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February 18, 2015

VIA ELECTRONIC FILING

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

Re: North American Electric Reliability Corporation
Docket No. RR15-___-000
Request to Revise Certain "Metrics" Filing Components for NERC's Annual Business Plan and Budget Filings and Annual Actual Cost-to-Budget True-up Filings

Dear Ms. Bose:

The North American Electric Reliability Corporation (NERC) hereby submits the "Request of the North American Electric Reliability Corporation to Revise Certain 'Metrics' Components for its Annual Business Plan and Budget Filings and its Annual Actual Cost-to-Budget True-up Filings."

NERC's filing consists of: (1) this transmittal letter, (2) the narrative text of this filing, which follows this transmittal letter, and (3) Attachments 1 through 7, all of which are being transmitted in a single pdf file. The Table of Contents to the narrative text list the 7 attachments.

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

Respectfully submitted,

/s/ Owen E. MacBride
Owen E. MacBride

Attorney for North American Electric Reliability Corporation

UNITED STATES OF AMERICA
Before the
FEDERAL ENERGY REGULATORY COMMISSION

NORTH AMERICAN ELECTRIC	**)**	
RELIABILITY CORPORATION	**)**	**Docket No. RR15-__-000**
	)	

REQUEST OF THE NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION TO REVISE CERTAIN "METRICS" FILING COMPONENTS FOR ITS ANNUAL BUSINESS PLAN AND BUDGET FILINGS AND ITS ANNUAL ACTUAL COST-TO-BUDGET TRUE-UP FILINGS

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FEBRUARY 18, 2015

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Attachment 2 is a copy of the NERC Report, "Key Compliance Enforcement Metrics and Trends," for the fourth quarter of 2014.

Attachment 3 is a copy of Attachment 15, "Status Report on the Achievement of NERC's 2014 Goals and Objectives," from NERC's 2015 Business Plan and Budget filing.

Attachment 4 is a copy of Attachment 16, "Metrics Comparing Regional Entity Operations Based on the 2015 Budgets," from NERC's 2015 Business Plan and Budget filing.

Attachment 5 is a copy of Attachment 17, "Analysis of NERC and Regional Entity Budgeted Administrative (Indirect) Costs, 2015 Budgets Versus 2014 Budgets," from NERC's 2015 Business Plan and Budget filing.

Attachment 6 is a template for a revised first page of the Administrative Services section of the NERC and Regional Entity business plans and budgets.

Attachment 17 is a copy of pages 10-19 and Attachment 10, "Metrics Concerning Administrative Costs in 2013 NERC and Regional Entity Budgets and Actual Costs," from NERC's 2013 True-up Report.

I. INTRODUCTION

This filing is a request by the North American Electric Reliability Corporation ("NERC") for the Commission's approval to remove or revise certain components that NERC includes (1) in its annual business plan and budget filings pursuant to 18 C.F.R. §39.4, and (2) in its annual report of comparisons of budgeted to actual costs ("annual true-up reports").[1] Some of the budget filing and annual true-up report components that are addressed in this filing originated from directives in budget-related orders of the Commission, and all of the components have been included in the annual business plan and budget filings or annual true-up reports for a number of years. However, for each of these components, NERC believes that one or more of the following now applies:

(1) NERC now provides comparable information on the topic through other means (either in the business plan and budget filings, annual true-up reports, or elsewhere), making it unnecessary to continue to provide information on the topic in the form in which it has been provided in the annual business plan and budget filings and annual true-up reports;

(2) NERC is proposing an alternative format for providing the information that will be more administratively efficient for NERC (and the Regional Entities) to provide while supplying comparable useful information on the topic to the Commission; or

(3) the information being provided is not useful or meaningful, or its assembly requires administrative costs and efforts by NERC and the Regional Entities that are not justified by the information's limited usefulness.

The business plan and budget filing components that NERC is proposing to eliminate or revise are set forth below, including a reference to where the information was provided in NERC's 2015 Business Plan and Budget filing in Docket No. RR14-6-000.

- Status Report on Progress in Processing Alleged Violations (2015 Business Plan and Budget Filing, narrative, at 114-115, and Attachment 2 (NERC 2015 Business Plan and Budget) at 19-21).

- Status Report on the Achievement of NERC's [Current Year] Goals (2015 Business Plan and Budget Filing, Attachment 15).

[1] The annual true-up reports are filed on or before May 30 of each year and provide comparisons of budgeted costs to actual expenditures for the preceding calendar year for NERC and each Regional Entity, with explanations of variances.

- Metrics Comparing Regional Entity Operations Based on the [Upcoming Year] Budgets (2015 Business Plan and Budget Filing, Attachment 16).
- Metrics on NERC and Regional Entity Indirect (Administrative Services) Costs Based on the [Current Year and Upcoming Year] Budgets (2015 Business Plan and Budget Filing, Attachment 17).

The component of the annual true-up reports that NERC is proposing to eliminate or revise is the Metrics Concerning Administrative Costs in the NERC and Regional Entity Budgets and Actual Costs. In NERC's most recent annual true-up report (for 2013), filed May 30, 2014 in Docket No. RR14-4-000 ("2013 True-up Report"), the administrative cost metrics were provided in Attachment 10 to the filing and were discussed at pages 10-19 of the filing.

This filing includes the following attachments:

Attachment 1 is a copy of pages 19-21 from NERC's 2015 Business Plan and Budget.

Attachment 2 is a copy of the NERC Report, "Key Compliance Enforcement Metrics and Trends," for the fourth quarter of 2014.

Attachment 3 is a copy of Attachment 15, "Status Report on the Achievement of NERC's 2014 Goals and Objectives," from NERC's 2015 Business Plan and Budget filing.

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Attachment 6 is a template for a revised first page of the Administrative Services section of the NERC and Regional Entity business plans and budgets.

Attachment 7 is a copy of pages 10-19 and Attachment 10, "Metrics Concerning Administrative Costs in 2013 NERC and Regional Entity Budgets and Actual Costs," from NERC's 2013 True-up Report.

II. NOTICES AND COMMUNICATIONS

Notices and communications concerning this filing may be directed to:

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III. DISCUSSION

A. Metrics Currently Included in Annual Business Plan and Budget Filings

1. Status Report on Progress in Processing Alleged Violations

In its 2010, 2011, 2012, 2013, 2014 and 2015 Business Plan and Budget filings, NERC provided status reports on the progress achieved by NERC and the Regional Entities in reducing the backlog of alleged violations of Reliability Standards that had not been processed to completion. This filing component was originally included in the 2010 Business Plan and Budget filing in response to a directive in a Commission order issued July 16, 2009, on a compliance filing submitted by NERC to the Commission's order on NERC's 2009 Business Plan and Budget filing.[2] The contents of this filing component were subsequently expanded in response to further direction in the Commission's order on NERC's 2011 Business Plan and

[2] The July 16, 2009 order is *North American Electric Reliability Corporation, Order on Compliance Filing*, 128 FERC ¶ 61,025 (2009) ("July 16, 2009 Budget Compliance Order"). Specifically, at P 18, the Commission stated: "While we accept NERC's proposal to increase the FTEs [full-time equivalent staff] that support the Compliance Monitoring and Enforcement Program, we remain concerned regarding the continued backlog in processing alleged violations. We therefore direct NERC to provide the Commission with a report on the status of the remaining unprocessed violations in its 2010 business plan and budget filing."

Budget filing.[3] In the Business Plan and Budget filings for 2010 through 2012, the information was provided in a separate attachment to the filing that was briefly summarized in the narrative portion of the filing. In the Business Plan and Budget filings for 2013, 2014 and 2015, the information has been provided in the Compliance Enforcement section of NERC's Business Plan and Budget and briefly summarized in the narrative portion of the filing.[4]

NERC believes that information on the status of progress in processing alleged violations and reducing backlog can be removed from the annual business plan and budget filings, for two reasons:

1. In contrast to the situation that existed at the time of the July 16, 2009 Budget Compliance Order and the 2011 Budget Order, NERC and the Regional Entities have made very substantial progress in eliminating the "backlog" of alleged violations in processing that existed in prior years, and have significantly reduced the average time required to process an alleged violation to completion. NERC and the Regional Entities have established an objective of completing processing all new alleged violations within 24 months, and have almost achieved that objective.

2. NERC now regularly reports to the Board of Trustees Compliance Committee ("BOTCC") and stakeholders on the numbers, aging, and average processing time of alleged violations in the NERC and Regional Entity inventory. This information is reported on a more frequent and timely basis (*i.e.*, quarterly) than the annual Business Plan and Budget filings. These reports are posted on the NERC website.[5] Given that information on the numbers, aging and average processing time of alleged violations in inventory is regularly, publicly reported through other means, the annual provision of this information in the business plan and budget filings is redundant, as well as being less useful and timely than the regular, more frequent reporting that NERC now provides.

With respect to the progress that NERC and the Regional Entities have achieved in reducing the "backlog" of alleged violations, in the Commission's October 16, 2008 order on NERC's 2009 Business Plan and Budget filing (in which the Commission directed a compliance

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[3] *North American Electric Reliability Corp.*, *Order Conditionally Accepting 2011 Business Plan and Budget of the North American Electric Reliability Corporation and Ordering Compliance Filings*, 133 FERC ¶ 61,062 (2010) ("2011 Budget Order"), at PP 36-37.

[4] In NERC's 2015 Business Plan and Budget filing, this information was provided at pages 19-21 of NERC's Business Plan and Budget (Attachment 2 to the filing) and briefly summarized at pages 114-115 of the narrative portion of the filing. **Attachment 1** to this filing is a copy of pages 19-21 of NERC's 2015 Business Plan and Budget.

[5] Available at: http://www.nerc.com/pa/comp/CE/Pages/Compliance-Violation-Statistics.aspx.

filing that was the subject of the July 16, 2009 Budget Compliance Order), the Commission stated:

> Since June 18, 2007, NERC has identified more than 1,400 alleged violations. However, to date, NERC has processed (and filed for Commission approval of) 37 Notices of Penalty addressing only 105 alleged violation. Moreover, NERC has not completed its review of many of the approximately 5,000 alleged pre-June 18, 2008 violations that require ERO/Regional Entity approval and monitoring.[6]

In contrast, in its 2015 Business Plan and Budget filing, filed on August 22, 2014 in Docket No. RR14-6-000, at pages 114-115, NERC reported as follows:

> As of June 30, 2014, there were only 273 active violations discovered prior to January 1, 2013 that had not been processed and resolved.[100] These pre-2013 violations comprised approximately 11% of the active non-CIP violations and 22% of the active CIP violations at June 30, 2014. At June 30, 2014, there were only two active non-CIP violations that were discovered prior to January 1, 2012 and only 38 active non-CIP violations that were discovered in 2012. There were only 34 active CIP violations that were discovered prior to January 1, 2012 and only 199 active CIP violations that were discovered in 2012.
>
> [100]The number of "active violations" excludes violations that are being held by an appeal, a regulator or a court.

Additionally, in its *Five-Year Electric Reliability Organization Performance Assessment Report*, filed on July 21, 2014 in Docket No. RR14-5-000, NERC provided extensive information on the Electric Reliability Organization's ("ERO") progress in reducing the number of violations in inventory, reducing the number of aged violations, and reducing the number of months required to clear a violation from inventory.[7] In its order issued November 20, 2014 on the Five-Year ERO Performance Assessment Report, the Commission stated, based on its review of this data, that "[w]ith regard to compliance enforcement processing, NERC and the Regional Entities have made significant efforts to prioritize and reduce their outstanding pre-2012

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[6] *North American Electric Reliability Corporation, Order Conditionally Accepting 2009 Business Plan and Budget of the North American Electric Reliability Corporation and Ordering Compliance Filings*, 125 FERC ¶ 61,056 (2008) ("2009 Budget Order"), at P 27.

[7] *See North American Electric Reliability Organization, Five-Year Electric Reliability Organization Performance Assessment Report*, filed July 21, 2014 in Docket No. RR14-5-000, at 56-59, and Attachment 3 (NERC Assessment of Regional Entity Delegated Functions) at 57-66, 72-75, 80-83, 88-91, 95-98, 103-106, 111-114, 119-122, 127-130.

caseload."[8]

Further, the concerns expressed and the directives issued in the 2009 Budget Order, the July 16, 2009 Budget Compliance Order, and the 2011 Budget Order, were stated in the context of the Commission's concerns regarding the sufficiency of NERC's budget, staffing and other resources in the Compliance Enforcement function to reduce the existing "backlog" and to process new alleged violations to completion in a more timely manner.[9] In contrast, in recent orders on the annual business plan and budget filings, the Commission has not questioned the sufficiency of the staffing and other resources that NERC and the Regional Entities have budgeted for the compliance enforcement function.[10] In fact, in the 5-Year ERO Performance Assessment Order, the Commission noted the increases in NERC and Regional Entity staffing since 2009 in their compliance, monitoring and enforcement programs, and stated: "In light of the increased enforcement staffing and improved enforcement processes at NERC and the Regional Entities, we expect that violation processing times and the average violation age will continue to decline."[11] NERC respectfully submits that as a measure of the sufficiency of the staffing and resources that NERC and the Regional Entities are dedicating to the compliance enforcement function, the status report on progress in processing alleged violations is no longer a necessary component of NERC's annual business plan and budget filings.

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[8] *North American Electric Reliability Corporation, Order on the Electric Reliability Organization's Five-Year ERO Performance Assessment*, 149 FERC ¶ 61,141 (2014) ("5-Year ERO Performance Assessment Order") at P38.

[9] *See* 2009 Budget Order at PP26-27; July 16, 2009 Budget Compliance Order at P18; 2011 Budget Order at P36.

[10] *See, e.g.*, *North American Electric Reliability Corporation, Order on 2015 Business Plans and Budgets*, 149 FERC ¶61,028 (2014) ("2015 Budget Order"); *North American Electric Reliability Corporation, Order on 2014 Business Plan and Budget of the North American Electric Reliability Corporation and Ordering Compliance Filing*, 145 FERC ¶ 61,097 (2013) ("2014 Budget Order"); *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"). For example, in the 2015 Budget Order, the Commission stated, at P 20: "We are satisfied that the Regional Entities are focused on adequately staffing and funding all of their program areas to perform the delegated, statutory functions." *See also* 2014 Budget Order at PP 21, 24; 2013 Budget Order at PP 29, 34.

[11] 5-Year ERO Performance Assessment Order at P38 and note 48.

With respect to the reporting of information on the status of resolution of compliance matters through other means, NERC now provides information on the status of violations processing on a regular, frequent basis. For example, following the end of each calendar quarter, NERC prepares for its BOTCC, and posts on the NERC website,[12] a report on "Key Compliance Enforcement Metrics and Trends." The data reported generally includes:

- the Caseload Index for NERC, for the Regional Entities in the aggregate, and for the entire ERO Enterprise (the Caseload Index is the number of months, at a point in time, that it would take to clear the violations in NERC's or a Regional Entity's inventory based on the entity's average monthly processing rate for the preceding twelve month period);[13]
- the trend in reduction of the older caseload through the end-of-quarter reporting date;[14]
- the average age of noncompliances in the NERC and Regional Entity inventory;[15] and
- the number of noncompliances in the ERO Enterprise inventory as of the end of the quarter that were discovered in the current year and in each of the preceding three years, broken out by violations of the Operating and Planning Reliability Standards and violations of the Critical Infrastructure Protection ("CIP") Reliability Standards.[16]

In fact, these quarterly reports are the data source that NERC now uses for the status reports on progress in processing alleged violations included in its annual business plan and budget filings.

In addition, on a quarterly basis, NERC submits to the Commission, through non-public means, a status update on all noncompliances being processed, including whether the noncompliance has been filed, posted, or closed during the quarter.

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[12] http://www.nerc.com/pa/comp/CE/Pages/Compliance-Violation-Statistics.aspx. **Attachment 2** to this filing is a copy of this report for the fourth quarter of 2014.

[13] The term "ERO Enterprise" refers to NERC and the eight Regional Entities.

[14] The report for the quarter ended December 31, 2014 showed a violation caseload of 35 pre-2013 noncompliances as of the end of the quarter; this was reduced from 483 pre-2013 noncompliances at December 31, 2013. The violations included in this metric exclude violations that are being held by an appeal, a regulator or a court.

[15] As of the end of the fourth quarter of 2014, the average age of violations in the ERO Enterprise inventory was 9.9 months, as compared to 11.2 months as of the end of the fourth quarter of 2013.

[16] The reports also contain other useful Compliance and Enforcement statistics. The statistics noted here relate specifically to the age of noncompliances and processing time for noncompliances and the trends in these metrics over time.

In summary, NERC respectfully submits that the Status Report on Progress in Processing Alleged Violations can and should be eliminated from the annual business plan and budget filings, due to (1) the significant progress that NERC and the Regional Entities have achieved in reducing the backlog of alleged violations, and the time required to process an alleged violation to completion, since the Commission originally directed that this information be included in the annual business plan and budget filings; and (2) the fact that NERC now regularly (quarterly) posts and reports data on this topic to stakeholders and the Commission, outside of the business plan and budget process.

2. Status Report on the Achievement of NERC's Current Year Goals

In each annual business plan and budget filing beginning with the 2008 Business Plan and Budget filing, NERC has included a status report on its progress in achieving its goals and objectives for the current year (*i.e.*, for the year in which the business plan and budget filing is being made, that is, the year preceding the budget year that is the subject of the filing). This status report was not initiated as the result of a specific Commission directive.[17] Rather, as NERC stated in its 2008 Business Plan and Budget filing:

> NERC intends that business plan submissions in future years will include a discussion of whether and to what extent the objectives of each program in the previous year were achieved, factors that may have contributed to the inability to achieve all objectives, and actions NERC plans to take in the upcoming year to meet unfulfilled objectives from the previous year and to provide greater assurance that objectives for the upcoming year will be met.[18]

Beginning with its 2011 Business Plan and Budget filing, NERC altered the format of this attachment. Specifically, in that filing, NERC used for this attachment the slides from a

[17] Although this attachment was not included in the business plan and budget filings in response to a specific Commission directive, because it has been included in eight business plan and budget filings (in somewhat different formats, as the text explains), NERC believes to appropriate to request Commission approval to cease including this attachment in the annual Business Plan and Budget filings.

[18] *Request of the North American Electric Reliability Corporation for Acceptance of its 2008 Business Plan and Budget and the 2008 Business Plans and Budgets of Regional Entities and for Approval of Proposed Assessments to Fund Budgets*, filed August 24, 2007 in Docket No. RR07-16-000 ("2008 Business Plan and Budget Filing"), at 20 n. 38.

presentation that management had made to the Corporate Governance and Human Resources Committee ("CGHRC") of the NERC Board of Trustees in July 2010 on NERC's progress to date in achieving its corporate performance goals for 2010.[19] In addition to being presented to the CGHRC in an open meeting, this presentation had been posted on the NERC website. In its 2012 Business Plan and Budget filing, NERC used for this attachment a compilation of information that management had presented in two meetings of the CGHRC.[20] In its 2013 Business Plan and Budget filing, NERC used for this attachment presentation slides from a presentation by management to the CGHRC at an open meeting in August 2012 on NERC's progress to date in achieving its 2012 performance goals.[21] Similar presentations from the same time frame during the year were used for this attachment in the 2014 and 2015 Business Plan and Budget filings.[22] All of these presentations were made in meetings that were open to stakeholders and were posted on the NERC website.

Further, the late July-early August time frame is not the only time of the year in which NERC management makes such presentations to the CGHRC and stakeholders. Management now makes presentations on actual performance against corporate performance metrics at the quarterly meetings of the CGHRC. All of these presentations are posted on the NERC website.[23]

NERC submits that it is no longer necessary to provide this attachment as part of its annual business plan and budget filings, for several reasons. First, as noted, the information used to prepare this attachment is taken from information on NERC's performance results against corporate performance objectives that NERC presents to the CGHRC, and stakeholders, at one of

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[19] Attachment 14 to the 2011 Business Plan and Budget filing (Docket No. RR10-13-000).

[20] Attachment 14 to the 2012 Business Plan and Budget filing (Docket No. RR11-07-000).

[21] Attachment 14 to the 2013 Business Plan and Budget filing (Docket No. RR12-13-000).

[22] Attachment 15 to the 2014 Business Plan and Budget filing (Docket No. RR13-9-000); Attachment 15 to the 2015 Business Plan and Budget filing (Docket No. RR14-6-000). **Attachment 3** to this filing is a copy of Attachment 15 to NERC's 2015 Business Plan and Budget filing.

[23] The presentations are available at: http://www.nerc.com/gov/bot/GOV/Pages/CorporateGovernanceandHumanResourcesCommittee%28GOVERNANCE%29.aspx.

four quarterly open meetings during the year. The information is readily available to stakeholders who attend or listen to the meeting or by accessing the information on the NERC website. The attachment included in the business plan and budget filings typically does not provide any new or different information from what has already been made publicly available through the presentations to the CGHRC and posted on the NERC website.

Second, the information provided in this attachment to the business plan and budget filings (which are filed with the Commission in late August) typically reports status as of the end of the second quarter, or as of a date early in the third quarter (*e.g.*, July) of the current year. It is a snapshot of results as of a point in time approximately one-half way through the year, not a report on results for the full year. Year-end results are reported in open session at a CGHRC meeting in February of the following year and are posted on NERC's website.[24]

Third, and most importantly, NERC has integrated information on its corporate goals and objectives, its activities during the current year towards achieving the goals and objectives, and its initiatives planned for the budget year that will further advance achievement of the goals and objectives, into the text of NERC's business plan and budget documents. NERC's annual business plan and budget sets forth NERC's current strategic planning goals and the related performance metrics that have been established to measure performance in achieving each of the strategic planning goals.[25] The goals and objectives are taken from the current version of NERC's three-year ERO Strategic Plan, which is a publicly available document that is developed with stakeholder input and posted on the NERC website.[26] The NERC business plan and budget

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[24] *See* footnote 23.

[25] *See, e.g.*, NERC's 2015 Business Plan and Budget, Attachment 2 to its 2015 Business Plan and Budget filing (Docket No. RR14-6-000), at viii-xiii. In its recent orders on NERC's annual business plan and budget filings, the Commission has recited NERC's then-current strategic planning goals as stated in its business plan and budget. *See, e.g.*, 2014 Budget Order at P15; 2015 Budget Order at P12.

