increased complexity of compliance cases and the level of effort for a settlement remains approximately the same as 2009.
- The regulator will approve a short form settlement process in 2009 and this process will be available for lower and medium risk, document-related violations with favorable mitigating factors.
- NERC will continue to provide required training for auditors and investigators. Programs are developed in NERC training and education and implemented through NERC compliance.
- The number of hearings conducted will remain low, averaging well below one per region. Some regions may consider a joint reserve fund as a means of reducing the cost of being prepared for the cost of a hearing. The fund, if used, would be replenished by the using region either by special assessment or in the next business cycle.
- NERC will conduct two event-based inquiries per month in 2010 and one compliance violation investigation per month (24 and 12 for the year). Regional entities will collectively review approximately 50-60 events of interest and 12-15 compliance violation investigations. All unplanned, multiple-facility trips will be considered candidates for these reviews. The number of reviews and CVIs will vary by region and each region will have a unique set of assumptions that collectively will approximate these gross estimates.
- NERC will begin implementation of the new organization certification program in 2010, transitioning away from the legacy procedures for certifying entities.
- NERC and Regional Entities continue to pursue integration of compliance information systems with the near-term priority being a seamless interface for management of compliance information from reporting of discovery to filing of Notice of Penalty or settlement and closure. The cost impact of achieving this development and integration is between \$1M and \$2M collectively across NERC and the regions for 2010.

2010 Goals and Key Deliverables

The Compliance Monitoring and Enforcement Program objectives for 2010 are outlined below:

- Continue to assess and update entity registration and certification. The FRCC will maintain an accurate registration of all owners, operators, and users of the bulk power system in the FRCC Region for compliance monitoring purposes.
- An annual FRCC Compliance Monitoring and Enforcement Program Implementation Plan will be submitted by November 1 of each year to NERC for approval. In accordance with NERC Rule of Procedure Section 401.6, the annual plan identifies (1) all Reliability Standards identified by NERC to be actively monitored during each year, (2) other

Reliability Standards proposed for active monitoring by the FRCC, (3) the methods to be used by the FRCC for reporting, monitoring, evaluation, and assessment of performance criteria with each Reliability Standard, and (4) the FRCC's Annual Audit Plan.

- Implement the FRCC CMEP as approved by the FRCC Board of Directors and by FERC as part of the FRCC Delegation Agreement.
- Work with NERC Compliance staff and other Regional Entity Compliance staff to ensure consistency with other regional compliance programs.
- The FRCC will report and process all alleged violations as described in the NERC Compliance Monitoring and Enforcement Program.
- Conduct periodic audits, spot checks, self-certifications, and Compliance Violation Investigations as required by the NERC Compliance Monitoring and Enforcement Program.
- Develop and enhance processes, databases, and reporting tools to allow for seamless, uniform reporting of alleged and confirmed violations of standards, proposed penalty and sanctions actions, and disposition of all violations.
- Track the mitigation of identified violations of standards. Perform due diligence to ensure that mitigation plans that are reported as complete are completed to FRCC's expectations. Appropriately address mitigation plans that are not completed by the due date.
- Improve processes to maximize throughput and minimize backlog

Funding Requirements — Explanation of Increase (Decrease)

Personnel Expenses – It will be necessary to hire three (3) additional Compliance personnel in order to accomplish the increase in the number of on-site CIP Spot Checks and audits scheduled for 2010 and projected for future years. These positions are also necessary to develop and process the growing number of settlement agreements and the rising expectation of detail by NERC and FERC for the official record. Therefore, salaries and associated costs have been adjusted for 2010 to reflect these additional employees. Additionally, in order to be consistent with the other regions it was decided to align the department into an auditing function and an enforcement function.

Meeting and Travel Costs – This increase is primarily the result of the three (3) additions to staff required to accomplish the work schedule.

Operating Costs – This increase is the result of additional space and the build-out of same that is necessary to accommodate the additions to staff in a segregated controlled and secure area. It is also anticipated that the cost of additions and modifications to the Compliance Tracking and Monitoring software will be completed and in use.

Compliance Monitoring and Enforcement Program and Organization Registration and Certification Program

Funding sources and related expenses for the compliance enforcement and organization registration and certification section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Compliance Monitoring and Enforcement and Organization Registration and Certification					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 2,368,004	\$ 2,368,004	\$ -	\$ 3,570,933	\$ 1,202,929
Penalty Sanctions					
Total ERO Funding	\$ 2,368,004	\$ 2,368,004	\$ -	\$ 3,570,933	\$ 1,202,929
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 2,368,004	\$ 2,368,004	\$ -	\$ 3,570,933	\$ 1,202,929
Expenses					
Personnel Expenses					
Salaries	\$ 1,247,211	\$ 1,434,084	\$ 186,873	\$ 1,520,025	\$ 272,814
Payroll Taxes	81,028	99,745	18,717	99,597	18,569
Benefits	122,867	214,876	92,009	229,087	106,220
Retirement Costs	175,420	181,564	6,144	220,686	45,266
Total Personnel Expenses	\$ 1,626,526	\$ 1,930,269	\$ 303,743	\$ 2,069,395	\$ 442,869
Meeting Expenses					
Meetings	\$ 28,253	\$ 28,253	\$ -	\$ 3,494	\$ (24,759)
Travel	136,044	136,044	-	174,295	38,251
Conference Calls	7,357	7,357	-	3,630	(3,727)
Total Meeting Expenses	\$ 171,654	\$ 171,654	\$ -	\$ 181,419	\$ 9,765
Operating Expenses					
Consultants & Contracts	\$ 80,000	\$ 40,000	\$ (40,000)		\$ (80,000)
Office Rent	146,415	146,415	-	290,715	144,300
Office Costs	113,172	113,172	-	85,267	(27,905)
Professional Services	64,187	144,384	80,197	48,937	(15,250)
Miscellaneous	-	-	-		-
Depreciation	-	90,256	90,256	90,256	90,256
Total Operating Expenses	\$ 403,774	\$ 534,227	\$ 130,453	\$ 515,175	\$ 111,401
Total Direct Expenses	\$ 2,201,954	\$ 2,636,150	\$ 434,196	\$ 2,765,989	\$ 564,035
Indirect Expenses				\$ 526,200	\$ 526,200
Other Non-Operating Expenses	\$ (14,008)	\$ -	\$ 14,008	\$ -	\$ 14,008
Total Expenses	\$ 2,187,946	\$ 2,636,150	\$ 448,204	\$ 3,292,189	\$ 1,104,243
Change in Assets	\$ 180,058	\$ (268,146)	\$ (448,204)	\$ 278,744	\$ 98,686
Fixed Assets					
Depreciation	\$ -	\$ (90,256)	\$ (90,256)	\$ (90,256)	\$ (90,256)
Total Fixed Asset Purchases	180,058	230,058	50,000	369,000	188,942
Change in Fixed Assets	\$ (180,058)	\$ (139,802)	\$ 40,256	\$ (278,744)	\$ (98,686)
TOTAL CHANGE IN ASSETS	\$ -	\$ (407,948)	\$ (407,948)	\$ (0)	\$ (0)

Reliability Readiness Evaluation and Improvement Program

Reliability Readiness Evaluation and Improvement Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs			
Total Direct Expenses			
Total Indirect Expenses ³			
Increase (Decrease) in Fixed Assets			
Total Expenses & Fixed Assets			

Program Scope and Functional Description

NERC has eliminated the Reliability Readiness Evaluation and Improvement Program. In 2010 FRCC will monitor open Reliability Readiness recommendations in the Region until their completion. Consequently, FRCC has eliminated the Reliability Readiness Evaluation and Improvement Program funding requirements, FTE count, and activities from the 2010 Business Plan and Budget. FRCC resources required to support any remaining required activities of this NERC program are assumed to be minimal and will be absorbed by existing FRCC staff.

2010 Key Assumptions

The Readiness Evaluation Program will not be reinstated by FERC.

³ Indirect funding is calculated by allocating all administrative services funding to the operational program areas on a proportional FTE basis.

Training, Education and Operator Certification Program

Training, Education and Operator Certification Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	.03	.57	.54
Total Direct Expenses	\$92,204	\$223,427	\$131,223
Total Indirect Expenses ⁴	5,148	23,861	18,713
Increase (Decrease) in Fixed Assets	121	(548)	(669)
Total Expenses & Fixed Assets	\$97,473	\$246,740	\$149,267

Program Scope and Functional Description

The FRCC is a NERC-approved Continuing Education (CE) Provider. The FRCC System Operator Subcommittee develops and delivers training in which FRCC grants NERC CE hours to those individuals who successfully complete a course. FRCC will utilize the NERC database to accommodate the recordkeeping requirements for the continuing education program. Maintaining the reliability of the bulk power system requires informed and trained personnel. The FRCC supports training activities through its staff and its System Operator Subcommittee which reports to the FRCC Operating Committee.

The FRCC has made a change in its budget process to include the cost of training and education of Registered Entities for the purpose of educating the entities on compliance, critical infrastructure protection and standards into this program activity. FRCC has made this change to be consistent with the other seven (7) Regional Entities. In the past, these costs were budgeted and charged to compliance, situational awareness or standards program areas.

System Operator Certification Program

The FRCC System Operator Subcommittee (SOS) identifies and manages annual training activities for the FRCC System Operators, and provides information to FRCC members regarding the NERC training standards and any issues they may have related to system operators obtaining/retaining required NERC Certification.

The training and education program activities are carried out by FRCC's professional/technical staff and SOS members possessing the appropriate technical knowledge and competencies. In addition, vendors that specialize in System Operator training are also used. Providing the FRCC training and education programs will help to achieve a high level of knowledge and competence among the operating personnel in the performance of their reliability-related functions.

Compliance Workshops

Compliance workshops will be held in the spring of 2010 along with the Webex/Conference calls at least twice in the remainder of the year. These workshops will be aimed at providing updates to the Registered Entities on compliance procedures, instructions on changes to website

⁴ Indirect funding is calculated by allocating all administrative services funding to the operational program areas on a proportional FTE basis.

submittal of self-certification, self-reports, and periodic data, and guidance on the providing of appropriate and sufficient evidence in a compliance audit. The entities will also be appraised of changes in rules and expectations of NERC and FERC with regard to the CMEP. The affect on compliance monitoring as a result of on-going changes in the NERC and regional reliability standards will also be addressed.

Standards Workshops

The FRCC Standards Department will be conducting periodic Standards Workshops throughout 2010. The workshops will be designed to promote stakeholder awareness of continent wide and regional standards activities. Additionally the workshops will educate stakeholders on the NERC Reliability Standards Development Procedure, the FRCC Regional Reliability Standard Development Process and the FRCC Registered Ballot Body System and Process. To encourage stakeholder participation at the continent-wide and regional levels, the workshops will provide stakeholders with updates on the progress of Regional Standards Development Projects and the associated NERC Standards Development Projects, while identifying areas that are in need of industry support.

Critical Infrastructure Protection Workshops

The FRCC Critical Infrastructure Protection Subcommittee will be conducting periodic informational workshops during 2010. The workshops will be designed to inform entities about current issues and expected changes related to protecting critical infrastructure.

2010 Key Assumptions

No significant changes expected in operator certification CEU requirements for 2010. However, there will be increased need and demand for Critical Infrastructure Protection, Reliability Standards and Compliance training and workshops.

2010 Highlights

System Operator Certification

In 2010, the NERC System Operator Certification Program will finalize the three-year transition from reliance on testing for credential maintenance to using continuing education hours.

To accommodate the recordkeeping requirements for using continuing educations, the program implemented a new portal and database in 2007, with additional upgrades in 2009. The database allows system operators to register for exams and track the status of maintaining their credential with approved continuing education hours. Continued improvements to the database are expected in 2010. The costs of these improvements by FRCC will be recovered through the fees received by the System Operator Certification Program and the Continuing Education Program.

Continuing Education Program

NERC's Continuing Education Program will continue to grow in 2010 as all system operators must use continuing education hours to maintain their credential instead of retesting. The program will continue to audit approved activities to verify the quality of these activities. FRCC will support this effort.

2010 Goals and Key Deliverables

The training, education and operator certification program objectives for 2010 are outlined below:

- Provide assistance to our members in any issues they may have related to System Operator Certification.
- Conduct the annual training seminars over a five (5) week period, with two (2) days each for the training. The training seminars involve from two to four FRCC staff members, as well as industry volunteers who participate as presenters. This activity is funded primarily through registration fees.
- Host FRCC Critical Infrastructure Protection Workshops open to all interested industry participants to promote understanding and consistent implementation of the NERC CIP standards.
- Host FRCC Compliance Workshops open to all interested industry participants aimed at providing updates to the registered entities on compliance procedures, instructions on changes to website submittal of self-certification, self-reports, and periodic data, and guidance on the providing of appropriate and sufficient evidence in a compliance audit.
- Host FRCC Reliability Standards Workshops designed to promote stakeholder awareness of continent wide and regional standards activities.

Funding Requirements — Explanation of Increase (Decrease)

This program is funded primarily by the attendees

Personnel Expenses – The increases in budget are the result of budgeting the Critical Infrastructure Protection, Compliance and Standards workshops within this function to be consistent with the other regions. In the past they were budgeted within the function responsible for administering the workshop.

Meeting Expenses - The increases in budget are the result of budgeting the Critical Infrastructure Protection, Compliance and Standards workshops within this function to be consistent with the other regions. In the past they were budgeted within the function responsible for administering the workshop.

Operating Expenses - The increases in budget are the result of budgeting the Critical Infrastructure Protection, Compliance and Standards workshops within this function to be consistent with the other regions. In the past they were budgeted within the function responsible for administering the workshop.

Training, Education and Operator Certification Program

Funding sources and related expenses for the training, education, and operator certification section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Training, Education and Operator Certification					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 18,043	\$ 18,043	\$ -	\$ 137,839	\$ 119,796
Penalty Sanctions					
Total ERO Funding	\$ 18,043	\$ 18,043	\$ -	\$ 137,839	\$ 119,796
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	79,430	79,430	-	108,901	29,471
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 97,473	\$ 97,473	\$ -	\$ 246,740	\$ 149,267
Expenses					
Personnel Expenses					
Salaries	\$ 6,604	\$ 6,604	\$ -	\$ 68,927	\$ 62,323
Payroll Taxes	429	429	-	4,516	4,087
Benefits	651	651	-	7,037	6,386
Retirement Costs	929	929	-	10,007	9,078
Total Personnel Expenses	\$ 8,613	\$ 8,613	\$ -	\$ 90,487	\$ 81,874
Meeting Expenses					
Meetings	\$ 84,112	\$ 84,112	\$ -	\$ 108,901	\$ 24,789
Travel	2,957	2,957	-	9,978	7,021
Conference Calls	2	2	-	3,192	3,190
Total Meeting Expenses	\$ 87,071	\$ 87,071	\$ -	\$ 122,071	\$ 35,000
Operating Expenses					
Consultants & Contracts			\$ -		\$ -
Office Rent	775	775	-	4,235	3,460
Office Costs	598	598	-	3,867	3,269
Professional Services	340	4,100	3,760	2,219	1,879
Miscellaneous	-	-	-	-	-
Depreciation	-	548	548	548	548
Total Operating Expenses	\$ 1,713	\$ 6,021	\$ 4,308	\$ 10,869	\$ 9,156
Total Direct Expenses	\$ 97,397	\$ 101,705	\$ 4,308	\$ 223,427	\$ 126,030
Indirect Expenses				\$ 23,861	\$ 23,861
Other Non-Operating Expenses	\$ (45)	\$ -	\$ 45	\$ -	\$ 45
Total Expenses	\$ 97,352	\$ 101,705	\$ 4,353	\$ 247,288	\$ 149,936
Change in Assets	\$ 121	\$ (4,232)	\$ (4,353)	\$ (548)	\$ (669)
Fixed Assets					
Depreciation	\$ -	\$ (548)	\$ (548)	\$ (548)	\$ (548)
Total Fixed Asset Purchases	121	121	-	-	(121)
Change in Fixed Assets	\$ (121)	\$ 427	\$ 548	\$ 548	\$ 669
TOTAL CHANGE IN ASSETS	\$ -	\$ (3,805)	\$ (3,805)	\$ (0)	\$ (0)

Reliability Assessment and Performance Analysis Program

Reliability Assessment and Performance Analysis Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	3.67	3.87	(.2)
Total Direct Expenses	\$891,356	\$1,026,124	\$134,768
Total Indirect Expenses ⁵	160,568	162,004	1,436
Increase (Decrease) in Fixed Assets	29,321	2,132	(27,189)
Total Expenses & Fixed Assets	\$1,081,245	\$1,190,260	\$109,015

Program Scope and Functional Description

The FRCC will assess the reliability of the Bulk Power System (BPS) in the FRCC region and will continue to ensure that the system is robust, reliable and stable. The FRCC will lead Event Analysis Teams to analyze disturbances that occur within the FRCC region and participate on Event Analysis Teams when disturbances occur within the FRCC region and impact an adjacent region (SERC).

The FRCC performs transmission reliability studies in order to provide an assessment to NERC for their periodic NERC Reliability Assessments. These studies include regional and inter-regional studies. The FRCC prepares three reliability assessments each year: a long-term reliability assessment report, a summer assessment report, and a winter assessment report. These reports analyze electricity demand, the adequacy of supply and its deliverability, adequacy of fuel deliverability and the adequacy of the transmission system within the FRCC. The FRCC will prepare special reliability assessment reports as conditions warrant.

The FRCC will analyze unusual events that occur on the BPS, identify the root causes of such events and lessons learned, assess past reliability performance and disseminate the findings of such analyses.

The FRCC is an active participant in the Eastern Interconnection Reliability Assessment Group (ERAG) which is responsible for the Eastern Interconnection transmission models and inter-regional studies. The FRCC is active on the NERC Reliability Assessment Subcommittee which is responsible for performing an independent review of reliability assessments.

2010 Key Assumptions

- NERC will continue to incrementally improve the definitions and metrics used in reliability assessments.
- NERC and regional entities are at risk of being requested to gather data or perform analysis in support of federal initiatives related to the stimulus package, climate change, or renewable energy initiatives. NERC and the regions are not funded for such initiatives and any unfunded mandates may impact cash reserves.

⁵ Indirect funding is calculated by allocating all administrative services funding to the operational program areas on a proportional FTE basis.

- There will be a startup planning effort in 2010 associated with the demand response data collection initiative as well as the collection of probabilistic risk assessment data in 2011.
- Some regions continue to experience a shift of work effort from stakeholders to staff in developing reliability assessments.
- NERC will develop an analysis of Transmission Availability Database Systems data in 2010; some regions may develop regional analysis.

2010 Goals and Deliverables

The Reliability Assessment and Performance Analysis Objectives for 2010 are outlined below:

- Conduct comprehensive transmission planning studies of the BPS within the FRCC to ensure that the planned system meets the existing and future needs of all users of the transmission system (e.g., utility generation, network generation, network loads, merchant generation, IPPs and LSEs).
- Conduct inter-regional studies with SERC (Southern sub-region) to ensure that there are not any ‘seams’ issues that could adversely impact system reliability.
- Conduct and report the results of assessments of the overall reliability and adequacy of the FRCC bulk power system for 2010 summer, 2010/11 winter, and 2010–2019.
- 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.
- Investigate and analyze off-normal events on the FRCC bulk power system.
- Identify the root causes of events that may be precursors of potentially more serious events.
- Assess past reliability performance for lessons learned.
- Establish and maintain relationships with NERC, regulatory, and governmental organizations involved with BPS reliability (e.g., FPSC, DOE, FERC, EIA, etc.).
- Develop new and enhance existing regional reliability assessment processes, regional criteria, and methodologies to ensure BPS reliability.
- Develop methods of sharing best practice for transmission planning to ensure reliability.

- Maintain a databank of power flow models, including dynamic models, to use in planning and evaluating future systems and current operating conditions.
- Coordinate with ERAG Multi-Area Modeling Working Group (MMWG) to develop Eastern Interconnection steady-state and dynamics models.
- Conduct Loss of Load Probability and the Scenario Analysis studies as needed.

Funding Requirements — Explanation of Increase (Decrease)

Personnel Expenses – The decrease in personnel expenses is due to more planning time being spent in the non-statutory area.

Operating Costs – The increase in operating costs is due to planned software upgrades to the Models on Demand programs.

Reliability Assessment and Performance Analysis Program

Funding sources and related expenses for the reliability assessment and performance analysis section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Assessment and Performance Analysis					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 1,081,245	\$ 1,081,245	\$ -	\$ 1,166,740	\$ 85,495
Penalty Sanctions					
Total ERO Funding	\$ 1,081,245	\$ 1,081,245	\$ -	\$ 1,166,740	\$ 85,495
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	10,080	10,080	23,520	23,520
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 1,081,245	\$ 1,091,325	\$ 10,080	\$ 1,190,260	\$ 109,015
Expenses					
Personnel Expenses					
Salaries	\$ 509,673	\$ 482,636	\$ (27,037)	\$ 467,979	\$ (41,694)
Payroll Taxes	33,112	32,556	(556)	30,664	(2,448)
Benefits	50,210	76,356	26,146	47,778	(2,432)
Retirement Costs	71,685	72,956	1,271	67,944	(3,741)
Total Personnel Expenses	\$ 664,680	\$ 664,504	\$ (176)	\$ 614,365	\$ (50,315)
Meeting Expenses					
Meetings	\$ 4,812	\$ 4,812	\$ -	\$ 5,699	\$ 887
Travel	45,804	45,804	-	38,074	(7,730)
Conference Calls	2,397	2,397	-	12,096	9,699
Total Meeting Expenses	\$ 53,013	\$ 53,013	\$ -	\$ 55,869	\$ 2,856
Operating Expenses					
Consultants & Contracts	\$ 207,472	\$ 207,472	\$ -	\$ 230,950	\$ 23,478
Office Rent	59,833	59,833	-	28,754	(31,079)
Office Costs	46,248	46,248	-	26,252	(19,996)
Professional Services	26,230	53,316	27,086	15,066	(11,164)
Miscellaneous	-	-	-	-	-
Depreciation	-	54,868	54,868	54,868	54,868
Total Operating Expenses	\$ 339,783	\$ 421,737	\$ 81,954	\$ 355,890	\$ 16,107
Total Direct Expenses	\$ 1,057,476	\$ 1,139,254	\$ 81,778	\$ 1,026,124	\$ (31,352)
Indirect Expenses				\$ 162,004	\$ 162,004
Other Non-Operating Expenses	\$ (5,552)	\$ -	\$ 5,552	\$ -	\$ 5,552
Total Expenses	\$ 1,051,924	\$ 1,139,254	\$ 87,330	\$ 1,188,128	\$ 136,204
Change in Assets	\$ 29,321	\$ (47,929)	\$ (77,250)	\$ 2,132	\$ (27,189)
Fixed Assets					
Depreciation	\$ -	\$ (54,868)	\$ (54,868)	\$ (54,868)	\$ (54,868)
Total Fixed Asset Purchases	29,321	29,321	-	57,000	27,679
Change in Fixed Assets	\$ (29,321)	\$ 25,547	\$ 54,868	\$ (2,132)	\$ 27,189
TOTAL CHANGE IN ASSETS	\$ -	\$ (22,382)	\$ (22,382)	\$ (0)	\$ (0)

Situational Awareness and Infrastructure Security Program

Situational Awareness and Infrastructure Security Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	.12	.2	(.08)
Total Direct Expenses	\$28,365	\$45,593	\$17,228
Total Indirect Expenses ⁶	8,469	8,372	(97)
Increase (Decrease) in Fixed Assets	342	880	(1,222)
Total Expenses & Fixed Assets	\$37,176	\$53,085	\$15,909

Program Scope and Functional Description

The FRCC Operating Committee (OC), which develops and monitors a budget made up of both statutory and non-statutory functions, relies on a hierarchy of subordinate committees, working groups and agents to achieve its regional reliability goals. The various reliability roles and functions are coordinated and monitored in accordance with the FRCC Reliability Process document and through established FRCC organizational processes and procedures. Two of the primary reliability goals of the FRCC OC are continuous improvement of the situational awareness of the operators within the FRCC and ensuring that adequate physical, operational and cyber security objectives are in place for the Regions shared communications networks.

The statutory functions are: FRCC support of NERC's bi-weekly Situational Awareness conference calls, FRCC support for the Situational Awareness for FERC, NERC, and the Regions (SAFNR) project, and the FRCC satellite phone link to the RC.

2010 Key Assumptions

The synchro-phasor project will not impact regional entity budgets in 2010. The initial implementation of the SAFNR project will be completed as an FRCC Regional Entity un-budgeted activity during 2009. The project will incur minor development costs as well as on-going operating and maintenance costs during 2010.

There will be increased need and demand for CIP-related training and workshops. CIP compliance activities are budgeted within compliance. NERC will deploy a secure portal for the management of alerts.

2010 Goals and Key Deliverables

- Continue FRCC support for maintenance and development of the NERC SAFNR project. Ensure FRCC goals support the project mission to provide FERC, NERC, and the staffs from the eight REs a visualization tool that enables the appropriate level of situational awareness regarding the near real-time conditions on the Bulk Power System. Work with the FRCC Reliability Coordinator to ensure the project mission is fulfilled and that

⁶ Indirect funding is calculated by allocating all administrative services funding to the operational program areas on a proportional FTE basis.

appropriate hardware and software resources are allocated. Support any future development of the project capabilities.

- Host a FRCC Critical Infrastructure Protection Workshop open to all interested industry participants to promote understanding and consistent implementation of the NERC CIP standards.

Funding Requirements — Explanation of Increase (Decrease)

Although the FRCC Reliability Coordinator, through the FRCC Regional Entity, has been providing situational awareness data to FERC since early 2008, the implementation of the SAFNR project as an un-budgeted activity during 2009 has resulted in requests for additional data and trending capabilities. As a result, specialized hardware and software has been developed to allow the Regional Entity to aggregate data and provide access to eligible governmental authorities. The additional equipment has resulted in an increase in annual funding to support an operating and maintenance budget of approximately \$10,000 a year.

Personnel Expenses – The increase is due to Critical Infrastructure Protection requirements and more man hours devoted to the CIP subcommittee for the Regional Entity function.

Situational Awareness and Infrastructure Security Program

Funding sources and related expenses for the situational awareness and infrastructure security section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Situational Awareness and Infrastructure Security					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 37,176	\$ 37,176	\$ -	\$ 53,085	\$ 15,909
Penalty Sanctions					
Total ERO Funding	\$ 37,176	\$ 37,176	\$ -	\$ 53,085	\$ 15,909
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 37,176	\$ 37,176	\$ -	\$ 53,085	\$ 15,909
Expenses					
Personnel Expenses					
Salaries	\$ 18,714	\$ 37,052	\$ 18,338	\$ 24,185	\$ 5,471
Payroll Taxes	1,216	2,400	1,184	1,585	369
Benefits	1,843	3,156	1,313	2,469	626
Retirement Costs	2,632	5,084	2,452	3,511	879
Total Personnel Expenses	\$ 24,405	\$ 47,692	\$ 23,287	\$ 31,750	\$ 7,345
Meeting Expenses					
Meetings	\$ 15	\$ 116	\$ 101		\$ (15)
Travel	133	2,740	2,607	1,740	1,607
Conference Calls	5	52	47		(5)
Total Meeting Expenses	\$ 153	\$ 2,908	\$ 2,755	\$ 1,740	\$ 1,587
Operating Expenses					
Consultants & Contracts		\$ 264	\$ 264		\$ -
Office Rent	2,197	2,197	-	1,486	(711)
Office Costs	9,298	9,298	-	8,958	(340)
Professional Services	963	6,400	5,437	779	(184)
Miscellaneous	-	-	-	-	-
Depreciation	-	880	880	880	880
Total Operating Expenses	\$ 12,458	\$ 19,039	\$ 6,581	\$ 12,103	\$ (355)
Total Direct Expenses	\$ 37,016	\$ 69,639	\$ 32,623	\$ 45,593	\$ 8,577
Indirect Expenses				\$ 8,372	\$ 8,372
Other Non-Operating Expenses	\$ (182)	\$ -	\$ 182	\$ -	\$ 182
Total Expenses	\$ 36,834	\$ 69,639	\$ 32,805	\$ 53,965	\$ 17,131
Change in Assets	\$ 342	\$ (32,463)	\$ (32,805)	\$ (880)	\$ (1,222)
Fixed Assets					
Depreciation	\$ -	\$ (880)	\$ (880)	\$ (880)	\$ (880)
Total Fixed Asset Purchases	342	342	-		(342)
Change in Fixed Assets	\$ (342)	\$ 538	\$ 880	\$ 880	\$ 1,222
TOTAL CHANGE IN ASSETS	\$ -	\$ (31,925)	\$ (31,925)	\$ (0)	\$ (0)

General and Administrative

Background

Charges included in General and Administrative are general legal expenses, executive time and expenses, human resources, information technology and accounting and finance. Every effort is made to charge items and time directly to activities and to designate as statutory or non-statutory. These undesignated items are shared costs between the Regional Entity Division and the Member Services Division and are allocated based on actual labor hours charged. The costs of General and Administrative have been included within the functional budgets as indirect costs for both 2009 and 2010 in order to present a full picture of the actual costs of each functional program.

Legal and Regulatory

Background

The FRCC has retained outside counsel in Washington DC to assist the FRCC in carrying out its delegated responsibilities. These attorneys will serve as chief legal advisor to the President and CEO, Board of Directors, staff and stakeholders on all legal and regulatory matters affecting the FRCC. Outside counsel may review items filed with governmental agencies for legal sufficiency and impact to FRCC.

2010 Goals and Objectives

- Assist the FRCC in carrying out its delegated responsibilities for mandatory compliance and enforcement of reliability standards.
- Assist the FRCC in carrying out its delegated responsibilities for development of reliability standards.
- Serve as legal counsel to the FRCC on FERC-related matters.

Information Technology

Background

The FRCC maintains a number of tools and other support services for the benefit of its members, Reliability Coordinator agent(s), and other system operators. These services include the FRCC Hotline, Florida Transaction Management System (FTMS), Reliability Data Link (RDL), FRCCNet, FRCC satellite phone, and multiple databases. The FRCC Website provides information to the public as well as its members.

2010 Goals and Objectives

- Provide I.T. and telecommunications resources for additional FRCC personnel.
- Expand current co-located remote backup capability to include all FRCC hosted I.T. Services, including all websites and SQL databases.

- Develop tools to automate and improve FRCC data collection and analysis processes.
- Re-evaluate tools and services for enabling the FRCC mobile workforce.

Human Resources

Background

The FRCC has assembled an exceptional team of highly qualified employees to carry out the activities of the FRCC. The human resources department, in adherence with applicable federal and state laws, designs, plans, and implements human resources policies and procedures, including staffing, compensation, benefits, employee relations, and training and development.

2010 Goals and Objectives

- Recruit successful employees
- Improve human resource policies and procedures
- Conduct member satisfaction surveys
- Provide management and training programs
- Review employee compensation and benefits
- Acquire additional office space to accommodate staff additions

Finance and Accounting

Background

The FRCC will submit its annual budget for statutory and non-statutory activities to the FRCC Board of Directors for approval and then file the approved annual budget for statutory and non-statutory activities to NERC. This includes supporting materials such as a complete business plan and organizational chart, 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

- Prepare the 2010 statutory and non-statutory budgets.
- Report budget variances to the FRCC Board and to NERC on a quarterly basis.

- Evaluate and advise on the impact of long-range planning.
- Provide on-going training to employees to ensure employees charge their time correctly.

Non Operating Expense – Cash Reserve Requirement

According to the delegation agreement, the FRCC is required to set a cash reserve. The FRCC Board of Directors accepts the recommendation of the FRCC staff that a reserve equal to 10% of Statutory Assessment is sufficient to be held for a cash reserve.

General and Administrative Indirect Costs

Funding sources and related expenses for the general administrative indirect cost of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
General and Administrative					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments			\$ -	\$ (350,589)	\$ (350,589)
Penalty Sanctions					
Total ERO Funding	\$ -	\$ -	\$ -	\$ (350,589)	\$ (350,589)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ -	\$ -	\$ -	\$ (350,589)	\$ (350,589)
Expenses					
Personnel Expenses					
Salaries			\$ -	\$ 489,746	\$ 489,746
Payroll Taxes			-	32,090	32,090
Benefits			-	50,000	50,000
Retirement Costs			-	71,104	71,104
Total Personnel Expenses	\$ -	\$ -	\$ -	\$ 642,940	\$ 642,940
Meeting Expenses					
Meetings			\$ -	\$ 2,287	\$ 2,287
Travel			-	28,138	28,138
Conference Calls	-	-	-	195	195
Total Meeting Expenses	\$ -	\$ -	\$ -	\$ 30,620	\$ 30,620
Operating Expenses					
Consultants & Contracts			\$ -		\$ -
Office Rent			-	30,091	30,091
Office Costs			-	27,472	27,472
Professional Services			-	15,765	15,765
Miscellaneous	-	-	-		-
Depreciation	-	-	-		-
Total Operating Expenses	\$ -	\$ -	\$ -	\$ 73,328	\$ 73,328
Total Direct Expenses	\$ -	\$ -	\$ -	\$ 746,888	\$ 746,888
Indirect Expenses				\$ (779,463)	\$ (779,463)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ -	\$ -	\$ -	\$ (32,575)	\$ (32,575)
Change in Assets	\$ -	\$ -	\$ -	\$ (318,014)	\$ (318,014)
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Total Fixed Asset Purchases			-	32,575	32,575
Change in Fixed Assets	\$ -	\$ -	\$ -	\$ (32,575)	\$ (32,575)
TOTAL CHANGE IN ASSETS	\$ -	\$ -	\$ -	\$ (350,589)	\$ (350,589)

Section B — 2010 Budget

2009 Budget and Projection and 2010 Budget Comparisons

Table 1

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
STATUTORY					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 3,898,438	\$ 3,898,438	\$ -	\$ 4,938,176	\$ 1,039,738
Penalty Sanctions ⁽¹⁾	-	-	-	-	-
Total ERO Funding	\$ 3,898,438	\$ 3,898,438	\$ -	\$ 4,938,176	\$ 1,039,738
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	10,080	10,080	23,520	23,520
Workshops	79,430	79,430	-	108,901	29,471
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 3,977,868	\$ 3,987,948	\$ 10,080	\$ 5,070,597	\$ 1,092,729
Expenses					
Personnel Expenses					
Salaries	\$ 2,017,775	\$ 2,116,120	\$ 98,345	\$ 2,741,366	\$ 723,591
Payroll Taxes	131,090	145,806	14,716	179,624	48,534
Benefits	198,778	324,659	125,881	353,779	155,001
Retirement Costs	283,799	284,717	918	398,007	114,208
Total Personnel Expenses	\$ 2,631,442	\$ 2,871,302	\$ 239,860	\$ 3,672,776	\$ 1,041,334
Meeting Expenses					
Meetings	\$ 118,387	\$ 118,488	\$ 101	\$ 121,605	\$ 3,218
Travel	206,860	237,460	30,600	302,140	95,280
Conference Calls	10,598	10,645	47	19,747	9,149
Total Meeting Expenses	\$ 335,845	\$ 366,593	\$ 30,748	\$ 443,492	\$ 107,647
Operating Expenses					
Consultants & Contracts	\$ 287,472	\$ 247,736	\$ (39,736)	\$ 230,950	\$ (56,522)
Office Rent	236,875	236,875	-	365,757	128,882
Office Costs	190,690	190,690	-	161,381	(29,309)
Professional Services	103,843	220,323	116,480	88,256	(15,587)
Miscellaneous	-	-	-	-	-
Depreciation	-	150,376	150,376	150,376	150,376
Total Operating Expenses	\$ 818,880	\$ 1,046,000	\$ 227,120	\$ 996,720	\$ 177,840
Total Direct Expenses	\$ 3,786,167	\$ 4,283,895	\$ 497,728	\$ 5,112,988	\$ 1,326,821
Indirect Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Other Non-Operating Expenses	\$ (22,449)	\$ -	\$ 22,449	\$ -	\$ 22,449
Total Expenses	\$ 3,763,718	\$ 4,283,895	\$ 520,177	\$ 5,112,988	\$ 1,349,270
Change in Assets	\$ 214,150	\$ (295,947)	\$ (510,097)	\$ (42,391)	\$ (256,541)
Fixed Assets					
Depreciation	\$ -	\$ (150,376)	\$ (150,376)	\$ (150,376)	\$ (150,376)
Total Fixed Asset Purchases	214,150	264,150	50,000	458,575	244,425
Change in Fixed Assets	\$ (214,150)	\$ (113,774)	\$ 100,376	\$ (308,199)	\$ (94,049)
TOTAL CHANGE IN ASSETS	\$ -	\$ (409,721)	\$ (409,721)	\$ (350,590)	\$ (350,590)

(1) Reflects penalty sanctions collected prior to June 30, 2009.

Personnel Analysis

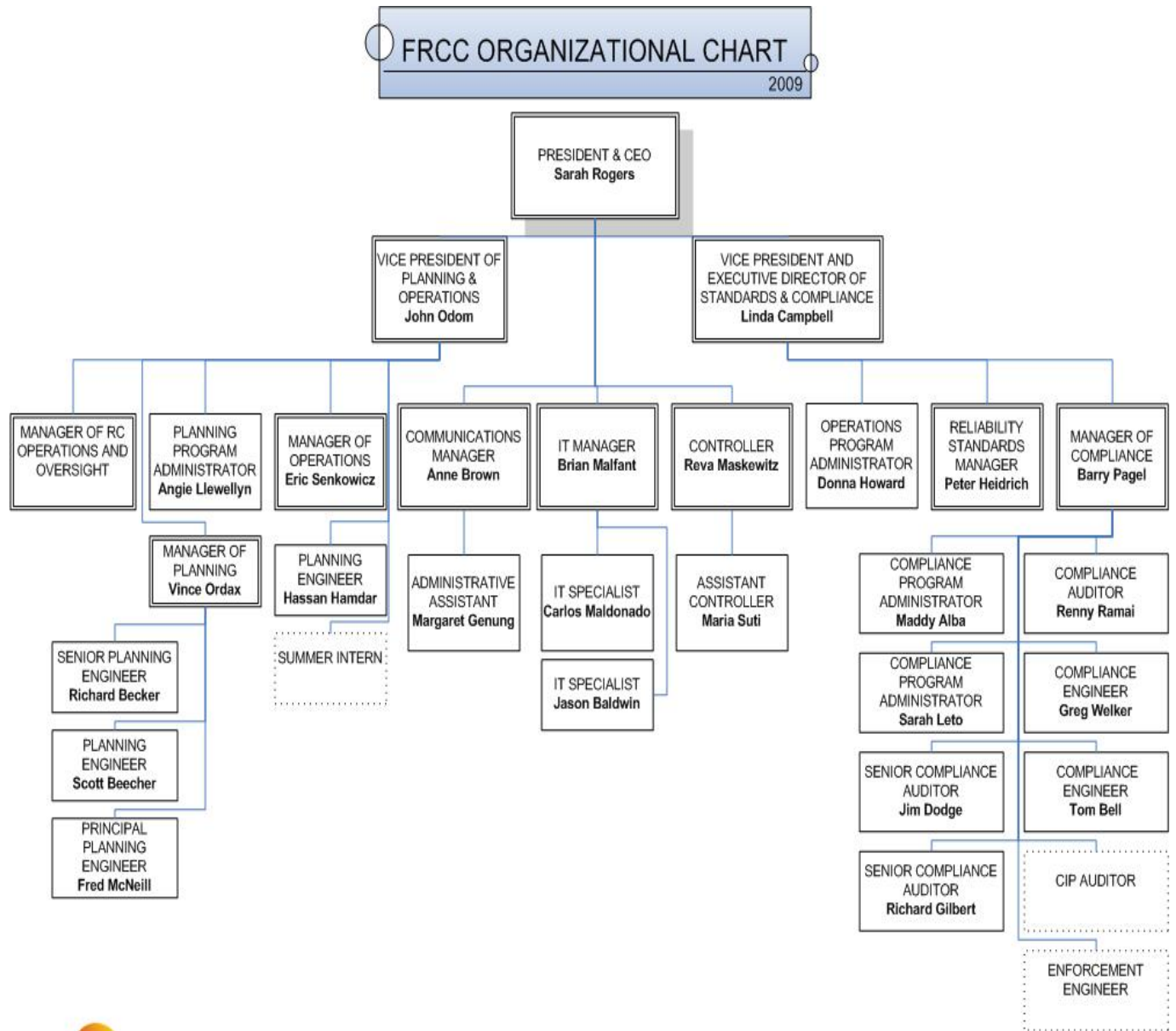
Table 2

Total FTEs by Program Area	Budget 2009	Projection 2009	Direct FTEs 2010 Budget	Shared FTEs ¹ 2010 Budget	FTEs 2010 Budget	Change From 2009 Budget
STATUTORY						
Operational Programs						
Reliability Standards	1.76	1.76		1.41	1.41	-0.35
Compliance and Organization Registration and Certification	9.26	10.26	10.00	2.57	12.57	3.31
Reliability Readiness Evaluation and Improvement					0.00	0.00
Training and Education	3.67	3.67		3.87	3.87	0.20
Reliability Assessment and Performance Analysis	0.03	0.03		0.57	0.57	0.54
Situational Awareness and Infrastructure Security	0.12	0.12		0.20	0.20	0.08
Total FTEs Operational Programs	14.84	15.84	10.00	8.62	18.62	3.78
Administrative Programs						
General & Administrative	3.48	3.48		4.05	4.05	0.57
Total FTEs Administrative Programs	3.48	3.48	0.00	4.05	4.05	0.57
Total FTEs	18.32	19.32	10.00	12.67	22.67	4.35

¹A shared FTE is defined by NERC as an employee who performs both Statutory and Non-Statutory functions.

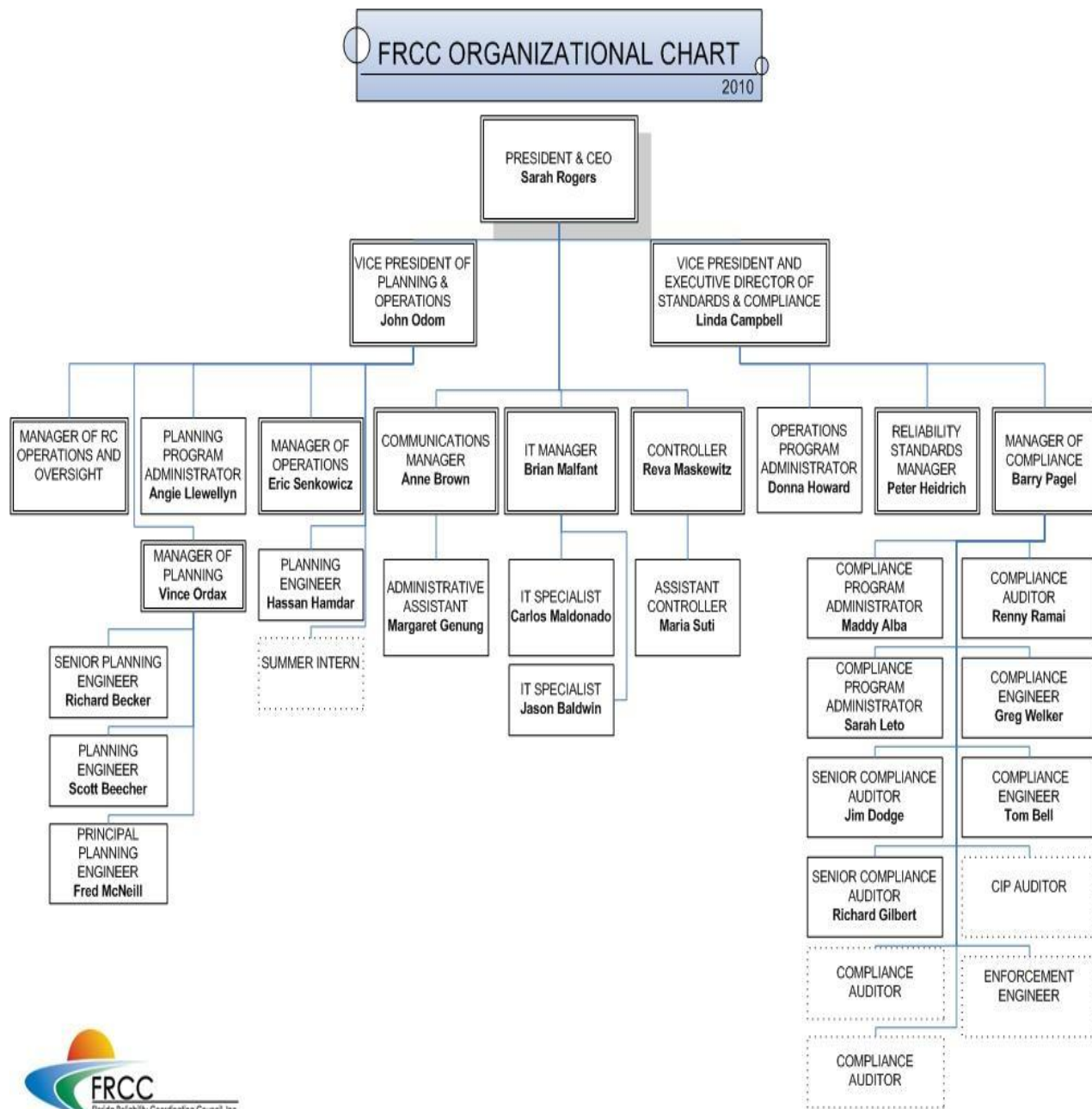
2009 Organizational Chart

Table 3



2010 Organizational Chart

Table 4



Reserve Balance

Table 5

Working Capital Reserve Analysis 2009-2010	
STATUTORY	
Beginning Working Capital Reserve (Deficit), December 31, 2008	1,312,509
Less: Penalty sanctions being held to be used as offset to 2010 assessments ¹	0
Plus: 2009 ERO Funding (from LSEs or designees)	3,898,438
Plus: 2009 Other funding sources	79,430
Less: '2009 Projected expenses & capital expenditures	(4,397,669)
Projected Working Capital Reserve (Deficit), December 31, 2009	892,708
Desired Working Capital Reserve, December 31, 2010	² 542,119
Less: Projected Working Capital Reserve, December 31, 2009	(892,708)
Increase(decrease) in assessments to achieve desired Working Capital Reserve	(350,589)
2010 Assessment for Expenses and Capital Expenditures	5,421,187
Less: Penalty Sanctions ¹	0
Less: Other Funding Sources	(132,421)
Adjustment to achieve desired Working Capital Reserve	(350,589)
2010 Assessment	4,938,177

¹ Represents collections prior to June 30, 2009.

² As documented in the June 27, 2008 minutes, the FRCC Board of Directors has approved the establishment of a funding reserve equal to 10% of its budgeted annual statutory expenses, with the understanding that should it become necessary to spend any of the reserve funds, the President shall provide a report detailing such expenditures at the next regular meeting of the Board of Directors.

Breakdown by Statement of Activity Sections

The following detailed schedules are in support of Table 1, page 34, of the 2010 FRCC Business Plan and Budget. All significant variances have been disclosed by program area in the preceding pages.

Penalty Sanctions

Table B-1

Penalty Sanctions Received Prior to June 30, 2009	Date Receive	Amount Received
Name of Entity		
	NONE	
Total Penalties Received		\$ -

Supplemental Funding

Table B-2

Outside Funding Breakdown By Program (excluding ERO Assessments & Penalty Sanctions)	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Reliability Assessment and Performance Analysis					
Models on Demand Remote Access	\$ -	\$ 10,080	\$ 23,520	\$ 23,520	100.00%
Total	\$ -	\$ 10,080	\$ 23,520	\$ 23,520	100.00%
Training and Education					
SO Test Fees	\$ 79,430	\$ 79,430	\$ 86,081	\$ 6,651	8.37%
CIPS Training			14,000	14,000	
Reliability Standards Training Seminar			4,293	4,293	
Compliance Training Seminar			4,527	4,527	
Total	\$ 79,430	\$ 79,430	\$ 108,901	\$ 29,471	37.10%
Total Outside Funding	\$ 79,430	\$ 89,510	\$ 132,421	\$ 52,991	47.94%

Personnel Expenses

Table B-3

Personnel Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Salaries					
Total Salaries	\$ 2,017,775	\$ 2,116,120	\$ 2,741,366	\$ 723,591	35.9%
Total Payroll Taxes	\$ 131,090	\$ 145,806	\$ 179,624	\$ 48,534	37.0%
Benefits					
Workers Compensation	\$ 1,816	\$ 12,088	\$ 8,224	\$ 6,408	352.9%
Medical, LTD, STD Insurances	148,814	241,564	243,922	95,108	63.9%
Employment Fees	-	-	30,000	30,000	100.0%
Education	24,517	7,668	15,475	(9,042)	-36.9%
Employee Welfare	11,161	31,339	16,158	4,997	44.8%
Relocation	12,470	32,000	40,000	27,530	220.8%
Total Benefits	\$ 198,778	\$ 324,659	\$ 353,779	\$ 155,001	78.0%
Total Retirement	\$ 283,799	\$ 284,717	\$ 398,007	\$ 114,208	40.2%
Total Personnel Costs	\$ 2,631,442	\$ 2,871,302	\$ 3,672,776	\$ 1,041,334	39.6%
FTEs	18.32	19.32	22.67	4.35	23.7%
Cost per FTE					
Salaries	\$ 110,141	\$ 109,530	\$ 120,925	10,784	9.8%
Payroll Taxes	7,156	7,547	7,923	768	10.7%
Benefits	10,850	16,804	15,606	4,755	43.8%
Retirement	15,491	14,737	17,557	2,065	13.3%
Total Cost per FTE	\$ 143,638	\$ 148,618	\$ 162,010	\$ 18,373	12.8%

Consultants & Contracts

Table B-4

Consultants & Contracts	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Consultants & Contracts					
Compliance Monitoring & Enforcement, Organization Registration and Certification	\$ 80,000	\$ 40,000		\$ (80,000)	-100.00%
Reliability Assessment and Performance Analysis	207,472	207,472	270,950	63,478	30.60%
Consultants & Contracts Total	\$ 287,472	\$ 247,472	\$ 270,950	\$ (16,522)	-5.75%

Rent Expenses**Table B-5**

Office Rent	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Office Rent	\$ 236,875	\$ 236,875	\$ 365,757	\$ 128,882	54.41%
Total Office Rent	\$ 236,875	\$ 236,875	\$ 365,757	\$ 128,882	54.41%

This increase is the result of additional space and the build-out of same that is necessary to accommodate the additions to staff for Compliance.

Office Costs**Table B-6**

Office Costs	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Telephone	\$ 125,976	\$ 125,976	\$ 85,424	\$ (40,552)	-32.19%
Internet	6,646	6,646	7,274	628	9.45%
Office Supplies	16,565	16,565	13,697	(2,868)	-17.31%
Computer Supplies	1,867	1,867	3,009	1,142	61.17%
Publications, Subscriptions & Dues	6,471	6,471	4,436	(2,035)	-31.45%
Postage	1,870	1,870	2,716	846	45.24%
Equipment Maintenance	5,400	5,400	20,045	14,645	100.00%
Copying	2,395	2,395	3,377	982	41.00%
Printing	748	748	4,073	3,325	100.00%
Stationary Forms	5,550	5,550	6,128	578	10.41%
Commerical Insurance	15,071	15,071	11,202	(3,869)	-25.67%
Miscellaneous	2,131	2,131		(2,131)	-100.00%
Total Office Costs	\$ 190,690	\$ 190,690	\$ 161,381	\$ (29,309)	-15.37%

Professional Fees**Table B-7**

Professional Services	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Outside Legal	\$ 90,497	\$ 206,977	\$ 71,285	\$ (19,212)	-21.23%
Accounting & Auditing Fees	13,346	13,346	16,971	3,625	27.16%
Total Services	\$ 103,843	\$ 220,323	\$ 88,256	\$ (15,587)	-15.01%

Non Operating Expenses

Table B-8

Other Non-Operating Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Interest Expense	\$ -	\$ -	\$ -	\$ -	-
Office Relocation	-	-	-	-	-
Total Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	-

Section C — 2010 RE Non-Statutory Business Plan and Budget

Member Services Division

Non Statutory Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	5.07	5.30	.23
Total Direct Expenses	\$2,290,040	\$2,632,693	\$342,653
Total Indirect Expenses ⁷	1,071,072	1,572,356	501,284
Total Expenses	\$3,361,112	\$4,205,049	\$843,937

*Includes a Cash Reserve Requirement

Background

The Member Services division of the FRCC provides, coordinates or administers a variety of services relating to the reliable planning and operation of the BPS within the FRCC Region. These services are carried out by the FRCC Planning Committee (PC) and the FRCC Operating Committee (OC), and its various subcommittees, task forces and working groups.

Members' Services Objectives

- Ensure the reliability of the Bulk Power System in the FRCC region.
- Coordination, planning, operation and maintenance of reliable bulk electricity supply in the FRCC region.

Membership and Governance

The FRCC's Members in the Member Services Division include investor-owned utilities, cooperative utilities, municipal utilities, power marketers and independent power producers. There are projected to be 25 FRCC Members in 2010.

The activities of FRCC are directed by its Board of Directors. The Board is comprised of senior level executives from the FRCC membership.

Non-Statutory Functional Scope

Planning Committee (PC)

The PC promotes the reliability of the bulk power system in the FRCC Region, assesses and encourages generation and transmission adequacy. The PC assess generation adequacy by performing a reliability assessment taking into account projected load and resources. The PC, through the FRCC Regional Transmission Planning Process, provides a vehicle for ensuring that transmission planning within the FRCC will provide for the development of a robust transmission network within the FRCC Region. The Regional Transmission Planning Process is

⁷ Indirect funding is calculated by allocating all administrative services funding to the operational program areas on a proportional FTE basis.

a coordinated transmission planning process that evaluates all transmission facilities with voltages 69kV and above. The major goal of this process is to ensure that the planning transmission facilities will meet the needs of all market participants in a coordinated, open and transparent transmission planning environment.

The FRCC will continue to develop, on an annual basis, a Regional Transmission Plan using this planning process. The Regional Plan is based on the Ten Year Site Plans that are required to be submitted to the Florida Public Service Commission (“FPSC”) on April 1st of each year. The FRCC participates in an annual Ten Year Site Plan Workshop held by the FPSC where the results of resource and transmission adequacy assessments are presented.

The FRCC PC relies on the following subordinate groups to achieve its goals: Available Transfer Capability Working Group (ATCWG), Resource Working Group (RWG), Stability Working Group (SWG), and the Transmission Working Group (TWG).

Available Transfer Capability Working Group

The ATCWG provides a forum to facilitate procedures for intra-regional and inter-regional coordination of ATC, and to ensure commercial viability of ATC postings; evaluate and report as required on the ATC calculation procedures of FRCC Transmission Providers to determine compliance with FRCC procedures; develop and monitor data sharing procedures among FRCC Transmission Providers; report to the FRCC Planning Committee and NERC Planning Committee on FRCC ATC Coordination Procedures as required; provide support to the FRCC Operating Committee and Planning Committee when required.

Resource Working Group

The RWG performs reliability assessments of FRCC resource adequacy for the future 10-year period for peninsular Florida based on individual utility information that was the basis of their respective EIA-411 and Ten Year Site Plan filings with the Florida Public Service Commission. These reliability assessments are based upon the FRCC resource adequacy criteria.

Stability Working Group

The SWG is responsible for assessing the dynamic performance of the FRCC bulk electric system under various credible system conditions. In addition, the SWG performs the following assessments: Coordination and performance of Special Protection Systems, the effectiveness of FRCC underfrequency load shedding program and coordination with other protection and control systems, and other assessments in support of the FRCC Regional Transmission Planning Process.

Transmission Working Group

The TWG engages in active coordination of transmission planning within the FRCC Region under the direction of the FRCC Planning Committee in support of the FRCC Regional Transmission Planning Process. The TWG annually performs an FRCC Long Range Study, sensitivity studies as directed by the PC, evaluates Transmission Service Requests, and evaluates Generator Interconnection Service Requests. In addition, the TWG develops an FRCC Transmission Map on an annual basis.

Operating Committee (OC)

The OC promotes the reliability of the bulk power system within the FRCC Region and is responsible for the coordination, planning, operation and maintenance of reliable bulk power supply in the FRCC. Its primary reliability goals are the continuous improvement of the situational awareness of the operators within the FRCC, and ensuring that adequate physical, operational and cyber security objectives are in place for the Region's shared communications network. The OC subordinate groups include the Operating Reliability Subcommittee (ORS), Data Exchange Working Group (DEWG), Fuel Reliability Working Group (FRWG), System Operator Subcommittee (SOS), Telecommunications Subcommittee (TS), System Protection and Control Subcommittee (SPCS) and the Critical Infrastructure Protection Subcommittee (CIPS). In addition, the OC ensures reliable operations are maintained through the development and implementation of the FRCC Reliability Process which includes the establishment of the FRCC Reliability Coordinator (RC) functions.

The FRCC RC responsibilities include the real time operating function, operations planning function, and the state capacity emergency coordination function which are performed by agent(s) of the FRCC. The agent(s) perform the roles of real-time Reliability Coordinator (RC), Operations Planning Coordinator (OPC), and State Capacity Emergency Coordinator (SCEC) on behalf of the FRCC. The overall FRCC RC function is accountable to the FRCC Operating Committee with primary oversight performed by Operating Reliability Subcommittee (ORS).

As a result of internal reviews of the FRCC RC functions during 2008 and 2009, the OC through ORS, has implemented several RC function staffing and process improvement initiatives which will continue into 2010. This includes enhancing the FRCC oversight of the RC agent by providing a dedicated FRCC employee as Manager of RC Operations and Oversight that is based out of the control center where the RC functions are performed. It also includes the enhanced staffing requirements of the RC agents by using dedicated personnel to solely perform the FRCC RC functions on a round the clock basis. In addition, it is a goal of the OC to continue to develop a more robust FRCC RC compliance management program under the Member Services Division and to continue to improve and enhance the RC functional capabilities based on the evolving regulatory requirements.

Operating Reliability Subcommittee (ORS)

The ORS provides overall administration for the development and implementation of operating procedures and other reliability matters including the oversight of the FRCC RC function. The ORS reviews and assesses regional import and export limits, scheduled transmission outages, real-time system reliability, events analysis, information and data exchange and other reliability issues. The ORS provides formal oversight and implementation of the Reliability Process which establishes the reliability responsibilities of the various entities within the Region and specifically monitors the agent(s) responsible for performing the Reliability Coordinator functions. In 2009 and into 2010 the ORS under direction of the OC, will establish and implement a compliance management program for the FRCC Reliability Coordinator including all reporting requirements.

Data Exchange Working Group (DEWG)

The DEWG, subordinate to the ORS, supports the real-time data needs of the FRCC Reliability Coordinator and other entities identified by the FRCC ORS. It is also responsible for developing

methodologies to facilitate the exchange of real-time, modeling, and other operational data to help ensure reliable electric power system operations. Accurate modeling of the FRCC bulk power system is essential to maintaining situational awareness and ensuring reliability. Within the FRCC, all operating entities provide system data via the FRCC Reliability Data Link (RDL). The FRCC RDL receives electric system reliability data from the operating entities on a real-time basis. The FRCC RDL allows data to be made available to all reliability entities.

Fuel Reliability Working Group (FRWG)

The FRWG also subordinate to the ORS, has been established to deal with matters relating to fuel and impacts to BPS reliability. Specifically, the FRWG provides the administrative oversight of a Regional fuel reliability forum that studies the interdependencies of fuel availability and electric reliability and supports coordinated Regional responses to fuel issues and fuel emergencies.

FRCC Telecommunications Subcommittee (TS)

The TS provides formal oversight for the TS budget which is included in the OC budget. The primary purpose of the TS is to ensure that adequate and redundant communications facilities are made available to the operating entities within the FRCC, including the FRCC Reliability Coordinator. The TS administers the FRCC hotline program, Satellite phone program, Reliability Data Link program and also ensures that reliable and redundant communications are maintained with NERCNet, from a Regional communications perspective. All TS programs are —non-statutory|| and support the Reliability Coordinator functions; with the exception of the FRCC satellite phone (located at the FRCC office) which is clearly a tool used by the Regional Entity to perform situational awareness and thus is budgeted as statutory.

FRCC System Protection and Control Subcommittee (SPCS)

The FRCC System Protection and Control Subcommittee (SPCS) has primary responsibility for the coordination of protection and control systems within the FRCC region, including regional disturbance monitoring equipment, assessment of protective mis-operations, protection related disturbance analysis, and implementation of specific regional programs and procedures including the assessments of the FRCC Underfrequency Load Shedding Program. The SPCS also reviews and coordinates system protection and control equipment installations, settings, protection philosophies and testing criteria within the region, when installations impact multiple entities. The SPCS also serves as an important forum for sharing subject matter expert guidance and lessons learned / best practices for equipment issues and protection coordination.

FRCC Critical Infrastructure Protection Subcommittee (CIPS)

The purpose of the FRCC CIPS is to enhance the physical and cyber security of the critical bulk power infrastructure in the FRCC region, with an emphasis on protecting, preventing, limiting and recovering from malicious activities directed at the FRCC critical energy infrastructure. The CIPS provides guidance to the OC on matters of critical energy infrastructure security, including cyber and physical security.

Major 2010 Cost Impacts

Planning Committee (PC)

The 2010 Planning Committee (PC) budget is developed based on the activities of the Available Transfer Capability Working Group (ATCWG), the Resource Working Group (RWG), the

Stability Working Group (SWG) and the Transmission Working Group (TWG). These budgets are primarily for the labor involved in coordination activities performed by member representatives, software and meeting costs. These budgets do not include FRCC staff salaries or other costs associated with FRCC staff.

The total 2010 PC budget is \$219,605, which is 7.71% higher than last year's budget of \$203,891. The expenses associated with each Working Group are different. Below is a breakdown of the major changes in the expenses for each Working Group.

Available Transfer Capability Working Group (ATCWG)

In 2009, \$10,000 is budgeted for software enhancements related to the Florida Transmission Transfer Capability System. The 2010 budget for the ATCWG is \$3,960 (reduction of \$8,684 from the 2009 budget) and reflects the cost of quarterly coordination meetings. In addition, with the new ATC software being purchased by FRCC members in 2009, no software enhancements are expected in 2010 attributed to the ATCWG.

Resource Working Group

The workload for the Resource Working Group (RWG) is expected to continue to increase in 2010 due to increased requirements from the NERC Reliability Assessment Subcommittee (RAS). To complete this additional work, the 2010 budget for RWG is \$40,700, which is an increase from the 2009 budget of \$3,660.

Stability Working Group

The focus on BPS stability is expected to increase to meet higher expectations created by revised NERC standards. To meet these higher expectations, the SWG will be required to complete more stability studies. In addition, the stability module for the PSS/E software is needed in 2010 to have the capability to support the SWG functions related to databank and other tasks. The SWG budget for 2010 is \$67,365, which is an increase of \$28,654 from the 2009 budget of \$38,711.

Transmission Working Group

The Transmission Working Group budget for 2010 is \$100,080, which is a decrease of \$15,416 from the 2009 budget of \$115,496. In general, the TWG expenses for labor are lower because FRCC staff continues to perform more of the coordinated activities for the TWG. The software expenses are higher to reflect higher maintenance costs for the software and the purchase of a new module for the PSS/E software related to the short circuit database.

Operating Committee

The 2010 Operating Committee (OC) budget is developed based primarily on the activities of the Operating Reliability Subcommittee (ORS), the System Operator Subcommittee (SOS), the Telecommunications Subcommittee (TS), the Fuel Reliability Working Group (FRWG) and the Critical Infrastructure Protection Subcommittee (CIPS). These budgets are primarily related to, or in support of, the FRCC Reliability Coordinator (RC) functions and include consulting costs, contract costs, computer software purchases and expenses to support some of the associated activities. These budgets do not include FRCC staff salaries or associated personnel costs.

The 2010 Direct Operating Cost budget is \$1,867,650 which is approximately 56% (+\$668,466) greater than last year's budget of \$1,199,184. The increase in the 2010 budget is primarily due to RC function, staffing, oversight, and process improvements. This includes staffing increases to dedicate specific operating personnel to solely perform the RC real-time function as well as a new FRCC position (Manager of RC Operations and Oversight) to provide oversight of personnel performing the FRCC RC functions.

Operating Reliability Subcommittee (ORS)

The ORS budget makes up approximately 89 % of the total FRCC OC 2010 budget. The 2010 ORS budget has a net increase of approximately \$704,166 as compared to the 2009 budget. This is due to the increased RC staffing costs described above. There was also an approximate increase of \$10,000 associated with the support for the NERC SAFNR project. The SAFNR project provides a visualization tool to FERC, NERC, and the Regions in order to promote Bulk Power System situational awareness for eligible governmental authorities.

Fuel Reliability Working Group (FRWG)

The FRWG budget makes up approximately 3.5 % of the total FRCC OC 2010 budget. The FRWG is a working group reporting to ORS and serves as budgetary oversight for the FRCC Gas Study Project. The 2010 budget remains flat compared to the 2009 budget and includes a statutory portion to support the NERC Reliability Assessment process as well as a non-statutory portion to support overall FRCC fuel reliability studies and assessment.

Telecommunications Subcommittee (TS)

The TS budget makes up approximately 6.2 % of the total FRCC OC 2010 budget. The 2010 budget has a net decrease of approximately \$36,200 as compared to the 2009 budget. This decrease is due to the conversion of FRCC operating entity primary hotline costs to direct billing to each entity as opposed to funding the hotline connections through the FRCC allocation.

Critical Infrastructure Protection Subcommittee (CIPS)

The CIPS budget makes up approximately 0.6 % of the total FRCC OC 2010 budget. The \$10,000 budget for 2010 is the anticipated costs associated with supporting CIPS workshops.

Funding Requirements — Explanation of Increase (Decrease)

Expenses – The increase in budget is due primarily to the enhancements being made to the Reliability Coordinator Function of the Operating Committee to increase the amount of coverage for increased efficiency and reliability.

Non Operating Expense – Cash Reserve Requirement –

The FRCC Board of Directors accepts the recommendation of the FRCC staff that a reserve equal to one (1) months working capital is sufficient to be held for a cash reserve.

2009 Budget and Projection and 2010 Budget Comparisons

Table 1

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
NON-STATUTORY					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ -	\$ -	\$ -	\$ -	\$ -
Membership Dues	3,209,412	4,108,030	898,618	3,939,466	730,054
Testing Fees	-	-	-	-	-
Services & Software	151,700	151,700	-	265,583	113,883
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 3,361,112	\$ 4,259,730	\$ 898,618	\$ 4,205,049	\$ 843,937
Expenses					
Personnel Expenses					
Salaries	\$ 1,006,135	\$ 1,081,135	\$ 75,000	\$ 1,068,845	\$ 62,710
Payroll Taxes	65,366	65,588	222	70,034	4,668
Benefits	99,118	171,196	72,078	109,124	10,006
Retirement Costs	141,513	153,296	11,783	155,182	13,669
Total Personnel Expenses	\$ 1,312,132	\$ 1,471,215	\$ 159,083	\$ 1,403,185	\$ 91,053
Meeting Expenses					
Meetings	\$ 27,090	\$ 27,090	\$ -	\$ 8,191	\$ (18,899)
Travel	41,895	41,895	-	74,333	32,438
Conference Calls	16,398	16,398	-	33,107	16,709
Total Meeting Expenses	\$ 85,383	\$ 85,383	\$ -	\$ 115,631	\$ 30,248
Operating Expenses					
Consultants & Contracts	\$ 1,019,203	\$ 1,772,872	\$ 753,669	\$ 1,700,725	\$ 681,522
Office Rent	118,115	118,115	0	65,672	(52,443)
Office Costs	386,486	386,486	-	433,890	47,404
Professional Services	51,781	201,781	150,000	191,744	139,963
Miscellaneous	1,063	1,063	-	-	(1,063)
Depreciation	-	41,848	41,848	41,848	41,848
Total Operating Expenses	\$ 1,576,648	\$ 2,522,165	\$ 945,517	\$ 2,433,879	\$ 857,231
Total Direct Expenses	\$ 2,974,163	\$ 4,078,763	\$ 1,104,600	\$ 3,952,695	\$ 978,532
Indirect Expenses	\$ -	\$ -	\$ -	\$ (0)	\$ (0)
Other Non-Operating Expenses	\$ 358,600	\$ -	\$ (358,600)	\$ 277,627	\$ (80,973)
Total Expenses	\$ 3,332,763	\$ 4,078,763	\$ 746,000	\$ 4,230,322	\$ 897,559
Change in Assets	\$ 28,349	\$ 180,967	\$ 152,618	\$ (25,273)	\$ (53,622)
Fixed Assets					
Depreciation	\$ -	\$ (41,848)	\$ (41,848)	\$ (41,848)	\$ (41,848)
Total Fixed Asset Purchases	28,349	59,347	30,998	16,575	(11,774)
Change in Fixed Assets	\$ (28,349)	\$ (17,499)	\$ 10,850	\$ 25,273	\$ 53,622
TOTAL CHANGE IN ASSETS	\$ -	\$ 163,468	\$ 163,468	\$ 0	\$ 0

Personnel Analysis

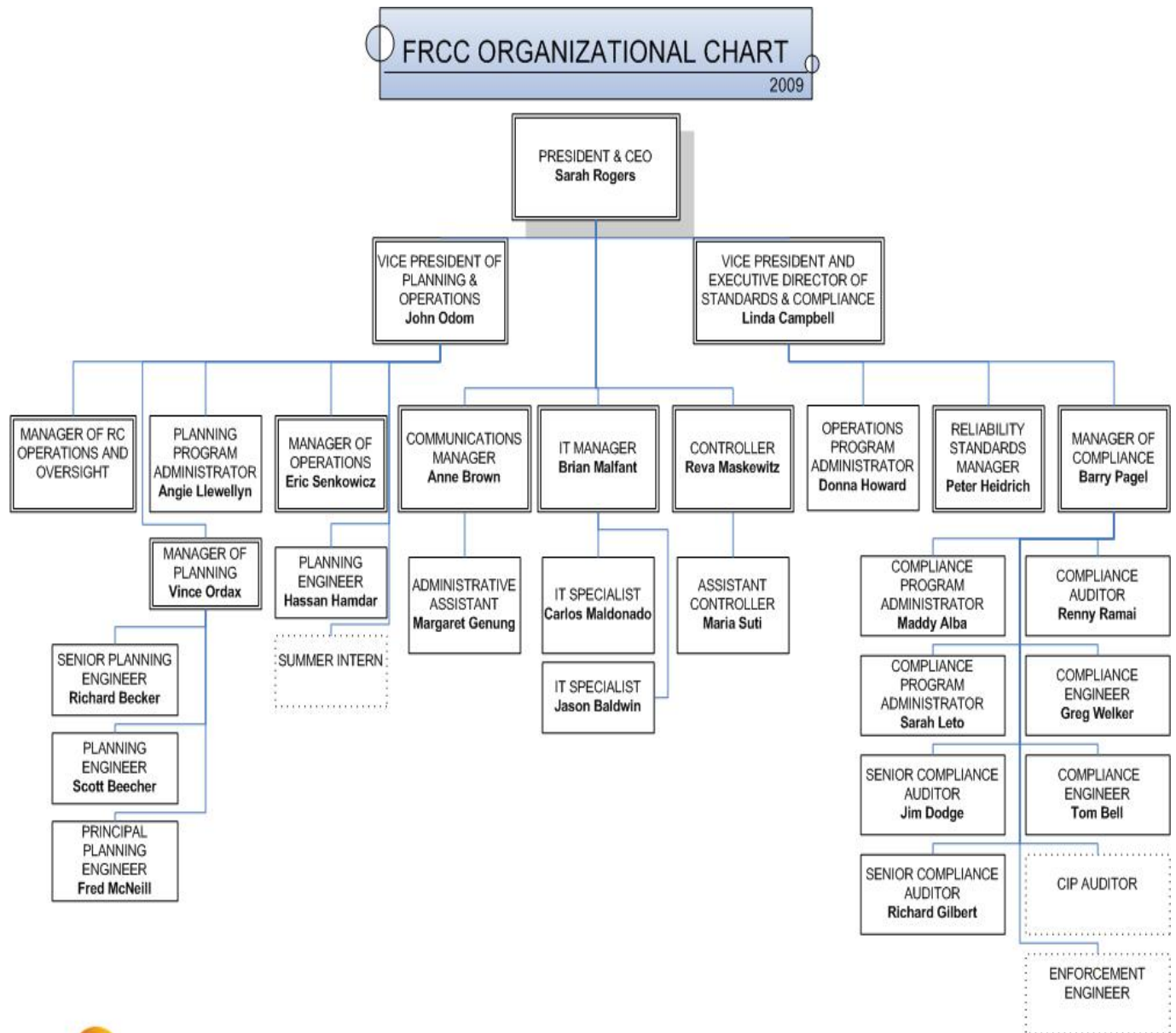
Table 2

Total FTE's by Program Area	Budget	Projection	Direct FTEs	Shared	Total	Change
	2009	2009	2010	FTEs ¹ 2010	FTEs	from
			Budget	Budget	2010	2009
			Budget	Budget	Budget	Budget
Non-Statutory						
Operational Programs						
Operations Committee	2.32	3.32		3.20	3.20	0.88
Planning Committee	2.75	2.75		2.10	2.10	-0.65
Total FTEs Operational Programs	5.07	6.07	0.00	5.30	5.30	0.23
Administrative Programs						
General & Administrative	4.08	4.08		3.56	3.56	-0.52
Total FTEs Administrative Programs	4.08	4.08	0.00	3.56	3.56	-0.52
Total FTEs	9.15	10.15	0.00	8.86	8.86	-0.29

¹A shared FTE is defined by NERC as an employee who performs both Statutory and Non-Statutory functions.

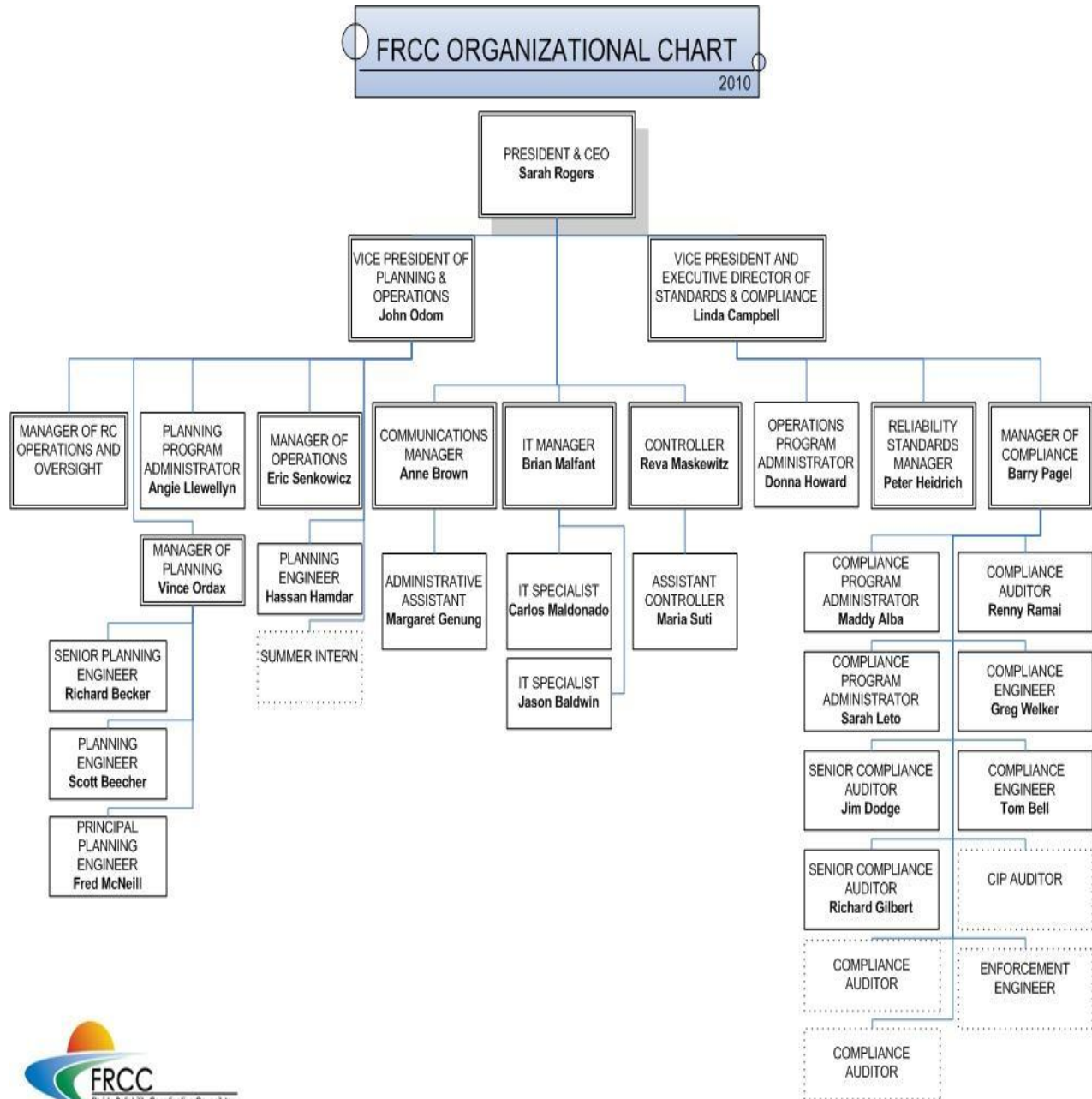
2009 Organizational Chart

Table 3



2010 Organizational Chart

Table 4



Reserve Analysis — 2009–2010

Table 5

Working Capital Reserve Analysis 2009-2010	
Non-Statutory	
Beginning Working Capital Reserve (Deficit), December 31, 2008	
Beginning Cash @ January 1, 2009	(113,810)
2009 Funding (from members)	3,209,412
2009 Other funding sources	151,700
Total Cash Available 2009	3,247,302
Cash Needed 2009	
Less: '2009 Projected expenses & capital expenditures	(4,096,262)
Plus: '2009 Special Assessment Approved	898,618
Projected Working Capital Reserve (Deficit), December 31, 2009	49,658
Desired Working Capital Reserve Balance, December 31, 2010	¹ 327,285
Less: Projected Working Capital Reserve Balance December 31, 2009	(49,658)
Increase(decrease) in funding needed to raise Working Capital Reserve balance	277,627
2010 Funding requirement for expenses and fixed asset additions	4,205,049
Less: Other Funding Sources	(265,583)
Adjustment to increase Working Capital Reserve balance	277,627
2010 Funding and reserve adjustment	4,217,093

¹ As documented in the June 27, 2008 minutes, the FRCC Board of Directors has approved the establishment of a cash reserve equal to 1 month of working capital.

Statement of Activities 2010 Budget	Functions in Delegation Agreement										Non-Statutory Functions
	Total	Statutory Total	Non-Statutory Total	Statutory Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 500)	Reliability Assessment and Performance Analysis (Section 800)	Training and Education (Section 900)	Situational Awareness and Infrastructure Security (Section 1000)	General and Administrative	Non-Statutory Total
Funding											
ERO Funding											
ERO Assessments	4,938,176	4,938,176	-	4,938,176	360,168	3,570,933	1,166,740	137,839	53,085	(350,589)	-
Penalty Sanctions	-	-	-	-	-	-	-	-	-	-	-
Total ERO Funding	4,938,176	4,938,176	-	4,938,176	360,168	3,570,933	1,166,740	137,839	53,085	(350,589)	-
Membership Dues	3,939,466	-	3,939,466	-	-	-	-	-	-	-	3,939,466
Testing Fees	-	-	-	-	-	-	-	-	-	-	-
Services & Software	289,103	23,520	265,583	23,520	-	-	23,520	-	-	-	265,583
Workshops	108,901	108,901	-	108,901	-	-	-	108,901	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-
Total Funding	9,275,646	5,070,597	4,205,049	5,070,597	360,168	3,570,933	1,190,260	246,740	53,085	(350,589)	4,205,049
Expenses											
Personnel Expenses											
Salaries	3,810,211	2,741,366	1,068,845	2,741,366	170,504	1,520,025	467,979	68,927	24,185	489,746	1,068,845
Payroll Taxes	249,658	179,624	70,034	179,624	11,172	99,597	30,664	4,516	1,585	32,090	70,034
Benefits	462,903	353,779	109,124	353,779	17,408	229,087	47,778	7,037	2,469	50,000	109,124
Retirement Costs	553,189	398,007	155,182	398,007	24,755	220,686	67,944	10,007	3,511	71,104	155,182
Total Personnel Expenses	5,075,961	3,672,776	1,403,185	3,672,776	223,839	2,069,395	614,365	90,487	31,750	642,940	1,403,185
Meeting Expenses											
Meetings	129,796	121,605	8,191	121,605	1,224	3,494	5,699	108,901	-	2,287	8,191
Travel	376,473	302,140	74,333	302,140	49,915	174,295	38,074	9,978	1,740	28,138	74,333
Conference Calls	52,854	19,747	33,107	19,747	634	3,630	12,096	3,192	-	195	33,107
Total Meeting Expenses	559,123	443,492	115,631	443,492	51,773	181,419	55,869	122,071	1,740	30,620	115,631
Operating Expenses											
Consultants & Contracts	1,931,675	230,950	1,700,725	230,950	-	-	230,950	-	-	-	1,700,725
Office Rent	431,429	365,757	65,672	365,757	10,476	290,715	28,754	4,235	1,486	30,091	65,672
Office Costs	595,271	161,381	433,890	161,381	9,565	85,267	26,252	3,867	8,958	27,472	433,890
Professional Services	280,000	88,256	191,744	88,256	5,490	48,937	15,066	2,219	779	15,765	191,744
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-
Depreciation	192,224	150,376	41,848	150,376	3,824	90,256	54,868	548	880	-	41,848
Total Operating Expenses	3,430,599	996,720	2,433,879	996,720	29,355	515,175	355,890	10,869	12,103	73,328	2,433,879
Total Direct Expenses	9,065,683	5,112,988	3,952,695	5,112,988	304,967	2,765,989	1,026,124	223,427	45,593	746,888	3,952,695
Indirect Expenses	(0)	-	(0)	-	59,025	526,200	162,004	23,861	8,372	(779,463)	(0)
Other Non-Operating Expenses	277,627	-	277,627	-	-	-	-	-	-	-	277,627
Total Expenses	9,343,310	5,112,988	4,230,322	5,112,988	363,992	3,292,189	1,188,128	247,288	53,965	(32,575)	4,230,322
Change in Assets	(67,664)	(42,391)	(25,273)	(42,391)	(3,824)	278,744	2,132	(548)	(880)	(318,014)	(25,273)
Fixed Assets											
Depreciation	(192,224)	(150,376)	(41,848)	(150,376)	(3,824)	(90,256)	(54,868)	(548)	(880)	-	(41,848)
Total Fixed Asset Purchases	475,150	458,575	16,575	458,575	-	369,000	57,000	-	-	32,575	16,575
Change in Fixed Assets	(282,926)	(308,199)	25,273	(308,199)	3,824	(278,744)	(2,132)	548	880	(32,575)	25,273
TOTAL CHANGE IN ASSETS	(350,590)	(350,590)	-	(350,590)	0	(0)	(0)	(0)	(0)	(350,589)	-
FTE's	31.51	22.67	8.84	22.67	1.41	12.57	3.87	0.57	0.20	4.05	8.84

DOCKET NO. RR09-__-000

**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

2010 BUSINESS PLAN AND BUDGET FILING

ATTACHMENT 4

**MIDWEST RELIABILITY ORGANIZATION
PROPOSED 2010 BUSINESS PLAN AND BUDGET**



2010 Business Plan and Budget Midwest Reliability Organization

Approved by: MRO Board of Directors Date: August 17, 2009



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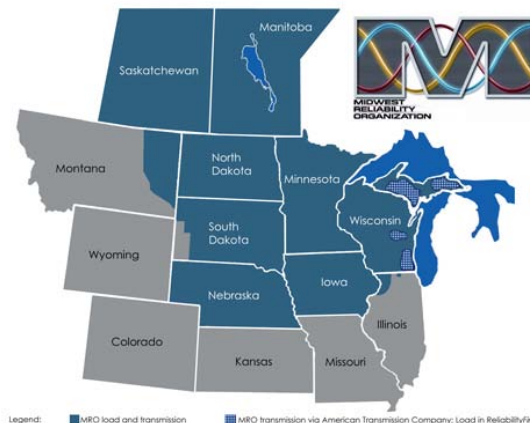
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Introduction

Total RE Resources (in whole dollars)				
	2010 Budget	U.S.	Canada	Mexico
Statutory FTEs	29.00			
Non-statutory FTEs	0.00			
Total FTEs	29.00			
Statutory Expenses	\$ 7,366,117	6,151,444	1,214,673	0
Non-statutory Expenses	0	0	0	0
Total Expenses	\$ 7,366,117	6,151,444	1,214,673	0
Statutory Funding	\$7,366,117	6,151,444	1,214,673	0
Non-Statutory(Member) Funding	0	0	0	0
Total Funding	\$ 7,366,117	6,151,444	1,214,673	0
NEL	275,258,769	229,861,933	45,396,836	0
NEL %	100.00	83.51%	16.49%	0.00%

The Midwest Reliability Organization (“MRO”) 2010 Business Plan and Budget has been developed by MRO staff. The plan and budget are subject to Board of Directors (“Board”) approval and stakeholder review.

The MRO has an approved Regional Delegation Agreement with the North American Electric Reliability Corporation (“NERC”) as a Cross-Border Regional Entity (“CBRE” or “RE”). NERC operates as the international Electric Reliability Organization (“ERO”). The MRO operates under the delegated authority of the Federal Energy Regulatory Commission (“FERC” or “Commission”) in the United States and through similar arrangements in Manitoba and Saskatchewan. The MRO Region includes over 20,000,000 people and covers approximately one million square miles. The total net energy to load is nearly three hundred million megawatt hours (MWh).



1. Organizational Overview

The MRO is a non-profit corporation registered in Delaware and has a 501(c) 6 designation by the Internal Revenue Service. The MRO is licensed and registered to conduct business and operate in all the states and two Canadian provinces within its region. The MRO region is comprised of municipal utilities, cooperatives, investor-owned utilities, a federal power marketing agency, Canadian Crown Corporations, large and small end-use load organizations, and independent power producers. The MRO region spans eight states and two Canadian provinces covering roughly one million square miles. The MRO is independent of bulk power owners, users, and operators of the bulk power system (“BPS”) and is not an operator, owner, or user of the bulk power system and has no shared employees with a third or related party. MRO performs only those responsibilities under Section 215 of the Federal Power Act and similar functions through arrangement with Saskatchewan and Manitoba.

Committees of the MRO provide recommendations, advice, and counsel to the Board and are balanced in their representation. The Board has the decision-making authority. The sectors for the Board are:

- Canadian Utility (2)
- Cooperative (2)
- Federal Power Marketing Agency (1)
- Generator and/or Power Marketer (2)
- Investor Owned Utility – Large (3)
- Investor Owned Utility – Small (2)
- Large End-Use Electricity Customer (1)
- Municipal Utility (2)
- Small End-Use Electricity Customer (1)
- Transmission System Operator (3)

Regulators are registered members in the MRO and share the same rights as members but have no vote. All meetings are open but the MRO Board of Directors reserves the right to call a meeting into Executive Session.

2. Governance

MRO monitors approximately 120 entities in the region for compliance with mandatory reliability standards. Membership in MRO, which is voluntary and free, affords organizations the opportunity to participate in the technical activities and governance of the organization. The number of entities that are members of MRO is approximately 50.

The governance structure of the MRO is a balanced stakeholder board whereby no two sectors can control a vote. The governance structure is permitted under the Energy Policy Act of 2005 for Regional Entities operating under delegated authority from the Electric Reliability Organization. The MRO Board has three committees:

- Finance and Audit Committee (FAC)
- Governance and Personnel Committee (GPC)
- Hearing Body

The Board's primary role is to assure the organization meets its requirements under the bylaws and performs its responsibilities with due care and in an efficient manner. The Board makes no determinations on compliance or enforcement matters. The Board has adopted procedures to assure they carry out their responsibilities free of conflicts. The Hearing Body of the Board fulfills the obligations in the conduct of hearings, a mandated function under the Rules found in the Compliance Monitoring and Enforcement Program (CMEP).

In addition, MRO has five standing committees:

- Standards Committee
- Compliance Committee
- Reliability Assessment Committee
- Dispute Resolution Committee (for business disputes between members and MRO)
- Security Committee

The charters for these standing committees are defined in the MRO By-laws. The by-laws are posted publicly on the MRO website.

[://www.midwestreliability.org/01_about_mro/overview/by_laws/MRO_Bylaws.pdf](http://www.midwestreliability.org/01_about_mro/overview/by_laws/MRO_Bylaws.pdf)

3. Statutory Functional Scope

The primary purposes of the MRO are:

1. Develop, propose, and/or adopt regional and NERC Reliability Standards.
2. Determine compliance with those standards, including enforcement mechanisms in a non-discriminatory manner consistent with the rules.
3. Perform seasonal, long-term, and other assessments of reliability.
4. Other services consistent with its reliability charter and delegation agreement.

The MRO provides a transparent, effective, and efficient reliability organization across a broad geographic region with open meetings and an inclusive standard setting process:

1. The MRO is an effective reliability organization for a region that has a long tradition of managing within and across complex, multiple seams including an interconnection seam, structured markets to bi-lateral market seams, and an international border.
2. The MRO creates a common forum for the region regardless of transmission allegiance.
3. The MRO region has a tradition of working successfully on reliability matters despite the complexities in seams, diverse constituencies, and jurisdictions. Approximately half of the load in the MRO is public power, including Canada. The MRO is a vital link to maintain and expand existing "reliability" relationships among regulators, bulk power users, owners, and operators.
4. Because of the seams, unique power system technical configurations, such as very long distances between load and generator, stability-limited transmission, the large percentage of hydro generation, and the diversity of its constituency, the region must have the ability and means to represent its own regional reliability interests for the benefit of the users, owner, and operators of the bulk power system and the public it serves as a CBRE under the final reliability rule and consistent with the Bilateral Principles.

The 2010 Business Plan and Budget fulfills MRO's commitments related to the delegated functions from NERC, consistent with FERC and Canadian authorities:

- Implementation of compliance and enforcement programs to those subject to Reliability Standards.
- Non-discriminatory, consistent enforcement process to those subject to Reliability Standards.
- Adoption of Reliability Standards to ensure enforceability. Canadian enforceability has been sought through agreements with Saskatchewan and Manitoba.
- Ability to propose standards to benefit the reliability of the MRO region; using an open, technically valid process.
- Provide education and resources for operators, users, and owners of the bulk electric system.
- Assess and report on regional bulk power system reliability and adequacy.
- Investigate and report on regional bulk power system events and evaluate those events for enforcement action or improvements.

4. 2010 Key Assumptions and Cost Impacts

In developing the 2010 business plan, MRO has assumed:

1. The international, industry-based Self Regulatory Organization (SRO) model continues to be used and no material changes to the SRO model impacting 2010 emerge from the ERO 3-year assessment.
2. The framework for delegation remains constant. The scope of delegated authorities and responsibilities remains relatively constant, with incremental improvements according to recommendations developed in the ERO 3-year assessment.
3. The Critical Infrastructure Protection (CIP) Standards permit Registered Entities to request Technical Feasibility Exceptions (TFEs) to the requirements in certain instances where it may be technically not possible to comply with the requirements. NERC has directed the Regional Entities, like MRO, to include resources to handle TFEs starting in 2010.
4. NERC and Regional Entities are not budgeted in 2010 for any unknown material changes to scope and are unable to undertake unfunded mandates, such as new initiatives stemming from the U.S. federal stimulus package on energy. Any mandated material changes to scope will impact cash reserves.
5. The current economic downturn continues into 2010, resulting in cost pressures on NERC and regional entities to do more with less. The industry experiences lower electricity demand and may defer capital projects in some areas and may reduce or hold O&M budgets flat. Cost pressures result in less travel and strain stakeholder participation in NERC and regional entity activities.
6. Regional entities are audited by NERC prior to year end 2010 as specified in the rules and terms of the Delegation Agreement.

5. Changes in Accounting Methodology

In 2010, NERC and all the Regional Entities agreed to formatting changes to the *Statement of Activities* within each functional Program Area as follows:

1. The ERO Assessment and penalty sanctions are only allocated across the delegated functions, except that ERO assessments needed to fund working capital are reflected in the General and Administrative Program within Administrative Services.
2. The increase or decrease in assessments to achieve the desired working capital reserve balance is reflected as the Total Change in Assets. In 2009, this amount was reflected as Other Non-Operating Expense on the Statement of Activities.
3. All personnel and meeting expenses are accounted for within their associated department's budget.
4. The majority of the Operating Expenses are accounted for within their related department's budget. If an expense cannot be specifically linked to a department, it is included in the General and Administrative Program, within Administrative Services.
5. All expenses for the Administrative Services Programs, referred to as indirect expenses, are allocated to the delegated program areas by their respective FTEs. This allocation provides improved financial perspective for the delegated functions.
6. Capital expenditures are broken out as fixed assets at the end of each statement of activities rather than being included in their related lines in the operating expenses section.
7. Expenses include depreciation, but since funding is not being requested for depreciation expense, it has been deducted from the funding requirement for capital expenditures.
8. The result of these changes may be an apparent increase in total costs for each functional Program area.
9. MRO change in benefit cost distribution:
Budgeted payroll taxes, benefits, and retirement costs vary by employee. The 2009 Budget was prepared using an overall average based on actual experience. The 2010 Budget was prepared on a program actual experience using department (program) averages rather than an overall organization-wide average. However, the benefit cost distribution remained on an organization-wide basis because of the difficulty in determining individual benefit cost using the existing systems. Additionally, the reader of the 2010 budget should understand that MRO manages total organization-wide benefit costs rather than individual employee benefit costs. Therefore, the focus is on the overall "fringe" or benefit rate (%) and dollars to total payroll.

As a result, the budgets by program areas in payroll and benefits may show variances; however the combined benefits figures should be considered in evaluating the program

budgets by the reader of the 2010 budget. To assist the reader, please consider the following analysis:

Personnel Expenses	Budget 2009	Projection 2009	Budget 2010
Payroll Taxes	17%	7%	8%
Benefits	8%	18%	18%
Retirement	17%	16%	16%
	42%	41%	42%

The organization has plans to refine its labor tracking systems in 2009; however, it remains under development.

6. 2010 Primary Goals and Objectives

MRO’s primary objective is to carry out its responsibilities related to the Regional Delegation Agreement and the NERC rules in a consistent, predictable, transparent, professional, and non discriminatory manner within budget.

MRO business planning is driven by the following organizational benchmarks for excellence:

1. Outcomes to improve reliability
 - a. Effective actions; deliver what we were designed to do – improve reliability of the Bulk Power System (BPS)
2. Practical and timely in our actions
 - a. Outcome-focused
 - b. Collaboratively work with Governmental Authorities, NERC, other Regions to assure our actions are practical and timely
3. Consistent, risk-based, proportionate and transparent
 - a. Consistent on approach; analyze first, act on the basis of risk, evidence and sound engineering
 - b. Consider costs and benefits; precautionary when the facts are incomplete
 - c. Act openly and transparently with integrity; accountable for our actions to maintain the public trust
4. Continuous learning
 - a. Systems in place to review risks; adjusting to new risks and changing priorities
 - b. Learn and act on the assessments that others make of our performance
 - c. Use self-evaluation as a means to improve
5. Value
 - a. Efficient; strive to improve
 - b. Economical; use our funding wisely
 - c. Develop our people
6. Change
 - a. Work with others to change the regulatory agenda for the better
 - b. Work with others to achieve common goals

MRO has the following behaviors and performance expectations of its staff:

1. We are responsive.
 - a. We have a sense of urgency to act.
 - b. We expect decentralized decision-making.
 - c. We are resourceful and entrepreneurial.
 - d. We are accurate.
 - e. We collaborate and cooperate.
2. We are reliable.
 - a. We honor our commitments.
 - b. We have good memories.
 - c. We build lasting relationships.
 - d. We are fiscally responsible.
 - e. We have a safe work environment.
3. We are professional.
 - a. We are fair, honest, and ethical (“golden rule”).
 - b. We attract and retain talented people.
 - c. We have a “servant’s” attitude.
 - d. We are respectful of others.
 - e. We strive to improve every day.

7. 2010 Overview of Cost Impacts

Operational Programs

Standards

Funding Requirements — Explanation of Increase (Decrease)

For 2010, MRO has reduced its staffing level in the Standards area from 2.50 FTEs to 1.35 FTEs. Based on experience, Standards is an area where we need strong stakeholder engagement to assure reliability interests of the region are reflected in North American-wide standards. MRO will attempt to involve more staff from registered entities in drafting teams and in other forums and place the resources in the compliance and assessments areas. While MRO does reimburse travel expenses for others in the region that have been approved to participate and represent MRO, there is a savings in not having full time staff represent the region on certain teams.

Compliance

For 2010, the work performed by MRO for compliance monitoring will experience an increase in work load primarily due to the continued expansion of monitoring the NERC CIP-002 through CIP-009 Reliability Standards, and in part, due to the expanded scope of compliance monitoring as defined in the NERC Implementation Plan.

Personnel Expenses

- The overall FTE count for compliance and enforcement does not increase from 2009 to 2010. However, the “personnel expense” account for 2010 will increase when compared with the 2009 budget due the expenses associated with the year end 2009 FTE count for the entire year in 2010.

Consulting Expenses

- MRO will initially use outsourcing as a means to supplement its resources to meet the TFE requirements. Given the levels of uncertainty regarding the potential number of TFE's, MRO believes that this is prudent at this time.

Readiness Evaluation

NERC has eliminated the Reliability Readiness Evaluation and Improvement Program. 2009 is a transition year, during which open Readiness recommendations in the Region will be monitored to their completion and a reduced set of Evaluations will take place. Consequently, MRO has eliminated the Reliability Readiness Evaluation and Improvement Program funding requirements, FTE count, and activities from the 2010 Business Plan and Budget.

Training and Education

At this time, MRO is not planning to provide an in-house operator training program in 2010. MRO will identify training options for Registered Entities in the MRO Region so that they can accomplish the objectives of the NERC program through a third party. There will not be an MRO budget for this item.

Reliability and Assessment and Performance Analysis

In 2008, the Chairperson of the NERC Planning Committee (PC) indicated that Regional Entities, their Registered Entities and members, and the industry as a whole should plan to increase human resources to adequately support the ever-increasing workload in the Reliability Assessments area. In addition to the increased focus on Reliability Assessments, there has been an increase in NERC and Regulatory data requests. NERC also has been increasing the number of groups that report to the NERC PC and Operating Committee (OC). MRO stakeholders and/or staff will populate these groups. The additional MRO staffing provided for the Assessments Group in 2009 is adequate to meet the present responsibilities at hand.

MRO reimburses those individuals who represent MRO in the PC and OC stakeholders groups for approved travel expenses.

Situational Awareness & Infrastructure Security Program

Situational Awareness

The current Situational Awareness program efforts are relatively new in the Regions. The 2010 budget includes dollars for travel for coordination and development related activities and capital dollars for computer related equipment.

Infrastructure Security Program

The formal Infrastructure Security programs are relatively new. The program did not have specific budget dollars in 2009. The 2010 budget includes meeting dollars for the MRO Board Security Committee, travel to attend security related meetings, and capital dollars to support security improvements to MRO cyber systems.

Administrative Programs

Member Forums (Committees that meet for NERC business.)

MRO is making a greater effort in 2009 and 2010 to encourage registered entities to participate in NERC committees, working groups, and standard drafting teams. Due to staffing additions in the Reliability Assessment group at MRO, staff will be more fully participating in the NERC

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committees and working groups. By policy, MRO reimburses registered entities for approved regional representative travel expenses.

General and Administrative

The 2010 budget includes increased travel dollars that reflect the trend of higher travel costs and reimbursement of expenses for MRO Board of Directors members.

In the 2010 Budget, as in 2009, there are no contingency dollars included for a potential hearing.

Information Technology

In 2010, MRO has all major hardware completing a third year of service, and therefore it is completing its useful service life and requires replacement. This includes email, file server, printer server, domain server, firewall, network, voice, security, backup server and others. This increases the 2010 budget requirements over the previous two years.

Legal and Regulatory

For 2010, MRO has reduced its staffing level in the Legal area from 1.50 2009 Budget FTEs to 0.10 FTEs, by re-assigning this staff to the Compliance Program. MRO has determined that the legal staff person should be directly involved in enforcement proceedings and therefore, MRO will outsource legal representation for hearings.

Accounting / Human Resources

The 2010 Budget includes a slight increase in office costs resulting from participation in professional organizations and additional training. MRO Staff anticipates continuously improving consistency and transparency among the regions and NERC. MRO efforts are not limited to, but include implementing a Time Managed Payroll Application. MRO Staff will also be addressing the demands of Sarbanes-Oxley (SOX) and the revamped Form 990.

Section A — 2010 Business Plan

1. Reliability Standards Program

Reliability Standards Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	2.50	1.35	(1.15)
Total Direct Expenses	\$422,708	\$ 283,443	(\$ 139,265)
Total Indirect Expenses ¹	\$347,131	\$ 155,049	(\$ 192,082)
Inc(Dec) in Fixed Assets		\$857	\$857
Total Expenses	\$769,839	\$ 439,349	(\$ 330,490)

Program Scope and Functional Description

NERC uses stakeholder driven processes to develop and maintain Reliability Standards that apply to bulk power system owners, operators, and users and that enable NERC and Regional Entities to measure the reliability performance of bulk power system owners, operators, and users; and to hold them accountable for reliable operation of the bulk power systems. The Reliability Standards must be technically excellent, timely, just, reasonable, not unduly discriminatory or preferential, in the public interest, and consistent with other applicable Standards of governmental authorities.

Regional Entities may propose Regional Reliability Standards that set more stringent reliability requirements than the NERC Reliability Standard or cover matters not covered by an existing NERC Reliability Standard. Such Regional Reliability Standards shall in all cases be approved by NERC and FERC and shall be enforceable in accordance with the delegation agreement between NERC and the Regional Entity or other instrument granting authority over enforcement to the Regional Entity.

2010 Key Assumptions

The MRO utilizes a balanced stakeholder Standards Committee (“SC”) to administer the regional standards program and to provide regional input to NERC Standards development efforts and is charged with the following responsibilities:

- Assuring MRO regional Reliability Standards are consistent with NERC Reliability Standards.
- Processing all requests for new or modifications to MRO Reliability Standards using the MRO standards process.
- Maintaining MRO Reliability Standards process documentation.

¹ Indirect funding is calculated by allocating all administrative services funding to the operational program areas on a proportional FTE basis.

- Presenting new or modifications to MRO Reliability Standards for adoption by the MRO Board upon recommendation from the SC.
- Promoting coordination of the MRO efforts with other Regional Entities and NERC, including periodic review of Reliability Standards and their applicability to those subject to the Reliability Standards.
- Providing recommendations to the NERC standing committees or other working groups as required.
- Assigning the development of a standard to a drafting team.
- Providing comments on NERC proposed standards from the MRO stakeholders

In supporting the work of the SC, MRO staff monitors the NERC Standards development efforts and facilitates the efforts of the SC, drafting teams and commenting groups to provide input in a coordinated manner. Staff also insures the regional processes are followed for regional standards development.

MRO staff and stakeholders provide technical advice and comment to NERC in developing Reliability Standards applicable across North America and the Eastern Interconnection. MRO staff and registered entities participate in NERC and MRO standards drafting teams, hold meetings and conferences to discuss standards, and actively work with NERC on their standards development plan.

MRO also develops regional Reliability Standards that are applicable across the MRO region. The MRO standards process is consensus-based, technically vetted, and open to the public and bordering entities that may be impacted by a regional Reliability Standard. Once a MRO-proposed regional Reliability Standard is approved by the MRO Board, NERC and the applicable regulatory authorities, the MRO regional Reliability Standard is enforced according to agreements between NERC, MRO, and the Regulatory authorities in the United States, Manitoba, and Saskatchewan.

For regional standards development, the MRO uses a web-based standard voting system called Reliability Standards Voting Process (“RSVP”) which maintains the records of the comments, votes, etc. of each proposed standard. This system permits easy administration and convenience for those who participate in the standards process through the MRO Registered Ballot Body. There is no cost for participation.

The following information is from the NERC Three Year Standards Development Plan and supports the significant effort required by MRO to participate in standards development. The NERC three year plan identifies a list of NERC Drafting Teams Projects and associated Standards that the MRO will track and participate in for the period 2009 - 2011. This revised plan includes four new standards development projects that were not included in previous plans and a total of 39 projects. Also, in response to industry comments concerning the ability to adequately review the many development projects underway or contemplated by the plan and to allow for additional unanticipated projects that inevitably will be identified, the projects for years 2009 and beyond were realigned to help ensure that adequate resources are available to support them. In addition, modifications were made to individual projects to comply with FERC Orders and to allow for coordination with the North American Energy Standards Board (NAESB).

2010 Goals and Key Deliverables

- Completion of the “fill-in-the-blanks” project as outlined in the NERC three year plan.
- Develop and propose MRO Reliability Standards as appropriate.
- Provide comments and support to other NERC and MRO SC activities.
- Work with NERC to improve interpretation of existing Reliability Standards.
- Work with NERC to improve the process timeliness of Reliability Standards development.
- Comment on all NERC SAR and draft standards.
- Communicate with stakeholders and vote on all NERC standards.
- Support and brief SC and Board on standards-related activities.
- Participate on various NERC groups and committees.
- Provide standards workshops to Registered Entities.

Funding Requirements — Explanation of Increase (Decrease)

For 2010, MRO has reduced its staffing level in the Standards area. MRO will attempt to involve staff from registered entities in drafting teams and in other forums to replace staff involvement. While MRO does reimburse travel expenses for approved regional representation, there is a savings in not having full time staff represent the region on all teams.

Reliability Standards Program

Funding sources and related expenses for the Reliability Standards section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Standards					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Draft Version 3.0 2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 422,708	\$ 414,530	\$ (8,178)	\$ 434,869	\$ 12,161
Penalty Sanctions				4,480	4,480
Total ERO Funding	\$ 422,708	\$ 414,530	\$ (8,178)	\$ 439,349	\$ 16,641
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 422,708	\$ 414,530	\$ (8,178)	\$ 439,349	\$ 16,641
Expenses					
Personnel Expenses					
Salaries	\$ 222,752	\$ 204,626	\$ (18,126)	\$ 157,600	\$ (65,152)
Payroll Taxes	37,868	15,036	(22,832)	11,581	(26,287)
Benefits	17,820	45,631	27,811	37,262	19,442
Retirement Costs	37,868	24,737	(13,131)	20,200	(17,668)
Total Personnel Expenses	\$ 316,308	\$ 290,030	\$ (26,278)	\$ 226,643	\$ (89,665)
Meeting Expenses					
Meetings	\$ 7,500	\$ 7,500	-	\$ 4,800	\$ (2,700)
Travel	10,000	25,000	15,000	21,000	11,000
Conference Calls	15,000	25,000	10,000	12,000	(3,000)
Total Meeting Expenses	\$ 32,500	\$ 57,500	\$ 25,000	\$ 37,800	\$ 5,300
Operating Expenses					
Consultants	\$ 30,000	\$ 30,000	-	-	\$ (30,000)
Contracts	30,000	30,000	-	12,000	(18,000)
Office Rent	-	-	-	-	-
Office Costs	13,900	7,000	(6,900)	7,000	(6,900)
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 73,900	\$ 67,000	\$ (6,900)	\$ 19,000	\$ (54,900)
Total Direct Expenses	\$ 422,708	\$ 414,530	\$ (8,178)	\$ 283,443	\$ (139,265)
Indirect Expenses					
				\$ 155,049	\$ 155,049
Other Non-Operating Expenses					
	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 422,708	\$ 414,530	\$ (8,178)	\$ 438,492	\$ 15,784
Change in Assets	\$ -	\$ -	\$ -	\$ 857	\$ 857
Fixed Assets					
Depreciation	-	-	-	-	-
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets				\$ (857)	(857.19)
Change in Fixed Assets	-	-	-	(857)	(857)
TOTAL CHANGE IN ASSETS	\$ -	\$ -	\$ -	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- 2010 Statement of Activities was revised to include Generally Accepted Accounting Principles (GAAP). The previous Statement of Activities (2009 and prior) reported funding requirements (i.e. cash basis). The material difference is depreciation, which is a non-cash item, but is reflected in GAAP accounting. The 2010 template clearly shows the distinction between GAPP and the Required ERO funding by including those line items; that is, 2010 develops an operating budget as well as a capital budget.
- Penalty Sanctions – Total penalty monies received and the allocation method used to allocate funds to this Program as an offset to assessments are disclosed in Table B-1, Section B, page 68.

Personnel Expenses

- For 2010, MRO has reduced its staffing level in the Standards area from 2.50 FTEs to 1.35 FTEs. MRO will attempt to involve staff from registered entities in drafting teams and in other forums to replace the staff involvement. While MRO does reimburse travel expenses for approved regional representation, there is a savings in not having full time staff represent the region on all teams.
- Budgeted payroll taxes, benefits, and retirement costs reflect an overall average cost and distribution. Please refer to introduction, section 5, page 10, number 9 which explains MRO's change in benefit cost distribution.

Meeting Expenses

- Meeting expenses are projected to be similar to 2009.

Operating Expenses

- Consultant and contract costs are reduced by \$48,000. The department will no longer support developers, testers, hundreds of users, vendors, and services associated with application development as well as seven servers dedicated to this endeavor (RSVP application). The subscription to third party services decreases the budget impact of IT
- Office costs are reduced by \$6,900, which is consistent with the reduced staffing.

Indirect Expenses

- 2010 expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs. These expenses reflect GAAP (Generally Accepted Accounting Principles) which includes non-cash expenses, primarily depreciation expense.

Other Non-Operating Expenses

- There are no non-operating expenses included in the 2010 Business Plan and Budget.

Fixed Asset Additions

- 2010 fixed assets related to indirect programs have been allocated proportionately based on FTE to the direct programs.

2. Compliance Monitoring and Enforcement and Organization Registration and Certification Program

Compliance Monitoring and Enforcement and Organization Registration and Certification Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	10.00	13.60	3.60
Total Direct Expenses	\$2,071,510	\$ 3,120,204	\$ 1,048,694
Total Indirect Expenses	\$1,388,525	\$ 1,561,971	\$ 173,446
Inc(Dec) in Fixed Assets		\$8,635	\$8,635
Total Expenses	\$3,460,035	\$ 4,690,810	\$ 1,230,775

Program Scope and Functional Description

In 2010, the MRO compliance monitoring and enforcement program includes performing Compliance Monitoring and Enforcement Program (“CMEP”) activities with approximately one hundred sixteen (116) Registered Entities in the MRO region.

The 2010 compliance program strategy includes placing Registered Entities “on notice” for all applicable regulatory approved Reliability Standards and sets the expectation that Registered Entities should be compliant with the applicable Standards at all times. All Registered Entities will participate in the compliance program, which includes data submittals, monthly reporting, exception reporting, self-reporting, self-certification, spot checks, random spot checks, surveys, and audits. Registered Entities participate in compliance audits on a determined three and six-year cycle. The BA, TOP, and RC entities receive an audit at least once every three-years, and the entities performing all other functions receive an audit at least once every six-years. For 2010 there are a total of twenty-eight compliance audits scheduled for the operating and planning Standards including nine BA, TOP, and RC audits, and nineteen “other function” type audits. In 2010, twenty-two entities will receive an audit on the Critical Infrastructure Protection (“CIP”) Reliability Standards.

In addition to the normal and ongoing compliance discovery activities under the NERC CMEP, MRO compliance staff may also participate in Event Analysis, Compliance Violation Investigations, and Hearings. These activities are included in the business plan for 2010.

2010 Key Assumptions

- Number of registered entities remains relatively constant as compared with 2009. No major rework of registration is made to “registration by requirement”.
- Assume the current level of activity in self-certifications and periodic reports, with the exception of the CIP standards. More effort will be required as the CIP standards reach the compliant stage. An increase in required spot-checks (mitigation plan closure verification, incident/trend analysis follow-up).
- Assumed no alleged violations would be addressed through a streamlined process.
- Assumed increased number and frequency of alleged violations as in 2008 primarily due to the inclusion of CIP Standards.

- There are provisions in the 2010 business plan and budget to conduct evaluations of Technical Feasibility Exceptions (TFE) associated with the CIP Reliability Standards in 2010.

The MRO staff will monitor, assess, and enforce compliance with Reliability Standards for each Registered Entity that has compliance responsibilities as defined in the MRO Registry in a non-discriminatory manner with the appropriate due process afforded to Registered Entities. In the United States, MRO enforces Reliability Standards according to Commission-approved rules. In Saskatchewan and Manitoba, MRO carries out its responsibilities according to agreements with the respective provincial authorities.

MRO staff performs all necessary compliance and enforcement activities under the Regional Delegation agreement. The MRO Compliance Committee assures MRO staff carries out its responsibilities according to the rules and acts in an advisory role to staff on process and procedural matters. The MRO Hearing Body approves settlements and acts as the hearing body according to the Rules of Procedure.

Organization Registration criteria and requirements are approved by NERC and the Commission in the United States and MRO staff carries out those responsibilities through its Delegation Agreement. Registration is documented through an MRO Registry that is incorporated into the overall NERC Registry. MRO staff registers all known entities subject to the Reliability Standards and revises the registered entity list as required under the rules.

Organization Certification of those applicable functions is performed by MRO staff in conjunction with NERC under its Rules of Procedure.

2010 Goals and Key Deliverables

- Develop and Implement program consistent with Regional Delegation Agreement and NERC Rules of Procedure
- Maintain accurate and up to date MRO registry
- Improve productivity by increasing number of audits including random spot checks
- Deliver consistent, quality program results across all discovery methods
- Assure professionally trained staff are available to perform the required activities under the CMEP
- Educate Registered Entities by providing training, lessons learned, and offering help as needed
- Process all alleged violations of Regulatory Approved Standards in a fair, uniform, systematic, and timely manner
- Ensure an accurate and complete record is created, maintained, and retained for each alleged violation
- Assess all mitigation plans in a fair, uniform, systematic, and timely manner to ensure they mitigate the violations and root causes
- Provide for fair due process to all Registered Entities in any enforcement actions

Funding Requirements — Explanation of Increase (Decrease)**Compliance Monitoring Explanation of Variances – 2010 Budget versus 2009 Budget****Entity (Organization) Registration**

- 2010 Variance: (no change in work load from 2009 to 2010)
- Work load associated with maintaining the registry will continue
- Pre-June 18, 2007 voluntary program (28 participants/255 functions)
- June 18, 2007 mandatory implementation (110 Registered Entities/587 functions)
- March 16, 2008 (116 Registered Entities/425 functions)
- Registration is an ongoing assignment
 - Inventory of generator facilities and generator elements that meet NERC Criteria of Registration
 - Joint Registration Organization (JRO) development
 - Multi Regional Registered Entity (MRRE) project
 - Through compliance monitoring, entities are discovered as meeting additional criteria
 - System diagrams, maps, agreements are reviewed to identify owners and operators of the bulk power system

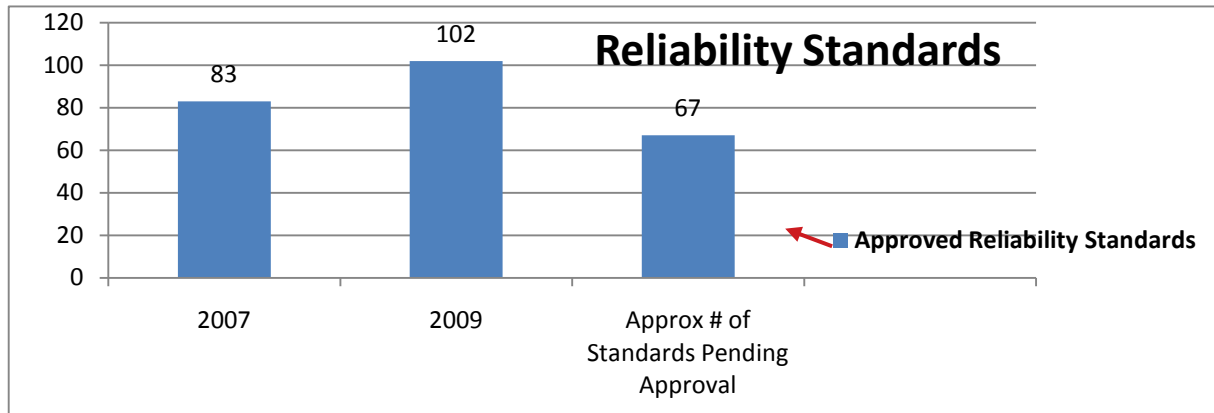
Entity (Organization) Certification

- 2010 Variance: (no change in work load from 2009 to 2010)
- Work performed to certify additional functions with Registered Entities, and to certify new Registered Entities is expected to continue and be equivalent to the rate or amount of work as in 2009.

Annual Implementation Plan

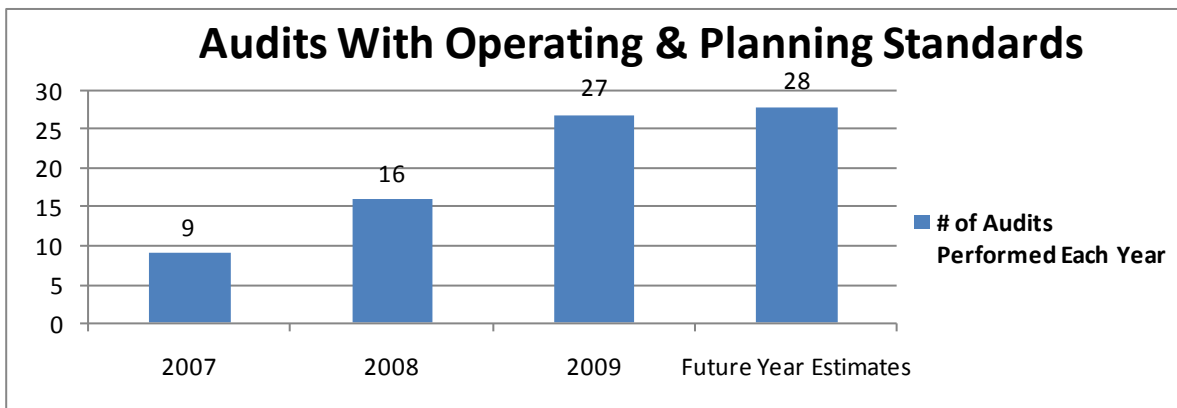
- 2010 Variance: (increase of work load in 2010)
- The scope of the annual implementation plan (compliance program) will increase as additional operating and planning standards are approved and with the implementation of compliance monitoring with the CIP standards
 - Monitor compliance with all Reliability Standards as defined in the NERC Implementation Plan
 - Assumed that the scope of audit and annual self-certification will use a “risk based approach”
 - Assumed that the NERC 2010 Implementation Plan will increase the requirement of monitoring standards through the methods including monthly self-certification, quarterly self-certification, periodic data submittal, exception report, and spot-check
 - Unscheduled or random spot-check will be performed:
 - if entity’s registration changes (such as adding functions)
 - if entity’s evidence of compliance provided during audit (or other method) is found to be non-compliant and the document came from another Registered Entity
 - as a follow-up from self-certification
 - for other reasons (such as event driven)

- Perform Joint Registration Organization (JRO) and Coordinated Function Registration type audits



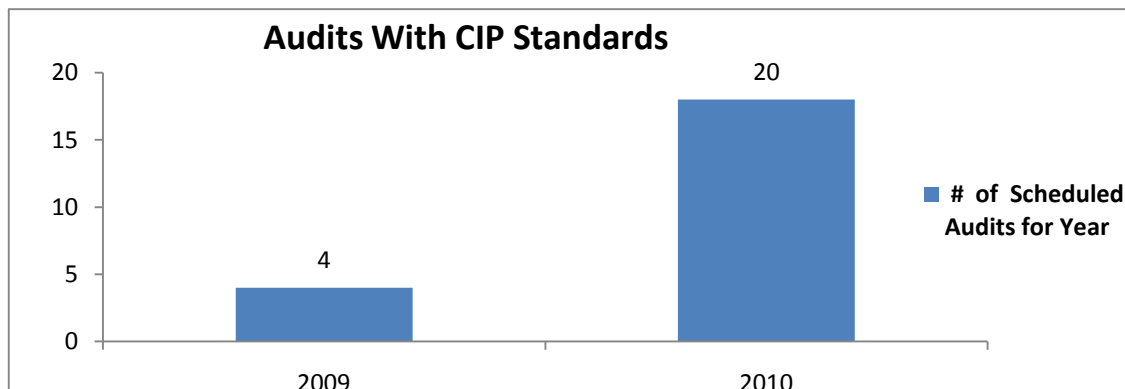
Planned Audits (Operating and Planning Standards)

- 2010 Variance: (minimal increase of work load in 2010)
- The number of audits to be performed with the operating and planning standards will increase by one.



Planned Audits (CIP Standards)

- 2010 Variance: (increase of work load in 2010)
- The NERC Implementation Plan requires the Regional Entities to spot-check the Table 1 entities on 13 CIP requirements between July 2009 and July 2010 and 41 requirements between July 2010 and January 2011.
- The number of CIP standard audits will increase by twenty-two. The MRO has twenty-two Table 1 entities and two Table 2 entities.
 - Audit four Table 1 entities in 2009 (tentative)
 - Perform eighteen Table 1 audits in 2010
 - Perform two Table 2 audits between July 2010 and January 2011
 - Assume that all CIP audits are held on-site



Technical Feasibility Exceptions (TFE's)

- 2010 Variance: (not included in the 2009)

Although there remains some level of uncertainty around TFE's, including the volume and scope of the evaluations, MRO has included costs which are expected to result from TFE evaluation and administration.

MRO will initially use outsourcing as a means to supplement its resources to meet the TFE requirements. Given the levels of uncertainty regarding the potential number of TFE's, MRO believes that this is prudent at this time.

CIP Self-Certification Requirement

- 2010 Variance: (no change in work load from 2009 to 2010)
- Perform the CIP self-certification in January and July as defined in the NERC Implementation Plan

Registered Entity Workshops and Forums

- 2010 Variance: (no change in work load from 2009 to 2010)
- Provide at least two workshops annually and present information at Registered Entity Forums as requested by Registered Entities

Incident Inquiry Reviews

- 2010 Variance: (no change in work load from 2009 to 2010)

- Estimating six incident inquiry reviews in 2010. The MRO developed and initiated an Incident Inquiry Review procedure in August 2008. This voluntary and informal process is performed to learn about an event or incident that occurred on the BPS. The process includes a collection of data to learn the facts and circumstances pertinent to the incident and to determine if any further review is warranted. A confidential (non-public) report is produced that either closes the incident or elevates it to a Compliance Violation Investigation (CVI), or Event Analysis (or both). Cooperation and voluntary participation is considered a mitigating factor by enforcement if a violation is discovered.

Compliance Violation Investigations (CVI)

- 2010 Variance: (no change in work load from 2009 to 2010)
- Participate on NERC-led CVI's performed in the MRO and perform MRO-led CVI's as deemed necessary. NERC has created a CVI department and expects to perform and "lead" the majority of the CVI's across the U.S. However, NERC still expects Regional Entity staff to participate on all NERC-led CVI's. In addition, depending upon the circumstances of the event and the Registered Entities involved, the MRO may need to perform and "lead" a portion of the CVI's in the MRO Regional footprint.

Compliance Violation Discovery: ("possible" violation to "alleged" or to "dismissal")

- 2010 Variance: (increase of work load from 2009 to 2010)
- For every possible violation discovered through one of the eight discovery methods, the MRO compliance staff performs an internal fact and circumstance review. The results are either the possible violation becomes an alleged violation or a dismissal. Documenting and reporting requirements, including dismissals, require resources; although MRO has automated much of its reporting through the Compliance Data Management System ("CDMS").
- Assuming an increase in the number and frequency of violations discovered with the inclusion of the CIP Standards.

Compliance Violation "Discovery Record" Development

- 2010 Variance: (increase of work load from 2009 to 2010)
- A discovery record is developed for every alleged violation. The discovery record and supplemental forms represent part of the enhancements needed to meet the directive issued by the Commission in its July 3, 2008 Order². There have been many additional enhancements implemented by the enforcement group (as described in the next section of this report) to meet the directive issued by the Commission.
- The number and frequency of discovered violations is expected to increase as explained above which will ultimately increase the number of required discovery records.

Compliance Enforcement Explanation of Variances – 2010 Budget versus 2009 Budget

² *Guidance on Filing Reliability Notices of Penalty*, 124 FERC ¶ 61,015 (2008).

Processing of Alleged Violations

- 2010 Variance: (increase of work load from 2009 to 2010)
- For every possible violation verified by MRO compliance staff, the MRO enforcement staff performs an internal fact and circumstance review to verify the existence of a violation and gather additional facts as necessary to determine the scope, duration, and nature of each violation. Beginning in 2009, MRO enforcement staff prepares and issues a Preliminary Notice of Alleged Violation (PNAV) for each verified violation. MRO enforcement staff also prepares a Notice of Alleged Violation and Proposed Penalty for each alleged violation. This process includes the calculation of a proposed penalty reviewed and considered by at least 2 MRO enforcement staff. Upon acceptance or lapse of the required time for response to the NAVAPS, MRO enforcement staff prepares a Notice of Confirmed Violation (NOCV). In certain instances, MRO enforcement staff may also prepare a Notice of Supplemental Record Information (SRI) to complete the record.
- MRO staff anticipates an increase in the number of settlement discussions requested by Registered Entities in 2010.
- An increase in the number and frequency of violations discovered with the inclusion of the CIP Standards and adding new Standards.

Mitigation Plan Acceptance and Verification of Completion

- 2010 Variance: (increase of work load from 2009 to 2010)
- For every alleged violation identified by MRO enforcement staff, a Mitigation Plan must be submitted. Mitigation Plans may include multiple violations representing different Requirements of the same Standard. MRO enforcement staff reviews each submitted Mitigation Plan to assess whether the proposed plan will mitigate the subject violation. Although the process of notifying the Registered Entity of the acceptance or rejection of the Mitigation Plan is automated, the review of each submitted plan is manual and time consuming. Upon receiving notice from a Registered Entity certifying completion of the mitigation, MRO enforcement staff may need to request additional documentation from the Registered Entity and will perform an audit to determine if the mitigation has been completed. Upon determining that the mitigation is complete, MRO enforcement staff prepares a formal Verification of Completion of Mitigation identifying the evidence submitted, reviewed, and the findings in support of mitigation.
- Assuming an increase in the number and frequency of violations discovered with the inclusion of the CIP Standards.

Record Development and Maintenance

- 2010 Variance: (no change in work load from 2009 to 2010)
- Processes have been formalized and necessary documentation identified to complete the record. CDMS provides for a central repository accessible to each Registered Entity to submit and review its evidence.

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 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Compliance and Organization Registration and Certification					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Draft Version 3.0 2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 2,071,510	\$ 2,093,544	\$ 22,034	\$ 4,645,677	\$ 2,574,167
Penalty Sanctions				45,133	45,133
Total ERO Funding	\$ 2,071,510	\$ 2,093,544	\$ 22,034	\$ 4,690,810	\$ 2,619,300
Membership Dues	\$ -	\$ -	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 2,071,510	\$ 2,093,544	\$ 22,034	\$ 4,690,810	\$ 2,619,300
Expenses					
Personnel Expenses					
Salaries	\$ 1,211,481	\$ 1,191,978	\$ (19,503)	\$ 1,567,964	\$ 356,483
Payroll Taxes	205,952	93,785	(112,167)	123,368	(82,584)
Benefits	96,918	219,648	122,730	294,567	197,649
Retirement Costs	205,952	197,613	(8,339)	265,016	59,064
Total Personnel Expenses	\$ 1,720,303	\$ 1,703,024	\$ (17,279)	\$ 2,250,915	\$ 530,612
Meeting Expenses					
Meetings	\$ 18,000	\$ 52,320	\$ 34,320	\$ 52,195	\$ 34,195
Travel	100,000	112,000	12,000	111,685	11,685
Conference Calls	10,000	14,800	4,800	13,085	3,085
Total Meeting Expenses	\$ 128,000	\$ 179,120	\$ 51,120	\$ 176,965	\$ 48,965
Operating Expenses					
Consultants	\$ 110,600	\$ 110,600	\$ -	\$ 587,500	\$ 476,900
Contracts	35,000	60,000	25,000	60,000	25,000
Office Rent	-	-	-	-	-
Office Costs	17,607	40,800	23,193	44,824	27,217
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 163,207	\$ 211,400	\$ 48,193	\$ 692,324	\$ 529,117
Total Direct Expenses	\$ 2,011,510	\$ 2,093,544	\$ 82,034	\$ 3,120,204	\$ 1,108,694
Indirect Expenses				\$ 1,561,970	\$ 1,561,970
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 2,011,510	\$ 2,093,544	\$ 82,034	\$ 4,682,174	\$ 2,670,664
Change in Assets	\$ 60,000	\$ -	\$ (60,000)	\$ 8,635	\$ (51,365)
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	60,000	-	-	-	(60,000)
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (60,000)	\$ -	\$ -	\$ -	\$ 60,000
Allocation of Fixed Assets				\$ (8,635)	(8,635)
Change in Fixed Assets	(60,000)	-	-	(8,635)	51,365
TOTAL CHANGE IN ASSETS	\$ -	\$ -	\$ (60,000)	\$ -	\$ -

Funding Requirements: Explanation of Variances – 2010 Budget versus 2009 Budget

For 2010, the work performed by MRO for compliance monitoring will experience an increase in work load primarily due to the continued expansion of monitoring the NERC CIP-002 through CIP-009 Reliability Standards, and in part, due to the expanded scope of compliance monitoring as defined in the NERC Implementation Plan.

For 2010, the work performed by MRO for enforcement will also experience an increase in work load primarily due to the expansion of monitoring NERC CIP-002 through CIP-009 Reliability Standards, and in part, due to the expanded scrutiny and effort involved in verifying completion of Mitigation, and the additional Notices and documents that are anticipated to be drafted and issued to ensure a complete and accurate record is developed and maintained for each alleged violation.

Funding Sources

- 2010 Statement of Activities was revised to include Generally Accepted Accounting Principles (GAAP). The previous Statement of Activities (2009 and prior) reported funding requirements (i.e. cash basis). The material difference is depreciation, which is a non-cash item, but is reflected in GAAP accounting. The 2010 template clearly shows the distinction between GAAP and the required ERO funding by including those line items; that is, 2010 develops an operating budget as well as a capital budget.
- Penalty Sanctions – Total penalty monies received and the allocation method used to allocate funds to this Program as an offset to assessments are disclosed in Table B-1, Section B, page 68.
- The overall FTE count for compliance and enforcement does not increase from 2009 to 2010. However, the “funding source” account for 2010 will increase when compared with the 2009 budget due to the timing of staff additions.

Personnel Expenses

- The overall FTE count for compliance and enforcement does not increase from 2009 to 2010. However, the “personnel expense” account for 2010 will increase when compared with the 2009 budget due to the expenses associated with the year-end 2009 FTE count for the entire year in 2010.
- Budgeted payroll taxes, benefits, and retirement costs reflect an overall average cost and distribution. Please refer to introduction, section 5, page 10, number 9 which explains MRO’s change in benefit cost distribution.

Meeting Expenses

- The overall expenditures in the “meeting expense” account will increase in 2010 due to an evaluation/comparison of the budgeted and actual expenses occurring in 2009. Meeting expenses include workshops and seminars held for Registered Entities, participation in User Group (forum) meetings, Regional Entity compliance and enforcement staff meetings, Regional Entity and NERC staff meetings, MRO Compliance Committee member travel, and Compliance Committee meetings. Travel required to perform compliance audits and investigations are included in this budget account, as well as expenses associated with conference calls performed for the implementation of the CMEP.

Operating Expenses

- The “operating expense” account for 2010 will have a significant increase over the 2009 budget due to the expenses associated with the TFE consulting costs. MRO will initially use outsourcing as a means to supplement its resources to meet the TFE requirements. Given the levels of uncertainty regarding the potential number of TFE’s, MRO believes that this is prudent at this time.

Indirect Expenses

- 2010 expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs. These expenses reflect GAAP (Generally Accepted Accounting Principles) which includes non-cash expenses, primarily depreciation expense.

Other Non-Operating Expenses

- There are no non-operating expenses included in the 2010 Business Plan and Budget.

Fixed Asset Additions

- 2010 fixed assets related to indirect programs have been allocated proportionately based on FTE to the direct programs.

3. Reliability Readiness Evaluation and Improvement Program

Reliability Readiness Evaluation and Improvement Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	.50	0	(.50)
Total Direct Expenses	\$194,907	0	(\$194,907)
Total Indirect Expenses	\$69,426	0	(\$69,426)
Inc(Dec) in Fixed Assets		0	0
Total Expenses	\$264,333	0	(\$264,333)

Funding Requirements — Explanation of Increase (Decrease)

NERC has eliminated the Reliability Readiness Evaluation and Improvement Program. 2009 is a transition year, during which open Readiness recommendations in the Region will be monitored to their completion and a reduced set of Evaluations will take place. Consequently, MRO has eliminated the Reliability Readiness Evaluation and Improvement Program funding requirements, FTE count, and activities from the 2010 Business Plan and Budget.

Reliability Readiness Evaluations and Improvement Program

Funding sources and related expenses for the reliability readiness audits and improvement section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Readiness Evaluation and Improvement					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Draft Version 3.0 2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 194,907	\$ -	\$ (194,907)	\$ -	\$ (194,908)
Penalty Sanctions					-
Total ERO Funding	\$ 194,907	\$ -	\$ (194,907)	\$ -	\$ (194,908)
Membership Dues	-	-	-		-
Testing Fees	-	-	-		-
Services & Software	-	-	-		-
Workshops	-	-	-		-
Interest	-	-	-		-
Miscellaneous	-	-	-		-
Total Funding	\$ 194,907	\$ -	\$ (194,907)	\$ -	\$ (194,908)
Expenses					
Personnel Expenses					
Salaries	\$ 68,650	\$ -	\$ (68,650)		\$ (68,650)
Payroll Taxes	11,671	-	(11,671)		(11,671)
Benefits	5,492	-	(5,492)		(5,492)
Retirement Costs	11,671	-	(11,671)		(11,671)
Total Personnel Expenses	\$ 97,483	\$ -	\$ (97,484)	\$ -	\$ (97,484)
Meeting Expenses					
Meetings	\$ 1,440	\$ -	\$ (1,440)		\$ (1,440)
Travel	45,000	-	(45,000)		(45,000)
Conference Calls	1,440	-	(1,440)		(1,440)
Total Meeting Expenses	\$ 47,880	\$ -	\$ (47,880)	\$ -	\$ (47,880)
Operating Expenses					
Consultants	\$ 48,000	\$ -	\$ (48,000)		\$ (48,000)
Contracts	-	-	-		-
Office Rent	-	-	-		-
Office Costs	1,544	-	(1,544)		(1,544)
Professional Services	-	-	-		-
Miscellaneous	-	-	-		-
Depreciation	-	-	-		-
Total Operating Expenses	\$ 49,544	\$ -	\$ (49,544)	\$ -	\$ (49,544)
Total Direct Expenses	\$ 194,907	\$ -	\$ (194,908)	\$ -	\$ (194,908)
Indirect Expenses					\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 194,907	\$ -	\$ (194,908)	\$ -	\$ (194,908)
Change in Assets	\$ -	\$ -	\$ 1	\$ -	\$ -
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx					-
Furniture & Fixtures CapEx					-
Equipment CapEx					-
Leasehold Improvements					-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets				\$ -	-
Change in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CHANGE IN ASSETS	\$ -	\$ -	\$ 1	\$ -	\$ -

4. Training, Education, and Operator Certification Program

Training, Education, and Operator Certification Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	.50	0	(.50)
Total Direct Expenses	\$108,249	0	(\$108,249)
Total Indirect Expenses	\$69,426	0	(\$69,426)
Inc(Dec) in Fixed Assets		0	0
Total Expenses	\$177,675	0	(\$177,675)

Program Scope and Functional Description

Maintaining the reliability of the bulk electric system through implementation of the Reliability Standards requires informed and trained personnel. A training and education program provides the education and training necessary for bulk power system personnel and regulators to obtain the essential knowledge necessary to understand and operate the bulk electric system.

NERC shall develop and maintain training and education programs for the purpose of establishing training requirements, developing materials, and developing training activities. The target audience of the training and education programs shall 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 NERC Reliability Standards who, through their actions or inactions, may impact the real-time, or day-ahead reliability of the bulk power system.

2010 Key Assumptions

At this time, MRO is not planning to provide an in-house operator training program in 2010. MRO will identify training options for Registered Entities in the MRO Region so that they can accomplish the objectives of the NERC program. There will not be an MRO budget for this item.

2010 Goals and Key Deliverables

N/A

Funding Requirements — Explanation of Increase (Decrease)

N/A

Training, Education, and Operator Certification Program

Funding sources and related expenses for the training, education, and operator certification section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Training and Education					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Draft Version 3.0 2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 78,999	\$ 19,344	\$ (59,655)	\$ -	\$ (78,999)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 78,999	\$ 19,344	\$ (59,655)	\$ -	\$ (78,999)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	29,250	-	(29,250)	-	(29,250)
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 108,249	\$ 19,344	\$ (88,905)	\$ -	\$ (108,249)
Expenses					
Personnel Expenses					
Salaries	\$ 50,985	\$ 9,235	\$ (41,750)	\$ -	\$ (50,985)
Payroll Taxes	8,667	1,526	(7,141)	-	(8,667)
Benefits	4,079	457	(3,622)	-	(4,079)
Retirement Costs	8,667	1,526	(7,141)	-	(8,667)
Total Personnel Expenses	\$ 72,399	\$ 12,744	\$ (59,655)	\$ -	\$ (72,399)
Meeting Expenses					
Meetings	\$ 29,850	\$ 600	\$ (29,250)	\$ -	\$ (29,850)
Travel	2,400	2,400	-	-	(2,400)
Conference Calls	1,200	1,200	-	-	(1,200)
Total Meeting Expenses	\$ 33,450	\$ 4,200	\$ (29,250)	\$ -	\$ (33,450)
Operating Expenses					
Consultants	\$ 2,400	\$ 2,400	\$ -	\$ -	\$ (2,400)
Contracts	-	-	-	-	-
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 2,400	\$ 2,400	\$ -	\$ -	\$ (2,400)
Total Direct Expenses	\$ 108,249	\$ 19,344	\$ (88,905)	\$ -	\$ (108,249)
Indirect Expenses	-	-	-	-	-
Other Non-Operating Expenses	-	-	-	-	-
Total Expenses	\$ 108,249	\$ 19,344	\$ (88,905)	\$ -	\$ (108,249)
Change in Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	-	-	-	\$ -	-
Change in Fixed Assets	-	-	-	-	-
TOTAL CHANGE IN ASSETS	\$ -	\$ -	\$ -	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

All variances are due to the elimination of any activities in this Program in 2010.

5. Reliability Assessment and Performance Analysis Program

Reliability Assessment and Performance Analysis Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	4.75	6.40	1.65
Total Direct Expenses	\$982,029	\$ 1,065,735	\$ 83,706
Total Indirect Expenses	\$659,549	\$ 735,045	\$ 75,496
Inc(Dec) in Fixed Assets		\$4,064	\$4,064
Total Expenses	\$1,641,578	\$ 1,804,844	\$ 163,266

Program Scope and Functional Description

The objectives of the reliability assessment and performance analysis program are to:

1. Conduct, and report the results of an independent assessment of the overall reliability and adequacy of the interconnected North American bulk power systems, both as existing and as planned;
2. Analyze off-normal events on the bulk power system;
3. Identify the root causes of events that may be precursors of potentially more serious events;
4. Assess past reliability performance for lessons learned;
5. Disseminate findings and lessons learned to the electric industry to improve reliability performance; and
6. Develop reliability performance benchmarks. The final reliability assessment reports are approved by the board for publication to the electric industry and the general public.

2010 Key Assumptions

- Same number of system events and disturbances as in 2008.
- Additional scenarios in the assessment area resulting from recent legislation direction in USA.
- External cost pressures and lower demand may result in investment deferrals in some areas of North America.

The MRO analyzes, assesses, and reports on reliability and adequacy in the past, present, and future. This includes the long-term and seasonal assessments developed by the MRO Reliability Assessment Committee (“RAC”) and its subcommittees as required by the Delegation Agreement. In 2008, NERC added a fourth assessment, the Scenario Assessment, to its requirements. This fourth assessment will be performed every 1 to 2 years in conjunction with the Long-Term Assessment.

The RAC has balanced stakeholder representation and reports to the MRO Board. The RAC reviews and consolidates the reports of the overall reliability of the MRO region, both existing and planned. The RAC verifies that assessments performed within the MRO region conform to MRO and NERC Reliability Standards.

In 2010, continued attention will be given to protection and control standards, special protection scheme reviews, resource adequacy, demand response, reliability metrics, integration of accelerated renewable generation per Renewable Portfolio Standards, operational aspects of existing wind generation, NERC and regulatory data requests, system modeling, and reviews of regional reliability criteria and procedures.

2010 Goals and Key Deliverables

- Assess the bulk electric system using the MRO and NERC Reliability Standards.
- Annually assess the overall reliability of the MRO region and inter-regional bulk electric system plans over a five-year and ten-year horizon.
- Seasonally (summer and winter) assess the overall reliability of the MRO region and interregional bulk electric system from an operational planning perspective.
- Annually (or as often as required by NERC) assess the MRO region for an emerging issue/scenario as determined by NERC.
- Perform special reliability assessments on a Regional, Inter-regional, and Interconnection basis as conditions warrant, or as directed by the Board or NERC.
- Coordinate with NERC on system event analyses on a Regional, Interregional, and Interconnection basis as conditions warrant.
- Annually prepare an MRO set of powerflow and dynamics models as determined by the Model Building Subcommittee. Provide these models to the Eastern Interconnection Reliability Assessment Group (“ERAG”) Multi-Regional Modeling Working Group (“MMWG”) for use in interconnection-wide model building.
- Perform all Regional Entity responsibilities associated with the PRC Standards, including mis-operations, review of special protection schemes, UFLS criteria, disturbance monitoring criteria, etc.
- Perform all regional responsibilities associated with the existing and future TPL, EOP and MOD Standards, as they apply to Reliability Assessments.
- Participate in and support all MRO Subcommittees, Working Groups and Task Forces that report to the RAC.
- Participate in and support the ERAG Management Committee, Steering Committees and Working Groups that report to the ERAG.
- Participate in and represent the MRO region in all NERC groups, as required, that report to the NERC Planning Committee (“PC”) and Operating Committee (“OC”).

Funding Requirements — Explanation of Increase (Decrease)

In 2008, the Chairperson of the NERC PC indicated that Regional Entities, their Registered Entities and members, and the industry as a whole should plan to increase human resources to adequately support the ever-increasing workload in the Reliability Assessments area. In addition to the increased focus on Reliability Assessments, there has been an increase in NERC and other data requests. NERC also has been increasing the number of groups that report to the NERC PC and OC. MRO stakeholders and/or staff will populate these groups. The additional MRO staffing provided for the assessments area in 2009 is adequate to meet the present responsibilities and those anticipated for 2010.

Reliability Assessment and Performance Analysis Program

Funding sources and related expenses for the reliability assessment and performance analysis section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Assessment and Performance Analysis					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Draft Version 3.0 2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 982,029	\$ 1,134,608	\$ 152,579	\$ 1,783,605	\$ 801,576
Penalty Sanctions				21,239	21,239
Total ERO Funding	\$ 982,029	\$ 1,134,608	\$ 152,579	\$ 1,804,844	\$ 822,815
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 982,029	\$ 1,134,608	\$ 152,579	\$ 1,804,844	\$ 822,815
Expenses					
Personnel Expenses					
Salaries	\$ 483,461	\$ 570,199	\$ 86,738	\$ 608,776	\$ 125,315
Payroll Taxes	82,188	41,127	(41,061)	43,909	(38,279)
Benefits	38,677	85,006	46,329	91,077	52,400
Retirement Costs	82,188	83,416	1,228	89,373	7,185
Total Personnel Expenses	\$ 686,514	\$ 779,748	\$ 93,234	\$ 833,135	\$ 146,621
Meeting Expenses					
Meetings	\$ 40,000	\$ 40,000	\$ -	\$ 40,000	\$ -
Travel	50,000	103,000	53,000	108,000	58,000
Conference Calls	18,000	18,000	-	6,000	(12,000)
Total Meeting Expenses	\$ 108,000	\$ 161,000	\$ 53,000	\$ 154,000	\$ 46,000
Operating Expenses					
Consultants	\$ 155,860	\$ 155,860	\$ -	\$ -	\$ (155,860)
Contracts	18,000	18,000	-	48,100	30,100
Office Rent	-	-	-	-	-
Office Costs	13,655	20,000	6,345	30,500	16,845
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 187,515	\$ 193,860	\$ 6,345	\$ 78,600	\$ (108,915)
Total Direct Expenses	\$ 982,029	\$ 1,134,608	\$ 152,579	\$ 1,065,735	\$ 83,706
Indirect Expenses				\$ 735,045	\$ 735,045
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 982,029	\$ 1,134,608	\$ 152,579	\$ 1,800,780	\$ 818,751
Change in Assets	\$ -	\$ -	\$ -	\$ 4,064	\$ 4,064
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets				\$ (4,064)	\$ (4,064)
Change in Fixed Assets	-	-	-	(4,064)	(4,064)
TOTAL CHANGE IN ASSETS	\$ -	\$ -	\$ -	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- 2010 Statement of Activities was revised to include Generally Accepted Accounting Principles (GAAP). The previous Statement of Activities (2009 and prior) reported funding requirements (i.e. cash basis). The material difference is depreciation, which is a non-cash item, but is reflected in GAAP accounting. The 2010 template clearly shows the distinction between GAAP and the required ERO funding by including those line items; that is, 2010 develops an operating budget as well as a capital budget.
- Penalty Sanctions – Total penalty monies received and the allocation method used to allocate funds to this Program as an offset to assessments are disclosed in Table B-1, Section B, page 68.

Personnel Expenses

- This item has increased. The use of consultants to supplement staff participation in various working groups has been reduced.
- Budgeted payroll taxes, benefits, and retirement costs reflect an overall average cost and distribution. Please refer to introduction, section 5, page 10, number 9 which explains MRO's change in benefit cost distribution.

Meeting Expenses

- Budgeted meeting expenses have increased as a result of NERC increasing the number of groups that report to the NERC PC. MRO reimburses those individuals who represent MRO in PC and OC stakeholder groups.

Operating Expenses

- Consultant expense has been eliminated. Contracts expense has increased due to the inclusion of a model building contract and software tools.

Indirect Expenses

- 2010 expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs. These expenses reflect GAAP (Generally Accepted Accounting Principles) which includes non-cash expenses, primarily depreciation expense.

Other Non-Operating Expenses

- There are no non-operating expenses included in the 2010 Business Plan and Budget.

Fixed Asset Additions

- 2010 fixed assets related to indirect programs have been allocated proportionately based on FTE to the direct programs.

6. Situational Awareness and Infrastructure Security Program

Situational Awareness and Infrastructure Security Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	.25	1.25	1.00
Total Direct Expenses	\$57,549	\$ 240,758	\$ 183,209
Total Indirect Expenses	\$34,713	\$ 143,563	\$ 108,850
Inc(Dec) in Fixed Assets		\$ 46,794	\$ 46,794
Total Expenses	\$92,262	\$ 431,115	\$ 338,853

Program Scope and Functional Description

NERC and the Regions shall, through Reliability Coordinators and available tools, monitor present conditions on the bulk power system and provide leadership coordination, technical expertise, and assistance to the industry in responding to events as necessary.

To accomplish these goals, NERC and the Regions will:

1. Maintain real-time situational awareness of conditions on the bulk power system;
2. 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;
3. Maintain and strengthen high-level communication, coordination, and cooperation with governments and government agencies regarding real-time conditions; and
4. Enable the reliable operation of interconnected bulk power systems by facilitating information exchange and coordination among reliability service organizations.

2010 Key Assumptions

The Situational Awareness program includes costs and resources to monitor the bulk electric system and respond to inquiries by NERC or others. Major costs are associated with computer equipment.

2010 Goals and Key Deliverables

The goal of the Situational Awareness program is to maintain a real-time awareness about the conditions of the bulk electric system and to respond to events by providing coordination assistance and communication to regulators about the status.

Funding Requirements — Explanation of Increase (Decrease)

The current Situational Awareness program efforts are relatively new and therefore, the 2010 budget includes dollars allocated to travel for coordination and development related activities and to computer related equipment.

Critical Infrastructure Protection Resources

Critical Infrastructure Protection Resources			
(Included in Total Situational Awareness and Infrastructure Security)			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	0	1.20	1.20
Total Direct Expenses	0	\$ 228,743	\$ 228,743
Total Indirect Expenses	0	\$ 132,308	\$ 132,308
Inc(Dec) in Fixed Assets		\$ 44,922	\$ 44,922
Total Expenses	0	\$ 405,973	\$ 405,973

Program Scope and Functional Description

NERC and the Regions shall coordinate electric industry activities to promote critical infrastructure protection of the bulk power system in North America by taking a leadership role in critical infrastructure protection of the electricity sector so as to reduce vulnerability and improve mitigation and protection of the electricity sector's critical infrastructure.

2010 Key Assumptions

The Infrastructure Security Program is responsible for raising the awareness of security, promoting standard security practices and aiding the registered entities in organizing and sharing of security implementations specific to the energy sector.

The MRO Board of Directors has approved a new standing committee with a focus on security implementation approaches utilized by Registered Entities. The Security Committee is comprised of MRO sector representatives and facilitated by MRO staff. These regional representatives also participate on the NERC Critical Infrastructure Protection Committee ("CIPC").

2010 Goals and Key Deliverables

The goal is to provide effective communication, coordination and industry facilitation of all areas of security to ensure the region is prepared for cyber-related incidents.

Funding Requirements — Explanation of Increase (Decrease)

The formal infrastructure security programs are relatively new. The program did not have specific budget dollars in 2009. The 2010 budget includes meeting dollars for the MRO Board Security Committee, travel to attend security related meetings and capital dollars to support security improvements to MRO information systems.

Situational Awareness and Infrastructure Security Program

Funding sources and related expenses for the situational awareness and infrastructure security section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Situational Awareness and Infrastructure Security					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Draft Version 3.0 2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 57,549	\$ 216,551	\$ 159,002	\$ 426,967	\$ 369,418
Penalty Sanctions			-	4,148	4,148
Total ERO Funding	\$ 57,549	\$ 216,551	\$ 159,002	\$ 431,115	\$ 373,566
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 57,549	\$ 216,551	\$ 159,002	\$ 431,115	\$ 373,566
Expenses					
Personnel Expenses					
Salaries	\$ 38,414	\$ 101,243	\$ 62,829	\$ 123,143	\$ 84,729
Payroll Taxes	6,531	5,914	(617)	7,990	1,459
Benefits	3,073	20,189	17,116	23,721	20,648
Retirement Costs	6,531	14,805	8,274	18,274	11,743
Total Personnel Expenses	\$ 54,549	\$ 142,151	\$ 87,602	\$ 173,128	\$ 118,579
Meeting Expenses					
Meetings	\$ 600	-	(600)	\$ 8,500	\$ 7,900
Travel	2,400	12,000	9,600	13,900	11,500
Conference Calls	-	-	-	12,150	12,150
Total Meeting Expenses	\$ 3,000	\$ 12,000	\$ 9,000	\$ 34,550	\$ 31,550
Operating Expenses					
Consultants	-	-	-	-	-
Contracts	-	-	-	-	-
Office Rent	-	-	-	-	-
Office Costs	-	2,400	2,400	13,080	13,080
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	10,000	10,000	20,000	20,000
Total Operating Expenses	\$ -	\$ 12,400	\$ 12,400	\$ 33,080	\$ 33,080
Total Direct Expenses	\$ 57,549	\$ 166,551	\$ 109,002	\$ 240,758	\$ 183,209
Indirect Expenses				\$ 143,563	\$ 143,563
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 57,549	\$ 166,551	\$ 109,002	\$ 384,321	\$ 326,772
Change in Assets	\$ -	\$ 50,000	\$ 50,000	\$ 46,794	\$ 46,794
Fixed Assets					
Depreciation	-	(10,000)	(10,000)	(20,000)	(20,000)
Computer & Software CapEx	-	60,000	60,000	66,000	66,000
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ (50,000)	\$ (50,000)	\$ (46,000)	\$ (46,000)
Allocation of Fixed Assets				(794)	(794)
Change in Fixed Assets	-	(50,000)	(50,000)	(46,794)	(46,794)
TOTAL CHANGE IN ASSETS	\$ -	\$ -	\$ -	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- 2010 Statement of Activities was revised to include Generally Accepted Accounting Principles (GAAP). The previous Statement of Activities (2009 and prior) reported funding requirements (i.e. cash basis). The material difference is depreciation, which is a non-cash item, but is reflected in GAAP accounting. The 2010 template clearly shows the distinction between GAAP and the required ERO funding by including those line items; that is, 2010 develops an operating budget as well as a capital budget.
- Penalty Sanctions – Total penalty monies received and the allocation method used to allocate funds to this Program as an offset to assessments are disclosed in Table B-1, Section B, page 68.

Personnel Expenses

- Personnel expenses are increased to reflect 1.00 additional MRO staff added in 2008 following the 2009 budget development.
- Budgeted payroll taxes, benefits, and retirement costs reflect an overall average cost and distribution. Please refer to introduction, section 5, page 10, number 9 which explains MRO's change in benefit cost distribution.

Meeting Expenses

- Meeting expenses are increased to reflect costs for meetings of the MRO Security Committee and other associated meeting and travel expense.

Operating Expenses

- Operating expenses are increased to include training and computer equipment purchases.

Indirect Expenses

- 2010 expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs. These expenses reflect GAAP (Generally Accepted Accounting Principles) which includes non-cash expenses, primarily depreciation expense.

Other Non-Operating Expenses

- There are no non-operating expenses included in the 2010 budget.

Fixed Asset Additions

- 2010 fixed assets related to indirect programs have been allocated proportionately based on FTE to the direct programs.
- Situational Awareness has directly assigned fixed assets.

7. Administrative Services

Administrative Services (in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	8.0	6.40	(1.60)
Total Direct Expenses ¹	\$2,568,773	\$ 2,595,627	\$ 26,854

¹Represents the sum of the indirect costs associated with all of the previously identified program areas.

Program Scope and Functional Description

Administrative services support the previously identified six program areas: reliability standards; compliance monitoring and enforcement and organization registration and certification; reliability readiness evaluation and improvement; training, education, and operator certification; reliability assessment and performance analysis; and situational awareness and infrastructure security. Administrative services consist of: technical committees and members' forums; general and administrative; legal and regulatory; information technology; human resources; accounting and finance.

2010 Key Assumptions

- MRO's standing committee and subgroup structure for effective stakeholder involvement will continue in 2010.
- The current economic downturn will continue into 2010 and adversely affect stakeholder travel budgets and resourcing for work in regional programs.
- MRO will continue the reimbursement of approved registered entity travel costs for participation in the NERC forums.

2010 Goals and Key Deliverables

Administrative Services area will:

- Provide adequate support to MRO stakeholders to fulfill their responsibilities to the organization
- Assure there are adequate controls and procedures to maintain discretionary spending within budget
- Assure that there are adequate controls and procedures to generate an unqualified opinion on its financial statements for an independent auditor with a minimum of adjusting entries.
- Assure that there are adequate controls and procedures to minimize IT systems downtime and assure systems meet applicable CIP requirements
- Provide timely and meaningful reports to stakeholder community on MRO activities

Funding Requirements — Explanation of Increase (Decrease)**Technical Committees and Members' Forums**

MRO is making a greater effort in 2009 and 2010 to encourage Registered Entities to participate in NERC committees, working groups, and standard drafting teams. In addition, due to staffing additions in the Reliability Assessment group at MRO, staff will be more fully participating in the NERC committees and working groups. By policy, MRO reimburses approved regional representatives for approved travel expenses.

General and Administrative

The 2010 budget includes increased travel dollars that reflect the trend of higher travel costs and reimbursement of expenses for MRO Board of Directors members.

In the 2010 Budget, as in 2009, there are no contingency dollars included in the budget.

Legal and Regulatory

For 2010, MRO has re-assigned the legal staff persons to the Compliance budget thereby reducing its staffing level in the Legal area from 1.50 2009 Budget FTE's to 0.10 FTE's. MRO has determined that the legal staff person should be directly involved in enforcement proceedings and therefore, MRO will outsource legal representation for hearings.

Information Technology

In 2010, all major hardware will complete the third year of service. This includes email, file server, printer server, domain server, firewall, network, voice, security, backup server, and others. This increases the budget requirement for the year.

Another increase in expenditures is due to maintenance of CIP Standards. Much of the work involves tracking and documenting areas of authorization and access on a daily weekly, monthly, quarterly, and annual basis. The coordination with other departments for quarterly security audits and training as well as processes for adding and removing people will introduce increased workload but create a clearer audit trail.

The department will no longer support developers, testers, hundreds of users, vendors, and services associated with application development as well as seven servers dedicated to this endeavor. The subscription to OATI services decreases the budget impact of IT.

Human Resources & Finance and Accounting

Slight increase in our office costs resulting from participation in professional organizations and additional training. MRO Staff anticipates continuously improving consistency and transparency among the regions and NERC. MRO efforts are not limited to, but include implementing a Time Managed Payroll Application to replace its current time reporting system. MRO Staff will also be addressing the demands of SOX and the revamped Form 990.

8. Technical Committees and Members' Forums

Program Scope and Functional Description

MRO staff and Registered Entities participate in various NERC committees, working groups and task forces. This participation provides for Regional Entity staff input as well as Registered Entity input into NERC governance and other activities.

2010 Key Assumptions

This budget item covers all travel costs for MRO staff participation in various NERC forums. It also covers MRO reimbursement of approved Registered Entity travel costs for participation in the NERC forums as a representative of MRO.

2010 Goals and Key Deliverables

MRO's goal is to actively participate in NERC forums to best meet the goals of the Registered Entities in the MRO.

Funding Requirements — Explanation of Increase (Decrease)

MRO is making a greater effort in 2009 and 2010 to encourage Registered Entities to participate in NERC committees, working groups, and standard drafting teams. In addition, due to staffing additions in the Reliability Assessment group at MRO, staff will be more fully participating in the NERC committees and working groups. By policy, MRO reimburses approved regional representatives for approved travel expenses.

Technical Committees and Member Forums

Funding sources and related expenses for the Members' Forums section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Technical Committees and Member Forums					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Draft Version 3.0 2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 184,900	\$ 286,733	\$ 101,833	\$ -	\$ (184,900)
Penalty Sanctions				-	
Total ERO Funding	\$ 184,900	\$ 286,733	\$ 101,833	\$ -	\$ (184,900)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 184,900	\$ 286,733	\$ 101,833	\$ -	\$ (184,900)
Expenses					
Personnel Expenses					
Salaries	\$ 87,958	\$ 120,749	\$ 32,791	\$ 127,859	\$ 39,901
Payroll Taxes	14,953	10,107	(4,846)	10,702	(4,251)
Benefits	7,037	7,664	627	8,115	1,078
Retirement Costs	14,952	20,213	5,261	21,404	6,452
Total Personnel Expenses	\$ 124,900	\$ 158,733	\$ 33,833	\$ 168,080	\$ 43,180
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	60,000	127,000	67,000	180,100	120,100
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 60,000	\$ 127,000	\$ 67,000	\$ 180,100	\$ 120,100
Operating Expenses					
Consultants	\$ -	\$ -	\$ -	\$ -	\$ -
Contracts	-	-	-	-	-
Office Rent	-	-	-	-	-
Office Costs	-	1,000	1,000	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ -	\$ 1,000	\$ 1,000	\$ -	\$ -
Total Direct Expenses	\$ 184,900	\$ 286,733	\$ 101,833	\$ 348,180	\$ 163,280
Indirect Expenses				\$ (348,180)	\$ (348,180)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 184,900	\$ 286,733	\$ 101,833	\$ -	\$ (184,900)
Change in Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx					
Furniture & Fixtures CapEx					
Equipment CapEx					
Leasehold Improvements					
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets				\$ -	-
Change in Fixed Assets	-	-	-	-	-
TOTAL CHANGE IN ASSETS	\$ -	\$ -	\$ -	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget***Funding Sources***

- In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment revenue.

Personnel Expenses

- FTEs reduced slightly. More MRO senior staff involvement in committees and forums is included in the 2010 Business Plan and Budget. Since MRO staff will be attending rather than consultants, there is a decrease to consulting costs.
- Budgeted payroll taxes, benefits, and retirement costs reflect an overall average cost and distribution. Please refer to introduction, section 5, page 10, number 9 which explains MRO's change in benefit cost distribution.

Meeting Expenses

- The 2009 Business Plan and Budget was reduced as a means to meet goals for 2009. The 2009 Budget reflected a continued reduced engagement by MRO at these meetings. However, in 2009 and continued in 2010, MRO staff began a process to engage regional representation at the meetings and supplemented the coverage through staff instead of consultants. The result is that MRO has significantly increased its representation on NERC committees. As in the past, the 2010 Business Plan and Budget was prepared on a zero based budget. Travel was calculated based on the number of NERC committees, number of positions, number of meetings per year, and an estimated cost. This may be a conservative estimate because there are a number of open positions that MRO will attempt to fill with Registered Entity employees. MRO does reimburse travel expenses for approved regional representatives.

Operating Expenses

- No operating expenses are budgeted in 2010.

Indirect Expenses

- 2010 expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs. These expenses reflect GAAP (Generally Accepted Accounting Principles) which includes non-cash expenses, primarily depreciation expense.

Other Non-Operating Expenses

- There are no non-operating expenses included in the 2010 Business Plan and Budget.

Fixed Asset Additions

- 2010 fixed assets related to indirect programs have been allocated proportionately based on FTE to the direct programs.

9. General and Administrative

Program Scope and Functional Description

The MRO general and administrative function provides executive management of the corporation, management of the MRO office, and other administrative support programs.

2010 Key Assumptions

- The current economic downturn will continue into 2010 and adversely affect stakeholder travel budgets and resourcing for work in regional programs.
- MRO will continue the reimbursement of approved registered entity travel costs for participation in the NERC forums.
- In the 2010 Budget, as in 2009, there are no contingency dollars included in the budget.
- Any increase or decrease in assessments to achieve desired working capital reserve will be included in the General and Administrative area and to be allocated proportionately based on FTE to the direct programs.

2010 Goals and Key Deliverables

In the General and Administrative function, MRO will assure that there is adequate attention on the day-to-day management of the corporation that includes Board governance, policies and procedures to maintain and enhance governance of the corporation, and proper record keeping and related responsibilities under regulations

Funding Requirements — Explanation of Increase (Decrease)

The 2010 budget includes increased travel dollars that reflect the trend of higher travel costs and reimbursement of expenses for MRO Board of Directors members.

In the 2010 Budget, as in 2009, there are no contingency dollars. MRO has included dollars for a working capital reserve.

Assessments

As documented in the April 2008 minutes, the MRO staff recommended and the FAC approved the cash reserve policy to maintain 45 days of cash. The MRO Board of Directors wishes to assure adequate liquidity for the organization, yet recognizes that the past experience under the delegation agreement with NERC and other short term financing arrangements may warrant a re-evaluation of the cash reserve policy.

The MRO Board of Directors approved that the funding of the 45 day cash reserve begin in the 2010 budget with an initial funding amount of one-third of the projected requirements with other funding installments to follow in 2011 and 2012 subject to a re-evaluation of the reserves policy previously adopted by the MRO Board of Directors on June 19, 2008 by the MRO Finance and Audit Committee.

The MRO Board of Directors has directed staff and the Finance and Audit Committee to provide a re-evaluation and recommendation on reserve policy prior to March 31, 2010.

General and Administrative

Funding sources and related expenses for the general and administrative section of the 2010 business plan are shown in the table below.

Statement of Activities 2009 Budget & Projection, and 2010 Budget

General and Administrative

	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Draft Version 3.0 2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 421,753	\$ 448,840	\$ 27,087	\$ 212,628	\$ (209,125)
Penalty Sanctions				-	
Total ERO Funding	<u>\$ 421,753</u>	<u>\$ 448,840</u>	<u>\$ 27,087</u>	<u>\$ 212,628</u>	<u>\$ (209,125)</u>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ 421,753</u>	<u>\$ 448,840</u>	<u>\$ 27,087</u>	<u>\$ 212,628</u>	<u>\$ (209,125)</u>
Expenses					
Personnel Expenses					
Salaries	\$ 212,514	\$ 170,250	\$ (42,264)	\$ 170,250	\$ (42,264)
Payroll Taxes	36,127	5,608	(30,519)	5,608	(30,519)
Benefits	17,001	26,408	9,407	26,408	9,407
Retirement Costs	36,127	23,961	(12,166)	23,961	(12,166)
Total Personnel Expenses	<u>\$ 301,769</u>	<u>\$ 226,227</u>	<u>\$ (75,542)</u>	<u>\$ 226,227</u>	<u>\$ (75,542)</u>
Meeting Expenses					
Meetings	\$ 22,000	\$ 30,000	\$ 8,000	\$ 35,000	\$ 13,000
Travel	22,000	85,000	63,000	85,000	63,000
Conference Calls	-	1,500	1,500	1,500	1,500
Total Meeting Expenses	<u>\$ 44,000</u>	<u>\$ 116,500</u>	<u>\$ 72,500</u>	<u>\$ 121,500</u>	<u>\$ 77,500</u>
Operating Expenses					
Consultants	\$ 15,000	\$ 53,965	\$ 38,965	\$ 60,000	\$ 45,000
Contracts	-	-	-	-	-
Office Rent	-	-	-	-	-
Office Costs	60,984	52,148	(8,836)	56,500	(4,484)
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ 75,984</u>	<u>\$ 106,113</u>	<u>\$ 30,129</u>	<u>\$ 116,500</u>	<u>\$ 40,516</u>
Total Direct Expenses	<u>\$ 421,753</u>	<u>\$ 448,840</u>	<u>\$ 27,087</u>	<u>\$ 464,227</u>	<u>\$ 42,474</u>
Indirect Expenses				<u>\$ (464,227)</u>	<u>\$ (464,227)</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ 421,753</u>	<u>\$ 448,840</u>	<u>\$ 27,087</u>	<u>\$ -</u>	<u>\$ (421,753)</u>
Change in Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 212,628</u>	<u>\$ 212,628</u>
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets				-	-
Change in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 212,628</u>	<u>\$ 212,628</u>

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment revenue.

Personnel Expenses

- Personnel expenses reflects a reduction in the 2010 Business Plan. MRO Senior Staff record all hours spent in support of internal operational programs accordingly.
- Budgeted payroll taxes, benefits, and retirement costs reflect an overall average cost and distribution. Please refer to introduction, section 5, page 10, number 9 which explains MRO's change in benefit cost distribution.

Meeting Expenses

- The 2010 budget includes increased travel dollars that reflect the trend of higher travel costs and reimbursement of expenses for MRO Board of Directors members.

Operating Expenses

- In the 2010 Budget, as in 2009, there are no contingency dollars.

Indirect Expenses

- 2010 expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs. These expenses reflect GAAP (Generally Accepted Accounting Principles) which includes non-cash expenses, primarily depreciation expense.

Other Non-Operating Expenses

- There are no non-operating expenses included in the 2010 Business Plan and Budget.

Fixed Asset Additions

- 2010 fixed assets related to indirect programs have been allocated proportionately based on FTE to the direct programs.

10. Legal and Regulatory

Program Scope and Functional Description

MRO maintains outside consultants to provide advice to the President, Board of Directors, and staff on legal and regulatory matters affecting the MRO.

2010 Key Assumptions

- In the 2010 Budget, as in 2009, there are no hearing contingency dollars.
- Regional Delegation Agreement filing in May 2010. MRO has not budgeted costs for any significant changes in its bylaws or related rules.
- MRO assumes the Regulatory authorities will approve its Regional Delegation Agreement with NERC. Any material changes to the Regional Delegation Agreement would be budgeted in 2011.

2010 Goals and Key Deliverables

Legal and Regulatory functions are responsible for timely and accurate filings to Regulatory authorities. MRO expects that the Regional Delegation Agreement filing in 2010 will require effort to assemble the necessary documents and work with NERC to execute a new Regional Delegation Agreement. For 2010, MRO anticipates no changes to the Regional Delegation Agreement that would impact 2010 budget.

Funding Requirements — Explanation of Increase (Decrease)

For 2010, MRO has reduced its staffing level in the Legal and Regulatory area from 1.50 to 0.10 FTE's. MRO has re-assigned legal staff to enforcement proceedings in the Compliance Program budget. MRO will use outside counsel where necessary.

Legal and Regulatory

Funding sources and related expenses for the general and administrative section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Legal and Regulatory					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Draft Version 3.0 2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 638,654	\$ 321,226	\$ (317,428)	\$ -	\$ (638,654)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 638,654	\$ 321,226	\$ (317,428)	\$ -	\$ (638,654)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 638,654	\$ 321,226	\$ (317,428)	\$ -	\$ (638,654)
Expenses					
Personnel Expenses					
Salaries	\$ 311,503	\$ 12,500	\$ (299,003)	\$ 12,500	\$ (299,003)
Payroll Taxes	52,955	1,218	(51,737)	1,218	(51,737)
Benefits	24,920	818	(24,102)	818	(24,102)
Retirement Costs	52,956	1,690	(51,266)	1,690	(51,266)
Total Personnel Expenses	\$ 442,334	\$ 16,226	\$ (426,108)	\$ 16,226	\$ (426,108)
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	4,320	-	(4,320)	4,320	-
Conference Calls	4,800	-	(4,800)	-	(4,800)
Total Meeting Expenses	\$ 9,120	\$ -	\$ (9,120)	\$ 4,320	\$ (4,800)
Operating Expenses					
Consultants	\$ 80,000	\$ 80,000	\$ -	\$ 111,000	\$ 31,000
Contracts	-	-	-	-	-
Office Rent	-	-	-	-	-
Office Costs	4,800	-	(4,800)	-	(4,800)
Professional Services	102,400	225,000	122,600	225,000	122,600
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 187,200	\$ 305,000	\$ 117,800	\$ 336,000	\$ 148,800
Total Direct Expenses	\$ 638,654	\$ 321,226	\$ (317,428)	\$ 356,546	\$ (282,108)
Indirect Expenses	\$ -	\$ -	\$ -	\$ (356,546)	\$ (356,546)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 638,654	\$ 321,226	\$ (317,428)	\$ -	\$ (638,654)
Change in Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	-	-	-	\$ -	-
Change in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CHANGE IN ASSETS	\$ -	\$ -	\$ -	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, the expenses related to the indirect program areas are allocated entirely to the direct programs and therefore have no ERO assessment revenue.

Personnel Expenses

- For 2010, MRO has reduced its staffing level in the Legal and Regulatory area from 1.50 to 0.10 FTE's. MRO will outsource legal representation for hearings.

Meeting Expenses

- Meeting expenses were reduced by 50% from the 2009 Budget to reflect the lower FTE.

Operating Expenses

- Operating expenses have been increased to reflect the reliance on outside legal counsel.

Indirect Expenses

- 2010 expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs. These expenses reflect GAAP (Generally Accepted Accounting Principles) which includes non-cash expenses, primarily depreciation expense.

Other Non-Operating Expenses

- There are no non-operating expenses included in the 2010 Business Plan and Budget.

Fixed Asset Additions

- 2010 fixed assets related to indirect programs have been allocated proportionately based on FTE to the direct programs.

11. Information Technology

Program Scope and Functional Description

MRO's Information Technology ("IT") department provides the systems and communications tools for staff to perform Regional Entity functions.

2010 Key Assumptions

IT provides support and guidance for the technologies deployed at the Midwest Reliability Organization. Technologies include office equipment such as copiers and faxes, servers to support connected and shared resources, printers, handheld devices, telephony, remote access and conference solutions as well as networking and security.

IT provides leadership in using technology effectively and securely. In doing so, users are more productive. The result is a keen focus on maintenance, investigation of issues, and deployment of new tools.

MRO IT department assesses patches, service packs, and upgrades in a semi-controlled environment, with select users, or within the department to assess whether or not the technology would provide an added benefit for the organization.

2010 Goals and Key Deliverables

The IT department's goal is 99.81% uptime on all systems, provide 24 by 7 support for the telephone and email, and 8 by 5 for all other systems.

Funding Requirements — Explanation of Increase (Decrease)

Multiple factors affect this budget cycle; the beginning of the third operating year at this location, CIP compliance, and the subscription to third party services.

In 2010, all major hardware will complete the third year of service. This includes email, file server, printer server, domain server, firewall, network, voice, security, backup server, and others. This increases the budget requirement for the year.

Another increase in expenditures is due to maintenance of CIP Standards. Much of the work involves tracking and documenting areas of authorization and access on a daily weekly, monthly, quarterly, and annual basis. The coordination with other departments for quarterly security audits and training as well as processes for adding and removing people will introduce increased workload but create a clearer audit trail.

The department will no longer support developers, testers, hundreds of users, vendors, and services associated with application development as well as seven servers dedicated to this endeavor (CDMS and RSVP applications). The subscription to third party services decreases the budget impact of IT.

Information Technology

Funding sources and related expenses for the information technology section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Information Technology					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Draft Version 3.0 2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 725,649	\$ 793,527	\$ 67,878	\$ -	\$ (725,649)
Penalty Sanctions				-	
Total ERO Funding	<u>\$ 725,649</u>	<u>\$ 793,527</u>	<u>\$ 67,878</u>	<u>\$ -</u>	<u>\$ (725,649)</u>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ 725,649</u>	<u>\$ 793,527</u>	<u>\$ 67,878</u>	<u>\$ -</u>	<u>\$ (725,649)</u>
Expenses					
Personnel Expenses					
Salaries	\$ 149,273	\$ 141,114	\$ (8,159)	\$ 141,114	\$ (8,159)
Payroll Taxes	25,377	8,243	(17,134)	8,243	(17,134)
Benefits	11,942	27,504	15,562	27,504	15,562
Retirement Costs	25,377	20,169	(5,208)	20,169	(5,208)
Total Personnel Expenses	<u>\$ 211,969</u>	<u>\$ 197,030</u>	<u>\$ (14,939)</u>	<u>\$ 197,030</u>	<u>\$ (14,939)</u>
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	6,000	6,000	-	-	(6,000)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ 6,000</u>	<u>\$ 6,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,000)</u>
Operating Expenses					
Consultants	\$ 75,000	\$ 75,000	\$ -	\$ 66,200	\$ (8,800)
Contracts	26,500	26,500	-	25,415	(1,085)
Office Rent	-	-	-	-	-
Office Costs	91,180	163,218	72,038	158,418	67,238
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	290,000	290,000	310,000	310,000
Total Operating Expenses	<u>\$ 192,680</u>	<u>\$ 554,718</u>	<u>\$ 362,038</u>	<u>\$ 560,033</u>	<u>\$ 367,353</u>
Total Direct Expenses	<u>\$ 410,649</u>	<u>\$ 757,748</u>	<u>\$ 347,099</u>	<u>\$ 757,063</u>	<u>\$ 346,414</u>
Indirect Expenses				<u>\$ (757,063)</u>	<u>\$ (757,063)</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ 410,649</u>	<u>\$ 757,748</u>	<u>\$ 347,099</u>	<u>\$ -</u>	<u>\$ (410,649)</u>
Change in Assets	<u>\$ 315,000</u>	<u>\$ 35,779</u>	<u>\$ (279,221)</u>	<u>\$ -</u>	<u>\$ (315,000)</u>
Fixed Assets					
Depreciation	\$ -	\$ (290,000)	\$ (290,000)	\$ (310,000)	\$ (310,000)
Computer & Software CapEx	257,400	257,400	-	299,350	41,950
Furniture & Fixtures CapEx	57,600	68,379	10,779	25,000	(32,600)
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	<u>\$ (315,000)</u>	<u>\$ (35,779)</u>	<u>\$ 279,221</u>	<u>\$ (14,350)</u>	<u>\$ 300,650</u>
Allocation of Fixed Assets				\$ 14,350	14,350
Change in Fixed Assets	<u>(315,000)</u>	<u>(35,779)</u>	<u>279,221</u>	<u>-</u>	<u>315,000</u>
TOTAL CHANGE IN ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Explanations of Variances – 2010 Budget versus 2009 Budget***Funding Sources***

- In 2010, the expenses related to indirect program areas are being allocated entirely to direct programs and therefore have no ERO assessment revenue.

Personnel Expenses

- Budgeted payroll taxes, benefits, and retirement costs reflect an overall average cost and distribution. Please refer to introduction, section 5, page 10, number 9 which explains MRO's change in benefit cost distribution.

Meeting Expenses

- There are no significant changes requiring an explanation.

Operating Expenses

- Increase in Office Costs due to assigning accountability for all computer supplies to the IT program.
- Increase in Office Costs due to assigning accountability for all equipment repairs and service contract to the IT program.

Note: Previously computer supplies, equipment repairs, and service contracts were included in the Finance Program office costs, which in 2010 reflects a corresponding decrease in Office Costs.

- Operating expenses show an increase due to the change in the methodology to reflect GAAP which includes the depreciation.

Indirect Expenses

- 2010 expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs. These expenses reflect GAAP (Generally Accepted Accounting Principles) which includes non-cash expenses, primarily depreciation expense.

Other Non-Operating Expenses

- There are no non-operating expenses included in the 2010 Business Plan and Budget.

Fixed Asset Additions

- 2010 fixed assets related to indirect programs have been allocated proportionately based on FTE to the direct programs. The only negligible increase in Information Technology was a result of the addition of fixed assets related to normal business operations. A high percentage of capital equipment was purchased and placed in service in 2007 and before which will reach retirement in 2010 and 2011.

12. Human Resources

Human Resources costs are included in Finance and Accounting.

13. Human Resources & Finance and Accounting

Program Scope and Functional Description

Human Resources

The human resource function designs, plans, and implements human resources policies and procedures in adherence with applicable federal and state laws.

Finance and Accounting

The finance and accounting function: directs the overall financial plans and accounting practices of the organization; oversees treasury, accounting, budget, tax, and audit activities; oversees financial and accounting system controls and standards.

2010 Key Assumptions

The Delegation Agreement requirements will remain consistent with the current requirements.

2010 Goals and Key Deliverables

- Utilize the NERC System of Accounts for consistency
- Budget development using the NERC budget template formats
- Forecasts and projections
- Payroll and expense administration
- Preparation of Quarterly Financial Statements
- IRS Reporting - Form 990
- Review and improve fiscal controls
- Annual Independent Audit initiated by the Regional Entity

Funding Requirements — Explanation of Increase (Decrease)

Slight increase in our office costs resulting from participation in professional organizations and additional training. MRO staff anticipates continuously improving consistency and transparency among the regions and NERC. MRO efforts are not limited to, but include implementing a Time Managed Payroll Application to replace the existing time reporting system. MRO Staff will also be addressing the demands of SOX and the revamped Form 990.

