# Agenda
# Finance and Audit Committee
# Conference Call and Webinar

May 3, 2013 | 10:00-11:00 a.m. Eastern

**DIAL-IN: 800-272-5460**

**Webex Registration Link**

**Broadcast Audio Code: 542367**

**Introductions and Chair's Remarks**

**NERC Antitrust Compliance Guidelines**

**Agenda**

1. First Draft NERC 2014 Business Plan and Budget — **Review**

**Michael Walker**
Senior Vice President, Chief Financial
and Administrative Officer

May 2, 2013

**RE:     Firt Draft of NERC's 2014 Business Plan and Budget — Posted for Review and Request for Comments and Input**

The first draft of NERC's 2014 business plan and budget is now available on the company website and will be  discussed during a webinar presentation on May 3, 2013 commencng at 10:00 a.m. ET, as well as during the Member Representatives Committee (MRC) meeting on May 8, 2013.

The approach to the first draft and presentations is a little different than the last two years. The draft and presentations focus on major activites in support of the ERO Strategic Plan (Strategic Plan), key initiatives and financial information and request for stakeholder input prior to finalizing the proposed budget and detailed department-by-department sections and comparative financial information. Similar to the past few years,  the 2014 first draft and presentation includes information regarding updates to the Strategic Plan. The updated version of the Strategic Plan has been posted as part of the the [May 9, 2013 Board of Trustees meeting materials](). The proposed revisions to the Strategic Plan were in response to comments received from stakeholders, which are also posted on NERC's website.

Much like the introduction and executive summary contained in the 2013 business plan and budget, the first draft of the 2014 business plan and budget presents detailed financial information regarding cost of ongoing operations compared to NERC's 2013 approved budget. The first draft also summarizes major activities in connection with each of the goal areas set forth in the Strategic Plan and includes a discussion of the application of the recently approved Section 215 guidelines to those activities. The draft then presents information regarding cost of ongoing operations and projected incremental contractor and consulting costs to compy with regulatory directives followed by a discussion of the incremental resources needed to support three key strategic initiatives designed to advance the goals and objectives set forth in the Strategic Plan: (1) the standards reform initiative, (2) the reliability assurance intiative, and (3) the development and support of ERO enterprise software applications and infrastructure. The draft recognizes that policy input has been requested regarding the potential funding of ESCC support, the ES-ISAC and the System Operator Certification and Continuing Educations Programs outside of Section 215. Information regarding the current cost of operation of the ES-ISAC, together with projected incremental resource requirements, is also included. As mentioned above, stakeholder input is being sought regarding all of these items prior to finalization and presentation of a more detailed second draft of the 2014 business plan and budget, which will be posted for public comment on or about June 10, 2013.

Management is projecting  2014 revenue requirements of approximately $54.8M to support current statutory operations, which represents an increase of approximately one (1%) percent over 2013

operating costs. Taking into account projected timing of new hires and factoring in attrition, a net increase of .36 FTEs over total 2013 budgeted FTEs is projected to support ongoing operations.

Management has estimated the need for $850k in additional outside contractor and consulting support in connection with compliance with regulatory mandates, $200k to support the standards process reform intiative, $800k to support the reliability assurance intiative and $2.18M to support the development of enterprise software applications and infrastructure. More detail concerning the cost and benefit of each of these items is included in the first draft of the 2014 business plan and budget and will be reviewed during the May 3webinar presention and May 8 MRC presentation.

In accordance with the requirements of the FERC audit of NERC and accompanying Commission order, a separate posting and request for comments will be made in the near future regarding (1) the impact, if any, on NERC's compliance-related activities from "walling off" certain staff from ES-ISAC activities and (2) access of FERC staff to ES-ISAC information for situational awareness and compliance purposes.

The NERC Finance and Audit Committee (FAC) will conduct a closed meeting with management to provide input prior to the posting of the second draft of the 2014 business plan and budget. The FAC will  convene an open meeting and conference call on May 20, 2013 to review the Regional Entities' draft 2014 business plans and budgets and convene an open meeting and conference call on July 19, 2013 to review the second draft of NERC's 2014 business plan and budget and the final draft of the Regional Entities' 2014 business plans and budgets. The FAC will meet in open session on August 14, 2013 to review and recommend the final NERC and Regional Entities' 2014 business plans and budgets and 2014 assessments for approval by the Board of Trustees on August 15, 2013.

As is always the case, we look forward to your feedback in this important step in the development of NERC's 2014 business plan and budget. Written comments on the first draft are requested by May 30, 2013 and should be directed to my attention at Michael.walker@nerc.net.
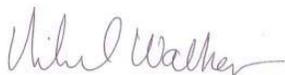
# NERC
## NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

# Draft
# 2014 Business Plan and Budget

May 3, 2013

**RELIABILITY | ACCOUNTABILITY**

# About NERC

## Overview

The North American Electric Reliability Corporation (NERC) is a not-for-profit entity organized under the New Jersey Nonprofit Corporation Act.  NERC's mission is to improve and ensure the reliability of the bulk power system in North America.  NERC's area of responsibility spans the continental United States and Canada and the northern portion of Baja California, Mexico. Entities under NERC's jurisdiction are the users, owners, and operators of the bulk power system – a system that serves the needs of over 334 million people, includes installed electricity production capacity of approximately 1,200 gigawatts, operates 211,000 miles of high voltage transmission, and is comprised of assets worth more than one trillion dollars.

The Federal Energy Regulatory Commission (FERC or Commission) certified NERC as the Electric Reliability Organization (ERO) within the United States to establish and enforce reliability standards for the United States portion of the bulk power system, pursuant to section 215 of the Federal Power Act. NERC is subject to regulatory oversight by FERC.

In Canada, NERC presently has memoranda of understanding with provincial authorities in Ontario, New Brunswick, Nova Scotia, Québec, Saskatchewan, and Alberta, and with the National Energy Board of Canada.  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 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.  NERC standards are now mandatory in British Columbia and Nova Scotia**.

## Membership and Governance

An eleven-member Board of Trustees (Board) governs NERC (ten independent directors plus the CEO serving as the management trustee).  The Board has formed several committees to facilitate its oversight of the organization in the areas of finance and audit, governance and human resources, compliance, standards oversight and technology, and nominations.  A risk management and internal controls subcommittee of the Finance and Audit Committee supports corporate risk management and internal audit functions.

Membership in NERC is open to any person or entity that has an interest in the reliability of the North American bulk power system.  Membership in NERC is voluntary and affords participants the opportunity to engage in the governance of the organization through election to the Member Representatives Committee (MRC).  The number of entities and individuals who are members is nearly 600.

The MRC comprises 28 voting representatives elected from the 12 membership sectors. The MRC elects the independent trustees, and along with the Board votes on amendments to the Bylaws, and provides policy advice and recommendations to the Board on behalf of stakeholders with respect to annual budgets, business plans, and other matters pertinent to the purpose and operation of the organization.

## Scope of Responsibilities

As the ERO, NERC's primary responsibilities are leading the development, adoption, and improvement of mandatory reliability standards for the bulk power system in North America; leading the monitoring, evaluating, and enforcement of compliance with those reliability standards by the approximately 1,900 entities registered with NERC as bulk power system users, owners, and operators; and monitoring and assessing the reliability and adequacy of the bulk power system in North America. Collectively, the entities registered with NERC as bulk power system users, owners, and operators perform over 4,600 bulk power system reliability functions. NERC conducts near-term and long-term assessments of the reliability and future adequacy of the North American bulk power system; certifies bulk power system operators as having and maintaining the necessary knowledge and skills to perform their reliability responsibilities; maintains situational awareness of events and conditions that may threaten the reliability of the bulk power system; coordinates efforts to improve physical and cyber security for the bulk power system of North America; conducts detailed analyses and investigations of system disturbances and unusual events to determine root causes, uncover lessons learned, and issue relevant findings as advisories, recommendations, and essential actions to the industry; and based on lesson learned identifies the potential need for new or modified reliability standards, improved compliance, or other initiatives.

## Delegated Authorities

In executing a portion of its responsibilities, NERC delegates authority to Regional Entities to perform certain functions through delegation agreements. FERC has approved delegation agreements between NERC and the eight Regional Entities (Florida Reliability Coordinating Council, Midwest Reliability Organization, Northeast Power Coordinating Council, Inc., Reliability*First* Corporation, SERC Reliability Corporation, Southwest Power Pool Regional Entity, Texas Reliability Entity, Inc. and the Western Electricity Coordinating Council). These delegation agreements describe the authority delegated to the Regional Entities in the United States to propose and enforce reliability standards within their geographic footprints. NERC expects Regional Entities, whose territories extend into Canadian provinces and Mexico, to perform equivalent functions in those jurisdictions.

## Statutory and Regulatory Background

NERC's authority as the ERO in the U.S. is based on Section 215 of the Federal Power Act as added by the Energy Policy Act of 2005[1] and the Commission's regulations and orders issued pursuant to Section 215.  In Canada, NERC's authorities are established by the memoranda of understanding and regulations previously mentioned.

## Funding

Section 215 of the Federal Power Act and FERC regulations also specify procedures for NERC's funding in the United States.  NERC's annual business plan and budget is subject to FERC approval in the United States.  Once approved, assessments are allocated to load-serving entities on a net energy for load (NEL) basis.  Equivalent funding mechanisms are provided in Canada, subject to the specific laws and regulations of each province.

The funding requirements for each Regional Entity are addressed separately in each Regional Entity's business plan and budget, which must be reviewed and approved by NERC and FERC in the United States.  Assessments for the Regional Entity budgets are included in the overall NERC assessments to load-serving entities.

Further information regarding 2014 proposed NERC and Regional Entity assessments will be included in Draft 2 of NERC's 2014 business plan and budget, which will be made publicly available on or about June 10, 2013.

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[1]This was codified in section 215 of the Federal Power Act, 16 United StatesC. 824o.

# Introduction and Executive Summary

## Strategic Goals and Objectives

The 2014 business planning process commenced in the fourth quarter of 2012 with a collaborative review the ERO's goals and objectives involving NERC and Regional Entity senior executives. This was followed by a review of business planning assumptions, existing activities, and resources, in each case taking into consideration lessons learned, stakeholder feedback, statutory, and governmental requirements and directives. Efforts were made to identify the desired end state for each of the major goal areas over the next three-year planning period, significant gaps to achieving stated objectives, and activities which should be undertaken to close those gaps. NERC's Finance and Audit Committee and the Board also participated in strategic planning sessions to provide input in the development of the ERO's strategic goals, objectives, and business plan and budget.

The 2014-2016 planning initiative updated the ERO Enterprise Strategic Plan (Strategic Plan) and associated strategic goals and objectives in the areas of standards; compliance, registration and certification; risks to reliability; and coordination and collaboration. The draft ERO Enterprise Strategic Plan was presented at the February 2013 meeting of the Board and posted for a 30-day public comment period. Written comments were received from a number of individuals and entities and posted on the company website. Input was also sought from the trade associations and an informal input group of MRC members which was established by the MRC in August 2012 to help facilitate NERC's business planning and budgeting process. In response to these comments, management recommended certain modifications to the Strategic Plan. These modifications will be presented at the MRC meeting on May 8, 2013. The following is a listing of the specific goals and objectives set forth in the Strategic Plan.

**Standards**

Goal 1. Develop clear, reasonable and technically sound mandatory reliability standards in a timely and efficient manner. These standards establish threshold requirements for ensuring the bulk power system is planned, operated, and maintained in a manner that minimizes risks of cascading failures, avoids damage to major equipment, or limits interruptions of bulk power supply.

Objectives include:

a. Standards are timely, clear and responsive to reliability and security risks.

b. Standards are practical to implement and cost effective.

**Compliance, Registration and Certification**

Goal 2.  Be a strong enforcement authority that is independent, without conflict of interest, objective and fair.  The ERO retains and refines its ability to use enforcement when warranted and impose penalties and sanctions commensurate with risk.

Objectives include:

a.  The ERO registers entities commensurate with risk to the bulk power system and ensures all key reliability entities are certified to have essential capabilities.

b.  The ERO holds industry accountable for violations that create serious risk to the bulk power system; resulting actions are timely and transparent to industry.

c.  The ERO monitors registered entities and standards requirements commensurate with the risk and role of each type of registered entity.

Goal 3.  Promote a culture of compliance which is driven by a culture of reliability excellence addressing reliability risks across the industry.  The ERO works with industry to identify standards, procedures, practices and controls to address reliability risks.

Objectives include:

a.  Industry has effective procedures and programs to monitor, detect, correct, report, and prevent compliance, reliability, and security issues.

b.  The ERO uses efficient processes and proportional exercise of discretion to verify that compliance objectives are met by industry.

**Risks to Reliability**

Goal 4.  Identify the most significant risks to reliability. The ERO identifies and prioritizes reliability risks, facilitates effective solutions and interventions, and monitors results.

Objectives include:

a.  Risks are identified and prioritized based on reliability impacts, cost/practicality assessments, projected resources, and emerging issues.

b.  Events and system performance are consistently analyzed for sequence, cause, and remediation to identify reliability risks and trends, and to inform standards, compliance, and other programs.  Industry is well informed of system events, emerging trends, risk analysis, lessons learned and expected actions.

Goal 5.  Be accountable for mitigating reliability risks. The ERO works with industry stakeholders and experts to ensure the mitigation of known risks to reliability.

Objectives include:

a. The ERO is tracking industry accountability for critical reliability and security recommendations.

b. Industry is aware of and is effectively addressing security vulnerabilities and threats. Industry security posture is being evaluated and continuously improved. During crisis situations, the ERO facilitates sharing of information among industry, Regions, and government.

Goal 6. Promote a culture of reliability excellence. The ERO facilitates a learning environment throughout the industry through event causal analysis, communication of lessons learned, tracking of recommendations, and implementation of best practices.

Objectives include:

a. ERO is a leading resource to industry and policy makers for reliability information.

b. Reliability models and data accurately represent system behavior and are shared among reliability entities.