[26] The current version (2015-2018) of the ERO Strategic Plan is available on the NERC website at: http://www.nerc.com/gov/bot/FINANCE/Hidden%20Documents/ERO%20Enterprise%20Strategic%20Plan%202015–2018.pdf.

also sets forth major activities and initiatives currently under way and planned for the budget year for the purpose of achieving the strategic planning goals.[27] Additionally, the section of NERC's business plan and budget for each of its statutory program areas sets forth that program's key activities and initiatives under way during the current year and the program's goals and deliverables for the budget year. These activities and initiatives reflect refinements of the prior year's goals and objectives, as well as consideration of the prior year's performance. This information also supports the specific proposed resource requirements for the program for the budget year.

For these reasons, NERC respectfully submits that the status report on achievement of NERC's current year goals can and should be eliminated from the annual business plan and budget filings.

3. Metrics Comparing Regional Entity Operations Based on Upcoming Year Budgets

Beginning with its 2008 Business Plan and Budget filing, NERC has included in the annual budget filings attachments providing metrics developed by NERC and the Regional Entities based on their budgets.[28] The metrics were developed by NERC and included in the 2008 Business Plan and Budget filing in response to Commission orders,[29] and the metrics have subsequently been revised and expanded, in part, based on comments and directives in subsequent Commission orders.[30] One set of metrics has focused on the Regional Entities' compliance monitoring and enforcement activities, budgets and staffing. In recent annual business plan and budget filings, these metrics have been presented in an attachment captioned

[27] *See* NERC's 2015 Business Plan and Budget at ix-xiii.

[28] *See* 2008 Business Plan and Budget Filing at 39 and Attachment 7.

[29] *See North American Electric Reliability Corporation, Order Conditionally Accepting 2008 Business Plan and Budget of the North American Electric Reliability Corporation and Ordering Compliance Filings*, 121 FERC ¶ 61,057 (2007), at PP34-35; *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 123 FERC ¶ 61,282 (2008) ("June 19, 2008 Budget Compliance Order"), at P 39.

[30] *See* 2009 Budget Order at PP47-48; 2011 Budget Order at P38; 2012 Budget Order at PP23-27.

"Metrics Comparing Regional Entity Operations Based on the [Upcoming Year] Budgets."[31] These metrics are discussed in this §III.A.3. A second set of metrics has focused on NERC's and the Regional Entities' budgeted Indirect (Administrative Services) costs. In recent annual business plan and budget filings, these metrics have been presented in an attachment captioned "Analysis of NERC and Regional Entity Budgeted Administrative (Indirect) Costs, [Upcoming Year] Budgets versus [Current Year] Budgets."[32] The Administrative Services cost metrics are discussed in §III.A.4 below.

As the attachment providing "Metrics Comparing Regional Operations Based on the [Upcoming Year] Budgets" has evolved, NERC and the Regional Entities attempt to develop and provide the following data items for each Regional Entity (*see* **Attachment 4**):

1. Numbers of registered entities
2. Numbers of registered functions
3. Total NEL (GWh)
4. NEL (GWh) per registered entity
5. Total ERO Funding (ERO Funding is the sum of assessments plus Penalty sanctions)
6. ERO Funding per registered entity
7. ERO Funding per registered function
8. Total Budget (Total Budget is the sum of Total Expenses plus Capital Expenditures)
9. Total Budget per registered entity
10. Total Budget per registered function

[31] These metrics were provided in Attachment 15 to NERC's Business Plan and Budget filings for 2010, 2011, 2012 and 2013 and in Attachment 16 to NERC's Business Plan and Budget filings for 2014 and 2015. **Attachment 4** to this filing is a copy of Attachment 16 to the 2015 Business Plan and Budget filing.

[32] These metrics were provided in Attachment 16 to NERC's Business Plan and Budget filings for 2010, 2011, 2012 and 2013 and in Attachment 17 to NERC's Business Plan and Budget filings for 2014 and 2015. **Attachment 5** to this filing is a copy of Attachment 17 to the 2015 Business Plan and Budget filing.

11. Total Statutory FTE (FTE: Full-time equivalent employee, based on working 2,080 hours per year)

12. Registered entity per Statutory FTE

13. Registered function per Statutory FTE

14. Total Compliance Budget (Total Compliance Budget is the sum of Direct Expenses, Indirect Expenses allocated to the Compliance Program, and Capital Expenditures)

15. Compliance budget per registered entity

16. Compliance budget per registered function

17. Total Compliance FTE

18. Registered entity per Compliance FTE

19. Registered function per Compliance FTE

20. Number of Small (non-CIP/693) Audits Onsite

21. Estimated Cost per Small (non-CIP/693) Audit Onsite

22. Number of Medium (non-CIP/693) Audits Onsite

23. Estimated Cost per Medium (non-CIP/693) Audit Onsite

24. Number of Large (non-CIP/693) Audits Onsite

25. Estimated Cost per Large (non-CIP/693) Audit Onsite

26. Number of Small (non-CIP/693) Audits Offsite

27. Estimated Cost per Small (non-CIP/693) Audit Offsite

28. Number of Medium (non-CIP/693) Audits Offsite

29. Estimated Cost per Medium (non-CIP/693) Audit Offsite

30. Number of Large (non-CIP/693) Audits Offsite

31. Estimated Cost per Large (non-CIP/693) Audit Offsite

32. Number of Small (CIP/706B) Audits Onsite

33. Estimated Cost per Small (CIP/706B) Audit Onsite

34. Number of Large (CIP/706B) Audits Onsite

35. Estimated Cost per Large (CIP/706B) Audit Onsite

36. Number of Small (CIP/706B) Audits Offsite

37. Estimated Cost per Small (CIP/706B) Audits Offsite

38. Number of Large (CIP/706B) Audits Offsite

39. Estimated Cost per Large (CIP/706B) Audit Offsite

40. Average Number of Contractors Per Small Audits Onsite

41. Average Number of Contractors Per Medium Audits Onsite

42. Average Number of Contractors Per Large Audits Onsite

43. Average Number of Contractors Per Small Audits Offsite

44. Average Number of Contractors Per Medium Audits Offsite

45. Average Number of Contractors Per Large Audits Offsite

NERC plans to continue to present data items 1 through 19 above for each Regional Entity in an attachment to NERC's annual business plan and budget filings. These data items are easily extracted from the Regional Entity business plans and budgets or from other sources that are compiled during the business planning and budgeting process. Further, these data items and their components are specific, objective, and not subject to potential definitional inconsistencies across the Regional Entities, and therefore provide a consistent basis for comparison of Regional Entity operations. That is, the numbers of registered entities and registered functions, the definition and number of FTEs, and the Regional Entity's Total Budget, Total Compliance Program Budget and ERO Funding, are consistently determined in the same manner across all Regional Entities.

In addition, NERC plans to continue to provide the metrics and graphics that were provided on pages 5, 6, 7, 11, 12 and 13 of Attachment 16 to the 2015 Business Plan and Budget Filing (**Attachment 4** to this filing) and the comparable attachments in previous years' business plan and budget filings.

- Compliance Budget per Number of Registered Functions and per Number of Registered Entities (pages 5-6)
- Number of Registered Functions per Registered Entity (page 7)

- Compliance Program Budget as Function of Number of Registered Entities and Number of Registered Functions (page 11)
- Number of Registered Entities per Compliance Program FTE and Number of Registered Functions per Compliance Program FTE (page 12)
- Comparisons of Number of Registered Entities per Compliance Program FTE and Number of Registered Functions per Compliance Program FTE for the current year and the budget year (page 13)

These metrics and the related graphics are all readily calculable from the data items listed above. Since the underlying data items are consistently defined and compiled across the Regional Entities, the metrics provide consistent, objective means of comparing the Regional Entities' operations based on their budgets and staffing.

However, NERC proposes to stop providing data items 20 through 45 from the above list. These data items relate to the numbers and costs for "small," "medium" and "large" on-site and off-site compliance audits for the Operations and Planning Reliability Standards and the CIP Reliability Standards. Despite considerable effort, NERC and the Regional Entities have not been able to generate comparable data for these items that provide a meaningful measure of comparison of the Regional Entities' Compliance Program operations. There are a number of reasons for this.

First, although NERC and the Regional Entities developed and have used consistent definitions for "small," "medium" and "large" compliance audits, the definitions still result in a wide range of audit "sizes" and scopes within each size-type category.[33] For example, a "medium" compliance audit in which 70 requirements are being audited is likely to require more resources than a "medium" audit in which 30 requirements are being audited, but these two audits would be included in the Regional Entity's average cost for "medium" compliance audits and used as a basis of comparison among Regional Entities. Similarly, if one Regional Entity's

[33] NERC and the Regional Entities have used the following definitions based on the number of Reliability Standard requirements being covered in a compliance audit: small, 25 or less; medium, 25 to 75; and large, more than 75.

compliance audits typically covered about 65 to 70 requirements while another Regional Entity's compliance audits typically covered 30 to 35 requirements, the first Regional Entity's average cost for a "medium" compliance audit would likely appear to be much higher than the second Regional Entity's average cost for a "medium" compliance audit.

Second, many of the Regional Entities do not conduct enough compliance audits in each of the defined size-type categories in a given year to provide meaningful average costs that can be compared across the Regional Entities.[34] In other words, the sample sizes are often too small to produce useful comparative data. For example, as shown on page 4 of **Attachment 4**, many of the Regional Entities had only zero to two compliance audits planned for 2015 in many of the size-type categories.

Third, average cost per compliance audit (of the various size-type categories) is not a metric that is used by the Regional Entities to develop their Compliance Program budgets.

Fourth, the comparability of the per-audit costs across the Regional Entities is impacted by such factors as regional wage and salary levels and differences in travel distances and costs within the Regional Entities.

In summary, given the factors discussed above and the resulting lack of meaningful comparability among the Regional Entities' average budgeted costs for the various size-type categories of compliance audits, NERC submits that the expenditure of NERC and Regional Entity resources required to assemble data items 20-45 each year for the business plan and budget filings is not justified, especially since this information is not particularly helpful to, or utilized in, the preparation or review of the Regional Entity compliance program budgets.

While NERC proposes to eliminate data items 20-45, NERC intends to ensure that each Regional Entity provides, in the Compliance Monitoring and Enforcement Program section of its business plan and budget, a discussion of significant assumptions regarding the scope and

[34] The data items define a total of ten compliance audit size-type categories.

number of compliance audits and spot checks contemplated during the budget year impacting its Compliance Monitoring and Enforcement Program resource requirements.

Data items 40 through 45, which NERC proposes to omit, are information on the numbers of contractors the Regional Entity expects to use in each size-type category of compliance audit in the budget year. Due to the factors mentioned above, such as small sample size in each category and the wide range within the three compliance audit size categories, as well as the widely-varying use among the Regional Entities of contractors and consultants on compliance audit teams, these data items have not provided a meaningful basis for comparisons among the Regional Entities. However, each Regional Entity will continue to provide, in its business plan and budget, its budgeted expenditures for Consultants and Contractors for the budget year in its Compliance Program (as well as its budgeted and projected expenditures for this item for the current year), along with explanations of the reasons for any significant increases or decreases in the budgeted Consultants and Contractors expense.

Finally, while NERC plans to continue to provide a Regional Entity operations metrics attachment with the data items, metrics and graphics described above, NERC proposes to eliminate the narrative discussion of the data (such as was provided, for example, at pages 14-19 of **Attachment 4**). NERC devotes considerable resources each year to developing the narrative portion of the attachment, but does not believe that the value provided by the narrative analysis justifies the resources required to produce it. Other than the very general proposition that there are economies of scale in the Regional Entities' Compliance Programs (*i.e.*, the Regional Entities with higher numbers of registered entities and registered functions tend to have lower program costs per registered entity and per registered function than those Regional Entities with smaller numbers of registered entities and registered functions), NERC typically has not been able to develop from the data meaningful explanations of differences among Regional Entities. The analyses that NERC has developed (with the assistance of the Regional Entities) have typically

been focused more on providing explanations for "outliers" in specific data items, and identifying one-time factors or events that caused the budgeted number for a particular data item for an individual Regional Entity to change significantly (upward or downward) from the previous year. Further, as described in the narrative portion of Attachment 16 to the 2015 Business Plan and Budget filing (**Attachment 4** to this filing), the values of some of the metrics have not changed significantly in the past three to four sets of budgets, indicating that staffing and other resource requirements for the Regional Entity Compliance Programs have stabilized as the ERO Enterprise has matured.

However, going forward, the Regional Entity data items and metrics described above in this section will continue to be provided in the annual business plan and budget filings, for stakeholders and the Commission to examine and evaluate.

4. Metrics on NERC and Regional Entity Indirect (Administrative Services) Costs Based on the Current Year and Upcoming Year Budgets

In its annual business plan and budget filings, NERC currently provides the following metrics on the budgeted Administrative Services costs of NERC and each Regional Entity:[35]

- Statutory Indirect Budget as a Percentage of Total Statutory Budget, for the current year and upcoming year
- Ratio of Statutory Direct Budget to Statutory Indirect Budget, for the current year and upcoming year
- Statutory Indirect (Administrative) FTEs as a Percentage of Total Statutory FTEs, for the current year and upcoming year
- Number of Direct Statutory FTEs per Indirect (Administrative) Statutory FTE, for the current year and upcoming year
- Statutory Indirect (Administrative) Budget per Statutory FTE, for the current year and upcoming year

NERC proposes to continue to provide the first four metrics in a separate attachment in the annual business plan and budget filings, but to eliminate the fifth metric. NERC believes that

[35] *See* Attachment 17 to the 2015 Business Plan and Budget filing (**Attachment 5** to this filing).

the first four metrics provide sufficient measurement of (1) the portion of each entity's budget that is being expended on Administrative Services costs, and (2) the portion of each entity's staffing that is devoted to Administrative Services functions. In addition, a table that is provided in the Introduction and Executive Summary of each entity's business plan and budget shows the entity's budgeted FTE staffing for each statutory direct program and each statutory indirect (Administrative Services) program, for the current year budget and the upcoming year budget. This table enables stakeholders and the Commission to see (1) the numbers of FTEs each entity has budgeted for statutory indirect functions versus statutory direct functions, and (2) changes in the budgeted staffing for each Administrative Services function from the current year budget to the upcoming year budget.

Additionally, NERC plans to provide additional detail in the NERC and Regional Entity business plans and budgets on year-to-year changes in the budgeted costs and staffing for the Administrative Services programs. **Attachment 6** to this filing is a template for the revised Administrative Services section of the NERC and Regional Entity business plans and budgets that NERC proposes to implement. The table at the start of the Administrative Services section has been revised to provide a comparison of the current year and upcoming year budgeted expenditures and FTE staffing for each of the Administrative Services programs and in total, so that this comparative information will be readily available in one location in the business plan and budget document.[36] The Administrative Services section of the NERC and Regional Entity business plans and budgets will provide a discussion of significant assumptions regarding the scope and cost of Administrative Services during the budget year, including significant changes from the previous budget year. This discussion will encompass resources supporting the Administrative Services functions of Technical Committees and Member Forums, General and

[36] The table template in **Attachment 6** uses budgeted cost and staffing numbers from NERC's 2014 and 2015 Business Plans and Budgets.

Administrative, Legal and Regulatory, Information Technology, Human Resources, and Finance and Accounting.

Finally, NERC proposes to eliminate the narrative discussion that is currently provided in the Administrative Services cost metrics attachment (*see* pages 1-3 of **Attachment 5**). As with the data reported in the attachment on Regional Entity operations metrics, NERC expends considerable resources each year preparing the narrative discussion concerning the Administrative Services cost metrics. The effort has tended to focus on identifying and explaining one-time events that caused a significant one-year change in a Regional Entity's budgeted costs, and in highlighting differences among the Regional Entities that may account for differences in Administrative Services costs and staffing. Further, as with the data reported in the attachment on Regional Entity operations metrics, the year-to-year changes in the budgeted Administrative Services metrics seem to be stabilizing as the ERO Enterprise matures. NERC submits that at this stage of the development of the ERO Enterprise, it is more important that attention and resources be focused on identifying and explaining significant year-to-year changes in NERC's and each Regional Entity's budgeted Administrative Services costs and staffing, which the information that NERC proposes to provide will do.

B. Metrics Currently Included in the Annual Budget-to-Actual Cost True-Up Filings

In the June 19, 2008 Budget Compliance Order, the Commission specified that NERC should develop metrics on the portions of NERC's and the Regional Entities' actual costs expended on, and staffing for, Administrative Services functions. The Administrative Services cost and staffing metrics were to be provided in the annual true-up filings beginning with the annual true-up filing covering 2008.[37] NERC began including metrics on NERC's and the Regional Entities' Administrative Services costs and staffing in the annual true-up report for 2008 and has included the same Administrative Services cost metrics in the annual true-up

[37] June 19, 2008 Budget Compliance Order at P 39.

reports covering the years 2009 through 2013 (2013 being the most recent year for which a true-up report has been filed). Specifically, in the annual true-up filings covering the years 2008 through 2013, NERC has provided the following three sets of metrics comparisons for the NERC and Regional Entity budgets and actual costs for the year:

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

In NERC's 2013 True-up Report, the metrics data on Administrative Services costs and staffing was presented in Attachment 10 and discussed at pages 10-19 of the filing.[38]

NERC proposes to continue to provide the same metrics data on NERC and Regional Entity Administrative Services costs and staffing as it currently provides in the annual true-up filings (*i.e.*, the same metrics data as provided in Attachment 10 to the 2013 True-up Report). This data is compiled by the NERC Finance and Accounting staff from the NERC and Regional Entity business plans and budgets and does not require a significant amount of time and resources to compile. This metrics data presentation will continue to enable stakeholders and the Commission to readily observe, for each of the nine entities, the relationship of actual Administrative Services costs and staffing to budget (both in total and in relation to total statutory expenditures and staffing), and to make comparisons among the Regional Entities with respect to these metrics.

NERC proposes, however, to eliminate the narrative discussion of the Administrative Services cost metrics that has been provided in the text of the annual true-up filings. As is the case with the narrative discussions of the metrics data provided in the business plan and budget

[38] **Attachment 7** to this filing is a copy of pages 10-19 of NERC's 2013 True-up Report and Attachment 10 to that filing.

filings, NERC expends considerable resources each year preparing the narrative discussion on Administrative Services cost metrics for the annual true-up filings, but has found that this effort generally devolves to identifying one-time events that caused variances between NERC or a Regional Entity's budgeted and actual Administrative Services costs, and to identifying differences among Regional Entities that may cause particular Regional Entities to have higher or lower Administrative Services costs or staffing as a function of their total budgeted or actual costs or staffing. Further, a Regional Entity's actual Administrative Services costs or staffing may be a greater percentage of its total costs or staffing than was budgeted because its actual direct costs or staffing were lower than budgeted. That is, the actual Administrative Services costs or staffing may have come in close to budget, but are a higher percentage of total actual costs or staffing than budgeted because the direct cost budget was underspent, or the budgeted direct function staffing target could not be fully met.

Moreover, again as is the case with the metrics data on Indirect Costs provided in the business plan and budget filings, the annual true-up reports covering the years 2011, 2012 and 2013 have shown that the metrics for Administrative Services cost and staffing for NERC and the Regional Entities are leveling – *i.e.*, the metrics are not changing significantly from year-to-year – as the ERO matures. NERC stated in the 2013 True-up Report:

> A final, overall observation on the entire set of metric data presented . . . is that, after seven years of ERO operations, as their organizations and programs mature, with only limited exceptions, each of the nine entities [NERC and the eight Regional Entities] appears to be reaching a steady state in terms of the portions of its total statutory expenditures and personnel resources that are being devoted to statutory direct program activities and to statutory indirect activities. While some differences remain in the individual metrics values among the entities, these differences (*i.e.*, each entity's metrics values) can be seen as becoming ingrained in their organizational and program structures.[39]

Additionally, NERC believes the focus of the annual true-up filings should be on the identification and explanation of significant variances between actual and budgeted costs for

[39] 2013 True-up Report at 19 (**Attachment 7** to this filing).

NERC and the individual Regional Entities. To that end, the annual true-up filings contain, for NERC and each Regional Entity, (1) a narrative document identifying, and stating reasons for, major variances between the entity's budget and actual costs for the year by major budget category (*i.e.*, Funding, total Expenses, and major Expense categories such as Personnel, Meeting and Travel, Consultants & Contracts, Office Rent, Office Costs, and Professional Services); (2) a set of tables, in the format of the Statements of Activities and Fixed Assets Expenditures included in the business plans and budgets, showing for each budget line item (i) the budgeted amount, (ii) the actual amount, and (iii) the variance from budget to actual cost; and (3) an explanation for each line-item variance that is greater than $10,000 and 10 percent of the budgeted amount. This presentation provides stakeholders and the Commission with a detailed view of each of the nine entities' actual results versus budget for the year with an explanation of the causes of all non-trivial variances.

IV. CONCLUSION

For the reasons set forth in this filing, NERC respectfully requests that the Commission enter an order approving the revisions proposed herein to the metrics information and attachments to be submitted in NERC's annual business plan and budget filings and annual true-up filings.

Respectfully submitted,

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ATTACHMENT 1

PAGES 19-21 FROM NERC'S 2015 BUSINESS PLAN AND BUDGET

Compliance Enforcement Department

Compliance Enforcement (in whole dollars)	2014 Budget	2015 Budget	Increase (Decrease)
Total FTEs	18.24	15.01	(3.23)
Direct Expenses	$ 2,864,951	$ 2,456,441	$ (408,509)
Indirect Expenses	$ 3,429,147	$ 3,161,698	$ (267,449)
Other Non-Operating Expenses	$ -	$ -	$ -
Inc(Dec) in Fixed Assets	$ 100,993	$ 188,727	$ 87,734
TOTAL BUDGET	$ 6,395,091	$ 5,806,866	$ (588,224)

Background and Scope

The Compliance Enforcement department is responsible for overseeing enforcement processes, the application of penalties or sanctions, and activities to mitigate and prevent recurrence of noncompliance with Reliability Standards. The Compliance Enforcement department works collaboratively with the eight Regional Entities to ensure consistent and effective implementation of the Compliance Monitoring and Enforcement Program. Focus is also given to ensuring enterprise-wide resources are dedicated to the matters that have the greatest impact on reliability.