Finance and Accounting

Funding sources and related expenses for the accounting and finance section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Finance and Accounting					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Draft Version 3.0 2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 597,817	\$ 668,850	\$ 71,033	\$ -	\$ (597,817)
Penalty Sanctions				-	
Total ERO Funding	\$ 597,817	\$ 668,850	\$ 71,033	\$ -	\$ (597,817)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 597,817	\$ 668,850	\$ 71,033	\$ -	\$ (597,817)
Expenses					
Personnel Expenses					
Salaries	\$ 157,808	\$ 170,929	\$ 13,121	\$ 174,500	\$ 16,692
Payroll Taxes	26,827	18,886	(7,941)	19,280	(7,547)
Benefits	12,625	50,474	37,849	51,594	38,969
Retirement Costs	26,827	39,931	13,104	40,817	13,990
Total Personnel Expenses	\$ 224,087	\$ 280,220	\$ 56,133	\$ 286,191	\$ 62,104
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	3,000	3,000	-	5,190	2,190
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 3,000	\$ 3,000	\$ -	\$ 5,190	\$ 2,190
Operating Expenses					
Consultants	\$ 38,000	\$ 38,000	\$ -	\$ 12,000	\$ (26,000)
Contracts	-	-	-	12,900	12,900
Office Rent	170,000	222,600	52,600	228,300	58,300
Office Costs	110,200	72,500	(37,700)	72,500	(37,700)
Professional Services	52,530	52,530	-	52,530	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 370,730	\$ 385,630	\$ 14,900	\$ 378,230	\$ 7,500
Total Direct Expenses	\$ 597,817	\$ 668,850	\$ 71,033	\$ 669,611	\$ 71,794
Indirect Expenses				\$ (669,611)	\$ (669,611)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 597,817	\$ 668,850	\$ 71,033	\$ -	\$ (597,817)
Change in Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx					-
Furniture & Fixtures CapEx					-
Equipment CapEx					-
Leasehold Improvements					-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets				\$ -	-
Change in Fixed Assets	-	-	-	-	-
TOTAL CHANGE IN ASSETS	\$ -	\$ -	\$ -	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget***Funding Sources***

- In 2010, the expenses related to indirect program areas are being allocated entirely to direct programs and therefore have no ERO assessment revenue.

Personnel Expenses

- Personnel expenses are assigned to the HR/Finance area. In the past, partial costs were assigned to other areas.
- Budgeted payroll taxes, benefits, and retirement costs reflect an overall average cost and distribution. Please refer to introduction, section 5, page 10, number 9 which explains MRO's change in benefit cost distribution.

Meeting Expenses

- The travel increase reflects MRO staff participation in the NERC and Regional budget groups.

Operating Expenses

- Operating expenses increased due to heightened MRO Staff participation in professional development and additional functional training in the areas of Finance and Human Resources.

Indirect Expenses

- 2010 expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs. These expenses reflect GAAP (Generally Accepted Accounting Principles) which includes non-cash expenses, primarily depreciation expense.

Other Non-Operating Expenses

- There are no non-operating expenses included in the 2010 Business Plan and Budget.

Fixed Asset Additions

- 2010 fixed assets related to indirect programs have been allocated proportionately based on FTE to the direct programs.

Section B — 2010 Budget

1. 2009 Budget and Projection and 2010 Budget Comparisons

Table 1

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
STATUTORY					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Draft Version 3.0 2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 6,376,474	\$ 6,397,753	\$ 21,279	\$ 7,503,745	\$ 1,127,271
Penalty Sanctions ⁽¹⁾	-	-	-	75,000	75,000
Total ERO Funding	\$ 6,376,474	\$ 6,397,753	\$ 21,279	\$ 7,578,745	\$ 1,202,271
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	29,250	-	(29,250)	-	(29,250)
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 6,405,724	\$ 6,397,753	\$ (7,971)	\$ 7,578,745	\$ 1,173,021
Expenses					
Personnel Expenses					
Salaries	\$ 2,994,799	\$ 2,692,823	\$ (301,976)	\$ 3,083,706	\$ 88,907
Payroll Taxes	509,116	201,450	(307,666)	231,899	(277,217)
Benefits	239,584	483,799	244,215	561,066	321,482
Retirement Costs	509,116	428,061	(81,055)	500,904	(8,212)
Total Personnel Expenses	\$ 4,252,614	\$ 3,806,133	\$ (446,481)	\$ 4,377,575	\$ 124,961
Meeting Expenses					
Meetings	\$ 119,390	\$ 130,420	\$ 11,030	\$ 140,495	\$ 21,105
Travel	305,120	475,400	170,280	529,195	224,075
Conference Calls	50,440	60,500	10,060	44,735	(5,705)
Total Meeting Expenses	\$ 474,950	\$ 666,320	\$ 191,370	\$ 714,425	\$ 239,475
Operating Expenses					
Consultants	\$ 554,860	\$ 545,825	\$ (9,035)	\$ 836,700	\$ 281,840
Contracts	109,500	134,500	25,000	158,415	48,915
Office Rent	170,000	222,600	52,600	228,300	58,300
Office Costs	313,870	359,066	45,196	382,822	68,952
Professional Services	154,930	277,530	122,600	277,530	122,600
Miscellaneous	-	-	-	-	-
Depreciation	-	300,000	300,000	330,000	330,000
Total Operating Expenses	\$ 1,303,160	\$ 1,839,521	\$ 536,361	\$ 2,213,767	\$ 910,607
Total Direct Expenses	\$ 6,030,724	\$ 6,311,974	\$ 281,250	\$ 7,305,767	\$ 1,275,043
Indirect Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 6,030,724	\$ 6,311,974	\$ 281,250	\$ 7,305,767	\$ 1,275,043
Change in Assets	\$ 375,000	\$ 85,779	\$ (289,221)	\$ 272,978	\$ (102,022)
Fixed Assets					
Depreciation	\$ -	\$ (300,000)	\$ (300,000)	\$ (330,000)	\$ (330,000)
Computer & Software CapEx	317,400	317,400	-	365,350	47,950
Furniture & Fixtures CapEx	57,600	68,379	10,779	25,000	(32,600)
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
Change in Fixed Assets	\$ (375,000)	\$ (85,779)	\$ 289,221	\$ (60,350)	\$ 314,650
Allocation of Fixed Assets	-	-	-	-	-
Change in Fixed Assets	(375,000)	(85,779)	289,221	(60,350)	314,650
TOTAL CHANGE IN ASSETS	\$ -	\$ -	\$ -	\$ 212,628	\$ 212,628

⁽¹⁾ Reflects penalty sanctions collected prior to June 30, 2009. See page 68 for complete detail.

2. Personnel Analysis

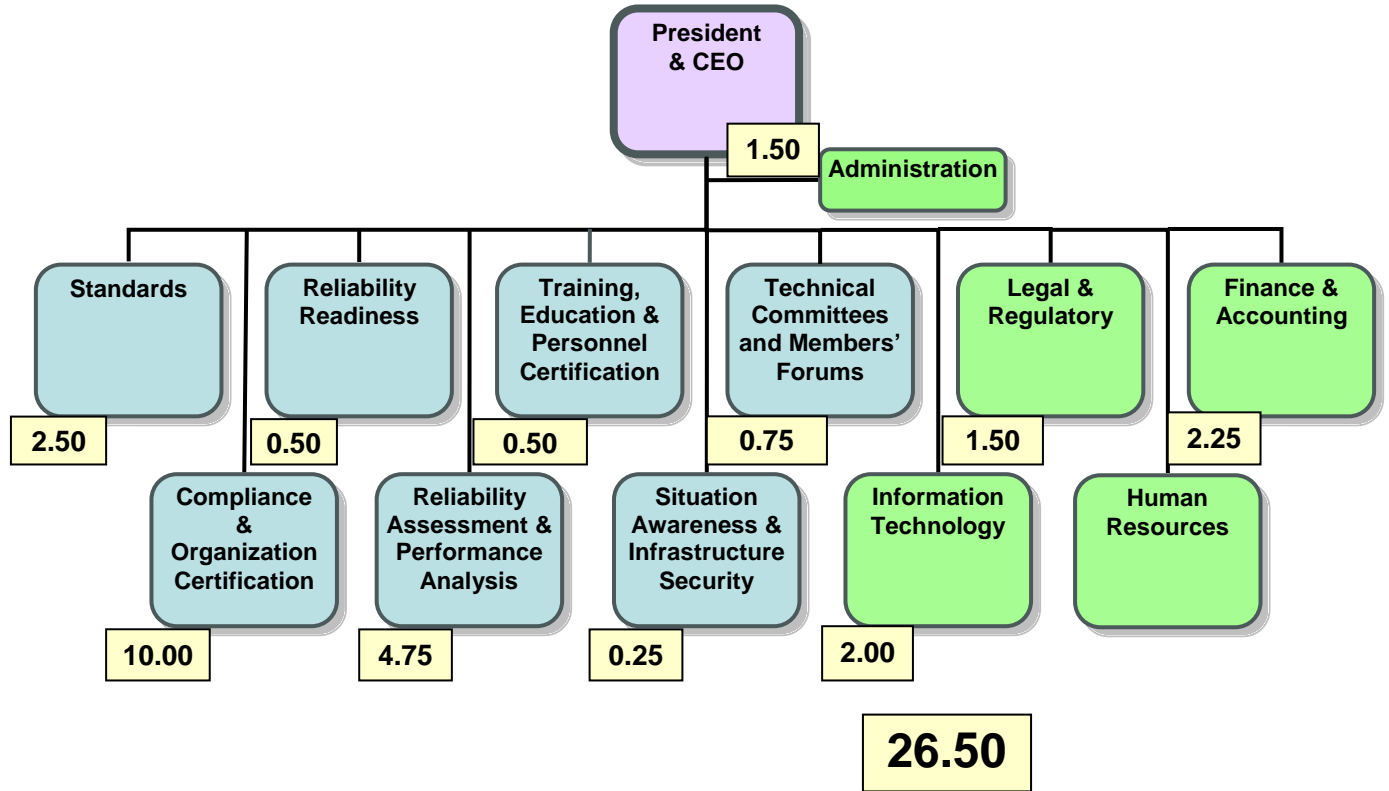
FTEs are defined as full-time employees only. Fractional FTEs reflect part-time employees or employees who worked in fewer than all four quarters of the year.

Table 2

Total FTE's by Program Area	Budget 2009	Projection 2009	Budget 2010	Change from 2009 Budget
STATUTORY				
Operational Programs				
Reliability Standards	2.50	2.06	1.35	-1.15
Compliance and Organization Registration and Certification	10.00	10.73	13.60	3.60
Reliability Readiness Evaluation and Improvement	0.50	0.00	0.00	-0.50
Training and Education	0.50	0.10	0.00	-0.50
Reliability Assessment and Performance Analysis	4.75	6.01	6.40	1.65
Situational Awareness and Infrastructure Security	0.25	1.10	1.25	1.00
Total FTEs Operational Programs	18.50	20.00	22.60	4.10
Administrative Programs				
Member Forums	0.75	0.62	0.65	-0.10
General & Administrative	1.50	1.50	1.50	0.00
Information Technology	2.00	1.90	1.90	-0.10
Legal and Regulatory	1.50	0.10	0.10	-1.40
Human Resources				
Accounting and Human Resources	2.25	2.33	2.25	0.00
Total FTEs Administrative Programs	8.00	6.45	6.40	-1.60
Total FTEs	26.50	26.45	29.00	2.50

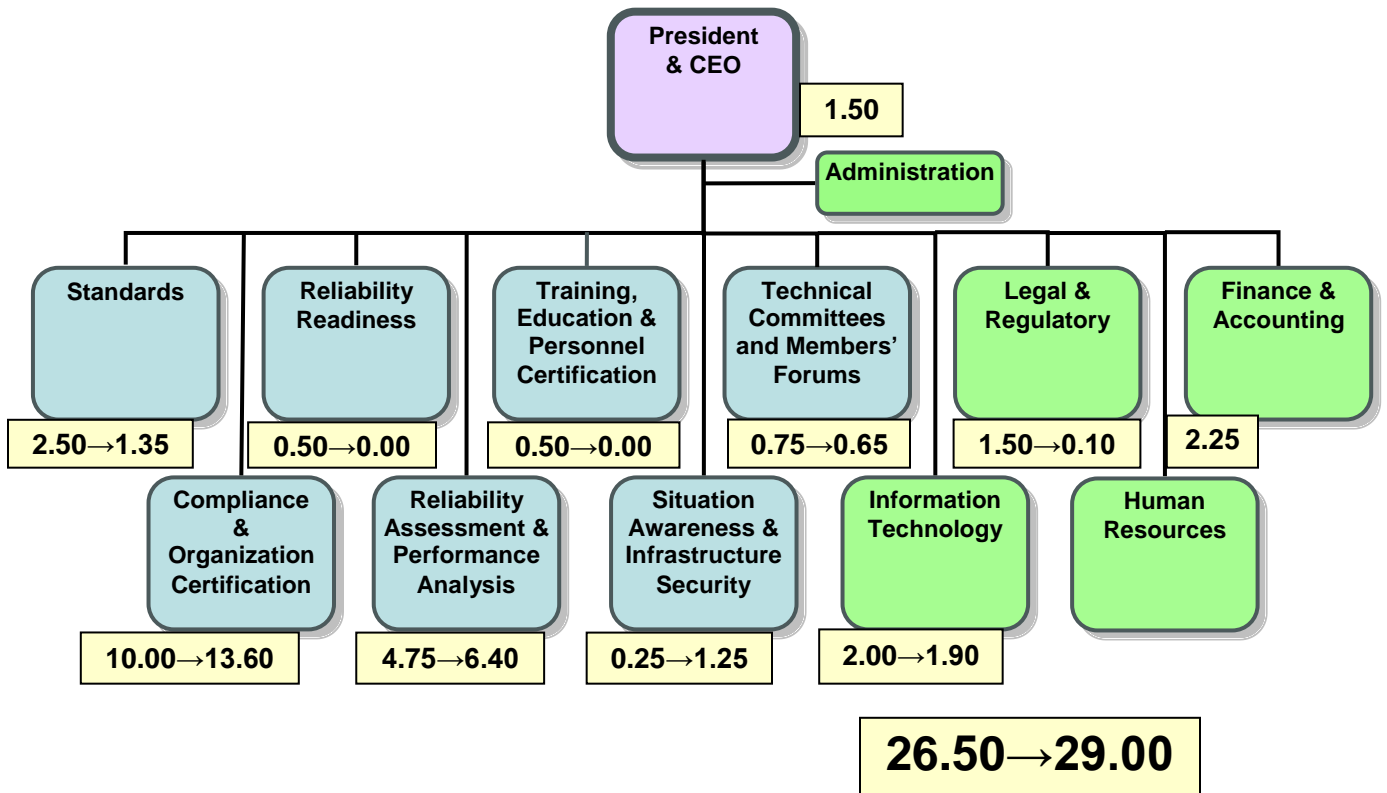
2009 Organizational Chart

Table 3



2010 Organizational Chart

Table 4



3. Reserve Balance

Table 5

Working Capital Reserve Analysis 2009-2010		
STATUTORY		
Beginning Working Capital Reserve (Deficit), December 31, 2008	1	149,344
Less: Penalty sanctions to be used as offset to 2010 assessments ²		(75,000)
Plus: 2009 ERO Funding (from LSEs or designees)		6,397,753
Plus: 2009 Other funding sources		0
Less: '2009 Projected expenses & capital expenditures		(6,397,753)
Projected Working Capital Reserve (Deficit), December 31, 2009		74,344
 Desired Working Capital Reserve, December 31, 2010	 3	 286,972
Less: Projected Working Capital Reserve, December 31, 2009		(74,344)
Increase(decrease) in assessments to achieve desired Working Capital Reserve		212,628
2010 Assessment for Expenses and Capital Expenditures		7,366,117
Less: Penalty Sanctions ²		(75,000)
Less: Other Funding Sources		0
Adjustment to achieve desired Working Capital Reserve		212,628
2010 Assessment		7,503,745

^{1.} Update reserves available to reflect NERC's opinion to change from cash on hand to a working capital. NERC has taken the position that a measure of the company's liquidity (current assets less current liabilities) is a more accurate measure of what dollars are available to the regions in the event that the unexpected happens.

^{2.} Represents collections prior to June 30, 2009. See page 68 for full disclosure.

^{3.} As documented in the April 2008 minutes, the MRO staff recommended and the FAC approved the cash reserve policy to maintain 45 days of cash. The MRO Board of Directors wishes to assure adequate liquidity for the organization, yet recognizes that the past experience under the delegation agreement with NERC and other short term financing arrangements may warrant a re-evaluation of the cash reserve policy.

The MRO Board of Directors approved that the funding of the 45 day cash reserve begin in the 2010 budget with an initial funding amount of one-third of the projected requirements with other funding installments to follow in 2011 and 2012 subject to a re-evaluation of the reserves policy previously adopted by the MRO Board of Directors on June 19, 2008 by the MRO Finance and Audit Committee.

The MRO Board of Directors has directed staff and the Finance and Audit Committee to provide a re-evaluation and recommendation on reserve policy prior to March 31, 2010.

4. MRO Assessment Analysis

Assessments by Country

Table 6

Data Year	Regional Entity	Total NEL	U.S. NEL	Canada NEL	Mexico NEL	% of RE Total	US Total	Canada Total	Mexico Total
Summary by Regional Entity									
2008	FRCC	-							
2008	MRO	275,258,769	229,861,933	45,396,836					
2008	NPCC	-							
2008	RFC	-							
2008	SERC	-							
2008	SPP	-							
2008	TRE	-							
2008	WECC	-							
TOTAL		275,258,769	229,861,933	45,396,836	-	0%	0.000%	0.000%	0.000%

5. Breakdown by Statement of Activity Sections

The following detailed schedules are in support of Table 1, page 60, of the 2010 MRO Business Plan and Budget. All significant variances have been disclosed by program area in the preceding pages.

Penalty Sanctions

Penalty monies received prior to June 30, 2009 are to be used to offset assessments in the 2010 Budget, as documented in the NERC Policy – ACCOUNTING, FINANCIAL STATEMENT AND BUDGETARY TREATMENT OF PENALTIES IMPOSED AND RECEIVED FOR VIOLATIONS OF RELIABILITY STANDARD. Penalty monies received from July 1, 2009 through June 30, 2010 will be used to offset assessments in the 2011 Budget.

Full disclosure of all penalties received prior to June 30, 2009 are detailed below, including the Company, the amount, and the date received.

Allocation Method: Penalty sanctions received have been allocated to the following statutory programs to reduce assessments: Reliability Standards; Compliance Monitoring & Enforcement and Organization Registration & Certification; Reliability Assessments and Performance Analysis; Training, Education and Operator Certification; and Situational Awareness and Infrastructure Security. Penalty sanctions are allocated based upon the number of FTEs in the Program divided by the aggregate total FTEs in the Programs receiving the allocation.

Table B-1

Penalty Sanctions Received Prior to June 30, 2009		
Name of Entity	Date Receive	Amount Received
MidAmerican Energy	Jul-08	75,000
Total Penalties Received		<u>\$ 75,000</u>

Supplemental Funding

Table B-2

Outside Funding Breakdown By Program (excluding ERO Assessments & Penalty Sanctions)	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Reliability Assessment and Performance Analysis					
pc-GAR Software	\$ -	\$ -	\$ -	\$ -	-
GADS Services	-	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -	-
Training and Education					
SO Test Fees	\$ -	\$ -	\$ -	\$ -	-
Certificate Renewals	-	\$ -	\$ -	-	-
PJM Test Fees	-	-	-	-	-
CEH Fees	-	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -	-
Situational Awareness and Infrastructure Security					
ESD Software	\$ -	\$ -	\$ -	\$ -	-
FIST Royalties	-	-	-	-	-
TSIN Fees	-	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -	-
Technical Committees and Member Forums					
Transmission Owners and Operators Forum Dues	\$ 29,250	\$ -	\$ -	\$ (29,250)	
Total	\$ 29,250	\$ -	\$ -	\$ (29,250)	
General and Administrative					
Interest Income	\$ -	\$ -	\$ -	\$ -	-
Total	\$ -	\$ -	\$ -	\$ -	-
Total Outside Funding	\$ 29,250	\$ -	\$ -	\$ (29,250)	

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- MRO had budgeted in 2009 to host system operation training software. The \$29,250 was the anticipated workshop fees. At this time MRO is not planning to provide this training.
- MRO does not earn interest income. Our general banking account offsets the bank charges with any earned interest.

6. Personnel Expenses**Table B-3**

Personnel Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Salaries					
Salary					
Employment Agency Fees					
Temporary Office Services					
Total Salaries	\$ 2,994,799	\$ 2,692,823	\$ 3,083,706	\$ 88,907	3.0%
Total Payroll Taxes	\$ 509,116	\$ 201,450	\$ 231,899	\$ (277,217)	-54.5%
Benefits					
Workers Compensation					
Medical Insurance					
Life-LTD-LTC Insurance					
Education					
Relocation					
Total Benefits	\$ 239,584	\$ 483,799	\$ 561,066	\$ 321,482	134.2%
Retirement					
Discretionary 401k Cont.					
Savings Plan					
Total Retirement	\$ 509,116	\$ 428,061	\$ 500,904	\$ (8,212)	-1.6%
Total Personnel Costs	\$ 4,252,615	\$ 3,806,133	\$ 4,377,575	\$ 124,960	2.9%
FTEs	26.50	26.45	29.00	3	9.4%
Cost per FTE					
Salaries	\$ 113,011	\$ 101,808	\$ 106,335	(6,677)	-5.9%
Payroll Taxes	19,212	7,616	7,997	(11,215)	-58.4%
Benefits	9,041	18,291	19,347	10,306	114.0%
Retirement	19,212	16,184	17,273	(1,939)	-10.1%
Total Cost per FTE	\$ 160,476	\$ 143,899	\$ 150,951	\$ (9,525)	-5.9%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Budgeted payroll taxes, benefits, and retirement costs reflect an overall average cost and distribution. Please refer to introduction, section 5, page 10, number 9 which explains MRO's change in benefit cost distribution.

7. Consultants and Contracts

Table B-4

Consultants	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Consultants					
Outsource Standards Tracking Software Applications-Devolpment (0300)	\$ 30,000	\$ 30,000	\$ -	\$ (30,000)	-100.00%
Compliance and Organization Registration and Certification-Database (0400)	110,600	110,600	107,500	(3,100)	-2.80%
CIP Technical Feasibility Exceptions (TFEs) (0400)			480,000	480,000	
Reliability Readiness Evaluation and Improvement-instead of FTE (0700)	48,000	-	-	(48,000)	
Reliability Assessment and Performance Analysis-Support Event Analysis and TADS (0800)	155,860	155,860	-	(155,860)	-100.00%
Training and Education (0900)	2,400	2,400	-	(2,400)	-100.00%
Situational Awareness and Infrastructure Security-NASPI (1000)	-	-	-	-	
Committee and Member Forums (1100)	-	-	-	-	
General and Administrative (2000)	15,000	53,965	60,000	45,000	11.18%
Legal and Regulatory-Self Assessment (2200)	80,000	80,000	111,000	31,000	38.75%
Information Technology (2300)	75,000	75,000	66,200	(8,800)	-11.73%
Accounting and Finance and HR (2500)	38,000	38,000	12,000	(26,000)	-68.42%
Consultants Total	\$ 554,860	\$ 545,825	\$ 836,700	\$ 281,840	53.29%
Contracts					
Outsource Standards Tracking Software Applications	\$ 30,000	\$ 30,000	\$ 12,000	\$ (18,000)	-60.00%
Subtotal - Reliability Standards Contracts	\$ 30,000	\$ 30,000	\$ 12,000	\$ (18,000)	-60.00%
Outsource Compliance Information Tracking Applications	\$ 35,000	\$ 60,000	\$ 60,000	\$ 25,000	71.43%
Subtotal - Compliance and Organization Registration and Certification Contracts	\$ 35,000	\$ 60,000	\$ 60,000	\$ 25,000	0.00%
Model Series Development	\$ -	\$ -	\$ 17,600	\$ 17,600	
Model Building	18,000.00	18,000.00	10,000.00	(8,000.00)	-44.44%
PIT Software	-	-	20,500.00	20,500.00	
Subtotal - Reliability Assessments Contracts	\$ 18,000	\$ 18,000	\$ 48,100	\$ 30,100	167.22%
Great Plains	\$ 8,000	\$ 8,000	\$ 8,000	\$ -	
Cisco	7,500	7,500	1,815	(5,685.00)	
Barracuda	1,100	1,100	4,000	2,900.00	
Crow Canyon	200	200	400	200.00	
Facilities / Security	6,000	6,000	7,000	1,000.00	
Lyris	2,500	2,500	2,500	-	
DigiCert SSL			800	800.00	
Verisign - Domain Renewal			900	900.00	
Other	1,200	1,200		(1,200.00)	
Subtotal - Information Technology Contracts	\$ 26,500	\$ 26,500	\$ 25,415	\$ (1,085)	-4.09%
TSC - 401K 3rd Party Administrator			4,400	4,400	
Discovery - FSA 3rd Party Administrator			1,200	1,200	
Stanton			1,200	1,200	
Ceidian & Virtual Time Center			6,100	6,100	
Subtotal - Information Technology Contracts	\$ -	\$ -	\$ 12,900	\$ 12,900	
Contracts Total	\$ 109,500	\$ 134,500	\$ 158,415	\$ 48,915	17.78%
Total Consulting and Contracts	\$ 664,360	\$ 680,325	\$ 995,115	\$ 330,755	46.27%

Table B-5

Office Rent	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Office Rent	\$ 170,000	\$ 170,000	\$ 160,000	\$ (10,000)	-5.88%
Utilities	12,000	12,000	26,400	14,400	120.00%
Bldg Maint/Fac Repairs	10,000	10,000	14,400	4,400	44.00%
Office Cleaning	27,000	27,000	25,000	(2,000)	-7.41%
Waste Managemnt	3,600	3,600	2,500	(1,100)	-30.56%
Total Office Rent¹	\$ 222,600	\$ 222,600	\$ 228,300	\$ 5,700	2.56%

Increase Office Rent 52,600
Reduce Office Costs (52,600)

¹ 2009 Business Plan and Budget, Office Rent included only line item "Office Rent" in the total. Other line items were included in Office Costs.

Explanation of Significant Variances – 2010 Budget versus 2009 Budget: Office Rent

- MRO has experienced an increase in our utility charges. Previously the property management missed billing us for the utility charges separately above the cost of the lease.

Table B-6

Office Costs	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Phone Service	\$ -	\$ -	\$ -	\$ -	
Data Curciut (qmoe)	20,400	21,600	21,600	1,200	0.00%
Data Circuit (dsl)	1,560	1,560	1,560	-	0.00%
Inbound long distance	10,800	8,400	8,400	(2,400)	0.00%
Voice Circuits	32,400	20,400	20,400	(12,000)	0.00%
Business Cable	1,200	-	-	(1,200)	
Sunguard	-	38,020	38,020	38,020	0.00%
Internet/Cell	23,522	28,544	30,704	7,183	7.57%
Office Supplies	21,234	23,224	24,224	2,990	4.31%
Employee Member Events	15,000	15,000	15,000	-	0.00%
Employee Related Expense (Drug Testing, Finder Fees Etc)	6,000	6,000	2,000	(4,000)	-66.67%
Computer Supplies and Maintenance	6,000	18,498	18,498	12,498	0.00%
Publications & Subscriptions	10,030	8,060	8,560	(1,470)	6.20%
Professional Dues	22,535	17,062	23,062	527	35.17%
Postage	3,000	1,500	1,500	(1,500)	0.00%
Temporary Services	-	-	-	-	
Finance-Filing/Reg Fees	-	1,200	1,200	1,200	0.00%
Equipment Repair/Service Contracts	-	32,500	32,500	32,500	0.00%
Bank Charges	6,000	6,000	6,000	-	0.00%
Sales & Use Taxes	-	-	-	-	
Merchant Card Fees	-	-	-	-	
Presentation & Publicity & Supplies Promotional	4,800	1,148	2,500	(2,300)	117.77%
Departmental Functional Training	31,790	64,350	82,094	50,304	27.57%
Insurance Expense	45,000	45,000	45,000	-	0.00%
N/A Bldg Maint/Fac Repairs in 2010 Include in Rent					
N/A Utilities in 2010 Include in Rent					
N/A Office Cleaning Include in Rent					
N/A Waste Managemnt Include in Rent					
MISC N/A					
Total Office Costs	\$ 261,271	\$ 358,066	\$ 382,822	\$ 121,552	6.91%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget: Office Costs

Increase Office Rent	52,600
Reduce Office Costs	(52,600)

Table B-7

Professional Services	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Independent Trustee Fees				\$ -	
Outside Legal	102,400	225,000	225,000	122,600	0.00%
Accounting & Auditing Fees	30,000	30,000	30,000	-	0.00%
Actuarial Fees	22,530	22,530	22,530	-	0.00%
Insurance Commercial				-	
Total Services	\$ 154,930	\$ 277,530	\$ 277,530	\$ 122,600	0.00%

Explanation of Significant Variances - 2010 Budget versus 2009 Budget: Professional Services

- For 2010, MRO has reduced its staffing level in the Legal and Regulatory area from 1.50 to 0.10 FTEs. MRO has re-assigned legal staff to enforcement proceedings in the Compliance Program budget. MRO will use outside counsel where necessary.

Table B-8

Other Non-Operating Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Interest Expense				\$ -	
Office Relocation				\$ -	
Total Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	

Explanation of Significant Variances – 2010 Budget versus 2009 Budget: Other Non-Operating Expenses

Section C — 2009 MRO Non-Statutory Business Plan and Budget

(in whole dollars)			
	2009 Budget	2009 Projection	2010 Budget
Total FTEs			
Total Direct Expenses			
Total Indirect Expenses			
Total Expenses			

In the 2010 Business Plan and Budget, the MRO will not have non-statutory functions.

Section D

1. 2010 Consolidated Statement of Activities by Program, Statutory and Non-Statutory

Statement of Financial Position

As of December 31, 2008, per audit

As of December 31, 2009, projected

As of December 31, 2010, as budgeted

Section D — Additional Financial Data

2010 Consolidated Statement of Activities

Statement of Activities 2010 Budget	Functions in Delegation Agreement														Non-Statutory Functions Non-Statutory Total		
	Total	Statutory Total	Non-Statutory Total	Statutory Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 500)	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																	
ERO Assessments	7,503,745	7,503,745	-	7,503,745	434,869	4,645,677	1,783,605	-	426,967	-	212,628	-	-	-	-	-	-
Penalty Sanctions	75,000	75,000	-	75,000	4,480	45,133	21,239	-	4,148	-	-	-	-	-	-	-	-
Total ERO Funding	7,578,745	7,578,745	-	7,578,745	439,349	4,690,810	1,804,844	-	431,115	-	212,628	-	-	-	-	-	-
Membership Dues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Workshops	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Funding	7,578,745	7,578,745	-	7,578,745	439,349	4,690,810	1,804,844	-	431,115	-	212,628	-	-	-	-	-	-
Expenses																	
Personnel Expenses																	
Salaries	3,083,706	3,083,706	-	3,083,706	157,600	1,567,964	608,776	-	123,143	127,859	170,250	12,500	141,114	-	-	174,500	-
Payroll Taxes	231,899	231,899	-	231,899	11,581	123,368	43,909	-	7,990	10,702	5,608	1,218	8,243	-	-	19,280	-
Benefits	561,066	561,066	-	561,066	37,262	294,567	91,077	-	23,721	8,115	26,408	818	27,504	-	-	51,594	-
Retirement Costs	500,904	500,904	-	500,904	20,200	265,016	89,373	-	18,274	21,404	23,961	1,690	20,169	-	-	40,817	-
Total Personnel Expenses	4,377,575	4,377,575	-	4,377,575	226,643	2,250,915	833,135	-	173,128	168,080	226,227	16,226	197,030	-	-	286,191	-
Meeting Expenses																	
Meetings	140,495	140,495	-	140,495	4,800	52,195	40,000	-	8,500	-	35,000	-	-	-	-	-	-
Travel	529,195	529,195	-	529,195	21,000	111,685	108,000	-	13,900	180,100	85,000	4,320	-	-	-	5,190	-
Conference Calls	44,735	44,735	-	44,735	12,000	13,085	6,000	-	12,150	-	1,500	-	-	-	-	-	-
Total Meeting Expenses	714,425	714,425	-	714,425	37,800	176,965	154,000	-	34,550	180,100	121,500	4,320	-	-	-	5,190	-
Operating Expenses																	
Consultants	836,700	836,700	-	836,700	-	587,500	-	-	-	-	60,000	111,000	66,200	-	-	12,000	-
Contracts	158,415	158,415	-	158,415	12,000	60,000	48,100	-	-	-	-	-	25,415	-	-	12,900	-
Office Rent	228,300	228,300	-	228,300	-	-	-	-	-	-	-	-	-	-	-	228,300	-
Office Costs	382,822	382,822	-	382,822	7,000	44,824	30,500	-	13,080	-	56,500	-	158,418	-	-	72,500	-
Professional Services	277,530	277,530	-	277,530	-	-	-	-	-	-	-	225,000	-	-	-	52,530	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	330,000	330,000	-	330,000	-	-	-	-	20,000	-	-	-	310,000	-	-	-	-
Total Operating Expenses	2,213,767	2,213,767	-	2,213,767	19,000	692,324	78,600	-	33,080	-	116,500	336,000	560,033	-	-	378,230	-
Total Direct Expenses	7,305,767	7,305,767	-	7,305,767	283,443	3,120,204	1,065,735	-	240,758	348,180	464,227	356,546	757,063	-	-	669,611	-
Indirect Expenses																	
	-	-	-	-	155,049	1,561,970	735,045	-	143,563	(348,180)	(464,227)	(356,546)	(757,063)	-	-	(669,611)	-
Other Non-Operating Expenses																	
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	7,305,767	7,305,767	-	7,305,767	438,492	4,682,174	1,800,780	-	384,321	-	-	-	-	-	-	-	-
Change in Assets	272,978	272,978	-	272,978	857	8,635	4,064	-	46,794	-	212,628	-	-	-	-	-	-
Fixed Assets																	
Depreciation	-	-	-	-	-	-	-	-	(20,000)	-	-	-	(310,000)	-	-	-	-
Computer & Software CapEx	365,350	365,350	-	365,350	-	-	-	-	66,000	-	-	-	299,350	-	-	-	-
Furniture & Fixtures CapEx	25,000	25,000	-	25,000	-	-	-	-	-	-	-	-	25,000	-	-	-	-
Equipment CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(Inc)Dec in Fixed Assets	(60,350)	(60,350)	-	(60,350)	-	-	-	-	(46,000)	-	-	-	(14,350)	-	-	-	-
Allocation of Fixed Assets					(857)	(8,635)	(4,064)		(794)				14,350				
Change in Fixed Assets					(857)	(8,635)	(4,064)	-	(46,794)	-	-	-	-	-	-	-	-
TOTAL CHANGE IN ASSETS	212,628	212,628	-	212,628	-	-	-	-	-	-	212,628	-	-	-	-	-	-
FTE's	29.0	29	0	29	1.35	13.60	6.40	-	1.25	0.65	1.50	0.10	1.90	0	2.25	-	-

Statement of Financial Position
2008 Audited, 2009 Projection, and 2010 Budget

STATUTORY and NON-STATUTORY

	(Per Audit) 31-Dec-08	Projected 31-Dec-09	Budget 31-Dec-10
ASSETS			
Cash	729,127	442,077	654,705
Trade Accounts receivable, net of allowance for uncollectible accounts of \$137,600	-	-	-
Other Receivables	-	-	-
Prepaid expenses and other current assets	61,886	65,000	65,000
Security deposit	-	-	-
Cash value of insurance policies	-	-	-
Property and equipment and capitalized software	728,457	814,236	874,586
Total Assets	1,519,470	1,321,313	1,594,291
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accrued expenses	518,478	385,000	385,000
Deferred income (Deferred Penalty Assessment)	75,458	-	-
Regional assessments collected in advance	-	-	-
Deferred rent	168,323	120,590	72,857
Accrued retirement liabilities	369,803	443,764	532,516
Total Liabilities	1,132,062	949,354	990,373
Net Assets - unrestricted	387,408	371,959	603,918
Total Liabilities and Net Assets	1,519,470	1,321,313	1,594,291

DOCKET NO. RR09-__-000

**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

2010 BUSINESS PLAN AND BUDGET FILING

ATTACHMENT 5

NORTHEAST POWER COORDINATING COUNCIL

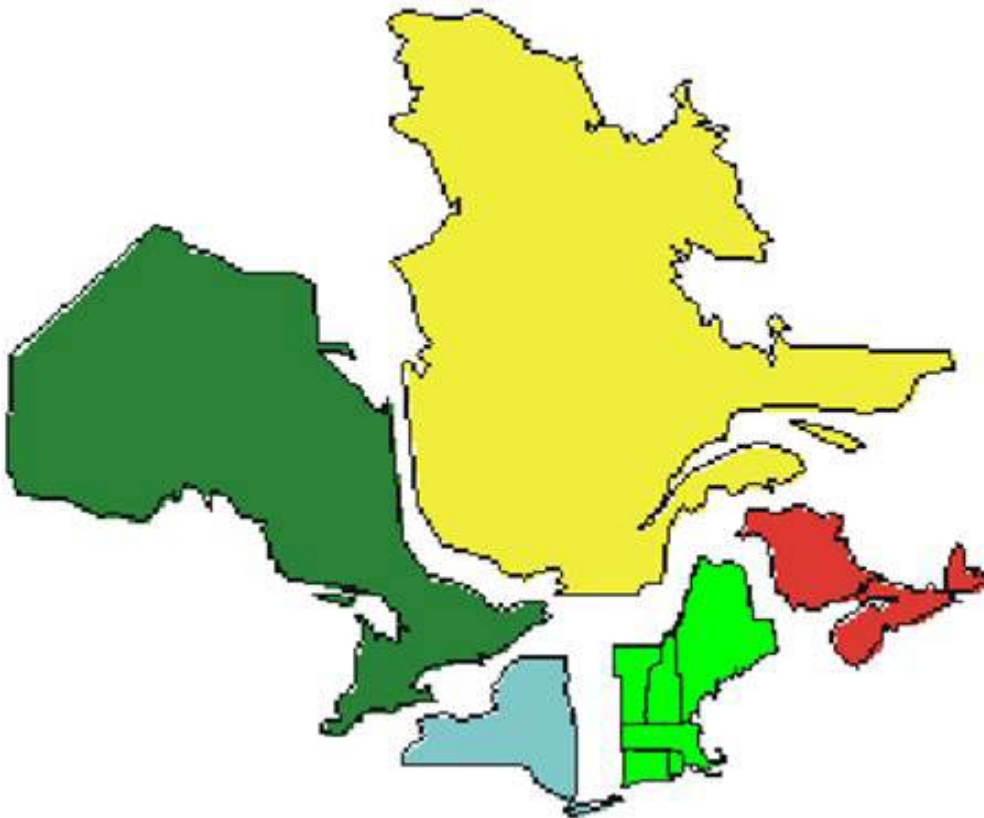
PROPOSED 2010 BUSINESS PLAN AND BUDGET



NORTHEAST POWER COORDINATING COUNCIL, INC.
1040 AVE OF THE AMERICAS, NEW YORK, NY 10018 TELEPHONE (212) 840-1070 FAX (212) 302-2782

Northeast Power Coordinating Council, Inc. (NPCC)

2010 Business Plan and Budget



**Approved by
NPCC BOD June 30, 2009
Submitted to NERC July 8, 2009
Resubmitted to NERC August 12, 2009**

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Introduction

Total NPCC Resources				
(in whole dollars)				
	2010	U.S.	Canada	Mexico
Regional Entity Division FTEs	27.41			
Criteria Services Division FTEs	2.59			
Total FTEs	30			
Regional Entity Division Expenses	\$11,354,085			
Criteria Services Division Expenses	\$1,099,307			
Total Expenses	\$12,453,392			
ERO Funding Assessments*	\$11,500,439	\$6,551,760	\$4,948,679	
ISO/BAA Assessments*	\$1,145,478	\$514,903	\$630,574	
Total Funding Assessments	\$12,645,916	\$7,066,663	\$5,579,253	
NEL	661,525,000	297,362,000	364,163,000	
NEL %	100%	44.95%	55.05%	

* Includes Cash Reserve Requirement. U.S. and Canadian ERO Funding Assessments were approved by the NPCC Board of Directors at its July 29, 2009 meeting.

Organizational Overview

Northeast Power Coordinating Council, Inc. (NPCC) is a 501(c)(6) not-for-profit corporation in the state of New York responsible for promoting and improving the reliability of the international, interconnected bulk power systems in Northeastern North America through (i) the development of regional reliability standards and compliance assessment and enforcement of continent-wide and regional reliability standards, coordination of system planning, design and operations, and assessment of reliability, (collectively, “regional entity activities”), and (ii) the establishment of regionally-specific criteria, and monitoring and enforcement of compliance with such criteria (collectively, “criteria services activities”). NPCC provides the functions and services for Northeastern North America of a cross-border regional entity through a regional entity division, as well as regionally-specific criteria services for Northeastern North America through a criteria services division. NPCC’s website is www.npcc.org.

The NPCC Region covers nearly 1.2 million square miles, and is populated by more than 55 million people. NPCC U.S. includes the six New England states and the state of New York. NPCC Canada includes the provinces of Ontario, Québec and the Maritime provinces of New Brunswick and Nova Scotia. In total, from a net energy for load perspective, NPCC is approximately 45% U.S. and 55% Canadian. With regard to Canada, approximately 70% of Canadian net energy for load is within the NPCC Region.

NPCC executed an agreement with the North American Electric Reliability Corporation (NERC) on May 2, 2007, which was amended and restated effective April 5, 2008, for the purpose of delegating to NPCC certain responsibilities and authorities of a cross-border regional entity as defined by Section 215 of the Federal Power Act in the U.S. and through Canadian provincial Memoranda of Understanding (MOUs) and regulatory and/or governmental authority agreements.

In this business plan, NPCC has not included desirable or discretionary programs and has balanced the limited availability of funds with international reliability interests. The NPCC Board of Directors tasked each of the NPCC Committees, the Reliability Coordinating Committee (RCC), the Regional Standards Committee (RSC) and the Compliance Committee (CC) with developing reliability risk based, reduced services scenarios in advance of the development of the business plan. These scenarios were vetted by the Board and are incorporated.

NPCC has a 2010 targeted staffing level of 30 power industry professionals and support personnel. It is imperative that NPCC maintain its ability to carry out delegated authorities and responsibilities. As a variation from prior business plans and in the spirit of consistency with NERC and the other Regional Entities, NPCC's 2010 business plan excludes independent contractor full time equivalents (FTEs) in its staffing level as was included for total FTEs in the 2007, 2008 and 2009 business plans. Details of the 2010 business plans and budget for each program area are included in Section A for the regional entity division. The 2010 regional entity division schedules are shown in Section B. Section C details the criteria services division business plan and budget.

Membership and Governance

NPCC monitors approximately 268 registered entities in the Region for compliance with mandatory reliability standards. NPCC currently has 79 members. There are two categories of membership, General and Full. The two categories distinguish between Regional Entity services that are provided in support of the U.S. FERC and Canadian provincial MOUs and regulatory and/or governmental authority agreements, and Criteria Services which FERC references as U.S. non-statutory or non-delegated activities.

General Membership is voluntary and is open to any person or entity, including any entity participating in the Registered Ballot Body of the Electric Reliability Organization (ERO) that has an interest in the reliable operation of the Northeastern North American bulk power system. General Members, that are also registered entities within the NPCC Region, are subject to compliance with reliability standards, consistent with their registration, and also receive additional services from the regional entity division of NPCC.

Full Membership is available to Members, which are already General Members, and participate in electricity markets in the Northeast. Independent system operators ("ISOs"), regional transmission organizations ("RTOs"), Transcos and other organizations or entities that perform the Balancing Authority function operating in Northeastern North America are expected to be Full Members of NPCC. The New York State Reliability Council and any other sub-regional reliability councils which may be formed are also expected to be Full Members. Full Members are subject to compliance with regionally-specific criteria, in addition to reliability standards, and receive additional services from the criteria services division of NPCC, which is not funded through the ERO.

NPCC is governed by a Board of Directors consisting of stakeholders balanced by sector and an independent Chairman. A maximum of 3 directors per voting sector comprise the Board to provide for fair stakeholder representation. The voting sectors include:

- Sector 1) Transmission Owners
- Sector 2) Reliability Coordinators

- Sector 3) Transmission Dependent Utilities, Distribution Companies, Load Serving Entities
- Sector 4) Generator Owners
- Sector 5) Marketers, Brokers and Aggregators
- Sector 6) Customers
- Sector 7) State and Provincial Regulatory and/or Governmental Authorities
- Sector 8) Sub-Regional Reliability Councils, other Regional Entities and Interested Parties

An Audit and Finance Committee, a Pension Committee, and a Compensation Committee advise the Board on governance, finance, compensation and human resource matters. The Board endorses a non-employee, Certified Public Accountant for election by the NPCC Members as Treasurer of the corporation. The Treasurer chairs the Audit and Finance Committee and works with the Chief Operating Officer who provides oversight of the finances of the corporation. The Treasurer reports to the Board on the corporation's financial position, on Audit and Finance Committee activities, on tax code requirements, including requirements of the new Form 990, and on independent annual audit results and accounting practices.

The RSC, the CC, the RCC, and the Public Information Committee, consistent with their approved scopes, are responsible for various reliability issues. The RSC, CC and RCC also provide technical policy recommendations to the Board. All General and Full Members are eligible for representation on the technical committees.

Valuable industry technical experts from within the membership provide input to the Board through various working groups and task forces as well as the committees. The *Amended and Restated Bylaws* establish NPCC's independence from users, owners and operators of the bulk power system through the governance structure, while providing fair stakeholder representation in the selection of officers. The members, from each of the eight voting sectors, vote to elect directors, in their respective sector.

Compliance and enforcement activities are carried out by the NPCC compliance staff and are independent of all users, owners and operators of the international bulk power system and from the Hearings Officer. Compliance activities are governed in the United States by the *Amended and Restated Regional Delegation Agreement* between NERC and NPCC, delegating portions of NERC's authority as the ERO to NPCC. A *Memorandum of Understanding* between the Independent Electricity System Operator in Ontario (IESO), NERC and NPCC establishes roles and responsibilities with regard to that province. Regulatory and/or governmental authority agreements within the provinces of New Brunswick and Québec provide the unique parameters for compliance and enforcement activities for each of these provinces, and a *Memorandum of Understanding* is currently under development for the province of Nova Scotia.

Regional Entity Division Functional Scope

NPCC's regional entity division functions in support of the ERO include:

- Active participation in the development of North American reliability standards for the bulk power system, and as needed development of reliability standards applicable within the NPCC cross-border regional entity
- Monitoring and enforcement of approved reliability standards, including the registration of responsible entities, and as needed certification of such entities
- Assessment of the present and future reliability of the bulk power system
- Operational coordination and situation awareness support
- Event analysis and identifying lessons learned to improve reliability

- Effective training and education of reliability personnel
- Promoting the protection of critical electric infrastructure

In recognition of the importance of the compliance role of Regional Entities, NPCC has designated a significant percentage of its staff resources to compliance monitoring and enforcement. The current economic deterioration being experienced in North America, while a real and significant pressure, cannot be the primary determinant and result in committing insufficient resources in support of future reliability assurance efforts. NPCC has also developed and deployed a robust set of online tools for gathering data, analysis, and tracking of compliance information so as not to diminish its ability to carry out its responsibilities in a cost effective manner.

NPCC has organized the remaining staff into program areas consistent with EPOA 2005 to address the other functions listed above. These experts in operations, planning and reliability analysis assist registered entities in assessing and improving reliability. It is in support of these areas that NPCC engages the majority of industry experts on its technical committees.

2010 Key Assumptions

In developing the 2010 business plan, NPCC has assumed:

1. The international, industry-based Self Regulatory Organization (SRO) model continues to be used and no material changes to the SRO model impacting 2010 emerge from the ERO Three Year Assessment. (An additional staff employee in the compliance program has been added due to increased compliance demands in Critical Infrastructure Protection (CIP) and also in small part in lieu of NERC's proposed centralized audits of critical infrastructure standards at U.S. nuclear plants.)
2. The framework for delegation remains constant. The scope of delegated authorities and responsibilities remains relatively constant with incremented improvements developed in the ERO Three Year Assessment.
3. NERC and Regional Entities are not budgeted in 2010 for unknown material changes to scope and are unable to undertake unfunded mandates, such as new initiatives stemming from the U.S. federal stimulus package on energy. Any mandated material changes to scope could impact cash reserves.
4. The current economic downturn continues into 2010, resulting in cost pressures on NERC and Regional Entities to do more with less. The industry experiences lower electricity demand and may defer capital projects in some areas and may reduce or hold O&M budgets flat. Cost pressures result in less travel and strain stakeholder participation in NERC and Regional Entity activities.
5. Regional Entities are audited by FERC and NERC by year end 2010 and the audits of any Regional Entity by NERC and FERC are not concurrent.

2010 Goals and Key Deliverables

The NPCC 2010 business plan and budget are driven by the following goals:

1. Reliability improvement through rigorous monitoring and enforcement of compliance with mandatory standards

- Rigorously and thoroughly monitor registered entities in the NPCC Region for compliance with mandatory reliability standards, in accordance with the delegation agreement, Canadian provincial MOUs/Agreements and the CMEP

- Enforce compliance with mandatory reliability standards by registered entities within the NPCC Region with a focus on enhancing reliability, in accordance with the delegation agreement, Canadian provincial MOUs/Agreements and CMEP while improving quality and timeliness

- Ensure timely and thorough mitigation of all violations of mandatory reliability standards and encourage reliability enhancement through settlement activities

- Promote a strong culture of compliance excellence, and reliability improvement among registered entities in the NPCC Region

2. Clear mandatory standards focused on reliability performance

- Maintain active engagement of NPCC stakeholders in NERC standards process

- Develop regional reliability standards as needed to comply with NERC's three-year work plan and FERC directives, and to meet any emergent reliability needs

- Working with stakeholders and other Regional Entities, support a risk-based review of the existing NERC reliability standards to focus the standards on performance requirements essential to reliability and eliminating nonessential or low-risk requirements

- Based on compliance program results and system events, identify key areas needing improvement and implement educational and other technical assistance programs to improve compliance in those areas

3. Objective and accurate reliability assessments and reliability performance trends

- Provide annual and seasonal assessments of the future reliability of the bulk power system in the Region, in accordance with NERC definitions and requirements

- Provide thorough data validation and create efficiencies in data collection and analysis

- Develop and demonstrate bulk power system performance metrics for the purpose of analyzing and trending reliability improvements and benefits

4. Operational awareness and event analysis leading to reliability improvements

- Develop a near real time operational awareness capability to include near real-time information and communications protocols that meet the needs of FERC, NERC, NPCC and as appropriate Canadian provincial governmental and/or regulatory authorities

- Enhance NPCC's capability to conduct rigorous event analyses and develop relevant lessons learned

- Expand reliability issues tracking to systematically provide notice and document actions to improve reliability within the Region

5. Cyber and physical security of critical infrastructure

- Facilitate and support registered entities in their implementation of CIP reliability requirements, and responding to cyber security alerts

6. Knowledgeable and skilled reliability personnel

- Actively support the training and education of reliability personnel within the Region, focusing on knowledge of reliability standards and recognizing and responding to system emergencies

7. Information sharing and collaboration through technology

- Lead the deployment of technology to make NPCC and its stakeholder participants more efficient and productive in its program activities
- Facilitate the integration and seamlessness of ERO and Regional Entity information systems used for compliance and other applicable regional entity division functions such as alerts and recommendations tracking

8. Effective and efficient use of resources

- Evaluate and as appropriate, realign the NPCC committee structure and activities to better leverage industry expertise and leadership, to better support NPCC's regional entity division functions, and to be more efficient
- Maintain a talented staff at NPCC and provide for continuous staff development

9. Continuous improvement

- Maintain good standing as a cross-border Regional Entity by addressing all applicable recommendations and directives from the Three Year ERO Assessment, including stakeholder inputs, and audits by NERC and/or FERC and/or Canadian provincial regulatory and/or governmental authorities
- Identify and use Regional Entity performance indicators and feedback mechanisms to enable NPCC to continue being a learning organization

10. Effective financial controls

- Provide rigorous procedures and controls and effective management of resources to remain an efficient provider of Regional Entity functions

2010 Overview of Cost Impacts

For comparison purposes between the 2009 and 2010 budgets, \$1.1 million of the \$1.3 million budgeted as one time 2009 relocation costs have been removed. Monies not removed are associated with the accounting treatment of approximately \$750,000 in direct landlord concessions with regard to construction allowance and free rent, capitalization of furniture and fixtures and offsetting depreciation, along with services deemed as leasehold improvements (real estate legal counsel, architectural fees, building permitting, building engineering, audio visual consultation fees, etc.) that must be straight lined over periods from 3, 7, 10 up to the full term of the 15 year office space lease. NPCC's core business plan drives an operating expense budget increase representing 26.4 percent as compared to the 2009 regional entity division budget and an increase of 19.5 percent as compared to the 2009 criteria services division budget.

Introduction

With the inclusion of all expenses, the 2010 NPCC regional entity division funding requirements are presented with an NPCC requirement of \$11,500,439. This is an increase of 14.9 percent over the 2009 NPCC funding requirement of \$10,008,885. Total NPCC criteria services division non-statutory funding requirements are presented at \$1,145,478, which is a 13.1 percent increase over the 2009 requirement of \$1,012,790. The regional entity funding requirement includes a \$146,354 addition to reserves while the criteria services funding requirement includes a reserve addition of \$46,170. The additional budget for reserves is consistent with an existing policy targeting a 20% threshold. Since NPCC has included in the targeted 20% level some \$500,000 in restricted cash, associated with the fully collateralized letter of credit designated in a Certificate of Deposit which represents security for the office lease, actual reserves would effectively be at the 16% level. The NPCC and NERC Regional Delegation Agreement details that NPCC's funding system shall include reasonable reserve funding for unforeseen and extraordinary expenses and other contingencies, consistent with generally accepted accounting principles.

Year to year reserve requirement adjustments can be greatly effected as a result of post budget submission, later year approved but unfunded initiatives, as well as not budgeting for hearings in the compliance program area. Should operating reserves be called upon to fund approved, but unbudgeted activities, reserves could be reestablished through additional funding to meet Board targets.

The overall budget includes an increase in personnel from 26 staff members to 30 staff members or an increase in staff size of some +15.4%. Increases in total Personnel Expenses for 2010 for the regional entity and criteria services divisions are a result of a combination of changes in accounting methodology (Executive team costs have been applied proportionately to the program areas supported rather than being designated in the general and administrative area as in prior years; increased personnel costs associated with additions to staff, larger pension funding requirements associated with SFAS 158 accounting rules, Pension Protection Act funding mandates and negative 2008 pension trust investment returns; the impacts of approved, but not budgeted 2009 projects including operational awareness and associated non-disclosure agreements; increased compliance audit requirements driving increases in independent contract auditor costs; further development of the Compliance Monitoring and Enforcement Program software, as well as rising retiree related insurance costs in the criteria services division.

All four staff additions are in the regional entity division in support of NPCC's core business objectives. Three positions have been added in the Compliance and Enforcement program area; one compliance attorney and two compliance engineers. The NERC Three Year Assessment indicates that NPCC, while ranking 3rd largest in number of registered entities, ranks 7th out of 8 Regional Entities as far as the number of FTEs assigned to Compliance. Additionally, one engineering position has been added in the Reliability Assessment and Performance Analysis program area to address the increased demands with regard to increased assessments, loss of load expectation, generator availability data systems, etc.

Compliance Program Assumptions

2009	2010
4 Large On-Site Audits	5 Large On-Site Audits
3 Medium On-Site Audits	24 Medium On-Site Audits
21 Large Off-Site Audits	12 Large Off-Site Audits
35 Medium Off-Site Audits	36 Medium Off-Site Audits
8 Small Off-Site Audits	10 Small Off-Site Audits
200 Spot Checks	200 Spot Checks (Estimated)
31 Violations	40 Violations (Estimated)
6 Settlements	7 Settlements (Covering 35 Violations)
0 Hearings	2 Hearings (Unbudgeted)
3 CVI	3 CVI (Estimated)
13 CIP Requirements / 3 Entities	41 CIP Requirements/ 24 Entities; 13 CIP Requirements/ 3 Entities

Reliability Benefits from addition of Compliance Attorney

- Provide in-house legal counsel related to the development of Mitigation and Settlement Agreements
- Represent NPCC in compliance negotiations and hearings, where outside legal counsel would be conflicted out
- Provide legal expertise in regulatory law pertaining to the electric industry involving NERC, FERC and Canadian regulatory and/or governmental authorities
- Counsel NPCC in applicable NERC, FERC and Canadian regulatory and/or governmental authorities' legal matters involving the CMEP

Reliability Risks without staffing increase:

- NPCC expands utilization of higher cost outside legal counsel if and when conflict of interest issues do not prohibit engagement
- NPCC, unlike most other Regional Entities which have counsel on staff to adequately review legal aspects of compliance agreements, relies largely on technical expertise
- Effective implementation of the CMEP to enhance Northeast North American reliability is constrained with the potential for reliability impacts.

Reliability Benefits from addition of Compliance Engineer

- Provide increased maintenance of the NPCC Compliance Registry
- Expand outreach program with registered entities
- Enhance the rigor, thoroughness and timeliness of Compliance Inquiries and Compliance Violation Investigations
- Implement compliance program aspects of individual executed Memoranda of Understanding (MOUs) with Ontario, Québec, New Brunswick and Nova Scotia (under development)
- Enhancement of NPCC Compliance website and the CMEP Data Administration Application to provide improved interface with registered entities and NERC

Reliability Risks without staffing increase:

- Increased potential for inaccuracy of the NPCC Compliance Registry and compliance data submissions and the resultant lack of clarity with regard to reliability responsibilities and performance in the Northeast
- Inability to thoroughly and rigorously implement the CMEP consistent with the requirements of the Regional Delegation Agreement
- Inability to execute responsibilities established in the individual MOUs between NERC, NPCC and Canadian Entities.

Reliability Benefits from addition of Compliance Engineer (CIP)

- NPCC will perform some 24 on-site expanded scope CIP audits of registered Transmission Owners (TOs) as per the NERC approved CIP Implementation Plan. These audits will require approximately 215 person-hours each to complete and will be in addition to the regularly scheduled compliance audits. This schedule will be accomplished through additional contract auditor usage as well as staff addition
- NPCC will audit additional registered entities for CIP compliance as a result of additional reliability functions included in the audit program
- NPCC has commented that a strategy of utilizing the eight decentralized Regional Entities' staffs for annual CIP audits of U.S. nuclear facilities with the potential for some addition to those staffs, if needed, would be an appropriate alternative to NERC's initial proposal to centralize this function and increase NERC staff by 17 full time equivalents to perform these functions for 63 U.S. nuclear plant sites (eight are in the NPCC U.S. footprint)

Reliability Risks without staffing increase:

- Inability of NPCC to meet compliance requirements associated with the FERC approved CIP Implementation Plan
- Inability to meet Regional Entity requirements as outlined in Section 400 of the NERC Rules of Procedure

Reliability Benefits from addition of Reliability Assessment Engineer

- Additional NPCC staff is required to support the Generation & Transmission Reliability Planning Model Task Force's expanded work plan which includes consideration of composite generation and transmission reliability assessment methodologies and metrics in conjunction with the NERC Long Term Reliability Assessment activity
- Additional NPCC staff support is needed to participate in the new Loss-of-Load Expectation Working Group's reporting on industry practices associated with Loss-of-Load Expectation studies and similar probabilistic resource assessment analyses
- Additional NPCC staff support is necessary to meet NERC's data requirements associated with the Data Coordination Working Group, Transmission Availability Data System (TADS), Generation Availability Data System (GADS), and Demand Availability Data System (DADS)

Reliability Risks without staffing increase:

- Without NPCC participation, the Generation & Transmission Reliability Model Task Force could develop recommendations inconsistent with NPCC practices and procedures
- Without NPCC staff participation, NPCC members would need to individually provide their input, and those unable to participate would lose the opportunity to contribute NPCC's point of view and share NPCC "best practices" through the Loss-of-Load Expectation Working Group
- Incomplete and/or inaccurate data in support of the Data Coordination Working Group, TADS, GADS, and DADS can result in violation of NPCC's Regional Delegation Agreement with NERC
- Inability to provide adequate NPCC stakeholder input to NERC activities

Changes in Accounting Methodology

To promote consistency with NERC and the other Regional Entities, NPCC has changed some of the categorizations of expenditures and accounts in the 2010 Budget as follows:

- NPCC has not considered independent contractors in its count of FTEs.
- All meeting and travel expenses for the indirect functions are budgeted in the respective indirect function's budget. In previous years, all meeting and travel expenses for the indirect functions were budgeted entirely in General and Administrative. The indirect functions are Members' Forums, General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Finance and Accounting,
- All stakeholder training and workshop expenses are budgeted in the Training and Education program area. In previous years, these expenses were budgeted in their applicable program areas.

Additional accounting methodology changes include:

- NPCC has applied all executive team costs and expenses directly to the program areas and Administrative Services Programs (referred to as indirect functions), based on staff proportions. While these expenses had previously been allocated 100% to the General and Administrative function, they directly provide support and services in the individual program areas and indirect functions.
- Costs previously identified as indirect costs in the General and Administrative function, such as office rent, office costs, professional services, computer & equipment leases, miscellaneous expenses, and fixed assets, are now applied directly to the program areas and indirect functions based on staff count, thus resulting in greater program cost accuracy.

In 2010, NERC and all the Regional Entities agreed to formatting changes to the *Statement of Activities* within each functional Program Area as follows:

- The ERO Assessment and penalty sanctions are only allocated across the delegated functions, except that ERO assessments needed to fund working capital are reflected in the General and Administrative Program within Administrative Services.
- The increase or decrease in assessments to achieve the desired working capital reserve balance is reflected as the Total Change in Assets. In 2009, this amount was reflected as Other Non-Operating Expense on the Statement of Activities.
- All personnel and meeting expenses are accounted for within their associated department's budget.
- The majority of the Operating Expenses are accounted for within their related department's budget. If an expense cannot be specifically linked to a department, it is included in the General and Administrative Program, within Administrative Services.
- All expenses for the Administrative Services Programs, referred to as indirect expenses, are allocated to the delegated program areas by their respective FTEs. This allocation provides improved financial perspective for the delegated functions.
- Capital expenditures are broken out as fixed assets at the end of each statement of activities rather than being included in their related lines in the operating expenses section.
- Expenses include depreciation, but since funding is not being requested for depreciation expense, it has been deducted from the funding requirement for capital expenditures.
- The result of these changes may be an apparent increase in total costs for each functional Program area.

Detailed Business Plans and Budgets by Program

Details of the planning, operation, review, and adjustment for each program area are included in Section A. The corresponding budget details are shown in Section B.

Section A — 2010 Regional Entity Division Business Plan

Reliability Standards Program

Reliability Standards Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	2.0	2.0	0.0
Total Direct Expenses [1]	\$717,220	\$892,757	\$175,536
Total Indirect Expenses [1]	\$856,343	\$215,280	(\$641,063)
Inc(Dec) in Fixed Assets		(\$6,091)	(\$6,091)
Total Expenses & Fixed Assets	\$1,573,563	\$1,101,945	(\$471,618)

[1] Variances between 2009 Budget and 2010 Budgets are largely driven by directly allocating to the program areas certain costs that in previous years were included in General and Administrative.

Program Scope and Functional Description

The NPCC Reliability Standards program is required under the FERC filed and approved Delegation Agreement and NERC Rules of Procedure Section 300. The program develops regional reliability standards in accordance with Exhibit C to the Delegation Agreement and ensures that regional criteria in the form of Directories are consistent with any applicable NERC and regional reliability standards. The NPCC Reliability Standards program also supports and participates in the development and maintenance of NERC reliability standards, initiates new reliability standards when necessary, and provides a forum for the comprehensive review and improvement of those standards. The NPCC Reliability Standards program supports the reliability of the bulk power system by:

- Facilitating active participation of industry stakeholders in NERC reliability standards activities
- Providing a mechanism to seek clarity and provide feedback on compliance with reliability standards
- Maintaining technical reference documents as required

Funding Drivers and Reliability Benefits

- Expanded Scope of Standards activities
 - Responding to FERC Rulings and NOPRs
 - Participating in other Regional Entities' standards development processes through review, comment and active participation in drafting
 - Providing forum for all NPCC representatives on the NERC and neighboring Regional Entities' drafting teams
- Increased Number of Standards Projects
 - Active NERC Projects in the standards area are expected to increase to 70 standards in some 39 concurrent projects
 - Number of formal interpretations expected by NERC will increase to in excess of 15 in 2010, all of which will require technical analysis

- NERC Reliability Standards will require Violation Severity Levels and Violation Risk Factors to be developed utilizing new processes
- Changes in NERC’s reliability standards processes and directions will likely require modifications to NPCC procedures and FERC filings by NPCC
- Expanded efforts to educate and inform stakeholders in the areas of NERC and NPCC Regional standards

2010 Key Assumptions and Cost impacts

- Facilitate stakeholder review, comment on, and develop ballot recommendations for all NERC Reliability Standards under development or revision
 - The Northeast benefits from NPCC’s coordination of a broad stakeholder review process and development of consensus recommendations to assure proposed standards will support international reliability and provide appropriate reliability objectives for the Continent wide standards
- Participate in the stakeholder efforts to develop SARs to further improve standards
- Monitor the drafting of key NERC Reliability Standards-UFLS, DME, TPL, Balancing Control etc.
 - The Northeast monitoring of the development of standards ensures reliability requirements that are clear, measurable, and enforceable and support international reliability in the Northeast
- Develop and maintain the set of NPCC Directories
 - The combination of North American and Regional Reliability Standards with the more-stringent NPCC regional criteria provides for consistency and operational clarity
- Monitor the Regional Standards development processes of the MRO, RFC and SERC to achieve consistency within the Eastern Interconnection
 - Northeast reliability is enhanced by strengthening neighboring regions’ reliability standards
- Review all reliability related requirements of all ERO and Regional standards, criteria and ensure consistency, remove redundancies and adopt Functional Model language
 - The unambiguous assignment of reliability requirements to specific functional entities benefits international reliability.
 - Participate in the continual refinement of the Functional Model to capture evolving issues essential to reliability and new objectives in the industry, i.e. demand resource operator, planning functions etc.
- Review all FERC orders and Provincial regulations as they relate to the standards, their revision and adoption
 - Northeast reliability benefits from careful analyses of governmental orders or actions adopting standards to assure consistency in interpretation
 - Review rulings that are issued and all FERC “Directives” for potential reliability related issues
- Enhance NPCC standards website pages to provide uniform and clear information to the stakeholders while also providing the historical and archived information to support NERC and FERC approvals and expanding requirements

2010 Goals and Key Deliverables

The reliability standards program goals and objectives for 2010 are grouped into six categories: participation in North American ERO standards development; regional reliability standards development; directory development and standards improvement; business practice interface; process improvement and communication; and, ensuring that the more stringent regional criteria is consistent with the reliability standards and does not conflict with those standards.

1) Participate in the ERO Standards Development

- Participate in the development and revision of the NERC three year workplan through review, commenting and drafting activities
- Coordinate the development of ERO reliability standards within NERC's three-year standards work plan
- Conduct thorough reviews of all NERC standards being developed or revised and coordinate comments for Northeastern North America
- Conduct thorough reviews of all Industry requested NERC Formal Interpretations of standards
- NPCC staff along with NPCC solicited regional drafting team volunteers, will participate in the drafting of all ERO standards and provide geographic support for review and develop comments and propose improvements
- NPCC and its members will review and provide comment on FERC preliminary staff assessments as appropriate
- Participate in ballots for ERO standards and provide recommendations to the NPCC Members of the NERC Registered Ballot Body
- Review and develop comments on FERC Notice of Proposed Rulemaking (NOPR) for any and all standards related issues as appropriate
- Evaluate proposed standards utilizing regional technical committees
- Educate and notify stakeholders and regulators about issues related to standards development
- Provide a forum for NPCC review of proposed and posted documents from the NERC Critical Infrastructure Protection Committee (CIPC) and NPCC Task Force on Infrastructure Security and Technology (TFIST)
- Provide support to NERC's strategy in the identification scheduling and development of NERC directed Regional Reliability Standards
- Participate in NERC's Standards Committee proposed triage system to identify immediate standards needs and reprioritize based on those needs
- Participate in and provide support to critical upcoming new Blackout related standards, UVLS, Voltage and Reactive Control, and Real Time Tools
- Identify and initiate Variances to the NERC reliability standards as soon as possible, allowing incorporation into the continent wide standard at its inception
- Support additional standards workload from Economic Stimulus, i.e. standards on integrating variable generation resources or EHV backbone

2) Regional Standards Development

- Complete the development of one regional standard utilizing the NPCC Regional Reliability Standard Development Procedure and submit the standard to NERC for approval of the NERC BOT, (on a schedule, and as needed by NERC).

- Draft additional regional standards,(on a schedule, and as needed by NERC) utilizing regional technical committees and working groups in an open and inclusive forum
- Draft any additional standard NERC directs NPCC to develop to meet an urgent reliability related need
- Actively monitor and participate in the standards development activities of the other Regional Entities in the Eastern Interconnection especially the Midwest Reliability Organization “MRO”, Reliability First Corporation “RFC” and Southeast Electric Reliability Council “SERC.” to assure consistency within the Eastern Interconnection
- Accomplish all directives of ERO and governmental and/or regulatory authorities with regard to regional standards development and procedures
- Adhere to and surpass, where practical, the 2009-2011 NERC Workplan milestones as they pertain to targets for the regional standards

3) Standards Improvement

- Achieve NPCC reliability goals and objectives by initiating and efficiently completing standards activities
- Leverage internet and web based tools functionality to ensure inter-regional consistency and quality of regional reliability standards
- Establish long-term strategy for standards improvement and initiate implementation
- Identify additional future regional standard opportunities
- Ensure the topics addressed by the reliability standards parallel changing industry needs
- Participate in reliability metrics activities to identify potential measures for benchmarking of reliability to determine if an adequate level of reliability is being achieved
- Support cost-benefit analysis activities to determine if any potential incremental increases in costs of implementing a standard have sufficient enough reliability benefit to implement that standard

4) Business Practices Interface

- Coordinate the review of standards through NPCC staff and members participating in activities of the North American Electric Standards Review Board “NAESB”
- Identify potential market issues for Regional Standards through NPCC Reliability Coordinating Committee (RCC) reviews

5) Process Improvement

- Identify efficiencies for a coordinated NERC standards development process and NPCC Regional Standards Development Procedure and recommend revisions as applicable
- Participate in the revision and redrafting of the NERC procedure
- Establish targets for NERC and NPCC standards procedure improvement and initiate implementation of the strategy
- Streamline and improve the regional standards process and enhance program tools
- Develop and institute records retention programs to ensure sufficient documentation exists for regulatory approvals
- Create process for “feedback” loops to ensure that “event analysis” lessons learned and compliance issues involving violations are fed into the standards program area for review and potential consideration when revising standards
- Support the creation of a standards database, available to industry and online, to identify and review issues related to all approved and developing standards

- Participate in the Functional Model Working Group activities to refine functions, tasks and responsibilities of applicable entities
- Solicit and provide outreach to FERC in the Regional Standards Development Processes

6) Communications

- Automate notifications process to assure awareness of dates and proceedings of all standard development activities
- Strengthen the relationship with the industry's technical committees to ensure adequate input to standards development
- Participate in NPCC and NERC workshops to promote awareness and educate the industry
- Promote the reliability objectives of the NERC standards as appropriate to the NPCC members of the NERC Registered Ballot Body

Technically excellent standards that enhance reliability require the full participation of industry experts from all Regional Entities as well as experts from different stakeholder segments to provide diverse yet helpful perspectives when developing reliability standards. The NPCC RSC promotes the drafting team process and solicits drafting team members from appropriate NPCC technical bodies and others in the industry and adjoining Regional Entities.

NPCC RSC will also provide notifications to Northeastern North America NERC Registered Ballot Body members of applicable deadlines for ballot pool registration and for casting ballots thereby enhancing participation, promulgation of important information and increasing awareness. This support will also raise efficiency of the NERC procedure and help to ensure the necessary quorums are present at ballot.

NPCC will also participate in the development and revision of standards as directed by FERC, Canadian provincial and other regulatory and/or governmental authorities. FERC to date has identified numerous NERC Reliability Standards needing "further work" and has issued numerous "Directives". These standards, delineated in the NERC three-year work plan, will be ready to be reviewed and revised throughout 2010.

NPCC will provide support and coordination of NERC standards development activities for the following:

- 29 Standards Projects initiated on or before 2009 (potentially 120+ Standards involved that will carry over to 2010)
- 4 Standards Projects initiated in 2010 (minimum of 23 standards)

The above standards, taken from the NERC three-year work plan account for at least 143+ total standards that will be reviewed, commented on as necessary, and coordinated, tracked and communicated with the NPCC membership. NPCC will also participate in the development of new standards resulting from lessons learned through NPCC and NERC programs.

Regional Standards Development

The NPCC Regional Standards Development Procedure will develop, on a schedule dictated by the ERO, four regional reliability standards as noted below and also in accordance with the coordination timelines in the NERC three-year standards work plan. These regional standards will include, but not be restricted to the following:

- Underfrequency Load Shedding (UFLS)
- Special Protection Systems (SPS)
- Balancing Authority Controls (BA - Reserve Sharing)

In addition to the three regional standards noted above, NPCC anticipates NPCC Member approval for a Disturbance Monitoring Equipment Standard in 2009 which will be in the NERC and FERC approval processes during 2010. All Regional Entities, at the present time, will develop these four standards (UFLS, DME, SPS, and BA) to support the corresponding NERC ERO standards outlined in the work plan. These four standards, along with the associated ERO standards, address the “fill in the blank” standards which FERC currently is “holding” for future action. NPCC is also participating in the NERC Regional Reliability Standards Working Group to strive to achieve uniformity and coordination between the Regional Entities’ standards.

NPCC is participating actively in the development of adjoining Regional Entities’ standards through the review and commenting processes available. In addition NPCC is registered to cast ballot where and as allowed by the individual adjoining Regional Entities’ reliability standards development procedure.

Improvement in the quality of a standard can be quantified in a number of ways. The standards should identify an achievable, technically excellent reliability goal or objective. This goal should be measurable and have specific and concise requirements associated with it. How the reliability goal or objective is achieved will not be the focus of the process. Full participation from industry experts to provide proper technical guidance as well as multiple segments to provide diverse viewpoints is critical to the quality of the resultant standard. These attributes, along with open postings and notifications to allow the industry opportunities to participate are the key components to a successful process and achieving quality standards.

On an ongoing basis NPCC will achieve consistency as outlined in the NERC Rules of Procedure by maintaining reliability directories that incorporate NPCC’s more stringent regionally specific criteria and regional standards into a single document with the applicable NERC Reliability Standards.

NPCC RSC and staff regularly participate in the NERC Standards Committee and Standards Committee Process Subcommittee activities and contribute to develop revisions of the standards procedure manual. The RSC also seeks efficiencies in the regional standards procedure and utilizes and refines web based tools for easier user interface and to provide effective and timely notifications of standards activities.

Funding Requirements — Explanation of Increase (Decrease)

2010 reliability standards program funding is driven by the need for additional activities of NPCC standards drafting teams, ramped up NERC standards activity, FERC activity and increased number of rulings and directives anticipated as a result of the NERC three year work plan NPCC anticipates greatly expanded activity (yet no projected increase in staffing) in the area of Eastern Interconnection interregional participation and support of adjoining Regional Entity drafting activities specifically (RFC and MRO and SERC).

NPCC will continue to rely on contractors for subject matter expertise on an as-needed basis throughout 2010 but has not included these contractors in staffing level. The amount of regional

documents being converted into Directories and the maintenance of the Directories require subject matter expert input.

Based on the portion of professional/technical staff time and other resources devoted to reliability standards development, NPCC estimates that it will expend 9.6 percent of its resources on this activity.

Reliability Standards Program

Funding sources and related expenses for the reliability standards section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Standards					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 BOD Approved Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 717,220	\$ 717,220	\$ -	\$ 1,101,945	\$ 384,725
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	<u>\$ 717,220</u>	<u>\$ 717,220</u>	<u>\$ -</u>	<u>\$ 1,101,945</u>	<u>\$ 384,725</u>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ 717,220</u>	<u>\$ 717,220</u>	<u>\$ -</u>	<u>\$ 1,101,945</u>	<u>\$ 384,725</u>
Expenses					
Personnel Expenses					
Salaries	\$ 332,684	\$ 392,795	\$ 60,111	\$ 393,493	\$ 60,809
Payroll Taxes	18,495	20,379	1,884	21,049	2,554
Benefits	58,550	86,834	28,284	94,757	36,207
Retirement Costs	46,435	66,247	19,812	77,701	31,266
Total Personnel Expenses	<u>\$ 456,164</u>	<u>\$ 566,255</u>	<u>\$ 110,091</u>	<u>\$ 586,999</u>	<u>\$ 130,835</u>
Meeting Expenses					
Meetings	\$ 28,000	\$ 28,917	\$ 917	\$ 31,917	\$ 3,917
Travel	111,264	117,797	6,532	126,532	15,268
Conference Calls	7,792	7,947	155	12,155	4,363
Total Meeting Expenses	<u>\$ 147,056</u>	<u>\$ 154,661</u>	<u>\$ 7,604</u>	<u>\$ 170,604</u>	<u>\$ 23,548</u>
Operating Expenses					
Consultants & Contracts	\$ 114,000	\$ 127,985	\$ 13,985	\$ 35,143	\$ (78,857)
Office Rent	-	46,888	46,888	45,667	45,667
Office Costs	-	22,575	22,575	20,910	20,910
Professional Services	-	7,638	7,638	9,333	9,333
Computer & Equipment Leases	-	11,269	11,269	9,767	9,767
Miscellaneous	-	2,308	2,308	4,000	4,000
Depreciation	-	3,038	3,038	9,333	9,333
Total Operating Expenses	<u>\$ 114,000</u>	<u>\$ 221,700</u>	<u>\$ 107,700</u>	<u>\$ 134,153</u>	<u>\$ 20,153</u>
Total Direct Expenses	<u>\$ 717,220</u>	<u>\$ 955,296</u>	<u>\$ 238,075</u>	<u>\$ 892,757</u>	<u>\$ 175,536</u>
Indirect Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 215,280</u>	<u>\$ 215,280</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ 12,680</u>	<u>\$ 12,680</u>	<u>\$ 1,000</u>	<u>\$ 1,000</u>
Total Expenses	<u>\$ 717,220</u>	<u>\$ 955,296</u>	<u>\$ 238,075</u>	<u>\$ 1,108,037</u>	<u>\$ 390,816</u>
Change in Assets	<u>\$ -</u>	<u>\$ (238,075)</u>	<u>\$ (238,075)</u>	<u>\$ (6,091)</u>	<u>\$ (6,091)</u>
Fixed Assets					
Depreciation	\$ -	(3,038)	\$ (3,038)	(9,333)	\$ (9,333)
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	19,250	19,250	1,333	1,333
Equipment CapEx	-	12,308	12,308	2,000	2,000
Leasehold Improvements	-	47,404	47,404	1,333	1,333
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ (75,924)</u>	<u>\$ (75,924)</u>	<u>\$ 4,667</u>	<u>\$ 4,667</u>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ 1,424	\$ 1,424
Change in Fixed Assets	<u>-</u>	<u>(75,924)</u>	<u>(75,924)</u>	<u>6,091</u>	<u>6,091</u>
TOTAL CHANGE IN ASSETS	<u>\$ -</u>	<u>\$ (313,999)</u>	<u>\$ (313,999)</u>	<u>\$ 0</u>	<u>\$ 0</u>

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Due to a change in accounting methodology as explained on pages 12 - 13, indirect expenses are allocated to the program areas, resulting in an increase in ERO Assessments above the requirement for added resources as noted below.

Personnel Expenses

- Increase in Personnel Expenses is due to the inclusion of a portion of Personnel Costs (Executive Team) previously allocated to General & Administrative.

Meeting Expenses

- As industry support is further stressed for the NERC Drafting Teams, committees and working groups and their participation decreases, NPCC staff must fill these voids. There is also increased emphasis and responsibility for the Regional Entities to participate in other Regions' standards development activities.

Operating Expenses

- Due to the completion of the Directories, the need for Contracts & Consultants will decrease. However, the increase in overall Operating Expenses is driven by directly allocating to the program areas certain costs that in previous years were included in General and Administrative.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs for 2010.

Other Non-Operating Expenses

- Increase in Other Non-Operating Expenses is due to allocation of Office Relocation costs.

Fixed Asset Additions

- Fixed Assets were previously included in Operating Expenses in the General and Administrative function. Within the 2010 Business Plan and Budget, fixed assets are allocated proportionately based on FTE to the direct programs.

Compliance Monitoring and Enforcement and Organization Registration and Certification Program

Compliance Monitoring and Enforcement and Organization Registration and Certification Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs [1]	8.0	12.0	4.0
Total Direct Expenses [2]	\$2,095,204	\$4,943,461	\$2,848,258
Total Indirect Expenses [2]	\$2,569,030	\$1,291,680	(\$1,277,349)
Inc(Dec) in Fixed Assets		(\$36,547)	(\$36,547)
Total Expenses & Fixed Assets [3]	\$4,664,233	\$6,198,595	\$1,534,362

[1] In the approved 2009 Budget, 8.0 FTEs were budgeted for in the Compliance program area and 2.0 FTEs were budgeted for in the Accounting and Finance function. Due to increasing Compliance workload, resources were reprioritized during 2009 and 1.0 of the budgeted Accounting and Finance FTEs was reprioritized to the Compliance program area. Therefore, total NPCC 2009 FTE Projection includes 1.0 FTEs in the Finance & Accounting function and 9.0 FTEs in the Compliance program area. 3.0 additional FTEs will be added to the Compliance budget in 2010.

[2] Variances between 2009 Budget and 2010 Budgets are largely driven by directly allocating to the program areas certain costs that in previous years were included in General and Administrative.

[3] While the processing costs associated with Technical Feasibility Exceptions (TFEs) which would logically fall within the CORC program area are largely unknown, NPCC's Board of Directors, at its July 29th, 2009 meeting, was informed that NPCC will draw upon operating reserves to perform this unbudgeted but approved Regional Entity activity during 2010. As NPCC gets into the year 2010 and if it is deemed necessary, NPCC will file a supplemental budget request for 2010.

Program Scope and Functional Description

The CORC Program scope covers: 1) the identification and registration of those entities responsible for meeting the NERC Reliability Standards and any approved Regional Standards; 2) the implementation of the Compliance Monitoring and Enforcement Program (CMEP) in the United States, including the compliance monitoring, assessment and enforcement of NERC Reliability Standards and Regional Reliability Standards. and 3) the implementation of compliance monitoring, assessment and enforcement recommendations in accordance with executed Memoranda of Understanding and/or Agreements in the Canadian Provinces of Ontario, Québec, New Brunswick and Nova Scotia.

The CC is charged with providing objective stakeholder policy input to the NPCC CMEP in the U.S. and compliance related activities under the above mentioned MOUs in the NPCC portion of Canada. With regard to NERC Reliability Standards and Regional Reliability Standards, the CC provides an oversight role of the independent NPCC compliance staff's implementation of the CMEP. In this oversight role the CC will review and endorse the processes used by the NPCC compliance staff in the conduct of the CMEP.

The NPCC compliance staff makes the initial and final determination of alleged violations and determines appropriate penalties and sanctions in accordance with the NERC and the ERO *Sanctions Guidelines*. To accomplish this objective, NPCC's compliance staff is further divided into four sub- program areas: Compliance Process Development; Compliance Audit Program; Compliance Enforcement and Compliance Program Implementation:

Compliance Process Development

The Compliance Process Development sub-program is responsible for:

- a) Identifying and registering all entities that are required to meet the NERC and Regional Reliability Standards. During the course of this activity constant communication with registered entities is promoted through face-to face meetings, compliance workshops, teleconferences and email;
- b) Development and maintenance of all NPCC CMEP Compliance Procedures, Compliance Instructions and all other NPCC CMEP related documentation;
- c) Development and maintenance of a set of Key Performance Indicators (KPI) that are used to measure the quality and effectiveness of the NPCC CMEP; and,
- d) Coordinating the implementation of NPCC Compliance Staff responsibilities as they pertain to the executed Memoranda of Understanding with each of the Canadian Provinces in the NPCC Region.

Compliance Audit Program

The Compliance Audit Program sub-program is charged with:

- a) Conducting both on-site and off-site compliance audits, including the auditing of applicable Critical Infrastructure Protection Standards (CIP). These audits are done on a predetermined long range schedule that is consistent with a predefined frequency. The audits are lead by qualified senior NPCC Staff and the audit teams prepare public and non-public audit reports with their findings and recommendations, including the identification of any possible alleged violations. Specific lessons learned are factored into the audit program to promote continuous improvement. Conducting comprehensive spot-check program that is established to verify self-certifications, follow –up on entities who have previously violated a Reliability Standard and follow-up on entities that have been involved in a significant system event and
- b) Conduct Compliance Inquiries (CI) and conduct Compliance Violation Investigation (CVI) as required.

Compliance Enforcement

The Compliance Enforcement sub-program is responsible for:

- a) Issuing all Notices as described in the CMEP including the Initial Notice of Alleged Violation (INOAV), Notice of Alleged Violation with Sanction and/or Penalty (NAVAP) and the Notice of Confirmed Violation (NOCV);
- b) Conducting comprehensive investigations based on the facts and circumstances related to all possible alleged violations of reliability standards, whether identified in an audit, a self-report, complaint, or other source, and determining whether further action is warranted;
- c) Reviewing, approving, submitting to NERC and tracking the progress of all mitigation plans associated with confirmed violations;
- d) Coordinating settlement activities once they have been initiated and submit settlement agreements to NERC for approval;
- e) Participating in the Hearing Process by representing NPCC before the Hearing Body. The Hearing Body is made up of members of the Compliance Committee. Compliance Hearings are conducted at NPCC under the supervision of a qualified, independent hearing officer contracted by NPCC.; and
- f) Issuing Remedial Action Directives when appropriate.

Compliance Program Implementation

The Compliance Program Implementation sub-program is responsible for:

- a) Day-to-day implementation of the CMEP;
- b) Development of annual CMEP Implementation Plan;
- c) Monitoring and assessment of self-certification, self report, exception reporting, periodic data and complaint submittals;
- d) Development and maintenance of CMEP Data Administration Application (CDAA); and,
- e) Development and maintenance of compliance website.

2010 Key Assumptions and Cost Impacts

- Addition of 3 staff positions: compliance engineer CIP; compliance engineer, and compliance attorney.

2010 Goals and Key Deliverables

- Conduct 2010 CMEP incorporating all NERC Reliability Standards contained in the NERC monitored list for 2010 and any approved and applicable Regional Reliability Standards
 - Process identified violations as effectively as possible. This includes the timely identification of a violation, timely issuance of violation notices including the Initial Notice of Alleged Violation (INOAV); the Notice of Alleged Violation (NOAV) and the Notice of Confirmed Violation (NOCV).
 - Implement settlement process when applicable and send proper notifications to NERC and FERC
 - Conduct necessary Hearings related to resolution of outstanding disputes regarding violations and/or sanctions. Send results of hearings to NERC and FERC
- Implement compliance responsibilities identified in the approved Canadian MOUs and/or Implementation Agreements
- Evaluate CMEP, and Canadian entity compliance program implementation with the objective of establishing a long-term strategy for compliance improvement. Initiate the implementation of the long term strategy.
- Provide NPCC Regional Entity input, through participation in appropriate NERC compliance committees, on policy and implementation issues related to compliance, including the development of compliance elements for all new or revised NERC Reliability Standards
- Provide required information to NERC on a timely basis including reporting of alleged violations and confirmed violations
- Track the progress of, report status of, and approve mitigation plans
- Conduct 2010 Compliance Audit Schedule of an estimated total of 67 Compliance Audits based on number of registered entities. Each audit covers a single registered entity who could be audited for multiple Functional Model types that they are registered for and is done in accordance with the 2010 Compliance Audit Program schedule.
- The 2010 Audits will be categorized by the number of requirements associated with the Reliability Standards that will be covered in the Compliance Audit. Six categories have been established based on the number of requirements to be audited and whether the audit is on-site or off-site. In 2010 there are projected to be 5 “large” on-site audits; 12 “large” off-site audits; 24 “medium” on-site audits; 36 “medium” off-site audits; and

10 “small” off-site audits. The estimates for the number of Compliance Audits are also based on the projected total number of registered entities for each type and the established three-year cycle for RC, BA, TOP Compliance Audits and the established six-year cycle for all other registered entity types.

- Conduct spot check program during the year. A spot check can be viewed as a limited unscheduled small off-site compliance audit that will be utilized to verify self certification submittals that have been done earlier in the year. In 2010 the number of spot checks to be done is estimated to be 200.
- Assure that NPCC Staff is trained to conduct Compliance Audits including CIP Compliance Audit training.
- Enhance overall implementation of Compliance Program utilizing Compliance Program Feedback Process.
- Implement enhancements to CMEP that were identified through the analysis of KPI.
- Provide input to the development of compliance elements within proposed NPCC Regional Reliability Standards
- Enhance the CDAA to expand its capabilities from both the registered entity perspective and the NPCC Compliance Staff perspective. Use established CDAA Users Group to seek input from the user community as to ways to enhance the application. Provide applicable training to staff personnel to allow for the development of enhanced compliance program reporting
- Conduct 2010 Compliance Workshops

Funding Requirements — Explanation of Increase (Decrease)

The following are the key reasons for the increase in the CORC budget: a) significant increase in cost associated with implementing 2010 Compliance Audit Program primarily related to the expansion of the CIP requirements needed to be incorporated as per the CIP Implementation Plan; b) full implementation of the compliance aspects of the Canadian MOUs; c) increased maintenance of compliance related documentation and data; and d) increased monitoring and maintenance of the NPCC Compliance Registry, including enhancing comprehensive outreach program with registered entities.

Based on the portion of professional/technical staff time and other resources devoted to compliance monitoring and enforcement and organizational registration and certification, NPCC estimates that it will expend 53.9 percent of its resources on this activity.

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 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Compliance Enforcement and Organization Registration and Certification					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 BOD Approved Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 2,095,204	\$ 2,095,204	\$ -	\$ 6,198,595	\$ 4,103,391
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 2,095,204	\$ 2,095,204	\$ -	\$ 6,198,595	\$ 4,103,391
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 2,095,204	\$ 2,095,204	\$ -	\$ 6,198,595	\$ 4,103,391
Expenses					
Personnel Expenses					
Salaries	\$ 1,056,603	\$ 1,397,876	\$ 341,273	\$ 1,971,523	\$ 914,921
Payroll Taxes	62,341	80,476	18,135	113,655	51,314
Benefits	239,144	298,967	59,823	523,636	284,493
Retirement Costs	104,489	231,942	127,452	260,791	156,301
Total Personnel Expenses	\$ 1,462,577	\$ 2,009,261	\$ 546,685	\$ 2,869,606	\$ 1,407,029
Meeting Expenses					
Meetings	\$ 45,703	\$ 49,831	\$ 4,128	\$ 26,628	\$ (19,075)
Travel	170,320	199,716	29,396	228,521	58,201
Conference Calls	12,000	12,845	845	11,645	(355)
Total Meeting Expenses	\$ 228,023	\$ 262,393	\$ 34,370	\$ 266,795	\$ 38,772
Operating Expenses					
Consultants & Contracts	\$ 404,604	\$ 467,537	\$ 62,933	\$ 1,207,000	\$ 802,396
Office Rent	-	210,995	210,995	274,000	274,000
Office Costs	-	101,587	101,587	125,461	125,461
Professional Services	-	34,370	34,370	56,000	56,000
Computer & Equipment Leases	-	50,712	50,712	58,600	58,600
Miscellaneous	-	10,385	10,385	24,000	24,000
Depreciation	-	13,669	13,669	56,000	56,000
Total Operating Expenses	\$ 404,604	\$ 889,254	\$ 484,650	\$ 1,801,061	\$ 1,396,457
Total Direct Expenses	\$ 2,095,204	\$ 3,217,967	\$ 1,122,763	\$ 4,943,461	\$ 2,848,258
Indirect Expenses	\$ -	\$ -	\$ -	\$ 1,291,680	\$ 1,291,680
Other Non-Operating Expenses	\$ -	\$ 57,059	\$ 57,059	\$ 6,000	\$ 6,000
Total Expenses	\$ 2,095,204	\$ 3,217,967	\$ 1,122,763	\$ 6,235,142	\$ 4,139,938
Change in Assets	\$ -	\$ (1,122,763)	\$ (1,122,763)	\$ (36,547)	\$ (36,547)
Fixed Assets					
Depreciation	\$ -	\$ (13,669)	\$ (13,669)	\$ (56,000)	\$ (56,000)
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	86,625	86,625	8,000	8,000
Equipment CapEx	-	55,385	55,385	12,000	12,000
Leasehold Improvements	-	213,317	213,317	8,000	8,000
(Incr)Dec in Fixed Assets	\$ -	\$ (341,658)	\$ (341,658)	\$ 28,000	\$ 28,000
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ 8,547	\$ 8,547
Change in Fixed Assets	-	(341,658)	(341,658)	36,547	36,547
TOTAL CHANGE IN ASSETS	\$ -	\$ (1,464,421)	\$ (1,464,421)	\$ (0)	\$ (0)

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Due to a change in accounting methodology as explained on pages 12 - 13, indirect expenses are allocated to the program areas, resulting in an increase in ERO Assessments above the requirement for added resources as noted below.

Personnel Expenses

- Two additional Compliance Engineers and one Compliance Attorney will be added in 2010. NPCC is among the last of the Regional Entities to retain counsel on staff. During 2010 the number of required CIP audits and spot-checks will increase. Each of these activities must be conducted on-site given the nature of the entity information being reviewed. It is also likely that the required depth of the reviews will increase, and conflict of interest legal issues can arise.
- Compliance Personnel Expenses also include a portion of Personnel Costs previously allocated to General & Administrative.

Meeting Expenses

- Travel Expenses are increased due to an emphasis on CIP audits and additional working groups related to consistent compliance implementation. Overall Meeting Expenses decreased due to the inclusion of Compliance Workshop expenses in the Training and Education program area. To promote consistency under NERC's guidance, NPCC will include all expenses for stakeholder training Workshop Expenses in the Training and Education program area. In 2009, Workshop Expenses were included in the program area to which the subject matter of the workshop pertained.

Operating Expenses

- Consultants and contracts increased by \$802,396 due to an increase in contract auditor costs. In 2010, NPCC added funding for two consultants to execute projected non-CIP audits and Compliance Violation Investigations (CVI). Experience to date shows CVIs are extremely complex and time consuming. Non-CIP audit scheduling is still heavily skewed towards spring and fall. This necessitates added staff to execute during high demand periods.
All other increases in operating expenses are driven by directly allocating to the program areas certain costs that in previous years were included in General and Administrative.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs for 2010.

Other Non-Operating Expenses

- Increase in Other Non-Operating Expenses is due to allocation of Office Relocation costs.

Fixed Asset Additions

- Fixed Assets were previously included in Operating Expenses in the General and Administrative function. Within the 2010 Business Plan and Budget, fixed assets are allocated proportionately based on FTE to the direct programs.

Training, Education, and Operator Certification Program

Training, Education, and Operator Certification Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	0.1	0.1	0.0
Total Direct Expenses [1]	\$70,292	\$98,981	\$28,689
Total Indirect Expenses [1]	\$28,545	\$10,764	(\$17,781)
Inc(Dec) in Fixed Assets		(\$305)	(\$305)
Total Expenses & Fixed Assets	\$98,837	\$109,440	\$10,604

[1] Variances between 2009 Budget and 2010 Budgets are largely driven by directly allocating to the program areas certain costs that in previous years were included in General and Administrative.

Program Scope and Functional Description

The NPCC Training, Education, and Operator Certification program supports NERC Rules of Procedure Section 900. The program provides education and training necessary to understand and operate the bulk electric system. The target audience of the program is bulk power system operating personnel - including system operations personnel, operations support personnel (engineering and information technology), supervisors and managers, and training personnel. The program also supports NPCC staff training and development needs as well as the administration of records necessary to maintain status as a NERC Continuing Education provider.

Funding Drivers and Reliability Benefits

- Provide and fund two high-quality continuing education seminars for system operators, schedulers and dispatchers
 - System operators and schedulers participating in the Seminars get exposure to NPCC issues and current industry operations topics, review recent NPCC or major external disturbances, discuss projected conditions for the coming summer or winter peak season and participate in “hands on” exercises pertaining to system operation practices. Seminar attendees also receive CE hours and each Area utilizes the seminar content by including it in their internal training programs to provide CE hours to all system operators. Furthermore, the seminars help to improve system operation coordination through better camaraderie among operators
- Review and revise the curriculum of the training seminars to better emphasize NERC standards, regional standards and business practices, NPCC wide-area operations and regionally-specific criteria and procedures
 - Enhance the system operator’s awareness and knowledge of the standards, criteria and procedures they apply in real time operation
- Provide more sharing of new training approaches, exchange of information on internal methods of system operator selection, training material and training sessions
 - Enhanced efficiency and cost savings in the training programs in the NPCC Areas

2010 Key Assumptions and Cost Impact

Continuing Education Program Objectives

- Integrate the NERC Continuing Education program into the respective training programs of the NPCC Reliability Coordinator areas.
- Where achievable, consolidate training among the NPCC Reliability Coordinator areas in the development of course work accredited for Continuing Education hours.
- Structure the semiannual NPCC System Operators Training Seminars to allow Continuing Education Hours to be awarded to Seminar participants and to use Seminar content in the training programs in each of the NPCC Reliability Coordinator Areas.

Training Program Background and Description

NPCC establishes and coordinates programs for system operator training relating to inter-Reliability Coordinator area matters, criteria, terminology, standards and operating procedures and instructions. It develops and conducts training seminars, held twice yearly, at which potential operational problems for the coming season are discussed, the implementation of NPCC standards and procedures are discussed, significant disturbances are reviewed for lessons to be learned and “table-top” drills and communication and coordination exercises. The Seminars promote camaraderie and better communication among system operators from the NPCC Reliability Coordinator Areas.

NPCC also shares, evaluates and proposes new techniques and training aids as they become available; reviews opportunities to consolidate training among the NPCC Reliability Coordinator areas, which includes opportunities to share training material and training sessions and exchanges information on internal methods of system operator selection and training.

2010 Goals and Key Deliverables

- Prepare and conduct the spring and autumn NPCC System Operator Seminars.
- Review approaches to reliability related-task definition, task instruction, and instruction tracking on an individual basis. Provide NPCC-coordinated input into the NERC development of standard PER-005, “System Personnel Training”. Coordinate the implementation of PER-005, once approved, within the NPCC BA Areas and RC Areas. Based on the new requirements generated by PER-005, expand the content of the Reliability Coordinator training programs, as necessary, for training of SCADA and field operators; this will likely include description of tasks, tracking of Continuing Education Hours and development of Individual Learning Activities.
- Develop presentations on the intended Reliability Coordinator/Balancing Authority approaches to task identification and training development associated with NERC Standard PER-005, “System Personnel Training,”
- Establish an NPCC repository of training resources and learning verification activities addressing fundamental power system topics, which may be shared as elements of operator training in compliance with NERC Standard PER-005, “System Personnel Training,”

- Establish an NPCC repository of training resources and learning verification activities addressing NPCC procedures employed in real-time by RC/BA operators, which may be shared as elements of operator training in compliance with “System Personnel Training,”
- Share among the NPCC RCs/BAs experiences on implementation of new NERC standard PER-005. Consider strategies to deal with any implementation difficulties.

Funding Requirements — Explanation of Increase (Decrease)

There are no staffing changes anticipated for 2010. To promote consistency under NERC’s guidance, NPCC will include all expenses for stakeholder training Workshop Expenses in the Training and Education program area. In 2009, Workshop Expenses were included in the program area to which the subject matter of the workshop pertained.

Based on the portion of professional/technical staff time and other resources devoted to training, education, and operator certification, NPCC estimates that it will expend 1 percent of its resources on this activity.

Training, Education, and Operator Certification Program

Funding sources and related expenses for the training, education, and operator certification section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Training and Education					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 BOD Approved Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 70,292	\$ 70,292	\$ -	\$ 109,440	\$ 39,149
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 70,292	\$ 70,292	\$ -	\$ 109,440	\$ 39,149
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 70,292	\$ 70,292	\$ -	\$ 109,440	\$ 39,149
Expenses					
Personnel Expenses					
Salaries	\$ 16,435	\$ 18,935	\$ 2,500	\$ 19,206	\$ 2,771
Payroll Taxes	922	1,006	84	1,044	122
Benefits	5,281	4,809	(471)	5,278	(2)
Retirement Costs	21,684	4,312	(17,372)	5,267	(16,417)
Total Personnel Expenses	\$ 44,322	\$ 29,062	\$ (15,260)	\$ 30,796	\$ (13,526)
Meeting Expenses					
Meetings	\$ 20,875	\$ 20,921	\$ 46	\$ 58,346	\$ 37,471
Travel	4,595	4,922	327	3,874	(721)
Conference Calls	500	508	8	508	8
Total Meeting Expenses	\$ 25,970	\$ 26,350	\$ 380	\$ 62,727	\$ 36,757
Operating Expenses					
Consultants & Contracts	\$ -	\$ 699	\$ 699	\$ 457	\$ 457
Office Rent	-	2,344	2,344	2,283	2,283
Office Costs	-	1,129	1,129	1,046	1,046
Professional Services	-	382	382	467	467
Computer & Equipment Leases	-	563	563	488	488
Miscellaneous	-	115	115	200	200
Depreciation	-	152	152	467	467
Total Operating Expenses	\$ -	\$ 5,385	\$ 5,385	\$ 5,408	\$ 5,408
Total Direct Expenses	\$ 70,292	\$ 61,431	\$ (8,861)	\$ 98,981	\$ 28,689
Indirect Expenses	\$ -	\$ -	\$ -	\$ 10,764	\$ 10,764
Other Non-Operating Expenses	\$ -	\$ 634	\$ 634	\$ 50	\$ 50
Total Expenses	\$ 70,292	\$ 61,431	\$ (8,861)	\$ 109,745	\$ 39,453
Change in Assets	\$ -	\$ 8,861	\$ 8,861	\$ (305)	\$ (305)
Fixed Assets					
Depreciation	\$ -	\$ (152)	\$ (152)	\$ (467)	\$ (467)
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	963	963	67	67
Equipment CapEx	-	615	615	100	100
Leasehold Improvements	-	2,370	2,370	67	67
(Incr)Dec in Fixed Assets	\$ -	\$ (3,796)	\$ (3,796)	\$ 233	\$ 233
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ 71	\$ 71
Change in Fixed Assets	-	(3,796)	(3,796)	305	305
TOTAL CHANGE IN ASSETS	\$ -	\$ 5,065	\$ 5,065	\$ (0)	\$ (0)

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Due to a change in accounting methodology as explained on pages 12 - 13, indirect expenses are allocated to the program areas, resulting in an increase in ERO Assessments above the requirement for added resources as noted below.

Personnel Expenses

- While Training and Education includes a portion of Personnel Expenses previously allocated to General & Administrative, the overall decrease in Training and Education Personnel Expenses is due to a 2009 budget model deficiency which over-calculated anticipated Training & Education retirement expenses in the 2009 Budget.

Meeting Expenses

- Increase in Meeting Expenses is due to the inclusion of all stakeholder training workshops – regardless of subject matter – in the Training and Education program area.

Operating Expenses

- Increase in Operating Expenses is driven by directly allocating to the program areas certain costs that in previous years were included in General and Administrative.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs for 2010.

Other Non-Operating Expenses

- Increase in Other Non-Operating Expenses is due to allocation of Office Relocation costs.

Fixed Asset Additions

- Fixed Assets were previously included in Operating Expenses in the General and Administrative function. Within the 2010 Business Plan and Budget, fixed assets are allocated proportionately based on FTE to the direct programs.

Reliability Assessment and Performance Analysis Program

Reliability Assessment and Performance Analysis Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	3.9	4.9	1.0
Total Direct Expenses [1]	\$1,446,942	\$2,321,444	\$874,502
Total Indirect Expenses [1]	\$1,113,246	\$527,436	(\$585,810)
Inc(Dec) in Fixed Assets		(\$14,923)	(\$14,923)
Total Expenses & Fixed Assets	\$2,560,188	\$2,833,957	\$273,769

[1] Variances between 2009 Budget and 2010 Budgets are largely driven by directly allocating to the program areas certain costs that in previous years were included in General and Administrative.

Program Scope and Functional Description

NPCC, through its top technical committee, the Reliability Coordinating Committee (RCC), integrates the “deliverables” of its Task Force’s and Working Group’s Reliability Assessment and Performance Analysis related activities. Consistent with the applicable NERC Reliability Standards, these efforts include:

- Review of the adequacy of the NPCC systems to supply load considering forecast demand, installed and planned supply and demand resources and required reserves in accordance with the related NPCC reliability directories associated with the *Guidelines for Area Review of Resource Adequacy* and the *Basic Criteria for the Design and Operation of Interconnected Power Systems*
- Assess the impact of planned the transmission and resource additions or modifications on NPCC system reliability in accordance with the related NPCC reliability directories associated with the *Guidelines for NPCC Transmission Reviews* and the *Basic Criteria for the Design and Operation of Interconnected Power Systems*

Seasonal assessments of the overall NPCC resource adequacy assessments are performed and possible actions to mitigate any potential problems are identified. NPCC reviews operations and disturbances both internal and external to the Region in order to identify any lessons to be learned and recommends any necessary follow-up actions.

If appropriate, enhancements to Regional Standards or NPCC’s more stringent, regionally specific reliability requirements are also recommended. NPCC promotes and conducts both inter-Area and interregional studies to enhance reliability and operational effectiveness, and provides a forum for the discussion and coordination of operating issues within the NPCC Region and with other Regions.

2010 Key Assumptions

Continue to provide the NPCC regional perspective with NPCC Staff participation on the NERC Planning Committee and the following NERC Subcommittees, Task Forces and Working Groups:

- ✓ Generation & Transmission Reliability Planning Models Task Force (GTRPMTF)

- ✓ Data Coordination Working Group (DCWG)
- ✓ Reliability Assessment Subcommittee (RAS)
- ✓ Transmission Issues Subcommittee (TIS)
- ✓ Loss of Load Expectation (LOLE) Task Force, including support of the NERC Generator Availability Data System (GADS), the Demand Response Data Task Force (DRDTF), and the Transmission Availability Data System Task Force (TADSTF).

Initiation of the following NPCC Reliability Assessment and Performance Analysis projects:

- ✓ Combining the seasonal NPCC probabilistic multi-area reliability assessments to a single annual enhanced 2010 Interregional Long-Range Adequacy Overview
- ✓ Conducting the NPCC 2010 - 2014 Tie Reliability Benefits Study
- ✓ Developing updates to the NPCC Electric System Map
- ✓ Providing analytic support to NERC EACG (Event Analysis Coordinating Group) as needed.
- ✓ Developing NPCC guidelines for load modeling in system reliability studies
- ✓ Supporting Regional system studies to reliably integrate large-scale renewable resources
- ✓ Conducting resource adequacy assessments addressing impacts of Climate Change Initiatives

2010 Goals and Key Deliverables

Task Force on Coordination of Planning

The primary mission of the NPCC Task Force on Coordination of Planning (TFCP) is to promote reliability through the coordination of NPCC Area and NERC planning processes and activities.

TFCP activities include, but are not limited to:

- Initiating reviews of the *Basic Criteria for the Design and Operation of Interconnected Power Systems* (Directory #1), of other NPCC criteria, guidelines, and procedures related to planning, and of those documents which provide for the uniform implementation, interpretation and monitoring of compliance with criteria, guidelines and procedures related to planning.
- Supporting the NPCC Directory Project by either drafting, reviewing or approving directories.
- Coordinating, monitoring, reviewing, and making recommendations on proposed or modified Special Protection Systems.
- Facilitating Wide-Area Planning by supporting the Joint ISO/RTO Planning Committee Activities, implementation of the Northeast Planning Protocol, and performing interconnection reliability analyses, as required.
- Reviewing the overall reliability of the NPCC Areas and performing multi-Area probabilistic reliability assessments.
- Identifying and assisting in the development of new Regional Reliability Standards.
- Assisting the NPCC Compliance Subcommittee, to monitor and coordinate the compliance efforts of the Areas with NPCC planning documents and registered entities with NERC Reliability Standards.
- Reviewing the Standards Authorization Requests and NERC Reliability Standards as well as participating in the NERC process. Educating and informing NPCC membership of developments.
- Ensuring coordination of data and assumptions for conducting NPCC planning studies (i.e. load forecasts, reserve requirements, EIA 411 data, and new facilities)

- Monitoring the activities of other NPCC Task Forces to ensure coordination with planning activities.
- Completing any outstanding Blackout Recommendation Follow-Up actions.
- On a consistent basis, periodically estimating the amount of interconnection assistance available to the NPCC Areas for today's system and for the near term.
- Reviewing the adequacy of the NPCC systems to supply load considering forecast demand, installed and planned supply and demand resources and required reserve margins in accordance with *Guidelines for Area Review of Resource Adequacy* (Document B-8) based on a schedule set forth in the Reliability Assessment Program.
- Coordinating the review of the compliance of future Area plans with the Basic Criteria including an analysis of resource and transmission system additions, and the potential inter-Area effects of special protection systems, in accordance with Guidelines for NPCC
- Area Transmission Reviews (Document B-4) based on a schedule set forth in the Reliability Assessment Program. Specific projects, which in the opinion of the task force could have an impact on the reliability of the NPCC Bulk Power System, may be reviewed outside of the set schedule.

Key TFCP Reliability Assessment and Performance Analysis Deliverables

- ✓ Coordinating activities related to reactive power and voltage control practices, which includes under-voltage load shedding (UVLS) with the Task Force on Coordination of Operation and the Task Force on System Studies to ensure that developments in the NERC PC and its Subcommittees are addressed.
- ✓ Monitoring the actions of the NERC Transmission Issues Subcommittee (TIS) in the area of system protection and control.
- ✓ Overseeing the A-10 BPS Implementation Plan.
- ✓ Overseeing the transition from conducting semi-annual seasonal assessments to a single annual enhanced Interregional Long-Range Adequacy Overview
- ✓ Overseeing and evaluate the 2010-2014 NPCC Interregional Long-Range Adequacy Overview.
- ✓ Evaluating and approving Area Transmission Reviews.
- ✓ Coordinating, monitoring, reviewing, and making recommendations on the retirement of existing in-service Special Protection Systems (SPS); and the implementation of proposed new or modified Special Protection Systems.
- ✓ Monitoring industry practices and making recommendations to NPCC on transmission adequacy standards related to intermittent generation such as wind or solar-voltaic.
- ✓ Reviewing and giving direction to other task forces on changes required to the UFLS program required to take into account increasing amounts of distribution connected generation and/or intermittent generation.
- ✓ Overseeing and evaluating the NPCC 2010 - 2014 Tie Benefits Study.
- ✓ Evaluating and approving Area Resource Adequacy Assessments.
- ✓ Monitoring the developments in demand resources, energy efficiency and conservation methods including all intermittent renewable resources.
- ✓ Conducting resource adequacy assessment studies addressing Climate Change Initiatives
- ✓ Supporting Joint ISO/RTO Planning Committee Activities.
- ✓ Facilitating Wide-Area Planning through participation in regional activities and coordinating inter-Area reliability analyses.

Task Force on System Studies

The primary mission of the NPCC Task Force on System Studies (TFSS) is to provide for active overall coordination of system studies of the reliability of the interconnected bulk power systems and for the review of certain NPCC documents.

The activities of the TFSS include, but are not limited to:

- Participating with the Task Force on Coordination of Planning, the Task Force on Coordination of Operation and the Task Force on System Protection in reviews of the “*Basic Criteria for the Design and Operation of Interconnected Power Systems*” (Document A-2) and other NERC Reliability Standards and NPCC criteria, guidelines, procedures and documents which provide for the uniform implementation, interpretation and monitoring of conformance to criteria, guidelines and procedures related to system studies.
- Conducting Area Reviews, in accordance with the “*Guidelines for NPCC Area Transmission Reviews*” (Document B-4), based on material presented by the Areas. These reviews will assess the impact of planned transmission and resource additions or modifications on system reliability, and determine the Area’s conformance with the NPCC Basic Criteria.
- Reviewing and approving changes to Areas’ lists of bulk power system elements, in accordance with the “*Classification of Bulk Power System Elements*” (Document A- 10). Annually review and update the NPCC BPS List.
- Reviewing and classifying new and modified Special Protection Systems, in accordance with the “*Procedure for NPCC Review of New or Modified Bulk Power System Special Protection Systems*” (Document C-16). Annually reviewing and updating the NPCC SPS List.
- Conducting such load flow, transient stability, and other studies as required analyzing the overall reliability of the planned bulk power transmission systems of NPCC and the interconnections between NPCC and other regional reliability organizations. As a part of this effort, analyze potential inter-Area effects of Special Protection Systems.
- Conducting analytical studies as appropriate to support the coordination of system planning, system operation and system protection in NPCC.
- Maintaining, through the SS-37 Working Group, a library of load flow base cases and associated dynamics data, for use in and support of Area Reviews, overall transmission assessments, operational studies, inter-Regional studies, etc. Coordinate this effort with the NERC inter-regional base case development process.
- In conjunction with other Task Forces, reviewing major system disturbances to ascertain the adequacy of the interconnected systems. Also, reviewing any associated recommendations for system modifications and considering the need for criteria changes.
- Identifying and recommending improved system study techniques. This includes, but is not limited to, the following:
 - improved techniques and models for power system simulation;
 - improved techniques for power system reliability assessment;
- Conducting a periodic review of the adequacy of the NPCC underfrequency load shedding program. Annually reviewing and updating the NPCC underfrequency load shedding database.
- Maintaining a listing and monitor status of major transmission and generation projects within NPCC.

- Maintaining liaison with other NPCC Task Forces and report to the Reliability Coordinating Committee as required.
- Monitoring the work of industry research and development organizations such as the IEEE, Canadian Electricity Association, Electric Power Research Institute, CIGRE and other technical organizations.
- Annually developing updates to the NPCC Electric System Map

Key TFSS Reliability Assessment and Performance Analysis Deliverables:

- ✓ Conducting Area Reviews, in accordance with the “*Guidelines for NPCC Area Transmission Reviews*” (Document B-4), based on material presented by the Areas. These reviews assess the impact of planned transmission and resource additions or modifications on system reliability, and determine the Area’s conformance with the NPCC Basic Criteria. Through the Area Transmission Reviews, re-evaluate the performance and classification of existing SPSs and Dynamic Control Systems as appropriate.
- ✓ Reviewing and classifying new and modified Special Protection Systems, in accordance with Directory #7 “*Procedure for NPCC Review of New or Modified Bulk Power System Special Protection Systems*” as required.
- ✓ Reviewing and approving changes to the Areas’ lists of bulk power system elements, in accordance with the “*Classification of Bulk Power System Elements*” (Document A-10), as required.
- ✓ Updating the NPCC Bulk Power System List.
- ✓ Developing a library of power flow base cases and associated dynamic models for use by NPCC members and input into the development of the MMWG library of power flow and dynamic cases and databases for the Eastern Interconnection
 - i. Final NPCC power flow models developed by June 2010
 - ii. Final NPCC dynamic models developed by September 2010
 - iii. Develop a process to develop models replicating conditions for the analysis of major events that may occur on the system from time to time.
- ✓ Reviewing existing regional criteria and procedures for validation of data used in power flow and dynamic simulations by benchmarking against actual system performance. If the existing criteria or procedures are found to be deficient, propose changes to provide for adequate data validation (NERC Blackout Recommendation 14)
- ✓ Updating the NPCC SS-37 Working Group Procedure Manual and other related documents including the Master Tie line Data, and Interchange Schedule, as required.
- ✓ Providing mid-term updates to the 2010 Library of NPCC/MMWG cases
- ✓ Enhancing the governor modeling on a unit by unit basis suitable for use in the system simulation Model to be calibrated with the observed response on units and systems, coordinated with the NPCC CO-1 Working Group - December 2010
- ✓ Annually reviewing and updating a list of NPCC underfrequency load shedding.
- ✓ Developing NPCC guidelines for load modeling through review of past industry efforts to study dynamic load behavior, and contact others within the industry to benefit from their research. Focus on load behavior during large frequency and voltage excursions and the ability to model when load is tripped. Recommending whether to develop improved models for use in analysis of major disturbances or to develop appropriate models at the time of analyzing a disturbance – December 2010.

- ✓ Classification of Bulk Power System Elements – December 2010.
- ✓ Supporting Regional system studies to integrate large-scale renewable resources.
- ✓ Provide support to NERC EACG (Event Analysis Coordinating Group) as needed.
- ✓ Develop updates to the NPCC Electric System Map (third quarter of 2010).

Task Force on System Protection (TFSP)

The purpose of the NPCC Task Force on System Protection (TFSP) is to promote the reliable and efficient operation of the interconnected bulk power systems in Northeastern North America through the establishment of directories, criteria, guidelines, and procedures and coordination of design, relative to the protection associated with the bulk power systems.

The Reliability Assessment and Performance Analysis activities of the TFSP include, but are not limited to:

- Assessing proposed protection systems and special protection systems in accordance with *NPCC Procedure for Reporting and Reviewing Proposed Protection Systems for the Bulk Power System*
- Reviewing and analyzing the performance of protection systems following selected major power system disturbances and events, inside as well as outside NPCC in accordance with *Procedures for Task Force on System Protection Review of Disturbances* (Document C-30). Issue recommendations for changes to NPCC Documents, as appropriate.
- Providing technical advice on protection issues to NPCC and coordinate with other Task Force on the application of Intelligent Electronic Devices (IEDs) that include functions related to energy management systems in addition to their protective functions, in order to safeguard the integrity of the protective functions.
- Reviewing and assessing significant protection issues of common interest or informational value.
- Reviewing and assessing regulatory and industry based documents as they relate to system protection.
- Maintaining an effective liaison with North America groups working in the protection areas, for example NERC System Protection & Control Subcommittee.
- Exchanging information with other power pools, Regional Reliability Councils, Regional Transmission Organizations and other industry groups on matters concerned with system protection.
- Identifying the need for special studies and new documents, recommend action to the Reliability Coordinating Committee.

Key TFSP Reliability Assessment and Performance Analysis Deliverables:

- ✓ Assessing proposed protection systems and special protection systems for compliance with A- 5 and Directory #7 criteria in accordance with *NPCC Procedure for Reporting and Reviewing Proposed Protection Systems for the Bulk Power System*.
- ✓ Reviewing and analyzing the performance of protection systems of power system disturbances and events, brought to the attention of the Task Force, inside as well as outside NPCC in accordance with *Procedures for Task Force on System Protection Review of Disturbances* (Document C-30). Issuing recommendations for changes to NPCC Documents, as appropriate.
- ✓ Providing support to the NERC Event Analysis Coordinating Group as required.
- ✓ Supporting the completion of NPCC Blackout ‘Recommendation 2a’ effort.

- ✓ Reviewing and updating NPCC Undervoltage Load Shedding Database.
- ✓ Participation in the finalization and implementation of approved modifications to the NPCC Underfrequency Loadshedding Program.
- ✓ Conducting any follow-up to the bulk power system protection risk assessment as directed by the Reliability Coordinating Committee.

Task Force on Coordination of Operation

The NPCC Task Force on Coordination of Operation (TFCO) facilitates the coordination of operations among the NPCC Reliability Coordinator areas and adjacent NERC Regions to enhance the reliability of the bulk power system.

The activities of the NPCC Task Force on Coordination of Operation include, but are not limited to:

- Conducting seasonal reviews of the overall reliability of the generation and transmission systems in NPCC, and coordinate these efforts with parallel assessments conducted by the NPCC Task Force on Coordination of Planning and by NERC. Reviewing the operational preparedness of NPCC and recommend possible actions to mitigate any potential problems identified for each operating period.
- Reviewing operations and system disturbances and provide any necessary follow-up, including the recommendation of remedial or mitigating actions.
- Facilitating the reliable operational integration of new bulk power system facilities.
- Coordinating the development of operating NPCC requirements and procedures affecting the reliability and operability of the bulk power system in coordination with, and as directed by, NERC and NPCC.
- Promoting and sponsor inter-Reliability Coordinator area and interregional studies to enhance reliability and operational effectiveness of the bulk power system.
- Providing coordination of operating issues with other NPCC Task Forces and other Regions.
- Reviewing, and acting upon, NERC actions, motions and recommendations in relation to the operation of the power system.
- Formulating the position of the TFCO on NERC Standards, and provide this position to the NPCC Regional Standards Committee as appropriate.
- Providing assistance as requested by the NPCC Regional Standards Committee in the development of Regional Standards and Directories.
- Providing assistance as requested by the NPCC Compliance Committee in monitoring and coordinating the compliance efforts of the registered entities of NPCC.

Key TFCO Reliability Assessment and Performance Analysis Deliverables:

- ✓ Developing an report on the potential impact of wind energy penetration on system control performance - November 2010
- ✓ Completing the NPCC Operational Reliability Assessments - the summer assessment by May 2010/ the winter assessment by November 2010.

NPCC Regulatory/Governmental Affairs Advisory Group

The purpose of the NPCC Regulatory/Governmental Affairs Advisory Group is to promote NPCC interaction and coordination with Federal/State/Provincial governmental and/or regulatory agencies on a coordinated regional basis, and identify and develop policy input for NPCC and Northeast Regional governmental and/or regulatory bodies.

The NPCC Governmental/Regulatory Affairs Advisory Group provides a forum where industry and governmental and/or regulatory representatives can exchange views and strive to develop consensus policy recommendations on reliability issues specific to the NPCC Region (Northeastern United States and Eastern Canada) and share actionable information among NPCC, NERC (ERO) and other related governmental and/or regulatory agencies related to regional energy and reliability matters.

Funding Requirements — Explanation of Increase (Decrease)

The Reliability Assessment and Performance Program funding increased is caused by the need to support the additional and expanded NERC activities in this area, coordination of the expected reliability assessment of renewable resource integration, and conducting resource adequacy assessments that address impacts resulting from enactment of Climate Change legislation currently being debated in the U.S. Senate.

NERC has expanded the role of several of the groups related to the support of their Planning Committee, and has formed additional groups to address their need for enhanced or additional data collection. These activities require NPCC staff not only coordinate the activities of its members, but also those of the NPCC registered entities. In addition, the Event Analysis Coordinating Group (EACG) may require the support of the NPCC TFSS in pursuit of their mission.

Just one week after U.S. President Obama signed into law the America Recovery and Reinvestment Act of 2009 with billions set aside to promote the build-out of new renewable energy capacity and make the U.S. more energy efficient, Ontario's Premier Dalton McGuinty and Energy Minister George Smitherman unveiled a plan to infuse the Canadian province with green energy and energy efficiency improvements.

The importance and emphasis placed by US Federal and Canadian Provincial governmental authorities in accelerating the integration of renewable resources requires additional technical NPCC staff support and participation in the interregional coordination and reliability assessment of the various projects vying for inclusion in the ultimate plan. This requires participation in the activities not only of NPCC members, but also those of the Eastern Interconnection. These activities will result in greater reliability between the Regional Entities in the Eastern Interconnection through promotion of a 'bottoms-up' approach to integration of the NPCC Regional plans, currently developed through the respective, extensive established Stakeholder driven processes existing in the NPCC Region.

The U.S. House Energy and Commerce Committee has begun hearings on the legislation intended to limit the amount of greenhouse gases (climate change bill).

The Obama administration has stated it wants a climate change bill completed by the end of the year, ahead of the president's planned travel to Copenhagen for the United Nations' climate change conference in December 2009. The assessment of the reliability impacts resulting from the enactment of such legislation on NPCC's resource adequacy will need to be conducted.

Based on the existing complement of full time staff, NPCC projects a requirement of an addition FTE at the Senior Engineer level for 2010, to meet the proposed work as outlined in this business plan.

NPCC will continue to rely on subject matter expert consultant services throughout 2010 as needed. This approach focuses NPCC's members' subject matter experts on the direction and review of the various reliability assessments, rather than on assessment data set-up and simulation.

Based on the portion of professional/technical staff time and other resources devoted to reliability assessment and performance analysis, NPCC estimates that it will expend 24.6 percent of its resources on this activity.

Reliability Assessment and Performance Analysis Program

Funding sources and related expenses for the reliability assessment and performance analysis section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Assessment and Performance Analysis					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 BOD Approved Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 1,446,942	\$ 1,446,942	\$ -	\$ 2,833,957	\$ 1,387,015
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 1,446,942	\$ 1,446,942	\$ -	\$ 2,833,957	\$ 1,387,015
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 1,446,942	\$ 1,446,942	\$ -	\$ 2,833,957	\$ 1,387,015
Expenses					
Personnel Expenses					
Salaries	\$ 642,840	\$ 741,305	\$ 98,466	\$ 908,665	\$ 265,825
Payroll Taxes	35,980	39,284	3,303	50,634	14,653
Benefits	147,908	158,769	10,861	223,793	75,884
Retirement Costs	100,110	159,174	59,064	192,172	92,063
Total Personnel Expenses	\$ 926,838	\$ 1,098,532	\$ 171,694	\$ 1,375,264	\$ 448,426
Meeting Expenses					
Meetings	\$ 42,406	\$ 44,195	\$ 1,789	\$ 51,789	\$ 9,383
Travel	162,271	175,009	12,738	212,738	50,467
Conference Calls	28,489	28,840	351	40,351	11,862
Total Meeting Expenses	\$ 233,166	\$ 248,044	\$ 14,878	\$ 304,878	\$ 71,712
Operating Expenses					
Consultants & Contracts	\$ 286,938	\$ 314,209	\$ 27,271	\$ 396,277	\$ 109,339
Office Rent	-	91,431	91,431	111,883	111,883
Office Costs	-	44,021	44,021	51,230	51,230
Professional Services	-	14,894	14,894	22,867	22,867
Computer & Equipment Leases	-	21,975	21,975	23,928	23,928
Miscellaneous	-	4,500	4,500	9,800	9,800
Depreciation	-	5,923	5,923	22,867	22,867
Total Operating Expenses	\$ 286,938	\$ 496,953	\$ 210,015	\$ 638,852	\$ 351,914
Total Direct Expenses	\$ 1,446,942	\$ 1,868,255	\$ 421,313	\$ 2,321,444	\$ 874,502
Indirect Expenses	\$ -	\$ -	\$ -	\$ 527,436	\$ 527,436
Other Non-Operating Expenses	\$ -	\$ 24,725	\$ 24,725	\$ 2,450	\$ 2,450
Total Expenses	\$ 1,446,942	\$ 1,868,255	\$ 421,313	\$ 2,848,880	\$ 1,401,938
Change in Assets	\$ -	\$ (421,313)	\$ (421,313)	\$ (14,923)	\$ (14,923)
Fixed Assets					
Depreciation	\$ -	\$ (5,923)	\$ (5,923)	\$ (22,867)	\$ (22,867)
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	37,538	37,538	3,267	3,267
Equipment CapEx	-	24,000	24,000	4,900	4,900
Leasehold Improvements	-	92,438	92,438	3,267	3,267
(Incr)Dec in Fixed Assets	\$ -	\$ (148,052)	\$ (148,052)	\$ 11,433	\$ 11,433
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ 3,490	\$ 3,490
Change in Fixed Assets	-	(148,052)	(148,052)	14,923	14,923
TOTAL CHANGE IN ASSETS	\$ -	\$ (569,365)	\$ (569,365)	\$ 0	\$ (0)

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

Due to a change in accounting methodology as explained on pages 12 - 13, indirect expenses are allocated to the program areas, resulting in an increase in ERO Assessments above the requirement for added resources as noted below.

Personnel Expenses

- An additional FTE will be hired in 2010. Also, Reliability Assessment Personnel Costs include a portion of Personnel Costs previously allocated to General & Administrative.

Meeting Expenses

- The increase in Travel Expenses is due largely to the addition of 1 FTE in 2010.

Operating Expenses

- The increase in Contracts & Consultants is due primarily to combining the seasonal NPCC probabilistic multi-area reliability assessments to a single annual enhanced 2010 Interregional Long-Range (5 year) Adequacy Overview and conducting the NPCC 2010 - 2014 Tie Benefits Study. Additionally, there is the potential for needed support of regional system studies to reliably integrate large-scale renewable resources and for conducting resource adequacy assessments addressing Climate Change Initiatives
- Increase in all other Operating Expenses is driven by directly allocating to the program areas certain costs that in previous years were included in General and Administrative.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs for 2010.

Other Non-Operating Expenses

- Increase in Other Non-Operating Expenses is due to allocation of Office Relocation costs.

Fixed Asset Additions

- Fixed Assets were previously included in Operating Expenses.

Situation Awareness and Infrastructure Security Program

Situation Awareness and Infrastructure Security Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	2.0	2.0	0.0
Total Direct Expenses [1]	\$541,168	\$900,958	\$359,790
Total Indirect Expenses [1]	\$570,895	\$215,280	(\$355,615)
Inc(Dec) in Fixed Assets		(\$6,091)	(\$6,091)
Total Expenses & Fixed Assets	\$1,112,063	\$1,110,147	(\$1,916)

[1] Variances between 2009 Budget and 2010 Budgets are largely driven by directly allocating to the program areas certain costs that in previous years were included in General and Administrative.

Program Scope and Functional Description

The Situation Awareness and Infrastructure Security Program 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. Maintaining the real-time awareness of conditions on the interconnected bulk power systems of the NPCC Reliability Coordinator Areas (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 within NPCC. On an ongoing basis, NPCC monitors the operational status of the bulk power system and coordinates normal and pre-emergency communication, awareness and assistance in addition to the same during an emergency among the Areas. The industry is notified of significant bulk power system events that have occurred in one Reliability Coordinator Area, and which have the potential to impact reliability in other NPCC Reliability Coordinator Areas or Regions external to NPCC. These events include contingencies on the bulk power system, potential shortfalls of operating reserve, operating problems, potential security threats and potential threats or disruptions to the cyber systems of the Reliability Coordinator Areas. To assist in the evaluation of emerging tools to better identify evolving system conditions, NPCC actively coordinates the utilization of existing operational aids, and the implementation of new operational aids, including 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). The events of September 11th renewed the focus on possible sabotage to the physical infrastructure of the electric power system as well. In response, the NPCC System Operations Managers Working Group (CO-8) has in place the availability for 24 x 7 conference calls among the NPCC Reliability Coordinator Area managers to address security threats within NPCC and the proper operating posture in response to such threats. A drill simulating the NPCC Security Conference Call is held among the control room managers on at least a monthly basis; the drill is conducted at random times.

The NPCC Emergency Preparedness Conference Call mechanism is a tool that has been put in place that enables the Reliability Coordinator Area Operations Managers in NPCC, and, as required, their counterparts in neighboring Regions, to rapidly communicate the status of current operating conditions and facilitate the procurement of assistance during emergency conditions. Items of particular concern that can be discussed during the Emergency Preparedness Conference Calls may include, but are not limited to, the following:

- anticipated weather only as it is critical to the system or systems experiencing or projecting resource deficiencies
- load forecast
- largest first and second contingencies
- potential need for emergency transfers
- operating reserve requirements and expected available operating reserve capacity deficiencies
- potential fuel shortages or potential fuel supply disruptions which could lead to energy shortfalls
- identified or projected voltage conditions
- status of short term contracts and other scheduled arrangements, particularly those that impact operating reserves
- additional capability available within four hours and additional capability available within twelve hours
- coordination of pumping schedules
- any problems that might develop due to light load and minimum generation requirements
- generator outages that may have a significant impact on an adjacent Area or neighboring system
- transmission outages that may have an adverse impact on internal and external energy transfers
- expected transfer limits and limiting elements
- anticipated implementation of NERC Transmission Loading Relief (TLR) procedures or Lake Erie Emergency Redispatch (LEER) procedures
- the temporary modification or changes in the status of relay protection systems such that the normal levels of protection will not be provided
- the arming of special protection systems not normally armed
- the application of abnormal operating procedures

NPCC has also established a daily conference call, held at 9:30 AM, to serve as a complement to the NPCC Emergency Conference Call and the Weekly Conference Call. The participants of the call are the control rooms of the New Brunswick System Operator, Hydro-Quebec TransEnergie, ISO New England Inc., the New York ISO and the Independent Electricity System Operator and NPCC Staff. In 2010 participation will be expanded to include by both the MISO and PJM control rooms. The conference call is implemented through a bridge, the initiation of the call quickly ringing all pre-selected telephones simultaneously. The goal of the call is to alert all neighboring Areas of emerging problems. If no system difficulties are anticipated for the day, no unnecessary information is to be discussed. Subjects for discussion are limited to credible events which could impact the ability of an Area to serve its load and meet its operating reserve obligations or would impose a burden to the interconnection, including the following:

- Projected Load
- Adverse Weather
- Operating Reserve
- Generation
- Transmission
- Sabotage

If conditions worsen in the course of the day, the NPCC Emergency Preparedness Conference Call will be held among the NPCC Reliability Coordinator Area Control Room Managers.

NPCC is also actively participating in the NERC-FERC situational awareness initiative. Recommendation 22 of the joint report, “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,” states in part:

**“Evaluate and adopt better real-time tools for operators and reliability coordinators
••• A principal cause of the August 14 blackout was a lack of situational awareness
••• The need for improved visualization capabilities over a wide geographic area has been a recurrent theme in blackout investigations.”**

At the request of the United States Federal Energy Regulatory Commission (FERC), the Reliability Coordinator Areas are developing procedures to provide to the FERC detailed operating data for their respective footprints. The intent of the effort is to permit the FERC to “measure the health” of the Interconnections and to identify parameters which may warn of a developing crisis, thus precluding a major cascading event. The project is proceeding in two phases. The initial phase has established, on a daily basis, the dissemination of a spreadsheet projecting basic operating information, including projected load, projected weather at the time of the system peak, the peak load for the previous day, the aggregate generation unavailable and the numbers of key transmission lines unavailable. For the second phase, NPCC is implementing a geographically based visualization of selected reliability indicators to expand the operational awareness of the Reliability Coordinators (RC) of NPCC, providing an enhanced wide area view of each of the five RC footprints in the Northeast and permitting the Reliability Coordinator to make more informed real-time operating decisions. Each Reliability Coordinator of NPCC will have access within the control room to the following near real time displays:

- a geographic visualization of the complete NPCC footprint; or
- a detailed geographic visualization of any of the neighboring Reliability Coordinator footprints within NPCC.

Each screen displayed will include the following data:

- Reliability Coordinator Area load
- Reliability Coordinator Area Control Error (ACE)
- scheduled net interchange with its neighboring control area
- actual net interchange with its neighboring control area
- Reliability Coordinator Area operating reserve
- key interface loadings with limits
- key bus voltages with typical operating range

Various dynamic, visual prompts will also be provided as conditions change. Arrows will indicate interface flow direction, and the size of the arrow will appear proportional to the magnitude of the flow. Key quantities will be color coded; for example, the display color for the system operating reserve will change if the quantity should fall below the Area's operating reserve obligation. The data will be refreshed at least every ninety seconds.

The tool and display will go on-line in the middle of 2009, and 2010 will be the first full year of operation, at which time the overall performance and utility of the displays will be evaluated, and possible future enhancements will be incorporated.

To ensure the capability for continued voice communications among NPCC and its Reliability Coordinators, a satellite telephone network has also been established and tested. This back-up communications system will function in the event of a collapse of the Public Switched Telephone Network (PSN), and cross-border voice communications can still be maintained among the Canadian Reliability Coordinators of NPCC and the Reliability Coordinators in the United States.

2010 Key Assumptions and Cost Impacts

- Funding for a near real-time display
 - The Northeast benefits from NPCC's enhanced ability to identify the wide area view among the NPCC Members.
 - Satisfies FERC's request for short term and near real time system conditions information to indicate status of the power system and provide an indication of operating problems
- Implementation of Version 3 of the NERC Cyber Security Standards.
 - The Northeast benefits from NPCC's preparation of comments and input to each posted SAR / Standard addressing cyber security, ensuring that the unique concerns of the Canadian and US Members of NPCC are reflected

2010 Goals and Key Deliverables

System Operations Security Objectives

NPCC's system operations security objectives are defined within the scope of the NPCC Task Force on Coordination of Operation, (TFCO) and include, but are not confined to:

- Coordinating interregional pre-emergency actions in the event of a threat to the security of the Northeastern North American bulk power supply system
- Assisting in the development of real time operating tools assuring cyber security concerns are addressed.

NPCC's 2010 operational situation awareness goals and objectives, as identified by the 2009-2010 Work Plan of the NPCC Task Force on Coordination of Operation (TFCO) include, but are not confined to:

- Expanded Wide Area View Among the NPCC Reliability Coordinators
 - Implement near real time visualization of the Reliability Coordinator Areas of NPCC

- ✓ Monitor the development of the NERC Eastern North American SynchroPhasor Initiative (NASPI) and determine the feasibility of the application for use within NPCC - December 2010
- Direct Voice Communications Among All NPCC Reliability Coordinators
 - Weekly Area Coordination Conference Calls
Each week conference calls of the operations management personnel are initiated by NPCC to discuss operations expected, and identify possible concerns, during the forthcoming ten-day period (weekend and week following)
 - Daily Area Control Room Coordination Conference Calls
Each morning, the NPCC Reliability Coordinator control rooms also take part in a regularly scheduled conference call. The goal of this call is to alert all neighboring Reliability Coordinators of any potential emerging problems which could lead to reliability concerns in the course of the day’s operations. Subjects for discussion are limited to credible events which could impact the ability of a Reliability Coordinator to serve its load and meet its operating reserve obligations, or which would impose a burden to the neighboring NPCC Areas or the Eastern Interconnection
 - Emergency Preparedness Conference Call
The NPCC Emergency Preparedness Conference Call augments the regularly scheduled weekly and daily Area coordination conference call process to enable the Operations Managers in NPCC, and, as required, their counterparts in neighboring Regions, to rapidly communicate the status of current operating conditions and facilitate the procurement of assistance during, or in anticipation of, emergency conditions.

Critical Infrastructure Protection Resources * (These FTEs are already accounted for in their respective program areas.)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs with CIP expertise	2.0	3.0	1.0

* NPCC has Critical Infrastructure Protection expertise in the Compliance, Situation Awareness, and Information Technology program areas. In addition, this table does not include independent contractor auditors with CIP expertise.

Critical Infrastructure Objectives

NPCC’s critical infrastructure objectives are defined within the scope of the NPCC Task Force on Infrastructure Security & Technology, (TFIST) and include, but are not confined to:

- Providing a forum for NPCC review of proposed and posted documents from the NERC Critical Infrastructure Protection Committee (CIPC)
- Representing and advocating NPCC’s position in the activities of NERC groups involved in the development and/or implementation of physical and cyber security

NPCC’s 2010 critical infrastructure goals and objectives, as identified by the 2009-2010 Work Plan of the Task Force on Infrastructure Security and Technology include, but are not confined to:

- Participating in the NERC Regional CIPC Liaison Task Force, to provide NPCC input into the process whereby future Department of Homeland Security (DHS) notifications are disseminated to the industry
- Annually reviewing infrastructure security & technologies and providing recommendations, when appropriate, to the RCC to enhance physical and cyber security in compliance with NERC guidelines/standards
- Reviewing of NPCC's information protection in order to be consistent with the requirements of the NERC Cyber Security Standards
- Addressing timely issues and updating member system personnel associated with the provision of on-line computer systems for operation of the power system, through the activities of the IST-1 (Infrastructure Security & Technology Workshop) Working Group
- Providing a forum to identify, discuss and advance the technology of telecommunications infrastructure for the reliable operation of the NPCC Inc. Bulk Power System while also supporting TFIST in their work on issues related to telecommunications, through the activities of the IST-2 (Telecommunications) Working Group
- Providing a forum to identify, discuss and advance the EMS-SCADA technology of EMS-SCADA for the reliable operation of the NPCC Bulk Power System while also supporting TFIST in their work on issues related to EMS-SCADA, through the activities of the IST-3 (EMS-SCADA) Working Group
- Providing a forum to identify, discuss and advance the cyber security for the reliable operation of the NPCC Bulk Power System while also supporting TFIST in their work on issues related to cyber security, through the activities of the IST-4 (Cyber Security) Working Group
- Providing a forum to identify, discuss and advance the use physical security for the reliable operation of the NPCC Bulk Power System while also supporting TFIST in their work on issues related to physical security, through the activities of the IST-5 (Physical Security) Working Group

Funding Requirements — Explanation of Increase (Decrease).

- Funding for a near real-time display
 - The Northeast benefits from NPCC's enhanced ability to identify the wide area view among the NPCC Members.
 - Satisfies FERC's request for short term and near real time system conditions information to indicate status of the power system and provide an indication of operating problems
- Implementation of Version 3 of the NERC Cyber Security Standards.
 - The Northeast benefits from NPCC's preparation of comments and input to each posted SAR / Standard addressing cyber security, ensuring that the unique concerns of the Canadian and US Members of NPCC are reflected

Based on the portion of professional/technical staff time and other resources devoted to situation awareness and infrastructure security, NPCC estimates that it will expend 9.7 percent of its resources on this activity.

Situation Awareness and Infrastructure Security Program

Funding sources and related expenses for the situation awareness and infrastructure security section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Situation Awareness and Infrastructure Security					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 BOD Approved Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 541,168	\$ 541,168	\$ -	\$ 1,110,147	\$ 568,979
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 541,168	\$ 541,168	\$ -	\$ 1,110,147	\$ 568,979
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 541,168	\$ 541,168	\$ -	\$ 1,110,147	\$ 568,979
Expenses					
Personnel Expenses					
Salaries	\$ 349,708	\$ 396,735	\$ 47,026	\$ 402,699	\$ 52,991
Payroll Taxes	18,742	20,288	1,546	21,038	2,295
Benefits	37,532	51,601	14,069	53,879	16,347
Retirement Costs	55,732	88,653	32,921	108,315	52,583
Total Personnel Expenses	\$ 461,715	\$ 557,276	\$ 95,562	\$ 585,931	\$ 124,216
Meeting Expenses					
Meetings	\$ 13,751	\$ 14,668	\$ 917	\$ 25,917	\$ 12,166
Travel	31,811	38,343	6,532	66,902	35,091
Conference Calls	2,840	2,995	155	4,055	1,215
Total Meeting Expenses	\$ 48,402	\$ 56,006	\$ 7,604	\$ 96,874	\$ 48,472
Operating Expenses					
Consultants & Contracts	\$ 31,051	\$ 45,036	\$ 13,985	\$ 118,143	\$ 87,092
Office Rent	-	46,888	46,888	45,667	45,667
Office Costs	-	22,575	22,575	20,910	20,910
Professional Services	-	7,638	7,638	9,333	9,333
Computer & Equipment Leases	-	11,269	11,269	9,767	9,767
Miscellaneous	-	2,308	2,308	4,000	4,000
Depreciation	-	3,038	3,038	9,333	9,333
Total Operating Expenses	\$ 31,051	\$ 138,751	\$ 107,700	\$ 217,153	\$ 186,102
Total Direct Expenses	\$ 541,168	\$ 764,714	\$ 223,546	\$ 900,958	\$ 359,790
Indirect Expenses	\$ -	\$ -	\$ -	\$ 215,280	\$ 215,280
Other Non-Operating Expenses	\$ -	\$ 12,680	\$ 12,680	\$ 1,000	\$ 1,000
Total Expenses	\$ 541,168	\$ 764,714	\$ 223,546	\$ 1,116,238	\$ 575,070
Change in Assets	\$ -	\$ (223,546)	\$ (223,546)	\$ (6,091)	\$ (6,091)
Fixed Assets					
Depreciation	\$ -	\$ (3,038)	\$ (3,038)	\$ (9,333)	\$ (9,333)
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	19,250	19,250	1,333	1,333
Equipment CapEx	-	12,308	12,308	2,000	2,000
Leasehold Improvements	-	47,404	47,404	1,333	1,333
(Incr)Dec in Fixed Assets	\$ -	\$ (75,924)	\$ (75,924)	\$ 4,667	\$ 4,667
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ 1,424	\$ 1,424
Change in Fixed Assets	-	(75,924)	(75,924)	6,091	6,091
TOTAL CHANGE IN ASSETS	\$ -	\$ (299,470)	\$ (299,470)	\$ 0	\$ (0)

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Due to a change in accounting methodology as explained on pages 12 - 13, indirect expenses are allocated to the program areas, resulting in an increase in ERO Assessments above the requirement for added resources as noted below.

Personnel Expenses

- The increase is due to the inclusion of a portion of Personnel Costs previously allocated to General & Administrative.

Meeting Expenses

- Travel expenses increased due to increased travel associated with the emphasis on event analysis and critical infrastructure protection implementation.

Operating Expenses

- Consultants and Contracts will increase due to the development of the software and server to establish the NPCC Situation Awareness Tool.
- All other increases to Operating Expenses are driven by directly allocating to the program areas certain costs that in previous years were included in General and Administrative.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs for 2010.

Other Non-Operating Expenses

- Increase in Other Non-Operating Expenses is due to allocation of Office Relocation costs.

Fixed Asset Additions

- Fixed Assets were previously included in Operating Expenses in the General and Administrative function. Within the 2010 Business Plan and Budget, fixed assets are allocated proportionately based on FTE to the direct programs.

Administrative Services

Administrative Services Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs [1]	7.4	6.41	-0.99
Inc(Dec) in Fixed Assets	\$934,115	\$0	(\$934,115)
Total Indirect Expenses [2]	\$5,138,059	\$2,406,794	(\$2,731,265)

[1] Due to increasing workload, resources were reprioritized during 2009 and 1.0 FTE was diverted from the Finance & Accounting budget and added to the Compliance budget.

[2] Variances between 2009 Budget and 2010 Budgets are largely driven by directly allocating to the program areas certain costs that in previous years were included in General and Administrative.

Program Scope and Functional Description

Administrative services support the previously identified five program areas of: reliability standards; compliance monitoring and enforcement and organization registration and certification; training, education, and operator certification; reliability assessment and performance analysis; and situation awareness and infrastructure security. Administrative services consist of: technical committees and members' forums; general and administrative; legal and regulatory; information technology; and human resources.

Based on the portion of professional/technical staff time and other resources devoted to reliability assessment and performance analysis, NPCC estimates that it will expend 1.3 percent of its resources on Administrative Services.

Technical Committees and Members' Forums

Program Scope and Functional Description

The success of the NPCC programs depends on the active and direct volunteerism and participation of its members. The stakeholders are the source of expertise in the industry. To promote the reliable and efficient operation of the interconnected bulk power systems in Northeastern North America, NPCC invites high level policy makers from Federal, Provincial and State regulatory and/or governmental authorities and senior executives within NPCC and NERC to identify and discuss emerging issues related to the reliability of the NPCC Region.

2010 Key Assumptions

- NPCC's standing committee and subgroup structure for effective stakeholder involvement will continue in 2010.
- The current economic downturn will continue into 2010 and adversely affect stakeholder travel budgets and resourcing for work in regional programs. NPCC will need to develop methods to encourage active involvement with less travel and face-to-face meetings.
- NPCC will continue to invest in technology and innovation to allow efficient collaboration on technical issues related to reliability.

2010 Goals and Key Deliverables

The 2010 NPCC General Meeting provides an opportunity for NPCC Members to meet high level policy makers from Federal, Provincial and State regulatory and/or governmental authorities and senior NERC and NPCC executives to discuss topics related to the reliable planning and operation of the power system, including consideration of emerging reliability, critical infrastructure and environmental issues.

2010 Public Information Committee Goals and Objectives

The objective of the NPCC Public Information Committee is to highlight and summarize NPCC activities and accomplishments in the past year, disseminate and coordinate the appropriate release of information to the media, respond to related requests for information, and coordinate with related NPCC Area, NERC media and public information activities. Activities anticipated for 2010 include, but are not limited to:

- Conducting the 2010 Media Event – release of the 2010 Summer NPCC Reliability Assessment(s)
- Developing the NPCC 2010 Summer and Winter Reliability Outlooks
- Compiling the 2010 NPCC Statistical Brochure
- Preparing the 2010 NPCC Year-In-Review
- Updating the 2010 NPCC Primer
- Participation in NERC 2010 communication initiatives:
 - Monthly Regional communications teleconferences
 - Development of Compliance background information (FAQ) and sample press releases
 - Preparation of NERC Standards background information and outreach to registered entities
 - Coordination of Emergency or “Blackout” communications plans
 - Joint face-to-face meetings with other related NERC groups (i.e., situation awareness group, Reliability Assessment Subcommittee, etc.)

Funding Requirements — Explanation of Increase (Decrease)

For the Public Information portion of this Program, participation in the additional NERC communications initiatives planned for 2010 drives the increase over the 2009 Budget.

Technical Committees and Member Forums

Funding sources and related expenses for the Technical Committees and Members' Forums section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Member Forums					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 BOD Approved Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 57,037	\$ 57,037	\$ -	\$ -	\$ (57,037)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 57,037	\$ 57,037	\$ -	\$ -	\$ (57,037)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 57,037	\$ 57,037	\$ -	\$ -	\$ (57,037)
Expenses					
Personnel Expenses					
Salaries	\$ 31,701	\$ 46,956	\$ 15,255	\$ 47,208	\$ 15,508
Payroll Taxes	2,490	2,919	429	3,004	514
Benefits	13,180	15,564	2,385	17,020	3,840
Retirement Costs	9,667	11,001	1,334	13,446	3,779
Total Personnel Expenses	\$ 57,037	\$ 76,440	\$ 19,403	\$ 80,678	\$ 23,641
Meeting Expenses					
Meetings	\$ -	\$ 3,194	\$ 3,194	\$ 3,194	\$ 3,194
Travel	-	22,746	22,746	22,746	22,746
Conference Calls	-	215	215	215	215
Total Meeting Expenses	\$ -	\$ 26,155	\$ 26,155	\$ 26,155	\$ 26,155
Operating Expenses					
Consultants & Contracts	\$ -	\$ 3,496	\$ 3,496	\$ 2,286	\$ 2,286
Office Rent	-	11,722	11,722	11,417	11,417
Office Costs	-	5,644	5,644	5,228	5,228
Professional Services	-	1,909	1,909	2,333	2,333
Computer & Equipment Leases	-	2,817	2,817	2,442	2,442
Miscellaneous	-	577	577	1,000	1,000
Depreciation	-	759	759	2,333	2,333
Total Operating Expenses	\$ -	\$ 26,925	\$ 26,925	\$ 27,038	\$ 27,038
Total Direct Expenses	\$ 57,037	\$ 132,691	\$ 75,654	\$ 134,122	\$ 77,085
Indirect Expenses	\$ -	\$ -	\$ -	\$ (134,122)	\$ (134,122)
Other Non-Operating Expenses	\$ -	\$ 3,170	\$ 3,170	\$ 250	\$ 250
Total Expenses	\$ 57,037	\$ 132,691	\$ 75,654	\$ -	\$ (57,037)
Change in Assets	\$ -	\$ (75,654)	\$ (75,654)	\$ -	\$ -
Fixed Assets					
Depreciation	\$ -	\$ (759)	\$ (759)	\$ (2,333)	\$ (2,333)
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	4,813	4,813	333	333
Equipment CapEx	-	3,077	3,077	500	500
Leasehold Improvements	-	11,851	11,851	333	333
(Incr)Dec in Fixed Assets	\$ -	\$ (18,981)	\$ (18,981)	\$ 1,167	\$ 1,167
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ (1,167)	\$ (1,167)
Change in Fixed Assets	-	(18,981)	(18,981)	-	-
TOTAL CHANGE IN ASSETS	\$ -	\$ (94,635)	\$ (94,635)	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, the expenses related to the indirect functions are being allocated entirely to the program areas and therefore have no ERO assessment revenue in 2010.

Personnel Expenses

- Technical Committees and Member Forums Personnel Expenses include a portion of Personnel Costs previously allocated to General & Administrative.

Meeting Expenses

- In the 2009 budget, Meeting Expenses for the indirect functions were accounted for entirely in General and Administrative.

Operating Expenses

- Increases to Operating Expenses are driven by directly allocating to the indirect functions certain costs that in previous years were included in General and Administrative.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs for 2010.

Other Non-Operating Expenses

- Increase in Other Non-Operating Expenses is due to allocation of Office Relocation costs.

Fixed Asset Additions

- Fixed Assets were previously included in Operating Expenses in the General and Administrative function. Within the 2010 Business Plan and Budget, fixed assets are allocated proportionately based on FTE to the indirect functions.

General and Administrative

Program Scope and Functional Description

The NPCC general and administrative function provides executive management of the corporation, management of the NPCC office, and other administrative support programs.

Funding Requirements — Explanation of Increase (Decrease)

In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment funding in 2010, except for the ERO assessment requirement to fund the working capital reserve.

All indirect general costs, including rent, office supplies, telephone, postage, etc. are being recorded in each program area.

Accounting for all cash reserves is included in the General & Administrative function such that one percent of total resources are funded to this area.

General and Administrative

Funding sources and related expenses for the general and administrative section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
General and Administrative					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 BOD Approved Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 3,592,945	\$ 3,592,945	\$ -	\$ 146,354	\$ (3,446,591)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 3,592,945	\$ 3,592,945	\$ -	\$ 146,354	\$ (3,446,591)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 3,592,945	\$ 3,592,945	\$ -	\$ 146,354	\$ (3,446,591)
Expenses					
Personnel Expenses					
Salaries	\$ 701,179	\$ 53,758	\$ (647,421)	\$ 49,992	\$ (651,187)
Payroll Taxes	22,891	1,754	(21,137)	1,619	(21,272)
Benefits	137,164	10,943	(126,221)	10,750	(126,414)
Retirement Costs	117,982	12,215	(105,767)	14,469	(103,513)
Total Personnel Expenses	\$ 979,216	\$ 78,670	\$ (900,547)	\$ 76,829	\$ (902,388)
Meeting Expenses					
Meetings	\$ 37,951	\$ 871	\$ (37,080)	\$ 871	\$ (37,080)
Travel	270,249	6,206	(264,043)	6,206	(264,043)
Conference Calls	2,256	147	(2,109)	147	(2,109)
Total Meeting Expenses	\$ 310,456	\$ 7,225	\$ (303,231)	\$ 7,225	\$ (303,231)
Operating Expenses					
Consultants & Contracts	\$ 145,807	\$ 13,286	\$ (132,521)	\$ 8,732	\$ (137,075)
Office Rent	554,683	44,543	(510,140)	43,600	(511,084)
Office Costs	267,060	21,446	(245,614)	19,969	(247,091)
Professional Services	89,362	7,256	(82,106)	8,913	(80,449)
Computer & Equipment Leases	133,315	10,762	(122,553)	9,277	(124,038)
Miscellaneous	27,300	2,192	(25,108)	3,820	(23,480)
Depreciation	-	2,886	2,886	8,913	8,913
Total Operating Expenses	\$ 1,217,528	\$ 102,371	\$ (1,115,156)	\$ 103,224	\$ (1,114,304)
Total Direct Expenses	\$ 2,657,201	\$ 200,311	\$ (2,456,889)	\$ 188,232	\$ (2,468,969)
Indirect Expenses	\$ -	\$ -	\$ -	\$ (188,232)	\$ (188,232)
Other Non-Operating Expenses	\$ 150,001	\$ 12,046	\$ (137,955)	\$ 955	\$ (149,046)
Total Expenses	\$ 2,657,201	\$ 200,311	\$ (2,456,889)	\$ -	\$ (2,657,201)
Change in Assets	\$ 935,744	\$ 3,392,633	\$ 2,456,889	\$ 146,354	\$ (789,390)
Fixed Assets					
Depreciation	\$ -	\$ (2,886)	\$ (2,886)	\$ (8,913)	\$ (8,913)
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	227,728	18,384	(209,344)	1,273	(226,454)
Equipment CapEx	145,600	11,754	(133,846)	1,910	(143,690)
Leasehold Improvements	560,788	45,271	(515,517)	1,273	(559,514)
(Incr)Dec in Fixed Assets	\$ (934,115)	\$ (72,523)	\$ 861,592	\$ 4,457	\$ 938,572
Allocation of Fixed Assets	\$ -	\$ -	\$ -	(4,457)	(4,457)
Change in Fixed Assets	(934,115)	(72,523)	861,592	-	934,115
TOTAL CHANGE IN ASSETS	\$ 1,629	\$ 3,320,111	\$ 3,318,482	\$ 146,354	\$ 144,725

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, the expenses related to the indirect functions are being allocated entirely to the program areas and therefore have no ERO assessment revenue in 2010 except for a portion of the cash reserve requirement.

Personnel Expenses

- In 2010, Personnel Expenses are being allocated to the program areas and indirect functions.

Meeting Expenses

- In 2009, Meeting Expenses for all indirect functions were accounted for entirely in General and Administrative.

Operating Expenses

- In 2010, Operating Expenses are being allocated to the program areas and indirect functions. Office Rent increased due to full year effect of higher rental rates at new office location.
- NPCC did not budget for Depreciation in 2009 and has done so in 2010 under NERC's guidance.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs for 2010.

Other Non-Operating Expenses

- In 2010, Office Relocation Expenses are being allocated to the program areas and indirect functions.

Fixed Asset Additions

- In 2009, NPCC had higher Fixed Assets due to the relocation project. This accounts for the decrease in 2010 Fixed Asset amounts.
- Fixed Assets were included solely in Operating Expenses in the General and Administrative function. Within the 2010 Business Plan and Budget, fixed assets are allocated proportionately based on FTE to the direct programs.

Legal and Regulatory

Program Scope and Functional Description

NPCC's professional legal services provide counsel to the President and CEO, Board of Directors, Vice President and COO, Treasurer and staff on legal and regulatory matters including corporate law, code of conduct, confidentiality, governance, employment law and other areas affecting NPCC. Outside counsel reviews items filed with governmental agencies for legal sufficiency; maintains relationships with U.S. and Canadian jurisdictions, and provides contract review.

2010 Goals and Key Deliverables

- Assure continuing recognition of NPCC as a cross-border regional entity
- Obtain regulatory approvals for new and revised regional reliability standards on a timely basis
- Process all appeals of compliance actions in an effective and efficient manner
- Liaison with the appropriate U.S. and Canadian regulatory and/or governmental authorities regarding responses/filings to related governmental and/or regulatory directives/orders
- Liaison with federal, State and Provincial governmental and/or regulatory authorities

Legal and Regulatory

Funding sources and related expenses for the legal and regulatory section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Legal and Regulatory					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 BOD Approved Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 546,000	\$ 546,000	\$ -	\$ -	\$ (546,000)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 546,000	\$ 546,000	\$ -	\$ -	\$ (546,000)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 546,000	\$ 546,000	\$ -	\$ -	\$ (546,000)
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	-	-	-	-	-
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	546,000	546,000	-	456,833	(89,167)
Computer & Equipment Leases	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 546,000	\$ 546,000	\$ -	\$ 456,833	\$ (89,167)
Total Direct Expenses	\$ 546,000	\$ 546,000	\$ -	\$ 456,833	\$ (89,167)
Indirect Expenses	\$ -	\$ -	\$ -	\$ (456,833)	\$ (456,833)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 546,000	\$ 546,000	\$ -	\$ -	\$ (546,000)
Change in Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Fixed Assets	-	-	-	-	-
TOTAL CHANGE IN ASSETS	\$ -	\$ -	\$ -	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, the expenses related to the indirect functions are being allocated entirely to the program areas and therefore have no ERO assessment revenue in 2010.

Personnel Expenses

- There are no significant changes requiring an explanation.

Meeting Expenses

- There are no significant changes requiring an explanation.

Operating Expenses

- Professional Services is projected to decrease in the area of legal consultations with the inclusion of an attorney on staff in the Compliance program area.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs for 2010.

Other Non-Operating Expenses

- There are no significant changes requiring an explanation.

Fixed Asset Additions

- There are no significant changes requiring an explanation.

Information Technology

Program Scope and Functional Description

NPCC's Information Technology services ensure information assets and the environment in which they operate are secure. NPCC maintains an offsite backup server for continuity of essential operations in the event that its primary location is unavailable.

2010 Key Assumptions

- Continue to develop and maintain the portal through collaboration with other Regions and NERC (CUG).

2010 Goals and Key Deliverables

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:

- Create an information security program aimed at reducing breach of security risks
- Determine long-term software and systems needs and hardware acquisitions
- Develop and implement information security standards and procedures
- Ensure all information systems are functional and secure, and that all applications running on those systems meet business requirements for performance, availability, and security
- Plan and implement organization-wide information systems, services, and network facilities, including local area networks, wide-area networks, and peripheral systems

Information Technology

Funding sources and related expenses for the information technology section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Information Technology					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 BOD Approved Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 388,351	\$ 388,351	\$ -	\$ -	\$ (388,351)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 388,351	\$ 388,351	\$ -	\$ -	\$ (388,351)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 388,351	\$ 388,351	\$ -	\$ -	\$ (388,351)
Expenses					
Personnel Expenses					
Salaries	\$ 252,432	\$ 304,558	\$ 52,126	\$ 307,758	\$ 55,326
Payroll Taxes	17,332	19,042	1,710	19,673	2,342
Benefits	76,526	81,693	5,167	89,491	12,966
Retirement Costs	42,062	70,399	28,338	85,894	43,832
Total Personnel Expenses	\$ 388,351	\$ 475,693	\$ 87,342	\$ 502,816	\$ 114,465
Meeting Expenses					
Meetings	\$ -	\$ 12,777	\$ 12,777	\$ 12,777	\$ 12,777
Travel	-	90,985	90,985	90,985	90,985
Conference Calls	-	860	860	860	860
Total Meeting Expenses	\$ -	\$ 104,622	\$ 104,622	\$ 104,622	\$ 104,622
Operating Expenses					
Consultants & Contracts	\$ -	\$ 13,985	\$ 13,985	\$ 9,143	\$ 9,143
Office Rent	-	46,888	46,888	45,667	45,667
Office Costs	-	22,575	22,575	20,910	20,910
Professional Services	-	7,638	7,638	9,333	9,333
Computer & Equipment Leases	-	11,269	11,269	9,767	9,767
Miscellaneous	-	2,308	2,308	4,000	4,000
Depreciation	-	3,038	3,038	9,333	9,333
Total Operating Expenses	\$ -	\$ 107,700	\$ 107,700	\$ 108,153	\$ 108,153
Total Direct Expenses	\$ 388,351	\$ 700,694	\$ 312,343	\$ 716,591	\$ 328,240
Indirect Expenses	\$ -	\$ -	\$ -	\$ (716,591)	\$ (716,591)
Other Non-Operating Expenses	\$ -	\$ 12,680	\$ 12,680	\$ 1,000	\$ 1,000
Total Expenses	\$ 388,351	\$ 700,694	\$ 312,343	\$ -	\$ (388,351)
Change in Assets	\$ -	\$ (312,343)	\$ (312,343)	\$ -	\$ -
Fixed Assets					
Depreciation	\$ -	\$ (3,038)	\$ (3,038)	\$ (9,333)	\$ (9,333)
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	19,250	19,250	1,333	1,333
Equipment CapEx	-	12,308	12,308	2,000	2,000
Leasehold Improvements	-	47,404	47,404	1,333	1,333
(Incr)Dec in Fixed Assets	\$ -	\$ (75,924)	\$ (75,924)	\$ 4,667	\$ 4,667
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ (4,667)	\$ (4,667)
Change in Fixed Assets	-	(75,924)	(75,924)	-	-
TOTAL CHANGE IN ASSETS	\$ -	\$ (388,267)	\$ (388,267)	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, the expenses related to the indirect functions are being allocated entirely to the program areas and therefore have no ERO assessment revenue in 2010.

Personnel Expenses

- Personnel Expenses include a portion of Personnel Costs previously allocated to General & Administrative.

Meeting Expenses

- In 2009, Meeting Expenses for all indirect functions were accounted for in General and Administrative.

Operating Expenses

- Increases to Operating Expenses are driven by directly allocating to the program areas certain costs that in previous years were included in General and Administrative.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs for 2010.

Other Non-Operating Expenses

- Increase in Other Non-Operating Expenses is due to allocation of Office Relocation costs.

Human Resources

Program Scope and Functional Description

NPCC has assembled an exceptional team of highly qualified employees to carry out the activities of NPCC. The human resources function, in adherence with applicable federal and state laws, designs, plans, and implements human resources policies and procedures, including staffing, compensation, benefits, employee relations, and training and development.

2010 Goals and Key Deliverables

- Recruit exceptional employees
- Review employee compensation and benefits
- Provide management and training programs
- Improve human resource policies and procedures
- Maintain employee manual

Human Resources

Funding sources and related expenses for the human resources section of the 2009 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Human Resources					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 BOD Approved Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 142,175	\$ 142,175	\$ -	\$ -	\$ (142,175)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 142,175	\$ 142,175	\$ -	\$ -	\$ (142,175)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 142,175	\$ 142,175	\$ -	\$ -	\$ (142,175)
Expenses					
Personnel Expenses					
Salaries	\$ 89,833	\$ 116,692	\$ 26,860	\$ 118,109	\$ 28,276
Payroll Taxes	7,001	7,731	730	7,866	864
Benefits	30,011	35,117	5,107	38,344	8,334
Retirement Costs	15,331	27,419	12,088	33,599	18,269
Total Personnel Expenses	\$ 142,175	\$ 186,960	\$ 44,784	\$ 197,918	\$ 55,742
Meeting Expenses					
Meetings	\$ -	\$ 6,389	\$ 6,389	\$ 6,389	\$ 6,389
Travel	-	45,493	45,493	45,493	45,493
Conference Calls	-	430	430	430	430
Total Meeting Expenses	\$ -	\$ 52,311	\$ 52,311	\$ 52,311	\$ 52,311
Operating Expenses					
Consultants & Contracts	\$ -	\$ 6,993	\$ 6,993	\$ 4,572	\$ 4,572
Office Rent	-	23,444	23,444	22,833	22,833
Office Costs	-	11,287	11,287	10,455	10,455
Professional Services	-	3,819	3,819	4,667	4,667
Computer & Equipment Leases	-	5,635	5,635	4,883	4,883
Miscellaneous	-	1,154	1,154	2,000	2,000
Depreciation	-	1,519	1,519	4,667	4,667
Total Operating Expenses	\$ -	\$ 53,850	\$ 53,850	\$ 54,077	\$ 54,077
Total Direct Expenses	\$ 142,175	\$ 299,460	\$ 157,285	\$ 304,805	\$ 162,630
Indirect Expenses	\$ -	\$ -	\$ -	\$ (304,805)	\$ (304,805)
Other Non-Operating Expenses	\$ -	\$ 6,340	\$ 6,340	\$ 500	\$ 500
Total Expenses	\$ 142,175	\$ 299,460	\$ 157,285	\$ -	\$ (142,175)
Change in Assets	\$ -	\$ (157,285)	\$ (157,285)	\$ -	\$ -
Fixed Assets					
Depreciation	\$ -	\$ (1,519)	\$ (1,519)	\$ (4,667)	\$ (4,667)
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	9,625	9,625	667	667
Equipment CapEx	-	6,154	6,154	1,000	1,000
Leasehold Improvements	-	23,702	23,702	667	667
(Incr)Dec in Fixed Assets	\$ -	\$ (37,962)	\$ (37,962)	\$ 2,333	\$ 2,333
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ (2,333)	\$ (2,333)
Change in Fixed Assets	-	(37,962)	(37,962)	-	-
TOTAL CHANGE IN ASSETS	\$ -	\$ (195,247)	\$ (195,247)	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, the expenses related to the indirect functions are being allocated entirely to the program areas and therefore have no ERO assessment revenue in 2010 except for a portion of the cash reserve requirement.

Personnel Expenses

- Personnel Expenses include a portion of Personnel Costs previously allocated to General & Administrative

Meeting Expenses

- In 2009, Meeting Expenses for all indirect functions were accounted for in General and Administrative.

Operating Expenses

- Increases to Operating Expenses are driven by directly allocating to the program areas certain costs that in previous years were included in General and Administrative.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs for 2010.

Other Non-Operating Expenses

- Increase in Other Non-Operating Expenses is due to allocation of Office Relocation costs.

Fixed Asset Additions

- Fixed Assets were previously included in Operating Expenses.

Accounting and Finance

Program Scope and Functional Description

The accounting and finance function directs the overall financial plans and accounting practices of the organization; oversees treasury, accounting, budget, tax, and audit activities; and oversees financial and accounting system controls and standards. NPCC uses a CPA firm to prepare unaudited financial statements for quarterly reviews.

2010 Goals and Key Deliverables

The objectives are to provide or obtain the financial and accounting services for NPCC and coordinate with NERC requirements:

- Utilize the NERC System of Accounts for consistency
- Utilize an accrual method of accounting for consistency with NERC in methodology
- Cash Management
- Budget Development using the NERC budget template formats
- Forecasts and Projections
- Alignment of NPCC Committees, Task Forces and Working Groups with the program areas
- Payroll and expense administration
- Preparation of unaudited Quarterly Financial Statements
- IRS Reporting
- Annual Independent Audit initiated by the Regional Entity
- NERC Audit

Accounting and Finance

Funding sources and related expenses for the accounting and finance section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Accounting and Finance					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 BOD Approved Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 411,551	\$ 411,551	\$ -	\$ -	\$ (411,551)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 411,551	\$ 411,551	\$ -	\$ -	\$ (411,551)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 411,551	\$ 411,551	\$ -	\$ -	\$ (411,551)
Expenses					
Personnel Expenses					
Salaries	\$ 197,957	\$ 100,451	\$ (97,506)	\$ 101,218	\$ (96,739)
Payroll Taxes	14,334	6,550	(7,784)	6,642	(7,691)
Benefits	48,941	19,017	(29,925)	20,506	(28,436)
Retirement Costs	13,819	13,288	(531)	14,460	641
Total Personnel Expenses	\$ 275,051	\$ 139,306	\$ (135,745)	\$ 142,826	\$ (132,225)
Meeting Expenses					
Meetings	\$ -	\$ 6,389	\$ 6,389	\$ 6,389	\$ 6,389
Travel	-	45,493	45,493	45,493	45,493
Conference Calls	-	430	430	430	430
Total Meeting Expenses	\$ -	\$ 52,311	\$ 52,311	\$ 52,311	\$ 52,311
Operating Expenses					
Consultants & Contracts	\$ -	\$ 6,993	\$ 6,993	\$ 4,572	\$ 4,572
Office Rent	-	23,444	23,444	22,833	22,833
Office Costs	-	11,287	11,287	10,455	10,455
Professional Services	136,500	140,319	3,819	214,810	78,310
Computer & Equipment Leases	-	5,635	5,635	4,883	4,883
Miscellaneous	-	1,154	1,154	2,000	2,000
Depreciation	-	1,519	1,519	4,667	4,667
Total Operating Expenses	\$ 136,500	\$ 190,350	\$ 53,850	\$ 264,220	\$ 127,720
Total Direct Expenses	\$ 411,551	\$ 388,307	\$ (23,244)	\$ 459,857	\$ 48,306
Indirect Expenses	\$ -	\$ -	\$ -	\$ (459,857)	\$ (459,857)
Other Non-Operating Expenses	\$ -	\$ 6,340	\$ 6,340	\$ 500	\$ 500
Total Expenses	\$ 411,551	\$ 388,307	\$ (23,244)	\$ -	\$ (411,551)
Change in Assets	\$ -	\$ 23,244	\$ 23,244	\$ -	\$ -
Fixed Assets					
Depreciation	\$ -	\$ (1,519)	\$ (1,519)	\$ (4,667)	\$ (4,667)
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	9,625	9,625	667	667
Equipment CapEx	-	6,154	6,154	1,000	1,000
Leasehold Improvements	-	23,702	23,702	667	667
(Incr)Dec in Fixed Assets	\$ -	\$ (37,962)	\$ (37,962)	\$ 2,333	\$ 2,333
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ (2,333)	\$ (2,333)
Change in Fixed Assets	-	(37,962)	(37,962)	-	-
TOTAL CHANGE IN ASSETS	\$ -	\$ (14,718)	\$ (14,718)	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, the expenses related to the indirect functions are being allocated entirely to the program areas and therefore have no ERO assessment revenue in 2010 except for a portion of the cash reserve requirement.

Personnel Expenses

- Decrease in Personnel Expenses is due to reprioritizing FTEs during 2009 which resulted in the diversion of 1.0 budgeted FTE from the 2009 Accounting & Finance area to the 2009 Compliance area. A total of 1.0 FTE will remain in the Accounting & Finance function in 2010.
- Accounting and Finance Personnel Expenses include a portion of Personnel Costs previously allocated to General & Administrative

Meeting Expenses

- In 2009, Meeting Expenses for all indirect functions were accounted for in General and Administrative.

Operating Expenses

- Increases to Operating Expenses are driven by directly allocating to the program areas certain costs that in previous years were included in General and Administrative.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs for 2010.

Other Non-Operating Expenses

- Increase in Other Non-Operating Expenses is due to allocation of Office Relocation costs.

Fixed Asset Additions

- Fixed Assets were previously included in Operating Expenses.

Section B — 2010 Regional Entity Division Budget

2009 Budget and Projection and 2010 Budget Comparisons

Table 1

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
REGIONAL ENTITY DIVISION					
	2009 Budget	2009 Projection	Variance ⁽²⁾ 2009 Projection v 2009 Budget Over(Under)	2010 BOD Approved Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 10,008,885	\$ 10,008,885	\$ -	\$ 11,500,439	\$ 1,491,554
Penalty Sanctions ⁽¹⁾	-	-	-	-	-
Total ERO Funding	\$ 10,008,885	\$ 10,008,885	\$ -	\$ 11,500,439	\$ 1,491,554
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 10,008,885	\$ 10,008,885	\$ -	\$ 11,500,439	\$ 1,491,554
Expenses					
Personnel Expenses					
Salaries	\$ 3,671,371	\$ 3,570,062	\$ (101,309)	\$ 4,319,870	\$ 648,499
Payroll Taxes	200,528	199,428	(1,099)	246,223	45,696
Benefits	794,236	763,315	(30,922)	1,077,454	283,218
Retirement Costs	527,311	684,650	157,339	806,115	278,803
Total Personnel Expenses	\$ 5,193,446	\$ 5,217,455	\$ 24,009	\$ 6,449,662	\$ 1,256,216
Meeting Expenses					
Meetings	\$ 188,686	\$ 188,152	\$ (534)	\$ 224,217	\$ 35,531
Travel	750,510	746,710	(3,800)	849,491	98,980
Conference Calls	53,877	55,216	1,339	70,795	16,918
Total Meeting Expenses	\$ 993,073	\$ 990,078	\$ (2,995)	\$ 1,144,503	\$ 151,430
Operating Expenses					
Consultants & Contracts	\$ 982,400	\$ 1,000,219	\$ 17,819	\$ 1,786,324	\$ 803,924
Office Rent	554,683	548,588	-6,095	625,850	71,166
Office Costs	267,060	264,126	(2,935)	286,574	19,513
Professional Services	771,862	771,862	0	794,890	23,028
Computer & Equipment Leases	133,315	131,906	(1,409)	133,802	487
Miscellaneous	27,300	27,000	(300)	54,820	27,520
Depreciation	-	35,539	35,539	127,913	127,913
Total Operating Expenses	\$ 2,736,621	\$ 2,779,240	\$ 42,620	\$ 3,810,172	\$ 1,073,551
Total Direct Expenses	\$ 9,073,141	\$ 9,135,126	\$ 61,985	\$ 11,418,042	\$ 2,344,901
Indirect Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Other Non-Operating Expenses	\$ 150,001	\$ 148,352	\$ (1,648)	\$ 13,705	\$ (136,296)
Total Expenses	\$ 9,073,141	\$ 9,135,126	\$ 61,985	\$ 11,418,042	\$ 2,344,901
Change in Assets	\$ 935,744	\$ 873,759	\$ (61,985)	\$ 82,397	\$ (853,347)
Fixed Assets					
Depreciation	\$ -	\$ (35,539)	\$ (35,539)	\$ (127,913)	\$ (127,913)
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	227,728	225,321	(2,406)	18,273	(209,454)
Equipment CapEx	145,600	144,062	(1,538)	27,410	(118,190)
Leasehold Improvements	560,788	554,862	(5,925)	18,273	(542,514)
(Incr)Dec in Fixed Assets	\$ (934,115)	\$ (888,706)	\$ 45,409	\$ 63,957	\$ 998,072
Allocation of Fixed Assets	-	-	-	(0)	(0)
Change in Fixed Assets	(934,115)	(888,706)	45,409	63,957	998,072
TOTAL CHANGE IN ASSETS	\$ 1,629	\$ (14,947)	\$ (16,575)	\$ 146,354	\$ 144,725

⁽¹⁾ Reflects penalty sanctions collected prior to June 30, 2009.⁽²⁾ 2009 Projections reflect expectations based on the 1st quarter statement of activities. It is anticipated that projections could change throughout 2009 and would be reflected in each subsequent quarter's statement of activities.

Personnel Analysis

FTEs are defined as full-time employees only. Fractional FTEs reflect employees allocated to more than one program area or function.

Table 2

Total FTE's by Program Area	Budget 2009	Projection 2009	Direct FTEs 2010 Budget	Shared FTEs ¹ 2010 Budget	Total FTEs 2010 Budget	Change from 2009 Budget
REGIONAL ENTITY DIVISION						
Operational Programs						
Reliability Standards	2.0	2.0	2.0	0.0	2.0	0.0
Compliance Enforcement and Organization Registration and Certification	8.0	9.0	12.0	0.0	12.0	4.0
Training and Education	0.1	0.1	0.1	0.0	0.1	0.0
Reliability Assessment and Performance Analysis	3.9	3.9	4.9	0.0	4.9	1.0
Situation Awareness and Infrastructure Security	2.0	2.0	2.0	0.0	2.0	0.0
Total FTEs Operational Programs	16.0	17.0	21.0	0.0	21.0	5.0
Administrative Programs						
Member Forums	0.5	0.5	0.0	0.5	0.5	0.0
General and Administrative ²	1.9	1.9	1.0	0.91	1.91	0.0
Information Technology	2.0	2.0	2.0	0.0	2.0	0.0
Legal and Regulatory	0.0	0.0	0.0	0.0	0.0	0.0
Human Resources	1.0	1.0	1.0	0.0	1.0	0.0
Accounting and Finance	2.0	1.0	1.0	0.0	1.0	-1.0
Total FTEs Administrative Programs	7.4	6.4	5.00	1.41	6.41	-0.99
Total FTEs	23.4	23.4	26.00	1.41	27.41	4.01

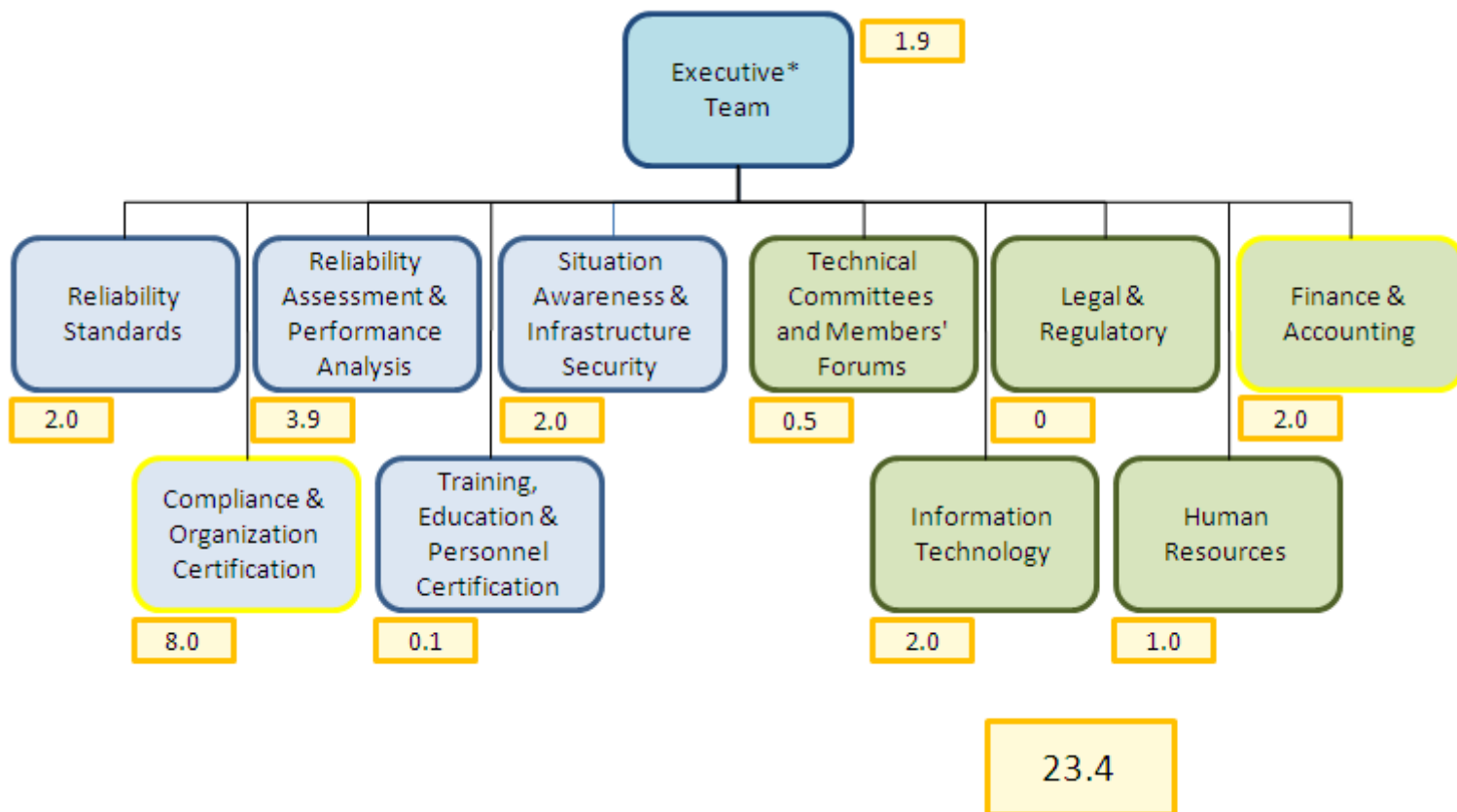
¹A shared FTE is defined as an employee who performs both Regional Entity and Criteria Services division functions.