**Coordination and Collaboration**

Goal 7. Improve transparency, consistency, quality and timeliness of results; operate as a collaborative enterprise; and improve efficiencies and cost effectiveness. The ERO accomplishes this through working with the Regional Entities and registered entities to ensure effective coordination, collaboration and process improvements. The ERO communicates expectations clearly and fosters collaboration to deliver important results in advancing system reliability. The ERO engages the support and expertise of stakeholders, is an efficient steward of resources, and leverages information systems to create efficiencies and process controls.

Objectives include:

a. The ERO acquires, engages, and retains highly qualified talent suited to the mission.

b. The ERO internal risks are understood and managed; ERO processes are effective, efficient, and continuously improved.

# Major Ongoing Activities

The following is a list of the major ongoing and new activities by strategic goal area which will be undertaken in 2014 as part of ongoing operations, followed by a discussion of activities to address new regulatory mandates and key strategic initiatives together with associated resource requirements.

**Standards**

- Continue addressing regulatory obligations for standards development and revisions as specified in regulatory directives

- Complete standards revisions related to phase 2, Paragraph 81 requirements

- Support the three-year standards development plan

- Integrate the plan from the 2013 independent expert review team into the standards development plan

- Increase coordination with NERC's compliance and enforcement departments in integrating compliance considerations into standards development

- Accelerate delivery of the number of standards that meet quality criteria and results-based construct

- Develop a bulk power system reliability risk profile to evaluate existing standards and continue the prioritized development of risk-based standards focused on key reliability outcomes

- Facilitate industry transition to CIP v5 and minimize an unintended surge in violations

- Develop methods to assess and manage cost effectiveness (benefit) of new standards

- Continue to support alignment between standards development and the Reliability Issues Steering Committee (RISC) priorities

**Compliance, Registration and Certification**

- Continue registered entity mapping activities to ensure the registry gaps and duplicative registration and compliance monitoring are avoided

- Continue to work to ensure registered entities understand their compliance obligations and how compliance will be assessed

- Complete functional model review and registration needs assessment

  - Develop common and consistent registration approach among regions

  - Develop recommendations to modify registration and certification process based on bulk power system risk

- Complete Bulk Electric System (BES) Phase II exception process implementation

- Reduce unnecessary compliance documentation while working to ensure registered entities are monitored in a cost effective manner

- Continuously assess the actively monitored list based on reliability trends, risks, and historical information to ensure that the compliance focus remains on the most critical reliability standards

- Develop highly qualified and trained auditor, investigator and enforcement staffs

- Develop training resources for the ERO and industry, including materials related to the Reliability Assurance Initiative (RAI)

- Provide early and ongoing input into the standards development process

- Provide ongoing oversight of Regional Entity compliance and enforcement activities

- Continue to improve enforcement processing efficiency, including steps to ensure the sustainability and expandability of the Find, Fix, Track and Report process

- Finalize and implement the RAI enforcement strategy and deliver 2014 milestones

- Develop metrics and incentives to improve trends in mitigation aging curve

- Focus on achieving better consistency in regional enforcement outcomes

- Continue to identify the causes and trends of violations in enforcement cases

**Risk to Reliability**

- Issue reliability assessment reports, guidelines, recommendations and alerts as needed.

- Prepare long-term and seasonal reliability assessments

- Conduct special assessments addressing key reliability issues

- Prepare an annual state of reliability report that analyzes bulk power system performance trends and provides insight and guidance to address key reliability aspects

- Continue to work to address high-impact, low-frequency issues, including geomagnetic disturbance BES effects and vulnerability assessment

- Provide oversight, analysis and review of Generating, Transmission and Demand Response Availability Data Systems (GADS, TADS, and DADS), along with the Spare Equipment Database

- Strengthen data collection and validation processes by designing, creating, testing, and implementing data systems and management for reliability assessment and risk analysis

- Provide quarterly updates on trends and measures of BES reliability

- Develop risk registry and a systematic prioritization process with the RISC

- Develop control strategies and plans to address the highest priority existing or emerging risks to BES reliability

- Develop a risk register to support bulk power system risk profile measurement and assessment of standards

- Conduct major event investigations, analysis and reporting of major findings and recommendations that will improve reliability

- Support the development and implementation of ERO Enterprise applications critical to advancing the quality and usefulness of reliability assessments and event analysis data

- Develop structured approach to evaluate and improve system models, analysis and assessments

- Increase number of cyber security maturity model assessments and benchmark capabilities

- Deliver information on critical infrastructure protection security threats, vulnerabilities, and lessons learned from subject matter experts, senior industry and governmental representatives

- Through security best-practice discussion forums, educate industry about reliability concerns and risk mitigation associated with emerging physical and cyber security threats

- Increase information available through, and participation in, the Electricity Sector Information Sharing and Analysis Center (ES-ISAC)

- Continue to collaborate with government agencies in the United States and Canada to develop more timely dissemination of classified information regarding threats to the bulk power system, including dissemination of information from classified sources in a form that can be provided to and used by the industry

- Conduct security incident analysis and work with industry experts to evaluate, track, and identify lessons learned and security metrics that enhance the electricity sector's security posture

- Improve the usefulness and functionality of the NERC alert system

- Continue to work with the Regional Entities to obtain and review information from registered entities regarding qualifying events and disturbances in order to advance awareness of events above a threshold level, facilitate analysis of root causes, risks to reliability, wide areas assessments, mitigation, and timely dissemination of information regarding events

- Continue to support the System Operator Certification and continuing education programs, as well as provide or facilitate the provision of training to support knowledge and skills development in the standards, compliance, event analysis, registration and other key areas

**Coordination and Collaboration**

- Continue to provide resources to support to the Board and Board committees, the MRC, Standards Committee, Compliance and Certification Committee, Planning Committee, Operating Committee, Critical Infrastructure Protection Committee, Electricity Sub-Sector Coordinating Council (ESCC), Reliability Issues Steering Committee and numerous ERO subcommittees and working groups

- Continue to implement procedures, controls, processes, documentation and systems to improve the efficiency of operations and control costs

- Continue to work with Regional Entities to improve oversight and collaboration

- Continue to enhance to ERO risk management tools and procedures

- Develop a comprehensive technology roadmap for applications and infrastructure supporting ERO operations, including Regional Entity components

- Continue to work collaboratively with the Regional Entities to advance the design and implementation of strategic ERO Enterprise IT applications and supporting infrastructure

- Review and where applicable make recommendations for improvements in NERC and Regional Entity operating and working capital reserve policies and forecasting, including policies applicable to tracking and use of excess operating reserves

- Evaluate and implement mechanisms to improve talent acquisition and employee retention

## Application of Section 215 Criteria to Major Activities

In its Order approving NERC's 2013 business plan and budget, the Federal Energy Regulatory Commission (FERC) required NERC to establish criteria for determining whether its proposed activities are eligible for funding under Section 215.  By an Order dated April 19, 2013,  FERC approved NERC's proposed criteria, with certain modifications.[2]  Exhibit A summarizes the major activities which are proposed to be undertaken by NERC and the approved Section 215 criteria applicable to such activities.

As further described in Exhibit A, all of the major activities which NERC proposes to undertake in 2014 are within the Section 215 guidelines.  Notwithstanding the foregoing, as part of the business planning process, the Board has requested policy input regarding the potential for funding support for the ESCC and the operation of the ES-ISAC outside of Section 215.  Further background regarding the separation of funding support for ESCC and ES-ISAC operations is contained in the [May 9, 2013 board agenda materials](#).

In addition, management is also seeking stakeholder feedback regarding funding of the System Operator Certification and Continuing Education Program (SOCCED) activities outside of Section 215.  The SOCCED programs are designed to ensure that personnel operating the bulk power system have the skills, training, and qualifications needed to operate the system reliably.  NERC maintains the credentials required to work in system control centers across North America for over 6,000 system operators. The requirements of the SOCCED programs are encompassed in Sections 600 and 902 of the NERC Rules of Procedure, as well as in Article XII of the NERC Bylaws.  NERC's system operator certification exam is designed to test specific knowledge of job skills and reliability standards. It also prepares operators to comply with requirements of reliability standards and appropriately operate the BPS during normal and emergency operations.  Certification exams are created by the Personnel Certification Governance Committee (PCGC), an industry group of operations experts, trainers, and supervisors.  Under the PCGC oversight, the Examination Working Group periodically updates and publishes new

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[2] *North American Electric Reliability Corporation, Order on Compliance*, 143 FERC ¶ 61,052 (2013).

exams. Once an operator passes the certification exam, certification is maintained by completing NERC-approved continuing education courses and activities. The Personnel Subcommittee, composed of industry training experts, provides oversight of the Continuing Education program. While these activities qualify for Section 215 funding under the Section 215 guidelines, SOCCED costs have been entirely or substantially funded through testing and certification fees, and a separate operating reserve has been established for the SOCCED program under NERC's Working Capital and Operating Reserve Policy.

## 2014 Key Business Planning Assumptions

As part of their annual business planning initiatives NERC and the Regional Entities collaborate in the development of significant assumptions that should be considered in developing their respective business plans and budgets. For the 2014 business plans and budgets, these assumptions include, but are not limited to,

1. There will be continued industry participation to support key program areas including but not limited to the standards process improvement initiative and RAI;

2. External factors, including regulatory actions, may affect resource needs and allocation;

3. Critical infrastructure protection will continue to be a priority in the United States and Canada;

4. The compliance audits will transition to be more reflective of a registered entity's reliability risk profile; and

5. Significant investments will be required over the planning period to develop and implement program area and enterprise-wide applications to support common NERC and Regional Entity business needs and processes, including compliance, registration and tracking systems and other project, data management and analysis tools to provide greater cost efficiency and uniformity across the ERO Enterprise. Since these systems benefit overall ERO operations and efficiency, funding for these developments and maintenance of these applications will be provided by NERC. The Regional Entities will continue to be responsible for (i) providing internal subject matter experts to support the development of enterprise-wide applications, (iii) the development and maintenance of applications supporting their corporate and back office operations, and (iii) the development and cost of any individual applications supporting a Regional Entity's specific business needs which are not otherwise supported by a common ERO Enterprise application.

A more complete list of the common assumptions will be attached as Exhibit B.

## 2014 Revenue Requirements to Support Ongoing Operations

As one of the first steps in its business planning and budgeting process, NERC undertook a comprehensive review of existing resource allocation to ensure alignment with the ERO's strategic goals and objectives. Departmental staffing, consulting, and contractor costs were also thoroughly reviewed, as were travel and meeting expenses and other operating costs and cost control procedures. Management implemented a workforce management system to track

resource utilization by major activity across the company. Additional expense management policies, systems and practices are also being implemented.

Projected 2014 revenue requirements reflect the revenues necessary to support core operations essential for NERC to fulfill its statutory responsibilities, including, but not limited to, personnel, meeting, travel, office, information technology, and other costs to support the essential functioning and governance of the corporation and the major activities within each statutory program area. The projected cost of ongoing operations in 2014 also reflects (1) average salary increases below industry average, (2) a personnel attrition factor, (3) continuation of 2013 reductions in medical and retirement benefits, (4) market increases in health care costs, and (4) the elimination of funding of the Interchange Distribution Calculator and contractors and consultants to support the North American Synchrophasor Initiative.

NERC's 2014 cost of ongoing operations includes the cost of operation of the ES-ISAC and other Critical Infrastructure Department activities, including ESCC support, at 2013 budgeted levels. The cost associated with support provided to the ESCC by internal NERC resources outside of the CID department is not reflected as CID or ESCC departmental costs, but is instead included in the costs of the department to which the personnel who provide this support are assigned. Utilizing the recently implemented workforce management system the company has the ability to and does track time associated with providing ESCC support and will have the ability in 2014 to allocate costs to specific activities, such as ESCC support.

Forecasted 2014 personnel costs include 2013 budgeted full time employees (FTEs) plus the addition of four positions required to support ongoing operations. These positions include: (1) an engineer in the Reliability Assessment and Performance Analysis department to support risk management initiatives and associated technical analysis, (2) a shared administrative support position for the legal and enforcement departments (which are both based in the Washington, D.C. office and currently have limited administrative support), (3) a database analyst to assist in the management of the numerous databases necessary for ERO operations and (4) a webmaster to support the day-to-day maintenance of NERC's website and associated applications which are used extensively to support both internal and external knowledge management and communications. After taking into account projected timing of new hires and factoring in attrition, a net increase of .36 FTEs over 2013 budgeted FTE level is projected to support ongoing operations.

NERC is projecting approximately $54.8M in total operating expenses and capital expenditures to support ongoing operations, which is approximately one (1) percent over 2013. Total 2014 projected operating expenses and capital expenditures to support ongoing operations are approximately $232K more than the 2014 projection contained in NERC's 2013 Business Plan and Budget.

The following table provides a summary of the projected 2014 costs of ongoing operations, together with a comparison to 2013.

| 2013 Budget | | 2014 Budget Ongoing Operations |
|---|---|---|
| $ 31,298,405 | Total Personnel Expense | $ 34,301,192 |
| $ 4,098,310 | Total Meeting Expense | $ 3,907,500 |
| $ 8,816,254 | Contracts and Consultants | $ 6,399,240 |
| $ 8,251,187 | Operating Expenses | $ 8,465,150 |
| $ 50,000 | Non-Operating Expenses | $ 50,000 |
| $ 1,772,100 | Capital Expenditures | $ 1,701,800 |
| $ 54,286,256 | Total Budget | $ 54,824,882    1.0% |

Additional charts and tables regarding ongoing operations are included in Exhibit C. Additional detail regarding the contract and consulting costs to support ongoing operations is provided in Exhibit D, including a comparison of projected 2014 costs to 2013 budgeted amounts.

The second draft of NERC's 2014 business plan and budget will include projections of required working capital and operating reserves, consistent with the framework set forth in the corporation's approved Working Capital Policy and Operating Reserve Policy.

NERC management has also prepared a projection of additional revenues necessary to enable the company to comply with recent regulatory mandates, as well as to support key strategic initiatives. These items are discussed in more detail in the following sections. The projected contractor and consulting costs associated with these mandates and to support these initiatives are included in Exhibit D.

## Additional Resources to Comply with Recent Regulatory Mandates

Resource requirements for 2014are projected to be impacted in order to comply with recent regulatory requirements regarding vegetation clearances and vegetation management on public lands, as well as the potential impacts of geomagnetic disturbances (GMD). Each of these items is described further below, together with estimated 2014 funding requirements.