NERC's Compliance Enforcement department performs its responsibilities by:

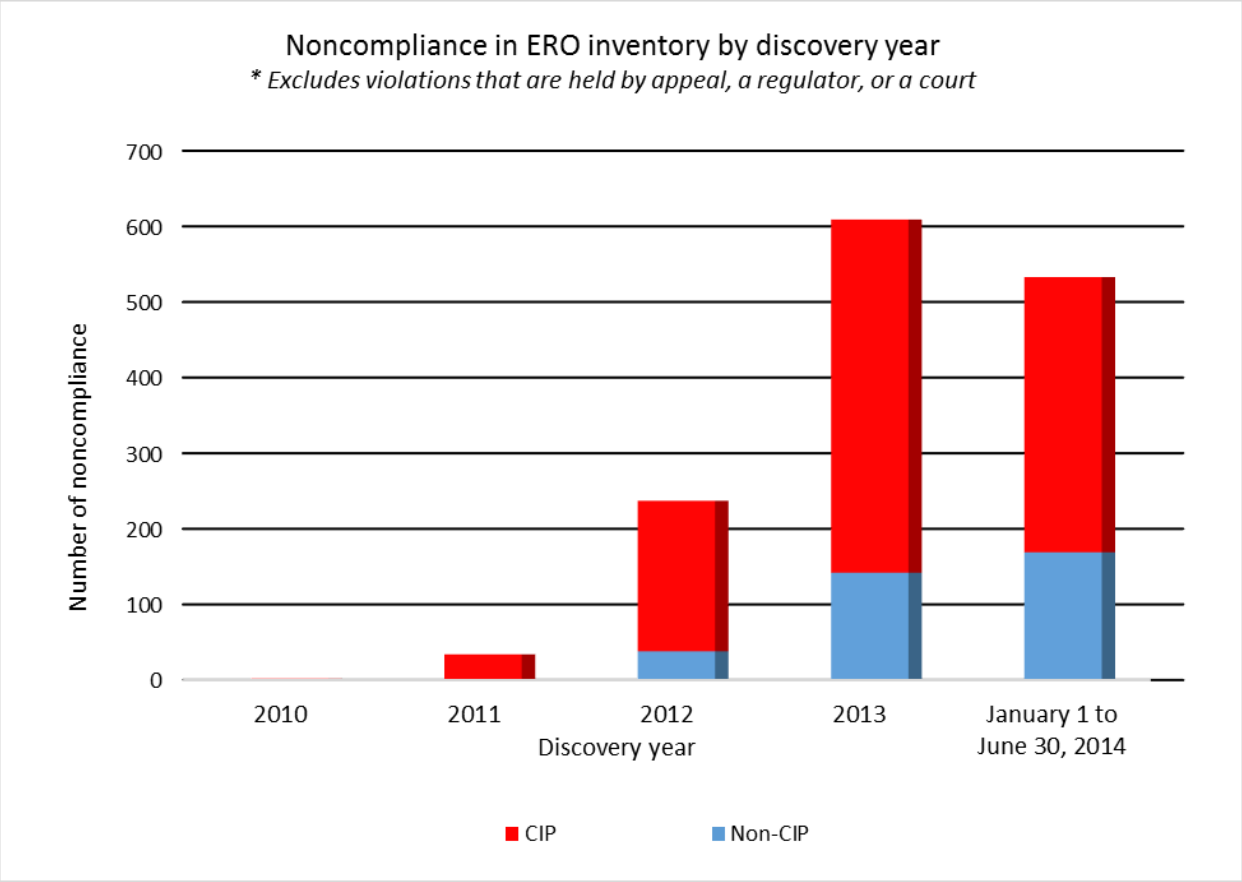
- Monitoring Regional Entities' enforcement processes and providing oversight over the outcome of such processes to ensure due process, to identify best practices and process efficiency opportunities, and to promote consistency among Regional Entities' business practices;
- Collecting and analyzing compliance enforcement data and trends to assist with the identification of emerging risks and to help inform the development of enforcement policy and processes;
- Filing notices of penalty and other submittals associated with noncompliance discovered through Regional Entity compliance, enforcement, and monitoring activities;
- Processing and filing notices of penalty and other submittals associated with violations discovered through NERC-led investigations and audits; and
- Collaborating with other NERC departments, including Standards and Regional Oversight Compliance.

Stakeholder Engagement and Benefit

Over the past few years, NERC and the Regional Entities made substantial progress in reducing the number of instances of noncompliance remaining to be evaluated and processed. The ERO Enterprise has held registered entities accountable for violations that created risk to the reliability of the BES while ensuring that enforcement actions are timely and transparent. NERC is also seeking to further promote a culture of reliability excellence by examining registered entities' internal compliance programs and considering them as mitigating factors in penalty determination.

Processing Efficiencies

In an effort to improve the efficiency of enforcement processing throughout the ERO Enterprise, NERC developed a series of key enforcement processing metrics, which are tracked and analyzed throughout the year. In addition, in 2012 and 2013, NERC established corporate goals to reduce the number of older violations remaining to be processed. Working with NERC, the Regional Entities invested significant time and resources in processing the older violations. As a result, the ERO Enterprise as a whole reduced the number of older violations substantially. For example, in 2012, NERC and the Regional Entities reduced the number of open violations dating from before 2011 (excluding violations that are held by appeal, a regulator, or a court, referred to as "on-hold" violations) by 80%. In 2013, NERC and the Regional Entities built on the successes of 2012. By January 1, 2014, the ERO Enterprise had reduced the number of pre-2012 violations (excluding "on hold" violations) by 93%. As of June 30, 2014, 43% of the pre-2013 noncompliance issues have been processed and resolved. The 237 pre-2013 remaining cases represent 2% of the total violations submitted to the ERO Enterprise from 2007 through June 30, 2014.



FFT Enhancements

NERC and the Regional Entities have worked together to implement the latest round of FFT improvements approved by FERC and reduce the amount of time required to process issues through the FFT program. As a result of these improvements, FFT treatment is now available for a limited pool of Possible Violations (PVs) that pose a moderate risk to the reliability of the BES (in addition to those posing a minimal risk). In addition, certain unmitigated PVs may be processed through the FFT program as long as mitigation is completed within 90 days of the date the FFT is posted.

To streamline processing of FFTs, Regional Entities now submit them for public posting on NERC's website at the end of each month. (The prior requirement was for NERC to submit monthly informational filings to FERC.) NERC maintains its enforcement oversight by reviewing a representative sample of FFTs during the 60-day window following the monthly posting as well as through an annual spot check. NERC's spot checks of FFT items ensure that issues selected for FFT treatment are appropriate for the program, that the issues are explained sufficiently in the posted documents, that the FFT program is implemented consistently across the Regions, and that information about FFT issues is presented consistently across the Regions.

Self-Report and Other Enforcement Improvements

As part of the RAI, NERC and Regional Entity enforcement staff also have worked closely with stakeholders to identify potential improvements to self-report processes and other enforcement processes. A number of improvements were designed and implemented in 2013 and 2014. In 2013, NERC and the Regional Entities began two pilot programs (the Aggregation of Minimal Risk Issues and Enforcement Discretion pilot programs) to develop and test the real-world application of risk-based enforcement concepts. Under the Aggregation of Minimal Risk Issues pilot program, NERC and certain Regional Entities are testing the ability of selected registered entities to self-assess, identify, and mitigate minimal-risk noncompliance proactively. This pilot is focused on allowing registered entities with demonstrated effective management practices to self-identify and assess instances of noncompliance to aggregate minimal risk issues that would otherwise be individually self-reported. The first six-month cycle of this pilot ended in March 2014. In reviewing the results of the first cycle, NERC and the Regional Entities decided to continue the program for the next six to nine months and include additional registered entities to obtain more data on the impact of the program.

Under the Enforcement Discretion pilot program, certain Regional Entities are reviewing minimal-risk issues identified by certain registered entities (in some cases, through the Aggregation of Minimal Risk Issues pilot program) to determine whether those issues warrant Enforcement Discretion treatment. If an issue is tracked for Enforcement Discretion treatment, NERC and FERC will be notified and the record will be available for review, but no notice of PV will be issued to the registered entity. Issues recorded for Enforcement Discretion are referred to as Compliance Exceptions. The scope of the program will be increased to include additional registered entities so the ERO Enterprise may collect more data over the next six to nine months.

These activities are timed such that the additional data can be collected and provided to inform a filing to FERC, reporting on the RAI program.

Key Enforcement Efforts Underway in 2014

In 2014, NERC and the Regional Entities are continuing to work together to reduce (and eventually eliminate) the number of violations in inventory that are older than 24 months. These efforts will ensure that Regional Entities are prioritizing and resolving older violations appropriately. Combined with efforts to decrease processing times through the use of alternative enforcement mechanisms and enforcement process refinements, the Regional Entities will reduce overall processing times and provide finality on compliance items more quickly to registered entities.

Promotion of Self-Identification of Noncompliance and Prompt Mitigation

Although dedicated primarily to the evaluation and enforcement of discovered violations, Regional Entity enforcement programs play an important role in improving the reliability of the BES. By deploying proper incentives to encourage the self-discovery and timely self-reporting of violations, NERC and the Regional Entities have encouraged registered entities to take proactive steps to identify noncompliance. In 2013,

ATTACHMENT 2

NERC REPORT

"KEY COMPLIANCE ENFORCEMENT METRICS AND TENDS"

FOR THE FOURTH QUARTER OF 2014

NERC
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

Key Compliance Enforcement Metrics and Trends

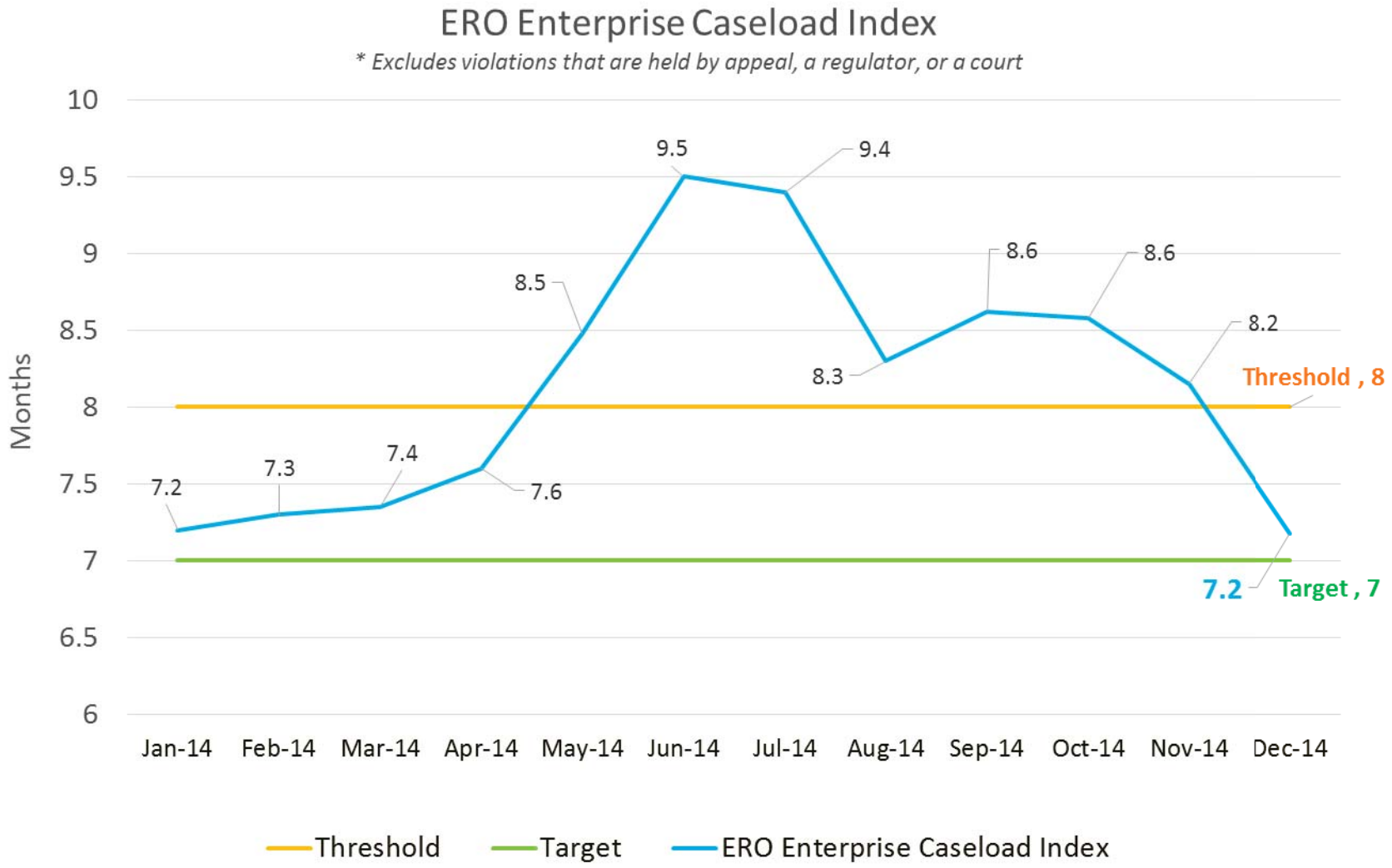
Sonia Mendonça, Associate General Counsel and Senior Director of Enforcement
Board of Trustees Compliance Committee
February 11, 2015

RELIABILITY | ACCOUNTABILITY

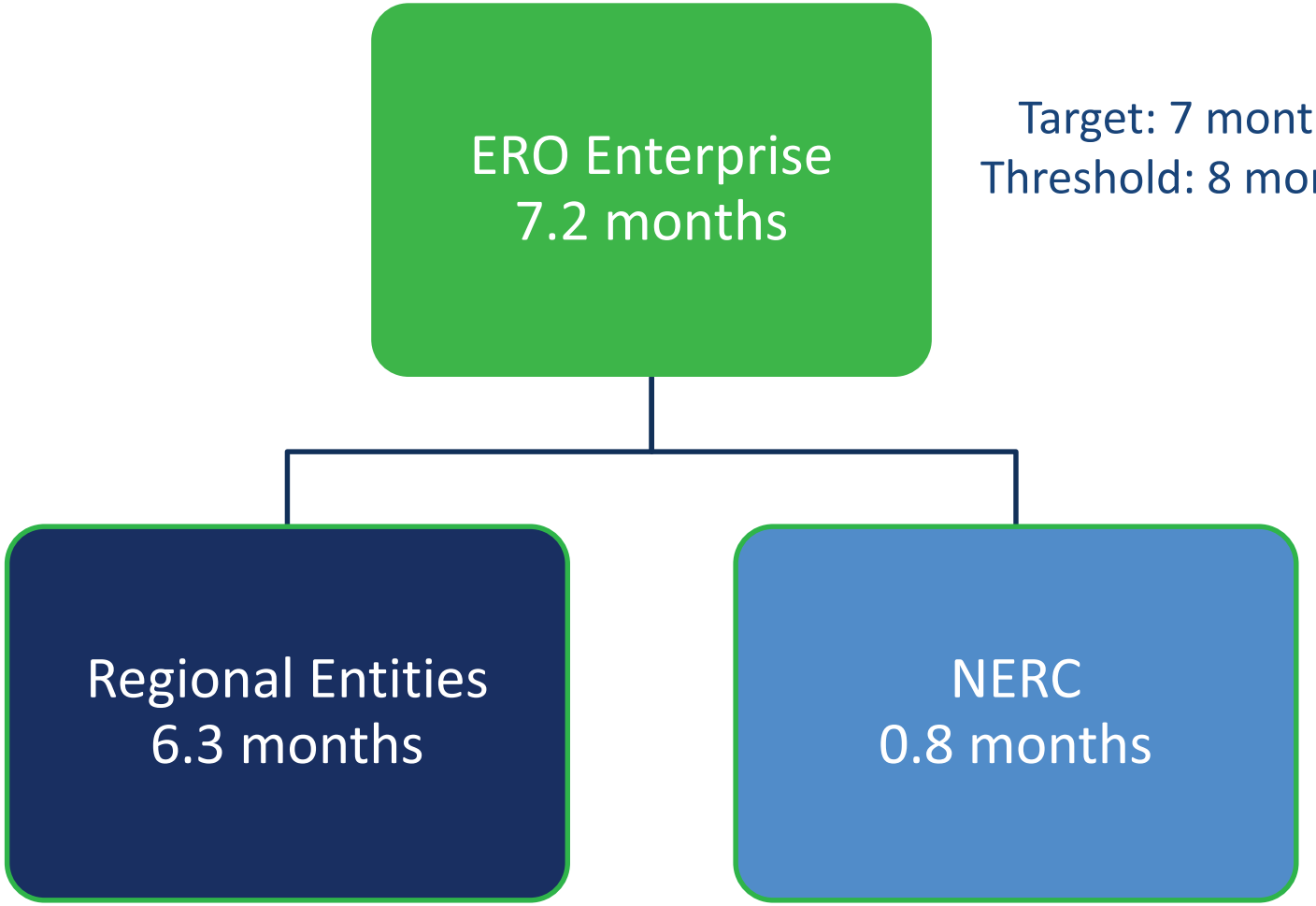
2014 Goals

- Timeliness and transparency of compliance results
- Self-identification of noncompliance
- Timeliness of mitigation
- Risk-based enforcement processes

Caseload Index (January 1, 2015)



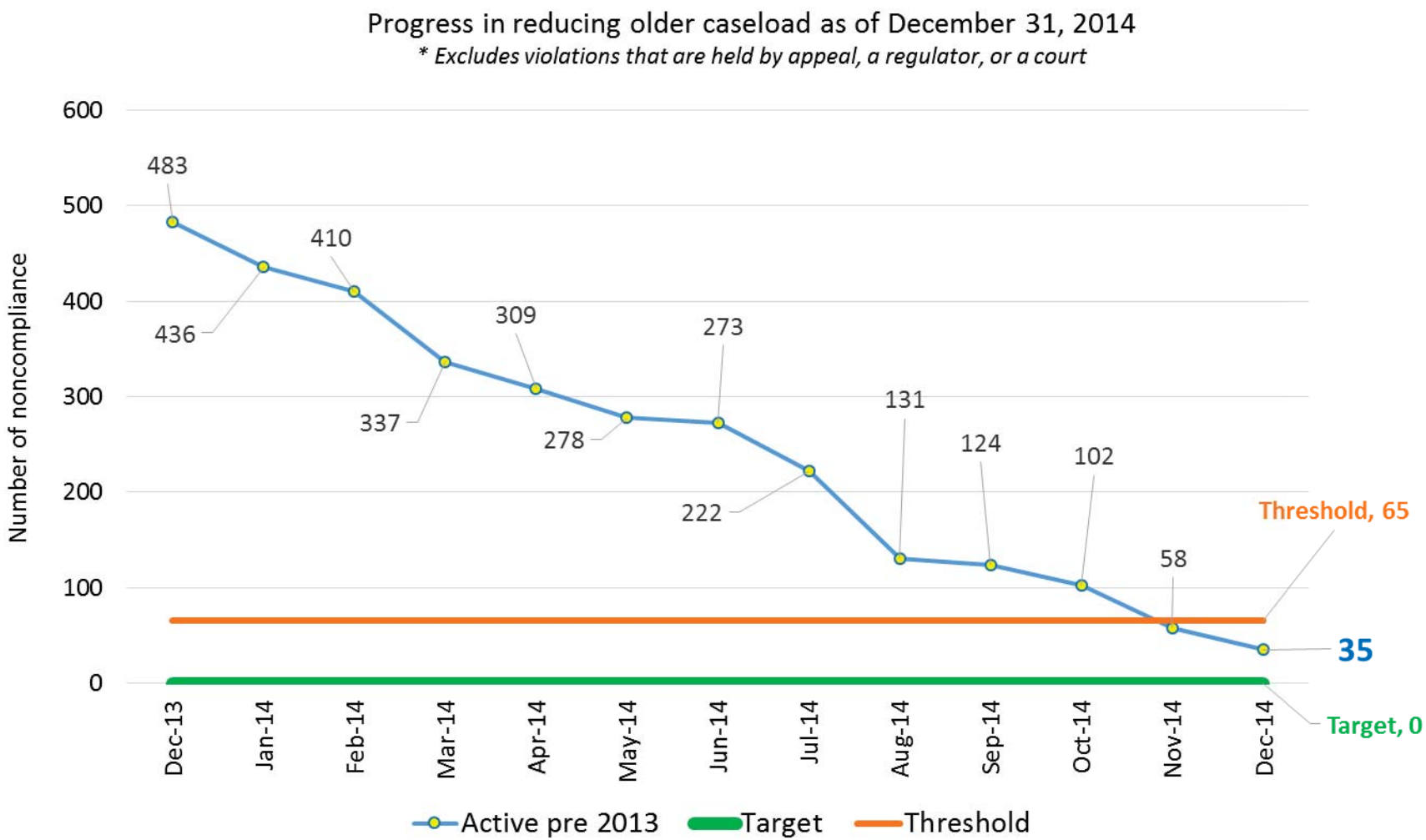
Caseload Index (January 1, 2015)



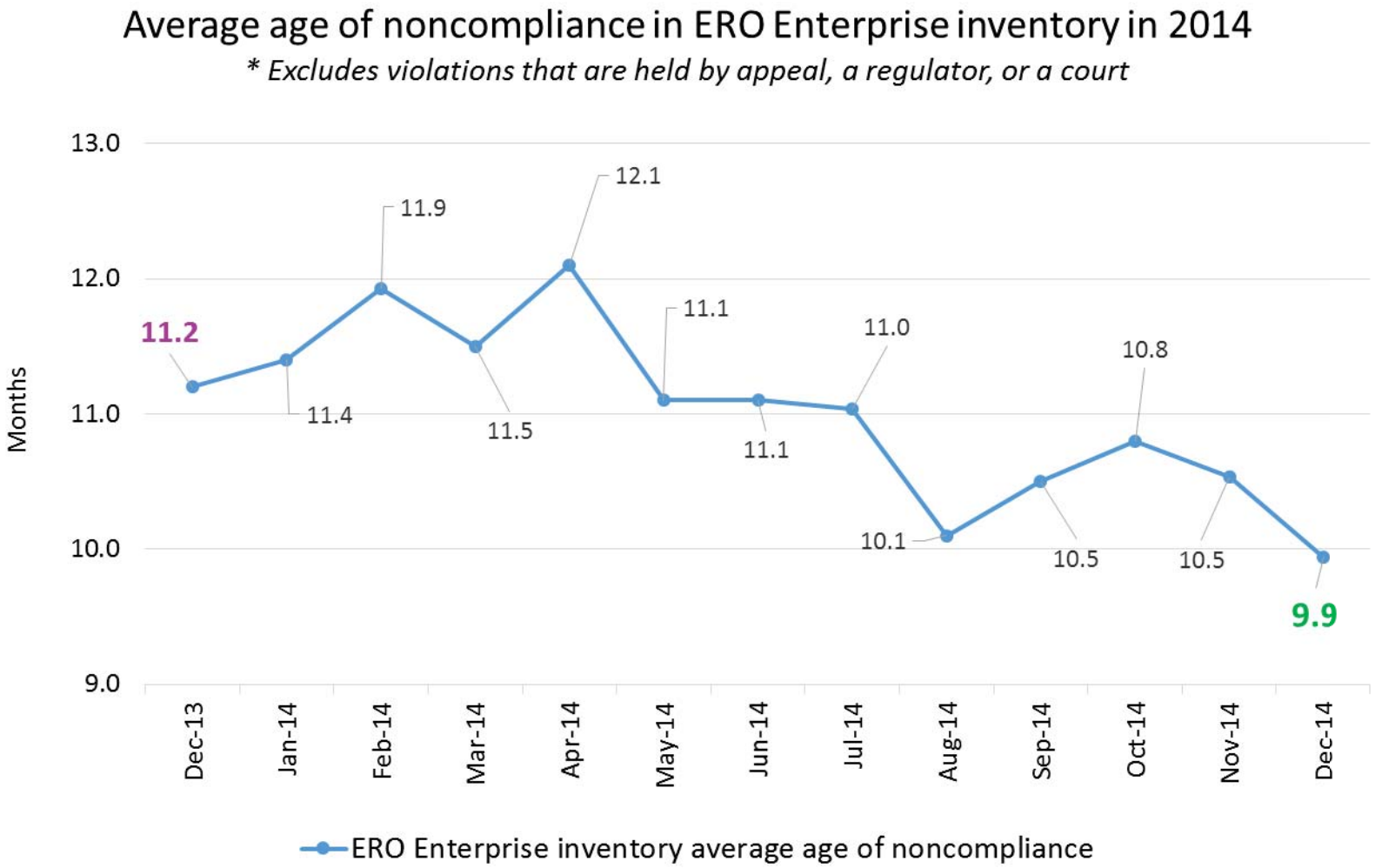
Target: 7 months
Threshold: 8 months

* Excludes violations that are held by appeal, a regulator, or a court.