²Since a portion of the Executive Team supports each of the program areas and indirect functions, this table can be interpreted as allocating the Executive Team FTEs across all program areas and functions based on overall FTE count.

2009 Budget NPCC Organization Chart

Regional Entity Division

Table 3



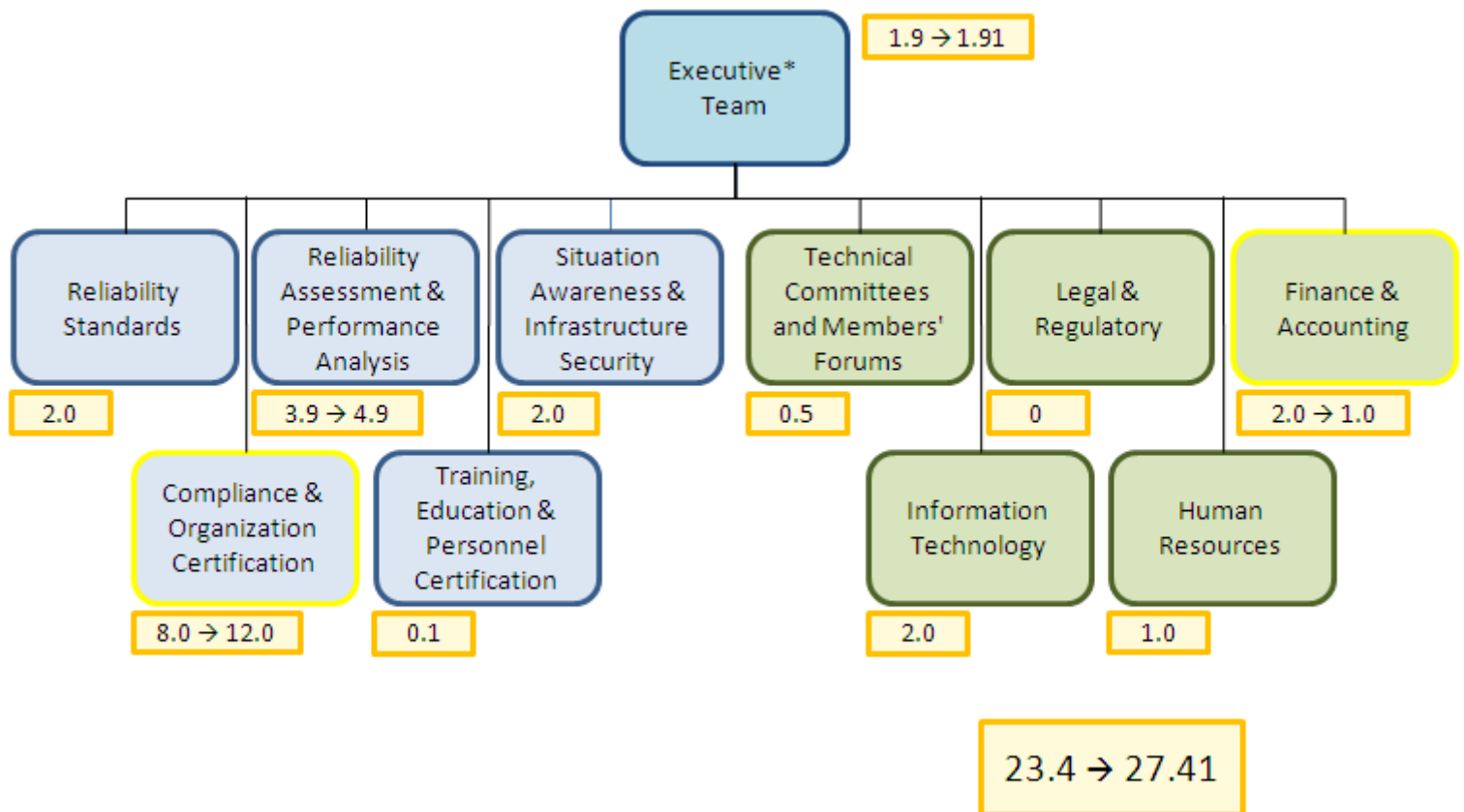
Due to increasing workload, resources were reprioritized during 2009 and 1.0 FTE was diverted from the Finance & Accounting budget and added to the Compliance budget. 2009 FTE Projection includes 1.0 FTEs in the Finance & Accounting function and 9.0 FTEs in the Compliance program area.

* Since a portion of the Executive Team supports each of the program areas and indirect functions, this chart can be interpreted as allocating the Executive Team FTEs across all program areas and functions based on overall FTE count.

2010 NPCC Organization Chart

Regional Entity Division

Table 4



Due to increasing workload, resources were reprioritized during 2009 and 1.0 FTE was diverted from the Finance & Accounting area and added to the Compliance area. 2009 FTE Projection includes 1.0 FTEs in the Finance & Accounting function and 9.0 FTEs in the Compliance program area. 3.0 additional FTEs will be added to the Compliance program in 2010.

* Since a portion of the Executive Team supports each of the program areas and indirect functions, this chart can be interpreted as allocating the Executive Team FTEs across all program areas and functions based on overall FTE count.

Working Capital Reserve Analysis 2009 – 2010

Table 5

Working Capital Reserve Analysis 2009-2010	
REGIONAL ENTITY DIVISION	
Beginning Working Capital Reserve (Deficit), December 31, 2008	2,139,410
Less: Penalty sanctions being held to be used as offset to 2010 assessments ¹	0
Plus: 2009 ERO Funding (from LSEs or designees)	10,008,885
Plus: 2009 Other funding sources	0
Less: 2009 Projected expenses & capital expenditures	(10,023,831)
Projected Working Capital Reserve (Deficit), December 31, 2009	2,124,463
Desired Working Capital Reserve, December 31, 2010 (20% of Total Regional Entity Budget of \$11,354,085)	2,270,817
Less: Projected Working Capital Reserve, December 31, 2009	(2,124,463)
Increase(decrease) in assessments to achieve desired Working Capital Reserve	146,354
2010 Assessment for Expenses and Capital Expenditures	11,354,085
Less: Penalty Sanctions ¹	0
Less: Other Funding Sources	0
Adjustment to achieve desired Working Capital Reserve	146,354
2010 Assessment ²	11,500,439

¹ Represents collections prior to June 30, 2009.

² While the processing costs associated with Technical Feasibility Exceptions (TFEs) which would logically fall within the CORC program area are largely unknown, NPCC's Board of Directors, at its July 29th, 2009 meeting, was informed that NPCC will draw upon operating reserves to perform this unbudgeted but approved Regional Entity activity during 2010. As NPCC gets into the year 2010 and if it is deemed necessary, NPCC will file a supplemental budget request for 2010.

Note: The accountants' compilation report dated April 6, 2009 for NPCC's financial statements dated December 31, 2008 included certain adjustments to NPCC's financial position as compared to the April 1, 2009 Compliance Filing. NPCC's regional entity (RE) division 2008 budget, less adjusted total expenses, left a total surplus of some \$322,764 as compared to the \$247,572.

Regional Entity Assessment Analysis

In the area of assessments for 2010 there are distinct funding mechanisms as outlined in the following Table 6. The NPCC Board approved these assessments at its July 29th, 2009 meeting. For the Regional Entity division, the North American Electric Reliability Corporation (NERC) will assess load serving entities (LSEs) or their designees (within NPCC the designees are the Balancing Authority Areas (BAAs) for New York, New England, New Brunswick, Nova Scotia, Ontario and Québec) based upon 2008 proportional Net Energy for Load and other specific program area funding arrangements and make quarterly remittances to the Regional Entity on or about the 15th day of January, April, July and October, 2010. For funding associated with the Criteria Services division, the Independent System Operators/Balancing Authority Areas (ISO/BAAs) will be assessed by NPCC for their proportional share of the divisional budget based upon 2008 NEL within the Region. Non ISO/BAA Full Members will be assessed no membership fee for 2010.



Table 6
NPCC 2010 Regional Entity (RE)
and Criteria Services (CS) Divisional Funding Information*
Compliance Allocation: CORC Direct and Indirect

At their June 30, 2009 meeting, the NPCC Board of Directors approved a 2010 Budget for the RE Division of \$11,500,439, which includes total CORC program costs of \$6,198,595.

A-1 NPCC Balancing Authorities (LSE Designees)	B-1 2008 Net Energy for Load (MWh)	C-1 2008 NEL % of NPCC Total	D-1 2010 ¹ NPCC RE Division Minus CORC Program	E-1 2010 NPCC CS Division
New England	131,749,000	19.91595%	1,055,913	228,133
New York	165,613,000	25.03503%	1,327,318	286,771
Ontario	148,676,000	22.47474%	1,191,575	257,443
Québec	188,799,000	28.53996%	1,513,144	326,919
New Brunswick	14,149,000	2.13885%	113,398	24,500
Nova Scotia	12,539,000	1.89547%	100,495	21,712
<i>Total</i>	661,525,000	100.00000%	\$5,301,844	\$1,145,478

2010 CORC

A-2 Balancing Authorities (LSE Designees)	B-2 2010 ² NEL Based 55% CORC Program	C-2 2010 ³ Audit Based Methodology (US - NEL Based)	D-2 2010 ⁴ Audit Based 45% CORC Program	E-2 2010 Total CORC Program	F-2 2010 RE Division Total Funding (D-1 plus E-2)	G-2 2010 NPCC Total Funding (E-1 plus F-2)
New England	678,980	41.87062%	1,167,925	1,846,906	2,902,818	3,130,951
New York	853,501	52.63280%	1,468,122	2,321,623	3,648,942	3,935,712
Ontario	766,215	0.00000%	0	766,215	1,957,790	2,215,233
Québec	972,992	3.66191%	102,144	1,075,136	2,588,281	2,915,200
New Brunswick	72,918	0.00000%	0	72,918	186,316	210,816
Nova Scotia	64,621	1.83467%	51,176	115,797	216,291	238,004
<i>Total</i>	\$3,409,227	100.00%	\$2,789,368	\$6,198,595	\$11,500,439	\$12,645,916

¹ Consistent with NERC's Policy on Allocation of Certain Compliance and Enforcement Costs, the NPCC Board approved Allocation Methodologies for Certain NPCC Compliance Program Area Costs Assessed to Non-U.S. Entities.

² Regional NEL based funding represents 55% of CORC Program, while 45% of CORC Program totaling some \$2,789,368 is allocated using an audit based methodology for Canadian Balancing Authorities and an NEL based methodology for US Balancing Authorities for 2010.

³ Audit based allocation uses Compliance Registry Data registrants as of June 12, 2009.

⁴ Allocation adjustment of \$626,903 and \$59,660 identified as NPCC CORC costs duplicative of Ontario and New Brunswick Compliance and Enforcement Programs, respectively.

* The NPCC Board of Directors, at its July 29th, 2009 meeting unanimously resolved that the NPCC Assessment will implement the NERC Expanded Policy on Allocation of Certain Compliance and Enforcement Costs, such that the NPCC Balancing Authorities, acting as LSE designees, would have applied a 2010 assessment adjustment as outlined in this table; and consistent with the FERC Order on Compliance Filing, issued July 16, 2009, "NPCC, in its 2010 business plan and budget, must apply cost allocation based on NEL within the United States".

Breakdown by Statement of Activity Sections

The following detailed schedules are in support of Table 1, page 72, of the 2010 RE Business Plan and Budget. All significant variances have been disclosed by program area in the preceding pages.

Penalty Sanctions

Penalty monies received prior to June 30, 2009 are to be used to offset U.S. LSE designee assessments in the 2010 Budget, as documented in the NERC Policy – Accounting, Financial Statement and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standard. Penalty monies received from July 1, 2009 through June 30, 2010 will be used to offset U.S. LSE designee assessments in the 2011 Budget. No penalty monies received by Canadian provincial governmental and/or regulatory authorities will be remitted to NPCC, nor will any such monies be used to offset Canadian LSE designee Regional Entity division assessments. NPCC does not anticipate receipt of U.S. penalty monies prior to June 30, 2009.

Allocation Method: Penalty sanctions if received would have been allocated to the following statutory programs to reduce U.S. LSE designee assessments: Reliability Standards; Compliance Monitoring & Enforcement and Organization Registration & Certification; Reliability Assessments and Performance Analysis; Training, Education and Operator Certification; and Situation Awareness and Infrastructure Security. Penalty sanctions are allocated based upon the number of FTEs in the Program divided by the aggregate total FTEs in the Programs receiving the allocation.

Table B-1

Penalty Sanctions Received Prior to June 30, 2009	Date Received	Amount Received
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While there is an expectation that penalty sanctions will be remitted in the coming months, no penalty sanctions are expected to be received by June 30th, 2009 and as such would have no impact on reducing 2010 U.S. assessments. Penalty sanctions received after June 30th, 2009 would offset 2011 U.S. assessments.

Supplemental Funding

Table B-2

Outside Funding Breakdown By Program (excluding ERO Assessments & Penalty Sanctions)	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
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No supplemental funding is identified for statutory activities.

Since NPCC investments are currently confined to U.S. Treasuries and Money Market Accounts and interest income is minimal, NPCC did not budget for interest income. NPCC will record actual interest income once earned which will offset 2011 Budget requirements.

Personnel Expenses

Table B-3

Personnel Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Salaries					
Salary	\$ 3,653,171	\$ 3,552,062	\$ 4,299,770	\$ 646,598	17.7%
Employment Agency Fees	13,650	13,500	10,964	(2,686)	-19.7%
Temporary Office Services	4,550	4,500	9,137	4,587	100.8%
Total Salaries	3,671,371	3,570,062	4,319,870	648,499	17.7%
Total Payroll Taxes	200,528	199,428	246,223	45,696	22.8%
Benefits					
Education Reimbursement	\$ 14,560	\$ 14,400	\$ 18,273	\$ 3,713	25.5%
Medical Insurance	509,752	472,549	720,442	210,690	41.3%
Life-LTD-STD Insurance	16,452	28,434	36,196	19,744	120.0%
Worker's Compensation	12,121	11,988	13,996	1,874	15.5%
Vacation	241,351	235,944	288,547	47,195	19.6%
Relocation	-	-	-	-	-
Total Benefits	794,236	763,315	1,077,454	283,218	35.7%
Retirement					
Pension Contribution	\$ 390,888	\$ 419,014	\$ 540,473	\$ 149,585	38.3%
Employee Savings Plan	125,503	229,186	229,186	103,683	82.6%
Savings Admin	10,920	10,800	11,329	409	3.7%
Deferred Compensation	-	25,650	25,126		
Total Retirement	527,311	684,650	806,115	253,677	52.9%
Total Personnel Costs	\$ 5,193,446	\$ 5,217,455	\$ 6,449,662	\$ 1,231,090	24.2%
FTEs	23.4	23.4	27.41	4.0	17.1%
Cost per FTE					
Salaries	\$ 156,896	\$ 152,567	\$ 157,602	706	0.4%
Payroll Taxes	8,570	8,523	8,983	413	4.8%
Benefits	33,942	32,620	39,309	5,367	15.8%
Retirement	22,535	29,259	29,410	6,875	30.5%
Total Cost per FTE	\$ 221,942	\$ 222,968	\$ 235,303	\$ 13,361	6.0%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- The increases in Salaries, payroll taxes, 401k plan discretionary contributions, workers compensation and other insurances and vacation expenses are due primarily to the addition of 4.0 FTEs. NPCC has assumed an overall general wage package of 3% and has not funded at risk (variable incentives) compensation at 100%.
- The decrease in Employment Agency Fees is due to NPCC's successful employee referral program which is exceedingly lower cost vs. recruiter fees.
- The increase in Temporary Office Services is due to greater use of summer interns.
- The increase in Education Reimbursement is due to anticipated employee education in the Accounting & Finance function.
- The increase in Medical Insurance is due to the addition of 4.0 FTEs and NPCC's inclusion of insurance coverage for 2 of 10 existing staff who waived insurance for superior coverage through a spouse or prior employer. Prior years' budgets did not include funding of health insurance should opting back in be required.
- The increase in Life-LTD-STD is due mainly to the fact that NPCC did not budget for STD in 2009 and that there was a formulaic error in the 2009 budget model resulting in under budgeted LTD premium costs for some employees.
- The increase in Pension Contribution is due to larger pension funding requirements associated with SFAS 158 and the Pension Protection Act.
- Deferred Compensation was not budgeted for in 2009 as Board approval came in late November, 2008.

Consultants and Contracts

Table B-4

Consultants	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Consultants					
Reliability Standards	\$ 114,000	\$ 118,338	\$ 2,000	\$ (112,000)	-98.2%
Compliance Enforcement and Organization Registration and Certification	134,400	153,923	107,000	(27,400)	-20.4%
Reliability Assessment and Performance Analysis	15,600	24,060	24,100	8,500	54.5%
Training and Education	-	217	100	100	-
Situation Awareness and Infrastructure Security	-	4,338	2,000	2,000	-
Member Forums	-	1,085	500	500	-
General and Administrative	20,400	4,122	1,910	(18,490)	-90.6%
Legal and Regulatory	-	-	-	-	-
Information Technology	-	4,338	2,000	2,000	-
Accounting and Finance	-	2,169	1,000	1,000	-
Human Resources	-	2,169	1,000	1,000	-
Consultants Total	\$ 284,400	\$ 314,760	\$ 141,610	\$ (142,790)	-50.2%
Contracts	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Reliability Standards	\$ -	\$ 9,647	\$ 33,143	\$ 33,143	-
Compliance Enforcement and Organization Registration and Certification	270,204	313,614	1,100,000	829,796	307.1%
Reliability Assessment and Performance Analysis	271,338	290,149	372,177	100,839	37.2%
Training and Education	-	482	357	357	-
Situation Awareness and Infrastructure Security	31,051	40,698	116,143	85,092	274.0%
Member Forums	-	2,412	1,786	1,786	-
General and Administrative	125,407	9,164	6,822	(118,585)	-94.6%
Legal and Regulatory	-	-	-	-	-
Information Technology	-	9,647	7,143	7,143	-
Accounting and Finance	-	4,823	3,572	3,572	-
Human Resources	-	4,823	3,572	3,572	-
Contracts Total	\$ 698,000	\$ 685,459	\$ 1,644,714	\$ 946,714	135.6%
Total Consultants and Contracts	\$ 982,400	\$ 1,000,219	\$ 1,786,324	\$ 803,924	81.8%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

Consultants

- Decrease in Reliability Standards is due to the completion of the reliability directories effort in 2009. A portion of allocated General and Administrative Consultant expense remains.
- Decrease in Compliance is due to the completion of major enhancements to the CDAA application in 2009.
- Increase in Reliability Assessment is primarily due to the allocation of a portion of General and Administrative Consultant expenses.
- Increases in Training and Education, Situation Awareness, and Member Forums, are due to the allocation of a portion of General & Administrative Consultant expenses.
- In the 2010 budget, General and Administrative Consultant costs are spread across all of the program areas and indirect functions based on FTE count. In the 2009 budget, all General and Administrative Consultant costs were allocated solely to the General and Administrative function.
- Increases in the Information Technology, Accounting and Finance, and Human Resources functions, are due to the allocation of a portion of General & Administrative Consultant expenses.

Contracts

- Increase in Reliability Standards is due to contractor need for the review, maintenance, and support of the standards.
- Increase in Compliance is due to increased number of audits. 2009 budget is lower than 2008 actual expenditures
- Increase in Reliability Assessment is due primarily to combining the seasonal NPCC probabilistic multi-area reliability assessments to a single annual enhanced 2010 Interregional Long-Range (5 year) Adequacy Overview and conducting the NPCC 2010 - 2014 Tie Benefits Study. Additionally, support of regional system studies to reliably integrate large-scale renewable resources and for conducting resource adequacy assessments addressing Climate Change Initiatives is included
- Training and Education contains a portion of allocated General & Administrative Consultant expenses
- Increase in Situation Awareness is due to the development of the software and server to establish the NPCC Situation Awareness Tool (approximately \$100,000)
- Member Forums contains of a portion of allocated General & Administrative Consultant expenses
- For 2010, General and Administrative Contractor costs are spread across all of the program areas and indirect functions based on FTE count. In 2009, all General and Administrative Contractor costs were allocated solely to the General and Administrative function. This accounts for the budget to budget decrease of nearly \$120,000.
- Increases in the Information Technology, Accounting and Finance, and Human Resources functions, are due to the allocation of a portion of General & Administrative Contractor expenses.

Table B-5

Office Rent	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Office Rent	\$ 490,073	\$ 484,688	\$ 575,610	\$ 85,537	17.5%
Utilities	27,300	27,000	27,400	100	0.4%
Maintenance	32,760	32,400	18,273	(14,487)	-44.2%
Security	4,550	4,500	4,567	17	0.4%
Total Office Rent	\$ 554,683	\$ 548,588	\$ 625,850	\$ 71,166	12.8%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Increase in Office Rent is due to the 15 year straight line of rents associated with the new office space lease.
- Decrease in Office Maintenance is due to the inclusion of base cleaning in office rent lease terms

Table B-6

Office Costs	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Telephone	\$ 68,687	\$ 67,932	\$ 68,687	\$ -	0.0%
Internet Expense	55,556	54,945	55,556	-	0.0%
Office Supplies	24,242	23,976	24,242	-	0.0%
Computer Supplies and Maintenance	35,354	34,965	35,354	-	0.0%
Subscriptions & Publications	5,051	4,995	5,051	-	0.0%
Dues	7,071	6,993	7,071	-	0.0%
Postage	2,525	2,498	2,525	-	0.0%
Express Shipping	9,091	8,991	9,091	-	0.0%
Copying	3,030	2,997	3,030	-	0.0%
Reports	6,061	5,994	6,061	-	0.0%
Stationary and Office Forms	6,061	5,994	6,061	-	0.0%
Equipment Repair/Service Contracts	18,200	18,000	18,200	-	0.0%
Bank Charges	17,033	16,846	36,547	19,513	114.6%
Sales and Use Tax	-	-	-	-	-
Merchant Credit Card Fees	-	-	-	-	-
Presentation and Publicity	9,100	9,000	9,100	-	0.0%
Total Office Costs	\$ 267,060	\$ 264,126	\$ 286,574	\$ 19,513	7.3%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Increase in bank charges is largely due to the annual fee for the fully collateralized letter of credit.

Table B-7

Professional Services	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
BOT Fee	\$ 75,712	\$ 75,712	\$ 109,640	\$ 33,928	44.8%
BOT Search Fee	-	-	-	-	-
Legal - Reorganization	-	-	-	-	-
Accounting & Auditing Fees	136,500	136,500	210,143	73,643	54.0%
Legal Fees - Other	546,000	546,000	456,833	(89,167)	-16.3%
Insurance - Commercial	13,650	13,650	18,273	4,623	33.9%
Total Services	\$ 771,862	\$ 771,862	\$ 794,890	\$ 23,028	3.0%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Increase in BOT Fee is a result of the inclusion of CPA firm Treasurer retainer and retainer increase for consultant chairman.
- Increase in Accounting & Auditing Fees is driven by greater reporting requirements associated with the accrual basis method of accounting especially in the area of pension liabilities, which is more complex than modified cash basis of accounting. Greater reporting requirements are also driving increased costs.
- Decrease in Legal Fees anticipated with the inclusion of an attorney on staff in the Compliance program area.
- Increase in Insurance is a result of larger office space and newly acquired furniture and equipment requiring more property and casualty insurance.

Table B-8

Other Non-Operating Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Interest Expense	\$ -	\$ -	\$ -	\$ -	-
Office Relocation	150,001	148,352	13,705	(136,296)	-90.9%
Total Non-Operating Expenses	\$ 150,001	\$ 148,352	\$ 13,705	\$ (136,296)	-90.9%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- The Office Relocation account includes the miscellaneous costs of relocating NPCC to new facilities within New York City. A nominal figure has been budgeted for miscellaneous expenses related to new construction such as painting, minor alterations, etc.

Section C — 2010 Criteria Services Division Business Plan and Budget

Full Member Criteria Services

Criteria Services Division (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	2.6	2.59	-0.01
Total Expenses	\$1,012,790	\$1,145,478	\$132,688

NPCC Regionally-Specific Criteria Services Background

NPCC regional criteria services division activities are in the development, maintenance and promulgation of regionally-specific more stringent criteria as well as criteria establishing resource adequacy requirements within the Region. These criteria contain requirements which are more stringent and more specific than the existing NERC Reliability Standards requirements.

Membership and Governance

Full members are subject to compliance, with regionally-specific criteria, in addition to continent-wide reliability standards, and receive criteria-related services from the criteria services division.

Full Members, other than Full Members that perform the Balancing Authority function, are not assessed an annual membership fee. Those that perform Balancing Authority functions are assessed and remit, a proportional net energy for load share, of expenses for criteria services. NPCC would also, directly assign criteria service division costs to a Balancing Authority Area or entity, where significant costs are incurred for that Balancing Authority Area. The funding for NPCC's criteria services division is approved by the NPCC Board of Directors.

Criteria Services Division Functional Scope

Through its criteria services division, NPCC promotes the reliable and efficient operation of the international, interconnected bulk power systems in Northeastern North America through the establishment of regionally-specific criteria, and monitoring and enforcement of compliance with such criteria.

NPCC provides Full Members, with regional reliability assurance services, and acts as the vehicle through which States and Provinces can fulfill their political mandates, with respect to resource adequacy, as well as overseeing the Northeastern North American electric infrastructure.

2010 Primary Goals and Objectives

NPCC Reliability Directory Maintenance and Development

The NPCC Regional Reliability Directories were developed to address consistency issues with the NERC Reliability Standards and also to remove any redundancies with the NERC Reliability Standards and to clearly delineate the more stringent requirements NPCC criteria requirements. In 2010 the directories will be under further review and revision.

Work will proceed with maintenance and revision to address any future redundancies or the continued need for additional more stringent or specific NPCC regional criteria requirements as new NERC reliability standards are developed.

The following Directories will either be under revision or reviewed for further development based on a schedule set forth in the NPCC Reliability Assessment Program:

Operations and Planning Directories

Directory #1, *Basic Criteria for Design and Operation of Interconnected Power Systems*

This directory will coordinate and ensure consistency with all the existing NERC TPL, BAL, IRO, INT, MOD, TOP, PRC and VAR standards. The NPCC Task Force on Coordination of Planning will lead a multi-disciplinary working group to review and revise this directory.

Directory #2, *Emergency Operations*

This directory will coordinate and ensure consistency with all the existing NERC EOP and TOP standards. The NPCC Task Force on Coordination of Operation will lead this review and revision.

Directory # 3, *Maintenance Requirements for BPS Protection*

This Directory will coordinate and ensure consistency with all the applicable NERC PRC standards. The NPCC Task Force on System Protection will lead this review and revision.

Directory # 4, *BPS Protection*

This Directory will coordinate and ensure consistency with all the applicable NERC PRC standards. The NPCC Task Force on System Protection will lead this review and revision.

Directory # 5, *Operating Reserve Requirements*

This directory will coordinate and ensure consistency with all the existing applicable NERC BAL, INT, and IRO standards. The NPCC Task Force on Coordination of Operation will lead this review and revision.

Directory # 11, *Disturbance Monitoring*, This directory will coordinate and ensure consistency with all the existing NERC PRC standards. The NPCC Task Force on System Protection will lead this review and revision.

Directory # 12, *UFLS Program*, This directory will coordinate and ensure consistency with all the existing NERC and NPCC developing PRC standard(s). The NPCC Task Force on System Studies will lead this review and revision.

NPCC Criteria Compliance Background

The NPCC criteria services division Compliance effort, the NPCC Reliability Compliance and Enforcement Program (RCEP), monitors, assesses and enforces compliance of NPCC Full Member entities responsible for meeting NPCC's regionally specific, more-stringent Criteria. Non-monetary sanctions are used to enforce violations of NPCC Criteria.

In NPCC Canada, NPCC monitors, assesses and enforces compliance to regionally-specific NPCC Criteria in accordance with approved Memoranda of Understanding and Implementation Agreements that are in place or under development with each Canadian province within the Region. NPCC issues non-monetary sanctions to responsible Canadian entities for violations of NPCC Criteria.

The RCEP identifies those NPCC Criteria that are subject to monitoring, assessment and enforcement. These Criteria also are subject to NPCC Criteria Compliance Audits.

The NPCC Compliance Committee (CC) has final approval of compliance assessments related to the RCEP. This balanced stakeholder committee consists of representatives of the eight voting sectors as described in the NPCC *Bylaws* and is chaired by the Assistant Vice President - Compliance. The CC will also be used to resolve contested compliance and/or sanction or penalty determinations related to NPCC Criteria.

2010 Goals and Objectives

- Conduct 2010 NPCC Reliability Compliance and Enforcement Program (RCEP)
 - Assess compliance, by responsible entities, with NPCC Criteria including requirements in the RCEP
 - Document results and provide appropriate reports to CC
 - For instances of identified non-compliance, provide a report fully explaining the reason for the non-compliance and recommend to the CC the appropriate sanction and review any mitigation plan or action proposed to achieve compliance
 - Develop and implement the necessary processes and procedures to efficiently execute the NPCC RCEP
 - Provide information and feedback on compliance program to NPCC Members, RCC, Task Forces and participants in the program
 - RCEP related issues will be included in the NPCC Compliance Workshops.
 - Manage the Review Process for the NPCC RCEP
 - Provide oversight review of NPCC Area compliance programs
 - Review and propose changes to existing documents as required for the NPCC Compliance Program, and propose new documents as required

Staffing Needs

1.0 FTE is allocated to the development and maintenance of NPCC's regionally-specific more-stringent criteria. 1.0 FTE is allocated to conduct the responsibilities related to the implementation of the RCEP. NPCC plans to conduct five Criteria Compliance Audits in 2009.

In addition NPCC will be revising the existing NPCC more stringent criteria which resides in the NPCC Directories, into specific clear and measurable requirements allowing these criteria to be measured and assessed for compliance. These criteria requirements will be part of a regional non-statutory compliance program based solely on NPCC more stringent and specific criteria. As outlined in the NERC Rules of Procedure, these criteria enhancements will be forwarded to NERC for compilation into the catalog of criteria with other region's criteria. In addition NPCC will conduct work on ensuring continual consistency with all NERC reliability standard requirements as they are approved. NPCC will utilize 1.0 full time contractor to accomplish this "one time" conversion task.

Hiring Plans

No additional personnel required.

Shared Employees

Not Applicable.

Contractors

Use of independent contractors anticipated.

Major 2010 Cost Impacts

Personnel Costs associated with the Pension Protection Act and the adoption of SFAS 158 in accounting for pensions and increases to retiree insurances.

2009 Budget and Projection and 2010 Budget Comparisons

Table 1

Statement of Activities					
2008 Budget & Projection, and 2009 Budget					
CRITERIA SERVICES DIVISION					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 BOD Approved Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ -	\$ -	\$ -	\$ -	\$ -
Membership Dues	1,012,790	1,012,790	-	1,145,478	132,688
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 1,012,790	\$ 1,012,790	\$ -	\$ 1,145,478	\$ 132,688
Expenses					
Personnel Expenses					
Salaries	\$ 343,565	\$ 372,157	\$ 28,592	\$ 378,635	\$ 35,069
Payroll Taxes	20,090	22,313	2,223	23,156	3,067
Benefits	67,849	87,905	20,056	103,438	35,590
Retirement Costs	86,374	69,107	(17,267)	182,833	96,458
Total Personnel Expenses	\$ 517,878	\$ 551,482	\$ 33,604	\$ 688,062	\$ 170,184
Meeting Expenses					
Meetings	\$ 24,301	\$ 24,835	\$ 534	\$ 23,600	\$ (701)
Travel	84,266	88,066	3,800	70,001	(14,265)
Conference Calls	5,549	5,581	32	4,645	(904)
Total Meeting Expenses	\$ 114,116	\$ 118,482	\$ 4,366	\$ 98,246	\$ (15,870)
Operating Expenses					
Consultants & Contracts	\$ 108,000	\$ 90,181	\$ (17,819)	\$ 125,340	\$ 17,340
Office Rent	54,859	48,526	-6,332	59,150	4,292
Office Costs	26,413	29,347	2,935	28,181	1,769
Professional Services	76,338	76,338	-	75,110	(1,228)
Computer & Equipment Leases	13,185	14,594	1,409	12,698	(487)
Miscellaneous	2,700	3,000	300	5,180	2,480
Depreciation	-	3,949	3,949	12,087	12,087
Total Operating Expenses	\$ 281,494	\$ 265,935	\$ (15,560)	\$ 317,747	\$ 36,253
Total Direct Expenses	\$ 928,324	\$ 952,382	\$ 24,058	\$ 1,105,351	\$ 177,027
Indirect Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Other Non-Operating Expenses	\$ 14,835	\$ 16,484	\$ 1,648	\$ 1,295	\$ (13,540)
Total Expenses	\$ 928,324	\$ 952,382	\$ 24,058	\$ 1,105,351	\$ 177,027
Change in Assets	\$ 84,466	\$ 60,408	\$ (24,058)	\$ 40,127	\$ (44,339)
Fixed Assets					
Depreciation	\$ -	\$ (3,949)	\$ (3,949)	\$ (12,087)	\$ (12,087)
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	22,523	24,929	2,406	1,727	(20,796)
Equipment CapEx	14,400	15,938	1,538	2,590	(11,810)
Leasehold Improvements	55,463	61,388	5,925	1,727	(53,736)
(Inc)Dec in Fixed Assets	\$ (92,385)	\$ (98,306)	\$ (5,921)	\$ 6,043	\$ 98,428
Allocation of Fixed Assets					
Change in Fixed Assets	\$ (92,385)	\$ (98,306)	\$ (5,921)	\$ 6,043	\$ 98,428
TOTAL CHANGE IN ASSETS	\$ (7,919)	\$ (37,899)	\$ (29,980)	\$ 46,170	\$ 54,089

Personnel Analysis

FTEs are defined as full-time employees only. Fractional FTEs reflect employees allocated to more than one program area or function.

Table 2

Total FTE's by Program Area	Budget 2009	Projection 2009	Direct FTEs 2010 Budget	Shared FTEs ¹ 2010 Budget	Total FTEs 2010 Budget	Change from 2009 Budget
CRITERIA SERVICES DIVISION						
Operational Programs						
Reliability Standards	1.0	1.0	1.0	0.0	1.0	0.0
Compliance Enforcement and Organization Registration and Certification	1.0	1.0	1.0	0.0	1.0	0.0
Training and Education	0.0	0.0	0.0	0.0	0.0	0.0
Reliability Assessment and Performance Analysis	0.0	0.0	0.0	0.0	0.0	0.0
Situation Awareness and Infrastructure Security	0.0	0.0	0.0	0.0	0.0	0.0
Total FTEs Operational Programs	2.0	2.0	2.0	0.0	2.0	0.0
Administrative Programs						
Member Forums	0.0	0.0	0.0	0.0	0.0	0.0
General and Administrative ²	0.1	0.1	0.0	0.09	0.09	0.0
Information Technology	0.0	0.0	0.0	0.0	0.0	0.0
Legal and Regulatory	0.0	0.0	0.0	0.0	0.0	0.0
Human Resources	0.0	0.0	0.0	0.0	0.0	0.0
Accounting and Finance	0.5	0.5	0.0	0.5	0.5	0.0
Total FTEs Administrative Programs	0.6	0.6	0.0	0.6	0.59	-0.01
Total FTEs	2.6	2.6	2.0	0.6	2.59	-0.01

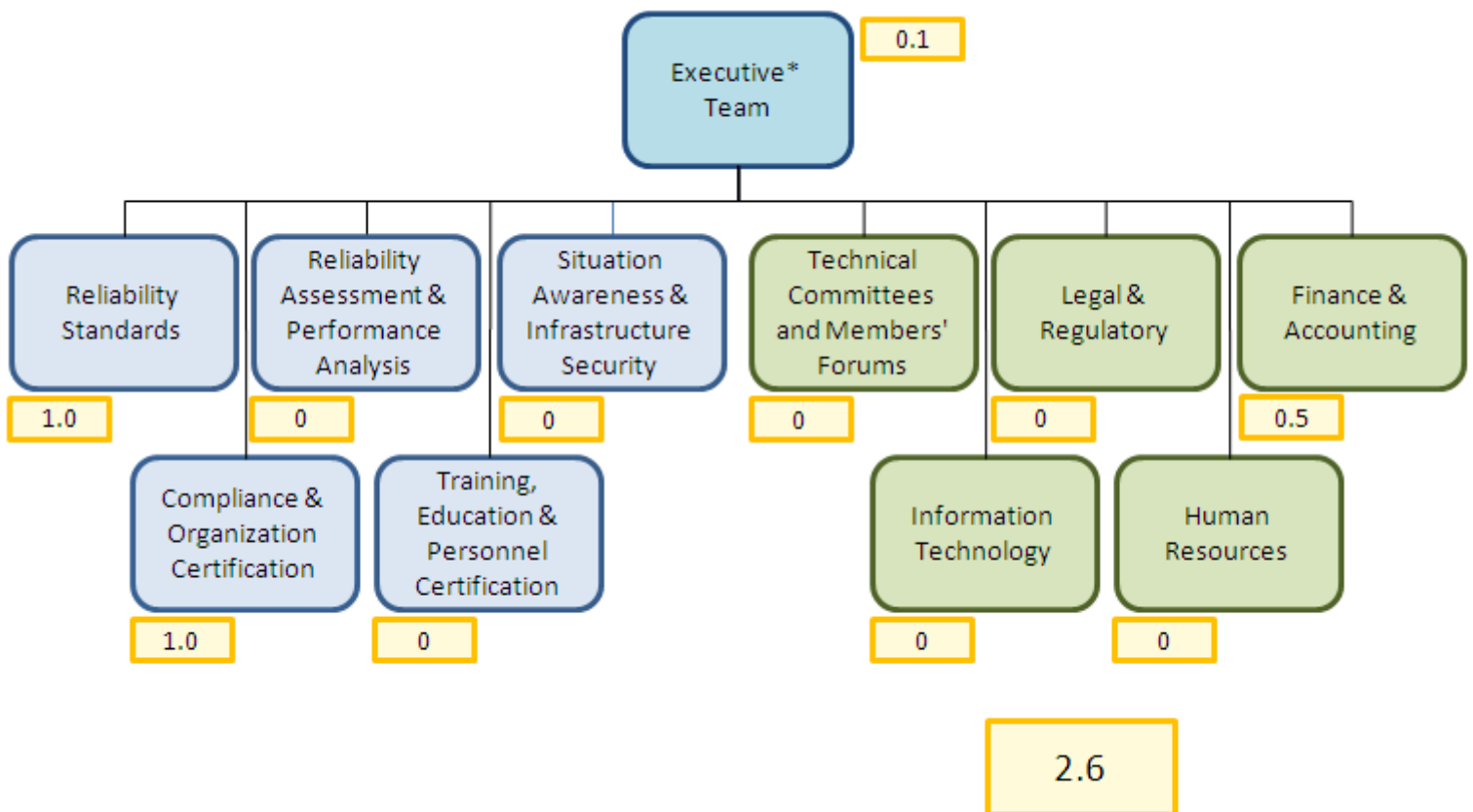
¹A shared FTE is defined as an employee who performs both Regional Entity and Criteria Services division functions.

²Since a portion of the Executive Team is devoted to each of the program areas and indirect functions, this table can be interpreted as allocating the Executive Team FTEs across all program areas and functions based on overall FTE count.

2009 Budget Organization Chart

Full Member Criteria Services Division

Table 3

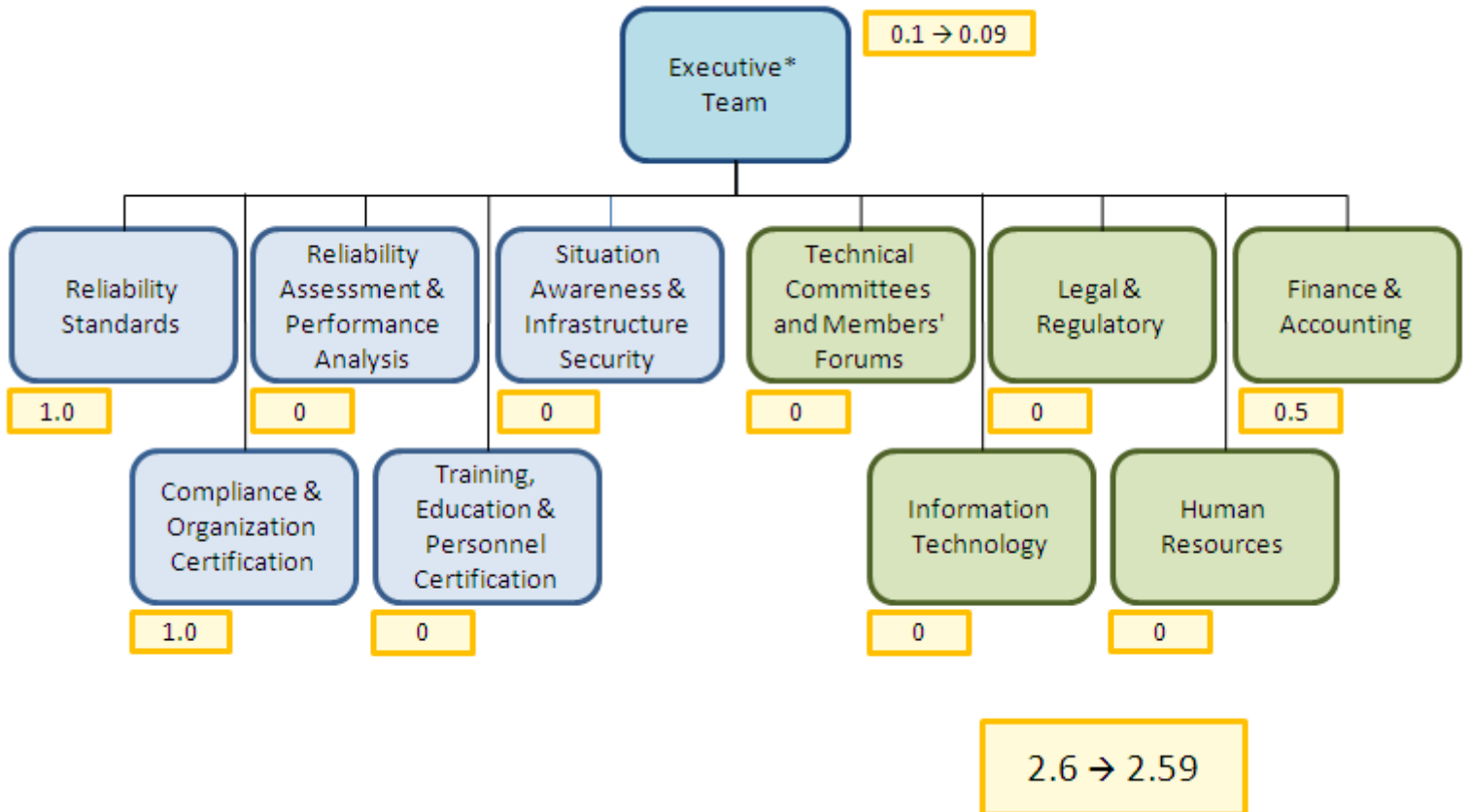


* Since a portion of the Executive Team supports each of the program areas and indirect functions, this chart can be interpreted as allocating the Executive Team FTEs across all program areas and functions based on overall FTE count.

2010 NPCC Organization Chart

Full Member Criteria Services Division

Table 4



* Since a portion of the Executive Team supports each of the program areas and indirect functions, this chart can be interpreted as allocating the Executive Team FTEs across all program areas and functions based on overall FTE count.

Working Capital Reserve Analysis 2008 – 2009

Table 5

Working Capital Reserve Analysis 2009-2010		
CRITERIA SERVICES DIVISION		
Beginning Working Capital Reserve (Deficit), December 31, 2008		
	Beginning Cash @ January 1, 2009	211,590
	2009 Funding (from members)	1,012,790
	2009 Other funding sources	0
	Total Cash Available 2009	1,224,380
Cash Needed 2009		
	2009 Projected expenses	(952,382)
	2009 Fixed asset additions	(98,306)
	Total Cash Needed 2009	(1,050,688)
Projected Working Capital Reserve Balance, December 31, 2009		173,691
Desired Working Capital Reserve Balance, December 31, 2010	1	219,861
Less: Projected Working Capital Reserve Balance December 31, 2009		(173,691)
Increase(decrease) in funding needed to raise Working Capital Reserve balance		46,170
2010 Funding requirement for expenses and fixed asset additions		46,170
Adjustment to increase Working Capital Reserve balance		46,170
2010 Funding and reserve adjustment		46,170

¹ NPCC Board of Directors at its 4/29/08 meeting determined that a 20% reserve level remains appropriate

Section D — 2010 Consolidated Statement of Activities by Program, Regional Entity Division and Criteria Services Division

Statement of Financial Position

As of December 31, 2008, per audit

As of December 31, 2009, projected

As of December 31, 2010, as budgeted

Statement of Financial Position			
2008 Audited, 2009 Projection, and 2010 Budget			
Regional Entity and Criteria Services Division			
	(Per Audit)	Projected	Budget
	31-Dec-08	31-Dec-09	31-Dec-10
ASSETS			
Cash and cash equivalents	140,471	579,130	579,130
Restricted cash - lease security	501,061	502,000	502,000
Investments	2,210,529	2,211,000	2,211,000
Prepaid expenses	190,487	140,000	140,000
Deposits	38,420	-	-
Other assets	31,203	31,200	31,200
Property and equipment	149,441	1,244,000	1,138,000
Total Assets	3,261,612	4,707,330	4,601,330
LIABILITIES AND NET ASSETS			
Liabilities			
Accrued expenses and other liabilities	706,556	707,000	707,000
Accrued liability for pension and other retirement benefits	2,952,250	2,952,000	2,952,000
Deferred revenue	251,976	252,000	252,000
Deferred rent	-	646,000	755,000
Total Liabilities	3,910,782	4,557,000	4,666,000
Net Assets (Defecit) - unrestricted	(649,170)	150,330	(64,670)
Total Liabilities and Net Assets	3,261,612	4,707,330	4,601,330

NPCC Statement of Activities 2010 Budget	RE Division Total	Reliability Standards (Section 300)	Compliance	Reliability	Training and Education (Section 900)	Situation	Member Forums	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance
			Enforcement and Organization Registration and Certification (Section 400 & 500)	Assessment and Performance and Analysis (Section 800)		Awareness and Infrastructure Security (Section 1000)						
Funding												
ERO Funding												
ERO Assessments	11,500,439	1,101,945	6,198,595	2,833,957	109,440	1,110,147	-	146,354	-	-	-	-
Penalty Sanctions	-	-	-	-	-	-	-	-	-	-	-	-
Total ERO Funding	11,500,439	1,101,945	6,198,595	2,833,957	109,440	1,110,147	-	146,354	-	-	-	-
Membership Dues	-	-	-	-	-	-	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-	-	-	-	-	-	-
Workshops	-	-	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-
Total Funding	11,500,439	1,101,945	6,198,595	2,833,957	109,440	1,110,147	-	146,354	-	-	-	-
Expenses		13,938	83,631	34,149	697	13,938						
Personnel Expenses												
Salaries	4,319,870	393,493	1,971,523	908,665	19,206	402,699	47,208	49,992	-	307,758	118,109	101,218
Payroll Taxes	246,223	21,049	113,655	50,634	1,044	21,038	3,004	1,619	-	19,673	7,866	6,642
Benefits	1,077,454	94,757	523,636	223,793	5,278	53,879	17,020	10,750	-	89,491	38,344	20,506
Retirement Costs	806,115	77,701	260,791	192,172	5,267	108,315	13,446	14,469	-	85,894	33,599	14,460
Total Personnel Expenses	6,449,662	586,999	2,869,606	1,375,264	30,796	585,931	80,678	76,829	-	502,816	197,918	142,826
Meeting Expenses												
Meetings	224,217	31,917	26,628	51,789	58,346	25,917	3,194	871	-	12,777	6,389	6,389
Travel	849,491	126,532	228,521	212,738	3,874	66,902	22,746	6,206	-	90,985	45,493	45,493
Conference Calls	70,795	12,155	11,645	40,351	508	4,055	215	147	-	860	430	430
Total Meeting Expenses	1,144,503	170,604	266,795	304,878	62,727	96,874	26,155	7,225	-	104,622	52,311	52,311
Operating Expenses												
Consultants & Contracts	1,786,324	35,143	1,207,000	396,277	457	118,143	2,286	8,732	-	9,143	4,572	4,572
Office Rent	625,850	45,667	274,000	111,883	2,283	45,667	11,417	43,600	-	45,667	22,833	22,833
Office Costs	286,574	20,910	125,461	51,230	1,046	20,910	5,226	19,969	-	20,910	10,455	10,455
Computer and Equipment Leases	133,802	9,767	58,600	23,928	488	9,767	2,442	9,277	-	9,767	4,883	4,883
Professional Services	794,890	9,333	56,000	22,867	467	9,333	2,333	8,913	456,833	9,333	4,667	214,810
Miscellaneous	54,820	4,000	24,000	9,800	200	4,000	1,000	3,820	-	4,000	2,000	2,000
Depreciation	127,913	9,333	56,000	22,867	467	9,333	2,333	8,913	-	9,333	4,667	4,667
Total Operating Expenses	3,810,172	134,153	1,801,061	638,852	5,408	217,153	27,038	103,224	456,833	108,153	54,077	264,220
Total Direct Expenses	11,418,042	892,757	4,943,461	2,321,444	98,981	900,958	134,122	188,232	456,833	716,591	304,805	459,857
Indirect Expenses	-	215,280	1,291,680	527,436	10,764	215,280	(134,122)	(188,232)	(456,833)	(716,591)	(304,805)	(459,857)
Other Non-Operating Expenses	13,705	1,000	6,000	2,450	50	1,000	250	955	-	1,000	500	500
Total Expenses	11,418,042	1,108,037	6,235,142	2,848,880	109,745	1,116,238	-	-	-	-	-	-
Change in Assets	82,397	(6,091)	(36,547)	(14,923)	(305)	(6,091)	-	146,354	-	-	-	-
Fixed Assets												
Depreciation	(127,913)	(9,333)	(56,000)	(22,867)	(467)	(9,333)	(2,333)	(8,913)	-	(9,333)	(4,667)	(4,667)
Computer & Software CapEx	-	-	-	-	-	-	-	-	-	-	-	-
Furniture & Fixtures CapEx	18,273	1,333	8,000	3,267	67	1,333	333	1,273	-	1,333	667	667
Equipment CapEx	27,410	2,000	12,000	4,900	100	2,000	500	1,910	-	2,000	1,000	1,000
Leasehold Improvements	18,273	1,333	8,000	3,267	67	1,333	333	1,273	-	1,333	667	667
(Inc)Dec in Fixed Assets	63,957	4,667	28,000	11,433	233	4,667	1,167	4,457	-	4,667	2,333	2,333
Allocation of Fixed Assets	(0)	1,424	8,547	3,490	71	1,424	(1,167)	(4,457)	-	(4,667)	(2,333)	(2,333)
Change in Fixed Assets	-	6,091	36,547	14,923	305	6,091	-	-	-	-	-	-
TOTAL CHANGE IN ASSETS	146,354	0	(0)	0	(0)	0	-	146,354	-	-	-	-
FTEs	27.41	2	12	4.9	0.1	2	0.5	1.91	0	2	1	1

NPCC Statement of Activities 2010 Budget	CS Division Total	Criteria Development	Criteria Compliance	General and Administrative
Funding				
ERO Funding				
ERO Assessments	-	-	-	-
Penalty Sanctions	-	-	-	-
Total ERO Funding	-	-	-	-
Membership Dues	1,145,478	581,252	518,055	46,170
Testing Fees	-	-	-	-
Services & Software	-	-	-	-
Workshops	-	-	-	-
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Total Funding	1,145,478	581,252	518,055	46,170
Expenses				
Personnel Expenses				
Salaries	378,635	140,762	156,941	80,932
Payroll Taxes	23,156	9,450	9,685	4,022
Benefits	103,438	42,666	27,681	33,090
Retirement Costs	182,833	49,942	77,492	55,399
Total Personnel Expenses	688,062	242,821	271,799	173,443
Meeting Expenses				
Meetings	23,600	7,705	8,705	7,189
Travel	70,001	21,462	23,587	24,953
Conference Calls	4,645	2,062	1,262	1,321
Total Meeting Expenses	98,246	31,229	33,554	33,463
Operating Expenses				
Consultants & Contracts	125,340	108,572	14,072	2,697
Office Rent	59,150	22,833	22,833	13,484
Office Costs	28,181	10,881	10,881	6,420
Computer and Equipment Leases	12,698	4,883	4,883	2,932
Professional Services	75,110	4,667	4,667	65,777
Miscellaneous	5,180	2,000	2,000	1,180
Depreciation	12,087	4,667	4,667	2,753
Total Operating Expenses	317,747	158,502	64,002	95,242
Total Direct Expenses	1,105,351	433,052	369,855	302,443
Indirect Expenses	-	151,222	151,222	(302,443)
Other Non-Operating Expenses	1,295	500	500	295
Total Expenses	1,105,351	584,274	521,077	-
Change in Assets	40,127	(3,022)	(3,022)	46,170
Fixed Assets				
Depreciation	(12,087)	(4,667)	(4,667)	(2,753)
Computer & Software CapEx	-	-	-	-
Furniture & Fixtures CapEx	1,727	667	667	393
Equipment CapEx	2,590	1,000	1,000	590
Leasehold Improvements	1,727	667	667	393
(Inc)Dec in Fixed Assets	6,043	2,333	2,333	1,377
Allocation of Fixed Assets	-	688	688	(1,377)
Change in Fixed Assets	3,022	3,022	3,022	-
TOTAL CHANGE IN ASSETS	46,170	0	(0)	46,170
FTEs	2.59	1	1	0.59

DOCKET NO. RR09-__-000

**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

2010 BUSINESS PLAN AND BUDGET FILING

ATTACHMENT 6

RELIABILITY*FIRST* CORPORATION

PROPOSED 2010 BUSINESS PLAN AND BUDGET



2010 Business Plan and Budget

Reliability*First* Corporation

Approved by: Reliability*First* Board of Directors

July 8, 2009

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Introduction

Total Regional Entity Resources (in whole dollars)				
	2010 Budget	U.S.	Canada	Mexico
Statutory FTEs	58			
Non-statutory FTEs	0			
Total FTEs	58			
Statutory Expenses	\$14,184,713	\$14,184,713		
Non-statutory Expenses	\$0	\$0		
Total Expenses	\$14,184,713	\$14,184,713		
Statutory Funding	\$14,345,192	\$14,345,192		
Non-Statutory(Member) Funding	\$0	\$0		
Total Funding	\$14,345,192	\$14,345,192		
NEL	930,2422,692	930,242,692		
NEL %	100.0%	100.0%		

Organizational Overview

ReliabilityFirst Corporation (“ReliabilityFirst”) is a not-for-profit company incorporated in the State of Delaware and has been authorized by the Federal Energy Regulatory Commission (FERC) to operate as a Regional Entity. As a Regional Entity, ReliabilityFirst performs key reliability functions delegated to it by the Electric Reliability Organization (ERO) or North American Electric Reliability Corporation (NERC). These functions include: reliability standards development, organization registration and certification, compliance assessment and enforcement, assessment of the expected short and long-term reliability of the bulk power system, situational awareness, and industry training. ReliabilityFirst is responsible for overseeing the reliability of all or parts of the bulk power system in thirteen states and the District of Columbia.

ReliabilityFirst performed only those functions delegated to it by the ERO in 2009 and the organization does not intend to perform any functions outside its ERO delegated activities in 2010. Although the corporate bylaws provide the flexibility to perform such functions, doing so would require Board authorization and any such activities would be funded directly by those who benefit from them. As can be seen in this business plan, no activities outside the delegated functions are budgeted for or planned in 2010.

There is no annual fee for ongoing membership in ReliabilityFirst. As new members join, they are required to pay a nominal one-time fee to cover the costs of processing their membership application. This one-time fee currently ranges from \$250 for associate and adjunct members to \$1,000 for regular members and can be waived by the President of ReliabilityFirst for good cause.

In order to properly carry out its ERO delegated functions, the proposed ReliabilityFirst 2010 Business Plan and Budget, has been submitted to NERC for approval. This Business Plan and Budget reflects ReliabilityFirst's best estimate of the costs it will incur in carrying out its delegated functions in support of the ERO in 2010. The overall budget reflects a 15% increase over that of 2009, driven primarily by increased projected staffing in the Compliance and Enforcement departments, in response to the continued expected increased activities and demands in performing this critical delegated function, particularly in the emerging critical infrastructure protection (CIP) area. All other areas are projected to remain relatively flat compared to 2009 levels.

The existing office can accommodate the proposed additional FTEs with minor modifications. ReliabilityFirst is confident we can identify and hire suitable candidates to fill all positions in 2010.

In developing this business plan and budget, ReliabilityFirst and each of the other regional entities met and agreed upon the following foundational assumptions:

- The international industry-based Self Regulatory Organization (SRO) model continues to be used for the foreseeable future, and no material changes to the SRO model emerged from the ERO 3-year assessment.
- The framework for delegation remains constant. The scope of delegated authorities and responsibilities remains relatively constant, with incremental improvements according to recommendations developed in the ERO 3-year assessment.
- NERC and its Regional Entities have not budgeted in 2010 for unknown material changes to scope and are unable to undertake unfunded mandates, such as new initiatives stemming from the U.S. federal stimulus package on energy. Any mandated material changes to scope will impact cash reserves.
- The current economic downturn continues into 2010, resulting in cost pressures on NERC and regional entities to do more with less. The industry experiences lower electricity demand and may defer capital projects in some areas and may reduce or hold O&M budgets flat. Cost pressures result in less travel and strain stakeholder participation in NERC and regional entity activities.

Membership and Governance

Members

ReliabilityFirst has an open membership policy that permits full and fair participation of all industry stakeholders through their designated representatives.

- There are six (6) **Industry Sectors**: Suppliers, Transmission Companies, Regional Transmission Organizations (RTOs), Small Load Serving Entities (LSEs), Medium LSEs and Large LSEs.

- There are three (3) **Classes of Members**: Regular Members, Associate Members and Adjunct Members.
 - A **Regular Member** is any entity that has joined an Industry Sector that either (i) has no Affiliates or Related Parties that are Members or (ii) is the entity designated to be the Regular Member by any related group of Associate Members.
 - An **Associate Member** is any entity that has joined an Industry Sector and is an Affiliate or Related Party of a Regular Member.
 - An **Adjunct Member** is any entity that does not qualify to join an Industry Sector but has been approved for membership. Adjunct Members may include Regulatory Participants.

There are currently 73 members of ReliabilityFirst Corporation; 47 are regular voting, 22 are associates and 4 are adjunct. ReliabilityFirst's foundation has been and continues to be the broad, active participation of technical and policy experts representing electricity industry stakeholders within the Region who are committed to the reliability of the Bulk Power System. ReliabilityFirst believes that extensive use of industry expert resources, combined with a competent and independent ReliabilityFirst staff, provides a strong approach to reliability that is consistent with the industry self-regulatory model envisioned by Congress in the Energy Policy Act of 2005.

Board

ReliabilityFirst Corporation is governed by a hybrid independent and balanced stakeholder Board.

- (a) The Board consists of fourteen (14) directors.
- (b) Eight directors are elected by the Industry Sectors as follows:
 - (i) Suppliers elect two (2) directors;
 - (ii) Transmission Companies elect two (2) directors;
 - (iii) RTOs elect one (1) director;
 - (iv) Small LSEs elect one (1) director;
 - (v) Medium LSEs elect one (1) director; and
 - (vi) Large LSEs elect one (1) director.
- (c) Three (3) directors are at-large. At-large directors are elected by all of the Industry Sectors voting together as a single class.
- (d) Three (3) directors are independent from ReliabilityFirst Corporation, any Member, Affiliate or Related Party of any Member. Independent directors are elected by all of the Industry Sectors voting together as a single class.

Statutory Functional Scope

ReliabilityFirst performs statutory functions in support of the ERO, in accordance with the executed delegation agreement between ReliabilityFirst and the ERO. These functions are:

- Active participation in the development of North American reliability standards for the Bulk Power System, and as needed development of reliability standards applicable within the ReliabilityFirst Region.
- Monitoring and enforcement of approved reliability standards, including the registration of responsible entities, and as needed, certification of such entities.
- Assessment of the present and future reliability, adequacy and security of the Bulk Power System.
- Promoting effective training and education of personnel, and assisting in the certification of operating personnel.
- Promoting situational awareness and the protection of critical infrastructure.

ReliabilityFirst does not perform any non-statutory functions at this time, although ReliabilityFirst may in the future consider providing non-statutory functions from time to time as appropriate and as permitted by its Bylaws and applicable statutes and regulations.

In recognition of the importance of the compliance role of regional entities, ReliabilityFirst has dedicated most of its staff resources to compliance monitoring and enforcement. The compliance staff is further divided into three groups, one conducts compliance audits, the second conducts compliance program implementation and the third performs compliance investigations and enforcement.

2010 Goals and Key Deliverables

The ReliabilityFirst Corporation's 2010 business plan and budget are driven by the following goals:

- 1. Reliability improvement through rigorous monitoring and enforcement of compliance with mandatory standards and adoption of risk-based efficiencies.**
 - Monitor registered entities in the ReliabilityFirst region for compliance with mandatory reliability standards, in accordance with the delegation agreement and CMEP, while adopting risk-based methods to optimize reliability benefits and improving quality and timeliness.
 - Enforce compliance with mandatory reliability standards by registered entities within the ReliabilityFirst region, in accordance with the delegation agreement and CMEP while improving quality and timeliness.
 - Ensure timely and thorough mitigation of all violations of mandatory reliability standards.

- Promote a strong culture of compliance excellence, reliability improvement, and risk-based methods among registered entities in the Reliability*First* region.
 - Maintain a high degree of necessary independence in all compliance activities including audits, spot checks, enforcement and violation processing.
- 2. Clear mandatory standards focused on reliability performance.**
- Develop regional reliability standards as needed to comply with NERC's three-year work plan and FERC directives, and to meet any emergent reliability needs. Maintain active engagement of stakeholders in NERC standards process.
 - Based on compliance program results and system events, identify key areas needing improvement and implement educational and other technical assistance programs to improve compliance in those areas.
- 3. Objective and trustworthy reliability assessments and reliability performance trends.**
- Provide annual and seasonal assessments of the future reliability of the bulk power system in the region, in accordance with NERC definitions and requirements. Provide thorough data validation and create new efficiencies in data collection and analysis.
 - Develop and demonstrate bulk power system performance metrics for the purpose of analyzing and trending reliability improvements and benefits.
- 4. Situation awareness capability and event analysis leading to reliability improvements.**
- Develop a situation awareness capability to include near real-time information and communications protocols that meet the needs of FERC, NERC, Reliability*First* and applicable registered entities.
 - Develop Reliability*First's* capability to conduct rigorous event analysis and develop relevant lessons learned.
 - Provide reliability issues tracking to systematically provide notice and document actions to improve reliability within the region.
- 5. Cyber and physical security of critical infrastructure.**
- Facilitate and support registered entities in complying with Critical Infrastructure Protection (CIP) reliability standards, and responding to cyber security alerts.
 - Be a leader in complying with CIP reliability standards for all entity collection data at Reliability*First* Corporation.

- Maintain compliance with all applicable provisions of the CIP standards, as they apply to Regional Entities.

6. Knowledgeable and skilled reliability personnel.

- Actively support the training and education of reliability personnel within the region, focusing on knowledge of reliability standards and recognizing and responding to system emergencies. Provide information and support to registered entities to assist in the deployment of a systematic approach to training.

7. Information sharing and collaboration through technology.

- Facilitate the integration and seamlessness of ERO and regional entity information systems used for compliance and other applicable statutory functions such as alerts and recommendations tracking.

8. Effective and efficient use of resources.

- Evaluate and as appropriate, realign the Reliability*First* committee structure and activities to better leverage industry expertise and leadership, to better support Reliability*First's* statutory functions, and to be more efficient.
- Maintain a talented staff at Reliability*First* and provide for continuous staff development.

9. Continuous improvement.

- Maintain good standing as a regional entity by addressing all applicable recommendations and directives from the 3-year ERO assessment, including stakeholder inputs, and audits by NERC and/or FERC.
- Address all deficiencies or areas of improvement identified in the 2009 NERC conducted audit of Reliability*First*.
- Identify and use regional entity performance indicators and feedback mechanisms to enable Reliability*First* to continue being a learning organization.

10. Effective financial controls

- Provide rigorous cost controls and efficient management of resources to remain an efficient provider of regional entity functions.

2010 Overview of Cost Impacts

Overall, the Reliability*First* 2010 budget (\$14.2M) increased 24% over the 2009 budget (\$11.4M). This increase includes the required effort to support the new Technical Feasibility Exception (TFE) evaluation activity, which is 9% of the total increase. The 2010 assessment (\$14.3M) is equivalent to the 2010 budget, but when compared to 2009 assessment (\$8.8M) it represents a 62% increase. This is due to the 2009

assessments being reduced by \$2.6M for monies under spent in prior years. ReliabilityFirst believes that in 2010 it will continue to realize material efficiencies that allow the region to remain an efficient provider of statutory functions. The following is a list of targeted budget increases/decreases to allow ReliabilityFirst to accomplish the specific objectives outlined in the business plan.

- The most significant increases in the budget are a result of increased staffing in the compliance and enforcement area.

Staff additions proposed in 2010 represents the major portion of the operating budget increase at \$2.1M over 2009 budget. The targeted staffing level for 2010 is 58 FTE's, an increase of 14 FTE's compared to the 2009 budgeted staffing level of 44 FTEs. Twelve new FTE's will be needed to support the Compliance Monitoring and Enforcement Program. One FTE will be needed to support the Reliability Assessment and Performance Analysis Program. One half FTE will support the Standards Program on as needed basis and one FTE will be added to support Information Technology needs of the expanded staff. One FTE that was originally budgeted in 2009 for the Situational Awareness Program and never staffed was eliminated within the 2010 budget.

- Meeting Expenses have decreased by 1% (\$8K) as compared to the 2009 budget. ReliabilityFirst emphasizes and will continue to emphasize the use of its in house virtual meeting capabilities to help reduce our meeting expenses and the travel expenses for our stakeholders.
- Operating expenses have increased by 34% or \$922K compared to the 2009 budget. Major contributors are Consultants & Contracts, Office Costs, and Professional Services expenses. The Consultants & Contracts increased due to increased contract services for compliance, and one time system access testing to insure our continuing compliance with the Critical Infrastructure Protection (CIP) standards. The Office Cost increases are due to increased phone and internet usage; and increased equipment repair and service fees; increased office space due to added personnel. The increase in Professional Services represents search fees for a new Independent Director and increased participation of the Independent Directors due to increased compliance responsibilities.

Manpower Analysis

To better support the significant increased staffing within compliance and enforcement area a manpower analysis was performed based on core activities. These core activities include audits, spot checks, mitigation plan review and verification, enforcement activities, compliance violation investigations (CVI), TFE and Event Analyses. The manpower analysis indicates the Compliance Department will need a total of 37 FTE's (including existing staff) to perform the core activities. ReliabilityFirst decided to be conservative and also to seek and implement efficiency improvements as experienced is gained (for instance, auditors should become more proficient at their jobs with each audit they perform and the manpower requirements should be reduced somewhat from what they are today) and request a total Compliance Department staff

Introduction

of 36.5 FTEs. Contractors will be used if necessary to reduce the need for additional FTE's and to manage the workload. The table below shows the increased need for additional resources at a glance for the 2010 budget year.

Table 1: Manpower Analysis

2009	2010
1 Large Audit	14 Large Audits
50 Small/Medium Audits	65 Small/Medium Audits
157 Spot Checks	1000 Spot Checks
81 Violations	170 Violations
48 Settlements	50 Settlements
1 Hearing	2 Hearings
2 CVI	5 CVI
13 CIP Requirements/ 12 Entities	41 CIP Requirements/ 41 Entities
0 Technical Feasibility Exceptions (TFE)	135 Technical Feasibility Exceptions (TFE)

Changes in Accounting Methodology

In 2010, NERC and all the Regional Entities agreed to formatting changes to the *Statement of Activities* within each functional Program Area as follows:

- The ERO Assessment and penalty sanctions are only allocated across the delegated functions, except that ERO assessments needed to fund working capital are reflected in the General and Administrative Program within Administrative Services.
- The increase or decrease in assessments to achieve the desired working capital reserve balance is reflected as the Total Change in Assets. In 2009, this amount was reflected as Other Non-Operating Expense on the Statement of Activities.
- All personnel and meeting expenses are accounted for within their associated department's budget.
- The majority of the Operating Expenses are accounted for within their related department's budget, if an expense cannot be specifically linked to a department, it is included in the General and Administrative Program, within Administrative Services.
- All Expenses for the Administrative Services Programs, referred to as indirect expenses, are allocated to the delegated program areas by their respective FTEs. This allocation provides improved financial perspective for the delegated functions.
- Capital expenditures are broken out as fixed assets at the end of each statement of activities rather than being included in their related lines in the operating expenses section.
- Expenses include depreciation, but since funding is not being requested for depreciation expense, it has been deducted from the funding requirement for capital expenditures.

- The result of these changes is an apparent increase in total costs for each functional Program Area.

Section A — 2010 Business Plan

Reliability Standards Program

Reliability Standards Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	2.00	1.50	(.50)
Total Direct Expenses	\$529,461	\$386,161	(\$143,300)
Total Indirect Expenses ¹	\$265,619	\$135,660	(\$129,959)
Inc (Dec) in Fixed Assets	0	(\$4,365)	(\$4,365)
Total Expenses & Fixed Assets	\$795,080	\$517,456	(\$277,624)

Program Scope and Functional Description

Background

Many of the proposed ReliabilityFirst standards development activities, focus, and priorities for 2010 are directly related to the continuing effort of ReliabilityFirst to consolidate prior documents associated with the merged regions - ECAR, MAAC, and portions of MAIN. On day one of 2006, ReliabilityFirst began operation with six approved “standards”, as they were referred to at the time, developed by the ReliabilityFirst development teams and a ReliabilityFirst Board approved Standards Development Manual. In addition, ReliabilityFirst needed to continue with the “legacy” regional documents as “organization standards”, as stated in the By-laws, which had been deemed compliant for all NERC Standards as they were in effect at that time. During 2006, ReliabilityFirst had six standard drafting teams in place working on additional standards or revisions. The ReliabilityFirst Board approved Underfrequency Load Shedding (UFLS) standard was rescinded because of a technical omission, and the Automatic Reserve Sharing standard was retired in late 2008. A new Resource Adequacy standard was approved by the ReliabilityFirst Board in 2006 with a revision approved in late 2008 along with a revised Operating Reserve criteria being approved by the ReliabilityFirst Board in 2007.

Program Description and Functions Performed

The ReliabilityFirst standards staff will continue to provide the best direction and prioritization of ReliabilityFirst initiated Regional Reliability Standards and the associated regional standards procedures by participation in NERC and other regional standard drafting efforts and related working groups, task forces, etc., such as the NERC Regional Reliability Standards Working Group (RRSWG).

¹ Indirect funding is calculated by allocating all administrative services funding to the operational program areas on a proportional FTE basis.

1. Reliability*First* Standards staff will continue to serve and volunteer to serve as members of NERC SAR and Standard Drafting Teams.
2. Reliability*First* Standards staff will continue to volunteer to participate on special NERC teams to develop plans and programs related to regional tasks. This will include special teams such as the RRSWG which facilitates the development of the regional standards process across regions.

The Reliability*First* Standards Program relies on technical support from both the Reliability*First* staff and stakeholder volunteers for drafting teams. The teams are facilitated by the Standards staff. Even though more than six standards can be in development at one time, realistically only the six highest priority standards will be in the active drafting step at one time so as not to exhaust stakeholder and staff resources. Even with this restricted workload, additional standards staff assistance from the compliance staff may be needed from time to time to provide the proper support for the fluctuating standards work. This will allow staff to effectively facilitate Reliability*First* Standard Drafting Teams (SDTs) and participate on NERC teams. This will also allow staff to develop their own skills and provide technical resources for Reliability*First* and NERC audits.

The Reliability*First* Standards staff will continue to keep the Standards Committee, Board of Directors and all stakeholders informed of the progress in the development of Reliability*First* and NERC standards via public announcements, the corporate newsletter, webinars and website postings.

2010 Key Assumptions

1. NERC will continue implementing its published three-year work plan for standards development, subject to incremental updates.
2. Regions will facilitate a stakeholder review of the standards, for the purpose of identifying opportunities to streamline the standards to be more focused on reliability performance, leading to the submittal of inputs to the NERC 3-year work plan and possibly SARs.
3. NERC and regional entities will establish improved mechanisms to capture lessons from event analysis, compliance enforcement, and other activities, in the form of recommendations to improve reliability standards.
4. Regions will develop no more than one or two regional reliability standards per region in 2010 for submission to NERC. Scheduling of regional standards initiatives continue to depend on determination of North American performance requirements.
5. The current economic downturn will continue into 2010 and adversely affect stakeholder travel budgets and resourcing for work in standards development. NERC and regions need to develop methods to encourage active involvement

with less travel and face-to-face meetings. Stakeholder participation that has already shown signs of being strained will reach low points in 2010.

6. NERC and regional entities will collaborate in the conduct of special workshops, in addition to the regular schedule of workshops, to focus on most-violated standards to improve the understanding of requirements by registered entities.
7. NERC and regional entities will continue to support coordinated and consistent response to requests for both formal interpretations and informal clarifications of the reliability standards.
8. NERC will deploy an information system to make the current and historical versions of standards and requirements available online for registered entities and regional compliance personnel.

2010 Goals and Key Deliverables

The goals of the standards program for 2010 are to:

- Submit to NERC and subsequently file with FERC any regional standards that are needed to support revised NERC Reliability Standards
- Submit to NERC and subsequently file with FERC any regional standards that are not covered by NERC Reliability Standards
- Submit to NERC and subsequently file with FERC any regional standards that will be needed to provide an “interim” solution to reliability needs until replaced by revised NERC Reliability Standards
- Retire all Legacy documents with appropriate regional reliability standards

The objectives of the standards program for 2010 are to:

- Prioritize the regional standards drafting effort to align with the timing of NERC Reliability Standards revisions
- Modify the regional Standards Development Procedure to align with changing NERC and FERC requirements
- Initiate and coordinate revisions to regional Standards in any stage of development to align with NERC and FERC requirements
- Systematically extract requirements from “legacy” documents for developing regional standards and retire the documents or use portions of them in regional criteria and/or procedures

Section 215 Regional Entity Reliability Standards Development

The Standards Development Procedure and NERC Standards Development Work Plan will continue to be the basis for regional standards work throughout 2010. Of the four NERC Reliability Standards that may be expected to require regional standards for support, ReliabilityFirst has also developed the Operating Reserves criteria in late 2007. ReliabilityFirst expects the Disturbance Monitoring and UFLS regional standards to be in place by the end of 2009 with the SPS Review regional standards to be completed in 2010. Although these regional standards will be in place prior to the rewrite of the corresponding NERC standards, they will provide interim direction for ReliabilityFirst stakeholders. Since staff participates on many of the associated NERC drafting teams, it is expected that the regional standards in place will influence the direction of the NERC effort. Any modifications needed in the regional standards will be initiated prior to final development of the NERC standards, expected during 2007 – 2010, employing the first-hand knowledge of the ReliabilityFirst members on the NERC drafting teams.

In 2010, there will also be the continued regional drafting efforts related to the NERC “fill in the blanks” standards that NERC may not be completed for the next couple of years. Regional standards will be developed and implemented during the interim period pending the completion of these NERC standards. For example, two interim regional standards related to generator data verification and reporting that had begun in 2007 will be completed in 2009/2010 – in advance of any associated drafting by NERC. ReliabilityFirst also has begun an effort to review the existing Transmission Emergency Action Plan and Emergency Operations Plans day one standards to modify/retire the requirements accordingly. In addition, with the 2010 yearend target of retiring or having a planned retirement for all legacy documents, it is expected that additional standards work will evolve in 2009 and continue into 2010.

The following are standards underway in 2009 with continued or additional effort expected in 2010:

1. **Under Frequency Load Shed Program** – Approval of the standard is expected at the end of 2009. Since the drafting for the related NERC standard (Project 2007-01) has been initiated, it is expected any revisions to the regional standard required by NERC’s work will be initiated as early as the beginning of 2010.
2. **Disturbance Monitoring Equipment** – This regional standard is expected to be approved in mid 2009; however, related NERC standards effort (Project 2007-11) is in the drafting phase and is not expected to be completed until mid 2010. It is expected revisions to the regional standard required by NERC’s effort will be initiated as early as the beginning of 2010.
3. **Special Protection Systems Review** – This regional standard will begin in mid 2009 and is not expected to be approved until the end of 2010. It is related to NERC standards work (Project 2008-04). It is expected revisions to the regional standard will be initiated as early as the end of 2011.
4. **Generator Data Verification and Reporting** – Drafting of this subject matter began in 2007 and will require two regional standards. This effort is related to NERC Reliability Standards - MOD-024 and MOD-025 (Projects 2006-05 and

2007-09). Although the subject matter is specifically for generators, the content is fairly broad and will be worked on piece meal. Approval for the regional standards will be staggered from mid 2009 to mid 2010. Revisions related to NERC work will be staggered accordingly.

5. **Planned Resource Adequacy Assessment** - This resource adequacy standard is unique to ReliabilityFirst and not related to any existing NERC standards. This standard was approved by the ReliabilityFirst Board in late 2008 and submitted to NERC for subsequent FERC approval in early 2009.
6. **Transmission Emergency Action Plan and Emergency Operations Plans**
These two ReliabilityFirst Board approved day one standards were approved in 2006. This effort is related to reviewing the approved standards to further clarify the requirements, revise the standards to meet current format requirements (such as the inclusion of VRFs, VSLs, etc.) and also to consider the retirement of these standards based on the reliability need. These regional standards will begin in mid 2009 and is not expected to be approved until the end of 2009 to early 2010.
7. **Capacity Benefit Margin** – Although a regional standard drafting team is in place, its work is on hold until work on the related NERC Transfer Capability Standards (Project 2006-05) moves forward. Regional efforts may or may not be needed in 2010.
8. **Sub-Regional Adequacy** – This transmission related adequacy standard is unique to ReliabilityFirst and not related to any existing NERC standards. This standard is based upon pre-existing requirements in one of the legacy regions. The SAR has been written and work may begin in 2010.

Funding Requirements — Explanation of Increase (Decrease)

Funding for the Standards program will decrease due to the reduction of ½ FTE needed to support this program. This will also decrease all expenses proportionally to the FTE reduction.

Reliability Standards Program

Funding sources and related expenses for the Reliability Standards section of the 2010 business plan are shown in the table below.

Statement of Activities 2009 Budget & Projection, and 2010 Budget

Reliability Standards

	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 529,461	\$ 529,461	\$ -	\$ 511,249	\$ (18,212)
Penalty Sanctions				6,207	6,207
Total ERO Funding	\$ 529,461	\$ 529,461	\$ -	\$ 517,456	\$ (12,005)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 529,461	\$ 529,461	\$ -	\$ 517,456	\$ (12,005)
Expenses					
Personnel Expenses					
Salaries	\$ 343,925	\$ 338,840	\$ (5,085)	\$ 250,817	\$ (93,108)
Payroll Taxes	17,526	17,263	(263)	14,099	(3,427)
Benefits	30,186	28,752	(1,434)	29,479	(707)
Retirement Costs	51,264	49,162	(2,102)	32,472	(18,792)
Total Personnel Expenses	\$ 442,901	\$ 434,017	\$ (8,884)	\$ 326,867	\$ (116,034)
Meeting Expenses					
Meetings	\$ 53,000	\$ 50,000	\$ (3,000)	\$ 28,800	\$ (24,200)
Travel	32,000	30,829	(1,171)	22,500	(9,500)
Conference Calls	1,560	956	(604)	2,700	1,140
Total Meeting Expenses	\$ 86,560	\$ 81,785	\$ (4,775)	\$ 54,000	\$ (32,560)
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ 5,294	\$ 5,294
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ -	\$ -	\$ -	\$ 5,294	\$ 5,294
Total Direct Expenses	\$ 529,461	\$ 515,802	\$ (13,659)	\$ 386,161	\$ (143,300)
Indirect Expenses				\$ 135,660	\$ 135,660
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 529,461	\$ 515,802	\$ (13,659)	\$ 521,821	\$ (7,640)
Change in Assets	\$ -	\$ 13,659	\$ 13,659	\$ (4,365)	\$ (4,365)
Fixed Assets					
Depreciation	-	-	-	-	-
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets				\$ 4,365	
Change in Fixed Assets	-	-	-	4,365	-
TOTAL CHANGE IN ASSETS	\$ -	\$ 13,659	\$ 13,659	\$ (0)	\$ (4,365)

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

Funding for this statutory program in 2010 is provided through assessments to LSEs or designees (mandatory in the United States), as it is a statutory, delegated function

Personnel Expenses

There will be a reduction in Salary Expense due to the Standards staff declining by ½ FTE to 1.5 FTEs for the 2010 budget. Staff resources are used to direct the Reliability*First* standards drafting teams and support the NERC standard drafting and development teams as defined in the business plan.

Hiring Plans

No additional FTEs needed in 2010. Standards staff will be reduced by ½ FTE in 2010, in recognition that the majority of necessary regional standards are well underway in the region.

Shared Employees

Reliability*First* performs only statutory, delegated functions and does not share any employees with organizations who perform other activities or functions. Within the organization one-half FTE is expected to be shared with the statutory Compliance department (on an as needed basis) in 2010

Meeting Expenses

Meeting, staff travel, and conference call expenses in support of the Reliability*First* and NERC standard drafting teams will decrease since less FTE's are supporting this program.

Operating Expenses

These expenses increased by \$5K due to the use of contractors for the development of a Standards web site. This web site is needed to communicate voting information about standards progress to our members.

Indirect Expenses

Expenses related to indirect programs have been allocated proportionately based on FTE counts to the direct programs for 2010; this accounting change results in an increase compared to 2009.

Other Non-Operating Expenses

There are no other non-operating expenses

Fixed Asset Additions

There are no fixed asset additions

Compliance Monitoring and Enforcement and Organization Registration and Certification Program

Compliance Monitoring and Enforcement and Organization Registration and Certification Program Resources			
<i>(in whole dollars)</i>			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	23.00	36.50	13.50
Total Direct Expenses	\$5,099,328	\$7,491,596	\$2,392,268
Total Indirect Expenses	\$3,054,613	\$2,939,309	(\$115,304)
(Inc)Dec in Fixed Assets	\$0	(\$106,207)	(\$106,207)
Total Expenses & Fixed Assets	\$8,153,941	\$10,324,698	\$2,170,757

Background

2010 represents another transitional year for the ReliabilityFirst Compliance Monitoring and Enforcement Program (CMEP). It will be the second full year that ReliabilityFirst will implement the compliance program requirements as a Regional Entity under the ERO with mandatory enforcement authority in place, including the expectations set forth in the Regional Delegation Agreement between NERC and ReliabilityFirst, and as such has many learning experiences from 2008 and the beginning of 2009 that will require changes outlined in this 2010 Business Plan and Budget. Under the ERO (NERC), ReliabilityFirst has the authority to enforce compliance with approved Reliability Standards on all owners, operators, and users of the Bulk Power System within the Region.

The ReliabilityFirst CMEP is implemented by the independent compliance staff. The compliance staff makes the initial and final determination of alleged violations and proposes appropriate penalties in accordance with the NERC CMEP and the Penalties and Sanctions Guidelines. To accomplish this objective, the compliance staff is structured into three groups: compliance audits, program implementation, and enforcement.

In its fifth year of operation, ReliabilityFirst will be expanding its efforts to effectively carry out its ERO delegated compliance monitoring and enforcement, organization registration and certification activities. Training will be required for all compliance auditors through the ERO Training and Education function, which is intended to assure consistent assessments with competent and unbiased compliance auditors and investigators to support audit and investigation activities. Supplemental auditor training may be conducted by ReliabilityFirst. Enforcement case management of violations will be performed respecting the due process rights of all Registered Entities and will be applied in a fair and consistent manner.

Program Scope and Functional Description

ReliabilityFirst will monitor and identify violations of Reliability Standards through a variety of processes including:

- Self-certification and self-reporting by owners, operators, and users of the Bulk Power System, including reports of both specific incidents and events.
- Investigations of complaints 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 government entities.
- Compliance Violation Investigations (CVIs) and Inquiries associated with significant system disturbances or events whenever a ReliabilityFirst or NERC initiated investigation team is activated. Experience to date shows that CVI's are extremely complex and time consuming.
- Compliance audits of the Reliability Standard requirements applicable to the functions of the registered owners, operators, and users of the Bulk Power System. Increased spot checking individual standard requirements will also be performed as a planned assessment of compliance to selected standards, a validation of self-certifications, mitigation plans, and/or other follow up activities. Audits and Spot Checks both require detailed reporting.
- Data submittals for standard requirements to support studies, modeling, and seasonal assessments.
- Exception report monitoring to ensure entities are appropriately assessing compliance to Reliability Standards where routine monitoring is not in place.
- Monitoring of the Critical Infrastructure Protection standards and continue to define the scope of monitoring and auditing of these standards beginning with the July 2010 implementation plan expectations and beyond, considering the advanced standards in process and nuclear plant monitoring requirements. (This does not include the nuclear balance of plant requirements outlined in FERC Order 706B in 2010.)

To facilitate ReliabilityFirst compliance monitoring and enforcement activities, all owners, operators, and users of the Bulk Power System are required to register with ReliabilityFirst for the functions that are applicable to their organizations. ReliabilityFirst maintains organization registration information and regularly submits updated compliance registries to NERC, who will maintain the official compliance registry. Registration of organizations responsible to comply with the standards is reviewed on a regular basis. Certification of organizations performing primary reliability responsibilities will continue for entities required to satisfy the key registered functions. Registration is essentially complete at this time and is more of a maintenance function.

2010 Key Assumptions

1. The number of registered entities is assumed to remain relatively constant in 2010 compared to 2009, with some risk that the number of registered entities could increase as early as 2009 based on application of CIP standards to generators below 100 kV. Other incremental adjustments to the registry, such as related to interchange authority, will continue but not significantly increase the number of registered entities. Registration will be principally a maintenance issue in 2010.
2. Non-CIP audits will continue under the schedule to complete BA, TOP, and RC audits every three years and other entities every six years.
3. The number of CIP audits will increase substantially to complete CIP audits of all "Table 1" entities by 2010 year end. Also, "Table 2" entities will begin to become CIP auditable in the second half of 2010. Regional entities will continue to be constrained in removing CIP information from the entity site through 2010, impacting the need to have face-to-face CIP audits on site.
4. There is a risk of a FERC policy or directive clarifying the expectations of the CIP-002 risk-based methodology that results in a substantially expanded number of entities and standards to be monitored for CIP.
5. Regions will review and address all requests for CIP feasibility exceptions and will address the issue of being able to access information offsite. Many exception requests are expected.
6. The number of spot checks increases in 2010 recognizing that closure of each mitigation plan requires a spot check review to confirm closure. There is also moderate risk that the number of spot checks may increase as follow up to completed events analysis.
7. The number of non-CIP possible violations discovered continues at a pace comparable to 2009 due to continuing first-time audits of entities. The number of non-CIP related violations is expected to be 1,400 to 1,500 for the year across North America, with that number distributed across regions in a similar proportion to historical experience. Decreasing numbers of new violations may begin to be seen after 2010.
8. 2010 is expected to see a substantial upswing in the number of CIP possible violations, as CIP audits continue to ramp up. CIP possible violations may add 400 to 800 additional new possible violations to be processed on top of the violations listed above for non-CIP violations.
9. No major rule changes are anticipated in the Compliance Monitoring and Enforcement Program in 2010.
10. A large majority of possible violations will be handled through a settlement process. Process efficiencies and experience offset the increased complexity of compliance cases and the level of effort for a settlement remains approximately the same as 2009.
11. NERC will approve a short form settlement process in 2009 and this process will be available for lower and medium risk, document-related violations with favorable mitigating factors.
12. NERC will continue to provide required training for auditors and investigators. Programs are developed in NERC training and education and implemented through NERC compliance.

13. The number of hearings conducted will remain low, averaging well below one per region.
14. NERC will conduct two event-based inquiries per month in 2010 and one CVI per month (24 and 12 for the year). Regional entities will collectively review approximately 50-60 events of interest and 12-15 CVIs. All unplanned, multiple-facility trips will be considered candidates for these reviews. The number of reviews and CVIs will vary by region and each region will have a unique set of assumptions that collectively will approximate these gross estimates.
15. NERC will begin implementation of the new organization certification program in 2010, transitioning away from the legacy procedures for certifying entities.
16. NERC and regional entities continue to pursue integration of compliance information systems with the near-term priority being a seamless interface for management of compliance information from reporting of discovery to filing of Notice of Penalty or settlement and closure. The cost impact of achieving this development and integration is between \$1M and \$2M collectively across NERC and the regions for 2010.
17. There are provisions in the 2010 budget and business plan to conduct evaluations of Technical Feasibility Exceptions (TFE) associated with the CIP Reliability Standards in 2010.
18. There are no provisions in this budget and business plan to conduct compliance reviews for the 'balance of plant' at nuclear generating stations for adherence to the CIP standards in 2010. It was assumed that NERC will conduct these reviews and Regional Entity resources will not be required.

2010 Areas of Focus

- a. Implementation of Reliability*First* delegated CMEP responsibilities, which will include but are not limited to the following:

Establish and prepare staff to achieve maximum effectiveness, inter-and intra-regional consistency and requisite due diligence in monitoring and assessments, data and status reporting, enforcement actions, settlement activities, and hearing proceedings with regard to compliance to the Reliability Standards.

- 1) Assure timely mitigation of all violations of Reliability Standards. Mitigation plans will be assessed for effectiveness and reasonableness of implementation (including the time to complete) and will be tracked to closure. Tracking will include requiring the Registered Entity to provide regular status updates regarding the implementation of the accepted plan including when significant milestones are achieved. Registered Entities will be monitored for schedule slippage in the accepted mitigation plan timeline, or any significant change in status. In all cases, status updates will be required at least every ninety (90) days until the mitigation plan is completed. The Registered Entity is required to certify successful completion at the conclusion of the mitigation plan. Reliability*First* may ask for additional evidence to support the determination of a successful completion of the accepted mitigation plan and Reliability*First* may elect to perform an on-site review as part of the verification process.

- 2) Conduct thorough and formal compliance audits on a three-year cycle of the RC/BA/TOP functional entities and the TO's with local control centers (TO/LCCs) within the region. Audit teams may consist of staff and contractors, with NERC and FERC personnel performing an oversight role. Industry volunteers will not serve on audit teams. These audits will review 12 to 14 entities per year, which will include monitoring upwards of 100 total functions, as many of these entities are also evaluated for the functions identified in paragraph 3.

RC – Reliability Coordinator
BA – Balancing Authority
TOP – Transmission Operator
TO – Transmission Owner

- 3) Conduct thorough and formal compliance audits of all other entities on a six-year cycle, which will include the following registered functions: GO/GOP/LSE/PSE/DP/RP/PA/TP/TSP. These audits may include either site visits or off-site reviews. Approximately 55 to 70 entities will be reviewed annually with upwards of 250 total functions evaluated.

GO – Generator Owner
GOP – Generator Operator
LSE – Load Serving Entity
PSE – Purchasing-Selling Entity
DP – Distribution Provider
RP – Resource Planner
PA – Planning Authority
TP – Transmission Planner
TSP – Transmission Service Provider

- 4) Spot-checks will be used to assess performance to randomly selected standards as outlined in the NERC and Reliability *First* Implementation Plans. Typically, 8 to 12 standards may be assessed each year, but may increase as risk – assessment dictates. This monitoring process will also be performed to confirm self-certifications, self reports, and the status of mitigation plans or agreed to activities associated with settlement agreements. This audit type review, although very narrow in scope, will require the monitoring of over 1000 requirements annually.
- 5) Identify all violations and continue to implement and staff a case management/technical resource and workflow structure to manage each violation and entity involved professionally and following all due process requirements in a manner that promotes efficient, effective, thorough, and fair processing of all enforcement related issues. Conduct initial violation fact and circumstance reviews and communicate with the entity through each step of the enforcement process. Manage all necessary activities through the enforcement process through final closure with NERC, including settlements,

- hearings, and participate as necessary in any appeals to NERC or regulatory agencies for alleged violations that are contested.
- 6) Manage all enforcement actions for consistent application of penalties for violations of Reliability Standards.
 - 7) Manage all compliance activities in an unbiased, fair, and consistent manner, affording all Registered Entities appropriate due process.
- b.** Provide training for compliance auditors:
- 1) Assure all auditors receive and meet all NERC auditor training requirements.
- c.** Develop and enhance processes, databases, and reporting tools for accurate tracking and reporting of compliance activities including compliance audits, spot checks, self certifications, alleged and confirmed violations of reliability standards, penalty and sanction actions, settlements, hearings, disposition of all violations, mitigation plans, and management of the compliance monitoring process record. Also develop trending information of compliance activities to identify any trends requiring action by ReliabilityFirst.
- d.** Maintain reporting relationship with NERC and establish processes and procedures to report monitoring results, violations, levy penalties and sanctions, and track mitigation plans and settlement actions for violations.
- 1) Report all alleged violations of Reliability Standards to NERC.
 - 2) Prepare and distribute notices of proposed violation and penalty determinations associated with compliance violations.
 - 3) Prepare and distribute all compliance monitoring process reports to NERC, Registered Entities, and ReliabilityFirst staff.
- e.** Enhance reporting of violations of Reliability Standards to the ReliabilityFirst Board Compliance Committee and NERC.
- 1) Report all violations of Reliability Standards for which investigation, decision, and hearing processes have been completed, including the identity of the organizations involved in those violations.
 - 2) Identify trends pertaining to problem areas, entities that may require additional follow-up review, and communicate any lessons learned with other Registered Entities while protecting confidentiality as required by NERC Rules of Procedure.
- f.** Monitor and assess that ReliabilityFirst has adequately addressed and can satisfy the requirements for compliance with those NERC standards for which ReliabilityFirst is currently accountable.

- g. Support the development of the compliance elements for all new or revised Reliability Standards within the ReliabilityFirst and NERC Standards Program. Support NERC standards drafting teams as resources are available.
- h. Provide the necessary information regarding all financial penalties to support the collection and disbursement of the penalty funds.
- i. Develop a plan for an independent audit or continuous self assessment of the ReliabilityFirst CMEP in 2010 and 2011 to evaluate the success and effectiveness of the program in achieving its mission, and to prepare for the next ERO evaluation of ReliabilityFirst.

Technical Feasibility Exceptions

Scope and Description

Background

The Critical Infrastructure Protection (CIP) Standards allow for registered entities to request Technical Feasibility Exceptions (TFEs) to the standard requirements in certain instances. Once these requests are made, they must be reviewed and approved, and then short and long-term plans to deal with the TFEs must also be evaluated, approved and monitored to completion.

At the time the ReliabilityFirst 2010 Business Plan and Budget were developed, submitted to the Board for review, and posted for stakeholder comment, NERC anticipated that the processing of TFEs would be handled centrally by NERC staff and thus Regional Entity resources would not be required for this work. Based upon feedback and input NERC received in response to the public posting of its proposed 2010 Business Plan and Budget, they revised this approach and directed the Regions to develop proposals to deal with TFE processing.

ReliabilityFirst decided to add in the base 2010 Business Plan and Budget the additional funding needed to perform TFE work. There are a number of unknowns and evolving issues associated with the evaluation of TFEs. The ultimate answers to these questions will greatly impact resource requirements.

ReliabilityFirst is attempting to answer them as best we can, given the information presently available. The assumptions made were used to determine the budget impact of TFE evaluations across the Region.

Key Issues and Assumptions

1. *Who performs the TFE evaluations?*

Assumption – Based on current information, ReliabilityFirst assumes that the Regions will be expected to evaluate all TFE requests, approve interim plans to

operate while the TFE exists, and approve plans to ultimately eliminate the TFE.

2. *When are evaluations performed (pre-approval or during an audit)?*

Assumption – The current plan, based on information from NERC is that the evaluations would take place during audits, but some sort of initial evaluation must also be conducted. NERC and some regions believe this can be done off-site, but ReliabilityFirst believes that at least some registered entities will be reluctant to electronically submit Critical Energy Infrastructure Information (CEII), associated with TFEs, much like they will for CIP audits. ReliabilityFirst believes on-site and travel time will therefore be required which may be significant, and may impact the effectiveness of proposals to simply screen TFEs initially and then properly evaluate them during the next scheduled audit.

3. *What information must be collected in support of a TFE?*

Assumption – TFEs are associated with CIP-005 requirements 2.4, 2.6, 3.1., 3.2 and CIP-007 requirements 2.4, 4, 5.3, 6 and 6.3.

Assumption – If a registrant refuses to submit materials or documents due to CEII concerns and requests that they can only be reviewed on-site, ReliabilityFirst anticipates complying with this request.

4. *What happens if we do not agree with the basis for the TFE request? Is it a violation of the associated standard? What is the process for any appeal or contest? Does the registrant get a second chance?*

Assumption – The ReliabilityFirst assumptions here are consistent with the NERC Compliance Process Bulletin #2009-006, Interim Approach to Technical Feasibility Exceptions, Version 1.0, July 1, 2009, (http://www.nerc.com/files/2009-006_Public%20Notice-V1.pdf). If the TFE is rejected during our evaluation, the entity is given 31 days to make corrections and resubmit it. This may trigger another on-site visit, if the first evaluation had to be conducted on site due to CEII concerns. If the TFE is rejected again, then the alleged violation process will start and all of the same due process rights will be granted to the requestor.

5. *How will common TFEs be coordinated across regions? Can NERC issue a global TFE determination for common equipment? Can they maintain a database of already approved TFEs?*

Assumption – At the time of this writing, a common NERC TFE data base and global determinations are not anticipated. Therefore, we believe the Regions must seek consistency on similar requests absent these tools, and it may add to the time required to evaluate a given TFE.

6. *How are TFE mitigation plans (interim and long term) evaluated and judged? What happens if the plan is not deemed acceptable?*

Assumption – ReliabilityFirst believes that we will have to perform the evaluations and an insufficient interim or long term plan will be a basis for rejecting the TFE. If the TFE is rejected, after the opportunity to improve the initial plan, it becomes an alleged violation. We believe the evaluation will be much like those associated with mitigation plans for alleged or confirmed violations of Reliability Standards.

7. *What approval or oversight role will NERC play if TFE evaluation is delegated to the Regional Entities?*

Assumption – NERC has indicated they will provide oversight and some analysis should the Regions be the primary evaluators; but the exact nature has not yet been clearly defined due to the uncertainty associated with the TFE evaluations. But it should not impact the Regional workload, other than to require us to address any questions NERC may have regarding the TFE and perhaps to ask more questions of the requestor. Depending on the answer to this question, TFE approval may experience some delays.

8. *How often and how will TFEs be re-evaluated?*

Assumption – TFEs will need to be re-evaluated annually. Also, the mitigation plans must be tracked routinely.

9. *How many TFEs will there be, anyway?*

Assumption – This is the most difficult question to answer. The answer depends on how a TFE is characterized. For instance, if a company has 200 of the same relays with the same TFE need for the same standard, is that one TFE or 200? We are treating it as one. However, the mitigation plans may need to be approved and tracked individually or in subsets with potential multiple assessments.

Funding Requirements — Explanation of Increase (Decrease)

The compliance department's current workload is exceeding the available resources and this workload is not anticipated to subside in future years, but rather grow. Although the industry is experiencing some changes in their revenue streams with the present economy, the roles and responsibilities of ReliabilityFirst as a Regional Entity continue to grow. Here are just a few of the increased initiatives that ReliabilityFirst will be responsible for now and by 2010:

- new standards are going to become effective;
- the spot checking responsibilities have grown substantially with the monitoring of a minimum of 8 standards annually with individual reports for every entity;
- the expectation to request evidence of the reviews of the exception reporting standards;
- the auditing of the CIP standards continues to grow in 2010 by at least a factor of four;
- the enforcement process, as it has evolved, has increased in scope through the need for detailed fact and circumstance reviews of required evidence and documentation;

- as a result of our recent NERC/FERC audit, all processes will need to be enhanced from an administrative, documentation, and scope of evidence perspectives;
- the reporting of information to NERC has grown and has become a comprehensive monthly and more frequent requirement; and
- ReliabilityFirst compliance staff will be monitoring various trends of any appropriate information to identify performance area trends of entities, standards, etc.
- Technical feasibility exceptions (TFEs) for CIP standards must be evaluated but are not budgeted for here, as the current plan is for NERC to conduct the evaluations
- Nuclear balance of plant must be evaluated against the NERC CIP standards, but this has not been budgeted for here, as the current plan is for NERC to conduct these compliance activities.

The details below provide the identified resource needs of the compliance staff in 2010.

Resource Needs

The on-going and increasing number of compliance reviews to be completed is still in the process of ramping up. In 2010, besides the approximately 60 compliance audits scheduled, the compliance audit function will be conducting approximately 8 to 12 spot checks, and begin the auditing of the CIP Standards, while continuing the self certification process for the CIP Standards. The audit staff is expecting to support the investigation process as the threshold of performing investigations continues to evolve with an increasing number of CVIs throughout the year. The audit department has identified the need for an additional four FTEs in 2010 to maintain the workload and manage the increased responsibilities.

Description of Additional Proposed FTEs

Senior Engineers or Senior Consultants are responsible for tasks related to the completion of compliance monitoring processes associated with ReliabilityFirst auditing duties. We estimate the need for five three person teams to properly complete the expected scheduled audits and spot checks in 2010 and going forward. With the addition of two additional personnel, we will have three – three man teams fully staffed. The manning of the two additional teams for 2010 will come from existing personnel in the Compliance Implementation and Enforcement areas as needed, with the expectation that we will minimize the impact on these areas such that their lines of responsibilities do not lose focus. As a result of the recent NERC audit of ReliabilityFirst, increased focus on the management of information and evidence will increase the time to complete audits, spot checks, and all other compliance activities. With the monitoring and auditing of CIP requirements going from 13 to 41 requirements, and the expectation that many more entities will be identified as having critical assets subject to CIP standards, two additional personnel will be required and directly assigned to the CIP area, with the requisite subject matter knowledge.

Contractor usage is expected to be minimized in 2010, although it will increase from budgeted 2009 levels. As permanent staff becomes skilled in the audit process, less to no contractor support will be needed in future years. Audit personnel will also be more involved in mitigation plan reviews and providing technical support to the enforcement group as the scope of activities is expected to increase due to changing standards and the CIP vulnerabilities.

NERC conducted an analysis and estimated that it will take about a man-week for each TFE evaluation, excluding any enforcement activities associated with rejected TFE requests.

ReliabilityFirst currently has 41 registered entities who declared critical cyber assets (this number may increase in light of recent NERC efforts). Each of these 41 registered entities must be audited against the requirements of the CIP standards over the course of the next three years. ReliabilityFirst informally asked a few registered entities to provide a non-binding estimate of the number of TFEs they might request. Given this very limited data regarding how many TFEs each entity will submit, we assumed 10 (and the 10 could encompass multiple individual devices, as stated above). That means ReliabilityFirst can reasonably expect 410 TFEs at a minimum over the next three years.

ReliabilityFirst agrees with the NERC estimate of a man-week per TFE request evaluation. So this means 410 man-weeks are necessary for the evaluations and processing; one third of that is 135 man-weeks that can be assumed in 2010, 2011, and 2012, assuming a 3-year review cycle is acceptable to NERC.

Accounting for vacation, holidays, and administrative time, an average employee has 1,650 man hours or 41 productive man-weeks in a year.

135 man-weeks of work divided by 41 man-weeks of availability translates to 3.5 FTEs for TFE evaluations, which we have rounded down to 3 for the 2010 budget. Overload work will be farmed out to contract support, as necessary.

At the end of the three-year period, ReliabilityFirst will better understand the scope of the CIP monitoring activity and will decide the staffing needs going forward. We believe the three new CIP staff and support would transition into assuming responsibility for any overflow work associated with the balance of nuclear plant CIP audit, spot check, investigation and enforcement activities that the NRC and NERC will not be dealing with, and follow up on questions, concerns by the entity, technical support of enforcement activities and investigation work that will involve nuclear plants, etc. in the future. There are no resources included in the 2010 Business Plan and Budget for that work as it is assumed that NERC and NRC will be responsible for performing it.

There will be enforcement implications from TFE evaluations as well, and this has not been discussed so far. A rejected TFE becomes an enforcement issue and ReliabilityFirst estimates that this will increase our violation workload by 20 violations per year. Past history dictates one person can handle a maximum of 20 enforcement

cases per year. As such, *ReliabilityFirst* will add one case manager (lawyer) to the enforcement staff for TFE related enforcement activities.

ReliabilityFirst is concerned that the increased staffing already included in the base 2010 Business Plan and Budget combined with the additional required FTEs for TFE evaluations will stress our support staff. With all of this extra work there is always some level of administrative support needed. *ReliabilityFirst* recommends not adding any additional support in 2010, as it is easy to use contract support until we understand the entire workload. *ReliabilityFirst* does believe that between these additional FTEs for the TFE work and the FTEs previously included in the base 2010 budget, we will need to add one more IT staff person to provide proper support.

ReliabilityFirst will sign a contract with one or two contract firms to support the CIP effort in case we need them. *ReliabilityFirst* needs to manage these new initiatives very carefully as we do not want to be in a position where a backlog develops.

Incremental Staffing Summary Due to TFE's

- Add 3 FTEs to the compliance staff for TFE evaluations, mitigation plan review, and tracking.
- Add 1 case manager (lawyer) to the enforcement group.
- Sign contracts with firms for overflow of CIP work

Program Implementation

The on-going and increased review of evidence of compliance related material for all processes (e.g. self-certifications, periodic data submittals, and exception reporting), while trying to maintain accurate records tied to the evidence when evaluating, reporting, and following up with entities that did not provide a submittal as requested in the annual monitoring schedule constitute the need to be more timely with our review and assessment of data. As a result of the recent NERC audit of *ReliabilityFirst*, several recommendations and expectations were also identified that require more detailed reviews and more timely turnaround on the various data and information presented to the region via the portal or any other mechanism. There is an ongoing expectation to develop Key Performance Indicators (KPI's) on compliance related activities. One FTE will be assigned that role as part of their duties and responsibilities, along with supporting the above duties.

Additionally, with the expectation to perform an increasing number of Compliance Violation Investigations (CVIs) and with the addition of the Compliance Inquiry Process (CIQ) there will be a need for additional staffing in the Compliance Implementation Department. Once a CVI and/or CIQ are initiated, these two processes consume resources, requiring months of full time effort to complete these investigations. Experience has shown that the individuals leading these investigations/inquiries essentially have no time for additional duties and/or responsibilities. Two additional FTEs (Senior Engineers or Senior Consultants) in 2010 will be required to maintain this workload.

Enforcement Management

With the initial filings of Violation Notices and Settlement Agreements completed, the requisite processing and detail of information and evidence that is required by NERC and FERC can now be more accurately gauged. An internal technical and legal team method in enforcement actions has been defined and implemented. An analysis of expected labor hours of technical and legal effort and administrative support has been defined on a per violation basis and a projection of expected number of violations has been made. With 2008, the first full year of mandatory enforceable compliance, serving as a baseline, accommodating the new expectations identified by NERC, and with the expectation that mandatory compliance to CIP standards coming more fully on line, ReliabilityFirst will need to add 2 Compliance Enforcement Specialists and 1 Para-Legal to the Enforcement Staff to achieve acceptable processing times while preserving the quality of all violation filings. Any accumulated backlog is unacceptable. Although processing efficiencies at the regional level have been achieved through the development of templates and tools, the implementation of a document management system, the institution of the case manager/technical resource team concept, and the gaining of experience by staff personnel, the case load per enforcement staff person ratio continues to be an obstacle to effective, efficient processing of violations. The average number of days from violation detection to the filing of the final terminating document with NERC will not be reduced without additional enforcement staffing.

Hiring Plans

2010 Compliance Audit Team: A total of 7.5 FTE's Senior Engineers or Senior Consultants which includes 3 FTE's for TFE evaluations

2010 Compliance Enforcement Team: 3 Compliance Specialists, 1 Paralegal

2010 Compliance Implementation Team: 2 Additional FTE's with operations/planning backgrounds.

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 2010 business plan are shown in the table below.

Section A — 2010 Business Plan

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Compliance and Organization Registration and Certification					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 5,099,328	\$ 5,099,328	\$ -	\$ 10,190,215	\$ 5,090,887
Penalty Sanctions				134,483	134,483
Total ERO Funding	\$ 5,099,328	\$ 5,099,328	\$ -	\$ 10,324,698	\$ 5,225,370
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 5,099,328	\$ 5,099,328	\$ -	\$ 10,324,698	\$ 5,225,370
Expenses					
Personnel Expenses					
Salaries	\$ 2,993,674	\$ 2,689,712	\$ (303,962)	4,317,573	1,323,899
Payroll Taxes	176,380	173,725	(2,655)	286,992	110,612
Benefits	382,744	364,520	(18,224)	675,511	292,767
Retirement Costs	496,310	475,976	(20,334)	654,514	158,204
Total Personnel Expenses	\$ 4,049,108	\$ 3,703,933	\$ (345,175)	\$ 5,934,590	\$ 1,885,482
Meeting Expenses					
Meetings	\$ 10,000	\$ 11,676	\$ 1,676	\$ 16,000	\$ 6,000
Travel	399,500	399,000	(500)	450,400	50,900
Conference Calls	720	2,240	1,520	3,600	2,880
Total Meeting Expenses	\$ 410,220	\$ 412,916	\$ 2,696	\$ 470,000	\$ 59,780
Operating Expenses					
Consultants & Contracts	\$ 120,000	\$ 461,402	\$ 341,402	\$ 354,706	\$ 234,706
Office Rent	-	-	-	-	-
Office Costs	-	-	-	212,300	212,300
Professional Services	520,000	551,980	31,980	520,000	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 640,000	\$ 1,013,382	\$ 373,382	\$ 1,087,006	\$ 447,006
Total Direct Expenses	\$ 5,099,328	\$ 5,130,231	\$ 30,903	\$ 7,491,596	\$ 2,392,268
Indirect Expenses				\$ 2,939,309	\$ 2,939,309
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 5,099,328	\$ 5,130,231	\$ 30,903	\$ 10,430,905	\$ 5,331,577
Change in Assets	\$ -	\$ (30,903)	\$ (30,903)	\$ (106,207)	\$ (106,207)
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets				\$ 106,207	
Change in Fixed Assets	-	-	-	106,207	-
TOTAL CHANGE IN ASSETS	\$ -	\$ (30,903)	\$ (30,903)	\$ (0)	\$ (106,207)

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

Funding for this activity in 2010 is provided through assessments to LSEs or designees (mandatory in the United States), as it is a statutory, delegated function.

Personnel Expenses

Fourteen additional compliance staff - Salary, payroll taxes, benefits, and savings and retirement expenses for all positions.

Hiring Plans

- 2010 Compliance Audit Team: 7.5 Senior Engineers or Senior Consultants
- 2010 Compliance Enforcement Team: 3 Compliance Specialists, 1 Paralegal
- 2010 Implementation Team: 2 Additional FTE's with operations/planning backgrounds.

Shared Employees

ReliabilityFirst does not intend to perform any functions outside its ERO delegated activities in 2010; therefore there are no shared employees between statutory and non-statutory functions in 2010. Compliance staff will support standards staff as necessary (estimated 0.5 FTE in 2010)

Meeting Expenses

Meeting, staff travel, and conference call expenses in support of the implementation of the ReliabilityFirst compliance program will be unchanged from 2009 budget levels.

Operating Expenses

- Contractors may be utilized to supplement staff in the areas whenever workload exceeds the capabilities of the permanent staff. The additional contract support is necessary to compliment the staff in the areas of spot checks, audits, investigation and CIP activities, anticipating the hiring sequence and other unanticipated workload initiatives. The 2009 budget did not properly anticipate the increases in workload on permanent staff requiring the need for additional contract support.
- Office costs will increase in 2010 due to maintenance of the new compliance portal.
- Professional Services remain constant to the 2009 budget. This represents legal support for compliance.

Indirect Expenses

Expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs for 2010; this accounting change results in an increase compared to 2009.

Other Non-Operating Expenses

There are no other non-operating expenses

Fixed Asset Additions

There are no fixed asset additions

Reliability Readiness Evaluation and Improvement Program

Reliability Readiness Evaluation and Improvement Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	0	0	0
Total Direct Expenses	\$0	\$0	\$0
Total Indirect Expenses	\$0	\$0	\$0
(Inc)Dec in Fixed Assets	\$0	\$0	\$0
Total Expenses	\$0	\$0	\$0

NERC has eliminated the Reliability Readiness Evaluation and Improvement Program and this activity is no longer performed by ReliabilityFirst or any other Regional Entity.

Training, Education, and Operator Certification Program

Training, Education, and Operator Certification Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	.05	.05	0
Total Direct Expenses	\$102,582	\$66,294	(\$36,288)
Total Indirect Expenses	\$6,640	\$4,522	(\$2,118)
(Inc)Dec in Fixed Assets	\$0	(\$145)	(\$145)
Total Expenses	\$109,222	\$70,671	(\$38,551)

2010 Key Assumptions and Cost Impacts

The ReliabilityFirst Training and Education Program for 2010 will address the areas of ReliabilityFirst Board of Director's training and industry workshops for membership covering topics such as the ReliabilityFirst Standards Development and Compliance Monitoring and Enforcement Program and Critical Infrastructure Protection. Individual training needs or personal development of ReliabilityFirst staff are identified by the separate functional areas and coordinated under the ReliabilityFirst Training and Education Program, but the expenses for that training are included in each department's budget.

2010 Goals and Key Deliverables

The Training, Education, and Operator Certification Program area focuses on providing relevant training to entities operating in the ReliabilityFirst region. This training is structured to provide timely information in a concise format to enable participation at all levels within an organization.

Board of Directors Training

Per the Bylaws of ReliabilityFirst, the Board of Directors will receive training annually to keep current with activities within the ReliabilityFirst footprint and to stay abreast of changes affecting the industry. This training will be conducted at times convenient to the members of the Board and will be prepared and presented primarily by ReliabilityFirst staff, normally in conjunction with a regularly scheduled Board of Directors meeting.

Industry Workshops

In 2010, ReliabilityFirst will continue to offer workshops focused on keeping members abreast of the activities of ReliabilityFirst and other activities that may affect ReliabilityFirst members. The workshops will be geared toward enhancing understanding of the evolution of the industry as a result of the Energy Policy Act of 2005 and of ReliabilityFirst programs such as Standards Development and the Compliance Monitoring and Enforcement Program.

Beginning in late 2008, ReliabilityFirst also began offering workshops and Webinars on Critical Infrastructure Protection, particularly focused on the

implementation of the Cyber Security Standards (CIP-002 – CIP-009.) ReliabilityFirst continued offering Webinars on this topic area in 2009 and will continue to do so in 2010.

Some of the face-to-face workshops may require a registration fee from attendees to minimize the budgetary impact to ReliabilityFirst. Workshops to be conducted in 2010 include:

- Compliance Monitoring and Enforcement Program workshops to promote an understanding of the program as it continues to evolve under the ERO.
- Open forums to provide insight into new standards developed and approved by the industry, both NERC and ReliabilityFirst, changes in the Compliance Monitoring and Enforcement Program, or other topics requested by members/Registered Entities.
- CIP standard Webinars to provide insight into the evolution of these standards and to provide a forum for representatives of registered entities to share thoughts, problems, and solution.
- Updates to the base case development process used for developing computer models used to perform reliability assessments.

Funding Requirements — Explanation of Increase (Decrease)

In 2010 ReliabilityFirst will continue to delegate overall responsibility for individual staff training to the respective manager/director. This approach results in comparable funding requirements for the Training, Education and Operator Certification Program area as compared to 2009.

Staffing for this program area is achieved through the sharing of one staff member with the Situation Awareness program area. This staff member is responsible for oversight of the program area budget and can be involved in the coordination of workshops. The FTE allocation of this staff member for this program area is 0.05 and will not change for 2010 therefore personnel expenses for this program area will increase minimally. As ReliabilityFirst does not intend to perform any functions outside its ERO delegated activities in 2010, therefore there are no shared employees between statutory and non-statutory functions in 2010. Also, ReliabilityFirst does not anticipate using contractors to support this program area in 2010.

While ReliabilityFirst does not anticipate conducting significantly more workshops of the nature identified above, the cost associated with each of these workshops is expected to decrease. ReliabilityFirst will continue to seek ways to reduce the cost of workshops.

Training, Education, and Operator Certification Program

Funding sources and related expenses for the Training, Education, and Operator Certification section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Training and Education					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 102,582	\$ 102,582	\$ -	\$ 70,464	\$ (32,118)
Penalty Sanctions				207	207
Total ERO Funding	\$ 102,582	\$ 102,582	\$ -	\$ 70,671	\$ (31,911)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 102,582	\$ 102,582	\$ -	\$ 70,671	\$ (31,911)
Expenses					
Personnel Expenses					
Salaries	\$ 8,695	\$ 10,920	\$ 2,225	\$ 8,846	\$ 151
Payroll Taxes	770	758	(12)	733	(37)
Benefits	348	331	(17)	896	548
Retirement Costs	2,769	2,655	(114)	1,419	(1,350)
Total Personnel Expenses	\$ 12,582	\$ 14,665	\$ 2,083	\$ 11,894	\$ (688)
Meeting Expenses					
Meetings	\$ 88,000	\$ 97,432	\$ 9,432	\$ 50,000	\$ (38,000)
Travel	2,000	-	(2,000)	-	(2,000)
Conference Calls	-	-	-	4,400	4,400
Total Meeting Expenses	\$ 90,000	\$ 97,432	\$ 7,432	\$ 54,400	\$ (35,600)
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Direct Expenses	\$ 102,582	\$ 112,097	\$ 9,515	\$ 66,294	\$ (36,288)
Indirect Expenses				\$ 4,522	\$ 4,522
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 102,582	\$ 112,097	\$ 9,515	\$ 70,816	\$ (31,766)
Change in Assets	\$ -	\$ (9,515)	\$ (9,515)	\$ (145)	\$ (145)
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets				145	
Change in Fixed Assets	-	-	-	145	-
TOTAL CHANGE IN ASSETS	\$ -	\$ (9,515)	\$ (9,515)	\$ 0	\$ (145)

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

Funding for this activity in 2010 is provided through assessments to LSEs or designees (mandatory in the United States), as it is a statutory, delegated function.

Personnel Expenses

Salary, payroll taxes, benefits, and savings and retirement expenses for 2010 are budgeted for 0.05 FTE. Staff resources are used to support the objectives of the Training, Education, and Operator Certification Program area as defined in this business plan. As explained in the discussion of Funding Requirements for Training, Education, and Operator Certification, there will be a minimal increase (salary adjustment) to Personnel Expenses for this program area.

Meeting Expenses

- Because staff travel for the Training, Education, and Operator Certification Program area is coordinated with other program area activities (Compliance, Situation Awareness, etc.) no travel expenses are allocated to this program area.
- By reducing the number of workshops, total meeting expenses has reduced.

Operating Expenses

No other operating expenses.

Indirect Expenses

Expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs for 2010.

Other Non-Operating Expenses

There are no other non-operating expenses.

Fixed Asset Additions

There are no fixed asset additions.

Reliability Assessment and Performance Analysis Program

Reliability Assessment and Performance Analysis Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	5.50	8.50	3.00
Total Direct Expenses	\$985,605	\$1,725,181	\$739,576
Total Indirect Expenses	\$730,451	\$768,742	\$38,291
(Inc)Dec in Fixed Assets	\$0	\$6,767	\$6,767
Total Expenses	\$1,716,056	\$2,500,690	\$784.634

2010 Key Assumptions

In support of the ERO and Rules of Procedure, Section 800, ReliabilityFirst staff will independently analyze, assess, and report on the reliability and adequacy of the bulk electric system within its footprint in the past, present, and future. This includes performance of seasonal, near-term and long-term resource and transmission assessments, special investigations as warranted, analysis of system disturbances, and collection and dissemination of data.

In addition, one FTE to be hired as a protection systems subject matter expert will increase the proposed FTE headcount but will reduce dependence on contractor experts experienced in 2009 actual expenses. The position will assist in system disturbance review and event analysis, along with conducting the mis-operation reporting review and analysis and participate in Compliance Violation Investigations. This position is being added to better handle protection system related issues by using staff instead of contracted resources.

1. NERC will continue to incrementally improve the definitions and metrics used in reliability assessments.
2. NERC and regional entities are at risk of being requested to gather data or perform analysis in support of federal initiatives related to the stimulus package, climate change, or renewable energy initiatives. NERC and the regions are not funded for such initiatives and any unfunded mandates may impact cash reserves.
3. There will be a startup planning effort in 2010 to begin demand response data collection initiative and probabilistic risk assessment data in 2011.
4. Some regions continue to experience a shift of work effort in developing reliability assessments from stakeholders to staff.
5. NERC will develop analysis of TADS data in 2010; some regions may develop regional analysis.
6. The number of events requiring review and analysis is projected to continue at a level of 50-60 per year across North America. NERC will conduct approximately 24 inquiries and 12 CVIs related to events within ReliabilityFirst.

2010 Goals and Key Deliverables

Assessments of Reliability Performance

- a. Perform seasonal (summer and winter) resource adequacy assessments per NERC Rules of Procedure Section 800 and NERC Standards MOD-016, TPL-005, and TPL-006.
- b. Perform long-term resource adequacy assessments per NERC Rules of Procedure Section 800 and NERC Standards MOD-016, TPL-005, and TPL-006.
- c. Perform seasonal (summer and winter) transmission assessments for the region per Rules of Procedure Section 800 and NERC Standards TPL-005, and TPL-006.
- d. Perform near-term (1 through 5 years into the future) transmission assessments for the region per NERC Rules of Procedure Section 800 and NERC Standards TPL-005, and TPL-006.
- e. Perform long-term (5 through 10 years into the future) transmission assessments for the region per NERC Rules of Procedure Section 800 and NERC Standards TPL-005, and TPL-006.
- f. Produce Reliability *First* Corporation assessments for the NERC Reliability Assessment Subcommittee's seasonal and long-term reports per NERC Rules of Procedure Section 800.
- g. Perform any dynamic assessments for the region required per NERC Standards PRC-006, PRC-012, TPL-005, and TPL-006.
- h. Work with neighboring regional entities in the Eastern Interconnection Reliability Assessment Group (ERAG) to perform seasonal, near-term, and long-term transmission assessments for the region per NERC Standards TPL-005, and TPL-006.

Model Development to Conduct Assessments

- a. Develop power flow base case models for the region per NERC Standards MOD-011 and MOD-014 - Eastern Interconnection Reliability Assessment Group (ERAG) – Multiregional Modeling Working Group (MMWG) effort.
- b. Develop power flow base case models for the region per NERC Standards MOD-011 and MOD-014 (regional and interregional efforts).
- c. Develop dynamic base case models for the region per NERC Standards MOD-013 and MOD-015 (ERAG MMWG effort).

- d. Develop dynamic base case models for the region per NERC Standards MOD-013 and MOD-015 (regional and interregional efforts).

Reporting Requirements

- a. Submit regional load, capacity, and transmission data and power flow base cases annually for the DOE EIA-411 report.
- b. Submit regional power flow data annually for the FERC 715 report.
- c. Assessment Report to the Public Utilities Commission of Ohio.

Other Requirements and Activities

- a. Continue to participate in the Eastern Interconnection Reliability Assessment Group, which includes the Management Committee, MMWG, and three study forums.
- b. Provide support to analyze protective relay misoperation information as required in NERC Standard PRC-003.
- c. Conduct initial and periodic Special Protection System (SPS) reviews as required in NERC Standards PRC-012, PRC-013, and PRC-014.
- d. Conduct initial and periodic Under Frequency Load Shed (UFLS) reviews as required in NERC Standard PRC-006.
- e. Conduct initial and periodic Under Voltage Load Shed (UVLS) reviews.
- f. Coordinate disturbance monitoring equipment placement as required in NERC Standard PRC-002.
- g. Develop and maintain a regional bulk electric system facilities map.
- h. Develop and maintain a linear contingency database for transmission assessment studies.

Events Analysis and Information Exchange Objectives

- a. The Reliability*First* staff will investigate disturbances as described in the regional event analysis procedure and cooperate on investigations with NERC and FERC staff and other Regional Entity staff, as needed. This also includes conducting system disturbance and post-mortem analyses.
- b. Collecting and reviewing disturbance reports as required in NERC Standard EOP-004.
- c. Collecting and reviewing disturbance reports as required by the Department of Energy in form OE-417.

Benchmarking Objectives

The Reliability*First* Power Flow Model Contact Group (PFMCG) and Dynamic Model Contact Group (DMCG) have the responsibility to address any benchmarking objectives as directed by the Reliability Committee.

Funding Requirements — Explanation of Increase (Decrease)

Some of the Reliability*First* staff that was previously allocated to Member Forums have been working on reliability assessment and performance analysis activities in the recent past and have been re-allocated to this category for 2010. Specifically, there has been much more activity by staff to investigate and analyze system disturbances. Additionally, nearly all of the member forum meetings and activities have been addressing reliability assessment and performance analysis issues. A total of 2 FTEs have been re-allocated.

Also, the addition of one FTE to be hired as a protection systems subject matter expert will increase the proposed FTE headcount but will reduce dependence on contractor experts experienced in 2009 actual expenses.

Reliability Assessment and Performance Analysis Program

Funding sources and related expenses for the Reliability Assessment and Performance Analysis section of the 2010 business plan are shown in the table below.

Section A — 2010 Business Plan

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Assessment and Performance Analysis					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 985,605	\$ 985,605	\$ -	\$ 2,465,518	\$ 1,479,913
Penalty Sanctions				35,172	35,172
Total ERO Funding	\$ 985,605	\$ 985,605	\$ -	\$ 2,500,690	\$ 1,515,085
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 985,605	\$ 985,605	\$ -	\$ 2,500,690	\$ 1,515,085
Expenses					
Personnel Expenses					
Salaries	\$ 637,059	\$ 669,864	\$ 32,805	\$ 1,064,882	\$ 427,823
Payroll Taxes	39,535	38,942	(593)	71,049	31,514
Benefits	73,404	69,917	(3,487)	117,942	44,538
Retirement Costs	105,407	101,085	(4,322)	170,678	65,271
Total Personnel Expenses	\$ 855,405	\$ 879,809	\$ 24,404	\$ 1,424,551	\$ 569,146
Meeting Expenses					
Meetings	\$ 24,000	\$ 18,000	\$ (6,000)	\$ 52,000	\$ 28,000
Travel	40,000	67,076	27,076	90,000	50,000
Conference Calls	1,200	1,196	(4)	1,620	420
Total Meeting Expenses	\$ 65,200	\$ 86,272	\$ 21,072	\$ 143,620	\$ 78,420
Operating Expenses					
Consultants & Contracts	\$ 65,000	\$ 65,000	\$ -	\$ 103,000	\$ 38,000
Office Rent	-	-	-	-	-
Office Costs	-	-	-	47,510	47,510
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	6,500	6,500
Total Operating Expenses	\$ 65,000	\$ 65,000	\$ -	\$ 157,010	\$ 92,010
Total Direct Expenses	\$ 985,605	\$ 1,031,081	\$ 45,476	\$ 1,725,181	\$ 739,576
Indirect Expenses				\$ 768,742	\$ 768,742
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 985,605	\$ 1,031,081	\$ 45,476	\$ 2,493,923	\$ 1,508,318
Change in Assets	\$ -	\$ (45,476)	\$ (45,476)	\$ 6,767	\$ 6,767
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ (6,500)	\$ (6,500)
Computer & Software CapEx				38,000	38,000
Furniture & Fixtures CapEx				-	-
Equipment CapEx				-	-
Leasehold Improvements				-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ (31,500)	\$ (31,500)
Allocation of Fixed Assets				\$ 24,733	
Change in Fixed Assets	-	-	-	(6,767)	(31,500)
TOTAL CHANGE IN ASSETS	\$ -	\$ (45,476)	\$ (45,476)	\$ 0	\$ (24,733)

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

Funding for this program in 2010 is provided through assessments to LSEs or designees (mandatory in the United States), as it is a statutory, delegated function.

Personnel Expenses

Increased salary, payroll taxes, benefits, and savings and retirement expenses are due to the re-allocation of two FTEs and the addition of one new FTE, hired as a protection systems subject matter expert.

Meeting Expenses

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

Operating Expenses

Expenses associated with the Multiregional Modeling Working Group (MMWG) and Eastern Interconnection Reliability Assessment Group (ERAG) are the responsibility of the Regional Entities within the Eastern Interconnection. The Regional Entities will pay their prorata share of MMWG/ERAG expenses. The ReliabilityFirst share is about 28%.

Contractual expenses (ReliabilityFirst prorata share):

MMWG/ERAG Work (\$65,000)

Consultants to support an event analysis (\$10,000).

Indirect Expenses

Expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs for 2010; this accounting change results in an increase compared to 2009.

Other Non-Operating Expenses

There are no other non-operating expenses

Fixed Asset Additions

- Replacement of servers to increase efficiencies in study calculations.
- Purchase new engineering software for generation re-dispatch.

Situational Awareness and Infrastructure Security Program

Situational Awareness and Infrastructure Security Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	1.95	.95	(1.00)
Total Direct Expenses	\$400,924	\$346,021	(\$54,903)
Total Indirect Expenses	\$258,978	\$85,918	(\$173,060)
(Inc)Dec in Fixed Assets	\$0	(\$2,764)	(\$2,764)
Total Expenses	\$659,902	\$429,175	(\$230,727)

2010 Assumptions and Cost Impacts

With the finalization of the Department of Homeland Security (DHS) National Infrastructure Protection Plan and the Sector Specific Plan for the Energy Sector in early 2007, Situation Awareness and Infrastructure Security (SAIS) continues to receive more focus. The Reliability*First* SAIS activity continues to evolve to provide the tools and information required by the Reliability*First* staff and stakeholders to promote infrastructure protection.

1. Situation awareness should be separated from CIP in the business plan and accounting during 2010. Situation awareness is more related to event analysis, which should be accounted for in the same area, than CIP. CIP, given its unique technical requirements and importance should be budgeted separately.
2. NERC and each region will independently evaluate its needs for a situation tool to supplement or mirror the FERC tool and will each fund its own work. The FERC situation awareness tool will continue to be developed in 2010 to meet regulator, NERC, regional entity and stakeholder needs. Reliability coordinators will bear the cost of providing systems and information to meet FERC requirements.
3. The NERC synchro-phasor project will not impact regional entity budgets in 2010.

2010 Goals and Key Deliverables

The Situation Awareness and Infrastructure Security program area focuses on supporting the Reliability*First* staff and Registered Entities in understanding potential threats to the electricity sector, implementation of reliability standards developed to reinforce infrastructure security, and maintaining an awareness of conditions on the Bulk Power System.

To achieve these goals, ReliabilityFirst will focus its activities in the following areas:

Support the ReliabilityFirst Critical Infrastructure Protection Committee

In late 2006, ReliabilityFirst stakeholders formed the regional Critical Infrastructure Protection Subcommittee (CIPS). In late 2008 this subcommittee was elevated to a committee reporting directly to the ReliabilityFirst Board of Directors. The purpose of the committee is to share information concerning critical infrastructure protection (CIP) and to promote CIP within the ReliabilityFirst region. During 2010, SAIS will support the committee through scheduling and facilitation of committee meetings and Webinars and dissemination of messages, alerts, and warnings from NERC and DHS.

Support/oversee ReliabilityFirst staff resources compliance to the NERC Cyber Security Standards (CIP-002 – CIP-009)

ReliabilityFirst is committed to complying with the NERC Cyber Security Standards. The Situation Awareness and Infrastructure Security program area will continue to provide training, guidance, and oversight to the ReliabilityFirst staff, specifically including the Information Technology staff, in achieving compliance to these standards.

Provide information on CIP-related Issues

This activity involves dissemination of information from agencies such as the Electricity Sector Information Sharing and Analysis Center (ES-ISAC), the U.S. Department of Homeland Security, and others containing information on events or suspected events representing potential threats to the electricity sector.

To accomplish this objective, ReliabilityFirst staff must be identified to the U.S. Department of Homeland Security and the ES-ISAC as individuals authorized to receive these communications. The communications can then be forwarded to selected representatives of ReliabilityFirst member companies.

ReliabilityFirst staff will continue working with other members of the NERC Critical Infrastructure Protection Committee to develop a robust messaging system for dissemination of CIP-related messages to the appropriate target audience. This will involve working with the Registered Entities within the ReliabilityFirst region to identify the appropriate individual(s) at each entity to receive these messages.

Monitor the health of the Bulk Power System (BPS)

The use of situational awareness tools by ReliabilityFirst staff has been evolving in the last couple years. ReliabilityFirst staff has participated in the Situation Awareness for FERC, NERC, and the Regional Entities (SAFNR) project and is making use of the SAFNR displays developed during this project. ReliabilityFirst is a signatory to the NERC Operating Reliability Data Confidentiality Agreement and as such staff has been using tools such as the Reliability Coordinator Information System (RCIS), System Data eXchange (SDX), and Area Control Error (ACE) and Abnormal Frequency System Monitoring to monitor the health of the Bulk Power System within the ReliabilityFirst geographical area.

Maintain and Test Business Continuity/Disaster Recovery and Pandemic Plans for the ReliabilityFirst Office

A business continuity plan deals with the ability to continue business functions in a degraded situation such as the loss of corporate assets including office space or computer assets. Disaster recovery deals with a more complete loss of access to corporate assets due to a large-scale event such as a tornado or blackout. A pandemic plan focuses on business continuity in the face of a declared pandemic. Due to the potential nature of a pandemic, special steps must be taken to permit continued operation with reduced staff availability.

To ensure staff understanding and the adequacy of these plans, it is necessary to periodically test them. During 2010, tabletop exercises will be used to test the effectiveness and adequacy of these plans. Lessons learned during these tabletop exercises will then be used to improve the plans and address deficiencies.

Assist stakeholders in complying with NERC and ReliabilityFirst Standards Dealing with Critical Infrastructure Protection

The standards currently addressing this issue are the Cyber Security Standards (CIP-002 – CIP-009.) These standards continue to evolve in response to direction from the Federal Energy Regulatory Commission. As these standards evolve, ReliabilityFirst stakeholders will continue to monitor and implement revisions to the standards as those revisions are completed and approved. ReliabilityFirst SAIS staff will be available to answer questions concerning these standards and will sponsor regional workshops and Webinars as needed to foster the exchange of ideas and solutions developed by stakeholders.

Support the ReliabilityFirst Compliance Monitoring and Enforcement Program

The Situation Awareness program area will continue to support the ReliabilityFirst Compliance Enforcement program area by providing expertise on and participating in audits that include assessment of compliance to the NERC Cyber Security Standards (CIP-002 – CIP-009.)

Funding Requirements — Explanation of Increase (Decrease)

Staffing for this program area is achieved through the sharing of one staff member with the Training, Education, and Operator Certification program area. The allocation of the shared employee is 95% to Situation Awareness and 5% to Training. ReliabilityFirst does not intend to perform any functions outside its ERO delegated activities in 2010 therefore there are no shared employees between statutory and non-statutory functions in 2010. Additionally, ReliabilityFirst does not anticipate the use of contractors in this area in 2010.

Critical Infrastructure Protection Resources			
(Included in Total Situational Awareness and Infrastructure Security)			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	N/A	.81	.81
Total Direct Expenses	N/A	\$294,118	\$294,118
Total Indirect Expenses	N/A	\$73,030	\$73,030
Total Expenses	N/A	\$367,148	\$367,148

In previous year's budgets, funding for Critical Infrastructure Protection (CIP) was an integral portion of the total Situation Awareness budget and not called out separately. Because CIP is an ever-increasing concern for critical infrastructures, this item has received greater emphasis and has been identified as a line item in the 2010 ReliabilityFirst Business Plan and Budget. As a result of this change in tracking of expenses related to CIP, the values shown in the table above appear to represent a significant increase in this area for 2010 when, in fact, they do not.

Situational Awareness and Infrastructure Security Program

Funding sources and related expenses for the Situational Awareness and Infrastructure Security section of the 2010 business plan are shown in the table below.

Section A — 2010 Business Plan

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Situational Awareness and Infrastructure Security					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 400,924	\$ 400,924	\$ -	\$ 425,244	\$ 24,320
Penalty Sanctions			\$ -	3,931	3,931
Total ERO Funding	\$ 400,924	\$ 400,924	\$ -	\$ 429,175	\$ 28,251
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 400,924	\$ 400,924	\$ -	\$ 429,175	\$ 28,251
Expenses					
Personnel Expenses					
Salaries	\$ 267,806	\$ 157,800	\$ (110,006)	\$ 168,079	\$ (99,727)
Payroll Taxes	15,749	15,513	(236)	8,727	(7,022)
Benefits	22,083	21,034	(1,049)	7,576	(14,507)
Retirement Costs	44,226	42,413	(1,813)	26,959	(17,267)
Total Personnel Expenses	\$ 349,864	\$ 236,760	\$ (113,104)	\$ 211,341	\$ (138,523)
Meeting Expenses					
Meetings	\$ 16,000	\$ 10,000	\$ (6,000)	\$ 16,000	\$ -
Travel	35,000	34,856	(144)	37,000	2,000
Conference Calls	60	156	96	180	120
Total Meeting Expenses	\$ 51,060	\$ 45,012	\$ (6,048)	\$ 53,180	\$ 2,120
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ 80,000	\$ 80,000
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	1,500	1,500
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ -	\$ -	\$ -	\$ 81,500	\$ 81,500
Total Direct Expenses	\$ 400,924	\$ 281,772	\$ (119,152)	\$ 346,021	\$ (54,903)
Indirect Expenses				\$ 85,918	\$ 85,918
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 400,924	\$ 281,772	\$ (119,152)	\$ 431,939	\$ 31,015
Change in Assets	\$ -	\$ 119,152	\$ 119,152	\$ (2,764)	\$ (2,764)
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets				\$ 2,764	
Change in Fixed Assets	-	-	-	2,764	-
TOTAL CHANGE IN ASSETS	\$ -	\$ 119,152	\$ 119,152	\$ 0	\$ (2,764)

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

Funding for this program in 2010 is provided through assessments to LSEs or designees (mandatory in the United States), as it is a statutory, delegated function.

Personnel Expenses

Salary, payroll taxes, benefits, and savings and retirement expenses for 2010 are budgeted based on .95 FTEs for this program area. Staff resources are used to support the objectives of the Situation Awareness and Infrastructure Security Program as defined in the business plan per the allocation of shared employees. The Reliability*First* Communications Specialist position that was included in the personnel expenses for the Situation Awareness program area in the 2009 budget was not staffed at the beginning of 2009, and has been removed for the 2010 budget. However, not staffing this position will impact the ability of the organization to properly monitor and communicate system and regulatory information.

Meeting Expenses

Meeting, staff travel and conference call expenses in support of Regional committee/subcommittee and NERC committees and working groups in place to support the Situational Awareness and Infrastructure Security Program. This includes expenses for four quarterly meetings of the NERC Critical Infrastructure Protection Committee (CIPC) and four quarterly meetings of the Reliability*First* Critical Infrastructure Protection Committee as well as NERC CIPC working group meetings and the Reliability*First* and NERC Board meetings.

The cost of meeting facilities continues to increase. Reliability*First* endeavors to seek more cost effective solutions for the conduct of in-person meetings but believes there is value in supporting these activities. Reliability*First* will continue to monitor expenses for this activity but currently does not project a significant increase.

Operating Expenses

The increase is mainly due to onetime system access testing to insure our continuing compliance with the Critical Infrastructure Protection (CIP) standards.

Indirect Expenses

Expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs for 2010; this accounting change results in an increase compared to 2009.

Other Non-Operating Expenses

There are no other non-operating expenses

Fixed Asset Additions

There are no fixed asset additions

Administrative Services

Administrative Services (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	11.50	10.50	(1.00)
Total Direct Expenses	\$4,316,301	\$4,276,175	(\$40,126)

Administrative Services are made up of the following programs; Technical Committees and Members' Forums, General and Administrative, Legal and Regulatory, Information Technology, Human Resource and Finance and Accounting.

Technical Committees and Members' Forums

Program Scope and Functional Description

ReliabilityFirst Reliability Committee and Support Groups

The ReliabilityFirst Reliability Committee (RC) was established to provide the general advice and guidance for all of the regional technical activities. This Committee has a substructure of subcommittees, contact groups, and task forces to carry out its responsibilities.

The organizational groups listed below provide necessary technical advice and assistance to the Committee and ReliabilityFirst staff. The groups also act as a point of contact for stakeholders for the collection and dissemination of specific technical information and data.

- a. **Protection Subcommittee (PS)** – provides a system protection forum to address protective relay and control issues including both generator and transmission protection.
- b. **Vegetation Management Contact Group (VMCG)** – provides a vegetation management forum to address related issues.

This function also includes ReliabilityFirst staff work to support the NERC Transmission Availability Data System (TADS) data collection and verification effort.

2010 Goals and Key Deliverables

The goals and objectives of this functional effort are to complete the TADS data review by the scheduled due dates, and to effectively and efficiently facilitate the necessary technical committees and groups within ReliabilityFirst.

Funding Requirements — Explanation of Increase (Decrease)

Some of the ReliabilityFirst staff that was previously allocated to Member Forums have been working on reliability analysis and performance analysis activities in the recent past and have been re-allocated to this category for 2010. Specifically, there has been much more activity by staff to investigate and analyze system disturbances. Additionally, nearly all of the member forum meetings and activities have been addressing reliability assessments and performance analysis issues. A total of 2.0 FTEs have been re-allocated.

Staffing Needs

Salary, payroll taxes, benefits, and savings and retirement expenses for one (1) FTE are anticipated for the 2010 budget. Staff resources are used to support the objectives of the Reliability Assessment and Performance Analysis Program as defined in the business plan

Hiring Plans

ReliabilityFirst is projected to be fully staffed to perform these functions for the balance of 2009 and in 2010. There are no plans to change the current structure.

Contractors

There are no contractor expenses budgeted for 2010.

Technical Committees and Member Forums

Funding sources and related expenses for the Members' Forums section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Technical Committees and Member Forums					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 568,526	\$ 568,526	\$ -	\$ -	\$ (568,526)
Penalty Sanctions				-	
Total ERO Funding	<u>\$ 568,526</u>	<u>\$ 568,526</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (568,526)</u>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ 568,526</u>	<u>\$ 568,526</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (568,526)</u>
Expenses					
Personnel Expenses					
Salaries	\$ 357,276	\$ 342,588	\$ (14,688)	\$ 85,539	\$ (271,737)
Payroll Taxes	23,589	23,235	(354)	6,450	(17,139)
Benefits	26,595	25,332	(1,263)	12,481	(14,114)
Retirement Costs	58,866	56,452	(2,414)	13,705	(45,161)
Total Personnel Expenses	<u>\$ 466,326</u>	<u>\$ 447,607</u>	<u>\$ (18,719)</u>	<u>\$ 118,175</u>	<u>\$ (348,151)</u>
Meeting Expenses					
Meetings	\$ 32,000	\$ 22,000	\$ (10,000)	\$ 3,000	\$ (29,000)
Travel	59,000	15,000	(44,000)	10,000	(49,000)
Conference Calls	1,200	1,196	(4)	540	(660)
Total Meeting Expenses	<u>\$ 92,200</u>	<u>\$ 38,196</u>	<u>\$ (54,004)</u>	<u>\$ 13,540</u>	<u>\$ (78,660)</u>
Operating Expenses					
Consultants & Contracts	\$ 10,000	\$ -	\$ (10,000)	\$ -	\$ (10,000)
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ 10,000</u>	<u>\$ -</u>	<u>\$ (10,000)</u>	<u>\$ -</u>	<u>\$ (10,000)</u>
Total Direct Expenses	<u>\$ 568,526</u>	<u>\$ 485,803</u>	<u>\$ (82,723)</u>	<u>\$ 131,715</u>	<u>\$ (436,811)</u>
Indirect Expenses				<u>\$ (131,715)</u>	<u>\$ (131,715)</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ 568,526</u>	<u>\$ 485,803</u>	<u>\$ (82,723)</u>	<u>\$ -</u>	<u>\$ (568,526)</u>
Change in Assets	<u>\$ -</u>	<u>\$ 82,723</u>	<u>\$ 82,723</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets				\$ -	
Change in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN ASSETS	<u>\$ -</u>	<u>\$ 82,723</u>	<u>\$ 82,723</u>	<u>\$ -</u>	<u>\$ -</u>

Explanations of Variances – 2010 Budget versus 2009 Budget

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

Funding Sources

In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment revenue in 2010.

Personnel Expenses

This function includes salary, payroll taxes, benefits, and savings and retirement expenses for 1.0 FTE for the 2010 budget. Staff resources are used to support the objectives of the Technical Committees and Member Forums as defined in the business plan. Total personnel expenses were reduced by \$348,151 (-75%) due to the allocation to the Reliability Assessment and Performance Analysis function.

Meeting Expenses

Meeting Expenses reduced by \$78,000 (-85%) because most have been reallocated to the Reliability Assessment and Performance Analysis function. For example, the Resource Assessment and Transmission Performance Subcommittees use 100% of their efforts on Reliability Assessments, and should have their expenses allocated as such.

Operating Expenses

The reduction of \$10,000 for Consultants & Contracts is due to the fact that none were used, but were budgeted.

Indirect Expenses

Expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs for 2010.

Other Non-Operating Expenses

There are no other non-operating expenses.

Fixed Asset Additions

There are no fixed asset additions.

General and Administrative

Program Scope and Functional Description

The general and administrative department consists of the President and an administrative Assistant. Responsibilities include oversight and management of all ReliabilityFirst Corporation's activities, interaction with the Board of Directors and other Regional Entity Management Groups, managing the relationships with governmental agencies, regulators, Members, stakeholders, and other industry organizations.

Funding Requirements — Explanation of Increase (Decrease)

In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment revenue in 2010.

General and Administrative

Funding sources and related expenses for the general and administrative section of the 2010 business plan are shown in the table below.

Section A — 2010 Business Plan

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
General and Administrative					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ (718,262)	\$ (718,262)	\$ -	\$ 682,502	\$ 1,400,764
Penalty Sanctions					
Total ERO Funding	\$ (718,262)	\$ (718,262)	\$ -	\$ 682,502	\$ 1,400,764
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	80,000	44,198	(35,802)	40,000	(40,000)
Miscellaneous	-	-	-	-	-
Total Funding	\$ (638,262)	\$ (674,064)	\$ (35,802)	\$ 722,502	\$ 1,360,764
Expenses					
Personnel Expenses					
Salaries	\$ 410,984	\$ 594,852	\$ 183,868	507,396	\$ 96,412
Payroll Taxes	14,626	14,407	(219)	16,746	2,120
Benefits	36,413	34,683	(1,730)	24,787	(11,626)
Retirement Costs	85,092	81,603	(3,489)	43,007	(42,085)
Total Personnel Expenses	\$ 547,115	\$ 725,545	\$ 178,430	\$ 591,936	\$ 44,821
Meeting Expenses					
Meetings	\$ 65,600	\$ 65,000	\$ (600)	61,000	\$ (4,600)
Travel	40,000	38,536	(1,464)	30,000	(10,000)
Conference Calls	240	200	(40)	240	-
Total Meeting Expenses	\$ 105,840	\$ 103,736	\$ (2,104)	\$ 91,240	\$ (14,600)
Operating Expenses					
Consultants & Contracts	\$ -	\$ 1,810	\$ 1,810	-	\$ -
Office Rent	311,000	298,148	(12,852)	356,000	45,000
Office Costs	65,150	65,163	13	46,800	(18,350)
Professional Services	823,000	798,612	(24,388)	939,000	116,000
Miscellaneous	20,000	18,920	(1,080)	16,100	(3,900)
Depreciation	-	35,991	35,991	58,715	58,715
Total Operating Expenses	\$ 1,219,150	\$ 1,218,644	\$ (506)	\$ 1,416,615	\$ 197,465
Total Direct Expenses	\$ 1,872,105	\$ 2,047,925	\$ 175,820	\$ 2,099,791	\$ 227,686
Indirect Expenses				\$ (1,757,767)	\$ (1,757,767)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 1,872,105	\$ 2,047,925	\$ 175,820	\$ 342,024	\$ (1,530,081)
Change in Assets	\$ (2,510,367)	\$ (2,721,989)	\$ (211,622)	\$ 380,478	\$ 2,890,845
Fixed Assets					
Depreciation	\$ -	\$ (35,991)	\$ (35,991)	\$ (58,715)	\$ (58,715)
Computer & Software CapEx				-	-
Furniture & Fixtures CapEx	10,000	10,000	-	17,200	7,200
Equipment CapEx				-	-
Leasehold Improvements		6,720	6,720	90,000	90,000
(Incr)Dec in Fixed Assets	\$ (10,000)	\$ 19,271	\$ 29,271	\$ (48,485)	\$ (38,485)
Allocation of Fixed Assets				48,485	
Change in Fixed Assets	(10,000)	19,271	29,271	-	(38,485)
TOTAL CHANGE IN ASSETS	\$ (2,520,367)	\$ (2,702,718)	\$ (182,351)	\$ 380,478	\$ 2,852,360

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment revenue in 2010.

Personnel Expenses

No additional FTE's are needed in 2010.

Meeting Expenses

Meeting expenses were budgeted to historical levels that caused a decrease of \$14K as compared to the 2009 budget.

Operating Expenses

The increase to operating expenses represents search fees for a new independent director and increased independent director's participation.

Indirect Expenses

Expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs for 2010.

Other Non-Operating Expenses

There are no other non-operating expenses

Fixed Asset Additions

The additions represent construction and furnishing of five new offices.

Legal and Regulatory

Program Scope and Functional Description

ReliabilityFirst Corporation currently uses outside counsel to assist with our legal and regulatory matters, because this is the most cost effective and efficient option at this time. Future activities may dictate a shift in this philosophy as the needs and costs in this area are re-evaluated. All charges for corporate and regulatory matters are collected within Professional Services contained in the appropriate function.

Information Technology

Program Scope and Functional Description

ReliabilityFirst Corporation relies on Information Technology (IT) to support the entire Staff to achieve our reliability mission. The IT organization currently maintains, but is not limited to:

- Data Center
- Website Hosting
- Telecommuter Support
- Voice Over Internet Protocol
- Virtual Meeting and Conferencing
- Email
- Desktop Support
- Information Security

IT provides the foundational computer networks, systems, and tools that drive day-to-day business processes and ensures that these information assets meet ReliabilityFirst Corporation's existing and future needs. Responsibilities encompass a variety of complex technical, administrative, and supervisory work in the development, installation, and maintenance of information technology systems.

2010 Key Assumptions

1. NERC or a regional entity or collaborative of regional entities will develop and implement certification procedures to allow vendors providing common reliability services to registered entities, such as tagging services, to become certified on CIP standards CIP-003 to CIP-009. This effort will provide a cost effective alternative to holding individual registered entities accountable for the CIP compliance of a vendor providing such services.
2. ReliabilityFirst will maintain compliance with the NERC Cyber Security Standards CIP-002–CIP-009 which will ensure that the integrity, security and confidentiality of our data is maintained.
3. Assist the compliance department when performing CIP Standards audit
4. Continue the development, integration, and expansion of databases and applications into a unified company-wide Information Management System.

Funding Requirements — Explanation of Increase (Decrease)

ReliabilityFirst is a document centric organization and to satisfy that document centric need we implemented Microsoft Office SharePoint Server (MOSS) in 2009 for a small portion of the compliance program.

The following was implemented in the first half of 2009:

- Self Certification Compliance Submittals
- NERC Communications
- Mitigations
- ERC Integration

- Settlements
- Scanning Capabilities
- Production/Staging Systems

The last half of 2009 will be a learning period for the organization to determine what MOSS can do for the organization. Reliability*First* will explore the following areas:

- Hearings
- Standards
- Penalties
- Investigations
- Audits
- RAD Forms
- Public Website
- Additional Modules
- Reference Library
- Engineering
- Board of Directors
- Contractors
- Program Implementation
- Annual Reports
- Reliability*First* Corporation Newsletters
- Compliance Newsletters

These areas will be prioritized, defined in more detail and developed in 2010. Funding requirements are expected to increase due to the development and maintenance of MOSS. However in 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore total expenses for IT will decrease in 2010.

Information Technology

Funding sources and related expenses for the information technology section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Information Technology					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 1,467,606	\$ 1,467,606	\$ -	\$ -	\$ (1,467,606)
Penalty Sanctions					
Total ERO Funding	\$ 1,467,606	\$ 1,467,606	\$ -	\$ -	\$ (1,467,606)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 1,467,606	\$ 1,467,606	\$ -	\$ -	\$ (1,467,606)
Expenses					
Personnel Expenses					
Salaries	\$ 402,465	\$ 347,448	\$ (55,017)	\$ 547,308	144,843
Payroll Taxes	30,153	29,701	(452)	40,702	10,549
Benefits	90,142	85,860	(4,282)	111,617	21,475
Retirement Costs	68,661	65,846	(2,815)	80,785	12,124
Total Personnel Expenses	\$ 591,421	\$ 528,855	\$ (62,566)	\$ 780,412	\$ 188,991
Meeting Expenses					
Meetings	\$ 300	\$ 1,052	\$ 752	\$ 600	\$ 300
Travel	12,000	11,561	(439)	27,600	15,600
Conference Calls	20	-	(20)	-	(20)
Total Meeting Expenses	\$ 12,320	\$ 12,613	\$ 293	\$ 28,200	\$ 15,880
Operating Expenses					
Consultants & Contracts	\$ 33,000	\$ 23,356	\$ (9,644)	\$ 16,000	\$ (17,000)
Office Rent	-	-	-	-	-
Office Costs	691,865	692,005	140	604,949	(86,916)
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	135,123	135,123	202,700	202,700
Total Operating Expenses	\$ 724,865	\$ 850,484	\$ 125,619	\$ 823,649	\$ 98,784
Total Direct Expenses	\$ 1,328,606	\$ 1,391,952	\$ 63,346	\$ 1,632,261	\$ 303,655
Indirect Expenses				\$ (1,632,261)	\$ (1,632,261)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 1,328,606	\$ 1,391,952	\$ 63,346	\$ -	\$ (1,328,606)
Change in Assets	\$ 139,000	\$ 75,654	\$ (63,346)	\$ -	\$ (139,000)
Fixed Assets					
Depreciation	\$ -	\$ (135,123)	\$ (135,123)	\$ (202,700)	\$ (202,700)
Computer & Software CapEx	139,000	448,010	309,010	16,000	(123,000)
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (139,000)	\$ (312,887)	\$ (173,887)	\$ 186,700	\$ 325,700
Allocation of Fixed Assets				\$ (186,700)	
Change in Fixed Assets	(139,000)	(312,887)	(173,887)	-	325,700
TOTAL CHANGE IN ASSETS	\$ -	\$ (237,233)	\$ (237,233)	\$ -	\$ 186,700

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment revenue in 2010.

Personnel Expenses

It is projected to increase staffing by 1 FTE to 5.2 FTEs for 2010. This increase level of personnel is needed to support the growing staff.

Meeting Expenses

There are no significant changes requiring an explanation.

Operating Expenses

- Office costs are decreasing since expenses that are identified to a direct program are being allocated to that program
- Contractor & Contracts expenses are reduced since the need for outside network support will diminish in 2010.

Indirect Expenses

Expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs for 2010.

Other Non-Operating Expenses

There are no other non-operating expenses

Fixed Asset Additions

Fixed asset additions are greatly reduced since assets that can be identified to a direct program are being allocated to that program. However, there are additional office space, office build out, and furniture requirements to support the additional personnel.

Human Resources

Program Scope and Functional Description

Reliability*First* realizes that talented, experienced employees are its greatest resource, and that finding, nurturing, and developing that talent is one of our most important tasks. That is why Reliability*First* maintains one full time and one part-time employee devoted to facilitating our human resource needs.

2010 Key Assumptions

By the end of 2010, Reliability*First* will have assembled a staff of 53 qualified management, professional, and technical employees with the expertise necessary to serve our stakeholders and to support the ERO by properly carrying out our delegated functions.

2010 Goals and Key Deliverables

- Recruit highly skilled and excellent employees.
- Provide training programs and career development.
- Review and manage employee benefits.
- Review succession plans and employee retention plans.

Funding Requirements — Explanation of Increase (Decrease)

Since the Reliability*First* Human Resource program has been and continues to be fully engaged with a consistent workload, it is expected that the funding in 2010 will remain on the same track as 2009.

Human Resources

Funding sources and related expenses for the Human Resources section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Human Resources					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 206,396	\$ 206,396	\$ -	\$ -	\$ (206,396)
Penalty Sanctions					
Total ERO Funding	\$ 206,396	\$ 206,396	\$ -	\$ -	\$ (206,396)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 206,396	\$ 206,396	\$ -	\$ -	\$ (206,396)
Expenses					
Personnel Expenses					
Salaries	\$ 132,444	\$ 131,884	\$ (560)	\$ 138,612	\$ 6,168
Payroll Taxes	8,711	8,580	(131)	9,249	538
Benefits	9,935	9,463	(472)	10,054	119
Retirement Costs	27,006	25,899	(1,107)	22,221	(4,785)
Total Personnel Expenses	\$ 178,096	\$ 175,826	\$ (2,270)	\$ 180,136	\$ 2,040
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	-	-	-	-	-
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	-	-	1,300	1,300
Professional Services	28,300	28,300	-	25,000	(3,300)
Miscellaneous	-	-	-	3,400	3,400
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 28,300	\$ 28,300	\$ -	\$ 29,700	\$ 1,400
Total Direct Expenses	\$ 206,396	\$ 204,126	\$ (2,270)	\$ 209,836	\$ 3,440
Indirect Expenses				\$ (209,836)	\$ (209,836)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 206,396	\$ 204,126	\$ (2,270)	\$ -	\$ (206,396)
Change in Assets	\$ -	\$ 2,270	\$ 2,270	\$ -	\$ -
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets				\$ -	
Change in Fixed Assets	-	-	-	-	-
TOTAL CHANGE IN ASSETS	\$ -	\$ 2,270	\$ 2,270	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment revenue in 2010.

Personnel Expenses

Salary, payroll taxes, benefits and savings and retirement expenses for 1.4 FTEs which is consistent with 2009.

Meeting Expenses

No meeting expenses are expected.

Operating Expenses

All operating costs (comprised of office rent, office costs, furniture & equipment, and miscellaneous) will be contained solely in the General and Administrative cost center.

Indirect Expenses

Expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs for 2010.

Other Non-Operating Expenses

There are no other non-operating expenses

Fixed Asset Additions

There are no fixed asset additions

Finance and Accounting

Program Scope and Functional Description

The Finance and Accounting department will work with the ERO and all ReliabilityFirst cost centers to produce an annual ReliabilityFirst budget and business plan that adequately supports its delegated functions.

In support of the ERO's funding/collection mechanism, ReliabilityFirst will annually collect and supply the ERO with a list of Load Serving Entities (LSE) within the ReliabilityFirst Corporation footprint and their associated Net Energy to Load (NEL) data as mandated by the Federal Energy Regulatory Commission.

2010 Assumptions

- NERC and each regional entity will develop its own risk management strategies and budget accordingly to address those risks.

2010 Goals and Key Deliverables

- ReliabilityFirst will work with all Regional Entities through the Regional Entity Budget Group (REBG) to provide consistency in budget submittals to the ERO and to FERC and to coordinate LSE/NEL collection efforts to alleviate any potential double counting of LSE/NEL information.
- This department will provide all ReliabilityFirst cost centers, the Board of Directors, and the ERO with financial clarity and understanding of ReliabilityFirst's financial position.
- The Finance and Accounting department will direct the overall financial plans and accounting practices of the organization; oversee treasury, accounting, budget, tax, audit activities, and financial and accounting system controls and standards.
- Participate with NERC on the Regional Entity true-up filing.
- Constantly refining a cost collecting mechanism which will help control costs and build a more effective budget.
- Provide advice from the financial perspective on contracts into which the organization may enter.

Funding Requirements — Explanation of Increase (Decrease)

Since the ReliabilityFirst Finance and Accounting program has been and continues to be fully engaged with a consistent workload, it is expected that the funding in 2010 will remain on the same track as 2009.

Finance and Accounting

Funding sources and related expenses for the Finance and Accounting section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Finance and Accounting					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 191,668	\$ 191,668	\$ -	\$ -	\$ (191,668)
Penalty Sanctions					
Total ERO Funding	<u>\$ 191,668</u>	<u>\$ 191,668</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (191,668)</u>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ 191,668</u>	<u>\$ 191,668</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (191,668)</u>
Expenses					
Personnel Expenses					
Salaries	\$ 101,603	\$ 105,644	\$ 4,041	\$ 107,022	\$ 5,419
Payroll Taxes	6,538	6,440	(98)	6,833	295
Benefits	8,818	8,399	(419)	8,108	(710)
Retirement Costs	17,009	16,312	(697)	17,159	150
Total Personnel Expenses	<u>\$ 133,968</u>	<u>\$ 136,795</u>	<u>\$ 2,827</u>	<u>\$ 139,122</u>	<u>\$ 5,154</u>
Meeting Expenses					
Meetings	\$ 700	\$ -	\$ (700)	\$ 200	\$ (500)
Travel	9,000	8,671	(329)	7,000	(2,000)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ 9,700</u>	<u>\$ 8,671</u>	<u>\$ (1,029)</u>	<u>\$ 7,200</u>	<u>\$ (2,500)</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ 12,000	\$ 12,000
Office Rent	-	-	-	-	-
Office Costs	-	-	-	1,250	1,250
Professional Services	48,000	48,000	-	43,000	(5,000)
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ 48,000</u>	<u>\$ 48,000</u>	<u>\$ -</u>	<u>\$ 56,250</u>	<u>\$ 8,250</u>
Total Direct Expenses	<u>\$ 191,668</u>	<u>\$ 193,465</u>	<u>\$ 1,797</u>	<u>\$ 202,572</u>	<u>\$ 10,904</u>
Indirect Expenses				<u>\$ (202,572)</u>	<u>\$ (202,572)</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ 191,668</u>	<u>\$ 193,465</u>	<u>\$ 1,797</u>	<u>\$ -</u>	<u>\$ (191,668)</u>
Change in Assets	<u>\$ -</u>	<u>\$ (1,797)</u>	<u>\$ (1,797)</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets				\$ -	
Change in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN ASSETS	<u>\$ -</u>	<u>\$ (1,797)</u>	<u>\$ (1,797)</u>	<u>\$ -</u>	<u>\$ -</u>

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment revenue in 2010.

Personnel Expenses

Staffing levels will remain the same as 2009 with 0.9 FTE which comprises of one shared person and one part-time accountant. Salary, payroll taxes, benefits and savings and retirement expenses for 0.9 FTE.

Meeting Expenses

Meetings and staff travel expenses in support of Finance and Accounting comprise of travel to various budget meeting for coordinating the budget process with all of the regions and to the Reliability *First* Board meetings

Operating Expenses

All operating costs (comprised of office rent, office costs, furniture & equipment, and miscellaneous) will be contained solely in the General and Administrative cost center.

Indirect Expenses

Expenses related to indirect programs have been allocated proportionately based on FTE to the direct programs for 2010.

Other Non-Operating Expenses

There are no other non-operating expenses

Fixed Asset Additions

There are no fixed asset additions

Section B — 2010 Budget

2009 Budget and Projection and 2010 Budget Comparisons

Table 1

Section B — 2010 ReliabilityFirst Corporation Budget

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
STATUTORY					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 8,833,834	\$ 8,833,834	\$ -	\$ 14,345,192	\$ 5,511,358
Penalty Sanctions ⁽¹⁾	-	-	-	180,000	180,000
Total ERO Funding	<u>\$ 8,833,834</u>	<u>\$ 8,833,834</u>	<u>\$ -</u>	<u>\$ 14,525,192</u>	<u>\$ 5,691,358</u>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	80,000	44,198	(35,802)	40,000	(40,000)
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ 8,913,834</u>	<u>\$ 8,878,032</u>	<u>\$ (35,802)</u>	<u>\$ 14,565,192</u>	<u>\$ 5,651,358</u>
Expenses					
Personnel Expenses					
Salaries	\$ 5,655,931	\$ 5,389,552	\$ (266,379)	\$ 7,196,074	1,540,143
Payroll Taxes	333,577	328,564	(5,013)	461,580	128,003
Benefits	680,668	648,292	(32,376)	998,451	317,783
Retirement Costs	956,610	917,404	(39,206)	1,062,919	106,309
Total Personnel Expenses	<u>\$ 7,626,786</u>	<u>\$ 7,283,813</u>	<u>\$ (342,973)</u>	<u>\$ 9,719,024</u>	<u>\$ 2,092,238</u>
Meeting Expenses					
Meetings	\$ 289,600	\$ 275,160	\$ (14,440)	\$ 227,600	\$ (62,000)
Travel	628,500	605,528	(22,972)	674,500	46,000
Conference Calls	5,000	5,944	944	13,280	8,280
Total Meeting Expenses	<u>\$ 923,100</u>	<u>\$ 886,632</u>	<u>\$ (36,468)</u>	<u>\$ 915,380</u>	<u>\$ (7,720)</u>
Operating Expenses					
Consultants & Contracts	\$ 228,000	\$ 551,568	\$ 323,568	\$ 571,000	\$ 343,000
Office Rent	311,000	298,148	-12,852	356,000	45,000
Office Costs	757,015	757,168	153	914,109	157,094
Professional Services	1,419,300	1,426,892	7,592	1,527,000	107,700
Miscellaneous	20,000	18,920	(1,080)	21,000	1,000
Depreciation	-	171,114	171,114	267,915	267,915
Total Operating Expenses	<u>\$ 2,735,315</u>	<u>\$ 3,223,810</u>	<u>\$ 488,495</u>	<u>\$ 3,657,024</u>	<u>\$ 921,709</u>
Total Direct Expenses	<u>\$ 11,285,201</u>	<u>\$ 11,394,255</u>	<u>\$ 109,054</u>	<u>\$ 14,291,428</u>	<u>\$ 3,006,227</u>
Indirect Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ 11,285,201</u>	<u>\$ 11,394,255</u>	<u>\$ 109,054</u>	<u>\$ 14,291,428</u>	<u>\$ 3,006,227</u>
Change in Assets	<u>\$ (2,371,367)</u>	<u>\$ (2,516,223)</u>	<u>\$ (144,856)</u>	<u>\$ 273,764</u>	<u>\$ 2,645,131</u>
Fixed Assets					
Depreciation	\$ -	\$ (171,114)	\$ (171,114)	\$ (267,915)	\$ (267,915)
Computer & Software CapEx	139,000	448,010	309,010	54,000	(85,000)
Furniture & Fixtures CapEx	10,000	10,000	-	17,200	7,200
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	6,720	6,720	90,000	90,000
Change in Fixed Assets	<u>\$ (149,000)</u>	<u>\$ (293,616)</u>	<u>\$ (144,616)</u>	<u>\$ 106,715</u>	<u>\$ 255,715</u>
Allocation of Fixed Assets	-	-	-	(0)	-
Change in Fixed Assets	<u>(149,000)</u>	<u>(293,616)</u>	<u>(144,616)</u>	<u>106,715</u>	<u>255,715</u>
TOTAL CHANGE IN ASSETS	<u>\$ (2,520,367)</u>	<u>\$ (2,809,839)</u>	<u>\$ (289,472)</u>	<u>\$ 380,478</u>	<u>\$ 2,900,846</u>

Personnel Analysis

FTEs are defined as full-time employees only. Fractional FTEs reflect part-time employees or employees who worked in fewer than all four quarters of the year.

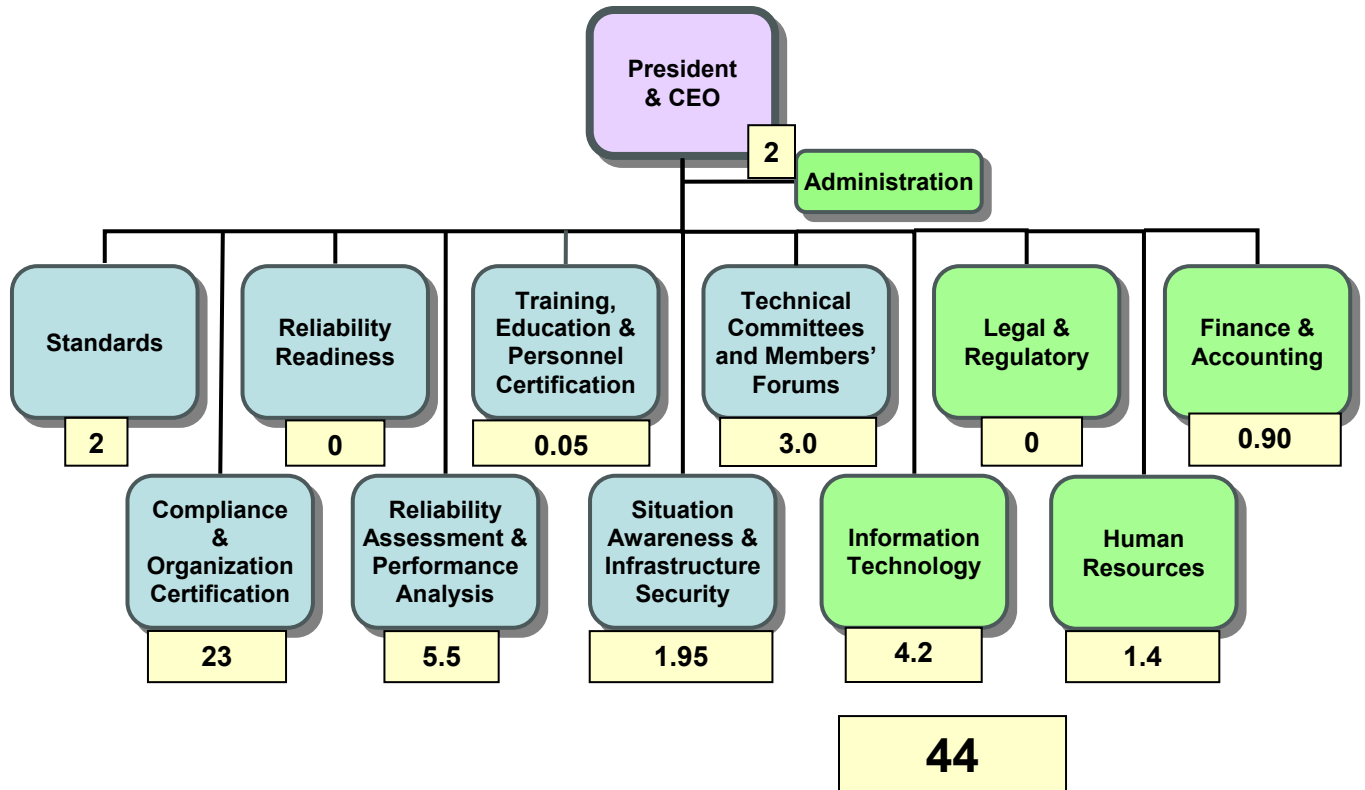
Table 2

Total FTE's by Program Area	Budget 2009	Projection 2009	Direct FTEs 2010 Budget	Shared FTEs ¹ 2010 Budget	Total FTEs 2010 Budget	Change from 2009 Budget
STATUTORY						
Operational Programs						
Reliability Standards	2.0	2.0	1.5		1.5	-0.5
Compliance and Organization Registration and Certification	23.0	23.0	36.5		36.5	13.5
Reliability Readiness Evaluation and Improvement	0.0	0.0	0.0		0.0	0.0
Training and Education	0.05	0.05	0.05		0.05	0.0
Reliability Assessment and Performance Analysis	5.5	8.5	8.5		8.5	3.0
Situational Awareness and Infrastructure Security	1.95	0.95	0.95		1.0	-1.0
Total FTEs Operational Programs	32.5	34.5	47.5	0.0	47.5	15.0
Administrative Programs						
Member Forums	3.0	1.0	1.0		1.0	-2.0
General & Administrative	2.0	2.0	2.0		2.0	0.0
Information Technology	4.2	4.2	5.2		5.2	1.0
Legal and Regulatory	0.0	0.0	0.0		0.0	0.0
Human Resources	1.4	1.4	1.4		1.4	0.0
Accounting	0.9	0.9	0.9		0.9	0.0
Total FTEs Administrative Programs	11.5	9.5	10.5	0.0	10.5	-1.0
Total FTEs	44.0	44.0	58.0	0.0	58.0	14.0

¹A shared FTE is defined as an employee who performs both Statutory and Non-Statutory functions.

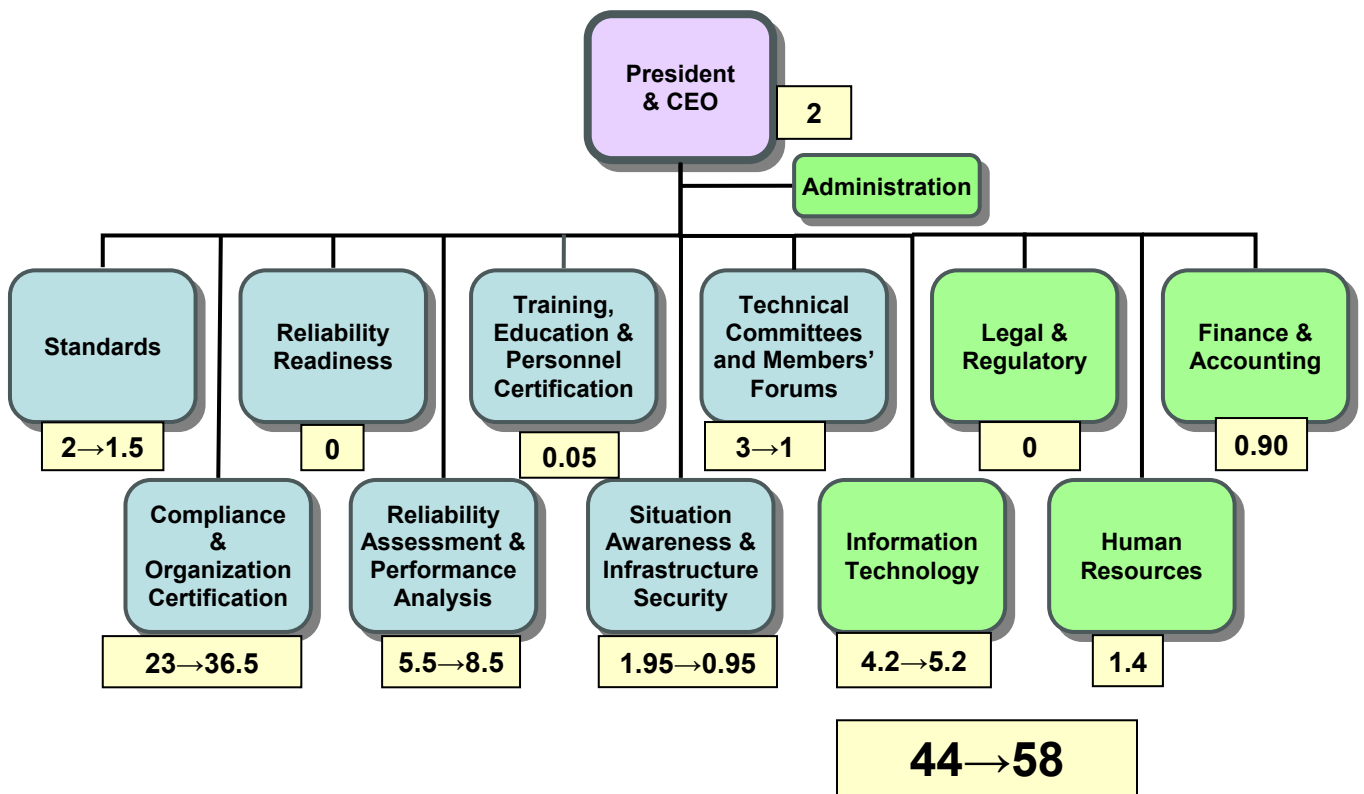
2009 Organizational Chart

Table 3



2010 Organizational Chart

Table 4



Reserve Balance

Table 5

Working Capital Reserve Analysis 2009-2010	
STATUTORY	
Beginning Working Capital Reserve (Deficit), December 31, 2008	4,027,831
Less: Penalty sanctions to be used as offset to 2010 assessments ¹	(180,000)
Plus: 2009 ERO Funding (from LSEs or designees)	8,833,834
Plus: 2009 Other funding sources	44,198
Less: 2009 Projected expenses & capital expenditures	(11,687,871)
Projected Working Capital Reserve (Deficit), December 31, 2009	1,037,992
Desired Working Capital Reserve, December 31, 2010	² 1,418,471
Less: Projected Working Capital Reserve, December 31, 2009	(1,037,992)
Increase(decrease) in assessments to achieve desired Working Capital Reserve	380,479
2010 Assessment for Expenses and Capital Expenditures	14,184,713
Less: Penalty Sanctions ¹	(180,000)
Less: Other Funding Sources	(40,000)
Adjustment to achieve desired Working Capital Reserve	380,479
2010 Assessment	14,345,192

¹ Represents collections prior to June 30, 2009. See page 75 for full disclosure.

² On December 19, 2006, the ReliabilityFirst Board of Directors approved a working capital reserve of 10% of the 2010 Assessment for Expenses and Capital Expenditures

Regional Entity Assessment Analysis

Assessments by Country

Table 6

Data Year	Regional Entity	Total NEL	U.S. NEL	Canada NEL	Mexico NEL	% of RE Total	US Total	Canada Total	Mexico Total
Summary by Regional Entity									
2008	FRCC	-							
2008	MRO	-							
2008	NPCC	-							
2008	RFC	-							
2008	SERC	-							
2008	SPP	-							
2008	TRE	-							
2008	WECC	-							
TOTAL		-	-	-	-	0%	0.000%	0.000%	0.000%

Breakdown by Statement of Activity Sections

The following detailed schedules are in support of Table 1, page 69, of the 2010 RE Business Plan and Budget. All significant variances have been disclosed by program area in the preceding pages.