1. Vegetation Research

    In the recent FERC Order approving the FAC-003 reliability standard for vegetation management, the Commission approval included an obligation to validate the technical foundation supporting the inclusion within the Gallet Equation of factors for the Minimum Vegetation Clearance Distance (MVCD). Significant industry support for the application of the Gallet Equation was a key factor in achieving approval for this

standard.  This incremental funding of $500,000 is required to conduct the necessary research that provides the technical foundation supporting the use of the MVCD in the application of the vegetation management standard.  This research is supported by a draft Statement of Work prepared by Electric Power Research Institute (EPRI) involving approximately a 9-15 month period of effort and associated activity, ultimately leading to a final report, preliminarily targeted for release in 2015.

The research plan is intended to provide empirical technical support for the application of the Gallet equation and the associated factors related to the MVCD.  These empirical tests will involve actual flash-over distances between conductors and trees/vegetation grown specifically for this purpose at the EPRI test facility in Lenox, Massachusetts.  The research will evaluate such flash distances in a carefully calibrated environment and thereby validate through such data the actual application of the MVCD factors in the currently approved FAC-003 standard.

The proposed schedule involves validating the research plan by the end of the third quarter 2013, beginning the initial work in the fourth quarter, with the bulk of the research effort contained in 2014.  The final report is planned for the first half of 2015, and periodic status reports will be provided to interested stakeholders and regulatory authorities.

2.  Vegetation Management on Public Lands

In the recent FERC Order approving the FAC-003 reliability standard for vegetation management, the Commission directed NERC to ascertain the issues surrounding access for vegetation and related maintenance for transmission assets crossing public lands. FERC is concerned that issues arising from federal and state governed lands (e.g. – Bureau of Land Management areas, National/State forests, etc.) restrict access to transmission assets crossing such lands and may potentially lead to a reliability risk for outages and/or delayed restoration.   Additional funding of $100,000 is required to develop a plan to gather technically valid information that would identify the nature and extent of such issues on public lands.  The research plan as currently envisioned would work through existing industry groups to formulate and validate the information into a report submitted to FERC advising of the range of issues encountered, and as warranted the potential means to address such issues.

3. Reliability Effects of GMD

The continuing efforts of the high-impact, low-frequency [HILF] work to expand the technical foundation for understanding the potential impact of GMD will involve continuation of the GMD Task Force work and research through EPRI in 2014. The current 2013 funding level of $250,000 is expected to be required in 2014, targeting overall completion by year end. The current work centers around providing a suite of technically valid tools and operational measures and transformer modeling, along with coordinating work efforts at the National Oceanic and Atmospheric Administration and space weather entities to understand the potential ranges of geomagnetically induced currents from coronal mass ejections on the sun. The results will permit individual entities to conduct associated vulnerability assessments. Once the EPRI and industry efforts are completed, the Task Force can then finalize the tool development and associated baseline information. The objective for 2014 is to complete associated research efforts and conduct an overall assessment of the vulnerability assembled in a report that provides an indication of the how these factors potentially affect reliability of the bulk power system in North America.

## Additional Resources to Support the Standards Reform Initiative

Although some of the initial standards deployed in 2007 have been modified in response to regulatory directives and stakeholder requests for modifications, in many cases these standards have not been comprehensively revised to achieve the clarity and results-based focus envisioned by NERC and industry. Additionally, clear and consistent compliance assessment remains a concern of industry stakeholders, and generates pressure on NERC's and industry's standards development resources through multiple requests for interpretation and delays in reaching consensus on standards. In 2012, NERC's standards department began addressing these challenges and will continue to support this effort in 2014 through three major initiatives: 1) standards reform, 2) transformation of standards to steady-state and 3) risk-informed standards development.

Standards reform encompasses the continued review and streamlining of NERC's Reliability Standards development process to address the needs and reduce the burden on industry during their development. Activities include improved consensus building tools both through informal development prior to entering the formal process outlined in NERC's *Standard Processes Manual* (formal development process),[3] along with deploying additional consensus building activities prior to balloting in the formal development process. Further, standards reform includes equipping the standards drafting teams with the right expertise (project management, legal, compliance, and subject matter experts) to better facilitate the formal development process.[4]

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[3] http://www.nerc.com/files/Appendix_3A_StandardsProcessesManual_20120131.pdf
[4] This initiative includes many of the recommendations of the Member Representatives Committee's Standards Process Improvement Group outlined in their June 2012 report. http://www.nerc.com/docs/mrc/Standard_Process_Input_Group-May_9_2012_FINAL.pdf

The strategic changes in standards reform strive to resolve standards development challenges, while, at the same time, supporting the transformation of standards to a steady-state initiative. Clear, concise, cost-effective and impactful result-based standards[5] are needed to ensure compliance, as well as to create increased industry certainty on compliance assessment and understanding of the risks to reliability the standards address. Therefore, in 2013 a standards independent expert review panel was assembled to evaluate the existing families of Reliability Standards and requirements to create a basis for a roadmap towards the desired end state. The panel's analysis included identification of requirements that should not be included in the NERC body of reliability standards, along with a determination of each requirement's overall quality, content and risk to the reliability of the bulk power system. The 2014-2016 Reliability Standards Development Plan (to be developed in 2013) will address the ongoing transformation of the existing body of standards to the desired end state, initiated in the 2013-2015 plan.[6] Continued funding ($200,000) for the standards independent expert review panel is necessary to provide an independent measurement of the progress being made towards the desired end state as identified in the plan.

Finally, the goal of the risk-informed standards initiative, to be started in 2014, is to provide a basis for the high-level strategic view of the risks to reliability addressed by the existing standards, and identify any gaps. With this risk information, NERC and industry can identify reliability issues and determine the best way to address their resolution, including existing tools such as webinar, guidelines, whitepapers and, if desired, standards. Initially, working with NERC's Reliability Assessments and Performance Analysis, Reliability Risk Management, and Compliance Operations departments, and with the Reliability Issues Steering Committee,[7] a reliability risk profile for the North American bulk power system will be developed. Tools to address these risks with the existing Reliability Standards, along with other industry actions will be investigated. Understanding the current state of risk, and how the existing body of standards address them, provides the basis and information needed to determine any new development of standards, or deployment of alternative industry tools. As work progresses in future years, the risk profile can be further enhanced through the strategic acquisition of additional information that enables measurement of and acting on risks to the bulk power system.

## Additional Resources to Support Compliance and Enforcement Reform (Reliability Assurance) Initiatives

 The RAI program is a multi-year compliance and enforcement improvement effort which includes process changes, new tool development, training and a variety of related efforts under the Strategic Plan specifically aimed at advancing a culture of reliability through improved compliance monitoring and enforcement mechanisms, as well as improving consistency and efficiency in NERC and Regional Entity compliance enforcement processes. This initiative will also eliminate known problems with the current "zero tolerance" compliance and enforcement

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[5] http://www.nerc.com/page.php?cid=2|247|402
[6] http://www.nerc.com/files/2013-2015_RSDP_BOT_Approved_12-19-12.pdf
[7] http://www.nerc.com/filez/riscmin.html

processes that place unnecessary administrative burdens on registered entities and result in inefficient resource requirements and utilization at both NERC and the Regional Entities.

A number of RAI activities that were initiated in 2013 will continue into 2014.  The major projects expected to continue into 2014 include:

- Develop the second wave of prototype audit processes based on the learning from the 2013 pilots completed.  This work will be a combination of analyzing the results from the 2013 pilots, refining the audit scoping and risk assessments approaches and designing a second wave of pilots to test these updated procedures

- Integrate recommendations for improving the self-reporting process based on the results of the assessment work done in 2013.  This work is expected to also feed into the continued developments to implement the long term enforcement strategy

- Continue consolidation of compliance communication tools, including transitioning active compliance application notices into reliability standards audit worksheet documentation

- Continue auditor training activities to support the RAI so that these processes and procedures are implemented consistently across the ERO Enterprise footprint

- Implement any remaining Find, Fix, Track, and Record (FFT) enhancements, described in the March 2013 filing

- Continue stakeholder outreach programs

In addition, several new initiatives are planned for 2014 including:

- Deploy process improvements, where possible, based on the results of pilot programs

- As part of the overall long term enforcement strategy approach, design and develop the process to implement Find, Fix, and Record, which will allow registered entities to record certain violations below a certain threshold without going through formal compliance and enforcement tracks

- Perform an assessment of the information system tools needed to support the compliance activities throughout the ERO Enterprise.  This includes an assessment of existing compliance, registration and tracking systems and other tools used by NERC and the Regional Entities to support the compliance function.

These activities are necessary to implement the reforms to compliance and enforcement programs contemplated by the ERO Enterprise Strategic Plan.  A significant amount of the resources to support the RAI initiatives will be provided by NERC and the Regional Entities. Similarly, NERC will seek to leverage volunteers from industry, where available and appropriate. For instance, NERC will run its prototype and pilot programs to test certain aspects of RAI in the context of operations of volunteer registered entities.  Notwithstanding the use of existing resources, incremental consulting resources will be required to assist in developing requirements for auditor tools and documentation, as well as in redesigning business processes

in conformance with leading auditing standards and practices.  This mix of resource will allow NERC and the Regional Entities to move RAI forward in a timely and cost effective manner while ensuring that their personnel are equipped with the skills and tools to execute the new processes and procedures in future years. A total of $800k in additional consulting support is projected, including support for standardizing ERO-wide audit processes and developing and implementing tools to support RAI process improvements.

## Additional Resources to Support Enterprise Software Applications and Infrastructure

Utilizing resources included to support ongoing operations in 2014, NERC initiated a multi-year effort to replace several legacy applications, some initially coded over a decade ago and lacking many common features of modern, efficient software.  Currently, there are over eight registration applications that provide Regional Entities, registered entities, governmental agencies, and  general public access to NERC applications and data based upon registration, vetting and, if appropriate, approval to access data and applications.  In addition, there are numerous other tools associated with the legacy registration applications that provide connectivity, security parameters and other pieces of information that are then fed to several applications and databases.  Each application and database is heavily used by NERC staff, Regional Entity staff and registered entities to perform various ERO-related business functions. These legacy applications are cumbersome, difficult to administer, require multiple registrations by registered entities and lack many of the self-service features which are common in modern applications, causing up to one hundred monthly NERC IT support tickets for assistance with resetting passwords, unknown or forgotten usernames and a myriad of other technology support issues minimized by contemporary technology.

In addition to funding the replacement of several legacy applications, NERC's 2014 ongoing operations budget also includes resources to help ensure recoverability of the NERC technology footprint, enhancing knowledge management through the implementation of document and information management systems and a continuing emphasis on security.  NERC's IT department has made tremendous progress toward ensuring the recoverability of communications and notification of staff, Regional Entities and stakeholders utilizing various NERC applications.  The 2014 budget for ongoing operations is tailored to continue disaster recovery efforts along with funding to ensure those business critical tools such as the standards balloting system, compliance reporting and tracking system, reliability coordinator information system, accounting and finance applications and other core applications are operational in the event of a sustained outage.

The 2014 ongoing operations budget also contains funding to support ongoing improvements that began in 2012 to the company's website, including improving navigation, readability, search ability, analytics and document management.   In 2013, NERC completed an effort designed to move its website to newer technology that will facilitate customization of individual program area pages, seamlessly uploading approved content and improving search capability over the previous technology.  During 2014, NERC will continue the theme of enhancement and

improvement by leveraging outside consulting services to review the navigation of the website in order make the site more efficient for Regional Entities, registered entities and the general public who routinely use the website.  Significant efforts will also be placed on document management in order to streamline, organize and align massive amounts of documentation into a cohesive structure for ease of use, simplification of management and ongoing access.

During 2013, considerable emphasis has been placed on the development of enterprise applications designed to align and consolidate those applications deemed to have similar business process and functions across NERC and the Regional Entities.  Two business processes, the bulk electric system exceptions  process and event information data analysis, were chosen by NERC and the Regional Entity Management Group as having enough similarities of business process and function to be deemed ERO Enterprise in nature.  Therefore, a concerted effort was undertaken by NERC and the Regional Entities to gather business and functional requirements to build enterprise-wide applications supporting these processes that would culminate in an application package that would become operational in a dedicated data center facility.  These applications will be used by both NERC and the Regional Entities to perform required business functions, thereby reducing multiple disparate applications and databases into single, agreed upon business applications.

The 2014 IT budget includes proposed incremental funding to support continuing efforts to consolidate and manage ERO Enterprise applications into a reliable, centrally managed dedicated hosting facility.  Leveraging unique vendor capabilities to provide infrastructure services, security, back-up and recovery that would otherwise require NERC and the Regional Entities to run, secure and manage separate instances of the applications and databases, along with requirements to create connectivity between the multiple systems. Each enterprise application will be designed to offload the burden of multiple registrations by registered entities, reduce manual efforts by NERC and Regional Entity staff to process manually volumes of data and significantly increase business intelligence and analytical capabilities.

A clear example of such an improvement is  the design and implementation of an enterprise application to replace the reliability assessment database, which currently requires hundreds of person hours both on the NERC and Regional Entity staff to process millions of data elements to populate up to 27 individual spreadsheets that are manually processed to culminate into the summer and winter seasonal assessments.  Incremental funding would create an enterprise application allowing regional staffs to input data into forms that would automatically populate a central database for almost immediate creation of the data required for seasonal assessments, thereby significantly reducing person hours, potential for error and labor intensive effort to create the reports.

This multi-year application effort will also focus on a new centralized compliance application to replace the existing multiple applications used by NERC and the Regional Entities.  A centralized compliance application will provide multiple tangible benefits to include a secure, logically or physically segregated central database for management and reporting, and would also reduce the number of system touch points required in today's environment to synchronize and

manage the integrity of multiple databases. A new compliance application will create efficiencies and continue to foster process improvements through use of the same tool by multiple compliance and enforcement staffs.

Each enterprise application will be designed through a collaborative approach with the Regional Entities and in such a manner as to facilitate business intelligence and analytic capability with the appropriate level of security. In addition to providing a more cohesive view of data across applications and databases by NERC and the Regional Entity staffs, the environment will incorporate design features that would allow the RE's, along with the general public, access to reporting and analytics, designed to facilitate dashboards and reporting either with anonymous access, or to enhanced feature functionality, upon proper vetting and approval.