Caseload Reduction (January 1, 2015)



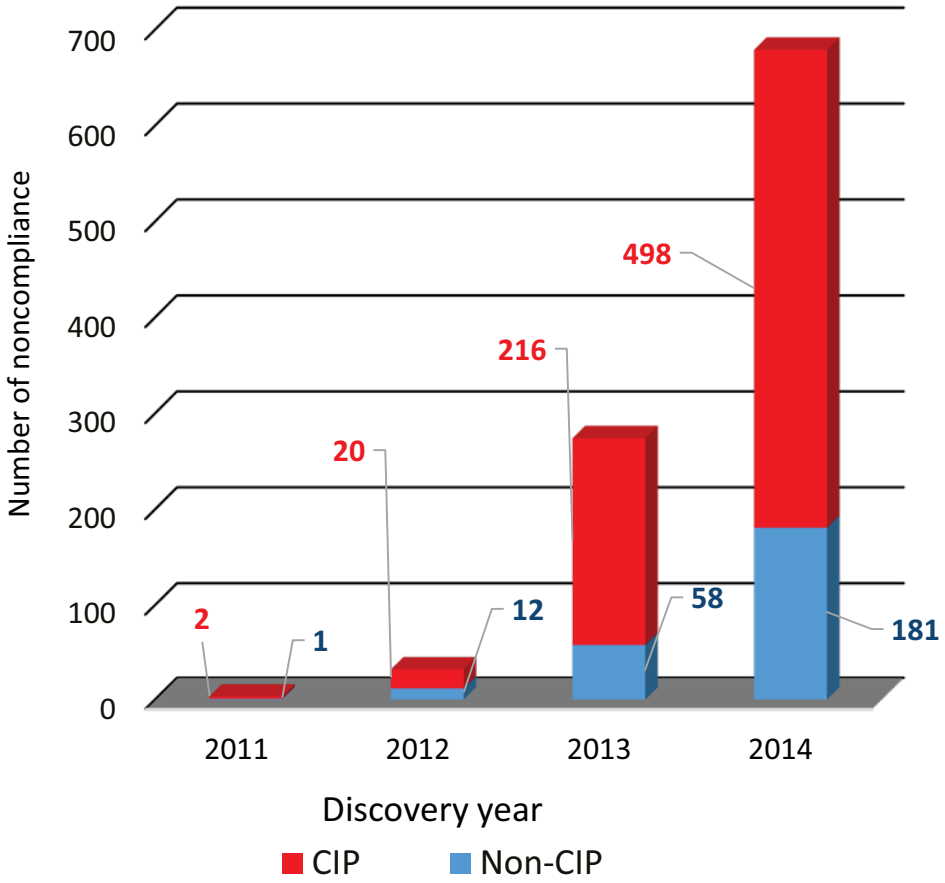
Violation Age



Violation Age

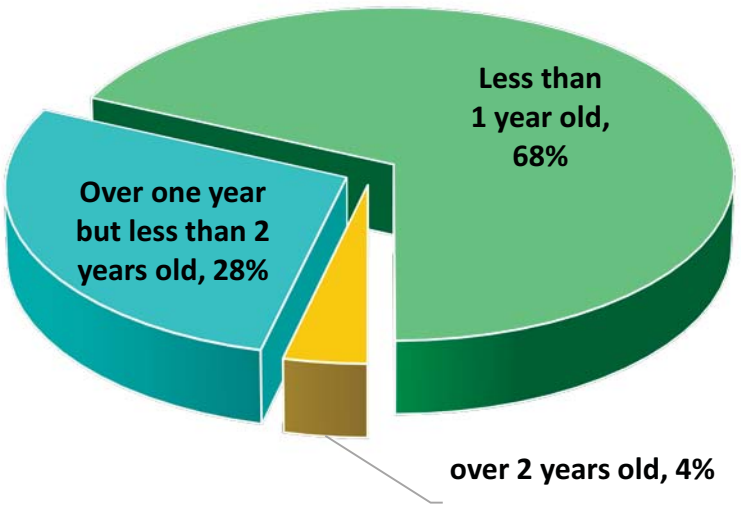
Noncompliance in ERO Enterprise inventory by discovery year

** Excludes violations that are held by appeal, a regulator, or a court*

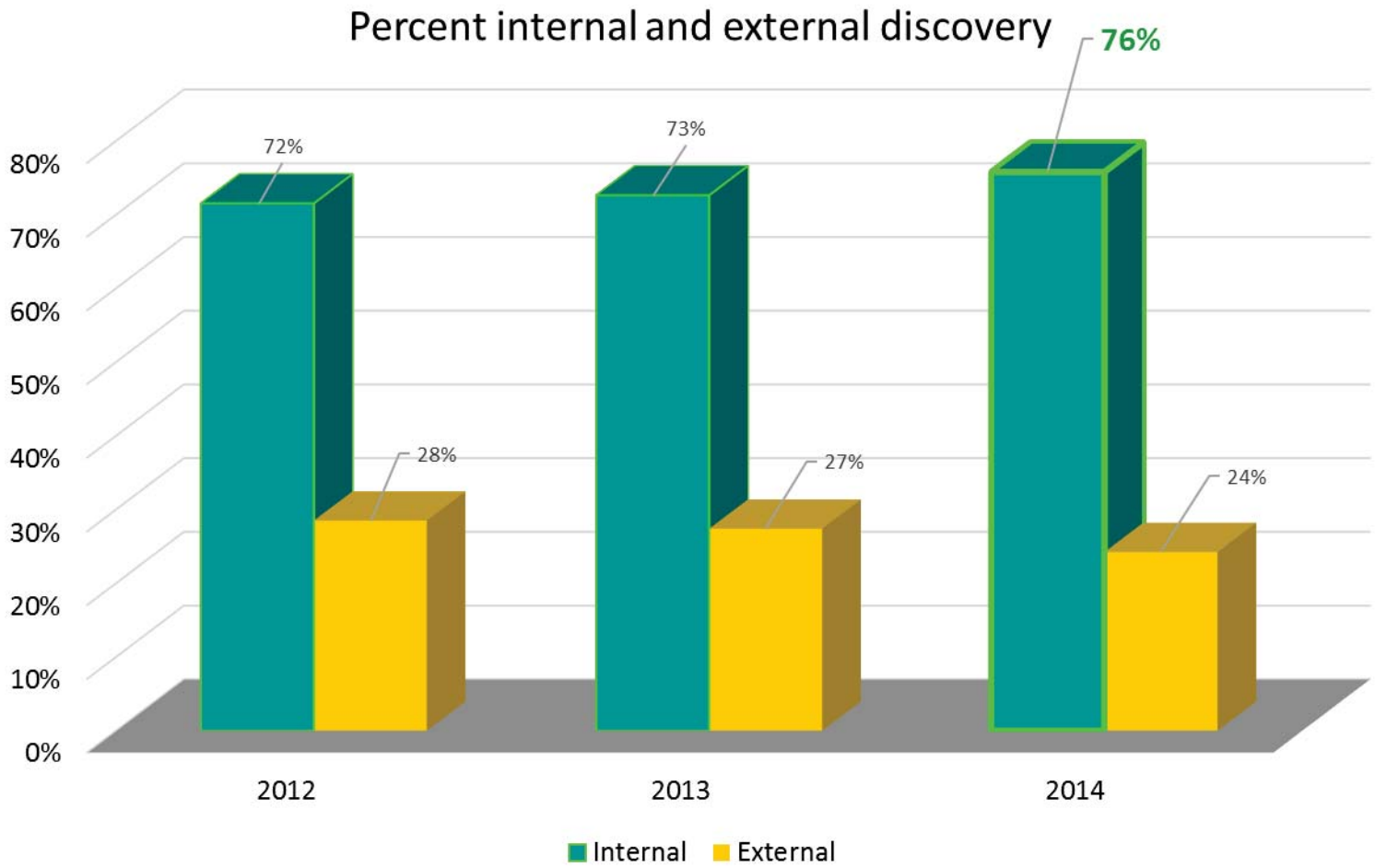


Average age of noncompliance in the ERO Enterprise inventory

**Excludes violations that are held by appeal, a regulator, or a court*



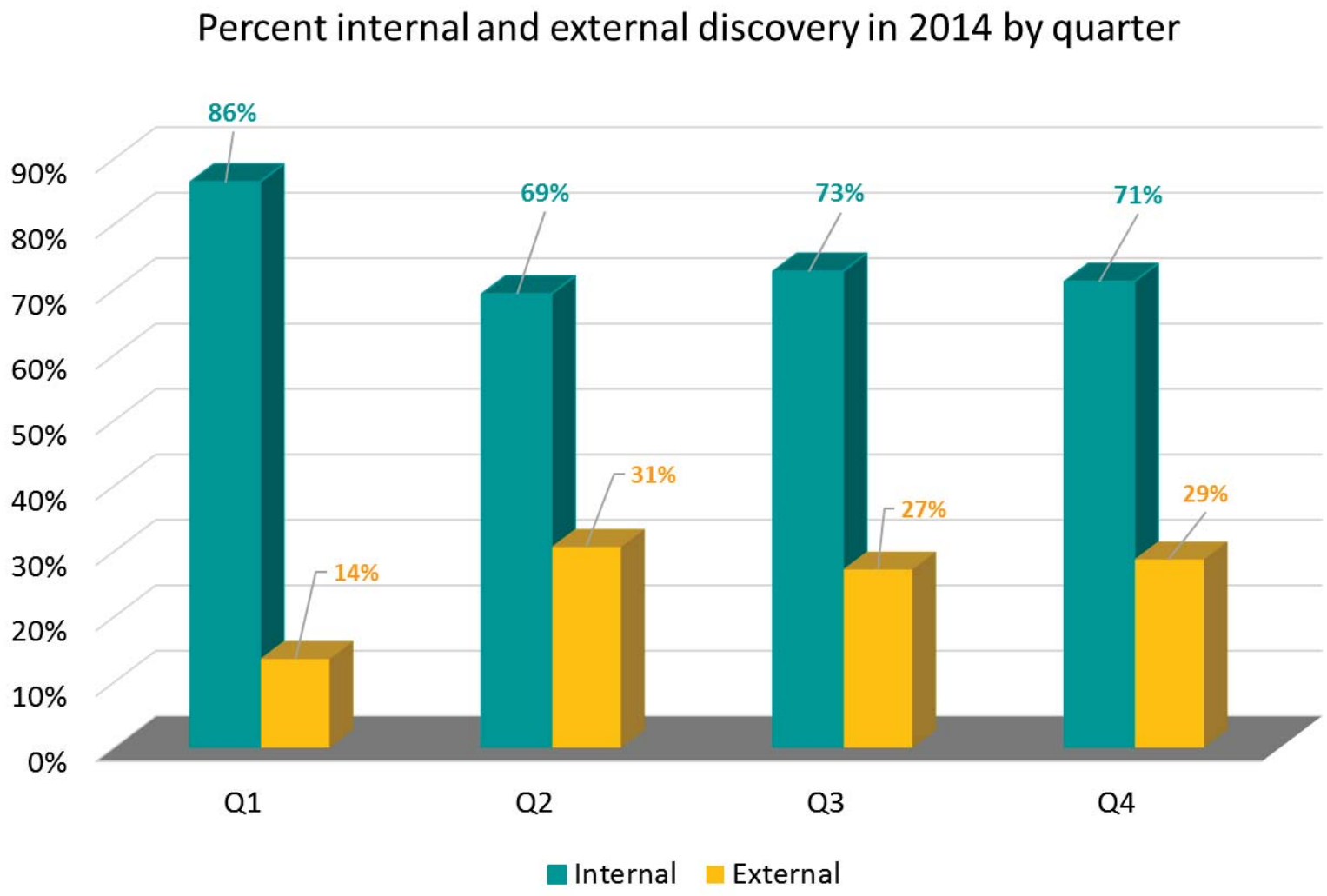
Self-Identification



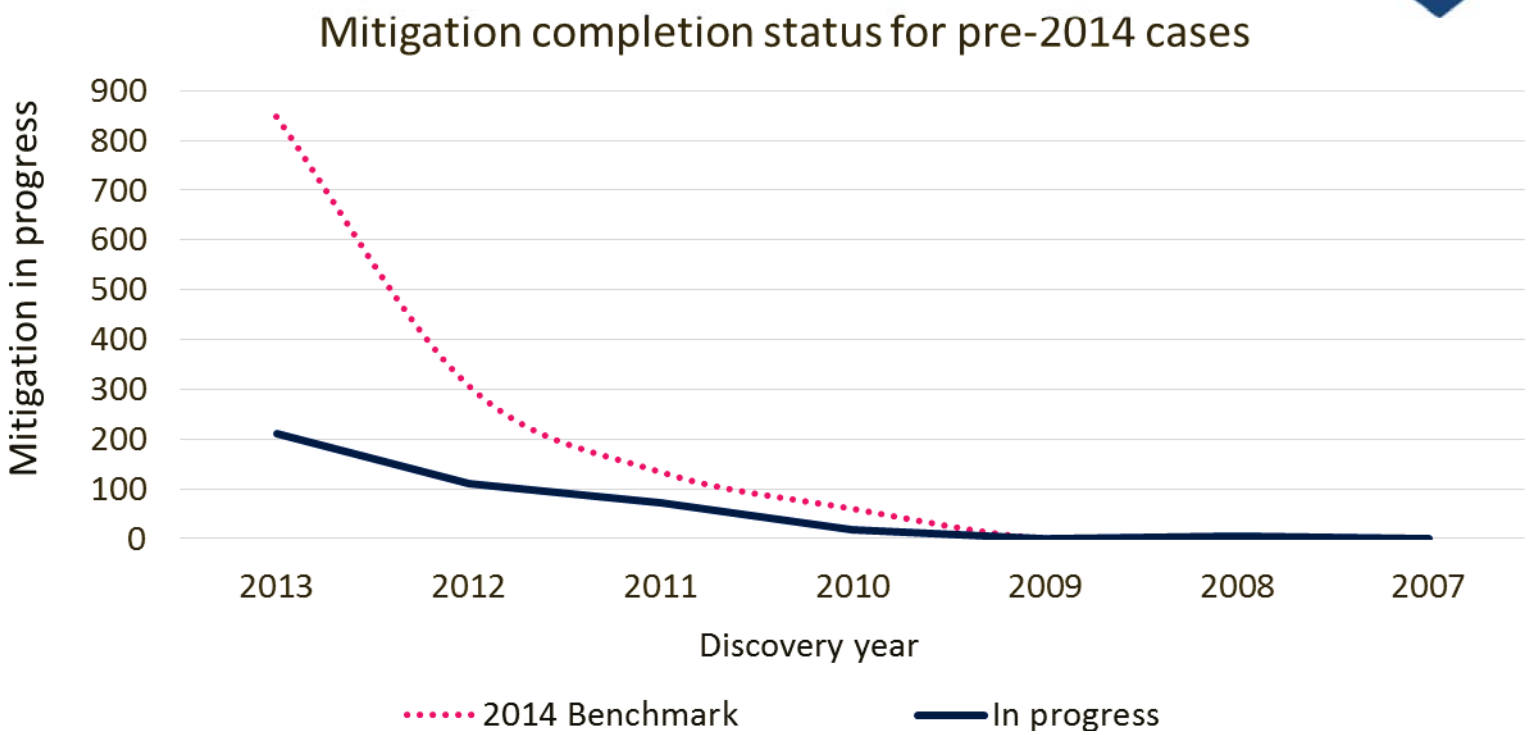
Target: 75%

Threshold: 70%

Self-Identification



Mitigation Completion



Discovery year	Progress toward the goal	Threshold	Target
2013	82%	75%	80%
2012	93%	90%	95%
2011	96%	95%	98%
2010 and older	99%	98%	100%

* Includes all violations including those that are held by appeal, a regulator, or a court.

Triage and Compliance Exceptions

Triage

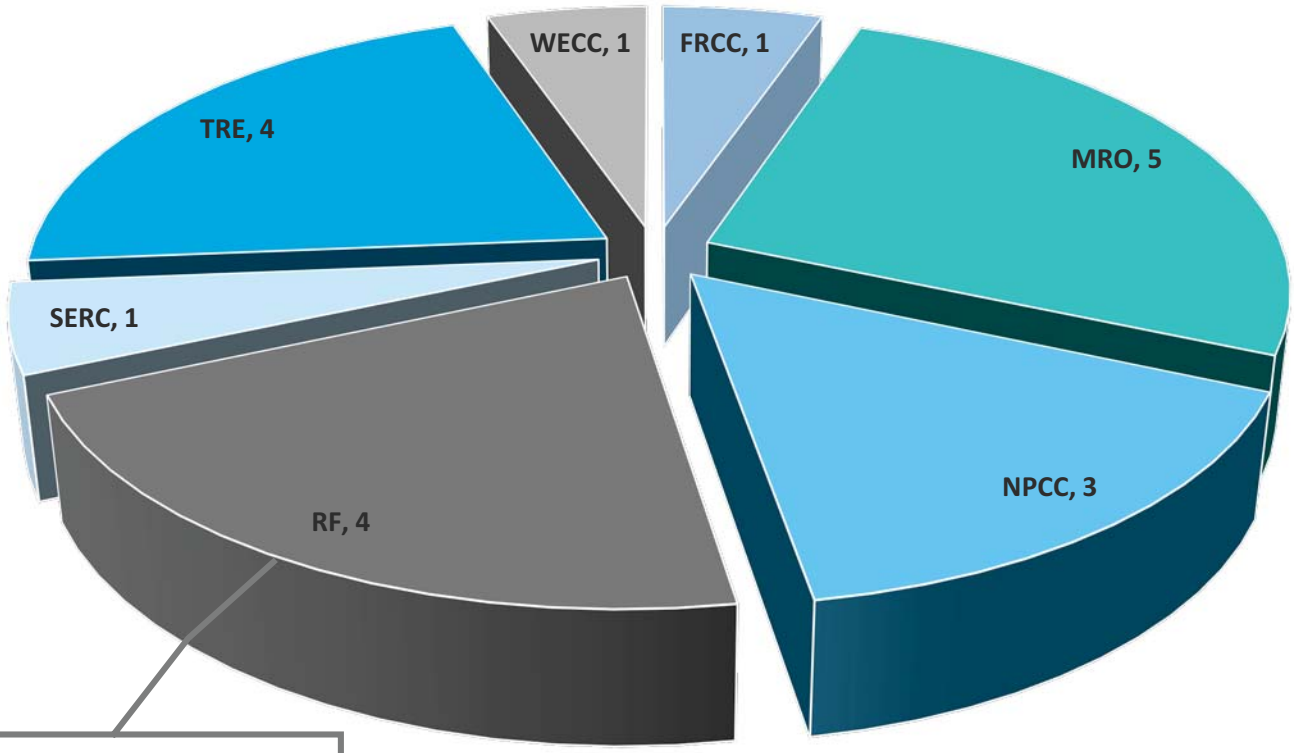
96% of 2014 submissions completed triage within 60 days.

Compliance exceptions

10% of 2014 final dispositions followed non-enforcement path.