Penalty Sanctions

Penalty monies received prior to June 30, 2009 are to be used to offset assessments in the 2010 Budget, as documented in the NERC Policy – ACCOUNTING, FINANCIAL STATEMENT AND BUDGETARY TREATMENT OF PENALTIES IMPOSED AND RECEIVED FOR VIOLATIONS OF RELIABILITY STANDARD. Penalty monies received from July 1, 2009 through June 30, 2010 will be used to offset assessments in the 2011 Budget.

Full disclosure of all penalties received prior to June 30, 2009 is detailed below, including the Company, the amount, and the date received.

Allocation Method: Penalty sanctions received have been allocated to the following statutory programs to reduce assessments: Reliability Standards; Compliance Monitoring & Enforcement and Organization Registration & Certification; Reliability Assessments and Performance Analysis; Training, Education and Operator Certification; and Situational Awareness and Infrastructure Security. Penalty sanctions are allocated based upon the number of FTEs in the Program divided by the aggregate total FTEs in the Programs receiving the allocation.

Table B-1

Penalty Sanctions Received Prior to June 30, 2009	Date Received	Amount Received
Name of Entity Baltimore Gas and Electric Company	8/22/2008	180,000
Total Penalties Received	<u>\$</u>	<u>180,000</u>

Supplemental Funding

Table B-2

Outside Funding Breakdown By Program (excluding ERO Assessments & Penalty Sanctions)	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
General and Administrative					
Interest Income	\$ 80,000	\$ 44,198	\$ 40,000	\$ (40,000)	-50%
Total	<u>\$ 80,000</u>	<u>\$ 44,198</u>	<u>\$ 40,000</u>	<u>\$ (40,000)</u>	<u>-50%</u>
Total Outside Funding	<u>\$ 80,000</u>	<u>\$ 44,198</u>	<u>\$ 40,000</u>	<u>\$ (40,000)</u>	<u>-50%</u>

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

The decrease in interest income is due to the reduction of the bank account balances, therefore reducing the amount of interest earned.

Personnel Expenses

Table B-3

Personnel Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Salaries					
Salary	\$ 5,625,931	\$ 5,389,552	\$ 7,196,074	\$ 1,570,143	27.9%
Employment Agency Fees	30,000	-	-	(30,000)	-100.0%
Temporary Office Services	-	-	-	-	
Total Salaries	\$ 5,655,931	\$ 5,389,552	\$ 7,196,074	\$ 1,540,143	27.2%
Total Payroll Taxes	\$ 333,577	\$ 328,564	\$ 461,580	\$ 128,003	38.4%
Benefits					
Workers Compensation	\$ 17,377	\$ 16,574	\$ 16,859	\$ (518)	-3.0%
Medical Insurance	479,280	\$ 456,466	\$ 769,405	290,125	60.5%
Life-LTD-LTC Insurance	38,261	\$ 36,440	\$ 101,277	63,016	164.7%
Education	95,750	\$ 91,192	\$ 50,500	(45,250)	-47.3%
Relocation	50,000	\$ 47,620	\$ 60,410	10,410	20.8%
Total Benefits	\$ 680,668	\$ 648,292	\$ 998,451	\$ 317,783	46.7%
Retirement					
Discretionary 401k Cont.	\$ 609,279	\$ 584,299	\$ 661,333	\$ 52,054	8.5%
Savings Plan	347,331	\$ 333,105	\$ 401,586	54,255	15.6%
Total Retirement	\$ 956,610	\$ 917,404	\$ 1,062,919	\$ 106,309	11.1%
Total Personnel Costs	\$ 7,626,786	\$ 7,283,812	\$ 9,719,024	\$ 2,092,238	27.4%
FTEs	44	44	58	14	31.8%
Cost per FTE					
Salaries	\$ 128,544	\$ 122,490	\$ 124,070	(4,474)	-3.5%
Payroll Taxes	7,581	7,467	7,958	377	5.0%
Benefits	15,470	14,734	17,215	1,745	11.3%
Retirement	21,741	20,850	18,326	(3,415)	-15.7%
Total Cost per FTE	\$ 173,336	\$ 165,541	\$ 167,569	\$ (5,767)	-3.3%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- The increase in **salaries** is due primarily to the addition of 14 new hires.
- The decrease in **employment agency fees** is due to the company finding other ways to search for and hire new employees, rather than using an employment agency.
- The decrease in **workers compensation** is due to the use of more accurate data to establish a better estimate and a decrease in rates as a result of good work history.

- The increase in **medical insurance** is due to the addition of fourteen new hires and the increase in medical and dental insurance rates.
- The increase in **life-LTD-LTC insurance** is due to the addition of fourteen new hires and the demographics of the company.
- The decrease in **education** is due to the 2010 budget being a more accurate reflection of what classes can realistically be accomplished during the year.

Consultants and Contracts

Table B-4

Consultants	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Consultants					
Reliability Standards	\$ -	-	5,294	\$ 5,294	
Compliance and Organization Registration and Certification-Database	120,000	461,402	354,706	234,706	195.59%
Reliability Readiness Evaluation and Improvement-instead of FTE	-	-	-	-	
Reliability Assessment and Performance Analysis-Support Event Analysis and TADS	65,000	65,000	103,000	38,000	58.46%
Training and Education	-	-	-	-	
Situational Awareness and Infrastructure Security-NASPI	-	-	80,000	80,000	
Committee and Member Forums	10,000	-	-	(10,000)	-100.00%
General and Administrative	-	1,810	-	-	
Legal and Regulatory-Self Assessment	-	-	-	-	
Information Technology	33,000	23,356	16,000	(17,000)	-51.52%
Human Resources-Executive Search	-	-	-	-	
Accounting and Finance	-	-	12,000	12,000	
Consultants Total	\$ 228,000	\$ 551,568	\$ 571,000	\$ 343,000	150.44%
Total Consulting and Contracts	\$ 228,000	\$ 551,568	\$ 571,000	\$ 343,000	150.44%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- The increase in **Compliance and Organization Registration and Certification** is due to the use of contractor to assist current staff in the areas of audits, investigations and other resource intense activities, whenever workload exceeds the capabilities of the staff.
- The increase in **Reliability Assessment and Performance Analysis** is due to the use of consultants to help maintain the SharePoint Database document management system.
- The increase in **Situational Awareness and Infrastructure Security** consultants is due to a one time system access testing to insure our compliance with the CIP Standards.
- The decrease in **Committee and Member Forums** is due to reduced contractor support in 2010.
- The decrease in **Information Technology** is due to allocating costs of IT consultants to the specific department in which the work relates to.
- The increase in **Accounting and Finance** is due to the use of a contractor to temporary fill-in, while a current staff member is out on family leave.

Table B-5

Office Rent	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Office Rent	\$ 256,000	\$ 245,403	\$ 306,000	\$ 50,000	19.53%
Utilities	55,000	\$ 52,745	\$ 50,000	(5,000)	-9.09%
Maintenance	-	-	-	-	
Security	-	-	-	-	
Total Office Rent	\$ 311,000	\$ 298,148	\$ 356,000	\$ 45,000	14.47%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

No explanation needed

Table B-6

Office Costs	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Telephone	\$ 87,690	\$ 87,708	\$ 129,970	\$ 42,280	48.22%
Internet	200,400	200,441	242,720	42,320	21.12%
Office Supplies	37,500	37,508	35,800	(1,700)	-4.53%
Computer Supplies and Maintenance	403,775	403,857	459,339	55,564	13.76%
Publications & Subscriptions	7,500	7,502	5,600	(1,900)	-25.33%
Dues	5,500	5,501	6,710	1,210	22.00%
Postage	2,700	2,701	3,300	600	22.22%
Express Shipping	6,000	6,001	2,400	(3,600)	-60.00%
Copying	-	-	-	0	
Reports - Graphics	650	650	800	150	23.08%
Stationary Forms	800	800	1,200	400	50.00%
Equipment Repair/Service Contracts	4,400	4,401	26,000	21,600	490.91%
Bank Charges	-	-	270	270	
Sales & Use Taxes	-	-	-	0	
Merchant Card Fees	100	100	-	(100)	-100.00%
Presentation & Publicity	-	-	-	0	
Total Office Costs	\$ 757,015	\$ 757,168	\$ 914,109	\$ 157,094	20.75%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- The increase in **telephone** is due to the needs of the proposed new hires.
- The increase in **internet** is due to the upgrade of the company's internet capacity to handle the growing needs of the staff.
- The decrease in **publications and subscriptions** is due to reducing the publications and subscriptions the company receives.
- The decrease in **dues** is due to having a better budgeting knowledge of the cost of professional fees and annual memberships.
- The increase in **postage** is to account for the increase in postage rates.
- The decrease in **express shipping** is a result of sending out items electronically instead of shipping physical copies.
- The increase in **reports – graphics** is due to the reprinting of several transmission system maps.

- The increase in **stationary forms** is due to furnishing the new hires with business cards.
- The increase in **equipment repair/service** contracts is due to the monthly service and maintenance fees associated with the newly purchased copier/printer/scanner machines.
- The increase in **bank charges** is due to the increase in the lockbox fee and a credit cards rewards program fee that used to be recorded to the merchant card fees account.
- The decrease in **merchant card fees** is due to a credit card rewards program fee that is now being recorded under bank charges.

Table B-7

Professional Services	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Independent Trustee Fees	\$ 263,000	\$ 270,592	\$ 379,000	\$ 116,000	44.11%
Outside Legal	-	-	-	0	
Accounting & Auditing Fees	76,300	\$ 76,300	68,000	(8,300)	-10.88%
Other Legal Fees	1,020,000	\$ 1,020,000	1,020,000	0	0.00%
Insurance Commercial	60,000	\$ 60,000	60,000	0	0.00%
Total Services	\$ 1,419,300	\$ 1,426,892	\$ 1,527,000	\$ 107,700	7.59%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- The increase in **Independent Trustee Fees** is due to a search fee for a new independent director, and for the increase in the independent director's participation in various board activities.
- The decrease in **Accounting & Auditing Fees** is due to the 2010 budget being a more accurate reflection of historical expenses.

Table B-8

Other Non-Operating Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Interest Expense				\$ -	
Office Relocation				-	
Total Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

No explanation needed

Section C — 2010 RE Non-Statutory Business Plan and Budget

ReliabilityFirst performed only those functions delegated to it by the ERO in 2009 and the organization does not intend to perform any functions outside its ERO delegated activities in 2010, therefore Section C is not applicable.

Section D

2010 Consolidated Statement of Activities by Program, Statutory and Non-Statutory

Section D — Additional Financial Data

				Functions in Delegation Agreement											
Statement of Activities 2010 Budget	Total	Statutory Total	Non-Statutory Total	Statutory Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 500)	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															
ERO Assessments	14,242,038	14,242,038	-	14,242,038	511,249	10,190,215	2,465,518	70,464	425,244	-	579,348	-	-	-	-
Penalty Sanctions	180,000	180,000	-	180,000	6,207	134,483	35,172	207	3,931	-	-	-	-	-	-
Total ERO Funding	14,422,038	14,422,038	-	14,422,038	517,456	10,324,698	2,500,690	70,671	429,175	-	579,348	-	-	-	-
Membership Dues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Testing Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Workshops	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	40,000	40,000	-	40,000	-	-	-	-	-	-	40,000	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Funding	14,462,038	14,462,038	-	14,462,038	517,456	10,324,698	2,500,690	70,671	429,175	-	619,348	-	-	-	-
Expenses															
Personnel Expenses															
Salaries	7,196,074	7,196,074	-	7,196,074	250,817	4,317,573	1,064,882	8,846	168,079	85,539	507,396	-	547,308	138,612	107,022
Payroll Taxes	461,580	461,580	-	461,580	14,099	286,992	71,049	733	8,727	6,450	16,746	-	40,702	9,249	6,833
Benefits	998,451	998,451	-	998,451	29,479	675,511	117,942	896	7,576	12,481	24,787	-	111,617	10,054	8,108
Retirement Costs	1,062,919	1,062,919	-	1,062,919	32,472	654,514	170,678	1,419	26,959	13,705	43,007	-	80,785	22,221	17,159
Total Personnel Expenses	9,719,024	9,719,024	-	9,719,024	326,867	5,934,590	1,424,551	11,894	211,341	118,175	591,936	-	780,412	180,136	139,122
Meeting Expenses															
Meetings	227,600	227,600	-	227,600	28,800	16,000	52,000	50,000	16,000	3,000	61,000	-	600	-	200
Travel	674,500	674,500	-	674,500	22,500	450,400	90,000	-	37,000	10,000	27,600	-	27,600	-	7,000
Conference Calls	13,280	13,280	-	13,280	2,700	3,600	1,620	4,400	180	540	240	-	-	-	-
Total Meeting Expenses	915,380	915,380	-	915,380	54,000	470,000	143,620	54,400	53,180	13,540	91,240	-	28,200	-	7,200
Operating Expenses															
Consultants & Contracts	571,000	571,000	-	571,000	5,294	354,706	103,000	-	80,000	-	-	-	16,000	-	12,000
Office Rent	356,000	356,000	-	356,000	-	-	-	-	-	-	356,000	-	-	-	-
Office Costs	914,109	914,109	-	914,109	-	212,300	47,510	-	-	-	46,800	-	604,949	1,300	1,250
Professional Services	1,527,000	1,527,000	-	1,527,000	-	520,000	-	-	-	-	939,000	-	-	25,000	43,000
Miscellaneous	21,000	21,000	-	21,000	-	-	-	-	1,500	-	16,100	-	-	3,400	-
Depreciation	267,915	267,915	-	267,915	-	6,500	-	-	-	-	58,715	-	202,700	-	-
Total Operating Expenses	3,657,024	3,657,024	-	3,657,024	5,294	1,087,006	157,010	-	81,500	-	1,416,615	-	823,649	29,700	56,250
Total Direct Expenses	14,291,428	14,291,428	-	14,291,428	386,161	7,491,596	1,725,181	66,294	346,021	131,715	2,099,791	-	1,632,261	209,836	202,572
Indirect Expenses	-	-	-	-	135,660	2,939,309	768,742	4,522	85,918	(131,715)	(1,757,767)	-	(1,632,261)	(209,836)	(202,572)
Other Non-Operating Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	14,291,428	14,291,428	-	14,291,428	521,821	10,430,905	2,493,923	70,816	431,939	-	342,024	-	-	-	-
Change in Assets	170,610	170,610	-	170,610	(4,365)	(106,207)	6,767	(145)	(2,764)	-	277,324	-	-	-	-
Fixed Assets															
Depreciation	(267,915)	(267,915)	-	(267,915)	-	-	(6,500)	-	-	-	(58,715)	-	(202,700)	-	-
Computer & Software CapEx	54,000	54,000	-	54,000	-	-	38,000	-	-	-	-	-	16,000	-	-
Furniture & Fixtures CapEx	17,200	17,200	-	17,200	-	-	-	-	-	-	17,200	-	-	-	-
Equipment CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leasehold Improvements	90,000	90,000	-	90,000	-	-	-	-	-	-	90,000	-	-	-	-
(Inc)Dec in Fixed Assets	106,715	106,715	-	106,715	-	-	(31,500)	-	-	-	(48,485)	-	186,700	-	-
Allocation of Fixed Assets	-	-	-	(0)	4,365	106,207	24,733	145	2,764	-	48,485	-	(186,700)	-	-
Change in Fixed Assets	106,715	106,715	-	106,715	4,365	106,207	(6,767)	145	2,764	-	-	-	-	-	-
TOTAL CHANGE IN ASSETS	277,325	277,325	-	277,325	(0)	(0)	0	0	0	-	277,324	-	-	-	-
FTE's	58.0	58	0	58	1.5	36.5	8.50	0.05	0.95	1	2	0	5.2	1.4	0.9

Statement of Financial Position

Statement of Financial Position 2008 Audited, 2009 Projection, and 2010 Budget

STATUTORY and NON-STATUTORY

	(Per Audit) 31-Dec-08	Projected 31-Dec-09	Budget 31-Dec-10
ASSETS			
Cash	6,139,350	3,329,512 [▼]	3,426,837 [▼]
Trade Accounts receivable	22,996	-	-
Other Receivables	-	-	-
Prepaid expenses and other current assets	113,562	130,596	151,492
Security deposit	-	-	-
Cash value of insurance policies	-	-	-
Property and equipment	1,589,900	1,883,516 [▼]	1,990,231 [▼]
Total Assets	7,865,808	5,343,624	5,568,560
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accrued expenses	2,248,077	2,679,195	3,002,533
Deferred income	-	-	-
Regional assessments collected in advance	-	-	-
Deferred compensation	-	-	-
Accrued retirement liabilities	-	-	-
Total Liabilities	2,248,077	2,679,195	3,002,533
Net Assets - unrestricted	5,617,731	2,664,430	2,590,312
Total Liabilities and Net Assets	7,865,808	5,343,625	5,592,845

DOCKET NO. RR09-__-000

**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

2010 BUSINESS PLAN AND BUDGET FILING

ATTACHMENT 7

SERC RELIABILITY CORPORATION

PROPOSED 2010 BUSINESS PLAN AND BUDGET



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SERC Reliability Corporation

2010 Business Plan and Budget

FINAL

July 9, 2009

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Introduction

Total RE Resources (in whole dollars)				
	2010 Budget	U.S.	Canada	Mexico
Statutory FTEs	45.50			
Non-statutory FTEs	0			
Total FTEs	45.50			
Statutory Expenses	10,701,683	10,701,683	0	0
Non-statutory Expenses	0	0	0	0
Total Expenses	10,701,683	10,701,683	0	0
Statutory Funding	10,701,683	10,701,683	0	0
Non-Statutory(Member) Funding	0	0	0	0
Total Funding	10,701,683	10,701,683	0	0
NEL	1,032,621,018 MWhr	1,032,621,018 MWhr	0	0
NEL %	100%	100%	0	0

Organizational Overview

The SERC Reliability Corporation (SERC) is a nonprofit corporation responsible for promoting and improving the reliability of the bulk power systems in all or portions of 16 central and southeastern states. The SERC Region covers an area of approximately 560,000 square miles and electric systems in the region serve approximately 23% of the net energy for load (NEL) in North America and 30% of the NEL in the Eastern Interconnection.

SERC executed an agreement with the North American Electric Reliability Corporation (NERC) on May 2, 2007, for the purpose of delegating to SERC certain responsibilities and authorities of a regional entity as defined by Section 215 of the Federal Power Act; Chapter I, Title 18, Code of Federal Regulations, Part 39; other Federal Energy Regulatory Commission (FERC) regulations and directives, and NERC rules of procedure.

SERC, initially called the Southeastern Electric Reliability Council, was formed in 1970 as a voluntary association of members comprising electric industry reliability stakeholders in the southeast. Throughout its history, SERC has been successful in promoting reliability of the bulk power system using an industry self-regulatory model, relying on reciprocity, peer influence, and the mutual reliability focus of owners, operators, and users of the bulk power system to ensure that the system remained reliable and secure.

SERC was incorporated as a 501(c)(6) nonprofit corporation in the state of Alabama on April 29, 2005 to position SERC to become a regional entity with an appropriate stakeholder governance structure. In April 2006 SERC changed its name to SERC Reliability Corporation.

SERC has a 2010 targeted staffing level of 45.5 power industry professionals and support personnel.

Membership and Governance

SERC monitors approximately 225 entities in the region for compliance with mandatory reliability standards. Membership in SERC, which is voluntary and free, affords participants the opportunity to participate in the technical activities and governance of the organization. The number of entities that are members of SERC is approximately 60.

SERC is governed by a Board of Directors, comprised of a representative from each member of the corporation. The Board of Directors delegates responsibility for operational oversight of the corporation to an Executive Committee of 12 directors. The board has also formed a Board Compliance Committee to oversee the program that monitors and enforces compliance of registered entities in the region to FERC-approved reliability standards. In October 2007, the board formed a Human Resources and Compensation Committee to advise the President, board officers, and the board on matters of employee compensation and human resources.

The board appoints one director to serve as a non-employee Treasurer of the corporation. The Treasurer is vested by the Board with the responsibility, working with the President, to provide oversight of the finances of the corporation. The Treasurer reports to the board at its semiannual meetings in April and October.

Statutory Functional Scope

SERC provides statutory functions in support of the electric reliability organization, in accordance with the executed delegation agreement between SERC and NERC. These functions are:

- Active participation in the development of North American reliability standards for the bulk-power system, and as needed development of reliability standards applicable within the SERC Region.
- Monitoring and enforcement of approved reliability standards, including the registration of responsible entities, and as needed certification of such entities.
- Assessment of the present and future reliability, adequacy, and security of the bulk-power system.
- Promoting situation awareness.
- Conducting event analysis and identifying lessons learned to improve reliability.
- Promoting effective training and education of reliability personnel, and assisting in the certification of operating personnel.
- Promoting the protection of critical infrastructure.

SERC does not provide any non-statutory functions at this time, although SERC may in the future consider providing non-statutory functions from time to time as appropriate and as permitted by its Board and applicable statutes and regulations.

In recognition of the importance of the compliance role of regional entities, SERC has dedicated approximately half of its staff resources to compliance monitoring and enforcement. The compliance staff is further divided into two groups, one conducting compliance audits and the second performing compliance investigations and enforcement. SERC has developed and deployed a robust set of online tools for the gathering, analysis, and tracking of compliance information.

SERC has organized the remaining technical staff into a reliability services group and a reliability assessment group to address the other statutory functions listed above. These

experts in operations, engineering, and analysis assist registered entities in assessing and improving reliability. It is in support of these areas that SERC engages the majority of industry experts on its technical committees.

2010 Key Assumptions

In developing the 2010 business plan, SERC has assumed:

1. The international, industry-based Self Regulatory Organization (SRO) model continues to be used and no material changes to the SRO model impacting 2010 emerge from the ERO 3-year assessment.
2. The framework for delegation remains constant. The scope of delegated authorities and responsibilities remains relatively constant, with incremental improvements according to recommendations developed in the ERO 3-year assessment.
3. NERC and regions are not budgeted in 2010 for unknown material changes to scope and are unable to undertake unfunded mandates, such as new initiatives stemming from the U.S. federal stimulus package on energy. Any mandated material changes to scope will impact cash reserves.
4. The current economic downturn continues into 2010, resulting in cost pressures on NERC and regional entities to do more with less. The industry experiences lower electricity demand and may defer capital projects in some areas and may reduce or hold O&M budgets flat. Cost pressures result in less travel and strain stakeholder participation in NERC and regional entity activities.
5. Regional entities are audited by FERC and NERC by year-end 2010 and the audits of any region by NERC and FERC are not concurrent. NERC is required to audit each regional entity by year-end 2010.

Core Values

The SERC business planning is driven by the following core values:

1. Improving Reliability and Stakeholder Service

- a. **Reliability Improvement** – SERC ensures a reliability focus in its work and facilitates bulk power system reliability improvement.
- b. **Service Focus** – SERC develops and strengthens relations with its members, registered entities, and other reliability stakeholders, including NERC and applicable regulatory authorities, and achieves a reputation as a regional entity dedicated to the public's interest in the reliability of the Nation's bulk power system.
- c. **ERO Teamwork and Integration** – SERC, leading by example, facilitates process improvements, transparency, consistency, and quality and timely outcomes among the ERO and regional entities.

2. Providing Internal Process Controls and Accountability

- a. **Enforcement Accountability** – SERC performs its delegated compliance enforcement responsibilities with a reputation of being firm, fair, objective, independent, and consistent. SERC protects confidential compliance information while striving to achieve a high level of transparency with respect to compliance process and expectations.
- b. **Compliance with Delegated Functions** – SERC maintains the necessary processes, controls, and document management to be continuously in compliance with its obligations under its delegation agreement.

- c. **Information Management** – SERC strives for transparency and user friendliness of both the public and nonpublic web sites. SERC streamlines and, to the extent practical, automates data gathering to reduce the overall burden on registered entities and members. SERC facilitates more effective and seamless information exchange across regional entities and NERC.

3. Learning and Continuous Improvement

- a. **Learning Organization** – SERC is a learning organization, focused on self-assessment, feedback from stakeholders, and continuous improvement. SERC is proactive in anticipating and preparing for externalities affecting the region and reliability stakeholders, including evolving reliability standards, rules, and directives.
- b. **Competency** – SERC strives to attract, develop, and retain highly competent and motivated staff. SERC seeks opportunities for resource sharing with NERC and other regions in specialized areas with scarce resources.

4. Financial Controls

- a. **Productive and Efficient Provider** – SERC leverages its size and other efficiencies to remain the most productive and cost-effective regional entity, while maintaining performance excellence.

2010 Goals and Key Deliverables

The SERC 2010 business plan and budget is driven by the following goals:

1. **Reliability improvement through rigorous monitoring and enforcement of compliance with mandatory standards and adoption of risk-based efficiencies.**
 - o Monitor registered entities in the SERC Region for compliance with mandatory reliability standards, in accordance with the delegation agreement and CMEP, while adopting risk-based methods to optimize reliability benefits and improving quality and timeliness.
 - o Enforce compliance with mandatory reliability standards by registered entities within the SERC Region, in accordance with the delegation agreement and CMEP while improving quality and timeliness.
 - o Ensure timely and thorough mitigation of all violations of mandatory reliability standards.
 - o Promote a strong culture of compliance excellence, reliability improvement, and risk-based methods among registered entities in the SERC Region.
2. **Clear mandatory standards focused on reliability performance.**
 - o Develop regional reliability standards as needed to comply with NERC's three-year work plan and FERC directives, and to meet any emergent reliability needs. Maintain active engagement of SERC stakeholders in NERC standards process.
 - o Working with stakeholders and trade associations, take a leadership role in initiating a risk-based review of the existing NERC reliability standards and proposing SARs to focus the standards on performance requirements essential to reliability and eliminating nonessential or low-risk requirements.
 - o Based on compliance program results and system events, identify key areas needing improvement and implement educational and other technical assistance programs to improve compliance in those areas.

3. Objective and trustworthy reliability assessments and reliability performance trends.

- Provide annual and seasonal assessments of the future reliability of the bulk power system in the region, in accordance with NERC definitions and requirements. Provide thorough data validation and create new efficiencies in data collection and analysis.
- Develop and demonstrate bulk power system performance metrics for the purpose of analyzing and trending reliability improvements and benefits.

4. Situation awareness capability and event analysis leading to reliability improvements.

- Develop a situation awareness capability to include near real-time information and communications protocols that meet the needs of FERC, NERC, SERC and applicable registered entities.
- Develop SERC's capability to conduct rigorous event analyses and develop relevant lessons learned.
- Provide reliability issues tracking to systematically provide notice and document actions to improve reliability within the region.

5. Cyber and physical security of critical infrastructure.

- Facilitate and support registered entities in complying with CIP reliability standards, and responding to cyber security alerts.

6. Knowledgeable and skilled reliability personnel.

- Actively support the training and education of reliability personnel within the region, focusing on knowledge of reliability standards and recognizing and responding to system emergencies. Provide information and support to registered entities to assist in the deployment of a systematic approach to training.

7. Information sharing and collaboration through technology.

- Be a leader in the deployment of technology to make SERC and its stakeholder participants more efficient and productive in its program activities.
- Facilitate the integration and seamlessness of ERO and regional entity information systems used for compliance and other applicable statutory functions such as alerts and recommendations tracking.

8. Effective and efficient use of resources.

- Evaluate and as appropriate, realign the SERC committee structure and activities to better leverage industry expertise and leadership, to better support SERC's statutory functions, and to be more efficient.
- Maintain a talented staff at SERC and provide for continuous staff development.

9. Continuous improvement.

- Maintain good standing as a regional entity by addressing all applicable recommendations and directives from the 3-year ERO assessment, including stakeholder inputs, and audits by NERC and/or FERC.
- Identify and use regional entity performance indicators and feedback mechanisms to enable SERC to continue being a learning organization.

10. Effective financial controls.

- Provide rigorous cost controls and efficient management of resources to remain an efficient provider of regional entity functions.

2010 Overview of Cost Impacts

SERC proposes to increase its operating budget from \$10,095,546 to \$10,701,683 in 2010, an increase of \$606,137 or 6.0%. The proposed 2010 assessment of \$9,831,277 is only 1.9% higher than the 2009 assessment of \$9,652,546 due to the recognition of penalties collected by June 30, 2009 as funding for 2010. SERC believes that in 2010 it will continue to realize material efficiencies that allow the region to remain an efficient provider of statutory functions. SERC's culture centers on consistent delivery of excellent results at a cost that is considerate of the longstanding tradition in the Southeast of affordable and reliable electricity.

The following is a list of targeted budget increases to allow SERC to accomplish the specific objectives outlined in the business plan (dollars are stated as an increase in the 2010 budget compared to the 2009 budget). The most significant impacts on budget are in the area of payroll due to increased staffing, which is described as three components:

- **Staff added in 2009** – A total of 1.5 FTEs were added in 2009 compared to the budget. The Reliability Services program added a technical analyst position to address increased tracking of alerts, recommendations, and training records, and other reliability services data management needs. Additionally, a halftime auditor became fulltime in early 2009. These additions have been made in 2009 to meet critical needs to enable the organization to function effectively. The costs of these additional employees will be offset in 2009 by vacancies in other positions.
- **Staff additions proposed in 2010** – The targeted staffing level for 2010 is 45.5 FTEs, an increase of an additional 1 FTE compared to 2009 actual and 2.5 compared to 2009 budget. This additional employee is in compliance, a critical infrastructure protection (CIP) auditor.
 - For 2010, the budget impact of the above two items is \$320,931, including salary and benefits.
- **Cost increase for maintaining staff budgeted in 2010** – The remaining increase in personnel costs of \$280,955, or 4.1% compared to 2009 reflects a budgeted increase in salary for existing staff of 2% and a difference between 2009 actual and budgeted base salaries resulting from the hiring of new staff since the 2009 budget was developed in early 2008.

Other notable changes in the proposed budget from year to year include the following:

- **Consultants and contracts** – An increase of \$216,750 or 23.44% in consultants and contracts. \$160,500 of this increase results from the proposed conduct of a power system simulation in concert with the 2010 SERC system restoration training and drill.
- **Office rent** – An increase of \$72,314 or 39.4% in office rent due to additional office space obtained which will enable SERC to hold various meetings in house.
- **Office costs** – An increase of \$96,267 or 36.2% in office costs in order to furnish and equip the new office space.
- **Professional services** – A decrease of \$223,700 or 69.5% in professional services due to hiring of an in-house counsel which will lower legal costs.

Changes in Accounting Methodology

In 2010, NERC and all the Regional Entities agreed to formatting changes to the *Statement of Activities* within each functional Program Area as follows:

- The ERO Assessment and penalty sanctions are only allocated across the delegated functions, except that ERO assessments needed to fund working capital are reflected in the General and Administrative Program within Administrative Services.
- The increase or decrease in assessments to achieve the desired working capital reserve balance is reflected as the Total Change in Assets. In 2009, this amount was reflected as Other Non-Operating Expense on the Statement of Activities.
- All personnel and meeting expenses are accounted for within their associated department's budget.
- The majority of the Operating Expenses are accounted for within their related department's budget. If an expense cannot be specifically linked to a department, it is included in the General and Administrative Program, within Administrative Services.
- All expenses for the Administrative Services Programs, referred to as indirect expenses, are allocated to the delegated program areas by their respective FTEs. This allocation provides improved financial perspective for the delegated functions.
- Capital expenditures are broken out as fixed assets at the end of each statement of activities rather than being included in their related lines in the operating expenses section.
- Expenses include depreciation, but since funding is not being requested for depreciation expense, it has been deducted from the funding requirement for capital expenditures.
- The result of these changes may be an apparent increase in total costs for each functional Program area.

Section A — 2010 Business Plan

Reliability Standards Program

Reliability Standards Program Resources			
<small>(in whole dollars)</small>			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	1.4	1.6	0.2
Total Direct Expenses	290,594	333,962	43,368
Total Indirect Expenses	119,645	161,720	42,075
Inc(Dec) in Fixed Assets	2,279	0	(2,279)
Total Expenses & Fixed Assets	412,518	495,682	83,164

Program Scope and Functional Description

The SERC Reliability Standards program is required under the Delegation Agreement (Exhibit C) and NERC Rules of Procedure Section 300. The program will develop regional reliability standards in accordance with Exhibit C to the Delegation Agreement as well as regional criteria. The program will also promote the development and maintenance of NERC reliability standards that enable NERC and regional entities to measure the reliability performance of bulk power system owners, operators, and users by:

- Facilitating active participation of industry stakeholders in NERC standards activities;
- Providing a mechanism to seek clarity and provide feedback on compliance with reliability standards; and
- Maintaining technical reference documents as required.

2010 Key Assumptions

- SERC will develop one regional reliability standard in 2010 based on the published NERC three-year work plan for standards development and any additional regional standards authorization requests received.
- SERC will facilitate stakeholder review of the NERC standards for the purpose of identifying opportunities to streamline the standards to be more focused on reliability performance.
- SERC will collaborate with NERC to establish in 2010 improved mechanisms to capture lessons from event analysis, compliance enforcement, and other activities, in the form of recommendations to improve reliability standards to prevent future similar root causes.
- The current economic downturn will continue into 2010 and adversely affect stakeholder travel budgets and resourcing for work in standards development. SERC will need to develop methods to encourage active involvement with less travel and face-to-face meetings.
- SERC will collaborate with NERC in the conduct of special workshops, in addition to the regular schedule of workshops, to focus on most-violated standards to improve the understanding of requirements by registered entities.
- SERC will continue to support coordinated and consistent response to requests for both formal interpretations and informal clarifications of the reliability standards.

2010 Goals and Key Deliverables

- Deliver a regional reliability standard on disturbance monitoring equipment (PRC-002) to NERC for approval.
- Submit to NERC a set of SARs proposing major revisions to the NERC standards to focus on reliability-based requirements and eliminate nonessential or low-risk requirements that are not beneficial to reliability.
- Based on lessons from system events and serious or frequent non-compliances, identify key technical focus areas for training or other activities to improve reliability performance among registered entities.
- Promote active engagement of SERC stakeholders in standards development and SERC participation and leadership in the NERC standards process.
- Improve clarity of the approved standards by providing transparent, experience-based lessons learned from compliance monitoring and enforcement, and by requesting formal interpretations through the NERC process as needed.
- Complete a review and update of ten SERC guides and references.
- Complete development of regional criteria and file update with NERC.

Funding Requirements — Explanation of Increase (Decrease)

The 70.2% increase in total funding from \$292,873 budgeted in 2009 to \$498,597 budgeted in 2010 is due to the expenses related to the indirect program areas being allocated entirely to the direct programs. Additionally, SERC recognized all penalties collected by June 30, 2009 as funding for 2010.

Reliability Standards Program direct expenses requirements are steady from 2009 to 2010, with an increase of 14.9% due to the addition of a technical analyst position to address increased tracking of alerts, recommendations, and training records, and other reliability services data management needs. This position is allocated over all Reliability Service departments. There are no additional staffing changes anticipated.

Reliability Standards Program

Funding sources and related expenses for the reliability standards section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Standards					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 292,873	\$ 292,873	\$ -	\$ 471,317	\$ 178,444
Penalty Sanctions	-	-	-	27,280	27,280
Total ERO Funding	\$ 292,873	\$ 292,873	\$ -	\$ 498,597	\$ 205,724
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 292,873	\$ 292,873	\$ -	\$ 498,597	\$ 205,724
Expenses					
Personnel Expenses					
Salaries	\$ 204,634	\$ 213,441	\$ 8,807	\$ 225,442	\$ 20,808
Payroll Taxes	15,348	16,008	660	16,908	1,560
Benefits	18,746	26,576	7,830	30,566	11,820
Retirement Costs	19,427	20,711	1,284	21,413	1,986
Total Personnel Expenses	\$ 258,155	\$ 276,736	\$ 18,581	\$ 294,329	\$ 36,174
Meeting Expenses					
Meetings	\$ 8,650	\$ 10,048	\$ 1,398	\$ 23,886	\$ 15,236
Travel	8,130	19,500	11,370	15,747	7,617
Conference Calls	977	1,752	775	-	(977)
Total Meeting Expenses	\$ 17,757	\$ 31,300	\$ 13,543	\$ 39,633	\$ 21,876
Operating Expenses					
Consultants & Contracts	\$ -	\$ 821	\$ 821	\$ -	\$ -
Office Rent	5,967	5,995	28	-	(5,967)
Office Costs	7,738	7,533	(205)	-	(7,738)
Professional Services	977	530	(447)	-	(977)
Miscellaneous	-	-	-	-	-
Depreciation	-	160	160	-	-
Total Operating Expenses	\$ 14,682	\$ 15,039	\$ 357	\$ -	\$ (14,682)
Total Direct Expenses	\$ 290,594	\$ 323,075	\$ 32,481	\$ 333,962	\$ 43,368
Indirect Expenses				\$ 161,720	\$ 161,720
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 290,594	\$ 323,075	\$ 32,481	\$ 495,682	\$ 205,088
Change in Assets	\$ 2,279	\$ (30,202)	\$ (32,481)	\$ 2,915	\$ 636
Fixed Assets					
Depreciation	-	(160)	(160)	-	-
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	2,279	-	(2,279)	-	(2,279)
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (2,279)	\$ 160	\$ 2,439	\$ -	\$ 2,279
Allocation of Fixed Assets	\$ -	\$ -	-	\$ (2,915)	(2,915)
Change in Fixed Assets	(2,279)	160	2,439	(2,915)	(636)
TOTAL CHANGE IN ASSETS	\$ -	\$ (30,042)	\$ (30,042)	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- The expenses related to the indirect program areas are being allocated entirely to the direct programs, causing the ERO Assessments in the direct programs to increase.
- Penalty Sanctions – Total penalty monies received and the allocation method used to allocate funds to this Program as an offset to Assessments are disclosed in Table B-1, Section B, page 58.

Personnel Expenses

- As mentioned in the Introduction, a technical analyst position was added to address increased tracking of alerts, recommendations, and training records, and other reliability services data management needs. This position is allocated over all Reliability Service departments. No additional planned changes in FTEs for this program.

Meeting Expenses

- Increase in meetings expense of \$15,236 is due to the addition of special workshops to focus on the most violated standards to improve the understanding of requirements by registered entities.

Operating Expenses

- There are no significant changes requiring an explanation.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2010 based on the number of FTEs in those programs.

Other Non-Operating Expenses

- There are no significant changes requiring an explanation.

Fixed Asset Additions

- There are no significant changes requiring an explanation.

Compliance Monitoring and Enforcement and Organization Registration and Certification Program

Compliance Monitoring and Enforcement and Organization Registration and Certification Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	21.5	22.0	0.5
Total Direct Expenses	4,770,617	4,431,345	(339,272)
Total Indirect Expenses	1,837,408	2,223,658	386,250
Inc(Dec) in Fixed Assets	35,000	0	(35,000)
Total Expenses & Fixed Assets	6,643,025	6,655,003	11,978

Program Scope and Functional Description

The SERC Board Compliance Committee, a balanced committee of the SERC Board of Directors, is responsible for oversight of the SERC Compliance Monitoring and Enforcement Program. The Board Compliance Committee provides final review of all alleged violations and proposed sanctions or settlements determined by the SERC compliance staff prior to submittal to NERC and FERC for final approval. The Board Compliance Committee also acts as the hearing body responsible for resolving any disputes related to either a finding of violation or a sanction administered for a confirmed violation.

The SERC Compliance Monitoring and Enforcement Program is implemented by the SERC compliance staff, which is independent of stakeholders, registered entities, and the SERC reliability services staff. The SERC compliance staff makes the initial determination of alleged violations and proposes appropriate penalties and sanctions in accordance with the NERC Compliance Monitoring and Enforcement Program and the Penalties and Sanctions Guidelines. To accomplish this objective, SERC's compliance staff is further divided into an enforcement branch and an audit branch.

Compliance Audits

SERC audit staff is charged with conducting compliance audits and spot-checks of all registered entities and identifying potential alleged violations. This group manages proactive compliance "discovery" processes.

The group maintains a long-range compliance audit plan that ensures compliance audits are conducted for each applicable registered entity within the SERC Region in accordance with a predefined frequency. Qualified senior SERC staff leads each compliance audit. The teams prepare public and non-public audit reports with their findings and recommendations, including the identification of any possible alleged violations. Specific lessons learned are factored into the audit program to promote continuous improvement.

Compliance Enforcement

SERC's compliance enforcement group evaluates all possible alleged violations of reliability standards, whether identified in an audit, a self-report, complaint, or other source, and determines whether the facts and circumstances warrant further action as an alleged violation.

If so, the staff creates a unique tracking number and associated docket to record the activities and documents and completes a thorough assessment of the alleged violation. The staff informs the affected entity of the assessment of an alleged violation. Once the assessment is completed, the staff will formally notify the entity of its findings regarding the violation and any applicable penalties or sanctions. The enforcement staff may also engage in settlement negotiations with the entity.

Once a final determination of a confirmed violation is made by the enforcement staff, it is submitted to the Board Compliance Committee, along with any proposed penalty or sanctions. If the entity challenges the findings, the enforcement staff would prosecute its case before the Board Compliance Committee, who would then become the hearing body. Hearings are conducted at SERC under the supervision of a qualified, independent hearing officer hired by SERC.

The enforcement staff is also responsible for evaluating and accepting mitigation plans. Once all proceedings have been completed, the compliance enforcement staff would file the case with NERC for review and approval, subject to final approval by FERC.

Finally, compliance enforcement staff is responsible for maintaining the current list of registered entities within SERC and for administering other monitoring processes including self-reporting, complaints, and self-certifications.

Technical Feasibility Exceptions

Due to the uncertainties of estimating the number of requests and the hours required to process the exceptions, SERC has not included these additional costs in the 2010 business plan and budget and will use working capital reserves to cover the expenses. If the working capital reserves are deemed insufficient, SERC will file a 2010 supplemental budget request for additional assessments.

2010 Key Assumptions

- Number of registered entities remains relatively constant (increases < 15% from 2009 total). No major expansion of registration to include “registration by requirement”.
- Required scope and periodicity for non-CIP audits remains constant. Actively monitored standards do not increase audit scope by more than 10% (as measured by aggregate number of requirements audited).
- The increase in required spot-checks (mitigation plan closure verification, incident / trend analysis follow-up) is held to less than 20%.
- CMEP / ROP revisions are made such that 25-50% of alleged violations can be addressed through a streamlined process.
- Less than 250 possible alleged violations (CIP and non-CIP) are identified from all monitoring sources.
- Less than 5 Compliance Violation Investigations (CVIs) are conducted.
- Compliance Issues Tracking System (CITS) and document management systems are fully implemented.
- 2 or less hearings are conducted.
- Added scope is delegated from BCC to Compliance staff.

2010 Goals and Key Deliverables

- Reliability improvement through rigorous monitoring and enforcement of compliance with mandatory standards and adoption of risk-based efficiencies.
 - Focus compliance actions to promote reliability and minimize risk.

- Conduct required number of compliance audits to conform with 3 and 6 year audit intervals and number of spot-checks to validate self-certifications and address trends.
- Perform effective and timely follow-up to self-certifications and self-reports.
- Timely and thorough mitigation of all violations of reliability standards.
- Maintain enforcement backlog and throughput at target levels.
- Collaborate with NERC and other regions to streamline Rules of Procedure to all for efficient processing of lower risk / significance violations.
- Clear mandatory standards focused on reliability performance.
 - Provide effective feedback from various compliance processes to improve standards through requests for interpretation or revisions.
- Cyber and physical security of critical infrastructure.
 - Conduct a sufficient number of high quality CIP audits and spot-checks to promote improvements in cyber and physical security within the SERC Region,
- Knowledgeable and skilled reliability personnel, effective and efficient use of resources, and continuous improvement.
 - Attract and retain a highly competent and skilled workforce
 - Evolve processes, tools, and work assignments to optimize resources.
 - Continue to promote continuous improvement through active use of feedback, metrics, training, self-assessments, and other related tools.

Funding Requirements — Explanation of Increase (Decrease)

The 39.3% increase in total funding from \$4,805,617 budgeted in 2009 to \$6,695,079 budgeted in 2010 is due to the expenses related to the indirect program areas being allocated entirely to the direct programs. Additionally, SERC recognized all penalties collected by June 30, 2009 as funding for 2010.

The cost of the Compliance Program in 2010 is proposed to have a moderate decrease of 7.1% due to reduced contractors and professional services.

Total expenses associated with Critical Infrastructure Protection (CIP) within the Compliance Program are \$1,495,701. Of this amount, \$870,218 relates to personnel expenses, \$88,036 relates to meetings and travel; \$16,909 relates to consultants and contractors; and \$520,538 represents allocated indirect costs.

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 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Compliance and Organization Registration and Certification					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 4,805,617	\$ 4,805,617	\$ -	\$ 6,319,976	\$ 1,514,359
Penalty Sanctions	-	-	-	375,103	375,103
Total ERO Funding	\$ 4,805,617	\$ 4,805,617	\$ -	\$ 6,695,079	\$ 1,889,462
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 4,805,617	\$ 4,805,617	\$ -	\$ 6,695,079	\$ 1,889,462
Expenses					
Personnel Expenses					
Salaries	\$ 2,773,005	\$ 2,831,316	\$ 58,311	\$ 2,908,227	\$ 135,222
Payroll Taxes	207,975	212,349	4,374	218,117	10,142
Benefits	301,762	292,914	(8,848)	253,359	(48,403)
Retirement Costs	261,570	251,193	(10,377)	276,897	15,327
Total Personnel Expenses	\$ 3,544,312	\$ 3,642,255	\$ 43,460	\$ 3,656,600	\$ 112,288
Meeting Expenses					
Meetings	\$ 153,250	\$ 173,616	\$ 20,366	\$ 92,895	\$ (60,355)
Travel	348,070	271,866	(76,204)	472,090	124,020
Conference Calls	15,000	26,907	11,907	-	(15,000)
Total Meeting Expenses	\$ 516,320	\$ 417,685	\$ (43,931)	\$ 564,985	\$ 48,665
Operating Expenses					
Consultants & Contracts	\$ 263,300	\$ 126,413	\$ (136,887)	\$ 184,400	\$ (78,900)
Office Rent	91,639	92,064	425	-	(91,639)
Office Costs	140,046	115,687	(24,359)	7,860	(132,186)
Professional Services	215,000	58,734	(156,266)	17,500	(197,500)
Miscellaneous	-	-	-	-	-
Depreciation	-	2,456	2,456	-	-
Total Operating Expenses	\$ 709,985	\$ 384,423	\$ (314,631)	\$ 209,760	\$ (500,225)
Total Direct Expenses	\$ 4,770,617	\$ 4,444,363	\$ (315,102)	\$ 4,431,345	\$ (339,272)
Indirect Expenses				\$ 2,223,658	\$ 2,223,658
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 4,770,617	\$ 4,444,363	\$ (315,102)	\$ 6,655,003	\$ 1,884,386
Change in Assets	\$ 35,000	\$ 361,254	\$ 315,102	\$ 40,076	\$ 5,076
Fixed Assets					
Depreciation	\$ -	\$ (2,456)	\$ (2,456)	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	35,000	35,000	-	-	(35,000)
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (35,000)	\$ (32,544)	\$ 2,456	\$ -	\$ 35,000
Allocation of Fixed Assets	\$ -	\$ -	-	\$ (40,076)	(40,076)
Change in Fixed Assets	(35,000)	(32,544)	2,456	(40,076)	(5,076)
TOTAL CHANGE IN ASSETS	\$ -	\$ 328,710	\$ 317,558	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- The expenses related to the indirect program areas are being allocated entirely to the direct programs, causing the ERO Assessments in the direct programs to increase.
- Penalty Sanctions – Total penalty monies received and the allocation method used to allocate funds to this Program as an offset to Assessments are disclosed in Table B-1, Section B, page 58.

Personnel Expenses

- One additional CIP Auditor. During 2010 the number of required CIP audits and spot-checks will increase. Each of these activities must be conducted on-site given the nature of the entity information being reviewed. It is also likely that the required depth of the reviews will increase. Additionally, as mentioned in the Introduction, one existing halftime auditor position became fulltime in 2009 and the in-house legal counsel moved from compliance into the general and administrative program, for a total increase in compliance FTEs of 0.5.
- ADD REASON FOR DECREASE IN BENEFITS

Meeting Expenses

- Meeting expenses decreased by \$60,355 due to the additional office space which will enable SERC to hold two of the compliance seminars in house.
- Travel expenses increased by \$124,020 due to an emphasis on CIP audits and additional working groups related to consistent compliance implementation. A number of regional working groups were established and formalized during 2008, including: Enforcement Managers, Audit Managers, CIP, Information Management, and Registration. These working groups were not budgeted in 2009, but are working effectively and will continue in 2010.
- Conference calls decreased by \$15,000 due to recording of indirect general office costs in General and Administrative, rather than allocating to each department.

Operating Expenses

- Consultants and contracts decreased by \$78,900 mainly due to a decrease in consortium costs. The 2009 budget included \$80,000 for consultants related to Compliance Violation Investigations. In 2010, the budget includes \$76,500 for two consultants to execute projected non-CIP audits and Compliance Violation Investigations (CVI). Experience to date shows CVIs are extremely complex and time consuming. Non-CIP audit scheduling is still heavily skewed towards spring and fall. This necessitates added staff to execute during high demand periods.
- Decrease in office rent of \$91,639 and office costs of \$132,186 is due to recording of indirect general office costs in General and Administrative and computer purchases in IT, rather than allocating to each department.
- Professional fees decreased by \$197,500 due to the hiring of an in-house counsel which will lower legal costs.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2010 based on the number of FTEs in those programs.

Other Non-Operating Expenses

- There are no significant changes requiring an explanation.

Fixed Asset Additions

- In order to establish the Charlotte office in 2009, SERC budgeted for furniture and equipment purchases. As SERC is fully operational, significant furniture and equipment is not necessary.

Reliability Readiness Evaluation and Improvement Program

Reliability Readiness Evaluation and Improvement Program Resources			
<small>(in whole dollars)</small>			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	1.4	0.0	(1.4)
Total Direct Expenses	274,526	0	(274,526)
Total Indirect Expenses	119,645	0	(119,645)
Inc(Dec) in Fixed Assets	2,279	0	(2,279)
Total Expenses & Fixed Assets	396,450	0	(396,450)

Funding Requirements — Explanation of Increase (Decrease)

NERC has eliminated the Reliability Readiness Evaluation and Improvement Program. 2009 is a transition year, during which open Readiness recommendations in the region will be monitored to their completion and the tools used to track readiness recommendations will be re-deployed to track recommendations from events analysis, NERC Alerts and other program initiatives. Consequently, SERC has eliminated the Reliability Readiness Evaluation and Improvement Program funding requirements, FTE count, and activities from the 2010 Business Plan and Budget. SERC has moved all activity, including staff, into Situational Awareness and Critical Infrastructure Security Program.

Reliability Readiness Evaluations and Improvement Program

Funding sources and related expenses for the reliability readiness audits and improvement section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Readiness Evaluation and Improvement					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 276,805	\$ 276,805	\$ -	\$ -	\$ (276,805)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 276,805	\$ 276,805	\$ -	\$ -	\$ (276,805)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 276,805	\$ 276,805	\$ -	\$ -	\$ (276,805)
Expenses					
Personnel Expenses					
Salaries	\$ 178,063	\$ 135,347	\$ (42,716)	\$ -	\$ (178,063)
Payroll Taxes	13,355	10,151	(3,204)	-	(13,355)
Benefits	16,561	9,846	(6,715)	-	(16,561)
Retirement Costs	17,159	12,928	(4,231)	-	(17,159)
Total Personnel Expenses	\$ 225,138	\$ 166,882	\$ (56,866)	\$ -	\$ (225,138)
Meeting Expenses					
Meetings	\$ 1,800	\$ -	\$ (1,800)	\$ -	\$ (1,800)
Travel	31,928	3,582	(28,346)	-	(31,928)
Conference Calls	977	1,752	775	-	(977)
Total Meeting Expenses	\$ 34,705	\$ 5,334	\$ (29,371)	\$ -	\$ (34,705)
Operating Expenses					
Consultants & Contracts	\$ -	\$ 7	\$ 7	\$ -	\$ -
Office Rent	5,967	5,995	28	-	(5,967)
Office Costs	7,739	7,533	(206)	-	(7,739)
Professional Services	977	652	(325)	-	(977)
Miscellaneous	-	-	-	-	-
Depreciation	-	160	160	-	-
Total Operating Expenses	\$ 14,683	\$ 16,808	\$ (336)	\$ -	\$ (14,683)
Total Direct Expenses	\$ 274,526	\$ 189,024	\$ (86,573)	\$ -	\$ (274,526)
Indirect Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 274,526	\$ 189,024	\$ (86,573)	\$ -	\$ (274,526)
Change in Assets	\$ 2,279	\$ 87,781	\$ 86,573	\$ -	\$ (2,279)
Fixed Assets					
Depreciation	\$ -	\$ (160)	\$ (160)	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	2,279	-	(2,279)	-	(2,279)
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (2,279)	\$ 160	\$ 2,439	\$ -	\$ 2,279
Allocation of Fixed Assets	\$ -	\$ -	-	\$ -	-
Change in Fixed Assets	(2,279)	160	2,439	-	2,279
TOTAL CHANGE IN ASSETS	\$ -	\$ 87,941	\$ 89,012	\$ -	\$ -

Training, Education, and Operator Certification Program

Training, Education, and Operator Certification Program Resources			
<small>(in whole dollars)</small>			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	1.4	1.6	0.2
Total Direct Expenses	478,997	617,252	138,255
Total Indirect Expenses	119,645	161,721	42,076
Inc(Dec) in Fixed Assets	2,279	0	(2,279)
Total Expenses & Fixed Assets	600,921	778,973	178,052

Program Scope and Functional Description

The SERC Training, Education, and Operator Certification program supports NERC Rules of Procedure Section 900. The program provides education and training necessary to understand and operate the bulk power system. The target audience of the program is bulk power system operating personnel - including system operations personnel, operations support personnel (engineering and information technology), supervisors and managers, and training personnel. The program also supports SERC staff training and development as well as the administration of records necessary to maintain status as a NERC Continuing Education provider.

2010 Key Assumptions

- The Training, Education, and Operator Certification program will remain a statutory function with workshop revenues partially offsetting program expenses.
- SERC will continue to invest in technology and innovation to allow efficient and effective training to reach operating personnel especially in times of downward pressure on training budgets.
- No significant changes expected in operator certification CEU requirements for 2010.

2010 Goals and Key Deliverables

- Develop wide-area restoration proficiency through restoration webinars and participant drills in a distributed environment.
- Provide five system operator training conferences to include lessons from event analysis, situation awareness, best practices recommendations, readiness evaluations, etc.
- Provide two train-the-trainer conferences focusing on systematic approach to training.
- Provide training to SERC staff to ensure competencies to carry out statutory functions and development of staff.
- Provide compliance auditor training for all audit team leads and members, including volunteers.
- Develop a 2010 Compliance Monitoring & Enforcement Program Seminar and deliver the seminar three times during 2010.
- Maintain a current database tracking seminar/conference participants, continuing education hours awarded, and participant feedback.

Funding Requirements — Explanation of Increase (Decrease)

The 62.5% increase in total funding from \$481,276 budgeted in 2009 to \$781,888 budgeted in 2010 is due to the expenses related to the indirect program areas being allocated entirely to the direct programs. Additionally, SERC recognized all penalties collected by June 30, 2009 as funding for 2010. Finally, the workshop funding is decreasing due to fee reductions, fewer conferences being planned in 2010, and an increase in the number of workshops being held in the Charlotte office.

The Training and Education Program is planned to be nearly 44% self-funded in 2010. Overall direct expenses will increase 28.9% from \$478,997 budgeted in 2009 to \$617,252 in 2010. This is due to several reasons. SERC intends to develop the capability to conduct wide-area operational scenario drills, in a virtual, distributed environment. This capability will more closely mimic actual wide-area restoration scenarios where distributed command and control and diverse communication channels make situation awareness and coordination problematic. This capability will provide a more realistic environment and will allow the validation of procedures and training on realistic scenarios with coordination across company, Reliability Coordinator, and in some cases, regional footprints. SERC also intends to augment its System Operator Conferences with this capability in order to maximize the reach into system operator training. Additionally, SERC intends to augment its system operator training with professional, vendor-assisted training delivery. There are no staffing changes anticipated for 2010.

Training, Education, and Operator Certification Program

Funding sources and related expenses for the training, education, and operator certification section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Training and Education					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 78,276	\$ 78,276	\$ -	\$ 482,202	\$ 403,926
Penalty Sanctions	-	-	-	27,280	27,280
Total ERO Funding	\$ 78,276	\$ 78,276	\$ -	\$ 509,482	\$ 431,206
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	403,000	269,240	(133,760)	272,406	(130,594)
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 481,276	\$ 347,516	\$ (133,760)	\$ 781,888	\$ 300,612
Expenses					
Personnel Expenses					
Salaries	\$ 193,855	\$ 202,028	\$ 8,173	\$ 213,800	\$ 19,945
Payroll Taxes	14,539	15,152	613	16,035	1,496
Benefits	17,765	17,506	(259)	17,919	154
Retirement Costs	18,403	19,574	1,171	20,307	1,904
Total Personnel Expenses	\$ 244,562	\$ 258,689	\$ 9,698	\$ 268,061	\$ 23,499
Meeting Expenses					
Meetings	\$ 178,820	\$ 88,780	\$ (90,040)	\$ 135,250	\$ (43,570)
Travel	24,955	6,522	(18,433)	34,691	9,736
Conference Calls	977	1,752	775	-	(977)
Total Meeting Expenses	\$ 204,752	\$ 97,054	\$ (107,698)	\$ 169,941	\$ (34,811)
Operating Expenses					
Consultants & Contracts	\$ 15,000	\$ -	\$ (15,000)	\$ 179,250	\$ 164,250
Office Rent	5,967	5,995	28	-	(5,967)
Office Costs	7,739	7,533	(206)	-	(7,739)
Professional Services	977	530	(447)	-	(977)
Miscellaneous	-	-	-	-	-
Depreciation	-	160	160	-	-
Total Operating Expenses	\$ 29,683	\$ 14,218	\$ (15,465)	\$ 179,250	\$ 149,567
Total Direct Expenses	\$ 478,997	\$ 369,961	\$ (113,465)	\$ 617,252	\$ 138,255
Indirect Expenses				\$ 161,721	\$ 161,721
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 478,997	\$ 369,961	\$ (113,465)	\$ 778,973	\$ 299,976
Change in Assets	\$ 2,279	\$ (22,445)	\$ (20,295)	\$ 2,915	\$ 636
Fixed Assets					
Depreciation	\$ -	\$ (160)	\$ (160)	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	2,279	-	(2,279)	-	(2,279)
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (2,279)	\$ 160	\$ 2,439	\$ -	\$ 2,279
Allocation of Fixed Assets	\$ -	\$ -	-	\$ (2,915)	(2,915)
Change in Fixed Assets	(2,279)	160	2,439	(2,915)	(636)
TOTAL CHANGE IN ASSETS	\$ -	\$ (22,285)	\$ (17,856)	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- The expenses related to the indirect program areas are being allocated entirely to the direct programs, causing the ERO Assessments in the direct programs to increase.
- Penalty Sanctions – Total penalty monies received and the allocation method used to allocate funds to this Program as an offset to Assessments are disclosed in Table B-1, Section B, page 58.
- Decrease in Workshop funding of \$130,594 is due to a fee reduction from the 2009 budgeted amount for the System Operator conferences, the Train the Trainer workshops, Compliance seminars and the Joint Conferences. Additionally, SERC budgeted fewer System Operator Conferences in 2010 than 2009 and due to the additional office space SERC will hold two of the System Operator Conferences in house.

Personnel Expenses

- As mentioned in the Introduction, a technical analyst position was added to address increased tracking of alerts, recommendations, and training records, and other reliability services data management needs. This position is allocated over all Reliability Service departments. No additional planned changes in FTEs for this program.

Meeting Expenses

- Decrease in meetings expense of \$43,570 due to fewer scheduled System Operator Conferences.

Operating Expenses

- Increase in consultants and contracts of \$164,250 are related to a restoration training simulator. The simulator project will take advantage of the advances made in simulation technology for more realistic operator training in restoration scenarios using familiar system elements and characteristics as well as in the development of more comprehensive regional restoration plans based on the exercise of those plans in realistic wide-area scenarios.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2010 based on the number of FTEs in those programs.

Other Non-Operating Expenses

- There are no significant changes requiring an explanation.

Fixed Asset Additions

- There are no significant changes requiring an explanation.

Reliability Assessment and Performance Analysis Program

Reliability Assessment and Performance Analysis Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	4.5	4.5	0.0
Total Direct Expenses	968,783	890,368	(78,415)
Total Indirect Expenses	384,575	454,839	70,264
Inc(Dec) in Fixed Assets	7,326	0	(7,326)
Total Expenses & Fixed Assets	1,360,684	1,345,207	(15,477)

Program Scope and Functional Description

The Reliability Assessment program is required under the Delegation Agreement and NERC Rules of Procedure in Section 800. SERC conducts and reports the results of an independent assessment of the overall reliability and adequacy of the SERC Region in support of the NERC obligation to perform similar analysis of the interconnected North American bulk power systems. The analysis is performed both on the “as existing” and “as planned” system. The Reliability Assessment function of SERC will develop reliability performance benchmarks for both resource and delivery activities within the region.

2010 Key Assumptions

A key assumption for 2010 is that there are no additional Reliability Assessment mandates from NERC beyond the Summer and Winter Assessments, the Long Term Reliability Assessment and the normal data collection requirements as experienced for 2009. Portal changes to accommodate additional data requirements have a significant impact on cost for contract support of portal modifications.

2010 Goals and Key Deliverables

SERC’s Reliability Assessment department team goals are to perform reliability assessment functions on behalf of the region¹. SERC will maintain an effective data collection system and help ensure that all SERC registered entities with data collection obligations are aware of requirements to support the SERC internal and NERC external processes as needed. SERC will establish an effective data collection system by working closely with registered entities in the region, the management of the respective committees involved in the process² and through improvements to the SERC Portal.

The purpose of reliability assessment work products is to ensure effective communication of information among entities within the region and to ensure SERC is able to provide accurate and timely information to NERC, applicable government authorities, and others as appropriate.

¹ The Annual Reliability Review Subcommittee Report to the Engineering Committee is the key SERC document which provides an overall assessment of the health and ability of the system within SERC to carry out its functions. The data used for this report supports all NERC assessments

² SERC committees involved in the Reliability Assessment process include; Engineering Committee, Reliability Review Subcommittee, Dynamics Review Subcommittee, Near Term, Long Term, Dynamics and Short Circuit study groups.

The key major deliverables for 2010 include:

- NERC Seasonal Assessments (summer and winter)
- NERC Long Term Reliability Assessment
- SERC Annual Report of the Reliability Review Subcommittee to the Engineering Committee

The specific goals for the Reliability Assessment department are as follows:

- Annual portal upgrade for Reliability Assessment purposes
- Engagement with NERC Reliability Assessment Subcommittee (RAS) in 2010
- Continue implementation of SERC's first region wide resource adequacy assessment using probabilistic methods on a regional basis.
- Complete the SERC Reliability Review Subcommittee (RRS) Annual Report to the Engineering Committee
- Complete NERC Seasonal and Long Term Assessment reports for 2010
- Implement scenario analysis for inclusion in the NERC Long-term Reliability Assessment.
- Complete quality and on-time SERC submittals for the EIA-411 and publish final data by July 31.
- With SERC stakeholder input, develop a proposal for transmission reliability analysis based upon NERC Transmission Availability Data System (TADS) information collected in the SERC Region for implementation beginning in 2010.
- Assist SERC transmission owners in implementing NERC's TADS Phase 2 program.

Funding Requirements — Explanation of Increase (Decrease)

The 38.7% increase in total funding from \$976,109 budgeted in 2009 to \$1,353,404 budgeted in 2010 is due to the expenses related to the indirect program areas being allocated entirely to the direct programs. Additionally, SERC recognized all penalties collected by June 30, 2009 as funding for 2010.

The Reliability Assessment Program direct expense budget will see a modest decrease of 8.1% that reflects the decrease in the need for consultants and contracts. There are no staffing changes anticipated.

Reliability Assessment and Performance Analysis Program

Funding sources and related expenses for the reliability assessment and performance analysis section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Assessment and Performance Analysis					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 976,109	\$ 976,109	\$ -	\$ 1,276,678	\$ 300,569
Penalty Sanctions	-	-	-	76,726	76,726
Total ERO Funding	\$ 976,109	\$ 976,109	\$ -	\$ 1,353,404	\$ 377,295
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 976,109	\$ 976,109	\$ -	\$ 1,353,404	\$ 377,295
Expenses					
Personnel Expenses					
Salaries	\$ 475,213	\$ 514,430	\$ 39,217	\$ 524,718	\$ 49,505
Payroll Taxes	35,641	38,582	2,941	39,354	3,713
Benefits	41,879	42,721	842	42,317	438
Retirement Costs	43,144	50,225	7,081	45,390	2,246
Total Personnel Expenses	\$ 595,877	\$ 637,489	\$ 50,081	\$ 651,779	\$ 55,902
Meeting Expenses					
Meetings	\$ 53,238	\$ 20,800	\$ (32,438)	\$ 41,565	\$ (11,673)
Travel	39,333	24,972	(14,361)	35,224	(4,109)
Conference Calls	3,140	5,632	2,492	-	(3,140)
Total Meeting Expenses	\$ 95,711	\$ 40,654	\$ (44,307)	\$ 76,789	\$ (18,922)
Operating Expenses					
Consultants & Contracts	\$ 230,000	\$ 123,042	\$ (106,958)	\$ 160,000	\$ (70,000)
Office Rent	19,180	19,269	89	-	(19,180)
Office Costs	24,875	24,214	(661)	1,800	(23,075)
Professional Services	3,140	1,703	(1,437)	-	(3,140)
Miscellaneous	-	-	-	-	-
Depreciation	-	514	514	-	-
Total Operating Expenses	\$ 277,195	\$ 168,742	\$ (108,453)	\$ 161,800	\$ (115,395)
Total Direct Expenses	\$ 968,783	\$ 846,885	\$ (102,679)	\$ 890,368	\$ (78,415)
Indirect Expenses				\$ 454,839	\$ 454,839
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 968,783	\$ 846,885	\$ (102,679)	\$ 1,345,207	\$ 376,424
Change in Assets	\$ 7,326	\$ 129,224	\$ 102,679	\$ 8,197	\$ 871
Fixed Assets					
Depreciation	\$ -	\$ (514)	\$ (514)	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	7,326	-	(7,326)	-	(7,326)
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (7,326)	\$ 514	\$ 7,840	\$ -	\$ 7,326
Allocation of Fixed Assets	\$ -	\$ -	-	\$ (8,197)	(8,197)
Change in Fixed Assets	(7,326)	514	7,840	(8,197)	(871)
TOTAL CHANGE IN ASSETS	\$ -	\$ 129,738	\$ 110,519	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- The expenses related to the indirect program areas are being allocated entirely to the direct programs, causing the ERO Assessments in the direct programs to increase.
- Penalty Sanctions – Total penalty monies received and the allocation method used to allocate funds to this Program as an offset to Assessments are disclosed in Table B-1, Section B, page 58.

Personnel Expenses

- No planned changes in FTEs for this program.

Meeting Expenses

- Meeting expenses decreased by \$11,673 due to efforts related to travel costs and the reduction in the number of meetings by shifting to WebEx conferences.

Operating Expenses

- Consultants and contracts expenses decreased by \$70,000 from the 2009 budget due to a shift in timing for the Resource Adequacy program, which will now stretch over a two year period, including 2009 and 2010.
- Office rent decreased by \$19,180 and office costs decreased by \$23,075 due to recording of indirect general office costs, including rent, supplies, telephone, postage, etc. in General and Administrative, rather than each department.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2010 based on the number of FTEs in those programs.

Other Non-Operating Expenses

- There are no significant changes requiring an explanation.

Fixed Asset Additions

- There are no significant changes requiring an explanation.

Situational Awareness and Critical Infrastructure Security Program

Situational Awareness and Infrastructure Security Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	2.40	4.20	1.80
Total Direct Expenses	472,934	887,215	414,281
Total Indirect Expenses	217,925	424,516	206,591
Inc(Dec) in Fixed Assets	3,907	40,984	37,077
Total Expenses & Fixed Assets	694,766	1,352,715	657,949

Situational Awareness Program Resources			
(Included in Total Situational Awareness and Infrastructure Security)			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	1.20	2.6	1.40
Total Direct Expenses	236,712	586,488	349,776
Total Indirect Expenses	102,553	262,796	160,243
Inc(Dec) in Fixed Assets	1,709	40,984	39,275
Total Expenses & Fixed Assets	340,974	890,268	549,294

Program Scope and Functional Description

The Situation Awareness Program monitors near real-time activities on the bulk electric system for the purposes of identifying any conditions that are impacting or have the potential to impact the reliability of the bulk power system in the SERC Region. SERC situational awareness activities rely on high-level communications, coordination and cooperation among SERC staff, Reliability Coordinators, adjacent NERC Regions, and NERC ES-ISAC regarding near real-time system conditions. Activities include:

- Deliver near real-time system status displays to FERC from all SERC Reliability Coordinators.
- Establish the SERC situation room with the same information from Reliability Coordinators as delivered to FERC
- Maintain awareness of operational situations and reportable events within the SERC Region.
- Communicate situation awareness information to NERC, applicable government authorities, and others as appropriate, particularly during system emergencies and natural disasters.
- Develop competencies in the conduct of event analysis and investigations, including root cause analysis, investigating techniques, and data requests.
- Within the SERC Portal, develop and implement a tool for tracking closure on reliability improvement recommendations.
- Publish recommended reliability improvements from events analysis or other lessons learned for tracking by registered entities in the SERC Portal.

2010 Key Assumptions

In 2010, Situational Awareness will be separated from CIP in the business plan and budget. Situational Awareness is more related to event analysis than CIP. The costs associated with CIP, given its unique technical requirements and importance, will be budgeted separately.

- SERC will evaluate its needs for a situation tool to supplement or mirror the FERC visualization (SAFNR) tool. The FERC situation awareness tool will continue to be developed in 2010 to meet regulator, NERC, regional entity and stakeholder needs. Reliability coordinators will bear the cost of providing systems and information to meet FERC requirements.
- The North American Synchro-Phasor Initiative (NASPI) project will not impact SERC's budget in 2010.
- The number of events requiring review and analysis will continue at a level of 12 to 15 per year within SERC. The inter-relationships between events analysis and CVI's will continue to evolve in 2010.

2010 Goals and Key Deliverables

- Deliver near real-time system status displays to FERC from all SERC Reliability Coordinators.
- Establish the SERC situation room with same information from Reliability Coordinators as delivered to FERC.
- Maintain awareness of operational situations and reportable events within the SERC Region.
- Communicate situation awareness information to NERC, applicable government authorities, and others as appropriate, particularly during system emergencies and natural disasters.
- Develop competencies in the conduct of event analysis and investigations, including root cause analysis, investigating techniques, and data requests.
- Within the SERC Portal, develop and implement a tool for tracking closure on reliability improvement recommendations.
- Publish recommended reliability improvements from events analysis or other lessons learned for tracking by registered entities in the SERC Portal.

Funding Requirements — Explanation of Increase (Decrease)

The 273.4% increase in total funding from \$238,421 budgeted in 2009 to \$890,268 budgeted in 2010 is due to the expenses related to the indirect program areas being allocated entirely to the direct programs. Additionally, SERC recognized all penalties collected by June 30, 2009 as funding for 2010.

The direct expenses in this area will increase from \$236,712 to \$586,488, an increase of 147.8%. SERC has moved all activity related to Reliability Readiness Evaluation and Improvement, including staff, into Situational Awareness and Infrastructure Security Program, increasing the staffing by 1.4. Additionally, a technical analyst position was added to address increased tracking of alerts, recommendations, and training records, and other reliability services data management needs. This position is allocated over all Reliability Service departments. Travel costs increased associated with increased emphasis on events analysis and critical infrastructure protection implementation. Finally, contract support is required to complete the build-out of the situation room and enhanced automation of situational awareness information.

Critical Infrastructure Protection Resources (Included in Total Situational Awareness and Infrastructure Security) (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	1.20	1.6	0.40
Total Direct Expenses	236,222	300,727	64,505
Total Indirect Expenses	115,372	161,720	46,348
Inc(Dec) in Fixed Assets	2,198	0	(2,198)
Total Expenses & Fixed Assets	353,792	462,447	108,655

Program Scope and Functional Description

The Critical Infrastructure Protection (CIP) program is responsible for the awareness of critical infrastructure security, CIP standards education and outreach, and promoting security best practices within the SERC Region in order to promote the advancement of the physical and cyber security of the bulk power system. The CIP program supports the SERC Critical Infrastructure Protection Committee (CIPC) which serves as an expert advisory panel in the areas of physical and cyber security, as well as, establishing and maintaining an information reporting procedure, providing a liaison with state government agencies, and conducting forums and workshops related to Critical Infrastructure Protection. Activities include:

- Provide two workshops on CIP standards and security best practices.
- Develop and implement eight readiness reviews to determine the performance (volunteer) of CIP-002 risk-based assessment methodologies in the region.
- Assist NERC in its alerts process, providing an efficient and effective method for noticing entities of security alerts and tracking actions requiring response confirmation.
- Facilitate and support registered entities in complying with CIP reliability standards.
- Communicate security related information to NERC, applicable government authorities, and others as appropriate, particularly during emergency and security events.
- Provide support, resources, and guidance to the SERC Critical Infrastructure Protection Committee (CIPC).

2010 Key Assumptions

- CIP activities will continue to increase significantly on all fronts, including compliance and non-compliance activities.
- There will be increased need and demand for CIP-related training and workshops. SERC will respond to this demand.
- CIP compliance activities are budgeted within compliance.
- NERC will deploy and maintain a secure portal for the administration of the NERC Alerts process. SERC will have access to this tool for tracking the status of NERC Alerts within the region

2010 Goals and Key Deliverables

- Provide two workshops on CIP standards and best practices.
- In cooperation with the NERC alerts process, provide an efficient and effective method for noticing entities of security alerts and tracking actions requiring response confirmation.

Funding Requirements — Explanation of Increase (Decrease)

The 94.0% increase in total funding from \$238,420 budgeted in 2009 to \$462,447 budgeted in 2010 is due to the expenses related to the indirect program areas being allocated entirely to the direct programs. Additionally, SERC recognized all penalties collected by June 30, 2009 as funding for 2010.

The overall direct expense budget in this area will increase from \$236,222 to \$300,727, an increase of 27.3%. This increase, primarily due to increased travel costs associated with increased emphasis on critical infrastructure protection implementation.

Situational Awareness and Infrastructure Security Program

Funding sources and related expenses for the situational awareness and infrastructure security section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Situational Awareness and Infrastructure Security					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 476,841	\$ 476,841	\$ -	\$ 1,281,104	\$ 804,263
Penalty Sanctions	-	-	-	71,611	71,611
Total ERO Funding	\$ 476,841	\$ 476,841	\$ -	\$ 1,352,715	\$ 875,874
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 476,841	\$ 476,841	\$ -	\$ 1,352,715	\$ 875,874
Expenses					
Personnel Expenses					
Salaries	\$ 310,591	\$ 343,419	\$ 32,828	\$ 577,571	\$ 266,980
Payroll Taxes	23,294	25,756	2,462	43,318	20,024
Benefits	41,812	28,098	(13,714)	58,483	16,671
Retirement Costs	28,747	28,768	21	54,150	25,403
Total Personnel Expenses	\$ 404,444	\$ 519,880	\$ 21,597	\$ 733,522	\$ 329,078
Meeting Expenses					
Meetings	\$ 20,625	\$ 1,088	\$ (19,537)	\$ 26,820	\$ 6,195
Travel	21,020	14,190	(6,830)	60,206	39,186
Conference Calls	1,674	3,004	1,330	-	(1,674)
Total Meeting Expenses	\$ 43,319	\$ 12,549	\$ (25,037)	\$ 87,026	\$ 43,707
Operating Expenses					
Consultants & Contracts	\$ -	\$ 1,025	\$ 1,025	\$ 50,000	\$ 50,000
Office Rent	10,229	10,277	48	-	(10,229)
Office Costs	13,268	12,914	(354)	-	(13,268)
Professional Services	1,674	786	(888)	-	(1,674)
Miscellaneous	-	-	-	-	-
Depreciation	-	274	274	16,667	16,667
Total Operating Expenses	\$ 25,171	\$ 25,276	\$ 105	\$ 66,667	\$ 41,496
Total Direct Expenses	\$ 472,934	\$ 557,705	\$ (3,335)	\$ 887,215	\$ 414,281
Indirect Expenses	\$ -	\$ -	\$ -	\$ 424,516	\$ 424,516
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 472,934	\$ 557,705	\$ (3,335)	\$ 1,311,731	\$ 838,797
Change in Assets	\$ 3,907	\$ (80,864)	\$ 3,335	\$ 40,984	\$ 37,077
Fixed Assets					
Depreciation	\$ -	\$ (274)	\$ (274)	\$ (16,667)	\$ (16,667)
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	3,907	-	(3,907)	-	(3,907)
Equipment CapEx	-	-	-	50,000	50,000
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (3,907)	\$ 274	\$ 4,181	\$ (33,333)	\$ (29,426)
Allocation of Fixed Assets	\$ -	\$ -	-	\$ (7,651)	\$ (7,651)
Change in Fixed Assets	(3,907)	274	4,181	(40,984)	(37,077)
TOTAL CHANGE IN ASSETS	\$ -	\$ (80,590)	\$ 7,516	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- The expenses related to the indirect program areas are being allocated entirely to the direct programs, causing the ERO Assessments in the direct programs to increase.
- Penalty Sanctions – Total penalty monies received and the allocation method used to allocate funds to this Program as an offset to Assessments are disclosed in Table B-1, Section B, page 58.

Personnel Expenses

- As mentioned in the Introduction, a technical analyst position was added to address increased tracking of alerts, recommendations, and training records, and other reliability services data management needs. This position is allocated over all Reliability Service departments. Additionally, SERC has moved the Reliability Readiness Evaluation and Improvement activity, including staff, into Situational Awareness and Infrastructure Security Program.

Meeting Expenses

- Travel expenses increased by \$39,186 due to increased travel associated with the emphasis on event analysis and critical infrastructure protection implementation.

Operating Expenses

- Consultants and contracts expenses increased by \$50,000 from the 2009 budget related to event analysis expertise and data collection activities to support situational awareness reporting to FERC and NERC staff.
- Office rent decreased by \$10,229 and office costs decreased by \$13,268 due to recording of indirect general office costs, including rent, supplies, telephone, postage, etc. in General and Administrative, rather than allocated to each department.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2010 based on the number of FTEs in those programs.

Other Non-Operating Expenses

- There are no significant changes requiring an explanation.

Fixed Asset Additions

- Increase in fixed assets of \$50,000 for enhancements to the tracking database, including \$16,667 in depreciation expense.

Administrative Services

Administrative Services (in w hole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	10.4	11.6	1.2
Total Direct Expenses	2,558,642	3,446,454	887,812

Technical Committees and Members' Forums

Program Scope and Functional Description

The Technical Committees and Members' Forums serve to strengthen capabilities within the region to plan and operate bulk electric systems reliably and in compliance with reliability standards. The success of SERC's reliability programs depends on the active and direct participation of its members. The forums are also a source of expertise in the industry for enhancing reliability through technical excellence. The goal of these meetings is to:

- Participate in the establishment of Reliability Standards;
- Participate in the measurement of performance relative to these Reliability Standards;
- Promote conformance to and compliance with these Reliability Standards;
- Develop and exchange information with respect to planning and operating matters relating to the reliability and adequacy of the bulk-power system;
- Review as necessary activities within the region on reliability and adequacy in order to meet Reliability Standards;
- Perform technical functions through assignment of specific tasks to subcommittees and working groups.

2010 Key Assumptions

- SERC's standing committee and subgroup structure for effective stakeholder involvement will continue in 2010.
- The current economic downturn will continue into 2010 and adversely affect stakeholder travel budgets and resourcing for work in regional programs. SERC will need to develop methods to encourage active involvement with less travel and face-to-face meetings.
- SERC will continue to invest in technology and innovation to allow efficient collaboration on technical issues related to reliability.

2010 Goals and Key Deliverables

- Establish a self-directed forum of registered entities to facilitate sharing of compliance program best practices and other activities to efficiently achieve compliance and reliability excellence, transforming the current Compliance Advisory Groups to a steering function for the forum.
- Conduct an analysis of committee involvement in delegated functions and realign committee and subgroup charters to ensure meaningful engagement in the development of reliability issues and statutory functions.

Funding Requirements — Explanation of Increase (Decrease)

In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment revenue in 2010.

Expenses in the area of technical committees and member forums are proposed to have a modest decrease of 5.1% that is attributable mainly to an emphasis on the use of technology for meetings.

SERC reports this activity as an indirect cost in accordance with NERC requirements. However, within the region the activities and results attributed to committee activities are direct contributors to reliability. SERC has a tradition of an exceptionally strong base of volunteerism by the members. These experts deliver results that are at the front line of improving reliability. Because the committee activities are more robust than is typical of other regional entities, the cost appears as a larger than expected indirect cost.

Technical Committees and Member Forums

Funding sources and related expenses for the Members' Forums section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Technical Committees and Member Forums					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 773,251	\$ 773,251	\$ -	\$ -	\$ (773,251)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 773,251	\$ 773,251	\$ -	\$ -	\$ (773,251)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 773,251	\$ 773,251	\$ -	\$ -	\$ (773,251)
Expenses					
Personnel Expenses					
Salaries	\$ 366,536	\$ 370,757	\$ 4,221	\$ 385,904	\$ 19,368
Payroll Taxes	27,490	27,807	317	28,943	1,453
Benefits	33,684	24,424	(9,260)	24,694	(8,990)
Retirement Costs	34,928	36,371	1,443	36,771	1,843
Total Personnel Expenses	\$ 462,638	\$ 462,794	\$ (3,279)	\$ 476,312	\$ 13,674
Meeting Expenses					
Meetings	\$ 202,475	\$ 208,093	\$ 5,618	\$ 136,372	\$ (66,103)
Travel	77,387	136,569	59,182	67,325	(10,062)
Conference Calls	1,674	3,004	1,330	-	(1,674)
Total Meeting Expenses	\$ 281,536	\$ 329,882	\$ 66,130	\$ 203,697	\$ (77,839)
Operating Expenses					
Consultants & Contracts	\$ -	\$ 750	\$ 750	\$ 49,400	\$ 49,400
Office Rent	10,229	10,277	48	-	(10,229)
Office Costs	13,267	12,914	(353)	1,020	(12,247)
Professional Services	1,674	908	(766)	-	(1,674)
Miscellaneous	-	-	-	-	-
Depreciation	-	274	274	-	-
Total Operating Expenses	\$ 25,170	\$ 25,123	\$ (47)	\$ 50,420	\$ 25,250
Total Direct Expenses	\$ 769,344	\$ 817,799	\$ 62,804	\$ 730,429	\$ (38,915)
Indirect Expenses				\$ (730,429)	\$ (730,429)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 769,344	\$ 817,799	\$ 62,804	\$ -	\$ (769,344)
Change in Assets	\$ 3,907	\$ (44,548)	\$ (62,804)	\$ -	\$ (3,907)
Fixed Assets					
Depreciation	\$ -	\$ (274)	\$ (274)	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	3,907	-	(3,907)	-	(3,907)
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (3,907)	\$ 274	\$ 4,181	\$ -	\$ 3,907
Allocation of Fixed Assets	\$ -	\$ -	-	\$ -	-
Change in Fixed Assets	(3,907)	274	4,181	-	3,907
TOTAL CHANGE IN ASSETS	\$ -	\$ (44,274)	\$ (58,623)	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment revenue in 2010.

Personnel Expenses

- As mentioned in the Introduction, a technical analyst position was added to address increased tracking of alerts, recommendations, and training records, and other reliability services data management needs. This position is allocated over all Reliability Service departments. No additional planned changes in FTEs for this program.

Meeting Expenses

- Decrease in meeting expense of \$66,103 and travel expense of \$10,062 due to the emphasis on the use of WebEx for meetings.

Operating Expenses

- Increase in consultants and contracts of \$49,400 in order to enhance the portal for online collaboration.
- Office rent decreased by \$10,229 and office costs decreased by \$12,247 due to recording of indirect general office costs, including rent, supplies, telephone, postage, etc. in General and Administrative, rather than allocated to each department.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2010 based on the number of FTEs in those programs.

Other Non-Operating Expenses

- There are no significant changes requiring an explanation.

Fixed Asset Additions

- There are no significant changes requiring an explanation.

General and Administrative

Program Scope and Functional Description

The SERC general and administrative function provides executive management of the corporation, management of the SERC office, and other administrative support programs.

Funding Requirements — Explanation of Increase (Decrease)

In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment revenue in 2010.

SERC moved in-house legal counsel from compliance into the general and administrative program, causing number of FTEs in General and Administrative to increase. Additionally, all indirect general costs, including rent, office supplies, telephone, postage, etc. are being recorded in General and Administrative in total rather than being allocated out to each department.

General and Administrative

Funding sources and related expenses for the general and administrative section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
General and Administrative					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 1,427,658	\$ 1,427,658	\$ -	\$ -	\$ (1,427,658)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 1,427,658	\$ 1,427,658	\$ -	\$ -	\$ (1,427,658)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 1,427,658	\$ 1,427,658	\$ -	\$ -	\$ (1,427,658)
Expenses					
Personnel Expenses					
Salaries	\$ 890,649	\$ 878,648	\$ (12,001)	\$ 1,083,942	\$ 193,293
Payroll Taxes	66,799	65,899	(900)	81,296	14,497
Benefits	79,132	77,585	(1,547)	108,831	29,699
Retirement Costs	81,619	81,633	14	100,539	18,920
Total Personnel Expenses	\$ 1,118,199	\$ 1,095,820	\$ (14,434)	\$ 1,374,608	\$ 256,409
Meeting Expenses					
Meetings	\$ 15,500	\$ 6,268	\$ (9,232)	\$ 11,750	\$ (3,750)
Travel	43,870	46,416	2,546	28,416	(15,454)
Conference Calls	2,093	3,754	1,661	48,000	45,907
Total Meeting Expenses	\$ 61,463	\$ 49,272	\$ (5,025)	\$ 88,166	\$ 26,703
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	12,787	12,845	58	255,591	242,804
Office Costs	17,779	16,142	(1,637)	255,987	238,208
Professional Services	2,093	1,134	(959)	20,000	17,907
Miscellaneous	-	5,000	5,000	-	-
Depreciation	-	344	344	38,246	38,246
Total Operating Expenses	\$ 32,659	\$ 35,465	\$ 2,806	\$ 569,824	\$ 537,165
Total Direct Expenses	\$ 1,212,321	\$ 1,180,557	\$ (16,653)	\$ 2,032,598	\$ 820,277
Indirect Expenses				\$ (2,032,598)	\$ (2,032,598)
Other Non-Operating Expenses	\$ 210,453	\$ -	\$ (210,453)	\$ -	\$ (210,453)
Total Expenses	\$ 1,422,774	\$ 1,180,557	\$ (227,106)	\$ -	\$ (1,422,774)
Change in Assets	\$ 4,884	\$ 247,101	\$ 227,106	\$ -	\$ (4,884)
Fixed Assets					
Depreciation	\$ -	\$ (344)	\$ (344)	\$ (38,246)	\$ (38,246)
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	4,884	-	(4,884)	-	(4,884)
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	20,576	20,576	-	-
(Incr)Dec in Fixed Assets	\$ (4,884)	\$ (20,232)	\$ (15,348)	\$ 38,246	\$ 43,130
Allocation of Fixed Assets	\$ -	\$ -	\$ -	(38,246)	(38,246)
Change in Fixed Assets	(4,884)	(20,232)	(15,348)	-	4,884
TOTAL CHANGE IN ASSETS	\$ -	\$ 226,869	\$ 211,758	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment revenue in 2010.

Personnel Expenses

- Increase in personnel expenses is due to SERC moving in-house legal counsel from compliance into the general and administrative program.

Meeting Expenses

- Travel expense decreased by \$15,454 due to the additional office space which will enable SERC to hold one of the board meetings in house.
- Conference calls increased by \$45,907 due to recording of indirect general office costs to General and Administrative, rather than allocating to each department.

Operating Expenses

- Office rent increased in total by \$242,804. Of this, \$178,388 relates to the recording of indirect general office costs in General and Administrative, rather than allocating to each department. The remaining increase of \$64,416 is due to the additional office space leased, beginning in 2010.
- Office costs increased in total by \$238,208. Of this, \$133,208 relates to the recording of indirect general office costs in General and Administrative, rather than allocating to each department. The remaining increase of \$105,000 is for the purchasing of furniture and equipment to outfit the additional office space leased.
- Professional services increased by \$17,907 due to recording of indirect general office costs in General and Administrative, rather than allocating to each department.
- Depreciation increased by \$38,246 due to the purchase of a document management system along with other software.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2010 based on the number of FTEs in those programs.

Other Non-Operating Expenses

- In 2009, SERC budgeted \$210,453 in order to increase the cash reserve to the desired balance of 10% of operating expenses. Due to no planned significant change in operating costs, there is no increase to the reserve.

Fixed Asset Additions

- There are no significant changes requiring an explanation.

Legal and Regulatory

Program Scope and Functional Description

SERC maintains legal counsel in house and has outside legal consultants to provide legal advice to the CEO, Board of Directors, and staff on legal and regulatory matters affecting SERC; review items filed with governmental agencies for legal sufficiency; and review all contracts.

- Ensure continuing recognition of SERC as a regional entity.
- Obtain regulatory approvals for new and revised regional reliability standards on a timely basis.
- Provide hearing officer services for all contested compliance actions, and other services as needed, such as transcription.
- Provide legal counsel as needed for SERC during compliance proceedings.
- Process all appeals of compliance actions in an effective and efficient manner.
- Liaison with the appropriate authorities regarding responses/filings to related governmental/regulatory directives/orders.
- Review all contracts and changes to personnel policies.

Funding Requirements — Explanation of Increase (Decrease)

In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment revenue in 2010.

Legal and Regulatory

Funding sources and related expenses for the general and administrative section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Legal and Regulatory					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 82,400	\$ 82,400	\$ -	\$ -	\$ (82,400)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	<u>\$ 82,400</u>	<u>\$ 82,400</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (82,400)</u>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ 82,400</u>	<u>\$ 82,400</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (82,400)</u>
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	-	-	-	-	-
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	2,400	-	(2,400)	-	(2,400)
Professional Services	80,000	6,183	(73,817)	27,500	(52,500)
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ 82,400</u>	<u>\$ 6,183</u>	<u>\$ (76,217)</u>	<u>\$ 27,500</u>	<u>\$ (54,900)</u>
Total Direct Expenses	<u>\$ 82,400</u>	<u>\$ 6,183</u>	<u>\$ (76,217)</u>	<u>\$ 27,500</u>	<u>\$ (54,900)</u>
Indirect Expenses				<u>\$ (27,500)</u>	<u>\$ (27,500)</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ 82,400</u>	<u>\$ 6,183</u>	<u>\$ (76,217)</u>	<u>\$ -</u>	<u>\$ (82,400)</u>
Change in Assets	<u>\$ -</u>	<u>\$ 76,217</u>	<u>\$ 76,217</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	-
Change in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN ASSETS	<u>\$ -</u>	<u>\$ 76,217</u>	<u>\$ 76,217</u>	<u>\$ -</u>	<u>\$ -</u>

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment revenue in 2010.

Personnel Expenses

- The budget for these expenses is included in general and administrative.

Meeting Expenses

- There are no significant changes requiring an explanation.

Operating Expenses

- Professional services decreased \$52,500 due to the hiring of an in-house counsel which will lower legal costs.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2010 based on the number of FTEs in those programs.

Other Non-Operating Expenses

- There are no significant changes requiring an explanation.

Fixed Asset Additions

- There are no significant changes requiring an explanation.

Information Technology

Program Scope and Functional Description

The Information Technology area of SERC offers project and vendor management for all current technology related contracts. The technology group at SERC supports other staff and SERC members with the portal system and core technology infrastructure. Current SERC projects include:

- Guidance (hosting and development for SERC Portal and SERC web site)
- Indosoft/Inter7 (Operating Committee hot line equipment vendor)
- Deltacom circuits (conference bridge, Operating Committee hotline service)
- OATI checkout tool (Operating Committee project for region wide scheduling checkout tool)
- Conference bridge (SERC-owned conference call bridge)
- WebEx (web meeting and collaboration solution)
- Document management system (to be developed by EMC)

2010 Key Assumptions

- Continue to develop and maintain the portal through collaboration with other regions and NERC (Consortium User Group).
- Maintain the SERC Hotline.
- Maintain and support the OATI scheduling checkout tool.

Funding Requirements — Explanation of Increase (Decrease)

- In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment revenue in 2010.
- In 2010, SERC is expanding its work on the portal substantially to include reliability assessment, recommendations tracking and other data support functions. Contractor expenses are increasing by \$102,000.

Information Technology

Funding sources and related expenses for the information technology section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Information Technology					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 447,027	\$ 447,027	\$ -	\$ -	\$ (447,027)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 447,027	\$ 447,027	\$ -	\$ -	\$ (447,027)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 447,027	\$ 447,027	\$ -	\$ -	\$ (447,027)
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	5,000	13,332	8,332	6,882	1,882
Conference Calls	1,395	2,503	1,108	-	(1,395)
Total Meeting Expenses	\$ 6,395	\$ 11,057	\$ 4,662	\$ 6,882	\$ 487
Operating Expenses					
Consultants & Contracts	\$ 416,400	\$ 474,951	\$ 58,551	\$ 518,400	\$ 102,000
Office Rent	8,525	8,564	39	-	(8,525)
Office Costs	11,056	10,762	(294)	90,590	79,534
Professional Services	1,395	757	(638)	-	(1,395)
Miscellaneous	-	-	-	-	-
Depreciation	-	228	228	-	-
Total Operating Expenses	\$ 437,376	\$ 495,262	\$ 57,886	\$ 608,990	\$ 171,614
Total Direct Expenses	\$ 443,771	\$ 506,319	\$ 62,548	\$ 615,872	\$ 172,101
Indirect Expenses				\$ (615,872)	\$ (615,872)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 443,771	\$ 506,319	\$ 62,548	\$ -	\$ (443,771)
Change in Assets	\$ 3,256	\$ (59,292)	\$ (62,548)	\$ -	\$ (3,256)
Fixed Assets					
Depreciation	\$ -	\$ (228)	\$ (228)	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	3,256	-	(3,256)	-	(3,256)
Equipment CapEx	-	6,318	6,318	100,000	100,000
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (3,256)	\$ (6,090)	\$ (2,834)	\$ (100,000)	\$ (96,744)
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ 100,000	100,000
Change in Fixed Assets	(3,256)	(6,090)	(2,834)	-	3,256
TOTAL CHANGE IN ASSETS	\$ -	\$ (65,382)	\$ (65,382)	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment revenue in 2010.

Personnel Expenses

- No planned changes to FTEs in this program.

Meeting Expenses

- The budget for these expenses is included in general and administrative.

Operating Expenses

- Consultants and contracts are increasing by \$102,000 to support software development and hosting of the portal and hotline.
- Office costs are increasing by \$79,534 due to the need to replace computer equipment.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2010 based on the number of FTEs in those programs.

Other Non-Operating Expenses

- There are no significant changes requiring an explanation.

Fixed Asset Additions

- Fixed assets are increasing by \$100,000 for the purchase of a document management system.

Human Resources

Program Scope and Functional Description

The SERC human resources function is responsible for recruiting stellar employees, maintaining appropriate salaries and benefits based on industry data, providing for employee training programs and updating the employee handbook.

Funding Requirements — Explanation of Increase (Decrease)

In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment revenue in 2010.

Human Resources

Funding sources and related expenses for the human resources section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Human Resources					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 3,843	\$ 3,843	\$ -	\$ -	\$ (3,843)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	<u>\$ 3,843</u>	<u>\$ 3,843</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,843)</u>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ 3,843</u>	<u>\$ 3,843</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,843)</u>
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	-	-	-	-	-
Conference Calls	209	375	166	-	(209)
Total Meeting Expenses	<u>\$ 209</u>	<u>\$ 375</u>	<u>\$ 166</u>	<u>\$ -</u>	<u>\$ (209)</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ 4,000	\$ 4,000	\$ -	\$ -
Office Rent	1,279	1,285	6	-	(1,279)
Office Costs	1,658	1,614	(44)	-	(1,658)
Professional Services	209	113	(96)	-	(209)
Miscellaneous	-	-	-	-	-
Depreciation	-	34	34	-	-
Total Operating Expenses	<u>\$ 3,146</u>	<u>\$ 7,046</u>	<u>\$ 3,900</u>	<u>\$ -</u>	<u>\$ (3,146)</u>
Total Direct Expenses	<u>\$ 3,355</u>	<u>\$ 7,421</u>	<u>\$ 4,066</u>	<u>\$ -</u>	<u>\$ (3,355)</u>
Indirect Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ 3,355</u>	<u>\$ 7,421</u>	<u>\$ 4,066</u>	<u>\$ -</u>	<u>\$ (3,355)</u>
Change in Assets	<u>\$ 488</u>	<u>\$ (3,578)</u>	<u>\$ (4,066)</u>	<u>\$ -</u>	<u>\$ (488)</u>
Fixed Assets					
Depreciation	\$ -	\$ (34)	\$ (34)	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	488	-	(488)	-	(488)
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	<u>\$ (488)</u>	<u>\$ 34</u>	<u>\$ 522</u>	<u>\$ -</u>	<u>\$ 488</u>
Allocation of Fixed Assets	\$ -	\$ -	-	\$ -	-
Change in Fixed Assets	<u>(488)</u>	<u>34</u>	<u>522</u>	<u>-</u>	<u>488</u>
TOTAL CHANGE IN ASSETS	<u>\$ -</u>	<u>\$ (3,544)</u>	<u>\$ (3,544)</u>	<u>\$ -</u>	<u>\$ -</u>

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment revenue in 2010.

Personnel Expenses

- There are no planned changes in FTEs in this program.

Meeting Expenses

- There are no significant changes requiring an explanation.

Operating Expenses

- There are no significant changes requiring an explanation.

Indirect Expenses

- There are no significant changes requiring an explanation.

Other Non-Operating Expenses

- There are no significant changes requiring an explanation.

Fixed Asset Additions

- There are no significant changes requiring an explanation.

Finance and Accounting

Program Scope and Functional Description

The objectives are to provide the financial and accounting services for SERC, and coordinate with NERC requirements through:

- Providing payroll and expense administration.
- Preparing quarterly financial statements.
- Filing federal and state tax and other forms required of non-profit corporations.
- Reviewing and improve fiscal controls and complete a year-end external audit.

Funding Requirements — Explanation of Increase (Decrease)

In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment revenue in 2010.

Finance and Accounting

Funding sources and related expenses for the accounting and finance section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Finance and Accounting					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 11,846	\$ 11,846	\$ -	\$ -	\$ (11,846)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 11,846	\$ 11,846	\$ -	\$ -	\$ (11,846)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	40,000	12,246	(27,754)	20,000	(20,000)
Miscellaneous	-	-	-	-	-
Total Funding	\$ 51,846	\$ 24,092	\$ (27,754)	\$ 20,000	\$ (31,846)
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Meeting Expenses					
Meetings	\$ 275	\$ 2,328	\$ 2,053	\$ 275	\$ -
Travel	1,475	6,210	4,735	1,480	5
Conference Calls	1,884	3,379	1,495	-	(1,884)
Total Meeting Expenses	\$ 3,634	\$ 8,917	\$ 8,283	\$ 1,755	\$ (1,879)
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	11,508	11,562	54	-	(11,508)
Office Costs	18,425	14,528	(3,897)	5,000	(13,425)
Professional Services	13,884	23,575	9,691	33,300	19,416
Miscellaneous	-	-	-	-	-
Depreciation	-	308	308	-	-
Total Operating Expenses	\$ 43,817	\$ 49,973	\$ 6,156	\$ 38,300	\$ (5,517)
Total Direct Expenses	\$ 47,451	\$ 58,890	\$ 14,439	\$ 40,055	\$ (7,396)
Indirect Expenses	\$ -	\$ -	\$ -	\$ (20,055)	\$ (20,055)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 47,451	\$ 58,890	\$ 14,439	\$ 20,000	\$ (27,451)
Change in Assets	\$ 4,395	\$ (34,798)	\$ (42,193)	\$ -	\$ (4,395)
Fixed Assets					
Depreciation	\$ -	\$ (308)	\$ (308)	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	4,395	-	(4,395)	-	(4,395)
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (4,395)	\$ 308	\$ 4,703	\$ -	\$ 4,395
Allocation of Fixed Assets	\$ -	\$ -	-	\$ -	-
Change in Fixed Assets	(4,395)	308	4,703	-	4,395
TOTAL CHANGE IN ASSETS	\$ -	\$ (34,490)	\$ (37,490)	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, the expenses related to the indirect program areas are being allocated entirely to the direct programs and therefore have no ERO assessment revenue in 2010.
- Decrease in interest income of \$20,000 due to the decrease in market rates.

Personnel Expenses

- There are no planned changes in FTEs in this program.

Meeting Expenses

- There are no significant changes requiring an explanation.

Operating Expenses

- Office rent decreased by \$11,508 and office costs decreased by \$13,425 due to recording of indirect general office costs, including rent, supplies, telephone, postage, etc. in General and Administrative, rather than allocated to each department.
- Increase in professional services of \$19,416 due to additional services provided by the outside accounting firm to verify SERC's internal metrics and additional fees associated with payroll, timesheet and expense report management.

Indirect Expenses

- Expenses related to indirect programs have been allocated proportionately to the direct programs for 2010 based on the number of FTEs in those programs.

Other Non-Operating Expenses

- There are no significant changes requiring an explanation.

Fixed Asset Additions

- There are no significant changes requiring an explanation.

Section B — 2010 Budget

2009 Budget and Projection and 2010 Budget Comparisons

Table 1

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
STATUTORY					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 9,652,546	\$ 9,652,546	\$ -	\$ 9,831,277	\$ 178,731
Penalty Sanctions ⁽¹⁾	-	-	-	578,000	578,000
Total ERO Funding	\$ 9,652,546	\$ 9,652,546	\$ -	\$ 10,409,277	\$ 756,731
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	403,000	269,240	(133,760)	272,406	(130,594)
Interest	40,000	12,246	(27,754)	20,000	(20,000)
Miscellaneous	-	-	-	-	-
Total Funding	\$ 10,095,546	\$ 9,934,032	\$ (161,514)	\$ 10,701,683	\$ 606,137
Expenses					
Personnel Expenses					
Salaries	\$ 5,392,546	\$ 5,483,574	\$ 91,028	\$ 5,919,604	\$ 527,058
Payroll Taxes	404,441	411,268	6,827	443,971	39,530
Benefits	551,341	519,670	(31,671)	536,169	(15,172)
Retirement Costs	504,997	500,833	(4,164)	555,467	50,470
Total Personnel Expenses	\$ 6,853,325	\$ 6,915,345	\$ 62,020	\$ 7,455,211	\$ 601,886
Meeting Expenses					
Meetings	\$ 634,633	\$ 511,021	\$ (123,612)	\$ 468,813	\$ (165,820)
Travel	601,168	543,159	(58,009)	722,061	120,893
Conference Calls	30,000	53,814	23,814	48,000	18,000
Total Meeting Expenses	\$ 1,265,801	\$ 1,107,994	\$ (157,807)	\$ 1,238,874	\$ (26,927)
Operating Expenses					
Consultants & Contracts	\$ 924,700	\$ 731,002	\$ (193,698)	\$ 1,141,450	\$ 216,750
Office Rent	183,277	184,128	851	255,591	72,314
Office Costs	265,990	231,374	(34,616)	362,257	96,267
Professional Services	322,000	95,605	(226,395)	98,300	(223,700)
Miscellaneous	-	5,000	5,000	-	-
Depreciation	-	4,912	4,912	54,913	54,913
Total Operating Expenses	\$ 1,695,967	\$ 1,252,021	\$ (443,946)	\$ 1,912,511	\$ 216,544
Total Direct Expenses	\$ 9,815,093	\$ 9,275,360	\$ (539,733)	\$ 10,606,596	\$ 791,503
Indirect Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Other Non-Operating Expenses	\$ 210,453	\$ -	\$ (210,453)	\$ -	\$ (210,453)
Total Expenses	\$ 10,025,546	\$ 9,275,360	\$ (750,186)	\$ 10,606,596	\$ 581,050
Change in Assets	\$ 70,000	\$ 658,672	\$ 588,672	\$ 95,087	\$ 25,087
Fixed Assets					
Depreciation	\$ -	\$ (4,912)	\$ (4,912)	\$ (54,913)	\$ (54,913)
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	70,000	35,000	(35,000)	-	(70,000)
Equipment CapEx	-	6,318	6,318	150,000	150,000
Leasehold Improvements	-	20,576	20,576	-	-
Change in Fixed Assets	\$ (70,000)	\$ (56,982)	\$ 13,018	\$ (95,087)	\$ (25,087)
Allocation of Fixed Assets	-	-	-	-	-
Change in Fixed Assets	(70,000)	(56,982)	13,018	(95,087)	(25,087)
TOTAL CHANGE IN ASSETS	\$ -	\$ 601,690	\$ 601,690	\$ -	\$ -

⁽¹⁾ Reflects penalty sanctions collected prior to June 30, 2009. See page 58 for complete detail.

Personnel Analysis

FTEs are defined as full-time employees only. Fractional FTEs reflect part-time employees or employees who worked in fewer than all four quarters of the year.

Table 2

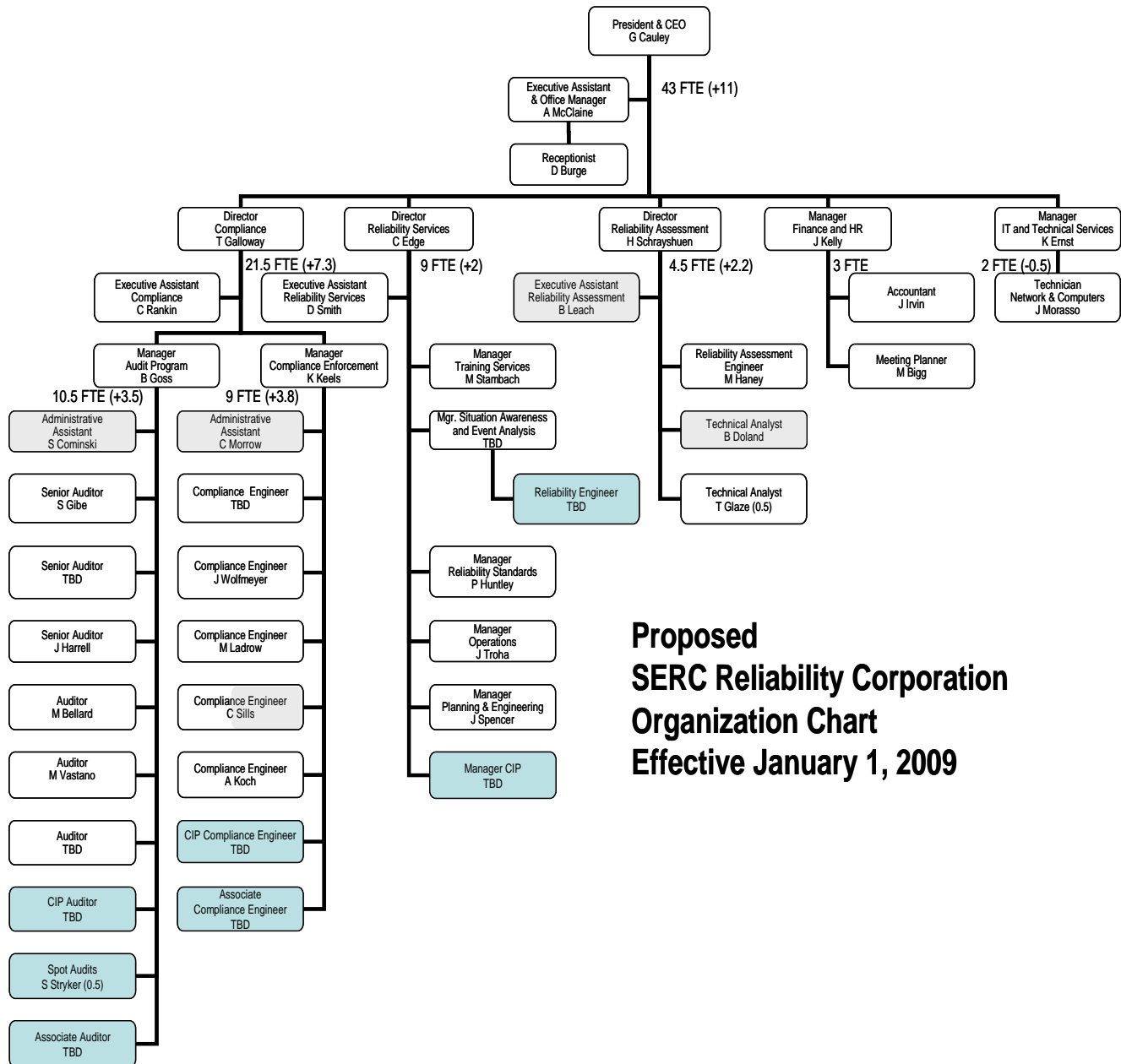
Total FTE's by Program Area	Budget 2009	Projection 2009	Direct FTEs 2010 Budget	Shared FTEs ¹ 2010 Budget	Total FTEs 2010 Budget	Change from 2009 Budget
STATUTORY						
Operational Programs						
Reliability Standards	1.4	1.6	1.6	0.0	1.6	0.2
Compliance and Organization Registration and Certification	21.5	23.0	22.0	0.0	22.0	0.5
Reliability Readiness Evaluation and Improvement	1.4	1.1	0.0	0.0	0.0	-1.4
Training and Education	1.4	1.6	1.6	0.0	1.6	0.2
Reliability Assessment and Performance Analysis	4.5	4.5	4.5	0.0	4.5	0.0
Situational Awareness and Infrastructure Security	2.4	3.1	4.2	0.0	4.2	1.8
Total FTEs Operational Programs	32.6	34.9	33.9	0.0	33.9	1.3
Administrative Programs *						
Member Forums	2.4	1.6	2.6	0.0	2.6	0.2
General & Administrative	3.0	3.0	3.0	0.0	3.0	0.0
Information Technology	2.0	2.0	2.0	0.0	2.0	0.0
Legal and Regulatory	0.0	0.0	1.0	0.0	1.0	1.0
Human Resources	0.3	0.3	0.3	0.0	0.3	0.0
Accounting	2.7	2.7	2.7	0.0	2.7	0.0
Total FTEs Administrative Programs	10.4	9.6	11.6	0.0	11.6	1.2
Total FTEs	43.0	44.5	45.5	0.0	45.5	2.5

* NOTE: The FTEs for Administration Departments are reflected as staffed in this exhibit. The salary and related expenses in the statement of activities has been consolidated to ensure salary confidentiality.

¹A shared FTE is defined as an employee who performs both Statutory and Non-Statutory functions.

2009 Organizational Chart

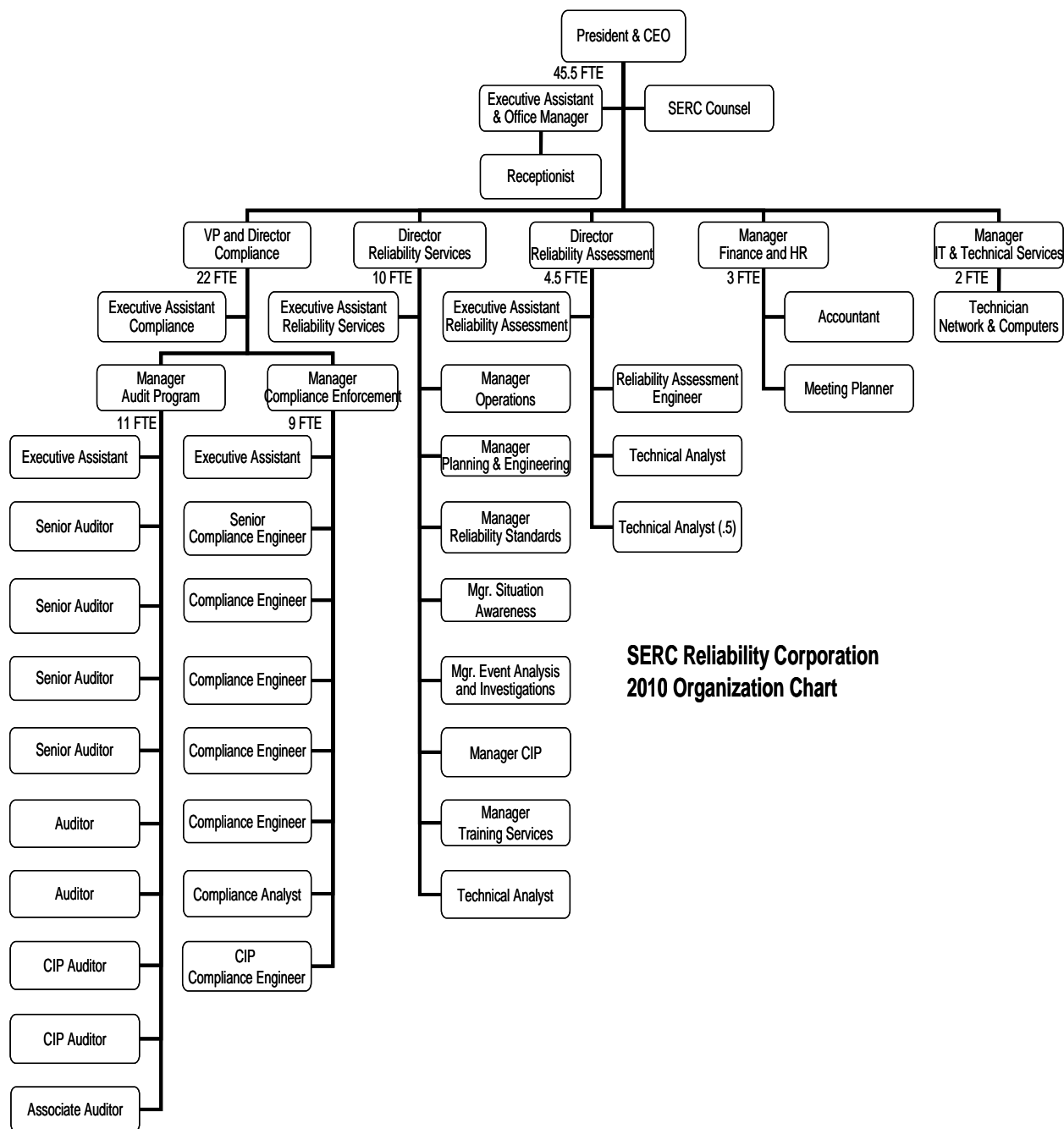
Table 3



**Proposed
SERC Reliability Corporation
Organization Chart
Effective January 1, 2009**

2010 Organizational Chart

Table 4



**SERC Reliability Corporation
2010 Organization Chart**

Reserve Balance

Table 5

Working Capital Reserve Analysis 2009-2010	
STATUTORY	
Beginning Working Capital Reserve (Deficit), December 31, 2008	407,865
Plus: Penalty sanctions being held to be used as offset to 2010 assessments ¹	578,000
Plus: 2009 ERO Funding (from LSEs or designees)	9,652,546
Plus: 2009 Other funding sources	281,486
Less: '2009 Projected expenses & capital expenditures	(9,332,342)
Projected Working Capital Reserve (Deficit), December 31, 2009	1,587,555
Desired Working Capital Reserve, December 31, 2010	² 1,009,555
Less: Projected Working Capital Reserve, December 31, 2009	(1,587,555)
Plus: Penalty sanctions to be used as offset to 2010 assessments ¹	578,000
Increase(decrease) in assessments to achieve desired Working Capital Reserve	-
2010 Expenses and Capital Expenditures	10,701,683
Less: Penalty Sanctions ¹	(578,000)
Less: Other Funding Sources	(292,406)
Adjustment to achieve desired Working Capital Reserve	-
2010 Assessment	9,831,277

¹ Represents collections prior to June 30, 2009. See page 58 for full disclosure.

² As documented in the April 23, 2008 minutes, the SERC Board of Directors has approved the establishment of a cash reserve equal to up to 10% of its budgeted annual statutory operating costs, with the understanding that should it become necessary to spend any of the reserve funds, the President shall provide a report detailing such expenditures at the next regular meeting of the Board of Directors. The reserve was established for contingencies.

Regional Entity Assessment Analysis

Assessments by Country

Table 6

Data Year	Regional Entity	Total NEL	U.S. NEL	Canada NEL	Mexico NEL	% of RE Total	US Total	Canada Total	Mexico Total
Summary by Regional Entity									
2008	FRCC	-							
2008	MRO	-							
2008	NPCC	-							
2008	RFC	-							
2008	SERC	1,032,621,018	1,032,621,018	-	-	100.000%	100.000%	0.000%	0.000%
2008	SPP	-							
2008	TRE	-							
2008	WECC	-							
TOTAL		1,032,621,018	1,032,621,018	-	-	100%	100.000%	0.000%	0.000%

Breakdown by Statement of Activity Sections

The following detailed schedules are in support of Table 1, page 52, of the 2010 RE Business Plan and Budget. All significant variances have been disclosed by program area in the preceding pages.

Penalty Sanctions

Penalty monies received prior to June 30, 2009 are to be used to offset assessments in the 2010 Budget, as documented in the NERC Policy – ACCOUNTING, FINANCIAL STATEMENT AND BUDGETARY TREATMENT OF PENALTIES IMPOSED AND RECEIVED FOR VIOLATIONS OF RELIABILITY STANDARD. Penalty monies received from July 1, 2009 through June 30, 2010 will be used to offset assessments in the 2011 Budget.

Full disclosure of all penalties received prior to June 30, 2009 are detailed below, including the Company, the amount, and the date received.

Allocation Method: Penalty sanctions received have been allocated to the following statutory programs to reduce assessments: Reliability Standards; Compliance Monitoring & Enforcement and Organization Registration & Certification; Reliability Assessments and Performance Analysis; Training, Education and Operator Certification; and Situational Awareness and Infrastructure Security. Penalty sanctions are allocated based upon the number of FTEs in the Program divided by the aggregate total FTEs in the Programs receiving the allocation.

Table B-1

Penalty Sanctions Received Prior to June 30, 2009	Date Received	Amount Received
Name of Entity		
Edgecombe Operating Services, LLC	30-Jan-09	\$ 3,000
Duke Energy Carolinas, LLC	30-Jan-09	50,000
E.ON U.S. Services, Inc.	12-Feb-09	235,000
Choctaw Gas Generation, LLC	25-Feb-09	10,000
Hot Spring Power Company, LLC	25-Feb-09	10,000
Hopewell Cogeneration Limited Partnership	3-Mar-09	10,000
Choctaw Generation Limited Partnership	6-Mar-09	10,000
FPL Energy, LLC (NextEra Energy Resources, LLC)	13-May-09	250,000
Total Penalties Received		\$ 578,000

Supplemental Funding

Table B-2

Outside Funding Breakdown By Program (excluding ERO Assessments &	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Training and Education					
Workshops	\$ 403,000	\$ 269,240	\$ 272,406	\$ (130,594)	-32.41%
Total	\$ 403,000	\$ 269,240	\$ 272,406	\$ (130,594)	-32.41%
General and Administrative					
Interest Income	\$ 40,000	\$ 12,246	\$ 20,000	\$ (20,000)	-50.00%
Total	\$ 40,000	\$ 12,246	\$ 20,000	\$ (20,000)	-50.00%
Total Outside Funding	\$ 443,000	\$ 281,486	\$ 292,406	\$ (150,594)	-33.99%
				-	

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

Workshop funding is decreasing by \$130,594 due to fee reductions, fewer conferences being planned in 2010, and an increase in the number of workshops being held in the Charlotte office

Interest income decreased \$20,000 due to the decrease in market rates.

Personnel Expenses

Table B-3

Personnel Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Salaries					
Salary	\$ 5,392,546	\$ 5,483,574	\$ 5,919,604	\$ 527,058	9.8%
Employment Agency Fees	-	-	-	-	
Temporary Office Services	-	-	-	-	
Total Salaries	\$ 5,392,546	\$ 5,483,574	\$ 5,919,604	\$ 527,058	9.8%
Total Payroll Taxes	\$ 404,441	\$ 411,268	\$ 443,971	\$ 39,530	9.8%
Benefits					
Workers Compensation	\$ 9,000	\$ 8,054	\$ 13,000	\$ 4,000	44.4%
Medical Insurance	309,522	417,826	405,102	95,580	30.9%
Life-LTD-LTC Insurance	142,856	35,781	43,468	(99,388)	-69.6%
Education	26,963	16,593	39,599	12,636	46.9%
Relocation	63,000	41,416	35,000	(28,000)	-44.4%
Total Benefits	\$ 551,341	\$ 519,670	\$ 536,169	\$ (15,172)	-2.8%
Retirement					
Discretionary 401k Cont.	\$ 240,475	\$ 217,458	\$ 262,127	\$ 21,652	9.0%
Savings Plan	264,522	283,375	293,340	28,818	10.9%
Total Retirement	\$ 504,997	\$ 500,833	\$ 555,467	\$ 50,470	10.0%
Total Personnel Costs	\$ 6,853,325	\$ 6,915,345	\$ 7,455,211	\$ 601,886	8.8%
FTEs	43	44.5	45.5	2.5	5.8%
Cost per FTE					
Salaries	\$ 125,408	\$ 123,226	\$ 130,101	4,693	3.7%
Payroll Taxes	9,406	9,242	9,758	352	3.7%
Benefits	12,822	11,678	11,784	(1,038)	-8.1%
Retirement	11,744	11,255	12,208	464	4.0%
Total Cost per FTE	\$ 159,380	\$ 155,401	\$ 163,851	\$ 4,471	2.8%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

Salaries increased \$527,058 and payroll taxes increased \$39,530 due to the addition of 2.5 employees compared to 2009 budget. A total of 1.5 FTEs were added in 2009 compared to the budget. The Reliability Services program added a technical analyst position to address increased tracking of alerts, recommendations, and training records, and other reliability services data management needs. Additionally, a halftime auditor became fulltime in early 2009. These additions have been made in 2009 to meet critical needs to enable the organization to function effectively. The costs of these additional employees will be offset in 2009 by vacancies in other positions. In 2010, the additional employee is in compliance, a critical infrastructure protection (CIP) auditor. The budget reflects an increase in salary for existing staff of 2%.

Medical insurance increased \$95,580 and Life-LTD-LTC decreased \$99,388 due to a reclassification of dental expense.

Education increased by \$12,636 due to more emphasis on training employees.

Relocation decreased by \$28,000 due to a decreased number of employees being hired in 2010.

Retirement costs increased \$50,470 due to the overall staffing increases and budgeted salary increases as noted above.

Consultants and Contracts

Table B-4

Consultants	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Consultants					
Reliability Standards	\$ -	\$ 821	\$ -	\$ -	0.00%
Compliance and Organization Registration and Certification-Database	80,000	126,413	76,500	(3,500)	-4.38%
Reliability Readiness Evaluation and Improvement-instead of FTE	-	-	-	-	0.00%
Reliability Assessment and Performance Analysis-Support					
Event Analysis and TADS	230,000	123,042	160,000	(70,000)	-30.43%
Training and Education	15,000	-	18,750	3,750	25.00%
Situational Awareness and Infrastructure Security-NASPI	-	1,025	50,000	50,000	100.00%
Committee and Member Forums	-	750	49,400	49,400	100.00%
General and Administrative	-	-	-	-	0.00%
Legal and Regulatory-Self Assessment	-	-	-	-	0.00%
Information Technology	-	-	-	-	0.00%
Human Resources-Executive Search	-	4,000	-	-	0.00%
Accounting and Finance	-	-	-	-	0.00%
Consultants Total	\$ 325,000	\$ 256,051	\$ 354,650	\$ 29,650	9.12%
Contracts	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Contracts					
Computer & Communications Support	\$ 120,000	\$ 152,088	\$ 121,200	\$ 1,200	
IT Web and Portal Support	323,700	179,899	333,300	9,600	
Checkout Tool	144,000	126,000	150,000	6,000	
Hotline Maintenance	12,000	16,964	21,800	9,800	
Subtotal - Software Contracts	\$ 599,700	\$ 474,951	\$ 626,300	\$ 26,600	4.44%
Education and Training					
Virtual Simulator	-	-	160,500	160,500	
Subtotal - Education and Training Contracts	\$ -	\$ -	\$ 160,500	\$ 160,500	100.00%
Contracts Total	\$ 599,700	\$ 474,951	\$ 786,800	\$ 187,100	31.20%
Total Consulting and Contracts	\$ 924,700	\$ 731,002	\$ 1,141,450	\$ 216,750	23.44%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

A decrease of \$70,000 in consultants in the Reliability Assessment program is due to a shift in timing for the Resource Adequacy program, which will now stretch over a two year period, including 2009 and 2010.

An increase of \$50,000 in consultants in Situational Awareness and Infrastructure Security relates to event analysis expertise and data collection activities to support situational awareness reporting to FERC and NERC staff.

An increase of \$49,400 in consultants in Committee and Member Forums is to enhance the portal for online collaboration.

An increase of \$160,500 in contracts in Education and Training is due to a restoration training simulator. The simulator project will take advantage of the advances made in simulation technology for more realistic operator training in restoration scenarios using familiar system elements and characteristics as well as in the development of more comprehensive regional restoration plans based on the exercise of those plans in realistic wide-area scenarios.

Table B-5

Office Rent	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Office Rent	\$ 183,277	\$ 184,128	\$ 255,591	\$ 72,314	39.46%
Utilities	-	-	-	-	
Maintenance	-	-	-	-	
Security	-	-	-	-	
Total Office Rent	\$ 183,277	\$ 184,128	\$ 255,591	\$ 72,314	39.46%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

SERC has increased their office space by 5,431 square feet causing the increase in rent expense. The new office space will be for additional offices along with a large conference room that will enable SERC to host large meetings in-house.

Table B-6

Office Costs	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Telephone	\$ 94,200	\$ 88,613	\$ 122,280	\$ 28,080	
Internet	11,100	11,245	-	(11,100)	
Office Supplies	35,000	51,004	131,264	96,264	
Computer Supplies and Maintenance	88,690	61,142	77,690	(11,000)	
Publications & Subscriptions	-	-	-	-	
Dues	-	408	5,000	5,000	
Postage	6,000	2,221	2,000	(4,000)	
Express Shipping	8,000	2,141	4,000	(4,000)	
Copying	6,500	2,747	8,000	1,500	
Reports - Graphics	6,000	-	-	(6,000)	
Stationary Forms	-	-	-	-	
Equipment Repair/Service Contracts	7,000	4,800	7,023	23	
Bank Charges	-	-	-	-	
Sales & Use Taxes	-	-	-	-	
Merchant Card Fees	3,500	7,053	5,000	1,500	
Presentation & Publicity	-	-	-	-	
Total Office Costs	\$ 265,990	\$ 231,374	\$ 362,257	\$ 96,267	36.19%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

Increase in telephone costs of \$28,080 is due to SERC is now providing cell phones to all professional staff and internet charges are combined to save costs causing a decrease of \$11,100 in internet expenses.

Increase in office supplies of \$96,264 is due to additional furniture and equipment needed to furnish the new office space.

Decrease in computer supplies and maintenance of \$11,000 is due to fewer planned purchases of computers and equipment.

Table B-7

Professional Services	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Independent Trustee Fees	\$ -	\$ -	\$ -	\$ -	0.00%
Outside Legal	250,000	49,532	30,000	(220,000)	-88.00%
Accounting & Auditing Fees	12,000	22,553	33,300	21,300	177.50%
Other Legal Fees	30,000	7,123	15,000	(15,000)	-50.00%
Insurance Commercial	30,000	16,397	20,000	(10,000)	-33.33%
Total Services	\$ 322,000	\$ 95,605	\$ 98,300	\$ (223,700)	-69.47%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

Outside legal expenses include charges in support of regulatory matters. Other legal fees represent charges for all other legal matters. Decrease in outside legal expense of \$220,000 and \$15,000 in other legal expense as SERC is not budgeting for legal costs associated with hearings and has hired an in-house legal counsel to help with compliance filings.

Increase in accounting fees of \$21,300 is due to additional services provided by the outside accounting firm to verify SERC's internal metrics and additional fees associated with payroll, timesheet and expense report management.

Decrease in insurance commercial of \$10,000 due to a change in vendors which lowered the cost.

Table B-8

Other Non-Operating Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Interest Expense	\$ -	\$ -	\$ -	\$ -	-
Office Relocation	-	-	-	-	-
Total Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	-

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

No significant variances.

Section D — Additional Financial Data

**Section D —
2010 Consolidated Statement of Activities by Program, Statutory and Non-Statutory**

Statement of Activities 2010 Budget	Total	Statutory Total	Non- Statutory Total	Functions in Delegation Agreement												Non-Statutory Functions Non-Statutory Total
				Statutory Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 500)	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																
ERO Assessments	9,831,277	9,831,277	-	9,831,277	471,317	6,319,976	1,276,678	482,202	1,281,104	-	-	-	-	-	-	
Penalty Sanctions	578,000	578,000	-	578,000	27,280	375,103	76,726	27,280	71,611	-	-	-	-	-	-	
Total ERO Funding	10,409,277	10,409,277	-	10,409,277	498,597	6,695,079	1,353,404	509,482	1,352,715	-	-	-	-	-	-	
Membership Dues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Testing Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Services & Software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Workshops	272,406	272,406	-	272,406	-	-	-	272,406	-	-	-	-	-	-	-	
Interest	20,000	20,000	-	20,000	-	-	-	-	-	-	-	-	-	-	20,000	
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Funding	10,701,683	10,701,683	-	10,701,683	498,597	6,695,079	1,353,404	781,888	1,352,715	-	-	-	-	-	20,000	
Expenses																
Personnel Expenses																
Salaries	5,919,604	5,919,604	-	5,919,604	225,442	2,908,227	524,718	213,800	577,571	385,904	1,083,942	-	-	-	-	
Payroll Taxes	443,971	443,971	-	443,971	16,908	218,117	39,354	16,035	43,318	28,943	81,296	-	-	-	-	
Benefits	536,169	536,169	-	536,169	30,566	253,359	42,317	17,919	58,483	24,694	108,831	-	-	-	-	
Retirement Costs	555,467	555,467	-	555,467	21,413	276,897	45,390	20,307	54,150	36,771	100,539	-	-	-	-	
Total Personnel Expenses	7,455,211	7,455,211	-	7,455,211	294,329	3,656,600	651,779	268,061	733,522	476,312	1,374,608	-	-	-	-	
Meeting Expenses																
Meetings	468,813	468,813	-	468,813	23,886	92,895	41,565	135,250	26,820	136,372	11,750	-	-	-	275	
Travel	722,061	722,061	-	722,061	15,747	472,090	35,224	34,691	60,206	67,325	28,416	-	6,882	-	1,480	
Conference Calls	48,000	48,000	-	48,000	-	-	-	-	-	-	48,000	-	-	-	-	
Total Meeting Expenses	1,238,874	1,238,874	-	1,238,874	39,633	564,985	76,789	169,941	87,026	203,697	88,166	-	6,882	-	1,755	
Operating Expenses																
Consultants & Contracts	1,141,450	1,141,450	-	1,141,450	-	184,400	160,000	179,250	50,000	49,400	-	-	518,400	-	-	
Office Rent	255,591	255,591	-	255,591	-	-	-	-	-	-	255,591	-	-	-	-	
Office Costs	362,257	362,257	-	362,257	-	7,860	1,800	-	-	1,020	255,987	-	90,590	-	5,000	
Professional Services	98,300	98,300	-	98,300	-	17,500	-	-	-	-	20,000	27,500	-	-	33,300	
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Depreciation	54,913	54,913	-	54,913	-	-	-	-	16,667	-	38,246	-	-	-	-	
Total Operating Expenses	1,912,511	1,912,511	-	1,912,511	-	209,760	161,800	179,250	66,667	50,420	569,824	27,500	608,990	-	38,300	
Total Direct Expenses	10,606,596	10,606,596	-	10,606,596	333,962	4,431,345	890,368	617,252	887,215	730,429	2,032,598	27,500	615,872	-	40,055	
Indirect Expenses	(1)	(1)	-	(1)	161,720	2,223,657	454,839	161,721	424,516	(730,429)	(2,032,598)	(27,500)	(615,872)	-	(20,055)	
Other Non-Operating Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Expenses	10,606,596	10,606,596	-	10,606,596	495,682	6,655,002	1,345,207	778,973	1,311,731	-	-	-	-	-	20,000	
Change in Assets	95,087	95,087	-	95,087	2,915	40,077	8,197	2,915	40,984	-	-	-	-	-	-	
Fixed Assets																
Depreciation	(54,913)	(54,913)	-	(54,913)	-	-	-	-	(16,667)	-	(38,246)	-	-	-	-	
Computer & Software CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Furniture & Fixtures CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Equipment CapEx	150,000	150,000	-	150,000	-	-	-	-	50,000	-	-	-	100,000	-	-	
Leasehold Improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
(Inc)Dec in Fixed Assets	(95,087)	(95,087)	-	(95,087)	-	-	-	-	(33,333)	-	38,246	-	(100,000)	-	-	
Allocation of Fixed Assets	-	-	-	-	(2,915)	(40,076)	(8,197)	(2,915)	(7,651)	-	(38,246)	-	100,000	-	-	
Change in Fixed Assets	(95,087)	(95,087)	-	(95,087)	(2,915)	(40,076)	(8,197)	(2,915)	(40,984)	-	-	-	-	-	-	
TOTAL CHANGE IN ASSETS	-	1	-	1	-	1	-	-	-	-	-	-	-	-	-	
FTE's	45.5	45.5	0	45.5	1.6	22.0	4.5	1.6	4.2	2.6	3.0	1.0	2.0	0.3	2.7	

Statement of Financial Position

As of December 31, 2008, per audit

As of December 31, 2009, projected

As of December 31, 2010, as budgeted

Statement of Financial Position 2008 Audited, 2009 Projection, and 2010 Budget

STATUTORY and NON-STATUTORY

	(Per Audit) 31-Dec-08	Projected 31-Dec-09	Budget 31-Dec-10
ASSETS			
Cash	1,322,400	1,094,813	1,199,380
Trade Accounts receivable, net of allowance for uncollectible accounts of \$137,600	-	-	-
Other Receivables	879	-	-
Prepaid expenses and other current assets	53,466	50,000	50,000
Security deposit	-	-	-
Cash value of insurance policies	-	-	-
Property and equipment	17,068	16,896	111,983
Total Assets	1,393,813	1,161,709	1,361,363
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accrued expenses	979,558	979,558	979,558
Deferred income	6,390	850,000	850,000
Regional assessments collected in advance	-	-	-
Deferred compensation	-	-	-
Accrued retirement liabilities	-	-	-
Total Liabilities	985,948	1,829,558	1,829,558
Net Assets - unrestricted	407,865	(667,849)	(468,195)
Total Liabilities and Net Assets	1,393,813	1,161,709	1,361,363

DOCKET NO. RR09-__-000

**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

2010 BUSINESS PLAN AND BUDGET FILING

ATTACHMENT 8

SOUTHWEST POWER POOL REGIONAL ENTITY

PROPOSED 2010 BUSINESS PLAN AND BUDGET

2010 Business Plan and Budget

Regional Entity

Southwest Power Pool Regional Entity

July 29, 2009

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Introduction

Total RE Resources				
(in whole dollars)				
	2010 Budget	U.S.	Canada	Mexico
Statutory FTEs	24.25			
Non-statutory FTEs	0			
Total FTEs	24.25			
Statutory Expenses	\$ 8,138,783	\$ 8,138,783		
Non-statutory Expenses	\$0	\$0		
Total Expenses	\$ 8,138,783	\$ 8,138,783		
Statutory Funding	\$ 6,755,854	\$ 6,755,854		
Non-Statutory(Member) Funding	\$0	\$0		
Total Funding	\$ 6,755,854	\$ 6,755,854		
NEL	208,009,387	208,009,387		
NEL %	100%	100%		

Organizational Overview

Southwest Power Pool, Inc. (SPP) operates as the NERC Regional Entity (RE) over an eight state area within the Eastern Interconnection. In response to the Energy Policy Act of 2005, SPP, Inc. created a new department to perform all compliance activities over SPP registered entities. SPP RE began engaging NERC to lead SPP, Inc. audits in 2007. In April 2007, FERC approved changes to the SPP, Inc. Bylaws creating three independent trustees to manage all SPP RE delegated activities. These trustees, initially elected in June 2007, are required to be independent of SPP, Inc. Members, customers of services provided by SPP Inc., and registered entities in the SPP RE footprint. SPP RE began engaging NERC to lead SPP, Inc. audits in 2007. In March 2009, SPP RE hired a General Manager to oversee the execution of the regional entity strategic direction and direct the day-to-day operations, including all compliance and enforcement activities. All reporting relationships between SPP RE employees and SPP, Inc. employees have been terminated.

This business plan outlines the tasks that the SPP RE portion of the Southwest Power Pool, Inc. performs to fulfill its duties per the FERC approved Regional Entity Delegation Agreement. SPP, Inc. also provides non-RE related functions for entities operating within the SPP footprint; those activities and related funding amounts are not included as part of this Business Plan.

Membership and Governance

Members' Forums

SPP provides forums for registered entities within its footprint to discuss and share reliability concerns. This includes SPP committees, subcommittees, working groups, and task forces that are grouped by technical areas.

Introduction

The SPP RE also conducts a minimum of two public workshops per year where registered entities are able to interact with SPP RE staff and NERC staff and discuss reliability issues.

Members' Forums Objectives

- Provide input on ERO and RE issues, including but not limited to the NERC Members Representative Committee and other NERC standing committees
- Provide technical forums to act as standards-drafting teams in development of SPP Regional Reliability Standards.

Governance

The SPP RE is governed by three independent Regional Entity Trustees. The RE Trustees have autonomy over decisions in fund allocation and approval of the SPP RE Budget, as well as decisions on regional standards, reliability assessments, compliance enforcement actions, and penalties.

Statutory Functional Scope

As the RE for the Southwest Power Pool region, the SPP RE will administer the following programs:

- Regional Reliability Standards Program
- Compliance Monitoring and Enforcement Program
- Organization Registration and Certification
- Compliance Training and Education Programs
- Reliability Assessment and Performance Analysis Program
- Situation Awareness and Infrastructure Security Program

Planning Cycle

The SPP RE will begin its annual budget process in March of each calendar year to allow for sufficient time to develop and present the budget to the SPP Regional Entity Trustees prior to the deadline for submission to NERC.

The SPP RE will prepare the business plan and budget for carrying out the delegated functions with supporting materials and sufficient detail to justify the requested funding collection and budget expenditures.

2010 Key Assumptions

In developing the 2010 business plan, SPP RE has assumed:

1. The international, industry-based Self Regulatory Organization (SRO) model continues to be used and no material changes to the SRO model impacting 2010 emerge from the ERO 3-year assessment.
2. The framework for delegation remains constant. The scope of delegated authorities and responsibilities remains relatively constant, with incremental improvements according to recommendations developed in the ERO 3-year assessment.
3. NERC and regions are not budgeted in 2010 for unknown material changes to scope and are unable to undertake unfunded mandates, such as new initiatives stemming from the U.S. federal stimulus package on energy.
4. The current economic downturn continues into 2010, resulting in cost pressures on NERC and regional entities to do more with less. The industry experiences lower electricity demand and may defer capital projects in some areas and may reduce or hold O&M budgets flat. Cost pressures result in less travel and strain stakeholder participation in NERC and regional entity activities.
5. Regional entities are audited by FERC and NERC by year end 2010 and the audits of any region by NERC and FERC are not concurrent. NERC is required to audit each regional entity by year end 2010.

2010 Goals and Key Deliverables

- Implement the recommendations contained in FERC's Order on the Audit ("FERC Audit") of SPP consistent with SPP's compliance filing with FERC on March 16, 2009. Meet the compliance audit schedule for 2010 in a manner consistent with the CMEP and FERC directives
- Provide compliance monitoring and enforcement activities consistent with the CMEP
- Develop any SPP Regional Reliability Standards to meet NERC continent-wide requirements
- Provide compliance training for registered entities in the SPP RE footprint
- Perform reliability assessments and performance analysis
- Support NERC efforts in Situational Awareness and Infrastructure Security

2010 Overview of Cost Impacts

SPP proposes to increase its operating budget from \$6.5 million to \$ 8.1 million in 2010, an increase of \$ 1.6 million or 25%. The FERC Audit of SPP, published in January 2009, recommended a review of SPP RE resource requirements and consideration of hiring additional staff to perform the delegated functions of the SPP RE. The resource review resulted in the proposal to increase FTEs associated with compliance monitoring and enforcement activities by 8 FTEs compared to the 2009 Business Plan. Costs associated with new workload for processing Technical Feasibility Exceptions significantly increased estimated 2010 consultant and contracts costs. Partially offsetting these increases is a decrease of \$1 million reflecting the decision not to include operator type training in the 2010 SPP RE budget. This training will be included in the SPP, Inc. budget. Also, offsetting these increases is a decrease in the estimated Indirect Expense rate from \$110/hour budgeted for 2009 to \$64/hour. Specifically, the 2010 cost increases are driven by:

Additional Costs

- **Non-CIP Compliance and Enforcement Functions:** Four additional FTEs compared to the 2009 Budget to enable organization registration, compliance monitoring, reporting and enforcement activities to reach a level of performance more consistent with the CMEP and the NERC Rules of Procedure for non-CIP standards;
 - One of these FTEs was added mid-year 2009 as an unbudgeted addition with SPP RE Trustee approval to begin to address workload exceeding existing staff capacity;
- **CIP Compliance and Enforcement Functions:** Four additional FTEs compared to the 2009 Budget to enable SPP RE to carry out increased compliance monitoring, reporting and enforcement activities related to CIP standards;
 - The number of CIP audits will increase substantially to complete the required CIP audits of all "Table 1" entities by 2010 yearend. Also, "Table 2" entities begin to become CIP auditable in the second half of 2010;
 - Processing Technical Feasibility Exceptions drives an increase in consultant and contracts cost of \$700,000.
 - 2010 is expected to see a substantial upswing in the number of CIP related violations, as CIP audits continue to ramp up;
 - One of these FTEs was added mid-year 2009 as an unbudgeted addition with SPPRE Trustee approval.
- **General and Administrative:** One and a half additional FTEs compared to the 2009 Budget;
 - The addition 0.5 FTE due to the hiring of a full-time SPP RE General Manager position as recommended by the FERC Audit to provide independence and separation from non-statutory duties
 - This FTE was added at the end of the first quarter of 2009 but was not included in the 2009 budget;
 - The 2009 Budget included 0.5 FTEs for shared executive support from SPP, Inc.;
 - One additional FTE compared to the 2009 Budget to provide legal administrative support for settlements and document management;

Introduction

- An additional 0.5 FTE needed to address a significant increase in Regional standards activities in 2010.

Indirect Expense Rate: The indirect expense rate is estimated to be \$64/hour for 2009 actual and 2010 budget compared to \$110/hour submitted for the 2009 budget. The indirect expense rate reflects overhead costs such as Human Resources, Information Technology and Accounting. The Indirect expense rate is calculated by dividing the total overhead costs by the total hours worked by non-overhead personnel. The indirect expense rate is then added to the personnel expenses for each hour directly charged by SPP RE or SPP shared staff. The reduction in the indirect expense rate is primarily due to a decrease in Information Technology costs classified as overhead. A table showing the derivation of the Indirect Expense Rate is attached as Section E.

Detailed Business Plans and Budgets by Program

Details of the planning, operation, review, and adjustment for each program area are included in Section A. The corresponding budget details are shown in Section B.

Section A — 2010 Business Plan

Reliability Standards Program

Reliability Standards Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	1.0	1.5	0.5
Total Direct Expenses	Salary \$103,400	Salary \$163,950 Travel \$15,000 <u>Outside Services \$24,000</u> Total \$ 202,950	\$99,550
Total Indirect Expenses	\$189,880	SPP Inc. \$180,480 ¹ <u>SPP RE \$ 79,444</u> Total \$ 259,924	\$ 70,044
Inc(Dec) in Fixed Assets	\$0	\$0	\$0
Total Expenses & Fixed Assets	\$293,280	\$ 462,874	\$ 169,594

Program Scope and Functional Description

SPP RE will coordinate with NERC to develop and approve technically sound, fair, and balanced reliability standards to ensure the reliability of the bulk power systems in North America. SPP RE will also develop any regional reliability standards per the guideline as defined in the delegation agreement. 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.

The foregoing activities of persons engaged in the reliability standards development process (i.e. Standard Drafting Team) will be conducted, to the extent possible, by conference calls and e-mail, website postings and other means of electronic communications. If face-to-face meetings of participants are needed, those meetings will be announced on the SPP website calendar with a notification to SPP RE Standards Development Explorer.

In addition, SPP RE direct and shared staff will coordinate any regional reliability standards work through the corresponding working groups such as the Transmission Working Group for TPL standards, System Protection and Control Working Group for PRC standards, or any appropriate working group as identified per the SPP Regional Entity Standards Procedure.

2010 Key Assumptions

SPP RE continues to utilize shared staff along with direct staff to facilitate the development of standards to implement the SPP RE Standards Procedure. For 2010, the standard development activities are expected to surge both in SPP (Regional Standards) and NERC (Continent wide standards).

¹ SPP, Inc Indirect Expenses include overhead costs such as Human Resources, Information Technology and Accounting. These corporate support services are provided to SPP RE by SPP, Inc.

2010 Goals and Key Deliverables

Goals

- Meet directives of ERO governmental authorities regarding standards development and procedures
- Meet stated targets in the regional “fill-in-the-blank” standards work plan
- Maintain consistency and quality of regional reliability standards
- Communicate with stakeholders and regulators regarding standards development
- Participate and represent SPP region in NERC’s Standard Drafting Teams that may have significant influence on SPP planning and business practices

Section 215 Regional Entity Reliability Standards Development

SPP RE will follow the standards process as defined in its delegation agreement for any new regional standards or any update of existing regional standards. SPP’s reliability standards development process will have an advisory vote by the Markets and Operations Policy Committee (MOPC), which will be responsible for ensuring that all stakeholder interests are fairly represented in the development of standards. The MOPC has broad industry representation. The SPP Standards Process will provide an open, balanced, and inclusive stakeholder process in which any interested party, regardless of membership status with SPP, Inc., may provide input and vote on any proposed regional reliability standard. No entity may have more than one vote. SPP Regional Entity Trustees have ultimate authority to recommend NERC to approve a regional standard, remand it to the Standard Drafting Team through MOPC, or determine there is no need for the standard and terminate the activity.

The SPP Regional Standards Development Procedure provides the basis for SPP to propose and develop regional reliability standards. That Procedure is consistent with a NERC standard format for all RE standards procedures.

Funding Requirements — Explanation of Increase (Decrease)

The funding requirement is expected to increase from 1 to 1.5 FTE for 2010 Budget. Increased activities for the development of regional standards are anticipated for 2010. Additionally, more SPP RE participation is desired in NERC’s Continent Wide Standard development process to foster development of standards that are clear and unambiguous.

Section A – 2010 Business Plan

Reliability Standards Program

Funding sources and related expenses for the reliability standards section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Standards					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 293,280	\$ 293,280	\$ -	\$ 462,874	\$ 169,595
Penalty Sanctions					-
Total ERO Funding	<u>\$ 293,280</u>	<u>\$ 293,280</u>	<u>\$ -</u>	<u>\$ 462,874</u>	<u>\$ 169,595</u>
Membership Dues			-		-
Testing Fees			-		-
Services & Software			-		-
Workshops			-		-
Interest			-		-
Miscellaneous			-		-
Total Funding	<u>\$ 293,280</u>	<u>\$ 293,280</u>	<u>\$ -</u>	<u>\$ 462,874</u>	<u>\$ 169,595</u>
Expenses					
Personnel Expenses					
Salaries	\$ 85,339	\$ 85,339	\$ -	\$ 135,300	\$ 49,961
Payroll Taxes	6,528	6,528	-	10,350	3,822
Benefits	8,118	8,118	-	12,900	4,782
Retirement Costs	3,414	3,414	-	5,400	1,986
Total Personnel Expenses	<u>\$ 103,400</u>	<u>\$ 103,400</u>	<u>\$ -</u>	<u>\$ 163,950</u>	<u>\$ 60,550</u>
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	-	-	-	15,000	15,000
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,000</u>	<u>\$ 15,000</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ 24,000	\$ 24,000
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,000</u>	<u>\$ 24,000</u>
Total Direct Expenses	<u>\$ 103,400</u>	<u>\$ 103,400</u>	<u>\$ -</u>	<u>\$ 202,950</u>	<u>\$ 99,550</u>
SPP Inc. Indirect Expenses	<u>\$ 189,880</u>	<u>\$ 120,320</u>	<u>\$ (69,560)</u>	<u>\$ 180,480</u>	<u>\$ (9,400)</u>
SPP RE Indirect Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,444</u>	<u>\$ 79,444</u>
Total Expenses	<u>\$ 293,280</u>	<u>\$ 223,720</u>	<u>\$ (69,560)</u>	<u>\$ 462,874</u>	<u>\$ 169,595</u>
Change in Assets	<u>\$ -</u>	<u>\$ 69,560</u>	<u>\$ 69,560</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed Assets					
Depreciation			\$ -		\$ -
Computer & Software CapEx			-		-
Furniture & Fixtures CapEx			-		-
Equipment CapEx			-		-
Leasehold Improvements			-		-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets					
Change in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN ASSETS	<u>\$ -</u>	<u>\$ 69,560</u>	<u>\$ 69,560</u>	<u>\$ -</u>	<u>\$ -</u>

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Funding for this program is provided through assessments to LSEs or designees (mandatory in the U.S.).

Personnel Expenses

- An increase of 0.5 FTE over the 2009 amount for increased activity to accommodate the planned increased activity in development of regional reliability standards. SPP RE plans to hire 1 additional dedicated SPP RE Staff in 2010 to support Reliability Standards. Historically, SPP RE has relied entirely on SPP RE Shared staff for this function. In 2008, SPP RE was able to use 0.2 FTE shared staff and in 2009 projects availability of 0.5 FTE. The addition of 1 direct FTE is expected to result in 1.5 FTE total for 2010.

Meeting Expenses

- No meeting expenses were budgeted for 2009. The proposed budget to support this function in 2010 includes \$15,000 for travel.

Operating Expenses

- An increase in Operating Expenses of \$24,000 in Consultants and Contracts is driven by studies to be performed in support of regional standard development.

Compliance Monitoring and Enforcement and Organization Registration and Certification Program

Compliance Monitoring and Enforcement and Organization Registration and Certification Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	6.0	14.0	8.0
Total Direct Expenses	Salary \$834,653 Travel \$94,000 Training \$25,000 <u>Consulting \$330,000</u> Total \$1,283,653	Salary \$2,097,900 Travel \$225,000 Training \$30,000 <u>Consulting \$ 1,095,000</u> Total \$3,447,900	\$2,164,247
Total Indirect Expenses	\$1,139,280	SPP Inc.\$1,684,480 <u>SPP RE \$ 1,063,397</u> Total \$2,747,877	\$1,608,597
Inc(Dec) in Fixed Assets	\$0	\$0	\$0
Total Expenses & Fixed Assets	\$2,422,933	\$6,195,777	\$3,772,844

Program Scope and Functional Description

2010 Key Assumptions

- The number of registered entities in the SPP RE footprint remains relatively stable
- The number of non-CIP enforceable standards remain relatively stable
- The number of non-CIP violations processed remains relatively stable compared to the 2007-2008 timeframe.
- The number of CIP audits will increase substantially to complete CIP audits of all “Table 1” entities by 2010 year end. Also, “Table 2” entities begin to become CIP auditable in the second half of 2010.
- 2010 is expected to see a substantial upswing in the number of CIP possible violations, as CIP audits continue to ramp up.

2010 Goals and Key Deliverables

- Implement FERC Audit recommendation to review staffing to ensure adequate resources to fulfill delegated duties.
- Implement FERC Audit recommendation to ensure RE staff obtain corroborating evidence to verify a registered entity’s compliance following a self report.
- Six to eight on-site compliance audits of registered RC, BA, and TOP entities
- Fifteen to eighteen on-site (or other approved methods) of compliance audits of other registered entities [6-year cycle entities]
- Six to eight spot audits of CIP Standards for RC, BA, and TOP entities not previously scheduled of on-site compliance audits
- Spot check/audits of specified standards as dictated by NERC 2010 Business Plan
- Perform reporting and analysis of Control Performance Standard [CPS] performance and independent analysis and reporting of Disturbance Control Standard [DCS] performance
- Quarterly compliance surveys of specific reliability standards
- Annual self-certification program

Section A – 2010 Business Plan

- Semi-annual self-certification program for CIP standards
- Monitoring of periodic data submittals
- Compliance Violation Investigations, as necessary
- Calculations and imposition of financial penalties or non-monetary sanctions for non-compliance findings
- Participate in Regional Hearing Process, as necessary

Funding Requirements — Explanation of Increase (Decrease)

The expansion of the SPP RE Compliance and Enforcement group is driven by several factors, including:

- The Regional Entities have produced an internal whitepaper, discussing the evolution of the compliance monitoring of the CIP standards, recommending that the on-site audit teams include 4 team members beginning in July 2010 for required on-site audits of the 41 enforceable requirements contained in the CIP standards. The SPP RE is required to either spot check or fully audit all Balancing Authorities, Transmission Operators, and Reliability Coordinators between July 2009 and December 2010. The 2009 Budget included one FTE for CIP Compliance work. Three additional FTEs compared to the 2009 Budget will be required to create a 4 member team. One of these FTEs was reassigned to CIP Compliance work from the Compliance and Registration function during 2009 and an unbudgeted addition was authorized by the RE Trustees during 2009 to backfill the Registration function.
- One additional FTE compared to the 2009 Budget is proposed for Enforcement to handle the expected substantial upswing in the number of CIP possible violations, as CIP audits continue to ramp up.
- A workload analysis of the 2009/2010 CMEP program for non-CIP work has determined that the SPP RE Compliance staff is approximately 2 FTE short and that the Enforcement staff is approximately 2 FTE short of full staff requirements to maintain an ongoing effective regional program compared to the 2009 Budget. One of the Enforcement FTEs was hired as an unbudgeted additional FTE during 2009 with RE Trustee approval.
- Consultants and Contracts costs increased due to expected costs for processing Technical Feasibility Exceptions.

Technical Feasibility Exceptions

Scope and Description

Background

The Critical Infrastructure Protection (CIP) Standards allow for registered entities to request Technical Feasibility Exceptions (TFEs) to the standard requirements in certain instances. Once these requests are made, they must be reviewed and approved, and then short and long-term plans to deal with the TFEs must also be evaluated, approved and monitored to completion.

At the time the Southwest Power Pool RE 2010 Business Plan and Budget were developed, submitted to the Board for review, and posted for stakeholder comment, NERC anticipated that the processing of TFEs would be handled centrally by NERC staff and thus Regional Entity resources would not be required for this work. Based upon feedback and input NERC received in response to the public posting of its proposed 2010 Business Plan and Budget, they revised this approach and directed the Regions to develop proposals to deal with TFE processing.

SPP RE decided to leave its base 2010 Business Plan and Budget as originally proposed and to develop this supplement devoted only to the TFE work. If approved by the NERC Board of Trustees, this supplement would be an additive to the 2010 SPP RE Business Plan and Budget. Should the NERC Board decide that Regional resources are not needed for TFE evaluations because NERC will centrally process them, this supplement will not be necessary and the NERC Board has the option to simply approve the base Business Plan and Budget.

Section A – 2010 Business Plan

There are a number of unknowns and evolving issues associated with the evaluation of TFEs. The ultimate answers to these questions will greatly impact resource requirements.

SPP RE is attempting to answer them as best we can in this supplement, given the information presently available. The assumptions made were used to determine the budget impact of TFE evaluations across the Region.

Key Issues and Assumptions

1. *Who performs the TFE evaluations?*

Assumption – Based on the current information, SPP RE assumes that the Regions will be expected to evaluate all TFE requests, approve interim plans to operate while the TFE exists, and approve plans to ultimately eliminate the TFE.

2. *When are evaluations performed (pre-approval or during an audit)?*

Assumption – The current plan, based on information from NERC is that the evaluations would take place during audits or spot checks, but some sort of initial evaluation must also be conducted.

3. *What information must be collected in support of a TFE?*

Assumption – TFEs are associated with CIP-005 requirements 2.4, 2.6, 3.1., 3.2 and CIP-007 requirements 2.4, 4, 5.3, 6 and 6.3. TFEs may also be associated with other requirements.

Assumption – If a registrant refuses to submit materials or documents due to CEII concerns and requests that they can only be reviewed on-site, SPP RE anticipates complying with this request.

4. *What happens if we do not agree with the basis for the TFE request? Is it a violation of the associated standard? What is the process for any appeal or contest? Does the registrant get a second chance?*

Assumption – The SPP RE assumptions here are consistent with the NERC Compliance Process Bulletin #2009-006, Interim Approach to Technical Feasibility Exceptions, Version 1.0, July 1, 2009, (http://www.nerc.com/files/2009-006_Public%20Notice-V1.pdf). If the TFE is rejected during our evaluation, the entity is given 31 days to make corrections and resubmit it. If the TFE is rejected again, then the alleged violation process will start and all of the same due process rights will be granted to the requestor.

5. *How will common TFEs be coordinated across regions? Can NERC issue a global TFE determination for common equipment? Can they maintain a database of already approved TFEs?*

Assumption – At the time of this writing, a common NERC TFE data base and global determinations are not anticipated. Therefore, we believe the Regions must seek consistency on similar requests absent these tools, and it may add to the time required to evaluate a given TFE.

6. *How are TFE mitigation plans (interim and long term) evaluated and judged? What happens if the plan is not deemed acceptable?*

Assumption – SPP RE believes that we will have to perform the evaluations and an insufficient interim or long term plan will be a basis for rejecting the TFE. If the TFE is rejected, after the opportunity to improve the initial plan, it becomes an alleged violation. We believe the evaluation will be much like those associated with mitigation plans for alleged or confirmed violations of Reliability Standards.

7. *What approval or oversight role will NERC play if TFE evaluation is delegated to the Regional Entities?*

Section A – 2010 Business Plan

Assumption – NERC has indicated they will provide oversight and some analysis should the Regions be the primary evaluators; but the exact nature has not yet been clearly defined due to the uncertainty associated with the TFE evaluations. But it should not impact the Regional workload, other than to require us to address any questions NERC may have regarding the TFE and perhaps to ask more questions of the requestor. Depending on the answer to this question, TFE approval may experience some delays.

8. *How often and how will TFEs be re-evaluated?*

Assumption – TFEs will need to be re-evaluated annually. Also, the mitigation plans must be tracked routinely.

9. *How many TFEs will there be, anyway?*

Assumption – This is the most difficult question to answer. The answer depends on how a TFE is characterized. For instance, if a company has 200 of the same relays with the same TFE need for the same standard, is that one TFE or 200? We are treating it as one. However, the mitigation plans may need to be approved and tracked individually or in subsets with potential multiple assessments.

Estimated 2010 Manpower and Resource Needs

NERC conducted an analysis and estimated that it will take about a man-week for each TFE evaluation, excluding any enforcement activities associated with rejected TFE requests. An estimated 2 man-years of work is estimated. At this time, SPP RE intends to address the additional work-load with contractors. After 2010, once a steady state level of effort is better known, SPP RE may add direct personnel to carry out this work.

2010 Overview of Cost Impacts Including TFE Impact

Overall, the SPP RE 2010 budget will increase by 25% over the 2009 level if both the 'base' 2010 budget and this supplement are approved. (\$8.1 million compared to \$6.5 million). The total incremental cost over the base 2010 budget associated with performing the TFE evaluations is estimated at \$0.7 million.

Funding Requirements — Explanation of Increase (Decrease)

Consultants and Contracts expense will increase due to the hiring of additional contractors to process TFEs.

Section A – 2010 Business Plan

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 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Compliance and Organization Registration and Certification					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 2,422,933	\$ 2,422,933	\$ -	\$ 6,195,777	\$ 3,772,844
Penalty Sanctions					-
Total ERO Funding	<u>\$ 2,422,933</u>	<u>\$ 2,422,933</u>	<u>\$ -</u>	<u>\$ 6,195,777</u>	<u>\$ 3,772,844</u>
Membership Dues			-		-
Testing Fees			-		-
Services & Software			-		-
Workshops			-		-
Interest			-		-
Miscellaneous			-		-
Total Funding	<u>\$ 2,422,933</u>	<u>\$ 2,422,933</u>	<u>\$ -</u>	<u>\$ 6,195,777</u>	<u>\$ 3,772,844</u>
Expenses					
Personnel Expenses					
Salaries	\$ 698,218	\$ 900,000	\$ 201,782	\$ 1,794,100	\$ 1,095,882
Payroll Taxes	53,414	68,900	15,486	117,600	64,186
Benefits	80,092	103,200	23,108	146,200	66,108
Retirement Costs	27,929	36,000	8,071	70,000	42,071
Total Personnel Expenses	<u>\$ 859,653</u>	<u>\$ 1,108,100</u>	<u>\$ 248,447</u>	<u>\$ 2,127,900</u>	<u>\$ 1,268,247</u>
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	94,000	104,000	10,000	225,000	131,000
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ 94,000</u>	<u>\$ 104,000</u>	<u>\$ 10,000</u>	<u>\$ 225,000</u>	<u>\$ 131,000</u>
Operating Expenses					
Consultants & Contracts	\$ 330,000	\$ 350,000	\$ 20,000	\$ 1,095,000	\$ 765,000
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ 330,000</u>	<u>\$ 350,000</u>	<u>\$ 20,000</u>	<u>\$ 1,095,000</u>	<u>\$ 765,000</u>
Total Direct Expenses	<u>\$ 1,283,653</u>	<u>\$ 1,562,100</u>	<u>\$ 278,447</u>	<u>\$ 3,447,900</u>	<u>\$ 2,164,247</u>
SPP Inc. Indirect Expenses	<u>\$ 1,139,280</u>	<u>\$ 962,560</u>	<u>\$ (176,720)</u>	<u>\$ 1,684,480</u>	<u>\$ 545,200</u>
SPP RE Indirect Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,063,397</u>	<u>\$ 1,063,397</u>
Total Expenses	<u>\$ 2,422,933</u>	<u>\$ 2,524,660</u>	<u>\$ 101,727</u>	<u>\$ 6,195,777</u>	<u>\$ 3,772,844</u>
Change in Assets	<u>\$ -</u>	<u>\$ (101,727)</u>	<u>\$ (101,727)</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed Assets					
Depreciation			\$ -		\$ -
Computer & Software CapEx			-		-
Furniture & Fixtures CapEx			-		-
Equipment CapEx			-		-
Leasehold Improvements			-		-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets					
Change in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN ASSETS	<u>\$ -</u>	<u>\$ (101,727)</u>	<u>\$ (101,727)</u>	<u>\$ -</u>	<u>\$ -</u>

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Funding for this program is provided through assessments to LSEs or designees (mandatory in the U.S.).

Personnel Expenses

- The dedicated personnel expenses have increased due to a projected increase in staffing requirements [see explanation above] and related personnel expenses.

Meeting Expenses

- Travel expenses increase associated with additional FTEs. Travel expenses are based on the historical average travel expenditure per employee adjusted for the change in the number of employees for 2010.

Operating Expenses

- Outside contractor costs have been increased due to expanded requirements of compliance monitoring in the CIP area, expected costs to process Technical Feasibility Exceptions plus a general increase in the cost per hour of these services.

Indirect Expenses

- The indirect expenses increased due to the increased FTEs. The indirect expenses are assessed to the SPP RE based on a fixed rate per hour charged by the SPP RE dedicated staff.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- N/A

Reliability Improvement Program

Reliability Readiness Evaluation and Improvement Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	0.5	0	(0.5)
Total Direct Expenses	Salary \$51,700 Travel \$18,000 Total \$69,700	0	\$(69,700)
Total Indirect Expenses	\$94,940	0	\$(94,940)
Inc(Dec) in Fixed Assets	\$0	\$0	\$0
Total Expenses & Fixed Assets	\$164,640	0	\$(164,640)

Program Scope and Functional Description

2010 Key Assumptions

- The SPP RE anticipates that this program will not be active in 2010.

2010 Goals and Key Deliverables

- The SPP RE anticipates that this program will not be active in 2010.

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Requirements — Explanation of Increase (Decrease)

- The SPP RE anticipates that this program will not be active in 2010.

Personnel Expenses

- The SPP RE anticipates that this program will not be active in 2010.

Meeting Expenses

- The SPP RE anticipates that this program will not be active in 2010.

Operating Expenses

- The SPP RE anticipates that this program will not be active in 2010.

Indirect Expenses

- The SPP RE anticipates that this program will not be active in 2010.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- N/A

Section A – 2010 Business Plan

Reliability Improvement Program

Funding sources and related expenses for the reliability standards section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Readiness Evaluation and Improvement					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 164,640	\$ 164,640	\$ -	\$ -	\$ (164,640)
Penalty Sanctions					-
Total ERO Funding	<u>\$ 164,640</u>	<u>\$ 164,640</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (164,640)</u>
Membership Dues			-		-
Testing Fees			-		-
Services & Software			-		-
Workshops			-		-
Interest			-		-
Miscellaneous			-		-
Total Funding	<u>\$ 164,640</u>	<u>\$ 164,640</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (164,640)</u>
Expenses					
Personnel Expenses					
Salaries	\$ 42,670	\$ -	\$ (42,670)	\$ -	\$ (42,670)
Payroll Taxes	3,264	-	(3,264)	-	(3,264)
Benefits	4,059	-	(4,059)	-	(4,059)
Retirement Costs	1,707	-	(1,707)	-	(1,707)
Total Personnel Expenses	<u>\$ 51,700</u>	<u>\$ -</u>	<u>\$ (51,700)</u>	<u>\$ -</u>	<u>\$ (51,700)</u>
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	18,000	-	(18,000)	-	(18,000)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ 18,000</u>	<u>\$ -</u>	<u>\$ (18,000)</u>	<u>\$ -</u>	<u>\$ (18,000)</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Direct Expenses	<u>\$ 69,700</u>	<u>\$ -</u>	<u>\$ (69,700)</u>	<u>\$ -</u>	<u>\$ (69,700)</u>
SPP Inc. Indirect Expenses	<u>\$ 94,940</u>	<u>\$ 60,160</u>	<u>\$ (34,780)</u>	<u>\$ -</u>	<u>\$ (94,940)</u>
SPP RE Indirect Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ 164,640</u>	<u>\$ 60,160</u>	<u>\$ (104,480)</u>	<u>\$ -</u>	<u>\$ (164,640)</u>
Change in Assets	<u>\$ -</u>	<u>\$ 104,480</u>	<u>\$ 104,480</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed Assets					
Depreciation			\$ -		\$ -
Computer & Software CapEx			-		-
Furniture & Fixtures CapEx			-		-
Equipment CapEx			-		-
Leasehold Improvements			-		-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets					
Change in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN ASSETS	<u>\$ -</u>	<u>\$ 104,480</u>	<u>\$ 104,480</u>	<u>\$ -</u>	<u>\$ -</u>

Training, Education, and Operator Certification Program

Training, Education, and Operator Certification Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	3.0	0	(3.0)
Total Direct Expenses	Salary \$361,712 Travel \$21,000 Meetings \$153,800 <u>Outside Svcs \$9,660</u> Total \$546,172	Meetings \$25,000	(\$521,172)
Total Indirect Expenses	\$569,640	SPP RE \$5,180	(\$564,460)
Inc(Dec) in Fixed Assets	\$0	\$0	\$0
Total Expenses & Fixed Assets	\$1,115,812	\$30,780	(\$1,085,632)

Program Scope and Functional Description

- The SPP RE staff designs, develops and implements two general compliance workshops and one CIP workshop for registered entities each year.
- Compliance training is included in the Compliance Monitoring and Enforcement and Organization Registration and Certification Program section.

2010 Goals and Key Deliverables

- Two general compliance workshops for registered entities
- One CIP workshop for registered entities

Section A – 2010 Business Plan

Training, Education, and Operator Certification Program

Funding sources and related expenses for the training, education, and operator certification section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Training and Education					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 1,115,812	\$ 1,115,812	\$ -	\$ 30,180	\$ (1,085,632)
Penalty Sanctions					-
Total ERO Funding	\$ 1,115,812	\$ 1,115,812	\$ -	\$ 30,180	\$ (1,085,632)
Membership Dues			-		-
Testing Fees			-		-
Services & Software			-		-
Workshops			-		-
Interest			-		-
Miscellaneous			-		-
Total Funding	\$ 1,115,812	\$ 1,115,812	\$ -	\$ 30,180	\$ (1,085,632)
Expenses					
Personnel Expenses					
Salaries	\$ 299,694	\$ 299,694	\$ -	\$ -	\$ (299,694)
Payroll Taxes	22,927	22,927	-	-	(22,927)
Benefits	27,104	27,104	-	-	(27,104)
Retirement Costs	11,988	11,988	-	-	(11,988)
Total Personnel Expenses	\$ 361,712	\$ 361,712	\$ -	\$ -	\$ (361,712)
Meeting Expenses					
Meetings	\$ 153,800	\$ 115,000	\$ (38,800)	\$ 25,000	\$ (128,800)
Travel	21,000	21,000	-	-	(21,000)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 174,800	\$ 136,000	\$ (38,800)	\$ 25,000	\$ (149,800)
Operating Expenses					
Consultants & Contracts	\$ 9,660	\$ 9,660	\$ -	\$ -	\$ (9,660)
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 9,660	\$ 9,660	\$ -	\$ -	\$ (9,660)
Total Direct Expenses	\$ 546,172	\$ 507,372	\$ (38,800)	\$ 25,000	\$ (521,172)
SPP Inc. Indirect Expenses	\$ 569,640	\$ 360,960	\$ (208,680)	\$ -	\$ (569,640)
SPP RE Indirect Expenses	\$ -	\$ -	\$ -	\$ 5,180	\$ 5,180
Total Expenses	\$ 1,115,812	\$ 868,332	\$ (247,480)	\$ 30,180	\$ (1,085,632)
Change in Assets	\$ -	\$ 247,480	\$ 247,480	\$ -	\$ -
Fixed Assets					
Depreciation			\$ -		\$ -
Computer & Software CapEx			-		-
Furniture & Fixtures CapEx			-		-
Equipment CapEx			-		-
Leasehold Improvements			-		-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets					
Change in Fixed Assets	-	-	-	-	-
TOTAL CHANGE IN ASSETS	\$ -	\$ 247,480	\$ 247,480	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Requirements — Explanation of Increase (Decrease)

- Funding for this program is provided through assessments to LSEs or designees (mandatory in the U.S.).

Hiring Plans

- N/A

Personnel Expenses

- There is a decrease of 3 FTEs from the 2009 budget to reflect the decision not to include operator type training in the RE budget.

Meeting and Travel Expenses

- There is a decrease of \$153,800 from the 2009 budget to reflect the decision not to include operator type training in the RE budget.

Operating Expenses

- There is a decrease of \$9,660 from the 2009 budget to reflect the decision not to include operator type training in the RE budget.

Indirect Expenses

- The indirect expensed decreased \$569,640 from the 2009 budget to reflect the decision not to include operator type training in the RE budget.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- N/A

Reliability Assessment and Performance Analysis Program

Reliability Assessment and Performance Analysis Program Resources			
<i>(in whole dollars)</i>			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	3.4	4.0	0.6
Total Direct Expenses	Salary \$351,558 Travel \$25,000 <u>Consulting \$56,000</u> Total \$432,558	Salary \$437,200 Travel \$30,000 <u>Consulting \$56,000</u> Total \$523,200	\$90,642
Total Indirect Expenses	\$645,592	SPP Inc. \$481,280 <u>SPP RE \$218,122</u> Total \$ 689,402	\$43,810
Inc(Dec) in Fixed Assets	\$0	\$0	\$0
Total Expenses & Fixed Assets	\$1,078,150	\$1,212,602	\$134,452

Program Scope and Functional Description

Background

In the United States, SPP as a NERC RE 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 SPP’s responsibility to support the reliability of the North American bulk power system, SPP intends to support NERC’s 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 Reliability and Adequacy Assessment Objectives adequacy of supply throughout the North American bulk power system, as well as examine the adequacy of the transmission system. SPP will also conduct inter-regional studies and other planning studies to comply with NERC’s various TPL standards.

The SPP RE is responsible for conducting Event Analyses on major reliability events within the SPP RE footprint. This analysis may be conducted by the entity involved in the event, an assigned SPP Working Group/Committee, a technical team comprised of industry experts or may be conducted by the RE, NERC or FERC staff. The SPP RE is responsible for producing a final technical report on each incident. Any issues that surface which may lead to standards compliance questions will be handled through the Compliance Monitoring & Enforcement Program portion of this Business Plan.

Program Scope and Functional Description

Reliability and adequacy assessments of the bulk power system will be conducted by teams comprised of NERC’s and RE professional and technical staff, along with volunteers from the electric industry, government, and academia who possess appropriate technical competencies. Except when site visits are necessary to conduct analyses, these teams’ work will be conducted through conference calls, e-mail, website postings, other means of electronic communications, and meetings. Meetings may be held at NERC’s headquarters or at meeting locations around the United States and Canada selected for proximity to and ease of access by team members.

SPP shared staff will conduct inter-regional studies or other planning studies in coordination with its members. The work of these teams will be conducted through conference calls, e-mail, website postings, other means of electronic communications, and meetings at SPP’s headquarters or at locations around the United States selected for proximity to and ease of access by team members. SPP RE staff will act as the

RE liaison with the SPP shared staff in supporting the analysis and publication of the annual NERC assessments.

2010 Key Assumptions

2010 Goals and Key Deliverables

Reliability and Adequacy Assessment Objectives

- Maintain and host a library of solved power flow models, a system dynamics database, and dynamics simulation cases for use by regional reliability organizations and their registered entities to assist with planning and evaluating future systems and current operating conditions
- Provide regional input to NERC's three reliability assessments each year: a long-term reliability assessment report, a summer assessment report, and a winter assessment report
- Participate in NERC meetings to discuss reliability assessment and analyses of the impact of these assessments
- Conduct inter-regional and other planning studies to comply with NERC's TPL standards, including participation in the Eastern Interconnection Reliability Assessment Group
- 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 system
- Maintain a working dialog on bulk power system reliability and adequacy issues with SPP members
- Participate actively in new committees/task formed recently formed at NERC level
 - Reliability Metrics Working Group (RMWG)
 - Resource Issues Subcommittee (RIS)
 - Loss of Load Expectation Group (LOLE)
 - Demand Response Data Task Force (DRDTF)
 - Reliability Assessment Guidebook Task Force (RAGTF)

Funding Requirements — Explanation of Increase (Decrease)

SPP staff continues to remain active in 2010 to perform Reliability Assessment and Performance Analysis functions. In addition, SPP staff is planning to get actively engaged into several working groups recently formed at NERC level. These groups are predominantly formed to ensure the consistency across the NERC footprint in defining Reliability, Resource Adequacy and achieving effective Demand Response programs.

Section A – 2010 Business Plan

Reliability Assessment and Performance Analysis Program

Funding sources and related expenses for the reliability assessment and performance analysis section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Assessment and Performance Analysis					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 1,078,150	\$ 1,078,150	\$ -	\$ 1,212,602	\$ 134,451
Penalty Sanctions					-
Total ERO Funding	\$ 1,078,150	\$ 1,078,150	\$ -	\$ 1,212,602	\$ 134,451
Membership Dues			-		-
Testing Fees			-		-
Services & Software			-		-
Workshops			-		-
Interest			-		-
Miscellaneous			-		-
Total Funding	\$ 1,078,150	\$ 1,078,150	\$ -	\$ 1,212,602	\$ 134,451
Expenses					
Personnel Expenses					
Salaries	\$ 290,153	\$ 290,153	\$ -	\$ 360,800	\$ 70,647
Payroll Taxes	22,197	22,197	-	27,600	5,403
Benefits	27,602	27,602	-	34,400	6,798
Retirement Costs	11,606	11,606	-	14,400	2,794
Total Personnel Expenses	\$ 351,558	\$ 351,558	\$ -	\$ 437,200	\$ 85,642
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	25,000	25,000	-	30,000	5,000
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 25,000	\$ 25,000	\$ -	\$ 30,000	\$ 5,000
Operating Expenses					
Consultants & Contracts	\$ 56,000	\$ 56,000	\$ -	\$ 56,000	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 56,000	\$ 56,000	\$ -	\$ 56,000	\$ -
Total Direct Expenses	\$ 432,558	\$ 432,558	\$ -	\$ 523,200	\$ 90,642
SPP Inc. Indirect Expenses	\$ 645,592	\$ 409,088	\$ (236,504)	\$ 481,280	\$ (164,312)
SPP RE Indirect Expenses	\$ -	\$ -	\$ -	\$ 208,122	\$ 208,122
Total Expenses	\$ 1,078,150	\$ 841,646	\$ (236,504)	\$ 1,212,602	\$ 134,451
Change in Assets	\$ -	\$ 236,504	\$ 236,504	\$ -	\$ -
Fixed Assets					
Depreciation			\$ -		\$ -
Computer & Software CapEx			-		-
Furniture & Fixtures CapEx			-		-
Equipment CapEx			-		-
Leasehold Improvements			-		-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets					
Change in Fixed Assets	-	-	-	-	-
TOTAL CHANGE IN ASSETS	\$ -	\$ 236,504	\$ 236,504	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Funding for this program is provided through assessments to LSEs or designees (mandatory in the U.S.).

Personnel Expenses

- SPP RE changes include salaries and benefits of the existing FTEs plus the increase of 0.6 FTE assigned to the SPP RE.

Meeting Expenses

- There are no specific meeting expenses associated with this activity from the dedicated SPP RE staff.

Operating Expenses

- Travel expenses have been adjusted to reflect the average cost of travel per employee plus a modest increase in the cost of travel.

Indirect Expenses

- Indirect Expenses have been reduced to reflect a reduction in the expected Indirect Rate. The indirect expenses are assessed to the SPP RE based on a fixed rate per hour charged by the SPP RE dedicated and shared staff.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- N/A

Situational Awareness and Infrastructure Security Program

Situation Awareness and Infrastructure Security Program Resources			
<i>(in whole dollars)</i>			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	0.75	0.75	0.00
Total Direct Expenses	Salary \$82,893 Travel \$18,000 Total \$100,893	Salary \$88,373 Travel \$18,000 Total \$106,373	\$5,480
Total Indirect Expenses	\$142,410	SPP Inc. \$90,240 SPP RE \$ 40,737 Total \$ 130,977	(\$11,433)
Inc(Dec) in Fixed Assets	\$0	\$0	\$0
Total Expenses & Fixed Assets	\$243,303	\$237.350	(\$5,953)

Program Scope and Functional Description

NERC coordinates electric industry activities to promote critical infrastructure protection of the bulk power system in North America. NERC has a leadership role in the critical infrastructure protection of the electricity sector to reduce vulnerability and improve mitigation and protection of the electricity sector’s critical infrastructure. NERC acts as the electricity sector’s Sector Coordinator and operates its Information Sharing and Analysis Center to gather and communicate information about security-related threats within the sector, United States and Canadian governmental authorities, and other critical infrastructure sectors. NERC also performs security planning activities focused on the critical infrastructure protection of the electricity sector, including sharing sensitive or classified information with federal, state, and provincial governmental authorities.