The enterprise applications will be hosted and centrally managed from a dedicated state-of-the-art data center facility. The to-be-determined facility would incorporate all elements of infrastructure support to include system administration functions, tier 1-3 help desk, security, monitoring and back-up and recovery capability. A central hosted facility will achieve a single point of accountability, reduce security exposure by leveraging best in class security practices and technology, and standardize tools and technologies used among NERC and the Regional Entities.

The ERO Enterprise application and infrastructure plan and budget are being developed as a multi-year strategic initiative. Preliminary projections of estimated costs over the 2014-2016 planning period are set forth in the following table. These projections will be further updated and refined in draft 2 of NERC's business plan and budget.

### ERO Enterprise Application and Infrastructure —Estimated Costs

|  | 2014 | 2015 | 2016 | 3-Year Estimate |
|---|---|---|---|---|
| Reliability Assessment Applications | $700K | $120K | $120K | $940K |
| Compliance Applications | $150K | $1.5M | $500K | $2.15M |
| Events/Risk/Business Analytics Applications | $500k | $1.1M | $400k | $2M |
| Data center | $420K | $480K | $540k | $1.4M |
| Contractor Support | $510K | $600K | $600K | $1.71M |
| Subtotal | $2.18M | $3.8M | $2.16M | $8.2M |

## ES-ISAC Incremental Funding Needs

As previously described under the section entitled 2014 Revenue Requirements to Support Ongoing Operations, NERC's 2014 cost of ongoing operations includes the costs to staff to operate the ES-ISAC at 2013 resource levels of personnel, outside contractor and consulting support, and software licensing costs. NERC management has developed a preliminary projection of incremental 2014 ES-ISAC contractor/consulting support needs of $550k to facilitate increased information sharing, intelligence gathering and reporting, cyber risk preparedness assessments, and cyber threat modeling and analytics. In addition, it is estimated that additional personnel resources of up to five (5) FTEs will also be required to fully staff ES-ISAC operations. NERC's 2014 cost of ongoing operations also includes external contractor, CID and other departmental personnel costs and associated overhead to support the ESCC as currently organized and operated.  Utilizing the recently implemented workforce management system, the company has the ability to and does track time associated with providing ESCC support and will have the ability in 2014 to allocate direct and indirect costs to specific activities, including ESSC support.

## Projections for 2015-2016

Projections for 2015 and 2016 will be included in the second draft of NERC's 2014 business plan and budget, which will be made publicly available on or about June 10, 2013.

**Exhibit A**

**Application of Section 215 Guidelines**

**DISCUSSION OF HOW THE NERC MAJOR ACTIVITIES
IN THE 2014 BUSINESS PLAN AND BUDGET
MEET THE NERC WRITTEN CRITERIA FOR DETERMINING WHETHER A
RELIABILITY ACTIVITY IS ELIGIBLE TO BE FUNDED UNDER
FEDERAL POWER ACT SECTION 215**

**I.      Introduction**

        This Exhibit discusses how the major activities in NERC's 2014 Business Plan and Budget meet the NERC written criteria for determining whether a reliability activity is eligible to be funded under §215 of the Federal Power Act ("FPA §215). This Exhibit is intended to satisfy Recommendation No. 38 resulting from the financial performance of NERC conducted by the Commission's Division of Audits ("DA") in 2012-2013 and adopted by the Commission in its November 2, 2012 order on NERC's 2013 Business Plan and Budget.[1] NERC submitted the written criteria to the Commission in a compliance filing dated February 21, 2013 in Docket No. FA11-21-000.[2] The Commission approved the NERC written criteria, with modifications, in an order issued in that docket on April 18, 2013.[3] The NERC written criteria as used in this Exhibit incorporate the modifications specified in the Compliance Order.[4]

        For purpose of this posted Draft #1 of NERC's 2014 Business Plan and Budget, this Exhibit maps NERC's 2014 major activities and initiatives to the applicable criteria in the NERC written criteria. Subsequent drafts of NERC's 2014 Business Plan and Budget, and the final proposed Business Plan and Budget that will be filed with the Commission on or about August 23, 2013, will be updated to reflect any changes to the major activities which are incorporated NERC's final 2014 Business Plan and Budget and how those activities satisfy the NERC written criteria and are therefore eligible for statutory funding under the FPA §215 funding mechanism.

**II.     Reliability Standards 2014 Major Activities**

        The ongoing and new major activities of the Reliability Standards Program for 2014

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[1] *North American Electric Reliability Corporation, Order Accepting 2013 Business Plan and Budget of the North American Electric Reliability Corporation and Ordering Compliance Filing*, 141 FERC ¶ 61,086 (2012) ("2013 Budget Order"). Recommendation 38, as adopted in the 2013 Budget Order, is: "In its annual business plan and budget filings, [NERC should] provide an explanation as to why the proposed activities to be undertaken by each program area for the budget year are statutory, including, at a minimum: a description and the purpose of the major activities to be taken by each program area and an explanation for why the activity is a statutory activity." *Id*. at P 16.

[2] *Compliance Filing of the North American Electric Reliability Corporation in response to paragraph 30 of November 2, 2012 Commission Order – NERC Written Criteria for Determining Whether a Reliability Activity is Eligible to be Funded Under Federal Power Act Section 215*, filed February 1, 2013 in Docket No. FA 11-21-000 ("February 1, 2013 Compliance Filing".

[3] *North American Electric Reliability Corporation, Order on Compliance*, 143 FERC ¶ 61,052 (2013) ("Compliance Order").

[4] For ease of reference, the complete NERC written criteria, as modified in accordance with the Compliance Order, are provided at the end of this Exhibit.

include: continuing to address regulatory obligations for standards development and revisions as specified in regulatory directives; completing standards revisions related to the Phase 2, Paragraph 81 requirements; supporting the NERC three-year Reliability Standards Development Plan; integrating the plan from the 2013 Standards Independent Expert Review Panel into the Reliability Standards Development Plan; increasing coordination with the NERC compliance monitoring and enforcement program in integrating compliance considerations into standards development; accelerating delivery of the number of standards that meet the quality criteria and results-based construct; developing a Bulk Power System ("BPS") reliability risk profile to evaluate existing standards and continuing the prioritized development of risk based standards focused on key reliability outcomes; facilitating the transition to Version 5 of the Critical Infrastructure Protection ("CIP") standards, including minimizing an unintended surge in violations when the Version 5 CIP standards go into effect; developing methods to assess and manage the cost effectiveness (benefit) of new standards; continuing to support alignment between standards development and the Reliability Issues Steering Committee ("RISC") priorities; conducting/supporting research to validate the technical foundation supporting the inclusion within the Gallett Equation in Reliability Standard FAC-003 of factors for the Minimum Vegetation Clearance Distance; and conducting/supporting research relating to vegetation management on public lands (FAC-003).

Major activities for 2014 specifically relating to the Standards Reform Initiative include activities for three major initiatives: standards reform, transformation of standards to steady-state, and risk-informed standards development. Standards reform activities will encompass the continued review and streamlining of NERC's Reliability Standards development process to address the needs of and reduce the burden on industry during the development of standards, including equipping standard drafting teams with the right expertise (project management, legal, compliance and subject matter experts) to better facilitate the formal development process. Transformation of standards to steady-state involves development of clear, concise, cost-effective and impactful result-based standards and continuing the work and implementing the recommendations of the Standards Independent Expert Review Panel. The risk-informed standards initiative, to be started in 2014, will provide a basis for the high-level strategic view of risks to reliability addressed by the existing standards and identify any gaps. A reliability risk profile for the North American BPS will be developed, and tools to address these risks with the existing standards will be investigated, which will in turn provide the basis and information needed to determine any new development of standards or deployment of additional tools.

These major activities satisfy the following criteria:

I.A:    Is the activity necessary or appropriate for Reliability Standards development projects pursuant to the NERC Rules of Procedure (ROP)?

I.C:    Is the activity necessary or appropriate for information gathering, collection and analysis activities to obtain information for Reliability Standards development, including for purposes of identifying areas in which new Reliability Standards could be developed, existing Reliability Standards could be revised, or existing Reliability Standards could be eliminated?

II.F.1:  Is the activity necessary or appropriate for the provision of training, education and dissemination of information for/to (i) NERC personnel, (ii) Regional Entity personnel, and (ii) industry personnel with respect to compliance monitoring and enforcement topics and topics concerning reliability risks identified through compliance monitoring and enforcement activities, such as (1) Requirements of Reliability Standards, including how to comply and how to demonstrate compliance?  This includes development of guidance and interpretation documents.

IV:  Is the activity one that was required or directed by a Commission order issued pursuant to §215?  (FERC Order No. 777, 142 FERC ¶ 61,208 (2013), directing NERC to conduct research regarding the vegetation management topics described above.)

V:  Is the activity one that is required or specified by, or carries out, the provisions of NERC's Rules of Procedure that have been approved by the Commission as "Electric Reliability Organization Rules" (defined in 18 C.F.R. §39.1) pursuant to FPA §215(f)?  (The applicable Rules of Procedure provisions for these major activities are §300 and Appendix 3A.)

## III.  Compliance, Registration and Certification 2014 Major Activities

The ongoing and new major activities of the Compliance Monitoring and Enforcement and Organization Registration and Certification Program for 2014 include:  continuing Registered Entity mapping activities to ensure the registry gaps and duplicative registration and compliance monitoring are avoided; continuing to work to ensure Registered Entities understand their compliance obligations and how compliance will be assessed; completing the functional model review and registration needs assessment, including developing a common and consistent registration approach among Regional Entities and developing recommendations to modify registration and certification processes based on risks to the BPS; completing implementation of the Bulk Electric System ("BES") definition Phase II exception process; reducing unnecessary compliance documentation while working to ensure Registered Entities are monitored in a cost effective manner; continuously assessing the Actively Monitored List based on reliability trends, risks and historical information to ensure that the compliance focus remains on the most critical Reliability Standards; developing highly qualified and trained auditor, investigator and enforcement staffs; developing training resources for the Electric Reliability Organization ("ERO") and industry, including materials relating to the Reliability Assurance Initiative ("RAI"); providing early and ongoing input into the standards development process; providing ongoing oversight of Regional Entity compliance and enforcement activities; continuing to improve enforcement processing efficiency, including steps to ensure the sustainability and expandability of the Find, Fix, Track and Report ("FFT") process; finalizing and implementing the RAI enforcement strategy and delivering the 2014 milestones; developing metrics and incentives to improve trends in the mitigation aging curve; focusing on achieving better consistency in Regional Entity enforcement outcomes, and continuing to identify the causes and trends of violations in enforcement cases.

Major activities for 2014 specifically relating to the RAI include: developing a second wave of prototype audit processes based on the learning from the completed 2013 pilots (this

activity will be a combination of analyzing the results from the 2013 pilots, refining the audit scoping and risk assessment approaches, and designing a second wave of pilots to test these updated procedures); continuing consolidation of compliance communication tools, including transitioning active Compliance Application Notices into Reliability Standard Audit Worksheets documentation; continuing auditor training activities to support the RAI so that these processes and procedures are implemented consistently across the ERO Enterprise footprint; implementing any remaining FFT enhancements, described in the March 2013 filing with FERC;[5] continuing stakeholder outreach programs; deploying process improvements, where possible, based on the results of pilot programs; as part of the overall long term enforcement strategy, designing and developing the process to implement Find, Fix and Record, which will allow Registered Entities to record certain violations below a certain threshold without going through formal compliance and enforcement tracks; and performing an assessment of the information system tools needed to support the compliance activities throughout the ERO Enterprise, including an assessment of existing compliance, registration and tracking systems and other tools used by NERC and the Regional Entities to support the compliance function.

These major activities satisfy the following criteria:

I.A:    Is the activity necessary or appropriate for Reliability Standards development projects pursuant to the NERC Rules of Procedure?

II.A:    Is the activity necessary or appropriate for the identification and registration of users, owners, and operators of the Bulk Power System that are required to comply with Requirements of Reliability Standards applicable to the reliability functions for which they are registered?

II.B:    Is the activity necessary or appropriate for the Certification of Reliability Coordinators, Transmission Operators and Balancing Authorities as having the requisite personnel, qualifications and facilities and equipment needed to perform these reliability functions in accordance with the applicable Requirements of Reliability Standards?

II.D:    Is the activity necessary or appropriate for conducting, participating in or overseeing compliance monitoring and enforcement activities pursuant to the NERC ROP and (through the Regional Entities) the Commission-approved delegation agreements?

II.E:    Is the activity necessary or appropriate for information gathering, collection and analysis activities to obtain information to monitor and enforce compliance with Reliability Standards, including evaluating the effectiveness of current compliance monitoring and enforcement processes, the need for new or revised compliance monitoring and enforcement processes, and the need for new or different means of training and education on compliance with Reliability Standards

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[5] *North American Electric Reliability Corporation's Compliance Filing and Report on the Compliance Enforcement Initiative and Proposed Enhancements to the Find, Fix, Track and Report (FFT) Program*, filed March 15, 2013 in Docket No. RR11-6-000.

II.F:     Is the activity necessary or appropriate for the provision of training, education and dissemination of information for/to (i) NERC personnel, (ii) Regional Entity personnel, and (iii) industry personnel with respect to compliance monitoring and enforcement topics and topics concerning reliability risks identified through compliance monitoring and enforcement activities, such as: (1) Requirements of Reliability Standards, including how to comply and how to demonstrate compliance?  This includes development of guidance and interpretation documents.  (2) Compliance monitoring and enforcement processes, including how to conduct them, how to participate in them, and the expectations for the process?  This includes development of guidance documents.  (3) Disseminating, through workshops, webinars, Advisories/Recommendations/Essential Actions, and other publications, "lessons learned" information on compliance concerns and reliability risks obtained through compliance monitoring and enforcement activities, monitoring and investigation of Bulk Power System major events, off-normal occurrences and near miss events, and other Bulk Power System monitoring activities? (4) Registered Entity internal processes for compliance with Reliability Standards, such as development, implementation and maintenance of internal reliability compliance programs?