Self-Logging

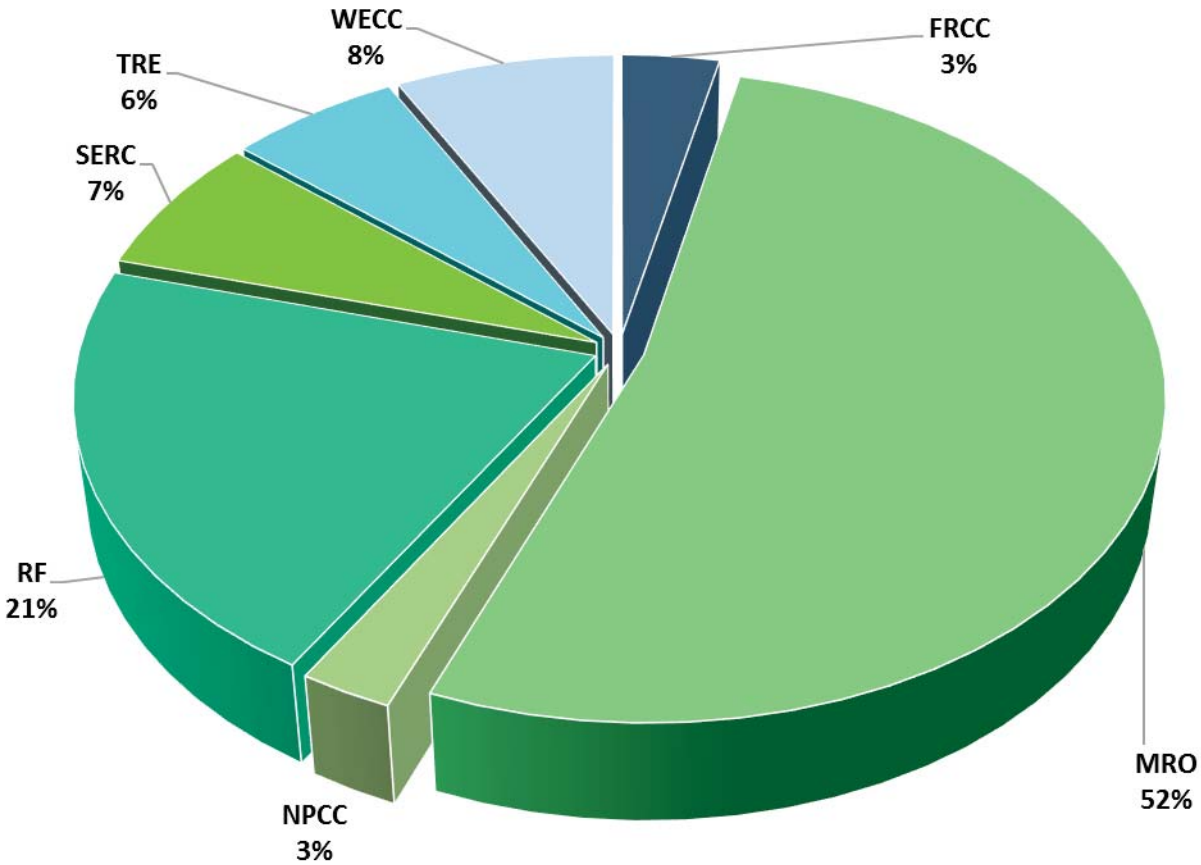
Number of registered entities admitted to the self-logging program



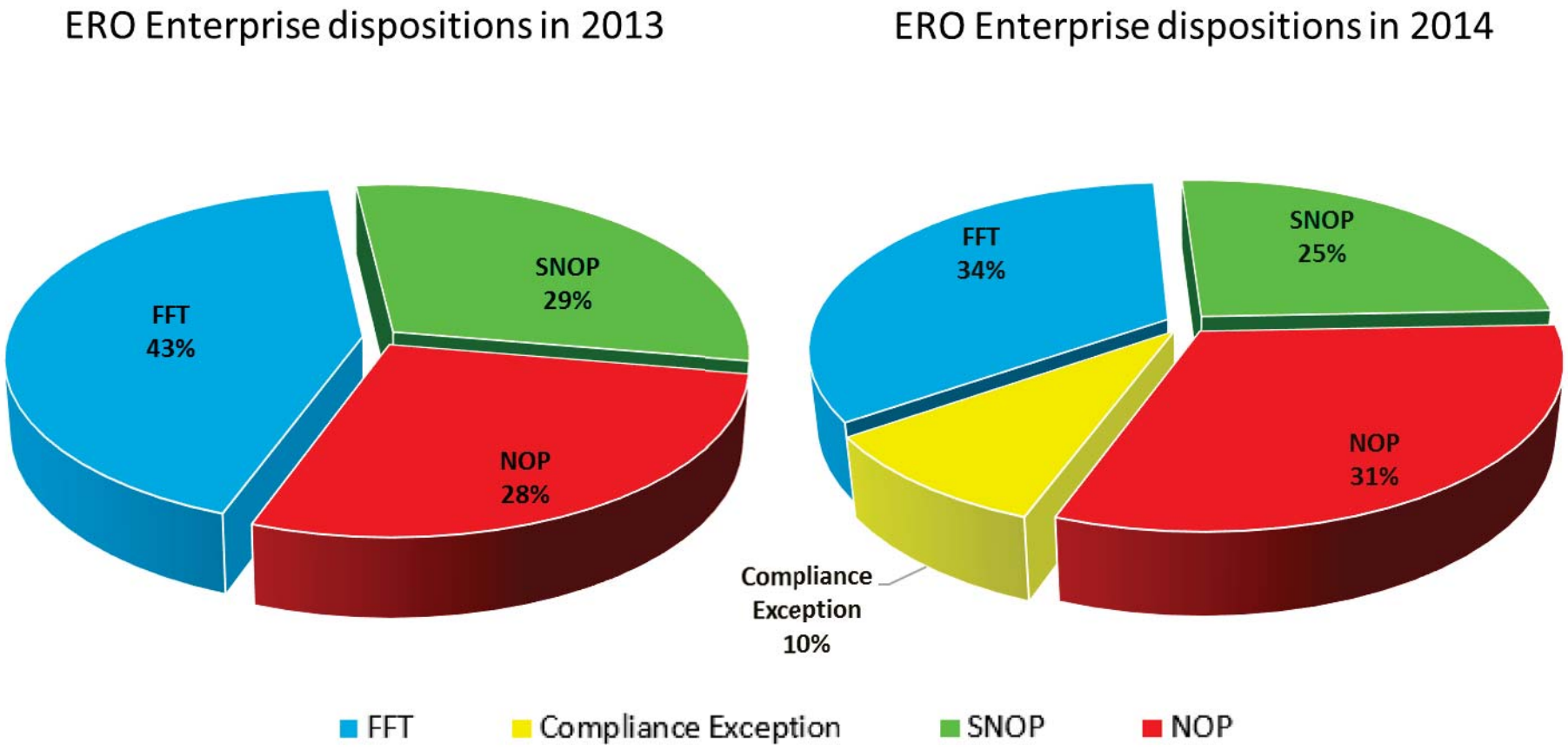
Includes multi-regional logs

Use of Compliance Exceptions

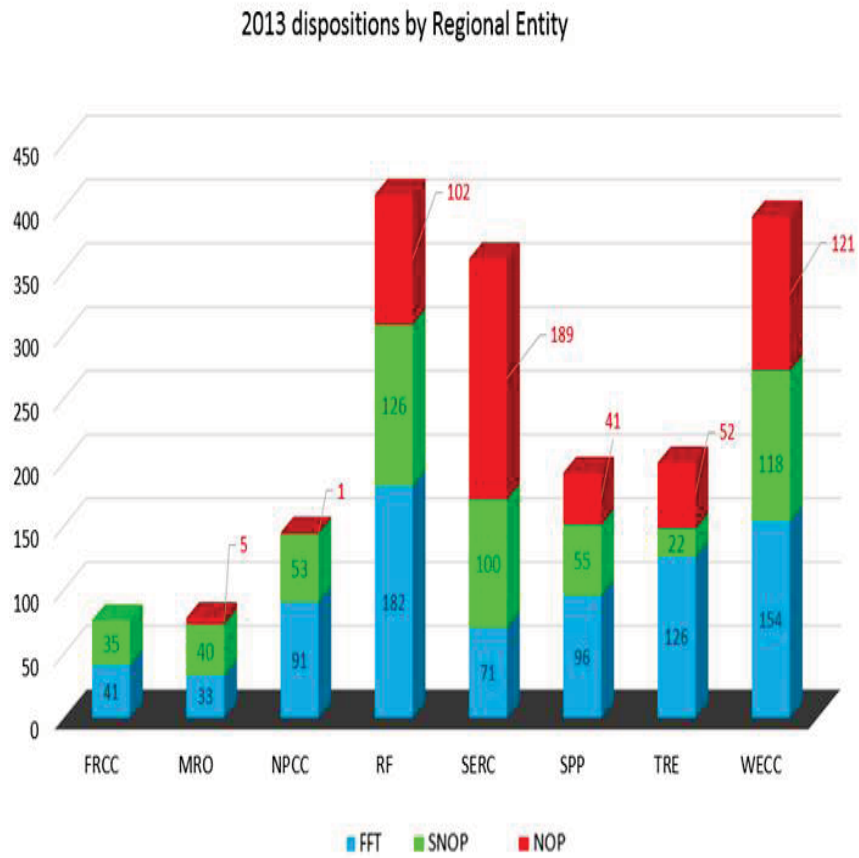
Percent compliance exception utilization by Regional Entity in 2014

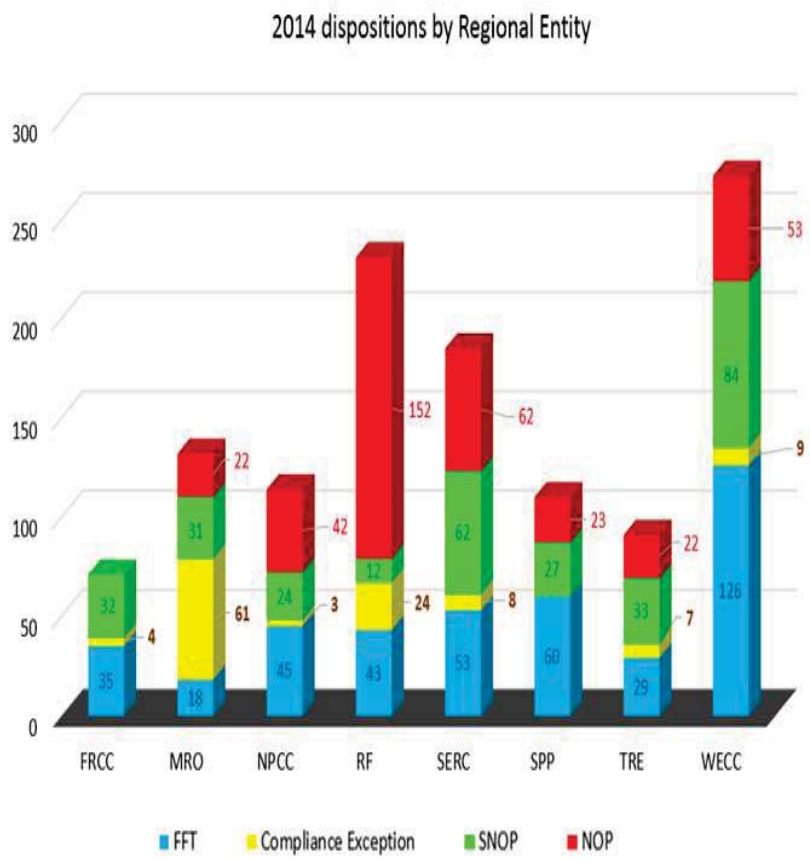


Use of FFT and Compliance Exceptions

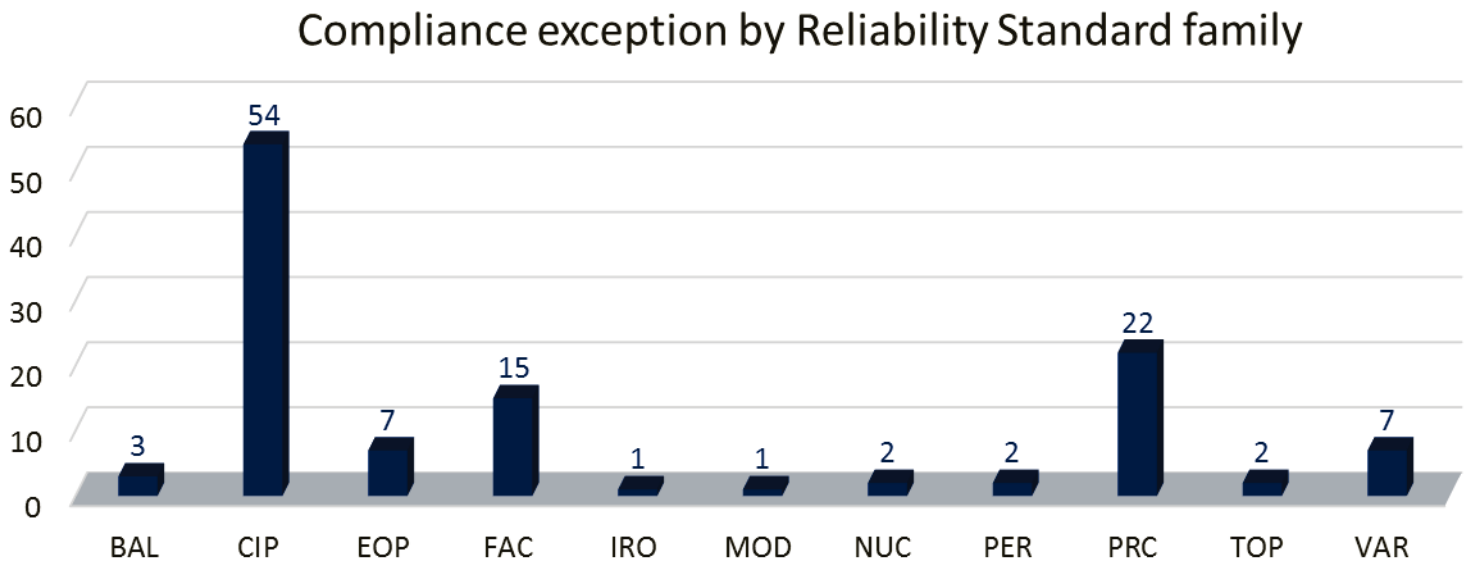


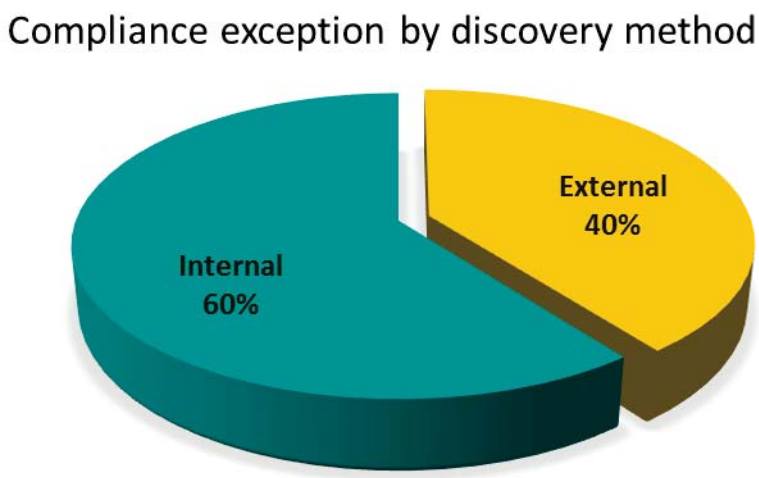
Use of FFT and Compliance Exceptions

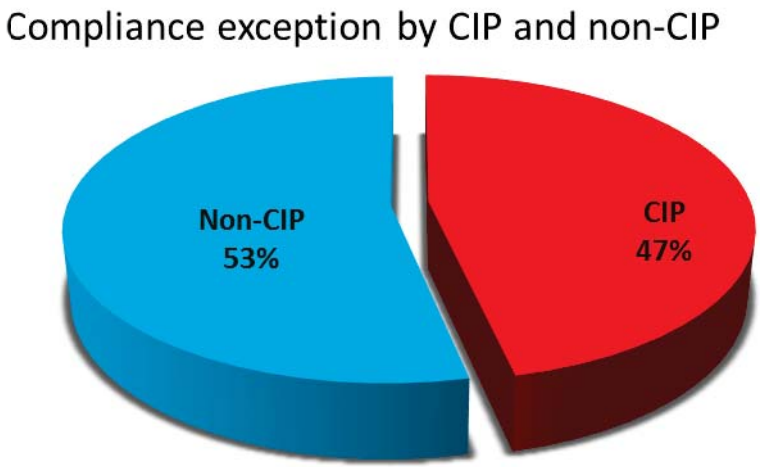




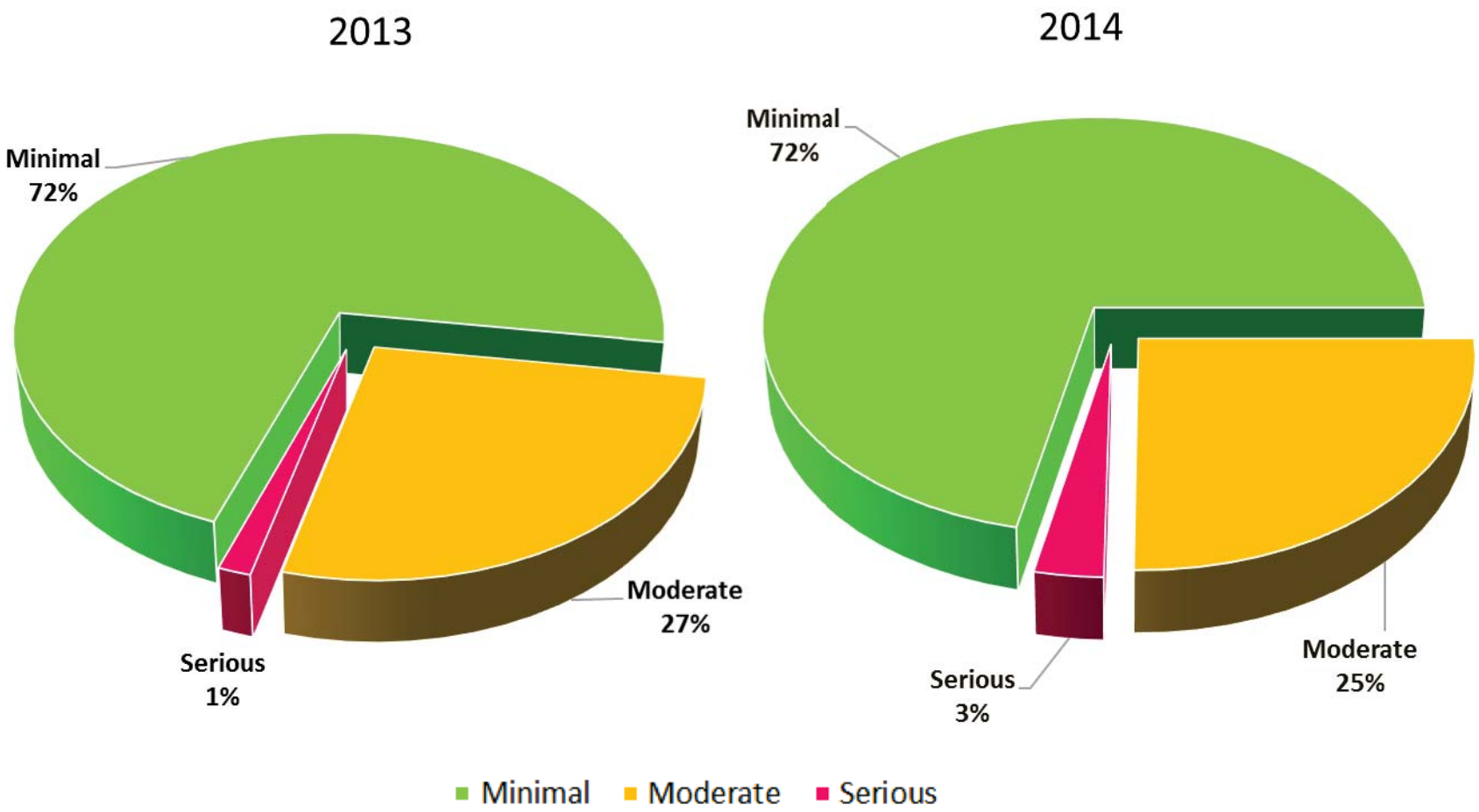
Use of Compliance Exceptions



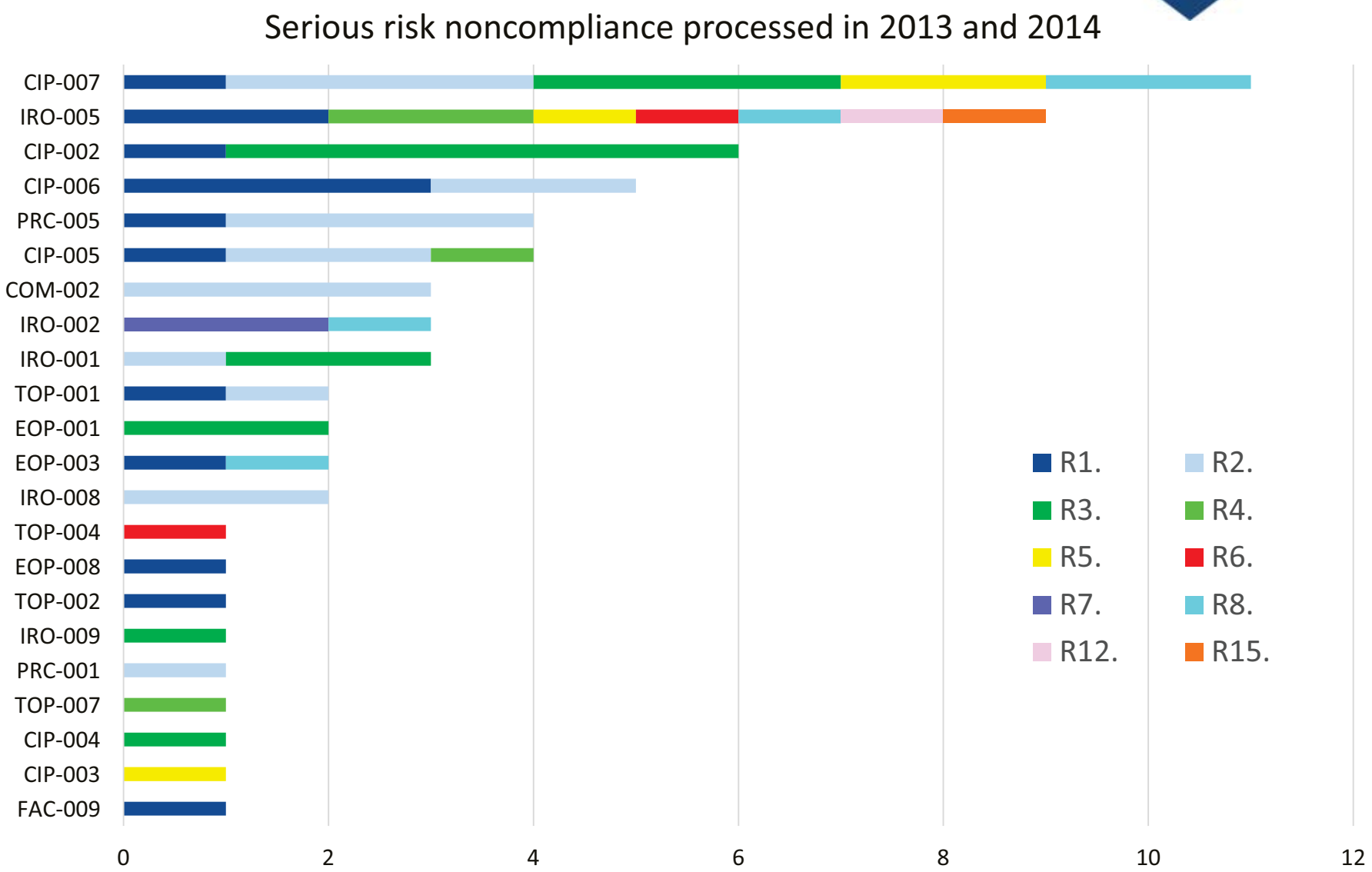




Risk Assessment Trends



Serious Risk Violations



Questions and Answers

ATTACHMENT 3

ATTACHMENT 15 TO NERC'S

2015 BUSINESS PLAN AND BUDGET FILING,

"STATUS REPORT ON THE ACHIEVEMENT

OF NERC'S 2014 GOALS"

ATTACHMENT 15

Status Report on the Achievement of NERC's 2014 Goals and Objectives

This Attachment provides a summary of NERC's 2014 goals and objectives and a status report on their achievement as of June 30, 2014.