SPP actively participates in NERC critical infrastructure protection activities and serves as an information conduit between NERC and SPP members.

SPP sponsors a Critical Infrastructure Protection Working Group (CIPWG). The CIPWG:

- Serves as an expert advisory panel to the SPP Board of Directors, committees, and members
- Provides a forum for discussion of physical and cyber security issues within the SPP Region
- Serves as the interface between the NERC Critical Information Protection Committee (CIPC) and the SPP membership, including:
 - Serving as a conduit for information flow between the CIPC and SPP members
 - Developing guidance and recommendations to CIPC members representing the SPP
- Provides general guidance to SPP members on CIP Standards and related compliance efforts

The CIPWG consists of SPP members who are subject to the NERC CIP Cyber Security Standards (CIP-002-1 through CIP-009-1) and is facilitated by an SPP staff member. The working group meets quarterly at a member location. Additional meetings and conference calls are scheduled as required.

Section A – 2010 Business Plan

SPP is represented on the CIPC by three SPP member company representatives who represent the physical, cyber, and operations disciplines. Per the SPP Bylaws, SPP reimburses the member representatives for travel expenses incurred while performing CIPC responsibilities.

2010 Key Assumptions

The primary assumptions for 2010 are the continued financial and personnel support of the SPP Critical Infrastructure Protection Working Group (CIPWG), and continued support for CIPC participation from designated SPP member representatives.

CIP compliance monitoring and enforcement is included in Compliance Monitoring and Enforcement.

2010 Goals and Key Deliverables

- Continue sponsoring the Critical Infrastructure Protection Working Group (CIPWG)
 - Continue quarterly meetings
 - Maintain and Increase CIPWG membership
 - Provide progress updates on CIP standards drafting
 - Provide a discussion forum for NERC-requested comments and ballot issues
 - Provide support to the RE-sponsored CIP “How-To” Workshop
- Provide enhanced support to SPP members about CIP Standards
 - Provide general recommendations on appropriate security best practices
 - Provide opportunities for technical and compliance-related training
 - Provide Members Only discussion periods regarding CIP compliance progress
 - Maintain the CIPWG electronic mail lists for group discussion of CIP-related issues
- Continue supporting CIPC attendance by CIPWG representatives
 - Reimburse expenses for Physical, Cyber, and Operations representatives (or designated alternates)

Section A – 2010 Business Plan

Situational Awareness and Infrastructure Security Program

Funding sources and related expenses for the situational awareness and infrastructure security section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Situational Awareness and Infrastructure Security					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 243,303	\$ 243,303	\$ -	\$ 237,349	\$ (5,954)
Penalty Sanctions					-
Total ERO Funding	\$ 243,303	\$ 243,303	\$ -	\$ 237,349	\$ (5,954)
Membership Dues			-		-
Testing Fees			-		-
Services & Software			-		-
Workshops			-		-
Interest			-		-
Miscellaneous			-		-
Total Funding	\$ 243,303	\$ 243,303	\$ -	\$ 237,349	\$ (5,954)
Expenses					
Personnel Expenses					
Salaries	\$ 69,508	\$ 69,508	\$ -	\$ 72,623	\$ 3,115
Payroll Taxes	5,317	5,317	-	5,550	233
Benefits	5,287	5,287	-	7,275	1,988
Retirement Costs	2,780	2,780	-	2,925	145
Total Personnel Expenses	\$ 82,893	\$ 82,893	\$ -	\$ 88,373	\$ 5,480
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	18,000	18,000	-	18,000	-
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 18,000	\$ 18,000	\$ -	\$ 18,000	\$ -
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Direct Expenses	\$ 100,893	\$ 100,893	\$ -	\$ 106,373	\$ 5,480
SPP Inc. Indirect Expenses	\$ 142,410	\$ 90,240	\$ (52,170)	\$ 90,240	\$ (52,170)
SPP RE Indirect Expenses	\$ -	\$ -	\$ -	\$ 40,737	\$ 40,737
Total Expenses	\$ 243,303	\$ 191,133	\$ (52,170)	\$ 237,349	\$ (5,954)
Change in Assets	\$ -	\$ 52,170	\$ 52,170	\$ -	\$ (0)
Fixed Assets					
Depreciation			\$ -		\$ -
Computer & Software CapEx			-		-
Furniture & Fixtures CapEx			-		-
Equipment CapEx			-		-
Leasehold Improvements			-		-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets					
Change in Fixed Assets	-	-	-	-	-
TOTAL CHANGE IN ASSETS	\$ -	\$ 52,170	\$ 52,170	\$ -	\$ (0)

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Funding for this program is provided through assessments to LSEs or designees (mandatory in the U.S.).

Shared Employees

- The acting SPP CIPWG Secretary will assist with the coordination and setup for CIPWG meetings throughout 2010.

Meeting Expenses

- N/A

Operating Expenses

- N/A

Indirect Expenses

- Indirect Expenses have been reduced to reflect a reduction in the expected Indirect Rate. The indirect expenses are assessed to the SPP RE based on a fixed rate per hour charged by the SPP RE dedicated and shared staff.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- N/A

Technical Committees and Members' Forums

Background

- SPP Regional Entity provides forums for registered entities within its footprint to discuss and share reliability concerns. This includes SPP committees, subcommittees, working groups, and task forces that are grouped by technical areas.
- The SPP Regional Entity also conducts a minimum of two public workshops per year where registered entities are able to interact with SPP RE staff and NERC staff and discuss reliability issues. These expenses are included in the Training Statement of Activities for the 2010 Business Plan and Budget.

Program Description and Functions Performed

2010 Goals and Objectives

- Provide input on ERO and RE issues, including but not limited to the NERC Members Representative Committee and other NERC standing committees.
- Provide technical committee forums to act as standards-drafting teams in development of SPP regional reliability standards.

Funding Requirements — Explanation of Increase (Decrease)

Staffing Needs

Hiring Plans

- No additional staff is planned for 2010. SPP plans to use existing shared staff to support this function.

Shared Employees

- SPP RE will use existing shared staff to support SPP forums, as listed above, in 2010.

Contractors

- No contractors are expected for 2010 to support this function.

Section A – 2010 Business Plan

Technical Committees and Member Forums

Funding sources and related expenses for the Members' Forums section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Technical Committees and Member Forums					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 25,000	\$ 25,000	\$ -	\$ -	\$ (25,000)
Penalty Sanctions					
Total ERO Funding	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (25,000)</u>
Membership Dues			-		-
Testing Fees			-		-
Services & Software			-		-
Workshops			-		-
Interest			-		-
Miscellaneous			-		-
Total Funding	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (25,000)</u>
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Meeting Expenses					
Meetings	\$ 25,000	\$ -	\$ (25,000)	\$ -	\$ (25,000)
Travel	-	-	-	-	-
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ (25,000)</u>	<u>\$ -</u>	<u>\$ (25,000)</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Direct Expenses	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ (25,000)</u>	<u>\$ -</u>	<u>\$ (25,000)</u>
SPP Inc. Indirect Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SPP RE Indirect Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ (25,000)</u>	<u>\$ -</u>	<u>\$ (25,000)</u>
Change in Assets	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed Assets					
Depreciation			\$ -		\$ -
Computer & Software CapEx			-		-
Furniture & Fixtures CapEx			-		-
Equipment CapEx			-		-
Leasehold Improvements			-		-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets					
Change in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN ASSETS	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ -</u>

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Funding for this program is provided through assessments to LSEs or designees (mandatory in the U.S.).

Personnel Expenses

- N/A

Meeting Expenses

- N/A

Operating Expenses

- N/A

Indirect Expenses

- N/A

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- N/A

Administrative Services

Administrative Services			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	2.5	4.0	1.5
Total Direct Expenses	Salary \$348,219 Travel \$55,000 Trustee Fees \$135,000 <u>Hearings \$150,000</u> Total \$688,219	Salary \$595,600 Travel \$30,000 Trustee Fees \$140,000 <u>Hearings \$150,000</u> Total \$915,600	\$227,381
Total Indirect Expenses	\$474,700	SPP Inc. \$481,280	\$6,580
Inc(Dec) in Fixed Assets	\$0	\$0	\$0
Total Expenses & Fixed Assets	\$1,162,919	\$1,396,880	\$233,961

General and Administrative

Program Scope and Functional Description

The General and Administrative function consists of the RE General Manager, the SPP RE Counsel and three independent Regional Entity Trustees.

The RE General Manager provides executive level support through participation in meetings and conference calls with other Regional Entities and Senior NERC staff. The RE General Manager reports directly to the three independent RE Trustees.

The RE Trustees are independent of the SPP Board of Directors, any SPP member, SPP registered entity, industry stakeholder, or organizational group. The RE Trustees have autonomy over decisions in fund allocation and approval of the SPP RE budget, as well as decisions on regional standards, compliance enforcement actions, and penalties.

2010 Goals and Objectives

The functions and duties of the Regional Entity Trustees will include, but are not limited to the following:

- Monitor all Registered Entities in the SPP footprint for compliance with ERO/FERC requirements, including auditing and issuance of official findings,
- Administer SPP’s Compliance Enforcement Program,
- Coordinate and manage third party audits to confirm that SPP is conforming to ERO policies and standards,
- Impose penalties as prescribed and approved by ERO/FERC,
- Regional Entity staff administration,
- Regional Entity budget decisions,
- Track and review Regional Standards from MOPC for submission to the ERO and FERC for approval and implementation,
- Complete a self-assessment annually to determine how effectively the Regional Entity Trustees are meeting their responsibilities, and
- Provide an annual report to the Board of Directors regarding the effectiveness of the Regional Entity function and processes.

Section A – 2010 Business Plan

The SPP RE Counsel provides exclusive legal support to the SPP RE.

The RE General Manager ensures that the SPP RE fulfills the responsibilities of the RE Delegation Agreement and provides these resources in a manner that is independent and separate from other non-RE SPP responsibilities.²

Funding Requirements — Explanation of Increase (Decrease)

- The Administrative costs are allocated to the functions in the 2010 Business Plan & Budget resulting in zero funding requirements. Prior to allocation, the funding requirements are expected to increase with the addition of the RE General Manager in mid-year 2009 and an additional administrative support in 2009. The RE General Manager was added to implement the recommendation from the FERC Audit. Due to a significant increase in administrative work including the need to implement a document management system an additional administrative assistant is required. Travel expense is increased due to the increased FTEs needed to support this function.

² See 2009 SPP RE Organization Chart, the Compliance Monitoring and Enforcement and Organization Registration and Certification and the Reliability Readiness Evaluation and Improvement Programs are overseen by the Executive Director of Compliance to ensure separation from SPP non-statutory activities.

Section A – 2010 Business Plan

Administrative Services

Funding sources and related expenses for the Administrative Services section of the 2010 Business Plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
General and Administrative					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 1,630,710	\$ 1,630,710	\$ -	\$ -	\$ (1,630,710)
Penalty Sanctions					
Total ERO Funding	<u>\$ 1,630,710</u>	<u>\$ 1,630,710</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,630,710)</u>
Membership Dues			-		-
Testing Fees			-		-
Services & Software			-		-
Workshops			-		-
Interest			-		-
Miscellaneous			-		-
Total Funding	<u>\$ 1,630,710</u>	<u>\$ 1,630,710</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,630,710)</u>
Expenses					
Personnel Expenses					
Salaries	\$ 289,435	\$ 365,200	\$ 75,765	\$ 498,800	\$ 209,365
Payroll Taxes	22,142	27,900	5,758	33,600	11,458
Benefits	25,065	41,900	16,835	43,200	18,135
Retirement Costs	11,577	14,600	3,023	20,000	8,423
Total Personnel Expenses	<u>\$ 348,219</u>	<u>\$ 449,600</u>	<u>\$ 101,381</u>	<u>\$ 595,600</u>	<u>\$ 247,381</u>
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	30,000	30,000	-	30,000	-
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ 30,000</u>	<u>\$ 30,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ -</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	135,000	135,000	-	140,000	5,000
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ 135,000</u>	<u>\$ 135,000</u>	<u>\$ -</u>	<u>\$ 140,000</u>	<u>\$ 5,000</u>
Total Direct Expenses	<u>\$ 513,219</u>	<u>\$ 614,600</u>	<u>\$ 101,381</u>	<u>\$ 765,600</u>	<u>\$ 252,381</u>
SPP Inc. Indirect Expenses	<u>\$ 474,700</u>	<u>\$ 481,280</u>	<u>\$ 6,580</u>	<u>\$ 481,280</u>	<u>\$ 6,580</u>
SPP RE Indirect Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,246,880)</u>	<u>\$ (1,246,880)</u>
Total Expenses	<u>\$ 987,919</u>	<u>\$ 1,095,880</u>	<u>\$ 107,961</u>	<u>\$ -</u>	<u>\$ (987,919)</u>
Change in Assets	<u>\$ 642,791</u>	<u>\$ 534,830</u>	<u>\$ (107,961)</u>	<u>\$ -</u>	<u>\$ (642,791)</u>
Fixed Assets					
Depreciation			\$ -		\$ -
Computer & Software CapEx			-		-
Furniture & Fixtures CapEx			-		-
Equipment CapEx			-		-
Leasehold Improvements			-		-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets					
Change in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN ASSETS	<u>\$ 642,791</u>	<u>\$ 534,830</u>	<u>\$ (107,961)</u>	<u>\$ -</u>	<u>\$ (642,791)</u>

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Funding for this program is provided through assessments to LSEs or designees (mandatory in the U.S.).

Personnel Expenses

Hiring Plans

- SPP RE plans to hire 1 additional dedicated SPP RE staff in 2009 to provide sufficient administrative resources to implement a document management process and augment provision of administrative support for many SPP RE confidential matters including; preparation of audit files and documentation, preparation of compliance violation and preliminary event analysis documentation, assistance with expense reporting and invoice management, assistance with data requests, minor database administration, budget monitoring, on-site support for compliance workshops, and RE Trustees meeting preparations. (This position will be filled midyear 2009 as an out of budget expense). The mid-year 2009 hire of the SPP RE General Manager accounts for the remaining 0.5 FTE increase in 2010 above the 2009 Business Plan.

Shared Employees

- SPP shared staff are budgeted for through the SPP Indirect Costs. Shared staff provides general and administrative services in support of the SPP RE programs. If a shared staff incurs significant time and expense to support an RE activity, those may be tracked directly to the RE. SPP shared staff beyond those directly budgeted for in this section may provide administrative support and are budgeted for through the SPP indirect costs.

Contractors

- No contractors are planned for 2010 to support this activity.

Meeting Expenses

- N/A

Operating Expenses

- The increase in operating expenses is due to increased Trustees Expenses resulting from a small increase to payments for certain meetings.

Indirect Expenses

- The indirect expenses increased due to the increased FTEs. The indirect expenses are assessed to the SPP RE based on a fixed rate per hour charged by the SPP RE dedicated staff.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- N/A

Human Resources

Functional Description

- SPP will provide Human Resources support for the SPP Regional Entity, including the hiring of any needed staff and the administration of payroll and benefits.

2009 Goals and Objectives

- To provide adequate human resources services for the SPP RE to fulfill the responsibilities of the RE Delegation Agreement and to provide these resources in a manner that is independent and separate from other non-RE SPP responsibilities.

Funding Requirements — Explanation of Increase (Decrease)

- The costs for HR services to support all RE program areas are accounted for within the Indirect Costs. No specific direct costs for HR services are identified for 2020.

Legal and Regulatory

Functional Description

- The SPP RE has a General Counsel that provides exclusive legal support to the SPP RE.³ If SPP RE is required to convene hearings under the Compliance Monitoring and Enforcement Program Exhibit C of the RE Delegation Agreement), independent hearing officers may be utilized. Estimated hearing costs are included to support 3 hearings in 2010.

2010 Goals and Objectives

- Provide Legal and Regulatory services to support regular RE activities
- Provide hearing officer if SPP RE is required to convene hearings

Funding Requirements — Explanation of Increase (Decrease)

- The costs for Legal and Regulatory FTEs to support all RE program areas are accounted for within the Administrative and General section. Estimated hearing costs are included to support 3 hearings in 2010

Staffing Needs

Hiring Plans

- No additional staff is planned for this area in 2010.

Shared Employees

- The SPP RE may require shared staff resources in 2010 to support this function. Any time and expense by shared staff to support RE legal and regulatory activities will be tracked.

Contractors

- If required, independent hearing officers will be contracted to lead hearings.

³ SPP RE General Counsel is accounted for in the general and administrative budget for confidentiality
2010 SPP Regional Entity Business Plan and Budget
Approved by SPP RE Trustees: July 29, 2009

Section A – 2010 Business Plan

Legal and Regulatory

Funding sources and related expenses for the Legal and Regulatory section of the 2010 Business Plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Legal and Regulatory					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 150,000	\$ 150,000	\$ -	\$ -	\$ (150,000)
Penalty Sanctions					
Total ERO Funding	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (150,000)</u>
Membership Dues			-		-
Testing Fees			-		-
Services & Software			-		-
Workshops			-		-
Interest			-		-
Miscellaneous			-		-
Total Funding	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (150,000)</u>
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	-	-	-	-	-
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	150,000	150,000	-	150,000	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ 150,000</u>	<u>\$ -</u>
Total Direct Expenses	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ 150,000</u>	<u>\$ -</u>
SPP Inc. Indirect Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
SPP RE Indirect Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (150,000)</u>	<u>\$ (150,000)</u>
Total Expenses	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (150,000)</u>
Change in Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed Assets					
Depreciation			\$ -		\$ -
Computer & Software CapEx			-		-
Furniture & Fixtures CapEx			-		-
Equipment CapEx			-		-
Leasehold Improvements			-		-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets					
Change in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Information Technology

Functional Description

- The SPP Information Technology department provides resources for the SPP RE to fulfill the responsibilities of the RE Delegation Agreement.

2010 Goals and Objectives

- To provide adequate information technology support for the SPP RE to fulfill the responsibilities of the RE Delegation Agreement and to provide these resources in a manner that is independent and separate from other non-RE SPP responsibilities.

Funding Requirements — Explanation of Increase (Decrease)

- The costs for IT services to support all RE program areas are accounted for within the indirect costs. No specific direct costs for IT services are identified for 2010.

Staffing Needs

Hiring Plans

Shared Employees

- SPP shared staff used to support this function are providing support services only and are budgeted for through SPP indirect costs.

Contractors

- No contractors are planned for this activity.

Section B — 2010 Budget

2009 Budget and Projection and 2010 Budget Comparisons

Table 1

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
STATUTORY					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 7,123,827	\$ 7,123,827	\$ -	\$ 6,755,854	\$ 1,014,955
Penalty Sanctions ⁽¹⁾	-	-	-	-	-
Total ERO Funding	\$ 7,123,827	\$ 7,123,827	\$ -	\$ 6,755,854	\$ 1,014,955
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 7,123,827	\$ 7,123,827	\$ -	\$ 6,755,854	\$ 1,014,955
Expenses					
Personnel Expenses					
Salaries	\$ 1,775,017	\$ 2,009,894	\$ 234,877	\$ 2,861,623	\$ 1,086,606
Payroll Taxes	135,789	153,769	17,980	194,700	58,911
Benefits	177,328	213,212	35,884	243,975	66,647
Retirement Costs	71,001	80,388	9,387	112,725	41,724
Total Personnel Expenses	\$ 2,159,134	\$ 2,457,263	\$ 298,129	\$ 3,413,023	\$ 1,253,888
Meeting Expenses					
Meetings	\$ 178,800	\$ 115,000	\$ (63,800)	\$ 25,000	\$ (153,800)
Travel	206,000	198,000	(8,000)	318,000	112,000
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 384,800	\$ 313,000	\$ (71,800)	\$ 343,000	\$ (41,800)
Operating Expenses					
Consultants & Contracts	\$ 395,660	\$ 415,660	\$ 20,000	\$ 1,175,000	\$ 779,340
Office Rent	-	-	0	-	-
Office Costs	-	-	-	-	-
Professional Services	285,000	285,000	-	290,000	5,000
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 680,660	\$ 700,660	\$ 20,000	\$ 1,465,000	\$ 784,340
Total Direct Expenses	\$ 3,224,594	\$ 3,470,923	\$ 246,329	\$ 5,221,023	\$ 1,996,428
SPP Inc. Indirect Expenses	\$ 3,256,442	\$ 2,484,608	\$ (771,834)	\$ 2,917,760	\$ (338,682)
SPP RE Indirect Expenses	\$ -	\$ -	\$ -	\$ (0)	\$ (0)
Total Expenses	\$ 6,481,036	\$ 5,955,531	\$ (525,505)	\$ 8,138,783	\$ 1,657,746
Change in Assets	\$ 642,791	\$ 1,168,296	\$ 525,505	\$ (1,382,928)	\$ (642,791)
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
Change in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	-	-	-	-	-
Change in Fixed Assets	-	-	-	-	-
TOTAL CHANGE IN ASSETS	\$ 642,791	\$ 1,168,296	\$ 525,505	\$ (1,382,928)	\$ (642,791)

Section B – 2010 Regional Entity Budget

Personnel Analysis

FTEs are defined as full-time employees only. Fractional FTEs reflect part-time employees, shared employees or employees who worked in fewer than all four quarters of the year.

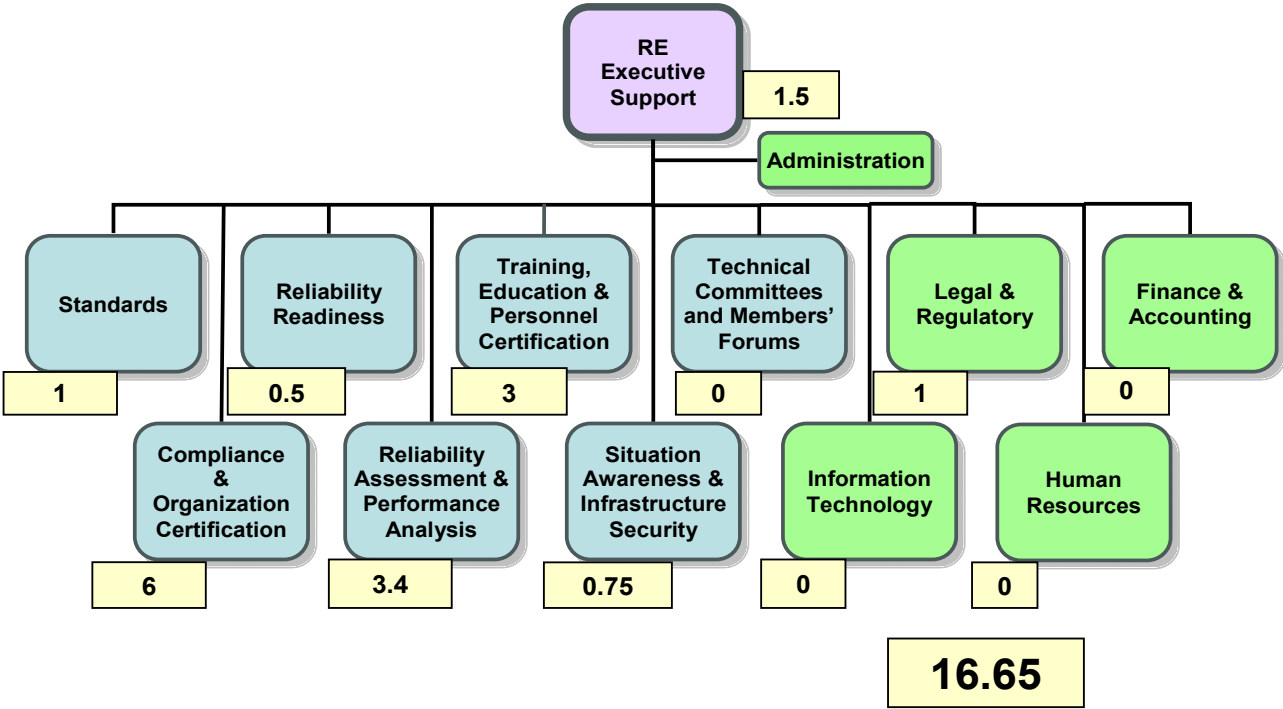
Table 2

Total FTE's by Program Area	Budget 2009	Projection 2009	Direct FTEs 2010 Budget	Shared FTEs ¹ 2010 Budget	Total FTEs 2010 Budget	Change from 2009 Budget
STATUTORY						
Operational Programs						
Reliability Standards	1.0	1.0	1.0	0.5	1.5	0.5
Compliance and Organization Registration and Certification	6.0	8.0	14.0	0.0	14.0	8.0
Reliability Readiness Evaluation and Improvement	0.5	0.0	0.0	0.0	0.0	-0.5
Training and Education	3.0	3.0	0.0	0.0	0.0	-3.0
Reliability Assessment and Performance Analysis	3.4	3.4	1.0	3.0	4.0	0.6
Situational Awareness and Infrastructure Security	0.8	0.8	0.0	0.8	0.8	0.0
Total FTEs Operational Programs	14.7	16.2	16.0	4.3	20.3	5.6
Administrative Programs						
Member Forums	0.0	0.0	0.0	0.0	0.0	0.0
General & Administrative	2.5	4.0	4.0	0.0	4.0	1.5
Information Technology	0.0	0.0	0.0	0.0	0.0	0.0
Legal and Regulatory	0.0	0.0	0.0	0.0	0.0	0.0
Human Resources	0.0	0.0	0.0	0.0	0.0	0.0
Accounting	0.0	0.0	0.0	0.0	0.0	0.0
Total FTEs Administrative Programs	2.5	4.0	4.0	0.0	4.0	1.5
Total FTEs	17.2	20.2	20.0	4.3	24.3	7.1

Note: Information Technology, Corporate Legal and Regulatory, Human Resources and Accounting are provided by SPP, Inc. and charged to SPP RE through the Indirect Expense Rate.

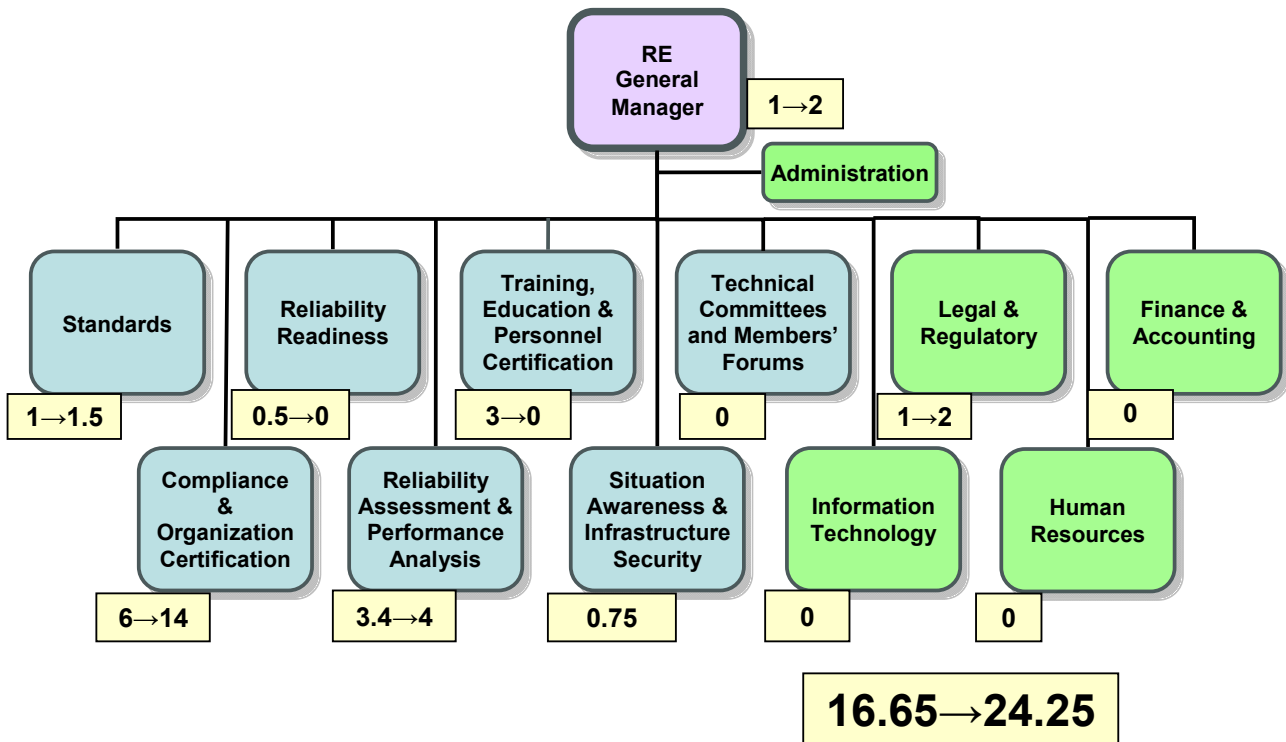
2009 Organizational Chart

Table 3



2010 Organizational Chart

Table 4



Section B – 2010 Regional Entity Budget

Table 5

Working Capital Reserve Analysis 2009-2010	
STATUTORY	
Beginning Working Capital Reserve (Deficit), December 31, 2008	214,632
Less: Penalty sanctions to be used as offset to 2010 assessments ¹	0
Plus: 2009 ERO Funding (from LSEs or designees)	7,123,827
Plus: 2009 Other funding sources	0
Less: '2009 Projected expenses & capital expenditures	(5,955,531)
Projected Working Capital Reserve (Deficit), December 31, 2009	1,382,928
 Desired Working Capital Reserve, December 31, 2010	 0
Less: Projected Working Capital Reserve, December 31, 2009	(1,382,928)
Increase(decrease) in assessments to achieve desired Working Capital Reserve	(1,382,928)
2010 Assessment for Expenses and Capital Expenditures	8,138,783
Less: Penalty Sanctions ¹	0
Less: Other Funding Sources	0
Adjustment to achieve desired Working Capital Reserve	(1,382,928)
2010 Assessment	6,755,854

¹ Represents collections prior to June 30, 2009.

² SPP RE does not require a working capital reserve in that on a cash basis SPP is able to fund shortfalls in its statutory (Regional Entity) funding through its operating cash balances, and also has access to liquidity through a bank credit facility.

**Regional Entity Assessment Analysis
Assessments by Country**

Table 6

Data Year	Regional Entity	Total NEL	U.S. NEL	Canada NEL	Mexico NEL	% of RE Total	US Total	Canada Total	Mexico Total
Summary by Regional Entity									
2008	FRCC	-							
2008	MRO	-							
2008	NPCC	-							
2008	RFC	-							
2008	SERC	-							
2008	SPP	208,009,387	208,009,387				100.000%		
2008	TRE	-							
2008	WECC	-							
	TOTAL	208,009,387	208,009,387	-	-	0%	100.000%	0.000%	0.000%

Section B – 2010 Regional Entity Budget

Table 7

**Statement of Activities
2011 and 2012 Projections**

	2010 Budget	2011 Projection	\$ Change 10 v 11	% Change 10 v 11	2012 Projection	\$ Change 11 v 12	% Change 11 v 12
Funding							
ERO Funding							
ERO Assessments	\$ 6,755,854	\$ -	\$ (6,755,854)	0.00%	\$ -	\$ -	
Penalty Sanctions	-	-	-		-	-	
Total ERO Funding	\$ 6,755,854	\$ -	\$ (6,755,854)	0.0%	\$ -	\$ -	
Membership Dues	-	-	-		-	-	
Testing Fees	-	-	-		-	-	
Services & Software	-	-	-		-	-	
Workshops	-	-	-		-	-	
Interest	-	-	-		-	-	
Miscellaneous	-	-	-		-	-	
Total Funding	\$ 6,755,854	\$ -	\$ (6,755,854)	0.0%	\$ -	\$ -	
Expenses							
Personnel Expenses							
Salaries	2,861,623	-	(2,861,623)	0.0%	-	-	
Payroll Taxes	194,700	-	(194,700)	0.0%	-	-	
Benefits	243,975	-	(243,975)	0.0%	-	-	
Retirement Costs	112,725	-	(112,725)	0.0%	-	-	
Total Personnel Expenses	\$ 3,413,023	\$ -	\$ (3,413,023)	0.0%	\$ -	\$ -	
Meeting Expenses							
Meetings	\$ 25,000	\$ -	\$ (25,000)	0.0%	-	-	
Travel	318,000	-	(318,000)	0.0%	-	-	
Conference Calls	-	-	-		-	-	
Total Meeting Expenses	\$ 343,000	\$ -	\$ (343,000)	0.0%	\$ -	\$ -	
Operating Expenses							
Consultants & Contracts	\$ 1,175,000	\$ -	(1,175,000)	0.0%	-	-	
Office Rent	-	-	-		-	-	
Office Costs	-	-	-		-	-	
Professional Services	290,000	-	(290,000)	0.0%	-	-	
Miscellaneous	-	-	-		-	-	
Depreciation	-	-	-		-	-	
Total Operating Expenses	1,465,000	-	(1,465,000)	0.0%	-	-	
SPP Inc. Indirect Expenses	\$ 2,917,760	\$ -	\$ (2,917,760)	0.0%	-	-	
SPP RE Indirect Expenses	\$ (0)	\$ -	\$ 0	0.0%	-	-	
Total Expenses	\$ 8,138,783	\$ -	\$ (8,138,783)	0.0%	\$ -	\$ -	0.0%
Change in Assets	\$ 1,382,929	\$ -	\$ (1,382,929)	0.0%	\$ -	\$ -	
Fixed Assets							
Depreciation	\$ -	0	0		0	0	
Computer & Software CapEx	-	0	0		0	0	
Furniture & Fixtures CapEx	-	0	0		0	0	
Equipment CapEx	-	0	0		0	0	
Leasehold Improvements	-	0	0		0	0	
Change in Fixed Assets	\$ -	\$ -	\$ -		\$ -	\$ -	
TOTAL CHANGE IN ASSETS	\$ 1,382,929	\$ -	\$ (1,382,929)		\$ -	\$ -	

Table B-1

Penalty Sanctions Received Prior to June 30, 2009	Date Receive	Amount Received
--	---------------------	------------------------

Name of Entity

Total Penalties Received

\$ -

No Penalties were received prior to June 30, 2009.

Breakdown by Statement of Activity Sections

The following detailed schedules are in support of Table 1 of the 2010 RE business Plan and budget. All significant variances have been disclosed by program area in the preceding pages

Table B-2

Supplemental Funding
N/A

Section B – 2010 Regional Entity Budget

Personnel Expenses

Table B-3

Personnel Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Salaries					
Salary	\$ 1,775,018	\$ 2,009,894	\$ 2,861,623	\$ 1,086,605	61.2%
Employment Agency Fees				-	
Temporary Office Services				-	
Total Salaries	\$ 1,775,018	\$ 2,009,894	\$ 2,861,623	\$ 1,086,605	61.2%
Total Payroll Taxes	\$ 135,789	\$ 153,769	\$ 194,700	\$ 58,911	43.4%
Benefits					
Workers Compensation	\$ -	\$ -	\$ -	\$ -	
Medical Insurance	141,570	177,420	202,075	60,505	42.7%
Life-LTD-LTC Insurance	10,758	10,792	11,900	1,142	10.6%
Education	25,000	25,000	30,000	5,000	20.0%
Relocation				-	
Total Benefits	\$ 177,328	\$ 213,212	\$ 243,975	\$ 66,647	37.6%
Retirement					
Discretionary 401k Cont. Savings Plan	\$ 71,000	80,388	\$ 112,725	\$ 41,725	58.8%
Total Retirement	\$ 71,000	\$ 80,388	\$ 112,725	\$ 41,725	58.8%
Total Personnel Costs	\$ 2,159,134	\$ 2,457,263	\$ 3,413,023	\$ 1,253,888	58.1%
FTEs	17.2	20.7	24.3	7.1	41.4%
Cost per FTE					
Salaries	\$ 103,500	\$ 97,331	\$ 118,005	14,505	14.0%
Payroll Taxes	7,918	7,446	8,029	111	1.4%
Benefits	10,340	10,325	10,061	(279)	-2.7%
Retirement	4,140	3,893	4,648	509	12.3%
Total Cost per FTE	\$ 125,897	\$ 118,996	\$ 140,743	\$ 14,846	11.8%

Explanation of Significant Variances – 2010 Budget versus 2009

Variances are driven by the hiring of the SPP RE General Manager and two unbudgeted personnel additions to the Compliance and Enforcement staff.

Section B – 2010 Regional Entity Budget

Consultants and Contracts

Table B-4

Consultants	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Consultants					
Reliability Standards				\$ -	
Compliance and Organization Registration and Certification	260,000	280,000	1,025,000	765,000	266.07%
Reliability Readiness Evaluation and Improvement-instead of FTE				-	
Reliability Assessment and Performance Analysis	56,000	56,000	56,000	-	0.00%
Training and Education				-	
Situational Awareness and Infrastructure Security-NASPI				-	
Committee and Member Forums				-	
General and Administrative				-	
Legal and Regulatory-Self Assessment				-	
Information Technology				-	
Human Resources-Executive Search				-	
Accounting and Finance				-	
Consultants Total	\$ 316,000	\$ 336,000	\$ 1,081,000	\$ 765,000	221.73%
Contracts	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Contracts					
CDMS Software Costs	\$ 70,000	\$ 70,000	\$ 70,000	\$ -	
Reliability Standards Voting Tool Software			24,000	24,000	
Assessment Studies				-	
TADS Development				-	
Subtotal - Compliance and Reliability Assessment Contracts	\$ 70,000	\$ 70,000	\$ 94,000	\$ 24,000	34.29%
RCIS Support				-	
Resource Adequacy Tool (Srv Agreement)				-	
Inadvertent Interchange				-	
AIE Monitoring				-	
CPS1-Balancing Authority ACE Limit Monitoring				-	
Frequency Monitoring				-	
Intelligent Alarms/DARA (Srv Agreement)				-	
Resources Subcommittee Maintenance				-	
Subtotal -Situational Awareness Contracts	\$ -	\$ -	\$ -	\$ -	
Frame Relay	\$ -	\$ -	\$ -	\$ -	
Contract - IDC					
SDX Support				\$ -	
SDX Maintenance				-	
IDC Maintenance				-	
DF Support Services Contract				-	
IDC Client Contracts				-	
IDC Client Billing				-	
IDC Base Contract				-	
NERC Factor Viewer (NFV)				-	
Book of Flowgate Database				-	
Book of Flowgate Database Maintenance				-	
E-Tag Maintenance				-	
Contracts - IDC Total	\$ -	\$ -	\$ -	\$ -	
Education and Training					
System Operator Testing Expenses	\$ 9,660	\$ 9,660		\$ (9,660)	
System Operator Job Analysis				-	
System Operator Examination Development				-	
Database Development				-	
Course Development-Compliance, Standards				-	
NERC Staff Training				-	
Design a Course				-	
Education and Training Total	\$ 9,660	\$ 9,660	\$ -	\$ (9,660)	-100.00%
Canadian Affairs Representative	\$ -	\$ -	\$ -	\$ -	
Contracts Total	\$ 79,660	\$ 79,660	\$ 94,000	\$ 14,340	18.00%
Total Consulting and Contracts	\$ 395,660	\$ 415,660	\$ 1,175,000	\$ 779,340	182.68%

Section B – 2010 Regional Entity Budget

Table B-5

Office Rent	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Office Rent	\$ -	\$ -	\$ -	\$ -	-
Utilities	-	-	-	-	-
Maintenance	-	-	-	-	-
Security	-	-	-	-	-
Total Office Rent	\$ -	\$ -	\$ -	\$ -	-

This is a cost included in the SPP Indirect Expense Rate. Overhead costs for services provided by SPP, Inc. such as payroll, human resources, information technology, executive leadership, communications, office costs and other support services are included in the SPP Indirect Expense Rate.

Table B-6

Office Costs	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Telephone	\$ -	\$ -	\$ -	\$ -	-
Internet	-	-	-	-	-
Office Supplies	-	-	-	-	-
Computer Supplies and Maintenance	-	-	-	-	-
Publications & Subscriptions	-	-	-	-	-
Dues	-	-	-	-	-
Postage	-	-	-	-	-
Express Shipping	-	-	-	-	-
Copying	-	-	-	-	-
Reports - Graphics	-	-	-	-	-
Stationary Forms	-	-	-	-	-
Equipment Repair/Service Contracts	-	-	-	-	-
Bank Charges	-	-	-	-	-
Sales & Use Taxes	-	-	-	-	-
Merchant Card Fees	-	-	-	-	-
Presentation & Publicity	-	-	-	-	-
Total Office Costs	\$ -	\$ -	\$ -	\$ -	-

This is a cost included in the SPP Indirect Expense Rate. Overhead costs for services provided by SPP, Inc. such as payroll, human resources, information technology, executive leadership, communications, office costs and other support services are included in the SPP Indirect Expense Rate.

Section B – 2010 Regional Entity Budget

Table B-7

Professional Services	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Independent Trustee Fees	\$ 135,000	\$ 135,000	\$ 140,000	\$ 5,000	3.70%
Outside Legal	150,000	150,000	150,000	-	0.00%
Accounting & Auditing Fees				-	
Other Legal Fees				-	
Insurance Commercial				-	
Total Services	\$ 285,000	\$ 285,000	\$ 290,000	\$ 5,000	1.75%

Table B-8

Other Non-Operating Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Interest Expense				\$ -	
Office Relocation				-	
Total Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	

Section C – Non-Statutory

Section C — 2010 RE Non-Statutory Business Plan and Budget

Background

Southwest Power Pool, Inc. (SPP) is a Regional Transmission Organization, mandated by the Federal Energy Regulatory Commission to ensure reliable supplies of power, adequate transmission infrastructure, and competitive wholesale prices of electricity. These activities are budgeted for separately from the SPP RE and constitute the non-statutory activities further described in this Section.

Membership and Governance (for non-statutory activities)

SPP is a relationship-based organization with member-driven processes offering independence through diversity in Organizational Group membership and recognition that reliability and economic/equity issues are inseparable. SPP strives to continuously improve and implement new concepts in a deliberate evolutionary manner.

SPP membership is voluntary and open to any electric utility, federal power marketing agency, transmission service provider, any entity engaged in the business of producing, selling and/or purchasing electric energy for resale, and any entity willing to meet the membership requirements, including execution of the Membership Agreement. Membership is also open to entities eligible to take service under the SPP Open Access Transmission Tariff (OATT). SPP offers its Members greater efficiency and service reliability through better coordination.

SPP members serve over 5 million customers across nine states: Arkansas, Kansas, Louisiana, Mississippi, Missouri, Nebraska, New Mexico, Oklahoma, and Texas.

SPP is governed in accordance with its Bylaws by an independent Board of Directors consisting of seven directors independent of any SPP Member. The Board of Directors works to ensure equity to all Members and acts in the best interest of SPP through its management, control and direction of the general business of SPP.

Non-Statutory Functional Scope

SPP is mandated by the Federal Energy Regulatory Commission (Commission) to ensure reliable supplies of power, adequate transmission infrastructure, and competitive wholesale prices of electricity.

SPP provides the following primary services to our members and customers:

Tariff Administration: Independent administration of the Open Access Transmission Tariff that provides one-stop shopping for regional transmission service with consistent rates and terms.

Reliability Coordination: SPP monitors power flow throughout our footprint. We anticipate problems and take preemptive action to mitigate operating limit violations. SPP coordinates regional response in emergency situations or blackouts.

Regional Scheduling: SPP ensures that the amount of power sent is coordinated and matched with power received. SPP's regional scheduling service reduces the number of entities with which SPP members and customers have to coordinate.

Market Operations: SPP administers an Energy Imbalance Marketplace, monitors resource/load balance and ensures that less expensive power is used to serve load before expensive power, all while ensuring system reliability is met.

Expansion Planning: SPP's planning process seeks to identify system limitations and develop transmission upgrades for increased capacity.

Contract Services: SPP provides reliability, tariff administration, and scheduling for non-members on a contract basis.

Section C – Non-Statutory

Finally, as a Public Utility under the Federal Power Act, SPP is required to submit its budget to the Commission. The Commission already has approved SPP's activities and has ordered that SPP's budgets be filed with the Commission.⁴

Schedule for Preparation and Approval of SPP Inc.'s Overall Annual Budget

SPP's overall annual budget is prepared on a budget cycle to be approved by its independent Board of Directors annually at its October meeting. Because of this timing difference with the NERC budget process; SPP is unable to provide an accurate 2010 SPP budget for non-statutory activities at this time. The process begins during the second quarter when the SPP staff develops preliminary non-statutory budgets. During the third quarter the Finance Committee of SPP initially reviews and evaluates the budget prepared by SPP staff. Once the budget is approved by the Finance Committee, it is presented to the Board of Directors for their review and approval at its quarterly meeting held in October. The SPP overall annual budget is then submitted to FERC for approval.

⁴ See Sw. Power Pool, Inc., 109 FERC ¶ 61,010, at P 98 (2004) (requiring SPP to file its operating budget on an annual basis). See also Sw. Power Pool, Inc., 109 FERC ¶ 61,009, at PP 3-5 (2004), order on reh'g, 110 FERC ¶ 61,137 (2005) (describing history of SPP RTO application, including approval and revision of SPP Bylaws); see also, generally, Sw. Power Pool, Inc., 108 FERC ¶ 61,003 (2004), order on reh'g, 110 FERC ¶ 61,138 (2005); Sw. Power Pool, Inc., 106 FERC ¶ 61,110 (2004).

Section C – Non-Statutory



SOUTHWEST POWER POOL 2009 BUDGET AND 2008 STATEMENT OF OPERATIONS

(000's)	2009 Budget	2008 Actuals
Operating Income		
Tariff Fees & Member Assessments	\$ 74,828	\$ 68,397
Other Member Services	26,774	23,648
	101,602	92,045
Operating Expenses		
Salary & Benefits	48,659	41,880
Employee Travel	1,504	1,367
Administrative	2,821	2,313
Regulatory Assessment	11,103	9,525
Meetings	644	703
Communications System	2,805	2,653
Leases	1,090	1,014
Maintenance	4,893	4,221
Consulting Services	17,251	17,495
Depreciation & Amortization	20,709	18,067
	111,479	99,238
Operating Loss	(9,877)	(7,193)
Other Income (Expense)		
Interest Income	750	648
Interest Expense	(3,524)	(2,756)
Change in Fair Market Value of Interest Rate Swaps		(2,733)
Other Income (Expense)		(478)
	(2,774)	(5,319)
Loss Before Change in Underfunded Status of Employee Benefit Plans	(12,651)	(12,512)
Change in Underfunded Status of Employee Benefit Plans		(3,912)
Net Loss	\$ (12,651)	\$ (16,424)

Section D – Additional Financial Data

Section D

2010 Consolidated Statement of Activities by Program, Statutory and Non-Statutory

Program	Fund	Statutory Total	Non-Statutory	Function 35 Designator Agreement										Non-Statutory Functions						
				Statutory Fund	Reliability Standards (Section 80)	Consulting and Organization Certification (Section 40)	Reliability Assessment and Analysis (Section 30)	Training and Education (Section 10)	Strategic Awareness and Security (Section 10)	Committee and Member Forum	Operational and Member Administration	Legal and Regulatory	Information Technology		Human Resources	Accounting and Finance				
ERD Funding		8,138,783	8,138,783																	
ERD Assessments		8,138,783	-	8,138,783	462,874	6,195,777	1,212,602	30,180	237,549	-	-	-	-	-	-	-	-	-	-	-
Penalty Services		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total ERD Funding		8,138,783	8,138,783	8,138,783	462,874	6,195,777	1,212,602	30,180	237,549	-	-	-	-	-	-	-	-	-	-	-
Membership Dues		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Training Fees		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Services & Software		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Workshops		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses		8,138,783	8,138,783	8,138,783	462,874	6,195,777	1,212,602	30,180	237,549	-	-	-	-	-	-	-	-	-	-	-
Expenses		8,138,783	8,138,783	8,138,783	462,874	6,195,777	1,212,602	30,180	237,549	-	-	-	-	-	-	-	-	-	-	-
Personnel Expenses		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Salaries		2,861,623	2,861,623	2,861,623	153,300	1,794,100	500,000	-	72,623	-	-	-	-	-	-	-	-	-	-	-
Benefits		1,000,000	1,000,000	1,000,000	1,200	8,000	4,000	-	1,700	-	-	-	-	-	-	-	-	-	-	-
Taxes		243,975	243,975	243,975	1,200	146,200	54,400	-	4,200	-	-	-	-	-	-	-	-	-	-	-
Retirement Costs		112,725	112,725	112,725	5,400	70,000	14,400	-	2,925	-	-	-	-	-	-	-	-	-	-	-
Total Personnel Expenses		3,418,323	3,418,323	3,418,323	163,900	2,127,300	457,200	-	88,373	-	-	-	-	-	-	-	-	-	-	-
Meeting Expenses		25,000	25,000	25,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Travel		318,000	318,000	318,000	15,000	225,000	30,000	-	18,000	-	-	-	-	-	-	-	-	-	-	-
Conference Calls		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Meeting Expenses		343,000	343,000	343,000	15,000	225,000	30,000	-	18,000	-	-	-	-	-	-	-	-	-	-	-
Operating Expenses		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Supplies & Contracts		1,175,000	1,175,000	1,175,000	24,000	1,095,000	56,000	-	-	-	-	-	-	-	-	-	-	-	-	-
Office Rent		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Office Costs		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Professional Services		290,000	290,000	290,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses		1,465,000	1,465,000	1,465,000	24,000	1,095,000	56,000	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Direct Expenses		5,211,623	5,211,623	5,211,623	202,900	3,447,300	523,200	25,000	108,373	-	-	-	-	-	-	-	-	-	-	-
SPP Inc. Indirect Expenses		2,917,760	2,917,760	2,917,760	199,080	1,884,480	481,280	-	9,240	-	-	-	-	-	-	-	-	-	-	-
SPP RE Indirect Expenses		(8)	(8)	(8)	39,444	1,083,397	288,122	5,189	60,227	-	-	-	-	-	-	-	-	-	-	-
Total Expenses		8,138,783	8,138,783	8,138,783	462,874	6,195,777	1,212,602	30,180	237,549	-	-	-	-	-	-	-	-	-	-	-
Change in Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fixed Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Computer & Software CapEx		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Furniture & Fixtures CapEx		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equipment CapEx		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leases		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in Field Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Allocation of Fixed Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in Travel Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL CHANGE IN ASSETS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Section E – Calculation of SPP Indirect Expense Rate

CALCULATION OF THE SPP INDIRECT EXPENSE RATE

Support Groups	Overhead Costs to Allocate	
Administration	\$11,841,414	*
Officers	\$1,797,617	**
Accounting	\$924,812	
Human Resources	\$1,228,284	
Internal Audit	\$0	
Project Management	\$0	
Customer Service	\$350,123	
Legal	\$556,077	
Communications	\$283,310	
Information Technology	\$7,874,594	
	<hr/>	
	\$24,856,231	A
Non-Support Resource Groups		
Ending 2008 Headcount	205	
# of Work Hours in 2008	1,880	
	<hr/>	
	385,400	B
2008 Indirect Rate (A / B)	\$64.49	

* Does not include FERC Pass-Thru Fees and depreciation of market and transmission assets

** Does not include costs for executives performing delegated functions

DOCKET NO. RR09-__-000

**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

2010 BUSINESS PLAN AND BUDGET FILING

ATTACHMENT 9

TEXAS REGIONAL ENTITY

PROPOSED 2010 BUSINESS PLAN AND BUDGET

**(INCLUDES REDLINE OF REVISED
MEMORANDUM OF UNDERSTANDING WITH ERCOT)**



2010 Business Plan and Budget
Final Version 4.0

Texas Regional Entity

Approved by:
Texas RE Board of Directors

Submitted:

August 17, 2009

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Introduction

Total Texas RE Resources (in whole dollars)				
	2010 Budget	U.S.	Canada	Mexico
Statutory FTEs	34.00			
Non-statutory FTEs	6.00			
Total FTEs	40.00.00			
Statutory Expenses	\$6,920,642	\$6,920,642		
Non-statutory Expenses	\$1,123,772	\$1,123,772		
Total Expenses	\$8,044,414	\$8,044,414		
Statutory Funding	\$6,842,377	\$6,842,377		
Non-statutory(Member) Funding	\$1,153,772	\$1,153,772		
Total Funding	\$7,996,149	\$7,996,149		
NEL	310,856,852	310,856,852		
NEL %	100%	100%		

Organizational Overview

Texas Regional Entity (Texas RE) is an independent and functionally separate division of Electric Reliability Council of Texas, Inc. (ERCOT ISO), a Texas non-profit corporation. The vision and purpose of Texas RE is to preserve and enhance reliability across the ERCOT region by encouraging a culture of compliance among all users, owners, and operators of the Bulk-Power System (BPS).

The ERCOT region is the geographic area located within the State of Texas that operates under the jurisdiction of the Public Utility Commission of Texas (PUCT) and is not synchronously interconnected with any electric utilities operating outside of Texas. The ERCOT region includes approximately 200,000 square miles and 85% of Texas load.

In May 2007, Texas RE executed a Delegation Agreement with North American Electric Reliability Corporation (NERC), the Electric Reliability Organization (ERO) certified by the Federal Energy Regulatory Commission (FERC), pursuant to Section 215(c) of the Federal Power Act (FPA). In response to subsequent orders by the Commission, Texas RE and NERC signed Amended and Restated Delegation Agreements on March 28, 2008 and January 3, 2009.

In the May 2007 Delegation Agreement and the March 28, 2008 and January 3, 2009 Amended and Restated Delegation Agreements (collectively "the Delegation Agreement"), NERC delegates to Texas RE certain responsibilities and authorities of a regional entity as defined in the FPA, regulations adopted by the Commission (including but not limited to Order Nos. 672 and 672-A in Docket No. RM05-30-000), and other directives of the Commission, including the authority to propose, develop, monitor, assess, and enforce reliability standards and regional standards and variances within the ERCOT region, in accordance with the NERC Rules of Procedure (ROP). Texas RE's activities under the Delegation Agreement are referred to herein as Statutory activities.

In addition to Texas RE's Statutory activities, Texas RE monitors, investigates, audits, and reports on compliance with the ERCOT region reliability-based Protocols and Operating Guides

(Protocols) for the PUCT, pursuant to the PUCT-approved ERCOT Compliance Process. Texas RE's Protocol compliance activities are referred to herein as Non-Statutory activities. Texas RE coordinates with PUCT staff regarding enforcement of potential Protocol violations, but the PUCT prosecutes any Protocol violations that result in enforcement actions. Due process is provided to any entity that is reported to have violated a Protocol, pursuant to state law, and the PUCT makes all final decisions regarding Protocol violations.

Membership and Governance

Because Texas RE is an independent division of ERCOT ISO, members of ERCOT ISO are also members of Texas RE. These members can be from any ERCOT ISO Segment (as listed below), and, except for the Consumer Segment, must have an actual financial interest in the retail or wholesale electric market in the ERCOT region and be able to do business in one of these markets. ERCOT ISO charges a nominal fee for membership, but the membership fee can be waived upon good cause shown. Any person or entity that has a direct and material interest in the BPS has a right to participate in the Texas RE Standards Development Process, even if not a Texas RE member.

In order to maintain clear independence from and not be unduly influenced by the owners, operators, and users of the BPS being monitored, Texas RE operates as a functionally separate division of ERCOT ISO. Texas RE is led by a chief executive officer with the title Chief Executive Officer and Chief Compliance Officer (CEO) who manages the general affairs of Texas RE as its chief executive officer and reports to the Board of Directors or a subcommittee thereof for administrative purposes. Texas RE maintains office space that is separate from the ERCOT ISO office space. Texas RE and its employees function independently of the ERCOT ISO and its officers, and Texas RE creates, monitors, and operates under an independent budget and maintains separate books and records from ERCOT ISO. Texas RE contracts for certain administrative services by ERCOT ISO at a rate agreed to in a Memorandum of Understanding which was executed in 2008, and amended as of 2/16/2009.

Texas RE's board is comprised of the sixteen (16) directors of the ERCOT ISO board, including the Chair of the PUCT, as an ex officio non-voting member, the ERCOT ISO CEO as an ex-officio voting member, five (5) Unaffiliated Directors (not affiliated with any ERCOT ISO market participant), and directors from the following market Segments:

- Three (3) Consumers:
 - Texas Public Utility Counsel (representing residential consumers and small commercial consumers, as an ex officio voting member)
 - Large Commercial Consumer (peak demand >1000 kilowatts)
 - Industrial Consumer
- One (1) Independent Retail Electric Provider (and one segment alternate)
- One (1) Generator (and one segment alternate)
- One (1) Independent Power Marketer (and one segment alternate)
- One (1) Investor Owned Utility (and one segment alternate)
- One (1) Municipal (and one segment alternate)
- One (1) Cooperative (and one segment alternate)

The Texas RE directors maintain independence from their role as ERCOT ISO directors by holding board and committee meetings separately from ERCOT ISO meetings and by not having any role regarding Texas RE's Statutory compliance and enforcement activities (as described below).

Statutory Functional Scope

In accordance with the Delegation Agreement and in compliance with the NERC ROP, Texas RE performs the following Statutory Functions:

- Propose and participate in the development of reliability standards, or modifications thereof and propose and develop needed regional standards or variances through Texas RE's Standards Development Process.
- Monitor and enforce approved reliability standards, including the registration of responsible entities and, as needed, the certification of such entities within the ERCOT region, through the Compliance Monitoring and Enforcement Program (CMEP).
- Perform other delegation-related services on behalf of NERC, in furtherance of NERC's responsibilities as the ERO under the FPA, including:
 - Assessment and performance analysis of the present and future reliability, adequacy, and security of the BPS.
 - Promote effective training and education of reliability personnel and assist in the certification of operating personnel.
 - Promote situational awareness and the security and protection of critical infrastructure.

2010 Key Assumptions

The key assumptions for Texas RE's 2010 Budget include the following:

- Texas RE will remain functionally separate from ERCOT ISO and will continue to receive administrative services and support from ERCOT ISO through a memorandum of understanding which was amended as of February 16, 2009 and is attached with the 2010 Business Plan & Budget filing as exhibit A.
- Texas RE will enhance its 60-day cash reserve established in 2009 with a 75-day cash reserve in 2010. Texas RE still possesses unspent funds that will offset this amount.
- The Delegation Agreement requirements and NERC expectations will be constant.
- Texas RE will use any surplus funds from the prior year and any penalty funds received prior to July 1, 2009, to offset 2010 funding requirements.
- The number of registered entities is expected to remain fairly constant, except as specifically described herein (e.g. the Load-Serving Entity function) and the current audit frequency will remain constant.
- The number of contested enforcement and registration cases will remain low – one large or two small-to-mid-sized disputes per year.
- ERCOT ISO will continue to take primary responsibility for the research and preparation of the seasonal and long-term reliability assessments, with Texas RE responsible for coordination and review of such assessments.
- NERC, Texas RE, and the other regional entities will continue to invest in technology improvements and process automation to improve efficiency and increase national consistency.
- Texas RE will lead the audits & other compliance monitoring processes of ERCOT ISO. Although NERC will participate, NERC will not charge Texas RE a fee for NERC's participation.
- Texas RE has not budgeted to conduct CIP audits of nuclear facilities.

- Texas RE estimated the budget immediately required for the evaluation of Technical Feasibility Exception (TFE) requests based upon the information available at this time.

2010 Goals and Key Deliverables

Texas RE's Goals and Key Deliverables for 2010 are as follows:

1. Improve reliability through rigorous monitoring and enforcement of compliance with mandatory standards, in accordance with the Delegation Agreement and the CMEP
 - a. Maintain registrations for responsible entities.
 - b. Monitor compliance of registered entities in the ERCOT region with mandatory standards, while adopting risk-based methodologies to optimize reliability benefits and improving quality and timeliness.
 - c. Ensure timely and thorough mitigation of all violations of mandatory reliability standards.
 - d. Enforce registered entities' compliance with the mandatory standards, while improving timeliness.
 - e. Promote a strong culture of compliance excellence, reliability improvement, and risk-based methods among registered entities in the ERCOT region.
2. Effectively communicate with NERC, other regional entities, regulators, and industry stakeholders as follows:
 - a. Continue to build and improve cooperative relationships with other registered entities, industry stakeholders, and regulators through regular, consistent messaging regarding all of Texas RE's program areas.
 - b. Deliver a consistent message through the new Texas RE website and a variety of electronic media (including the bi-monthly newsletter) as a timely and efficient means of providing important information to the industry and the public.
3. Maintain effective financial controls and conduct Texas RE operations within the approved budget.
4. Effectively manage the Texas RE Standards Development Process
 - a. Participate in and encourage stakeholder participation in the development of national standards, in support of the NERC three-year plan
 - b. Propose and facilitate development of regional standards or variances that are needed to comply with NERC's three-year plan, FERC directives, and any ERCOT region-wide physical differences.
5. Continue to increase situational awareness and event analysis capabilities, to improve timeliness of root cause analyses and lessons learned and strengthen overall reliability.
6. Work with NERC and the other regional entities to develop appropriate procedures for auditing and monitoring cyber and physical security of critical infrastructure.
7. Efficiently adopt appropriate technology to increase efficiency and productivity.
8. Establish Key Performance Indicators and Benchmarks for Texas RE operations.

Overview of Cost Impacts

In 2010, total direct Statutory expenses are increasing by 33% or \$1,686K from the 2009 budget. This increase includes the required effort to support the new TFE evaluation activity,

Introduction

which is 8% of the total increase. The total increase is primarily being driven by the following items:

1. Increased personnel expenses resulting from adding eight (8) additional staff (7.05 FTEs Statutory, .95 FTEs Non-statutory) and salary and benefit increases for existing staff. The total increase for personnel expenses is approximately \$1,145K.
2. Increased technology and capital expenditures, including the Texas Regional Entity Compliance Portal projects, document management system project, and other management and reporting tools to improve quality, efficiency and consistency of reporting total \$207K
3. Increased cash reserves total \$516K which in 2010, does not impact expenses. This cash reserve is being funded through unspent funds from prior years (Texas RE's regulatory liability) appearing on Texas RE's balance sheet and does not appear on the statement of activities. We are listing it for disclosure purposes.
4. Increased travel costs associated with NERC and Regional Entity meetings and compliance audits total \$87K.
5. Increased cost of administrative services received from ERCOT ISO through the MOU total \$185K offset by reductions in rent expense and facilities services year-over-year of \$190K.
6. The Operations Training Seminar is budgeted in 2010 to accommodate a venue change that occurred in 2009. This resulted in increased costs; however those costs were funded by seminar attendees through the registration fee. For 2010, the expected increase year-over-year is approximately \$110K. This amount is also expected to be similarly funded through the seminar registration fees attendees pay.

Detailed Business Plans and Budgets by Program

Details of the planning, operation, review, and adjustment for each program area are included in Section A. The corresponding budget details are shown in Section B.

Section A — 2010 Business Plan

Reliability Standards Program

Reliability Standards Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	1.70	2.06	0.36
Total Direct Expenses	\$176,491	\$273,959	\$97,468
Total Indirect Expenses ¹	\$287,778	\$136,410	(\$151,368)
Total Expenses	\$464,269	\$410,369	(\$53,900)

Texas RE Standards staff facilitates the development of regional standards and variances, in accordance with the Texas RE Standards Development Process, which was approved as Exhibit C to the Delegation Agreement. Texas RE standards staff coordinates and publicly posts information regarding the activities of the Reliability Standards Committee (RSC) and all standards drafting teams (SDTs).

The Texas RE Standards Development Process is open to all organizations that are materially affected by the ERCOT region BPS, with no undue financial barriers. Any such entity has the right to participate by expressing an opinion, having its opinion considered, and having the right to appeal. Notice of all meetings of the Texas RE RSC and all drafting teams are provided on the Texas RE website and are open to the public.

The Texas RE Standards Development Process provides for a balance of interests, containing seven market segments and a requirement of a vote of at least two-thirds of the segments for approval of any regional standard. The first Texas RE Standard Authorization Request (SAR), SAR-001, proposed to add an additional market segment, with a ¼ vote, for ERCOT ISO and has been approved by NERC and filed with FERC. No two segments can approve, and no single segment can defeat any matter. In addition, each of the current seven segments has at least two representatives on the RSC. Currently, 47 entities have joined the RBB, representing about 25% of all Texas RE members.

Texas RE's Standards Development Process provides for fair and due process by providing sufficient public notice of the intent to develop a regional standard. In addition, all proposed standards are posted on the Texas RE Reliability Standards Tracking site for public comments. The site allows all interested parties to submit comments during the commenting period. This process also provides an appeals process.

The RSC meets once a month. The SDTs meet as necessary and include WebEx participation. In addition to facilitating all meetings, Texas RE Standards employees are directly involved in the non-technical aspects of the drafting of the standards. Texas RE Compliance employees

¹ Indirect funding is calculated by allocating all administrative services funding to the operational program areas on a proportional FTE basis.

also provide technical support, as requested. To promote wider awareness of and participation in the reliability standards process throughout the ERCOT region, Texas RE launched the Reliability Standards Tracking site in 2008. The tool allows all registered parties to efficiently submit comments on SARs and draft standards during commenting periods and allows members of the Registered Ballot Body (RBB) to vote online.

Texas RE staff supports and participates in the NERC Standards Committee and Regional Reliability Standards Working Group and has contributed to the 2009-2011 NERC Work Plan. The Texas RE Manager of Standards was nominated and accepted into the NERC Communications and Planning Subcommittee of the NERC Standards Committee. In addition, the Texas RE staff review draft reliability standards from other regions, and staff from other regional entities review draft Texas RE regional standards.

Texas RE informs stakeholders of the impact and requirements of emerging NERC standards through training at the Texas RE workshops. In general, Texas RE works to ensure that stakeholders have the most current and accurate information on reliability standards. procedures, forms, meetings, minutes, notes, agendas, drafts, etc., for all regional activities associated with standards are posted in a timely fashion on the Texas RE website. Market notices on major topics and upcoming meetings are sent regularly to Texas RE email lists. Articles on reliability standards topics are included in the bi-monthly Texas RE newsletter.

2010 Key Assumptions

- Standards workflow remains constant, with no more than four (4) new SARs being developed during 2010.
- Standards program staffing is complete with two full time equivalent employees (FTEs) to maintain the continuation of existing SARs and development of potential new ones.
- Travel will increase in 2010 to meet goals of increasing participation in NERC and other regional committees and subcommittees.

2010 Goals and Key Deliverables

The goals of the Reliability Standards Program for 2010 are as follows:

1. Meet all FERC and NERC directives with regard to regional standards development and procedures and maintain effective relationships and communications with the standards staff at NERC and the other regional entities.
2. Develop regional standards program communications that educate and inform stakeholders and support the Texas RE Standards Development program objectives.
3. Work closely with NERC and registered entities within the Texas RE footprint to develop regional standards that go beyond, add detail to, or implement NERC Reliability Standards; obtain a regional variance; or otherwise address issues that are not addressed in NERC Reliability Standards.
4. Ensure consistency and quality of regional standards without causing undue restrictions or adverse impacts on competitive electricity markets.
5. Ensure Texas RE Reliability Standards development process is aligned to meet agreed-upon expectations.
6. Streamline and improve the Texas RE's Standards Development Process and associated tools.

7. Participate and be actively involved in various NERC reliability standards program and related functions.
8. Continue to educate and inform the market participants to ensure adequate representation on the Registered Ballot Body.

To implement these goals Texas RE Standards staff is leading the RSC in developing a scope of work for the RSC to include more comprehensive review and comment to the existing and proposed NERC standards under development for tracking of possible regional variances that may be necessary with the associated continent-wide efforts. Texas RE Standards staff presented the RSC with the 39 standards development projects in the current NERC workplan and asked the RSC to rank them in importance. Ten projects emerged as most important to the ERCOT region. The RSC plans to have subject matter experts (SMEs) make one presentation each month on the 10 projects for evaluation as to any potential regional standard that may be necessary. A presentation on NERC Project 2006-03 System Restoration and Blackstart (EOP-005, 006, 007 and 009) was made at the March RSC meeting.

Certain stakeholders submitted comments requesting improvements to the Texas RE website. The new Texas RE website (which is expected to publicly launch by the end of July, 2009) will have a Standards section that is intended to have improved clarity and navigation.

Texas RE Standards staff is considering having a regional standards workshop (a longer and more detailed presentation than the normal standards presentation made during the Compliance workshop), to allow ERCOT region stakeholders to learn about standards in general and the process for developing new regional and national standards. If this workshop is warranted, it would occur in the latter half of 2009. Otherwise, Texas RE Standards staff will continue to include a standards section in the Compliance Workshop.

Stakeholders also submitted comments indicating that the NERC Fill-in-the-Blank standards have caused confusion. Texas RE supports the concept of revising the standards to remove the Fill-in-the-Blank components. Texas RE will develop (as necessary) any regional standards that are subsequently required.

A regional-wide announcement was sent out in December 2008 to update and solicit more RBB registrations, to ensure wider participation by all segments. This announcement was part of the ballot pool solicitation and formation efforts for SAR-001. This resulted in the 47 RBB members as of February 28, 2009,

Texas RE Standards staff will increase its participation in NERC Standards Committee meetings to stay current on all NERC Standards under development for presentation to the ERCOT ISO stakeholders, and Texas RE will continue participating in the NERC Communication and Planning Subcommittee.

Funding Requirements — Explanation of Increase (Decrease)

The Reliability Standards funding requirements reflects an increase of \$235K year-over-year for two (2) reasons:

1. 2009 was lowered because Texas RE used unspent prior-year funds to reduce the 2009 assessment; and
2. In 2010, indirect program expenses are fully allocated to the direct program areas.

Reliability Standards Program

Funding sources and related expenses for the reliability standards section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Standards					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 176,491	\$ 176,491	\$ -	\$ 411,750	\$ 235,259
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 176,491	\$ 176,491	\$ -	\$ 411,750	\$ 235,259
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 176,491	\$ 176,491	\$ -	\$ 411,750	\$ 235,259
Expenses					
Personnel Expenses					
Salaries	\$ 127,238	\$ 159,073	\$ 31,835	\$ 184,729	\$ 57,491
Payroll Taxes	10,179	11,949	1,770	14,901	4,722
Benefits	14,320	10,126	(4,194)	20,489	6,169
Retirement Costs	18,450	21,800	3,350	26,697	8,248
Total Personnel Expenses	\$ 170,187	\$ 202,948	\$ 32,762	\$ 246,816	\$ 76,629
Meeting Expenses					
Meetings	\$ -	\$ 304	\$ 304	\$ 400	\$ 400
Travel	4,344	3,389	(955)	6,824	2,480
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 4,344	\$ 3,693	\$ (651)	\$ 7,224	\$ 2,880
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	1,960	456	(1,504)	480	(1,480)
Professional Services	-	10,938	10,938	18,824	18,824
Miscellaneous	-	470	470	615	615
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 1,960	\$ 11,864	\$ 9,904	\$ 19,919	\$ 17,959
Total Direct Expenses	\$ 176,491	\$ 218,506	\$ 42,015	\$ 273,959	\$ 97,468
Indirect Expenses	\$ 287,778	\$ 211,201	\$ (76,578)	\$ 136,410	\$ (151,368)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 464,269	\$ 429,707	\$ (34,562)	\$ 410,369	\$ (53,900)
Change in Assets	\$ (287,778)	\$ (253,216)	\$ 34,562	\$ 1,381	\$ 289,159
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (20,746)	\$ (20,746)	\$ -	\$ (1,381)	\$ 19,365
Change in Fixed Assets	\$ (20,746)	\$ (20,746)	\$ -	\$ (1,381)	\$ 19,365
TOTAL CHANGE IN ASSETS	\$ (308,524)	\$ (273,962)	\$ 34,562	\$ (0)	\$ 308,524

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Funding is received only through assessment income and is designated to fully fund total expenses.

Personnel Expenses

- 2010 personnel expenses are increasing to accommodate additional FTEs of work in the Reliability Standards area. The primary increase is resulting from increased management, IT, Compliance, and other personnel working on Reliability Standards activities \$77K.

Meeting Expenses

- The \$3K increase in meeting expenses is primarily driven by increases in travel. Reliability Standards expects to attend at least 3 additional standards workgroup meetings in the coming year.

Operating Expenses

- The \$18K increase in operating expenses is attributed to expenses associated with the Texas Regional Entity Portal, the Reliability Standards Tracking site that relate to Reliability Standards and the Texas RE Website. These types of expenses were budgeted in administrative services last year; however, these are more appropriately direct costs to this program.

Indirect Expenses

- Indirect expenses are decreasing by \$\$151K year-over-year, through the identification of direct expenses that were previously budgeted in administrative services.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- There are no new direct fixed asset additions for this program; however, there is a slight allocation of administrative services' fixed assets.

Compliance Monitoring and Enforcement and Organization Registration and Certification Program

Compliance Monitoring and Enforcement and Organization Registration and Certification Program Resources			
<i>(in whole dollars)</i>			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	14.15	21.74	7.59
Total Direct Expenses	\$1,628,802	\$3,465,857	\$1,837,055
Total Indirect Expenses	\$2,404,881	\$1,438,898	(\$965,983)
Total Expenses	\$4,033,683	\$4,904,755	\$871,072

The purpose of Texas RE's Compliance Monitoring and Enforcement Program (CMEP) is to protect the reliability of the ERCOT region's Bulk-Power System (BPS) through our interactions with and oversight of the registered entities in the region. Texas RE is responsible for monitoring, assessing, and enforcing compliance with NERC Reliability Standards and regional standards for all registered entities in the ERCOT region. The CMEP activities make up the majority of the work currently done by Texas RE although Non-statutory work continues to be an important aspect of overall compliance in the ERCOT region.

The CMEP focuses on four primary areas: properly registering organizations responsible for complying with reliability standards (Organization Registration and Certification), monitoring the registered entities for compliance with reliability standards (Compliance Monitoring), determining and reporting to NERC violations of reliability standards by registered entities (Enforcement), and ensuring correction of non-compliance and violations (Mitigation of Violations). Texas RE maintains processes and procedures for data gathering, reporting, investigating, auditing, assessing, penalizing and sanctioning violators, and mitigating non-compliance.

Because the CMEP is still a relatively new program, Texas RE continues to develop policies and procedures to support the evolving requirements that are developed at the national level. Texas RE will continue to review its organizational structure, processes, procedures and document management with the intent to continuously improve the quality and timeliness of its work while also controlling the cost of compliance whenever possible. The reliability of the BPS always remains the unquestionable number one priority of the organization.

Organization Registration and Certification Program Description and Functions

Texas RE is responsible for identifying and registering the owners, operators, and users of the BPS as registered entities in the ERCOT region per Section 500 of the NERC ROP. These registered entities are responsible for complying with all applicable reliability standards. Texas RE must maintain an accurate registration list of all entities, their contact personnel and the business relationships, as well as managing the Joint Registered Organization agreement process.

Texas RE has 216 registered entities representing 334 functions as of May 15, 2009. The list of registered entities in the ERCOT region continues to evolve and currently includes:

- 112 Generator Owners
- 77 Generator Operators
- 24 Transmission Planners
- 29 Transmission Owners
- 43 Distribution Providers
- 42 Purchasing Selling Entities
- 1 ISO with seven (7) registrations: Transmission Operator, Reliability Coordinator, Balancing Authority, Planning Authority, Resource Planner, Transmission Service Provider, and Interchange Authority (ERCOT ISO)

Texas RE created the Stakeholder Management Department in 2008 as the primary organization in Texas RE with responsibility for registration, certification, training, communications, reporting, document management and reliability assessments (discussed later). The plan was to provide organizational focus for Stakeholder management and services. In practice in 2009, staffing levels have not been adequate to properly manage registration and certification in a timely fashion and some dissatisfaction was expressed by registered entities in the 2009 NERC survey.

In December 2008, Texas RE launched its portal. The portal allows registered entities to update or modify contact information and to submit self-certification response electronically. However, extracting data from the portal for submission to NERC continues to require manual intervention and quality control to validate entity changes. Texas RE has planned improvements for the portal to address issues such as reporting, and NERC is working toward completing its portal to allow a more efficient submission of this information. The updated Texas RE and NERC portals should reduce some of the administrative burdens on this program.

The management of Joint Registration Organizations (JRO) agreements adversely impacted work load in 2009 as this work has taken significant attention from staff to coordinate and approve. In addition, the implementation of the modified LSE registration criteria resulted in significant challenges in the ERCOT region due to the unique market design of the ERCOT region (including competitive markets and a single Balancing Authority). To avoid gaps, overlaps and registration appeals, Texas RE has spent approximately six (6) months working with stakeholders to obtain stakeholder feedback and facilitate a JRO design for LSE registration that eliminates all gaps, minimizes overlap, and reduces potential registration appeals. This process has been extremely beneficial with respect to improved communications and coordination with registered entities and is planned to be used again should a similar problem arise. Texas RE anticipates that the LSE JRO will result in a small increase in newly registered entities and a more significant increase in registered functions for existing entities.

Registration work is expected to remain at the current level (which is higher than anticipated for 2009) through 2010 due to on-going registered entity changes (changes in business names, mergers, acquisitions, asset sales, and reorganizations) and a possible JRO for the Transmission Operator (TOP) function (which could require TOP certification audits), and anticipated participation in national discussions regarding modifications or additions to the Statement of Registry Criteria (such as LSE) and registered entity functions or responsibilities, to ensure that the issues unique to the ERCOT region are properly considered.

Registration disputes also have the potential to adversely impact work load in the registration area. Texas RE should finalize its second significant registration dispute in 2009. The time

expended on each registration appeal has been significant. Texas RE anticipates that registration disputes should reduce over time once the NERC functions and registration criteria stabilize. This budget anticipates no significant changes in registration criteria in 2010. Stakeholder Management has remained relatively constant in 2009 and is adequately staffed. Stakeholder Management has a records coordinator who is helping to organize and maintain the records and procedures that are important to Texas RE's internal compliance and enforcement case management. Texas RE plans to install document management software in late 2009, which will require transitioning of existing files and revisions to internal procedures but is expected to enable Texas RE to more efficiently manage documents and evidence, even as the volume of evidence maintained increases.

The extensive reporting requirements for NERC, FERC, and the Texas RE board continue to remain higher and more challenging than expected. Texas RE anticipates that this could reduce somewhat, but, as a fairly new enterprise that is trying to achieve consistency among eight regional entities and NERC, Texas RE anticipates that it will need to continue to expect extensive reporting obligations through 2010.

To improve the organization's ability to address the dissatisfaction with timely registration responses, the ongoing support of the registration and certification process, including JROs, appeals and coordination with NERC and the other regions, Texas RE is planning to add 1.0 staff (.85 FTEs Statutory, .15 FTEs Non-statutory) to Stakeholder Management in 2010.

Compliance Monitoring and Enforcement Program Description and Functions

Through a rigorous program of monitoring, audits, assessments, investigations, mitigation activities, and the imposition of penalties and sanctions for non-compliance with reliability standards, Texas RE strives to maintain a high level of reliability in the ERCOT region BPS. Ensuring the reliable operation of the BPS benefits all owners, operators, and users of the BPS in the ERCOT region.

In 2008, Texas RE divided its compliance staff into a Compliance Audit group and a Compliance Enforcement group in order to provide separation between the audit the other compliance and enforcement processes.

Texas RE uses a total of eight (8) monitoring and investigation processes to collect information to confirm compliance or a violation with NERC Reliability Standards:

1. Compliance Audits,
2. Self-Certifications,
3. Spot Checking,
4. Compliance Violation Investigations (CVI),
5. Self-Reporting,
6. Periodic Data Submittals,
7. Exception Reporting,
8. Complaints.

Compliance Audit

Texas RE audits the reliability standards on a recurring basis using an approved audit plan coordinated with NERC and the other regions. Texas RE also augments the audit schedule based on regional needs. The Compliance Audit schedule follows a three or six-year cycle, depending on the entity's registration, and an audit report is issued for each audit.

In any year that a registered entity does not receive a Compliance Audit, Texas RE requires the entity to complete a compliance Self-Certification using electronic forms developed in coordination with NERC and distributed by Texas RE. The entity must certify its compliance or non-compliance with each designated measure and submit the Self-Certification form to the Texas RE by the date specified in Texas RE's request. Texas RE may require registered entities to also self-certify their compliance with reliability standards at other times as well.

Texas RE's Compliance Audit group performs Spot Checks of registered entities to 1) confirm compliance certified on Self-Certifications, 2) follow up on Self Reports and Periodic Data Submittals, and 3) follow up on complaints, events, or other indications of non-compliance. Texas RE may perform Spot Checks by telephone, site visit, or a data or document request. Deficiencies found in Self-Certifications and Spot Checks are treated as if they were audit findings of violations.

Prior to 2009, most on-site audits took two days at the registered entity's site. In 2009, these audits have been extended to three days due to the increase in work brought about by the need to verify completion of past mitigation plans and to investigate potential issues of reliability concern, including recent violations or events. The growth in the audit duration directly impacts audit staffing and travel costs.

The current plan for Texas RE is to support the 2010 Critical Infrastructure Protection (CIP) audit with the Compliance Audit staff. CIP experts will be staffed in the CIP budget; however, Texas RE intends to augment the CIP audit team with experienced auditors from the Compliance audit team in 2010. Texas RE has only one (1) registered entity that is required to be auditably compliant with CIP 002 – 009 prior to January 1, 2011, but Texas RE plans to perform 2010 validation and testing of CIP methodologies for CIP 002 via a minimum of six (6) CIP Spot Checks of the 41 requirements contained in the reliability standards CIP 002 – 009. (The CIP FTEs are discussed in the Critical Infrastructure Information section.)

Texas RE plans to add 1.0 staff (.85 FTEs Statutory, .15 FTEs Non-statutory) auditor to the Compliance Auditing department to address the increase in audit work load from the organic growth in regular audits and to support CIP audits and spot checks in 2010. This is in addition to the CIP experts and staff to support the TFE processing discussed in a later section.

Compliance Enforcement

Texas RE has implemented a separate Compliance Enforcement group that processes alleged violations originating from audits, spot-checks, self-certifications, complaints, self reports, CIQs and CVIs. The Compliance Enforcement program activities include reviewing all potential alleged violations from any of the eight (8) defined processes, preparing and submitting notices of alleged violations, preparing Notices of Confirmed Violations, assisting NERC with Notices of Penalties, and managing settlement negotiations and hearings associated with contested violations. This group also reviews all mitigation plans and must confirm completion of all mitigation plans not verified during audit, using Spot Checks, when necessary.

Once a potential alleged violation is identified from any compliance monitoring process, the Compliance Enforcement group may begin a Compliance Inquiry (CIQ), Compliance Violation Investigation (CVI), or perform a Spot Check to gather additional information to assist with the final determination of a potential violation. A CIQ is initiated as an informal, non-public review of facts, circumstances, and information that is conducted to determine if a more formal CMEP

activity (such as a Spot Check or CVI) should be initiated. The CVI process is a detailed and lengthy process used for the more serious or complicated potential violations. The Spot Check is a very efficient process to gather information to reach a final determination of a potential violation.

Documentation requirements for all Compliance Enforcement program activities and processes increased during 2009 to support due process and to address all NERC and FERC-required improvements. Texas RE expects the Compliance Enforcement program activities to continue to increase in 2010 due to the level of complexity to reach violation determination and penalty calculation.

Texas RE also anticipates additional work to support enforcement appeals. Since no significant penalties have yet been approved, there have not been any significant appeals in the ERCOT region. Texas RE is staffing to ensure that it will be prepared for 1 large or 2 smaller enforcement appeals.

Texas RE plans to add an additional 1.0 staff (.85 FTEs Statutory, .15 FTEs Non-statutory) in 2010 to accommodate the work load in Compliance Enforcement.

2010 Key Assumptions

Organization Registration and Certification

- Additional JRO workload due to LSE and possible TOP registrations.
- Certification audit for a maximum of 4 TOPs (registered by JRO) might be performed.
- No additional NERC functions will be added or substantially modified by or during 2010.
- The Texas RE and NERC Portals will be fully functional and supporting electronic reporting of registration information to NERC by late 2010.
- Document management software will be installed in 2009 and fully operational in 2010.

Compliance Audit

- Audits will require three (3) full days for the team to conduct the audit, with additional time required for preparation of audit notification, review of submitted responses prior to the audit and completion of the audit reports, similarly to 2009.
- Spot checks of requirements will be incorporated in the audit team schedule based on system events, self-certification results and complaints. A maximum of 20 entities will have a spot check, (including the six (6) Spot checks of CIP 002 – 009 standards listed below) conducted in the second half of the year.

Compliance Enforcement

- The number of alleged violations will remain fairly constant in 2010.
- Have one (1) large or two (2) small-to-medium contested enforcement cases.
- Conduct 2 Compliance Violation Investigations.
- Conduct 20 detailed analyses of incidents, system disturbances, and events.
- Analyze and investigate 10 Complaints.
- Continue to work with NERC and other regional entities to improve consistency in processing violations and applying penalties for Registered Entities with operations in multiple regions.

2010 Goals and Key Deliverables

Organization Registration and Certification

1. Maintain an accurate registration list of all owners, operators, and users of the BPS by establishing a schedule to verify entity registration and contact information.
2. Provide updated registered entity information to NERC and appropriate government authorities.
3. Participate in development of registration criteria, procedures, policies and databases with NERC and FERC, and implement and communicate changes as necessary.
4. Provide support for all registration appeals.
5. Implement organization certification in accordance with NERC processes, some of which are still under development – conduct required certification audits, if necessary.
6. Maintain processes and procedures for registration and certification activities that are required by the certification standards.
7. Review and improve procedures to improve communications with registered entities
8. Achieve significant improvement in responsiveness and add more focus on regional consistency.
9. Respond to requests and special reports from NERC/FERC and the board.
10. Continue to improve the Portal to facilitate automated communications with registered entities.
11. Maintain the document management system to preserve work papers and evidence.

Compliance Enforcement

1. Review and process or dismiss all alleged violations in a more timely fashion.
2. Manage all settlements and contested cases to completion, as efficiently as possible.
3. Coordinate with and provide assistance to the Legal Department on settlements, appeals and contested cases.
4. Conduct required Compliance Violation Investigations.
5. Conduct compliance analysis of all significant events and other system disturbances.
6. Analyze and investigate all Complaints.
7. Achieve reasonable timelines in performing each of the compliance monitoring and enforcement processes.
8. Achieve reasonable timelines in processing violations, penalties and settlement agreements (less than 100 days).

Audits

1. Conduct approximately 52 audits, 18 at the entity's site and the remaining 34 at TRE's offices, per the 2010 schedule, Texas RE procedures and the provisions of the NERC CMEP.
2. Perform Spot Checks, including a sample of entities for spot checks of the CIP standards.

3. Continue to work with other Regional Entities to improve auditing consistency and reduce the cost of audits for Registered Entities with operations in multiple regions.
4. Complete a review of policies and procedures with the goal of improving the clarity of communications with Registered Entities, to determine how to mitigate the cost of compliance without impacting reliability, and meeting compliance with NERC ROP modifications and NERC guidance.
5. Prepare an overall CMEP implementation plan for the 2011 program by November 1, 2010, including recommendations from the FERC and upcoming NERC audit of Texas RE.

Funding Requirements — Explanation of Increase (Decrease)

The Compliance funding requirements reflects an increase of \$3,439K year-over-year due to 2009 being lower because Texas RE used unspent prior-year funds to reduce the 2009 assessment; and in 2010, indirect program expenses are fully allocated to the direct program areas. Additionally, there are personnel increases (including those associated with supporting TFE evaluations) proposed for 2010 as detailed below.

Compliance will have increased personnel expenses as a result of adding 6.0 staff (5.55 FTEs Statutory, .45 FTEs Non-statutory) and additional management, legal, IT, and other personnel work on compliance activities.

Organization Registration and Certification

Staffing levels are inadequate to provide reasonable response times on registration and certification issues including JRO activity. The department only has one professional staff (currently vacant) member to address all work in this area, which has proven to be inadequate. Adding one professional level staff member will help correct uneven response times in this area. More focus on regional consistency will be made possible by shifting registration duties away from the manager. In addition, the new staff member will effectively address special requests for data and reports from NERC/FERC. Based on the supporting Registration and Certification business plan, Texas RE will require an additional 1.0 staff (.85 FTEs Statutory, .15 Non-statutory) for 2010 to be hired at the beginning of the 2nd quarter.

Compliance Enforcement

Current staff levels and workload don't allow for timely completion of the tasks associated with the required CMEP processes. Documentation requirements for each of these processes continue to increase. Adding one additional staff will allow the organization to reduce enforcement processing delays to more reasonable durations. Based on supporting the Compliance Enforcement business plan, Texas RE will require an additional 1.0 staff (.85 FTEs Statutory, and .15 Non-statutory) for 2010 to be hired in the middle of the first quarter.

Audits

The audit team is requesting the addition of a ninth staff member in 2010 due to the required increases in audit time. Typical on-site audits are requiring a third day, and the overall time for an audit is increasing commensurately. The audit team will also be supporting spot checks of the CIP 002-009 standards during the second half of 2010. These CIP spot checks are also anticipated to require significant additional effort. Based on supporting the Audit business plan, Texas RE will require an additional 1.0 staff (.85 FTEs Statutory, and .15 Non-statutory) for 2010 to be hired in the middle of the first quarter.

In addition to the headcount additions, direct legal expenses are increasing \$257K. The Texas RE Compliance Portal hosting expenses are increasing \$160K. Both of these expenses were recognized under administrative services in prior years, but are more appropriately reflected in 2010 as direct costs.

Technical Feasibility Exceptions

TFE Program Scope and Description

The CIP standards allow for registered entities to request TFEs to certain of the standard requirements on the grounds of technical feasibility or technical limitations. NERC issued initial procedures for the processing the TFEs, but there is still great uncertainty regarding the workload requirements and longevity of the TFE review and evaluation process. To date, 48 ERCOT Region registered entities have declared critical cyber assets, and each of these registered entities must be audited against the CIP standards requirements. Using the information available, including the NERC guidance, Texas RE has used its best efforts to estimate the workload requirements for its review and evaluation of TFEs in the ERCOT region, including coordination with NERC and the other Regional Entities, in accordance with its below-listed assumptions. Texas RE estimates that each of the registered entities with critical cyber assets will submit an average of five (5) TFEs (totaling 240 TFEs), and that these 240 TFEs will be screened and verified over the next two years (2010-2011), or 120 TFEs per year.

Texas RE estimates that screening of each of these TFEs will require 16 hours of staff labor and the verification will require 34 hours of staff labor. Additionally, there will be approximately 6 hours of staff support required for development and maintenance of online forms, data management, and to monitor periodic reporting of TFE status. Therefore the total estimated impact is 56 hours per TFE. The total effort given these assumptions is 6,720 hours in 2010 (6,000 hours for engineering/information technology/legal labor (3.6 FTEs) and 720 hours of support labor (0.4 FTEs), or a total of 4 FTEs). This FTE increase would equate to approximately \$651K in additional expense plus cash reserves of approximately \$133K. Texas RE acknowledges, however, that the estimated workload for the TFE evaluation is based upon many assumptions that cannot yet be verified. For this reason, Texas RE seeks to add only \$400K, for 3 FTEs for TFE evaluation activities at this time.

Texas RE will monitor the workload actually required to process the TFEs as they are submitted. If the total number of TFEs or the actual workload required for processing the TFEs significantly exceeds the \$400K budget estimate, Texas RE would initially use its cash reserves and will seek a 2010 budget supplement. If the total number of TFEs is significantly less than the above estimate or if the workload for completing TFEs is significantly less than the amount budgeted, any savings will be applied to a future budget year.

The estimates above do not include staff enforcement time required if violations are assessed during the TFE evaluation. Should a large number of violations be assessed as a result of TFE evaluations, this would have a significant impact on enforcement staff and additional resources will be required.

TFE Program Key Assumptions

- Texas RE will perform TFE evaluations for registered entities in the ERCOT Region and will coordinate with the other Regions to ensure consistent treatment of similar requested TFEs.

- TFE processing will require a preliminary screening of the TFE for completeness and reasonableness for acceptance on an interim basis. Screening is assumed to be completed within 60 days of receipt by the Regional Entity.
- Texas RE will conduct a thorough review of the TFE and proposed mitigating measures, and will prepare its justification for approval or denial of the TFE within 360 days of the initial submittal of the TFE, unless otherwise extended by the Regional Entity with the concurrence of NERC, based on criteria provided by NERC.
- The initial screening and thorough review of each TFE will be conducted off-site (not at the office of the Registered Entity and normally at the Texas RE offices) and Registered Entities will electronically submit all documentation required to review TFEs, including Critical Energy Infrastructure Information (CEII) associated with TFEs, to Texas RE. Registered entities will submit the information through either (1) encrypted email or (2) encrypted or password protected CDs, DVDs, or other mobile storage devices. Texas RE will ensure that confidential data and information received, including Critical Energy Infrastructure Information (CEII), are secured, in accordance with Section 1500 of NERC Rules of Procedure. Texas RE will maintain all CEII on password protected or encrypted mobile storage devices which are maintained in locked fire-proof filing cabinets, in accordance with its Handling Guidelines for CEII Corporate Procedure, and Texas RE will only view registered entity CEII on designated secured (password protected) computers that are not network-connected to either the Internet or the Texas RE corporate local area network.
- If a TFE is found to be deficient in the initial screening or during the thorough review, the registered entity will be provided 30 days to remedy the deficiency. If the registered entity fails to comply with the mitigation measures in its own TFE, the entity may be referred to Texas RE enforcement for processing of a possible violation. Registered entities will have a 'safe harbor' from enforcement while a TFE is pending acceptance by Texas RE and while the entity is performing in accordance with the TFE mitigation plan.
- TFEs are associated with and permitted for only CIP-005 requirements 2.4, 2.6, 3.1, and 3.2; CIP-006 requirement 1.1; and CIP-007 requirements 2.3, 3.2, 4, 4.1, 5.3, 6, and 6.3.
- If a registrant refuses to submit materials or documents due to CEII concerns and requests that Texas RE only review materials on-site, Texas RE will not approve the request, unless the registered entity is prohibited by law from disclosing information designated as Confidential Information, Classified National Security Information, NRC Safeguards Information and/or Protected FOIA Information to any person who is not an Eligible Reviewer (such as, for example, the restriction on access to Classified National Security Information specified in Section 4.1 of Executive Order No. 12958, as amended). In such an instance, the TFE Request shall identify the Confidential Information, Classified National Security Information, NRC Safeguards Information and/or Protected FOIA Information that is subject to such restrictions on disclosure and shall identify the criteria which a person must meet in order to be an Eligible Reviewer of the Confidential Information, Classified National Security Information, NRC Safeguards Information and/or Protected FOIA Information. The registered entity must submit all information that is not so designated.
- Registered entities will be required to provide quarterly updates on the status of TFEs compared to mitigation plan milestones. Texas RE will be expected to review the completion of a TFE in a manner similar to a spot check.
- TFEs will be grouped by common equipment/device types. Therefore, if there is one vulnerability that affects several types of devices, of which an entity has hundreds of such devices, Texas RE assumes that an entity will submit a single TFE.

- NERC will provide review, input, and visibility (such as through a shared national database for use by the Regions) for consistency of the TFEs and will also develop common TFEs to provide better consistency and efficiency across Regions.

Staffing Summary to Support TFE Processing

The TFE processing and evaluation will require four additional FTEs, as follows:

- Add two (2.0) FTEs to the Compliance Staff for TFE screening and verification, and mitigation plan review and follow-up.
- Add one (1.0) FTE to the Compliance Staff for TFE data base administration and tracking.

At the end of the two-year period (after 2011), Texas RE will better understand the scope of the CIP compliance activity (including overflow work associated with balance of nuclear plant) and will evaluate staffing needs going forward. Texas RE believes the three (3.0) new TFE-related staff will transition into assuming responsibility for additional work associated with CIP audits, spot checks, investigations and enforcement activities, as well as follow-up on questions and concerns from registered entities.

2010 Overview of TFE Cost Impacts

Based on current assumptions that cannot yet be verified, Texas RE's initial analysis has indicated that \$784K will be needed for TFE processing in 2010. However, because of the many uncertainties associated with TFE processing, Texas RE seeks to add only \$400K for TFE processing in 2010 at this time.

Section A — 2010 Business Plan

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 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Compliance and Organization Registration and Certification					
	2009	2009	Variance	2010	Variance
	Budget	Projection	2009 Projection v 2009 Budget Over(Under)	Budget	2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 1,628,935	\$ 1,628,935	\$ -	\$ 5,067,667	\$ 3,438,733
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 1,628,935	\$ 1,628,935	\$ -	\$ 5,067,667	\$ 3,438,733
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 1,628,935	\$ 1,628,935	\$ -	\$ 5,067,667	\$ 3,438,733
Expenses					
Personnel Expenses					
Salaries	\$ 1,164,106	\$ 1,221,917	\$ 57,811	\$ 2,037,418	\$ 873,312
Payroll Taxes	93,128	97,661	4,532	161,372	68,244
Benefits	134,510	100,088	(34,422)	221,580	87,070
Retirement Costs	163,258	161,664	(1,594)	289,434	126,175
Total Personnel Expenses	\$ 1,555,003	\$ 1,581,331	\$ 26,327	\$ 2,709,803	\$ 1,154,800
Meeting Expenses					
Meetings	\$ -	\$ 634	\$ 634	\$ 4,000	\$ 4,000
Travel	73,199	85,850	12,651	154,664	81,465
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 73,199	\$ 86,484	\$ 13,285	\$ 158,664	\$ 85,465
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	600	2,630	2,030	12,062	11,462
Professional Services	-	22,108	22,108	428,660	428,660
Miscellaneous	-	171	171	15,561	15,561
Depreciation	-	-	-	141,107	141,107
Total Operating Expenses	\$ 600	\$ 24,909	\$ 24,309	\$ 597,389	\$ 596,789
Total Direct Expenses	\$ 1,628,802	\$ 1,692,723	\$ 63,921	\$ 3,465,857	\$ 1,837,055
Indirect Expenses	\$ 2,404,881	\$ 1,722,893	\$ (681,988)	\$ 1,438,898	\$ (965,983)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 4,033,683	\$ 3,415,617	\$ (618,067)	\$ 4,904,755	\$ 871,072
Change in Assets	\$ (2,404,749)	\$ (1,786,682)	\$ 618,067	\$ 162,912	\$ 2,567,661
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ (141,107)	\$ (141,107)
Computer & Software CapEx	-	-	-	274,237	274,237
Furniture & Fixtures CapEx	-	-	-	15,215	15,215
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ (148,345)	\$ (148,345)
Allocation of Fixed Assets	\$ (173,365)	\$ (173,365)	\$ -	\$ (14,568)	\$ 158,797
Change in Fixed Assets	\$ (173,365)	\$ (173,365)	\$ -	\$ (162,912)	\$ 10,452
TOTAL CHANGE IN ASSETS	\$ (2,578,113)	\$ (1,960,047)	\$ 618,067	\$ -	\$ 2,578,113

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Funding is received only through assessment income and is designated to fully fund total expenses.

Personnel Expenses

- Personnel costs are increasing \$1,155K for 2010 due to increasing staff by 6.00 (5.55 FTEs Statutory, .45 FTEs Non-statutory) in this area to enhance functional performance (improved response times and increased effectiveness); as well as providing the resources required by the TFE evaluation process. Also, there are additional management, legal and project personnel costs that are associated with these functions that are also reflected in the total FTEs (as reported on table 2 of Section B) for these programs.

Meeting Expenses

- Meeting expenses are increasing year-over-year primarily related to travel expenses. The length of audits has been extended resulting in a 16% increase in travel \$15K. Additionally, there are a significant number of NERC working group meetings that are planned based on the 2009 meeting schedule, expected increase \$59K. The additional working group meetings are expected to result in a more consistent compliance implementation across the regions. TFE staff travel is included in the budget to support training; meetings and any required travel for the TFE process \$8K.

Operating Expenses

- Professional services expenses are increasing in 2010 due to the direct costing of external legal (for enforcement hearings and registration appeals - \$257K) and other professional service expenses directly attributed to hosting Texas RE's portal \$160K for the benefit of the program. To support the TFE process, there is \$12K for recruiting, and \$3K for office costs.
- Additionally, there is approximately \$138K in depreciation expense attributed to the Texas RE Portal for 2010, as well as an additional \$3K for TFE cubicle depreciation. Please see Fixed Asset Additions for more detail.

Indirect Expenses

- Indirect expenses are decreasing \$966K year-over-year, through the identification of direct expenses that were previously budgeted in administrative services.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- The majority of this capital expense is attributed to Texas RE Portal projects and enhancements in 2010, \$274K. The projects such as, Portal Project - System Management User Interfaces: Forms, Security, Notifications/Emails, Portal Switch Lookup, Master Account Summary Report (TRE Registration), CIP Forms 2010 (CIP annual update), Portal Communications GUI (allows non-developers to administer portal home page announcements), and an Audit Tracking Module (TRE Compliance Audits) will enhance Texas RE's ability to perform its delegated responsibilities by utilizing technology to enhance performance.
- Texas RE will also need to expend approximately \$15K for cubicles and associated furniture for the additional FTEs related to TFE processing.

Training, Education, and Operator Certification Program

Training, Education, and Operator Certification Program Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	0.60	0.97	0.37
Total Direct Expenses	\$176,415	\$328,735	\$152,320
Total Indirect Expenses	\$99,243	\$64,442	(\$34,801)
Total Expenses	\$275,658	\$393,177	\$117,518

The Texas RE Training, Education, and Operator Certification program provides the education and training necessary to understand and operate the BPS, in accordance with NERC ROP Section 900. In 2010, the Texas RE Training program will develop materials for and plan to hold at least:

- Two (2) full-day Standards and Compliance workshops;
- One (1) additional workshop focusing on standards;
- Two (2) additional workshops focusing on CIP compliance.

In addition to the above workshops, Texas RE also intends to continue to coordinate and facilitate six (6) regular sessions of the ERCOT Operations Training Seminar. The purpose of this seminar is to refresh the understanding of operational fundamentals; introduce changes occurring to operational interfaces, equipment, systems, and processes; address the impact of market processes to system performance and operation; and address emerging issues in performance and system reliability. Texas RE also facilitates the ERCOT Operator Certification Program, including maintaining and updating the ERCOT Fundamentals Training Manual and administering the System Operator testing process.

The Texas RE Training staff also publishes a bi-monthly newsletter, which includes useful compliance and standards-related information, updates about Texas RE and NERC activities, training, procedures, templates, and forms, and current reliability-related topics.

Texas RE staff participates on selected industry sponsored seminars and panels to provide as much information to the industry as possible as well as to receive feedback.

Texas RE's training program continues to improve and consistently receives favorable reviews from participants. With few exceptions the Texas RE workshops and seminars are fully subscribed and support remote attendance using call-in numbers and WebEx presentations.

2010 Key Assumptions:

- Texas RE will develop and deliver two (2) Standards and Compliance workshops, two (2) CIP Compliance workshops and six sessions of the Operations Training seminar in 2010.
- Texas RE will develop and deliver one (1) Reliability Standards workshop in 2010.
- The Training, Education, and Operator Certification program will remain a Statutory function with the Operations Training Seminar revenues partially offsetting the seminar's expenses.

2010 Goals and Key Deliverables:

1. Develop two (2) full-day high quality 2010 Standards and Compliance workshops (approximately 125 stakeholders each)
2. Develop and deliver one (1) full-day Reliability Standards workshop
3. Develop and deliver two (2) full-day quality CIP workshops
4. Coordinate and host six (6) sessions of the four-day ERCOT region Operator Training seminar
5. Maintain a database for tracking seminar and workshop participants and feedback and use this feedback to continue to improve on future seminars and workshops

Funding Requirements — Explanation of Increase (Decrease)

The Training, Education and Operator Certification funding requirements reflects an increase of \$217K year-over-year because Texas RE used unspent prior-year funds to reduce the 2009 assessment; and in 2010, indirect program expenses are fully allocated to the direct program areas. Additionally, expenses associated with the Operations Training Seminar are increasing due to increases in the cost of the venue for the six (6) week seminar facilitated by Texas RE. The increase in costs from 2009 to 2010 for the OTS is expected to be \$110K year-over-year. This additional expense is expected to be offset by registration fees collected from OTS attendees.

Training, Education, and Operator Certification Program

Funding sources and related expenses for the training, education, and operator certification section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Training and Education					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 106,415	\$ 106,415	\$ -	\$ 213,829	\$ 107,414
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 106,415	\$ 106,415	\$ -	\$ 213,829	\$ 107,414
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	70,000	174,029	104,029	180,000	110,000
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 176,415	\$ 280,444	\$ 104,029	\$ 393,829	\$ 217,414
Expenses					
Personnel Expenses					
Salaries	\$ 52,608	\$ 76,339	\$ 23,731	\$ 81,122	\$ 28,514
Payroll Taxes	4,209	5,594	1,385	6,425	2,216
Benefits	5,524	7,747	2,222	8,834	3,310
Retirement Costs	7,628	9,673	2,044	11,511	3,883
Total Personnel Expenses	\$ 69,969	\$ 99,352	\$ 29,383	\$ 107,893	\$ 37,924
Meeting Expenses					
Meetings	\$ 105,000	\$ 154,928	\$ 49,928	\$ 220,000	\$ 115,000
Travel	1,446	1,700	254	-	(1,446)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 106,446	\$ 156,628	\$ 50,182	\$ 220,000	\$ 113,554
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	270	270	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	646	646	842	842
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ -	\$ 916	\$ 916	\$ 842	\$ 842
Total Direct Expenses	\$ 176,415	\$ 256,896	\$ 80,481	\$ 328,735	\$ 152,320
Indirect Expenses	\$ 99,243	\$ 96,418	\$ (2,825)	\$ 64,442	\$ (34,801)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 275,658	\$ 353,314	\$ 77,656	\$ 393,177	\$ 117,519
Change in Assets	\$ (99,243)	\$ (72,870)	\$ 26,373	\$ 652	\$ 99,895
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (7,154)	\$ (7,154)	\$ -	\$ (652)	\$ 6,502
Change in Fixed Assets	\$ (7,154)	\$ (7,154)	\$ -	\$ (652)	\$ 6,502
TOTAL CHANGE IN ASSETS	\$ (106,397)	\$ (80,024)	\$ 26,373	\$ -	\$ 106,397

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Training, Education and Operator Certification is planned to be nearly 46% self-funded in 2010 through registration fees from attendees of the OTS. The remaining 54% of this program is funded through ERO assessments.

Personnel Expenses

- 2010 personnel expenses are increasing to accommodate additional FTEs of work in the Training area. The primary increase is resulting from increased management, support and other staff to conduct Texas RE's training workshops and the Operations Training Seminar.

Meeting Expenses

- Meeting expenses are increasing primarily for the Operations Training Seminar. Due to a venue change to an offsite location, the costs of conducting the seminar are \$110K higher.
- Additionally, Texas RE is increasing its budget for workshops from \$35K to \$40K to allow for venue changes as needed for larger attendance.

Operating Expenses

- The primary expense budgeted in this area relates to training seminars, dues, and training in direct support for the training staff.

Indirect Expenses

- Indirect expenses are reflecting a decline of \$35K year-over-year due to reductions in the administrative costs.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- There are no new direct fixed asset additions for this program; however, there is a slight allocation of administrative services' fixed assets.

Reliability Assessment and Performance Analysis Program

Reliability Assessment and Performance Analysis Program Resources			
<small>(in whole dollars)</small>			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	2.20	2.44	0.24
Total Direct Expenses	\$365,180	\$290,095	(\$75,085)
Total Indirect Expenses	\$372,419	\$161,505	(\$210,914)
Total Expenses	\$737,599	\$451,600	(\$285,999)

Program Scope and Functional Description:

Reliability Assessment Reports

ERCOT ISO has traditionally assembled the data for and prepared all seasonal, annual long-term, and other required planning and reliability assessments for the ERCOT region, using ERCOT ISO planning staff and input from stakeholder technical experts. As the regional entity, Texas RE coordinates with ERCOT ISO regarding the timing of these assessments, and Texas RE reviews the assessments for completeness. Because Texas RE plans to continue to rely upon ERCOT ISO Planning staff for the research and preparation of these assessments, Texas RE's coordination and review of these assessments is a small portion of its 2010 budget.

Event Analysis

As Reliability Coordinator, ERCOT ISO monitors the system in real time and reports a variety of incidents and disturbances to Texas RE for its review and compliance analysis. These incidents and disturbances include Department of Energy and NERC reportable events, Emergency Electric Alert (EEA) implementation, special protection system activation, equipment outages and failures, underfrequency and undervoltage relay operation, any failure to meet NERC requirements related to frequency control or transmission security.

Texas RE reviews all reported incidents and disturbances to determine if a compliance analysis is needed. If the initial review indicates that a standard might potentially have been violated, Texas RE performs a compliance analysis and obtains more information from the registered entity, as needed. If the compliance analysis indicates that further review, such as a CIQ, Spot Check, or CVI is justified, further analysis is performed as described under the CMEP description. If the initial review indicates that any Protocol might have been violated, Texas RE performs a Non-statutory compliance analysis as part of its Non-statutory activities.

Texas RE staff also attend ERCOT ISO reliability-based stakeholder committees, such as the Reliability & Operating Subcommittee (ROS), Performance Disturbance Compliance Working Group (PDCWG), Operations Working Group (OWG) and the Wind Operations Task Force (WOTF) to better understand the reliability issues and challenges for the ERCOT region and to provide comments from the Texas RE perspective when needed. Texas RE also regularly communicates with NERC staff regarding any reliability challenges of special interest in the ERCOT region (e.g. wind generation) to keep NERC apprised of risks, improvements, and on-going strategy.

On a monthly basis, Texas RE also calculates and reports on a variety of reliability performance metrics (e.g. Regional (ERCOT Protocol) measures and NERC Reliability Standards measures) to its Board of Directors. Texas RE also uses this information, when appropriate, to identify potential standards violations or declining reliability trends that need to be investigated

2010 Key Assumptions:

- ERCOT ISO will continue to research, assemble data for, and prepare the seasonal, long-term, and other requested assessments, and Texas RE will coordinate the timing of and review such assessments (and make comments, if required) before submitting the assessments to NERC
- Review approximately 80 reports of incidents, complaints, and disturbances

2010 Goals and Key Deliverables:

1. Texas RE will increase its participation in the Regional Planning Group activities
2. Timely review and submit all required assessments to NERC (or ensure required assessments are submitted to NERC on schedule).
3. Timely review all required incidents, complaints and disturbances
4. Communicate and coordinate issues of reliability concern with NERC

Funding Requirements — Explanation of Increase (Decrease)

The Reliability Assessment and Performance Analysis program funding requirements reflects an increase of \$88K year-over-year for two (2) reasons:

1. 2009 was lowered because Texas RE used unspent prior-year funds to reduce the 2009 assessment; and
2. In 2010, indirect program expenses are fully allocated to the direct program areas.

Reliability Assessment and Performance Analysis Program

Funding sources and related expenses for the reliability assessment and performance analysis section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Assessment and Performance Analysis					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 365,180	\$ 365,180	\$ -	\$ 453,235	\$ 88,055
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 365,180	\$ 365,180	\$ -	\$ 453,235	\$ 88,055
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 365,180	\$ 365,180	\$ -	\$ 453,235	\$ 88,055
Expenses					
Personnel Expenses					
Salaries	\$ 270,100	\$ 157,007	\$ (113,093)	\$ 217,004	\$ (53,096)
Payroll Taxes	21,608	11,922	(9,686)	17,187	(4,421)
Benefits	31,191	13,181	(18,010)	23,632	(7,559)
Retirement Costs	39,165	21,247	(17,918)	30,793	(8,372)
Total Personnel Expenses	\$ 362,063	\$ 203,356	\$ (158,707)	\$ 288,615	\$ (73,448)
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	3,117	850	(2,267)	806	(2,311)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 3,117	\$ 850	\$ (2,267)	\$ 806	\$ (2,311)
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	1	1	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	136	136	673	673
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ -	\$ 137	\$ 137	\$ 673	\$ 673
Total Direct Expenses	\$ 365,180	\$ 204,343	\$ (160,837)	\$ 290,095	\$ (75,085)
Indirect Expenses	\$ 372,419	\$ 246,784	\$ (125,635)	\$ 161,505	\$ (210,914)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 737,599	\$ 451,127	\$ (286,472)	\$ 451,600	\$ (285,999)
Change in Assets	\$ (372,419)	\$ (85,947)	\$ 286,472	\$ 1,635	\$ 374,054
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (26,847)	\$ (26,847)	\$ -	\$ (1,635)	\$ 25,212
Change in Fixed Assets	\$ (26,847)	\$ (26,847)	\$ -	\$ (1,635)	\$ 25,212
TOTAL CHANGE IN ASSETS	\$ (399,266)	\$ (112,794)	\$ 286,472	\$ (0)	\$ 399,266

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Funding is received only through assessment income and is designated to fully fund total expenses.

Personnel Expenses

- FTEs are increasing .24 FTEs in 2010 due to expected time to be spent on performance analysis and reliability assessment.
- Personnel expenses in 2010 are expected to be less than those reflected in the 2009 budget by \$73K year-over-year. This is primarily due to a different mix of staff in this program.

Meeting Expenses

- Meeting expenses are decreasing \$2K due to all expected travel within this program to be within driving distance of Texas RE's offices.

Operating Expenses

- Material changes to operating expenses are not planned for 2010.

Indirect Expenses

- Indirect expenses are declining \$211K year-over-year, due to a reduction in administrative services costs.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- There are no new direct fixed asset additions for this program; however, there is a slight allocation of administrative services' fixed assets.

Situational Awareness and Infrastructure Security Program

Situational Awareness and Infrastructure Security Program Resources			
<small>(in whole dollars)</small>			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	1.50	3.03	1.53
Total Direct Expenses	\$159,129	\$391,907	\$232,778
Total Indirect Expenses	\$250,393	\$200,226	(\$50,166)
Total Expenses	\$409,522	\$592,134	\$182,612

Program Scope and Functional Description

This program supports two distinct functions. Situational awareness is focused on near real-time analysis of the BPS for ERCOT ISO. Infrastructure Security focuses on protecting tangible assets from a variety of threats. The majority of activity for this program in 2010 relates to Infrastructure Security, however, some resources are also planned for Situational Awareness.

Situational Awareness

Currently, Texas RE relies significantly on the ERCOT ISO to provide details on situational issues. Texas RE Staff have direct access to historical data via the data warehouse. There are two aspects of situational awareness which require Texas RE involvement in 2010:

1. Texas RE will continue to participate in the Situational Awareness for FERC, NERC, and Regional Entities (SAFNR) Project. SAFNR Project goal is to enable 100% of reliability coordinators in the United States to display interconnection system conditions to FERC, NERC, and the respective regional entities. This will be accomplished through internet-based systems that provide visual displays for FERC, NERC, and the Regional Entities (REs) while all the data resides at the reliability coordinators.

The SAFNR Project team is comprised of FERC Office of Electric Reliability staff, NERC Situational Awareness staff, designated RE staff, the Reliability Coordinators (RCs) located in the United States, and the Regional Entity managers.

2. Texas RE situational awareness and events analysis staff communicate with NERC, FERC and other regions on observed events, disturbances, or BPS condition. NERC led conference calls are held at a minimum bi-weekly. In the case of more severe events (for example: major blackout or hurricane), daily as needed.

2010 Key Assumptions

Situational Awareness

Phase 1 of the SAFNR Project will be completed by the 2009 summer. Phase 1 includes the RCs making information available for FERC, NERC, and the Regional Entities by summer 2009 via data servers at the RC location.

2010 Goals and Key Deliverables

Situational Awareness

SAFNR's subsequent goal is to provide each NERC, FERC and each RE with a common view of the interconnections. In 2010, this includes:

1. Modify existing displays or create new ones to make the visualization more consistent.
2. Assess what aspects are working well, identify areas for improvement and review cost implications.
3. Clarify what is driving the related business case and possibly build in performance metrics from previous phases to help quantify the value.

Funding Requirements — Explanation of Increase (Decrease)

The Situational Awareness and Critical Infrastructure Protection funding requirements reflects an increase of \$435K year-over-year, in part due to 2009 being lower because Texas RE used unspent prior-year funds to reduce the 2009 assessment; and in 2010, indirect program expenses are fully allocated to the direct program areas. Additionally, expenses associated with the program are increasing as detailed in the variances section.

Situational Awareness

Based on supporting the SAFNR Project and the regular communication of event details to NERC and FERC (and PUCT for Non-statutory reporting) as outlined in this business plan, Texas RE will require an additional 1.0 staff (.74 FTEs Statutory, .26 FTEs Non-statutory) for 2010.

Exhibit not completed due to personnel salary confidentiality as would be compared to 2009.

Critical Infrastructure Protection Resources			
(Included in Total Situational Awareness and Infrastructure Security)			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	n/a	n/a	n/a
Total Direct Expenses	n/a	n/a	n/a
Total Indirect Expenses	n/a	n/a	n/a
Total Expenses	n/a	n/a	n/a

Program Scope and Functional Description

Responsible entities must become compliant with Critical Infrastructure Protection (CIP) Standards based on the NERC implementation schedules. ERCOT ISO is the only designated Balancing Authority (BA), Transmission Operator (TOP), and Reliability Coordinator (RC) in the ERCOT region and was required to self-certify compliance to NERC's Urgent Action Cyber Security Standard 1200. As such, ERCOT ISO must be either auditably compliant or compliant with all of the CIP Standards requirements by the end of the second quarter 2009; and auditably compliant with all CIP Standards requirements by the end of the second quarter 2010.

All new registered entities must also become compliant with all CIP standards requirements in accordance with the CIP implementation plan.

Texas RE will continue to play an active role during the implementation of the CIP standards requirements. To provide time for Responsible Entities to examine their policies and procedures, to assemble the necessary documentation, and to meet the requirements of the CIP standards, compliance assessment began in 2007. Status reports are also being requested from Responsible Entities to verify that entities are on schedule and meeting the implementation plan. NERC expects its regional entities to provide assistance and education on the CIP standards to ease the transition. Texas RE is budgeting to provide training to registered entities and other stakeholders under the training function budget. Some of the content in this training will be related to cyber-security and will be internally developed.

This program will support activities associated with cyber security, including monitoring and enforcement of compliance with the CIP (CIP-001 thru 009) standards. The intent of the NERC CIP Standards is to ensure that all entities responsible for the reliability of the BPS identify and protect critical cyber assets that control or could impact the reliability of the BPS. The CIP Standards requirements are being communicated to all responsible entities to ensure compliance in accordance with the CIP Implementation Plan. This requires a significant amount of communication with the ERCOT ISO Security Department and entities responsible for complying with the CIP standards. Compliance Audits, self-certifications, and spot checks will be required to verify compliance.

2010 Key Assumptions

- Develop and Implement CIP audit program during 2010.
- Texas RE will only have one major CIP audit in 2010.

- Conduct all CIP Spot Checks at the Texas RE offices (no CIP audit travel will be required in 2010).
- Semi-annual CIP Self-Certifications will be required of registered entities in 2010.
- NERC will conduct CIP audits of nuclear facilities, as contemplated by NERC's draft Business Plan and Budget.
- Six (6) CIP spot checks will be done in 2010.

2010 Goals and Key Deliverables

1. Finalize Texas RE CIP audit procedures.
2. Complete the CIP audit of the ERCOT ISO.
3. Complete a minimum of 6 CIP spot checks.
4. Identify CIP Audit Team for 2011.
 - a. Any additional skill sets that may be needed for 2011.
5. Semi-Annual CIP Self-Certifications for 2010.
6. Develop education plan and deliver 2 CIP workshops for registered entities (see Training section).
 - a. Last CIP Workshops before entities enter audibly compliant phase and CIP audits begin.
7. Enhance the Texas RE website with CIP information and links.

Funding Requirements — Explanation of Increase (Decrease)

Critical Infrastructure Protection

The addition of one IT Security subject matter expert (SME) will provide a skill set that Texas RE currently does not possess. Specific knowledge of how to assess the security of EMS and SCADA systems, networks, and electronic security perimeters (ESP) is needed. Incorporating this knowledge into the Texas RE CIP process will be a primary deliverable for the IT Security SME in 2010, as well as participating in the 2010 CIP audit of the ERCOT ISO. The IT Security SME will be participating (and eventually leading) on CIP audits in 2011 and spot-checks in 2010. In preparation for participating in CIP audits, the IT Security SME will have to attend NERC Auditor Training and NERC CIP Auditor Training. These two training sessions will be the only required travel for this position in 2010. Based on supporting CIP business plan, Texas RE will require 1.0 additional staff position for 2010 (.98 FTEs Statutory and .02 FTEs Non-statutory) starting in the second quarter.

Section A — 2010 Business Plan

Situational Awareness and Infrastructure Security Program

Funding sources and related expenses for the situational awareness and infrastructure security section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Situational Awareness and Infrastructure Security					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 159,129	\$ 159,129	\$ -	\$ 594,161	\$ 435,032
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 159,129	\$ 159,129	\$ -	\$ 594,161	\$ 435,032
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 159,129	\$ 159,129	\$ -	\$ 594,161	\$ 435,032
Expenses					
Personnel Expenses					
Salaries	\$ 118,842	\$ 127,966	\$ 9,124	\$ 291,164	\$ 172,322
Payroll Taxes	9,507	9,142	(365)	23,060	13,553
Benefits	12,479	5,533	(6,945)	31,708	19,229
Retirement Costs	17,232	16,713	(519)	41,316	24,084
Total Personnel Expenses	\$ 158,060	\$ 159,354	\$ 1,294	\$ 387,247	\$ 229,187
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	1,069	3,597	2,528	4,260	3,191
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 1,069	\$ 3,597	\$ 2,528	\$ 4,260	\$ 3,191
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	397	397	-	-
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	400	400
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ -	\$ 397	\$ 397	\$ 400	\$ 400
Total Direct Expenses	\$ 159,129	\$ 163,348	\$ 4,219	\$ 391,907	\$ 232,778
Indirect Expenses	\$ 250,393	\$ 164,140	\$ (86,253)	\$ 200,226	\$ (50,166)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 409,522	\$ 327,488	\$ (82,034)	\$ 592,134	\$ 182,612
Change in Assets	\$ (250,393)	\$ (168,359)	\$ 82,034	\$ 2,027	\$ 252,420
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ (18,050)	\$ (18,050)	\$ -	\$ (2,027)	\$ 16,023
Change in Fixed Assets	\$ (18,050)	\$ (18,050)	\$ -	\$ (2,027)	\$ 16,023
TOTAL CHANGE IN ASSETS	\$ (268,443)	\$ (186,409)	\$ 82,034	\$ 0	\$ 268,443

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Funding is received only through assessment income and is designated to fully fund total expenses.

Personnel Expenses

- Texas RE is adding approximately 2.0 employees (1.53 FTEs Statutory, .28 Non-statutory) to this program. In addition, there are other activities performed in Compliance, Audit, and Enforcement, the result of which is .19 FTEs and funding reflected in those activities and not in the CIP activity. The increased personnel expenses of \$229K year-over-year are a direct result of the changes in FTEs working in the Situational Awareness and Infrastructure Security Programs.

Meeting Expenses

- Meeting expenses are primarily driven by travel costs associated with CIP. The costs are increasing \$3K year-over-year for CIP related training travel and NERC working group meetings travel.

Operating Expenses

- Operating expenses are flat year-over-year.

Indirect Expenses

- Indirect expenses are declining \$50K year-over-year, due to a reduction in administrative services costs.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- There are no new direct fixed asset additions for this program; however, there is a slight allocation of administrative services' fixed assets.

Administrative Services

Administrative Services (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	6.80	3.76	(3.04)
Total Direct Expenses	\$2,559,847	\$2,001,482	(\$558,365)

Program Scope and Functional Description

General and Administrative

The CEO carries on the general affairs of the Texas RE. The CEO is independent of any registered entity and reports exclusively to the Texas RE Board of Directors. The CEO is responsible for:

- Overseeing and managing the activities of Texas RE.
- Making final decisions with respect to enforcement related to compliance actions for violations of reliability standards.
- Making employment-related decisions for all employees of Texas RE.
- Making an annual report and periodic reports to Texas RE's Board concerning the activities and expenditures of Texas RE.
- Ensuring that Texas RE files all required reports with NERC.
- Monitoring the expenditures of the monies received by Texas RE to ensure that such are deployed in accordance with the approved Texas RE Budget (in cooperation with the Finance Staff).
- Retaining or terminating outside counsel or other advisors as deemed appropriate.
- Performing such other duties as may be determined from time to time by Texas RE's Board, for the benefit of the Texas RE.

An Executive Assistant will be responsible for providing executive-level administrative support to the Texas RE CEO. The Executive Assistant will also perform general office manager activities and provide support to other Texas RE staff as needed.

2010 Key Assumptions

- Texas RE total staff will increase to 40 staff (34.00 FTEs Statutory, 6.00 FTEs Non-statutory).
- Texas RE will continue to operate as an independent division of ERCOT ISO.
- Where possible, all appropriate direct program expenses will be a direct cost to their respective program and function. Only corporate services expenses and personnel will remain in administrative services.
- Texas RE will establish a cash reserve of 75 days cash on hand (totaling \$1,371K, with \$855K on hand from 2009, for a difference of \$516K), or a 20% reserve for contingency planning purposes. This will not result in an increased assessment for 2010. Texas RE projects a balance of \$594K in its regulatory liability (unspent prior-year funds) that it will release in 2010. Additionally, Texas RE will reduce assessments by the difference (\$78K).

2010 Goals and Key Deliverables

1. Communicate and maintain effective relationships with the board, industry, regulators, and other stakeholders.
2. Conduct base operations with the approved budget.
3. Effectively manage the NERC Compliance Monitoring and Enforcement Program.
4. Manage Texas RE's Standards Development Process.
5. Establish Key Performance Indicators and Benchmarks for Texas RE operations.

Funding Requirements — Explanation of Increase (Decrease)

- In the 2010 budget, the funding requirement is decreasing \$336K. Indirect programs allocate their costs to the direct programs.

General and Administrative

Funding sources and related expenses for the general and administrative section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
General and Administrative					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 257,531	\$ 257,531	\$ -	\$ (80,265)	\$ (337,796)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 257,531	\$ 257,531	\$ -	\$ (80,265)	\$ (337,796)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	4,125	4,125	2,000	2,000
Miscellaneous	-	-	-	-	-
Total Funding	\$ 257,531	\$ 261,656	\$ 4,125	\$ (78,265)	\$ (335,796)
Expenses					
Personnel Expenses					
Salaries	\$ 764,074	\$ 737,553	\$ (26,522)	\$ 539,855	\$ (224,219)
Payroll Taxes	61,126	55,400	(5,726)	42,598	(18,528)
Benefits	61,605	57,729	(3,876)	54,570	(7,034)
Retirement Costs	110,791	98,644	(12,147)	80,324	(30,467)
Total Personnel Expenses	\$ 997,596	\$ 949,325	\$ (48,271)	\$ 717,347	\$ (280,249)
Meeting Expenses					
Meetings	\$ -	\$ 870	\$ 870	\$ 3,600	\$ 3,600
Travel	12,820	13,404	584	17,158	4,338
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 12,820	\$ 14,274	\$ 1,454	\$ 20,758	\$ 7,938
Operating Expenses					
Consultants & Contracts	\$ 487,054	\$ 539,074	\$ 52,020	\$ 676,331	\$ 189,277
Office Rent	517,550	287,392	(230,158)	327,600	(189,950)
Office Costs	13,320	15,506	2,186	24,240	10,920
Professional Services	30,000	82,462	52,462	60,000	30,000
Miscellaneous	10,515	8,410	(2,105)	1,350	(9,165)
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 1,058,439	\$ 932,844	\$ (125,595)	\$ 1,089,521	\$ 31,082
Total Direct Expenses	\$ 2,068,855	\$ 1,896,443	\$ (172,412)	\$ 1,827,626	\$ (241,229)
Indirect Expenses	\$ (2,923,855)	\$ (1,896,443)	\$ 1,027,412	\$ (1,827,626)	\$ 1,096,229
Other Non-Operating Expenses	\$ 855,000	\$ -	\$ (855,000)	\$ -	\$ (855,000)
Total Expenses	\$ -	\$ -	\$ -	\$ (0)	\$ (0)
Change in Assets	\$ 257,531	\$ 261,656	\$ 4,125	\$ (78,265)	\$ (335,796)
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CHANGE IN ASSETS	\$ 257,531	\$ 261,656	\$ 4,125	\$ (78,265)	\$ (335,796)

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In the 2010 budget, the funding requirement is decreasing (\$336K). Indirect programs allocate their costs to the direct programs. In 2010, Texas RE is further reducing assessments by \$78K using unspent funds from 2009.

Personnel Expenses

- The primary reason for the decrease of \$280K is resulting from increased management, legal and other direct work in Reliability Standards, Compliance Monitoring and Enforcement and Organization Registration and Certification Program, Reliability Assessment, Training, Situational Awareness, and Critical Infrastructure Protection areas. Texas RE uses time tracking to better enable the recording of direct labor expenses to the program level. Those tasks that are considered administrative services are allocated as an indirect expense to the program areas.

Meeting Expenses

- Meeting expenses are increasing primarily related to additional travel demands of the CEO and his staff. There are additional NERC, FERC and Regional meetings that are required and an increase was necessary to facilitate this. The result is an increase of \$8K year-over-year.

Operating Expenses

- Consulting and contract expenses are increasing in direct response to employee increases as well as trended actual expenses. This expense increase is related to the MOU between Texas RE and ERCOT ISO. The resulting increase is expected to be \$189K. Office costs are increasing \$11K primarily related to trends in office supply consumption as well as expected increases. There is an additional \$30K being provisioned for professional outside services as may be required by program use. Offsetting the increases are a reduction in training expenses (\$9K), these expenses are now budgeted in their respective programs, as well as a reduction in the rent expense in 2010 (\$190K). The reduction is rent reflected a lower rentable square foot rate obtained by Texas RE for its office space as well as a reduction in the facilities services expenses paid through the MOU.

Indirect Expenses

- Indirect expense is decreasing significantly \$1,096K, year-over-year primarily attributed to identifying the direct cost components that were budgeted in G&A in the 2009 budget. These costs are more appropriately reflected as direct program costs in the functional areas due to the nature of the work being performed.

Other Non-Operating Expenses

- Non-Operating expenses are decreasing from 2009 to 2010. Due to the change from cash-based to GAAP based budgeting; the cash reserve is no longer funded as a non-operating expense, this resulted in a decrease year-over-year of \$855K.

Fixed Asset Additions

- N/A

Legal and Regulatory

Program Scope and Functional Description

Texas RE Legal and Regulatory provides legal advice and counsel to Texas RE management, board, and staff on all legal and regulatory matters affecting Texas RE, including corporate governance, transactions, personnel, governmental relations, communications, NERC registration, standards development, compliance, enforcement, and other regulatory matters. Legal staff also retains and oversees the work of outside legal counsel as needed. Legal and Regulatory employees anticipate that the primary regulatory emphasis during 2010 will include NERC registration appeals, investigation oversight, settlement coordination, and enforcement proceedings under the CMEP. Legal and Regulatory employees will also continue to review and provide feedback to NERC regarding new and modified standards, procedures, and templates used in the CMEP process. Texas RE attorneys, or outside counsel overseen by Texas RE attorneys, will represent the Texas RE in its quasi-prosecutorial role in CMEP enforcement hearings, and in NERC, FERC, and PUCT rulemakings and other proceedings.

2010 Key Assumptions

Texas RE Legal and Regulatory has the following key assumptions:

- A. Texas RE will remain functionally separate from ERCOT ISO and will not undergo any significant board or governance changes (caused by board or membership decisions, the NERC three-year Assessment, the FERC audit of Texas RE, or otherwise).
- B. The Delegation Agreement requirements and NERC expectations will remain constant.
- C. The majority of possible violations will be handled through the settlement process.
- D. The number of contested registration and enforcement cases will remain low – one large or two small-to-mid-sized disputes per year.

2010 Goals and Key Deliverables

1. Coordinate Texas RE board information, meetings, and materials and maintain corporate bylaws and corporate procedures as required by law, the Delegation Agreement, NERC Rules, and FERC Orders.
2. Provide legal advice to the CEO and the Texas RE board, advisory committee, and departments, as needed on corporate, contract, and transactional, and other matters.
3. Represent Texas RE in all NERC, FERC, regulatory matters, and legal proceedings.
4. Prosecute CMEP hearings of contested enforcement matters.
5. Act as a resource for investigations to help ensure accurate, appropriate and complete documentation is maintained and consistent procedures are followed.
6. Communicate and maintain effective relationships with NERC, FERC, the PUCT, and other governmental authorities.
7. Manage and oversee all Texas RE registration and enforcement action appeals.
8. Review Texas RE alleged violations, penalties, and sanctions for consistency.
9. Participate in settlement processes and review all settlements for consistent application of the CMEP.
10. Review and provide input to NERC regarding new and modified standards, procedures, forms, and templates.

Funding Requirements — Explanation of Increase (Decrease)

- In the 2010 budget, the funding requirement is decreasing (\$314K). Indirect programs allocate their costs to the direct.

Legal and Regulatory

Funding sources and related expenses for the general and administrative section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Legal and Regulatory					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 314,394	\$ 314,394	\$ -	\$ -	\$ (314,394)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 314,394	\$ 314,394	\$ -	\$ -	\$ (314,394)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 314,394	\$ 314,394	\$ -	\$ -	\$ (314,394)
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	8,994	6,821	(2,173)	4,478	(4,516)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 8,994	\$ 6,821	\$ (2,173)	\$ 4,478	\$ (4,516)
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	2,400	6,597	4,197	5,400	3,000
Professional Services	300,000	253,538	(46,462)	48,000	(252,000)
Miscellaneous	-	2,195	2,195	6,200	6,200
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 302,400	\$ 262,330	\$ (40,070)	\$ 59,600	\$ (242,800)
Total Direct Expenses	\$ 311,394	\$ 269,151	\$ (42,243)	\$ 64,078	\$ (247,316)
Indirect Expenses	\$ (314,394)	\$ (269,151)	\$ 45,243	\$ (64,078)	\$ 250,316
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ (3,000)	\$ -	\$ 3,000	\$ -	\$ 3,000
Change in Assets	\$ 317,394	\$ 314,394	\$ (3,000)	\$ -	\$ (317,394)
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CHANGE IN ASSETS	\$ 317,394	\$ 314,394	\$ (3,000)	\$ -	\$ (317,394)

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, Texas RE's Legal and Regulatory function expenses are allocated entirely to the direct programs.

Personnel Expenses

- Reflected under G&A for personnel confidentiality purposes. The FTE's are segregated on Table 2 within Section B.

Meeting Expenses

- Travel costs are decreasing approximately \$5K. This is primarily related to training expenses budgeted under travel. For 2010, all training, seminars, continuing education and professional dues are being budgeted under miscellaneous.

Operating Expenses

- Professional services (external legal) expenses are now budgeted where they are likely to be incurred \$252K, which is in support of the direct program functions. However, the expenses remaining within this indirect program are of a more administrative services nature and are allocated as an indirect expense.

Indirect Expenses

- Indirect expense is decreasing significantly \$250K, year-over-year primarily attributed to identifying the direct cost components that were budgeted in legal and regulatory in 2009. These costs are more appropriately reflected as direct program costs in the functional areas due to the nature of the work being performed.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- N/A

Information Technology

Program Scope and Functional Description

IT staff will provide a broad range of information technology support to Texas RE, including the following: strategy; research; vendor management; planning, development, and deployment of enterprise systems and computer applications/systems in support of business needs; and support, training, and maintenance for these systems and applications.

IT staff will work with Texas RE management to develop a technological strategy to reach Texas RE's long-term goals and meet immediate system and hardware needs. In addition, IT Staff will research and implement technologies for the purpose of increasing Texas RE efficiency and/or reducing workload.

In addition to its internal development efforts, IT staff will use a mix of services from external vendors and ERCOT ISO's IT department. To ensure that applications and hardware are well maintained, service levels remain high, and costs are controlled, IT staff will provide vendor management and coordinate with ERCOT ISO IT staff on day-to-day support, administration, and future requirements. For project and outsourcing agreements, IT staff will also work closely with Finance, Legal, and ERCOT ISO Procurement to provide specialized knowledge and the contractual details for the technical service to be provided.

IT staff also has the general responsibility to keep Texas RE systems up-to-date with evolving industry standards. IT staff will work with other regional entities and NERC to that end.

IT staff will manage the design, implementation, support, and maintenance of the tools and delivery mechanisms to support the communication of information to the market, specifically the Texas RE website, Texas RE e-mail boxes and lists, and Web-based training.

IT staff will also manage the design, implement, support, and maintain Texas RE data and records-management tools to support the Standards, Registration, and CMEP programs, as well as improving registered entities' ability to participate in the processes. Specifically, such tools include the Texas Regional Entity Portal and associated tools for management and tracking, the Reliability Standards tracking tool, and the electronic document management system. IT staff will also assist with the transition of Texas RE Staff's ability to receive or view necessary data in ERCOT ISO nodal systems. IT staff will also participate in the design and development of database models, web-enabled applications, data extraction and delivery methods, and data presentation.

2010 Key Assumptions

The 2010 budget assumes that Texas RE remains a division of ERCOT ISO, with the ability to purchase some key IT services (such as computers and support, email and support, phone service and support, enterprise servers, and WebEx) from ERCOT ISO.

The 2010 budget assumes that Texas RE continues to work as a member of the Consortium User Group to collaborate on and share the costs of development for the portal software with other regional entities.

2010 Goals and Key Deliverables

IT objectives for 2010 include the following:

1. Develop long-term strategy in response to business needs.
2. Research and develop and/or purchase software and hardware to respond to immediate business needs.
3. Manage vendors to ensure quality of services and applications, responsiveness to Texas RE needs, and cost controls.
4. Liaise with ERCOT ISO IT staff regarding IT systems and tools.
5. Work effectively with other regional entities and NERC to ensure that Texas RE remains consistent.
6. Assist in ensuring information systems are functional and secure, and that applications running on those systems meet business requirements for performance, availability, and security.

Funding Requirements — Explanation of Increase (Decrease)

- In the 2010 budget, the funding requirement is decreasing (\$384K). Indirect programs allocate their costs to the direct programs.

Section A — 2010 Business Plan

Information Technology

Funding sources and related expenses for the information technology section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Information Technology					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 383,500	\$ 383,500	\$ -	\$ -	\$ (383,500)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 383,500	\$ 383,500	\$ -	\$ -	\$ (383,500)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 383,500	\$ 383,500	\$ -	\$ -	\$ (383,500)
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Meeting Expenses					
Meetings	\$ -	\$ 659	\$ 659	\$ -	\$ -
Travel	-	-	-	4,057	4,057
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ -	\$ 659	\$ 659	\$ 4,057	\$ 4,057
Operating Expenses					
Consultants & Contracts	\$ 3,932	\$ -	\$ (3,932)	\$ -	\$ (3,932)
Office Rent	-	-	-	-	-
Office Costs	-	543	543	960	960
Professional Services	60,000	152,112	92,112	33,860	(26,140)
Miscellaneous	-	-	-	6,500	6,500
Depreciation	76,540	76,540	-	12,000	(64,540)
Total Operating Expenses	\$ 140,472	\$ 229,195	\$ 88,723	\$ 53,320	\$ (87,152)
Total Direct Expenses	\$ 140,472	\$ 229,854	\$ 89,382	\$ 57,377	\$ (83,095)
Indirect Expenses	\$ (137,338)	\$ (229,854)	\$ (92,516)	\$ (57,377)	\$ 79,961
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 3,134	\$ -	\$ (3,134)	\$ -	\$ (3,134)
Change in Assets	\$ 380,366	\$ 383,500	\$ 3,134	\$ -	\$ (380,366)
Fixed Assets					
Depreciation	\$ (76,540)	\$ (76,540)	\$ -	\$ (12,000)	\$ 64,540
Computer & Software CapEx	322,702	354,202	31,500	32,263	(290,439)
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (246,162)	\$ (277,662)	\$ (31,500)	\$ (20,263)	\$ 225,899
Allocation of Fixed Assets	\$ 246,162	\$ 246,162	\$ -	\$ 20,263	\$ (225,899)
Change in Fixed Assets	\$ -	\$ (31,500)	\$ (31,500)	\$ -	\$ -
TOTAL CHANGE IN ASSETS	\$ 380,366	\$ 352,000	\$ (28,366)	\$ -	\$ (380,366)

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, Texas RE's IT function expenses are allocated entirely to the direct programs and as such do not have an ERO assessment.

Personnel Expenses

- Reflected under G&A for personnel confidentiality purposes. The FTE's are segregated on Table 2 within Section B.

Meeting Expenses

- Travel costs are increasing approximately \$4K. This is primarily related to the need to meet with the Consortium User Group and NERC working groups.

Operating Expenses

- Professional services (hosting and professional services) expenses are now budgeted where they are likely to be incurred, which is in support of the functions and direct programs \$26K less, year-over-year. However, the expenses remaining within this indirect program are of a more administrative services nature and are allocated as an indirect expense.

Indirect Expenses

- Indirect expense is decreasing \$80K, year-over-year primarily attributed to identifying the direct cost components that were budgeted in Information Technology in 2009. These costs are more appropriately reflected as direct program costs in the functional areas due to the nature of the work being performed.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- Fixed assets are now budgeted where they are likely to be incurred, which is in support of the functions and direct programs. The result is a net reduction in indirect allocations of \$290K. However, the expenses remaining within this indirect program are of a more administrative services nature and are allocated as an indirect expense.
- The allocation of fixed assets is also decreasing for the reason specified above. The amount of the decrease is expected to be, \$226K year-over-year.

Finance and Accounting

Program Scope and Functional Description

The Finance staff will provide a broad range of support to Texas RE management and personnel. Finance staff are required to formulate and monitor the Texas RE budget for controlling funds to implement the Texas RE's objectives and will also review and evaluate the performance of key processes for maintaining tight financial controls in a cost-effective and efficient manner. Finance staff will guide the annual budget process for the Texas RE and measure performance of all key aspects of the Texas RE to ensure performance matches or exceeds expectations, including the analysis of trends affecting budget needs and developing periodic financial reports. Finance staff will liaise with ERCOT ISO Finance staff to ensure all finance and budget-related requirements are communicated, met, and adhered to.

Texas RE's monthly general ledger close activities will be managed by Texas RE financial personnel. The Finance staff is required to ensure Texas RE appropriately accounts for all Statutory and Non-statutory expenses and revenue appropriately. This will involve generating monthly financial reports that will be communicated to the CEO, the department managers and the board.

The Finance staff is required to generate quarterly and annual financial reports to be filed with NERC as well as other ad hoc reporting that may be required.

2010 Key Assumptions

- Texas RE will remain functionally separate from ERCOT ISO and will not undergo any significant governance or Delegation Agreement changes.
- The Delegation Agreement requirements will remain consistent with the current requirements.

2010 Goals and Key Deliverables

1. Ensure that the accounting and finance functions are appropriately managed at Texas RE.
2. Keep the CEO informed of budget, expenditures, and total operational financial performance.
3. Continue to facilitate the Financial Reporting for the Board.
4. Ensure that Texas RE receives an unqualified opinion on the audit of the financial statements.
5. Continue to support NERC finance staff in coordination of quarterly and annual reporting requirements.
6. Review workflow and adjust as required to better enable Texas RE staff operational success.

Funding Requirements — Explanation of Increase (Decrease)

- In the 2010 budget, the funding requirement is decreasing (\$39K). Indirect programs allocate their costs to the direct programs.

Section A — 2010 Business Plan

Finance and Accounting

Funding sources and related expenses for the accounting and finance section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Finance and Accounting					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 39,126	\$ 39,126	\$ -	\$ -	\$ (39,126)
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ 39,126	\$ 39,126	\$ -	\$ -	\$ (39,126)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 39,126	\$ 39,126	\$ -	\$ -	\$ (39,126)
Expenses					
Personnel Expenses					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
Benefits	-	-	-	-	-
Retirement Costs	-	-	-	-	-
Total Personnel Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	2,481	1,916	(565)	2,145	(336)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 2,481	\$ 1,916	\$ (565)	\$ 2,145	\$ (336)
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	180	180	880	880
Professional Services	36,000	41,976	5,976	45,281	9,281
Miscellaneous	645	1,915	1,270	4,095	3,450
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 36,645	\$ 44,071	\$ 7,426	\$ 50,256	\$ 13,611
Total Direct Expenses	\$ 39,126	\$ 45,987	\$ 6,861	\$ 52,401	\$ 13,275
Indirect Expenses	\$ (39,126)	\$ (45,987)	\$ (6,861)	\$ (52,401)	\$ (13,275)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Assets	\$ 39,126	\$ 39,126	\$ -	\$ -	\$ (39,126)
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CHANGE IN ASSETS	\$ 39,126	\$ 39,126	\$ -	\$ -	\$ (39,126)

NOTE: The salaries of the indirect employees in G&A, Legal, Information Technology, and Finance have been consolidated for personnel confidentiality and budgeted under G&A.

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, Texas RE's Finance and Accounting function expenses are allocated entirely to the direct programs and as such do not have an ERO assessment.

Personnel Expenses

- Reflected under G&A for personnel confidentiality purposes. The FTE's are segregated on Table 2 within Section B.

Meeting Expenses

- Travel costs are decreasing approximately \$.3K year-over-year. The REBG has agreed to have at least one meeting via conference call or web-ex.

Operating Expenses

- Office costs are increasing by \$.9K for check stock used for Texas RE's operating account.
- The financial statement audit fees for Texas RE are expected to increase by approximately \$9K based on actual results from the 2008 financial statement audit.
- Texas RE expects bank fees in 2010 to be approximately \$3K higher year-over-year. Additionally, there are professional dues included under miscellaneous expense, \$.5K.

Indirect Expenses

- Increasing \$13K year-over-year due to increases in operating expenses.

Other Non-Operating Expenses

- N/A

Fixed Asset Additions

- N/A

Section B — 2010 Budget

2009 Budget and Projection and 2010 Budget Comparisons

Table 1

Statement of Activities							
2009 Budget & Projection, and 2010 Budget							
STATUTORY							
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Percent Variance	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)	Percent Variance
Funding							
ERO Funding							
ERO Assessments	\$ 3,430,700	\$ 3,430,700	\$ -	0.0%	\$ 6,660,377	\$ 3,229,677	94.1%
Penalty Sanctions ⁽¹⁾	-	-	-		-	-	
Total ERO Funding	\$ 3,430,700	\$ 3,430,700	\$ -	0.0%	\$ 6,660,377	\$ 3,229,677	94.1%
Membership Dues	-	-	-		-	-	
Testing Fees	-	-	-		-	-	
Services & Software	-	-	-	100.0%	-	-	100.0%
Workshops	70,000	174,029	104,029	148.6%	180,000	110,000	157.1%
Interest	-	4,125	4,125	100.0%	2,000	2,000	100.0%
Miscellaneous	-	-	-		-	-	
Total Funding	\$ 3,500,700	\$ 3,608,854	\$ 108,154	3.1%	\$ 6,842,377	\$ 3,341,677	95.5%
Expenses							
Personnel Expenses							
Salaries	\$ 2,496,968	\$ 2,479,855	\$ (17,114)	-0.7%	\$ 3,351,291	\$ 854,322	34.2%
Payroll Taxes	199,757	191,667	(8,090)	-4.1%	265,543	65,785	32.9%
Benefits	259,628	194,403	(65,225)	-25.1%	360,813	101,184	39.0%
Retirement Costs	356,523	329,741	(26,782)	-7.5%	480,075	123,552	34.7%
Total Personnel Expenses	\$ 3,312,878	\$ 3,195,666	\$ (117,211)	-3.5%	\$ 4,457,721	\$ 1,144,844	34.6%
Meeting Expenses							
Meetings	\$ 105,000	\$ 157,394	\$ 52,394	49.9%	\$ 228,000	\$ 123,000	117.1%
Travel	107,470	117,528	10,057	9.4%	194,392	86,922	80.9%
Conference Calls	-	-	-		-	-	
Total Meeting Expenses	\$ 212,470	\$ 274,922	\$ 62,452	29.4%	\$ 422,392	\$ 209,922	98.8%
Operating Expenses							
Consultants & Contracts	\$ 490,986	\$ 539,074	\$ 48,088	9.8%	\$ 676,331	\$ 185,345	37.7%
Office Rent	517,550	287,392	(230,158)	-44.5%	327,600	(189,950)	-36.7%
Office Costs	18,280	26,581	8,301	45.4%	44,022	25,742	140.8%
Professional Services	426,000	563,134	137,134	32.2%	634,625	208,625	49.0%
Miscellaneous	11,160	13,943	2,783	24.9%	36,236	25,076	224.7%
Depreciation	76,540	76,540	-	0.0%	153,107	76,567	100.0%
Total Operating Expenses	\$ 1,540,516	\$ 1,506,664	\$ (33,852)	-2.2%	\$ 1,871,921	\$ 331,405	21.5%
Total Direct Expenses	\$ 5,065,864	\$ 4,977,252	\$ (88,612)	-1.7%	\$ 6,752,034	\$ 1,686,170	33.3%
Indirect Expenses	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	0.0%
Other Non-Operating Expenses	\$ 855,000	\$ -	\$ (855,000)	-100.0%	\$ -	\$ (855,000)	-100.0%
Total Expenses	\$ 5,920,864	\$ 4,977,252	\$ (943,612)	-15.9%	\$ 6,752,034	\$ 831,170	14.0%
Change in Assets	\$ (2,420,163)	\$ (1,368,397)	\$ 1,051,766	-43.5%	\$ 90,343	\$ 2,510,506	-103.7%
Fixed Assets							
Depreciation	\$ (76,540)	\$ (76,540)	\$ -	0.0%	\$ (153,107)	\$ (76,567)	100.0%
Computer & Software CapEx	322,702	354,202	31,500	9.8%	306,500	(16,202)	-5.0%
Furniture & Fixtures CapEx	-	-	-		15,215	15,215	
Equipment CapEx	-	-	-		-	-	
Leasehold Improvements	-	-	-		-	-	
Change in Fixed Assets	\$ (246,162)	\$ (277,662)	\$ (31,500)	12.8%	\$ (168,608)	\$ 77,554	-31.5%
Allocation of Fixed Assets	-	-	-		-	-	100.0%
Change in Fixed Assets	\$ (246,162)	\$ (277,662)	\$ (31,500)	12.8%	\$ (168,608)	\$ 77,554	-31.5%
TOTAL CHANGE IN ASSETS	\$ (2,666,325)	\$ (1,646,059)	\$ 1,020,266	-38.3%	\$ (78,264)	\$ 2,588,060	-97.1%

⁽¹⁾ Reflects penalty sanctions collected prior to June 30, 2009.

Personnel Analysis

FTEs are defined as full-time equivalent units. Fractional FTEs reflect time tracking and expected results of time-tracking.

Table 2

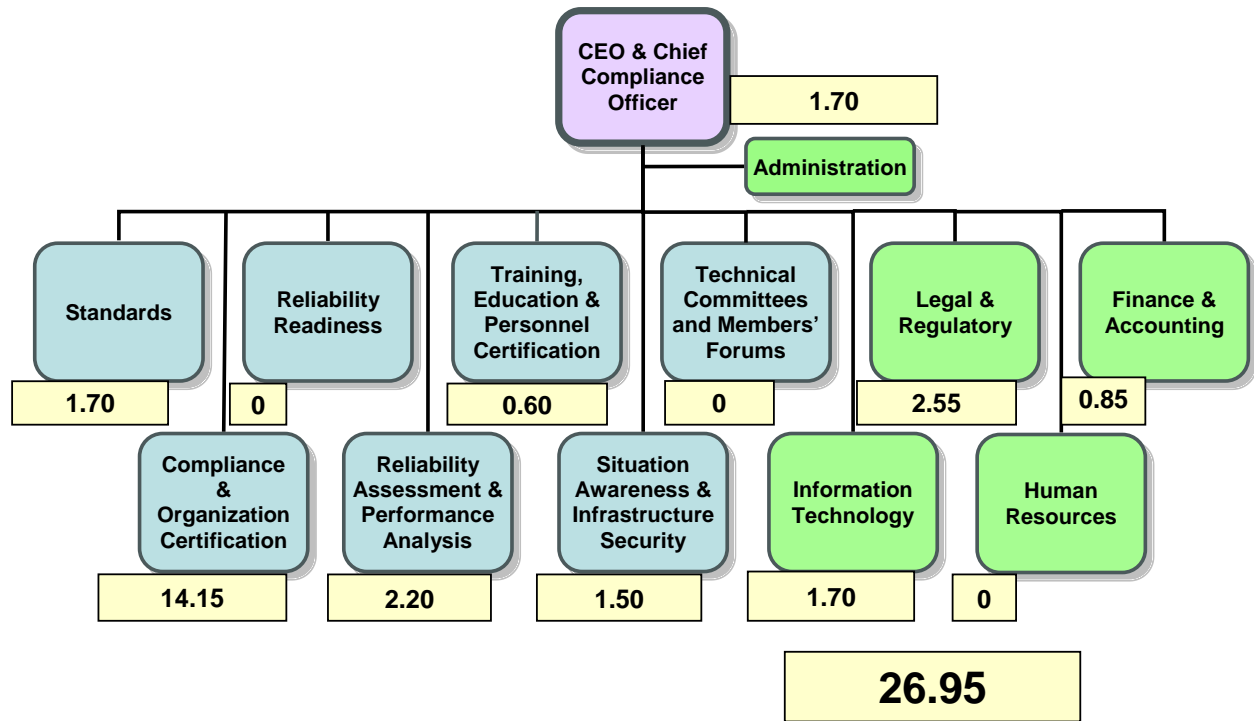
Total FTE's by Program Area	Budget 2009	Projection 2009	Direct FTEs 2010 Budget	Shared FTEs ¹ 2010 Budget	Total FTEs 2010 Budget	Change from 2009 Budget
STATUTORY						
Operational Programs						
Reliability Standards	1.70	1.84	0.00	2.06	2.06	0.36
Compliance and Organization Registration and Certification	14.15	15.01	0.00	21.74	21.74	7.59
Training and Education	0.60	0.84	0.00	0.97	0.97	0.37
Reliability Assessment and Performance Analysis	2.20	2.15	0.00	2.44	2.44	0.24
Situational Awareness and Infrastructure Security	1.50	1.43	0.00	3.03	3.03	1.53
Total FTEs Operational Programs	20.15	21.27	0.00	30.24	30.24	10.09
Administrative Programs						
General & Administrative	1.70	1.85	0.00	1.05	1.05	-0.65
Information Technology	1.70	1.29	0.00	0.69	0.69	-1.01
Legal and Regulatory	2.55	1.67	0.00	1.17	1.17	-1.38
Accounting	0.85	0.85	0.00	0.85	0.85	0.00
Total FTEs Administrative Programs	6.80	5.66	0.00	3.76	3.76	-3.04
Total FTEs	26.95	26.93	0.00	34.00	34.00	7.05

¹A shared FTE is defined as only Texas Regional Entity employees who performs both Statutory and Non-statutory activities; however not for a registered function (e.g. Reliability Coordinator).

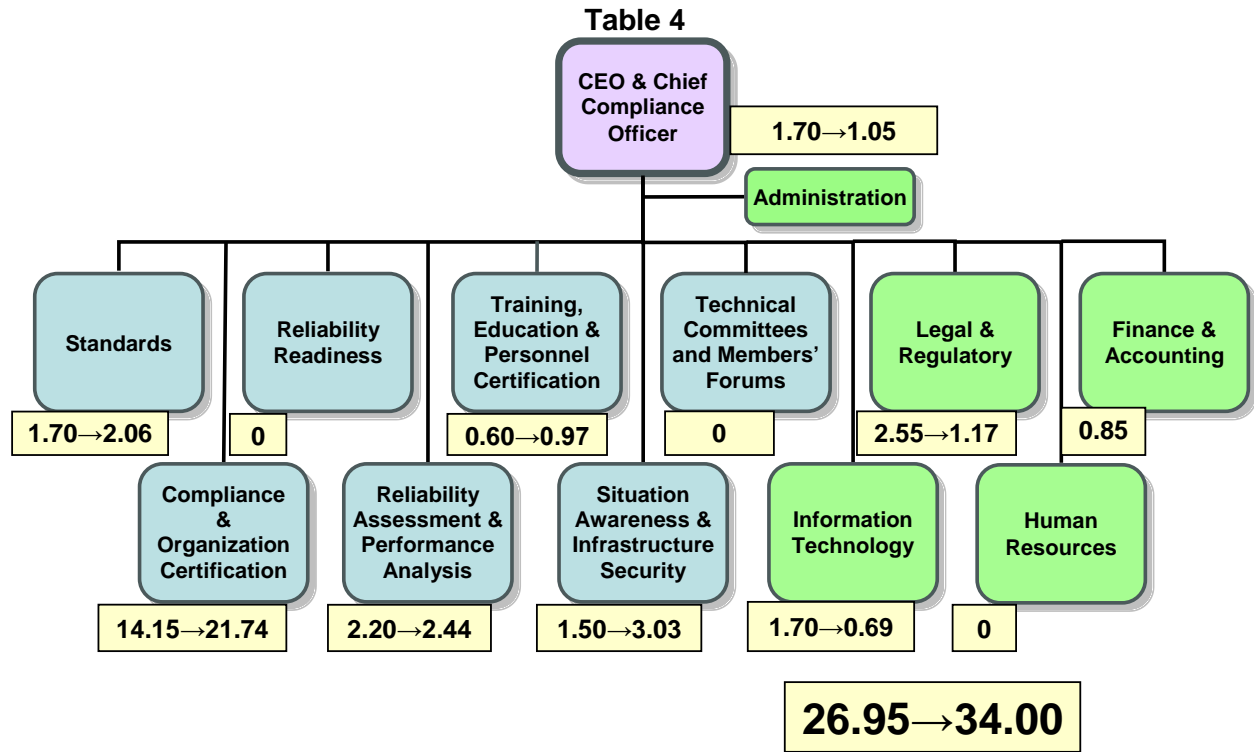
* NOTE: The FTEs for Administration Departments are reflected as staffed in this exhibit. The salary and related expenses in the statement of activities has been consolidated to ensure salary confidentiality.

2009 Organizational Chart (Statutory)

Table 3



2010 Organizational Chart (Statutory)



Reserve Balance

Table 5

Working Capital Reserve Analysis 2009-2010	
STATUTORY	
Beginning Working Capital Reserve (Deficit), December 31, 2008	2,666,325
Penalty sanctions being held to be used as offset to 2010 assessments ¹	0
Plus: 2009 ERO Funding (from LSEs or designees)	3,430,700
Plus: 2009 Other funding sources	178,154
Less: 2009 Regulatory Liability Projected	(165,266)
Less: 2009 Projected expenses & capital expenditures	(5,254,914)
Projected Working Capital Reserve (Deficit), December 31, 2009	855,000
Desired Working Capital Reserve, December 31, 2010 ²	1,370,718
Less: Projected Working Capital Reserve, December 31, 2009	(855,000)
Less: LT Regulatory Liability Release	(593,983)
Increase(decrease) in assessments to achieve desired Working Capital Reserve	(78,264)
2010 Assessment for Expenses and Capital Expenditures	6,920,642
Less: Penalty Sanctions ¹	0
Less: Other Funding Sources	(182,000)
Adjustment to achieve desired Working Capital Reserve	(78,264)
2010 Assessment	6,660,377

¹ Represents collections prior to June 30, 2009.

² Represents an approximately 75-day cash reserve approved by the Texas RE Board of Directors on June 15, 2009.

Regional Entity Assessment Analysis

Assessments by Country

Table 6

Data Year	Regional Entity	Total NEL	U.S. NEL	Canada NEL	Mexico NEL	% of RE Total	US Total	Canada Total	Mexico Total
Summary by Regional Entity									
2008	FRCC	-							
2008	MRO	-							
2008	NPCC	-							
2008	RFC	-							
2008	SERC	-							
2008	SPP	-							
2008	TRE	310,856,852	310,856,852			100.0%	100.0%		
2008	WECC	-							
TOTAL		310,856,852	310,856,852	-	-	100.0%	100.0%	0%	0%

Breakdown by Statement of Activity Sections

Full disclosures of all penalties received prior to July 1, 2009 are detailed below, including the Company, the amount, and the date received.

Allocation Method: Penalty sanctions received have been allocated to the following Statutory programs to reduce assessments: Reliability Standards; Compliance Monitoring & Enforcement and Organization Registration & Certification; Reliability Assessments and Performance Analysis; Training, Education and Operator Certification; and Situational Awareness and Infrastructure Security. Penalty sanctions are allocated based upon the number of FTEs in the Program divided by the aggregate total FTEs in the Programs receiving the allocation.

Table B-1

Penalty Sanctions Received Prior to June 30, 2009	Date Receive	Amount Received
Name of Entity		
NOT APPLICABLE		
Total Penalties Received	\$	-

Supplemental Funding

Table B-2

Outside Funding Breakdown By Program (excluding ERO Assessments & Penalty Sanctions)	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Training and Education					
Operations Training Seminar	\$ 70,000	\$ 174,029	\$ 180,000	\$ 110,000	157.14%
Total	\$ 70,000	\$ 174,029	\$ 180,000	\$ 110,000	157.14%
General and Administrative					
Interest Income	\$ -	\$ 4,125	\$ 2,000	\$ 2,000	0.00%
Total	\$ -	\$ 4,125	\$ 2,000	\$ 2,000	0.00%
Total Outside Funding	\$ 70,000	\$ 178,154	\$ 182,000	\$ 112,000	160.00%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- The most significant increase is resulting from the change in venue for the Operations Training Seminar to an offsite location. The 2009 budget assumed that Texas RE could use ERCOT ISO facilities for the OTS; however due to space constraints, Texas RE secured an alternate venue in 2009. Texas RE collected increased registration fees to fund the increased Operations Training Seminar expenses. In 2010, the year-over-year budget increase reflects that continuing assumption and the resulting expense increase will be funded by registration fees from attendees. The increase is expected to be \$110K.
- There is approximately \$2K of interest income budgeted in 2010. The assumption used to budget the interest income was based on Texas RE's current interest income rate applied to the budgeted cash balance for 2010.

Personnel Expenses

Table B-3

Personnel Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Salaries					
Salary	\$ 2,496,968	\$ 2,479,855	\$ 3,351,291	\$ 854,322	34.2%
Total Salaries	\$ 2,496,968	\$ 2,479,855	\$ 3,351,291	\$ 854,322	34.2%
Total Payroll Taxes	\$ 199,757	\$ 191,667	\$ 265,543	\$ 65,785	32.9%
Benefits					
Life, Health, Vision, etc.	\$ 259,628	\$ 194,403	\$ 360,813	\$ 101,184	39.0%
Total Benefits	\$ 259,628	\$ 194,403	\$ 360,813	\$ 101,184	39.0%
Retirement					
401(k) Contr. & Employee Matching	\$ 356,523	\$ 329,741	\$ 480,075	\$ 123,552	34.7%
Total Retirement	\$ 356,523	\$ 329,741	\$ 480,075	\$ 123,552	34.7%
Total Personnel Costs	\$ 3,312,878	\$ 3,195,666	\$ 4,457,721	\$ 1,144,844	34.6%
FTEs	26.95	26.93	34.00	7.07	26.2%
Cost per FTE					
Salaries	\$ 92,652	\$ 92,085	\$ 98,561	5,909	6.4%
Payroll Taxes	7,412	7,117	7,810	397	5.4%
Benefits	9,634	7,219	10,611	978	10.1%
Retirement	13,229	12,244	14,119	890	6.7%
Total Cost per FTE	\$ 122,927	\$ 118,666	\$ 131,101	\$ 8,174	6.6%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

The most significant increase is related to the hiring of 8.0 additional staff (7.05 FTEs Statutory, .95 FTEs Non-statutory) in the compliance, situational awareness and CIP areas. Additionally, there are merits, promotion and market adjustments budgeted in 2010 for existing Texas RE personnel. The budget assumed 3% merit, 1% promotion and 2% for market adjustments. Finally, with respect to the health insurance benefit, the cost per participant is expected to increase, year-over-year.

Consultants and Contracts

Table B-4

Consultants	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Consultants					
Recruitment	\$ 6,000	\$ -	\$ -	\$ (6,000)	-100.00%
Consultants Total	\$ 6,000	\$ -	\$ -	\$ (6,000)	
Contracts	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Contracts					
Corporate Support Allocation	\$ 280,654	\$ 330,946	\$ 388,205	\$ 107,551	38.32%
IT Services & Other (under professional services in 2009 Forecast & 2010 Budget)	3,932	-	-	(3,932)	-100.00%
IT Administration	200,400	208,128	288,126	87,726	43.78%
Contracts Total	\$ 484,986	\$ 539,075	\$ 676,331	\$ 191,345	39.45%
Total Consulting and Contracts	\$ 490,986	\$ 539,075	\$ 676,331	\$ 185,345	37.75%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- The most significant increase is related to the corporate support (Memorandum of Understanding) allocation and IT administration per the MOU between Texas RE and ERCOT ISO. There is a cost adjustment year-over-year to reflect increasing prices; however the largest component of the increase is directly attributed to increasing FTEs. The costs associated with the MOU for increases to FTEs are approximately \$148K of the \$185K increase.
- All of the MOU increase reflected in table B-4 above has been offset by the savings for rent and facilities, totaling \$190K reflected under table B-5 below. The net effect of the MOU year-over-year is a reduction of \$5K.

Table B-5

Office Rent	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Office Rent & Facilities	\$ 517,550	\$ 287,392	\$ 327,600	\$ (189,950)	-36.70%
Total Office Rent	\$ 517,550	\$ 287,392	\$ 327,600	\$ (189,950)	-36.70%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Office rent is decreasing year-over-year. This is the result of negotiations on the lease for the premises occupied by Texas RE to obtain a lower cost per rentable square foot rate than planned. Additionally, as a result of the lower rate, the common area maintenance is lower than expected.
- Additionally, Texas RE is reflecting a reduction of approximately \$40K for services no longer provided by ERCOT ISO's facilities department. These services have been absorbed internally.
- In February 2009, Texas RE relocated its offices to be completely separate from ERCOT ISO's location.

Table B-6

Office Costs	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Office Supplies	\$ 8,400	\$ 13,333	\$ 16,002	\$ 7,602	90.50%
Cellular Phones	5,080	6,137	14,040	8,960	176.38%
Postage	1,200	1,500	1,800	600	50.00%
Express Shipping	1,200	4,811	7,980	6,780	565.00%
Stationary Forms	1,200	400	3,000	1,800	150.00%
Reports - Graphics	1,200	400	1,200	-	0.00%
Total Office Costs	\$ 18,280	\$ 26,581	\$ 44,022	\$ 25,742	140.82%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Texas RE is also projecting a significant increase in office supplies to accommodate new employees and additional materials for Texas RE's deliverables \$4K+ \$4K= \$8K.
- Express shipping is expected to be significantly higher in 2010 due to the need to send additional materials via FedEx \$7K.
- Texas RE is also projecting a significant increase in report printing that will require additional report printing services \$2K.
- Adding cell phones for all audit lead, senior level, managers and above, resulting in a \$9K increase year-over-year.

Table B-7

Professional Services	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Outside Legal	\$ 300,000	\$ 300,000	\$ 300,000	\$ -	0.00%
Accounting & Auditing Fees	36,000	41,976	45,281	9,281	25.78%
IT Professional Services	50,000	152,112	207,344	157,344	314.69%
RSVP Hosting	10,000	10,000	10,000	-	0.00%
Professional Engineering Services	-	23,046	-	-	0.00%
Recruitment for TFE Positions	-	-	12,000	12,000	0.00%
Other Professional Services	30,000	36,000	60,000	30,000	100.00%
Total Services	\$ 426,000	\$ 563,134	\$ 634,625	\$ 208,625	12.70%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Audit fees are increasing in 2010 by \$9K related to the financial statement audit.
- IT professional services are increasing \$157K year-over-year related to web-hosting redundancy that will ensure Texas RE's web presence and portal tools remain safe, secure and operational with a full backup hosting solution.
- Texas RE will be provisioning an additional \$30K for professional services under the G&A department. This will be used for any technical advice and counsel required by any program within Texas RE on an as needed basis.
- Finally, there is an increase of \$12K for 2010 to support the addition of the TFE program within Texas RE.

Table B-8

Other Non-Operating Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Cash Reserve	\$ 855,000	\$ -	\$ -	\$ (855,000)	-100.00%
Total Non-Operating Expenses	\$ 855,000	\$ -	\$ -	\$ (855,000)	-100.00%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Due to change in budgeting from a cash-based budget to a GAAP based budget, Texas RE no longer needs to budget for a cash reserve through non-operating expenses. Texas RE will adjust cash reserves through normal profit & loss activities.

Section C — 2009 RE Non-statutory Business Plan and Budget

(in whole dollars)			
	2009 Budget	2010 Budget	Increase (Decrease)
Total FTEs	5.05	6.00	.95
Total Direct Expenses	\$871,997	\$1,086,772	\$214,775
Total Indirect Expenses			
Total Expenses	\$871,997	\$1,153,772	\$281,775

Non-statutory Functional Scope

In addition to the Statutory functions, Texas RE also provides compliance support to the Public Utility Commission of Texas (PUCT). These services include auditing, event analysis, complaint investigations and monthly metric monitoring to identify violations of protocols. In addition, Texas RE also monitors the stakeholder process and comments on proposed changes to the protocols that affect reliability. Texas RE also works closely with the PUCT to identify new risks to the BPS and craft strategies to address these risks from the regulatory perspective.

Texas RE does not perform any enforcement activities for the PUCT. Once a potential violation is identified by Texas RE it is reported to the PUCT and they follow up with all enforcement activities. Texas RE may be required to assist the PUCT with analysis of our findings and will support the PUCT in their enforcement processes, if needed; however, all enforcement is at the sole discretion of the PUCT.

In 2009 there has been a significant increase in workload related to the monitoring of ERCOT ISO committees and changes in market rules due to the upcoming transition to the Nodal market. The change in markets has required Texas RE to work closely with the PUCT to oversee the stakeholder process being used to create the new market rules. The PUCT and Texas RE have put in place a project management plan to ensure adequate regulatory oversight is in place prior to the market transition in late 2010. Significant work is expected to be needed in 2010 to create and test reports, assist with the Nodal trials, analyze the nodal protocols as they are put into use, and communicate with the stakeholders to help them understand the expectations. The workload is anticipated to increase in 2010 to prepare for the Nodal market going live.

Texas RE added one FTE to support the Non-statutory work in 2009. It is anticipated that the work related to the transition to the Nodal market will be higher in 2010 by approximately 1 FTE.

Texas RE estimates approximately (15%) percent of Texas RE staff time will be dedicated to monitoring, auditing, assessing, investigating, and reporting on compliance with the ERCOT Protocols and commenting on ERCOT Protocol revision requests. Funding for these Non-statutory activities is provided through the ERCOT System Administration Fee, which is based upon the fee factor approved by the ERCOT Board and the PUCT to support ERCOT activities and Texas RE Non-statutory activities which are subject to PUCT oversight.

Major 2010 Assumptions and Cost Impacts

Funding Sources

- Funding is received only through ERCOT ISO to pay for these expenses.
- Texas RE will prepare for the Nodal market conversion.

Personnel Expenses

- Personnel expenses are increasing primarily due to adding .95 FTEs of labor to the Non-statutory function. Additionally, the budget assumes 3% merit, 1% promotion and 2% for market adjustments.

Meeting Expenses

- Expenses are lower reflecting a reduction attributed to lower utilization in the prior year.

Operating Expenses

- Texas RE is estimating an increase in the MOU related expenses incurred for support services and IT administration of \$84K for 2010. This is based primarily on the increased FTEs and the associated expenses.
- Rent and facilities services expenses are expected to decrease \$56K for 2010, due to a lower rentable square foot rate we obtained in 2009 for rent and facilities.
- Professional services are being budgeted to decrease \$32K.
- Finally, depreciation is being budgeted in 2010 to reflect the depreciable assets that are held by Texas RE (software).

2010 Primary Goals and Objectives —

1. Implement the 2010 protocol audit plan per the posted schedule and with a high level of quality and consistency.
2. Maintain high quality and effective organization of all audit and investigation work papers, audit reports and potential violation findings.
3. Review and assess system disturbances for potential violations of the ERCOT Protocols and report all findings to the PUCT.
4. Meet with the PUCT monthly to provide a complete report on work in progress as well as all audit reports and potential violation files.
5. Support the PUCT efforts to ensure adequate regulatory oversight in place for the Nodal Market.
6. Create and provide Nodal training for Texas RE staff and the PUCT.
7. Provide a workshop to educate stakeholders on compliance issues related to the Nodal Market transition and implementation. Continue to monitor and participate in the ERCOT ISO committee process.

2009 Budget and Projection and 2010 Budget Comparisons

Table 1

Statement of Activities						
2009 Budget & Projection, and 2010 Budget						
NON-STATUTORY						
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	Percent Variance	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding						
ERO Funding						
ERO Assessments	\$ -	\$ -	\$ -		\$ -	\$ -
Penalty Sanctions ⁽¹⁾	-	-	-		-	-
Total ERO Funding	\$ -	\$ -	\$ -		\$ -	\$ -
Membership Dues	-	-	-		-	-
Testing Fees	-	-	-		-	-
Services & Software	871,997	788,005	(83,993)	-9.6%	1,153,772	281,775
Workshops	-	-	-		-	-
Interest	-	-	-		-	-
Miscellaneous	-	-	-		-	-
Total Funding	\$ 871,997	\$ 788,005	\$ (83,993)	-9.6%	\$ 1,153,772	\$ 281,775
Expenses						
Personnel Expenses						
Salaries	\$ 448,080	\$ 430,398	\$ (17,682)	-3.9%	\$ 608,104	\$ 160,025
Payroll Taxes	35,846	33,612	(2,234)	-6.2%	48,059	12,212
Benefits	45,942	37,197	(8,745)	-19.0%	66,079	20,137
Retirement Costs	64,972	59,284	(5,687)	-8.8%	86,102	21,131
Total Personnel Expenses	\$ 594,840	\$ 560,492	\$ (34,348)	-5.8%	\$ 808,345	\$ 213,505
Meeting Expenses						
Meetings	\$ -	\$ -	\$ -		\$ 5,600	\$ 5,600
Travel	2,181	4,500	2,319	106.3%	624	(1,557)
Conference Calls	-	-	-		-	-
Total Meeting Expenses	\$ 2,181	\$ 4,500	\$ 2,319	106.3%	\$ 6,224	\$ 4,043
Operating Expenses						
Consultants & Contracts	\$ 36,396	\$ 97,700	\$ 61,303	168.4%	\$ 120,064	\$ 83,667
Office Rent	118,200	52,972	(65,228)	-55.2%	62,400	(55,800)
Office Costs	480	594	114	23.8%	-	(480)
Professional Services	89,900	71,497	(18,403)	-20.5%	57,875	(32,025)
Miscellaneous	-	250	250	100.0%	1,865	1,865
Depreciation	-	29,706	29,706	100.0%	30,000	30,000
Total Operating Expenses	\$ 244,976	\$ 252,720	\$ 7,743	3.2%	\$ 272,203	\$ 27,227
Total Direct Expenses	\$ 841,997	\$ 817,711	\$ (24,286)	-2.9%	\$ 1,086,772	\$ 244,775
Indirect Expenses	\$ -	\$ -	\$ -		\$ -	\$ -
Other Non-Operating Expenses	\$ 30,000	\$ -	\$ (30,000)	-100.0%	\$ -	\$ (30,000)
Total Expenses	\$ 871,997	\$ 817,711	\$ (54,286)	-6.2%	\$ 1,086,772	\$ 214,775
Change in Assets	\$ -	\$ (29,706)	\$ (29,706)	100.0%	\$ 67,000	\$ 67,000
Fixed Assets						
Depreciation	\$ -	\$ (29,706)	\$ (29,706)	0.0%	\$ (30,000)	\$ (30,000)
Computer & Software CapEx	-	-	-		67,000	67,000
Furniture & Fixtures CapEx	-	-	-		-	-
Equipment CapEx	-	-	-		-	-
Leasehold Improvements	-	-	-		-	-
Change in Fixed Assets	\$ -	\$ 29,706	\$ 29,706	100.0%	\$ (37,000)	\$ (37,000)
Allocation of Fixed Assets	\$ -	\$ -	\$ -		\$ -	\$ -
Change in Fixed Assets	\$ -	\$ 29,706	\$ 29,706	100.0%	\$ (37,000)	\$ (37,000)
TOTAL CHANGE IN ASSETS	\$ -	\$ (0)	\$ (0)	0.0%	\$ 30,000	\$ 30,000

Personnel Analysis

FTEs are defined as full-time employees only. Fractional FTEs reflect part-time employees or employees who worked in fewer than all four quarters of the year.

Table 2

Total FTE's by Program Area	Budget 2009	Projection 2009	Direct FTEs 2010 Budget	Shared FTEs ¹ 2010 Budget	Total FTEs 2010 Budget	Change from 2009 Budget
NON-STATUTORY						
Operational Programs						
Protocol	3.85	4.05	0.00	5.04	5.04	1.19
Total FTEs Operational Programs	3.85	4.05	0.00	5.04	5.04	1.19
Administrative Programs						
General & Administrative	1.20	1.02	0.00	0.96	0.96	-0.24
Total FTEs Administrative Programs	1.20	1.02	0.00	0.96	0.96	-0.24
Total FTEs	5.05	5.07	0.00	6.00	6.00	0.95

¹A shared FTE is defined as a Texas Regional Entity employee who performs both Statutory and Non-statutory activities; however none of these FTEs perform any registered functions (e.g. Reliability Coordinator).

Section D

2010 Consolidated Statement of Activities by Program, Statutory and Non-statutory

Statement of Financial Position

As of December 31, 2008, unaudited

As of December 31, 2009, projected

As of December 31, 2010, as budgeted

Statement of Financial Position			
2008 Audited, 2009 Projection, and 2010 Budget			
STATUTORY and NON-STATUTORY			
	In-Balance	In-Balance	Out-Of-Balance
	Unaudited 31-Dec-08	Projected 31-Dec-09	Budget 31-Dec-10
ASSETS			
Cash	3,959,463	1,714,097	1,665,832
Trade Accounts receivable, net of allowance for uncollectible accounts of \$137,600	-	-	-
Other Receivables	270,609	-	-
Prepaid expenses and other current assets	-	-	-
Security deposit	-	-	-
Cash value of insurance policies	-	-	-
Property and equipment	297,195	545,150	750,758
Total Assets	4,527,267	2,259,247	2,416,591
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accrued expenses	265,115	265,115	265,115
Regulatory Liability	3,095,041	593,983	-
Other Liabilities	869,916	-	-
Deferred compensation	-	-	-
Accrued retirement liabilities	-	-	-
Total Liabilities	4,230,072	859,097	265,115
Net Assets - unrestricted	297,195	1,400,150	2,151,476
Total Liabilities and Net Assets	4,527,267	2,259,247	2,416,591



**AMENDED MEMORANDUM OF UNDERSTANDING BETWEEN
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
AND TEXAS REGIONAL ENTITY**

Effective: February 16, 2009

I. Introduction

Electric Reliability Council of Texas, Inc. (ERCOT) and Texas Regional Entity (Texas RE), an independent division of ERCOT, hereby enter into this Amended Memorandum of Understanding (MOU) to set forth the agreed terms and conditions relating to the provision of administrative support services conducted by ERCOT staff for Texas RE, effective February 16, 2009.

To provide beneficial context and help comprehension, the elements of the MOU are grouped into three categories:

1. Texas RE Organization and Operations
2. Significant Accounting Policies
3. Detailed Transaction Accounting

II. Texas RE Organization and Operations

A. Texas RE performs two functions:

1. Statutory functions. Oversees development of and enforces compliance with North American Electric Reliability Corporation (NERC) Reliability Standards in the ERCOT Region (under federal law – EPCRA – also referred to as “Delegated Activities”), and
2. Non-statutory functions. Monitors, assesses, investigates, and reports on compliance with the ERCOT Protocols and Operating Guides (under Texas state law – Public Utility Regulatory Act (PURA) - also referred to as “PURA Compliance”).