IV:     Is the activity one that was required or directed by a Commission order issued pursuant to FPA §215?  (FERC orders directed NERC to develop and submit a revised definition of "Bulk Electric System" and a procedure for requesting and receiving exceptions from the BES definition, and subsequently approved NERC's proposed revised definition and its proposed BES exception procedure.)

V:     Is the activity one that is required or specified by, or carries out, the provisions of NERC's Rules of Procedure that have been approved by the Commission as "Electric Reliability Organization Rules" (defined in 18 C.F.R. §39.1) pursuant to FPA §215(f)? (The applicable Rules of Procedure provisions for these major activities are §400 and 500 and Appendices 4B, 4C, 5A, 5B and 5C.)

VI:     Is the activity necessary or appropriate for the supervision and oversight of Regional Entities in the performance of their delegated responsibilities in accordance with FPA §215, 18 C.F.R. Part 39, the Commission-approved delegation agreement between NERC and the Regional Entity, the NERC ROP, and applicable provisions of Commission orders?

X:     Is the activity necessary or appropriate for the analysis and evaluation of activities encompassed by one or more of the other criteria for the purpose of identifying means of performing the activities more effectively and efficiently?

## IV.     Reliability Assessment and Performance Analysis 2014 Major Activities

The ongoing and new major activities of the Reliability Assessment and Performance Analysis Program for 2014 include: issuing reliability reports, guidelines, recommendations and alerts as needed; preparing long-term and seasonal reliability assessments; conducting special assessments addressing key reliability issues; preparing an annual State of Reliability Report that

analyzes BPS performance trends and provides insight and guidance to address key reliability aspects; continuing to work to address high impact low frequency type issues, including geo-magnetic disturbance BES effects and vulnerability assessment; providing oversight, analysis and review of the Generating Availability System, Transmission Data Availability System and Demand Response Availability System, along with the Spare Equipment Database; strengthening data collection and validation processes by designing, creating, testing and implementing data systems and management for reliability assessment and risk analysis; providing quarterly updates on trends and measures of BES reliability; developing risk registry and a systematic prioritization process with the RISC; developing control strategies and plans to address the highest priority existing or emerging risks to BES reliability; developing a risk register to support BPS risk profile measurement and assessment of standards; supporting the development of ERO Enterprise applications critical to advancing the quality and usefulness of reliability assessments; developing a structured approach to evaluate and improve system models, analysis and assessments; and improving the usefulness and functionality of the NERC alert system.

These major activities satisfy the following criteria:

I.A:    is the activity necessary or appropriate for Reliability Standards development projects pursuant to the NERC Rules of Procedure?

I.C.1:    Is the activity necessary or appropriate for information gathering, collection and analysis activities to obtain information for Reliability Standards development, including for purposes of identifying areas in which new Reliability Standards could be developed, existing Reliability Standards could be revised, or existing Reliability Standards could be eliminated, such as: (1) Measuring reliability performance – past, present and future; publishing or disseminating the results of such measurements; analyzing the results of such measurements; identifying and analyzing risks to reliability of the Bulk Power System based on such measurements; and/or identifying approaches to mitigating or eliminating such risks?

III.A:   Is the activity necessary or appropriate for the preparation or dissemination of long-term, seasonal, and special assessments of the reliability and adequacy of the Bulk Power System?

III.B:   Is the activity necessary or appropriate for measuring reliability performance – past, present and future; publishing or disseminating the results of such measurements; analyzing the results of such measurements; identifying and analyzing risks to reliability of the Bulk Power System based on such measurements; and/or identifying approaches to mitigating or eliminating such risks?

III.F:    Is the activity necessary or appropriate for the development and dissemination of Advisories/Recommendations/Essential Actions regarding lessons learned and potential reliability risks to users, owners, and operators of the Bulk Power System?

V.      Is the activity one that is required or specified by, or carries out, the provisions of NERC's Rules of Procedure that have been approved by the Commission as "Electric

Reliability Organization Rules" (defined in 18 C.F.R. §39.1) pursuant to FPA §215(f)? (The applicable Rules of Procedure provisions for this major activity are §801-806 and 809-811.)

IX: Is the activity necessary or appropriate for NERC and Regional Entity committees, subcommittees and working groups engaged in activities encompassed by one or more of the other criteria?

X: Is the activity necessary or appropriate for the analysis and evaluation of activities encompassed by one or more of the other criteria for the purpose of identifying means of performing the activities more effectively and efficiently?

## V. Reliability Risk Management (Event Analysis and Situation Awareness) 2014 Major Activities

The ongoing and new major activities of Reliability Risk Management (encompassing Event Analysis and Situation Analysis) for 2014 include: conducting major event investigations, analysis and reporting of major findings and recommendations that will improve reliability; supporting the development and implementation of ERO Enterprise applications critical to advancing the quality and usefulness of event analysis data; and continuing to work with Regional Entities to obtain and review information from Registered Entities regarding qualifying events and disturbances in order to advance awareness of events above a threshold level, facilitate analysis of root causes, risks to reliability, Wide-Area assessments, mitigation, and timely dissemination of information regarding events.

These major activities satisfy the following criteria:

I.C.2: Is the activity necessary or appropriate for information gathering, collection and analysis activities to obtain information for Reliability Standards development, including for purposes of identifying areas in which new Reliability Standards could be developed, existing Reliability Standards could be revised, or existing Reliability Standards could be eliminated, such as: (2) Monitoring, event analysis and investigations of Bulk Power System major events, off-normal occurrences and near-miss events?

II.E.2: Is the activity necessary or appropriate for information gathering, collection and analysis activities to obtain information to monitor and enforce compliance with Reliability Standards, including evaluating the effectiveness of current compliance monitoring and enforcement processes, the need for new or revised compliance monitoring and enforcement processes, and the need for new or different means of training and education on compliance with Reliability Standards, such as: (2) Monitoring, event analysis and investigation of Bulk Power System major events, off-normal occurrences, and near miss events?

II.F.3: Is the activity necessary or appropriate for the provision of training, education and dissemination of information for/to (i) NERC personnel, (ii) Regional Entity personnel, and (iii) industry personnel with respect to compliance monitoring and enforcement

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topics and topics concerning reliability risks identified through compliance monitoring and enforcement activities, such as: (3) Disseminating, through workshops, webinars, Advisories/Recommendations/Essential Actions, and other publications, "lessons learned" information on compliance concerns and reliability risks obtained through compliance monitoring and enforcement activities, monitoring and investigation of Bulk Power System major events, off-normal occurrences and near miss events, and other Bulk Power System monitoring activities?

III.C: Is the activity necessary or appropriate for investigating, analyzing, evaluating, and disseminating information concerning, the causes of major events and off-normal occurrences, and/or providing coordination assistance, technical expertise and other assistance to users, owners, and operators of the Bulk Power System in connection with Bulk Power System major events and off-normal occurrences, but not real-time operational control of the Bulk Power System?

III.D: Is the activity necessary or appropriate for awareness of circumstances on the Bulk Power System and to contribute to understanding risks to reliability?

III.F: Is the activity necessary or appropriate for the development and dissemination of Advisories/Recommendations/Essential Actions regarding lessons learned and potential reliability risks to users, owners, and operators of the Bulk Power System?

V: Is the activity one that is required or specified by, or carries out, the provisions of NERC's Rules of Procedure that have been approved by the Commission as "Electric Reliability Organization Rules" (defined in 18 C.F.R. §39.1) pursuant to FPA §215(f)? (The applicable Rules of Procedure provisions for these major activities are §807, 808, 810 and 1001 and Appendix 8.)

## VI.    Critical Infrastructure Protection Program and ES-ISAC 2014 Major Activities

The ongoing and new major activities of the Critical Infrastructure Protection Program and the Electricity Sector-Information Sharing and Analysis Center ("ES-ISAC") for 2014 include: increasing the number of cyber security maturity models assessments and benchmark capabilities; delivering information on critical infrastructure protection security threats, vulnerabilities, and lessons learned from subject matter experts, senior industry and governmental representatives; through best-practice discussion forums, educating industry about reliability concerns and risk mitigation associated with emerging physical and cyber security threats; increasing information available through the ES-ISAC; continuing to collaborate with government agencies in the U.S. and Canada to develop more timely dissemination of classified information regarding threats to the BPS, including dissemination of information from classified sources in a form that can be provided to and used by the industry; and conducting security incident analysis and working with industry experts to evaluate, track, and identify lessons learned and security metrics that enhance the electricity sector's security posture.

These major activities satisfy the following criteria:

I.C.1:  Is the activity necessary or appropriate for information gathering, collection and analysis activities to obtain information for Reliability Standards development, including for purposes of identifying areas in which new Reliability Standards could be developed, existing Reliability Standards could be revised, or existing Reliability Standards could be eliminated, such as: (1) Measuring reliability performance – past, present and future; publishing or disseminating the results of such measurements; analyzing the results of such measurements; identifying and analyzing risks to reliability of the Bulk Power System based on such measurements; and/or identifying approaches to mitigating or eliminating such risks?

III.B:  Is the activity necessary or appropriate for measuring reliability performance – past, present and future; publishing or disseminating the results of such measurements; analyzing the results of such measurements; identifying and analyzing risks to reliability of the Bulk Power System based on such measurements; and/or identifying approaches to mitigating or eliminating such risks?

III.D:  Is the activity necessary or appropriate for awareness of circumstances on the Bulk Power System and to contribute to understanding risks to reliability?

III.E:  Is the activity necessary or appropriate for gathering, analyzing and sharing with and among industry and government participants, information regarding the physical or cyber security of the Bulk Power System?

III.F:  Is the activity necessary or appropriate for the development and dissemination of Advisories/Recommendations/Essential Actions regarding lessons learned and potential reliability risks to users, owners, and operators of the Bulk Power System?

V:  Is the activity one that is required or specified by, or carries out, the provisions of NERC's Rules of Procedure that have been approved by the Commission as "Electric Reliability Organization Rules" (defined in 18 C.F.R. §39.1) pursuant to FPA §215(f)? (The applicable Rules of Procedure provisions for these major activities are §810 and 1003.)

## VII.  Training, Education, and Operator Certification Program 2014 Major Activities

The major activities of the Training, Education, and Operator Certification Program for 2014 include: continuing to support the System Operator Certification and Continuing Education programs; and providing or facilitating the provision of training to support knowledge and skills development in the standards, compliance, registration, event analysis and other key areas.

These major activities satisfy the following criteria:

I.D:  Is the activity necessary or appropriate for the provision of training and education concerning Reliability Standards development processes, procedures and topics for/to (i) NERC personnel, (ii) Regional Entity personnel, and (iii) industry personnel?

II.C:    Is the activity necessary or appropriate for the Certification of system operating personnel as qualified to carry out the duties and responsibilities of their positions in accordance with the Requirements of applicable Reliability Standards?

II.F:    Is the activity necessary or appropriate for the provision of training, education and dissemination of information for/to (i) NERC personnel, (ii) Regional Entity personnel, and (iii) industry personnel with respect to compliance monitoring and enforcement topics and topics concerning reliability risks identified through compliance monitoring and enforcement activities, such as: (1) Requirements of Reliability Standards, including how to comply and how to demonstrate compliance?  This includes development of guidance and interpretation documents.  (2) Compliance monitoring and enforcement processes, including how to conduct them, how to participate in them, and the expectations for the processes?  This includes development of guidance documents. (3) Disseminating, through workshops, webinars, Advisories/Recommendations/Essential Actions, and other publications, "lessons learned" information on compliance concerns and reliability risks obtained through compliance monitoring and enforcement activities, monitoring and investigation of Bulk Power System major events, off-normal occurrences and near miss events, and other Bulk Power System monitoring activities? (4) Registered Entity internal processes for compliance with Reliability Standards, such as development, implementation and maintenance of internal reliability compliance programs?

V:    Is the activity one that is required or specified by, or carries out, the provisions of NERC's Rules of Procedure that have been approved by the Commission as "Electric Reliability Organization Rules" (defined in 18 C.F.R. §39.1) pursuant to FPA §215(f)? (The applicable Rules of Procedure provision for these major activities are §600 and 900.)

## VIII.  Coordination and Collaboration – Administrative Services 2014 Major Activities

Major activities for the NERC Administrative Services departments in 2014 include: continuing to provide resources to support the Board and Board committees, Member Representatives Committee, Standards Committee, Compliance and Certification Committee, Planning Committee, Operating Committee, Critical Infrastructure Protection Committee, Electricity Sub-sector Coordinating Council, RISC, and numerous ERO subcommittees and working groups; continuing to implement procedures, controls, processes, documentation and systems to improve the efficiency of operations and control costs; continuing to work with the Regional Entities to improve oversight and collaboration; continuing to enhance ERO risk management tools and procedures; and reviewing where applicable making recommendations for improvements in NERC and Regional Entity financial reporting and practices; and evaluating and implementing mechanisms to improve talent acquisition and employee retention.

Major activities for 2014 relating to development and enhancement of ERO Enterprise software applications and infrastructure include:  ensuring recoverability of the NERC technology footprint (disaster recovery and ensuring business critical tools are operational in the event of a sustained outage); enhancing knowledge management through implementation of

document and information management systems; continuing emphasis on security; performing an assessment of the IT tools needed to support compliance activities throughout the ERO Enterprise; developing and commencing implementation of ERO Enterprise applications to support reliability assessments and event analysis data management needs; development of a comprehensive technology roadmap for applications and infrastructure supporting ERO operations, including Regional Entity components; continuing to work collaboratively with the Regional Entities to advance the design and implementation of other strategic ERO Enterprise IT applications and supporting infrastructure, leading to development of a centrally-managed, dedicated hosting and data center facility for NERC and the Regional Entities; and improving navigability, readability, search ability, analytics and document management for the NERC website.

These major activities satisfy the following criteria:

I.A: Is the activity necessary or appropriate for Reliability Standards development projects pursuant to the NERC Rules of Procedure (ROP)?

II.A: Is the activity necessary or appropriate for the identification and registration of users, owners, and operators of the Bulk Power System that are required to comply with Requirements of Reliability Standards applicable to the reliability functions for which they are registered?