NERC and the Regional Entities continued to improve and refine the ERO business planning and budgeting process through the development and integration of a multi-year Strategic Plan, which goes through an open and transparent stakeholder review process and is posted publicly on NERC's website. In 2014 NERC and the Regional Entities introduced a common set of ERO Enterprise performance metrics. These metrics are intended as indicators of the overall effectiveness of the ERO Enterprise in achieving its mission and the goals and objectives outlined in the ERO Enterprise Strategic Plan, 2014-2017. There are four overarching metrics focused on overall effectiveness in addressing bulk power system risks and improving reliability. There are a number of supporting measures that assess the effectiveness of the key operational elements of the ERO Enterprise. Exhibit 1 to this Attachment 15 sets forth the specific 2014 metrics which were approved by NERC's board in open session on May 2014.

Exhibit 2 to this Attachment 15 is the summary of corporate performance measures as of June 30, 2014 which was presented before stakeholders and NERC's Board of Trustees at the August 13, 2014 open meeting of NERC's Corporate Governance and Human Resources Committee. Similar reports are prepared and presented each quarter at approximately the same time NERC prepares and presents in open session to the NERC's Finance and Audit Committee its quarterly and year to date financial reports comparing budgeted to actual expenditures, together with a year-end rolling year end projection.

Electric Reliability Organization Enterprise Performance Metrics

In 2014, NERC and the Regional Entities introduced a common set of ERO Enterprise performance metrics. These metrics are intended as indicators of the overall effectiveness of the ERO Enterprise in achieving its mission and the goals and objectives outlined in the ERO Enterprise Strategic Plan, 2014-2017. There are four overarching metrics focused on overall effectiveness in addressing bulk power system risks and improving reliability. There are a number of supporting measures that assess the effectiveness of the key operational elements of the ERO Enterprise.

The intent is to report the results of these metrics on an ERO Enterprise-wide basis, and also as applicable distinguish results for NERC and individual regions. NERC and the Regional Entities are encouraged to further use relevant portions of these measures in their internal corporate performance management programs.

Metric 1: Reliability Results

Measure – Determine the frequency of BPS events, excluding weather[1], flood, or earthquake. The target is fewer, less severe events during 2014-2017; no Category 4 and 5 events and Category 3 events are trending down.

Metric 2: Assurance Effectiveness

Measure – Assess all Category 3 and above events. The target is to reach zero gaps in Reliability Standards and compliance monitoring by 2017.

Metric 3: Risk Mitigation Effectiveness

Measure – Review the BES risk profile each year to determine actual and potential risks. The target is to identify, select and mitigate the high priority risks (and issue specific metrics for each established project).

[1] Terrestrial weather excluded from metric, however space weather (GMD) is included in metric.

1. **Changing Resource Mix** - As the generation and load on the power system changes, new vulnerabilities may be exposed that the system was not previously designed to address or respond to. Fundamental operating characteristics and behaviors are no longer a certainty and focused action is needed to address this risk.
2. **Extreme Physical Events** – Risk mitigation efforts (reducing the potential consequence) are underway, but additional focus is needed to address and minimize both the magnitude and duration of the consequences of an extreme physical event.
3. **Protection System Misoperations** – NERC's 2012 and 2013 State of Reliability Reports identified protection system misoperations as a significant threat to BPS reliability. Additional activities are needed to ensure this risk is managed adequately.
4. **Cold Weather Preparedness** - Lack of generator preparedness for cold weather extremes may result in forced outages, de-ratings, and failures to start. Insufficient availability of intra-regional generation and limits on import transfer capability may result in insufficient generation to serve forecasted load, resulting in load shedding.
5. **Right of Way Clearances** - Transmission Owners and applicable Generation Owners may have established incorrect ratings based on design documents, rather than on the actual facilities built. Managing to stay within SOL and IROL limits that are based on incorrect ratings may be inadequate to prevent equipment damage and/or cascading, instability, or separation.
6. **345kV Breaker Failures** - NERC has identified a potential trend of 345 kV SF6 puffer type breakers failing. Circuit breaker failures, in conjunction with another fault, may lead to more BES Facilities removed from service than required to clear the original fault. This poses a risk to the reliability of the BES.

Metric 4: Program Execution Effectiveness

Measure – Sum of the weighted sub-metrics.

Sub metric A *(Primary NERC)* - Percent of all board-approved standards[2] meet quality criteria and results-based construct[3].

The Standards Committee and NERC Staff will work together to develop a periodic review process for steady state Reliability Standards. The process will include a quality and content review and the use or adaptation of the 2013 Independent Expert Review Team's quality and content scoring system will be considered during development. The review will be conducted by a cross-functional task force that will consist of Committee chairs, NERC management, NERC and stakeholder subject matter experts, and

[2] Regional standards are not included, this applies to NERC only.
[3] Based on Independent Expert Review Team scoring method 3 out of 3 on content and at least 10 out of 12 on quality.

other parties as deemed necessary and appropriate. This review may also be incorporated into the current Standards Processes Manual periodic review process to avoid duplication of effort. So that the task force will be able to identify Reliability Standards for inclusion in the 2016-2018 Reliability Standards Development Plan, the task force will be operational no later than mid-2015 to allow ample time for the development of the annual task force review timeline.

Sub metric B *(Primary NERC)* - Quality, up-to-date Reliability Standard Audit Worksheets, or any successor guidance, developed for board-approved Reliability Standards.

2014 = Every standard that goes to ballot will have a posted RSAW alongside. Every standard that is reviewed as part of the 5 year review cycle will have a current up-to-date RSAW or successor.

2015 = All RSAWs are converted to the new format and are available to industry.

2016 – 2017 = Violations for new standards do not occur at rates higher than the average rate for standards (or for which they replace) and repeat violations for standards is trending down.

Sub metric C *(Joint ERO Enterprise)* – Implementation of risk-based registration criteria to achieve efficient and effective allocation of compliance obligations. Registration is commensurate with risk and RAI and in light of new BES definition implementation.

2014 = Assessment complete with recommended framework and registration criteria. Implementation plan following assessment, criteria and framework completed.

2015 = Business processes / tools

2016 = Implementation launch

2017 = Stable state

Sub metric D *(Joint ERO Enterprise)* – Timeliness and transparency of compliance results: 12 month rolling average of the ERO Enterprise caseload index trending favorably.[4] Maximum age of unclosed cases is less than 24 months and improving.

2014 = ERO Enterprise caseload index less than or equal to 7 months, with all Regional Entities above average trending downward. ERO Enterprise average violation aging less than or equal to 13.5 months.

[4] ERO Enterprise Caseload Index is defined as Violations in ERO Inventory (defined as Active violations that have not been filed with FERC) divided by the total number of violations filed with FERC over previous 12-months (NOPs, SNOPs, FFTs and Dismissals) multiplied by 12.

2015 = ERO Enterprise caseload index of 8 months, with all Regional Entities above average trending downward. ERO Enterprise average violation aging less than or equal to 13 months.

2016 = ERO Enterprise caseload index of 8 months, with all Regional Entities above average trending downward. ERO Enterprise average violation aging less than or equal to 12.5 months.

2017 = ERO Enterprise caseload index of 8 months. ERO Enterprise average violation aging less than or equal to 12 months.

Sub metric E *(Joint ERO Enterprise)* - Percent of self-identified non-compliances (includes self-reports and self-certifications).

2014 = 70%

2015 = 74%

2016 = 78%

2017 = 80%

Sub metric F *(Joint ERO Enterprise)* - Mitigation aging curve improving[5].

2014 = Percentage of the noncompliance items discovered in that year that are mitigated as of December 31, 2014)

- 2013: 80%
- 2012: 95%
- 2011: 98%
- 2010 (and older): 100%

2015 - 2017 = Mitigation aging curve trending favorably.

Sub metric G *(Joint ERO Enterprise)* - RAI reforms and percent of total findings (excluding dismissals) not going to enforcement or filed with FFT or spreadsheet.

2014 =

- ERO auditor handbook deployment;
- RAI compliance reform design complete and reflected in the CMEP implementation plan for 2015;

[5] Final metrics to be discussed and approved at the February 2014 BOTCC meeting.

- Enforcement pilots completed and FERC filings made, if required;
- Train at least two partnering entities to complete maturity model assessments and complete either directly or through trained partners 20 maturity model assessments;
- At least 75% of noncompliance posing a minimal or moderate risk to the BPS is processed through discretion (i.e.: does not trigger an enforcement action), FFT or SNOP;
- Average time from discovery to posting FFT is 6 months;
- Average time from discovery to decision to enforce or not (i.e.: the triage process) is 60 days.

2015 = Higher percentage of lower and moderate risk violations staying in compliance through exercise of discretion to initiate an enforcement action; audit scope based on common ERO methodology.

2016 = Compliance and enforcement end state designs implemented; continued increase in lower and moderate risk violations staying in compliance through exercise of discretion to initiate an enforcement action.

2017 = Achieve fewer, less severe violations. Positive trend in number of matters dispensed outside of enforcement.

Sub metric H *(Primary NERC)* - Participation in ES-ISAC increased (2013 statistics used as baseline)

2014 =

- 90% of all RCs and TO/TOPs;
- 10% increase in enrollment of all other registered entities;
- 20% increase in information share activity on portal (baseline 2013 uploads figures).
- Develop an ES-ISAC mission performance program, including Key Performance Indicators (KPIs) and benchmarks, by end of Q3.

2015 - 2017 = KPIs trending favorably.

Sub metric I *(Joint ERO Enterprise)* – Assessment of quality and availability of planning and engineering models and data.

2014 = Methodology to validate models developed and endorsed by appropriate technical committees.

2015 = Acquire data and capability for set up / start up.

2016 = Assessment of state and quality of modeling. Establish plan to implement assessment recommendations.

2017 = Implement plan.

Sub metric J *(Joint ERO Enterprise)* – Achieving transition laid out in oversight model regarding ERO Enterprise personnel and ERO Enterprise (NERC and Regional Entity) infrastructure and applications qualifications.

2014= Report quarterly progress and achieve 25% completion of action items.

2015= Report quarterly progress and achieve 50% completion of action items.

2016= Report quarterly progress and achieve 75% completion of action items.

2017= Report quarterly progress and achieve 100% completion of action items.

Sub metric K *(Joint ERO Enterprise)* –Stakeholder annual satisfaction/perception survey of the ERO's effectiveness to manage risk, budget and stewardship.

2014 = Develop questionnaire with stakeholder input and vetting. Survey complete and benchmarks Established.

2015 – 2017 = Performance trending favorably.

NERC
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

Corporate Governance and Human Resources Committee

August 14, 2014 | 7:30 a.m. – 8:30 a.m. Pacific

The Westin Bayshore
1601 Bayshore Drive
Vancouver, BC V6G 2V4

RELIABILITY | ACCOUNTABILITY




NERC
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

2014 NERC Performance Report

Quarter 2 Status

Mark Lauby, Senior Vice President and Chief Reliability Officer

Corporate Governance and Human Resources Committee Meeting

August 13, 2014

RELIABILITY | ACCOUNTABILITY




Leading at Q2

Metric 1: Reliability Results

- No Category 4 or 5 events

Metric 3: Risk Mitigation Effectiveness

- Changing Resource Mix
- Extreme Physical Events
- Cold Weather Preparedness
- 345 kV Breaker Failures

Metric 4: Program Execution Effectiveness

- Sub-metric B: Quality, up-to-date RSAWs
- Sub-metric C: Implementation of risk-based registration criteria
- Sub-metric E: Percent of self-identified non-compliances
- Sub-metric H: Participation in ES-ISAC
- Sub-metric I: Designating system events used in model validation

Watching at Q2

Metric 2: Assurance Effectiveness

- Category 3 event occurred on May 25 and a gap analysis underway

Metric 3: Risk Mitigation Effectiveness

- **Protection System Misoperations** – Progress continues towards approval/filing of PRC-004-3. Data gathering ongoing to identify trends.
- **Right-of-Way Clearances** – Site visits scheduled and best practice/assurance activities continue. Joint report under development

Metric 4: Program Execution Effectiveness

- **Sub-metric A:** Standards prepared for approval
- **Sub-metric D:** Caseload index trending and active violations increased
- **Sub-metric F:** Mitigation aging curve slowing among recent years
- **Sub-metric G:** RAI reforms continue
- **Sub-metric J:** ERO oversight activities ongoing
- **Sub-metric K:** Stakeholder perception survey plan under development

Emerging Activities in Q3

Metric 3: Risk Mitigation Effectiveness

- **Protection System Misoperations:** Report will be completed
- **Right-of-Way Clearances:** Site visits will be initiated

Metric 4: Program Execution Effectiveness

- **Sub-metric A:** Standards will achieve industry approval
- **Sub-metric G:** RAI risk elements, CMEP implementation and maturity model assessments will progress
- **Sub-metric J:** ERO oversight model action item joint board
- **Sub-metric K:** Stakeholder perception survey with CCC and industry coordination will be launched

Questions and Answers

ATTACHMENT 4

ATTACHMENT 16 TO NERC'S

2015 BUSINESS PLAN AND BUDGET FILING,

"METRICS COMPARING REGIONAL ENTITY OPERATIONS

BASED ON THE 2015 BUDGETS"

ATTACHMENT 16

METRICS COMPARING REGIONAL ENTITY OPERATIONS BASED ON THE 2015 BUDGETS

Introduction

This Attachment provides metrics on the Regional Entities' operations based on their 2015 Business Plans and Budgets, and analysis of the metrics. Consistent with the similar attachments provided in NERC's 2010, 2011, 2012, 2013, and 2014 Business Plan and Budget filings, this Attachment focuses on providing quantitative data and information for the Regional Entities. The metrics focus primarily on the Regional Entities' Compliance Monitoring and Enforcement Programs (Compliance Program). This Attachment contains:

- a table providing the 2015 budget metrics values for each Regional Entity (page 4);
- a series of bar charts comparing the Regional Entities' Compliance Program 2015 budgeted costs (pages 5-7);
- a series of bar charts comparing the Regional Entities' projected costs for 2015 for "small," "medium" and "large" on-site and off-site operational compliance audits[1] and "small" and "large" on-site and off-site CIP compliance audits[2] (pages 8-10);

[1] An "operational" audit as referred to in this Attachment is an audit of the registered entity's compliance with the operations and planning or "Order 693" reliability standards. For purposes of this presentation (and consistent with the definitions used in the 2010, 2011, 2012, 2013, and 2014 Business Plan and Budget filings), a "small" operational compliance audit involves 25 or fewer reliability standard requirements to be audited; a "medium" operational compliance audit involves 26 to 75 requirements to be audited; and a "large" operational compliance audit involves more than 75 requirements to be audited. An on-site compliance audit takes place at the registered entity's site, while an off-site compliance audit takes place at another location, typically the Regional Entity's offices. As can be seen from the table on page 4 and from the bar charts on pages 8-10, MRO, ReliabilityFirst, (RF), SPP RE, Texas RE and WECC are not planning any "small" on-site operational compliance audits in 2015; NPCC, SPP RE and WECC are not planning any "medium" on-site operational compliance audits in 2015; and MRO and RF are not planning any "large" on-site operational audits in 2015. Also, Texas RE is not planning any "small" off-site operational compliance audits in 2015; FRCC, RF, SERC, and SPP RE are not planning any "medium" off-site operational audits in 2015; and FRCC, MRO, RF, and SPP RE are not planning any "large" off-site audits.

[2] For purposes of this presentation, a "small" CIP compliance audit involves an entity with no critical cyber assets and 5 requirements. (There are requirements of the CIP standards that apply to registered entities with no critical cyber assets, for example, the requirements of CIP-002 which require the registered entity to have a risk-based assessment methodology and to use it annually to identify any critical assets and critical cyber assets, even if the result is "none;" and the requirements of CIP-003 that the registered entity have in place a cyber security policy and a designated, single senior manager with overall responsibility for leading the entity's compliance with the CIP standards.) A "large" CIP compliance audit involves any entity with critical cyber assets and 5 requirements, auditing 43 requirements or 162 sub-requirements. These definitions are the same as used in Attachment 15 of the

- trend line plots of the Regional Entities' 2015 Compliance Program budgets against numbers of registered entities and numbers of registered functions in each Region (page 11);

- bar charts comparing the Regional Entities' numbers of registered entities per Compliance Program FTE[3] and numbers of registered functions per Compliance Program FTE based on their 2015 budgets (page 12);

- bar charts comparing the Regional Entities' numbers of registered entities per Compliance Program FTE and numbers of registered functions per Compliance Program FTE in their 2014 and 2015 Business Plans and Budgets (page 13); and,

- discussion and analysis of the metrics (pages 14-19). The discussion and analysis focuses on variations in the Regional Entity metrics based on their 2015 budgets and possible reasons for the variations.

The table on page 4 shows the following quantitative data for each Regional Entity based on its 2015 Business Plan and Budget. This data is used to develop the bar charts and trend line graphs that follow based on the Regional Entities' 2015 budgets.

- Numbers of registered entities
- Numbers of registered functions
- Total NEL (GWh)
- NEL (GWh) per registered entity
- Total ERO funding
- ERO (statutory) funding[4] per registered entity
- ERO funding per registered function

2012 and 2013 Business Plan and Budget filings, and Attachment 16 of the 2014 Business Plan and Budget filing. As can be seen from the table on page 4 and the bar charts on page 10, only SERC is planning any "small" on-site CIP audits in 2015 and all the Regional Entities are planning only "small" off-site CIP audits in 2015. This fact reflects that if there is a need to audit the registered entity's compliance with 43 or more requirements or 162 or more sub-requirements of CIP standards, the Regional Entity will likely conclude that an on-site compliance audit should be conducted. The decision to conduct an on-site CIP audit can also be influenced by the need for the Regional Entity's CIP audit staff to review facilities and equipment that are the subject of Technical Feasibility Exception (TFE) requests or audit the registered entity's compliance with the terms of an approved TFE.

[3] FTE = full-time equivalent employee. Each FTE is assumed to work 2,080 hours per year. An employee working less than 2,080 hours per year is counted as a fractional FTE based on number of hours divided by 2,080 hours.

[4] ERO funding is defined as the sum of assessments and penalty sanctions.

- Total statutory budget
- Total statutory budget[5] per registered entity
- Total statutory budget per registered function
- Total statutory FTE
- Registered entities per statutory FTE
- Registered functions per statutory FTE
- Total Compliance Program budget
- Compliance Program budget per registered entity
- Compliance Program budget per registered function
- Total Compliance FTE
- Registered entities per Compliance Program FTE
- Registered functions per Compliance Program FTE
- Projected numbers of small, medium and large on-site operational audits in 2015
- Estimated costs for small, medium and large on-site operational audits in 2015
- Projected numbers of small, medium and large off-site operational audits in 2015
- Estimated costs for small, medium and large off-site operational audits in 2015
- Projected numbers of small and large on-site CIP audits in 2015
- Estimated costs for small and large on-site CIP audits in 2015
- Projected numbers of small and large off-site CIP audits in 2015
- Estimated costs of small and large off-site CIP audits in 2015
- Average number of contractors used and projected contractor costs for small, medium and large on-site operational audits
- Average number of contractors used and projected contractor costs for small, medium and large off-site operational audits

[5] Total budget is defined as the sum of total expenses and the total increase in fixed assets.