B. Texas RE is an independent division of ERCOT, and Texas RE staff operates independently of ERCOT staff. Significant steps have been taken to clarify and demonstrate Texas RE’s independence from ERCOT, including the following:

1. The corporate Bylaws specify the independence and governance structure of the Texas RE division.
2. Texas RE has executed an Amended and Restated Delegation Agreement with NERC, which is the Electric Reliability Organization (ERO) certified by the Federal Energy Regulatory Commission (FERC).
3. The Delegation Agreement requires Texas RE to perform Statutory functions and authorizes Texas RE to perform Non-statutory functions.



4. The Delegation Agreement requires Texas RE to prepare an annual Business Plan and Budget which is separate from the annual budget prepared by ERCOT.
 5. Texas RE staff members must sign a Texas RE Ethics Agreement, agreeing to comply with ERCOT's code of conduct and conflict of interest standards, with Texas RE's confidentiality policy and with the NERC Rules of Procedure.
 6. ERCOT employees and contractors must also sign an ERCOT Ethics Agreement, agreeing to comply with ERCOT's code of conduct and conflict of interest and confidentiality standards. ERCOT employees and contractors who provide any services to Texas RE under this MOU or who have any access to Texas RE confidential information must also agree to maintain confidentiality of all Texas RE confidential information.
 7. Texas RE staff members are technically ERCOT employees but report to the Texas RE Chief Executive Officer and Chief Compliance Officer (CEO & CCO), who reports administratively to the Texas RE Board of Directors. Texas RE staff members do not report to or through the ERCOT CEO or any other ERCOT officers.
 8. Texas RE staff occupies office space that is separate and secured from ERCOT staff, at the Terrace office complex.
 9. Texas RE employees have electronic access to a separate secure computer network drive.
 10. Administrative activity of Texas RE is overseen by the Texas RE Advisory Committee and Texas RE Board of Directors, which conduct all meetings separately from the ERCOT Board and committee meetings.
 11. Texas RE and ERCOT will attempt to resolve any concerns or disputes through cooperation and then via escalation within their respective organizations. Any remaining disputes or disagreements will be presented to the Boards of Directors or the appropriate Board committee for resolution.
 12. Texas RE has an independent attorney employee (Director, Legal Affairs who reports to the CEO & CCO) and retains independent outside legal counsel not associated with ERCOT.
 13. A separate filing system has been established for Texas RE invoices and accounting records.
- C. For administrative ease and in the interest of responsible cost control, ERCOT and Texas RE have agreed that Texas RE personnel will adhere to ERCOT policies, standards, and procedures unless Texas RE has a specific applicable separate policy, standard or procedure. Both organizations have consistent codes of conduct, confidentiality, and conflicts standards.

III. Significant Accounting Policies

- A. Texas RE financial statements are prepared based on GAAP.



- B. The characteristics of Texas RE's transactions and relationship with NERC do necessitate regulatory accounting (FAS 71).
- C. The characteristics of Texas RE's transactions do not necessitate utilization of Other Comprehensive Basis of Accounting (OCBOA).
- D. Activity of Texas RE is recorded using ERCOT's standardized chart of accounts. However; the standard chart of accounts is cross referenced to the NERC System of Accounts (NSOA) (Exhibit 5: NERC System of Accounts). In addition, all Texas RE transactions are coded to one of two functional categories: Rules of Procedure (Statutory activity) or Other (Non-statutory activity).
- E. All Texas RE activity is recorded to one of a series of organizational departments deemed necessary by Texas RE. Texas RE currently has the following departments: Compliance Enforcement, Compliance Assessment, Standards Development, Finance, Information Technology, and Legal and Regulatory Affairs.
- F. Regarding delegated signature authority, Texas RE personnel generally will have signature authority consistent with provisions of ERCOT's Delegated Signature Authority Corporate Standard; provided that the Texas RE CEO & CCO has signature authority up to \$350,000, after which he must obtain Board approval for purchases. Texas RE's Director, Legal Affairs will approve the CCO's time and requests for reimbursement of business expenses; and other Texas RE personnel will have signature authority based upon their employment grade.

IV. Detailed Transaction Accounting

- A. Accounting for balance sheet transactions.
 - 1. Cash.
 - a. Texas RE cash payments and cash receipts will be managed by ERCOT treasury personnel as a part of ERCOT's comprehensive cash management program.
 - b. Texas RE cash payments and cash receipts will be accounted for and tracked discretely from other ERCOT transactions.
 - c. Texas RE funds are maintained in bank accounts that are separate from ERCOT funds.
 - 2. Accounts Receivable.
 - a. At the beginning of each calendar quarter, it is expected Texas RE will have a receivable from ERO equal to 25% of Texas RE's annual budget as approved by ERO and by FERC as a component of ERO's annual budget.
 - b. Texas RE may also have intermittent receivables relating to penalties and special assessments against registered entities.



3. Fixed Assets.

- a. Texas RE is not expected to have significant assets; however, on occasion it may be necessary for Texas RE to acquire or construct assets.
- b. Computers and related hardware are assumed provided by ERCOT's Information Technology division and covered by allocation of information technology costs to Texas RE (discussed later in this MOU).
- c. Except for furniture and equipment provided by Texas RE's current landlord under the lease and proprietary software developed or acquired by Texas RE, furniture, fixtures, tools, and equipment are assumed provided by ERCOT's facilities staff and the cost of usage by Texas RE personnel covered by a "Facilities Services Cost Allocation" or "Information Technology Service Cost Allocation" (discussed later in this MOU).

4. Accounts Payable and Accrued Liabilities.

- a. Texas RE vendor invoices and payments are processed by ERCOT's Accounting division.
- b. Texas RE vendor invoices are accounted for discretely as Texas RE transactions.
- c. Texas RE's account payable liability will be determined based on the discrete account coding distribution used to identify Texas RE transactions.

5. Debt.

- a. Texas RE is not expected to have debt borrowing.
- b. It is unlikely (due to the cash reserves maintained by Texas RE), but on occasion, Texas RE may require short-term borrowing for working capital and liquidity purposes. In such instances, it is assumed Texas RE will acquire needed funding from ERCOT. The transactions will be discretely accounted for and will clearly document a "due to ERCOT" liability on Texas RE financial schedules.

B. Accounting for Income Statement Transactions.

1. Revenue.

- a. Texas RE is expected to have three possible Statutory revenue sources:
 - i. Quarterly funding from the ERO, pursuant to the Delegation Agreement
 - ii. Penalty assessments
 - iii. Special assessments



- b. Texas RE is not a party to transactions relating to ERCOT's billing, collection, and processing of the ERO fee.
- c. ERCOT reimburses all Texas RE's actual expenses for Non-statutory activities from ERCOT's System Administration Fee revenue.

2. Salaries and Related Benefits.

- a. Texas RE personnel are employees of ERCOT and receive the same benefits as those made available to all ERCOT employees.
- b. Texas RE personnel are assigned to one of the departments established for the Texas RE division.
- c. Texas RE personnel will track time as Statutory or Non-statutory, as appropriate, to enable correct budgetary allocation under the Delegation Agreement.
- d. Salary and employee benefit expenses will be recorded based on detailed time tracking information submitted by Texas RE employees and approved by Texas RE management.

3. Facility and Equipment Cost.

- a. Texas RE will either directly pay or will reimburse ERCOT fully for all costs associated with (1) the lease of the Terrace office facility, (2) contracted security guard services, and (3) printing, scanning, and copying equipment. Other facility and equipment costs will be allocated to Texas RE following the Facilities Service Cost Allocation (discussed later in this MOU).
- b. If conference space required for planned Texas RE meetings is not available on ERCOT premises, the meetings will be arranged to be conducted at an offsite conference room facility acceptable to Texas RE personnel. The full cost of such meetings scheduled at third party operated conference facilities will be charged to Texas RE.
- c. Conference space at ERCOT premises will be scheduled on a first come-first served basis. Texas RE will not be given preferential status when scheduling conference rooms and neither will Texas RE be at a disadvantage, relative to other employees of ERCOT, when attempting to schedule conference rooms in ERCOT facilities.
- d. Other facility and equipment costs not covered by the Facilities Service Cost Allocation will be evaluated and accounted for on a transaction-by-transaction basis.

4. Consulting and Contractor Fees.

- a. Texas RE will recognize contractor and consultant expenses based on purchase order and contract agreements Texas RE personnel authorize and execute.



5. Outside Legal Fees.
 - a. Texas RE will recognize outside legal expenses based on contract agreements and invoices Texas RE personnel execute and authorize.
6. External Audit.
 - a. Texas RE will be assessed the full incremental cost charged to ERCOT by ERCOT's independent audit firm for conducting audit testing and providing an audit opinion on Texas RE transactions, financial reports filed with NERC or FERC, or Texas RE financial statements.
7. Administrative and Other.
 - a. Texas RE will recognize administrative and other costs as authorized and approved by authorized Texas RE personnel.
8. Interest.
 - a. Texas RE will be credited with interest income based on Texas RE's average monthly cash balance and ERCOT's actual average monthly interest rate for the total of all ERCOT cash deposits.
9. Insurance.
 - a. Texas RE will be assessed an allocated share of ERCOT insurance expense as a component of the Treasury and Credit (discussed later in this MOU).
10. Employee Expense Reimbursement.
 - a. Texas RE will recognize employee business reimbursement expenses as they are incurred by Texas RE employees and approved for payment by Texas RE managers.
 - b. Expense reimbursement requests submitted by the Texas RE CCO will be approved by Texas RE's Director of Legal Affairs.
 - c. Texas RE personnel will follow the ERCOT Business Expense Reimbursement Corporate Standard.
11. Board of Director Fees.
 - a. Texas RE will directly pay or will reimburse ERCOT fully for Board of Director fees, pursuant to the ERCOT Board Policies and Procedures.
 - b. Unless the Board determines otherwise:
 - i. Texas RE will be assessed one-fourth of the annual retainer paid to ERCOT's unaffiliated Directors.



- ii. For expenses incurred by Directors for travel or activities benefiting both Texas RE and ERCOT, Texas RE will be assessed one-fourth of reimbursable business expenses submitted by Board members.
- iii. For expenses incurred by Directors for travel or activities benefiting only Texas RE, Texas RE will be assessed the reimbursable business expenses submitted by Board members.
- iv. Texas RE will be assessed the applicable Texas RE Board and/or Committee Meeting fee (or Special Texas RE Board or Committee Meeting fee) for any such meeting; provided, however, that if the Board or Committee also meets on the same day for an ERCOT Board or Committee meeting, Texas RE will be assessed only one-fourth of such fee.

12. Support Department Allocations.

a. Treasury and Credit

- i. ERCOT's Treasury and Credit personnel provide a variety of services benefiting Texas RE including providing liquidity, cash and bank account management, check signing, financial wire processing, and risk management services.
- ii. The cost allocation for the services will be \$72,000 per year (\$6,000 per month).
- iii. See Exhibit 1 for additional background information regarding the Treasury and Credit allocation.

b. Human Resources

- i. ERCOT's Human Resource personnel provide a variety of services benefiting Texas RE including recruitment and hiring, performance management, employee benefit administration, and employee training.
- ii. The cost allocation for base Human Resources services will be \$113 per employee per month. Assuming Texas RE maintains 32 employees each month in 2009, the annual base allocation to Texas RE will total \$3,616.00 per month.
- iii. Texas RE will also be allocated a recruiting charge for each new Texas RE staff member recruited by Human Resources staff or contractors. The charge allocated will be \$7,500 for each full-time position and \$3,750 for each intern position recruited by Human Resources. Texas RE management may elect to use an independent firm to recruit certain Texas RE positions. Texas RE will not be allocated a recruiting charge for positions for which ERCOT Human Resources staff is not involved in the recruiting process.



- iv. See Exhibit 2 for additional background information regarding the Human Resources allocation.
- c. Procurement, Contract Administration and Strategic Sourcing
 - i. ERCOT's procurement personnel provide a variety of services benefiting Texas RE including strategic sourcing of goods and services, vendor management, and contract administration services.
 - ii. The cost allocation for the services will be \$44 per month per contract administered, \$512 per month per purchase order issued following a request for proposal, and \$20 per month per purchase order not following a request for proposal.
 - iii. See Exhibit 3 for additional background information regarding the procurement, contract administration, and strategic sourcing allocation.
- d. Accounting, Budget, Financial Analysis, and Payroll (ERCOT Department 114).
 - i. ERCOT's accounting, budget, and payroll personnel provide a variety of services benefiting Texas RE including financial statement preparation, regular and ad-hoc financial analyses, periodic and ad-hoc regulatory (federal and state) filing preparation, budget coordination and preparation, participation in ERO sponsored financial and budget meetings, payroll administration and processing, time tracking monitoring and reporting, vendor payments, billing and accounts receivable transaction processing, reimbursement of Texas RE business expenses incurred by Texas RE staff.
 - ii. The cost allocation for the services will be \$48,000 per year (\$4,000 per month).
 - iii. See Exhibit 4 for additional background information regarding the accounting, budget, financial analysis, and payroll allocation.
- e. Facilities Services Cost Allocation.
 - i. Texas RE will either directly pay or will reimburse ERCOT (see - Section (IV) (B) (3) (a)) for all rent and other expenses for the Terrace office lease, beginning on the effective date. This reimbursement/cost allocation is expected to be approximately \$25,000 per month.
 - ii. ERCOT's facilities personnel provide variety of services benefiting Texas RE including limited facilities and equipment maintenance and repair and environmental health and safety services, for a fee of \$2,000 /month. Any office relocation and space remodeling services are provided on a per transaction basis, as set forth in Section (IV) (B) (3) (d).



- iii. ERCOT provides limited office furniture and equipment for a fee of \$1,000/month.
 - iv. ERCOT's telecommunications network personnel provide a variety of services benefiting Texas RE including local and long distance telephone service, conference bridge and conference call services for a fee of \$1,400/month.
 - v. ERCOT arranges for Texas RE's contracted security guard services (the cost of which is directly allocated to Texas RE under Section (IV) (B) (3) (a)), provides security badges and the use of biometric access controls, and ERCOT physical security personnel provide remote security monitoring services and maintenance of security monitoring equipment for Texas RE, for a fee of \$1,200/ month.
 - vi. See Exhibit 5 for additional background information regarding the facilities services cost allocation.
- f. Information Technology Services Cost Allocation
- i. Employees of Texas RE will make use of software applications and hardware assets that are made available to all ERCOT staff but centrally administered by ERCOT's Information Technology (IT) staff. One significant cost incurred to provide hardware and software assets for the benefit and efficiency of ERCOT staff, including employees of Texas RE, relates to the proper maintenance and licensing of the hardware and software.
 - ii. The IT allocation will be \$682.10 per Texas RE employee per month. Assuming Texas RE has 32 employees in 2009, the annual allocation to Texas RE would total approximately \$261,928.
 - iii. See Exhibit 6 for additional background information regarding the Information Technology allocation.
- g. ERCOT personnel assigned to ERCOT departments other than those detailed above may also provide support to Texas RE. However, rather than systematically allocate a portion of the cost of such personnel to Texas RE, the appropriate support costs will be determined and charged to Texas RE on a case-by-case basis.
- h. Any additional administrative services requested of, agreed to, and approved by ERCOT and Texas RE will be billed to Texas RE at the standard rate of \$65 per hour, which includes reimbursement for salary and benefits of the ERCOT staff person providing the services.
- i. Other services requested (including moves and relocations and other facilities) by Texas RE will be priced as agreed by the ERCOT CFO and the Texas RE CEO & CCO.
- j. Allocation amounts detailed above are valid as of the effective date of this Amended MOU and for as long as Texas RE primarily conducts its business activity in a similar manner and has no material changes to its



staffing level, space needs, or service needs and ERCOT has no significant change in the costs incurred to provide services to Texas RE.

- k. Allocation amounts established are subject to change if Texas RE has a material change to its staffing level, space needs, or requires a material change in the level of service provided by ERCOT's support department personnel and ERCOT has no significant change in the costs incurred to provide services to Texas RE.
- l. Allocation amounts established may be adjusted or cancelled given 60-day's notice and the agreement of the signatories to this Amended MOU.

V. General Provisions


- A. ERCOT and Texas RE will commit to accomplish all provisions in this MOU to the best of their ability, in a commercially reasonable manner.
- B. This MOU is intended only to address how support services and other activities provided by ERCOT staff to Texas RE should be captured and presented in accounting records. This MOU is not intended to direct or bind any person outside ERCOT or Texas RE.
- C. This MOU neither expands nor is it in derogation of those powers and authorities vested in ERCOT or Texas RE by applicable law.

VI. Principle Contacts

ERCOT and Texas RE designate the contacts identified below. ERCOT or Texas RE may change their contact upon notice to the other party.

VII. Effective Date and Duration:

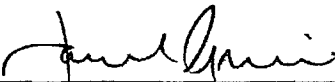
This MOU is effective as of February 16, 2009. It shall continue to be in effect until terminated by ERCOT or Texas RE.



 Bob Kahn
 President & CEO
 Electric Reliability Council of Texas, Inc.
 BKahn@ercot.com

Date: 6/23/09





 Larry Grimm
 CEO & Chief Compliance Officer
 Texas Regional Entity, an independent division of
 Electric Reliability Council of Texas, Inc.
 Larry.Grimm@texasre.org

Date: 6/24/09

Exhibit 1

Texas RE - ERCOT Memorandum of Understanding Treasury and Credit Services Cost Allocation

Base Allocation

ERCOT's treasury and credit personnel provide a variety of services benefiting the Texas RE including: credit management; finance and debt management; enterprise risk management, including insurance programs; and cash investments and banking services. Total allocations relating to treasury and credit personnel for 2009 are \$72,000.

Insurance

Insurance Type	Allocation Basis	2009 Allocation	Comment
D&O Premiums	25%	\$ 56,756	Tie allocation to allocated share of independent director fees.
Property	Square Feet	\$ 1,668	Linked to square feet of space used by Texas RE staff.
Workers Compensation	Staff Count	\$ 3,593	Cost assumed a function of headcount.
Other	Square Feet	\$ 1,002	Linked to square feet of space used by Texas RE staff.
Total		\$ 63,019	

Enterprise Risk Management

Insurance Premiums Allocated to Texas TE	\$ 63,019
Total ERCOT Insurance Premiums	\$ 1,691,547
Proportion of Premiums Allocated	3.73%
Annual ERM Cost	\$ 100,000
ERM Cost Allocated to Texas RE	\$ 3,726

Treasury and Cash Management

Treasury and Cash Management Costs	\$ 390,637	
Total ERCOT Costs	\$ 225,415,000	
Treasury and Cash Management Costs relative to Total ERCOT Costs	0.17%	Applied to each dollar spent by the Texas RE. For example, if Texas RE spends \$3 million, the allocation for treasury and cash management services will total \$5,100 (\$3 million * 0.17%).
Estimated total	\$ 5,100	

Credit Management

No allocation of cost to Texas RE.

Exhibit 2
Texas RE - ERCOT Memorandum of Understanding
Human Resource Services Cost Allocation

Base Allocation

ERCOT's human resource personnel provide a variety of services benefiting the Texas RE including recruitment and hiring, performance management, employee benefit administration, and employee training. The cost allocation for the services will be \$113 per employee per month (calculation summarized below).

Assuming the Texas RE will have 32 employees throughout 2009, the base human resources allocation for the year is expected to total approximately \$43,392.

A summary of the tasks and services provided by human resource staff is listed below

Total Human Resources expenses recorded in 2007	\$ 1,129,000
Less:	
Recruiting expenses (Account 65240) recorded in 2007	\$ 24,000
Estimated 2007 internal recruiting labor and benefits cost	\$ 140,000
External 2007 recruiting cost (Vendor 2271)	\$ 55,363
External 2007 recruiting cost (Vendor 2339)	\$ 81,669
Adjusted Human Resources expenses recorded in 2007	\$ 827,968
ERCOT employee count at January 1, 2007	591
ERCOT employee count at January 1, 2008	625
Average employee count in 2007	608
Adjusted Human Resources expenses recorded in 2007	\$ 827,968
Average employee count in 2007	608

Average annual human resource expense per ERCOT employee	\$	1,362
Average monthly expense per employee	\$	113

Human Resources Task Descriptions

- Provide HR and organizational development support
- Define, create and manage HR strategy
- Develop succession and career plans
- Implement organizational changes
- Manage and coordinate board activities regarding human resources, compensation, benefits, and training
- Plan, organize, and facilitate ERCOT's annual member meeting
- Design, manage, and maintain compensation and benefits offered to ERCOT employees
- Prepare and distribute periodic internal reports on HR issues
- Prepare and distribute periodic external reports regarding HR issues (e.g. Annual EEO1, reports to external auditors, and schedules to benefits vendors)
- Develop, manage, and ensure compliance with human resource related policies, standards, and procedures
- Oversee and administer workforce benefits
- Oversee and administer workforce compensation
- Provide support to ERCOT's Strategic Review Team, Policy Review Team and other similar initiatives impacting ERCOT's workforce
- Create and review contracts and agreements relating to human resource issues
- Administer ERCOT's family medical leave program
- Coordinate and review annual filing with the Internal Revenue Service and Department of Labor
- Monitor and ensure benefit plan compliance
- Prepare and support internal audit requests related to benefits
- Coordinate and complete a quarterly review of 401(k) plan investment and recommend changes, if any
- Manage ERCOT's annual merit review process
- Complete an annual review of employee classification
- Manage and update (as necessary) job descriptions and position grading to ensure continued pertinence and consistency with the current job market
- Manage ERCOT's employee recognition and reward program
- Manage annual audit of ERCOT's benefit plans including preparation of work papers to support compensation audit requests
- Manage workforce relations and the employee life cycle

Coordinate retention, moral, other social programs enjoyed by ERCOT staff
Develop and administer orientation program for new employees and contractors
Evaluate, report on, and develop and undertake initiatives to influence workforce staffing and turnover trends
Manage employee relations including the on-boarding and off-boarding processes and performance management
Recruit, select and hire human resources (internal staff and contingent workers)
Manage relationships with benefits vendors
Develop and deliver training opportunities to ERCOT staff
Develop and administer ERCOT's centralized corporate training program
Complete an annual assessment of ERCOT's corporate training needs
Manage relationships with training vendors
Devise, prepare, and distribute corporate training metrics
Organize and administer performance management training
Organize and administer "respect at the workplace" training
Organize and implement diversity training
Organize and implement harassment training
Administer ERCOT's HR information system within the Lawson application
Configure, maintain, and manage new system modules and functionality to reflect changes in policy or improve efficiency of HR operations

Recruitment Allocation

The Texas RE will be allocated a recruiting charge for each new Texas RE staff member recruited by human resources staff or contractors. The charge allocated will be \$7,500 for each full-time position and \$3,750 for each intern position recruited by human resources staff or contractors working for human resources staff.

Texas RE management may elect to use an independent firm to recruit certain Texas RE positions. The Texas RE will not be allocated a recruiting charge for positions for which human resources staff is not involved in the recruiting process.

**Exhibit 3
Texas RE - ERCOT Memorandum of Understanding
Procurement, Contract Administration and Strategic Sourcing Services Cost Allocation**

	Total 2007 expense for department 112 - Procurement and Contract Administration	\$ 969,559	
	Percentage of Total 2007 expense for department 112 associated with Procurement	65%	
	Percentage of Total 2007 expense for department 112 associated with Contract Administration	35%	
	Amount of Total 2007 expenses for department 112 associated with Procurement	\$ 630,213	
	Percentage of cost associated with Procurement relating to RFP/PO transactions	40%	
	Percentage of cost associated with Procurement relating to PO transactions (no RFP)	60%	
	Amount of 2007 costs associated with RFP/PO transactions	\$ 252,085	
	Number of RFP/PO transactions in 2007	41	
	Assumed annual cost per RFP/PO transaction	\$ 6,148	
	Assumed monthly cost per RFP/PO transaction	\$ 512	
	Amount of 2007 costs associated with PO transactions (no RFP)	\$ 378,128	
	Number of PO transactions (no RFP) in 2007	1,587	
	Assumed annual cost per PO transaction (no RFP)	\$ 238	
	Assumed annual cost per PO transaction (no RFP)	\$ 20	
	Amount of Total 2007 expenses for department 112 associated with Contract Administration	\$ 339,346	
	Number of contracts being in 2007	650	
	Assumed annual cost per contract administered in 2007	\$ 522	
	Assumed annual cost per contract administered in 2008	\$ 44	

Procurement Cost per Unit

Contract Administration Cost per Unit

Base Allocation

ERCOT's procurement and contract administration personnel provide a variety of services benefiting the Texas RE including: administering competitive processes such as request for proposal and request for information functions; managing vendor selection and evaluation processes; overseeing contract administration and compliance functions; and administering purchase order services. A summary of the tasks and services is listed below.

Procurement, Contract Administration and Strategic Sourcing Task Descriptions

Prepare period status reports on procurement and contract administration activity
Establish, monitor and modify, as necessary, internal controls relating to procurement and contract administration
Provide assistance to the vendor payment process to ensure professional vendor relationships
Issue purchase orders and related documentation
Prepare requests for proposals, requests for information, requests for quote and similar procurement documentation
Evaluate vendor proposals to provide goods and/or services to ERCOT
Negotiate pricing terms with vendors
Develop sourcing options for goods and services
Administer the process to qualify vendors to conduct business
Manage vendor relationships with ERCOT including activity such as ensuring vendors possess necessary insurance coverages and remain on acceptable financial condition
Analyze vendor activity and performance to ensure contractual compliance among other reasons
Monitor contracts and alert business users of upcoming events such as expiration dates, renewal dates, or compliance issues

Exhibit 4
Texas RE - ERCOT Memorandum of Understanding
Accounting, Budget, and Payroll Services Cost Allocation

Base Allocation

ERCOT's accounting, budget, and payroll personnel provide a variety of services benefiting the Texas RE including financial statement preparation, regular and ad-hoc financial analyses, periodic and ad-hoc regulatory (federal and state) filing preparation, budget coordination and preparation, participation in ERO sponsored financial and budget meetings, payroll administration and processing, time tracking monitoring and reporting, vendor payments, billing and accounts receivable transaction processing, reimbursement of Texas business expenses incurred by Texas RE staff.

Accounting, budget, and financial analysis

2009 cost per month	\$	2,000
Months in the year		12
2009 allocated cost	\$	24,000

Payroll

2009 cost per month	\$	2,000
Months in the year		12
2009 allocated cost	\$	24,000

Exhibit 5
Texas RE - ERCOT Memorandum of Understanding
Facilities Services Cost Allocation

ERCOT Operations Reimbursement

Value of monthly support from ERCOT security personnel	1,200
Value of monthly support from ERCOT facility personnel	2,000
Monthly cost of telecommunication services provided by ERCOT	1,400
Monthly cost of office furniture, equipment, and tools provided by ERCOT	1,000
Total monthly facilities services cost allocation	\$ 5,600
Total annual facilities services cost allocation	\$ 67,200

Estimated Pass-Through Amounts

Estimated pass-through of monthly lease cost for office space at The Terrace	\$ 25,100
Estimated expense for Texas RE Security Guard	1,800
Total estimated monthly facilities services cost allocation	\$ 26,900
Total estimated annual facilities services cost allocation	\$ 322,800

Exhibit 6
Texas RE - ERCOT Memorandum of Understanding
Information Technology Services Cost Allocation

Internal User Services	Per Annum	Per Month
<i>License & Maintenance related charges</i>		
Microsoft	675	56
Oracle	186	16
Quest	164	14
Cisco	103	9
Altiris	43	4
Symantec	26	2
IBM	144	12
Lawson	204	17
Other	173	14
Total Technology Services	1,719	143
<i>Labor related charges</i>		
IT Operations & Overhead		
CIO Administration	1,141	95
IT Account Management	444	37
Enterprise Architecture	17	1
EIS	116	10
Corporate Applications	1,029	86
Web & Data Services	22	2
Database Administration	56	5
Release Management	63	5
Commercial Operations	103	9
SE&A	724	60
Storage Resources	78	6

Internal User Services:

	Other:
▪ Desktop Services	audit-Paisley Consulting
▪ Corporate Applications	Hummingbird
▪ Intranet	Aperture
▪ Voice, Internet, WebEx	Informatica
▪ Project Management	Sun IDM
	OSI - PI app
	1,212
	708
	19,364
	35,625
	50,800
	34,775
	142,484

Desktop Services:

The management of the desktop environment including labor, licenses, and support and maintenance fees paid to vendors in support of desktop services. Includes file storage and print services, data backup and restoration, helpdesk services, and other services in the support of maintaining file/print services and the desktop environment.

Corporate Applications:

These services fulfill the operational and maintenance requirements of ERCOT corporate applications (hardware and software resources) thereby enabling and enhancing productivity of corporate operations. Applications that are supported include AIM service desk, Aperture Vista, Altiris, Aperture View, internal audit applications, fund transfer wiring tools, Hummingbird, Lawson (ERP function) MS Project Server, SharePoint Portal and others.

Intranet:

These services fulfill the operational and maintenance requirements corporate Intranet, including content and infrastructure management.

Voice, Internet, WebEx:

These services fulfill the operational and maintenance requirements of communications infrastructure that include voice telephony, Internet connectivity, and web conferencing (WebEx).

Project Management:

These services fulfill the project, program, and portfolio management requirements for operations and maintenance projects related to base operations under a Zonal or Nodal market as well as internal user services, thereby enabling / enhancing efficiency of project lifecycles.

WAN	979	82
Networking	385	32
Console Operations	583	49
IT Project Management	330	27
Total IT Operations & Overhead	6,070	505
Total Internal User Services (per Employee/Annum)	7,789	649
Total for 32 Employees	249,256	20,756

Computer Hardware Lease	12,672	1,056
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Total TRE IT Costs per Annum	261,928	21,812
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**AMENDED MEMORANDUM OF UNDERSTANDING BETWEEN
ELECTRIC RELIABILITY COUNCIL OF TEXAS, INC.
AND TEXAS REGIONAL ENTITY**

Effective: ~~January 1, 2008~~ February 16, 2009

I. Introduction

Electric Reliability Council of Texas, Inc. (ERCOT) and Texas Regional Entity (Texas RE), an independent division of ERCOT, hereby enter into this Amended Memorandum of Understanding (MOU) to set forth the agreed terms and conditions relating to the provision of administrative support services conducted by ERCOT staff for Texas RE, effective February 16, 2009.

To provide beneficial context and help comprehension, the elements of the MOU are grouped into three categories:

1. Texas RE Organization and Operations
2. Significant Accounting Policies
3. Detailed Transaction Accounting

II. Texas RE Organization and Operations

A. Texas RE performs two functions:

1. Statutory functions. Oversees development of and enforces compliance with North American Electric Reliability Corporation (NERC) Reliability Standards in the ERCOT Region (under federal law – EPCRA – also referred to as “Delegated Activities”), and
2. Non-statutory functions. Monitors, assesses, investigates, and reports on compliance with the ERCOT Protocols and Operating Guides (under Texas state law – Public Utility Regulatory Act (PURA) - also referred to as “PURA Compliance”).

B. Texas RE is an independent division of ERCOT, and Texas RE staff operates independently of ERCOT staff. Significant steps have been taken to clarify and demonstrate Texas RE’s independence from ERCOT, including the following:

1. The corporate Bylaws specify the independence and governance structure of the Texas RE division.
2. Texas RE has executed an Amended and Restated Delegation Agreement with NERC, which is the Electric Reliability Organization (ERO) certified by the Federal Energy Regulatory Commission (FERC).
3. The Delegation Agreement requires Texas RE to perform Statutory functions and authorizes Texas RE to perform Non-statutory functions.



4. The Delegation Agreement requires Texas RE to prepare an annual Business Plan and Budget which is separate from the annual budget prepared by ERCOT.
 5. Texas RE staff members must sign a Texas RE Ethics Agreement, agreeing to comply with ERCOT's code of conduct and conflict of interest, ~~and standards,~~ with Texas RE's confidentiality standards, policy and with the NERC Rules of Procedure.
 6. ERCOT employees and contractors must also sign an ERCOT Ethics Agreement, agreeing to comply with ERCOT's code of conduct and conflict of interest and confidentiality standards. ERCOT employees and contractors who provide any services to Texas RE under this MOU or who have any access to Texas RE confidential information must also agree to maintain confidentiality of all Texas RE confidential information.
 - 6-7. Texas RE staff members are technically ERCOT employees but report to the Texas RE ~~chief executive officer~~ Chief Executive Officer and Chief Compliance Officer (CEO & CCO), who reports administratively to the Texas RE Board of Directors. Texas RE staff members do not report to or through the ERCOT CEO or any other ERCOT officers.
 - 7-8. Texas RE staff occupies ~~a office space that is separate and secured area from~~ ERCOT staff, ~~which is currently located in ERCOT's Austin Met Center facility at~~ the Terrace office complex.
 - 8-9. ~~Texas RE staff possesses discretely formatted physical security access badges and Texas RE employees~~ have electronic access to a separate secure computer network drive.
 - 9-10. Administrative activity of Texas RE is overseen by the Texas RE Advisory Committee and Texas RE Board of Directors, which ~~conducts~~ conduct all meetings separately from the ERCOT Board and committee meetings.
 - 10-11. Texas RE and ERCOT will attempt to resolve any concerns or disputes through cooperation and then via escalation within their respective organizations. Any remaining disputes or disagreements will be presented to the Boards of Directors or the appropriate Board committee for resolution.
 - 11-12. Texas RE has ~~hired~~ an independent attorney employee (Director, Legal Affairs who reports to the CEO & CCO) and ~~has retained~~ retains independent outside legal counsel not associated with ERCOT.
 - 12-13. A separate filing system has been established for Texas RE invoices and accounting records.
- C. For administrative ease and in the interest of responsible cost control, ERCOT and Texas RE have agreed that Texas RE personnel will adhere to ERCOT policies, standards, and procedures ~~(unless Texas RE has a specific applicable separate policy, standard or procedure).~~ Both organizations have consistent codes of conduct, confidentiality, and conflicts standards.

III. Significant Accounting Policies



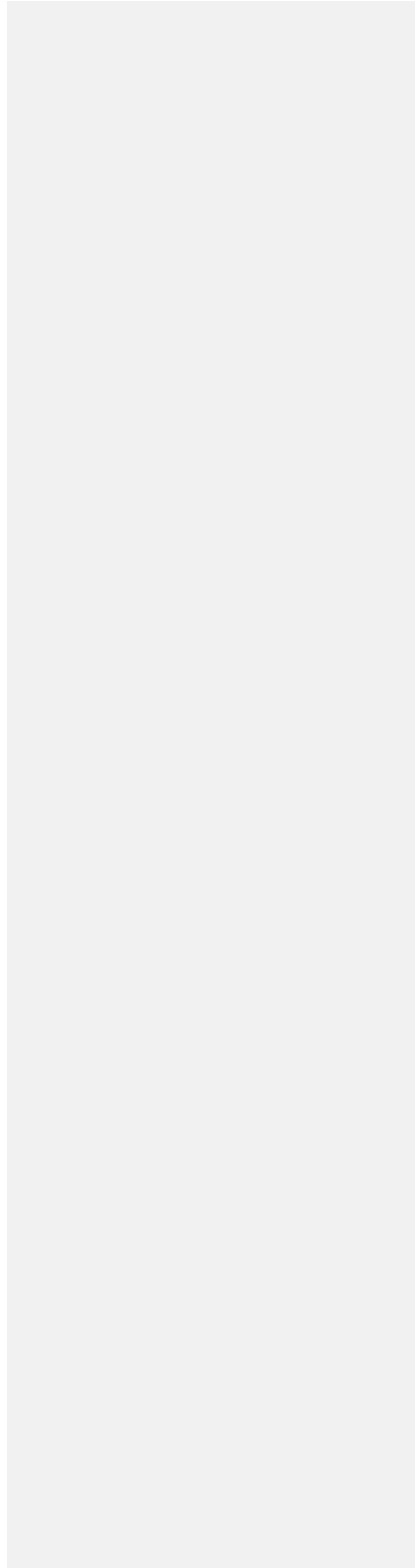
- A. Texas RE financial statements are prepared based on GAAP.
- B. The characteristics of Texas RE's transactions and relationship with NERC do necessitate regulatory accounting (FAS 71).
- C. The characteristics of Texas RE's transactions do not necessitate utilization of Other Comprehensive Basis of Accounting (OCBOA).
- D. Activity of Texas RE is recorded using ERCOT's standardized chart of accounts. However, the standard chart of accounts is cross referenced to the NERC System of Accounts (NSOA) (Exhibit 5: NERC System of Accounts). In addition, all Texas RE transactions are coded to one of two functional categories: Rules of Procedure (Statutory activity) or Other (Non-statutory activity).
- E. All Texas RE activity is recorded to one of a series of organizational departments deemed necessary by Texas RE. Texas RE currently has the following departments: Compliance Enforcement, Compliance Assessment, Standards Development, Finance, Information Technology, and Legal and Regulatory Affairs.
- F. Regarding delegated signature authority, Texas RE personnel generally will have signature authority consistent with provisions of ERCOT's Delegated Signature Authority Corporate Standard. ~~More specifically, provided that~~ the Texas RE CEO & CCO has ~~the same~~ signature authority ~~as ERCOT's CEO; up to \$350,000, after which he must obtain Board approval for purchases.~~ Texas RE's Director, Legal Affairs will approve the CCO's time and requests for reimbursement of business expenses; and other Texas RE personnel will have signature authority based upon their employment grade.

IV. Detailed Transaction Accounting

- A. Accounting for balance sheet transactions.
 - 1. Cash.
 - a. Texas RE cash payments and cash receipts will be managed by ERCOT treasury personnel as a part of ERCOT's comprehensive cash management program.
 - b. Texas RE cash payments and cash receipts will be accounted for and tracked discretely from other ERCOT transactions.
 - c. Texas RE funds are maintained in bank accounts that are separate from ERCOT funds.
 - 2. Accounts Receivable.
 - a. At the beginning of each calendar quarter, it is expected Texas RE will have a receivable from ERO equal to 25% of Texas RE's annual budget as approved by ERO and by FERC as a component of ERO's annual budget.



- b. Texas RE may also have intermittent receivables relating to penalties and special assessments against registered entities.





3. Fixed Assets.

- a. Texas RE is not expected to have significant assets; however, on occasion it may be necessary for Texas RE to acquire or construct assets.
- b. Computers and related hardware are assumed provided by ERCOT's Information Technology division and covered by allocation of information technology costs to Texas RE (discussed later in this MOU).
- c. Furniture Except for furniture and equipment provided by Texas RE's current landlord under the lease and proprietary software developed or acquired by Texas RE, furniture, fixtures, tools, and equipment are assumed provided by ERCOT's facilities staff and the cost of usage by Texas RE personnel covered by a "Facilities Services Cost Allocation" or "Information Technology Service Cost Allocation" (discussed later in this MOU).

4. Accounts Payable and Accrued Liabilities.

- a. Texas RE vendor invoices and payments are processed by ERCOT's Accounting division.
- b. Texas RE vendor invoices are accounted for discretely as Texas RE transactions.
- c. Texas RE's account payable liability will be determined based on the discrete account coding distribution used to identify Texas RE transactions.

5. Debt.

- a. Texas RE is not expected to have debt borrowing.
- b. It is unlikely (due to the cash reserves maintained by Texas RE), but on occasion, Texas RE may require short-term borrowing for working capital and liquidity purposes. In such instances, it is assumed Texas RE will acquire needed funding from ERCOT. The transactions will be discretely accounted for and will clearly document a "due to ERCOT" liability on Texas RE financial schedules.

B. Accounting for Income Statement Transactions.

1. Revenue.

- a. Texas RE is expected to have three possible Statutory revenue sources:
 - i. Quarterly funding from the ERO, pursuant to the Delegation Agreement
 - ii. Penalty assessments
 - iii. Special assessments



- b. Texas RE is not a party to transactions relating to ERCOT's billing, collection, and processing of the ERO fee ~~(assessed as \$0.0169 per MWh in 2007 in the ERCOT Region).~~
 - c. ERCOT reimburses all Texas RE's actual expenses for Non-statutory activities from ERCOT's System Administration Fee revenue.
 2. Salaries and Related Benefits.
 - a. Texas RE personnel are employees of ERCOT and receive the same benefits as those made available to all ERCOT employees.
 - b. Texas RE personnel are assigned to one of the departments established for the Texas RE division.
 - c. Texas RE personnel will track time as Statutory or Non-statutory, as appropriate, to enable correct budgetary allocation under the Delegation Agreement.
 - d. Salary and employee benefit expenses will be recorded based on detailed time tracking information submitted by Texas RE employees and approved by Texas RE management.
 3. Facility and Equipment Cost.
 - a. Most costs in this category Texas RE will either directly pay or will reimburse ERCOT fully for all costs associated with (1) the lease of the Terrace office facility, (2) contracted security guard services, and (3) printing, scanning, and copying equipment. Other facility and equipment costs will be allocated to Texas RE following the Facilities Service Cost Allocation (discussed later in this MOU).
 - b. If conference space required for planned Texas RE meetings is not available on ERCOT premises, the meetings will be arranged to be conducted at an offsite conference room facility acceptable to Texas RE personnel. The full cost of such meetings scheduled at third party operated conference facilities will be charged to Texas RE.
 - c. Conference space at ERCOT premises will be scheduled on a first come-first served basis. Texas RE will not be given preferential status when scheduling conference rooms and neither will Texas RE be at a disadvantage, relative to other employees of ERCOT, when attempting to schedule conference rooms in ERCOT facilities.
 - d. Other facility and equipment costs not covered by the Facilities Service Cost Allocation will be evaluated and accounted for on a transaction-by-transaction basis.
 4. Consulting and Contractor Fees.



- a. Texas RE will recognize contractor and consultant expenses based on purchase order and contract agreements Texas RE personnel authorize and execute.
5. Outside Legal Fees.
 - a. Texas RE will recognize outside legal expenses based on contract agreements and invoices Texas RE personnel execute and authorize.
 6. External Audit.
 - a. Texas RE will be assessed the full incremental cost charged to ERCOT by ERCOT's independent audit firm for conducting audit testing and providing an audit opinion on Texas RE transactions, financial reports filed with NERC or FERC, or Texas RE financial statements.
 7. Administrative and Other.
 - a. Texas RE will recognize administrative and other costs as authorized and approved by authorized Texas RE personnel.
 8. Interest.
 - a. Texas RE will be credited with interest income based on Texas RE's average monthly cash balance and ERCOT's actual average monthly interest rate for the total of all ERCOT cash deposits.
 9. Insurance.
 - a. Texas RE will be assessed an allocated share of ERCOT insurance expense as a component of the Treasury and Credit (discussed later in this MOU).
 10. Employee Expense Reimbursement.
 - a. Texas RE will recognize employee business reimbursement expenses as they are incurred by Texas RE employees and approved for payment by Texas RE managers.
 - b. Expense reimbursement requests submitted by the Texas RE CCO will be approved by Texas RE's Director of Legal Affairs.
 - c. Texas RE personnel will follow the ERCOT Business Expense Reimbursement Corporate Standard.
 11. Board of Director Fees.
 - a. Texas RE will directly pay or will reimburse ERCOT fully for Board of Director fees, pursuant to the ERCOT Board Policies and Procedures.
 - a-b. Unless the Board determines otherwise:



- i. Texas RE will be assessed one-fourth of the annual retainer paid to ERCOT's unaffiliated Directors.
- ii. For expenses incurred by Directors for travel or activities benefiting both Texas RE and ERCOT. Texas RE will be assessed one-fourth of reimbursable business expenses submitted by Board members.
- iii. For expenses incurred by Directors for travel or activities benefiting only Texas RE, Texas RE will be assessed the reimbursable business expenses submitted by Board members.
- iii-iv. Texas RE will be assessed the applicable Texas RE Board and/or Committee Meeting fee (or Special Texas RE Board or Committee Meeting fee) for any such meeting; provided, however, that if the Board or Committee also meets on the same day for an ERCOT Board or Committee meeting, Texas RE will be assessed only one-fourth of such fee.

12. Support Department Allocations.

a. Treasury and Credit

- i. ERCOT's Treasury and Credit personnel provide a variety of services benefiting Texas RE including providing liquidity, cash and bank account management, check signing, financial wire processing, and risk management services.
- ii. The cost allocation for the services will be \$72,000 per year (\$6,000 per month).
- iii. See Exhibit 1 for additional background information regarding the Treasury and Credit allocation.

b. Human Resources

- i. ERCOT's Human Resource personnel provide a variety of services benefiting Texas RE including recruitment and hiring, performance management, employee benefit administration, and employee training.
- ii. The cost allocation for base Human Resources services will be \$113 per employee per month. Assuming Texas RE maintains 32 employees each month in 2009, the annual base allocation to Texas RE will total \$3,616.00 per month.
 - (1) ~~Assuming Texas RE maintains 25 employees each month in 2008, the annual base allocation to Texas RE would total approximately \$33,900.~~
 - (2) ~~Assuming Texas RE maintains 30 employees each month in 2009, the annual base allocation to Texas RE would total approximately \$40,680.~~



- iii. Texas RE will also be allocated a recruiting charge for each new Texas RE staff member recruited by Human Resources staff or contractors. The charge allocated will be \$7,500 for each full-time position and \$3,750 for each intern position recruited by Human Resources. Texas RE management may elect to use an independent firm to recruit certain Texas RE positions. Texas RE will not be allocated a recruiting charge for positions for which ERCOT Human Resources staff is not involved in the recruiting process.
- iv. See Exhibit 2 for additional background information regarding the Human Resources allocation.
- c. Procurement, Contract ~~Negotiation~~, Administration and Strategic Sourcing
 - i. ERCOT's procurement personnel provide a variety of services benefiting Texas RE including strategic sourcing of goods and services, vendor management, and contract ~~negotiation and~~ administration services.
 - ii. The cost allocation for the services will be \$44 per month per contract administered, \$512 per month per purchase order issued following a request for proposal, and \$20 per month per purchase order not following a request for proposal.
 - iii. See Exhibit 3 for additional background information regarding the procurement, contract administration, and strategic sourcing allocation.
- d. Accounting, Budget, Financial Analysis, and Payroll (ERCOT Department 114).
 - i. ERCOT's accounting, budget, and payroll personnel provide a variety of services benefiting Texas RE including financial statement preparation, regular and ad-hoc financial analyses, periodic and ad-hoc regulatory (federal and state) filing preparation, budget coordination and preparation, participation in ERO sponsored financial and budget meetings, payroll administration and processing, time tracking monitoring and reporting, vendor payments, billing and accounts receivable transaction processing, reimbursement of Texas RE business expenses incurred by Texas RE staff.
 - ii. The cost allocation for the services will be \$48,000 per year (\$4,000 per month).
 - iii. ~~During 2008, ERCOT's Controller, Accounting Manager, Accounting Supervisor, and Budget Manager are expected to commit significant time and effort to the development, creation, and maintenance of unique accounting codes to support Texas RE. Time spent by these individuals on such organizational initiatives will be discretely tracked and charged to Texas RE at the standard labor rate (\$65 per hour). The time submitted must be approved by Texas RE management.~~

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~~iv-iii.~~ See Exhibit 4 for additional background information regarding the accounting, budget, financial analysis, and payroll allocation.

e. Facilities Services Cost Allocation.

~~i.~~ ERCOT's facilities, physical security, and Texas RE will either directly pay or will reimburse ERCOT (see -Section (IV) (B) (3) (a)) for all rent and other expenses for the Terrace office lease, beginning on the effective date. This reimbursement/cost allocation is expected to be approximately \$25,000 per month.

~~ii.~~ ERCOT's facilities personnel provide variety of services benefiting Texas RE including limited facilities and equipment maintenance and repair and environmental health and safety services, for a fee of \$2,000 /month. Any office relocation and space remodeling services are provided on a per transaction basis, as set forth in Section (IV) (B) (3) (d).

~~iii.~~ ERCOT provides limited office furniture and equipment for a fee of \$1,000/month.

~~iv.~~ ERCOT's telecommunications network personnel provide a variety of services benefiting Texas RE including leased office space, rented storage space, utilities (electricity, water and wastewater service, fuel oil for backup generators, natural gas, and trash services), telecommunications services (local and long distance telephone service, conference bridge and conference call services, and Internet connectivity), maintenance services (building maintenance, grounds maintenance, custodial) for a fee of \$1,400/month.

~~iv-v.~~ ERCOT arranges for Texas RE's contracted security guard services, and building security services), office space remodeling, and office equipment (the cost of which is directly allocated to Texas RE under Section (IV) (B) (3) (a)), provides security badges and the use of biometric access controls, and ERCOT physical security personnel provide remote security monitoring services and maintenance of security monitoring equipment for Texas RE, for a fee of \$1,200/month.

~~ii.~~ The facilities service cost allocation will be assessed as \$27.37 per year per square foot (\$2.28 per month per square foot) of space allocated to Texas RE.

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~~(1)Based on current space utilization, it is expected the Facilities Service Cost Allocation to Texas RE will total approximately \$148,000 per year.~~

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~~iii-vi.~~ See Exhibit 5 for additional background information regarding the facilities services cost allocation.

f. Information Technology Services Cost Allocation



- i. Employees of Texas RE will make use of software applications and hardware assets that are made available to all ERCOT staff but centrally administered by ERCOT's Information Technology (IT) staff. One significant cost incurred to provide hardware and software assets for the benefit and efficiency of ERCOT staff, including employees of Texas RE, relates to the proper maintenance and licensing of the hardware and software.
- ii. The IT allocation will be ~~approximately \$8,200~~\$682.10 per Texas RE employee per ~~year-month~~. Assuming Texas RE has ~~25 employees in 2008, the annual allocation to Texas RE would total approximately \$205,000, and assuming Texas RE has 3032~~ employees in 2009, the annual allocation to Texas RE would total approximately ~~\$246,000~~261,928.
- iii. See Exhibit 6 for additional background information regarding the Information Technology allocation.
- g. ERCOT personnel assigned to ERCOT departments other than those detailed above may also provide support to Texas RE. However, rather than systematically allocate a portion of the cost of such personnel to Texas RE, the appropriate support costs will be determined and charged to Texas RE on a case-by-case basis.
- h. Any additional administrative services requested of, agreed to, and approved by ERCOT and Texas RE will be billed to Texas RE at the standard rate of \$65 per hour, which includes reimbursement for salary and benefits of the ERCOT staff person providing the services.
- i. Other services requested (including moves and relocations and other facilities) by Texas RE will be priced as agreed by the ERCOT CFO and the Texas RE CEO & CCO.
- j. Allocation amounts detailed above are valid ~~in 2008~~as of the effective date of this Amended MOU and for as long as Texas RE primarily conducts its business activity in ERCOT's Met Center facility a similar manner and has no material changes to its staffing level, space needs, or service needs and ERCOT has no significant change in the costs incurred to provide services to Texas RE.
- k. Allocation amounts established are subject to change if Texas RE ~~vacates the Met Center facility,~~ has a material change to its staffing level, space needs, or requires a material change in the level of service provided by ERCOT's support department personnel and ERCOT has no significant change in the costs incurred to provide services to Texas RE.
- l. Allocation amounts established may be adjusted or cancelled given 60-day's notice and the agreement of the ~~ERCOT CFO and the Texas RE CCO~~signatories to this Amended MOU.

V. General Provisions



- A. ERCOT and Texas RE will commit to accomplish all provisions in this MOU to the best of their ability, in a commercially reasonable manner.
- B. This MOU is intended only to address how support services and other activities provided by ERCOT staff to Texas RE should be captured and presented in accounting records. This MOU is not intended to direct or bind any person outside ERCOT or Texas RE.
- C. This MOU neither expands nor is it in derogation of those powers and authorities vested in ERCOT or Texas RE by applicable law.

VI. Principle Contacts

ERCOT and Texas RE designate the contacts identified below. ERCOT or Texas RE may change their contact upon notice to the other party.

VII. Effective Date and Duration:

This MOU is effective ~~January 1, 2008~~ as of February 16, 2009. It shall continue to be in effect until terminated by ERCOT or Texas RE.

 Bob Kahn
 President & CEO
 Electric Reliability Council of Texas, Inc.
BKahn@ercot.com

Date: _____

 Larry Grimm
~~CEO & Chief Executive~~ Compliance Officer & CCO
 Texas Regional Entity, an independent division of
 Electric Reliability Council of Texas, Inc.
Larry.Grimm@texasre.org

Date: _____

DOCKET NO. RR09-__-000

**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

2010 BUSINESS PLAN AND BUDGET FILING

ATTACHMENT 10

WESTERN ELECTRICITY COORDINATING COUNCIL

PROPOSED 2010 BUSINESS PLAN AND BUDGET



2010 Business Plan and Budget

Western Electricity Coordinating Council

**Approved by:
WECC Board of Directors**

**Date:
June 22, 2009**

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Introduction

Total WECC Resources (in whole dollars)				
	2010 Budget	U.S.	Canada	Mexico
Statutory FTEs ¹	172.5			
Non-statutory FTEs	5			
Total FTEs	177.5			
Statutory Expenses and Capital Expenditures	\$39,508,558			
Non-statutory Expenses	\$882,348			
Total Expenditures	\$40,390,906			
Statutory (ERO) Funding ²	\$39,132,458	\$33,469,113	\$5,162,566	\$500,779
Non-Statutory Funding	\$1,045,372	\$1,045,372	\$0	\$0
Total Funding	\$40,177,830	\$34,514,485	\$5,162,566	\$500,779
NEL	871,345,007	739,387,110	120,894,879	11,063,018
NEL %	100%	84.86%	13.87%	1.27%

Organizational Overview

The Western Electricity Coordinating Council (WECC) is a Utah Nonprofit Corporation whose mission is to assure a reliable bulk electric system (BES) in the Western Interconnection. WECC's Web site is www.wecc.biz. WECC's geographic area is the Western Interconnection – an area in which the use and generation of electricity is synchronized. This area includes all or part of 14 U.S. states, two Canadian provinces, and a portion of Baja California Norte, Mexico.

Membership and Governance

WECC has 250 members³ divided into the following seven membership classes:⁴

1. Large Transmission Owners
2. Small Transmission Owners
3. Transmission Dependent Energy Service Providers
4. End Users
5. Representatives of State and Provincial Governments
6. Canadian Members
7. Members at Large

¹ Full-time equivalent personnel.

² See Appendix 1 for the calculation of the assessment credit allocated to Alberta Electric System Operator (AESO). This amount was allocated to the remainder of the Balancing Authorities' assessments based on NEL (see Table 6 for additional assessment information).

³ As of April 30, 2009.

⁴ For purposes of voting for Board representation, all Canadian members of WECC form "Class 6." For all other purposes, Canadian members participate in member classes 1 – 5 and 7 according to their characteristics. See Section 6.2.1 of the WECC Bylaws.

Membership in WECC is open to any person or entity that has an interest in the reliable operation of the Western Interconnection BES. Membership in WECC is not a requirement for participation in the WECC standards development process.⁵

WECC is governed by an independent and balanced stakeholder board⁶ consisting of 32 directors. Members in classes 1 through 5 are eligible to elect four directors in their class. In addition, the Canadian delegation elects four directors and the Mexican delegation elects one.⁷ Seven directors with no member affiliation (Non-affiliated Directors) are elected by the WECC membership. Members of Class 7 do not elect representatives to the Board of Directors (Board), but do vote on Non-affiliated Directors.

Nine Board committees recommend policy on various reliability issues or handle governance, finance, and human resource (HR) matters. These committees are described in the Technical Committees and Members' Forums section on page 40.

Input comes to the Board from the member organizations, from other interested parties, and through recommendations from the WECC Standing Committees.

Under the direction of the Board, the three Standing Committees of members — the Planning Coordination Committee (PCC), the Operating Committee (OC), and the Market Interface Committee (MIC) — provide technical work and policy recommendations to the WECC Board. All member organizations are eligible for representation on the three Standing Committees.

Delegated Authority and the Regional Entities

As part of its responsibilities as the ERO, NERC delegates its authority — through delegation agreements — to Regional Entities (i.e., WECC) to perform certain functions. On December 19, 2008, FERC approved revised delegation agreements between NERC and the eight Regional Entities. These delegation agreements describe the authority for setting and enforcing standards along with other delegation-related services — such as situational awareness and reliability assessment⁸ — that are delegated to the Regional Entities. Funding for the Regional Entities is approved separately with each Regional Entity submitting its own business plan and budget for consideration by NERC and FERC.

Statutory Functional Scope

WECC has been approved by FERC as a Regional Entity, with authority — pursuant to the WECC / NERC Delegation Agreement — to create, monitor, and enforce standards for the reliability of the BES in the Western Interconnection. WECC's role as reliability coordinator was recognized by FERC through its acceptance of NERC's Compliance Registry.⁹

⁵ Non-WECC members may participate in standards drafting teams, and Participating Stakeholders may vote on Regional Reliability Standards. Participating Stakeholder voting is covered in Section 8.6 of the WECC Bylaws.

⁶ As provided in Section 215 of the Federal Power Act (e)(4)(A)(iii).

⁷ The Mexican delegation currently consists of one member.

⁸ Regional Delegation Agreement, Exhibit E – Scope of activities funded through the ERO funding mechanism. The WECC activities funded through the ERO funding mechanism include: Reliability Standard Development; 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 (including the WECC Reliability Coordinator Functions).

⁹ NERC 119 FERC ¶ 61,059 (2007) Order on Rehearing.

2010 Key Assumptions

Between February 13 and March 27, 2009, NERC and the eight Regional Entities collaborated in the development of a common set of business planning assumptions, goals, and metrics. The purpose of this effort is to promote consistency, efficiency, and accountability in the 2010 business plans and budgets of NERC and the Regional Entities by coordinating underlying business plan assumptions, goals, and metrics. The general assumptions developed that are reflected in the WECC business plan and budget are as follows:

2010 Key Assumptions

- The international, industry-based self-regulatory organization (SRO) model continues to be used and no material changes to the SRO model impacting 2010 emerge from the ERO three-year assessment.
- The framework for delegation remains constant. The scope of delegated authorities and responsibilities remains relatively constant with incremental improvements, in accordance with recommendations developed in the ERO three-year assessment.
- NERC and the Regional Entities are not budgeted in 2010 for unknown material changes to scope and are unable to take on unfunded mandates, such as new initiatives stemming from the American Recovery and Reinvestment Act of 2009 (ARRA) on energy. Any mandated material changes to scope will impact cash reserves.
- The current economic downturn continues into 2010, resulting in cost pressures on NERC and the Regional Entities to do more with less as the industry experiences lower electricity demand. The industry may need to defer capital projects in some areas and may reduce Operations and Maintenance budgets, or hold them flat. Cost pressures result in less travel and strain stakeholder participation in NERC and Regional Entity activities.

2010 Goals and Key Deliverables

- Assure a reliable BES in the Western Interconnection.
- Continue to implement the Compliance Monitoring and Enforcement Program (CMEP).
- Improve and enhance transmission planning, and loads and resources assessments.
- Be the credible source of interconnection-wide information.
- Assure system reliability for renewable resource integration in the Western Interconnection.
- Advance the quality and scope of training activities to assure that operators and Registered Entities have the information and tools they need.
- Improve administrative activities including budgeting, document control, and human resources.

2010 Overview of Cost Impacts

WECC's proposed 2010 budget is \$39.5 million, a \$1.8 million (4.8 percent) increase over the 2009 budget. The major drivers of this increase are:

- Salary Expenses increase due to the addition of 32.5 FTEs. Compliance is adding 20 FTEs to keep pace with NERC requirements, to clear the current backlog, and to keep current on the volume of work related to the Compliance Monitoring and Enforcement Program. The Reliability Coordination Offices (RCO) are increasing staffing levels by seven FTEs to manage the data and processes required to fulfill the Reliability Coordination Strategic Initiative (RCSI) and to focus on Critical Infrastructure Protection (CIP) compliance.
- The 2010 budget includes \$1 million for increased spot-check and audit requirements under NERC's CIP implementation plan.
- The 2010 budget increase is offset by:
 - Insurance decrease of \$540,000 due to the proposed termination of the Reliability Coordination function's liability policy.
 - Communications costs in the Situational Awareness budget are \$1.3 million lower due to improved procurement procedures, which resulted in more favorable pricing than anticipated.

Changes in Accounting Methodology

In 2010, NERC and all the Regional Entities agreed to formatting changes for the *Statement of Activities* within each functional Program Area as follows:

- Indirect Expense and Fixed Asset allocations from the Administrative Services areas to the functional Program Areas are now shown in the *Statements of Activities*, providing improved financial perspective. However, in 2010, there was no change in the allocation methodology, which is still based on the number of FTEs in a functional Program Area. The result of this change is an apparent increase in total costs for each functional Program Area.
- All payroll-related expenses are allocated to the employees' department budgets whereas in 2009, the majority of payroll-related expenses were allocated to the General and Administrative budget.

These changes directly affect the ERO Funding requirements of each functional Program Area and these variances are consistent throughout the budget.

Section A — 2010 Business Plan

Reliability Standards Program

Reliability Standards Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	4	3	(1)
Total Direct Expenses	\$511,694	\$514,728	3,034
Total Indirect Expenses ¹⁰	\$522,766	\$254,232	(\$268,534)
Inc (Dec) in Fixed Assets		\$7,794	\$7,794
Total Expenses & Fixed Assets	\$1,034,460	\$776,754	(\$257,706)

Program Scope and Functional Description

WECC's standards development activities are divided into two categories: participation in the NERC standards development process and the development of Western Interconnection Regional Reliability Standards (RRS) and Regional Criteria.

WECC's standards process was revised in 2006 and accepted by FERC as part of the original WECC / NERC Delegation Agreement. As part of that original Delegation Agreement, WECC responded to FERC's direction to modify WECC's standards development process and allow non-members to participate. The amended WECC / NERC Delegation Agreement was filed with FERC on October 30, 2007 and approved on March 21, 2008, subject to a requirement of further modification.

WECC's process is open to all interested parties and provides for their input throughout the drafting, comment, and approval process. Each standard is recommended by vote of the appropriate WECC Standing Committee and Interested Stakeholders. Standards are balloted three times per year (as needed) at WECC Standing Committee meetings and, in extraordinary circumstances, can be voted by e-mail. Once approved by the WECC Board, the standards are sent to the NERC Board of Trustees for approval. NERC then files these reliability standards with FERC for approval.

The WECC standards development process is also used for the development of WECC Business Practices and Regional Criteria. Regional Criteria are requirements that are approved by the WECC Board. They do not require NERC or FERC approval. WECC will follow the same process for developing documents to meet the requirements of fill-in-the-blank standards as needed.

¹⁰ Funding for Indirect Expenses is calculated by allocating all administrative services funding to the operational Program Areas on a proportional FTE basis.

2010 Key Assumptions

General Assumptions

- NERC will continue implementing its published three-year work plan for standards development, subject to incremental updates.
- The current economic downturn will continue into 2010 and adversely affect stakeholder travel budgets and resources for work in standards development. NERC and the regions will need to develop methods to encourage active involvement with less travel and face-to-face meetings.
- Regions will develop no more than one or two RRSs per region in 2010. Scheduling of RRS initiatives continues to depend on the determination of North American performance requirements.
- Regions will facilitate stakeholder reviews of the standards to identify opportunities to streamline the standards to be more focused on reliability performance. This will lead to the submittal of inputs to the NERC three-year work plan and possibly to standard authorization requests.
- In 2010, NERC and the Regional Entities will establish improved mechanisms to capture lessons from event analysis, compliance enforcement, and other activities (in the form of recommendations) to improve reliability standards to prevent future similar root causes of reliability events.
- NERC and Regional Entities will collaborate in the conduct of special workshops, in addition to the regular schedule of workshops, to focus on most-violated standards and improve the understanding of requirements by Registered Entities.
- NERC and the Regional Entities will continue to support coordinated and consistent responses to requests for formal interpretations of the reliability standards.

WECC-Specific Assumptions/Uncertainties

- Integration of renewables may require new or modified reliability standards.
- Staff and regional drafting team volunteers will participate in, and provide geographic support for, 20-plus North American-balloted standards with comment opportunities on 50-plus standards.
- FERC may direct WECC to make modifications to some or all of the RRSs before FERC.
- Depending on the final treatment of the NERC “Fill in the Blank” Standards, it may be necessary to develop one or more RRSs addressing any regional obligations in this area.

2010 Goals and Key Deliverables

- Encourage balanced member participation on all projects identified in the WECC RRS development process and the NERC Reliability Standards Work Plan.
- Have at least one WECC volunteer member actively participating in each project identified in the NERC Reliability Standards Work Plan.
- Participate on select NERC standard drafting teams, either as a voting member of the drafting team or as an observer.
- Develop, if required, RRSs for use only in the Western Interconnection.

- Provide support, as requested, to Alberta and British Columbia in the development of standards applicable in those provinces.
- Respond in a timely manner to all requests for the development of RRSs and Regional Criteria, as identified in the FERC-approved *Process for Developing and Approving WECC Standards*.
- Assure that all RRSs are both comprehensive and written in unambiguous language, and are clearly communicated to Registered Entities.
- Triage NERC standard development projects and provide timely analysis to WECC members.
- Undertake regular outreach to keep stakeholders informed about standards development.

Funding Requirements — Explanation of Increase (Decrease)

The 2010 Reliability Standards Program budget has nominally increased from 2009.

WECC has RRSs before FERC for approval. In their consideration of these RRSs, FERC may direct WECC to make modifications to some or all of them. WECC budgeted for a limited number of RRS standard drafting team meetings to meet potential FERC directives in this area. Depending on the timelines included in any FERC directives regarding these RRSs, WECC may be able to spread the drafting efforts over two or more years. WECC does not currently anticipate the same level of RRS development as undertaken during the development of the original or replacement Tier 1 RRSs.

A significant proportion of the work required to develop standards is performed by voluntary member participation through the WECC Standing Committee structure and member volunteers on NERC standards drafting teams. The volunteers are provided by WECC members who pay their salaries and expenses while engaged in this activity. WECC is concerned that in 2010, there is potential for a reduction in the level of participation in this activity, given the internal resources devoted to the entities' own compliance programs and the current economic environment. Due to uncertainties associated with each of the scenarios above, and the possibility of reduced voluntary member participation in both NERC standard and WECC RRS development, the potential exists to be either over or under in the Standards Development budget in 2010.

In 2010, the Reliability Standards Program has budgeted for one less FTE. This reduction has been achieved by the recruitment of an individual with significant experience in the standards development process.

In 2010, ERO Funding requirements increase because of the Indirect Expense allocation as discussed in “Changes in Accounting Methodology” on page 8.

Reliability Standards Program

Funding sources and related expenses for the Reliability Standards section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Standards					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 511,694	\$ 511,694	\$ -	\$ 776,754	\$ 265,060
Penalty Sanctions					
Total ERO Funding	\$ 511,694	\$ 511,694	\$ -	\$ 776,754	\$ 265,060
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 511,694	\$ 511,694	\$ -	\$ 776,754	\$ 265,060
Expenses					
Personnel Expenses					
Salaries	\$ 393,342	\$ 393,342	\$ -	\$ 385,467	\$ (7,875)
Payroll Taxes	-	31,892	31,892	34,692	34,692
Benefits	-	51,134	51,134	43,626	43,626
Retirement Costs	-	27,534	27,534	26,983	26,983
Total Personnel Expenses	\$ 393,342	\$ 503,903	\$ 110,561	\$ 490,768	\$ 97,426
Meeting Expenses					
Meetings	\$ 22,200	\$ 22,200	\$ -	\$ 4,000	\$ (18,200)
Travel	11,520	11,520	-	12,000	480
Conference Calls	5,832	5,832	-	5,760	(72)
Total Meeting Expenses	\$ 39,552	\$ 39,552	\$ -	\$ 21,760	\$ (17,792)
Operating Expenses					
Consultants & Contracts	\$ 28,800	\$ 28,800	\$ -	\$ -	\$ (28,800)
Office Rent	-	-	-	-	-
Office Costs	-	-	-	2,200	2,200
Professional Services	50,000	50,000	-	-	(50,000)
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 78,800	\$ 78,800	\$ -	\$ 2,200	\$ (76,600)
Total Direct Expenses	\$ 511,694	\$ 622,255	\$ 110,561	\$ 514,728	\$ 3,034
Indirect Expenses				\$ 254,232	\$ 254,232
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 511,694	\$ 622,255	\$ 110,561	\$ 768,960	\$ 257,266
Change in Assets	\$ -	\$ (110,561)	\$ (110,561)	\$ 7,794	\$ 7,794
Fixed Assets					
Depreciation	-	-	-	-	-
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets				\$ (7,794)	(7,794)
Change in Fixed Assets	-	-	-	(7,794)	(7,794)
TOTAL CHANGE IN ASSETS	\$ -	\$ (110,561)	\$ (110,561)	\$ 0	\$ (0)

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Statutory funding.
- In 2010, NERC and the Regional Entities agreed that assessments should not be allocated to the Indirect Program Areas. All indirect costs are allocated to the Statutory Programs and all assessments are allocated to Statutory Program Areas except increases to reserves, which are accounted for in General and Administrative.

Personnel Expenses

- Payroll Taxes, Benefits, and Retirement Costs for the entire company were budgeted in General and Administrative in 2009, but are appropriately reflected in each Program Area in 2010, which is the reason for the \$105,000 increase in these three categories of Personnel Expenses.

Meeting Expenses

- Total Meeting Expenses are \$18,000 lower than 2009 budget levels to better reflect actual 2008 expenditures. In addition, WECC will conduct as many “Fill in the Blank,” RRS, and Regional Criteria meetings via telephone conference calls as possible in order to reduce meeting costs.

Operating Expenses

- Operating Expenses for 2010 decrease by approximately \$77,000 to reflect the elimination of outside legal expenses due to increased in-house legal staff. Consulting expenses have been eliminated due to the addition of 0.5 FTE.

Indirect Expenses

- See “Changes in Accounting Methodology” on page 8.

Other Non-Operating Expenses

- Not applicable.

Fixed Asset Additions

- See “Changes in Accounting Methodology” on page 8.

Compliance Monitoring and Enforcement and Organization Registration and Certification Program

Compliance Monitoring and Enforcement and Organization Registration and Certification Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	30	50	20
Total Direct Expenses	\$6,165,303	\$9,463,332	\$3,298,029
Total Indirect Expenses	\$3,920,746	\$4,237,203	\$316,457
Inc(Dec) in Fixed Assets		\$315,895	\$315,895
Total Expenses & Fixed Assets	\$10,086,049	\$14,016,429	\$3,930,380

Program Scope and Functional Description

Compliance monitoring and enforcement is essential to WECC's mission as a Regional Entity and its fulfillment of the requirements of the WECC / NERC Delegation Agreement. Compliance and enforcement activities are carried out by the WECC Compliance staff and are independent of all users, owners, and operators of the BES, and from the Hearings staff. Compliance activities are governed in the United States by the agreement between the North American Electric Reliability Corporation (NERC) and WECC. Portions of NERC's authority as the Electric Reliability Organization (ERO) have been delegated under Section 215 of the Federal Power Act, to WECC (the "WECC / NERC Delegation Agreement").¹¹

The WECC Compliance function is overseen by the Vice President of Compliance who reports to WECC's Chief Executive Officer. The components and management structure of the Compliance Department include:

- **Managing Director of Compliance:** Reports to the Vice President and is responsible for Compliance Registration, Compliance Auditing, and Compliance Enforcement.
- **Manager of Compliance Program Administration:** Reports to the Vice President and oversees all compliance data analysis and reporting, audit logistics, and Compliance Program Coordinators.

The requirements of the WECC CMEP are specified in the WECC / NERC Delegation Agreement. Subject to variations between WECC's CMEP and those of other regions, WECC seeks to implement its CMEP in a manner consistent with the programs of other regions. WECC uses the following methods to monitor compliance with the reliability standards by the Registered Entities:

- **Compliance Audits** – Conducts either on-site or off-site audits of all Registered Entities.

¹¹ *NERC et al.*, 119 FERC ¶ 61,060 (2007), order on compliance, 119 FERC ¶ 61,232 (2007) (accepting delegation agreements between NERC and the Regional Entities); *NERC et al.*, 122 FERC ¶ 61,245 (2008) (accepting revised delegation agreements between NERC and the Regional Entities).

- **Self-Certification** – Reviews (annually) Registered Entity certifications of compliance or non-compliance with standards.
- **Spot-Checking** – Verifies compliance with specific standards, primarily in connection with reviews of self-certification.
- **Compliance Violation Investigations** – Investigates violations usually the result of a system event or disturbance, but may result from other sources.
- **Self-Reporting** – Undertakes a monitoring process that is specifically designed to work in conjunction with a Registered Entity’s continuous monitoring efforts by its internal compliance programs.
- **Periodic Data Submittals** – Reviews monthly and quarterly reports that are submitted regarding compliance with certain standards.
- **Exception Reporting** – Requires reports on a small set of standards when violations occur.
- **Complaints** – Investigates whether a violation has occurred when the WECC Compliance staff is alerted to a potential violation.

The Compliance function also undertakes the following processes in support of its activities:

- **Registration** – Facilitating the registration process by ensuring that there are no gaps in the registration of entities in the Western Interconnection and resolving registration disputes.
- **Mitigation Plans** – Reviewing mitigation plans filed by entities to correct violations.
- **Penalty Calculations** – Determining, as appropriate, proposed penalties for alleged violations.
- **Settlement Negotiations** – Conducting settlement negotiations with Registered Entities when requested.
- **Hearings and Appeals** – Participating in all hearings and appeals.
- **Certification of Balancing Authorities (BA) and Transmission Operators (TOP)**¹² – Conducting the certification process as required.

WECC is committed to protecting the region’s critical infrastructure and enforcing the CIP standards. This is carried out by the CIP Audits and Investigations Group, which reports to the Managing Director of Compliance.

An important part of WECC’s Compliance Program is stakeholder outreach and education. The Director of Stakeholder Relations and Outreach works closely with the Compliance staff and reports directly to the WECC CEO.

The Hearings budget is included in the Compliance budget and is reflected in the table on page 14. For structural and governance purposes, the Hearings function is discussed separately in this section.

Compliance in Alberta, British Columbia, and Mexico

Alberta and British Columbia have adopted legislation requiring mandatory standards and are in the process of adopting standards and implementing a regulatory framework for monitoring compliance.

¹² WECC has transferred the certification of its Reliability Coordination function to NERC.

Agreements between WECC and the provinces are necessary to ensure interconnection reliability while recognizing provincial sovereignty. On September 23, 2008, WECC executed an agreement with the Alberta Electric System Operator (AESO) addressing membership and coordinated operations. The AESO will monitor compliance with adopted reliability standards for market participants.

WECC and the AESO began negotiations to address the monitoring of the AESO's compliance with Alberta's standards during the second quarter of 2009. WECC is also involved in negotiations with the British Columbia Utilities Commission to act as the commission's administrator of its monitoring program. WECC expects to have executed agreements for both provinces by the end of 2009.

Similarly, WECC expects to continue addressing reliability issues with Mexico's Comisión Federal de Electricidad in 2010.

Reliability Management System (RMS)

In 1996, the Western Systems Coordinating Council (WSCC)¹³ created the RMS, a contract-based compliance enforcement mechanism. The RMS grew to encompass 14 criteria. In the United States, five of the RMS criteria are now part of the NERC Reliability Standards and eight others have been adopted as WECC RRSs.¹⁴ One RMS criterion, Interchange Schedule Tagging, is still enforced as part of the original RMS agreement. However, with the introduction of the WECC Interchange Tool all applicable entities are fully compliant in this respect. In Canada and Mexico, the RMS is still used to monitor all 14 RMS criteria. This may change in 2009 as Alberta and British Columbia move toward mandatory standards. In the United States, WECC is investigating the termination of the RMS agreement.

Technical Feasibility Exceptions (TFEs)

Due to the uncertainty surrounding the number of requests and the hours required to process the exceptions, WECC has not included these additional costs in the 2010 Business Plan and Budget and will use working capital reserves to cover the expenses.

2010 Key Assumptions

- The number of Registered Entities could increase as early as 2009, based on the application of CIP standards to generators below 100 kV. Other adjustments to the registry, such as those related to TOPs, will continue.
- Non-CIP audits will continue under the schedule to complete BA and TOP audits every three years, and other entities every six years.
- The number of CIP spot-checks and audits will increase substantially to complete CIP spot-checks of all "Table 1" entities by 2010 year end. Also, "Table 2" entities begin to become CIP auditable in the second half of 2010. Regional Entities will continue to be constrained in removing CIP information from the entity site through 2010, impacting the need to have face-to-face CIP spot-checks and audits.

¹³ The WSCC was one of the companies and regional transmission associations that merged to form WECC.

¹⁴ The original eight WECC Regional Reliability Standards have been revised and now are incorporated in seven WECC RRSs.

- There is a risk of a policy or directive clarifying the expectations of the CIP-002 risk-based methodology that results in a substantially expanded number of standards to be monitored for CIP.
- The number of spot-checks and audits increases in 2010. Closure of each mitigation plan may require a spot-check review to confirm closure. As the numbers of Registered Entities and associated functions increase, more audits will be required.
- There is also moderate risk that the number of spot-checks may increase as follow up to completed events analyses.
- The number of non-CIP possible violations discovered continues at a pace comparable to 2009, due to continuing first-time audits of entities. The number of non-CIP-related violations is expected to be 1,400 to 1,500 for the year across North America, with the distribution across the regions in a similar proportion to previous years. Decreasing numbers of new violations may begin to be seen after 2010.
- The number of CIP possible violations undergoes a substantial upswing in 2010, as CIP spot-checks and audits continue to ramp up. CIP possible violations may add 400 to 800 additional possible violations to be processed in addition to the violations listed above for non-CIP violations.
- A large majority of possible violations will be handled through a settlement process. Process efficiencies and experience offset the increased complexity of compliance cases and the level of effort for a settlement remains approximately the same as in 2009.
- NERC will continue to provide required training for auditors and investigators. Programs are developed in NERC training and education, and implemented through NERC Compliance.
- The number of hearings conducted will remain low, averaging well below one per region.
- NERC will conduct two event-based inquiries per month (24 in 2010) and one Compliance Violation Investigation (CVI) per month (12 in 2010). Regional entities will collectively review 50-to-60 events of interest and 12-to-15 CVIs. All unplanned, multiple-facility trips will be considered candidates for these reviews. The number of reviews and CVIs will vary by region and each region will have a unique set of assumptions that collectively will approximate these gross estimates.
- NERC and the Regional Entities continue to pursue integration of compliance information systems with the near-term priority being a seamless interface for the management of compliance information: from reporting of discovery to filing of Notice of Penalty, or settlement and closure. The cost impact of achieving this development and integration is between \$1 million and \$2 million collectively across NERC and the regions for 2010.

2010 Goals and Key Deliverables

Continue to ensure all compliance activities are conducted in a fair, impartial, and professional manner.¹⁵

- Stay current with processing all alleged new violations.
- Clear backlog that has been prioritized based on the severity of impact on the BES by the end of 2010.
- Conduct 20 on-site audits.
- Conduct 76 off-site audits.
- Conduct 15 or more spot-checks.
- Conduct approximately 26 CIP audits.
- Achieve CMEP process timelines.
- Recruit and retain quality employees.
- Undertake comprehensive cross-functional training.
- Share best practices among regions and NERC (www.regionalentities.org).

Funding Requirements — Explanation of Increase (Decrease)

The WECC Compliance Enforcement Department’s Direct Expenses and Fixed Assets in 2010 are \$9.65 million, an increase of \$3.48 million from 2009. Program expenses for 2010 are driven by additional staffing and the associated costs of registering entities and conducting audits, spot-checks, investigations, reviews of self-certifications, and other CMEP activities. The scope of both the on-site and off-site audits has expanded from 2009 to 2010. The expansion in scope is mainly due to an increase in the number of standards that are included in the actively monitored program. In 2007, about 50 of the FERC-approved standards were included. This number increased to 83 standards in 2009, and may increase again in 2010.

It is apparent that the registration process in the Western Interconnection will continue to require additional staff resources. While WECC works with entities to further their understanding of how registration applies to their facilities, WECC continues to receive requests from entities to register, add, or remove functions to or from their registrations, or to unregister. As a result, the registration process is very dynamic. In addition, WECC believes that there may be an increase in the number of Registered Entities and functions (particularly TOPs) because some larger BAs are indicating that they do not wish to continue to assume compliance roles for other, smaller entities.

In addition, WECC continues to receive requests from entities for clarification of their registration requirements. At issue is the “lack of material impact” on the BES. These are complicated issues that require detailed analysis from an engineering perspective to determine the merit of the underlying dispute. The problem is compounded because both “material impact” and the term “bulk electric system¹⁶” have not yet been defined.

WECC (along with NERC) has participated in negotiations with several generation owners (GO) and generation operators (GOP) that have been registered, and with TOs/TOPs. This initiative was aimed at helping those entities determine and understand how the requirements

¹⁵ Numbers shown for compliance activities are estimated. These numbers could increase if the number of Registered Entities and functions increase. Audit and spot-check results also could cause some of these figures to increase.

¹⁶ During the August 2008 WECC Board meeting, the Board directed RPIC undertake a review of the definition of “bulk electric system” and bring a recommendation to the Board.

(under their TO and TOP registrations) apply to the transmission facilities associated with their generating plants. This consumed a great deal of time and resources from registration and other compliance staff, and it is anticipated that registration staff will continue to engage in outreach activities to keep entities informed of registration requirements.

Enforcement activities continue to become more efficient as WECC gains a better understanding of the expectations of FERC and NERC. However, staff time is largely dedicated to current cases, and to finishing higher-priority violations from the large number of past violations that have yet to be processed fully. Communication from NERC indicates that more investigative effort is expected with respect to many of these older cases. Current staffing levels make it problematic to re-investigate older and apparently lower-level violations. To meet FERC and NERC expectations and directives, an increase in both audit and enforcement staff is required.

In addition, the number of open violation investigations continues to be higher than anticipated. With respect to the remaining open violations from 2008 and even 2007, resources must be devoted to completing the necessary level of investigation, reporting, and approving mitigation plans so that these cases can be completed. Current cases continue to be time consuming and therefore, the number of cases pending completion is growing. As roles and expectations are more clearly defined, and with increased experience, the time needed to complete enforcement activities should begin to decrease. Responding to NERC's questions, comments, and directives during the course of processing violations requires significant staff resources. WECC will become more efficient in processing cases; however, it is critical to increase staff to keep current with new violations and to process the backlog.

WECC is the largest of the Regional Entities with 470 Registered Entities that include 1,256 registered functions.¹⁷ In addition to managing the auditing process, the Compliance Department must keep current with self-certification, spot-checks, CVIs, and mitigation plans. This continues to present a challenge, given current resources. Furthermore, CIP spot-checks will dramatically increase during 2010. This will cause a significant increase in workload and an associated increase in costs, as noted earlier in "2010 Key Assumptions." Starting in July 2010, the number of requirements for which entities will be spot-checked for CIP compliance will increase from 13 to 41. Direction provided from NERC on the level of detail required during CIP spot-checks suggests that the effort involved will be comparable to that of an audit. This will create a far higher workload for CIP auditors. In addition to tripling the number of standards, the number of audits will increase as Table 2 entities will be subject to enforcement of CIP standards beginning in 2010.

As a result of projected growth in workload and staffing, comprehensive training will be required; such as, initial training for new staff and training for existing audit staff that need a minimum of 40 hours per year of continuing training. NERC has informally indicated that it will offer – and require – training on CVIs during 2010.

In 2010, ERO Funding requirements increase because of the Indirect Expense allocation as discussed in "Changes in Accounting Methodology" on page 8.

¹⁷ As of April 30, 2009

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 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Compliance and Organization Registration and Certification					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 6,165,303	\$ 6,165,303	\$ -	\$ 13,616,429	\$ 7,451,126
Penalty Sanctions					
Total ERO Funding	\$ 6,165,303	\$ 6,165,303	\$ -	\$ 13,616,429	\$ 7,451,126
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	400,000	400,000
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 6,165,303	\$ 6,165,303	\$ -	\$ 14,016,429	\$ 7,851,126
Expenses					
Personnel Expenses					
Salaries	\$ 3,267,237	\$ 3,317,237	\$ 50,000	\$ 5,060,109	\$ 1,792,872
Payroll Taxes	-	268,962	268,962	438,047	438,047
Benefits	75,004	506,245	431,241	582,670	507,666
Retirement Costs	-	232,207	232,207	348,605	348,605
Total Personnel Expenses	\$ 3,342,241	\$ 4,324,650	\$ 982,409	\$ 6,429,432	\$ 3,087,191
Meeting Expenses					
Meetings	\$ 380,000	\$ 380,000	\$ -	\$ 425,000	\$ 45,000
Travel	689,090	789,090	100,000	762,350	73,260
Conference Calls	75,004	75,004	-	45,500	(29,504)
Total Meeting Expenses	\$ 1,144,094	\$ 1,244,094	\$ 100,000	\$ 1,232,850	\$ 88,756
Operating Expenses					
Consultants & Contracts	\$ 1,154,500	\$ 1,204,500	\$ 50,000	\$ 1,467,500	\$ 313,000
Office Rent	138,264	138,264	-	-	(138,264)
Office Costs	227,204	277,204	50,000	178,550	(48,654)
Professional Services	159,000	159,000	-	155,000	(4,000)
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 1,678,968	\$ 1,778,968	\$ 100,000	\$ 1,801,050	\$ 122,082
Total Direct Expenses	\$ 6,165,303	\$ 7,347,712	\$ 1,182,409	\$ 9,463,332	\$ 3,298,029
Indirect Expenses				\$ 4,237,203	\$ 4,237,203
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 6,165,303	\$ 7,347,712	\$ 1,182,409	\$ 13,700,535	\$ 7,535,232
Change in Assets	\$ -	\$ (1,182,409)	\$ (1,182,409)	\$ 315,895	\$ 315,895
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx				186,000	186,000
Furniture & Fixtures CapEx					-
Equipment CapEx					-
Leasehold Improvements					-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ (186,000)	\$ (186,000)
Allocation of Fixed Assets				(129,895)	(129,895)
Change in Fixed Assets	-	-	-	(315,895)	(315,895)
TOTAL CHANGE IN ASSETS	\$ -	\$ (1,182,409)	\$ (1,182,409)	\$ 0	\$ 0

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Statutory funding.
- In 2010, NERC and the Regional Entities agreed that assessments should not be allocated to the Indirect Program Areas. All indirect costs are allocated to the Statutory Programs and all assessments are allocated to Statutory Program Areas except increases to reserves, which are accounted for in General and Administrative.
- Historically, WECC did not charge a registration fee for the Compliance User Group workshops or the CIP User Group workshops and therefore, did not budget for the revenue. Due to the increased participation and costs of these workshops, WECC began charging a nominal fee for all Compliance workshop attendance in 2008. WECC has budgeted for the income from attendance fees in 2010.

Personnel Expenses

- Payroll Taxes, Benefits and Retirement Costs for the entire company were budgeted in General and Administrative in 2009, but are appropriately reflected in each Program Area in 2010, which is the reason for the \$1.29 million increase in these three categories of Personnel Expenses.
- Salaries increase by \$1.79 million, primarily due to the addition of 20 FTEs and merit increases that are budgeted at three percent.

Meeting and Travel Expenses

- Meeting Expenses increase by \$45,000 to reflect the increased costs of Compliance User Group meetings and workshops. However, Meeting Expenses will be partially offset by the workshop fees.
- Travel Expense is budgeted to increase by \$73,000 in 2010, partly due to the addition of 21 FTEs and the CIP spot-checks and audits.
- Conference calls decrease by \$30,000 due to anticipated levels of usage based on 2008 actuals.

Operating Expenses

- Consultants and Contracts increase by \$313,000, primarily due to contract services related to the CIP audits.
- In an effort to improve consistency with other regions, Office Rent for the Compliance Department has been reallocated and budgeted in General and Administrative resulting in an apparent decrease of \$138,000.
- Office Costs decrease by \$49,000 in 2010 mainly due to Software being reclassified to Fixed Assets in 2010.

Indirect Expenses

- See “Changes in Accounting Methodology” on page 8.

Other Non-Operating Expenses

- Not applicable.

Fixed Asset Additions

- In 2010, computer software is appropriately classified in Fixed Assets
- See “Changes in Accounting Methodology” on page 8.

Hearings

Background

WECC continues to believe that the Hearings budget should not be embedded in the Compliance Monitoring and Enforcement Budget. WECC believes that the expenditure on Hearings should be separately stated.

The WECC 2010 budget for Hearings is reflected in the following table. These expenditures are embedded in the Compliance Program *Statement of Activities*.

	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	3	2	(1)
Total Direct Expenses	\$941,474	\$665,375	(\$276,099)
Total Indirect Expenses	\$392,075	\$169,488	(\$222,587)
Total Expenses	\$1,333,549	\$834,863	(\$498,686)

Program Scope and Functional Description

The Hearing Officer will coordinate and conduct the evidentiary hearings in the majority of disputes and issue initial decisions when designated by the Hearing Panel. The Hearing Panel will be drawn from a pool of individuals on the Compliance Hearing Body (CHB). The CHB is comprised of volunteers from the WECC Board, WECC members, and consultants, who will be placed into two classes: Class A includes non-affiliated directors, personnel employed by WECC members not engaged in an *Electric Line of Business*, and independent consultants; Class B includes personnel employed by WECC members engaged an *Electric Line of Business*. The initial decisions, along with exceptions by the parties, will be submitted to a Hearing Panel for consideration and final decision on behalf of the WECC Region. In cases of particular complexity or significant regional interest, a Hearing Panel may conduct or participate in the evidentiary hearing. Legal Department staff will support the Hearing Officers and Hearing Panel. Legal Department staff supporting the Hearing Panel will be screened from compliance matters when a hearing is pending.

2010 Key Assumptions

- WECC will maintain current operations.
- Greater level of review from FERC and stakeholders.
- Slight increase in requests for hearings.
- Continued view of mutual benefit of settlement.
- NERC expectations in terms of the level reporting are clearly defined.

2010 Goals and Key Deliverables

- Provide independent, fair, efficient, and cost effective support to the WECC Hearing Panel.
- Meet all timelines identified in the WECC Hearing Procedures.
- Maintain Hearing Department records.
- Retain Hearing Officers for disputes related to compliance violations.
- Manage the Hearing Office budget.

Funding Requirements — Explanation of Increase (Decrease)

The Hearing Office budget is decreasing by \$276,000. The transition to contract Hearing Officers will decrease the Salaries and Benefits items. Contract Hearing Officers provide as-needed services, rather than maintaining an FTE. Additionally, the use of legal counsel from the Legal Department will reduce legal costs by approximately \$35,000.

In 2010, ERO Funding requirements increase because of the Indirect Expense allocation as discussed in “Changes in Accounting Methodology” on page 8.

Reliability Readiness Evaluation and Improvement Program

Reliability Readiness Evaluation and Improvement Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	2	0	(2)
Total Direct Expenses	\$216,400	\$0	(\$216,400)
Total Indirect Expenses	\$261,383	\$0	(\$261,383)
Inc(Dec) in Fixed Assets	\$0	\$0	\$0
Total Expenses & Fixed Assets	\$477,783	\$0	(\$477,783)

Program Scope and Functional Description**2010 Key Assumptions**

- This program will be eliminated from all regions and NERC.

2010 Goals and Key Deliverables

- Not applicable.

Funding Requirements — Explanation of Increase (Decrease)

NERC has eliminated the Reliability Readiness Evaluation and Improvement Program. 2009 is a transition year, during which open readiness recommendations in the region will be monitored to their completion and a reduced set of evaluations will take place. Consequently, WECC eliminated the Reliability Readiness Evaluation and Improvement Program funding, FTE count, and activities from the 2010 Business Plan and Budget.

Reliability Readiness Evaluations and Improvement Program

Funding sources and related expenses for the Reliability Readiness Audits and Improvement section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Readiness Evaluation and Improvement					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 216,400	\$ -	\$ (216,400)		\$ (216,400)
Penalty Sanctions					
Total ERO Funding	<u>\$ 216,400</u>	<u>\$ -</u>	<u>\$ (216,400)</u>	<u>\$ -</u>	<u>\$ (216,400)</u>
Membership Dues	-	-	-		-
Testing Fees	-	-	-		-
Services & Software	-	-	-		-
Workshops	-	-	-		-
Interest	-	-	-		-
Miscellaneous	-	-	-		-
Total Funding	<u>\$ 216,400</u>	<u>\$ -</u>	<u>\$ (216,400)</u>	<u>\$ -</u>	<u>\$ (216,400)</u>
Expenses					
Personnel Expenses					
Salaries	\$ 162,000	\$ -	\$ (162,000)		\$ (162,000)
Payroll Taxes	-	-	-		-
Benefits	-	-	-		-
Retirement Costs	-	-	-		-
Total Personnel Expenses	<u>\$ 162,000</u>	<u>\$ -</u>	<u>\$ (162,000)</u>	<u>\$ -</u>	<u>\$ (162,000)</u>
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -		\$ -
Travel	29,400	-	(29,400)		(29,400)
Conference Calls	-	-	-		-
Total Meeting Expenses	<u>\$ 29,400</u>	<u>\$ -</u>	<u>\$ (29,400)</u>	<u>\$ -</u>	<u>\$ (29,400)</u>
Operating Expenses					
Consultants & Contracts	\$ 25,000	\$ -	\$ (25,000)		\$ (25,000)
Office Rent	-	-	-		-
Office Costs	-	-	-		-
Professional Services	-	-	-		-
Miscellaneous	-	-	-		-
Depreciation	-	-	-		-
Total Operating Expenses	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ (25,000)</u>	<u>\$ -</u>	<u>\$ (25,000)</u>
Total Direct Expenses	<u>\$ 216,400</u>	<u>\$ -</u>	<u>\$ (216,400)</u>	<u>\$ -</u>	<u>\$ (216,400)</u>
Indirect Expenses				\$ -	\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	<u>\$ 216,400</u>	<u>\$ -</u>	<u>\$ (216,400)</u>	<u>\$ -</u>	<u>\$ (216,400)</u>
Change in Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx					-
Furniture & Fixtures CapEx					-
Equipment CapEx					-
Leasehold Improvements					-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets				\$ -	\$ -
Change in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Training, Education, and Operator Certification Program

Training, Education, and Operator Certification Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	3.5	3.5	0
Total Direct Expenses	\$863,290	\$822,092	(\$41,198)
Total Indirect Expenses	\$457,420	\$296,604	(\$160,816)
Inc(Dec) in Fixed Assets	\$0	\$91,093	\$91,093
Total Expenses & Fixed Assets	\$1,320,710	\$1,209,789	(\$110,921)

Program Scope and Functional Description

WECC provides continuing education and training for system operators, schedulers, and dispatchers. In 2010, WECC will increase the emphasis on training relating to the NERC Standards, the RRSs, and Regional Criteria.

Similar to 2009, WECC will provide 35-to-40 training classes in Salt Lake City and other off-site venues in 2010. The curriculum is developed with the assistance of the Operations Training Subcommittee (OTS) of the OC. The OTS and WECC staffs also provide an annual training workshop for all WECC-Certified Training Instructors. In addition to the Operator Training Program, WECC staff and the OTS offer an Executive Overview Workshop that provides a broad overview of system operations for non-operational personnel. This workshop is offered three times each year.

2010 Key Assumptions

- No significant changes in operator certification continuing education unit requirements for 2010.
- Optional training (e.g., system overview training) may be negatively impacted by the economic downturn as members cut their budgets.

2010 Goals and Key Deliverables

- Continue to provide high-quality continuing education for system operators, schedulers, and dispatchers.
- Continue to review and revise the curriculum as needed, and increase the emphasis on training relating to NERC Standards, RRSs, and Regional Criteria.
- Develop materials in support of a Continuing Education Program for all system operators requiring NERC certification.
- Coordinate annual regional restoration training with WECC Reliability Coordinators.

Funding Requirements — Explanation of Increase (Decrease)

Direct Expenses and Fixed Assets associated with the WECC Training Program are completely offset by the revenue generated from registration fees for training sessions. For 2010, ERO assessments will be allocated to cover the Indirect Expense allocation. Overall, the Training and Education budget for 2010 has not increased materially.

In 2010, ERO Funding requirements increase because of the Indirect Expense allocation as discussed in “Changes in Accounting Methodology” on page 8.

Training, Education, and Operator Certification Program

Funding sources and related expenses for the Training, Education, and Operator Certification section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Training and Education					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ -	\$ -	\$ -	\$ 294,689	\$ 294,689
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	\$ -	\$ -	\$ -	\$ 294,689	\$ 294,689
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	863,290	863,290	-	915,100	51,810
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 863,290	\$ 863,290	\$ -	\$ 1,209,789	\$ 346,499
Expenses					
Personnel Expenses					
Salaries	\$ 318,409	\$ 318,409	\$ -	\$ 327,543	\$ 9,134
Payroll Taxes	-	-	-	23,284	23,284
Benefits	163,981	163,981	-	36,835	(127,146)
Retirement Costs	-	-	-	18,110	18,110
Total Personnel Expenses	\$ 482,390	\$ 482,390	\$ -	\$ 405,772	\$ (76,618)
Meeting Expenses					
Meetings	\$ 236,000	\$ 236,000	\$ -	\$ 278,000	\$ 42,000
Travel	45,900	45,900	-	24,000	(21,900)
Conference Calls	3,000	3,000	-	2,000	(1,000)
Total Meeting Expenses	\$ 284,900	\$ 284,900	\$ -	\$ 304,000	\$ 19,100
Operating Expenses					
Consultants & Contracts	\$ 89,000	\$ 89,000	\$ -	\$ 98,000	\$ 9,000
Office Rent	-	-	-	-	-
Office Costs	7,000	7,000	-	14,320	7,320
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 96,000	\$ 96,000	\$ -	\$ 112,320	\$ 16,320
Total Direct Expenses	\$ 863,290	\$ 863,290	\$ -	\$ 822,092	\$ (41,198)
Indirect Expenses	\$ -	\$ -	\$ -	\$ 296,604	\$ 296,604
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 863,290	\$ 863,290	\$ -	\$ 1,118,696	\$ 255,406
Change in Assets	\$ -	\$ -	\$ -	\$ 91,093	\$ 91,093
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	82,000	82,000
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ (82,000)	\$ (82,000)
Allocation of Fixed Assets	-	-	-	(9,093)	(9,093)
Change in Fixed Assets	\$ -	\$ -	\$ -	(91,093)	(91,093)
TOTAL CHANGE IN ASSETS	\$ -	\$ -	\$ -	\$ -	\$ (0)

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Statutory funding.
- In 2010, NERC and the Regional Entities agreed that assessments should not be allocated to the Indirect Program Areas. All indirect costs are allocated to the Statutory Programs and all assessments are allocated to Statutory Program Areas except increases to reserves, which are accounted for in General and Administrative.

Personnel Expenses

- Salaries increase by \$9,000, reflecting merit increases and market adjustments.
- In 2009, there was no line item for Payroll Taxes (it was included in the Benefits line item). 2010 Payroll Taxes are itemized appropriately.
- In 2009, the Benefits line item included Payroll Taxes, Benefits, and Retirement Costs and was calculated as a percentage of Salaries, which resulted in an inflated amount in the line item. In 2010, Benefits were appropriately budgeted as a fixed cost per FTE.
- In 2009, there was no line item for Retirement (it was included in the Benefits line item). 2010 Retirement Costs are itemized appropriately and the 401(k) contribution was capped per WECC's employer match policy.

Meeting Expenses

- The 2010 meetings budget increases by \$42,000 as a consequence of the addition of ten new training classes.
- The 2010 travel budget decreases by \$22,000 to more closely reflect 2008 actual expenses and anticipated levels of 2010 travel.

Operating Expenses

- The year-on-year variance in Operating Expenses is not material.

Indirect Expenses

- See "Changes in Accounting Methodology" on page 8.

Other Non-Operating Expenses

- Not applicable.

Fixed Asset Additions

- Computer and Software capital expenditure increases by \$82,000 in 2010 to reflect the planned purchase of a second training simulator software application.
- See "Changes in Accounting Methodology" on page 8.

Reliability Assessment and Performance Analysis Program

Reliability Assessment and Performance Analysis Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	14	16	2
Total Direct Expenses	\$2,692,063	\$3,082,437	\$390,374
Total Indirect Expenses	\$1,829,681	\$1,355,905	(\$473,776)
Inc(Dec) in Fixed Assets	\$50,000	\$128,066	\$78,066
Total Expenses & Fixed Assets	\$4,571,744	\$4,566,408	(\$5,366)

Program Scope and Functional Description

WECC conducts a variety of studies and assessments required for the reliable planning and operation of the BES in the Western Interconnection. Importantly, three of the five strategic objectives detailed in WECC's Five-Year Strategic Plan¹⁸ relate to enhanced data, technical analysis, planning, and policy facilitation roles for WECC. These objectives will be a major focus for the WECC Reliability Assessment and Performance Analysis (RAPA) function in 2010. The integrated planning efforts will enhance WECC's overall ability to participate in, and respond to, the major planning and public policy issues emerging both in the Western Interconnection and nationally, including WECC's response to provisions in the ARRA.

Transmission Expansion Planning

WECC assists in meeting the need for regional transmission planning and analysis. WECC accomplishes this by providing impartial and reliable data, public process leadership, and analytic tools and services.

The Transmission Expansion Planning Policy Committee (TEPPC) — a WECC Board Committee — facilitates these activities, operates under a charter approved by the WECC Board, and has 17 members representing all classes of stakeholders with representation from all geographic subregions of WECC. TEPPC and its subgroups work closely and coordinate with Western Interconnection state, provincial, and federal government entities.

The Annual TEPPC Study Plan is formed from stakeholder requests obtained during an annual open season. The 2009 Draft Study Plan is based on 23 study requests that were clustered and prioritized. The study requests reflect a significant need for an increase in the scope and depth of regional planning (e.g., 20-year planning horizon, capital costs for generation resources and transmission, potential extra high voltage overlay alternatives, high renewable penetration levels, and carbon limits). The 2009 plan will include an increased focus on transmission expansion requirements and alternatives. In addition, provisions in the ARRA (described below) have increased the level of activity surrounding the development of interconnection-wide transmission plans.

¹⁸ Western Electricity Coordinating Council Five-Year Strategic Plan: March 7, 2008, Page 2.

Loads and Resources

In 2010, WECC will continue to improve its loads and resources data gathering and analysis. The WECC staff, assisting the Loads and Resources Subcommittee (LRS), will continue to provide an analysis of resource adequacy in the Western Interconnection. Improvements have been made each year to both the energy and capacity assessments. These include scenario inputs – such as extreme weather– as well as improved modeling and data quality. This work is performed by WECC staff under the direction of the Planning Coordination Committee (PCC) and the LRS.

Power Supply Assessment (PSA)

The WECC PSA is an annual study of the resource capacity margins on a WECC-wide basis. The study — which is based on reported demand, resource data, and transmission constraints — identifies subregions within WECC that have the potential for electricity supply shortages. The WECC PSA presents the results of a set of resource capacity margin scenarios for the Western Interconnection over a ten-year forecast period and is based on a deterministic load-resource model. This model examines the effect of various design criteria relative to the load forecast requirements and demonstrates the physical ability of the Western Interconnection to supply all loads, regardless of contractual obligations.

Power Flow and System Stability Studies

WECC staff, with guidance from the Technical Studies Subcommittee (TSS), annually prepares a data bank of power flow and stability base cases, reflecting various system configurations and operating conditions. These base cases serve as the foundation from which WECC members perform analyses on their respective systems.

The WECC technical staff, with guidance from the TSS, also develops an annual report that provides an ongoing transmission reliability assessment of the Western Interconnection: both in its existing state and for configurations planned through the following ten years. Identified performance deficiencies, as defined in the NERC Standards and WECC Regional Reliability Criteria, are reported and provided to the appropriate entity for mitigation.

2010 Key Assumptions

General Assumptions

- NERC will continue to incrementally improve the definitions and metrics used in reliability assessments.
- NERC and the Regional Entities are at risk of being requested to gather data or perform analysis in support of federal initiatives related to the ARRA, climate change, or renewable energy initiatives. NERC and the regions are not funded for such initiatives and any unfunded mandates may impact cash reserves.
- There will be a startup planning effort in 2010 to begin the demand response data collection initiative and probabilistic risk assessment data in 2011.
- Some regions continue to experience a shift of work effort from stakeholders to staff in developing reliability assessments.
- NERC will develop an analysis of Transmission Availability Database Systems data in 2010; some regions may develop regional analysis.

WECC-Specific Assumptions/Uncertainties

- Impact of the ARRA on regional planning process and studies.
- Renewable integration reliability impacts.
- Impact of potential carbon reduction legislation.

2010 Goals and Key Deliverables

The planning objectives described in the WECC Five-Year Strategic Plan are a major focus for the WECC Reliability Assessment and Performance function. These integrated planning efforts will enhance WECC's overall ability to participate in, and respond to, the major planning and public policy issues emerging both in the Western Interconnection and nationally; including its response to the ARRA.

a) Implement Regional Policy Facilitation:

- Ensure the regional interests of WECC members are represented in policy discussions related to electric system reliability.
- Provide decision support for energy policy at the regional and national level.

b) Transmission Expansion Planning Policy Committee (TEPPC)

- Obtain TEPPC and Board approval of the 2009 Annual Report.
- Develop and execute the expanded 2010 TEPPC Transmission Plan(s) for the Western Interconnection, pursuant to expected Department of Energy (DOE) funding under the ARRA.
- Ensure data and activities are coordinated with resource adequacy and technical study activities.

c) Planning Coordination Committee (PCC)

- Improve processing and managing the evolving filing obligations from NERC:
 - Ensure base-case data is reconciled with TEPPC information
 - Ensure Resource Adequacy data is reconciled with TEPPC information
 - Coordinate the NERC Long-term Reliability Assessment and Power Supply Assessment data and narratives
 - Evaluate the West-wide System Model and Study Review Workgroup proposals
- Evaluate the consolidation of resource adequacy analysis products.

d) Joint Guidance Committee (JGC) and Variable Generation Subcommittee (VGS)

- Provide a central point for the collection and dissemination of information on renewable integration activities in the Western Interconnection.
- Coordinate renewable energy-related activities across all aspects of WECC.

The American Recovery and Reinvestment Act (ARRA)

The ARRA directs the DOE to facilitate the development of interconnection-based transmission plans for the Eastern and Western Interconnections, and ERCOT. As part of this process, the DOE will issue a competitive Funding Opportunity Announcement (FOA).

WECC intends to respond to this FOA for the purpose of enhancing transmission planning activities in the Western Interconnection. WECC's strong track record of credible interconnection-wide planning coupled with its established governance and stakeholder structure will enable it to deliver the funding request and perform the subsequent planning initiatives efficiently and effectively.

Funding Requirements — Explanation of Increase (Decrease)

Total Direct Expenses and Fixed Costs for WECC's RAPA function increase by approximately \$427,000 in 2010. The majority of the increase is associated with two additional FTEs. These positions were established to reflect the increased urgency of dealing with higher penetrations of variable resources and the need to better integrate various planning and resource assessment functions within WECC.

WECC anticipates that any incremental activity associated with the increased interconnection-wide planning efforts described in the ARRA will be funded by a DOE grant to WECC/TEPPC. Consequently, this expansion in scope does not change the 2010 Reliability Assessment and Performance Analysis budget.

In 2010, ERO Funding requirements increase because of the Indirect Expense allocation as discussed in "Changes in Accounting Methodology" on page 8.

Reliability Assessment and Performance Analysis Program

Funding sources and related expenses for the Reliability Assessment and Performance Analysis section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Reliability Assessment and Performance Analysis					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 2,656,981	\$ 2,656,981	\$ -	\$ 4,516,408	\$ 1,859,427
Penalty Sanctions					
Total ERO Funding	\$ 2,656,981	\$ 2,656,981	\$ -	\$ 4,516,408	\$ 1,859,427
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	85,082	85,082	-	-	(85,082)
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	50,000	50,000
Total Funding	\$ 2,742,063	\$ 2,742,063	\$ -	\$ 4,566,408	\$ 1,824,345
Expenses					
Personnel Expenses					
Salaries	\$ 1,094,310	\$ 1,094,310	\$ -	\$ 1,437,722	\$ 343,412
Payroll Taxes	-	88,727	88,727	123,686	123,686
Benefits	81,045	223,305	142,260	178,508	97,463
Retirement Costs	-	76,602	76,602	96,200	96,200
Total Personnel Expenses	\$ 1,175,355	\$ 1,482,944	\$ 307,589	\$ 1,836,117	\$ 660,762
Meeting Expenses					
Meetings	\$ 135,450	\$ 135,450	\$ -	\$ 92,000	\$ (43,450)
Travel	119,330	119,330	-	104,000	(15,330)
Conference Calls	32,000	32,000	-	28,320	(3,680)
Total Meeting Expenses	\$ 286,780	\$ 286,780	\$ -	\$ 224,320	\$ (62,460)
Operating Expenses					
Consultants & Contracts	\$ 977,568	\$ 977,568	\$ -	\$ 602,000	\$ (375,568)
Office Rent	-	-	-	-	-
Office Costs	252,360	252,360	-	420,000	167,640
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	5,000	5,000	-	-
Total Operating Expenses	\$ 1,229,928	\$ 1,234,928	\$ 5,000	\$ 1,022,000	\$ (207,928)
Total Direct Expenses	\$ 2,692,063	\$ 3,004,652	\$ 312,589	\$ 3,082,437	\$ 390,374
Indirect Expenses					
				\$ 1,355,905	\$ 1,355,905
Other Non-Operating Expenses					
	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 2,692,063	\$ 3,004,652	\$ 312,589	\$ 4,438,342	\$ 1,746,279
Change in Assets	\$ 50,000	\$ (262,589)	\$ (312,589)	\$ 128,066	\$ 78,066
Fixed Assets					
Depreciation	\$ -	\$ (5,000)	\$ (5,000)	\$ -	\$ -
Computer & Software CapEx	50,000	50,000	-	86,500	36,500
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (50,000)	\$ (45,000)	\$ 5,000	\$ (86,500)	\$ (36,500)
Allocation of Fixed Assets				\$ (41,566)	\$ (41,566)
Change in Fixed Assets	(50,000)	(45,000)	5,000	(128,066)	(78,066)
TOTAL CHANGE IN ASSETS	\$ -	\$ (307,589)	\$ (307,589)	\$ 0	\$ 0

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Statutory funding.
- In 2010, NERC and the Regional Entities agreed that assessments should not be allocated to the Indirect Program Areas. All indirect costs are allocated to the Statutory Programs and all assessments are allocated to Statutory Program Areas except increases to reserves, which are accounted for in General and Administrative.
- Other Miscellaneous decreases by \$35,000 in 2010 because one sub-contract expires in 2009 and a new grant from the Lawrence Berkeley National Laboratory is anticipated in 2010.

Personnel Expenses

- Payroll Taxes, Benefits, and Retirement Costs for the entire company were budgeted in General and Administrative in 2009, but are appropriately reflected in each Program Area in 2010, which is the reason for the \$317,000 increase in these three categories of Personnel Expenses.
- Salaries increase by \$343,000 in 2010 partly due to the addition of two FTEs, merit increases of three percent, and market adjustments.

Meeting Expenses

- Total Meeting and Travel Expenses for 2010 reduce by \$62,000 primarily due to use of member conference facilities when available (rather than hotel facilities), and to reductions in travel based on 2008 actual results.

Operating Expenses

- Consulting expenses for 2010 decrease by about \$376,000 based on actual 2008 results, the elimination of potential consulting projects, and the reassignment of certain expenses to appropriate budget items (computer license and service accounts).
- Office Costs increase by \$168,000 in 2010 due to the reclassification of computer license and service expenses, which were budgeted in Contracts and Consultants in 2009.

Indirect Expenses

- See “Changes in Accounting Methodology” on page 8.

Other Non-Operating Expenses

- Not applicable.

Fixed Asset Additions

- See “Changes in Accounting Methodology” on page 8.
- Computer and Software costs increase by \$37,000 mainly due to the Wide Area Network Project.

Situational Awareness and Infrastructure Security Program

Situational Awareness and Infrastructure Security Program Resources			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	54	60.3	6.3
Total Direct Expenses	\$14,071,679	\$13,957,707	(\$113,972)
Total Indirect Expenses	\$7,057,342	\$4,290,818	(\$2,766,524)
Inc(Dec) in Fixed Assets	\$72,000	\$679,653	\$607,653
Total Expenses & Fixed Assets	\$21,201,021	\$18,928,178	(\$2,272,843)

Program Scope and Functional Description

In 2006, the WECC Board approved the RCSI, which was designed to make reliability coordination in the Western Interconnection more effective and efficient. The initiative included consolidation of the Reliability Coordination Offices (RCO) from three to two, increasing real-time Reliability Coordinator staffing, developing a comprehensive model of the Western Interconnection (the West-wide System Model (WSM)), and increasing the independence of the Reliability Coordinators. The two new RCOs, located in Vancouver, Washington and Loveland Colorado, serve as “hot” backup for each other. WECC was certified by NERC to provide the reliability coordination function for the Western Interconnection prior to going live on January 1, 2009.

The WSM provides a common view of the entire Western Interconnection to WECC’s Reliability Coordinators. Going forward, the WSM is the platform on which advanced applications and common tools will be built. Through the use of these tools, real-time contingency analysis and other studies can be performed. The WSM was completed prior to November 1, 2008 and underwent validation by the WECC Reliability Coordinators during parallel operations, prior to the opening of the new WECC RCOs.

2010 Key Assumptions

General Assumptions

- NERC and each region will independently evaluate its needs for a situational awareness tool to supplement or mirror the FERC tool, and will each fund its own work. The FERC situational awareness tool will continue to be developed in 2010 to meet NERC, Regional Entity, and stakeholder needs. Reliability coordinators will bear the cost of providing systems and information to meet FERC requirements.
- The synchro-phasor project will not impact Regional Entity budgets in 2010. Any change to this will result in a budget variance.

WECC-Specific Assumptions

- WECC will pay off the remaining loan and interest balance associated with the acceleration of the RCSI.
- Standards will be more rigidly defined increasing the number of standards that require compliance by Reliability Coordinators.
- The regulatory landscape will continue to change, adding more requirements to be monitored by the Reliability Coordination function.

2010 Goals and Key Deliverables

- Provide proactive response to conditions on the BES to assure the safe and reliable operation of the Western Interconnection.
- Work (through WECC’s Reliability Coordination function) to expand its number of situational awareness displays available to NERC, FERC, and the WECC membership through the expansion of the Situation Awareness for FERC, NERC, and the Regions (SAFNR) project.

Funding Requirements — Explanation of Increase (Decrease)

Personnel costs in 2010 increase as a consequence of the 6.3 additional FTEs¹⁹ needed to maintain full compliance with the requirements of the mandatory reliability standards.

A major factor in the reduction of office costs in 2010 (\$1.3 million) is a result of improved procurement procedures relating to data communications.

In 2010, ERO Funding requirements increase because of the Indirect Expense allocation as discussed in “Changes in Accounting Methodology” on page 8.

The following table shows the total resources budgeted for CIP included in Situational Awareness and Infrastructure Security.

Critical Infrastructure Protection Resources			
(Included in Total Situational Awareness and Infrastructure Security)			
<i>(in whole dollars)</i>			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	0	1	1
Total Direct Expenses	\$0	\$137,718	\$137,718
Total Indirect Expenses	\$0	\$71,158	\$71,158
Total Expenses	\$0	\$208,876	\$208,876

Funding Requirements — Explanation of Increase (Decrease)

To meet controls and objectives of standards CIP-002 through CIP-009 WECC created the position of WECC RC CIP Engineer.

¹⁹ 0.7 FTEs allocated to the Information Technology Department

Situational Awareness and Infrastructure Security Program

Funding sources and related expenses for the Situational Awareness and Infrastructure Security section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Situational Awareness and Infrastructure Security					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 14,143,679	\$ 14,143,679	\$ -	\$ 18,928,178	\$ 4,784,499
Penalty Sanctions			\$ -		
Total ERO Funding	\$ 14,143,679	\$ 14,143,679	\$ -	\$ 18,928,178	\$ 4,784,499
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 14,143,679	\$ 14,143,679	\$ -	\$ 18,928,178	\$ 4,784,499
Expenses					
Personnel Expenses					
Salaries	\$ 6,390,937	\$ 6,390,937	\$ -	\$ 6,969,837	\$ 578,900
Payroll Taxes	-	518,186	518,186	627,285	627,285
Benefits	327,671	1,158,493	830,822	777,289	449,618
Retirement Costs	-	447,366	447,366	487,889	487,889
Total Personnel Expenses	\$ 6,718,608	\$ 8,514,982	\$ 1,796,374	\$ 8,862,300	\$ 2,143,692
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	96,000	96,000	-	216,000	120,000
Conference Calls	4,800	4,800	-	10,000	5,200
Total Meeting Expenses	\$ 100,800	\$ 100,800	\$ -	\$ 226,000	\$ 125,200
Operating Expenses					
Consultants & Contracts	\$ 528,000	\$ 528,000	\$ -	\$ 118,000	\$ (410,000)
Office Rent	479,568	479,568	-	596,000	116,432
Office Costs	2,448,640	2,448,640	-	1,174,200	(1,274,440)
Professional Services	540,000	540,000	-	15,000	(525,000)
Miscellaneous	-	-	-	-	-
Depreciation	-	7,000	7,000	-	-
Total Operating Expenses	\$ 3,996,208	\$ 4,003,208	\$ 7,000	\$ 1,903,200	\$ (2,093,008)
Total Direct Expenses	\$ 10,815,616	\$ 12,618,990	\$ 1,803,374	\$ 10,991,500	\$ 175,884
Indirect Expenses				\$ 4,290,818	\$ 4,290,818
Other Non-Operating Expenses	\$ 3,256,063	\$ 3,256,063	\$ -	\$ 2,966,207	\$ (289,856)
Total Expenses	\$ 14,071,679	\$ 15,875,053	\$ 1,803,374	\$ 18,248,525	\$ 4,176,846
Change in Assets	\$ 72,000	\$ (1,731,374)	\$ (1,803,374)	\$ 679,653	\$ 607,653
Fixed Assets					
Depreciation	\$ -	\$ (7,000)	\$ (7,000)	\$ -	\$ -
Computer & Software CapEx	72,000	72,000	-	523,000	451,000
Furniture & Fixtures CapEx			-	-	-
Equipment CapEx			-	-	-
Leasehold Improvements			-	-	-
(Incr)Dec in Fixed Assets	\$ (72,000)	\$ (65,000)	\$ 7,000	\$ (523,000)	\$ (451,000)
Allocation of Fixed Assets				\$ (156,653)	\$ (156,653)
Change in Fixed Assets	(72,000)	(65,000)	7,000	(679,653)	(607,653)
TOTAL CHANGE IN ASSETS	\$ -	\$ (1,796,374)	\$ (1,796,374)	\$ 0	\$ 0

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Statutory funding.
- In 2010, NERC and the Regional Entities agreed that assessments should not be allocated to the Indirect Program Areas. All indirect costs are allocated to the Statutory Programs and all assessments are allocated to Statutory Program Areas except increases to reserves, which are accounted for in General and Administrative.

Personnel Expenses

- Payroll Taxes, Benefits, and Retirement Costs for the entire company were budgeted in General and Administrative in 2009, but are appropriately reflected in each Program Area in 2010, which is the reason for the \$1.56 million increase in these three categories of Personnel Expenses.
- Salary costs increase by \$579,000 in 2010 due to a net increase of 6.3 FTEs.

Meeting Expenses

- Travel Expenses increase by \$120,000. This increase is directly related to the increase headcount and associated travel requirements.

Operating Expenses

- The decrease of \$410,000 in Consultants and Contracts is primarily related to a reclassification of Software to Fixed Assets in 2010.
- Office Rent increases by \$116,000, of which \$42,000 relates to utilities and security which were not budgeted for at the appropriate level in 2009. The remaining \$74,000 increase is related to rent escalation clauses. When the 2009 budget was prepared, the lease agreements had not been signed, so the office rent incorporated in the budget was an estimate.
- Office Costs decrease by \$1.27 million mainly due to improved procurement procedures related to data communications, which resulted in more favorable pricing than anticipated
- Professional Services decrease by \$525,000 due to termination of the RCO liability policy.

Indirect Expenses

- See “Changes in Accounting Methodology” on page 8.

Other Non-Operating Expenses

- Interest Expense decreases by \$290,000 due to a lower floating rate on WECC’s current line of credit, which reflects the state of the current economic environment. WECC’s line of credit is scheduled to be paid in full by March 1, 2010. Therefore, only two months of Interest Expense is budgeted in 2010, see Table B-8.

Fixed Asset Additions

- See “Changes in Accounting Methodology” on page 8.
- Computer and Software Capital Expenditures increase by \$451,000. This is primarily due to a reclassification of Software out of Contracts and into Fixed Assets.

Administrative Services

Administrative Services			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	32.5	39.7	7.2
Total Direct Expenses	\$13,049,338	\$10,445,763	(\$2,603,575)

Program Scope and Functional Description

WECC’s Administrative Services consist of Technical Committees and Members’ Forums, General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Finance and Accounting. The budgets for these programs are addressed in the subsequent sections of the Business Plan and Budget.

Technical Committees and Members’ Forums

Program Scope and Functional Description

WECC is governed by a 32-member Board, 25 of which represent member classes. The remaining seven directors are not affiliated with any WECC member or potential member. These Non-affiliated Directors are compensated for their time on the Board and on Board Committees.

Nine Board committees recommend policy on various reliability issues or handle governance, finance, and human resource matters. They are:

- *Operating Transfer Capability Policy Committee* – the OTCPC provides coordinated standards development and determination of System Operating Limits within the Western Interconnection.
- *Transmission Expansion Planning Policy Committee* – TEPPC oversees database management, provides policy and management of the planning process, and guides the analyses and modeling for the Western Interconnection’s transmission expansion planning. TEPPC expenses are accounted for in the Reliability Assessment and Performance Analysis Budget.
- *Governance and Nominating Committee* – the GNC nominates Board candidates and recommends Bylaws and other governance changes.
- *Human Resources and Compensation Committee* – the HRCC oversees human resources and WECC employee compensation.
- *Reliability Policy Issues Committee* – the RPIC reviews policy-level reliability issues and develops appropriate recommendations for Board consideration.

- *Reliability Management System Reliability Compliance Committee* – the RMSRCC ensures compliance with standards under the WECC Reliability Management System. The committee’s responsibilities for the United States have largely been superseded by the WECC CMEP. It is anticipated that this committee will be dissolved during 2010.
- *Finance and Audit Committee* – the FAC develops and recommends budgets, and assists the Board in maintaining the integrity of WECC’s financial reporting.
- *Reliability Coordination Committee* – the RCC provides advice concerning Reliability Coordination operations, personnel, and budget to the WECC Board and to the WECC CEO.
- *WECC Compliance Committee* – the WCC was formed in April 2009. Its role is to provide the WECC Board with oversight of the WECC Compliance function under the delegation agreement from NERC provide a forum for communication between the compliance function and the WECC Board.

Standing Committees

The Joint Guidance Committee – the JGC ensures that the Standing Committees (described below) and associated subcommittees coordinate and communicate regarding electric system reliability and market issues.

- *Operating Committee* – the OC advises and makes recommendations to the Board on all WECC-related matters that apply to maintaining reliability through the operation and security of the interconnected BES in the Western Region. The OC has seven subcommittees and 18 work groups
- *Planning Coordination Committee* – the PCC recommends criteria for determining the adequacy of power supply and for elements of system design that affect the reliability of the interconnected BES in the Western Region. The PCC collects data and studies the operation of the interconnected systems necessary to determine the reliability of the interconnected BES. The PCC evaluates proposed facility additions or modifications based on established reliability criteria. PCC expenses are accounted for in the Reliability Assessment and Performance Analysis Budget. The PCC has four subcommittees.
- *Market Interface Committee* – the MIC considers matters pertaining to the impact of reliability standards, practices, and procedures on the commercial electricity market in the Western Interconnection, and facilitates analysis of the impact of electricity market practices on electric system reliability. The MIC has two subcommittees.

2010 Key Assumptions

- Economic downturn may impact in-person attendance and increase remote participation via Webinar and Conference Calls.

2010 Goals and Key Deliverables

- Assist the committees in meeting their charters and achieving their goals by providing studies, expert advice, and perspective on matters pertaining to the BES in the Western Interconnection. This will be achieved by providing subject matter experts in areas such as planning, system operations, Reliability Coordination, and market interface.
- Continue to provide logistics support for meetings and required postings.

Funding Requirements — Explanation of Increase (Decrease)

Direct Expenses and Fixed Assets increase by \$239,000, primarily due to a net increase of 1.5 FTEs. This net increase is a result of:

- Two FTEs transferring into Technical Committees because of the termination of the Readiness Evaluation Program.
- One FTE moving from Technical Committees into Reliability Assessment and Performance Analysis where the position is more appropriately classified.
- The addition of 0.5 FTE, recruited to support the Market Interface Committee due to increased activities in the Market Issues Subcommittee and Seams Issues Subcommittee, and the North American Energy Standards Board.

In anticipation of the economic downturn impacting in-person attendance, the budget reflects an increase in expenses related to remote attendance such as Webinars and conference calls, particularly at the subcommittee level.

In 2010, ERO Funding requirements decrease because of the Indirect Expenses allocation as discussed in “Changes in Accounting Methodology” on page 8.

Technical Committees and Members' Forums

Funding sources and related expenses for the Technical Committees and Members' Forums section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Technical Committees and Members' Forums					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 2,615,670	\$ 2,832,070	\$ 216,400	\$ -	\$ (2,615,670)
Penalty Sanctions					
Total ERO Funding	\$ 2,615,670	\$ 2,832,070	\$ 216,400	\$ -	\$ (2,615,670)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 2,615,670	\$ 2,832,070	\$ 216,400	\$ -	\$ (2,615,670)
Expenses					
Personnel Expenses					
Salaries	\$ 607,094	\$ 769,094	\$ 162,000	\$ 738,970	\$ 131,876
Payroll Taxes	-	62,358	62,358	66,507	66,507
Benefits	19,400	119,382	99,982	84,655	65,255
Retirement Costs	-	53,837	53,837	51,728	51,728
Total Personnel Expenses	\$ 626,494	\$ 1,004,671	\$ 378,177	\$ 941,861	\$ 315,367
Meeting Expenses					
Meetings	\$ 406,000	\$ 406,000	\$ -	\$ 372,700	\$ (33,300)
Travel	241,756	241,756	-	253,500	11,744
Conference Calls	24,440	24,440	-	30,900	6,460
Total Meeting Expenses	\$ 672,196	\$ 672,196	\$ -	\$ 657,100	\$ (15,096)
Operating Expenses					
Consultants & Contracts	\$ 774,000	\$ 774,000	\$ -	\$ 40,000	\$ (734,000)
Office Rent	-	-	-	-	-
Office Costs	117,880	117,880	-	696,100	578,220
Professional Services	425,100	425,100	-	395,000	(30,100)
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 1,316,980	\$ 1,316,980	\$ -	\$ 1,131,100	\$ (185,880)
Total Direct Expenses	\$ 2,615,670	\$ 2,993,847	\$ 378,177	\$ 2,730,061	\$ 114,391
Indirect Expenses				\$ (2,730,061)	\$ (2,730,061)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 2,615,670	\$ 2,993,847	\$ 378,177	\$ -	\$ (2,615,670)
Change in Assets	\$ -	\$ (161,777)	\$ (161,777)	\$ -	\$ -
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx				125,000	125,000
Furniture & Fixtures CapEx					-
Equipment CapEx					-
Leasehold Improvements					-
(Incr)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ (125,000)	\$ (125,000)
Allocation of Fixed Assets				125,000	125,000
Change in Fixed Assets	-	-	-	-	-
TOTAL CHANGE IN ASSETS	\$ -	\$ (161,777)	\$ (161,777)	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, NERC and the Regional Entities agreed that assessments should not be allocated to the Indirect Program Areas. All indirect costs are allocated to the Statutory Programs and all assessments are allocated to Statutory Program Areas except for increases to reserves which are accounted for in General and Administrative.

Personnel Expenses

- Salaries increase by \$132,000 due to a net increase of 1.5 FTEs and average salary merit increases of three percent.
- Payroll Taxes, Benefits, and Retirement Costs were budgeted in General and Administrative in 2009, but are appropriately reflected in each Program Area in 2010 which is the reason for the \$183,000 increase in these three categories of Personnel Expenses.

Meeting Expenses

- Meeting costs decrease by \$33,000 in 2010 as WECC committees anticipate using more Webinars, conference calls and holding fewer in-person meetings.

Operating Expenses

- Consultants and Contracts decrease by \$734,000 due to reclassifications for more meaningful presentation. Software license fees were classified as Contracts in 2009, but are more appropriately classified as Office Costs in 2010, which represents an approximate \$565,000 difference in each category. Additionally, \$150,000 of software was classified as Contracts in 2009, but in 2010, software purchases of \$125,000 are more appropriately classified as Fixed Assets. Consulting decreases by \$20,000 because WECC will utilize staff as opposed to outside contractors for various projects in an effort to reduce costs.

Indirect Expenses

- See “Changes in Accounting Methodology” on page 8.

Other Non-Operating Expenses

- Not applicable.

Fixed Asset Additions

- See “Changes in Accounting Methodology” on page 8.
- In 2009, \$150,000 of software was classified as Contracts, but in 2010, software purchases of \$125,000 are more appropriately classified as Fixed Assets.

General and Administrative

Program Scope and Functional Description

The purpose of the General and Administrative Program Area is to provide executive leadership to WECC, and to provide communications and administrative support for WECC staff, committees, and members. Additionally, indirect costs that benefit multiple Program Areas (i.e., office rent) are accounted for in this area.

2010 Key Assumptions

- Interest and investment income is not budgeted in 2010, due to the uncertainty and volatility of the financial markets.
- Increased staffing levels will require additional office space.
- Salary increases and pools for market adjustments and promotions are lower in 2010 due to the state of the economic environment.
- Benefits and other salary-related expenses should be accounted for in an employee's home department.

2010 Goals and Key Deliverables

- Provide executive leadership and strategic guidance for the activities undertaken by WECC.
- Increase the professionalism of WECC work products.
- Improve the quality and efficiency of support provided to staff and members.

Funding Requirements — Explanation of Increase (Decrease)

For the 2010 budget cycle, NERC and the Regional Entities have modified how assessments will be allocated across Program Areas. Assessments will only be allocated across the statutory Program Areas and the only assessment to be included in General and Administrative is a \$1 million increase in reserves. The total expenses of General and Administrative, as well as all Administrative Services areas, are allocated to the statutory functions based on FTEs.

WECC changed its method of accounting for salary-related expenses in 2010 to increase consistency with other Regional Entities. In 2010, all expenses related to an FTE's salary are accounted for in the FTE's Program Area, whereas in 2009, most salary-related expenses were accounted for in General and Administrative.

Increased staffing levels as described in each functional area require additional office space over and above the square footage currently being leased, in addition to general office costs. In 2010, all Office Rent, with the exception of the RCOs, is included in General and Administrative to increase consistency with other regions. In 2009, some Office Rent was budgeted to Compliance.

In 2010, ERO Funding requirements decrease because of the Indirect Expenses allocation as discussed in "Changes in Accounting Methodology" on page 8.

General and Administrative

Funding sources and related expenses for the General and Administrative section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
General and Administrative					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 8,501,713	\$ 8,501,713	\$ -	\$ 1,000,000	\$ (7,501,713)
Penalty Sanctions					
Total ERO Funding	<u>\$ 8,501,713</u>	<u>\$ 8,501,713</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ (7,501,713)</u>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	645,593	300,000	(345,593)	-	(645,593)
Miscellaneous	9,300	9,300	-	11,000	1,700
Total Funding	<u>\$ 9,156,606</u>	<u>\$ 8,811,013</u>	<u>\$ (345,593)</u>	<u>\$ 1,011,000</u>	<u>\$ (8,145,606)</u>
Expenses					
Personnel Expenses					
Salaries	\$ 2,179,735	\$ 2,179,735	\$ -	\$ 1,701,761	\$ (477,974)
Payroll Taxes	1,270,888	176,733	(1,094,155)	118,058	(1,152,830)
Benefits	2,518,602	608,366	(1,910,236)	778,033	(1,740,569)
Retirement Costs	1,146,404	152,581	(993,823)	113,003	(1,033,401)
Total Personnel Expenses	<u>\$ 7,115,629</u>	<u>\$ 3,117,415</u>	<u>\$ (3,998,214)</u>	<u>\$ 2,710,856</u>	<u>\$ (4,404,773)</u>
Meeting Expenses					
Meetings	\$ 5,000	\$ 5,000	\$ -	\$ 15,000	\$ 10,000
Travel	293,100	293,100	-	313,100	20,000
Conference Calls	6,000	6,000	-	6,000	-
Total Meeting Expenses	<u>\$ 304,100</u>	<u>\$ 304,100</u>	<u>\$ -</u>	<u>\$ 334,100</u>	<u>\$ 30,000</u>
Operating Expenses					
Consultants & Contracts	\$ 22,000	\$ 222,000	\$ 200,000	\$ 32,000	\$ 10,000
Office Rent	360,000	360,000	-	985,000	625,000
Office Costs	274,378	274,378	-	269,675	(4,703)
Professional Services	80,500	80,500	-	95,000	14,500
Miscellaneous	-	100,000	100,000	(72,000)	(72,000)
Depreciation	-	2,171,000	2,171,000	-	-
Total Operating Expenses	<u>\$ 736,878</u>	<u>\$ 3,207,878</u>	<u>\$ 2,471,000</u>	<u>\$ 1,309,675</u>	<u>\$ 572,797</u>
Total Direct Expenses	<u>\$ 8,156,607</u>	<u>\$ 6,629,393</u>	<u>\$ (1,527,214)</u>	<u>\$ 4,354,631</u>	<u>\$ (3,801,976)</u>
Indirect Expenses				<u>\$ (4,343,631)</u>	<u>\$ (4,343,631)</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ 8,156,607</u>	<u>\$ 6,629,393</u>	<u>\$ (1,527,214)</u>	<u>\$ 11,000</u>	<u>\$ (8,145,607)</u>
Change in Assets	<u>\$ 1,000,000</u>	<u>\$ 2,181,620</u>	<u>\$ 1,181,621</u>	<u>\$ 1,000,000</u>	<u>\$ 0</u>
Fixed Assets					
Depreciation	\$ -	\$ (2,171,000)	\$ (2,171,000)	\$ -	\$ -
Computer & Software CapEx					
Furniture & Fixtures CapEx	-	-		-	-
Equipment CapEx					
Leasehold Improvements					
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ 2,171,000</u>	<u>\$ 2,171,000</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets				\$ -	\$ -
Change in Fixed Assets	<u>-</u>	<u>2,171,000</u>	<u>2,171,000</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN ASSETS	<u>\$ 1,000,000</u>	<u>\$ 4,352,620</u>	<u>\$ 3,352,621</u>	<u>\$ 1,000,000</u>	<u>\$ 0</u>

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- NERC and the Regional Entities agreed that in 2010, assessments should not be allocated to the Indirect Program Areas with one exception; increases to reserves. In 2010, WECC's budget reflects a \$1 million increase in reserves that is presented in General and Administrative.
- WECC is not budgeting for interest income in 2010 due to the instability and volatility of the financial markets.

Personnel Expenses

- Salary expenses decrease by \$478,000, mainly due to the reduction of WECC's salary pool which is used for bonuses, market adjustments, and other salary adjustments. The pool for all of WECC is budgeted in General and Administrative.
- Payroll Taxes, Benefits, and Retirement Costs for the entire company were budgeted in General and Administrative in 2009, but are appropriately reflected in each Program Area in 2010, which is the reason for the \$3.93 million decrease in these three categories of Personnel Expenses.

Meeting Expenses

- The year-on-year variances for Meeting and Travel Expenses are not material.

Operating Expenses

- WECC's budget for Office Rent in 2010 increases by \$625,000 due to a need for additional office space in its Vancouver, WA and Salt Lake City, UT offices. With the addition of staff in 2009 and 2010 and anticipated future FTE increases, WECC is currently searching for larger office space to move into at the end of the current lease terms. Price per square footage varies tremendously in the two cities where WECC currently leases space. Therefore, an estimated increase of approximately fifty-five percent was used for budgeting purposes. Also, \$138,000 of Office Rent was budgeted for the Compliance Department in 2009, but in 2010, all rent except for the RCOs is budgeted in General and Administrative to improve consistency with other regions.
- In 2010, Miscellaneous Expenses represent the allocation of Salaries and Office Costs to the non-statutory Program Area. In 2009, this allocation was included in Benefits. In 2010, WECC is presenting this allocation in Miscellaneous Expenses because it represents a variety of costs and not just salary-related expenses. The 2009 budget was \$169,000 and the 2010 budget is \$72,000. The amount decreases mainly because Payroll Taxes, Benefits, and Retirement Costs are being charged directly to the non-statutory areas in 2010.

Indirect Expenses

- See "Changes in Accounting Methodology" on page 8.

Other Non-Operating Expenses

- Not applicable.

Fixed Asset Additions

- Not applicable.

Legal and Regulatory

Program Scope and Functional Description

WECC's Legal Department provides coordinated legal services to the WECC Board, committees, and staff. In addition, the department provides consistent legal interpretations of relevant statutes, regulations, court opinions, and regulatory decisions. The Legal Department also develops specific subject matter expertise to further assist WECC with its legal needs. On occasion, major efforts may be outsourced to select law firms, but responsibility for all legal matters remains with the General Counsel and Legal Department.

WECC's international operations and broad scope of activities require significant legal support and review of activities. Arranging for legal support is complicated by the technical nature of this developing area of law and the high level of conflicts prohibiting the use of law firms with energy practices.

2010 Key Assumptions

- WECC will maintain current operations.
- Greater level of review from FERC and stakeholders.
- Changes to WECC's operating environment, such as unanticipated direction from FERC, NERC, or both (e.g., recent change in timing of CIP spot-checks).
- Impacts of the DOE master plan on Western Interconnection.
- NERC expectations in terms of the level reporting are clearly defined.

2010 Goals and Key Deliverables

- Provide efficient, cost effective legal support to the Board of Directors, committees, and staff through a combination of in-house and outside resources.
- Update and advise the Board and CEO on pending legal issues.
- Advise WECC departments on specific legal matters and general matters relating to WECC business.
- Provide legal support to the WECC Compliance Department and facilitate processing of potential and alleged violations.
- Represent WECC in legal and regulatory proceedings, including the NERC Audit of WECC as a Regional Entity.
- Review and advise WECC business units on draft agreements.
- Improve regulatory tracking for development of WECC regulatory policies.
- Centralize and maintain corporate records.
- Manage the legal budget.

Funding Requirements — Explanation of Increase (Decrease)

In 2010, Direct Expenses in Legal and Regulatory increase by \$713,000. WECC requires this increase to add an Executive Assistant, an Associate General Counsel, a Senior Legal Counsel, and a Legal Assistant. The Executive Assistant would support the General Counsel and Corporate Secretary, and maintain the corporate records and coordinate support for the GNC and

its Regulatory Subcommittee. The Associate General Counsel would oversee legal support for the WECC Compliance Department.

WECC is currently monitoring nearly 470 Registered Entities under the CMEP regulatory structure, which requires significant legal support for drafting, review, and negotiations. Senior Legal Counsel would provide experienced assistance in WECC legal matters. WECC's scope of activities and international issues requires senior-level support for complex legal matters. Current workload levels are expected to increase to coordinate the various legal and regulatory requirements of WECC. A Legal Assistant will aid in the organization of the Legal Department to avoid errors, and will speed processing on confidential matters.

Using in-house counsel provides three key benefits to WECC. First; in-house attorneys develop a working understanding of WECC issues and business needs. Second; in-house attorneys can fulfill a corporate compliance role, raising any serious issues to the CEO and the WECC Board for action. Third; in-house attorneys provide the best value for services. WECC will have two full-time attorneys and support staff who will gain specific experience of WECC matters and will act as gatekeepers to ensure corporate compliance for the equivalent of 1,284 hours of outside counsel support.

In 2010, ERO Funding requirements decrease because of the Indirect Expenses allocation as discussed in "Changes in Accounting Methodology" on page 8.

Legal and Regulatory

Funding sources and related expenses for the Legal and Regulatory section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Legal and Regulatory					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 852,208	\$ 852,208	\$ -	\$ -	\$ (852,208)
Penalty Sanctions					
Total ERO Funding	<u>\$ 852,208</u>	<u>\$ 852,208</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (852,208)</u>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ 852,208</u>	<u>\$ 852,208</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (852,208)</u>
Expenses					
Personnel Expenses					
Salaries	\$ 583,200	\$ 583,200	\$ -	\$ 858,707	\$ 275,507
Payroll Taxes	-	47,286	47,286	77,284	77,284
Benefits	-	75,816	75,816	100,640	100,640
Retirement Costs	-	40,824	40,824	60,109	60,109
Total Personnel Expenses	<u>\$ 583,200</u>	<u>\$ 747,126</u>	<u>\$ 163,926</u>	<u>\$ 1,096,740</u>	<u>\$ 513,540</u>
Meeting Expenses					
Meetings	\$ 3,000	\$ 3,000	\$ -	\$ 8,000	\$ 5,000
Travel	-	-	-	86,000	86,000
Conference Calls	-	-	-	10,000	10,000
Total Meeting Expenses	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ -</u>	<u>\$ 104,000</u>	<u>\$ 101,000</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	-	-	89,920	89,920
Professional Services	266,008	266,008	-	275,000	8,992
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ 266,008</u>	<u>\$ 266,008</u>	<u>\$ -</u>	<u>\$ 364,920</u>	<u>\$ 98,912</u>
Total Direct Expenses	<u>\$ 852,208</u>	<u>\$ 1,016,134</u>	<u>\$ 163,926</u>	<u>\$ 1,565,660</u>	<u>\$ 713,452</u>
Indirect Expenses				<u>\$ (1,565,660)</u>	<u>\$ (1,565,660)</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ 852,208</u>	<u>\$ 1,016,134</u>	<u>\$ 163,926</u>	<u>\$ -</u>	<u>\$ (852,208)</u>
Change in Assets	<u>\$ -</u>	<u>\$ (163,926)</u>	<u>\$ (163,926)</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx					
Furniture & Fixtures CapEx					
Equipment CapEx					
Leasehold Improvements					
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets				\$ -	\$ -
Change in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN ASSETS	<u>\$ -</u>	<u>\$ (163,926)</u>	<u>\$ (163,926)</u>	<u>\$ -</u>	<u>\$ -</u>

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, NERC and the Regional Entities agreed that assessments should not be allocated to the Indirect Program Areas. All indirect costs are allocated to the Statutory Programs and all assessments are allocated to Statutory Program Areas except for increases to reserves which are accounted for in General and Administrative.

Personnel Expenses

- Salary expense increases by \$276,000 as a result of four additional FTEs.
- Payroll Taxes, Benefits, Retirement Costs for the entire company were budgeted in General and Administrative in 2009, but are appropriately reflected in each Program Area in 2010, which is the reason for the \$238,000 increase in these three categories of Personnel Expenses.

Meeting Expenses

- Travel increases \$86,000 in 2010, mainly because no travel was budgeted in 2009 and there are eight FTEs incurring travel costs in 2010.

Operating Expenses

- Office Costs increase \$90,000 in 2010, primarily because Office Costs were not budgeted in 2009. Office Costs such as internet expense, software license fees, equipment rental, telephones, and computer supplies were all budgeted in General and Administrative in 2009, but in 2010 have been budgeted in Legal and Regulatory to improve consistency with other Regional Entities and to more appropriately reflect the costs of this Administrative Services area.

Indirect Expenses

- See “Changes in Accounting Methodology” on page 8.

Other Non-Operating Expenses

- Not applicable

Fixed Asset Additions

- Not applicable

Information Technology

Program Scope and Functional Description

WECC's Information Technology (IT) department provides systems support including: data, e-mail, telephone systems, and inter- and intra-Web site maintenance. In addition, IT includes small development projects and contracts with various service providers. It also includes a small staff to administer the IT infrastructure at WECC.

Two IT Network Engineers provide desk-side services and network administration to an increasing population of WECC employees, based in offices in three geographic locations. In addition, one Application Developer Engineer provides Web service support and application development.

2010 Key Assumptions

- Slowing growth of WECC staff and associated increase in IT support.
- Inclusion of IT processes, procedures, and security to comply with NERC "Agreed Upon Procedures."
- No increase in scale or scope that will require increase in IT headcount.

2010 Goals and Key Deliverables

- Deliver reliable and secure IT systems that support WECC's business needs.
- Establish a system development life-cycle process.
- Establish a requirements-based solution system that improves delivery of small development projects.

Funding Requirements — Explanation of Increase (Decrease)

In 2010 Direct Expenses increase by \$161,000 primarily due to the addition of 0.7 of an FTE and the change accounting methodology related to Payroll Taxes, Benefits, and Retirement Costs.

In 2010, ERO Funding requirements decrease because of the Indirect Expenses allocation as discussed in "Changes in Accounting Methodology" on page 8.

Information Technology

Funding sources and related expenses for the Information Technology section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Information Technology					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 1,005,207	\$ 1,005,207	\$ -	\$ -	\$ (1,005,207)
Penalty Sanctions					
Total ERO Funding	\$ 1,005,207	\$ 1,005,207	\$ -	\$ -	\$ (1,005,207)
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 1,005,207	\$ 1,005,207	\$ -	\$ -	\$ (1,005,207)
Expenses					
Personnel Expenses					
Salaries	\$ 208,467	\$ 208,467	\$ -	\$ 323,439	\$ 114,972
Payroll Taxes	-	16,903	16,903	29,110	29,110
Benefits	-	27,101	27,101	36,242	36,242
Retirement Costs	-	14,593	14,593	22,641	22,641
Total Personnel Expenses	\$ 208,467	\$ 267,063	\$ 58,596	\$ 411,432	\$ 202,965
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	-	-	-	-	-
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Expenses					
Consultants & Contracts	\$ 325,000	\$ 325,000	\$ -	\$ 30,000	\$ (295,000)
Office Rent	-	-	-	-	-
Office Costs	77,660	77,660	-	504,800	427,140
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	39,000	39,000	-	-
Total Operating Expenses	\$ 402,660	\$ 441,660	\$ 39,000	\$ 534,800	\$ 132,140
Total Direct Expenses	\$ 611,127	\$ 708,723	\$ 97,596	\$ 946,232	\$ 335,105
Indirect Expenses				\$ (946,232)	\$ (946,232)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 611,127	\$ 708,723	\$ 97,596	\$ -	\$ (611,127)
Change in Assets	\$ 394,080	\$ 296,484	\$ (97,596)	\$ -	\$ (394,080)
Fixed Assets					
Depreciation	\$ -	\$ (39,000)	\$ (39,000)	\$ -	\$ -
Computer & Software CapEx	394,080	394,080	-	220,000	(174,080)
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (394,080)	\$ (355,080)	\$ 39,000	\$ (220,000)	\$ 174,080
Allocation of Fixed Assets				\$ 220,000	\$ 220,000
Change in Fixed Assets	(394,080)	(355,080)	39,000	-	394,080
TOTAL CHANGE IN ASSETS	\$ -	\$ (58,596)	\$ (58,596)	\$ -	\$ -

Explanations of Variances – 2010 Budget versus 2009 Budget

As discussed previously, expenses in 2010 are anticipated to remain level with 2009.

Funding Sources

- In 2010, NERC and the Regional Entities agreed that assessments should not be allocated to the Indirect Program Areas. All indirect costs are allocated to the Statutory Programs and all assessments are allocated to Statutory Program Areas except for increases to reserves which are accounted for in General and Administrative.

Personnel Expenses

- Salaries increase \$115,000 in 2010 partly due to the allocation of 0.7 FTEs from Situational Awareness; these employees are shared employees.
- Payroll Taxes, Benefits, and Retirement Costs for the entire company were budgeted in General and Administrative in 2009, but are appropriately reflected in each Program Area in 2010, which is the reason for the \$88,000 increase in these three categories of Personnel Expenses.

Meeting Expenses

- Not applicable.

Operating Expenses

- Consultants and Contracts decrease in 2010 by \$295,000 due to reclassifications for more meaningful presentation. Software costs were classified as Contracts in 2009, but are more appropriately classified in 2010 as Fixed Assets.
- Office Costs such as internet expense, software license fees, equipment rental, telephones, and computer supplies were all budgeted in General and Administrative in 2009, but in 2010 have been budgeted in Information Technology to improve consistency with other Regional Entities and to more appropriately reflect the costs of this Administrative Services area.

Indirect Expenses

- See “Changes in Accounting Methodology” on page 8.

Other Non-Operating Expenses

- Not applicable.

Fixed Asset Additions

- See “Changes in Accounting Methodology” on page 8.
- In 2010, WECC is budgeting for fewer capital expenditures because most of the computer systems for the corporate offices have already been purchased.

Human Resources

Program Scope and Functional Description

The Human Resources (HR) department is comprised of three employees: a Director, a Generalist, and a Coordinator. The department is responsible for the delivery of all HR functions across the three WECC offices, including: recruitment, staffing, compensation, benefits, safety and health, employee relations, performance management, and employee training and development.

2010 Key Assumptions

- The pace of growth in headcount will continue during 2010 (add 33.5²⁰ additional employees in addition to replacing normal attrition), resulting in 177.5 employees by the end of 2010.
- Although many incumbent subject matter experts are nearing retirement age, the ongoing economic slump and associated decrease in 401 (k) and other investment values will encourage them to remain in the workforce longer.
- Intense competition for talent will continue (among the regions and utilities) resulting in upward pressure on salary and benefits expense. Retention of key staff will be a competing issue with managing the overall salary expense.
- Succession planning and employee development will become critical to ensuring that a skilled, qualified workforce remains.

2010 Goals and Key Deliverables

- Provide effective HR support to WECC management and employees by developing and implementing policies, procedures, and guidelines to ensure ongoing compliance with federal, state, and local employment laws.
- Attract, recruit, and hire an exceptional workforce to fill all vacancies. Focus on retention through performance management, developmental plans, and succession planning.
- Manage health and welfare benefits to deliver an attractive benefit package to employees while managing overall costs to the organization.
- Commission a salary survey for non-executive positions to ensure compensation is managed within approved philosophy.

Funding Requirements — Explanation of Increase (Decrease)

Direct Expenses increase by \$209,000 in 2010 as a result of expenses previously budgeted in the General and Administrative Program Area being reallocated to the HR Program Area.

In 2010, ERO Funding requirements decrease because of the Indirect Expenses allocation as discussed in “Changes in Accounting Methodology” on page 8.

²⁰ Includes non-statutory FTEs employed by the Western Renewable Energy Information System.

Human Resources

Funding sources and related expenses for the Human Resources section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Human Resources					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 264,600	\$ 264,600	\$ -	\$ -	\$ (264,600)
Penalty Sanctions					
Total ERO Funding	<u>\$ 264,600</u>	<u>\$ 264,600</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (264,600)</u>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ 264,600</u>	<u>\$ 264,600</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (264,600)</u>
Expenses					
Personnel Expenses					
Salaries	\$ 264,600	\$ 264,600	\$ -	\$ 295,883	\$ 31,283
Payroll Taxes	-	21,454	21,454	26,629	26,629
Benefits	-	34,398	34,398	36,866	36,866
Retirement Costs	-	18,522	18,522	20,712	20,712
Total Personnel Expenses	<u>\$ 264,600</u>	<u>\$ 338,974</u>	<u>\$ 74,374</u>	<u>\$ 380,090</u>	<u>\$ 115,490</u>
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	-	-	-	8,000	8,000
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,000</u>	<u>\$ 8,000</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ 10,000	\$ 10,000
Office Rent	-	-	-	-	-
Office Costs	-	-	-	75,730	75,730
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 85,730</u>	<u>\$ 85,730</u>
Total Direct Expenses	<u>\$ 264,600</u>	<u>\$ 338,974</u>	<u>\$ 74,374</u>	<u>\$ 473,820</u>	<u>\$ 209,220</u>
Indirect Expenses				<u>\$ (473,820)</u>	<u>\$ (473,820)</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ 264,600</u>	<u>\$ 338,974</u>	<u>\$ 74,374</u>	<u>\$ -</u>	<u>\$ (264,600)</u>
Change in Assets	<u>\$ -</u>	<u>\$ (74,374)</u>	<u>\$ (74,374)</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets				\$ -	\$ -
Change in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN ASSETS	<u>\$ -</u>	<u>\$ (74,374)</u>	<u>\$ (74,374)</u>	<u>\$ -</u>	<u>\$ -</u>

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, NERC and the Regional Entities agreed that assessments should not be allocated to the Indirect Program Areas. All indirect costs are allocated to the Statutory Programs and all assessments are allocated to Statutory Program Areas except for increases to reserves which are accounted for in General and Administrative.

Personnel Expenses

- Salaries increase \$31,000 in 2010 due to merit increases and market adjustments.
- Payroll Taxes, Benefits, and Retirement Costs for the entire company were budgeted in General and Administrative in 2009, but are appropriately reflected in each Program Area in 2010, which is the reason for the \$84,000 increase in these three categories of Personnel Expenses.

Meeting Expenses

- The year-on-year variance in Travel Expenses is not material.

Operating Expenses

- Office Costs such as internet expense, software license fees, equipment rental, telephones, and computer supplies were all budgeted in General and Administrative in 2009, but in 2010 have been budgeted in HR to improve consistency with other Regional Entities and to more appropriately reflect the costs of this Administrative Services area.

Indirect Expenses

- See “Changes in Accounting Methodology” on page 8.

Other Non-Operating Expenses

- Not applicable.

Fixed Asset Additions

- Not applicable.

Finance and Accounting

Program Scope and Functional Description

The Finance and Accounting function provides accounting, accounts payable, billing, accounts receivable, and budgeting support to WECC. This function also produces all financial reports and acts as a liaison with WECC's external financial statement auditors.

2010 Key Assumptions

- WECC will develop a budget to address the risks created by the uncertain operating environment.
- Improved accounting systems will increase staff efficiency.

2010 Goals and Key Deliverables

- Draft and implement financial policies.
- Improve financial reporting.
- Ensure employees are cross-trained to allow for backup for all financial duties.
- Increase the level of understanding by WECC Directors and staff of the WECC budgeting process and the actual costs of their departments.

Funding Requirements — Explanation of Increase (Decrease)

Direct Expenses increase by \$220,000 in 2010, mainly due to the move of one FTE from General and Administrative to Finance and Accounting. This position is focused solely on Finance and Accounting and belongs in this Program Area.

In 2009, the only costs budgeted in this area were Salaries. In 2010, WECC is appropriately budgeting for salary-related expenses and other expenses specifically related to Finance and Accounting in this Program Area.

In 2010, ERO Funding requirements decrease because of the Indirect Expenses allocation as discussed in "Changes in Accounting Methodology" on page 8.

Finance and Accounting

Funding sources and related expenses for the Finance and Accounting section of the 2010 business plan are shown in the table below.

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
Finance and Accounting					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 155,047	\$ 155,047	\$ -	\$ -	\$ (155,047)
Penalty Sanctions					
Total ERO Funding	<u>\$ 155,047</u>	<u>\$ 155,047</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (155,047)</u>
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	<u>\$ 155,047</u>	<u>\$ 155,047</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (155,047)</u>
Expenses					
Personnel Expenses					
Salaries	\$ 155,047	\$ 155,047	\$ -	\$ 263,735	\$ 108,688
Payroll Taxes	-	12,571	12,571	23,736	23,736
Benefits	-	20,156	20,156	33,406	33,406
Retirement Costs	-	10,853	10,853	18,461	18,461
Total Personnel Expenses	<u>\$ 155,047</u>	<u>\$ 198,628</u>	<u>\$ 43,581</u>	<u>\$ 339,339</u>	<u>\$ 184,292</u>
Meeting Expenses					
Meetings	\$ -	\$ -	\$ -	\$ -	\$ -
Travel	-	-	-	2,500	2,500
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,500</u>	<u>\$ 2,500</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	-	-	-	7,020	7,020
Professional Services	-	-	-	26,500	26,500
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,520</u>	<u>\$ 33,520</u>
Total Direct Expenses	<u>\$ 155,047</u>	<u>\$ 198,628</u>	<u>\$ 43,581</u>	<u>\$ 375,359</u>	<u>\$ 220,312</u>
Indirect Expenses				<u>\$ (375,359)</u>	<u>\$ (375,359)</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ 155,047</u>	<u>\$ 198,628</u>	<u>\$ 43,581</u>	<u>\$ -</u>	<u>\$ (155,047)</u>
Change in Assets	<u>\$ -</u>	<u>\$ (43,581)</u>	<u>\$ (43,581)</u>	<u>\$ -</u>	<u>\$ -</u>
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allocation of Fixed Assets				\$ -	\$ -
Change in Fixed Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CHANGE IN ASSETS	<u>\$ -</u>	<u>\$ (43,581)</u>	<u>\$ (43,581)</u>	<u>\$ -</u>	<u>\$ -</u>

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- In 2010, NERC and the Regional Entities agreed that assessments should not be allocated to the Indirect Program Areas. All indirect costs are allocated to the Statutory Programs and all assessments are allocated to Statutory Program Areas except for increases to reserves which are accounted for in General and Administrative.

Personnel Expenses

- Salaries increase by \$109,000 in 2010 as a consequence of one FTE moving from General and Administrative (where it was budgeted in 2009) to Finance and Accounting, merit increases, and market adjustments.
- Payroll Taxes, Benefits, and Retirement Costs for the entire company were budgeted in General and Administrative in 2009, but are appropriately reflected in each Program Area in 2010, which is the reason for the \$76,000 increase in these three categories of Personnel Expenses.

Meeting Expenses

- The year-on-year variance in Travel Expenses is not material.

Operating Expenses

- Professional Services increase \$26,000 in 2010 and consist of WECC's audit and tax fees, which were budgeted in General and Administrative in 2009 and are appropriately budgeted in Finance and Accounting for 2010.

Indirect Expenses

- See "Changes in Accounting Methodology" on page 8.

Other Non-Operating Expenses

- Not applicable.

Fixed Asset Additions

- Not applicable.

Section B — 2010 Budget

2009 Budget and Projection and 2010 Budget Comparisons

Table 1

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
STATUTORY					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ 37,088,502	\$ 37,088,502	\$ -	\$ 39,132,458	\$ 2,043,956
Penalty Sanctions ⁽¹⁾	-	-	-	-	-
Total ERO Funding	\$ 37,088,502	\$ 37,088,502	\$ -	\$ 39,132,458	\$ 2,043,956
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	85,082	85,082	-	-	(85,082)
Workshops	863,290	863,290	-	1,315,100	451,810
Interest	645,593	300,000	(345,593)	-	(645,593)
Miscellaneous	9,300	9,300	-	61,000	51,700
Total Funding	\$ 38,691,767	\$ 38,346,174	\$ (345,593)	\$ 40,508,558	\$ 1,816,790
Expenses					
Personnel Expenses					
Salaries	\$ 15,624,378	\$ 15,674,378	\$ 50,000	\$ 18,363,174	\$ 2,738,796
Payroll Taxes	1,270,888	1,245,071	(25,817)	1,588,319	317,431
Benefits	3,185,703	2,988,377	(197,326)	2,688,771	(496,932)
Retirement Costs	1,146,404	1,074,918	(71,486)	1,264,442	118,038
Total Personnel Expenses	\$ 21,227,373	\$ 20,982,744	\$ (244,629)	\$ 23,904,706	\$ 2,677,333
Meeting Expenses					
Meetings	\$ 1,187,650	\$ 1,187,650	\$ -	\$ 1,194,700	\$ 7,050
Travel	1,526,096	1,596,696	70,600	1,781,450	255,354
Conference Calls	151,076	151,076	-	138,480	(12,596)
Total Meeting Expenses	\$ 2,864,822	\$ 2,935,422	\$ 70,600	\$ 3,114,630	\$ 249,808
Operating Expenses					
Consultants & Contracts	\$ 3,923,868	\$ 4,148,868	\$ 225,000	\$ 2,397,500	\$ (1,526,368)
Office Rent	977,832	977,832	-	1,581,000	603,168
Office Costs	3,405,122	3,455,122	50,000	3,432,515	27,393
Professional Services	1,520,608	1,520,608	-	961,500	(559,108)
Miscellaneous	-	100,000	100,000	(72,000)	(72,000)
Depreciation	-	2,222,000	2,222,000	-	-
Total Operating Expenses	\$ 9,827,430	\$ 12,424,430	\$ 2,597,000	\$ 8,300,515	\$ (1,526,915)
Total Direct Expenses	\$ 33,919,625	\$ 36,342,595	\$ 2,422,971	\$ 35,319,851	\$ 1,400,226
Indirect Expenses	\$ -	\$ -	\$ -	\$ (0)	\$ (0)
Other Non-Operating Expenses	\$ 3,256,063	\$ 3,256,063	\$ -	\$ 2,966,207	\$ (289,856)
Total Expenses	\$ 37,175,688	\$ 39,598,658	\$ 2,422,971	\$ 38,286,058	\$ 1,110,370
Change in Assets	\$ 1,516,080	\$ (1,252,484)	\$ (2,768,564)	\$ 2,222,500	\$ 706,420
Fixed Assets					
Depreciation	\$ -	\$ (2,222,000)	\$ (2,222,000)	\$ -	\$ -
Computer & Software CapEx	516,080	516,080	-	1,222,500	706,420
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
Change in Fixed Assets	\$ (516,080)	\$ 1,705,920	\$ 2,222,000	\$ (1,222,500)	\$ (706,420)
Allocation of Fixed Assets	-	-	-	-	-
Change in Fixed Assets	(516,080)	1,705,920	2,222,000	(1,222,500)	(706,420)
TOTAL CHANGE IN ASSETS	\$ 1,000,000	\$ 453,436	\$ (546,564)	\$ 1,000,000	\$ 0

Personnel Analysis

FTEs are defined as full-time employees only. Fractional FTEs reflect part-time employees or partial allocation of headcount.

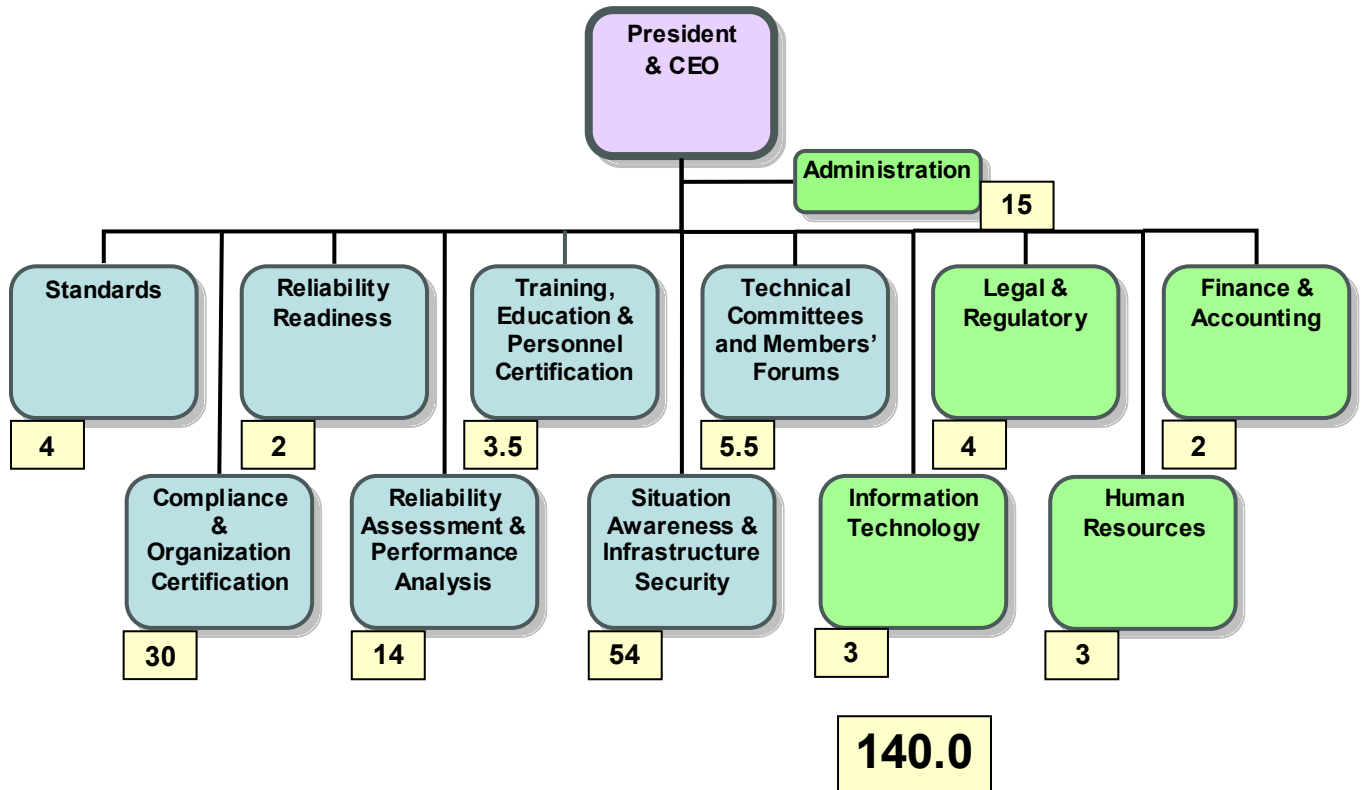
Table 2

Total FTE's by Program Area	Budget 2009	Projection 2009	Direct FTEs 2010 Budget	Shared FTEs ¹ 2010 Budget	Total FTEs 2010 Budget	Change from 2009 Budget
STATUTORY						
Operational Programs						
Reliability Standards	4.0	4.0	3.0	0.0	3.0	-1.0
Compliance and Organization Registration and Certification	30.0	30.0	50.0	0.0	50.0	20.0
Reliability Readiness Evaluation and Improvement	2.0	2.0	0.0	0.0	0.0	-2.0
Training and Education	3.5	3.5	3.5	0.0	3.5	0.0
Reliability Assessment and Performance Analysis	14.0	14.0	16.0	0.0	16.0	2.0
Situational Awareness and Infrastructure Security	54.0	54.0	60.3	0.0	60.3	6.3
Total FTEs Operational Programs	107.5	107.5	132.8	0.0	132.8	25.3
Administrative Programs						
Member Forums	5.5	5.5	7.0	0.0	7.0	1.5
General & Administrative	15.0	15.0	15.0	0.0	15.0	0.0
Information Technology	3.0	3.0	3.7	0.0	3.7	0.7
Legal and Regulatory	4.0	4.0	8.0	0.0	8.0	4.0
Human Resources	3.0	3.0	3.0	0.0	3.0	0.0
Accounting	2.0	2.0	3.0	0.0	3.0	1.0
Total FTEs Administrative Programs	32.5	32.5	39.7	0.0	39.7	7.2
Total FTEs	140.0	140.0	172.5	0.0	172.5	32.5

¹A shared FTE is defined as an employee who performs both Statutory and Non-Statutory functions.

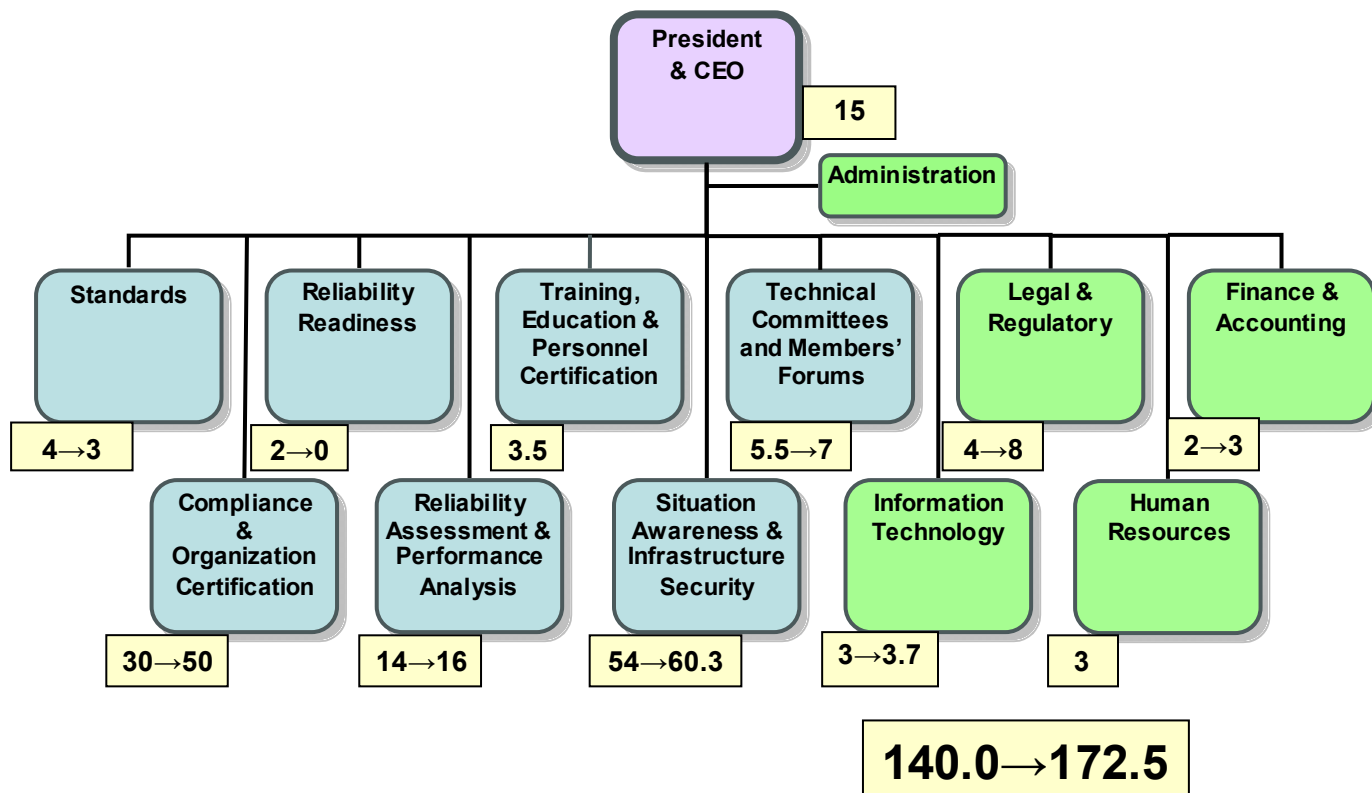
2009 Organizational Chart

Table 3



2010 Organizational Chart

Table 4



Reserve Balance

Table 5

Working Capital Reserve Analysis 2009-2010	
STATUTORY	
Beginning Working Capital Reserve (Deficit), December 31, 2008	124,036
Less: Penalty sanctions to be used to offset 2010 assessments ²	0
Plus: 2009 ERO Funding (from LSEs or designees)	37,088,502
Plus: 2009 Other funding sources	1,257,672
Less: 2009 Projected expenses & capital expenditures	(37,892,738)
Projected Working Capital Reserve (Deficit), December 31, 2009	577,472
Desired Working Capital Reserve, December 31, 2010	¹ 1,577,472
Less: Projected Working Capital Reserve, December 31, 2009	(577,472)
Increase (Decrease) in Assessments to Achieve Desired Working Capital Reserve	1,000,000
2010 Assessment for Expenses and Capital Expenditures	39,508,558
Less: Penalty Sanctions ²	0
Less: Other Funding Sources	(1,376,100)
Adjustment to achieve desired Working Capital Reserve	1,000,000
2010 Assessment	39,132,458

¹ The WECC Board of Directors approved this reserve level at the June 22, 2009 meeting. WECC is building reserves to a level suggested by its auditing firm; 3 months of expenses.

² Represents collections prior to June 30, 2009.

WECC Assessment Analysis

Assessments by Country

Table 6

Data Year	Balancing Authority	Total NEL	U.S. NEL	Canada NEL	Mexico NEL	% of RE Total	US Total	Canada Total	Mexico Total
2008	Alberta Electric System Operator	58,002,386		58,002,386		6.657%	0.000%	6.657%	0.000%
2008	Arizona Public Service Co.	33,000,358	33,000,358			3.787%	3.787%	0.000%	0.000%
2008	Avista Corp	12,593,228	12,593,228			1.445%	1.445%	0.000%	0.000%
2008	Bonneville Power Admin.	56,696,816	56,696,816			6.507%	6.507%	0.000%	0.000%
2008	British Columbia Transmission Corp.	62,892,493		62,892,493		7.218%	0.000%	7.218%	0.000%
2008	California ISO	239,781,969	239,781,969			27.519%	27.519%	0.000%	0.000%
2008	Comision Federal de Electricidad	11,063,018			11,063,018	1.270%	0.000%	0.000%	1.270%
2008	Duke - Arlington Valley	0	0			0.000%	0.000%	0.000%	0.000%
2008	El Paso Electric Company	7,669,160	7,669,160			0.880%	0.880%	0.000%	0.000%
2008	Gila River Maricopa Arizona	0	0			0.000%	0.000%	0.000%	0.000%
2008	Glacier Wind	0	0			0.000%	0.000%	0.000%	0.000%
2008	Harquahala Generator Maricopa Arizona	0	0			0.000%	0.000%	0.000%	0.000%
2008	Idaho Power Company	17,632,524	17,632,524			2.024%	2.024%	0.000%	0.000%
2008	Imperial Irrigation District	3,733,717	3,733,717			0.429%	0.429%	0.000%	0.000%
2008	LA Dept. of Water & Power	30,667,619	30,667,619			3.520%	3.520%	0.000%	0.000%
2008	NaturEner USA	0	0			0.000%	0.000%	0.000%	0.000%
2008	Nevada Power Company	25,164,524	25,164,524			2.888%	2.888%	0.000%	0.000%
2008	NorthWestern Energy	10,735,514	10,735,514			1.232%	1.232%	0.000%	0.000%
2008	PacifiCorp (PACE)	46,893,380	46,893,380			5.382%	5.382%	0.000%	0.000%
2008	PacifiCorp (PACW)	22,205,447	22,205,447			2.548%	2.548%	0.000%	0.000%
2008	Portland General Electric	21,760,766	21,760,766			2.497%	2.497%	0.000%	0.000%
2008	Public Service Co. of Colorado	42,143,602	42,143,602			4.837%	4.837%	0.000%	0.000%
2008	Public Service Co. of New Mexico	14,495,146	14,495,146			1.664%	1.664%	0.000%	0.000%
2008	PUD No. 1 of Chelan County	3,289,733	3,289,733			0.378%	0.378%	0.000%	0.000%
2008	PUD No. 1 of Douglas County	1,440,108	1,440,108			0.165%	0.165%	0.000%	0.000%
2008	PUD No. 2 of Grant County	3,670,729	3,670,729			0.421%	0.421%	0.000%	0.000%
2008	Puget Sound Energy	23,593,146	23,593,146			2.708%	2.708%	0.000%	0.000%
2008	Sacramento Municipal Utility District	17,973,764	17,973,764			2.063%	2.063%	0.000%	0.000%
2008	Salt River Project	31,906,203	31,906,203			3.662%	3.662%	0.000%	0.000%
2008	Seattle City Light	10,362,794	10,362,794			1.189%	1.189%	0.000%	0.000%
2008	Sierra Pacific Power Company	11,811,444	11,811,444			1.356%	1.356%	0.000%	0.000%
2008	Tacoma Power	5,293,256	5,293,256			0.607%	0.607%	0.000%	0.000%
2008	Tucson Electric Power Company	13,506,010	13,506,010			1.550%	1.550%	0.000%	0.000%
2008	Turlock Irrigation District	2,398,934	2,398,934			0.275%	0.275%	0.000%	0.000%
2008	Western Area Power Admin.-WACM	21,751,902	21,751,902			2.496%	2.496%	0.000%	0.000%
2008	Western Area Power Admin.-WALC	6,592,316	6,592,316			0.757%	0.757%	0.000%	0.000%
2008	Western Area Power Admin.-WAUM	623,001	623,001			0.071%	0.071%	0.000%	0.000%
TOTAL		871,345,007	739,387,110	120,894,879	11,063,018	100.00%	84.86%	13.88%	1.27%

WECC Assessments¹ \$ 39,132,458 \$ 33,469,113 \$ 5,162,566 \$ 500,779

¹ Calculation is consistent with NERC's allocation of certain Compliance and Enforcement costs per the 2009 budget filing (Docket No. RR08-6-000, filed August 22, 2008) and the WECC Board approved Allocation Methodology for Certain WECC Compliance Program Area Costs Assessed to Non-U.S. Entities. The assessment adjustment of \$289,238 represents WECC costs that are duplicative of Alberta Compliance and Enforcement Programs. See Appendix 1 for the calculation of the assessment credit issued to AESO. This amount was allocated to the remainder of the Balancing Authorities' assessments based on NEL.

Breakdown by Statement of Activity Sections

The following detailed schedules are in support of Table 1, page 61, of the 2010 WECC Business Plan and Budget. All significant variances have been disclosed, by Program Area, in the preceding pages.

Penalty Sanctions

Penalty monies received prior to June 30, 2009 are to be used to offset assessments in the 2010 Budget, as documented in the NERC Policy – *Accounting, Financial Statement and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards*. Penalty monies received from July 1, 2009 through June 30, 2010 will be used to offset assessments in the 2011 Budget.

Full disclosure of all penalties received prior to June 30, 2009 is detailed below, including the company, the amount, and the date received.

Allocation Method – penalty sanctions received have been allocated to the following Statutory Programs to reduce assessments:

- Reliability Standards
- Compliance Monitoring & Enforcement and Organization Registration & Certification
- Reliability Assessments and Performance Analysis
- Training, Education, and Operator Certification
- Situational Awareness and Infrastructure Security

Penalty sanctions are allocated based upon the number of FTEs in the program divided by the aggregate total FTEs in the programs receiving the allocation.

Table B-1

Penalty Sanctions Received Prior to June 30, 2009	Date Receive	Amount Received
---	--------------	-----------------

Name of Entity

Total Penalties Received

\$	-
----	---

Supplemental Funding

Table B-2

Outside Funding Breakdown By Program (excluding ERO Assessments & Penalty Sanctions)	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Compliance and Organization Registration and Certification					
Workshops - Non-training	\$ -	\$ -	\$ 400,000	\$ 400,000	
	-	-	-	-	
Total	\$ -	\$ -	\$ 400,000	\$ 400,000	
Training and Education					
Workshops - Training	\$ 70,000	\$ 70,000	\$ 102,500	\$ 32,500	46.43%
Workshops - Non-Training	-	-	-	-	
Operator Training	793,290	793,290	812,600	19,310	2.43%
Total	\$ 863,290	\$ 863,290	\$ 915,100	\$ 51,810	6.00%
Reliability Assessment & Performance Analysis					
Contract Services - Desert Southwest	\$ 85,082	\$ 85,082	\$ -	\$ (85,082)	-100.00%
Grant - Lawrence Berkeley National Laboratory	\$ -	\$ -	\$ 50,000	\$ 50,000	
Total	\$ 85,082	\$ 85,082	\$ 50,000	\$ (35,082)	-41.23%
General and Administrative					
Interest Income	\$ 645,593	\$ 300,000	\$ -	\$ (645,593)	-100.00%
Miscellaneous	9,300	9,300	11,000	1,700	18.28%
Total	\$ 654,893	\$ 309,300	\$ 11,000	\$ (643,893)	-96.44%
Total Outside Funding	\$ 1,603,265	\$ 1,257,672	\$ 1,376,100	\$ (227,165)	9.42%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

Compliance and Organization Registration and Certification

- Historically, WECC did not charge a registration fee for the Compliance User Group workshops or the CIP User Group workshops and therefore, did not budget for the revenue. Due to the increased participation and costs of these workshops, WECC began charging a nominal fee for all Compliance workshop attendance in 2008. WECC has budgeted for the income from attendance fees in 2010.

Training and Education

- The \$32,500 increase in workshop-training revenue is directly attributable to the increased number of classes being offered.