II.D: Is the activity necessary or appropriate for conducting, participating in or overseeing compliance monitoring and enforcement activities pursuant to the NERC ROP and (through the Regional Entities) the Commission-approved delegation agreements?

III.C: Is the activity necessary or appropriate for investigating, analyzing, evaluating, and disseminating information concerning, the causes of major events and off-normal occurrences, and/or providing coordination assistance, technical expertise and other assistance to users, owners, and operators of the Bulk Power System in connection with Bulk Power System major events and off-normal occurrences, but not real-time operational control of the Bulk Power System?

V: Is the activity one that is required or specified by, or carries out, the provisions of NERC's Rules of Procedure that have been approved by the Commission as "Electric Reliability Organization Rules" (defined in 18 C.F.R. §39.1) pursuant to FPA §215(f)? (The applicable Rules of Procedure provision for this major activity is §1100.)

VI: Is the activity necessary or appropriate for the supervision and oversight of Regional Entities in the performance of their delegated responsibilities in accordance with FPA §215, 18 C.F.R. Part 39, the Commission-approved delegation agreement between NERC and the Regional Entity, the NERC ROP, and the applicable provisions of Commission orders.

IX.     Is the activity necessary or appropriate for NERC and Regional Entity committees, subcommittees and working groups engaged in activities encompassed by one or more of the other criteria?

X.     Is the activity necessary or appropriate for the analysis and evaluation of activities encompassed by one or more of the other criteria for the purpose of identifying means of performing the activities more effectively and efficiently?

XI:     Is the activity a governance or administrative/overhead function, activity or service necessary or appropriate for the activities encompassed by the other criteria and, in general, necessary and appropriate to operate a functioning organization?

**NERC WRITTEN CRITERIA FOR DETERMINING
WHETHER AN ACTIVITY IS ELIGIBLE TO BE FUNDED
UNDER SECTION 215 OF THE FEDERAL POWER ACT**

For purposes of internal management approval of a proposed new activity or group of related activities ("major activity"), the proposed activity or major activity must be shown to fall within at least one of the criteria listed below. When sub-criteria are listed below a roman numeral numbered major criterion, the proposed activity should be a positive answer to at least one of the sub-criteria. Conversely, an activity that falls under a sub-criterion should pertain to the subject matter of the major criterion.

NERC's annual business plan and budget will describe how each major activity falls within one or more of the criteria listed below. If the major activity is substantially the same as a major activity that was shown to fall within the criteria in a previous year's business plan and budget, the current year's business plan and budget can refer to the prior year business plan and budget.

A determination that an activity falls within FPA §215 does not necessarily mean that NERC will propose or undertake such activity. The determination of whether an activity falling under FPA §215 should or will be undertaken in a given budget year will be addressed in the context of the applicable business plan and budget and will include opportunities for stakeholder input.

The criteria listed below are not necessarily each distinct from the others. An activity or major activity may fall within more than one of the criteria listed below.

I.      Is the activity necessary or appropriate for the development of Reliability Standards?

      A.     Is the activity necessary or appropriate for Reliability Standards development projects pursuant to the NERC Rules of Procedure (ROP)?

      B.     Is the activity necessary or appropriate for providing guidance and assistance to Regional Entities in carrying out Regional Reliability Standards development activities?

      C.     Is the activity necessary or appropriate for information gathering, collection and analysis activities to obtain information for Reliability Standards development, including for purposes of identifying areas in which new Reliability Standards could be developed, existing Reliability Standards could be revised, or existing Reliability Standards could be eliminated, such as:

            1.     Measuring reliability performance – past, present and future; publishing or disseminating the results of such measurements; analyzing the results of such measurements; identifying and analyzing risks to reliability of the Bulk Power System[6] based on such

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[6] This document uses the term "Bulk Power System" because that is the term defined and used in FPA §215. NERC recognizes that a different term, "Bulk Electric System," is used to define the current reach of Reliability Standards.

measurements; and/or identifying approaches to mitigating or eliminating such risks?

2.      Monitoring, event analysis and investigation of Bulk Power System major events, off-normal occurrences and near miss events?

D.      Is the activity necessary or appropriate for the provision of training and education concerning Reliability Standards development processes, procedures and topics for/to (i) NERC personnel, (ii) Regional Entity personnel, and (iii) industry personnel?

II.      Is the activity necessary or appropriate for the monitoring and enforcement of compliance with Reliability Standards?

A.      Is the activity necessary or appropriate for the identification and registration of users, owners, and operators of the Bulk Power System that are required to comply with Requirements of Reliability Standards applicable to the reliability functions for which they are registered?

B.      Is the activity necessary or appropriate for the Certification of Reliability Coordinators, Transmission Operators and Balancing Authorities as having the requisite personnel, qualifications and facilities and equipment needed to perform these reliability functions in accordance with the applicable Requirements of Reliability Standards?

C.      Is the activity necessary or appropriate for the Certification of system operating personnel as qualified to carry out the duties and responsibilities of their positions in accordance with the Requirements of applicable Reliability Standards?[7]

D.      Is the activity necessary or appropriate for conducting, participating in or overseeing compliance monitoring and enforcement activities pursuant to the NERC ROP and (through the Regional Entities) the Commission-approved delegation agreements?

E.      Is the activity necessary or appropriate for information gathering, collection and analysis activities to obtain information to monitor and enforce compliance with Reliability Standards, including evaluating the effectiveness of current compliance monitoring and enforcement processes, the need for new or revised compliance monitoring and enforcement processes, and the need for new or different means of training and education on compliance with Reliability Standards, such as:

1.      Measuring reliability performance – past, present and future; publishing or disseminating the results of such measurements; analyzing the results of such measurements; identifying and analyzing

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[7] Although certification of system operating personnel is an activity falling within the scope of, and eligible to be funded pursuant to, FPA §215, NERC strives to fully fund the costs of this activity through fees charged to participants.

risks to reliability of the Bulk Power System based on such measurements; and/or identifying approaches to mitigating or eliminating such risks?

    2.    Monitoring, event analysis and investigation of Bulk Power System major events, off-normal occurrences, and near miss events?

F.    Is the activity necessary or appropriate for the provision of training, education and dissemination of information for/to (i) NERC personnel, (ii) Regional Entity personnel, and (iii) industry personnel with respect to compliance monitoring and enforcement topics and topics concerning reliability risks identified through compliance monitoring and enforcement activities, such as:

    1.    Requirements of Reliability Standards, including how to comply and how to demonstrate compliance? This includes development of guidance and interpretation documents.

    2.    Compliance monitoring and enforcement processes, including how to conduct them, how to participate in them, and the expectations for the processes? This includes development of guidance documents.

    3.    Disseminating, through workshops, webinars, Advisories/Recommendations/Essential Actions, and other publications, "lessons learned" information on compliance concerns and reliability risks obtained through compliance monitoring and enforcement activities, monitoring and investigation of Bulk Power System major events, off-normal occurrences and near miss events, and other Bulk Power System monitoring activities?

    4.    Registered Entity internal processes for compliance with Reliability Standards, such as development, implementation and maintenance of internal reliability compliance programs?

G.    Is the activity necessary or appropriate for the development and provision of tools and services that are useful for the provision of adequate reliability, because they relate specifically to compliance with existing Reliability Standards and they proactively help avert Reliability Standard violations and Bulk Power System disturbances?

III.    Is the activity necessary or appropriate for conducting and disseminating periodic assessments of the reliability of the Bulk Power System or monitoring the reliability of the Bulk Power System?

A.    Is the activity necessary or appropriate for the preparation or dissemination of long-term, seasonal, and special assessments of the reliability and adequacy of the Bulk Power System?

B.    Is the activity necessary or appropriate for measuring reliability performance – past, present and future; publishing or disseminating the results of such measurements; analyzing the results of such measurements; identifying and

analyzing risks to reliability of the Bulk Power System based on such measurements; and/or identifying approaches to mitigating or eliminating such risks?

C.      Is the activity necessary or appropriate for investigating, analyzing, evaluating, and disseminating information concerning, the causes of major events and off-normal occurrences, and/or providing coordination assistance, technical expertise and other assistance to users, owners, and operators of the Bulk Power System in connection with Bulk Power System major events and off-normal occurrences, but not real-time operational control of the Bulk Power System?

D.      Is the activity necessary or appropriate for awareness of circumstances on the Bulk Power System and to contribute to understanding risks to reliability?

E.      Is the activity necessary or appropriate for gathering, analyzing and sharing with and among industry and government participants, information regarding the physical or cyber security of the Bulk Power System?

F.      Is the activity necessary or appropriate for the development and dissemination of Advisories/Recommendations/Essential Actions regarding lessons learned and potential reliability risks to users, owners, and operators of the Bulk Power System?

G.      Is the activity necessary or appropriate for data collection and analysis of information regarding Bulk Power System reliability matters mandated by the Commission?

IV.     Is the activity one that was required or directed by a Commission order issued pursuant to FPA §215?  Justification of an activity as a FPA §215 activity based on this category must reference the particular Commission order and directive.

V.      Is the activity one that is required or specified by, or carries out, the provisions of NERC's Rules of Procedure that have been approved by the Commission as "Electric Reliability Organization Rules" (defined in 18 C.F.R. §39.1) pursuant to FPA §215(f)?

VI.     Is the activity necessary or appropriate for the supervision and oversight of Regional Entities in the performance of their delegated responsibilities in accordance with FPA §215, 18 C.F.R. Part 39, the Commission-approved delegation agreement between NERC and the Regional Entity, the NERC ROP, and applicable provisions of Commission orders?

VII.    Is the activity necessary or appropriate to maintain NERC's certification as the Electric Reliability Organization?  This Criterion includes conducting periodic assessments of NERC's and the Regional Entities' performance as the Electric Reliability Organization as required by 18 C.F.R. §39.3(c).

VIII.   Does the activity respond to or is it necessary or appropriate for audits of NERC and the Regional Entities conducted by the Commission?

IX.    Is the activity necessary or appropriate for NERC and Regional Entity committees, subcommittees and working groups engaged in activities encompassed by one or more of the other criteria?

X.    Is the activity necessary or appropriate for the analysis and evaluation of activities encompassed by one or more of the other criteria for the purpose of identifying means of performing the activities more effectively and efficiently?

XI.    Is the activity a governance or administrative/overhead function, activity or service necessary or appropriate for the activities encompassed by the other criteria and, in general, necessary and appropriate to operate a functioning organization?  (Should NERC perform any non-FPA §215 activities, the costs of governance and administrative/overhead functions must be appropriately allocated.)

NERC's current governance and administrative/overhead functions are carried out in the following program areas:

A.    Technical Committees and Members' Forum Programs

B.    General and administrative (includes, but is not limited to, executive, board of trustees, communications, government affairs, and facilities and related services).

C.    Legal and Regulatory.

D.    Information Technology

E.    Human Resources

F.    Accounting and Finance.

The following matters are excluded from the scope of FPA §215 activities.  While a list of non-FPA §215 activities would be infinite, the following excluded matters are listed here because they are expressly referred to in FPA §215, the Commission's ERO regulations and/or a Commission order issued pursuant to FPA §215:

A.    Developing or enforcing requirements to enlarge Bulk Power System facilities, or to construct new transmission capacity or generation capacity, or requirements for adequacy or safety of electric facilities or services.

B.    Activities entailing Real-time operational control of the Bulk Power System.

C.    Activities pertaining to facilities used in the local distribution of electric energy.

# Exhibit B

# Common Assumptions

*[The text of the final common assumptions is being finalized with the Regional Entities and will be posted in a subsequent draft]*

Exhibit C — 2014 Business Plan and Budget

## Exhibit C

## 2014 Ongoing Operations-Supporting Reference Tables and Charts

The following charts and tables show: (1) the breakdown of revenue requirements for ongoing operations by department, including allocation of administrative services costs, (2) relative increases by department, and (3) 2013 and 2014 FTEs and headcount by department.

| Total Budget | Budget 2013 | Budget 2014 | Change 2014 Budget v 2013 Budget | % Change |
|---|---|---|---|---|
| Reliability Standards | 9,775,088 | 9,937,260 | 162,172 | 1.7% |
| Compliance Operations | 8,928,994 | 9,058,539 | 129,545 | 1.5% |
| Compliance Enforcement | 6,725,004 | 6,371,518 | (353,486) | -5.3% |
| Reliability Assessments and Performance Analysis | 7,762,436 | 8,284,778 | 522,342 | 6.7% |
| Training, Education and Operator Certification | 3,571,766 | 3,887,698 | 315,932 | 8.8% |
| Reliability Risk Management | | | | |
| Event Analysis | 3,738,430 | 4,201,837 | 463,407 | 12.4% |
| Situation Awareness | 5,324,311 | 4,101,396 | (1,222,915) | -23.0% |
| Critical Infrastructure Department | | | | |
| Critical Infrastructure Protection | 5,299,502 | 5,541,307 | 241,806 | 4.6% |
| ES-ISAC | 3,160,725 | 3,440,548 | 279,822 | 8.9% |
| Total Budget | 54,286,256 | 54,824,882 | 538,626 | 1.0% |