2015 Metrics for Budget Submissions

	Budget Metrics	FRCC	MRO [6]	NPCC [6]	RF	SERC	SPP RE	Texas RE	WECC
1	Number of registered entities	**68**	**136**	**300**	**331**	**242**	**150**	**226**	**439**
2	Number of registered functions	**243**	**459**	**602**	**669**	**681**	**420**	**444**	**1182**
3	Total NEL (GWh)	**221,297**	**289,264**	**648,607**	**908,727**	**1,009,060**	**216,656**	**332,698**	**3,226**
4	NEL (GWh) per registered entity	3,254	2,127	2,162	2,745	4,170	1,444	1,472	7
5	Total ERO Funding[1]	**$6,237,838**	**$ 9,821,019**	**$ 14,359,378**	**$ 19,383,897**	**$ 15,518,034**	**$ 10,145,148**	**$ 10,983,946**	**$ 25,175,135**
6	ERO Funding per registered entity	$ 91,733	$ 72,213	$ 47,865	$ 58,562	$ 64,124	$ 67,634	$ 48,602	$ 57,347
7	ERO Funding per registered function	$ 25,670	$ 21,397	$ 23,853	$ 28,974	$ 22,787	$ 24,155	$ 24,739	$ 21,299
8	Total Budget[2]	**$7,162,233**	**$ 10,328,687**	**$ 14,778,539**	**$ 18,756,763**	**$ 15,995,840**	**$ 11,808,110**	**$ 11,983,701**	**$ 26,300,035**
9	Total Budget per registered entity	$ 105,327	$ 75,946	$ 49,262	$ 56,667	$ 66,099	$ 78,721	$ 53,025	$ 59,909
10	Total Budget per registered function	$ 29,474	$ 22,503	$ 24,549	$ 28,037	$ 23,489	$ 28,115	$ 26,990	$ 22,250
11	Total Statutory FTE[3]	**30.91**	**42.5**	**36.86**	**72.2**	**78.7**	**32.75**	**60**	**137.5**
12	Registered entity per Statutory FTE	2.200	3.200	8.139	4.584	3.075	4.580	3.767	3.193
13	Registered function per Statutory FTE	7.862	10.800	16.332	9.266	8.653	12.824	7.400	8.596
14	Total Compliance Budget [4]	**$5,211,874**	**$ 6,994,216**	**$ 8,568,145**	**$ 10,651,382**	**$ 10,779,635**	**$ 8,583,743**	**$ 9,008,548**	**$ 13,178,512**
15	Compliance budget per registered entity	$ 76,645	$ 51,428	$ 28,560	$ 32,179	$ 44,544	$ 57,225	$ 39,861	$ 30,019
16	Compliance budget per registered function	$ 21,448	$ 15,238	$ 14,233	$ 15,921	$ 15,829	$ 20,437	$ 20,290	$ 11,149
17	Total Compliance FTE[3]	**19.77**	**22.08**	**16**	**45.75**	**37.5**	**20.85**	**33.5**	**53.5**
18	Registered entity per Compliance FTE	3.4	6.2	18.8	7.2	6.5	7.2	6.7	8.2
19	Registered function per Compliance FTE	12.3	20.8	37.6	14.6	18.2	20.1	13.3	22.1
20	Number of Small (non-CIP/693) Audits Onsite[5]	2	0	3	0	10	0	0	0
21	Estimated Cost per Small (non-CIP/693) Audit Onsite[5]	$ 7,582	$ -	$ 13,320	$ -	$ 10,731	$ -		$ -
22	Number of Medium (non-CIP/693) Audits Onsite[5]	1	7	0	10	15	0	4	0
23	Estimated Cost per Medium (non-CIP/693) Audit Onsite[5]	$ 18,956	$ 44,049	$ -	$ 39,857	$ 18,492	-	$ 37,246	$ -
24	Number of Large (non-CIP/693) Audits Onsite[5]	6	0	4	0	6	6	6	20
25	Estimated Cost per Large (non-CIP/693) Audit Onsite[5]	$ 37,912	$ -	$ 44,815	$ -	$ 41,137	$ 54,413	$ 57,534	$ 30,239
26	Number of Small (non-CIP/693) Audits Offsite[5]	2	11	10	35	15	14	0	22
27	Estimated Cost per Small (non-CIP/693) Audit Offsite[5]	$ 2,771	$ 11,404	$ 12,740	$ 10,102	$ 9,635	$ 10,457	$ -	$ 2,765
28	Number of Medium (non-CIP/693) Audits Offsite[5]	0	1	21	0	0	0	7	47
29	Estimated Cost per Medium (non-CIP/693) Audit Offsite[5]	$ -	$ 40,549	$ 21,955	$ -	$ -	-	$ 30,011	$ 7,960
30	Number of Large (non-CIP/693) Audits Offsite[5]	0	0	8	0	0	0	23	5
31	Estimated Cost per Large (non-CIP/693) Audit Offsite[5]	$ -	$ -	$ 27,730	$ -	$ 30,485	$ -	$ 48,347	$ 21,899
32	Number of Small (CIP/706B) Audits Onsite[5]	0	0	0	0	4	0	0	0
33	Estimated Cost per Small (CIP/706B) Audit Onsite[5]	$ -	$ -	$ -	$ -	$ 11,235	$ -	$ -	$ -
34	Number of Large (CIP/706B) Audits Onsite[5]	2	2	4	4	6	6	8	21
35	Estimated Cost per Large (CIP/706B) Audit Onsite[5]	$ 75,824	$ 57,520	$ 44,800	$ 75,366	$ 48,447	$ 96,238	$ 58,093	$ 32,629
36	Number of Small (CIP/706B) Audits Offsite[5]	9	9	24	50	9	9	24	51
37	Estimated Cost per Small (CIP/706B) Audit Offsite[5]	$ 2,771	$ 5,702	$ 9,490	$ 6,164	$ 15,790	$ 4,802	$ 17,118	$ 2,151
38	Number of Large (CIP/706B) Audits Offsite[5]	0	0	0	0	0	0	0	0
39	Estimated Cost per Large (CIP/706B) Audit Offsite[5]	$ -	$ -	$ -	$ -	$ -	$ -		$ -
40	Avg. Number of Contractors Per Small Audits Onsite	0	0	0	0	0	1	0	0
41	Avg. Number of Contractors Per Medium Audits Onsite	0	0	0	0	1	0	0	0
42	Avg. Number of Contractors Per Large Audits Onsite	0	0	0	0	2	2	0	0
43	Avg. Number of Contractors Per Small Audits Offsite	0	0	0	0	0	0	0	0
44	Avg. Number of Contractors Per Medium Audits Offsite	0	0	0	0	0	0	0	0
45	Avg. Number of Contractors Per Large Audits Offsite	0	0	0	0	0	2	0	0

[1] ERO Funding is a sum of Assessments and Penalty Sanctions

[2] Total Budget is a sum of Total Expenses and Capital Expenditures

[3] Each FTE that works 2,080 hours per year is counted as one FTE. An FTE working less than the 2,080 hours per year is counted as a fractional FTE.

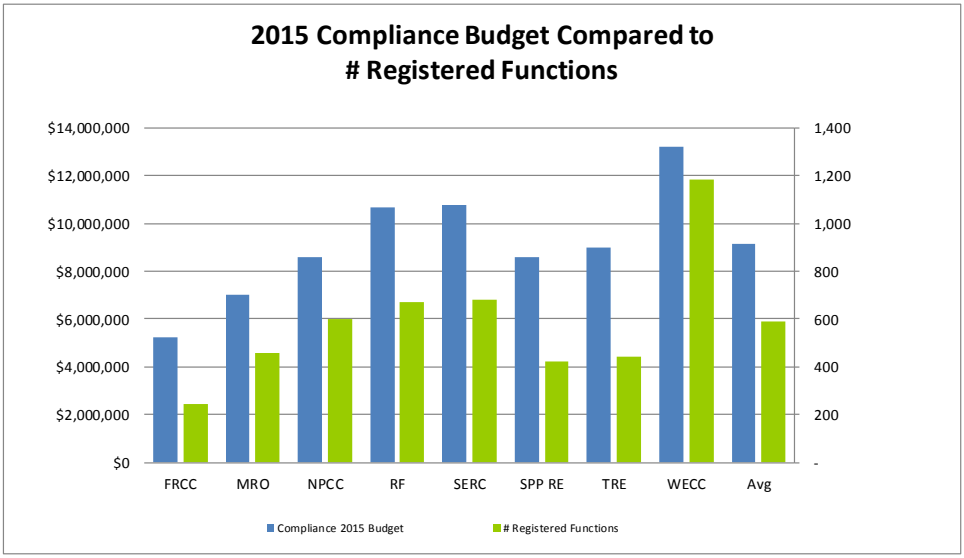
[4] Total Compliance Budget is a sum of Direct Expenses, Indirect Expenses and Capital Expenditures

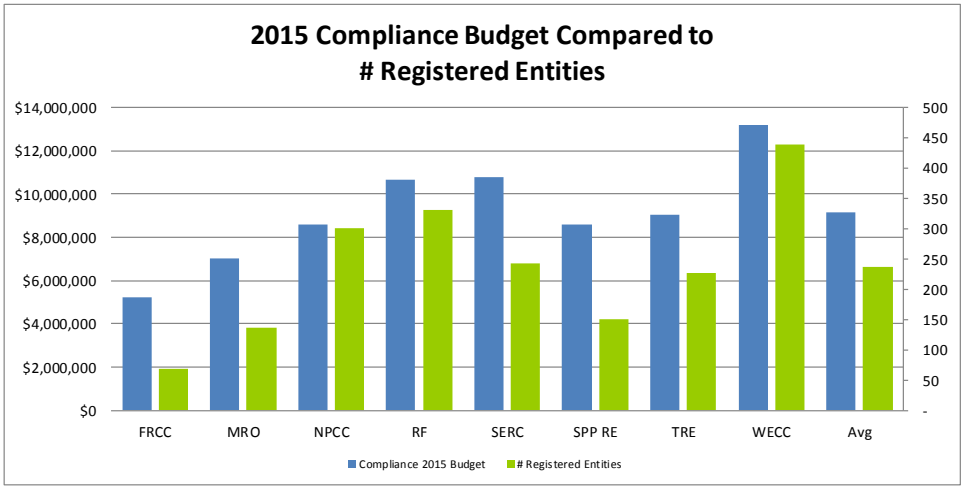
[5] Size of audits are defined by number of requirements:

Small	25 or less
Medium	26 to 75
Large	More than 75

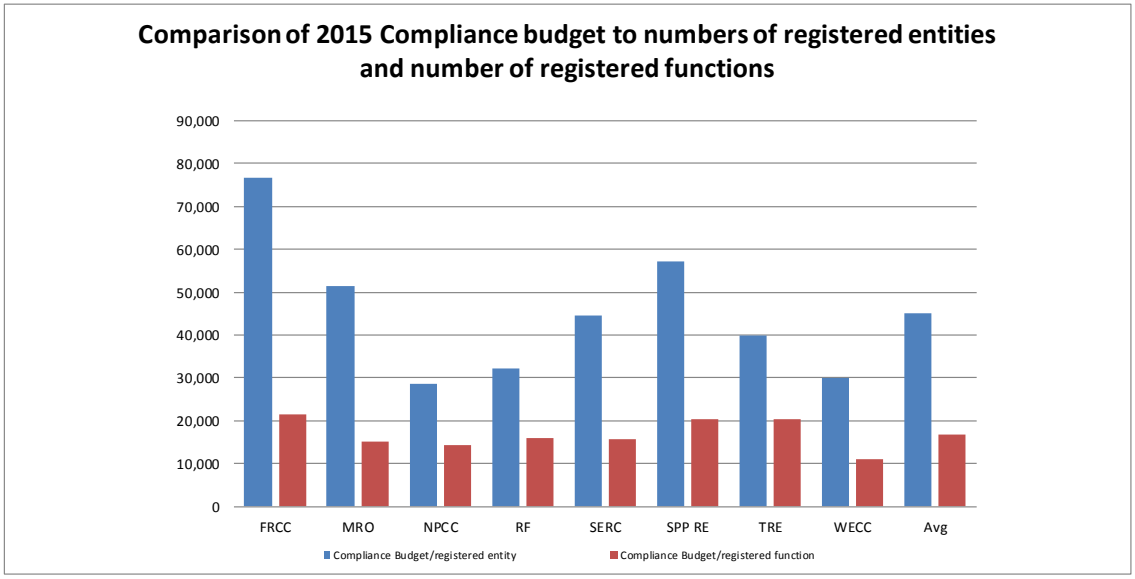
[6] Due to the specifics of the compliance program included in the individual provincial MOUs for cross-border regional entities, some of these metrics are not directly comparable.

	FRCC	MRO	NPCC	RF	SERC	SPP RE	TRE	WECC	Avg
Compliance 2015 Budget	5,211,874	6,994,216	8,568,145	10,651,382	10,779,635	8,583,743	9,008,548	13,178,512	9,122,007
# Registered Entities	68	136	300	331	242	150	226	439	237
# Registered Functions	243	459	602	669	681	420	444	1,182	588

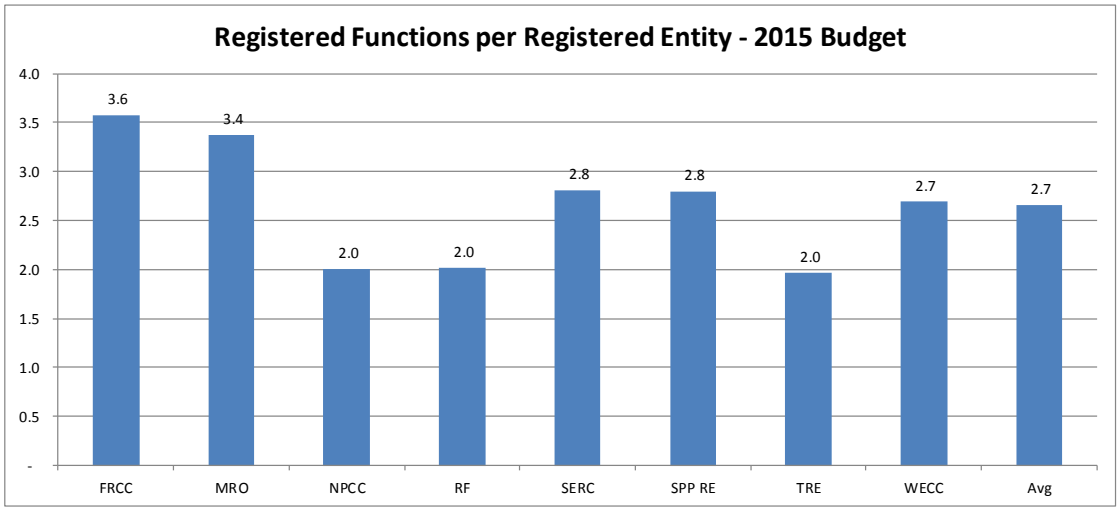




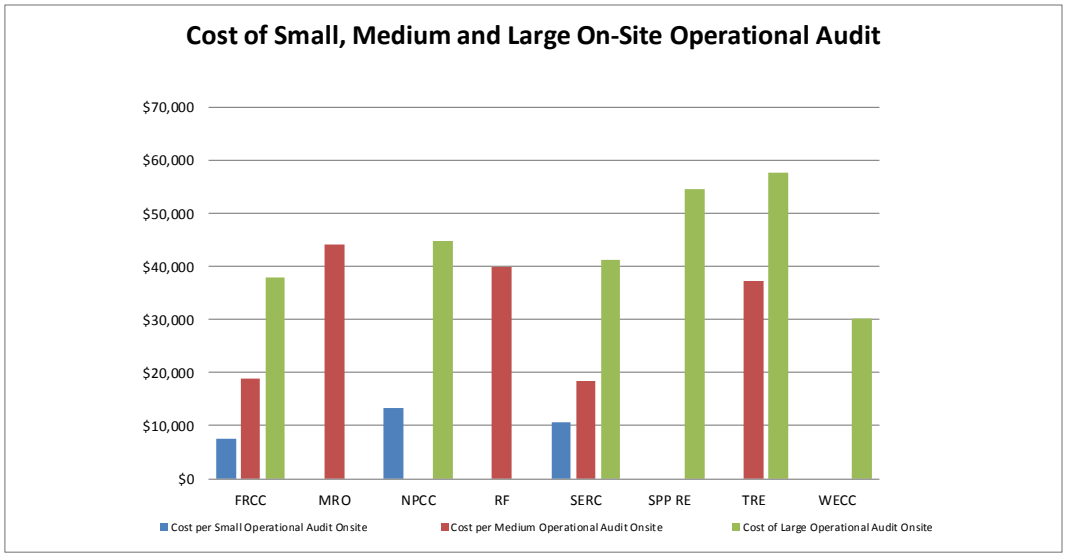
	FRCC	MRO	NPCC	RF	SERC	SPP RE	TRE	WECC	Avg
Compliance Budget/registered entity	76,645	51,428	28,560	32,179	44,544	57,225	39,861	30,019	45,058
Compliance Budget/registered function	21,448	15,238	14,233	15,921	15,829	20,437	20,290	11,149	16,818



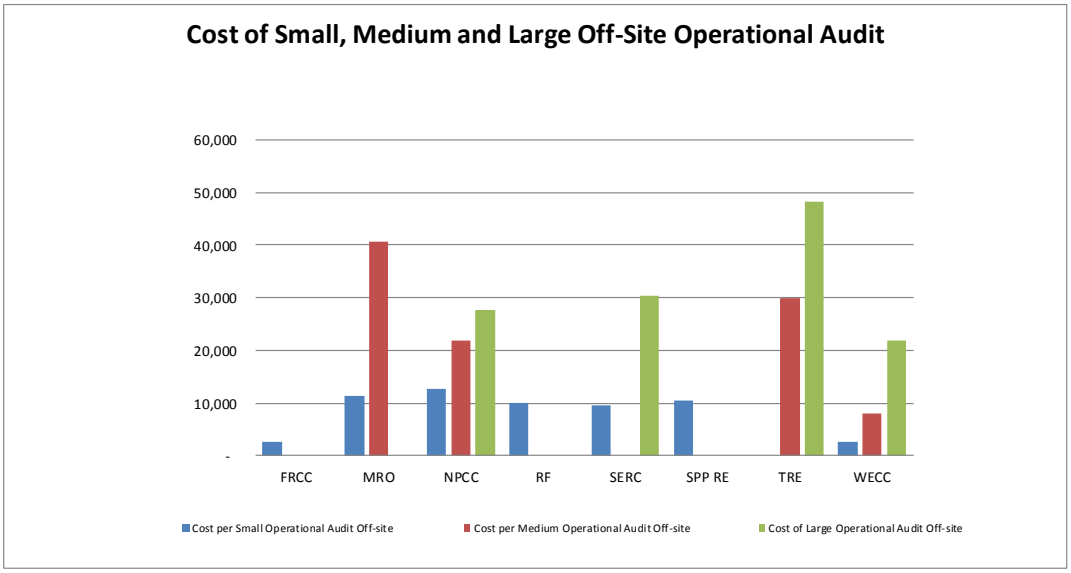
	FRCC	MRO	NPCC	RF	SERC	SPP RE	TRE	WECC	Avg
Registered Functions per Registered Entity 2015 Budget	3.6	3.4	2.0	2.0	2.8	2.8	2.0	2.7	2.7



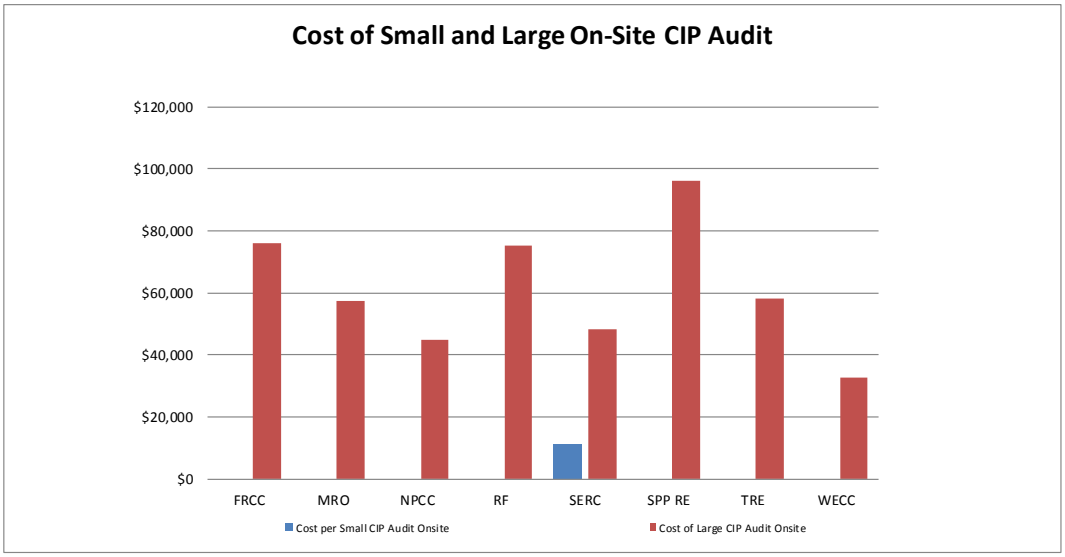
	FRCC	MRO	NPCC	RF	SERC	SPP RE	TRE	WECC	Avg
Cost per Small Operational Audit Onsite	7,582	-	13,320	-	10,731	-	-	-	10,545
Cost per Medium Operational Audit Onsite	18,956	44,049	-	39,857	18,492	-	37,246	-	31,720
Cost of Large Operational Audit Onsite	37,912	-	44,815	-	41,137	54,413	57,534	30,239	44,342



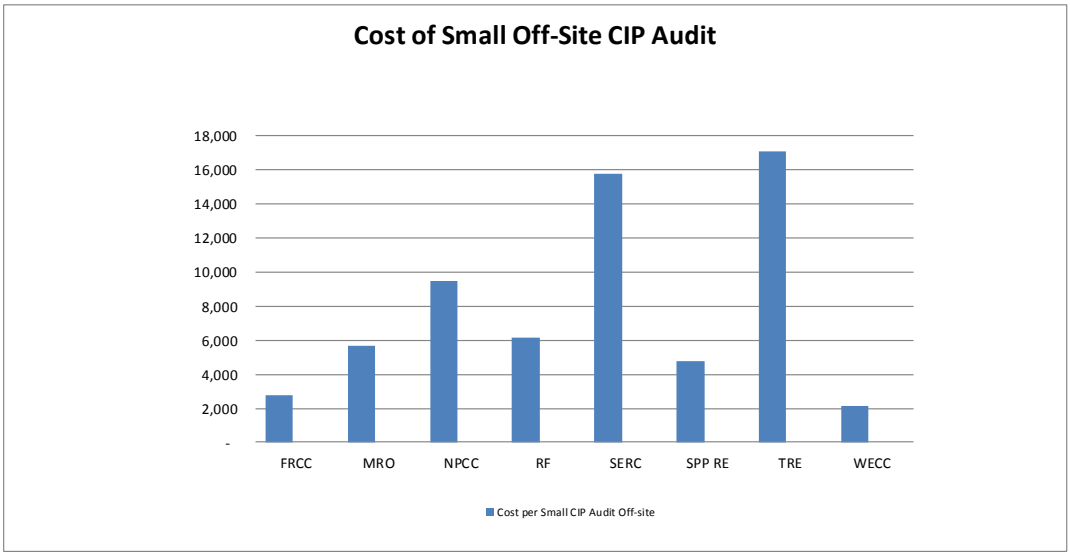
	FRCC	MRO	NPCC	RF	SERC	SPP RE	TRE	WECC	Avg
Cost per Small Operational Audit Off-site	2,771	11,404	12,740	10,102	9,635	10,457	-	2,765	8,554
Cost per Medium Operational Audit Off-site	-	40,549	21,955	-	-	-	30,011	7,960	25,119
Cost of Large Operational Audit Off-site	-	-	27,730	-	30,485	-	48,347	21,899	32,115