Reliability Assessment and Performance Analysis

- In 2009, the Desert Southwest contract ends and so does the corresponding sub-contract revenue.
- In 2010, WECC has budgeted for DOE/Lawrence Berkeley National Laboratory funding that it is expecting to receive for transmission expansion planning studies.

General and Administrative

- Interest income is not budgeted for 2010 due to the uncertainty and volatility of the financial markets and our low current rate of return.

Personnel Expenses

Table B-3

Personnel Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Salaries					
Salary	\$ 15,456,162	\$ 15,506,162	\$ 18,275,174	\$ 2,819,012	18.2%
Employment Agency Fees	-	-	-	-	
Temporary Office Services	168,216	168,216	88,000	(80,216)	-47.7%
Total Salaries	\$ 15,624,378	\$ 15,674,378	\$ 18,363,174	\$ 2,738,796	17.5%
Total Payroll Taxes					
	\$ 1,270,888	\$ 1,245,071	\$ 1,588,319	\$ 317,431	25.0%
Benefits					
Workers Compensation	\$ 205,843	\$ 205,843	\$ 12,000	\$ (193,843)	-94.2%
Medical Insurance	2,069,831	1,872,505	1,982,700	(87,131)	-4.2%
Life-LTD-LTC Insurance	123,231	123,231	248,971	125,740	102.0%
Education	313,798	313,798	385,100	71,302	22.7%
Relocation	473,000	473,000	60,000	(413,000)	-87.3%
Total Benefits	\$ 3,185,703	\$ 2,988,377	\$ 2,688,771	\$ (496,932)	-15.6%
Retirement					
Discretionary 401k Contribution	\$ 1,146,404	\$ 1,074,918	\$ 1,264,442	\$ 118,038	10.3%
Savings Plan	-	-	-	-	
Total Retirement	\$ 1,146,404	\$ 1,074,918	\$ 1,264,442	\$ 118,038	10.3%
Total Personnel Costs					
	\$ 21,227,373	\$ 20,982,744	\$ 23,904,706	\$ 2,677,333	12.6%
FTEs					
	140	140	172.5	32.5	23.2%
Cost per FTE					
Salaries	\$ 111,603	\$ 111,960	\$ 106,453	(5,150)	-4.6%
Payroll Taxes	9,078	8,893	9,208	130	1.4%
Benefits	22,755	21,346	15,587	(7,168)	-31.5%
Retirement	8,189	7,678	7,330	(859)	-10.5%
Total Cost per FTE	\$ 151,624	\$ 149,877	\$ 138,578	\$ (13,046)	-8.6%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

Salaries

- Salaries increase \$2.82 million mainly due to the addition of 32.5 FTEs as discussed in previous sections. Additionally, merit increases are budgeted at three percent and there are some market adjustments budgeted in 2010.
- Temporary Office Services decrease by \$80,000 due to increased staffing in 2010.

Payroll Taxes

- Payroll Taxes increase as a result of the 32.5 additional FTEs in 2010.

Benefits

- Workers' Compensation decreases due to the correction of some employee classifications that affected WECC's rates.
- Although the FTE count increases by 32.5, insurance benefits remained relatively constant. In 2009, insurance was budgeted as a percentage of salaries as opposed to an average cost per FTE, which was done in 2010. This results in an average decrease per FTE.
- Education increases by \$71,000 mainly due to an increase in FTEs. Additionally, WECC has an increased number of specialized staff who are subject to continuing education requirements for professional licenses.
- Due to the economic environment, WECC decreased its Relocation budget for 2010 and will focus on recruiting candidates that do not require a relocation package as part of the employment offer.

Retirement

- Savings plan contributions increase as a result of the 32.5 additional FTEs in 2010.

- Situational Awareness Consultants increase \$76,000 due to potential requirements of CIP standards and for computer consulting services for RCO systems.
- Compliance Contracts increase \$1.14 million due to a reclassification of independent contractors from Consultants to Contracts in 2010. In 2009, Compliance had \$750,000 of independent contractors classified in Consultants. The actual variance from 2009 to 2010 is \$418,000 and this is mainly due to the CIP audit requirements.
- Reliability Assessment and Performance Analysis Contracts decrease \$295,000 due to the reclassification of computer license and service to Office Costs.
- Training and Education Contracts decrease \$38,000 due to the reclassification of software to Fixed Assets.
- Situational Awareness Contracts decrease \$639,000 due to the reclassification of software to Fixed Assets.
- Committee and Members' Forums Contracts decrease \$714,000. Of this difference, \$564,000 is related to the reclassification of computer license and service to Office Costs and \$150,000 is related to the reclassification of software to Fixed Assets.
- Information Technology Contracts decrease \$300,000 due to the reclassification of software to Fixed Assets.

Table B-5

Office Rent	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Office Rent	\$ 977,871	\$ 977,871	\$ 1,519,000	\$ 541,129	55.34%
Utilities	-	-	42,000	42,000	
Maintenance	-	-	-	-	
Security	-	-	20,000	20,000	
Total Office Rent	\$ 977,871	\$ 977,871	\$ 1,581,000	\$ 603,129	61.68%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- WECC's budget for Office Rent in 2010 increases by \$625,000 due to a need for additional office space in its Vancouver, WA and Salt Lake City, UT offices. With the addition of staff in 2009 and 2010 and anticipated future FTE increases, WECC is currently searching for larger office space to move into at the end of the current lease terms. Price per square footage varies tremendously in the two cities where WECC currently leases space. Therefore, an estimated increase of approximately fifty-five percent was used for budgeting purposes.
- In 2009, \$20,000 of Utilities for the RCOs was included in the Office Rent budget. 2009 was the first full year the RCOs were in their new leased space and the amounts budgeted were estimated because the leases had not yet been signed. In 2010, Utilities are broken out separately and the budget increases based on the availability of actual bills.
- Security was budgeted at \$2,400 in 2009, and was included in Office Costs. In 2010, the amount is reclassified in Office Rent for consistency with other regions. The budget increased based on the availability of actual bills.

Table B-6

Office Costs	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Telephone	\$ 145,710	\$ 145,710	\$ 278,790	\$ 133,080	91.33%
Internet	1,609,960	1,609,960	395,210	(1,214,750)	-75.45%
Office Supplies	202,704	202,704	132,000	(70,704)	-34.88%
Computer Supplies and Maintenance	1,021,460	1,071,460	1,910,200	888,740	78.28%
Publications & Subscriptions	20,100	20,100	29,800	9,700	48.26%
Dues & Fees	-	-	114,600	114,600	
Postage	6,504	6,504	8,800	2,296	35.30%
Express Shipping	28,096	28,096	78,440	50,344	179.19%
Copying	57,100	57,100	105,300	48,200	84.41%
Reports	8,000	8,000	8,800	800	10.00%
Equipment Repair/Service Contracts	250,400	250,400	334,200	83,800	33.47%
Bank Charges	-	-	31,200	31,200	
Taxes	55,088	55,088	5,175	(49,913)	-90.61%
Total Office Costs	\$ 3,405,122	\$ 3,455,122	\$ 3,432,515	\$ 27,393	-0.65%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

- Telephone expense increases \$133,000 in 2010. Of this amount, \$49,000 is an increase in cellular phone costs related to increased headcount. The remaining \$84,000 increase is partly related to the anticipated increase in landline telephone charges due to increased headcount and also due to enhancement of existing teleconferencing services.
- Internet expense decreases \$1.21 million. This is mostly due to a decrease of \$1.35 million in Situational Awareness due to improved procurement procedures, which resulted in more favorable data communications pricing than anticipated. There is a slight increase in other Program Areas due to broadband cards for laptop wireless access for travelers.
- Office Supplies decrease \$71,000 due to the reclassification of Security, Maintenance, and Membership fees to more appropriate categories in 2010.
- Computer Supplies and Maintenance increase \$889,000. Of this amount, \$574,000 is due to the reclassification of Computer License and Service to a more appropriate category in 2010 from Software in 2009. \$130,000 is related to license fees on new software in Legal, Accounting, and Human Resources and also to license fees on office products related to increased headcount. The remaining increase is mainly associated with additional computer supplies, related to increased headcount, that fall below WECC's capitalization threshold.
- Dues and Fees increase \$115,000. Of this difference, \$55,000 is because in 2009, \$50,000 of Dues and Fees costs were classified as Taxes (see last bullet). Additionally, \$48,000 relates to payroll administration fees that were budgeted in the Salaries category in 2009, but are more appropriately reflected here. The remaining increase relates to an increased number of professional licenses and data warehousing fees.

- Express Shipping increases \$50,000 to align the budget more closely with historical actual and anticipated levels of spending.
- Equipment Repair/Service Contracts increases \$84,000. Of this amount, \$66,000 relates to the increase in equipment that has been placed in service in Situational Awareness. The remaining \$18,000 relates to maintenance and service on equipment and corporate office space.
- Bank Charges increase \$31,000 because historically, bank charges and investment advisor charges were not budgeted for.
- Taxes decrease \$50,000 because some Dues and Fees costs were inappropriately classified as Taxes in 2009.

Table B-7

Professional Services	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Independent Trustee Fees	\$ 539,100	\$ 539,100	\$ 492,000	\$ (47,100)	-8.74%
Outside Legal	361,008	361,008	388,000	26,992	7.48%
Accounting & Auditing Fees	30,500	30,500	26,500	(4,000)	-13.11%
Other Legal Fees	-	-	-	-	
Insurance Commercial	590,000	590,000	55,000	(535,000)	-90.68%
Total Professional Services	\$ 1,520,608	\$ 1,520,608	\$ 961,500	\$ (559,108)	-36.77%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

Independent Trustee Fees

- WECC is reducing the 2010 Independent Trustee Fees to align with anticipated spending based on historical actuals.

Insurance Commercial

- The decrease in Insurance Commercial is mainly due to the termination of a liability insurance policy that was related to Reliability Coordination contracts with Pacific Northwest Reliability Coordinator (PNRC) that were in effect prior to WECC becoming the Reliability Coordinator for the Western Interconnection. Effective January 1, 2009, the contracts were no longer in effect and the insurance was no longer required as a result.

Table B-8

Other Non-Operating Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Interest Expense	\$ 329,856	\$ 329,856	\$ 40,000	\$ (289,856)	-87.87%
Loan Payment	2,926,207	2,926,207	2,926,207	-	0.00%
Total Non-Operating Expenses	\$ 3,256,063	\$ 3,256,063	\$ 2,966,207	\$ (289,856)	-8.90%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

Interest Expense

- Interest Expense decreases due to a lower floating rate on WECC's current line of credit which reflects the state of the current economic environment.
- WECC's line of credit is scheduled to be paid in full by March 1, 2010. Therefore, only two months of Interest Expense is budgeted in 2010.

Section C — 2010 WECC Non-Statutory Business Plan and Budget

Western Renewable Energy Generation Information System (WREGIS)			
(in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	4	5	1
Total Direct Funding	\$798,197	\$1,045,372	\$247,175
Total Indirect Funding	\$0	\$0	\$0
Total Funding	\$798,197	\$1,045,372	\$247,175

Program Scope and Functional Description

The Western Renewable Energy Generation Information System (WREGIS) is an independent, renewable energy database for the Western Interconnection. WREGIS creates renewable energy certificates (REC) for verifiable renewable generation from units that are registered in the database.

WREGIS was developed through a collaborative process between the Western Governors' Association, the Western Regional Air Partnership, and the California Energy Commission (CEC). This development was further guided by stakeholder input from more than 400 participants over a period of more than three years. WREGIS is governed by a seven-member committee, consisting of representatives from various stakeholder groups. WECC is the administrative home of WREGIS.

WREGIS costs fall outside Section 215 of the Federal Power Act. Participants fund WREGIS through registration and transaction fees. "Backstop" funding is provided by the CEC pursuant to a contract between the CEC and WECC.

WREGIS consists of two parts: the information system software and the administrative operations housed at WECC. The WREGIS staff oversees the software contractor and performs all of the administrative tasks required to operate the program including: registering account holders and generation units; training WREGIS users; and managing the budgeting, billing, and financial reporting.

WREGIS operates on a fiscal year beginning October 1 of each year. WREGIS' budget has been converted to a calendar year for the purposes of WECC's 2010 Business Plan and Budget.

Major 2010 Assumptions and Cost Impacts

2010 Key Assumptions

- The CEC is a financial backstop for WREGIS to the extent that other funding sources are insufficient. This support ends in 2011, by which time it is expected that WREGIS will be fully self-funded.

2010 Primary Goals and Objectives

The goals for WREGIS for 2010 are to:

- Implement the WREGIS program as required by the contract between the CEC and WECC.
- Continue to register program participants, whether mandatory or voluntary.
- Work on refining the WREGIS software to ensure optimum performance in terms of both efficiency and ease of use for Account Holders.
- Keep abreast of possible opportunities to increase WREGIS' functionality.

2010 Cost Impacts

WREGIS' proposed 2010 budget is \$882,000, an \$84,000 (9.5 percent) increase over the 2009 budget. The major drivers of this increase are:

- Salary Expenses increase due to the addition of 1 FTE. Five employees are needed to manage the current WREGIS program and are budgeted at a total cost of \$456,936 including Salaries, Payroll Taxes, Benefits, and Retirement costs.
- Meeting Expenses increase by \$27,115 in 2010 to cover the cost of the telephone and web-conferencing services, staff and committee travel, and Account Holder user trainings.
- The 2010 Operating Expenses include \$370,097 for WECC executive and administrative support, overhead allocations, professional services, computer systems, program development, office expenses, and business insurance.
 - WREGIS uses contractors to supply legal, website, accounting software and auditing assistance. The 2010 budget includes approximately \$130,000 for these services.

Funding Sources

- WREGIS Account Holders pay an initial registration fee and annual renewal fees. Amounts vary by size and category of the Account Holder.
- Volumetric-based fees are assessed when RECs are traded, retired, reserved, or transferred.
- The CEC funds WREGIS to the extent that other funding sources are insufficient. This support ends in 2011, by which time it is expected that WREGIS will be fully self-funded.

2009 Budget and Projection and 2010 Budget Comparisons

Table 1

Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
NON-STATUTORY					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	\$ -		\$ -	\$ -	\$ -
Penalty Sanctions	-		-	-	-
Total ERO Funding	\$ -	\$ -	\$ -	\$ -	\$ -
Membership Dues/Non-statutory Assessments	\$ 798,197	\$ 798,197	\$ -	\$ 1,036,572	\$ 238,375
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	8,800	8,800
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	\$ 798,197	\$ 798,197	\$ -	\$ 1,045,372	\$ 247,175
Expenses					
Personnel Expenses					
Salaries	\$ 281,076	\$ 281,076	\$ -	\$ 350,047	\$ 68,971
Payroll Taxes	-	-	-	31,504	31,504
Benefits	169,882	169,882	-	50,882	(119,000)
Retirement Costs	-	-	-	24,503	24,503
Total Personnel Expenses	\$ 450,958	\$ 450,958	\$ -	\$ 456,936	\$ 5,978
Meeting Expenses					
Meetings	\$ 1,200	\$ 1,200	\$ -	\$ 19,943	\$ 18,743
Travel	27,000	27,000	-	34,872	7,872
Conference Calls	-	-	-	500	500
Total Meeting Expenses	\$ 28,200	\$ 28,200	\$ -	\$ 55,315	\$ 27,115
Operating Expenses					
Consultants & Contracts	\$ 179,721	\$ 179,721	\$ -	\$ 87,041	\$ (92,680)
Office Rent	-	-	-	-	-
Office Costs	43,404	43,404	-	70,259	26,855
Professional Services	95,914	95,914	-	140,797	44,883
Miscellaneous	-	-	-	72,000	72,000
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 319,039	\$ 319,039	\$ -	\$ 370,097	\$ 51,058
Total Direct Expenses	\$ 798,197	\$ 798,197	\$ -	\$ 882,348	\$ 84,151
Indirect Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 798,197	\$ 798,197	\$ -	\$ 882,348	\$ 84,151
Change in Assets	\$ -	\$ -	\$ -	\$ 163,024	\$ 163,024
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Inc)Dec in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets					
Change in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CHANGE IN ASSETS	\$ -	\$ -	\$ -	\$ 163,024	\$ 163,024

Personnel Analysis

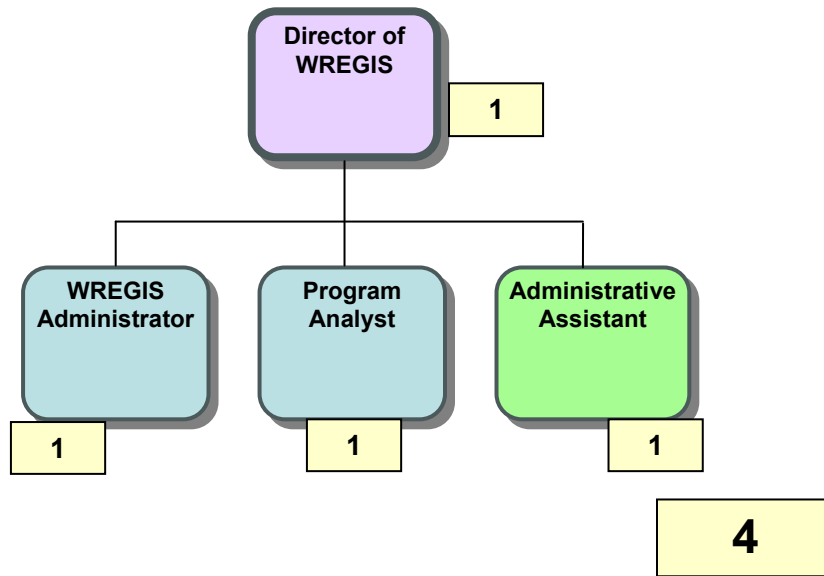
FTEs are defined as full-time employees only. Fractional FTEs reflect part-time employees or partial allocation of headcount.

Table 2

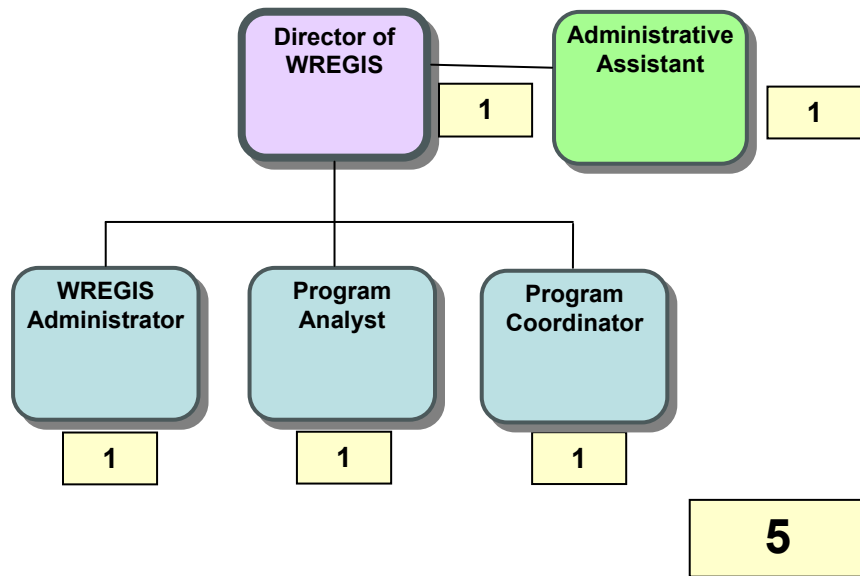
Total FTE's by Program Area	Budget 2009	Projection 2009	Direct FTEs 2010 Budget	Shared FTEs ¹ 2010 Budget	Total FTEs 2010 Budget	Change from 2009 Budget
NON-STATUTORY						
Operational Programs						
Reliability Standards	0.0	0.0	0.0	0.0	0.0	0.0
Compliance and Organization Registration and Certification	0.0	0.0	0.0	0.0	0.0	0.0
Reliability Readiness Evaluation and Improvement	0.0	0.0	0.0	0.0	0.0	0.0
Training and Education	0.0	0.0	0.0	0.0	0.0	0.0
Reliability Assessment and Performance Analysis	0.0	0.0	0.0	0.0	0.0	0.0
Situational Awareness and Infrastructure Security	0.0	0.0	0.0	0.0	0.0	0.0
Total FTEs Operational Programs	0.0	0.0	0.0	0.0	0.0	0.0
Administrative Programs						
Member Forums	0.0	0.0	0.0	0.0	0.0	0.00
General & Administrative	0.0	0.0	0.0	0.0	0.0	0.00
Information Technology	0.0	0.0	0.0	0.0	0.0	0.00
Legal and Regulatory	0.0	0.0	0.0	0.0	0.0	0.00
Human Resources	0.0	0.0	0.0	0.0	0.0	0.00
Accounting	0.0	0.0	0.0	0.0	0.0	0.00
WREGIS	4.0	4.0	5.0	0.0	5.0	1.0
Total FTEs Administrative Programs	4.0	4.0	5.0	0.0	5.0	1.0
Total FTEs	4.0	4.0	5.0	0.0	5.0	1.0

¹A shared FTE is defined as an employee who performs both Statutory and Non-Statutory functions.

2009 WREGIS Organizational Chart



2010 WREGIS Organizational Chart



Reserve Analysis — 2009–2010

Table 5

Working Capital Reserve Analysis 2009-2010	
Non-Statutory	
Beginning Working Capital Reserve (Deficit), December 31, 2008	5,090,288
2009 Funding (from members)	
2009 Other funding sources	798,197
Projected Working Capital Reserve (Deficit), December 31, 2009	5,888,485
Cash Needed 2009	
2009 Projected expenses	798,197
2009 Fixed asset additions	0
Total Cash Needed 2009	798,197
Projected Working Capital Reserve Balance, December 31, 2009	5,090,288
Desired Working Capital Reserve Balance, December 31, 2010	5,090,288
Less: Projected Working Capital Reserve Balance December 31, 2009	5,090,288
Additional Funding Needed to Increase Working Capital Reserve Balance	0
2010 Funding requirement for expenses and fixed asset additions	882,348
Adjustment to increase working capital reserve balance	0
2010 Budgeted excess of funding over expenditures	163,024
2010 Funding and Reserve Adjustment	1,045,372

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Section D — Additional Financial Data

Section D — 2010 Consolidated Statement of Activities by Program, Statutory, and Non-Statutory

Statement of Activities 2010 Budget	Total	Statutory Total	Non-Statutory Total	Statutory Total	Reliability Standards (Section 300)	Compliance and Organization Registration and Certification (Section 400 & 500)	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	Non-Statutory Total
Funding																
ERO Funding																
ERO Assessments	39,132,458	39,132,458	-	39,132,458	776,754	13,616,429	4,516,408	294,689	18,928,178	-	1,000,000	-	-	-	-	-
Penalty Sanctions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total ERO Funding	39,132,458	39,132,458	-	39,132,458	776,754	13,616,429	4,516,408	294,689	18,928,178	-	1,000,000	-	-	-	-	-
Membership Dues	1,036,572	-	1,036,572	-	-	-	-	-	-	-	-	-	-	-	-	1,036,572
Testing Fees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Workshops	1,323,900	1,315,100	8,800	1,315,100	-	400,000	-	915,100	-	-	-	-	-	-	-	8,800
Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	61,000	61,000	-	61,000	-	-	50,000	-	-	-	11,000	-	-	-	-	-
Total Funding	41,553,930	40,508,558	1,045,372	40,508,558	776,754	14,016,429	4,566,408	1,209,789	18,928,178	-	1,011,000	-	-	-	-	1,045,372
Expenses																
Personnel Expenses																
Salaries	18,713,221	18,363,174	350,047	18,363,174	385,467	5,060,109	1,437,722	327,543	6,969,837	738,970	1,701,761	858,707	323,439	295,883	263,735	350,047
Payroll Taxes	1,619,823	1,588,319	31,504	1,588,319	34,692	438,047	123,686	23,284	627,285	66,507	118,058	77,284	29,110	26,629	23,736	31,504
Benefits	2,739,653	2,688,771	50,882	2,688,771	43,626	582,670	178,508	36,835	777,289	84,655	778,033	100,640	36,242	36,866	33,406	50,882
Retirement Costs	1,288,945	1,264,442	24,503	1,264,442	26,983	348,605	96,200	18,110	487,889	51,728	113,003	60,109	22,641	20,712	18,461	24,503
Total Personnel Expenses	24,361,642	23,904,706	456,936	23,904,706	490,768	6,429,432	1,836,117	405,772	8,862,300	941,861	2,710,856	1,096,740	411,432	380,090	339,339	456,936
Meeting Expenses																
Meetings	1,214,643	1,194,700	19,943	1,194,700	4,000	425,000	92,000	278,000	-	372,700	15,000	8,000	-	-	-	19,943
Travel	1,816,322	1,781,450	34,872	1,781,450	12,000	762,350	104,000	24,000	216,000	253,500	313,100	86,000	-	8,000	2,500	34,872
Conference Calls	138,980	138,480	500	138,480	5,760	45,500	28,320	2,000	10,000	30,900	6,000	10,000	-	-	-	500
Total Meeting Expenses	3,169,945	3,114,630	55,315	3,114,630	21,760	1,232,850	224,320	304,000	226,000	657,100	334,100	104,000	-	8,000	2,500	55,315
Operating Expenses																
Consultants & Contracts	2,484,541	2,397,500	87,041	2,397,500	-	1,467,500	602,000	98,000	118,000	40,000	32,000	-	30,000	10,000	-	87,041
Office Rent	1,581,000	1,581,000	-	1,581,000	-	-	-	-	596,000	-	985,000	-	-	-	-	-
Office Costs	3,502,774	3,432,515	70,259	3,432,515	2,200	178,550	420,000	14,320	1,174,200	696,100	269,675	89,920	504,800	75,730	7,020	70,259
Professional Services	1,102,297	961,500	140,797	961,500	-	155,000	-	-	15,000	395,000	95,000	275,000	-	-	26,500	140,797
Miscellaneous	-	(72,000)	72,000	(72,000)	-	-	-	-	-	-	(72,000)	-	-	-	-	72,000
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	8,670,612	8,300,515	370,097	8,300,515	2,200	1,801,050	1,022,000	112,320	1,903,200	1,131,100	1,309,675	364,920	534,800	85,730	33,520	370,097
Total Direct Expenses	36,202,199	35,319,851	882,348	35,319,851	514,728	9,463,332	3,082,437	822,092	10,991,500	2,730,061	4,354,631	1,565,660	946,232	473,820	375,359	882,348
Indirect Expenses	(0)	(0)	-	(0)	254,232	4,237,203	1,355,905	296,604	4,290,818	(2,730,061)	(4,343,631)	(1,565,660)	(946,232)	(473,820)	(375,359)	-
Other Non-Operating Expenses	2,966,207	2,966,207	-	2,966,207	-	-	-	-	2,966,207	-	-	-	-	-	-	-
Total Expenses	39,168,406	38,286,058	882,348	38,286,058	768,960	13,700,535	4,438,342	1,118,696	18,248,525	-	11,000	-	-	-	-	882,348
Change in Assets	2,385,524	2,222,500	163,024	2,222,500	7,794	315,895	128,066	91,093	679,653	-	1,000,000	-	-	-	-	163,024
Fixed Assets																
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Computer & Software CapEx	1,222,500	1,222,500	-	1,222,500	-	186,000	86,500	82,000	523,000	125,000	-	-	220,000	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in Fixed Assets	(1,222,500)	(1,222,500)	-	(1,222,500)	-	(186,000)	(86,500)	(82,000)	(523,000)	(125,000)	-	-	(220,000)	-	-	-
Allocation of Fixed Assets	-	-	-	-	(7,794)	(129,895)	(41,566)	(9,093)	(156,653)	125,000	-	-	220,000	-	-	-
Change in Fixed Assets	-	-	-	-	(7,794)	(315,895)	(128,066)	(91,093)	(679,653)	-	-	-	-	-	-	-
TOTAL CHANGE IN ASSETS	1,163,024	1,000,000	163,024	1,000,000	0	0	0	-	0	-	1,000,000	-	-	-	-	163,024
FTEs	177.5	172.5	5	172.5	3.0	50.0	16.0	3.5	60.3	7.0	15.0	8.0	3.7	3.0	3.0	5.0
Indirect Costs Allocation	-	-	-	-	-	-	-	-	-	2,730,061	4,343,631	1,565,660	946,232	473,820	375,359	-
Allocation of Fixed Assets	-	-	-	-	-	-	-	-	-	(125,000)	-	-	(220,000)	-	-	-
Penalty Sanctions Allocation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Statement of Financial Position

2009 Budget and Projection and 2010 Budget Comparisons

Statement of Financial Position 2008 Audited, 2009 Projection, and 2010 Budget

STATUTORY and NON-STATUTORY

	(Per Audit) 31-Dec-08	Projected 31-Dec-09	Budget 31-Dec-10
ASSETS			
Cash and investments	22,422,591	15,933,379	7,200,000
Trade Accounts receivable, net of allowance for uncollectible accounts	482,434	250,000	250,000
Other Receivables	-	-	-
Prepaid expenses and other current assets	523,294	514,324	514,324
Security deposit	-	-	-
Cash value of insurance policies	-	-	-
Property and equipment, net of accumulated depreciation	7,612,806	6,616,306	8,500,000
Total Assets	31,041,125	23,314,009	16,464,324
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accrued expenses	4,298,437	1,815,650	1,815,650
Deferred income	13,915,558	9,934,350	9,934,350
Regional assessments collected in advance	-	-	-
Deferred Rent	80,637	70,000	60,000
Line of Credit	5,852,414	2,926,207	-
Total Liabilities	24,147,046	14,746,207	11,810,000
Net Assets - unrestricted	6,894,079	8,567,802	4,654,324
Total Liabilities and Net Assets	31,041,125	23,314,009	16,464,324

Appendix 1 — Adjustment to the AESO 2010 WECC Assessment

ADJUSTMENT TO THE AESO 2010 WECC ASSESSMENT

WECC CMEP Direct Costs	\$ 9,649,332	
Adjustment Based on 15.5 of 50 FTEs	\$ 2,991,293	
AESO NEL Share	6.857%	
AESO Direct Cost Credit		\$ 199,120
WECC CMEP Indirect Costs	\$ 4,367,098	
Adjustment Based on 15.5 of 50 FTE's	\$ 1,353,800	
AESO NEL Share	6.857%	
AESO Indirect Cost Credit		\$ 90,118
Total AESO Credit		\$ 289,238

Assumptions:

1. WECC Costs are pursuant to WECC 2010 Business Plan and Budget
2. NEL share is pursuant to WECC 2010 Business Plan and Budget
3. 16 of 50 FTEs perform Audits & Investigations. Assume FTEs spend ~1 wk a year on AESO - converts to .5 FTEs.

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DOCKET NO. RR09-__-000

**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

2010 BUSINESS PLAN AND BUDGET FILING

ATTACHMENT 11

**WESTERN INTERCONNECTION
REGIONAL ADVISORY BODY**

PROPOSED 2010 BUSINESS PLAN AND BUDGET

2010 Business Plan and Budget

Western Interconnection Regional Advisory Body

Approved by:

The Western Interconnection Regional Advisory Body

June 29, 2009

Table of Contents

Introduction

Organizational Overview

Section A – 2010 Business Plan

Section B – 2010 Budget

Section D – Statement of Financial Position

Introduction

Total Western Interconnection Regional Advisory Body Resources				
(in whole dollars)				
	2010 Budget	U.S.	Canada	Mexico
Statutory FTEs	2.75			
Non-statutory FTEs	0			
Total FTEs	2.75			
Statutory Expenses	\$616,810			
Non-statutory Expenses	0			
Total Expenses	\$616,810			
Statutory Funding	\$438,381 ¹			
Non-Statutory(Member) Funding	0			
Total Funding	\$438,381			
NEL	882,526,829	750,586,932	120,894,879	11,063,018
NEL %	100%	85.05%	13.70%	1.25%

Organizational Overview

In April 2006, ten Western Governors petitioned to create the Western Interconnection Regional Advisory Body under Section 215(j) of the Federal Power Act. The Governors indicated their interest in inviting all U.S. states, Canadian provinces and Mexico, which have territory in the Western Interconnection, to join WIRAB.

Pursuant to the order of the Federal Energy Regulatory Commission (FERC) in Docket No. RR06-2-000 issued on July 20, 2006 (the “Order”)², the FERC:

- Granted the Western Governors’ petition to establish the Western Interconnection Regional Advisory Body (WIRAB) under Section 215(j) of the Federal Power Act;
- Granted the request that WIRAB receive funding for reasonable costs of its Section 215(j) activities; and
- Directed WIRAB to develop a budget and related information and submit it to the ERO for review by the ERO and submission through the ERO budget approval process.

The Order states that funding for Regional Advisory Bodies should be part of the overall funding process for the Electric Reliability Organization (ERO). The Commission instructed WIRAB to develop a budget in a form similar to that specified for regional entities as set forth in Order 672.³ The July 20 Order specified that the WIRAB should annually develop and submit to the

¹ Due to a delay in hiring an experience electrical engineer, WIRAB projects a carry-over of \$174,862 at the end of 2009. Therefore the statutory funding for 2010 will be \$438,381.

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

³ Rules Concerning Certification of the Electric Reliability Organization; and Procedures for the Establishment, Approval, and Enforcement of Reliability Standards, Order 672, Docket RM05-30-000, Feb. 3, 2006, P. 228. “Each Regional Entity must submit its complete business plan, entire budget and organizational chart to the ERO for it to 2010 WIRAB Business Plan and Budget

ERO its budget for 215(j) activities and an organization chart that the ERO will then review and submit to the Commission. The WIRAB submission also needs to identify the portion of its costs for 215(j) activities that will be funded from Canada and Mexico, and the basis for this allocation.

Membership and Governance

All of the states with territory in the Western Interconnection (AZ, CA, CO, ID, MT, NE, NV, NM, OR, SD, TX, UT, WA, WY), the provinces of Alberta and British Columbia, and Mexico are members of WIRAB. Below is the list of members appointed by the Governor or Premier:

Alberta	Ian McKay, Department of Energy
Arizona	Mike Anable, Governor's Office
British Columbia	Shelley Murphy, Ministry of Energy, Mines and Petroleum Resources
California	Bill Chamberlain, California Energy Commission
Colorado	Morey Wolfson, Governor's Energy Office
Idaho	Marsha Smith, Public Utilities Commission
Mexico	Marcos Valenzuela, CFE
Montana	Tom Kaiserski, Department of Commerce
Nebraska	Tim Texel, Nebraska Power Review Board
Nevada	Rebecca Wagner, Public Utilities Commission
New Mexico	Joanna Prukop, Energy, Minerals and Natural Resources Department
Oregon	John Savage, Public Utility Commission
South Dakota	Dustin Johnson, Public Utilities Commission
Texas	Donna Nelson, Public Utility Commission
Utah	Dianne Nielson, Governor's Office
Washington	Tony Usibelli, Department of Community, Trade and Economic Development
Wyoming	Steve Ellenbecker, Governor's Office

The Governors created WIRAB as a standing advisory committee to the Western Interstate Nuclear Board, which was formed pursuant to the Western Interstate Nuclear Compact, P.L. 91-461. Members of the WIRAB are appointees of the Governors and Premiers or their alternates. WIRAB has the same status under the compact as the Western Interstate Energy Board (WIEB), which is the energy affiliate of the Western Governors' Association. WIRAB operates under the bylaws of WINB as revised on April 4, 2006. (See organizational chart on page 13.)

submit to the Commission. The complete business plan and the entire budget will provide the Commission with necessary information about any non-statutory activities, the source of their funding, and whether the pursuit of such activities presents a conflict of interest for the Regional Entity. For a Cross-Border Regional Entity, this information will also inform the Commission as to what portion of the budget is expended upon activities within the United States.”

Statutory Functional Scope

FERC has approved the petition of the Western Governors to create WIRAB as a regional advisory body under Section 215(j) of the Federal Power Act.

2010 Key Assumptions

- WIRAB continues to operate with the participation of all U.S. States and Canadian Provinces in the Western Interconnection, and Mexico.
- WIRAB continues to meet by conference call roughly monthly and is scheduled to hold two in-person meetings in 2010. WIRAB representatives will meet with FERC at its offices once in 2010.
- The current delegated model continues.
- There is no significant expansion of FERC, NERC or WECC responsibilities as a result of legislation pending in the U.S. Congress.
- Fiscal constraints in State and Provincial agency budgets make the reimbursement of travel costs associated with WIRAB activities more important.

2010 Goals and Key Deliverables

- Advice to FERC, NERC and WECC on whether standards, budgets and fees, compliance, assessments, strategic direction and other activities conducted pursuant to Section 215 are just, reasonable, not unduly discriminatory or preferential, and in the public interest.
- Roughly monthly conference calls or in-person meetings of WIRAB which include opportunities for public comment.
- Webinars or workshops to expand the understanding of States and Provinces on reliability issues.
- Monitoring of reliability issues important to the Western Interconnection including, but not limited to: application of the definition of an “adequate level of reliability” to standards development; promising approaches to evaluating the cost-effectiveness of reliability standards; new regional standards; operation of the standards interpretation process; alternatives to the current micromanagement approach to compliance; trends in violations; compliance concerns raised by Registered Entities; definition of “Bulk Electric System;” transmission and integration of variable generation; FERC and NERC audits of WECC; WECC’s Section 4.9 review; and opportunities for states, particularly PUCs, to assist in improving the cyber security preparedness of western entities.

2010 Overview of Cost Impacts

WIRAB's proposed 2010 budget is \$616,810, a \$21,000 (3.5 percent) increase over the 2009 budget. The increase is a result of higher anticipated travel and meeting costs.

Staff costs and indirect expenses are the same in the 2010 budget as the 2009 budget. Staff and indirect costs in 2009 are \$172,710 lower than budgeted because of delays in hiring qualified technical staff in 2009. Total FTEs in 2010 are 2.75. The budget includes \$75,000 for contracting for technical expertise on issues related to standards and compliance. This expertise will help WIRAB prepare technically-sound advice under Section 215. Meeting costs will increase from \$6,000 to \$12,000 reflecting two in-person meetings per year rather than one. Travel costs will increase from \$35,000 to \$50,000 reflecting two in-person meetings per year and travel to additional WECC and NERC meetings. A working capital reserve of \$100,000 will be maintained.

Section A — 2010 Business Plan

Western Interconnection Regional Advisory Body

Western Interconnection Regional Advisory Body Resources (in whole dollars)			
	2009 Budget	2010 Budget	Increase(Decrease)
Total FTEs	2.25	2.75	0.5
Total Direct Expenses	355,600	376,600	21,000
Total Indirect Expenses ⁴	240,210	240,210	0
Inc(Dec) in Fixed Assets	0	0	0
Total Expenses & Fixed Assets	595,810	616,810	21,000

Program Scope and Functional Description

The western governors created WIRAB to provide advice to FERC, NERC and WECC on whether standards, budgets and fees, compliance, assessments, strategic direction and other activities conducted pursuant to Section 215 are just, reasonable, not unduly discriminatory or preferential, and in the public interest.

WIRAB meetings are open to all. There are monthly meetings via web conferencing and, in 2010, there will be two in-person meetings. These meetings are expected to be held in April and October.

Funding Requirements — Explanation of Increase (Decrease)

WIRAB's proposed 2010 budget is \$616,810, a \$21,000 (3.5 percent) increase over the 2009 budget. The increase is a result of higher anticipated travel and meeting costs.

Staff costs and indirect expenses are the same in the 2010 budget as in the 2009 budget. Estimated actual staff and indirect costs in 2009 are \$172,710 lower than budgeted because of delays in hiring qualified technical staff in 2009. Total FTEs will increase from 2.25 in 2009 to 2.75 in 2010. However, personnel costs will remain the same due to a change in focus. WIRAB has been looking for an experienced electrical engineer for two years. We have changed the requirements to an entry level engineer, which will lower the salary requirement. This change allows us to add a part-time policy analyst while keeping the salary requirements constant. Contract costs are \$75,000. Meeting costs will increase from \$6,000 to \$12,000 reflecting two in-person meetings per year rather than one. Travel costs will increase from \$35,000 to 50,000

⁴ Indirect funding is calculated by allocating all administrative services funding to the operational program areas on a proportional FTE basis.

Section A — 2010 Business Plan

reflecting two in-person meetings per year and travel to additional WECC and NERC meetings. A working capital reserve of \$100,000 will be maintained.

Section B — 2010 Budget

2009 Budget and Projection and 2010 Budget Comparisons

Table 1

WIRAB Statement of Activities					
2009 Budget & Projection, and 2010 Budget					
STATUTORY					
	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
WIRAB Funding					
WIRAB Assessments	\$ 378,272	\$ 378,272	\$ -	\$ 438,381	\$ 60,109
Penalty Sanctions ⁽¹⁾	-	-	-	-	-
Total Funding	\$ 378,272	\$ 378,272	\$ -	\$ 438,381	\$ 60,109
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	2,976	2,976	-	3,567	591
Miscellaneous	-	-	-	-	-
Total Funding	\$ 381,248	\$ 381,248	\$ -	\$ 441,948	\$ 60,700
Expenses					
Personnel Expenses					
Salaries	\$ 235,500	\$ 150,000	\$ (85,500)	\$ 235,500	\$ -
Payroll Taxes (see Indirect expense)	-	-	-	-	-
Benefits (see Indirect Expense)	-	-	-	-	-
Retirement Costs (see Indirect Expense)	-	-	-	-	-
Total Personnel Expenses	\$ 235,500	\$ 150,000	\$ (85,500)	\$ 235,500	\$ -
Meeting Expenses					
Meetings	\$ 6,000	\$ 12,000	\$ 6,000	\$ 12,000	\$ 6,000
Travel	35,000	43,000	\$ 8,000	50,000	15,000
Conference Calls	3,500	2,000	\$ (1,500)	3,500	-
Total Meeting Expenses	\$ 44,500	\$ 57,000	\$ 12,500	\$ 65,500	\$ 21,000
Operating Expenses					
Consultants & Contracts	\$ 75,000	\$ 75,000	\$ -	\$ 75,000	\$ -
Office Rent (see Indirect Expense)	-	-	0	-	-
Office Costs (see Indirect Expense)	-	-	-	-	-
Professional Services	-	-	-	-	-
Miscellaneous	600	300	\$ (300)	600	-
Depreciation (see Indirect Expense)	-	-	-	-	-
Total Operating Expenses	\$ 75,600	\$ 75,300	\$ (300)	\$ 75,600	\$ -
Total Direct Expenses	\$ 355,600	\$ 282,300	\$ (73,300)	\$ 376,600	\$ 21,000
Indirect Expenses	\$ 240,210	\$ 153,000	\$ (87,210)	\$ 240,210	\$ 0
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 595,810	\$ 435,300	\$ (160,510)	\$ 616,810	\$ 21,000
Change in Assets	\$ (214,562)	\$ (54,052)	\$ 160,510	\$ (174,862)	\$ 39,700
Fixed Assets					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
Change in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Allocation of Fixed Assets	-	-	-	-	-
Change in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL CHANGE IN ASSETS	\$ (214,562)	\$ (54,052)	\$ 160,510	\$ (174,862)	\$ 39,700

Explanations of Variances – 2010 Budget versus 2009 Budget

Funding Sources

- Statutory Funding

Personnel Expenses

- Payroll Taxes, Benefits, and Retirement Costs are budgeted in Indirect Costs but are detailed in Table B-3. Salaries are estimated to remain the same.

Meeting Expenses

- The 2009 budget anticipated one in-person meeting per year and monthly conference calls. In 2010, there will be two in-person meetings, therefore meeting costs will increase from \$6,000 to \$12,000.
- Travel costs will increase from \$35,000 to \$50,000 due to increased meetings and travel to additional WECC and NERC meetings.

Operating Expenses

- The budget includes \$75,000 for contracting for technical expertise on issues related to standards and compliance. This expertise will help WIRAB prepare technically-sound advice under Section 215. This is the same amount as last year.

Indirect Expenses

- No change

Other Non-Operating Expenses

- No change

Fixed Asset Additions

- None

Personnel Analysis

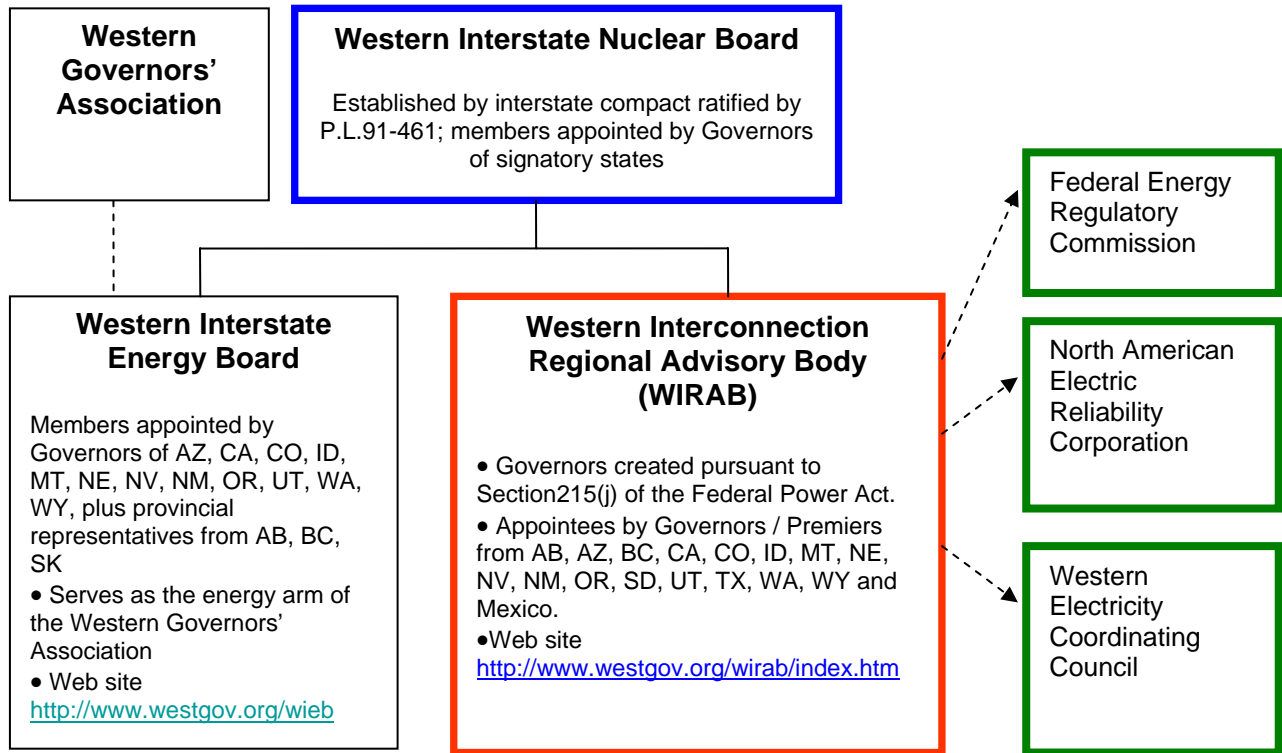
FTEs are defined as full-time employees only. Fractional FTEs reflect part-time employees or employees who worked in fewer than all four quarters of the year.

Table 2

Total FTE's by Program Area	Budget 2009	Projection 2009	Budget 2010	Change from 2009 Budget
STATUTORY				
Operational Programs				
Reliability Standards	0.0	0.0	0.0	0.0
Compliance and Organization Registration and Certification	0.0	0.0	0.0	0.0
Reliability Readiness Evaluation and Improvement	0.0	0.0	0.0	0.0
Training and Education	0.0	0.0	0.0	0.0
Reliability Assessment and Performance Analysis	0.0	0.0	0.0	0.0
Situational Awareness and Infrastructure Security	0.0	0.0	0.0	0.0
WIRAB	2.25	1.75	2.75	0.50
Total FTEs Operational Programs	2.25	1.75	2.75	0.50
Administrative Programs				
Member Forums	0.0	0.0	0.0	0.0
General & Administrative	0.0	0.0	0.0	0.0
Information Technology	0.0	0.0	0.0	0.0
Legal and Regulatory	0.0	0.0	0.0	0.0
Human Resources	0.0	0.0	0.0	0.0
Accounting	0.0	0.0	0.0	0.0
Total FTEs Administrative Programs	0.0	0.0	0.0	0.0
Total FTEs	2.25	1.75	2.75	0.50

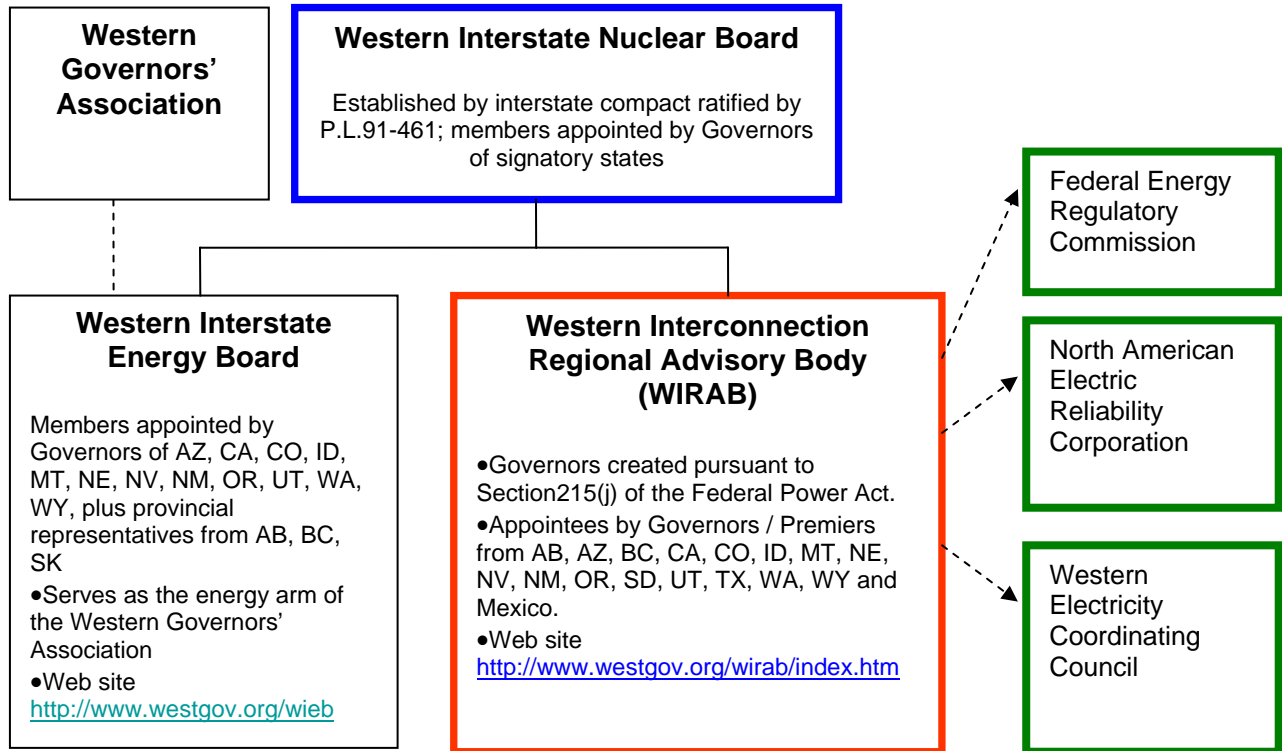
2009 Organizational Chart

Table 3



2010 Organizational Chart

Table 4



Reserve Balance

Table 5

WIRAB

Working Capital Reserve Analysis 2009-2010	
STATUTORY	
Beginning Working Capital Reserve (Deficit), December 31, 2008	328,914
Less: Penalty sanctions to be used as offset to 2010 assessments ¹	0
Plus: 2009 ERO Funding (from LSEs or designees)	378,272
Plus: 2009 Other funding sources	2,976
Less: 2009 Projected expenses & capital expenditures	(435,300)
Projected Working Capital Reserve (Deficit), December 31, 2009	274,862
Desired Working Capital Reserve, December 31, 2009 ²	100,000
Less: Projected Working Capital Reserve, December 31, 2009	(274,862)
Increase(decrease) in assessments to achieve desired Working Capital Reserve	(174,862)
2010 Assessment for Expenses and Capital Expenditures	616,810
Less: Penalty Sanctions ¹	0
Less: Other Funding Sources	(3,567)
Adjustment to achieve desired Working Capital Reserve	(174,862)
2010 Assessment	438,381

1 Penalty sanctions are not applicable to WIRAB

2 On June 29, 2009, WIRAB members approved a desired working capital reserve of \$100,000.

The reserve consists of the following components:
 \$100,000 for contingencies

Regional Entity Assessment Analysis

Assessments by Country

Table 6

Data Year	Regional Entity	Total NEL	U.S. NEL	Canada NEL	Mexico NEL	% of RE Total	US Total	Canada Total	Mexico Total
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Summary by Regional Entity

2008	FRCC	-							
2008	MRO	-							
2008	NPCC	-							
2008	RFC	-							
2008	SERC	-							
2008	SPP	-							
2008	TRE	-							
2008	WECC	-							
2008	WIRAB	882,526,829	750,568,932	120,894,879	11,063,018	100.000%	85.050%	13.700%	1.250%
	TOTAL	882,526,829	750,568,932	120,894,879	11,063,018	100%	85.050%	13.700%	1.250%

Breakdown by Statement of Activity Sections

The following detailed schedules are in support of Table 1, page 9, of the 2010 WIRAB Business Plan and Budget. All significant variances have been disclosed by program area in the preceding pages.

Penalty Sanctions

Not applicable to WIRAB

Supplemental Funding

No supplemental funding

Personnel Expenses

Table B-3

Personnel Expenses	Budget 2009	Projection 2009	Budget 2010	Variance 2010 Budget v 2009 Budget	Variance %
Salaries					
Salary	\$ 235,500	\$ 150,000	\$ 235,500	\$ -	0.0%
Employment Agency Fees	-	-	-	-	
Temporary Office Services	-	-	-	-	
Total Salaries	\$ 235,500	\$ 150,000	\$ 235,500	\$ -	0.0%
Total Payroll Taxes					
	\$ -	\$ -	\$ -	\$ -	
Benefits (included in Indirect Expense)					
Workers Compensation	\$ -	\$ -	\$ -	\$ -	
Medical Insurance	-	-	-	-	
Life-LTD-LTC Insurance	-	-	-	-	
Education	-	-	-	-	
Relocation	-	-	-	-	
Total Benefits	\$ -	\$ -	\$ -	\$ -	
Retirement (Included in Indirect Expense)					
Discretionary 401k Cont.	\$ -	\$ -	\$ -	\$ -	
Savings Plan	-	-	-	-	
Total Retirement	\$ -	\$ -	\$ -	\$ -	
Total Personnel Costs	\$ 235,500	\$ 150,000	\$ 235,500	\$ -	0.0%
FTEs	2.25	1.75	2.75	1	22.2%
Cost per FTE					
Salaries	\$ 104,667	\$ 85,714	\$ 85,636	(19,030)	-18.2%
Payroll Taxes	8,426	6,900	6,894	(1,532)	-18.2%
Benefits	8,200	8,200	8,200	-	0.0%
Retirement	7,850	6,429	6,423	(1,427)	-18.2%
Total Cost per FTE	\$ 129,142	\$ 107,243	\$ 107,153	\$ (21,990)	-17.0%

Explanation of Significant Variances – 2010 Budget versus 2009 Budget

Total FTEs will increase from 2.25 in 2009 to 2.75 in 2010. However, personnel costs will remain the same due to a change in focus. WIRAB has been looking for an experienced electrical engineer for two years. We have changed the requirements to an entry level engineer, which will lower the salary requirement. This change allows us to add a part-time policy analyst while keeping the salary requirements constant.

Section D

**WIRAB Statement of Financial Position
Statutory**

	(per audit) July 2007-June 2008	Projected Dec. 31, 2009	Budget Dec. 31, 2010
ASSETS			
Cash and Investments	\$ 225,913	\$ 274,862	\$ 100,000
Total Assets	225,913	274,862	100,000

DOCKET NO. RR09-__-000

**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

2010 BUSINESS PLAN AND BUDGET FILING

ATTACHMENT 12

DISCUSSION OF COMMENTS RECEIVED

DURING DEVELOPMENT OF NERC'S

PROPOSED 2010 BUSINESS PLAN AND BUDGET

**DISCUSSION OF COMMENTS
RECEIVED DURING DEVELOPMENT OF
NERC'S 2009 BUSINESS PLAN AND BUDGET**

Overview

Article XIII, section 4 of the NERC Bylaws provides:

In preparing the annual budget, business plan, and funding mechanism, the board shall consult with the members of the Member Representatives Committee, and shall post a draft budget and business plan for review and comment by the members of the Corporation and the Member Representatives Committee and the standing committees of the Corporation for at least thirty (30) days prior to the date of the meeting of the board at which the annual budget, business plan, and funding mechanism are to be adopted.

During development of NERC's 2010 Business Plan and Budget, interested entities were afforded opportunities to provide comments on drafts of the business plan and budget.¹

An overview, summary draft of the 2010 Business Plan and Budget (Draft 1) was provided to the Finance and Audit Committee (FAC) of the NERC Board of Trustees for discussion at a meeting of the FAC held on May 5, 2009, and was made available to stakeholders. Comments on Draft 1 were submitted to NERC by the Canadian Electricity Association (CEA); the Edison Electric Institute (EEI); the Electric Power Supply Association; FRCC; the Ontario Independent Electric System Operator; the ISO/RTO Council Standards Review Committee; MRO; NPCC; PNGC Power; and SERC.² Thereafter, a complete draft of the 2010 Business Plan and Budget (Draft 2) was posted for comment on June 24, 2009. Comments on Draft 2 were submitted to NERC by CEA; EEI; Exelon Corporation; IESO and Hydro-Québec TransÉnergie (joint comments); NPCC; the National Rural Electric Cooperative Association; Pacific Power, a Division of PacifiCorp; and Southern Company.

In addition, following the posting of Draft 2, the Regional Entities jointly submitted to NERC an alternate proposal, dated June 30, 2009, for the review and processing of Technical Feasibility Exceptions (TFEs) taken by registered entities to certain requirements of NERC Critical Infrastructure Protection (CIP) Standards.³ NERC posted the joint Regional Entity

¹ Although the NERC Bylaws specially require that an opportunity to comment on the draft business plan and budget be provided to members of the corporation, the Member Representatives Committee (MRC), and the NERC standing committee, NERC in fact receives and considers comments on the drafts of the business plan and budget from all stakeholders without regard to whether they fall into one of the foregoing categories.

² All of the drafts of the 2010 NERC Business Plan and Budget, and the written comments received on the drafts, are posted at http://www.nerc.com/filez/business_plan_2010.html.

³ The need for a procedure for submission, review and monitoring compliance with TFEs results from provisions in the Commission's January 18, 2008 Order approving NERC's proposed CIP

alternate proposal for stakeholder comment on July 7, 2009, along with the drafts of the 2010 Business Plan and Budget, since adoption of the joint Regional Entity alternate proposal for review and processing of TFEs would impact the resources and funding required by NERC and the Regional Entities in 2010. Comments on the joint Regional Entity alternate proposal for processing TFEs were submitted by American Transmission Company; Bonneville Power Administration; Virginia Electric and Power Company; Duke Energy; EEI; the Southwestern Power Administration; Tampa Electric Company; and We Energies.

The final version of the NERC 2010 Business Plan and Budget, identified as Draft 3, was posted on the NERC website and sent to the NERC FAC, MRC and Board of Trustees. After discussion of Draft 3 at meetings of the FAC and the MRC held on August 4, 2009, and a meeting of the full Board on August 5, the Board, at the August 5 meeting, approved Draft 3 as the 2010 Business Plan and Budget for submission to the Commission. The final, Board-approved NERC 2010 Business Plan and Budget is **Attachment 3** to this filing.

Summary of Concerns Expressed in Comments on Drafts of the 2010 Business Plan and Budget and How These Concerns Were Addressed in the Final Business Plan and Budget

The stakeholder comments that were received on Drafts 1 and 2 of the 2010 Business Plan and Budget, and on the related joint Regional Entity alternate proposal for reviewing and processing TFEs (as those comments impact budget issues, as opposed to the substance of the proposed procedures for processing TFEs) can be grouped into five main subject matter areas. NERC's summary of these five areas of stakeholder concerns are listed below, followed by a discussion of how each concern was addressed in the final 2010 Business Plan and Budget.

1. The 2010 Budget increases over 2009 are too large

Commenters expressed this concern with regard to the initial, overview draft of the 2010 Business Plan and Budget (Draft 1), and to a lesser extent with respect to Draft 2. Draft 1 of the 2010 Business Plan and Budget provided for a 2010 budget of \$49,431,000, which represented an increase of \$13,427,000, or 37.3%, over the revised 2009 Budget of \$36,006,000.⁴ Draft 1 provided for an increase in overall NERC staffing from 106.5 full-time equivalent employees (FTE) budgeted for 2009 to 162 FTE in 2010, a 52% increase in FTEs. The FTE increase in Draft 1 included the addition of 17 FTEs in the Compliance Monitoring and Enforcement Program to monitor compliance with NERC's CIP standards applicable to Balance-of-Plant (BOP) facilities at nuclear power plants, as specified by the Commission in Order No. 706-B.⁵

Standards CIP-002-1 through CIP-009-1. *Mandatory Reliability Standards for Critical Infrastructure Protection*, Order No. 706, 122 FERC ¶ 61,040 (2008).

⁴ The revised 2009 Budget was submitted in NERC's December 15, 2008 compliance filing to the Commission's October 16, 2008 Order conditionally approving NERC's 2009 Business Plan and Budget.

⁵ In Order No. 706-B, issued March 19, 2009, the Commission ruled that BOP facilities at nuclear power plants are subject to the NERC CIP Standards. *Mandatory Reliability Standards for Critical Infrastructure Protection*, Order No. 706-B, 126 FERC ¶ 61,229 (2009).

Stakeholders expressed concern over the amount of the increase in Draft 1 of the 2010 Budget particularly in light of the difficult economic conditions being experienced in the United States and Canada. Commenters noted that the adverse economic conditions affected, among other things, electricity sales and revenues by load-serving entities (LSEs), with the result that many LSEs are finding it necessary to reduce their own budgets and cut back on expenses and capital expenditures at this time. Commenters expressed concern about having to pay significantly increased assessments to NERC in 2010 over 2009 in light of the current adverse economic conditions.

A number of commenters on Draft 2 of the 2010 Business Plan and Budget expressed support for the efforts made by NERC to reduce the staffing and budget requirements in Draft 2 from Draft 1.

The budget and staffing increases over the revised 2009 Budget reflected in the final, approved 2010 Business Plan and Budget are much smaller than the increases reflected in Draft 1. The increase in statutory expenses plus capital expenditures in the final 2010 Budget over the revised 2009 Budget is \$4,802,137, which represents an increase of 11.3% over the revised 2009 Budget. In addition, the final 2010 Business Plan and Budget provides for a much smaller contribution to the Working Capital Reserve than was provided for in the 2009 Budget (\$469,043 versus \$1,393,496). The budgeted staffing in the final 2010 Business Plan and Budget is 131.50 FTE, which is an increase of 25 FTEs, or 23.5%, over the staffing reflected in the revised 2009 Budget.⁶ The proposed statutory assessments to LSEs in the final 2010 Business Plan and Budget are \$37,064,768, which represents an increase of \$5,141,552, or 13.9%, over the assessments in the 2009 Budget.

2. The 2010 Business Plan and Budget reflects an excessive expansion of NERC's activities, particularly in the Compliance Monitoring and Enforcement Program, into areas that should be the responsibility of the Regional Entities

Commenters expressed concern that the earlier drafts of the 2010 Business Plan and Budget reflected an excessive expansion of NERC's activities (and commensurate increases in budgeted resources), particularly into areas that commenters believed should be the responsibility of the Regional Entities. Commenters noted in this regard: (i) NERC's plans to become more directly involved, at earlier stages, in the processing of alleged violations of reliability standards by the Regional Entities; (ii) NERC's plans to perform monitoring and enforcement activities, including compliance audits, with respect to compliance with NERC CIP Standards at nuclear power plant BOP facilities; and (iii) NERC's proposal to take primary responsibility for reviewing, processing and approving or disapproving TFEs submitted by registered entities. (Item (iii) was addressed in particular by commenters on the joint Regional Entity alternate proposal for reviewing and processing TFEs.) In Draft 1 of the 2010 Business Plan and Budget, NERC budgeted for (i) the addition of 11.5 FTEs in the Compliance

⁶ Of the 25 additional FTEs over the revised 2009 Budget provided for in the final 2010 Business Plan and Budget, NERC has added, or expects to add, 9.25 of these FTEs during 2009. See Table 2, Personnel Analysis, in Section B of **Attachment 2**.

Monitoring and Enforcement Program primarily to be involved in processing alleged violations more efficiently, thereby helping to eliminate and prevent recurrence of the compliance violation “backlog”; (ii) the addition of 17 FTEs in the Compliance Program to perform compliance monitoring and enforcement activities with respect to compliance with CIP Standards at nuclear power plant BOP facilities; and (iii) the addition of 2.5 FTEs to review and process TFEs submitted by registered entities. These three initiatives accounted for 31 FTEs of the total increase of 55.5 FTEs in Draft 1 of the 2010 Business Plan and Budget as compared to the revised 2009 Budget.

The final 2010 Business Plan and Budget reflects a substantial reduction in NERC’s initiatives in these three areas. As indicated in NERC’s *Three-Year Electric Reliability Organization Performance Assessment Report* filed with the Commission on July 20, 2009 pursuant to the requirements of 18 C.F.R. §39.3(c), at this time NERC is not proposing to become more directly involved, at an earlier stage of the processing, in the Regional Entities’ processing of alleged violations for submittal to NERC and ultimately to the Commission. Rather, NERC is offering Regional Entities the option of seeking NERC’s advice and counsel with respect to particular alleged violations at earlier points in the processing.⁷ Under this approach, NERC will continue to perform a more oversight-oriented role over the Regional Entities’ activities in identifying and processing alleged violations of reliability standards. Additionally, as discussed in greater detail under item 3 below, the final 2010 Business Plan and Budget eliminates the addition of 17 FTEs to perform compliance monitoring and enforcement activities with respect to compliance with CIP Standards at nuclear power plant BOP facilities, and in fact does not provide for any incremental resources for this activity in 2010 (in large part because NERC now does not expect any significant resources to be required for this activity until 2011). Finally, as discussed in greater detail under item 4 below, the final 2010 Business Plan and Budget assumes that the Regional Entities, rather than NERC, will have the primary responsibilities for reviewing, processing, and monitoring compliance with TFEs to CIP Standards submitted by registered entities, and does not provide for any specific additional NERC staffing or other resources for this activity. Overall, the final 2010 Business Plan and Budget provides for an increase of 10.25 FTEs in the Compliance Monitoring and Enforcement Program over the revised 2009 Budget, as opposed to an increase of 31 FTEs in this program provided for in Draft 1 of the 2010 Business Plan and Budget.

3. NERC should not take responsibility for, or budget additions to its staffing and other resources for, performing compliance monitoring and enforcement activities with respect to compliance with NERC CIP Standards at nuclear power plant Balance-of-Plant facilities.

Commenters on drafts of the 2010 Business Plan and Budget took issue with NERC’s plan to take responsibility for performing compliance monitoring and enforcement activities with respect to compliance with NERC CIP Standards at nuclear power plant BOP facilities. As noted above, this plan required a substantial addition to NERC Compliance Monitoring and Enforcement Program staffing and Personnel Expenses, as well as accompanying increases in

⁷ See, e.g., *Three-Year Electric Reliability Organization Performance Assessment Report*, Attachment 2 at 23 and Attachment 3 at 35.

resources for Travel Expenses. Commenters submitted that this activity either was unnecessary, or should be handled primarily by the Regional Entities as part of their overall compliance monitoring and enforcement responsibilities under the approved delegation agreements. In addition, some commenters questioned the assumptions underlying NERC's budgeting of resources for this activity, *e.g.*, the frequency with which compliance audits or spot checks of nuclear plant BOP facilities would need to be conducted.

In the final 2010 Business Plan and Budget, this activity has been eliminated, along with the associated staffing and other costs, pending NERC's ongoing investigation of possible alternative approaches to monitoring and enforcing compliance with CIP Standards at nuclear power plant BOP facilities. However, ultimately resources will be required, at either or both of NERC or the Regional Entity level, for this activity, which arises as the result of the Commission's decision in Order No. 706-B issued in March 2009. Presently, NERC does not expect significant resources will be required for this activity until 2011, but NERC does expect this activity will result in budget impacts in 2011 and subsequent years.

4. NERC should not take responsibility for, or budget additions to its staffing and other resources for, reviewing, processing and monitoring compliance with TFEs submitted by registered entities; Regional Entities should have primary responsibility for this activity, with NERC in an oversight role.

Some commenters submitted that NERC should not take primary responsibility for reviewing, processing and monitoring compliance with TFEs to certain CIP Standards submitted by registered entities (as contemplated by Draft 1 of the 2010 Business Plan and Budget), but rather that the Regional Entities should be primarily responsible for this activity, with NERC performing an oversight role. These comments were expressed in particular by commenters on the joint Regional Entity alternate proposal for reviewing and processing TFEs, which provided for Regional Entities to have primary responsibility for this activity, and with which the commenters generally agreed.⁸

⁸ Separately from the business plan and budget development process, in March 2009, NERC posted for comment a proposed new Appendix 4D to its Rules of Procedure setting forth a proposed "Procedure for Requesting and Receiving Technical Feasibility Exceptions to NERC Critical Infrastructure Protection Standards," under which NERC would have primary responsibility for reviewing and approving TFE submissions. NERC received numerous comments on the proposed Appendix 4D; many of the commenters contended that the Regional Entities, not NERC, should have primary responsibility for receiving, processing, and monitoring and auditing compliance with TFE submittals. (The March 2009 version of proposed Appendix 4D and the comments received during the comment period are available at <http://www.nerc.com/page.php?cid=1/8/169>). NERC will soon be posting for comment a revised proposed Appendix 4D, which will provide for the Regional Entities to assume initial responsibility for receiving, processing, approving and monitoring compliance with TFE submittals, with NERC performing an oversight role and having ultimate authority to approve, disapprove or revoke a TFE. The revised proposed Appendix 4D will be consistent with the resolution of this issue for purposes of the NERC and Regional Entity 2010 Business Plans and Budgets.

The final 2010 Business Plan and Budget does not provide for NERC to take primary responsibility for reviewing, processing and monitoring compliance with TFEs, but rather assumes the Regional Entities will have this responsibility. The final 2010 Business Plan and Budget does not provide for specific incremental NERC staffing or other resources for this activity. Correspondingly, several Regional Entities have included in their final 2010 Business Plans and Budgets additional staffing and/or other resources (*e.g.*, consultants and contractors) to perform this activity. Additionally, some or all of the Regional Entities that have not provided for specific resources for this activity in their 2010 Business Plans and Budgets, may find it necessary to submit supplemental 2010 budget and funding requests at a later date for resources for this activity. Thus, while NERC is not currently budgeting additional resources for this activity in 2010, thereby reducing its statutory expenses and assessments from earlier drafts of the 2010 Budget, some Regional Entities are now budgeting, and other Regional Entities may later budget, for resources and assessments for this activity that were not included in earlier versions of their 2010 Budgets. Further, as the requirements of NERC's oversight role evolve during the remainder of 2009 and in 2010, it is possible that NERC may need to submit a supplemental budget and funding request for additional resources for this activity. NERC also observes that it is reasonable to expect there will be a large volume of TFE submittals to be processed in the closing months of 2009 and in 2010 and 2011, but that thereafter the volume of new TFE submittals may be expected to decline significantly.

5. Assessments to Canadian stakeholder should not include the costs of programs and initiatives that benefit only U.S. stakeholders, particularly programs and initiatives driven by FERC directives

Some Canadian commenters on drafts of the 2010 Business Plan and Budget expressed concern that budget increases for programs and initiatives driven by directives in Commission orders, or more generally which benefit reliability and stakeholders in the U.S. and do not provide demonstrable reliability benefits to Canadian entities, should not be reflected in assessments to Canadian LSEs. This topic is an ongoing concern of Canadian entities, to which NERC is very well attuned. NERC believes that its cost allocation methods, including its "Expanded Policy on Allocation of Certain Compliance and Enforcement Costs" and memoranda of understanding that it (and the cross-border Regional Entities) have entered into on this topic with provincial regulators or other responsible entities in individual Canadian provinces, provide fair and reasonable safeguards against inappropriate allocations of NERC and Regional Entity costs to Canadian entities.⁹

⁹ The Commission accepted NERC's "Expanded Policy on Allocation of Certain Compliance Costs" in its order issued July 16, 2009 concerning the 2009 Business Plan and Budget, finding that the Expanded Policy "provides reasonable guidelines for cost allocation in specific circumstances described in the document." *North American Electric Reliability Corporation, Order on Compliance Filing*, 128 FERC ¶61,025 (2009), at P 42.

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**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

2010 BUSINESS PLAN AND BUDGET FILING

ATTACHMENT 13

**CALCULATION OF ADJUSTMENTS
TO THE IESO 2010 NERC ASSESSMENT AND
THE QUEBEC 2010 NERC ASSESSMENT**

**2010 IESO Adjustment
Credit for NERC Compliance Costs**

	Final
2010 NERC Compliance Costs	
Direct Costs	9,359,703
Indirect Costs	5,186,621
Fixed Asset Expenditures	171,188
Total Costs, including Fixed Assets	<u>14,717,512</u>
Less: Costs to be recovered from Regional Entities where NERC serves as the CEA	<u>(404,781)</u>
Net total to be allocated	14,312,731
 Total Staff	 45.75
Less: FTEs budgeted for NERC to serve as the CEA for registered Regional Entities	 <u>(2.25)</u>
Net Total Staff	43.50
 % Credit (30.5 of 43.5 FTEs)	 70.11%
 \$ Credit (30.5 of 43.5 FTEs)	 \$ 10,035,363
 IESO NEL Share (2008)	 <u>3.287%</u>
 IESO Credit - NERC Costs, including Fixed Assets	 \$ 329,862

**2010 Quebec Adjustment
Credit for NERC Compliance Costs**

	Total NERC Compliance Budget Quebec NEL Allocation
2010 NERC Compliance Costs	
Direct Costs	9,359,703
Indirect Costs	5,186,621
Fixed Asset Expenditures	171,188
Total Costs, including Fixed Assets	14,717,512
Less: Costs to be recovered from Regional Entities where NERC serves as the CEA	(404,781)
Net total to be allocated	14,312,731
Quebec NEL Share (2008)	4.174%
Quebec Proportional Share of Compliance Costs, including Fixed Assets	\$ 597,400
Total Staff	45.75
Less: FTEs budgeted for NERC to serve as the CEA for registered Regional Entities	(2.25)
Net Total Staff	43.50
% Credit (21.5 of 43.5 FTEs)	49.43%
\$ Credit (21.5 of 43.5 FTEs)	\$ 7,074,108
Quebec Credit (Proportional share of all costs x % Credit)	\$ 295,267

Proportional Share of NERC Compliance Costs paid by Régie de l'énergie	\$ 302,133
Proportional Share of NPCC CORC Program paid by Régie de l'énergie (Refer to Column E-2, page 78, NPCC Business Plan and Budget)	\$ 1,075,136
2010 Billing to Régie de l'énergie for Compliance Program Costs-NERC and NPCC	\$ 1,377,269

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**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

2010 BUSINESS PLAN AND BUDGET FILING

ATTACHMENT 14

STATUS REPORT

ON THE ACHIEVEMENT OF

NERC'S 2009 GOALS AND OBJECTIVES, BY PROGRAM

Standards

Standards Program Goals	Status
Meet all United States and Canadian governmental authority directives with regard to standards development and procedures, including FERC Order Nos. 693, 705, and 706.	NERC continues to address the many regulatory directives it has been assigned. The Reliability Standards Development Plan includes a listing of projects whose scopes include the relevant regulatory directives. Action on directives issued as a result of prior standards filings are addressed on a case-by-case basis. Some of these have been addressed already while other directives will be addressed in a subsequent standards project that will be included in the development plan.
Meet the milestones in the three-year standards work plan.	NERC has focused its effort in 2009 on 11 key projects that are slated for completion in 2009. Of these, nine will be completed as expected or within 3 months of the target in the development plan. Two projects — Vegetation Management and Operating Personnel Communications Protocols are lagging behind and now are slated for completion in 2010.
Ensure the consistency and quality of Regional reliability standards.	NERC’s regional standards manager has been actively engaged with each Regional Entity through the Regional Reliability Standards Working Group collectively and with individual submissions to ensure the quality and consistency of Regional standards. This continues to be a work-in-progress but there has been an increased acknowledgment of the need for greater uniformity in approach.
Streamline and improve the standards process and associated tools.	There has been modest progress in improving the interpretation process and streamlining the standard authorization request (SAR) process for certain types of requests. In addition, the Standards Committee has reinforced the availability of informal comment periods to “test-drive” concepts and philosophies ahead of developing the standard requirements.
Work closely with NAESB in coordinating business practices and reliability standards.	There has been excellent coordination with NAESB through the efforts of the manager of business practice interface. These thoughts were echoed by NAESB at the August NERC Board of Trustees (BOT) meeting.

Communicate with stakeholders and regulators regarding standards development.	NERC continues to utilize its standard distribution lists as well as the NERC News to communicate actions related to standards. Additional work is contemplated through the routine issuance of Standards Change Bulletins to capture actions taken in a timely manner. NERC has regularly communicated with FERC staff on standards development activities but has not done so with the Canadian regulatory authorities directly as their main technical expertise resides in the entities that participate on NERC drafting teams, etc.
Establish a long-term vision for standards improvement and initiate implementation of the strategy.	Much discussion has taken place on this topic with developmental work completed by the Standards Committee's Process Subcommittee. The BOT has expressed its desire to actively move this effort forward and NERC has staff committed to work with the Standards Committee and others on an ad hoc basis to develop an action plan for presentation to the BOT at its November meeting.
Ensure the topics addressed by the reliability standards keep pace with changing industry needs.	NERC continues to be mindful of emerging trends such as smart grid and cyber security. Enhanced efforts produced an updated version of the CIP standards in May 2009, with active work for a subsequent version well-underway. Additional support has been provided for the smart grid initiative but efforts have not reached the point where new NERC standards are required.
Strengthen the relationship with the industry's technical committees to ensure adequate input to standards development.	This continues to be in need of strengthening without sacrificing the basic tenets of the standards development process.
Standards Development	Status
Develop and revise standards as directed by applicable regulatory authorities with sufficient interaction with the regulatory authorities during the development and revision process to achieve unconditional approval when filed.	While significant FERC staff interaction has taken place, NERC has not been able to produce proposed standards that achieve unconditional approval. NERC continues to discuss standards activity with FERC staff, but has not been successful in eliminating or reducing the number of requirements by thoughtfully eliminating administrative or low impact requirements.
Meet the deliverables outlined in the current version of the <i>Reliability Standards Development Plan 2008–2010</i> . Complete the following projects in 2009:	Since the 2009 budget and business plan was submitted, the 2008 version of the development plan was updated with the 2009 version. Some of the projects included below had their schedules modified to reflect the remaining development work.

Project 2007 — Real-Time Operations	Scheduled for completion in 2010.
Project 2007 — Certifying System Operators	Scheduled for completion in 2010.
Project 2007 — Balancing Authority Controls	Scheduled for completion in 2010.
Project 2007 — Disturbance Monitoring	Scheduled for completion in 2010.
Project 2007 — Frequency Response	Team has submitted a data request that NERC will process using its Section 1600 authority in the Rules of Procedure. This data will be used by the drafting team to develop the appropriate technical requirements for frequency response expectations in the Eastern Interconnection.
Project 2007 — Protection System Maintenance and Testing	While development work has been undertaken and a project initiated, the work will not be completed in 2009.
Project 2008 — Emergency Operations	This project was deferred from 2008 to 2009 to address higher priority development activities.
In accord with the <i>Reliability Standards Development Plan 2008–2010</i> , initiate the development process for the following new or modified standards:	
Use of phasor measurement devices;	This project is slated for initiation in 2009 but has not yet been initiated.
Review of the INT family of standards;	This effort has been initiated.
Improvements to FAC-001 and FAC-002 pertaining to connecting new facilities to the grid;	This is now a 2010 project.
Update to the disturbance and sabotage reporting requirements;	This effort has begun,
Improve the presentation and content of standards pertaining to protection systems;	This effort has begun in the area of coordination, misoperations, and maintenance and testing.
Modeling load and demand data modifications;	This effort is scheduled to begin in 2010.
Protection system standard improvements; and	This effort has begun in the area of coordination, misoperations, and maintenance and testing.
Resource adequacy assessments.	The NERC Planning Committee has undertaken an effort to provide a technical foundation for further continent-wide standard development. This project is currently on hold pending the availability of that analysis.

Propose new standards resulting from lessons learned by other NERC programs in the course of their activities (e.g., reliability assessment and performance analysis, compliance monitoring and enforcement, training, and situation awareness and infrastructure security).	No new projects have been initiated as a result of other program activities.
Regional Reliability Standards Development	Status
Process Regional standards submitted for approval and make recommendations to the NERC Board of Trustees.	NERC has successfully accomplished this objective through the processing and filing of eight Regional Entity standards in late 2008 and 2009.
Provide guidance to Regional Entities in the development of Regional standards during the developmental stages of the process.	Work-in-progress through the Regional Reliability Standards Working Group and through one-on-one Regional Entity interactions.
Standards Improvement	Status
As appropriate, incorporate changes to the <i>Reliability Standards Development Plan 2008–2010</i> based on the needs and priorities identified by the industry and regulators in a technical review and assessment of reliability standards.	2009–2011 version of the development plan was developed and filed utilizing the input provided through the opportunities for public comment.
Use the <i>Reliability Standards Development Procedure</i> to incorporate changes to planning and operating criteria and the definition of adequate level of reliability into reliability standards.	Not yet achieved.
Implement recommendations of the Standards Committee on the future organization of NERC’s Reliability Standards.	Not yet achieved.
Business Practice Interface	Status
Continue to coordinate NERC–NAESB standards efforts with respect to transmission loading relief, available transfer capability, balancing authority controls, interchange, and related tools.	Accomplished successfully.
Continue to review and identify improvements to the joint NERC–NAESB development processes and procedures.	Work in progress. Coordination has been excellent.
Explore the roles of NERC and NAESB organizationally to identify possible overlaps and create synergies resulting in increased efficiency.	Work in progress. Coordination has been excellent.

Schedule joint meetings between the Standards Committee and the NAESB Wholesale Electric Quadrant Executive Committee to consider issues of common interest.	Work in progress. Discussion on meetings has been undertaken but no actual dialogue has taken place to-date.
Standards Process Improvement	Status
Revise standards development processes and procedures, as necessary, in response to findings of July 2009 performance assessment.	Work in progress.
Revise standards development rules and procedures in response to governmental agency directives.	Performed as necessary.
Evaluate alternatives and improvements that ensure consensus is being achieved in an efficient manner.	NERC has continued to review its processes and procedures to ensure the development process achieves its objectives efficiently. NERC has published a Roles and Responsibilities document to add clarity to participant expectations and has issued an updated version of the drafting team guidelines to better guide the teams. Additional process adjustments include a staged SAR process based on the type of request. Regarding consensus, NERC has not experienced particular difficulties in achieving consensus to date for reliability-driven standard modifications or additions.
Establish criteria for determining what is a “high quality” standard.	Criteria have been developed. Will be incorporated into the drafting team guidelines at a future date.
For high priority standards, shorten average development time to 12 months through stakeholder ballot (exclusive of field testing) while ensuring that the standard produced meets the criteria for “high quality” defined above.	No significant progress in this area. High priority standards involve greater regulatory participation. Due to the industry sensitivity to these projects, there has been increased interest resulting in more comment periods than originally contemplated as well.
Evaluate the need to develop a triage function to assign resources to key issues.	By necessity, NERC staff has been performing an informal triage of requests to assign appropriate priorities.
Increase interaction between the Standards Committee and the standards drafting teams to improve progress on work plan deliverables and better manage issues of concern.	There has been increased discussion with drafting teams but further routine communications is required.
Develop an improved model for responding to requests for formal interpretation.	Accomplished.

Evaluate the cost of formal submission of approved standards to ANSI for adoption as a national ANSI standard.	To be accomplished through ANSI meetings in August 2009.
Submit all approved standards for regulatory approval within one month of Board of Trustees action.	Preparation of regulatory filings and engagement by the drafting teams has taken longer than expected.
Develop and implement a reliability standard version control and notification process.	Version control process in place. Notification process needs further work.
Evaluate the need for process changes, and, if necessary, implement appropriate changes to ensure drafting teams maintain focus on developing excellent technical standards.	NERC has continued to review its processes and procedures to ensure the development process achieves its objectives efficiently, one of which is to develop excellent technical standards.. NERC has published a Roles and Responsibilities document to add clarity to participant expectations, particularly with respect to justifying certain positions the drafting teams have taken regarding FERC directives. NERC is also exploring establishment of criteria for drafting teams to use when seeking additional input.
Assign, as required, regulatory or legal expertise to drafting teams to assist in developing standards with requirements and measures that are legally defensible.	NERC standards program has added a legal resource to assist in this expectation.
Improve the process of obtaining Standards Committee input when responding to regulatory directives or questions regarding reliability standards.	Have made modest improvements but not to the level of industry or NERC satisfaction. More work to be done.
Assign, as required, a professional technical writer to craft reliability standard language reflecting input from the drafting team experts.	Have not yet implemented this specific approach.
Establish targets for staffing and tools to support the standards process:	
Identify areas for greatest opportunity for process improvement.	Accomplished and included in the 3-year performance assessment.
Rethink the process for achieving consensus on standards.	No measurable progress on this topic although achieving consensus has not been a real issue.
“Flatten” the standards process by conducting at least 50 percent of all drafting team and committee meetings by conference calls and Web casts, and through greater utilization of e-mail.	Accomplished.
Survey stakeholders and drafting team members for input regarding the standard development process to identify opportunities for improvement.	Completed in support of 3-year performance assessment.

Survey drafting team members after each project concludes for input regarding the standard development process to identify opportunities for improvement.	Have not yet implemented since no teams have completed its process in 2009.
Evaluate and identify ways to improve ballot performance (quorums and balance).	No issues identified in either area to date.
Track adherence to the standards procedure.	Have reported to the CCC for conformance to procedure through the end of 2008.
Improve the training of drafting teams and revise drafting team guidelines as needed.	Guidelines have been updated periodically including an early 2009 edition.
Standards Communications	Status
Educate and inform industry stakeholders through standards workshops.	Workshop planned for October 2009.
Consider innovative methods to increase industry participation, such as presentation of workshops through use of videotaping, Webinars, or WebEx's.	Topics being considered although final platform not yet established.
Increase the outreach to industry stakeholders to specifically include trade organizations, through formalized standards conferences to obtain input to the reliability standards work plan and standards processes.	The 3-year performance assessment provided a unique opportunity for all industry stakeholders to provide input on three separate occasions. Additional opportunity exists with respect to the input periods for the next version of the three year standard development plan.
Update and inform governmental authorities on the standards development work plan and processes through individual discussions and joint meetings and conferences.	NERC has routinely communicated with FERC at the staff level throughout the year. Canadian regulatory communications are more individualistic as issues arise. More routine engagement is required across all provinces.
Develop standards program communications that support NERC's overall communications platform.	NERC's standards communications have been tailored to conform to the NERC "template". Additional communication activities are required to effectively communicate standard program items.
Establish NERC's standards Web site as the "one-stop" for all supporting materials pertaining to the standards.	This remains to be accomplished.

Compliance Monitoring and Enforcement and Organization Registration and Certification

<p>Compliance Monitoring and Enforcement Program Goals</p>	<p>Status</p>
<p>Direct and oversee the Regional Entities’ implementation of their delegated compliance enforcement program responsibilities.</p>	<p>Enforcement and Mitigation (E&M): NERC Compliance E&M is methodically, consistently and “substantively” reviewing each NOCV and settlement agreement submitted by the Regional Entities (RE) before it is brought before the Board of Trustees Compliance Committee (BOTCC) for NERC approval and filing at FERC. Each such review constitutes feedback and oversight by NERC to the relevant RE with respect to its delegated CMEP responsibilities.</p> <p>Compliance Audit Group (CAG): Director of regional operations hired.</p>
<p>Maintain 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.</p>	<p>Compliance Analysis Reporting and Training (CART): Conducted reporting and data coordination meetings, and presented and issued compliance directives/bulletins to Regions. Conducted quality assessments of reporting data submitted by the Regions. Developed and issued Regional performance indices and statistics for the 3-year assessment.</p> <p>Established and implemented processes with the Regional Entities to communicate receipt of documents, notices, and data submittals.</p> <p>Reports are issued twice a month to the Regions and once a month to the BOTCC identifying Regional outstanding performance issues surrounding the active violations in the process. This tool is used extensively to identify the nature and magnitude of the current backlog.</p> <p>E&M: NERC E&M is respecting BOTCC direction to ensure that any issues encountered by E&M with RE-submitted Notice of Confirmed Violations (NOCVs) or settlement agreements during NERC review are raised and, if/as possible, resolved prior to submittal to the BOTCC with E&M’s recommendation regarding NERC approval and filing with FERC.</p>

	<p>CAG: Director of regional operations working with Regions at multiple levels;</p> <ul style="list-style-type: none"> • Weekly compliance meetings • Formalized directives process • NERC-led workshops and participation in Regional workshops • Establishment of designated points of contact with each RE working group <p>CAG continues role as:</p> <ul style="list-style-type: none"> • observers on RE-led audits • auditor of RE implementation of CMEP
<p>Ensure timely mitigation of all violations of standards and requirements.</p>	<p>E&M: NERC review of submitted RE-approved mitigation plans is meeting 30 day “review and act” requirement, plus the requirement for timely subsequent RE and entity notification of NERC action, stipulated for NERC in CMEP; inadequate plans are being remanded back to RE; NERC-approved plans are being submitted to FERC within the 7 day requirement stipulated for NERC in CMEP.</p>
<p>Provide oversight of Regional Entity compliance programs and conduct formal audits of at least three Regional Entity compliance programs.</p>	<p>E&M: Compliance E&M is reviewing REs’ draft NOCVs and settlement agreements when requested to do so by the RE.</p> <p>CAG: CAG is on schedule to complete 4 audits this year. 2 audits (RFC and SERC) have been completed; the audit report for one (RFC) has been formally issued.</p>
<p>Participate in settlement processes with the Regional Entities for violations of standards as required, and review all settlements for consistent application of settlement principles.</p>	<p>E&M: There has been no active participation in settlement negotiations to date beyond review of draft agreements, in some instances, at the RE’s request.</p> <p>All final (signed) settlement agreements are being (“substantively”) reviewed per established practice for submittal, with staff recommendation, to BOTCC for NERC approval and filing at FERC.</p>
<p>Review all enforcement actions for consistent application in all violations of standards.</p>	<p>E&M: All final settlement agreements and NOCVs are reviewed; this is a fundamental element of NERC’s “substantive review” of RE-proposed compliance enforcement dispositions (NOCVs and settlement agreements)</p>

<p>Assess the effectiveness of enforcement actions in mitigating violations of standards.</p>	<p>At present there are no clearly established trend lines, the NERC staff is conducting periodic analysis and getting information and data to the industry. While the frequency of standards violations are in flux it is clear that the analysis of the violations is helping. There is also a limited number of enforcement actions with which to conduct analysis and determine any effectiveness yet.</p>
<p>Maintain the training program for compliance auditors.</p>	<p>The compliance department works closely with the NERC manager of training to ensure auditors are trained and provided periodic refresher training, educational workshops and updates to the CMEP</p>
<p>Work with the Training, Education, and Operator Certification to review and maintain auditor training requirements.</p>	<p>CAG: This is ongoing. Lead Auditor’s training class was conducted July 15–16; four (4) scheduled this year (only 1 remains). Training material being updated.</p>
<p>Ensure the training program requirements are delivered to all NERC and Regional Entity compliance auditors.</p>	<p>CAG: Training compliance bulletin #2009-CAG-003 was issued May 13, 2009</p>
<p>Maintain a training module for industry technical experts and audit volunteers.</p>	<p>CAG: Our training is only available for NERC, RE auditors, and industry subject matter experts (SMEs) and volunteers participating in audits. However, we have made a cut not to offer the training to registered entity personnel (other than personnel who serve as SMEs and volunteers who participate in audits of other entities) for resource and policy reasons.</p>
<p>Provide training on registration, reporting, and enforcement tools to the Regional Entity staff.</p>	<p>CART: Conducted NERC Compliance Reporting and Tracking System (CRATS) project update meetings with the Regions. Conducted Compliance Data Group meetings with the Regions to provide direction on reporting issues, processes, tools, and reporting and tracking expectations.</p> <p>E&M: Conducted an enforcement workshop, with the existence of the legal team. The CAG supported this workshop. The focus was on writing Notices of Conformed Violations, Notices of Penalty, and settlements.</p> <p>CVI: Will conduct a CVI workshop in September 2009, with a focus on methodology and lessons learned.</p>

<p>Enhance processes, databases, 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.</p>	<p>CART: The development and testing phases of CRATS is progressing. Testing is underway in registration and compliance Violations areas. Regional coordination during the pre-production testing phase is being orchestrated with the Regions.</p> <p>E&M: Compliance E&M has developed systems and associated databases for appropriate complementary management and tracking of compliance actions not presently covered by the current NERC CRATS system i.e., for mitigation plans and for enforcement dispositions (NOCVs and settlement agreements)</p> <p>Compliance E&M has developed automated systems and processes for generating required notices, notifications, etc., directly out of the databases into standardized forms</p>
<p>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.</p>	<p>CART: Established a reporting process with the Canadian National Energy Board (NEB) to report alleged violations associated with international power lines. Compliance directive developed and presented to the cross-border Regional Entities.</p>
<p>Confidentially report all alleged violations of standards to the appropriate governmental authorities in the United States, Canada, and Mexico through established processes.</p>	<p>CART: Processed all new alleged violations and updates to existing violations including receipt of numerous documents and notices. Modified and implemented an internal notification system to inform others to take action with such information. Actions include submission of various types of notices to FERC.</p> <p>Prepared and submitted to FERC, violation and violation mitigation plan status reports on a quarterly basis for all active violations. Dismissals have been evaluated, analyzed, and remanded at times to the Regions for additional information to determine whether such dismissals are justified. Once NERC approves such dismissal, a notice is then submitted to FERC.</p>

	<p>E&M: In the U.S., NERC is advising and keeping FERC abreast of relevant violations (i.e., U.S. violations) as called for and in accordance with timelines laid out in the CMEP</p> <p>CAG: Audit reports involving audits in the U.S. are transmitted to FERC via a confidential portal. Still need to work on a procedure for transmitting audit reports involving audits in Canada to applicable governmental authorities.</p>
Make notice of penalty filings for all penalties and sanctions applied to compliance violations.	<p>E&M: In the U.S. upon approval by the BOTCC of the associated NOCV or settlement agreement proposed by the RE, NERC has been filing Notice of Penalties (NOPs) for confirmed (or uncontested, in the case of some settlement agreements) violations of mandatory standards requirements incurred in the US</p> <p>In Canada the NERC cross-border REs (MRO and NPCC) are filing with or notifying, as applicable, appropriate Canadian jurisdictional authorities regarding reliability standards violations per the MOU or other agreement in force in that jurisdiction</p>
Provide other informational updates and filings as required by the NERC Rules of Procedure and governmental authorities.	NERC provides quarterly reports to FERC, process bulletins to the industry and maintains open communication with the Regions.
Maintain and enhance the reporting of violations of standards to the NERC Board of Trustees Compliance Committee.	<p>CART: Developed numerous monthly violations and violation mitigation plans statistical reports. Prepared analytical reports evaluating violations of specific reliability standards that have experienced a significant number of violations. Identifying and maintaining on an ongoing-basis a high impact list of violations that are monitored closely.</p> <p>All non-confidential statistical information is publicly posted after completion of each monthly BOTCC closed meeting.</p>
Report quarterly all confirmed violations of approved NERC or Regional standards for which investigatory, decisional, and appeal processes have been completed, including the identity of the organizations involved in those violations.	<p>CART: Prepared and submitted to FERC, violation and violation mitigation plan status reports on a quarterly basis for all active violations. Provided FERC with quarterly reports from FRCC and NPCC, as required.</p> <p>Collected vegetation-related transmission</p>

	<p>outage information from the Regions on a quarterly basis and issued quarterly NERC vegetation reports. Established a 48-hour process to report Category 1 vegetation contacts to NERC and issued a public notice encouraging the Transmission Owners to self-report such contacts in a timely manner.</p>
<p>Track the mitigation of identified violations of standards.</p>	<p>CART: Violation mitigation plans process status is provided to the BOTCC each month.</p> <p>E&M: Tracking to milestone dates during plan implementation has been left to REs to date; confirmation (by entity) and validation (by RE) that the mitigation plan was timely and successfully completed is a required key element of NERC E&M's substantive review of the NOCV or settlement agreement proposed by the RE to address the violations associated with the plan</p>
<p>Develop, on a coordinated basis with the Reliability Standards Program, the compliance elements for approximately 100 new or revised standards.</p>	<p>Compliance department personnel work with standards department personnel throughout the entire standards drafting process.</p>
<p>Manage all enforcement action appeals (resources based on approximately 25–30 appeals).</p>	<p>E&M: Requests for contest (of Notice of Alleged Violation and Penalty Sanctions (NAVAPS) received by NERC all forwarded (copies) to FERC within timeframe requirements stipulated for NERC in CMEP.</p> <p>No contests have proceeded to a hearing under the relevant RE's process to date</p>
<p>Maintain a compliance reporting process.</p>	<p>CART: A compliance reporting process is in effect. Submissions are received from the Regions on a daily basis. Workbooks are processed and new violations are submitted to FERC within two days of submittal acceptance by NERC. As of June 30, 2009, approximately 1,800 active post June 18, 2007 violations were in the compliance reporting process. Updates to violations, including receipt of notices and documents, are submitted to NERC via the existing reporting process each day.</p>

Organization and Registration Program Goals	Status
Maintain an accurate registration list of all owners, operators, and users of the bulk power system for compliance monitoring and communication purposes.	See the subsections below.
Oversee the Regional Entities' implementation of the registration process.	The ORC department is in communication with the Regions on a continuous basis. The ORC staff has an "open-door" policy for answering Regional Entity questions and issues on registration policies and practices.
Update and confirm the registration list as needed (at least annually).	The Regional Entities send data updates to NERC on an ongoing basis. Changes to the NERC Compliance Registry (NCR) are entered as soon as they are received and the posted NCR is revised monthly on the NERC Website. Registration notification letters are sent to the Registered Entities on a weekly basis. The Regional Entities are copied on all correspondence with the Registered Entities.
Provide necessary registration information to FERC and other appropriate governmental authorities.	The revised NCR is posted on the NERC Website and sent to FERC monthly.
Review the completeness of the organization registration list and determine if additional efforts are necessary to identify other entities or collect more information from bulk power system owners, operators, and users.	This has been done and a project has been initiated to verify the relationships for all the NCR functions as applicable e.g., what generators are in a given NCR BA's footprint, etc.
Maintain a process for appealing a decision to include an entity on the registration list.	The appeals process is delineated in the RoP and NERC processes and procedures. The BOTCC is the hearing body for all registration appeals.
Implement organization certification within the Regional Entities.	NERC is responsible for oversight and coordination of organization certification activities. NERC also leads certification activities for multi Regional, WECC, SPP, and FRCC certifications. NERC manages the certification quality performance indicators that are posted on the NERC Website.
Maintain processes and procedures, used by NERC and the Regional Entities, for carrying out the delegated certification activities that are required by the certification standards.	NERC provides technical and programmatic coordination of all certifications. NERC has also lead certification activities for those certifications of the SPP RTO, and WECC RC. The ORC has developed procedures above and beyond the scope of the NERC RoP to provide implementation guidance to ensure consistency across the Regions.

<p>Provide auditors for certification audits scheduled by the Regional Entities.</p>	<p>NERC provides technical and programmatic coordination of all certifications. NERC develops the agenda, questionnaires, surveys, presentation templates, final report draft, and supports the lead through the evidentiary portions of the certification. NERC also posts the certification audit reports and performance indicators on the NERC Website.</p>
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Training, Education, and Operator Certification Program

Operator Certification	Status
Administer the current System Operator Certification Program.	Over 450 system operators have maintained their credentials using continuing education (CE) hours. Over 750 system operators have applied for new exams. There have been 646 exams already taken this year. We have also processed over 185 new PJM exam requests.
Administer the job analysis tool to define the tasks performed by system operators for future examinations.	Survey completed July 31, 2009. AMP will analyze the data received to develop the first draft of the new content outlines by August 31, 2009. Final content outlines will be completed by September 30, 2009, at which time the exam working group will begin work on developing new certification exams.
Complete the three-year transition to the exclusive use of continuing education hours for maintaining system operator certification.	This is progressing smoothly and will be completed October 1, 2009
Continue to identify and implement additional interface improvements to the portal and database that personnel use to register for the system operator certification examinations and track continuing education activities.	Work continues to identify and implement improvements to SOCCED. System operator demographics will be added by August 31, 2009 along with the ability for utility trainer to view transcript data for those system operators who have granted them permission through the SOCCED. Other enhancements will be implemented through additional changes of scope through the year.
Continue the development of an advanced certification for system operators.	A white paper will be ready for posting and industry comment by August 31, 2009.
Investigate the feasibility, interest, and scope of developing a certification credential for protective relay technicians.	This project has changed into finding a solution to reduce human errors in the operation of system protection systems. A recommendation is scheduled for December 31, 2009.
Continuing Education	Status
Implement the newly raised requirements to become an approved training provider.	CE Program Administrative Manual changes to include the raised requirements will be made after the August 4 meeting of Personnel Subcommittee. Notice to providers will be sent when v4.1 is uploaded to our CE Program Website
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.	CE Program Manual changes to accomplish this goal are complete and in effect, providers have been notified.

Continue to define and implement improvements to the portal and database used by providers to track delivered continuing education activities.	Change of Scope (COS) 8.0 is being tested. Changes to be moved over to the Production SOCCED in August 2009. COS 9.0 being developed.
Training and Education	
Compliance	Status
Continue delivering, on a quarterly basis, the fundamental compliance auditor training for new NERC staff and Regional Entity staff who act as team leaders.	Three sessions held in 2009 with 28 participants. One more scheduled in October.
Develop and deliver four new learning activities to further improve compliance auditor skills.	Plan in development with Regional Entities to identify four top priorities. Plan to be completed by October 15, 2009. "Assessing Compliance Cultures" course is in development.
Partner with auditing organizations such as IIA to offer appropriate auditing courses for NERC compliance audit team members.	Use of outside organizations for specific areas of training is part of the plan addressed above.
Develop and deliver NERC auditor training for IT specialists on the Critical Infrastructure Protection standards.	Working with outside experts to identify knowledge needs and costs to deliver this in 2010.
Continue to deliver the CIP fundamentals course to NERC and regional entity compliance auditors.	In 2009 four sessions were held with 65 participants attending. Project complete.
Standards	Status
Continue delivering existing courses for the drafting team leaders and participants.	NERC continues to offer the online course "Creating Compliance Elements for NERC Reliability Standards."
Develop and deliver one new course to improve the skills of drafting team leaders and participants.	No action. This project will likely be postponed to 2010 to focus resources on CIP standards training for compliance.
Human Resources	Status
Assist in the development and delivery of three new training activities for NERC staff with the human resources department.	Time-tracker tool activity was completed on April 1, 2009. New-hire orientation instructor-led course is under development and will be completed by October 6, 2009. The on-line version will be completed by December 31, 2009.
Communications	Status
Develop and deliver monthly learning activities on topics and issues of reliability via WebEx.	10 webinars offered in 2009 with over 4.000 participants. Monthly offerings are scheduled through the end of the year.

Reliability Assessment and Performance Assessment Program

Reliability Assessment Program	Status
<p>In conjunction with Canadian authorities and Regional Entities, to avoid duplication of efforts, conduct and report the results of independent assessments of the overall reliability and adequacy of the interconnected North American bulk power system for the summer of 2009, the winter of 2009/2010, and the period of 2009–2018.</p>	<p>Issued 2009 Summer Assessment on schedule in May 2009.</p> <p>Development of :</p> <ul style="list-style-type: none"> • 2009 LTRA on schedule. • 2009 Scenario Reliability Assessment on schedule. • 2009/2010 Winter Reliability Assessment on schedule.
<p>Assess and report on the key issues, risks, and uncertainties that affect or have the potential to affect the reliability of the existing and future bulk power system (supply shortages, generating unit shutdowns, fuel supply and transportation disruptions, droughts, floods, strikes, extreme weather, etc.).</p>	<p>14 emerging and standing issues identified by Planning Committee (PC) subgroups and NERC Staff. Risk assessed by PC will be reported in 2009 LTRA.</p> <p>Issued special report “<i>Accommodating High Levels of Variable Generation</i>” in April 2009 to address many issues related to variable generation.</p> <p>Initiated Smart Grid Task Force to review reliability considerations of smart grid technology on the bulk power system.</p> <p>The Reliability Impacts of Climate Change Initiatives Task Force will be issuing report.</p>
<p>Address potentially negative impacts on bulk power system reliability or adequacy due to the operation and planning of gas supply, transportation, and storage, on the operation and planning of electric systems. 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.</p>	<p>2009 Summer Reliability Assessment reviewed the fuel considerations for the upcoming summer.</p> <p>2009 LTRA will provide a detailed report of fuel supply impacts on bulk power system reliability or adequacy. Natural gas will be addressed along with coal and uranium.</p> <p>2009/2010 Winter Reliability Assessment will address potential wide-spread reliability impacts due to changes in gas composition and the fuel considerations for the upcoming winter season.</p>

<p>Investigate, assess, and report on the potential impacts of demand response initiatives and introduction of renewable energy sources on the adequacy and operating reliability of the bulk power systems.</p>	<p>Issued special report “<i>Accommodating High Levels of Variable Generation</i>” in April 2009.</p> <p>Industry demand response and new efficiency activity reported in NERC’s seasonal and long-term reliability assessments.</p> <p>The Demand Response Data Task Force is currently in the approval process to implement a demand response data repository known as the demand response Availability Data System (DADS). The Phase I and II report will be brought to the PC in September.</p> <p>Ongoing Coordination with NAESB</p>
<p>Establish and maintain relationships with industry, regulatory, and governmental organizations involved with or having an interest in bulk power system reliability (e.g., DOE, FERC, Energy Information Administration (EIA), RTOs/ISOs, Electric Power Research Institute (EPRI), National Energy Board (NEB), Canadian provincial governmental agencies, etc.).</p>	<p>FERC has staff rep on Reliability Assessment Subgroup, Reliability Metrics Working Group, and Data Coordination Working Group.</p> <p>Meet with FERC, DOE, industry associations, etc. to provide pre-release briefings of all reliability assessments.</p> <p>Maintaining relationships with industry groups (list to left and NAESB, EEI, and others.)</p> <p>Coordinated with EIA to provide industry recommendations to the 2011 Form EIA-411 and provide forecasts for the LTRA.</p> <p>Coordinated with FERC for the National Assessment of Demand Response. FERC will be a primary user of the Demand Response Availability System.</p> <p>On-going coordination continues with a variety of EPRI projects (e.g., transmission efficiency workshops, variable generation, etc.).</p> <p>Power System and Energy Research Consortium (PSERC) provides participants to NERC activities.</p>

Review international practices on emerging issues and incorporate them into the reliability assessment reports.	<p>Maintain active communications with European Transmission System Operator organization and UTCE in Europe and Association of the Electricity Supply Industry of East Asia and the Western Pacific.</p> <p>Participated in international forums to share and learn practices on reliability assessments.</p> <p>University of Dublin leading variable generation work groups.</p>
Review regional reliability assessment processes, criteria, and methods for consistency, and understand their interdependency and impact on neighboring regions.	<p>Done as part of seasonal and long-term reliability assessment processes.</p> <p>Increased data requests for more granularity in transmission data</p> <p>Participate in Regional Reliability Assessment Committees/Working groups</p>
Develop white papers on key emerging issues with associated metrics and industry action plans.	<p>Published a report on integrating high-levels of variable resources in April 2009.</p> <p>Reliability Impacts of Climate Change initiatives report to be published in September.</p>
Develop and submit standards authorization requests (SARs), as required, for any deficiencies or needs revealed by reliability assessments, and solicit industry subject matter experts to serve on standards drafting teams.	Coordinated with industry subject matter experts (Resource Issue Subcommittee, Transmission Issue Subcommittee and Resources Subcommittee) to identify deficiencies and needs for SARs.
Event Analysis and Information Exchange Program	Status
Conduct NERC-level analyses, prioritized based on available resources, of significant system events to determine root causes and lessons learned.	Ongoing as required.
Participate in regional analyses as determined by NERC.	Ongoing as required.
Record all significant system events in the NERC Events Database, created in 2006 (in conjunction with the Situational Awareness and Infrastructure Security Program).	Ongoing as required. Database is current for 2009 events.
Maintain and enhance NERC's <i>Blackout and Disturbance Response Procedures</i> (in conjunction with the Situation Awareness and Infrastructure Security Program).	Continually updating procedure and developing protocols for collaboration with situation awareness and compliance. Event Analysis Coordinating Group to develop future enhancement specifications for possible regional participation.

Direct teams in the analysis of significant system events.	Ongoing as required.
Analyze the frequency performance of the interconnections using data from appropriate measurement systems.	Initiating Frequency Response Initiative to track and analyze frequency events. Pilot events have been selected and analysis to begin in 3 rd quarter.
Establish a clear set of criteria for sorting reported system events into categories, deciding what level of analysis is needed, and who will undertake such analyses (triage function).	Event categories have been updated and serve as categorization/level of analysis criteria for designated system events.
Communicate to the industry root causes of events that may be precursors of potentially more serious events and other “lessons learned” from all analyses. For these purposes, develop Advisories, Recommendations, and Essential Actions. In the cases of Recommendations and Essential Actions, collect, summarize, and develop reports to FERC and governmental authorities in Canada on industry responses.	Developing industry lessons learned website based on designated events analyzed, incorporating lessons learned from earlier DAWG reports. EA personnel working to complete backlog of possible advisory.
Analyze and identify improvements to the interaction of the transmission system with nuclear power plants, especially related to minimum voltages required by the plants for the safe shutdown of reactors.	Tracking two events associated with nuclear power plant power supplies. Discussions expected to open with NRC on voltage ride-through in 4 th quarter.
Develop and submit SARs, as required, for any deficiencies or needs revealed by event analyses.	Ongoing as required.
Advise the Compliance Monitoring and Enforcement Program of any potential reliability standards violations identified through significant system event analyses.	Events Analysis is currently conducting information sharing initiatives with Compliance Monitoring and Enforcement Program and Situational Awareness Watch.
Assess and report quarterly to NERC technical committees and the Board of Trustees on past reliability performance of the bulk power system.	Ongoing as required. Recently completed task at August 2009 Board of Trustees Meeting.
Assess and report annually to NERC technical committees and the Board of Trustees on reliability performance for the previous five years, including recommendations to improve reliability.	Ongoing as required. Recently completed at August 2009 Board of Trustees Meeting.

<p>Improve understanding of dynamic system behavior by: promoting understanding of inter-area oscillations and their importance to system integrity, and promoting application of Phasor Measurement Unit-based technology to improve system operator visualization and operational preparedness.</p>	<p>EA personnel working with WECC System Stability Controls task force investigating possible use of PMUs for controlling inter-area oscillations. Co-sponsoring FIDVR and Modeling workshop in Washington, DC area with DOE on September 29, 2009</p>
<p>Improve performance of system protection by promoting generator/transmission protection and controls coordination and improvement.</p>	<p>SPCS has authored a Technical Reference document Power Plant and Transmission System Protection Coordination, which will be presented for approval to the Planning Committee in September. The document will then be input into the Standards process for PRC-001 — System Protection Coordination. Training materials will be prepared for proposing joint training symposiums with IEEE Power System Relay Committee.</p>
<p>Improve system modeling by sponsoring model validation/dynamics symposiums; assist interconnection-wide reliability assessment groups in improving the quality of base cases they develop; promote development of standard file formats for exchanging real-time powerflow data (power system “snapshots”); and standardize the mapping of power system elements (generators, transmission lines, etc.) in databases and power system models.</p>	<p>Event Analysis personnel have participated and presented at industry meetings, including IEEE PES, on model validation. EA personnel have also launched formation of a Model Validation Task Force (MVTF) under the Transmission Issues Subcommittee (TIS), which is authoring an IEEE paper on the subject. EA and TIS are preparing a scope document for a comprehensive modeling improvements initiative to further this goal.</p>
<p>Communicate regularly with the Transmission Owners and Operators Forum on findings from event analyses.</p>	<p>Ongoing as required.</p>
<p>Reliability Metrics and Benchmarking Program</p>	<p>Status</p>
<p>Maintain a performance metrics “dashboard” on the NERC Web site.</p>	<p>Maintained and updated reliability performance and leading indicator trends on the NERC Website every quarter.</p>
<p>Identify and track key reliability indicators (such as system control performance, transmission loading relief (TLR), disturbances, etc.) as a means of benchmarking reliability performance and measuring reliability improvements (initiated in 2006).</p>	<p>Developed 9 reliability performance metrics through stakeholder process in 2009, including</p> <ul style="list-style-type: none"> • Two on system control performance and three on adequacy measurements.

Identify and continuously monitor performance indices to detect emerging trends.	Tracked and monitored reliability performance, including trends on operating reliability and adequacy gaps. Presented violation index concepts to Board of Trustees Compliance Committee to measure compliance performance with reliability standards.
Review reliability metrics with industry, regulatory, and governmental organizations involved with or having an interest in bulk power system reliability.	Incorporated historical trends of reliability performance in 2009 Summer Reliability Assessment 2009 LTRA and 2009/2010 Winter Assessment will include reliability metrics vetted by the RMWG.
Develop leading indicators to recognize and eliminate unreliable actions and at-risk conditions.	Identified three leading root causes of disturbance events Coordinated with the technical committees to develop and submit SARs for deficiencies revealed by analysis.
Establish and maintain a continuing working dialog on reliability benchmarking with industry representatives.	Maintaining strong working relationships with Reliability Metrics Working Group and other stakeholder groups, including Operating, Planning, Critical Infrastructure Protection and Standards Committee's and their workgroups. Significant collaboration with the Reliability Assessment Subcommittee, System Protection and Control Subcommittee, Resource Issues Subcommittee, and Resources Subcommittee.
Transmission Availability Data System (TADS) Program	Status
Maintain and expand the Transmission Availability Data System (TADS) and report on trends in transmission equipment performance.	The first TADS reports (NERC and one per Region) were published and posted on June 30, 2009.
Subject to board approval in 2008, expand the system to include historic Planned Outages and related metrics required by the TADS Task Force.	The collection of all Non-Automatic Outage data (planned and operational) was approved by the board in 2008. Its implementation is on-track for data collection to begin in calendar year 2010.
Eliminate the need for duplicate Transmission Owner reporting via EIA-411.	NERC and EIA have agreed that TADS data can be used for reporting 2010 calendar year U.S. data for EIA-411 required compliance in 2011.
Export data from TADS to fulfill the EIA-411 Schedule 7 requirements.	This effort is on track for the first expected report to EIA in 2011.

Evaluate the feasibility of expanding TADS to cross reference TADS and GADS automatic outage events. (Events which automatically cause outage events on both transmission circuits and generators should be integrated and such trends tracked via TADS.)	This effort will be addressed under the recently-formed Planning Committee subgroup, the Data Coordination Subcommittee, which is coordinating data collection activities under the Planning Committee.
Generating Availability Data System (GADS) Program	Status
Continued upgrades and improvements to pc-GAR plus maintenance and upgrades to other GADS-related programs, such as edit and entry programs.	In place and ongoing
Complete work on translation tables to convert INPO data to the GADS format for collecting all nuclear data to reduce the reporting burden on data reporters (i.e., report once to both databases). Develop web interface data collection, editing and return reports program. (This software would allow reporters to batch GADS event and performance data to the software which will edit, mark errors, and return reports to the user without human interface. It will store all event and performance records as “good data” or “data with errors.” It will be a quick turn around and remove the need for some technical analyst support.)	INPO project is aborted per INPO. INPO management decided not to continue with this project. Web-based GADS data collection and editing in programming stages.
Place pc-GAR on the web. Set up account numbers where entities can use the software on a subscription basis as needed and access the same executable problems as NERC now sends them on CDs. This will lead to increased use of pc-GAR and more income from use of the software.	Programming and revisions to pc-GAR are in progress so that this project can be completed in 2010.

Situation Awareness and Infrastructure Security Program

Critical Infrastructure Protection	Status
<p>Develop an alternative standard setting process for cyber security standards that provides for an accelerated review of the existing critical infrastructure protection standards to incorporate the comments from FERC and to consider the extent to which elements of the National Institute of Standards and Technology (NIST) standards should be included in the NERC cyber security standards.</p>	<p>The board has approved an emergency standard setting process. This process is being designed and implemented by the Standards Committee and the Standards Program Area. SAIS has provided its input into the process and will have implementation responsibilities for Indications, Analysis and Warnings in the new process. The Cyber Security Order 706 Standard Drafting Team has the task of reviewing and considering the inclusion of NIST 800-53 Version 2 controls and processes for inclusion into Version 3 of the CIP Standards.</p>
<p>Continue with the assessment of the industry's preparedness to address cyber security threats and make recommendations for preventing cyber intrusions. As part of this assessment, evaluate the industry's capability for isolating and limiting attacks so they remain within its abilities to withstand any subsequent equipment losses and restore the system quickly.</p>	<p>SAIS, working with industry advisories, has finalized and implemented a project to assess industry's preparedness through several comprehensive and challenging table-top exercises. The Cyber Risk Preparedness Assessment (CRPA) has completed the planning phases and will conduct the initial pilot exercise in August with a plan to complete the remaining exercises in the fall of 2009. The ESSG and MRC have received ongoing and timely updates on the project's status.</p>
<p>In consultation with Critical Infrastructure Protection Committee (CIPC) leadership, re-examine the charter and scope of the Critical Infrastructure Protection Committee to maximize its contribution to NERC and the industry with respect to cyber security protection.</p>	<p>NERC has engaged with the CIPC, but has not worked formally with the CIPC leadership to re-examine the existing charter and scope. The updated charter was approved at the Board of Trustees August 5, 2009 meeting. NERC's CSO has engaged with the CIPC leadership to evaluate their work plans and requested a sharp focus on guideline development in support of the CIP Standards. Two important guidelines are in the drafting process and the committee is reviewing existing guidelines and is working to develop a better approach to lifecycle management.</p>

<p>With the guidance of the ESSG, establish a protocol with DHS, DOE, FERC, and their Canadian counterparts to ensure comprehensive cyber security threat analysis and risk assessment is available to NERC from a consolidated government voice, with industry users, owners, operators able to participate directly.</p>	<p>NERC has developed an informal threat and risk assessment program with federal authorities. The program has included the establishment of necessary working relationships with the FBI, Office of the Director of National Intelligence, RCMP, and CSIS. NERC is working with DOE as the sector specific agency and DHS to conduct annual classified sector briefings while supporting as needed classified meetings to understand and assess risk to the bulk power system. Several trips to Ottawa and D.C. were necessary to confirm existing and develop new protocols for the sharing of this type of information. NERC has instituted sector monthly situational awareness briefings and has asked North America authorities to participate.</p>
<p>Work with the ESSG, FERC, and applicable Canadian authorities to identify the most effective and secure method of assessing cyber security preparedness and performance.</p>	<p>The CRPA program along with CIP implementation measurement efforts are being used to assess the preparedness of the BPS.</p>
<p>Establish communication protocols for responding to public and media questions on matters associated with Critical Infrastructure Protection, especially with regard to cyber security.</p>	<p>SAIS has worked closely with communications to develop several position papers and media strategies to address CIP matters. These efforts have been successful in clearly outlining NERC's position relative to emergency authorities, standards development activities, voluntary programs and the importance of cyber security.</p>
<p>Work with NERC's CIPC to create plans for electric sector preparedness and emergency response exercises to be executed in 2010 and 2011.</p>	<p>NERC has planned for and participated in several CIP and sector preparedness exercises in 2009 and will plan to use a National Level Exercise in 2010 to exercise down to the entity level. NERC has supported NLE-08, NLE-09, National Capitol Region CIP exercise, Secure Grid'09, Regional Planning Exercise, and Broken Wire'09. We are planning with the CIPC to support Cyber Storm III in 2010 (to be discussed at CIPC EC meeting in Atlanta on 8/12-13).</p>
<p>Work with the ISAC Council and CIPC to define a strategy for addressing cross-sector interdependency issues.</p>	<p>NERC as the ES-ISAC has participated in several cross sector exercises (noted above) and has participated in ISAC Council meetings under a framework to address cross sector dependency issues. NERC has also included other sectors in vulnerability working groups and our assessment program.</p>

Participate in exercises designed to identify cross-sector dependencies.	NERC SAIS is actively engaged in the Partnership for Critical Infrastructure Security (PCIS) and is the workgroup chair for the interdependencies effort. Working with leadership in several other critical infrastructures such as Oil and Natural Gas, Water and Transportation, NERC's participation helps to identify just where the Electric sector's interdependencies are.
Work with the ISAC Council and CIPC to prepare guidance on how to account for these dependencies in planning and operations.	Due to the PCIS involvement the actual engagement of this work includes all of the sector ISAC as well as the State, Local, Tribal, Territorial, Coordinating council (SLTTCC). This breadth of cross-sector engagement will ensure that the work product of this effort is very well socialized across all of the Electric Sector's key interdependency areas.
Actively manage the Infrastructure Security Guideline Program.	Discussed at CIPC EC meeting on 8/12-13. Have achieved agreement to eliminate non-sector specific security guidelines.
Review and improve existing security guidelines.	Security Guidelines Working Group Chair Scott Webber is developing plan to upgrade existing guidelines
Develop new security guidelines to meet the needs of the electricity sector.	Possible new guidelines discussed at CIPC EC meeting on 8/12-13.
Consider whether any guidelines should be developed into NERC standards.	Nothing started in this area.
Support other NERC business units' activities related to CIP standards.	Concept paper released for industry comment; work started on drafting requirements for CIP-002-3
Identify priority activities for NERC in DOE's Roadmap to Secure Control Systems in the Energy Sector and, with DOE, create action plans for CIPC or other relevant NERC groups' consideration.	DOE holding meeting on 9/2/09. NERC will support.

Monitor the progress of the DOE-sponsored Detection and Analysis of Threats in the Energy Sector (DATES) project and identify opportunities for active participation.	NERC is working to create a threat analysis function that integrates the Canadian and US based intelligence communities. To that end, NERC is coordinating a first North American Threat briefing at a classified level. This briefing is targeted for the December time frame and will involve Canadian and US intelligence authorities and the CIPC and ESS representing the private sector owners and operators. The continuation of this effort in calendar year 2010, with quarterly international briefings, constitutes the beginning of the involvement of NERC into the DOE efforts.
Identify priority activities for NERC in the Department of Homeland Security's (DHS) National Infrastructure Protection Plan and, with DHS, create action plans for CIPC or other relevant NERC groups' consideration.	CIPC EC to begin working on Energy Sector Specific Plan at 8/12-13 meeting.
Participate in the DHS-sponsored activities to create and implement performance metrics related to its National Infrastructure Protection Plan.	Metrics work will be related to data measuring NERC reliability standards compliance.
Strengthen relationships with governmental entities and continue ongoing efforts to build long-lasting partnership and collaboration.	Ongoing, with the Chief Security Officer facilitating.
ES-ISAC	Status
Enhance the capability to monitor conditions on the bulk power system and rapidly communicate conditions to appropriate stakeholders.	SAFNR implemented and operational in June, 2009.
Continue the deployment of the Situational Awareness Tool to all reliability coordinators with completion targeted for 2010.	NERC SAT was replaced with SAFNR and its implementation was completed on schedule.
Deploy an emergency notification system.	NERC Alert system will be in testing phase in mid August with implementation scheduled for September.
Upgrade threat and incident reporting mechanisms.	Same as above.
Build effective coordination and communications channels with NERC's Events Analysis and Communications program areas.	Monday meetings at 10:30 has resulted in effective coordination and communications with EA. Good communications and coordination has been established with communications program area.
Establish a location within NERC's present office space to house ES	SA room is now operational.

Upgrade telecommunications to ensure rapid information sharing between critical stakeholders and to enable on	90% complete. Anticipate completion by 9/1.
Provide centralized displays of information from existing situational awareness tools (Resource Adequacy, RCIS, F-net, NERC SAT, etc.)	SA room to be equipped with SA tools by 9/1.
Reliability Tools and Support Services	Status
Manage the North American SynchroPhasor Initiative (NASPI) project.	Continuing work in progress
Continue to fund the contracted professional project manager.	Continuing
Prepare annual business plans for NASPI with critical milestones and funding requirements.	Continuing
Develop regulatory support and approval for NASPI at provincial, state, and federal levels.	PM is working actively with NARUC and FERC.
Resolve industry concerns about data availability, disclosure, and confidentiality.	Draft NDA has been prepared and will be sent to industry with the intent to adopt.
Develop and implement recommendations for NERC's on-going role in NASPI over the mid- and long-term.	Included in Chief Information Officer's Tools initiative.
Ensure the successful installation of phasor measurement units at all key locations in the North American interconnections to provide optimal coverage and wide-area visibility.	Progress has slowed while asset owners apply for stimulus funding to fund projects.
Contract with TVA to expand use of its existing super data concentrator to collect data from new phasor measurement units.	Contract with TVA signed and work is on schedule.
Identify up to seven locations in North America to house additional super data concentrators to improve data collection performance, reliability, and availability. Acquire necessary hardware and software to deploy at least three new sites in 2009, with the remainder to come on-line in 2010.	Three additional sites have been identified. This has fallen behind schedule due to delays associated with possible stimulus funding.

<p>Design and begin to construct the telecommunications network required to exchange data between super data concentrators and to deliver information created from that data to control centers.</p>	<p>NASPI net spec is completed and being reviewed by industry.</p>
<p>With appropriate technical committees, evaluate the need for and document requirements of new tools or improved functionality for existing tools (e.g., Interchange Distribution Calculator), and initiate upgrades using approved management processes.</p>	<p>Tool initiative is being addressed in coordination with the Operating Committee.</p>
<p>Meet performance and availability expectations for reliability tools and improve the support function to meet user expectations.</p>	<p>Tool initiative is being addressed in coordination with the Operating Committee.</p>

Information Technology

Goal	Status
Achieve compliance with NERC’s Cyber Security Standards CIP-002–CIP-009 by June 30, 2009.	Self-certification of compliance is required on or before July 31, 2009. Hired SecureState LLC to perform a compliance review, which was conducted July 15–16, 2009. A preliminary report was received in the beginning of August 2009.
Continue the development, integration, and expansion of databases and applications into a unified NERC-wide Information Management System. This system will ultimately feed active content to NERC’s Web site.	<p>The thrust of this initiative for 2009 is in the Compliance area, specifically the Compliance Reporting and Tracking System (CRATS). From the technology perspective, CRATS is actually several new systems that, by design, enable data sharing between standards and compliance.</p> <p>Some “scope creep” plus a lack of available resources inside NERC has hindered progress. However, additional people have been hired and work is back on track.</p> <p>Of the three systems, a new standards data base is in production and a user interface is in testing. The compliance registry database is in testing as is the violations database. The compliance systems require close coordination with the Regions, which has been initiated.</p>
Initiate the second phase of NERC’s Web site redesign project.	<p>The backbone of this project is Microsoft Office Sharepoint Server (MOSS). This will be the platform that enables document management, content management, work group collaboration, and business process improvements. NERC has contracted with Guidance Solutions, Inc. to help develop our MOSS environment.</p> <p>MOSS has been deployed in a test environment and two pilot projects identified — one for document management and another for work group collaboration. Due to priority work on CRATS, these pilots have not been initiated, but will be starting in August.</p>
Create and automate processes to deliver active content to the Web site.	See above
Implement the business rules governing the creation of content as well as the review and approval criteria for publication.	See above

Introduce collaboration tools to allow for the ready flow of information between applications and users.	See above
Work with Situation Awareness to deliver tools to enhance situation awareness.	
Continue development of the Situational Awareness Tool through additional pilot phases for new users.	Cancelled; replaced by Situation Awareness FERC/NERC/Regions (SAFNR). IT worked with each reliability coordinator (RC) to enable secure access to the RC's situation awareness information. NERC is able to view data, but is not allowed to move it off the RC site.
Identify and deploy an emergency notification system.	Completed. IT negotiated a contract with Certrec Corporation to develop a new alerts system for SAIS.
Assist in the design and build-out of an Emergency Response room.	Completed.
Enhance IT infrastructure to better support a growing staff in multiple locations.	
Redesign telecommunications networks for increased throughput and redundancy.	This work was completed in February when telecommunications capacity was tripled. At the same time, telecom provided by AT&T was brought in as a backup to Sprint. (If one provider is down for any reason, NERC's connectivity remains intact at the same speed.) The telecommunications bandwidth between NERC's Princeton and Washington offices was expanded similarly.
Create and implement plans to redeploy business-critical systems in redundant, high availability configurations.	Awaiting the completion of a facilities expansion at NERC's co-located data center, operated by Verizon. (The expansion is slated to be completed in September or October 2009). Once Verizon has completed the expansion, NERC will acquire additional space to house more IT systems. The intent is to configure the co-location space, now used for disaster recovery, to more closely mimic our operational infrastructure.

Legal and Regulatory

Goal	Status
<p>Obtain recognition of NERC as the electric reliability organization in all nine Canadian jurisdictions.</p>	<p>Alberta: draft MOU under negotiation British Columbia: work to be done regarding formal recognition Manitoba: Recognition in Manitoba New Brunswick: Recognized as electric reliability organization Nova Scotia: Recognized in Nova Scotia; further MOU under discussion Ontario: Recognized as “the international standards authority” under the Ontario Electricity Act Québec: Recognized as organization to establish and monitor reliability standards by the Régie Saskatchewan: Recognized as “electric reliability standards setting body” by Sask Power (Saskatchewan has no separate regulatory authority) National Energy Board: Recognized as ERO</p>
<p>Achieve mandatory reliability standards in all nine Canadian jurisdictions, with enforcement comparable to that in the United States.</p>	<p>Alberta: 47 NERC standards are mandatory; several more are pending before Alberta Utilities Commission; goal is to have all mandatory by year-end 2010 British Columbia: NERC standards are mandatory; implementation schedule and enforcement mechanism are under discussion within province Manitoba: legislation making NERC standards mandatory has been adopted; implementing regulations are under development New Brunswick: NERC standards are mandatory and enforceable as part of market rules Nova Scotia: Legislation in place for standards to become mandatory; draft MOU on process has been postponed; discussions to resume in Fall 2009 Ontario: NERC standards are mandatory and enforceable as part of market rules Québec: Legislation creating framework for NERC standards to become mandatory and enforceable has been adopted; proposed standards have been filed with the Régie; further MOU is under negotiation. Saskatchewan: As interim measure, NERC standards automatically adopted and mandatory unless the Saskatchewan Authority</p>

	<p>rules otherwise or another jurisdiction remands a standard</p> <p>National Energy Board: NEB working on amendment to regulations to make reliability standards mandatory for international power lines</p>
<p>Complete and file with the Federal Energy Regulatory Commission the three-year performance assessment of NERC and the Regional Entities required by section 39.3(c) of the Commission’s regulations and the July 20, 2006 Order Certifying NERC as the “electric reliability organization” under Section 215 of the Federal Power Act.</p>	<p>Complete.</p>
<p>Obtain regulatory approvals for new and revised reliability standards on a timely basis.</p>	<p>Ongoing.</p>
<p>Process all appeals of compliance actions in an effective and efficient manner.</p>	<p>Ongoing.</p>

Human Resources

Goal	Status
Recruit qualified employees to fulfill the activities of the ERO.	Three positions remain open.
Provide training programs.	Completed training on NERC's new time tracking program. In person new-hire orientation training scheduled for October 6, 2009. On-line new-hire orientation program — in progress.
Review employee benefits.	The benefits review was completed in March.

Finance and Accounting

Goal	Status
Participate in completing the three-year performance assessment of NERC and evaluate of the effectiveness of each Regional Entity.	Completed.
Evaluate and recommend the implementation of budgeting software across NERC and the Regional Entities to achieve greater consistency in the annual budgeting process.	Worked with Regional Entities to develop common financial reporting and budgeting methods
Participate in reviewing and updating employee benefit plans.	Reviewed and made recommendations which were adopted by the Corporate Governance and Human Resources Committee, Finance and Audit Committee, and Board of Trustees on modifications to the 401K governance structure and adoption of an investment committee guidance documentation. Reviewing alternatives on retention of outside advisors to assist in Section 404 (c) compliance
Complete the NERC and Regional Entity true-up filing.	Completed as required by FERC
Implement an initiative tracking mechanism.	In progress
Develop procedures and accounting processes for the application of penalties for violations of reliability standards to future assessments.	New policy, "Accounting, Financial Statement Treatment and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards" was approved by the Finance and Audit Committee on March 9, 2009, and by the Board of Trustees April 2, 2009.
Institute an internal audit function.	Will use outside auditor to provide oversight of internal procedures
Establish program specific expense tracking systems.	Expense eXpert system implemented January 1, 2009.
Provide advice from the financial perspective on contracts into which the organization may enter.	Finance reviews all contracts and contract amendments in conjunction with legal review. An evaluation is underway regarding the establishment of an updated procurement policy governing contract procurements, amendments and change orders

DOCKET NO. RR09-__-000

**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

2010 BUSINESS PLAN AND BUDGET FILING

ATTACHMENT 15

METRICS COMPARING

REGIONAL ENTITY OPERATIONS

BASED ON THE 2010 BUDGETS

Attachment 15 has not been completed as of August 24, 2009. NERC is requesting leave to submit Attachment 15 in a supplemental filing no later than September 18, 2009.

DOCKET NO. RR09-__-000

**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

2010 BUSINESS PLAN AND BUDGET FILING

ATTACHMENT 16

METRICS ON NERC AND REGIONAL ENTITY

ADMINISTRATIVE (INDIRECT) COSTS

BASED ON THE 2010 BUDGETS

**Analysis of
NERC and Regional Entity Budgeted Indirect (Administrative Services) Costs
2010 Budgets versus 2009 Budgets**

NERC and the Regional Entities continue to work together to achieve greater consistency in defining indirect costs and in the methodology used to allocate indirect costs to the five statutory program areas. This issue has been an area of particular focus in the development of the NERC and Regional Entity 2010 Business Plans and Budgets. NERC believes that the apparent high proportion of indirect (administrative services) expenditures in the budgets and actual results of some of the entities in prior years has been due in significant part to lack of sufficient rigor and consistency in assigning costs appropriately to the applicable direct statutory program areas, rather than allocating or recording costs in the administrative services functions for allocation to the direct statutory programs.

In the preparation of the NERC and Regional Entity 2010 Business Plans and Budgets, indirect expenses have been defined as those expenses which cannot be directly attributed to one of the five statutory program functions. As noted, increased attention was devoted to determining if costs formerly budgeted as administrative services costs should be assigned directly to one or more statutory direct programs. All cost categories were reviewed to determine if the cost, due to the nature of the charge, (i) should always be charged to the applicable direct or indirect function, (ii) should only be charged to one of the five statutory program functions, or (iii) should only be charged to an indirect program (administrative services) function.¹ Examples of costs that are charged to both direct and indirect functions are Personnel Expenses, Meeting Expenses, and expenditures for Capital Assets (Fixed Asset additions). Meeting Expenses incurred (and fees charged) for workshops held for the benefit of industry education are recorded in the Training function only. Defining costs that would only be charged to an indirect program function proved to be more challenging. For example, typically, Office Rent expense is charged to General and Administrative, but since some Regional Entities lease separate, specific space for their Compliance Program, this Office Rent expense is charged directly to the Compliance Program. Similarly, Office Costs are generally charged to an indirect function, unless a cost can be specifically attributed to one of the five statutory program functions. For example, cell phone charges are easily traced to the user's program and are therefore can be assigned directly to the direct statutory programs, while the costs for office phones (included in Office Costs) are generally charged to an indirect function. After this analysis was completed, only those costs that were included in the budget for an administrative services function (*i.e.*, the indirect expenses) were then allocated to the five direct statutory programs based upon the proportional share of FTEs in each statutory program to the total FTEs in all five statutory programs.

The tables presented on the last page of this Attachment provide several metrics comparing indirect costs and FTEs in relation to total statutory costs and FTEs and direct statutory costs and FTEs, for NERC and each of the Regional Entities, in their 2010 Business

¹ The administrative services categories are Committees and Member Forums, General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Finance and Accounting.

Plans and Budgets and 2009 Business Plans and Budgets. The metrics presented in these tables are essentially the same metrics presented in Attachment 10 to the *2008 Budget True-up Filing*, filed April 1, 2009², with the following adjustments: (1) reflecting one of the changes in accounting methodology adopted by NERC and the Regional Entities in the 2010 budgets, the metrics provided in this Attachment are based on both budgeted expenses and budgeted capital expenditures, not just on expenses; and (2) all costs are included, whereas in the metrics calculated for Attachment 10 to the *2008 Budget True-up Filing*, Other Non-Operating Expenses and certain one-time, non-recurring costs were excluded.³

The tables show, overall, a reduction in indirect costs as a percent of total statutory costs and in relation to direct statutory costs, in the 2010 budgets as compared to the 2009 budgets. NERC believes this result is driven primarily by three causes: (1) as described above, more rigorous attention in the preparation of the 2010 budgets on accurate assignment of costs to the direct statutory programs rather than to administrative services functions; (2) NERC and virtually every Regional Entity is budgeting significant personnel increases in statutory direct programs, particularly in their Compliance Programs, for 2010, but only modest or no increases in personnel in their administrative services functions; and (3) NERC and several Regional Entities had significant non-recurring indirect costs in their 2009 budgets that are not included (or significantly reduced) in their 2010 budgets (examples are NERC's costs for performance of the three-year ERO performance assessment report due in July 2009; NPCC's costs to relocate its office, which occurred in 2009; and WECC's debt service costs for the borrowing it incurred to finance completion of its new Reliability Coordination Centers).

Following is discussion of the individual metrics presented in the tables.

Percent of Statutory Indirect Budget to Total Statutory Budget

For NERC and the Regional Entities, the average percent of Statutory Indirect Budget to Total Statutory Budget (top row of tables) in the 2010 budgets is 29.7%, versus 40.1% in the 2009 budgets. NERC and five of the eight Regional Entities show percentages close to the average. FRCC and NPCC have lower percentages than the average, which are reflective of methodologies they used to identify and allocate all staff time and Office Costs to the appropriate program. SPP RE has a higher percentage than the average due to the allocation of indirect costs (support services charges) from SPP, Inc. SPP RE has, however, significantly reduced the percent of Statutory Indirect Budget to Total Statutory Budget from 54.6% for the 2009 Budget to 47.1% for the 2010 Budget. (This improvement is due in significant part to the approximately 35% reduction in SPP's support services charge, from \$101 per hour of direct program labor in the 2009 Budget to \$64.49 per hour in the 2010

² *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; Additional Compliance Items for SPP Regional Entity*, filed April 1, 2009 in Docket No. RR07-16-001 (*2008 Budget True-Up Filing*).

³ The metrics in the *2008 Budget True-up Filing* were, of course, based on NERC's and the Regional Entities' actual costs for 2008.

budget.) Also, in the 2010 budgets, the highest and lowest values for the percent of Statutory Indirect Budget to Total Statutory Budget are closer to the average value than was the case for the 2009 Budget (*i.e.*, the spread between the lowest and highest values is smaller for the 2010 budgets than for the 2009 budgets), indicating movement towards greater consistency among NERC and the Regional Entities.

Budgeted Indirect FTEs as a Percent of Budgeted Total FTE

In the NERC and the Regional Entity 2010 Business Plans and Budgets, on average the budgeted statutory indirect FTEs⁴ are 20.5% of total statutory FTEs, compared to an average of 25.2% for the 2009 budgets (second row of tables). On average, there are 4.22 statutory direct FTEs per statutory indirect FTE in the 2010 budgets, compared to 3.22 statutory direct FTE per statutory indirect FTEs in the 2009 budgets, for an average increase of 1.00 FTE budgeted as statutory direct per statutory indirect FTE. As indicated above, this increase in budgeted statutory direct FTEs per budgeted indirect FTE is reflective of the emphasis on adding staff to the Compliance Programs at NERC and the Regional Entities in the 2010 budgets.

SPP RE and Texas RE have the two lowest percentages of Indirect FTEs as a percent of Total FTEs, among the Regional Entities, in the 2010 budgets. However, this reflects the fact that SPP RE and Texas RE receive significant administrative support services from SPP, Inc. and ERCOT, respectively, whereas NERC and other Regional Entities provide these support services using their own employees.

Statutory Indirect Budget per Total FTE

Statutory Indirect Budget per Total FTE has been reduced from an average of \$122,114 in the 2009 NERC and Regional Entity budgets to \$81,399 in the 2010 budgets. At NERC, the Statutory Indirect Expense per Total FTE was \$145,413 in the 2009 budget versus \$98,073 in the 2010 budget, a reduction of \$47,340 or 32.6%. Factors contributing to this change are the non-recurrence of the budgeted cost for the three-year ERO performance assessment, elimination of \$1,393,496 in Other Non-Operating Expenses, and the budgeted increase of 18.75 FTEs in the statutory direct programs versus 6.25 FTEs added to the statutory indirect programs. The following Regional Entities have also shown significant improvement in this metric:

- **NPCC** – NPCC's Statutory Indirect Budget per Total FTE has also been significantly reduced from \$219,575 in its 2009 budget to \$81,922 in its 2010 budget. In addition to the non-recurrence of \$1,113,338 in one-time office relocation costs that were included in its 2009 budget, NPCC has, in its 2010 budget, applied all executive team costs and expenses directly to the program areas based on staff proportions (*see* page 12 of **Attachment 5**). These expenses had previously been allocated 100% to General and Administrative. NPCC has also assigned other costs such as Office Rent, Office Costs, Professional Services,

⁴ FTE = Full-time equivalent employee.

Computer & Equipment leases, Miscellaneous expenses and Fixed Assets to the statutory program areas based on staff count.

- **SPP RE** – SPP RE’s Statutory Indirect Budget per Total FTE has been reduced from \$205,898 in its 2009 budget to \$157,751 in its 2010 budget as a result of the decrease in the support services rate paid to SPP, Inc., from \$101 per hour of direct statutory program labor to \$64.49 per hour.
- **Texas RE** – The reduction in Texas RE’s Statutory Indirect Budget per Total FTE from \$135,840 in its 2009 Budget to \$59,463 in its 2010 budget is the result of assigning to direct statutory programs certain cost components of the 2010 budget that were budgeted General and Administrative in 2009. Texas RE has also reduced the number of indirect FTEs from 6.8 FTEs in its 2009 budget to 3.76 FTEs in its 2010 budget, and has reduced its ratio of Indirect FTEs as a percent of Total FTEs from 25.5% in its 2009 budget to 11.1% in its 2010 budget.
- **WECC** – In 2009, WECC budgeted all payroll taxes, employee benefits and retirement costs in General and Administrative. In 2010, WECC has assigned these costs to the appropriate program area consistent with salary expense. WECC’s Statutory Indirect Budget per Total FTE has been reduced from \$100,352 in its 2009 Budget to \$62,555 in its 2010 Budget.

Analysis of Administrative (Indirect) Costs
2010 Budget versus 2009 Budget

2009 BUDGETED SPEND					
	Total Statutory Budget	Total Statutory Direct Budget	Total Statutory Indirect Budget	% Statutory Indirect Budget to Total Statutory	Ratio of Statutory Direct Budget to Indirect Budget
NERC	\$ 34,447,620	\$ 21,142,285	\$ 13,305,335	38.6%	\$ 1.59
FRCC	3,977,868	3,389,375	588,493	14.8%	5.76
MRO	6,405,724	3,836,951	2,568,773	40.1%	1.49
NPCC	10,008,885	4,870,826	5,138,059	51.3%	0.95
RFC	11,434,201	7,117,900	4,316,301	37.7%	1.65
SERC	10,095,551	7,309,519	2,786,032	27.6%	2.62
SPP	6,481,036	2,939,594	3,541,442	54.6%	0.83
Texas RE	6,167,024	2,506,149	3,660,875	59.4%	0.68
WECC	38,691,767	24,642,429	14,049,338	36.3%	1.75
AVERAGE				40.1%	\$ 1.93

2010 BUDGETED SPEND					
	Total Statutory Budget	Total Statutory Direct Budget	Total Statutory Indirect Budget	% Statutory Indirect Budget to Total Statutory	Ratio of Statutory Direct Budget to Indirect Budget
NERC	\$ 40,088,365	\$ 27,191,769	\$ 12,896,596	32.2%	\$ 2.11
FRCC	5,421,187	4,641,724	779,463	14.4%	5.96
MRO	7,366,117	4,756,140	2,609,977	35.4%	1.82
NPCC	11,354,085	9,108,602	2,245,483	19.8%	4.06
RFC	14,184,713	10,046,753	4,137,960	29.2%	2.43
SERC	10,701,683	7,193,475	3,508,208	32.8%	2.05
SPP	8,138,783	4,305,423	3,833,360	47.1%	1.12
Texas RE	6,920,643	4,898,898	2,021,745	29.2%	2.42
WECC	39,508,559	28,717,796	10,790,763	27.3%	2.66
AVERAGE				29.7%	\$ 2.74

2009 BUDGETED FTEs					
	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
NERC	91.5	62.00	29.50	32.2%	2.10
FRCC	18.3	14.84	3.48	19.0%	4.26
MRO	26.5	18.50	8.00	30.2%	2.31
NPCC	23.4	16.00	7.40	31.6%	2.16
RFC	44.0	32.50	11.50	26.1%	2.83
SERC	43.0	32.60	10.40	24.2%	3.13
SPP	17.2	14.70	2.50	14.5%	5.88
Texas RE	27.0	20.15	6.80	25.2%	2.96
WECC	140.0	107.50	32.50	23.2%	3.31
AVERAGE				25.2%	\$ 3.22

2010 BUDGETED FTEs					
	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
NERC	131.5	95.75	35.75	27.2%	2.68
FRCC	22.7	18.62	4.05	17.9%	4.60
MRO	29.0	22.60	6.40	22.1%	3.53
NPCC	27.4	21.00	6.41	23.4%	3.28
RFC	58.0	47.50	10.50	18.1%	4.52
SERC	45.5	33.90	11.60	25.5%	2.92
SPP	24.3	20.30	4.00	16.5%	5.08
Texas RE	34.0	30.24	3.76	11.1%	8.04
WECC	172.5	132.80	39.70	23.0%	3.35
AVERAGE				20.5%	\$ 4.22

2009 BUDGETED SPEND per FTE				
	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Budget per Total FTE
NERC	\$ 376,477	\$ 341,005	\$ 451,028	\$ 145,413
FRCC	217,133	228,395	169,107	32,123
MRO	241,725	207,403	321,097	96,935
NPCC	427,730	304,427	694,332	219,575
RFC	259,868	219,012	375,331	98,098
SERC	234,780	224,218	267,888	64,791
SPP	376,804	199,972	1,416,577	205,898
Texas RE	228,832	124,375	538,364	135,840
WECC	276,370	229,232	432,287	100,352
AVERAGE				\$ 122,114

2010 BUDGETED SPEND per FTE				
	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Budget per Total FTE
NERC	\$ 304,854	\$ 283,987	\$ 360,744	\$ 98,073
FRCC	239,135	249,287	192,460	34,383
MRO	254,004	210,449	407,809	89,999
NPCC	414,231	433,743	350,309	81,922
RFC	244,564	211,511	394,091	71,344
SERC	235,202	212,197	302,432	77,103
SPP	334,929	212,090	958,340	157,751
Texas RE	203,548	162,001	537,698	59,463
WECC	229,035	216,248	271,808	62,555
AVERAGE				\$ 81,399

DOCKET NO. RR09-__-000

**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

2010 BUSINESS PLAN AND BUDGET FILING

ATTACHMENT 17

NERC AND REGIONAL ENTITY

AUDITED FINANCIAL STATEMENTS FOR 2008

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
Financial Statements
Year Ended December 31, 2008

**NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION**

Financial Statements

December 31, 2008 and 2007

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
North American Electric Reliability Corporation

We have audited the accompanying statements of financial position of North American Electric Reliability Corporation (the "Corporation") as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North American Electric Reliability Corporation as of December 31, 2008 and 2007, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules on pages 12 through 14 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Mercadien, P.C.
Certified Public Accountants

June 5, 2009

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OVER 45 YEARS OF SERVICE TO THE COMMUNITY

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2008 and 2007

	December 31,	
	2008	2007
ASSETS		
Cash and equivalents	\$13,832,185	\$ 8,532,029
Accounts receivable, net of allowance for uncollectible accounts of \$10,576 (2008) and \$137,600 (2007)	1,681,954	1,477,182
Prepaid expenses and other current assets	148,923	322,950
Security deposits	15,767	63,978
Cash value of insurance policies	345,845	321,777
Property and equipment	<u>1,151,301</u>	<u>1,007,502</u>
Total Assets	<u>\$17,175,975</u>	<u>\$11,725,418</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 905,901	\$ 965,261
Deferred income	5,729,392	2,918,200
Regional assessments collected in advance	6,936,108	5,153,105
Deferred compensation	489,026	458,521
Accrued retirement liabilities	<u>1,018,692</u>	<u>663,650</u>
Total Liabilities	15,079,119	10,158,737
Net Assets - unrestricted	<u>2,096,856</u>	<u>1,566,681</u>
Total Liabilities and Net Assets	<u>\$17,175,975</u>	<u>\$11,725,418</u>

See notes to financial statements.

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2008 and 2007

	<u>Year Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Revenues		
NERC assessments	\$25,664,737	\$22,487,331
Testing/fees	1,123,747	664,564
Services and software	330,179	298,488
Workshops	138,350	107,825
Membership	818,995	70,000
Interest	128,404	198,140
Miscellaneous	357	1,679
Total revenues	<u>28,204,769</u>	<u>23,828,027</u>
Expenses		
Salaries	12,653,837	9,562,548
Employee costs	2,175,192	1,679,315
Retirement and savings plans	1,599,031	990,861
Travel and meetings	3,068,298	2,833,386
Services	5,851,795	5,098,694
Rent	732,903	707,935
Office costs	745,536	635,483
Computer	332,348	250,900
Depreciation and amortization	504,136	416,065
Bad debts	11,518	127,000
Total expenses	<u>27,674,594</u>	<u>22,302,187</u>
Increase in unrestricted net assets	530,175	1,525,840
Net assets, beginning of year	1,566,681	40,841
Net assets, end of year	<u>\$ 2,096,856</u>	<u>\$ 1,566,681</u>

See notes to financial statements.

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2008 and 2007

	<u>Year Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 530,175	\$ 1,525,840
Adjustments		
Depreciation and amortization	504,136	416,065
Bad debt expense	11,518	127,000
Deferred compensation	82,505	-
Increase (decrease) in cash from		
Accounts receivable	(216,290)	(1,251,874)
Prepaid expenses and other assets	174,029	(184,618)
Security deposits	48,211	(48,211)
Cash value of life insurance policies	(24,068)	(97,323)
Accounts payable and accrued expenses	(59,362)	470,482
Deferred income	4,594,195	3,427,799
Accrued retirement liabilities	355,042	115,421
Accrued vacation	-	(163,331)
Deferred compensation	<u>(52,000)</u>	<u>70,731</u>
Net cash provided by operating activities	<u>5,948,091</u>	<u>4,407,981</u>
 Cash Flows used in Investing Activities		
Purchases of property and equipment	<u>(647,935)</u>	<u>(706,419)</u>
 Net increase in cash and equivalents		
	5,300,156	3,701,562
Cash and equivalents, beginning of year	<u>8,532,029</u>	<u>4,830,467</u>
Cash and equivalents, end of year	<u>\$13,832,185</u>	<u>\$ 8,532,029</u>

See notes to financial statements.

NORTH AMERICAN RELIABILITY CORPORATION

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The North American Electric Reliability Corporation (the "Corporation") is a self-regulatory organization that relies on the diverse and collective expertise of electricity industry participants, subject to government oversight and audit. The Corporation is certified by the U.S. Federal Energy Regulatory Commission ("FERC") as the Electric Reliability Organization ("ERO") within the United States. In the United States, the Corporation has the authority to levy fines and penalties against any of the individual users, owners and operators of the bulk power system for non-compliance with the reliability standards that govern the bulk power system. The Corporation has also been recognized as the ERO by governmental authorities in Canada.

The Corporation's mission is to enhance the reliability and security of the bulk power system in North America. To achieve that, the Corporation develops and enforces reliability standards; monitors the bulk power system; assesses future adequacy; and educates, trains and certifies industry personnel. Entities subject to the Corporation's reliability standards account for virtually all the electricity supplied in the United States of America, Canada and a portion of Baja California Norte, Mexico. On March 15, 2007, FERC approved 83 Reliability Standards issued by the Corporation, the first set of legally enforceable standards for the U.S. bulk power system. Effective June 18, 2007, compliance with approved Reliability Standards became mandatory and enforceable in the United States. Reliability standards became mandatory and enforceable in Ontario, Canada in 2002 and in New Brunswick, Canada in 2004.

The Corporation is the successor to North American Electric Reliability Council (the "Council") which was formed in 1968 in the aftermath of the November 1965 blackout that affected the northeastern United States and Ontario, Canada. On October 31, 2006, the Council entered into an agreement and plan of merger with the Corporation, a New Jersey nonprofit corporation. At the effective date of the merger, January 1, 2007, the separate corporate existence of the Council ceased, and Corporation became the surviving entity. All of the property, assets, rights, privileges, powers, franchises and immunities of the Council became the property of the Corporation. All debts, liabilities and obligations of the Council were also assumed by the Corporation. The Corporation is organized and operates as a business league under Section 501(c)(6). The activities of the Corporation are directed by an independent board of trustees.

The membership of the Corporation is unique. It is a not-for-profit corporation whose members include users, owners and operators of the bulk power system, eight regional entities, large and small end-use customers, state and provincial governmental authorities, and any other interested parties.

Annually, the board of trustees approves an operating budget for the Corporation that includes a mechanism to adjust the overall assessments to load-serving entities to maintain a working capital reserve. The Corporation assesses each LSE its proportional share of the operating budget based on "net energy for load." On an annual basis, the assessments to LSE's make up approximately ninety percent of the overall funding of the Corporation. The Corporation also

NORTH AMERICAN RELIABILITY CORPORATION

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nature of Organization (continued)

generates funding from the collection of fees charged for various services the Corporation provides to the bulk power system industry. These services include the maintenance of a certification program for system operators, the development of reports and software programs, and the hosting of workshops to educate the industry on standards development.

The Corporation has entered into separate Delegation Agreements, which have been approved by FERC, with eight Regional Entities: Florida Reliability Coordinating Council ("FRCC"), Midwest Reliability Organization ("MRO"), Northeast Power Coordinating Council ("NPCC"), ReliabilityFirst Corporation ("RFC"), SERC Reliability Corporation ("SERC"), Southwest Power Pool Regional Entity ("SPP"), Texas Regional Entity ("TRE") and Western Electricity Coordinating Council ("WECC"). Through these Delegation Agreements, NERC has delegated certain of its ERO responsibilities and functions to the Regional Entities.

The Corporation must annually approve the eight Regional Entities' budgets and submit them along with its budget and schedule of assessments to load serving entities to FERC for final approval of the budgets and the U.S. portion of the assessments. The Corporation has the sole responsibility to invoice, collect and disburse the monies approved in the Regional Entities' budgets. These pass-through amounts are not included as revenue and expense in the statement of activities, see related Note H.

Basis of Accounting

The financial statements of the Corporation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Corporation has no temporarily or permanently restricted net assets.

Cash Equivalents

For the purposes of reporting the statements of cash flows, the Corporation considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NORTH AMERICAN RELIABILITY CORPORATION

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

The Corporation recognizes assessment revenue billed to the LSE's on a pro-rata basis over the calendar year. Fees generated for testing, certifications, services and software, workshops and other services are recognized when the test is taken, service rendered, and/or workshops are completed. Penalty and fine income (since it is subject to an appeals process) is recognized in the year when the appeals are exhausted and the outcome is determined.

Accounts Receivable

The change in net assets is charged with an allowance for estimated uncollectible accounts based on past experience and an analysis of current accounts receivable collectibility. Accounts deemed uncollectible are charged to the allowance in the years they are deemed uncollectible.

Property and Equipment

Property and equipment are recorded at cost, net of accumulated depreciation and amortization. Depreciation and amortization is provided over the estimated useful lives of the assets using the straight-line method over periods of three to seven years. Leasehold improvements are amortized over the lesser of the estimated useful life or the remaining lease terms. Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred. It is the Corporation's policy to write off fully depreciated property and equipment in the year that it becomes fully depreciated.

Income Taxes

The Corporation has received a determination letter from the Internal Revenue Service concluding that it is exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code.

B. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Leasehold improvements	\$ 199,947	\$ 199,947
Furniture and equipment	1,386,426	1,074,059
Software development	<u>741,348</u>	<u>768,144</u>
Subtotal	2,327,721	2,042,150
Accumulated depreciation and amortization	<u>1,176,420</u>	<u>1,034,648</u>
Total	<u>\$ 1,151,301</u>	<u>\$ 1,007,502</u>

Depreciation and amortization expense was \$504,136 and \$416,065 for the years ended December 31, 2008 and 2007, respectively.

NORTH AMERICAN RELIABILITY CORPORATION

NOTES TO FINANCIAL STATEMENTS

C. LINES OF CREDIT

On February 23, 2007, the Corporation entered into a \$4,000,000 committed line of credit (the "committed line") and a \$1,000,000 discretionary line of credit (collectively, the "Lines") with a New Jersey bank (the "Lender"). During 2008, the \$1,000,000 discretionary line of credit was cancelled by the Lender at the request of the Corporation and the \$4,000,000 committed line, which was originally set to expire on July 22, 2008, was extended to June 15, 2009. The committed line accrues interest at prime plus 0.5% (prime at December 31, 2008 was 3.25%). Total borrowings under the committed line may not exceed 70% of the qualified accounts receivable. The committed line is secured by all existing and future assets and subject to a filing under the Uniform Commercial Code. As part of the committed line agreement, the Corporation must maintain \$400,000 in a non-interest bearing account with the Lender. There were no borrowings outstanding at December 31, 2008 and 2007. However, at December 31, 2008 and 2007, the available amount under the lines were reduced by an open letter of credit of \$48,211 which represents a security deposit for the Corporation's office in Washington D.C.

D. OPERATING LEASE COMMITMENT

The Corporation leases its primary corporate office space at Forrestal Village, Princeton, New Jersey. The current lease began September 1, 1993, and expires May 31, 2013. The Corporation also leases office space located in Washington, D.C. The lease commenced on April 1, 2007, and expires on March 31, 2013. The following is a schedule of future minimum rental payments required under the leases:

Year Ending December 31,	
2009	\$ 701,523
2010	732,708
2011	735,288
2012	737,932
2013	<u>289,567</u>
Total minimum future rental payments	<u>\$ 3,197,018</u>

In addition to the above rental payments, the leases are subject to escalation clauses covering increases in real estate taxes and operating costs over the base year.

Office rent expense for the years ended December 31, 2008 and 2007, was \$732,903 and \$707,935, respectively.

E. DEFINED CONTRIBUTION PLAN

The Corporation sponsors an employee savings 401(k) plan (the "Plan") whereby eligible participating employees may elect to contribute up to the Internal Revenue Service Code 402(g)(1) limit. The Corporation contributes a 75% match of the participant's elective contribution up to 6% of eligible compensation. The Corporation also makes a profit sharing contribution of 10% of the compensation of all qualifying participants. The additional profit sharing contributions are subject to the limitation imposed by the Internal Revenue Service Code 401(a)(17). The Corporation's expenses related to the Plan for the years ended December 31, 2008 and 2007, were \$1,599,031 and \$990,861, respectively. The contributions accrued as of December 31, 2008 and 2007, amounted to \$1,018,692 and \$663,650, respectively.

NORTH AMERICAN RELIABILITY CORPORATION

NOTES TO FINANCIAL STATEMENTS

F. DEFERRED COMPENSATION AGREEMENTS AND LIFE INSURANCE

During 2005, the Council entered into a deferred compensation agreement (the "deferred compensation agreement") with a retiring executive that provided benefits to the individual upon reaching normal retirement age and was payable over a period selected by the retiring employee. Under certain circumstances, benefits were payable to his surviving spouse. The Corporation assumed the liabilities upon merger with the Council effective January 1, 2007. The present value of the estimated liability under the agreement at December 31, 2007, was accrued using a discount rate of 4.91%. The Corporation provided for some of the benefit funding through a variable universal life policy. The net unfunded deferred compensation liability relating to this agreement totaled \$136,744, for the year ended December 31, 2007. Effective October 15, 2008, the deferred compensation agreement was superseded by a new agreement. The variable universal life policy used to fund the liability, including the cash surrender value of the policy of \$139,640, was assigned and transferred to the retired executive in January, 2009. In accordance with the new agreement, the Corporation will continue to pay the policy premiums of \$26,000 per year through 2013 and recorded the present value of the unfunded liability at December 31, 2008 of \$124,127, using a discount rate of 1.55%.

The Corporation is the owner and the primary beneficiary or co-beneficiary of life insurance policies on certain employees. The face value of the policies in which the Corporation is a primary or co-beneficiary is \$2,605,500 and \$1,868,500 at December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007, the cash surrender value of all policies were \$345,845 and \$321,777, respectively of which, based on co-beneficiary designations, the Corporation's expected share of the cash surrender value was \$126,042 at December 31, 2007. Pursuant to Executive Benefit Agreements described below and other arrangements, certain policies, including the policy of the aforementioned retired executive, were assigned and transferred, including the cash surrender values of \$170,014, to certain employees in January 2009.

On October 15, 2008, the Corporation entered into Executive Benefit Agreements (the "agreements") with certain executives and the aforementioned retired executive. These agreements supersede and replace all previous written or oral agreements between the Corporation and these executives. In accordance with the Agreements, while employed by the Corporation, the executives shall be provided with life insurance coverage, through individual and/or group policies, providing a death benefit equal to the lesser of three times base salary or \$500,000, or three times base salary depending upon the executives employment date. The executives agreed to issue split dollar endorsement agreements with respect to such policies. The Corporation is the sole and exclusive owner of the executives' policies. All policy dividends shall be applied to purchase paid-up additional death benefits. Certain executives have multiple insurance policies and the Corporation agreed to pay the premiums on these policies through December 31, 2013, provided the policies stay in force. Premium costs of the policies will be expensed as incurred during the remaining employment terms of the executives.

G. RETIREE MEDICAL BENEFITS

Effective September 1, 2007, the board of trustees approved and adopted a policy to provide retiree medical coverage for certain current retirees and any and all dependents and transition retirees and any and all dependents, as defined by the board resolution, up to a maximum monthly benefit of \$550 paid directly to the applicable insurer. The accrued retiree medical benefits liability of

NORTH AMERICAN RELIABILITY CORPORATION

NOTES TO FINANCIAL STATEMENTS

G. RETIREE MEDICAL BENEFITS (CONTINUED)

\$194,855 is included in deferred compensation and was recorded using the 2004 Social Security Administration Actuarial Period Life Table and the following assumptions: annual inflation rate of 5% and discount rate of 8%. The retiree medical expense related to this policy was approximately \$23,000 and \$22,000 for the years ended December 31, 2008 and 2007, respectively.

H. CONCENTRATION OF RISK AND UNCERTAINTIES

The Corporation maintains cash in bank balances which may, at times, exceed federally insured limits. The Corporation historically has not experienced any credit-related losses.

The Corporation receives a significant portion of its income from assessments, based upon "net energy for load," to LSE's within the eight regions which are located throughout the United States of America, Canada, and a portion of Baja California Norte, Mexico. LSE's are assessed a proportional share of the Corporation's operating budget as well as a proportional share of the operating budget of the regional entity in whose territory the LSE is located. The Corporation issues quarterly invoices directly to LSE's or, in some circumstances, designees. With respect to LSE's located within Texas Regional Entity ("TRE"), an independent division of Electric Reliability Council of Texas, Inc. ("ERCOT"), the Corporation issues a quarterly invoice to ERCOT which then issues invoices to the LSE's in its region, collects the assessments and remits the funds to the Corporation. The Corporation then remits the regional assessments to TRE/ERCOT. A similar arrangement exists with respect to LSE's located within the Western Electricity Coordinating Council ("WECC"). For LSE's located within the PJM Interconnection ("PJM"), the Corporation issues invoices to PJM which issues invoices to the LSE's, collects the assessments and remits the funds to the Corporation. The Corporation then forwards the regional assessment to Reliability First Corporation ("RFC"), the regional entity. The Corporation is extending credit to the LSE's and designees and is exposed to credit risk to the extent regional assessments are paid by the Corporation to the regional entities prior to collecting assessments from the LSE's or designees. Based on past history, the Corporation believes that its trade accounts receivable credit risk exposure is limited.

I. REGIONAL ASSESSMENTS

In addition to Corporation assessments billed to LSE's or designees, a regional assessment is also billed by the Corporation on behalf of the regional entities. The regional assessment is based on approved budgets of the eight regional entities and remitted to the regional entities by the Corporation. There is a credit risk if the Corporation does not collect the assessments from LSE's or designees before the regional assessments are due to the regional entities. However, the risk is minimal since the Corporation has the ability to reassess and rebill, in a subsequent period for any uncollected assessments. During 2008 and 2007, the regional assessments were:

NORTH AMERICAN RELIABILITY CORPORATION

NOTES TO FINANCIAL STATEMENTS

I. REGIONAL ASSESSMENTS (CONTINUED)

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Total regional assessments billed to WECC, ERCOT, individual LSE's and designees	\$ 69,205,199	\$ 46,270,289
Total regional assessments remitted to regional entities	<u>(69,205,199)</u>	<u>(46,270,289)</u>
Billings over remittances	<u>\$ -</u>	<u>\$ -</u>

The Corporation also billed and remitted \$13,579,635 to WECC related to 2009 regional assessments prior to December 31, 2008.

J. SUBSEQUENT EVENT

In January, 2009, the Corporation assigned and transferred various life insurance policies previously owned by the Corporation to the insured individuals. Total cash surrender value of these life insurance policies at December 31, 2008, was \$170,014. See Note F.

SUPPLEMENTARY INFORMATION

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

SCHEDULES OF EXPENSES

	<u>Year Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Salaries	<u>\$12,653,837</u>	<u>\$ 9,562,548</u>
Employee costs		
Payroll taxes		
FICA	\$ 523,946	\$ 403,629
NJUC	41,246	35,786
FUI	5,938	5,386
Medicare	185,331	139,149
Employee benefits - medical	1,109,636	835,292
Employee benefits - life/disability	116,431	91,461
Employee benefits - officers life	4,118	54,329
Insurance - workers' compensation	39,870	21,919
Relocation expenses	94,827	66,462
Educational	53,849	25,902
	<u>\$ 2,175,192</u>	<u>\$ 1,679,315</u>
Retirement and savings plans		
401(k) savings plan	<u>\$ 1,599,031</u>	<u>\$ 990,861</u>
	<u>\$ 1,599,031</u>	<u>\$ 990,861</u>
Travel and meetings		
Meetings	\$ 929,712	\$ 948,728
Workshops	78,536	168,184
Travel	1,875,200	1,595,039
On-line meetings	184,850	121,435
	<u>\$ 3,068,298</u>	<u>\$ 2,833,386</u>

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

SCHEDULES OF EXPENSES (CONTINUED)

	<u>Year Ended December 31.</u>	
	<u>2008</u>	<u>2007</u>
Services		
Temporary office services and agency fees	\$ 62,214	\$ 148,908
Contract and consultants		
Consultants, compliance, certification, software, TMS, standards and contract- readiness audits	2,427,371	2,119,998
IDC	1,610,061	1,347,985
ISN	347,856	333,651
Independent trustee fees	685,225	565,500
Search fees	67,213	66,300
Office and equipment repair/service	31,067	18,733
Record keeping fees	7,644	-
Accounting and auditing fees	70,598	52,803
Legal fees	542,546	444,816
	<u>\$ 5,851,795</u>	<u>\$ 5,098,694</u>
Rent	<u>\$ 732,903</u>	<u>\$ 707,935</u>
Office costs		
Insurance - commercial	\$ 49,230	\$ 45,598
Publications and subscriptions	32,026	25,619
Dues	38,830	35,116
Postage	6,313	16,239
UPS, express mail, etc.	41,449	34,370
Telephone	227,473	169,713
Copying	63,243	39,758
Stationery and office forms	1,578	10,314
Office supplies	107,941	115,605
Bank charges	3,859	25,817
Sales and use tax	28,808	7,359
Card fees	42,524	24,384
Internet expense	88,720	66,362
Miscellaneous	13,542	19,229
	<u>\$ 745,536</u>	<u>\$ 635,483</u>

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

SCHEDULES OF EXPENSES (CONTINUED)

	<u>Year Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Computer		
Computer - supplies/service contracts	<u>\$ 332,348</u>	<u>\$ 250,900</u>
Depreciation and amortization	<u>\$ 504,136</u>	<u>\$ 416,065</u>
Bad debts	<u>\$ 11,518</u>	<u>\$ 127,000</u>

FLORIDA RELIABILITY COORDINATING COUNCIL
Financial Statements
Year Ended December 31, 2008

**FLORIDA RELIABILITY
COORDINATING COUNCIL, INC.**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES
December 31, 2008**



**Certified Public Accountants
Business Consultants
Limited Liability Company**

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors Florida Reliability Coordinating Council, Inc.

We have audited the accompanying statement of financial position of Florida Reliability Coordinating Council, Inc. (a nonprofit organization) as of December 31, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Florida Reliability Coordinating Council, Inc. as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The statutory and nonstatutory schedules on pages 13 to 17, inclusive, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Carr, Riggs & Ingram, LLC

February 23, 2009

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2008

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,824,789
Member receivables	1,843,817
Related party receivable	28,919
Prepaid expenses	93,279

Total current assets 3,790,804

Property and equipment - at cost

Equipment and computers	325,587
Software	373,760
Furniture and fixtures	204,683
Leasehold improvements	66,151

Total 970,181

Less accumulated depreciation and amortization (568,296)

Total property and equipment - at cost 401,885

Other assets:

Deposits	18,820
----------	--------

Total assets \$ 4,211,509

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 23,190
Payroll related liabilities	477,226
Current portion of accrued postretirement benefit obligation	13,884
Deferred revenue	1,780,712
Accrued expenses	279,502

Total current liabilities 2,574,514

Long-term liabilities:

Accrued postretirement benefit obligation	438,296
---	---------

Net assets:

Unrestricted statutory - FERC designated	1,312,509
Unrestricted member services - board designated	(113,810)
Total net assets	1,198,699

Total liabilities and net assets \$ 4,211,509

See Notes to Financial Statements.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

STATEMENT OF ACTIVITIES
For the year ended December 31, 2008

Revenues:	
Nonstatutory member assessments	\$ 2,579,986
Statutory member assessments	3,989,952
Services and software	202,598
Training and education fees	72,250
Postretirement benefit loss	(13,432)
Interest income	26,321
	<hr/>
Total revenue	6,857,675
Expenses:	
Consultants	1,092,692
Salaries	2,571,095
Facilities rental	328,786
Employee benefits	251,795
Retirement and deferred compensation plans	341,031
Telecommunications	407,440
Employee training and employment costs	30,206
Legal and accounting	230,797
Payroll taxes	159,444
Travel	128,576
Meetings	133,898
Depreciation and amortization	177,765
Office costs	60,029
Other	414
Repairs and maintenance	8,737
	<hr/>
Total expenses	5,922,705
Increase in net assets before change in accumulated post retirement obligation	934,970
Net periodic change in postretirement obligation	<hr/> (197,297)
Increase in net assets	737,673
Net assets - beginning of year	<hr/> 461,026
Net assets - end of year	<hr/> <hr/> \$ 1,198,699

See Notes to Financial Statements.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

STATEMENT OF CASH FLOWS
For the year ended December 31, 2008

Cash flows from operating activities:	
Cash received from members	\$ 6,825,356
Cash paid to suppliers and employees	(5,764,961)
Interest received	<u>26,321</u>
Net cash provided by operating activities	1,086,716
Cash flows from investing activities	
Purchases of property and equipment	<u>(185,983)</u>
Net cash used in investing activities	<u>(185,983)</u>
Net increase in cash	900,733
Cash and cash equivalents at beginning of year	<u>924,056</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,824,789</u></u>
Reconciliation of increase in net assets to net cash provided by operating activities	
Increase in net assets	\$ 737,673
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	177,765
Increase in receivables, prepaid expenses and other assets	(1,863,955)
Increase in accounts payable and accrued expenses	254,521
Increase in deferred income	<u>1,780,712</u>
Total adjustments	<u>349,043</u>
Net cash provided by operating activities	<u><u>\$ 1,086,716</u></u>

See Notes to Financial Statements.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008**

1. General and Summary of Significant Accounting Policies

General – Florida Reliability Coordinating Council, Inc. (the "Company") is a group of electric utilities and energy marketers primarily doing business in the State of Florida. The purpose of the Company is to ensure and enhance the reliability and adequacy of the bulk power supply in Florida (which is defined as the general area encompassed by Peninsula Florida) now and into the future. The Company serves as a Regional Entity with delegated authority from the North American Electric Reliability Corporation ("NERC") for the purpose of proposing and enforcing reliability standards within the FRCC region.

On May 2, 2007, the Company entered into a Delegation Agreement with North American Electric Reliability Corporation ("NERC"), an organization certified by the Federal Energy Regulatory Commission pursuant to Section 215(c) of the Federal Power Act. The Company is required by federal law to assess the reliability of the Bulk Power System. The Federal Energy Regulatory Commission ("FERC") empowered the Company through a Delegation Agreement with NERC to monitor, enforce and implement electric reliability standards under Section 215 of the Federal Power Act. The Company is responsible for establishing the process for development, revision, withdrawals and approval of the Company's Regional Reliability Standards for the region. The Company monitors and enforces compliance with NERC and FERC reliability standards through on-site audits, self-certifications, periodic spot checks, self-reports, event investigation, periodic data submittal, exception reporting and through complaints. The initial term of the agreement is for three years and is renewable for five more years upon a successful compliance audit conducted by NERC.

The Company's source of revenue is split into two parts. The statutory functions, defined as those functions being performed for Reliability Standards and Compliance, are funded by NERC. The member services functions are paid by its members who are assessed for costs and expenses of establishing, developing, operating and maintaining the Company.

A summary of the Company's significant accounting policies consistently applied in preparation of the accompanying financial statements follows:

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Company considers highly liquid money market funds to be cash equivalents. At year end, cash equivalents totaled approximately \$807,652.

Concentration of Credit Risk – The Company places its cash and cash equivalents with high credit quality institutions. At times, these balances may be in excess of the FDIC insurance limit. Money market funds are not federally insured or readily marketable, and their estimated value is subject to uncertainty. Therefore, there may be a difference between their current estimated value and their net realizable value. Management has determined that the likelihood of sustaining losses from money market funds to be remote based on the marketability of the underlying investments of the funds.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2008

1. **General and Summary of Significant Accounting Policies (Continued)**

Use of Estimates – Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could vary from the estimates that are used.

Income Taxes – The Company has been approved for tax-exempt status under Section 501(c)(6) of the Internal Revenue Code and is exempt from federal and state income taxes. Accordingly, no provision for income taxes is included in the financial statements.

Member, Related Party, and Other Receivables – The Company considers all receivables to be fully collectible, usually within 30 to 60 days; accordingly, no allowance for doubtful accounts is required and no late fees are assessed. If amounts become uncollectible, they will be charged to operations when that determination is made and will be paid by the remaining members.

Property and Equipment – Property and equipment with a cost over \$500 are capitalized and are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, principally on a straight-line basis. The estimated lives used in determining depreciation are:

Equipment	5 years
Software	3 years
Furniture and fixtures	7 years
Leasehold improvements	5 years

Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

Deferred Compensation – The Company implemented an executive deferred compensation plan subject to Section 457(f) of the Internal Revenue Code in 2004. For the year ended December 31, 2008, the Company contributed \$8,492 to benefit the participants in this Plan.

Postretirement Benefits Other Than Pensions – The Company sponsors a postretirement health care plan covering employees hired before October 1, 2003 if the retiree completes 10 years of service prior to retirement, is over the age of 60 at retirement and participates in the Company's IRS qualified retirement or profit-sharing plan at the time of retirement. The plan is noncontributory for retirees (see Note 5).

2. **Deferred Revenues**

The contracts with the members of FRCC have a provision in them that provides that they have 30 days from the date of invoice for a new budgetary year (January through December) to withdraw from membership. Therefore, the Company made a decision to invoice all members on December 1 for the first quarterly installment of the 2009 budget, thus at December 31, 2008 it would be known whether all members are continuing with their membership.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008**

3. Commitments

In December 2003, the Company entered into an agreement with Sprint Communications Company L.P. ("Sprint") to provide certain telecommunication services beginning in 2004 for the Company's network. The initial term of the agreement is 36 months and has been renewed for an additional 12-month period. The agreement calls for the Company to make a minimum service commitment of \$96,000 for each contract year of the term.

In December 2006, the Company entered into an agreement with Open Access Technology International, Inc. to provide the Florida Transaction Management System ("FTMS") services for the Company's customers. The initial term of the agreement is 36 months at \$3,750 per month. The Company also has the option to purchase the system for \$100,000; however, at this time, the Company has no intention of doing so.

In June 2007, the Company entered into an agreement with Open Access Technology International, Inc. to provide certain webOASIS (Open Access Same-time Information System) and webTrans services for six of the Company's customers. The initial term of the agreement is 36 months at \$3,000 per member. During 2008, the payment for these services, and the related assessments to members, was transferred to Florida Electric Power Coordinating Group, Inc. ("FCG") although the contract remains with FRCC (see Note 7).

In November 2007, the Company entered into an agreement to purchase Compliance Tracking System software from Guidance Solutions, Inc. for \$95,000 plus \$18,000 for training which was paid by December 31, 2008. In 2008, the Company entered into an agreement with several of the other Regional Entities to form a consortium and share the cost of future enhancements and program modules to add to the Compliance Tracking System originally purchased from Guidance Solutions, Inc. The cost of enhancements added or in progress for 2008 was \$29,338. The Company is obligated for enhancements in progress as of December 31, 2008 from this consortium group of approximately \$65,600 for enhancements to be completed in 2009.

In December 2008, the Company entered into an agreement to purchase software and support from Accelerated Business Solutions for \$93,508. A deposit of \$46,753 was paid in 2008 and the remainder of \$46,753 is due upon installation.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008**

4. Operating Leases

The Company leases its facilities and has operating leases that expire January 31, 2013. On November 19, 2007 the Company entered into a lease agreement for additional space to be completed and occupied on February 1, 2008 to house the compliance department (see footnote 2) and is reflected in the below obligation. Minimum future rental payments are:

Year ended December 31,		
2009	\$	335,874
2010		348,052
2011		360,662
2012		374,946
2013		31,346
	\$	1,450,880

Rent expense charged to operations during the year ended December 31, 2008 was \$328,786.

5. Postretirement Benefits Other Than Pensions

The Company adopted SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," on December 31, 2007, which requires companies to report the funded status (defined as the difference between the fair value of plan assets and the plan's benefit obligation) of their postretirement plan. The current year effect of the adoption is a \$197,297 decrease to unrestricted net assets.