Exhibit C — 2014 Business Plan and Budget
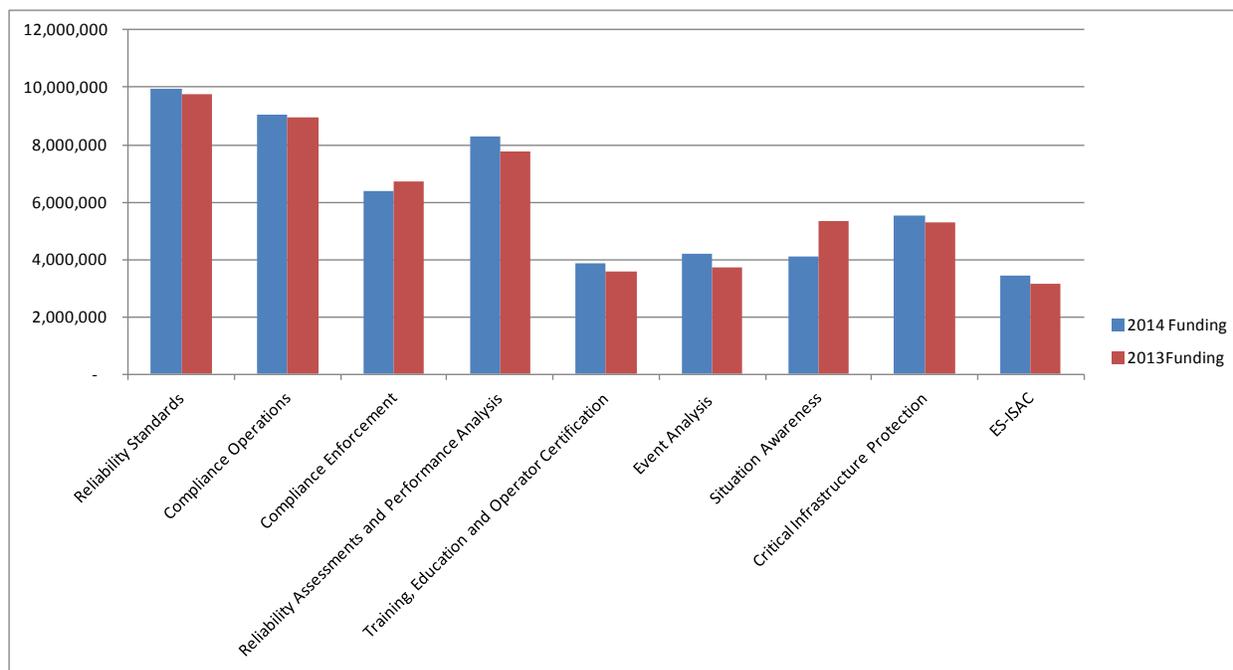
| Total FTE's by Program Area | Budget 2013 | Budget 2014* | Change from 2013 Budget |
|---|---|---|---|
| **STATUTORY** | | | |
| **Operational Programs** | | | |
| Reliability Standards | 26.50 | 24.96 | (1.54) |
| Compliance Operations | 24.00 | 23.04 | (0.96) |
| Compliance Enforcement | 21.00 | 18.24 | (2.76) |
| Reliability Assessments and Performance Analysis | 18.75 | 18.99 | 0.24 |
| Operator Certification | 3.00 | 2.88 | (0.12) |
| Training and Education | 5.00 | 5.28 | 0.28 |
| Event Analysis | 9.50 | 9.60 | 0.10 |
| Situation Awareness | 6.50 | 6.24 | (0.26) |
| Critical Infrastructure Protection | 12.50 | 12.48 | (0.02) |
| ES-ISAC | 6.75 | 6.72 | (0.03) |
| **Total FTEs Operational Programs** | **133.50** | **128.43** | **(5.07)** |
| **Administrative Programs** | | | |
| General & Administrative | 8.00 | 10.56 | 2.56 |
| Legal and Regulatory | 14.00 | 15.15 | 1.15 |
| Information Technology | 16.75 | 18.07 | 1.32 |
| Human Resources | 3.00 | 2.88 | (0.12) |
| Finance and Accounting | 11.00 | 11.52 | 0.52 |
| **Total FTEs Administrative Programs** | **52.75** | **58.18** | **5.43** |
| **Total FTEs** | **186.25** | **186.61** | **0.36** |

*Assumes 4% attrition in all programs

# EXHIBIT D

## Contractor and Consulting Costs

## 2013 Budget, 2014 Ongoing Operations, Regulatory Mandates, and Key Initiatives

| Program | Consultants & Contracts | 2013 BUDGET | 2014 Ongoing Operations | 2014 Regulatory Mandates | 2014 Key Initiatives |
|---|---|---|---|---|---|
| Reliability Standards | Standards Restructuring Project | 150,000 | | | 200,000 |
| | **Total Reliability Standards** | **150,000** | **-** | **-** | **200,000** |
| | | | | | |
| Compliance Operations | | | | | |
| | Reliability Assurance Initiative | | | | 800,000 |
| | **Total Compliance Operations** | **-** | **-** | **-** | **800,000** |
| | | | | | |
| Reliability Risk Mgmt | Subject Matter Experts - Events Analysis | 120,000 | 75,000 | | |
| | **Reliability Risk Management** | **120,000** | **75,000** | **-** | **-** |
| | | | | | |
| Reliability Assessments, GADS, TADS, DADS & Spare Equipment Database | | | | | |
| | | | | | |
| RAPA | Reliability affects of GMD | 250,000 | | 250,000 | |
| | Vegitation Research (FAC 3) | | | 500,000 | |
| | Federal Right-of-Way Monitoring | | | 100,000 | |
| | | | | | |
| | Metrics - Centralized data collection-Change Orders | 50,000 | 50,000 | | |
| | RADS Assessment Database (2014 budgeted in IT under Key Initiatives) | 100,000 | - | | |
| | Scenario Consultant | 70,000 | 70,000 | | |
| | | | | | |
| GADS/TADS/DADS/SED | Database Consulting Support | 80,000 | 150,000 | | |
| | Monthly Maintenance | 135,000 | 218,085 | | |
| | Replacement for pc_GAR | | 100,000 | | |
| | | | | | |
| | **Total Reliability Assessments and Performance Analysis** | **685,000** | **588,085** | **850,000** | **-** |
| | | | | | |
| | | | | | |
| Situation Awareness | Synchro Phasor (NASPI) | 810,000 | - | | |
| | | | | | |
| | Automated Reliability Reports | | 100,000 | | |
| | Resource Adequacy (ACE Frequency) Tool | 80,000 | 80,000 | | |
| | Inadvertent Interchange (Srv. Agreement) | 35,000 | 35,000 | | |
| | AIE Monitoring (Srv. Agreement) | 35,000 | 35,000 | | |
| | Frequency Monitoring and Analysis Tool (FMA) | 45,000 | 45,000 | | |
| | Intelligent Alarms/DARA (Srv. Agreement) | 55,000 | 55,000 | | |
| | | | | | |
| | Secure Alerting System | 150,000 | 150,000 | | |
| | Secure Alert Change Management | 50,000 | 50,000 | | |
| | | | | | |
| | SAFNR - Phase II | 725,500 | 531,825 | | |
| | | | | | |
| | **Total Situation Awareness (excluding IDC and Frame Relay)** | **1,985,500** | **1,081,825** | **-** | **-** |

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| Program | Consultants & Contracts | 2013 BUDGET | 2014 Ongoing Operations | 2014 Regulatory Mandates | 2014 Key Initiatives |
|---|---|---|---|---|---|
| Critical Infrastructure | ESCC Support | 130,000 | 190,000 | | |
| | GridEx Support | 200,000 | | | |
| | Subtotal - ESCC and GridEx | 330,000 | 190,000 | - | - |
| | | | | | |
| | ES-ISAC | | | | |
| | Cyber Risk Preparedness Assessment | 150,000 | 150,000 | | |
| | Portal Application | 90,000 | 90,000 | | |
| | Intelligence reporting-consulting support | | | | |
| | Secure connection to US-CERT for bi-directional information sharing | 25,000 | 25,000 | | |
| | Technical assistance to prepare and deliver Aurora Webinars | 15,000 | 15,000 | | |
| | Analytic and modeling consulting support | 90,000 | 90,000 | | |
| | Software Integration Support Services | 55,000 | 55,000 | | |
| | ES-ISAC Members Conference | 30,000 | 30,000 | | |
| | Subtotal - ES-ISAC | 455,000 | 455,000 | - | - |
| | | | | | |
| | Total Critical Infrastructure Department | 785,000 | 645,000 | - | - |
| | | | | | |
| Operator Certification | System Operator Testing Expenses 2011 1,025 @ $70) | 63,124 | 100,000 | | |
| | System Operator Examination Development | 113,690 | 100,000 | | |
| | Examination Analysis (750 exams @ $17 per exam) | 13,600 | 14,000 | | |
| | | | | | |
| | System Operator Certification and Continuiing Education Database | | | | |
| | Database Development | 20,000 | 35,000 | | |
| | Database Maintenance | 12,330 | 24,000 | | |
| | SOCCED Database Improvement Project (funded from Working Capital generated from fees in excess of expenses) | 250,000 | 200,000 | | |
| | Total System Operator Certification | 472,744 | 473,000 | - | - |
| | | | | | |
| Training & Education | Continuing Education Program | | | | |
| | Individual Learning Activity Reviewers | 120,000 | 120,000 | | |
| | Database Development | 20,000 | 20,000 | | |
| | Database Maintenance | 12,330 | 12,330 | | |
| | | | | | |
| | Web-based course hosting (Learning Management System) | 26,500 | 26,500 | | |
| | | | | | |
| | Web-based course development | | | | |
| | standards applications for industry, CEA staff | 43,750 | 43,750 | | |
| | risk assessment training for CEA staff, industry | 20,000 | 20,000 | | |
| | human performance fundamentals for staff, industry | 43,750 | 43,750 | | |
| | BPS events lessons learned for industry | 12,500 | 12,500 | | |
| | | | | | |
| | Training Services-NERC and Regional Entities | | | | |
| | Regional Entity and NERC Auditor training | 47000 | 47,000 | | |
| | | | | | |
| | NERC Staff Technical Training | 30,000 | 30,000 | | |
| | | | | | |
| | Total CE, Training & Education | 375,830 | 375,830 | - | - |
| | | | | | |
| | Total Training, Education and Operator Certification | 848,574 | 848,830 | - | - |

| Program | Consultants & Contracts | 2013 BUDGET | 2014 Ongoing Operations | 2014 Regulatory Mandates | 2014 Key Initiatives |
|---|---|---|---|---|---|
| Government Relations | External Affairs | 150,000 | 175,000 | | |
| | **Total Government Relations** | **150,000** | **175,000** | **-** | **-** |
| Legal and Regulatory | | - | - | | |
| | **Total Legal** | **-** | **-** | **-** | |
| Information Technology | | | - | | |
| | Ongoing Operations | 1,371,000 | 1,903,000 | - | |
| | Risk and Analysis-Enterprise Applications | 1,350,000 | - | | 2,180,000 |
| | **Information Technology** | **2,721,000** | **1,903,000** | **-** | **2,180,000** |
| Human Resources | Executive Training and Development | 90,000 | 90,000 | | |
| | Staff Training and Development | 106,000 | 65,000 | | |
| | Compensation Consulting | 30,000 | 30,000 | | |
| | Employee, industry and Board Surveys, succession planning | 35,000 | 45,000 | | |
| | HR Process Improvements | 27,500 | 27,500 | | |
| | **Human Resources** | **288,500** | **257,500** | **-** | **-** |
| Finance and Accounting | Internal Controls and Outside Auditor Consulting Support | 205,000 | 325,000 | | |
| | Assessment of CIP Auditing Practices and reports | 60,000 | | | |
| | Audit procedures, practices, tools and reports consulting support | 60,000 | 50,000 | | |
| | Finance and Accounting Support | | 50,000 | | |
| | **Finance and Accounting** | **325,000** | **425,000** | **-** | **-** |
| Situation Awareness | IDC Contract | 457,586 | **-** | **-** | **-** |
| Situation Awareness | NERCnet (Frame Relay) Contract | 300,094 | **400,000** | **-** | **-** |
| | TOTAL CONSULTANTS, CONTRACTS, IDC AND FRAME RELAY | 8,816,254 | 6,399,240 | 850,000 | 3,180,000 |

- Update on business planning process
- Strategic plan goals and major activities
- Application of Section 215 criteria
- Revenue requirements to support:
    - § Ongoing operations
    - § Regulatory mandates
    - § Key initiatives
- Request for comments
- Next steps/review of business plan and budget schedule

- Update to strategic plan - May 2013 Board meeting
- Reviewed NERC and Regional activities in relation to strategic plan
- Identified gaps and initiatives to close gaps.
- Applied Section 215 criteria to NERC's major activities
  - § Potential funding of certain activities outside Section 215
- Developed projected revenue requirements to support:
  - § NERC's ongoing core operations
  - § New regulatory mandates
  - § Key strategic initiatives
- Seeking stakeholder input

## Standards

- Clear, reasonable and sound mandatory standards
- Practical to implement and cost effective

## Compliance, Registration, and Certification

- Strong enforcement authority, objective and fair
- Culture of compliance addresses reliability risks
- Monitoring commensurate with entity roles and risk

## Risks to Reliability

- Most significant risks to reliability
- Accountable for mitigating reliability risks
- Culture of reliability excellence

## Coordination and Collaboration

- Collaborative enterprise with improved efficiencies

*Objective 5a: ERO tracks accountability for critical recommendations*
*Objective 5b: Industry is addressing security threats, and constantly improving security posture*

| Focus for 2014 | Departments |
|---|---|
| **Metrics to evaluate success of interventions** | Reliability Assessments and Performance Analysis |
| **Track implementation of recommendations** | Events Analysis |
| **ES-ISAC capability** | Situation Awareness |
| **Promotion of maturity model self-assessments** | Critical Infrastructure |

- All major activities fall within proposed guidelines

- Option to voluntarily separate and fund certain activities outside Section 215
  - § ESCC support
  - § ES-ISAC
  - § Operator certification and testing

- Governance, accounting and funding details need to be addressed
  - § Revised ESCC governance model
  - § Accounting considerations
  - § Direct costs, working capital, operating reserves, overhead and administrative cost allocations
  - § Billing, collection, and other considerations
  - § Timing

| 2013 Budget | | 2014 Budget Ongoing Operations |
|---|---|---|
| $ 31,298,405 | Total Personnel Expense | $ 34,301,192 |
| $ 4,098,310 | Total Meeting Expense | $ 3,907,500 |
| $ 8,816,254 | Contracts and Consultants | $ 6,399,240 |
| $ 8,251,187 | Operating Expenses | $ 8,465,150 |
| $ 50,000 | Non-Operating Expenses | $ 50,000 |
| $ 1,772,100 | Capital Expenditures | $ 1,701,800 |
| $ 54,286,256 | Total Budget | $ 54,824,882   1.0% |