The following table sets forth the plan's funded status reconciled with the amount shown in the Company's statement of financial position at December 31, 2008:

Accumulated postretirement benefit obligation		
Plan assets at fair value		452,180
Funded status	\$	452,180
Accrued postretirement benefit obligation:		
Current portion	\$	13,884
Long-term portion		438,296
	\$	452,180

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008**

5. Postretirement Benefits Other Than Pensions (Continued)

The following provides the components of net periodic postretirement benefit cost for the year ended December 31, 2008.

Service cost	\$ (17,743)
Interest cost	(27,290)
Amortization of unrecognized net obligation at	(10,664)
Recognition of net actuarial gain	<u>32,623</u>
 Net periodic postretirement benefit cost	 <u>(23,074)</u>
 Benefits paid during 2008	 <u>9,642</u>
 Net postretirement benefit loss	 <u>\$ (13,432)</u>
 Items not yet recognized as a component of net periodic postretirement benefit cost	
Unrecognized net gain	\$ 453,662
Unrecognized net transition obligations	<u>(93,303)</u>
 Transitional effect of FAS 158	 <u>\$ 360,359</u>
 Postretirement effect of implementation of FAS 158 as of December 31, 2007	 \$ 557,656
 Net periodic change in postretirement obligation	 <u>(197,297)</u>
 Postretirement obligation recognized as a component of net periodic benefit cost as of December 31, 2008	 <u>\$ 360,359</u>

Benefits expected to be paid in each of the next five years are as follows:

Year ended December 31,	
2009	\$ 13,884
2010	14,953
2011	15,999
2012	17,002
2013	22,457
Thereafter	<u>136,394</u>
	 <u>\$ 220,689</u>

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2008

5. **Postretirement Benefits Other Than Pensions (Continued)**

Amounts included in unrestricted net assets and expected to be recognized as components of net periodic benefit gain (cost) next year include amortization of unrecognized net obligation and net actuarial gain of approximately (\$11,000) and \$33,000, respectively. For measurement purposes, a 10% annual rate increase in the per capita cost of covered health care benefits was assumed for 2008; the rate was assumed to decrease gradually to 6% for 2017 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, if assumed health care cost trend rates were increased by one percentage point in each year, the accumulated postretirement benefit obligation at December 31, 2008 would be increased \$77,903 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 2008 would be increased by \$9,700.

The weighted average discount rate used in estimating the accumulated postretirement benefit obligation was 6.5%. Mortality was based on the 1983 Group Annuity Mortality Table. The measurement date of the accumulated postretirement benefit obligation was December 31, 2008.

Glossary: Accumulated postretirement benefit obligation – The actuarial present value of benefits attributed to employee service rendered to a particular date.

Net periodic postretirement benefit gain – The amount recognized in the financial statements as the gain of the postretirement benefit plan for a period.

In December of 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act) was signed into law. The Act includes a special subsidy for employers that sponsor retiree health benefit plans with prescription drug benefits that are as favorable as the Medicare Part D benefit. The Company has not determined whether its plan is actuarially equivalent to the Medicare Part D benefit due to the cost of obtaining such an actuarial computation.

6. **Retirement Plan**

Effective January 1, 2001, the Company adopted a 401(k) Plan ("Plan") intended to benefit substantially all employees with six months of service and 21 years of age. On September 30, 2007, the plan was amended to enable employees with one hour of service to be eligible to enter the plan. Participants can contribute any amount of their compensation for the Plan year, not to exceed the limits determined by the Internal Revenue Code. The Company may make matching contributions with prescribed limits. The Company may also make additional discretionary contributions to the Plan. The Company made matching contributions to the Plan of \$117,005 and a discretionary contribution to the Plan of \$235,550 for the year ending December 31, 2008.

7. **Related Parties**

Various members of the Company are founding members of FCG and the organizations, excluding the board of directors, are under common management. FCG is a nonprofit

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2008

7. **Related Parties (continued)**

organization operating under Section 501(c)(6) of the Internal Revenue Code and is exempt from federal and state income taxes.

The Company is providing Florida Electric Power Coordinating Group, Inc. ("FCG") with administrative and accounting services, including the use of office space. FCG reimbursed the Company approximately 6.22% of the Company's administrative expenses in 2008. The service agreement with FCG is a one-year agreement that will automatically renew unless canceled in advance by either party. The original agreement was renewed for an additional year in February 2008. At December 31, 2008, the Company had billed and collected a total of \$250,073 from FCG relating to the service agreement and has a receivable from FCG in the amount of \$28,919.

The Company is purchasing the services of a reliability coordinator, operations planning coordinator and a state capacity emergency coordinator from Florida Power and Light ("FPL"), a member of the Company. In 2008, the Company paid FPL \$1,002,813 relating to these services and at December 31, 2008 has \$11,000 of accrued expenses.

8. **Concentrations**

Two members make up approximately 54% of the member services assessments and dues. Two of those members comprise 60% of the statutory assessment that NERC bills directly in order to fund the Company for its statutory functions.

FLORIDA RELIABILITY COORDINATING COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS
December 31, 2008

9. **Functional Expenses**

The detail of functional expenses for the year ended is as follows:

Statutory expenses:

Reliability Standards Development	\$ 278,359
Compliance Enforcement	1,515,045
Organization Registration & Certification	15,087
Reliability Readiness Evaluation & Improvement	10,996
Reliability Assessment & Performance Analysis	1,209,570
Training & Education	86,517
Situational Awareness & Infrastructure	<u>49,281</u>

Total statutory expenses 3,164,855

Member Services expenses:

Planning committee	818,794
Operations committee	1,939,056
General and administrative	<u>197,297</u>

Total member services expenses 2,955,147

Total expenses \$ 6,120,002

10. **Net Assets**

Unrestricted net assets that are designated are FERC-approved for statutory expense or board-approved for member services expense segregations of unrestricted net assets for specific projects. Since designations are voluntary and may be reversed or redirected by the governing board at any time, designated portions of net assets are not considered restricted.

The detail of unrestricted FERC or board-designated net assets is as follows at year end:

Statutory	\$ 1,312,509
Member services	<u>(113,810)</u>
Total unrestricted - board-designated net assets	<u><u>\$ 1,198,699</u></u>

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Total Actual To Total Budget
December 31, 2008

(In Whole Dollars)

	2008 YTD Actual	2008 YTD Budget	2008 YTD Variance
Funding			
ERO Funding	3,989,952	3,989,946	6
Member Services Funding	2,579,987	2,607,773	(27,787)
Services & Software	201,598	-	201,598
Workshops	72,250	-	72,250
Interest	26,322	-	26,322
Misc.	1,000	-	1,000
Total Funding	6,871,108	6,597,719	273,389
Expenses			
Personnel Expenses			
Salaries	2,571,094	2,768,601	(197,507)
Payroll Taxes	159,444	193,801	(34,357)
Employee Benefits	282,002	491,540	(209,538)
Savings & Retirement	341,030	367,268	(26,238)
Total Personnel Expenses	3,353,570	3,821,210	(467,640)
Meeting Expenses			
Meetings	99,121	67,609	31,512
Travel	128,576	201,916	(73,340)
Conference Calls	34,779	21,232	13,547
Total Meeting Expenses	262,476	290,757	(28,282)
Operating Expenses			
Contracts & Consultants	1,092,691	1,261,653	(168,962)
Rent & Improvements	328,787	367,350	(38,563)
Office Costs	467,887	322,966	144,921
Professional Services	230,796	128,680	102,116
Computer Purchase & Maint.	8,738	85,110	(76,372)
Furniture & Equipment	185,983	319,993	(134,011)
Total Operating Expenses	2,314,881	2,485,752	(170,871)
Total Expenses	5,930,927	6,597,719	(666,792)
Contingency	-	-	-
Net Change in Assets	940,182	-	940,182

See Independent Audit Report

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Statutory
December 31, 2008

(In Whole Dollars)

	2008 YTD Actual	2008 YTD Budget	2008 YTD Variance
Funding			
ERO Funding	3,989,952	3,989,946	6
Member Services Funding	-	-	-
Services & Software	20,160	-	20,160
Workshops	72,250	-	72,250
Interest	26,322	-	26,322
Misc.	1,000	-	1,000
Total Funding	4,109,684	3,989,946	119,738
Expenses			
Personnel Expenses			
Salaries	1,713,174	2,100,858	(387,684)
Payroll Taxes	101,263	147,059	(45,796)
Employee Benefits	188,925	372,271	(183,346)
Savings & Retirement	216,588	279,464	(62,876)
Total Personnel Expenses	2,219,950	2,899,652	(679,702)
Meeting Expenses			
Meetings	89,711	55,324	34,387
Travel	109,264	173,416	(64,152)
Conference Calls	18,229	15,294	2,935
Total Meeting Expenses	217,205	244,034	(26,829)
Operating Expenses			
Contracts & Consultants	121,108	215,434	(94,326)
Rent & Improvements	225,760	224,745	1,015
Office Costs	72,874	142,368	(69,494)
Professional Services	163,500	107,329	56,171
Computer Purchase & Maint.	5,119	85,110	(79,991)
Furniture & Equipment	171,055	71,274	99,781
Total Operating Expenses	759,416	846,260	(86,844)
Total Expenses	3,196,571	3,989,946	(793,375)
Contingency	-	-	-
Net Change in Assets	913,112	(0)	913,113

See Independent Audit Report

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Statutory by Program
December 31, 2008

(In Whole Dollars)

	RSD 0300	CME 0400	COMP ENFORC	ORG REG & CERT	RE 0700	RA 0800	TE 0900	SA 1000	GA 2000	2008 YTD Actual	2008 YTD Budget	2008 YTD Variance
	RELIAB STD DEV	RELIAB ASSESS	TRAINING & EDUC	SIT AWARE	GENERAL ADMIN							
Funding												
ERO Funding	480,612	2,003,580		90,216	1,206,312	80,388	128,844			3,989,952	3,989,946	6
Member Services Funding												
Services & Software					20,160					20,160		20,160
Workshops						72,250				72,250		72,250
Interest	2,898	13,146	104	156	9,416	1,411	460			26,322		26,322
Misc.					1,000					1,000		1,000
Total Funding	483,510	2,016,726	104	90,372	1,236,888	152,779	129,304	0	0	4,109,684	3,989,946	119,738
Expenses												
Personnel Expenses												
Salaries	168,852	821,363	9,594	6,339	666,596	10,793	29,638			1,713,174	2,100,858	(387,684)
Payroll Taxes	10,015	48,515	567	375	39,401	638	1,752			101,263	147,059	(45,796)
Employee Benefits	17,087	104,485	878	564	62,024	1,042	2,846			188,925	372,271	(183,346)
Savings & Retirement	21,421	103,767	1,213	801	84,274	1,365	3,747			216,588	279,464	(62,876)
Total Personnel Expenses	217,375	1,078,130	12,252	8,078	852,296	13,837	37,982	0	0	2,219,950	2,899,652	(679,702)
Meeting Expenses												
Meetings	566	17,610	159	3	6,970	63,814	590			89,711	55,324	34,387
Travel	20,839	54,145	170	1,187	29,753	2,262	909			109,264	173,416	(64,152)
Conference Calls	809	4,965	21	12	10,128	589	1,704			18,229	15,294	2,935
Total Meeting Expenses	22,213	76,721	350	1,202	46,852	66,665	3,203	0	0	217,205	244,034	(26,829)
Operating Expenses												
Contracts & Consultants	1,062	13,670	79	56	105,933	69	237			121,108	215,434	(94,326)
Rent & Improvements	14,945	150,043	963	680	55,505	963	2,660			225,760	224,745	1,015
Office Costs	5,044	40,861	310	203	20,803	3,855	1,797			72,874	142,368	(69,494)
Professional Services	13,586	85,327	883	603	59,404	875	2,822			163,500	107,329	56,171
Computer Purchase & Maint.	558	2,730	31	19	1,705	30	45			5,119	85,110	(79,991)
Furniture & Equipment	2,295	148,314	66	93	20,134	36	118			171,055	71,274	99,781
Total Operating Expenses	37,491	440,945	2,332	1,654	261,485	5,829	7,679	0	0	759,416	846,260	(86,844)
Total Expenses	277,079	1,595,796	14,934	10,935	1,162,632	86,332	48,864	0	0	3,196,571	3,989,946	(793,375)
Contingency	-	-	-	0	0	0	0	0	0	-	-	-
Net Change in Assets	206,431	420,931	(14,830)	79,437	74,256	66,447	80,440	0	0	913,112	(0)	913,113

See Independent Audit Report

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Member Services (Non-Statutory)
December 31, 2008

(In Whole Dollars)

	2008 YTD Actual	2008 YTD Budget	2008 YTD Variance
Funding			
ERO Funding	-	-	-
Member Services Funding	2,579,987	2,607,773	(27,787)
Services & Software	181,438		181,438
Workshops	-		-
Interest	-		-
Misc.	-		-
Total Funding	2,761,425	2,607,773	153,652
Expenses			
Personnel Expenses			
Salaries	857,920	667,743	190,177
Payroll Taxes	58,181	46,742	11,439
Employee Benefits	93,077	119,269	(26,192)
Savings & Retirement	124,442	87,804	36,638
Total Personnel Expenses	1,133,620	921,558	212,062
Meeting Expenses			
Meetings	9,410	12,285	(2,875)
Travel	19,312	28,500	(9,188)
Conference Calls	16,549	5,938	10,611
Total Meeting Expenses	45,271	46,723	(1,453)
Operating Expenses			
Contracts & Consultants	971,584	1,046,219	(74,635)
Rent & Improvements	103,027	142,605	(39,578)
Office Costs	395,013	180,598	214,415
Professional Services	67,296	21,351	45,945
Computer Purchase & Maint.	3,618	-	3,618
Furniture & Equipment	14,928	248,719	(233,791)
Total Operating Expenses	1,555,465	1,639,492	(84,027)
Total Expenses	2,734,355	2,607,773	126,582
Contingency	-		-
Net Change in Assets	27,069	0	27,069

See Independent Audit Report

Florida Reliability Coordinating Council, Inc.
Statement of Activities - Member Services (Non Statutory) by Committee
December 31, 2008

	=PC		=OC		GA		2008 YTD Actual	2008 YTD Budget	2008 YTD Variance
	Total	Total	Total	Total					
	Planning Committee	Operating Committee	GENERAL ADMIN	GENERAL ADMIN					
Funding									
ERO Funding	-	-	-	-	-	-	-	-	
Member Services Funding	929,663	1,650,323	2,579,987	2,607,773	2,579,987	2,607,773	(27,787)		
Services & Software	-	181,438	181,438	-	181,438	-	181,438		
Workshops	-	-	-	-	-	-	-		
Interest	-	-	-	-	-	-	-		
Misc.	-	-	-	-	-	-	-		
Total Funding	929,663	1,831,762	2,761,425	2,607,773			153,652		
Expenses									
Personnel Expenses									
Salaries	524,726	333,194	857,920	667,743	857,920	667,743	190,177		
Payroll Taxes	35,317	22,864	58,181	46,742	58,181	46,742	11,439		
Employee Benefits	56,591	36,486	93,077	119,269	93,077	119,269	(26,192)		
Savings & Retirement	75,538	48,904	124,442	87,804	124,442	87,804	36,638		
Total Personnel Expenses	692,172	441,448	1,133,620	921,558			212,062		
Meeting Expenses									
Meetings	3,916	5,494	9,410	12,285	9,410	12,285	(2,875)		
Travel	10,399	8,913	19,312	28,500	19,312	28,500	(9,188)		
Conference Calls	5,639	10,910	16,549	5,938	16,549	5,938	10,611		
Total Meeting Expenses	19,953	25,317	45,271	46,723			(1,453)		
Operating Expenses									
Contracts & Consultants	5,337	966,247	971,584	1,046,219	971,584	1,046,219	(74,635)		
Rent & Improvements	60,590	42,437	103,027	142,605	103,027	142,605	(39,578)		
Office Costs	18,443	376,569	395,013	180,598	395,013	180,598	214,415		
Professional Services	5,127	62,169	67,296	21,351	67,296	21,351	45,945		
Computer Purchase & Maint.	1,872	1,747	3,618	-	3,618	-	3,618		
Furniture & Equipment	2,939	11,989	14,928	248,719	14,928	248,719	(233,791)		
Total Operating Expenses	94,307	1,461,158	1,555,465	1,639,492			(84,027)		
Total Expenses	806,433	1,927,923	2,734,355	2,607,773			126,582		
Contingency	-	-	-	-	-	-	-		
Net Change in Assets	123,231	(96,161)	27,069	0	27,069	0	27,069		

See Independent Audit Report

MIDWEST RELIABILITY ORGANIZATION
Financial Statements
Year Ended December 31, 2008

MIDWEST RELIABILITY ORGANIZATION
Roseville, Minnesota

Financial Statements
Including Independent Auditors' Report

December 31, 2008 and 2007

MIDWEST RELIABILITY ORGANIZATION

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Members
Midwest Reliability Organization
Roseville, Minnesota

We have audited the accompanying balance sheet of Midwest Reliability Organization as of December 31, 2008, and the related statements of operations and members' equity and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements and supplementary information of Midwest Reliability Organization as of December 31, 2007 were audited by other auditors whose report dated May 19, 2008 expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Midwest Reliability Organization as of December 31, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 5 to the financial statements, as of December 31, 2007, the Organization changed its method of accounting for postretirement plans to conform to Financial Accounting Standards Board (FASB) Statement No. 158, *Employers' Accounting for Defined Benefit Pension and other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)*.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This schedule is the responsibility of the Organization's management. Information in the schedule has been subjected to the auditing procedures applied in our audit of the 2008 basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the 2008 basic financial statements taken as a whole.

Minneapolis, Minnesota
March 24, 2009

A handwritten signature in black ink that reads "Virchow Krause & Company, LLP". The signature is written in a cursive, flowing style.

MIDWEST RELIABILITY ORGANIZATION

STATEMENTS OF FINANCIAL POSITION
December 31, 2008 and 2007

	ASSETS	
	<u>2008</u>	<u>2007</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 729,127	\$ 590,521
Trade receivables	-	125,206
Prepaid expenses	<u>61,886</u>	<u>128,602</u>
Total Current Assets	791,013	844,329
PROPERTY, IMPROVEMENTS AND EQUIPMENT, NET	706,962	756,091
OTHER ASSETS		
Capitalized software costs, net of accumulated depreciation of \$83,113 and \$38,859, respectively	<u>21,495</u>	<u>64,402</u>
TOTAL ASSETS	<u>\$ 1,519,470</u>	<u>\$ 1,664,822</u>
	LIABILITIES AND MEMBERS' EQUITY	
CURRENT LIABILITIES		
Accounts payable - trade	\$ 211,398	\$ 323,986
Payable to MAPPCOR	140,670	213,518
Accrued liabilities	166,410	149,649
Deferred penalty assessment	75,458	
Deferred rent	<u>47,733</u>	<u>47,733</u>
Total Current Liabilities	641,669	734,886
OTHER LIABILITIES		
Postretirement benefit obligation	369,803	209,875
Deferred rent - long-term	<u>120,590</u>	<u>147,649</u>
Total Liabilities	<u>1,132,062</u>	<u>1,092,410</u>
MEMBERS' EQUITY	<u>387,408</u>	<u>572,412</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 1,519,470</u>	<u>\$ 1,664,822</u>

See accompanying notes to financial statements.

MIDWEST RELIABILITY ORGANIZATION

STATEMENTS OF OPERATIONS AND MEMBERS' EQUITY
 Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
REVENUE		
Assessments	\$ 5,331,487	\$ 5,021,588
Services and software	183,610	772,934
Workshops	-	9,063
Total Revenue	<u>5,515,097</u>	<u>5,803,585</u>
 EXPENSES		
Personnel expenses		
Salaries	2,189,883	1,692,753
Payroll taxes	169,798	133,668
Employee benefits	423,858	284,439
Retirement benefits	<u>530,523</u>	<u>457,023</u>
Total personnel expenses	3,314,062	2,567,883
 Meeting expenses		
Conference calls	58,336	58,005
Meetings	104,606	148,628
Travel	<u>424,060</u>	<u>424,041</u>
Total meeting expenses	587,002	630,674
 Operating expenses		
Building rent	187,927	199,322
Consulting	786,592	1,046,505
Office costs	575,305	514,862
Professional services	249,213	336,378
Contingency	-	18,904
Total operating expenses	<u>1,799,037</u>	<u>2,115,971</u>
 Total Expenses	5,700,101	5,314,528
 CHANGE IN MEMBERS' EQUITY	(185,004)	489,057
 MEMBERS' EQUITY - Beginning of Year	<u>572,412</u>	<u>83,355</u>
 MEMBERS' EQUITY - END OF YEAR	<u>\$ 387,408</u>	<u>\$ 572,412</u>

See accompanying notes to financial statements.

MIDWEST RELIABILITY ORGANIZATION

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in members' equity	\$ (185,004)	\$ 489,057
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities		
Depreciation and amortization	269,754	230,203
Adjustment to adopt FASB Statement No. 158	-	17,544
Amortization of deferred rent	(27,059)	(17,899)
Postretirement benefit obligation	159,928	-
Loss on disposal of assets	13,198	-
Change in assets and liabilities:		
Trade receivables and other	125,206	(60,135)
Prepaid expenses	66,716	(117,901)
Accounts payable - trade	(112,588)	286,987
Payable to MAPPCOR	(72,848)	168,460
Accrued liabilities	16,761	282,892
Deferred penalty assessment	75,458	-
Net Cash Flows from Operating Activities	329,522	1,279,208
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, improvements and equipment	(190,916)	(300,801)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of long-term debt	-	(500,000)
 Net Change in Cash and Cash Equivalents	138,606	478,407
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	590,521	112,114
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 729,127	\$ 590,521
 Supplemental cash flow disclosure:		
Interest paid	\$ -	\$ 5,518

See accompanying notes to financial statements.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Services

Midwest Reliability Organization (or the "Organization") is a nonprofit organization dedicated to ensuring the reliability of the bulk power system in the north-central part of North America. The Organization is a Regional Entity under the Energy Policy Act of 2005 (United States) and operates under delegated authority from the Federal Energy Regulatory Commission (FERC) via a delegation agreement with the North American Reliability Corporation. Additionally, the Organization operates in the provinces of Saskatchewan and Manitoba through other agreements. The primary focus of the Organization is ensuring compliance with reliability standards utilizing open, fair processes in the public interest and providing assessments on bulk power system reliability. In addition to the Board of Directors, Midwest Reliability Organization has formed four organizational groups: The Reliability Assessment Committee, the Compliance Committee, the Dispute Resolution Committee, and the Standards Committee.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents. All cash and cash equivalents are held by one financial institution. Cash balances periodically exceed federally insured limits.

Receivables

Receivables primarily consist of assessments related to load serving entities (members and nonmembers). No allowance for doubtful accounts is recorded based on historical experience and management's evaluation of receivables at December 31, 2008 and 2007. Bad debts are expensed when deemed uncollectible. Receivables are generally unsecured.

Property, Improvements and Equipment

Property, improvements and equipment are stated at cost less accumulated depreciation and amortization. Significant additions or improvements exceeding \$2,000 are capitalized, while expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, ranging from three to five years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life or the remaining lease term. The cost and related accumulated depreciation of assets sold or disposed of are removed from the accounts, and the resulting gain or loss is included in operations.

Tax Status

The Internal Revenue Service has determined that the Organization is exempt from federal income taxes under Section 501(c)6 of the Internal Revenue Code. They are also exempt from state income taxes. However, any unrelated business income may be subject to taxation.

Capitalized Software Costs

The Organization capitalizes software development costs incurred in upgrading computer software used internally to serve its members. The Organization begins capitalization of these costs after technological feasibility has been determined. The capitalized software, once placed in service, is amortized on the straight-line method over its estimated useful life of three years. Amortization expense totaled \$44,254 and \$38,859 for the years ended December 31, 2008 and 2007, respectively.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Assessments

The Organization receives its revenues through a net energy-to-load allocation for all load-serving entities within its geographical area. The revenue allocation is prescribed under the Energy Policy Act of 2005 and FERC rules. Revenues in Saskatchewan and Manitoba share the same revenue and allocation methodology. Any other revenues are collected on a fee-for-service basis at no cost.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements*. FASB Statement No. 157 defines fair value, establishes a framework for measuring fair value for accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. This statement supplements previously issued accounting pronouncements that required or permitted fair value measurements. Accordingly, this statement does not require any new fair value measurements. FASB Statement No. 157 is effective for financial assets and liabilities for fiscal years beginning after November 15, 2007. The Organization adopted FASB Statement No. 157 for financial assets and liabilities effective January 1, 2008. With respect to nonfinancial assets and liabilities, the statement is effective for the Organization on January 1, 2009. Due to the nature of the assets held by the Organization there was no material impact with the adoption of FASB Statement No. 157 on the Organization's financial position or results of operations.

In February 2007, the FASB issued FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115*, which permits, but does not require, entities to account for all other financial instruments at fair value. The standard does not currently extend to nonfinancial assets. FASB Statement No. 159 was effective for fiscal years beginning after November 15, 2007. The Organization has chosen not to account for any of their other elective financial instruments at fair value.

Reclassifications

During 2008 the Organization revised its presentation format for the Statement of Operations. For comparability purposes amounts appearing in the 2007 financial statements have been reclassified to conform with the 2008 presentation. The reclassifications have no effect on reported amounts of total revenue, expenses or change in members' equity.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE 2 – MAPPCOR TRANSACTIONS

The Organization contracted with MAPPCOR to provide organization-related services for a period of one year, renewable on a calendar year-to-calendar year basis until terminated, pursuant to a Service Agreement. The Organization bills MAPPCOR, for information technology services, and in 2007 for General and Administrative and Human Resources services to support the functions of MAPPCOR. Billings are based on an annual budget of the expected costs of providing these services. A reconciliation of actual costs to budgeted costs is performed on an annual basis and billings are adjusted for overcharges or undercharges. The reconciliation is prepared based on the methodology for recovering costs contained in the Service Agreement. The Organization had a payable of \$140,670 and \$213,518 due to MAPPCOR at December 31, 2008 and 2007, respectively. The Organization recognized \$122,610 and \$392,780 of revenue in 2008 and 2007, respectively, related to the Service Agreement.

On January 1, 2007, MAPPCOR converted its employee pension plan to a multiple employer plan so that employees from both MRO and MAPPCOR could participate.

On January 1, 2007, the existing assets of a postretirement health care plan were split between MRO and MAPPCOR based upon an agreed-to formula with MRO receiving \$195,384 of the total assets and \$329,532 of the total obligation as of January 1, 2007.

NOTE 3 - NERC TRANSACTIONS

On October 30, 2007 the Organization entered into a delegation agreement with the North American Electric Reliability Corporation ("NERC") with an executed version dated April 5, 2008 to enforce the Reliability Standards as set by NERC within a designated region. In connection with the delegation agreement the Organization has the ability to propose Reliability Standards, Regional Variance and develop Reliability Standards. The Organization has the authority to enforce the Reliability Standards as set by NERC within the geographic boundaries agreed upon and reports to NERC any self reported violations or investigations into alleged violations. As often as NERC deems necessary, but no less than every three years, NERC will review the Organization's compliance enforcement program for compliance.

To insure the delegated functions have reasonable funding, NERC is to fund the Organization with the monies necessary to carry out its activities as per the agreement. A formula is devised that equitably allocates charges among the end users within the boundaries served by the Organization, based on net energy for load or through such other formula as provided. The Organization provides NERC with an annual operating budget on or before April 30 of each year. Budgeted revenues from NERC were \$5,331,487 and \$5,021,588 for the years ended December 31, 2008 and 2007, respectively, which agree with the amounts received.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 4 - LEASE COMMITMENTS

Operating Lease

On January 1, 2007, there was an assignment and assumption of MAPPCOR's operating lease by MRO, which MAPPCOR had entered into March 14, 2006, for rental of the office space located in Roseville, Minnesota. The assumed lease agreement is between Minnesota Industrial Properties Limited Partnership and MAPPCOR. Rent expense, including operating expenses and real estate taxes, was \$187,927 in 2008 and \$199,322 in 2007.

Future expected minimum lease payments under the assigned lease as of December 31, 2008 are as follows:

Years Ending December 31	
2009	\$ 127,181
2010	130,659
2011	134,925
2012	138,994
2013	<u>70,547</u>
	<u>\$ 602,306</u>

NOTE 5 - PROPERTY, IMPROVEMENTS AND EQUIPMENT

The following is a schedule of property, improvements and equipment as of December 31:

	<u>2008</u>	<u>2007</u>
Equipment	\$ 417,156	\$ 291,912
Furniture	145,030	143,278
Leasehold improvements	<u>561,620</u>	<u>512,245</u>
	1,123,806	947,435
Less: Accumulated depreciation	<u>(416,844)</u>	<u>(191,344)</u>
Net Property, Improvements and Equipment	<u>\$ 706,962</u>	<u>\$ 756,091</u>

NOTE 6 - LINES OF CREDIT

The Organization obtained a revolving line of credit from National Cooperative Service Corporation (NCSC) in February 2008. The line of credit has a credit limit of \$2,000,000 and an interest rate equal to the NCSC Line of Credit Rate in effect from time to time, not to exceed the Prevailing Bank Prime Rate as published in the "Money Rates" column of the eastern edition of the *Wall Street Journal* on the publication day immediately preceding the day on which an adjustment in the interest rate becomes effective. The Organization is required to maintain a Debt Service Coverage Ratio of not less than 1.00. The line of credit is secured by substantially all assets of the Organization, and is set to expire in February 2011. There were no outstanding balances at December 31, 2007 or 2008 respectively.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 7 - RETIREMENT PLANS

Postretirement Health Plan

The Organization has a defined benefit postretirement health plan available to eligible current and future retirees. In September 2006, the FASB issued FASB Statement No. 158. This statement required the Organization to recognize a postretirement plan's funded status in the statement of financial position effective December 31, 2007, and recognize changes in the plan's funded status in members' equity in the year in which the changes occur. The incremental effects of applying FASB Statement No. 158 to the Organization's statement of financial position are as follows:

	Prior to Adopting FASB 158	Effect of Adopting FASB 158	As Reported December 31, 2007
Accrued benefit cost	\$ 192,331	\$ (192,331)	\$ -
Postretirement benefit obligation	-	209,875	209,875
Members' equity	589,956	(17,544)	572,412

Information regarding the plan as of December 31 was as follows:

	2008	2007
Change in projected benefit obligation		
Benefit obligation at beginning of year	\$ 436,251	\$ 329,532
Service cost	70,236	24,721
Interest cost	28,151	19,743
Actuarial loss	46,769	62,255
Benefits paid	-	-
Benefit obligation at end of year	<u>581,407</u>	<u>436,251</u>
Change in plan assets		
Fair value of plan assets at beginning of year	226,376	195,384
Actual return on plan assets	(73,443)	11,117
Employer contribution	58,671	19,875
Benefits paid	-	-
Fair value of plan assets at end of year	<u>211,604</u>	<u>226,376</u>
Funded status recognized as a noncurrent liability	<u>\$ (369,803)</u>	<u>\$ (209,875)</u>
Weighted average assumptions used to calculate the benefit obligation-discount rate	5.65%	6.50%

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 7 - RETIREMENT PLANS (Continued)

Net periodic postretirement benefit expense for the years ending December 31 is comprised of the following:

	2008	2007
Components of net periodic benefit cost		
Service cost	\$ 70,236	\$ 24,721
Interest cost	28,151	19,743
Expected return on plan assets	(17,857)	(15,592)
Amortization of prior service cost	434	2,286
Amortization of actuarial gain	-	(1,008)
	<u>\$ 80,964</u>	<u>\$ 30,150</u>

Weighted-average assumptions used to calculate the net periodic benefit cost

Discount rate	6.50%	6.00%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increases	N/A	N/A

The expected rates of return on pension plan assets are based on the weighting of the Organization's asset allocations, the 30-year rolling historical average returns, and recent historical average returns.

Assumed health care cost trend rates at December 31 consist of the following:

Health care cost trend rate assumed for next year	9.0%	8.1%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.2%	5.1%
Year that the rate reaches the ultimate trend rate	2029	2028

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage point change in assumed health care trend rates would have the following effects:

	One-Percentage Point	
	Increase	Decrease
Effect on total of service cost and interest cost	\$ 28,777	\$ (21,259)
Effect on postretirement benefit obligation	149,054	(111,841)

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 7 - RETIREMENT PLANS (Continued)

Pension related changes other than net periodic cost included in retirement benefit expense:

	2008	2007
Actuarial (gain) loss arising during the year	\$ 138,069	\$ -
Amortization of prior year service cost	(434)	-
Effect of adopting FASB 158	-	17,433
	\$ 137,635	\$ 17,544

The Organization's weighted average asset allocations by asset category at December 31 are as follows:

	2008	2007
Equity securities	80%	78%
Debt securities	17	16
Other	3	6
	100%	100%

The Organization employs a total return investment approach for plan assets with a mix of equity and debt investments used to maximize the long-term appreciation of plan assets for a prudent level of risk. The Organization's plan assets are invested in various funds, which consist of both stocks and bonds. The target asset allocation is approximately 65% to stocks and 35% to bonds. The broadly diversified equity component includes investment in companies of various sizes, with an emphasis on large cap stocks, and represents several investment styles. The equity portion also includes an allocation to international stocks. Investments in bonds are diversified into three portfolios that invest mainly in U.S. treasuries, high quality corporate issues and mortgage securities.

Estimated future benefit payments (which reflect expected future service, as appropriate) as of December 31, 2008 are as follows:

Years Ending December 31		
2009	\$	7,197
2010		8,107
2011		9,058
2012		10,040
2013		11,036
2014-2017		133,734

It is reasonably possible that changes in these estimates could occur in the near term and that actual results could differ from these estimates and could have a material effect on the financial statements.

The Organization expects to contribute as necessary to fund the plan.

MIDWEST RELIABILITY ORGANIZATION

NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007

NOTE 7 - RETIREMENT PLANS (Continued)

Defined Benefit Pension Plan

The Organization participates in a multiple-employer defined benefit pension plan for its employees (see Note 2). The amount contributed to the plan for the year ended December 31, 2008 and 2007 was approximately \$202,000 and \$157,000, respectively.

MAPPCOR, the plan administrator, has announced its intent to terminate this pension plan and MRO has agreed to such termination. In January 2009, the plan administrator submitted an application for determination for terminating the plan to the Internal Revenue Service. Future contributions to the plan have ceased except to the extent necessary to satisfy any minimum funding obligation required to meet minimum funding obligations to fund participant accrued benefits. The Organization's contribution to the plan necessary to meet these minimum funding standards is anticipated to be due in 2009 and could be substantial. MRO is in the process of initiating a qualified defined contribution plan for employees to provide future benefits.

SUPPLEMENTAL SCHEDULE

MIDWEST RELIABILITY ORGANIZATION

NERC QUALIFYING DISBURSEMENTS AND FUNDING
 Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
FUNDING		
Assessments	\$ 5,331,487	\$ 5,021,588
Services and software	61,000	772,934
Workshops	-	9,063
Total Funding	<u>5,392,487</u>	<u>5,803,585</u>
 ALLOWED DISBURSEMENTS		
Personnel disbursements		
Salaries	2,159,605	1,671,915
Employee benefits	164,549	284,265
Payroll taxes	420,788	133,668
Retirement benefits	<u>365,346</u>	<u>246,398</u>
Total personnel disbursements	3,110,288	2,336,246
Meeting disbursements		
Conference calls	58,336	58,005
Meetings	104,606	141,942
Travel	<u>424,020</u>	<u>379,291</u>
Total meeting disbursements	586,962	579,238
Operating disbursements		
Building rent	187,927	147,646
Consulting	680,612	1,080,924
Contracts	27,256	
Office costs	305,552	305,174
Professional services	249,213	277,778
Computer purchases and maintenance	<u>177,718</u>	<u>448,244</u>
Total operating disbursements	<u>1,628,278</u>	<u>2,259,766</u>
Total Allowed Disbursements	<u>\$ 5,325,528</u>	<u>\$ 5,175,250</u>
Change in Assets	<u>\$ 66,959</u>	<u>\$ 628,335</u>
Headcount	<u>24</u>	<u>21</u>

NORTHEAST POWER COORDINATING COUNCIL
Financial Statements
Year Ended December 31, 2008

**Northeast Power
Coordinating Council, Inc.**
Financial Statements
December 31, 2008 and 2007

Northeast Power Coordinating Council, Inc.
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December 31, 2008 and 2007

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Report of Independent Auditors

To the Board of Directors, the Audit and Finance Committee and the Members of
Northeast Power Coordinating Council, Inc.

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows for the years then ended present fairly, in all material respects, the financial position of Northeast Power Coordinating Council, Inc. (the "Company"), as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

April 3, 2009

Northeast Power Coordinating Council, Inc.
Statements of Financial Position
December 31, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents	\$ 140,471	\$ 44,543
Restricted cash - lease security	501,061	-
Investments	2,210,529	2,239,914
Prepaid expenses	190,487	52,783
Deposits	38,420	38,420
Other assets	31,203	-
Equipment and leasehold improvements, less accumulated depreciation of \$243,692 in 2008 and \$197,851 in 2007 (Note 4)	149,441	113,325
Total assets	<u>\$ 3,261,612</u>	<u>\$ 2,488,985</u>
Liabilities and Net assets		
Accrued expenses and other liabilities	\$ 706,556	\$ 510,018
Accrued liability for pension and other retirement benefits	2,952,250	1,825,163
Deferred revenue	251,976	-
Total liabilities	<u>3,910,782</u>	<u>2,335,181</u>
Net assets (deficit)		
Unrestricted net assets (deficit)	<u>(649,170)</u>	<u>153,804</u>
Total net assets (deficit)	<u>(649,170)</u>	<u>153,804</u>
Total liabilities and net assets	<u>\$ 3,261,612</u>	<u>\$ 2,488,985</u>

The accompanying notes are an integral part of these financial statements.

Northeast Power Coordinating Council, Inc.
Statements of Activities
Years Ended December 31, 2008 and 2007

	2008	2007
Revenue		
Membership dues	\$ 655,654	\$ 2,153,034
Regional entity ERO funding	7,648,718	5,214,361
Interest income	41,676	143,853
Total revenue	<u>8,346,048</u>	<u>7,511,248</u>
Expenses		
Salaries and employee benefits	4,472,621	3,825,364
Administrative and consultant fees	1,116,809	1,047,067
Professional fees	553,108	506,650
Meetings and travel	775,246	673,203
Telephone and telecommunications	157,896	120,095
Office supplies and expense	160,287	205,917
Rent expense	216,383	220,765
Insurance expense	11,043	34,770
Industry support	332,933	297,462
Miscellaneous	100,325	72,968
Depreciation	45,841	34,505
Total expenses	<u>7,942,492</u>	<u>7,038,766</u>
Increase in net assets before adoption of FASB Statement No. 158	403,556	472,482
Pension and postretirement change other than net periodic pension cost	(1,206,530)	-
Effect of adoption of FASB Statement No. 158	<u>-</u>	<u>(1,622,785)</u>
Decrease in net assets	(802,974)	(1,150,303)
Net assets (deficit)		
Beginning of year	<u>153,804</u>	<u>1,304,107</u>
End of year	<u>\$ (649,170)</u>	<u>\$ 153,804</u>

The accompanying notes are an integral part of these financial statements.

Northeast Power Coordinating Council, Inc.
Statements of Cash Flows
Years Ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Change in net assets	\$ (802,974)	\$ (1,150,303)
Depreciation	45,841	34,505
(Increase) decrease in prepaid expenses	(137,704)	125,167
(Increase) in other assets	(31,203)	-
Increase in accrued expenses and other liabilities	196,538	121,664
Increase in accrued liability for pension and other retirement benefits	1,127,087	1,718,248
Increase in deferred revenue	251,976	-
Net cash provided by operating activities	<u>649,561</u>	<u>849,281</u>
Cash flows from investing activities		
Purchases of equipment and leasehold improvements	(81,957)	(72,791)
Sales of investments	5,720,000	6,310,000
Purchases of investments	(5,690,615)	(7,118,854)
Restricted cash	(501,061)	-
Net cash (used for) investing activities	<u>(553,633)</u>	<u>(881,645)</u>
Net increase (decrease) in cash	95,928	(32,364)
Cash and cash equivalents		
Beginning of year	<u>44,543</u>	<u>76,907</u>
End of year	<u>\$ 140,471</u>	<u>\$ 44,543</u>

The accompanying notes are an integral part of these financial statements.

Northeast Power Coordinating Council, Inc.

Notes to Financial Statements

December 31, 2008 and 2007

1. Background

Northeast Power Coordinating Council, Inc. (NPCC or the Company) is a New York State not-for-profit corporation whose purpose is to promote and enhance the reliable and efficient operation of the international, interconnected bulk power system in Northeastern North America through its regional entity and criteria services divisions. The Company's regional entity division is responsible for the development of regional reliability standards and compliance assessment and enforcement of continent-wide and regional reliability standards, coordination of system planning, design and operations, and assessment of reliability. These responsibilities are pursuant to an agreement with the North American Electric Reliability Corporation (NERC), an Electric Reliability Organization (ERO), under authority of the U.S. Federal Energy Regulatory Commission (FERC), and by Memoranda of Understanding with applicable Canadian Provincial regulatory and/or governmental authorities. The Company's criteria services division establishes regionally-specific criteria, and monitors and enforces compliance with such criteria. In the development of regionally-specific reliability criteria, the Company, to the extent possible, facilitates attainment of fair, effective and efficient competitive electric markets.

The Company is primarily funded through the NERC based on the regional entity division annual business plan and budget submitted to and approved by the FERC and Canadian provincial regulatory and/or governmental authorities. The Company's criteria services division is funded by regional independent system operators or balancing authority areas and operates on assessments to and funded from these entities based upon a "Net Energy for Load" formula.

2. Summary of Significant Accounting Policies

Basis of Accounting

For the years ended December 31, 2008 and December 31, 2007, the Company used the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Cash

The Company's cash balance consists of its operating account. Excess cash is invested in a 100% U.S. treasuries money market fund, which is classified in the investment account. Restricted cash represents an amount in a deposit account, which is collateralizing a letter of credit and is restricted as to its use.

Equipment and leasehold improvements

Equipment and leasehold improvements are stated at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the applicable assets.

Revenue Recognition

For the criteria services division, membership in the Company is on a calendar year basis. There are no fees assessed to full members other than those members that are Independent System Operators or Balancing Authority Areas. Assessments received are recorded as income in the year to which the membership applies irrespective of when billed or collected. For the regional entity division, membership in the Company is on a calendar year basis. There are no fees assessed to general members. Funding mechanisms provided through U.S. regulatory and Canadian governmental or regulatory agreements provide for quarterly remittances through the North American Electric Reliability Corporation. Assessments received are recorded as income in the year to which the Business Plan and Budget applies irrespective of when billed or collected.

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

Income Taxes

The Company has been classified as exempt from federal income taxes under Section 501(c)(6) of the Internal Revenue Code.

Use of Estimates

The Company uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could vary from the estimates that are used.

3. Investments

The Company places its operating cash with a high credit quality institution. Both regional entity (ERO funded) and criteria services (Regional Independent System Operators/Balancing Authority Areas – ISO/BAAAs) revenues are invested in a JPMorgan 100% U.S. Treasury Money Market Securities Fund. The Fund aims to provide the highest possible level of current income while still maintaining liquidity and providing maximum safety of principal. The Fund is a money market fund managed to meet the requirements of Rule 2a-7 under the Investment Company Act of 1940. An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency.

The Fund invests solely in debt securities of the U.S. Treasury, including Treasury bills, bonds and notes. These investments carry different interest rates, maturities and issue dates. The National Association of Insurance Commissioner ("NAIC"), Moody's, Fitch IBCA and S&P ratings signify that the Fund has historically had a superior capacity to maintain a net asset value of \$1.00 per share. The ratings do not eliminate the risks associated with investing in the Fund. The NAIC "approved" status indicates that the Fund meets certain pricing and quality guidelines. Management has determined that the likelihood of sustaining losses from money market funds to be remote based on the marketability of the underlying investment of the funds.

At December 31, 2008 and 2007, the Company owned 2,210,528 and 2,239,914 units, respectively, of \$1 par value each. In 2008 and 2007, the funds earned average yields of 1.19% and 4.11%, respectively. Investment income earned on the Fund is reinvested into units of the Fund on a monthly basis.

4. Equipment and leasehold improvements

Equipment and leasehold improvements at December 31, 2008 and 2007 consists of the following:

	Depreciable Life	2008	2007
Furniture	10 years	\$ 87,001	\$ 87,001
Computer equipment	3 years	224,175	224,175
		<u>311,176</u>	<u>311,176</u>
Less: Accumulated depreciation		<u>(243,692)</u>	<u>(197,851)</u>
		67,484	113,325
Construction in progress and equipment deposits		81,957	-
		<u>\$ 149,441</u>	<u>\$ 113,325</u>

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

In 2008 and 2007, depreciation expense amounted to \$45,841, and \$34,505, respectively.

5. Pension Plan

The Company has a trustee, noncontributory defined benefit pension plan (the "Plan") covering employees hired prior to February 6, 2007. The Company had budgeted for a contribution amounting to \$230,000 for 2008. Based upon negative fund performance and recommendations of the Pension Committee and approved by the NPCC Board of Directors, a supplemental funding contribution of \$170,000 was made for plan year 2008 for a total contribution of \$400,000.

The following tables provide information with respect to the defined benefit plan as of and for the years ended December 31, 2008 and 2007:

	2008	2007
Components of net periodic benefit cost		
Service cost	\$ 191,214	\$ 231,239
Interest cost	360,977	338,890
Expected return on plan assets	(317,144)	(272,623)
Amortization of prior service cost	-	-
Recognized actuarial loss (gain)	85,510	131,200
Net periodic benefit cost	<u>\$ 320,557</u>	<u>\$ 428,706</u>
	2008	2007
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 5,941,374	\$ 4,745,688
Service cost	191,214	231,239
Interest cost	360,977	338,890
Plan participants' contributions	-	-
Amendments	-	-
Actuarial loss (gain)	(114,751)	727,549
Benefits paid	(101,992)	(101,992)
Benefit obligation at end of year	<u>\$ 6,276,822</u>	<u>\$ 5,941,374</u>
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	\$ 4,116,211	\$ 3,559,474
Actual return on plan assets	(1,089,647)	205,729
Company contribution	400,000	453,000
Plan participant contribution	-	-
Benefits paid	(101,992)	(101,992)
Fair value of plan assets at end of year	<u>\$ 3,324,572</u>	<u>\$ 4,116,211</u>
Funded status at end of year	\$ (2,952,250)	\$ (1,825,163)
Unrecognized actuarial loss	-	-
Unrecognized prior service cost	-	-
Prepaid/(accrued) benefit cost	<u>\$ (2,952,250)</u>	<u>\$ (1,825,163)</u>

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

	2008	2007
Weighted-average assumptions as of December 31 used for obligation		
Discount Rate	6.25%	6.25%
Expected Return on Plan Assets	7.50%	7.50%
Weighted-average assumptions as of December 31 used for net periodic benefit cost		
Discount Rate	6.25%	6.25%
Expected Return on Plan Assets	7.50%	7.50%

The Company determines its expected return on plan assets assumption by evaluating both historical returns of major asset classes and current market factors. Current market factors include inflation and interest rates, as well as asset diversification.

The Company's defined benefit plan weighted average asset allocation at December 31, 2008 and 2007 by asset category is as follows:

	Allocation Percentage 2008	Allocation Percentage 2007
Equity Securities	60.0%	64.5%
Debt Securities	37.0%	35.5%
Cash	3.0%	-
	<u>100.0%</u>	<u>100.0%</u>

The Company's defined benefit plan invests primarily in equity and debt securities that are based upon levels of risk and provide for necessary liquidity requirements. The long-term objective is to limit the variability of its pension funding. The Company's plan assets are measured against benchmarks established by the Pension Committee, who has the authority to recommend changes as deemed appropriate.

At December 31, 2008, the Company's target allocation percentages for plan assets were approximately 65% equity securities and 35% debt securities. The targets may be adjusted periodically to reflect current market conditions and trends as well as inflation levels, interest rates and trends thereof.

Benefits expected to be paid in cash in the next five fiscal years ending December 31 are as follows:

2009	\$ 116,503
2010	111,374
2011	106,123
2012	186,767
2013	180,566
2014-2018	1,496,793

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

6. Savings Plan

The Company maintains a 401(k) plan for which all employees are immediately eligible upon hire. Within this plan, an employee can contribute 2% or greater of his or her compensation up to the IRS limit set for this plan. The Company's policy is to contribute on the employee's behalf 100% of the employee's contribution of the first 3% of his or her compensation, and 50% of his or her contribution for the next 2% of their compensation. Additionally, for those employees joining the corporation after February 6, 2007, upon completion of a full calendar year of service, such employees can be eligible for a discretionary contribution to be considered annually by the Board of Directors. That contribution, approved in 2008, was in the amount of 6% of base compensation. Contributions to five employees that were on staff from January 1, 2008 through December 31, 2008 totaled \$30,465. The contribution, approved in 2007 was also in the amount of 6% of base compensation. For 2007, no employees were eligible for a discretionary contribution. Contributions by the corporation to the 401(k) plan amounted to approximately \$127,104 and \$72,949 in 2008 and 2007, respectively.

7. Leases

The Company is obligated under long-term operating leases for the rental of office facilities and certain equipment. The office lease, which expires on May 31, 2009, has adjustments and escalation clauses for taxes and other operating expenses. NPCC has executed several leases with effective rental dates starting in 2009 coordinated with its relocation of offices within New York City. The Board of Directors, at its October 21, 2008 meeting, adopted a resolution formally authorizing NPCC's delivery of cash collateral for a letter of credit of \$500,000 from NPCC's accounts to a restricted account designated by the future Landlord 1040 Avenue of the Americas LLC as required under the executed office lease for the 10th floor of the building addressed 1040 Avenue of the Americas, New York, NY. In November, a letter of credit was issued by JP Morgan Chase Bank, NA on behalf of the Company, and the Company posted \$500,000 as collateral. This has been classified as restricted cash on the Statement of Financial Position. The collateral requirements will reduce to \$300,000 at the 3rd anniversary of Possession (2012) provided there are no defaults and will reduce to \$150,000 at the 6th (2015) anniversary of Possession and through the remainder of the 15 year lease term provided there are no defaults. The existing equipment leases have various expiration dates through May of 2009. In addition, the Company rents certain other equipment on a month-to-month basis. Rental expense for facilities and all equipment amounted to \$299,784 and \$340,535 in 2008 and 2007, respectively.

Future minimum rental payments required under the Company's long-term operating leases as of December 31, 2008 are as follows:

	Office Space	Other Leases	Total
Year ending December 31			
2009	\$ 306,179	\$ 143,792	\$ 449,971
2010	510,298	127,775	638,073
2011	612,357	125,875	738,232
2012	612,357	31,469	643,826
2013	612,357	-	612,357
Thereafter	7,168,039	-	7,168,039
	<u>\$ 9,821,587</u>	<u>\$ 428,911</u>	<u>\$ 10,250,498</u>

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

8. Functional Expenses

During 2008 and 2007 salaries and employee benefits consist of the following:

	2008	2007
President, CEO and technical staff	\$ 3,040,766	\$ 2,438,930
Office secretaries	139,837	129,803
Payroll taxes, insurance, pension and educational assistance	<u>1,292,018</u>	<u>1,256,631</u>
Total salaries and employee benefits	<u>\$ 4,472,621</u>	<u>\$ 3,825,364</u>

9. Other Expenses

The Company incurs various costs for administrative, consultant and professional services. Such costs amounted to \$1,669,917 and \$1,553,717 in 2008 and 2007, respectively, and consist of the following:

	2008	2007
Consultants	\$ 783,350	\$ 315,984
Accounting, legal and other services	880,280	1,235,403
Pension administration	<u>6,287</u>	<u>2,330</u>
Total administrative, consultant and professional fees	<u>\$ 1,669,917</u>	<u>\$ 1,553,717</u>

These costs are reflected in "Administrative and consultant fees" and "Professional fees" in the Statements of Activities.

10. Related Party Transactions

The North American Electric Reliability Corporation (NERC), through agreements with the Federal Energy Regulatory Commission (FERC) in the U.S. and Canadian Provincial and/or governmental agreements within Canada, delegates enforcement authority to eight regional entities. The Company is the cross-border regional entity for Northeastern North America. NERC was certified as the "electric reliability organization" by the Federal Energy Regulatory Commission on July 20, 2006. NERC relies on the diverse and collective expertise of industry participants to improve the reliability of the bulk power system. These entities account for virtually all the electricity supplied in the United States, Canada, and a portion of Baja California Norte, Mexico. NERC is subject to audit by the U.S. FERC and governmental and/or regulatory authorities in Canada. NERC funded the regional entities in 2008 based upon 2008 Business Plans and Budgets submitted to and approved by FERC in the U.S. and Canadian regulatory and/or governmental authorities.

The Company's criteria services division was fully funded by regional independent system operator or balancing authority areas and operated on assessments to and funded from these six entities. Dues were based upon a "Net Energy for Load" funding formula. During 2008 and 2007, total membership dues billed amounted to \$655,654 and \$2,153,034, respectively.

Northeast Power Coordinating Council, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

Description	2008 Percent	Total Share	2007 Percent	Total Share
Hydro-Quebec TransEnergie	28.29%	\$ 185,475	27.72 %	\$ 596,946
Independent Electricity System Operator	22.99%	150,767	23.11 %	497,508
ISO-New England, Inc.	20.11%	131,825	20.08 %	432,231
New Brunswick System Operator	2.24%	14,712	2.21 %	47,672
New York Independent System Operator	24.70%	161,929	24.62 %	530,048
Nova Scotia Power Inc.	1.67%	10,946	1.82 %	39,129
Non ISO/BAA Members	-	-	0.44 %	9,500
Total Member Fees	100.00%	\$ 655,654	100.00 %	\$ 2,153,034

The Company has various working group activities including system simulation and seasonal reliability assessments in which its members participate. The Company reimburses members for participation in these working groups. These expenses amounted to \$332,933 and \$297,462 during 2008 and 2007, respectively, and are classified as industry support in the Statements of Activities. The following table details industry support incurred during 2008 and 2007:

	2008	2007
Central Maine Power Company	\$ 150	\$ -
Consolidated Edison Co. of New York, Inc.	3,100	-
Constellation Energy Nuclear	3,750	-
GE Energy	-	30,000
Hydro One, Inc.	-	5,675
Hydro One Networks	16,480	-
Hydro-Quebec	16,450	-
Hydro-Quebec Distribution	2,250	26,296
Independent Electricity System Operator	56,350	61,200
ISO-New England, Inc.	76,045	52,886
National Grid USA	22,200	3,550
New Brunswick Power Transmission Corp.	20,150	18,400
New Brunswick System Operator	23,300	16,900
Nova Scotia Power, Inc.	15,058	7,887
New York Independent System Operator	32,200	26,868
New York Power Authority	25,500	19,300
Ontario Power Generation, Inc.	6,450	7,950
TransEnergie Hydro Quebec	13,500	20,550
Total industry support	\$ 332,933	\$ 297,462

As of December 31, 2008 and 2007 the Company had net accruals to related parties of \$19,650 and \$55,469, respectively, which are included in "Accrued expenses and other liabilities" on the Statements of Financial Position.

RELIABILITY*FIRST* CORPORATION
Financial Statements
Year Ended December 31, 2008

McGladrey & Pullen

Certified Public Accountants

Reliability*First* Corporation

Financial Report

December 31, 2008

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors of
ReliabilityFirst Corporation
Akron, Ohio

We have audited the accompanying statements of financial position of ReliabilityFirst Corporation as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ReliabilityFirst Corporation as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Chicago, Illinois
March 9, 2009

ReliabilityFirst Corporation

Statements of Financial Position
December 31, 2008 and 2007

Assets	2008	2007
Current Assets		
Cash	\$ 2,739,372	\$ 3,636,786
Investments	3,399,978	1,048,475
Accounts receivable	22,996	-
Prepaid expenses	113,562	74,349
Total Current Assets	6,275,908	4,759,610
Fixed assets		
Software development in progress	624,053	-
Furniture and equipment	60,963	74,290
Leasehold improvements	212,994	173,112
Computer software and hardware	889,309	380,100
	1,787,319	627,502
Less accumulated depreciation and amortization	197,419	60,643
	1,589,900	566,859
Total Assets	\$ 7,865,808	\$ 5,326,469
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 523,606	\$ 91,824
Accrued expenses	1,724,471	915,265
Total Current Liabilities	2,248,077	1,007,089
Net Assets		
Unrestricted:		
Designated for reserve fund	1,000,000	1,000,000
Undesignated	4,437,731	3,319,380
Temporarily restricted	180,000	-
Total Net Assets	5,617,731	4,319,380
Total Liabilities and Net Assets	\$ 7,865,808	\$ 5,326,469

See Notes to Financial Statements.

ReliabilityFirst Corporation

Statements of Activities
Years Ended December 31, 2008 and 2007

	2008	2007
Unrestricted Net Assets		
Revenues		
Quarterly assessments	\$ 9,584,256	\$ 9,372,472
Membership dues	4,000	-
Investment income	246,307	153,323
Miscellaneous	-	2,250
Total revenues	9,834,563	9,528,045
Expenses		
Program:		
Standards	472,866	431,502
Compliance	3,217,243	1,624,160
Readiness	53,833	61,330
Assessment	1,010,412	788,442
Training and education	115,626	25,857
Situation aware	240,089	208,546
Forums	481,368	473,281
General and administrative	1,790,187	1,826,806
Information technology	788,152	730,251
Human resources	179,716	156,927
Finance	176,273	186,458
Total program expenses	8,525,765	6,513,560
General:		
Depreciation and amortization	143,517	55,173
Loss on disposal of assets	46,931	1,206
Total general expenses	190,447	56,379
Total expenses	8,716,212	6,569,939
Increase in unrestricted net assets	1,118,351	2,958,106
Temporarily Restricted Net Assets		
Penalty sanctions	180,000	-
Increase in temporarily restricted net assets	180,000	-
Increase in total net assets	1,298,351	2,958,106
Net assets at beginning of year	4,319,380	1,361,274
Net assets at end of year	\$ 5,617,731	\$ 4,319,380

See Notes to Financial Statements.

ReliabilityFirst Corporation

Statements of Cash Flows
Years Ended December 31, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities		
Change in net assets	\$ 1,298,351	\$ 2,958,106
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	143,517	55,173
Loss on disposal of equipment	46,931	1,206
Net unrealized gain on investments	(172,194)	(48,475)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(22,996)	2,208
Increase in prepaid expenses	(39,213)	(5,968)
Increase in accounts payable	431,782	28,047
Increase in accrued expenses	809,206	229,472
Decrease in accrued rebates payable	-	(1,725,097)
Net cash provided by operating activities	<u>2,495,383</u>	<u>1,494,672</u>
Cash Flows From Investing Activities		
Purchase of investments	(2,179,309)	(1,000,000)
Additions to fixed assets	(1,213,488)	(516,605)
Net cash (used in) investing activities	<u>(3,392,797)</u>	<u>(1,516,605)</u>
Net (decrease) in cash	(897,414)	(21,933)
Cash at beginning of year	<u>3,636,786</u>	<u>3,658,719</u>
Cash at end of year	<u>\$ 2,739,372</u>	<u>\$ 3,636,786</u>

See Notes to Financial Statements.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies

Organization: ReliabilityFirst Corporation (the Corporation) is a not-for-profit corporation whose mission is to preserve and enhance electric service reliability and security for the interconnected electric systems within its territory. The Corporation was approved by the North American Electric Reliability Council (NERC) to become one of eight Regional Entities of the North American Electric Reliability Corporation.

The Corporation receives its quarterly assessments from NERC. A significant reduction in the level of this support, if this were to occur, may have a significant effect on the Corporation's operations.

The following is a summary of the Corporation's significant accounting policies which conform to principles generally accepted in the United States of America:

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition: The Corporation currently derives its revenues primarily from quarterly assessments. Revenues from such assessments are recognized as unrestricted revenues at the time services are performed and the cost of these services is recognized when incurred. Penalty sanctions are recognized after the entire appeals process has been exhausted and a Federal Electric Regulatory Commission (FERC) order has been issued and are non-appealable. Penalty sanctions received on or prior to June 30 of each year shall be applied as a general offset to budget requirements for the subsequent fiscal year. Penalty sanctions received after June 30 of each year shall be applied as a general offset to budget requirements for the next subsequent fiscal year.

Cash: The Corporation maintains its cash in non interest-bearing bank deposit accounts. Management believes it is not exposed to any significant credit risk on cash.

Accounts receivable: Accounts receivable are carried at actual billed amounts.

Fixed assets: Fixed assets are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives (generally 3 to 7 years) of the depreciable assets. Amortization for the leasehold improvements is computed on the lesser of the useful life or lease term.

Income taxes: The Corporation is qualified as a tax-exempt organization under the provisions of Section 501(c)(6) of the Internal Revenue Code and, therefore, exempt from taxation under present income tax laws.

Net assets: Of the unrestricted net asset balance, \$1,000,000 has been designated by the Board of Directors for its reserve fund at December 31, 2008 and 2007.

Temporarily restricted net assets at December 31, 2008 and 2007 were \$180,000 and \$0, respectively.

Fair value measurement: The Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, effective January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. The adoption of SFAS 157 did not have a material impact on the financial statements or results of operations of the Corporation. SFAS No. 157 applies to all assets and liabilities that are measured and reported on a fair value basis. See Note 2 for additional information.

Reclassifications: Certain amounts in the financial statements as of and for the year ended December 31, 2007, have been reclassified, with no effect or change in net assets, to be consistent with the classifications adopted as of and for the year ended December 31, 2008.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 2. Fair Value of Financial Instruments

The cost and fair value of the Corporation's investments are \$3,280,692 and \$3,399,978, respectively. The fair value of the trading securities is based on quoted market rates.

The Corporation adopted SFAS No. 157 at the beginning of fiscal year 2008 and there was no material impact to the December 31, 2008 financial statements. SFAS No. 157 applies to all assets and liabilities that are being measured and reported on a fair value basis. SFAS No. 157 requires new disclosure that establishes a framework for measuring fair value in GAAP, and expands disclosure about fair value measurements. This statement enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Corporation performs a detailed analysis of the assets and liabilities that are subject to SFAS No. 157. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. As of December 31, 2008, the Corporation investments are classified as Level 1.

Investment income for the years ended December 31, 2008 and 2007 consisted of the following:

	2008	2007
Interest	\$ 74,113	\$ 104,848
Unrealized gains/(losses)	172,194	48,475
	<u>\$ 246,307</u>	<u>\$ 153,323</u>

Note 3. Related Party Transactions

The Corporation incurred expenses related to meeting fees, retainer fees and travel related to its independent Board of Directors totaling \$256,956 and \$182,063 during the years ended December 31, 2008 and 2007, respectively.

Note 4. Line of Credit

The Corporation has a \$1,000,000 line of credit with borrowings due on March 16, 2009. The line is collateralized by substantially all assets of the Corporation and interest is charged at the prime rate (3.25% at December 31, 2008). The Corporation did not make any drawdowns on the line during the year and had no outstanding balance as of December 31, 2008 or 2007.

ReliabilityFirst Corporation

Notes to Financial Statements

Note 5. Operating Leases

The Corporation had entered into a lease agreement during 2007 for its Akron, Ohio office. Subsequent to December 31, 2008, the Corporation signed a lease amendment changing the monthly lease payments. The lease expires in April 2017. Rental expense for operating leases amounted to \$255,263 and \$250,982 for the years ended December 31, 2008 and 2007, respectively. The future minimum lease payments as of December 31, 2008 are in accordance with the subsequent lease amendment and are as follows:

Year ending December 31:	
2009	\$ 259,407
2010	259,407
2011	259,407
2012	259,407
2013	259,407
Thereafter	864,686
	<u>\$ 2,161,721</u>

Note 6. Employee Retirement Plan

The Corporation has a salary deferred plan under Section 401(k) of the Internal Revenue Code. All employees are eligible for 100 percent match of their first 6 percent of voluntary salary deferred savings and the 3 percent Safe Harbor provision of the Plan. Employees who have at least 1,000 hours during the year are eligible for a certain percentage discretionary provision of the Plan (7 percent in 2008 and 6 percent in 2007). Therefore, under this Plan, the Corporation provided for a potential maximum contribution of up to 16 percent of employees' eligible compensation in 2008 and 15 percent of employees' eligible compensation in 2007. The Corporation incurred contributions to the Plan during the years ended December 31, 2008 and 2007 of approximately \$608,000 and \$456,000, respectively.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on the Supplementary Information

To the Board of Directors
ReliabilityFirst Corporation
Akron, Ohio

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Chicago, Illinois
March 9, 2009

ReliabilityFirst Corporation

Schedule of Program Expenses
Year Ended December 31, 2008

	Standards	Compliance	Readiness	Assessment	Training and Education	Situation Aware	Forums	General and Administrative	Information Technology	Human Resources	Finance	Total
Personnel Expenses												
Salaries	\$ 318,596	\$ 1,755,379	\$ 33,201	\$ 618,010	\$ 13,997	\$ 152,669	\$ 324,635	\$ 436,687	\$ 299,436	\$ 126,852	\$ 99,306	\$ 4,178,768
Payroll taxes	19,919	109,746	2,076	38,638	875	9,545	20,296	27,302	18,721	7,931	6,209	261,258
Employee benefits	24,092	132,613	-	62,051	284	5,371	22,812	187,960	47,149	7,550	5,812	495,694
Savings and retirement	43,982	252,627	-	93,950	1,555	24,875	53,480	55,743	46,838	19,360	15,296	607,706
Total personnel expenses	406,589	2,250,365	35,277	812,649	16,711	192,460	421,223	707,692	412,144	161,693	126,623	5,543,426
Meeting Expenses												
Meetings	25,938	16,479	-	25,146	98,915	11,942	23,324	57,435	492	-	-	259,671
Travel	39,226	261,190	18,556	50,557	-	31,145	35,797	26,784	8,604	-	5,362	477,221
Conference calls	1,113	8,386	-	1,004	-	4,542	1,004	158	-	-	-	16,207
Total meeting expenses	66,277	286,055	18,556	76,707	98,915	47,629	60,125	84,377	9,096	-	5,362	753,099
Operating Expenses												
Rent and improvements	-	-	-	-	-	-	-	299,416	-	-	-	299,416
Contracts	-	498,156	-	120,850	-	-	-	42,563	31,740	-	5,000	698,309
Office costs	-	2,368	-	206	-	-	20	53,608	155,268	-	-	211,470
Professional services	-	180,299	-	-	-	-	-	560,946	-	18,023	39,286	798,554
Computer purchase and maintenance	-	-	-	-	-	-	-	-	179,904	-	1	179,905
Furniture and equipment	-	-	-	-	-	-	-	20,381	-	-	1	20,382
Miscellaneous	-	-	-	-	-	-	-	21,204	-	-	-	21,204
Total operating expenses	-	680,823	-	121,056	-	-	20	998,118	366,912	18,023	44,288	2,229,240
Subtotal	\$ 472,866	\$ 3,217,243	\$ 53,833	\$ 1,010,412	\$ 115,626	\$ 240,089	\$ 481,368	\$ 1,790,187	\$ 788,152	\$ 179,716	\$ 176,273	8,525,765

Depreciation and amortization	143,517
Loss on disposal of assets	46,931
Total expenses	<u>\$ 8,716,212</u>

ReliabilityFirst Corporation

Schedule of Program Expenses
Year Ended December 31, 2007

	Standards	Compliance	Readiness	Assessment	Training and Education	Situation Aware	Forums	General and Administrative	Information Technology	Human Resources	Finance	Total
Personnel Expenses												
Salaries	\$ 261,485	\$ 1,040,990	\$ 26,789	\$ 536,969	\$ 18,938	\$ 136,466	\$ 317,350	\$ 414,918	\$ 291,533	\$ 117,496	\$ 105,761	\$ 3,268,695
Payroll taxes	16,560	65,927	1,697	34,007	1,199	8,643	20,098	26,277	18,463	7,441	6,698	207,010
Employee benefits	12,874	60,084	6,437	49,324	1,609	4,828	22,604	112,813	20,850	13,021	9,620	314,064
Savings and retirement	37,452	149,127	4,286	77,266	2,702	18,914	44,645	46,150	43,129	16,937	15,265	455,873
Total personnel expenses	328,371	1,316,128	39,209	697,566	24,448	168,851	404,697	600,158	373,975	154,895	137,344	4,245,642
Meeting Expenses												
Meetings	47,085	51,660	-	20,849	1,409	8,401	21,324	55,347	225	213	297	206,810
Travel	26,715	120,828	22,121	32,747	-	28,389	28,693	18,324	3,901	1,819	5,024	288,561
Conference calls	29,331	23,718	-	30,280	-	2,905	18,567	4,161	7,167	-	88	116,217
Total meeting expenses	103,131	196,206	22,121	83,876	1,409	39,695	68,584	77,832	11,293	2,032	5,409	611,588
Operating Expenses												
Rent and improvements	-	-	-	-	-	-	-	250,982	-	-	-	250,982
Contracts	-	106,355	-	7,000	-	-	-	24,846	27,614	-	43,705	209,520
Office costs	-	-	-	-	-	-	-	76,066	109,927	-	-	185,993
Professional services	-	5,471	-	-	-	-	-	502,755	-	-	-	508,226
Computer purchase and maintenance	-	-	-	-	-	-	-	-	207,442	-	-	207,442
Furniture and equipment	-	-	-	-	-	-	-	56,149	-	-	-	56,149
Miscellaneous	-	-	-	-	-	-	-	238,018	-	-	-	238,018
Total operating expenses	-	111,826	-	7,000	-	-	-	1,148,816	344,983	-	43,705	1,656,330
Subtotal	\$ 431,502	\$ 1,624,160	\$ 61,330	\$ 788,442	\$ 25,857	\$ 208,546	\$ 473,281	\$ 1,826,806	\$ 730,251	\$ 156,927	\$ 186,458	\$ 6,513,560

Depreciation and amortization 55,173
 Loss on disposal of assets 1,206
 Total expenses \$ 6,569,939

SERC RELIABILITY CORPORATION
Financial Statements
Year Ended December 31, 2008

SERC RELIABILITY CORPORATION

Financial Statements
and
Accompanying Information

December 31, 2008

SERC RELIABILITY CORPORATION

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Report of Independent Auditors

The Board of Directors
SERC Reliability Corporation
Charlotte, North Carolina

We have audited the accompanying statement of financial position of SERC Reliability Corporation (the "Corporation") as of December 31, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SERC Reliability Corporation as of December 31, 2008, and the changes in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules on pages 11 and 12 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied to the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cherry, Bekaert & Holland, L.L.P.

Charlotte, North Carolina
March 13, 2009

SERC RELIABILITY CORPORATION

Statement of Financial Position
December 31, 2008

Assets		
Current assets		
Cash and cash equivalents	\$	1,322,400
Accounts receivable		879
Prepaid expenses		53,466
Total current assets		1,376,745
Property and equipment, net		17,068
Total assets	\$	1,393,813
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$	98,609
Accrued salaries and related benefits		880,949
Deferred revenue		6,390
Total current liabilities		985,948
Net assets - unrestricted		407,865
Total liabilities and net assets	\$	1,393,813

See notes to financial statements.

SERC RELIABILITY CORPORATION

Statement of Activities
Year Ended December 31, 2008

Funding

Member assessment	\$ 7,775,521
Workshops	235,790
Interest	20,332
Miscellaneous	2,130
Total funding	8,033,773

Expenses

Personnel expenses:	
Salaries	4,561,763
Payroll taxes	277,351
Employee benefits	436,821
Savings and retirement	464,093
Total personnel expenses	5,740,028

Meeting expenses:

Meetings	440,793
Travel	411,653
Conference calls	52,262
Total meeting expenses	904,708

Operating expenses:

Rent and improvements	162,262
Contracts and consultants	602,832
Office costs	262,533
Professional services	183,396
Computers, furniture and equipment	3,505
Miscellaneous	3,072
Total operating expenses	1,217,600

Total expenses

7,862,336

Change in net assets

171,437

Net assets

Beginning of year, as restated (see Note 8)	236,428
End of year	\$ 407,865

See notes to financial statements.

SERC RELIABILITY CORPORATION

Statement of Cash Flows
Year Ended December 31, 2008

Cash flows from operating activities	
Change in net assets	\$ 171,437
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	3,505
Changes in operating assets and liabilities:	
Accounts receivable	(879)
Prepaid expenses	(32,271)
Accounts payable	(209,619)
Accrued salaries and related benefits	410,943
Deferred revenue	(5,360)
Net cash provided by operating activities	<u>337,756</u>
Cash flows from investing activities	
Additions to property and equipment	<u>(20,573)</u>
Net increase in cash and cash equivalents	317,183
Cash and cash equivalents	
Beginning of year	<u>1,005,217</u>
End of year	<u><u>\$ 1,322,400</u></u>

See notes to financial statements.

SERC RELIABILITY CORPORATION

Notes to Financial Statements
Year Ended December 31, 2008

Note 1 – Summary of significant accounting policies

Nature of organization - SERC Reliability Corporation (the "Corporation") is a non-profit corporation, incorporated under the laws of the State of Alabama on April 29, 2005. During 2006, Southeastern Electric Reliability Council, Inc. changed its name to SERC Reliability Corporation. Prior to incorporation in 2005, Southeastern Electric Reliability Council ("SERC") existed as an unincorporated entity. SERC was established with the signing of the SERC Agreement on January 14, 1970 by 22 electric systems. SERC incorporated as a non-profit corporation in order to provide liability protection for its members and prepare the organization to qualify as a Regional Reliability Organization under the Energy Policy Act of 2005. The Corporation's mission is to promote the reliability of the electricity supply for the southeastern United States. The activities of the Corporation are directed by its Board of Directors. The Corporation's members are electricity suppliers, brokers and consumers from various ownership segments of the electricity supply industry, investor-owned rural electric cooperatives, municipal utilities, independent power producers, power marketers and customers. These entities account for virtually all the electricity supplied in the southeastern United States.

Basis of accounting - The financial statements of the Corporation have been prepared on the accrual basis of accounting.

Basis of presentation - The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Corporation had only unrestricted net assets during 2008.

Cash and cash equivalents - The Corporation considers all cash investments with an original maturity of three months or less to be cash equivalents.

Property and equipment - Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the asset's estimated useful life. The costs of major improvements are capitalized, while the costs of maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed currently. The cost and accumulated depreciation of property and equipment are eliminated from the accounts upon disposal, and any resulting gain or loss is included in the change in net assets of the Corporation. Long-lived assets held and used by the Corporation are reviewed for impairment whenever changes in circumstances indicate the carrying value of an asset may not be recoverable.

Revenue recognition - All income is recognized in the period when earned. The Corporation receives a significant portion of its funding directly from the North American Electric Reliability Corporation ("NERC") based on the budget submitted by the Corporation and approved by NERC and the Federal Energy Regulatory Commission ("FERC"). The revenue is received in four equal quarterly installments received at the beginning of each quarter.

Income taxes - The Corporation is exempt from federal and state income taxes under Section 501(c)(6) of Internal Revenue Code and the applicable state statutes and, accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SERC RELIABILITY CORPORATION

Notes to Financial Statements
Year Ended December 31, 2008

Note 1 – Summary of significant accounting policies (continued)

Recent accounting pronouncements - In July 2006, Financial Accounting Standards Board Interpretation (“FIN”) No. 48, *Accounting for Uncertainty in Income Taxes*, was issued and interprets SFAS No. 109, *Accounting for Income Taxes*. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements in accordance with SFAS No. 109 by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

FASB Staff Position (“FSP”) 48-3 defers the effective date of FIN No. 48 for certain non-public enterprises until fiscal years beginning after December 15, 2008. The Corporation has elected to defer the application of FIN No. 48 in accordance with FSP 48-3. During the deferral period of the application of FIN No. 48 the Corporation will continue to evaluate whether uncertain tax positions exist utilizing the underlying principals of SFAS No. 109. At this time, the Corporation does not expect the impact of FIN No. 48 to be material to its financial statements.

Note 2 – Property and equipment

Property and equipment at December 31, 2008 consists of the following:

Leasehold improvements	\$	20,573
Less: accumulated depreciation		<u>(3,505)</u>
Total property and equipment, net	\$	<u>17,068</u>

Note 3 – Commitments

The Corporation leases its current office facility under a non-cancelable operating lease which expires in 2015 and which provides for current monthly payments of \$14,842. The Corporation also leases office equipment under noncancelable operating leases that expire in 2012. Rental expense under all operating leases totaled \$162,260 for the year ended December 31, 2008.

Future minimum payments for all operating leases are as follows:

<u>Year ending December 31,</u>		
2009	\$	188,602
2010		194,106
2011		199,775
2012		204,325
2013		206,477
Thereafter		<u>230,926</u>
	\$	<u>1,224,211</u>

Note 4 – Line of credit

The Corporation has a \$250,000 bank line of credit at an interest rate of prime plus 2% (6% at December 31, 2008) which matures June 30, 2009. The line is secured by the assets of the Corporation. The Corporation had no outstanding balance at December 31, 2008.

SERC RELIABILITY CORPORATION

Notes to Financial Statements
Year Ended December 31, 2008

Note 5 – Retirement plans

401(k) plan - The Corporation sponsors a 401(k) retirement plan covering all eligible employees, as defined. The Corporation makes an annual contribution to the plan equal to 3% of each eligible employee's compensation and matches 50% of employee contributions up to 6% of compensation. In addition, the plan provides that the Corporation may make additional discretionary contributions. During the year ended December 31, 2008, contribution expense related to the plan totaled \$449,737.

Deferred compensation plan - The Corporation established a deferred compensation plan in accordance with Internal Revenue Code Section 457 for certain employees, as defined. The plan provides that eligible employees may make elective salary reduction contributions in accordance with limitations established by the Internal Revenue Code. In addition, the Corporation may make discretionary contributions as provided in the plan. During the year ended December 31, 2008, contribution expense related to the plan totaled \$9,398.

Note 6 – Functional expenses

The following is an allocation of expenses by functional category for the year ended December 31, 2008.

Program expenses:	
Reliability standards	\$ 268,666
Compliance enforcement	3,425,429
Reliability readiness	244,602
Reliability assessment	839,364
Training and education	403,524
Situation awareness	304,119
	<u>5,485,704</u>
Committee and member forums	<u>601,390</u>
General and administrative expenses:	
General and administrative	737,307
Legal and regulatory	27,585
Information technology	584,016
Human resources	68,560
Accounting and finance	357,774
	<u>1,775,242</u>
Total	<u>\$ 7,862,336</u>

Note 7 – Concentrations of credit risk and uncertainties

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash, cash equivalents and member assessments. The Corporation places its cash and cash equivalents on deposit with financial institutions in the United States. In October and November 2008, the Federal Deposit Insurance Corporation (FDIC) temporarily increased coverage to \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage for certain qualifying and participating non-interest bearing transaction accounts. The increased coverage is scheduled to expire on December 31, 2009, at which time it is anticipated amounts insured by the FDIC will return to \$100,000. The Corporation from time to time may have amounts on deposit in excess of the insured limits.

SERC RELIABILITY CORPORATION

Notes to Financial Statements
Year Ended December 31, 2008

Note 7 – Concentrations of credit risk and uncertainties (continued)

The Corporation receives a significant portion of its revenue directly from NERC based on the budget submitted by the Corporation and approved by NERC and FERC. Based on past history with NERC, the Corporation believes that its revenue risk exposure is limited.

Note 8 – Restatement of beginning net assets

In prior years, the Corporation presented its financial statements on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Effective with the 2008 financial statements, the Corporation began presenting its financial statements using the accrual basis of accounting. Accordingly, the beginning net assets have been restated to reflect the effect of using the accrual basis on the beginning assets and liabilities. The effect of the restatement was to decrease beginning net assets by \$768,789.

SERC RELIABILITY CORPORATION

Statutory Financial Statement
Year Ended December 31, 2008

	<u>2008 YTD Actual</u>	<u>2008 YTD Budget</u>	<u>2008 YTD Variance</u>
Funding			
Member assessment	\$ 7,775,521	\$ 7,775,521	\$ -
Workshops	235,790	173,500	62,290
Interest	20,332	42,000	(21,668)
Miscellaneous	2,130	-	2,130
Total funding	<u>8,033,773</u>	<u>7,991,021</u>	<u>42,752</u>
Expenses			
Personnel expenses:			
Salaries	4,561,763	3,962,528	599,235
Payroll taxes	277,351	247,416	29,935
Employee benefits	436,821	761,085	(324,264)
Savings and retirement	464,093	356,123	107,970
Total personnel expenses	<u>5,740,028</u>	<u>5,327,152</u>	<u>412,876</u>
Meeting expenses:			
Meetings	440,793	378,465	62,328
Travel	411,653	409,044	2,609
Conference calls	52,262	-	52,262
Total meeting expenses	<u>904,708</u>	<u>787,509</u>	<u>117,199</u>
Operating expenses:			
Rent and improvements	162,262	177,938	(15,676)
Contracts and consultants	602,832	751,600	(148,768)
Office costs	262,533	331,320	(68,787)
Professional services	183,396	305,000	(121,604)
Computers, furniture and equipment	3,505	310,502	(306,997)
Miscellaneous	3,072	-	3,072
Total operating expenses	<u>1,217,600</u>	<u>1,876,360</u>	<u>(658,760)</u>
Total expenses	<u>7,862,336</u>	<u>7,991,021</u>	<u>(128,685)</u>
Change in net assets	<u>\$ 171,437</u>	<u>\$ -</u>	<u>\$ 171,437</u>

SERC RELIABILITY CORPORATION

Statutory Financial Statement by Function
Year Ended December 31, 2008

	300	400	700	800	900	1000	1100	2000	2200	2300	2400	2500	2008 YTD	2008 YTD	2008 YTD
	RELIAB	COMP ENFORCE/ ORG REG & CERT	RELIAB	RELIAB	TRAINING & EDUC	SIT AWARE	COMMITTEE & MBR FORUMS	GENERAL ADMIN	LEGAL & REGULATORY	IT	HUMAN RESOURCE	ACCOUNTING & FINANCE	Actual	Budget	Variance
Funding															
Member assessment	\$ 317,071	\$ 3,393,665	\$ 440,620	\$ 528,642	\$ 331,650	\$ 289,288	\$ 649,057	\$ 666,760	\$ 27,200	\$ 692,966	\$ 43,814	\$ 394,788	\$ 7,775,521	\$ 7,775,521	\$ -
Workshops	-	-	-	-	235,790	-	-	-	-	-	-	-	235,790	173,500	62,290
Interest	-	-	-	-	-	-	-	20,332	-	-	-	-	20,332	42,000	(21,668)
Miscellaneous	-	-	-	105	-	-	105	1	-	1,520	-	399	2,130	-	2,130
Total funding	317,071	3,393,665	440,620	528,747	567,440	289,288	649,162	687,093	27,200	694,486	43,814	395,187	8,033,773	7,991,021	42,752
Expenses															
Personnel expenses:															
Salaries	192,016	2,173,041	113,690	507,957	185,313	169,252	344,196	457,948	-	165,341	29,861	223,148	4,561,763	3,962,528	599,235
Payroll taxes	11,458	133,503	6,400	31,476	11,523	9,285	21,659	27,110	-	9,772	1,762	13,403	277,351	247,416	29,935
Employee benefits	7,447	213,101	9,842	51,236	12,583	24,626	3,685	94,948	-	6,593	927	11,833	436,821	761,085	(324,264)
Savings and retirement	17,960	210,571	11,546	59,411	17,960	16,678	30,462	40,592	-	20,526	3,849	34,538	464,093	356,123	107,970
Total personnel expenses	228,881	2,730,216	141,478	650,080	227,379	219,841	400,002	620,598	-	202,232	36,399	282,922	5,740,028	5,327,152	412,876
Meeting expenses:															
Meetings	6,247	69,436	3,338	39,298	145,533	5,260	133,837	36,024	-	398	268	1,154	440,793	378,465	62,328
Travel	15,374	234,993	2,442	33,057	12,161	25,321	33,838	43,877	-	4,145	12	6,433	411,653	409,044	2,609
Conference calls	2,029	23,996	1,305	6,523	2,029	1,884	3,479	4,349	-	2,319	435	3,914	52,262	-	52,262
Total meeting expenses	23,650	328,425	7,085	78,878	159,723	32,465	171,154	84,250	-	6,862	715	11,501	904,708	787,509	117,199
Operating expenses:															
Rent and improvements	6,499	75,432	4,178	20,889	6,499	6,035	11,141	10,236	-	7,427	1,393	12,533	162,262	177,938	(15,676)
Contracts and consultants	1,395	60,928	86,722	53,847	20	15,957	34	235	-	341,432	27,600	14,662	602,832	751,600	(148,768)
Office costs	7,344	104,208	4,597	26,970	9,067	29,043	17,476	17,664	-	25,083	2,277	18,804	262,533	331,320	(68,787)
Professional services	687	124,178	442	8,211	687	638	1,177	1,772	27,585	785	147	17,087	183,396	305,000	(121,604)
Computers, furniture and equipment	137	1,594	88	441	137	128	235	294	-	157	29	265	3,505	310,502	(306,997)
Miscellaneous	73	448	12	48	12	12	171	2,258	-	38	-	-	3,072	-	3,072
Total operating expenses	16,135	366,788	96,039	110,406	16,422	51,813	30,234	32,459	27,585	374,922	31,446	63,351	1,217,600	1,876,360	(658,760)
Total expenses	268,666	3,425,429	244,602	839,364	403,524	304,119	601,390	737,307	27,585	584,016	68,560	357,774	7,862,336	7,991,021	(128,685)
Change in net assets	\$ 48,405	\$ (31,764)	\$ 196,018	\$ (310,617)	\$ 163,916	\$ (14,831)	\$ 47,772	\$ (50,214)	\$ (385)	\$ 110,470	\$ (24,746)	\$ 37,413	\$ 171,437	\$ -	\$ 171,437

SOUTHWEST POWER POOL, INC.
Financial Statements
Year Ended December 31, 2008

Southwest Power Pool, Inc.

Accountants' Report and Financial Statements

December 31, 2008 and 2007



Southwest Power Pool, Inc.

December 31, 2008 and 2007

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Independent Accountants' Report

Board of Directors
Southwest Power Pool, Inc.
Little Rock, Arkansas

We have audited the accompanying balance sheets of Southwest Power Pool, Inc. as of December 31, 2008 and 2007, and the related statements of operations, members' equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwest Power Pool, Inc. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 11*, in 2008 the Company changed its method of accounting for fair value measurements in accordance with Statement of Financial Accounting Standards No. 157.

As discussed in *Note 12*, in 2008 the Company changed its method of accounting for FERC liabilities by retroactively restating prior years' financial statements.

BKD, LLP

April 2, 2009

Southwest Power Pool, Inc.

Balance Sheets (In Thousands)

December 31, 2008 and 2007

Assets

	2008	2007 (As Restated) See Note 12
Current Assets		
Cash and cash equivalents	\$ 24,342	\$ 33,779
Restricted cash deposits	17,777	14,644
Accounts receivable	11,644	7,686
Prepaid expenses and other	<u>2,257</u>	<u>2,196</u>
Total current assets	<u>56,020</u>	<u>58,305</u>
Property and Equipment, At Cost		
Land	328	328
Building	5,965	5,966
Furniture and fixtures	4,384	4,422
Equipment and machinery	17,255	11,973
Leasehold improvements	908	658
Software	53,058	52,866
Software in development	10,053	1,771
Construction in progress	<u>—</u>	<u>2,487</u>
	91,951	80,471
Less accumulated depreciation and amortization	<u>50,679</u>	<u>37,484</u>
	<u>41,272</u>	<u>42,987</u>
Other Assets, Net	<u>277</u>	<u>1,087</u>
	<u>\$ 97,569</u>	<u>\$ 102,379</u>

Liabilities and Members' Equity

	2008	2007 (As Restated) See Note 12
Current Liabilities		
Accounts payable	\$ 7,501	\$ 6,717
Customer deposits	17,777	14,644
Current maturities of long-term debt <i>(Note 4)</i>	8,206	12,206
Accrued expenses	16,428	14,601
Deferred revenue	<u>4,130</u>	<u>2,226</u>
Total current liabilities	54,042	50,394
Long-term Debt <i>(Note 4)</i>	39,574	37,780
Other Long-term Liabilities	11,494	5,322
Members' Equity (Deficit)	<u>(7,541)</u>	<u>8,883</u>
	<u>\$ 97,569</u>	<u>\$ 102,379</u>

Southwest Power Pool, Inc.
Statements of Operations
(In Thousands)
Years Ended December 31, 2008 and 2007

	2008	2007 (As Restated) See Note 12
Operating Income		
Tariff fees and member assessments	\$ 68,397	\$ 68,818
Other member services	<u>23,648</u>	<u>19,066</u>
	<u>92,045</u>	<u>87,884</u>
Operating Expenses		
Salaries and benefits	41,880	34,519
Employee travel	1,367	1,094
Administrative	2,313	1,775
Regulatory assessment	9,525	9,112
Meetings	703	566
Communications system	2,653	2,160
Leases	1,014	883
Maintenance	4,221	3,833
Consulting services	17,495	15,176
Depreciation and amortization	<u>18,067</u>	<u>15,389</u>
	<u>99,238</u>	<u>84,507</u>
Operating Income (Loss)	<u>(7,193)</u>	<u>3,377</u>
Other Income (Expense)		
Interest income	648	1,360
Interest expense	(2,756)	(2,155)
Change in fair market value of interest rate swaps	(2,733)	(1,570)
Other income (expense)	<u>(478)</u>	<u>(8)</u>
	<u>(5,319)</u>	<u>(2,373)</u>
Income (Loss) Before Effect of Adoption of FAS 158/Change in Underfunded Status of Employee Benefit Plans	(12,512)	1,004
Effect of Adoption of FAS 158	—	(4,996)
Change in Underfunded Status of Employee Benefit Plans	<u>(3,912)</u>	<u>—</u>
Net Loss	<u>\$ (16,424)</u>	<u>\$ (3,992)</u>

Southwest Power Pool, Inc.
Statements of Members' Equity (Deficit)
(In Thousands)
Years Ended December 31, 2008 and 2007

	2008	2007 (As Restated) See Note 12
Balance, Beginning of Year	\$ 8,883	\$ 12,875
Net loss	(16,424)	(3,992)
Balance, End of Year	\$ (7,541)	\$ 8,883

Southwest Power Pool, Inc.
Statements of Cash Flows
(In Thousands)
Years Ended December 31, 2008 and 2007

	2008	2007 (As Restated) See Note 12
Operating Activities		
Net loss	\$ (16,424)	\$ (3,992)
Items not requiring cash		
Depreciation and amortization	18,067	15,389
Change in underfunded status of employee benefit plans	3,912	—
Effect of FAS 158 adoption	—	4,996
Change in fair market value of interest rate swaps	2,733	1,570
Changes in assets and liabilities		
Accounts receivable	(3,958)	(1,983)
Prepaid expenses and other	(61)	504
Other assets	464	(1,194)
Accounts payable	784	2,576
Accrued expenses	3,731	631
Other long-term liabilities	<u>(156)</u>	<u>116</u>
Net cash provided by operating activities	<u>9,092</u>	<u>18,613</u>
Investing Activities		
Acquisition of property and equipment	<u>(16,323)</u>	<u>(12,332)</u>
Net cash used in investing activities	<u>(16,323)</u>	<u>(12,332)</u>
Financing Activities		
Repayments of long-term debt	(12,206)	(10,154)
Issuance of long-term debt	<u>10,000</u>	<u>25,140</u>
Net cash provided by (used in) financing activities	<u>(2,206)</u>	<u>14,986</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>(9,437)</u>	<u>21,267</u>
Cash and Cash Equivalents, Beginning of Year	<u>33,779</u>	<u>12,512</u>
Cash and Cash Equivalents, End of Year	<u>\$ 24,342</u>	<u>\$ 33,779</u>
Supplemental Cash Flow Information		
Interest paid (net of interest capitalized of \$99 in 2007)	\$ 2,878	\$ 2,169

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

Note 1: Nature of Operations and Summary of Significant Accounting Policies
(in Thousands)

Nature of Operations

Southwest Power Pool, Inc, (the Company) is a not-for-profit entity formed in 1941 and incorporated in 1994. The Company is a Federal Energy Regulatory Commission (FERC)-approved regional transmission organization (RTO) serving more than four million ultimate customers across all or parts of eight southwestern states. The Company's membership consists of investor owned utilities, municipal systems, generation and transmission cooperatives, state authorities, independent power producers, contract participants, power marketers and independent transmission companies.

Major services provided by the Company to its members and customers include tariff administration, electric reliability coordination, regional transmission scheduling, energy imbalance service (EIS) market operations (effective February 1, 2007) and regional transmission expansion planning.

The Company also serves as the Regional Entity (RE) for its region. The primary responsibility of the RE is the enforcement of NERC-approved reliability standards for users, owners and operators of the bulk power system within the region.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents and Deposits

The Company considers all highly liquid interest-earning investments with stated maturities and coupon rate reset dates of no more than three months to be cash equivalents. The Company's cash and cash equivalents, including restricted deposits, are invested primarily in money market funds, mutual funds and repurchase agreements. These investments are typically revalued to the market each day and, in the case of repurchase agreements, are collateralized by U.S. government and federal agency securities. The Company's cash and cash equivalents consist primarily of funds accumulated for general operating purposes. Restricted cash deposits consist primarily of customer security deposits, amounts deposited for engineering studies and funds held in escrow for disputed invoices.

The financial institution holding the Company's cash accounts, that are subject to FDIC insurance, is participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account.

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

Effective October 3, 2008, the FDIC's insurance limits increased to \$250. The increase in federally insured limits is currently set to expire December 31, 2009. At December 31, 2008, the Company's interest-bearing cash accounts exceeded federally insured limits by approximately \$28,686. However, the Company requires the financial institutions holding its cash balances to be rated A or better by nationally recognized rating agencies.

Income Taxes

The Company is exempt from income taxes under Section 501c(6) of the Internal Revenue Code and a similar provision of state law.

In accordance with Financial Accounting Standards Board (FASB) Staff Position No. FIN 48-3, the Company has elected to defer the effective date of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, until its fiscal year ending December 31, 2009. The Company has continued to account for any uncertain tax positions in accordance with literature that was authoritative immediately prior to the effective date of FIN 48, such as FASB Statement No. 109, *Accounting for Income Taxes*, and FASB Statement No. 5, *Accounting for Contingencies*.

Accounts Receivable

Accounts receivable are stated at the amount billed to members, customers and others plus any accrued and unpaid interest. The Company provides an allowance for doubtful accounts, when necessary, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts that are unpaid after the due date bear interest at a rate set by FERC. Interest continues to accrue until the account is paid or deemed uncollectible.

Property and Equipment (In Thousands)

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset. The estimated useful lives are as follows:

Building	20 years
Furniture and fixtures	5 years
Equipment and machinery	3 years
Software	3 years
Leasehold improvements	Shorter of useful life or lease term

The Company capitalizes interest cost incurred on funds used to construct property, plant, and equipment in accordance with Statement of Financial Accounting Standards No. 34, *Capitalization of Interest Costs*. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was \$99 in 2007.

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

The Company capitalizes development costs, including interest, for internal use software costs in accordance with Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. These costs are included in software and software in development. Management of the Company is of the opinion that all costs capitalized in association with the software in development are fully recoverable over the anticipated life of the asset.

Revenue Recognition

Revenues, consisting of member assessments, tariff administrative fees, contract services, and miscellaneous revenues, are recognized when earned and expenses are recognized when incurred.

Customer Deposits

Customers may be required to make deposits with the Company prior to the performance of transmission services and engineering studies. These amounts are typically held for the duration of the service and applied to the customer's final invoice. An offsetting liability equal to the deposit balance is recorded in current liabilities. Funds held in escrow related to disputed invoices are also recorded as a customer deposit under current liabilities.

Tariff Fees and Member Assessments

An administrative charge is applied to all transmission service under the Company's tariff to cover the expenses related to the administration of the tariff. The charge is calculated in accordance with the terms of the Company's Open Access Transmission Tariff. The administrative rate used for the calculation is established by the Board of Directors.

Members are assessed monthly based on their prior year average 12 month peak demand multiplied by the total hours in a month and by the monthly assessment rate as established by the Board. A member's monthly assessment is offset dollar for dollar for qualifying tariff administrative fees collected from a member in any given assessment period.

The Company collects a membership fee from each member annually. The amount of the membership fee is established by the Board of Directors of the Company. For 2008 and 2007, all members paid a \$6,000 membership fee.

The Company also bills transmission customers and transmission owners a charge under schedule 12 on all energy delivered under point to point transmission service and network integration transmission service. This provides a mechanism for recovering from transmission customers and transmission owners the annual charges the Company pays to FERC. The rate is developed by FERC in the prior calendar year and applied to energy transmitted in the second prior calendar year.

Other Member Services

The Company provides reliability, tariff administration and scheduling for non-members on a contract basis.

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

Withdrawing Members

Members wishing to withdraw their membership from the Company must provide 12 months written notice and are responsible for their portion of the Company's existing obligations as defined in the bylaws, which include unpaid membership fees, any assessments imposed prior to the effective withdrawal date, any costs or expenses imposed upon the Company as a direct consequence of the member's withdrawal, and the member's share of long term obligations and related interest.

Concentration of Credit Risk

The Company is exposed to credit risk primarily through accounts receivable and uninsured cash equivalent balances. During 2008 and 2007, the Company maintained cash balances that exceeded the insurance limits of the Federal Deposit Insurance Corporation. However, the Company requires the financial institutions holding its cash balances to be rated A or better by nationally recognized rating agencies.

Because the Company considers all accounts receivable to be of highly probable collection, a reserve for doubtful accounts is not maintained. The Company requires its customers to meet certain minimum standards of financial statement preparation and creditworthiness to receive unsecured credit from the Company. If these standards cannot be met by a counterparty, the Company requires the posting of defined financial security instruments to cover potential liabilities.

Note 2: Line of Credit (In Thousands)

The Company has a \$20,000 revolving line of credit expiring in 2013. At December 31, 2008 and 2007, no amounts were borrowed against this line. The agreement requires maintenance of a fixed charge coverage ratio as well as numerous reporting requirements. The Company was in compliance with the covenant and reporting requirements during 2008 and 2007. The agreement has a variable interest rate equal to either the bank's prime rate or the London Interbank Offered Rate (LIBOR) plus a credit margin.

Note 3: Significant Estimates and Concentrations

Current Economic Conditions

The current economic environment presents organizations with unprecedented circumstances and challenges, which in some cases have resulted in large declines in fair value of assets, decrease in revenues, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Company.

Southwest Power Pool, Inc.

Notes to Financial Statements

December 31, 2008 and 2007

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments that could negatively impact the Company's ability to meet debt covenants or maintain sufficient liquidity.

Note 4: Long-term Debt and Interest Rate Swaps (In Thousands)

Long-term Debt

	2008	2007
7.50% Term Notes due 2008 (A)	\$ —	\$ 5,000
4.78% Term Notes due 2011 (B)	15,000	20,000
Variable Rate Term Note due 2027 (C)	4,780	4,986
Variable Rate Term Note due 2014 (D)	28,000	20,000
	47,780	49,986
 Less current maturities	 8,206	 12,206
	\$ 39,574	\$ 37,780

- (A) Due March 15, 2008; principal payable \$5,000 annually, interest payable semi-annually at 7.5%. The note agreement requires compliance with certain financial and non-financial covenants as well as periodic reporting requirements. The Company was in compliance with the covenant and reporting requirements during 2008 and 2007. The note agreement also requires mandatory prepayments of outstanding principal upon withdrawal from the Company of various aggregates of membership. The Company was not subject to any mandatory prepayments during 2008 and 2007. Note proceeds were used to fund development of market settlement software. The notes are unsecured.
- (B) Due June 25, 2011; principal payable \$5,000 annually, beginning on June 25, 2007, interest payable semi-annually at 4.78%. The note agreement requires compliance with certain financial and non-financial covenants as well as periodic reporting requirements. The Company was in compliance with the covenants and reporting requirements during 2008 and 2007. The note agreement also requires mandatory prepayments of outstanding principal upon withdrawal from the Company of various aggregates of membership. The Company was not subject to any mandatory prepayments during 2008 and 2007. Proceeds were used to fund general corporate activities. The notes are unsecured.
- (C) Due February 1, 2027; principal and interest are payable quarterly based on a 25-year amortization to commence on May 1, 2007. The interest rate adjusts monthly based on the London Interbank Offered Rate (LIBOR) plus 0.85%. The note agreement requires compliance with certain financial and non-financial covenants as well as periodic reporting requirements. The Company was in compliance with the covenants and reporting requirements during 2008 and 2007. The note is secured by a first mortgage on the Company's operation facility.

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

- (D) Due December 25, 2014; interest is payable monthly and principal is payable quarterly based on a seven year amortization. Payments are to commence on March 25, 2008. The interest rate adjusts monthly based on the London Interbank Offered Rate (LIBOR) plus 0.30%. The note agreement requires compliance with certain financial and non-financial covenants as well as periodic reporting requirements. The Company was in compliance with the covenants and reporting requirements during 2008 and 2007. Proceeds were used to fund development of an energy trading market and other capital expenditures. The note is unsecured.

Aggregate annual maturities of long term debt at December 31, 2008, are:

2009	\$	8,206
2010		9,206
2011		10,206
2012		5,206
2013		5,706
Thereafter		<u>9,250</u>
	\$	<u><u>47,780</u></u>

Interest Rate Swaps

On September 15, 2006, the Company entered into an interest rate swap agreement with U.S. Bank National Association. The swap agreement has an effective date of March 1, 2007, with a notional principal amount of \$5,100. The Company pays the swap counterparty a fixed interest rate of 5.51% and in return, the counterparty pays the Company a variable rate of interest based on LIBOR. The notional amount amortizes evenly over 20 years and interest is settled quarterly. The swap was established to create a fixed rate of interest on Loan (C).

On August 23, 2007, the Company entered into an interest rate swap agreement with U.S. Bank National Association. The swap agreement has an effective date of March 25, 2008, with a notional principal amount of \$29,500. The Company pays the swap counterparty a fixed interest rate of 5.31% and in return, the counterparty pays the Company a variable rate of interest based on LIBOR. The notional amount amortizes evenly over seven years and interest is settled monthly. The swap was established to create a fixed rate of interest on Loan (D).

The Company is exposed to risk should the counterparty fail to perform under the swap contract as a result of either default or early termination of the agreement. However, the Company does not anticipate a failure by the counterparty. The agreement is recorded at its market value with subsequent changes in market value evaluated on a quarterly basis and recorded in income. The market value of the swaps at December 31, 2008 and 2007, was a net payable of \$4,466 and \$1,733, respectively, and is recorded on the balance sheet in other long-term liabilities.

Note 5: Operating Leases (In Thousands)

The Company has noncancellable operating leases for office space and certain office equipment which expire at various times through 2011. The Company incurred lease expense related to these operating leases of \$1,021 and \$883 in 2008 and 2007, respectively.

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

Future minimum lease payments at December 31, 2008, were:

2009	\$	1,066
2010		1,075
2011		<u>792</u>
	\$	<u>2,933</u>

Note 6: Employee Benefit Plans (In Thousands)

Pension and Other Post-retirement Benefit Plans

The Company has a noncontributory defined benefit pension plan covering all employees meeting eligibility requirements. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute approximately \$3,000 to the plan in 2009.

The Company has a noncontributory defined benefit postretirement health care plan covering eligible retirees including those retiring between the ages of 55-65 and hired prior to January 1, 1996. Employees hired after June 1, 2006, are not eligible to participate in the defined post retirement health care plan. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute approximately \$633 to the plan in 2009.

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

The Company uses a December 31 measurement date for the plans. Information about the plans' funded status is as follows:

	Pension Benefits		Post-Retirement Health Care Benefits	
	2008	2007	2008	2007
Benefit obligation	\$ 17,112	\$ 16,424	\$ 4,359	\$ 4,046
Fair value of plan assets	<u>11,023</u>	<u>13,045</u>	<u>3,625</u>	<u>4,363</u>
Funded status	<u>\$ (6,089)</u>	<u>\$ (3,379)</u>	<u>\$ (734)</u>	<u>\$ 317</u>

Amounts recognized in the balance sheets:

	Pension Benefits		Post-Retirement Health Care Benefits	
	2008	2007	2008	2007
Noncurrent assets	\$ —	\$ —	\$ —	\$ 317
Noncurrent liabilities	<u>(6,089)</u>	<u>(3,379)</u>	<u>(734)</u>	<u>—</u>
	<u>\$ (6,089)</u>	<u>\$ (3,379)</u>	<u>\$ (734)</u>	<u>\$ 317</u>

Amounts recognized in members equity not yet recognized as components of net periodic benefit cost as of December 31, 2008, consist of:

	Pension Benefits	Post-Retirement Health Care Benefits
Net loss	\$ 7,973	\$ 712
Prior service credit	(17)	—
Transition obligation	<u>198</u>	<u>53</u>
	<u>\$ 8,154</u>	<u>\$ 765</u>

The accumulated benefit obligation for the defined benefit pension plan was \$12,786 and \$12,098 at December 31, 2008 and 2007, respectively.

Southwest Power Pool, Inc.

Notes to Financial Statements

December 31, 2008 and 2007

Other significant balances and costs are:

	Pension Benefits		Post-Retirement Health Care Benefits	
	2008	2007	2008	2007
Employer				
contributions	\$ 2,500	\$ 2,500	\$ 586	\$ 629
Benefits paid	\$ 121	\$ 121	\$ 7	\$ —
Benefit costs	\$ 2,349	\$ 1,914	\$ 586	\$ 629

The following amounts have been recognized in the statements of operations for the year ended December 31, 2008:

	Pension Benefits		Post-Retirement Health Care Benefits	
Amounts arising during the period				
Net loss	\$ (3,080)		\$ (1,056)	
Amounts recognized as components of net periodic benefit cost of the period				
Net loss		203		—
Net prior service cost		1		—
Net transition obligation		16		4

The estimated net loss, prior service cost and transition obligation for the defined benefit pension plan that will be amortized from members' equity into net period benefit cost over the next fiscal year are \$368, \$1 and \$16, respectively. There is no prior service credit for the defined benefit post-retirement healthcare plan that will be amortized from members' equity into net periodic benefit cost over the next fiscal year.

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

Weighted-average assumptions used to determine benefit obligations and costs:

	Pension Benefits		Post-Retirement Health Care Benefits	
	2008	2007	2008	2007
Discount rate				
Benefit Obligation	6.5%	6.5%	6.5%	6.5%
Expected return on plan assets	7.0%	7.0%	7.0%	7.0%
Rate of compensation increase	4.5%	4.5%	—	—

The Company has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2008 and 2007. The rate was assumed to decrease gradually to 5% by the year 2014 and remain at that level thereafter.

On December 8, 2003, the *Medicare Prescription Drug, Improvement and Modernization Act of 2003* (the Act) was signed into law. The Act introduces a prescription drug benefit under Medicare Part D, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide benefits at least actuarially equivalent to Medicare Part D. The Company has not determined whether its plan provides benefits that are actuarially equivalent to Medicare Part D.

Financial Accounting Standards Board Staff Position 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2005*, requires federal subsidies, if any, attributable to past service to be accounted for as an actuarial gain and federal subsidies, if any, attributable to current service to be accounted for as a reduction of net periodic benefit cost. The measures of projected benefit obligation and periodic benefit costs do not reflect any amounts associated with the subsidy because the Company has been unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D. The effect of adopting Staff Position 106-2, if and when the Company makes such a determination, is not expected to be material.

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31:

	Pension Benefits	Post- Retirement Health Care Benefits
2009	\$ 125	\$ 23
2010	129	31
2011	143	42
2012	232	75
2013	342	115
2014-2018	3,708	1,204

The Company's investment strategy is based on an expectation that equity securities will outperform fixed income securities over the long-term. Accordingly, the composition of the Company's plan assets is broadly characterized as a 70/30 allocation between equity and fixed income securities. The strategy utilizes indexed and actively managed mutual fund instruments as well as direct investment in individual equity and fixed income securities. Investments in the plans must adhere to the Investment Policy Statement developed by the Company. The Investment Policy Statement is reviewed annually. At December 31, 2008 and 2007, plan assets by category are as follows:

	Pension Plan Assets		Post Retirement Health Care Plan Assets	
	2008	2007	2008	2007
Fixed income securities	20%	13%	24%	25%
Equity securities	68	70	60	65
Cash and equivalents	12	17	16	10
	100%	100%	100%	100%

Defined Contribution Plans

The Company has a 401(k) defined contribution plan covering substantially all employees. The Company contributes funds to the plan on behalf of plan participants equal to 75% of the participants' elective deferrals up to 6% of deferred compensation. Contributions to the plan were \$1,241 and \$866 for 2008 and 2007, respectively.

The Company has a 457(b) non-qualified tax-deferred compensation plan. This plan is an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly-compensated employees, and therefore, is intended to be exempt from the participation, vesting, funding and fiduciary requirements of Title I of ERISA. Accumulated contributions and earnings of \$205 and \$210 are recorded in other long-term liabilities at December 31, 2008 and 2007, respectively.

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

Note 7: Related Party Transactions (In Thousands)

General disbursements of the Company are apportioned to members based on the formula described in the bylaws of the Company (see *Note 1*). The Company's receivables from members totaled \$8,823 and \$6,150 as of December 31, 2008 and 2007, respectively. The Company recognized revenues of \$67,392 and \$67,035, including assessments and tariff administrative fees, from members for the years ended December 31, 2008 and 2007, respectively.

The Southwest Power Pool Regional State committee (RSC) was incorporated on April 7, 2004, in the State of Arkansas. The RSC is comprised of commissioners from public service commissions, or equivalent, having regulatory authority over Company members. FERC, in its February 20, 2004, order regarding the Company's RTO application stated, "the RSC should have primary responsibility for determining regional proposals and the transition process for funding of regional transmission enhancements, rate structure for a regional access charge and allocation of transmission rights." The RSC prepares budgets annually for the expected costs of its operations. This budget is submitted to the Company's Board of Directors for approval. The Company includes, in its annual budget, funds sufficient to cover 100% of the operating costs of the RSC. During 2008 and 2007, the Company incurred \$812 and \$101, respectively, in expenses attributable to RSC operations. Management of the Company expects such expenditures for 2009 to be approximately \$699.

Note 8: Open Access Transmission and EIS Market Operations (In Thousands)

The Company provides short- and long-term firm and non-firm point-to-point transmission services and network integration transmission service across 13 providers in eight southwestern states. The Company is responsible for the billing of the transmission customers for the respective services and the remittance of the subsequent collections to the transmission owner on a monthly basis. Billings for these transmission services are not included in the statements of operations. The Company receives a fee for facilitating the transmission process, which is recorded as tariff fees in the Company's statements of operations. For the years ended December 31, 2008 and 2007, the Company billed transmission customers \$426,613 and \$391,842, respectively. For the years ended December 31, 2008 and 2007, the Company remitted to transmission owners \$389,383 and \$352,649, respectively. At December 31, 2008 and 2007, the Company was due to collect from customers and remit to owners transmission service charges of \$36,261 and \$32,043, respectively.

The Company's EIS market is a wholesale market that operates under a tariff approved by the FERC and is consistent with the mandate of the FERC Order No. 2000, which requires RTOs to provide real-time energy imbalance services and market monitoring functions. Weekly settlements of market participants' energy transactions are not reflected in the Company's statements of operations since they do not represent revenues or expenses of the Company, as the Company merely acts as an intermediary in the settlement process. In this role, the Company receives and disburses funds to/from market participants on a weekly basis.

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

Note 9: Commitments and Contingencies (In Thousands)

Commitments

The Company entered into an agreement for application management and support services related to its Commercial Operations Systems, a component of the imbalance energy market system. Remaining commitments under this agreement are approximately \$2,130 in 2009.

Litigation and Regulatory Matters

The Company is engaged in various legal and regulatory proceedings at both the federal and state levels. The resolution of these matters is not expected to have a material adverse impact on the Company's financial position, cash flows or results of operations.

Note 10: Subsequent Events (In Thousands)

In January 2009, the Company entered into a three-year lease commitment for 28,100 square feet of additional office space in west Little Rock. The lease term commences on March 2009 and contains the option to renew for two additional one-year terms. The total lease expense associated with the initial three-year term is \$1,545.

Note 11: Disclosures About Fair Value of Financial Instruments

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Southwest Power Pool, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Interest Rate Swap Agreements

The fair value is estimated using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy. At December 31, 2008, the fair value measurement of the interest rate swaps as recognized in the accompanying balance sheet was a liability of \$4,466.

The Company has no assets or liabilities measured and recognized in the accompanying balance sheets on a nonrecurring basis.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheet at amounts other than fair value.

Restricted Cash Deposits

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Customer Deposits

The carrying amount is a reasonable estimate of fair value.

Long-term Debt

Fair value is estimated based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities.

The following table presents estimated fair values of the Company's financial instruments at December 31, 2008 and 2007 in accordance with FAS 107.

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 24,342	\$ 24,342	\$ 33,779	\$ 33,779
Restricted cash deposits	\$ 17,777	\$ 17,777	\$ 14,644	\$ 14,644
Financial liabilities				
Customer deposits	\$ 17,777	\$ 17,777	\$ 14,644	\$ 14,644
Long-term debt	\$ 47,780	\$ 47,529	\$ 49,986	\$ 47,458

Southwest Power Pool, Inc.

Notes to Financial Statements

December 31, 2008 and 2007

Note 12: Restatement of Prior Year Balances

Prior to 2008, the Company's method of accruing FERC assessed liabilities resulted in an understatement of those liabilities. During 2008, the Company retroactively changed its accounting method of accruing for FERC assessed liabilities. The following financial statement line items for fiscal year 2007 were affected by this correction:

	<u>As Restated</u>	<u>As Previously Reported</u>	<u>Effect of Change</u>
Balance Sheet			
Accrued expenses	\$ 14,601	\$ 13,199	\$ 1,402
Total current liabilities	50,394	48,992	1,402
Members' equity	8,883	10,285	(1,402)
Statement of Operations			
Regulatory assessment	9,112	7,710	1,402
Operating expenses	84,507	83,105	1,402
Operating income	3,377	4,779	(1,402)
Income before effect of adoption of FAS 158	1,004	2,406	(1,402)
Net loss	(3,992)	(2,590)	(1,402)
Statement of Members' Equity			
Net loss	(3,992)	(2,590)	(1,402)
Balance, end of year	8,883	10,285	(1,402)
Statement of Cash Flows			
Net loss	(3,992)	(2,590)	(1,402)
Change in accrued expenses	631	(771)	1,402

TEXAS REGIONAL ENTITY
Financial Statements
Year Ended December 31, 2008

Texas Regional Entity

**An Independent Division of Electric Reliability
Council of Texas, Inc.**

Financial Statements

December 31, 2008

Texas Regional Entity

An Independent Division of Electric Reliability Council of Texas, Inc.

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December 31, 2008

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Report of Independent Auditors

To the Board of Directors
of Texas Regional Entity,
an independent division of
Electric Reliability Council of Texas, Inc.

In our opinion, the accompanying statement of financial position and the related statements of activities and of cash flows present fairly, in all material respects, the financial position of Texas Regional Entity, an independent division of Electric Reliability Council of Texas, Inc. (Texas RE), at December 31, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Texas RE management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

May 20, 2009

Texas Regional Entity
An Independent Division of Electric Reliability Council of Texas, Inc.
Statement of Financial Position
December 31, 2008

(in thousands of dollars)

Assets

Current assets

Cash and cash equivalents	\$	3,541
Accounts receivable, related party		271
Investments		418
Total current assets		<u>4,230</u>

Property and equipment, net

132

Systems under development

165

Total assets

\$ 4,527

Liabilities and unrestricted net assets

Current liabilities

Accounts payable, related party	\$	891
Accrued liabilities		244
Current portion of regulatory liabilities		2,666
Total current liabilities		<u>3,801</u>

Regulatory liabilities

429

Total liabilities

4,230

Unrestricted net assets

297

Total liabilities and unrestricted net assets

\$ 4,527

The accompanying notes are an integral part of these financial statements.

Texas Regional Entity
An Independent Division of Electric Reliability Council of Texas, Inc.
Statement of Activities
Year Ended December 31, 2008

(in thousands of dollars)

Operating revenues	
System administration fees (non-statutory)	\$ 648
Statutory revenue	3,407
Total operating revenue	<u>4,055</u>
Operating expenses	
Salaries and related benefits	3,131
Facility and equipment costs	161
Consulting and legal services	330
Administrative and other	212
Depreciation	15
Total operating expenses	<u>3,849</u>
Income from operations	206
Other income (expense)	
Other income	271
Valuation reserve	(271)
Interest income	91
Change in unrestricted net assets	<u>297</u>
Unrestricted net assets, beginning of year	-
Unrestricted net assets, end of year	<u>\$ 297</u>

The accompanying notes are an integral part of these financial statements.

Texas Regional Entity
An Independent Division of Electric Reliability Council of Texas, Inc.
Statement of Cash Flows
Year Ended December 31, 2008

(in thousands of dollars)

Cash flows from operating activities	
Change in unrestricted net assets	\$ 297
Adjustments to reconcile change in unrestricted net deficit to net cash provided by operating activities	
Depreciation	15
Changes in operating assets and liabilities	
Accounts receivable, related party	(271)
Investments	(418)
Accounts payable, related party	852
Accrued liabilities	10
Regulatory liabilities	(181)
Net cash provided by operating activities	<u>304</u>
Cash flows from investing activities	
Capital expenditures for property and equipment and systems under development	<u>(242)</u>
Net cash used in investing activities	<u>(242)</u>
Cash flows from financing activities	
Net cash provided by financing activities	<u>-</u>
Net increase in cash and cash equivalents	62
Cash and cash equivalents, beginning of year	<u>3,479</u>
Cash and cash equivalents, end of year	<u>\$ 3,541</u>
Supplemental disclosure of non-cash investing and financing activities	
Change in accrued capital expenditures	\$ 70

The accompanying notes are an integral part of these financial statements.

Texas Regional Entity

An Independent Division of Electric Reliability Council of Texas, Inc.
Notes to Financial Statements
December 31, 2008

(in thousands of dollars)

1. Organization and Operations

Texas Regional Entity (Texas RE) is an independent division of Electric Reliability Council of Texas, Inc. (ERCOT), a Texas non-profit corporation. Since July 31, 2001, ERCOT has functioned as the independent system operator for its reliability region which comprises about 85% of the electrical load in Texas. Texas RE is not a separate legal entity from ERCOT and therefore does not have separate Corporate By-Laws.

By order of the Federal Energy Regulatory Commission (FERC), North American Electric Reliability Corporation (NERC) has been designated as the Electric Reliability Organization (ERO). In its capacity as ERO, NERC has been authorized to develop standards for the reliable operation and planning of the Bulk-Power System, to enforce compliance with those standards, and to conduct periodic assessments of the reliability and adequacy of the Bulk-Power System in North America. NERC must prepare an annual operating budget and submit the budget to FERC for regulatory approval. During 2007, Texas RE was approved by FERC to contract with and perform certain activities for NERC. Texas RE performs those activities pursuant to the Delegation Agreement it signed with NERC, which was approved by FERC. In response to subsequent orders by FERC, Texas RE and NERC signed an Amended and Restated Delegation Agreement in both March 2008 and January 2009 (Delegation Agreement). Texas RE's activities under the Delegation Agreement are referred to herein as statutory activities.

Statutory activities authorize Texas RE to develop, monitor, assess, and enforce compliance with NERC reliability standards within the geographic boundaries of the ERCOT region. Texas RE monitors compliance with the reliability standards, and it may direct violators to comply with the standards and impose penalties for violations, subject to NERC and FERC approval.

In addition to Texas RE's statutory activities, Texas RE has been authorized by the Public Utility Commission of Texas (PUCT) and is permitted by NERC to monitor and investigate compliance with the ERCOT protocols and operating guides, working with PUCT staff regarding enforcement of potential violations. Texas RE's activities under PUCT authorization are referred to herein as non-statutory activities. The PUCT is responsible for enforcement of potential protocol and operating guide violations, but Texas RE coordinates with PUCT staff, as requested, regarding such enforcement, and the PUCT is responsible for penalties and sanctions that result from such violations.

Although Texas RE has been in existence since 2007, these financial statements reflect a single year of activity in accordance with NERC requirements.

Membership and Governance

Because Texas RE is an independent division of ERCOT, members of ERCOT are also members of Texas RE. These members can be from any ERCOT segment and, except for members in the Consumer Segment, must have an actual financial interest in the retail or wholesale electric market in the ERCOT Region and be able to do business in one of these markets. Texas RE is governed by a Board of Directors composed of the same 16 members who comprise the ERCOT board, including the Chair of the PUCT and ERCOT's Chief Executive Officer. The Texas RE directors maintain independence from their role as ERCOT directors by holding board and committee

Texas Regional Entity
An Independent Division of Electric Reliability Council of Texas, Inc.
Notes to Financial Statements
December 31, 2008

(in thousands of dollars)

meetings separately from ERCOT meetings and by not having any role regarding Texas RE's statutory compliance and enforcement activities.

2. Summary of Significant Accounting Policies

Method of Accounting

The accompanying financial statements have been prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Texas RE and ERCOT have entered into a Memorandum of Understanding (MOU), effective January 1, 2008, to set forth agreed upon terms and conditions relating to the provision of administrative support services conducted by ERCOT staff for Texas RE. The MOU establishes procedures for the allocation of costs for administrative services (such as human resources, information technology, finance, procurement, etc.), facility and equipment, and administrative and other expenses. The MOU is intended solely to address how support services and other activities provided by ERCOT staff on behalf of Texas RE should be charged to Texas RE.

Accounting for the Effects of Regulation

Texas RE applies the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*, which requires regulated entities, in appropriate circumstances, to establish regulatory assets and/or liabilities, and thereby defer the income statement impact of certain revenues and charges because it is probable they will be recovered or repaid in future periods.

Unrestricted Net Assets

Unrestricted net assets are those that are not subject to restrictions or stipulations and that may be expendable for any purpose in performing Texas RE's objectives. Accordingly, net assets of Texas RE and changes therein are classified and reported as unrestricted net assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities of the financial statements and reported amounts of revenues, expenses, and capital expenditures during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of deposits in banks, money market investment accounts and overnight deposits in government-backed securities and other highly liquid investments with an original maturity date of 90 days or less. Deposits may exceed the Federal Deposit Insurance Corporation's insured limit of \$250 for each account.

Revenue Recognition

Texas RE funds its statutory operations primarily from assessments collected from NERC. Texas RE collected \$3,226 from NERC during 2008. NERC disperses funds collected for Texas RE at or near the beginning of each quarter. Regulatory orders issued by FERC, include a requirement that NERC and entities to whom NERC has delegated some of its responsibility as the ERO are not entitled to keep financial variances realized as a result of their activity. If revenues exceed expenses incurred in a given year (favorable financial variance), the excess revenue realized in the

Texas Regional Entity
An Independent Division of Electric Reliability Council of Texas, Inc.
Notes to Financial Statements
December 31, 2008

(in thousands of dollars)

year must be returned to rate payers in future years. Similarly, if revenues recorded are less than expenses incurred in a given year (unfavorable financial variance), the revenue shortfall realized in the year must be recovered from rate payers in future years. These variances are settled by FERC through an annual true-up function whereby the variances are added to or deducted from planned FERC funding levels in future budget years. Statutory revenues include \$181 of under collections in 2008, related to regulatory activities performed by Texas RE.

Texas RE funds its non-statutory operations from revenues collected by ERCOT from a PUCT-approved system administration fee. Texas RE collects revenue to cover all operating expense and capital expenses incurred by Texas RE, limited by its annual non-statutory budget. This funding arrangement for non-statutory activities is managed on a cost reimbursement approach based on actual expenses incurred whereby there is no surplus or shortfall except with regard to funding capital assets. As capital assets are funded by ERCOT but owned by Texas RE, the net book value of non-statutory fixed assets of \$132 is a component of the net asset balance of the organization. All non-statutory budgeted expenditures are approved by the Texas RE Board.

Property and Equipment

Property and equipment consists primarily of computer software and is recorded at cost of development. Depreciation is computed on the straight-line method using the half-year convention over the estimated life of the asset. The cost of betterments to, or replacement of, property and equipment is capitalized. When assets are retired or otherwise disposed of, the cost and related depreciation are removed from the accounts and any resulting gain or loss is reflected in the statement of activities for the period. Repairs and maintenance costs are expensed when incurred. The depreciable life of software is 5 years from the date placed in service.

Systems Under Development

Texas RE is developing a web-based portal that will be used to improve the compliance function. Additionally, Texas RE is developing a separate website to better enable communications between Texas RE and registered entities in the ERCOT region. Costs associated with systems under development are evaluated for capitalization in accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. Accordingly, Texas RE capitalizes direct costs incurred to develop these systems, which are being developed in connection with development contracts with external firms. Internal costs not related directly to the development of systems, and related testing activities, are expensed as incurred. Costs from the completed projects are transferred to property and equipment when the systems are placed in service.

Related Party Transactions

Texas RE collects revenue to cover all operating expenses and capital expenses incurred for non-statutory activities. All funding for non-statutory activities is provided by ERCOT based on actual expenses incurred. ERCOT provided \$648 in system administration fees in 2008 related to non-statutory activities. Accounts payable, related party of \$891, reflected in the statement of financial position, is comprised of \$870 in unsettled cash transactions as of December 31, 2008, and \$21 in over-collections in 2008. Texas RE also recorded \$271 as a related party accounts receivable as discussed in Note 3.

Texas Regional Entity
An Independent Division of Electric Reliability Council of Texas, Inc.
Notes to Financial Statements
December 31, 2008

(in thousands of dollars)

Impairment

Texas RE evaluates long-lived assets for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is identified by comparing expected future cash flows, undiscounted and before interest, to the carrying value of the asset. If impairment exists, it is measured as the difference between the net book value of the asset and its estimated fair value. No impairments requiring write-offs were identified in 2008.

3. Investments

For most of 2008 Texas RE's investments were comingled within ERCOT's investment portfolio wherein Texas RE received a share of monthly investment earnings proportionate to its balance of invested funds. Included within that investment portfolio was a significant amount invested in money market investment accounts related to The Reserve Primary Fund. Based on market events in 2008, The Reserve imposed redemption restrictions on all investments in the Primary Fund and established a plan for the liquidation and distribution of fund assets. By December 31, 2008 some, but not all, of the funds were redeemed by ERCOT and ERCOT recognized unrealized losses on a portion of the balance to be liquidated in the future. Texas RE's proportionate share of unrealized losses on the money market investments was \$271 as of December 31, 2008. However, in December 2008, the ERCOT Board of Directors adopted a policy clarifying that ERCOT would bear all investment losses associated with The Reserve investment including those that could potentially be allocated to Texas RE.

During 2008 Texas RE established their separate investment account with The Reserve and held a balance of \$3,268 in a distinguished and separate Texas RE account as of September 16, 2008. As of December 31, 2008 that account is summarized as follows:

Investment balance	\$	689
Valuation reserve		(271)
Fair value of investments	<u>\$</u>	<u>418</u>

The \$271 loss described above which is being incurred by ERCOT is included in the statement of financial position as accounts receivable, related party. The remaining balance is classified as investments in the statement of financial position.

4. Fair Value Measurement

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The criteria that is set forth in this standard is applicable to fair value measurement where it is permitted or required under other accounting pronouncements; accordingly, it does not require any additional items to be measured at fair value. On January 1, 2008, Texas RE adopted SFAS No. 157. The adoption of SFAS No. 157 reflects the application of FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, which defers the effective date of SFAS No. 157 for one year for certain nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis.

Texas Regional Entity
An Independent Division of Electric Reliability Council of Texas, Inc.
Notes to Financial Statements
December 31, 2008

(in thousands of dollars)

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on inputs of observable and unobservable market data that a market participant would use in pricing the asset or liability. The use of observable inputs is maximized where available and the use of unobservable inputs is minimized for fair value measurement. As a means to illustrate the inputs used, SFAS No. 157 establishes a three-tier fair value hierarchy that prioritizes inputs to valuation techniques used for fair value measurement.

- Level 1 valuations use quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 valuations use inputs, other than those included in Level 1, that are observable for the asset or liability, either directly or indirectly.
- Level 3 valuations use unobservable inputs for the asset or liability. Unobservable inputs are used to the extent observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. The input may reflect the assumptions of the reporting entity of what a market participant would use in pricing an asset or liability.

In the case of multiple inputs being used in a fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported.

The following table sets forth by level within the fair value hierarchy Texas RE's financial assets that were accounted for at fair value on a recurring basis for the year ended December 31, 2008.

	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents (a)	\$ 3,541	\$ 3,541	\$ -	\$ -
Investments (b)	418	-	-	418
Total assets	<u>\$ 3,959</u>	<u>\$ 3,541</u>	<u>\$ -</u>	<u>\$ 418</u>

(a) Amounts consist of deposits in banks and money market investments with an average maturity of 90 days or less. The company calculates fair value these money market funds using the market approach.

(b) Amounts consist of money market investments with an average maturity of one year or less with current fund restrictions on redemptions. The company calculates fair value for these investments using the market approach.

Texas Regional Entity
An Independent Division of Electric Reliability Council of Texas, Inc.
Notes to Financial Statements
December 31, 2008

(in thousands of dollars)

As described in Note 3, Texas RE's money market investments in The Reserve's Primary Fund were subject to redemption restrictions. Changes in the fair value measurement of instruments classified as Level 3 in the fair value hierarchy for the twelve-month period ended December 31, 2008 are as follows:

Balance of January 1, 2008	\$	-
Conversion of Level 1 securities to Level 3		3,267
Realized and unrealized losses		(271)
Collections and settlements		(2,578)
Ending balance as of December 31, 2008	\$	418

5. Fixed Assets

Fixed assets consist of the following for the year ended December 31, 2008:

Computer equipment and software	\$	147
Less: accumulated depreciation		(15)
Property and equipment, net		132
Systems under development		165
Total fixed assets	\$	297

Systems under development consist primarily of costs incurred for the projects identified under Note 2 *Systems Under Development*.

6. Employee Benefit Plans

Texas RE employee's are sponsored under the ERCOT Defined Contribution 401(k) Plan (the 401(k) Plan) which is subject to the provisions of the Employee Retirement Income Security Act of 1974. The 401(k) Plan utilized a third-party administrator to assist in the administration. Employees must be 21 years of age to be eligible to participate.

ERCOT matches 75% of the employee's contribution up to 6% of eligible compensation as defined in the 401(k) Plan document. Employees are fully vested for the ERCOT match of 75% after five years. In addition, ERCOT contributes 10% of a participant's eligible compensation as defined in the 401(k) Plan document. Employees are fully vested for the ERCOT contributions of 10% after three years. Contributions related to Texas RE employees are allocated to Texas RE and are included in salaries and related benefits in the statement of activities. Employer contributions to the 401(k) plan were \$246 in 2008.

7. Accounting for the Effects of Regulation

In 2007, its first year of operation, Texas RE collected \$4,871 from NERC and incurred expenses of \$1,595 in performing functions delegated by NERC, resulting in a favorable financial variance of \$3,276. This resulted in deferred recognition of \$3,276 in revenues and a regulatory liability in the same amount at December 31, 2007. In 2008, Texas RE collected \$3,226 from NERC and earned

Texas Regional Entity
An Independent Division of Electric Reliability Council of Texas, Inc.
Notes to Financial Statements
December 31, 2008

(in thousands of dollars)

\$91 in interest income. Texas RE incurred expenses of \$3,498 in performing functions delegated by NERC, resulting in an unfavorable financial variance of \$181. This resulted in a decrease to the regulatory liability of \$181 in 2008. As such, Texas RE has deferred recognition of \$3,095 in revenues with the regulatory liability in the same amount at December 31, 2008. The NERC budgeting and true-up process provides that a portion of the deferred liability be applied toward the 2009 budget year. Consistent with NERC's process, the amount of Texas RE's deferred liability to be applied toward 2009 funding will be \$2,666. As such, this amount is classified as a current liability with the remaining \$429 classified as non-current at December 31, 2008.

The following is a reconciliation of Texas RE's regulatory liability for the year ended December 31:

	2008
Texas RE collections	\$ 3,226
Texas RE interest income	91
Less: Texas RE costs	<u>3,498</u>
(Over) under collections	\$ 181
Regulatory (liability), beginning of year	<u>(3,276)</u>
Regulatory (liability), end of year	<u>\$ (3,095)</u>
Current portion	\$ (2,666)
Long-term portion	\$ (429)

8. Contingencies

Texas RE is party to regulatory and legal proceedings that management considers to be normal actions to which an enterprise of its size and nature might be subject. Such proceedings are not anticipated to have a material impact on Texas RE's financial condition, results of operations, or cash flow.

WESTERN ELECTRICITY COORDINATING COUNCIL
Financial Statements
Year Ended December 31, 2008



Western Electricity Coordinating Council

Financial Statements

As of December 31, 2008 and 2007 and For the Years Then Ended

Together with Independent Auditors' Report



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TANNER LC
THE CRITICAL KNOWLEDGE SOURCE
BUSINESS ADVISORS
AND CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Members of the Board of Directors Western Electricity Coordinating Council

We have audited the accompanying statements of financial position of Western Electricity Coordinating Council (the Council) as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Electricity Coordinating Council as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



March 30, 2009

WESTERN ELECTRICITY COORDINATING COUNCIL
Statements of Financial Position

As of December 31,

<u>Assets</u>	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 18,611,084	\$ 2,851,512
Restricted cash and cash equivalents	2,500,000	-
Investments	1,311,507	4,942,362
Accounts receivable, net	482,434	119,085
Prepaid expenses and other assets	523,294	555,333
Property, equipment, and software, net	7,612,806	1,829,895
 Total assets	 \$ 31,041,125	 \$ 10,298,187
 <u>Liabilities and Net Assets</u>		
Line of credit	\$ 5,852,414	\$ -
Accounts payable	2,956,053	754,883
Accrued payroll and payroll related liabilities	1,342,384	517,366
Deferred revenue	13,915,558	3,028,246
Other liabilities	80,637	-
 Total liabilities	 24,147,046	 4,300,495
 Commitments and contingencies		
 Unrestricted net assets	 6,894,079	 5,997,692
 Total liabilities and net assets	 \$ 31,041,125	 \$ 10,298,187

WESTERN ELECTRICITY COORDINATING COUNCIL
Statements of Activities

For the Years Ended December 31,

	2008	2007
Change in unrestricted net assets:		
Revenues and other income:		
Assessments	\$ 26,596,512	\$ 17,764,223
Western Renewable Energy Generation Information System (WREGIS)	711,877	659,193
Interest	567,096	574,713
Meetings and workshops	736,596	496,710
Other	218,220	91,035
Total unrestricted revenues and other income	28,830,301	19,585,874
Expenses:		
Labor	18,430,013	12,297,754
Professional services	1,778,717	1,663,210
Computer systems maintenance	1,869,427	1,264,191
Travel	1,151,288	779,626
Meeting expenses	921,977	753,031
Insurance	581,935	655,065
Office	1,423,073	615,397
Depreciation and amortization	1,771,814	563,625
Interest	5,670	-
Total expenses	27,933,914	18,591,899
Increase in unrestricted net assets	896,387	993,975
Unrestricted net assets, beginning of year	5,997,692	5,003,717
Unrestricted net assets, end of year	\$ 6,894,079	\$ 5,997,692

WESTERN ELECTRICITY COORDINATING COUNCIL
Statements of Cash Flows

For the Years Ended December 31,

	2008	2007
Cash flows from operating activities:		
Increase in net assets	\$ 896,387	\$ 993,975
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,771,814	563,625
Other non-cash income	-	(6,027)
Decrease (increase) in:		
Accounts receivable	(363,349)	35,873
Prepaid expenses and other assets	32,039	(21,401)
Increase (decrease) in:		
Accounts payable	2,201,170	(176,921)
Accrued payroll and payroll liabilities	825,018	193,690
Deferred revenue	10,887,312	1,588,756
Other liabilities	80,637	-
	16,331,028	3,171,570
Cash flows from investing activities:		
Net change in investments	3,630,855	(3,846,362)
Purchase of property, equipment, and software	(7,554,725)	(1,624,514)
Proceeds from sale of property, equipment, and software	-	1,500
	(3,923,870)	(5,469,376)
Cash flows from financing activities:		
Net borrowings on line of credit	5,852,414	-
Change in restricted cash and cash equivalents	(2,500,000)	-
	3,352,414	-
Net increase (decrease) in cash and cash equivalents	15,759,572	(2,297,806)
Cash and cash equivalents at beginning of year	2,851,512	5,149,318
Cash and cash equivalents at end of year	\$ 18,611,084	\$ 2,851,512
Supplemental disclosure of cash flow information:		
Interest paid	\$ 5,670	\$ -

See accompanying notes to financial statements.

WESTERN ELECTRICITY COORDINATING COUNCIL

Notes to Financial Statements

December 31, 2008 and 2007

1. Summary of Significant Accounting Policies

Nature of Activities

Western Electricity Coordinating Council (the Council) is a not-for-profit organization whose primary mission is to assure a reliable bulk electric power system in the Western Interconnection that supports efficient and competitive electric power markets. A substantial portion of revenue comes from member assessments, and therefore, the Council is involved in significant related-party transactions as a result of its normal activities.

Financial Statement Presentation

The Council reports information regarding its financial position and activities according to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of December 31, 2008 and 2007, the Council had only unrestricted net assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk

The Council maintains its cash and cash equivalents in bank deposit accounts which often exceed federally insured limits. In October 2008, the Emergency Economic Stabilization Act of 2008 temporarily increased FDIC deposit insurance from \$100,000 to \$250,000 per depositor through December 31, 2009. As of December 31, 2008, the Council had approximately \$20,289,000 of cash and cash equivalents that exceeded federally insured limits. To date, the Council has not experienced a loss or lack of access to its invested cash or cash equivalents; however, no assurance can be provided that access to the Council's invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash, interest-bearing deposits, certificates of deposit, money market funds, and other financial instruments with original maturities of three months or less.

WESTERN ELECTRICITY COORDINATING COUNCIL
Notes to Financial Statements
Continued

1. Summary of Significant Accounting Policies
Continued

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Accounts Receivable

Accounts receivable consists of assessments for operations (including membership assessments and services) and unscheduled flow receivables that have not been collected. Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. As of December 31, 2008 and 2007, management estimated the allowance for doubtful accounts to be approximately \$38,000.

Property, Equipment, and Software

Property, equipment, and software are capitalized at cost and are depreciated using the straight-line method over estimated lives of 3 to 5 years. Minor replacements, maintenance, and repairs, which do not increase the useful lives of the property, equipment, and software, are expensed as incurred.

Impairment of Long-Lived Assets

The Council reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through undiscounted future cash flows. If it is determined that an impairment loss has occurred based on expected cash flows, such loss is recognized in the statement of activities.

Revenue Recognition

Annual assessments are recognized as revenue in the period for which they have been assessed. The Council generally receives assessment payments in advance of the assessment period, and it recognizes the cash collected as deferred revenue and recognizes the revenue during the related assessment period. Other types of revenues are recognized when the services or products have been provided.

WESTERN ELECTRICITY COORDINATING COUNCIL
Notes to Financial Statements
Continued

1. Summary of Significant Accounting Policies
Continued

Income Taxes

The Council has been recognized by the Internal Revenue Service as a not-for-profit corporation as described in Section 501(c)(6) of the Internal Revenue Code and as such, is not subject to federal or state income taxes on exempt purpose income. The Council is subject to taxation on unrelated business income.

Reclassifications

Certain amounts in the 2007 financial statements have been reclassified to conform to the 2008 presentation.

2. Fair Value Measurements

The Company adopted the provisions of SFAS No. 157, *Fair Value Measurements*, as of January 1, 2008. Under SFAS No. 157, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels. These levels, in order of highest priority to lowest priority, are described below:

Level 1 – Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities.

Level 2 – Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3 – Unobservable inputs are used when little or no market data is available.

The following table summarizes the financial instruments of the Company subject to SFAS No. 157 and the valuation approach applied to each financial instrument class:

Description	Fair Value Measurements as of December 31, 2008			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market funds	\$ 20,354,639	\$ -	\$ -	\$ 20,354,639
Certificates of deposit	322,141	-	-	322,141
Investments:				
Fixed income securities	1,311,507	-	-	1,311,507
	<u>\$ 21,988,287</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,988,287</u>

WESTERN ELECTRICITY COORDINATING COUNCIL
Notes to Financial Statements
Continued

3. Investments Investments consist of fixed income securities, are stated at fair value, and consist of the following as of December 31:

		<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
2008	\$	1,299,105	\$ 1,311,507	\$ 12,402
2007		4,933,129	4,942,362	9,233

4. Property, Equipment, and Software Property, equipment, and software consist of the following as of December 31:

	<u>2008</u>	<u>2007</u>
Equipment	\$ 5,109,238	\$ 1,746,235
Software	3,615,276	1,248,751
Leasehold improvements	1,548,794	-
Furniture and fixtures	276,404	-
	<u>10,549,712</u>	<u>2,994,986</u>
Less accumulated depreciation and amortization	<u>(2,936,906)</u>	<u>(1,165,091)</u>
	<u>\$ 7,612,806</u>	<u>\$ 1,829,895</u>

5. Line of Credit During 2008, the Council entered into a revolving line of credit arrangement with a financial institution that has a borrowing limit of \$6,000,000. As of December 31, 2008, the outstanding balance on the line of credit was \$5,852,414. The line of credit bears interest at an annual rate equal to the prime rate (3.25% at December 31, 2008) less 0.75%. Any outstanding balance exceeding \$3,000,000 is required to be paid by March 1, 2009 and the borrowing limit will then be decreased to \$3,000,000. The line of credit matures in March 2010. The line of credit arrangement requires that the Council meet certain affirmative and negative covenants, including a minimum liquidity position and restrictions on additional debt. In addition, the Council must maintain a minimum balance of cash equivalents and investments at the institution, which serves as collateral, in order to take down any advances under the line of credit. Restricted cash and investments pertaining to this agreement as of December 31, 2008 were \$2,500,000. The Council was in compliance with the covenants as of December 31, 2008.

WESTERN ELECTRICITY COORDINATING COUNCIL
Notes to Financial Statements
Continued

6. Accounts Payable

Accounts payable consist of the following as of December 31:

	2008	2007
Trade and other payables	\$ 1,448,834	\$ 747,418
Unscheduled flow mitigation plan payables	1,507,219	7,465
	\$ 2,956,053	\$ 754,883

7. Unrestricted Net Assets

The Council reports information regarding statutory and non-statutory related earnings to the Federal Energy Regulatory Commission in accordance with its Delegation Agreement dated October 16, 2007. As of December 31, the breakdown of such earnings included in unrestricted net assets consist of the following:

	2008	2007
Non-statutory earnings	\$ 5,874,248	\$ 5,812,451
Statutory earnings	1,019,831	185,241
	\$ 6,894,079	\$ 5,997,692

8. Commitments and Contingencies

Operating Leases

The Council has entered into non-cancelable operating leases for office space and office equipment. As of December 31, 2008, future minimum lease payments under non-cancelable operating leases with terms of one year or more are as follows:

Years Ending December 31:	
2009	\$ 733,645
2010	570,449
2011	401,038
2012	400,909
2013	321,273
	\$ 2,427,314

Total rent expense under non-cancelable operating leases was approximately \$608,000 and \$294,000 for the years ended December 31, 2008 and 2007, respectively.

WESTERN ELECTRICITY COORDINATING COUNCIL
Notes to Financial Statements
Continued

**8. Commitments
and
Contingencies**
Continued

Litigation and Claims

The Council, in the normal course of performing its activities, is at times subject to lawsuits or claims. The Council's management is currently not aware of any litigation or claims which it believes could have a material impact on the Council's financial position.

**9. Retirement
Plans**

401(k) Retirement Savings Plan

The Council has a 401(k) Retirement Savings Plan for its eligible employees. The Plan requires the Council to make matching contributions equal to 50% of the first 6% of compensation eligible employees contribute to the plan. The Council may also make, at its discretion, supplemental contributions for eligible employees. Retirement plan expense reflected in the accompanying statements of activities was approximately \$614,000 and \$382,000 for the years ended December 31, 2008 and 2007, respectively.

DOCKET NO. RR09-__-000

**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

2010 BUSINESS PLAN AND BUDGET FILING

ATTACHMENT 18

CHANGES FROM

BUDGET VERSUS ACTUAL RECONCILIATION

FOR 2008 FOR TEXAS REGIONAL ENTITY,

FILED APRIL 1, 2009,

BASED ON AUDITED 2008 FINANCIAL STATEMENTS

TEXAS REGIONAL ENTITY
2008 Statement of Activities
Summary

(In Whole Dollars)

	PER APRIL 1, 2009 FERC FILING			PER AUDIT	
	2008 YTD Actual	2008 YTD Budget	2008 YTD Variance	2008 YTD Actual	Variance to April 1st
Funding	3,226,066	3,226,066	-	3,226,066	
Assessments					
Membership Fees & Non-Stat	616,709	848,782	(232,073)	648,451	31,741
Testing	-	-	-	-	-
Services & Software	90,041	-	90,041	91,700	1,659
Interest	-	70,000	(70,000)	-	-
Misc.	-	4,144,848	(212,032)	-	-
Total Funding	3,932,816	4,144,848	(212,032)	3,966,216	33,401
Expenses					
Personnel Expenses					
Salaries	1,940,771	2,242,782	(302,011)	1,964,119	23,348
Payroll Taxes	151,745	186,151	(34,407)	153,672	1,927
Employee Benefits	175,551	269,134	(93,583)	234,188	58,637
Savings & Retirement	246,481	262,406	(15,925)	246,481	0
Total Personnel Expenses	2,514,547	2,960,473	(445,926)	2,598,460	83,912
Meeting Expenses					
Meetings	29,860	74,239	(44,379)	29,860	-
Travel	88,975	97,136	(8,161)	90,833	1,858
Conference Calls	-	-	-	-	-
Total Meeting Expenses	118,835	171,375	(52,539)	120,693	1,858
Operating Expenses					
Rent & Improvements	118,020	112,000	6,020	118,020	-
Contracts	404,507	101,000	303,507	411,882	7,375
Consultants	-	-	-	-	-
Office Costs	37,095	19,500	17,595	38,431	1,336
Professional Services	264,546	338,000	(73,454)	268,156	3,610
Computer Purchase & Maint.	506,203	147,000	359,203	290,136	(216,066)
Furniture & Equipment	-	-	-	-	-
Miscellaneous	4,264	295,500	(291,236)	4,264	-
Total Operating Expenses	1,334,635	1,013,001	321,635	1,130,890	(203,745)
Total Expenses	3,968,018	4,144,848	(176,830)	3,850,043	(117,975)
Net Change in Assets	(35,202)	-	(35,202)	116,173	151,375

The audited financial statements reflect statutory revenue of \$3,407,088 for the year-ended 2008. The amount reflected under YTD 2008 Actual per Audit in this analysis, reflects the cash funding received. Also, the net change in assets based on audited results was \$297,196 for the year, however, what is reflected here is the net change in assets based on the funding received, not revenue recorded.

Reflects \$48K credit reversal for Non-statutory benefits as well as final expenses paid in 2008 for Statutory benefits.

Reflected charge for fixed assets included in the cash-based expense reported at year-end \$231K and elimination of depreciation expense \$15K. In financial statements, reflected the change in net assets.

TEXAS REGIONAL ENTITY
2008 Statement of Activities
Summary
Statutory Only

(In Whole Dollars)

	PER APRIL 1, 2009 FERC FILING			PER AUDIT		
	2008 YTD Actual	2008 YTD Budget	2008 YTD Variance	2008 YTD Actual	Variance to April 1st	Comments (greater than 10%)
Funding	3,226,066	3,226,066	-	3,226,066	-	
Assessments	-	-	-	-	-	
Membership Fees & Non-Stat	-	-	-	-	-	
Testing	-	-	-	-	-	
Services & Software	90,041	-	90,041	91,700	1,659	
Interest	-	-	-	-	-	
Misc.	-	70,000	(70,000)	-	-	
Total Funding	3,316,106	3,296,066	20,041	3,317,765	1,659	
Expenses						
Personnel Expenses						
Salaries	1,674,937	1,718,288	(43,351)	1,698,285	23,348	
Payroll Taxes	131,986	142,618	(10,633)	133,913	1,927	
Employee Benefits	165,982	206,195	(40,213)	176,002	10,020	
Savings & Retirement	215,199	201,040	14,159	215,199	-	
Total Personnel Expenses	2,188,104	2,268,141	(80,037)	2,223,400	35,296	
Meeting Expenses						
Meetings	28,861	74,239	(45,378)	28,861	-	
Travel	87,897	93,235	(5,338)	89,755	1,858	
Conference Calls	-	-	-	-	-	
Total Meeting Expenses	116,758	167,474	(50,716)	118,616	1,858	
Operating Expenses						
Rent & Improvements	100,511	80,000	20,511	100,511	-	
Contracts	355,502	89,000	266,502	361,771	6,269	
Consultants	-	-	-	-	-	
Office Costs	24,815	16,950	7,865	26,151	1,336	
Professional Services	242,951	256,000	(13,049)	246,561	3,610	
	319,775	123,000	196,775	254,246	(65,529)	
Computer Purchase & Maint.	-	-	-	-	-	
Furniture & Equipment	2,892	295,500	(292,608)	2,892	-	
Miscellaneous	1,046,446	860,450	185,996	992,132	(54,314)	
Total Operating Expenses	3,351,308	3,296,066	55,243	3,334,148	(17,160)	
Total Expenses	(35,202)	-	(35,202)	(16,382)	18,820	
Net Change in Assets						

The audited financial statements reflect statutory revenue of \$3,407,088 for the year-ended 2008. The amount reflected under YTD 2008 Actual per Audit in this analysis, reflects the cash funding received. Also, the net change in assets based on audited results was \$164,640 for the year; however, what is reflected here is the net change in assets based on the funding received, not revenue recorded.

Reflected charge for fixed assets included in the cash-based expense reported at year-end \$65K for work-in-process.

TEXAS REGIONAL ENTITY
2008 Statement of Activities
Non-Statutory Only

(In Whole Dollars)

	PER APRIL 1, 2009 FERC FILING			PER AUDIT		
	2008 YTD Actual	2008 YTD Budget	2008 YTD Variance	2008 YTD Actual	Variance to April 1st Filing	Comments (greater than 10%)
Funding						
Assessments	616,709	848,782	(232,073)	-	-	
Membership Fees & Non-Stat	-	-	-	648,451	31,741	
Testing	-	-	-	-	-	
Services & Software	-	-	-	-	-	
Interest	-	-	-	-	-	
Misc.	-	-	-	-	-	
Total Funding	616,709	848,782	(232,073)	648,451	31,741	
Expenses						
Personnel Expenses						
Salaries	265,834	524,494	(258,660)	265,834	-	
Payroll Taxes	19,759	43,533	(23,774)	19,759	-	
Employee Benefits	9,569	62,939	(53,370)	58,185	48,617	Credit for relocation recognized at year-end under Non-statutory expenses; this was adjusted to appropriately reflect the current year benefits expense paid in
Savings & Retirement	31,282	61,366	(30,084)	31,282	-	
Total Personnel Expenses	326,443	692,332	(365,889)	375,060	48,617	
Meeting Expenses						
Meetings	999	-	999	999	-	
Travel	1,078	3,900	(2,822)	1,078	-	
Conference Calls	-	-	-	-	-	
Total Meeting Expenses	2,077	3,900	(1,823)	2,077	-	
Operating Expenses						
Rent & Improvements	17,509	32,000	(14,491)	17,509	-	
Contracts	49,005	12,000	37,005	50,112	1,106	
Consultants	-	-	-	-	-	
Office Costs	12,280	2,550	9,730	12,280	-	
Professional Services	21,595	82,000	(60,405)	21,595	-	
Computer Purchase & Maint.	186,427	24,000	162,427	35,890	(150,537)	Reflected charge for fixed assets included in the cash-based expense reported at year-end \$165K and elimination of depreciation expense \$15K. In financial statements, reflected the change in net assets.
Furniture & Equipment						
Miscellaneous	1,372	-	1,372	1,372	-	
Total Operating Expenses	288,189	152,550	135,639	138,758	(149,431)	
Total Expenses	616,709	848,782	(232,073)	515,895	(100,814)	
Net Change in Assets	-	-	-	132,556	132,556	

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**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

2010 BUSINESS PLAN AND BUDGET FILING

ATTACHMENT 19

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

2010 Business Plan and Budget Supplemental Backlog Report

In its Order conditionally approving NERC's 2009 Business Plan and Budget, the Commission directed NERC to include in a compliance filing "a meaningful plan and schedule for processing outstanding alleged violations, mitigation plans, notices of penalty, CVI, and a supplemental budget request if appropriate."¹ In NERC's compliance filing submitted December 15, 2008, NERC and the Regional Entities provided, in Attachment 3, a description of the work NERC performs in the normal course of activities to review, track and process alleged violations and mitigation plans for the NERC Board of Trustees Compliance Committee (BOTCC); a description of each Regional Entity's status, plan and schedule for processing outstanding alleged violations, mitigation plans, and notices of penalty; and a description of NERC's efforts to prioritize work and provide direction to Regional Entities regarding the processing of outstanding alleged violations, mitigation plans, and notices of penalty.² In its Order issued July 16, 2009 concerning the December 15, 2008 Compliance Filing, the Commission stated: "While we accept NERC's proposal to increase the FTEs that support the Compliance Monitoring and Enforcement Program, we remain concerned regarding the continuing backlog in processing alleged violations. We therefore direct NERC to provide the Commission with a report on the status of the remaining unprocessed violations in its 2010 business plan and budget filing."³ This Attachment is submitted in response to the directive in P 18 of the July 16, 2009 Order.

NERC is acutely aware and concerned about the current backlog of reliability standard violations to be processed, and is working closely with the Regional Entities' staffs to address the backlog with targeted initiatives and streamlining current processes.

¹ *Order Conditionally Accepting 2009 Business Plan and Budget of the North American Electric Reliability Corporation and Ordering Compliance Filings*, 125 FERC ¶61,056 (2008), at P 28.

² *Compliance Filing of the North American Electric Reliability Corporation in Response to October 16, 2008 Order on 2009 Business Plans and Budgets*, filed December 15, 2008. In the Compliance Filing, NERC also stated that it was increasing staffing for the Compliance Monitoring and Enforcement Program by 4.5 full-time equivalents over the original 2009 Business Plan and Budget, and also budgeting additional resources for contracted subject matter experts to support compliance violation investigations.

³ *Order on Compliance Filing*, 128 FERC ¶61,025 (2009), at P 18.

The most significant initiative is to reduce the number of violations in the queue. First, NERC is working to reduce the majority of older violations with limited records by bundling these violations into a collective action for an omnibus filing at FERC.⁴ These violations have been deemed to be a low risk to the bulk power system and have been assessed either a zero or low dollar penalty. The resolution of these alleged violations will reduce the burden on the regional entities.

NERC has also encouraged the Regional Entities to make faster determinations as to whether a possible violation is a confirmed violation. This will allow possible violations that should be dismissed to be resolved and therefore will not contribute to an exaggerated number of backlogged violations. To that end, 277 possible violations that were active as of December 31, 2008 were dismissed by June 30, 2009.

The second initiative is to focus on completing the process for violations that have a high impact to the bulk electrical system. NERC has recently developed and implemented an internal ERO management tool for working with the Regional Entities to prioritize efforts and direct resources to violations with the potential to have a higher impact on the bulk power system. This is a new tool and NERC expects to see results from its use in the near future.

NERC is also focused on completing all remaining violations and moving them through the system in a timely manner. **Table 1** shows, by Region, the number of active FERC-enforceable alleged violations that were in each of the CMEP violation states as of December 31, 2008, including those violations that were completed and closed, or had been dismissed.⁵ **Table 2** indicates the violation state status of the same violations on June 30, 2009. **Table 3** compares the previous two tables and notes the changes in each state over the six month period. **Table 3** shows how violations are moving from the assessment, validation and confirmation stages to the end of the process stages, with 115 violations moving into the settlement stage and 76 violations moving into the pending regulatory filing stage. In addition, there have been 58 violations closed in the last six month period, with 24 of the closed violations submitted by the SERC region.

Table 4 includes the same violations shown in **Tables 1, 2 and 3** but adds all new possible violations submitted from January 1, 2009 through June 30, 2009. Based upon the information contained in these Tables, it is noted that 467 new possible violations were identified in the first six months of 2009, of which 49 were dismissed, for a net increase of 418 alleged violations to be processed in 2009. However, **Table 3** shows a decrease of 335 (58 closed and 277 dismissed) in the number of violations that were in

⁴ For many of these older violations, the record was originally compiled before the Commission issued its July 3, 2008 *Guidance Order on Reliability Notices of Penalty*, 124 FERC ¶ 61,015 (2008).

⁵ The CMEP violation states are defined in **Table 5**.

the process on December 31, 2008. In the aggregate, therefore, only 83 more violations were being processed on June 30, 2009 than on December 31, 2008, even though 467 new possible violations were identified between January 1 and June 30, 2009.

Progress with violation mitigation plans over the six month period from December 31, 2008 through June 30, 2009 has also been substantial. The percent of active violations that have a completed and verified mitigation plan rose from 7% at the end of 2008 to 57% by June 30, 2009.

Several initiatives are contributing to this overall progress. NERC has recently added to its compliance staff at the NERC Princeton offices, enabling NERC to increase the quality and speed of its processing of Notices of Confirmed Violations and settlement that are submitted by the Regional Entities. Regional Entities have also added staff in the enforcement area, including staff with legal and regulatory backgrounds that are experienced in creating complete records, thereby shortening the time to process violations through the system at both the Regional Entity and NERC levels. Other possible new processes are being explored for efficiency, including the use of the BOTCC e-mail approval process for less controversial and less significant violations (rather than requiring each Notice of Confirmed Violation to be reviewed at a BOTCC in-person meeting or conference call), which allows the BOTCC to increase the number of violations it processes each month.

Finally, NERC has created the pro-forma settlement option, with standardized forms and penalties, that can be used for certain violations.⁶ NERC plans to enhance this tool for use with other violations thereby improving the speed of processing.

The NERC staff, executive leadership, compliance and legal recognize that the goal is to reach a steady state of violations processing, maintaining a reasonable queue management and a minimal violations backlog. NERC recognizes that a critical component of this increased effort to reduce this backlog is to maintain the highest levels of confidentiality and due process, and will attain this goal without sacrifice to its demonstrated quality and primary goal of increasing the reliability of the bulk power system.

Although the Commission, of course, would not have been aware of this when it issued its July 16, 2009 Order, the objectives of improving the efficiency, speed and quality of the processing of alleged violations by NERC and the Regional Entities, and reducing the backlog of outstanding violations being processed, are the subjects of considerable attention in NERC's Three-Year Electric Reliability Organization (ERO) Performance Assessment Report required by 18 C.F.R. §39.3(c) and filed with the

⁶ See NERC Compliance Process Bulletin #2009-003 v.2, dated June 29, 2009, available at http://www.nerc.com/files/2009-003Public%20Notice_V2.pdf.

Commission on July 20, 2009.⁷ These topics are discussed in detail in the Overview section of the report, at pages 35-37; in Attachment 2, the discussion of stakeholder and Regional Entity comments and recommendations for improvement and NERC specific actions, at pages 22-24; in Attachment 3, the NERC Evaluation of Regional Entities, at pages 9-27 and 31-35; and in the Joint Regional Entity Self-Assessment and individual Regional Entities' Statements of Activities and Achievements in Attachment 4. In the Three-Year ERO Performance Assessment Report, a number of recommendations and actions for improving the efficiency, speed and quality of the processing of alleged violations and reducing the backlog of outstanding violations being processed, are identified and discussed. Accordingly, in addition to the information provided in this Attachment, NERC also respectfully refers the Commission to the above-referenced portions of the Three-Year ERO Performance Assessment Report for information that is responsive to P 18 of the July 16, 2009 Order.

⁷ The Three-year ERO Performance Assessment Report is now the subject of Commission Docket No. RR09-7-000.

TABLE 1

FERC Enforceable Alleged Violations Summarized by State							
AS OF DECEMBER 31, 2008							
	Assessment and Validation	Confirmation	Settlement	Pending Regulatory Filing	Completed and Closed	Dismissed	Total
Region							
FRCC	64	23	13	16	0	0	116
MRO	9	3	3	33	7	14	69
NPCC	7	0	26	5	12	8	58
RFC	32	4	46	14	1	11	108
SERC	73	1	40	39	70	24	247
SPP	9	42	1	4	5	1	62
TRE	20	0	13	22	10	2	67
WECC	629	316	94	106	0	478	1623
TOTAL	843	389	236	239	105	538	2350

TABLE 2

FERC Enforceable Alleged Violations Summarized by State							
As of June 30, 2009 <i>(for the Same Violations as in Attachment 1)</i>							
	Assessment and Validation	Confirmation	Settlement	Pending Regulatory Filing	Completed and Closed	Dismissed	Total
Region							
FRCC	7	0	45	48	2	14	116
MRO	0	0	5	19	25	20	69
NPCC	0	0	18	18	13	9	58
RFC	22	0	51	19	2	14	108
SERC	20	0	62	35	94	36	247
SPP	2	3	9	42	5	1	62
TRE	17	1	13	11	22	3	67
WECC	369	265	148	123	0	718	1623
TOTAL	437	269	351	315	163	815	2350

TABLE 3

FERC Enforceable Alleged Violations Summarized by State							
Changes from December 31, 2008 to June 30, 2009 (for the Same Violations as in Attachments 1 and 2)							
	Assessment and Validation	Confirmation	Settlement	Pending Regulatory Filing	Completed and Closed	Dismissed	Total
Region							
FRCC	-57	-23	32	32	2	14	0
MRO	-9	-3	2	-14	18	6	0
NPCC	-7	0	-8	13	1	1	0
RFC	-10	-4	5	5	1	3	0
SERC	-53	-1	22	-4	24	12	0
SPP	-7	-39	8	38	0	0	0
TRE	-3	1	0	-11	12	1	0
WECC	-260	-51	54	17	0	240	0
TOTAL	-406	-120	115	76	58	277	0

TABLE 4**FERC Enforceable Alleged Violations Summarized by State****As of June 30, 2009**

	Assessment and Validation	Confirmation	Settlement	Pending Regulatory Filing	Completed and Closed	Dismissed	Total
Region							
FRCC	16	0	104	48	2	20	190
MRO	12	1	13	19	25	23	93
NPCC	7	0	27	18	13	9	74
RFC	51	0	62	19	2	17	151
SERC	50	0	68	37	94	43	292
SPP	21	3	12	42	5	1	84
TRE	22	1	13	11	22	4	73
WECC	546	281	158	128	0	747	1860
TOTAL	731	286	457	322	163	864	2817

Table 5 State and Substate Definitions

STATE 1 (Assessment and Validation)

Substate A	Preliminary Notice of Alleged Violation information has been received from the Region but no Initial Notice has been issued to FERC.
Substate B	NERC is awaiting receipt of Notice of Alleged Violation Proposed Penalty or Sanction from the Region.

STATE 2 (Confirmation)

Substate C	NERC has received Notice of Alleged Violation Proposed Penalty or Sanction and is awaiting acceptance, auto acceptance or contest.
Substate D	Region received acceptance letter from Registered Entity, or 30 day clock expired and violation is Auto Accepted and is now Confirmed.
Substate E	Region has received letter contesting violation from Registered Entity.
Substate F	Region has received request for Hearing from Registered Entity.
Substate G	NERC has received request for Appeal from Registered Entity.

SETTLEMENT

Substate K	Settlement negotiations are in progress.
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STATE 3 (Pending Regulatory Filings)

Substate H	NERC has received a Notice of Confirmed Violation from the Region.
Substate L	NERC has received a Settlement Agreement from the Region.
Substate I	Violation is Confirmed/Settled and a Notice of Penalty has been issued by NERC to Registered Entity and submitted to FERC.

STATE 4 (Completed and Closed)

Substate J	Payment of Penalties, Fulfillment of Sanctions, Completion of Mitigation Plan, Exhaustion of Administrative and Judicial Remedies, and Fulfillment of Settlement terms have all been met and violation is closed.
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**NORTH AMERICAN ELECTRIC RELIABILITY
CORPORATION**

2010 BUSINESS PLAN AND BUDGET FILING

ATTACHMENT 20

REPORT ON PROGRESS

IN ENHANCING NERC'S

DATA COLLECTION AND VERIFICATION PROCESSES

FOR RELIABILITY ASSESSMENTS

Report on Progress in Enhancing NERC's Data Collection and Verification Process for Reliability Assessments

The Commission's *July 16, 2009 Budget Compliance Order*¹ contained the following paragraphs concerning NERC's Reliability Assessment and Performance Analysis Program:

5. The Commission expressed concern [in the *2009 Budget Order*²] about the current practice of gathering and assessing data as related to NERC's Reliability Assessment and Performance Analysis Program. The Commission directed NERC to reconsider the funding for the program, to provide an explanation in a compliance filing and, if appropriate, to provide a supplemental budget request for additional funding of the program. [footnote omitted]

* * * * *

1. NERC Compliance Filing

* * * * *

13. NERC states that it will review its internal data collection and validation processes, but that any enhancement of these processes will not require additional manpower or the incurrence of other costs, as they will be developed internally by existing staff. NERC maintains that automated data checks will complement the peer review performed by NERC staff, Regional Entity staff, and industry subject matter experts. . . .

* * * * *

3. Commission Determination

* * * * *

20. With respect to the Reliability Assessment and Performance Analysis Program, the Commission accepts NERC's proposal to review and enhance its current data collections process by introducing additional independent, automated data checking systems. We will accept this proposal but will direct NERC to provide a status report on its progress in its 2010 business plan and budget filing.

The directive in P 20 of the *July 16, 2009 Budget Compliance Order* to provide a status report on progress in introducing additional data checking systems for NERC's reliability

¹ *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 123 FERC ¶ 61,282 (2008).

² *North American Electric Reliability Corp.*, 125 FERC ¶ 61,056 (2008).

assessments was the result of a series of filings and orders beginning with and relating to NERC's 2009 Business Plan and Budget filed in August 2008. However, during the intervening period, NERC has identified and implemented a number of actions to enhance data collection and verification for its reliability assessments. These processes are described in NERC's most recently-issued periodic reliability assessment, the *2009 Summer Reliability Assessment*³, as well as in its *Three-Year ERO Performance Assessment Report* filed with the Commission on July 20, 2009.⁴

2009 Summer Reliability Assessment

The following excerpt from the *2009 Summer Reliability Assessment* describes the internal data checking and validation processes of NERC's Reliability Assessment Data Validation & Error Checking Program, as implemented in the preparation of the *2009 Summer Reliability Assessment*.⁵

Data Checking Methods Applied

NERC's Reliability Assessment Data Validation & Error Checking Program ensures that the Reliability Assessment Database operates with consistent data. It uses routines, often called "validation rules," that check for correctness, meaningfulness, and security of data that are added into the system.

³ *North American Electric Reliability Corporation, 2009 Summer Reliability Assessment*, issued May 2009, available at <http://www.nerc.com/files/summer2009.pdf>.

⁴ *North American Electric Reliability Corporation, Three-year Electric Reliability Organization Performance Assessment Report*, filed July 20, 2009. This report is now the subject of Docket No. RR09-7-000.

⁵ The excerpt is from the *2009 Summer Reliability Assessment* at 218-219. In the excerpt, "DCWG" refers to the NERC Data Collection Working Group, and "RE" means Regional Entity.

Internal Data Checking & Validation refers to the practice of validating and checking data through internal processes (e.g., Historical Comparison, Range and Limits, Data Entry Completeness, Correct Summations) to maintain high quality data (See Table 6). The rules are implemented through automated processes—data dictionary for data checking and logic for validation. Incorrect data can lead to data corruption or a loss of data integrity. Data validation verifies it is valid, sensible, and secure before it is processed for analysis. The program uses scripts, developed on a composite Microsoft Excel and Microsoft Access platform, to provide a semi-automated solution.

Table 6: NERC Data Quality Framework and Attributes		
Data Quality Attribute	Responsible Entity	Data Check Performed
Accuracy <i>Ensure data are the correct values</i>	Industry	<ul style="list-style-type: none"> • Validation rules • Consistent with other external sources
Accessibility <i>Data items should be easily obtainable and in a usable format</i>	DCWG, NERC and RE	<ul style="list-style-type: none"> • Data is submitted in the provided template
Comprehensiveness <i>All required data items are submitted</i>	DCWG, RE and Stakeholders	<ul style="list-style-type: none"> • Check for null values • Compare to prior year's null values • Inquiries to the RE
Currency <i>The data should be up-to-date</i>	RE and Stakeholders	<ul style="list-style-type: none"> • Consistent with other external sources
Consistency <i>The value of the data should be reliable and the same across different reporting entities</i>	DCWG, NERC	<ul style="list-style-type: none"> • The DCWG leads in this effort • Assumptions are verified with the RE
Definition <i>Clear definitions should be provided so the current and future data users can understand the assumptions</i>	DCWG, NERC Staff	<ul style="list-style-type: none"> • The DCWG leads in this effort

In 2009, NERC implemented a two-phase approach to data checking and validation. Phase I is a data collection form-side validation procedure based on defined rules. It also specifies the error type or condition not met. This phase was applied to the data collection forms to prevent the incorrect entry of data and prompts the user with feedback explaining the error. Validation rules are used to ensure entered data meets defined thresholds, ranges, or both. An error halts the input of data until a valid entry is provided. For example, the reported deratings of existing generating units is a subset of the “Existing, Other” supply category; therefore, the sum of all deratings must be less than or equal to the value reported as “Existing, Other.” This example is shown below:

		Incorrect	Correct
6b	Existing, Other (Note: The sum of 6b1 through 6b7 must be <= 6b)	5000	5000
6b1	Wind Derate On-Peak	800	400
6b2	Solar Derate On-Peak	445	232
6b3	Hydro Derate On-Peak	789	0
6b4	Biomass Derate On-Peak	0	0
6b5	Load as a Capacity Resource Derate On-Peak	0	0
6b6	Energy Only	435	1345
6b7	Scheduled Outage - Maintenance	4000	2398
6b8	Transmission-Limited Resources	0	0

Once data is submitted to NERC, reported values can be analyzed for validity. Phase II of NERC's data checking and validation effort involves comparing submitted data to historical submissions. For this phase, a back-end database is used to compare key values, such as peak demand projections and installed capacity to what was reported in prior years. Only values with comparable definitions are considered. In addition, a preliminary analysis can identify potential errors. If a potential error is detected, it is flagged and categorized by one of the following error types:

- Categorization – values may be incorrectly categorized
- Summation – values are incorrectly summed
- Double Count – identifies a possible double counting issue
- Missing Data – key values are null
- Confirmation – a notable discrepancy which must be confirmed

The Reliability Assessment Data Validation & Error Checking Program identifies potential errors and generates a report for further investigation. Thresholds are determined for each value and flagged when a major deviation is determined. For example, peak demand projections must be within a +/- 2 percent threshold to pass; all others are flagged. When errors are identified, NERC staff can send a request for data corrections to the Regional Entities. The Regional Entities then have the opportunity to update their data submittals or explain the flagged error.

In addition, NERC's Data Coordination Working Group (DCWG) monitors the quality of data reported. The DCWG serves as a point of contact responsible for supporting NERC staff, continuously maintaining high quality data and provide enhancements to current practices.

For the *2009 Summer Reliability Assessment*, the most common error identified was Missing Data, though in many cases "0" was the correct value. Summation errors were also prominent. Unclear form instructions and changes in reporting format may have contributed to these errors.

The foregoing excerpt from the *2009 Summer Reliability Assessment* focuses on the internal data checking and validation processes in NERC's Reliability Assessment Data Validation and Error Checking Program. The Program also involves comparisons of forecasts to valid external sources. In its next (2009) *Long-Term Reliability Assessment*, expected to be

released in October 2009, NERC plans to include a specific discussion of this external validation process, including description of the external demand and supply forecasts NERC is using for external data validation purposes. The external sources NERC is using for comparison and validation in the preparation of the *2009 Long-Term Reliability Assessment* include Canadian and U.S. government agencies, non-governmental organization industry working groups, and consultancy companies with expertise in electric demand and supply forecasting. For a robust comparison base, assessments will be made against forecasts developed through complex macroeconomic models and power flow models.

The Data Validation & Error Checking Program also includes limited external validation of transmission projects. NERC is using an aggregation service to review public news articles, press releases, corporate filings, government filings, and online industry news sources to track the progress of transmission projects. The results of this review are then compared against the transmission project data and information data obtained from the Regions, and any resulting inconsistencies are shared with the Regions for further examination.

Listed below are the external sources NERC is using for external data validation in the preparation of the upcoming *2009 Long-Term Reliability Assessment*, with a brief description of each organization. In future reliability assessments, NERC expects to broaden this list of external sources. However, meaningful forecasts are produced by a limited number of companies, agencies, organizations and groups, many of which are already being utilized by NERC for this purpose. Further, several organizations producing such forecasts are for-profit companies with proprietary models, and therefore restrict the use of their forecast data.

U.S. Department of Energy - Energy Information Administration

The mission of the Energy Information Administration (EIA) is to provide policy-neutral data, forecasts, and analyses to promote sound policy making, efficient markets, and

public understanding regarding energy and its interaction with the economy and the environment. Created by the Congress in 1977, EIA is the statistical agency of the U.S. Department of Energy and as such is the nation's premier source of unbiased energy data, analysis and forecasting. By law, EIA's products are prepared independently of Administration policy considerations. EIA neither formulates nor advocates any policy conclusions.

Eastern Interconnection Reliability Assessment Group Multiregional Modeling Working Group

The Eastern Interconnection Reliability Assessment Group (ERAG) Multiregional Modeling Working Group (MMWG) includes direct representation from the Regional Entities in the Eastern Interconnection as well as a working group power flow and dynamics coordinator(s), a liaison representative of the NERC staff, and corresponding representatives from the ERCOT and WECC Regions. The Group is charged with the responsibility for developing and maintaining a library of power flow and dynamics base cases for the benefit of ERAG members. Although the Group does not make demand and supply forecasts, it does deploy demand and supply forecasts in its detailed models to test system conditions used to support planning and operations. These models often are the basis for studies referred to by Regional Entities in their reliability assessments.

Energy Ventures Analysis, Inc.

Energy Ventures Analysis, Inc. (EVA), based in Arlington, Virginia, specializes in energy and environmental market analysis and forecasting for natural gas, coal, electricity, oil, NO_x, SO₂ and CO₂. EVA does project analysis, including project pro formas and financial evaluations for existing and proposed power plants, coal mines and coal companies, natural gas storage projects, and other energy projects.

Ventyx

Ventyx, based in Atlanta, Georgia, is a business solutions provider to global energy, utility, communications, and other asset-intensive organizations. Ventyx offers expertise in asset management, energy trading and risk management, mobile workforce management, energy operations, customer care, energy analytics.

Canadian National Energy Board

The National Energy Board (NEB) of Canada is an independent federal agency established in 1959 by the Parliament of Canada to regulate international and interprovincial aspects of the oil, gas and electric utility industries. The purpose of the NEB is to promote safety and security, environmental protection and efficient energy infrastructure and markets in the Canadian public interest within the mandate set by Parliament in the regulation of pipelines, energy development and trade. These principles guide NEB staff to carry out and interpret the organization's regulatory responsibilities.

The NEB is accountable to Parliament through the Minister of Natural Resources Canada.

International Energy Agency

The International Energy Agency (IEA) is an intergovernmental organization which acts as energy policy advisor to 28 member countries. Founded during the oil crisis of 1973-74, the IEA's initial role was to co-ordinate measures in times of oil supply emergencies. As energy markets have changed, the IEA's mandate has broadened to incorporate balanced energy policy making reflecting energy security, economic development and environmental protection.

Three-Year ERO Performance Assessment Report

In the *Three-Year ERO Performance Assessment Report*, NERC described the processes it follows in the preparation of its reliability assessments in order to ensure the validity of the data used:

NERC's unique, independent ability to validate the data on Regional reliability gathered from the industry in the preparation of its reliability assessment reports incorporates industry experts and deploys processes NERC and the Regional Entities use to perform their respective portions of the reliability assessments. These processes constitute an independent, rigorous, transparent, and time-tested method for validating the data and information provided and a vigorous and vibrant approach to assessing the reliability of bulk power systems. As stated in the introduction section of each of NERC's reliability assessment reports, NERC prepares its reliability assessments with detailed data, information, and regional self assessments from the Regional Entities as well as active support from the RAS [Reliability Assessment Subcommittee] under the direction of NERC's PC [Planning Committee] with additional review from the NERC OC [Operating Committee].

The data, information, and Regional assessments submitted by each of the Regional Entities is periodically updated throughout the report drafting process to ensure it is as current as possible. This data and information is first analyzed, vetted, and attested to by the Regional Entities as part of their own assessment process, which follows a detailed set of assessment criteria established by NERC. After it is received, it undergoes further review by NERC staff and the RAS to ensure accuracy and consistency.

NERC also uses an active peer-review process in developing its reliability assessments. The peer-review process takes full advantage of subject-matter expertise from many sectors of the industry, which far exceeds any resources that could be assembled at the NERC-staff level. This process also provides an

essential and independent check and balance for ensuring the validity of the data and information provided by the Regional Entities. Each Region prepares its data and an assessment according to a set of instructions provided by NERC with support from the RAS and the Data Coordination Working Group (DCWG). The resulting Regional assessments and data are assigned to two to four RAS members from other Regions for an in-depth and comprehensive peer review of the data and information. Reviewer comments are discussed at an open RAS meeting with the Regional Entity's representative(s); refinements and adjustments are made as necessary. Where necessary, NERC requests Regional Entities to provide additional data and supporting information to explain the basis of their reliability assessment conclusions. The Regional assessments and data are then subjected to scrutiny and review by the entire subcommittee to ensure members of the subcommittee and NERC staff are fully convinced that each Regional assessment, and the data supporting it, are accurate, thorough, and complete.

The entire reliability assessment document, including the Regional assessments, is then reviewed in detail by the MRC [Member Representatives Committee] and NERC management. The report is endorsed by the PC before being submitted to NERC's Board of Trustees for final approval.⁶

In addition, the *Three-Year ERO Performance Assessment Report* described actions NERC initiated beginning in 2009 to enhance its data collection and validation processes for purposes of its reliability assessments:

To improve data validation, NERC began, in 2009, to review its internal data collection and validation processes to fortify its current data analysis system by designing, creating, testing, and putting in place additional automated data-checking systems to accommodate the increasing amount of data NERC collects for its reliability assessments. Data checking algorithms were developed for use in NERC's *2009 Summer Reliability Assessment* (see the *Data Checking Methods Applied* Section in <http://www.nerc.com/files/Summer2009.pdf>). These enhancements are an internally-developed system. In addition, further enhancements for NERC's *2009 Long Term Reliability Assessment* will compare demand and supply forecasts obtained from NERC's data request with other, publicly available forecasts for further validation and comparison. The aforementioned automated data checks with the *2009 Summer Reliability Assessment* and comparisons of demand/supply forecasts have and will complement the rigorous peer review performed by industry subject-matter experts described above. Further, this process can and will expedite peer review and increase the productivity of NERC staff and industry experts who are tasked

⁶ *Three-Year ERO Performance Assessment Report*, Attachment 1, at 93-94.

with developing independent and comprehensive reliability assessments of bulk power system reliability.⁷

Upcoming 2009 Long-Term Reliability Assessment

As indicated in the above discussion of the *2009 Summer Reliability Assessment* and in the excerpt from the *Three-Year ERO Performance Assessment Report*, additional enhancements to NERC's data collection and validation processes will be implemented and described in NERC's upcoming *2009 Long-Term Reliability Assessment*. The *2009 Long-Term Reliability Assessment* is expected to be issued in October 2009.

⁷ *Three-Year ERO Performance Assessment Report*, Attachment 1, at 95.