**RELIABILITY | ACCOUNTABILITY**

- Vegetation research — FERC FAC-3 Order — $500K
  - § Formulate plan to conduct research on minimum vegetation clearance distance (MVCD)
  - § Empirical validation of MVCD
  - § Actual flash distances observed through testing
  - § Analysis of such events
  - § Draft statement of work from EPRI
- Vegetation management on public lands — $100K
  - § Gather/analyze data regarding vegetation management issues on public lands
  - § As warranted, propose means to address issues
- Reliability effects GMD — $250k
  - § Modeling studies/assessments

- Benefits
  - § Reduce unnecessary compliance costs/regulatory uncertainty
  - § Clear, concise, cost effective and impactful results-based standards
- 2013 Standards Independent Expert Review Project
  - § Retain panel of independent industry experts ($378k)
  - § Identify existing standard requirements which are low quality, low reliability impact, and impose unnecessary costs on industry
  - § Provide roadmap for 2014-2015 standards development plan
- Propose 2014 funding ($200k)
  - § $200k for experts to ensure progress against baseline

- Benefits
    - § Improve BES reliability
    - § Increase efficiency, consistency
    - § Reduce cost of compliance on industry
- Resourcing approach
    - § Maximize use of existing NERC and Regional staff
    - § Draw from industry where possible
    - § Re-adjust priorities to increase bandwidth
    - § Use consultants to jump start and increase bandwidth
- Proposed funding for consulting support ($800k)
    - § Standardize ERO-wide audit processes ($500k)
    - § Develop/implement tools to support RAI process improvements ($300k)
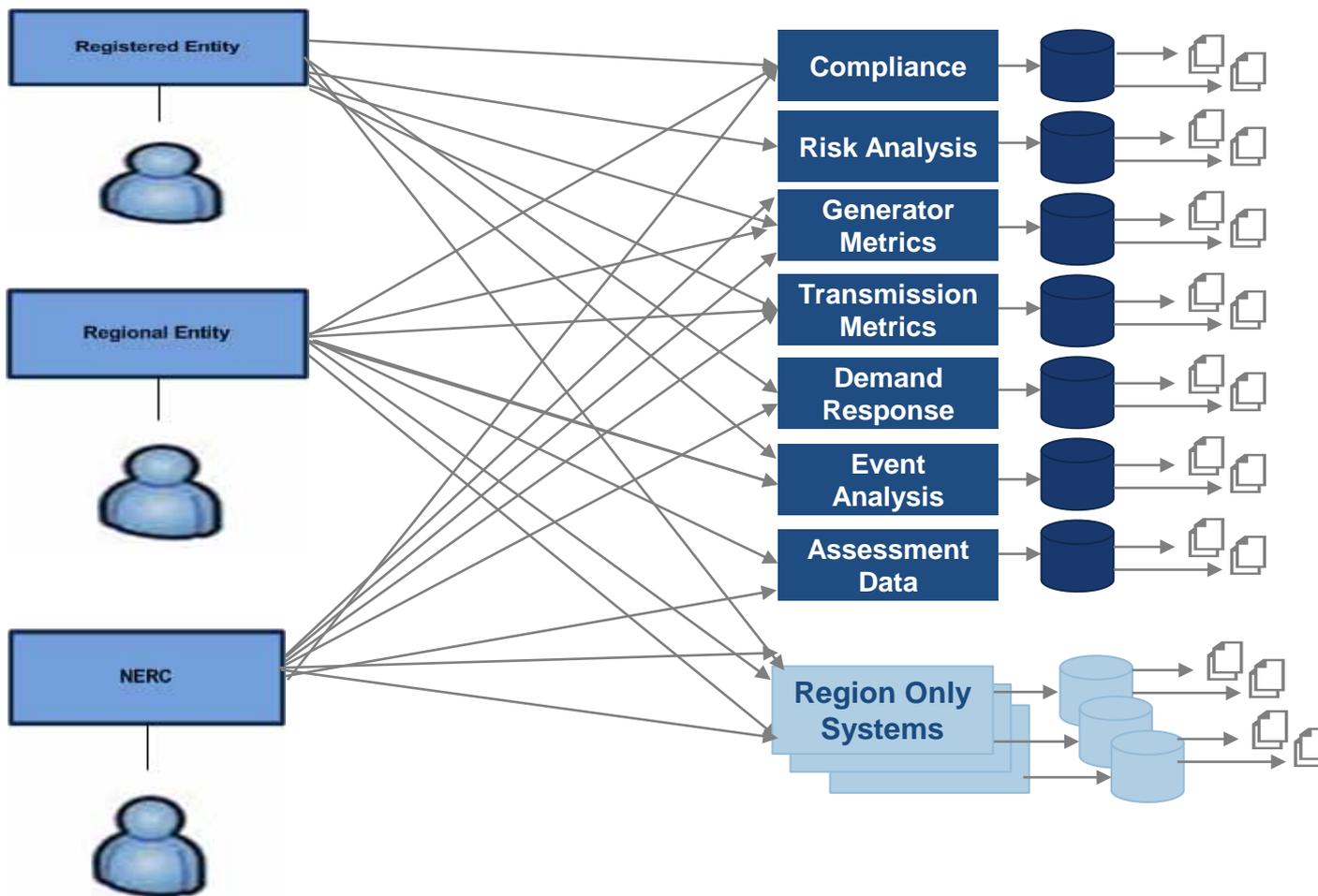
**Technology**
- Multiple Applications
- Multiple Databases
- Outdated Technology
- Limited Integration
- Multiple Logins
- Multiple Registrations

**Current Experience**
- Inefficient
- Expensive
- Complex
- Redundant Effort
- Limited Usability
- Multiple systems
- Manual Data Cleansing
- Limited Analysis
- Labor Intensive
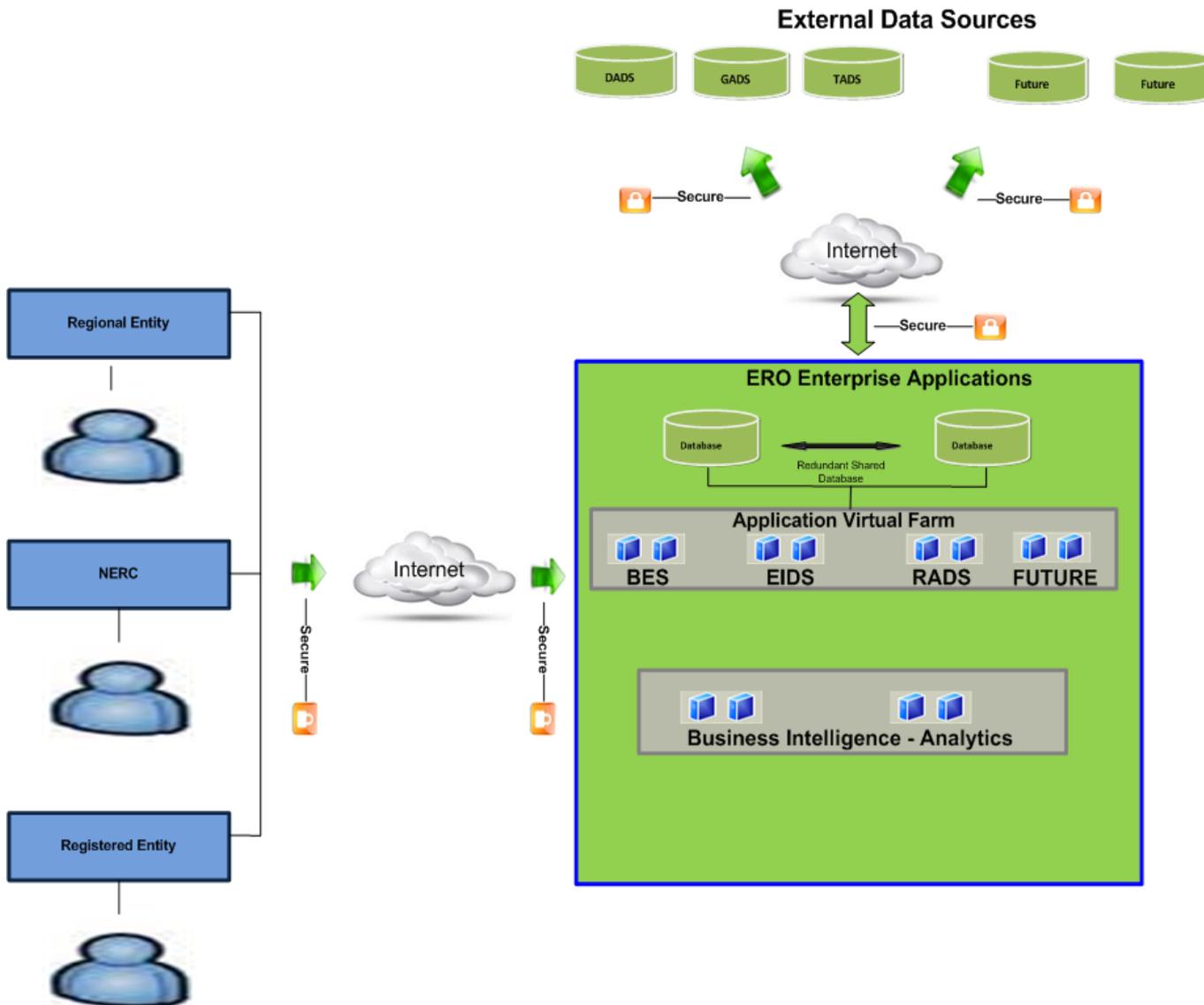
**Technology**
- Single Sign-On
- Single Registration
- Integrated Databases
- Flexible Technology
- Robust Analytics
- Accessible (securely) Anywhere
- Common Architecture

**Future Experience**
- Efficient
- Cost Effective
- Automated
- Business Intelligence / Analytics
- User Self-Service
- Risk Based Analytics
- Reduced Manual Effort
- Effective Resource Utilization

**NERC**
NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

**2014**

**2015**

**2016**

- **Initial Consolidation**
  - ü BES
  - ü EIDS
  - üRADS
  - üSingle Sign-On
  - üApplication Registration
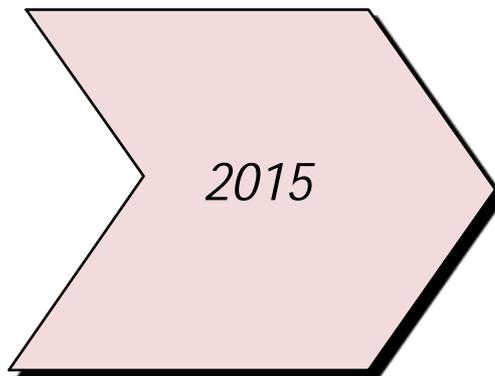
- **Common Portal & Basic Analytics**
  - ü Integrated Database
  - ü Enterprise Reporting
  - üInitial BI/Analytics
  - üRAI Future Applications
  - üReduced Systems
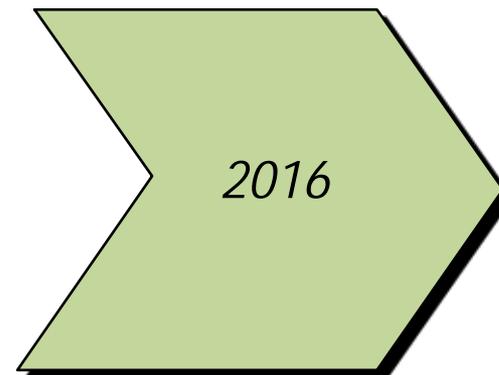
- **Enhanced Analytics**
  - ü Integrated Dashboard
  - ü Enhanced Reporting
  - ü Holistic View
  - ü Reduced Complexity
  - üIncreased Efficiency
  - ü Standard Public Report Capability

| | 2014 | 2015 | 2016 | 3-Year Estimate |
|---|---|---|---|---|
| Reliability Assessment Applications | $700K | $120K | $120K | $940K |
| Compliance Applications | $150K | $1.5M | $500K | $2.15M |
| Events/Risk/ Business Analytics Applications | $500k | $1.1M | $400k | $2M |
| Data center | $420K | $480K | $540k | $1.4M |
| Contractor Support | $510K | $600K | $600K | $1.71M |
| Subtotal | $2.18M | $3.8M | $2.16M | $8.2M |

| | |
|---|---|
| Regulatory Mandates | $850K |
| Standards Reform Initiative | $200K |
| Reliability Assurance Initiative | $800K |
| ERO Applications | $2.18M |
| Subtotal | $4.03M |

RELIABILITY | ACCOUNTABILITY

- Cost of current operations (without overhead allocations)
  - § $2.4M
  - § 7 FTEs
  - § Includes software licensing, contractor and consulting support for ESCC and ES-ISAC, security exercises, assessments
- Incremental 2014 ES-ISAC contractor/consulting support ($550k)
  - § Information sharing
  - § Intelligence gathering and reporting
  - § Cyber risk preparedness assessments
  - § Cyber threat modeling and analytics
- Incremental 2014 personnel (5 FTEs/$1.2M)

- Option and mechanics of funding ESCC support, ES-ISAC and Operator Certification and Testing outside 215

- Standards Reform Initiative and funding requirements

- Reliability Assurance Initiative and funding requirements

- ERO Enterprise Information System strategy and funding requirements

| Date | Activity |
|------|----------|
| May 8 | Presentation of first draft of NERC 2014 Business Plan and Budget at MRC Meeting |
| May 22 | FAC conference call and webinar to review REs Business Plans and Budgets |
| May 30 | Stakeholder comments on first draft due |
| Early June | Closed FAC conference call to provide input to management for second draft of NERC business plan and budget |
| June 10 | NERC posts second draft of business plan and budget |
| July 11 | Comments due on second draft of business plan and budget |

| Date | Activity |
|------|----------|
| July 19 | FAC meeting to review second draft of NERC Business Plan and Budget, and proposed final REs Business Plans and Budgets |
| August 12 | FAC meeting to approve final NERC and REs Business Plans and Budgets and assessments |
| August 14 | (If needed, recap of 2014 Business Plan and Budget) Discussion of 2015 Business Plan and Budget process |
| August 15 | Board of Trustees meeting to approve final NERC and REs Business Plans and Budgets and assessments |
| August 23 | Submit ERO Business Plan and Budget and assessments to FERC for approval. File with Canadian authorities |

**RELIABILITY | ACCOUNTABILITY**

# Questions and Answers

**RELIABILITY | ACCOUNTABILITY**