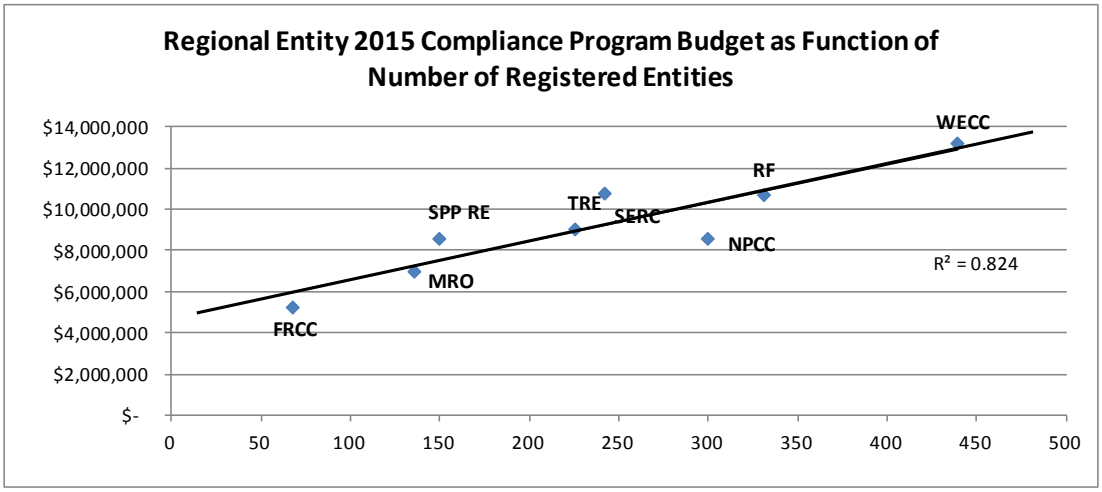


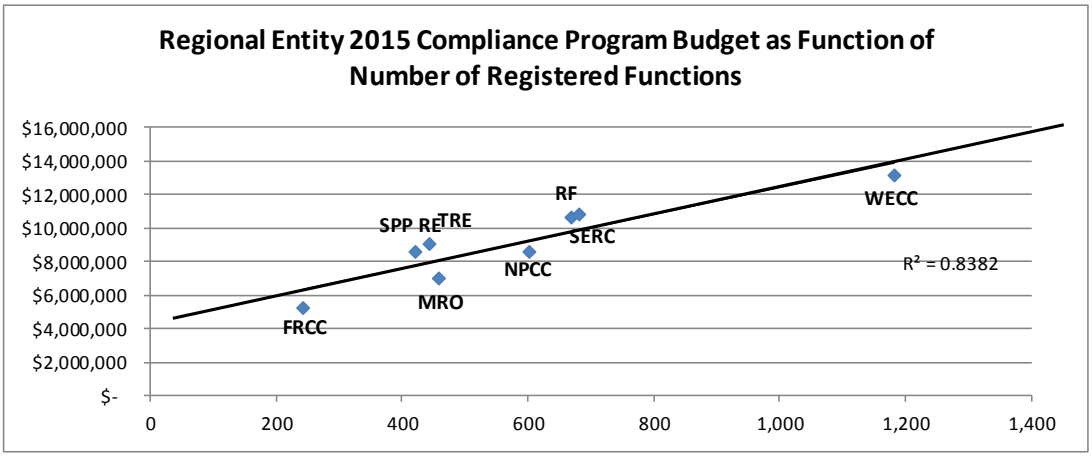
	FRCC	MRO	NPCC	RF	SERC	SPP RE	TRE	WECC	Avg
Cost per Small CIP Audit Onsite	-	-	-	-	11,235	-	-	-	11,235
Cost of Large CIP Audit Onsite	75,824	57,520	44,800	75,366	48,447	96,238	58,093	32,629	69,845



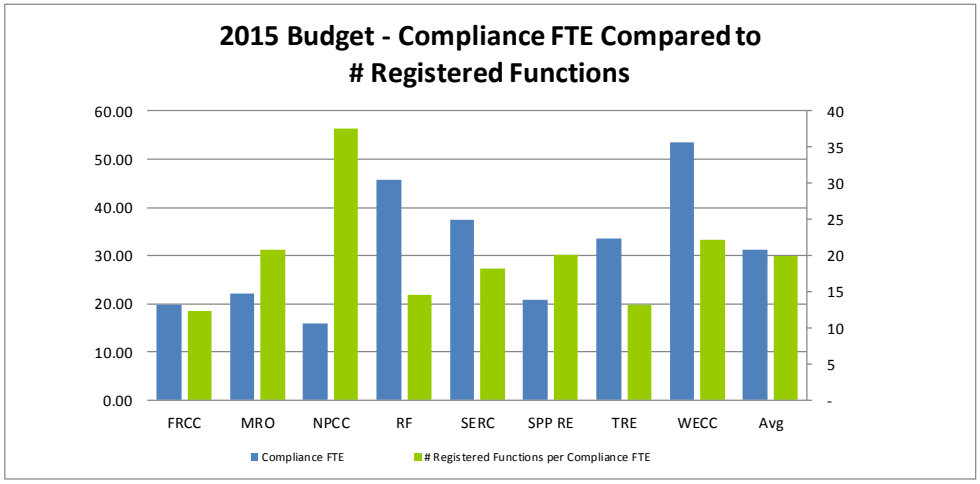
	FRCC	MRO	NPCC	RF	SERC	SPP RE	TRE	WECC	Avg
Cost per Small CIP Audit Off-site	2,771	5,702	9,490	6,164	15,790	4,802	17,118	2,151	9,141
Cost of Large CIP Audit Off-site	-	-	-	-	-	-	-	-	-

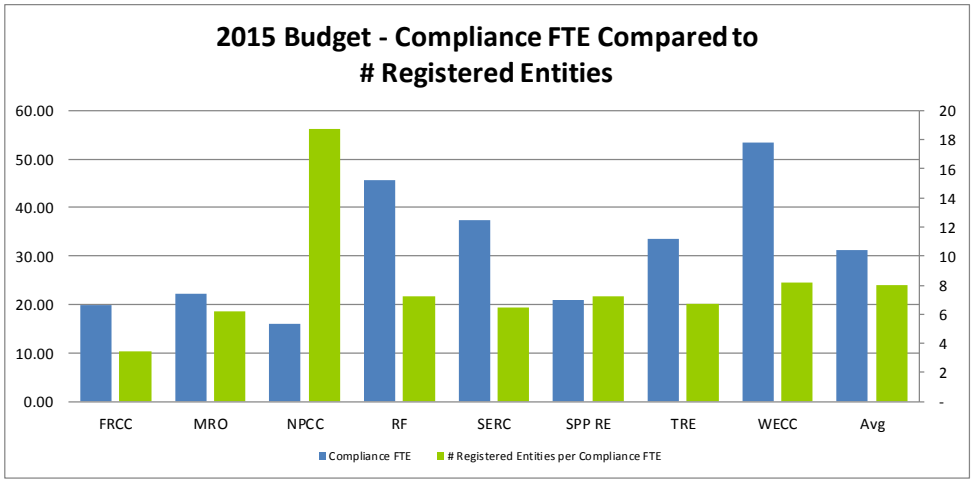



Regional Entity 2015 Compliance Program Budget as Function of Number of Registered Entities
$14,000,000
$12,000,000
$10,000,000
$8,000,000
$6,000,000
$4,000,000
$2,000,000
$-
0
50
100
150
200
250
300
350
400
450
500
WECC
RF
TRE
SERC
SPP RE
NPCC
MRO
FRCC
R² = 0.824

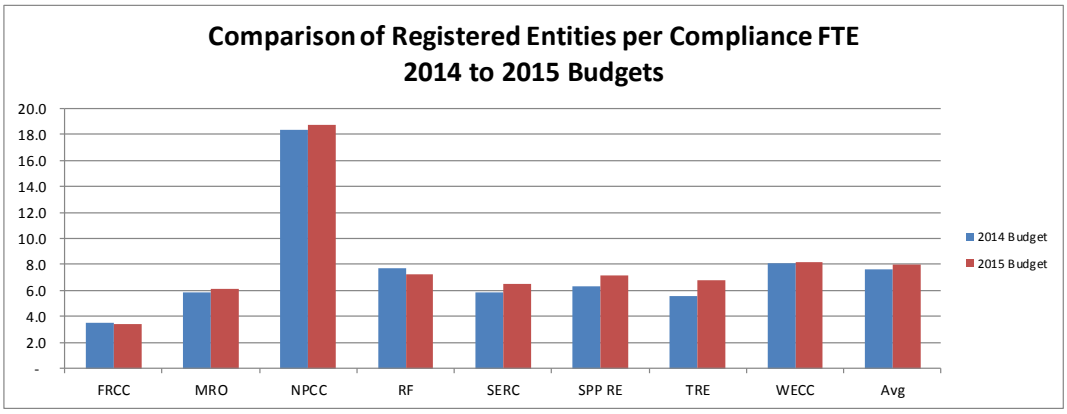

Regional Entity 2015 Compliance Program Budget as Function of Number of Registered Functions
$16,000,000
$14,000,000
$12,000,000
$10,000,000
$8,000,000
$6,000,000
$4,000,000
$2,000,000
$-
0
200
400
600
800
1,000
1,200
1,400
RF
WECC
SPP RE
TRE
SERC
NPCC
MRO
FRCC
R² = 0.8382

	FRCC	MRO	NPCC	RF	SERC	SPP RE	TRE	WECC	Avg
Compliance FTE	19.77	22.08	16.00	45.75	37.50	20.85	33.50	53.50	31.12
# Registered Entities per Compliance FTE	3.4	6.2	18.8	7.2	6.5	7.2	6.7	8.2	8.0
# Registered Functions per Compliance FTE	12.3	20.8	37.6	14.6	18.2	20.1	13.3	22.1	19.9

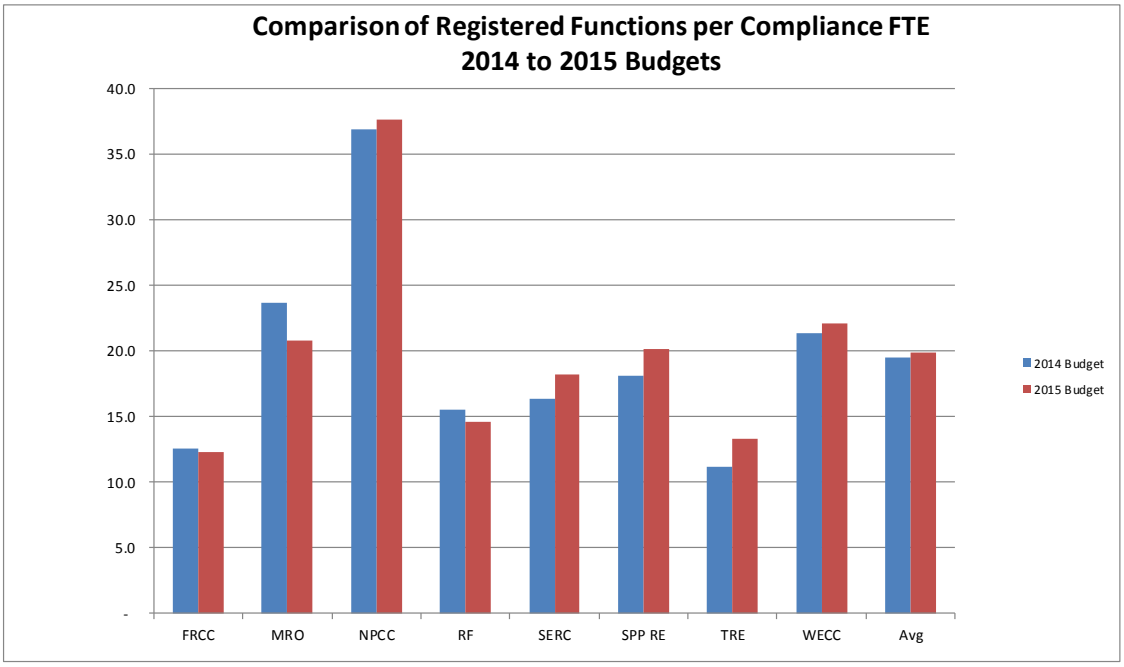




	FRCC	MRO	NPCC	RF	SERC	SPP RE	TRE	WECC	Avg
2014 Budget	3.5	5.9	18.3	7.7	5.8	6.3	5.6	8.1	7.7
2015 Budget	3.4	6.2	18.8	7.2	6.5	7.2	6.7	8.2	8.0



	FRCC	MRO	NPCC	RF	SERC	SPP RE	TRE	WECC	Avg
2014 Budget	12.6	23.6	36.9	15.6	16.3	18.1	11.2	21.4	19.5
2015 Budget	12.3	20.8	37.6	14.6	18.2	20.1	13.3	22.1	19.9



Discussion and Analysis

Metrics Based on 2015 Regional Entity Budgets

The development, collection, analysis and comparison of Regional Entity Compliance Program metrics data continues to be a complicated and time-consuming process, requiring careful consideration of many complex factors. In analyzing the Regional Entity metrics based on their 2015 budgets, NERC has in a number of instances looked at the average value among the Regional Entities for the metric, as well as the range of the individual values around the average. This data has been considered as part of the effort to understand and explain the differences among the Regional Entities' budgeted values, and not because NERC believes the deviation from an average, standing alone, is a measure of an individual Regional Entity's efficiency or effectiveness.

The Regional Entity metrics provided in this Attachment, based on the Regional Entities' 2015 Business Plans and Budgets, continue to show, in general, that the Regional Entities with the larger numbers of registered entities and registered functions have the larger Compliance Program budgets. The bar charts and accompanying data on page 5 of this Attachment depict the relative positions of the Regional Entities with respect to (i) total Compliance Program budget for 2015 and (ii) numbers of registered entities and registered functions.[6] Three exceptions to this relationship (*i.e.*, that more registered entities and more registered functions means a larger Compliance Program budget) are (i) NPCC, which has a smaller Compliance Program budget than its rank order position in terms of numbers of registered entities and registered functions would suggest, (ii) SPP RE, which has a larger Compliance Program budget than its rank order position in terms of numbers of registered entities and registered functions would suggest, and (iii) Texas RE which also has a larger Compliance Program budget than its rank order position in terms of numbers of registered entities and registered functions would suggest . NPCC has the third highest number of registered entities and the fourth highest number of registered functions, but NPCC's Compliance Program budget is the third lowest of the eight Regional Entities. This is due to the reduced scope of compliance activities in the Canadian Provinces that are part of the NPCC Region, as governed by the Memoranda of Understanding between NPCC and the Canadian Provinces within the NPCC Region. SPP RE has the third lowest number of registered entities and second lowest number of registered functions, but the fifth highest Compliance Program budget. Texas RE has the fourth lowest number of registered entities and third lowest number of registered functions, but the fourth highest Compliance Program budget.

The bar chart and accompanying data on page 6 of this Attachment show the 2015 Compliance Program budget per registered entity and per registered function for each Regional Entity. There are variations among the Regional Entities with respect to Compliance Program budget per registered entity and Compliance Program budget per registered function. The average of the Regional Entity values for Compliance Program budget per registered function is $16,818 (a decrease of $431 from this average based on the 2014 Budgets); the three highest

[6] The data on numbers of registered entities and registered functions in each Region used in the 2015 budget metrics are as of April, 2014 for the MRO, NPCC, RF, SERC, and SPP RE Regions, and June 2014 for the FRCC, Texas RE and WECC Regions.

values (FRCC - $21,448, SPP RE - $20,437 and Texas RE - $20,290 and) are approximately 127%, 121% and 120% of the average, respectively, while the lowest value (WECC - $11,149) is 66% of the average and the next lowest value (NPCC - $14,233) is 85% of the average. With respect to Compliance Program budget per registered entity, the average for the Regional Entities is $45,058 (a decrease of approximately $1,675 from the average of the 2014 Budgets); the two highest values (FRCC - $76,645 and SPP RE - $57,225) are approximately 170% and 127% of the average, respectively; and the lowest value (NPCC - $28,560) is 63% of the average.[7]

As noted, FRCC and SPP RE have the two highest values for Compliance Program budget per registered entity, and FRCC, SPP RE and Texas RE have the three highest values for Compliance Program budget per registered function. At the same time, FRCC, SPP RE and Texas RE have three of the four lowest totals of registered entities, and the three lowest totals of registered functions, among the eight Regional Entities. At the other end of the spectrum, WECC has the lowest values among the Regional Entities for Compliance Program budget per registered function and the second lowest value for Compliance Program budget per registered entity (only NPCC has lower value for Compliance Program budget per registered entity), and WECC has (by far) the highest numbers of registered entities and registered functions in its Region of all the Regional Entities. These data indicate, again (as indicated by these metrics as presented in previous years' business plan and budget filings), and in general, that there are economies of scale in Compliance Program operations and costs.

The graphs on page 11 of this Attachment, which display the results of two simple least-squares regression analyses using the Regional Entities' 2015 budgets, help to further illustrate the relationship between numbers of registered entities and registered functions, on the one hand, and total Compliance Program budget, on the other hand. Each Regional Entity's 2015 Compliance Program budget has been plotted against its number of registered entities, and its number of registered functions. On each of these charts, a linear trend line has been drawn based on the data points, and the correlation coefficient (R^2) of the data points is indicated. The disparity between the R^2 value for the plot based on number of registered entities (0.824) and the R^2 value for the plot based on number of registered functions (0.8382) is similar to this analysis in the previous three years' Business Plan and Budget filings.[8] NERC continues to believe that

[7] There is a variation among the Regional Entities in terms of registered functions per registered entity, ranging from a high value of 3.6 registered functions per registered entity for FRCC to a low value of 2.0 registered functions per registered entity for NPCC, RF and Texas RE. The overall average is 2.7 registered functions per registered entity. (*See* the data lines on page 7.) The values of this metric for each Regional Entity are generally consistent with the values based on the 2011, 2012, 2013, and 2014 Business Plans and Budgets. Not surprisingly, neither the average nor the values of this metric for the individual Regional Entities have changed significantly. There is not an obvious reason why some Regional Entities (MRO and FRCC) have 1.68 to 1.78 times more registered functions per registered entity than do other Regional Entities (NPCC, Texas RE and RF), and in any event this is a metric that is outside the control of the Regional Entities.

[8] In the regression analysis that was provided in Attachment 15 of the 2012 Business Plan and Budget filing, the R^2 value for the plot based on number of registered functions was 0.7126 while the R^2 value for the plot based on number of registered entities was 0.725. In the regression analysis that was provided in Attachment 15 of the 2013 Business Plan and Budget filing, the R^2 value for the plot based on number of registered functions was 0.7758 while the R^2 value for the plot based on number of registered entities was

the regression analyses continue to indicate that neither number of registered entities or number of registered functions is a significantly better predictor of a Regional Entity's total Compliance Program budget than the other number. Further, a visual inspection of the two graphs shows that the data point for each Regional Entity is at approximately the same point relative to the trend line on both graphs. Specifically, the data points for FRCC, MRO, NPCC and WECC are on or below the trend line on both graphs, and the data points for SPP RE, Texas RE, SERC and RF are on or above the trend line on both graphs. (These are the same positional relationships for the individual Regional Entities that were shown in the regression plots provided in Attachment 15 of the 2013 Business Plan and Budget filing and Attachment 16 of the 2014 Business Plan and Budget filing). It can also be observed that on both of the regression graphs, the data points for each of the Regional Entities are either on or fairly close to the regression trend line; that is, there are no obvious "outliers" from the trend line among the Regional Entities, for either the regression based on Compliance Program budget as a function of number of registered entities or the regression based on Compliance Program budget as a function of the number of registered functions. Finally, the fact that the y-intercept for each trend line is significantly greater than zero is a further indication that a simple comparison of the individual Regional Entity values to an average is not a strong indicator of relative efficiencies of the Regional Entities in their Compliance Programs.

The bar charts and accompanying data lines on page 12 of this Attachment show the numbers of registered functions per Compliance Program FTE and registered entities per Compliance Program FTE for each Regional Entity, based on the 2015 budgets. The average for the eight Regional Entities for numbers of registered entities per Compliance Program FTE is 8.0, (compared to the average of 8.1 and 7.7 based on the 2013 and 2014 budgets, respectively); the lowest value (FRCC – 3.4) is 43% of the average and the highest value (NPCC – 18.8), is 234% of the average. This is about the same range of values around the average that was the case for the 2013 and 2014 Budgets (48% to 241%, and 46% to 239%, respectively). The average for numbers of registered functions per Compliance Program FTE is 19.9 (a 0.4% increase from the average based on the 2014 budgets); the lowest value (FRCC – 12.3) is 62% of the average and the highest value (NPCC – 37.6), is 189% of the average. This is also a comparable range of values around the average that was the case for the 2013 and 2014 Budgets (52% to 187% and 58% to 190%, respectively).

The bar charts and accompanying data lines on page 13 of this Attachment provide a comparison of the metrics for registered entities per Compliance Program FTE and registered functions per Compliance Program FTE, for each Regional Entity, based on the 2015 budgets, to the values of these metrics based on the Regional Entities' 2014 budgets as provided in the 2014 Business Plan and Budget filing. The values of this metric have decreased from the 2014 Budget to the 2015 Budget for FRCC and RF (*i.e.*, these Regional Entities now have fewer registered entities per Compliance Program FTE than in their 2014 budgets), while the values for this metric have increased from the 2014 budgets for MRO, NPCC, SERC, SPP RE, Texas RE, and WECC (*i.e.*, these Regional Entities now have more registered entities per Compliance Program

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0.6704. In the regression analysis that was provided in Attachment 16 of the 2014 Business Plan and Budget filing, the R^2 value for the plot based on number of registered functions was 0.7128 while the R^2 value for the plot based on number of registered entities was 0.7908.

FTE than in their 2014 budgets). With respect to registered functions per Compliance Program FTE, the 2015 budget values of this metric are lower than the 2014 budget values for FRCC, MRO, and RF (*i.e.*, these Regional Entities each now has fewer registered functions per Compliance Program FTE than its 2014 budget), while the 2015 budget values of this metric are higher than the 2014 budget values for NPCC, SERC, SPP RE, Texas RE, and WECC (*i.e.*, these Regional Entities now have more registered functions per Compliance Program FTE than in their 2014 budgets. The change in the value of these metrics for FRCC, NPCC, and WECC from their 2014 budgets to their 2015 budgets is generally 5 percent or less for number of registered entities per Compliance Program FTE and is generally 5 percent or less for number of registered functions per Compliance Program FTE. This observation is consistent with the facts that (1) eight years after NERC was certified as the ERO, the population of registered entities and registered functions is fairly mature (*i.e.*, for the most part, the users, owners, and operators of the bulk power system that should be registered, have been registered, and for the relevant reliability functions[9]), and (2) the Regional Entities have significantly grown their Compliance Program staffs over time and are not planning significant staffing changes for their Compliance Programs in their 2015 budgets as compared to their 2014 budgets. For MRO, RF, SERC, SPP RE and Texas RE, the change in the value of these metrics from their 2014 budgets to their 2015 budgets is 4.8, 6.3, 11.0, 13.6, and 21.6 percent, respectively for number of registered entities per Compliance Program FTE and is 12.0, 6.0, 11.2, 11.3, and 18.3 percent, respectively for the number of registered functions per Compliance Program FTE.[10]

The bar charts and accompanying data lines on pages 8 through 10 of this Attachment provide the Regional Entities' estimated costs for 2015 to perform each type (operational and CIP; on-site and off-site) and size category of compliance audit.[11] The estimated costs to perform a compliance audit include the costs to prepare for the audit (including review of the registered entity's completed pre-audit questionnaire and Reliability Standards Audit Worksheets (RSAWs) and other registered entity-provided documents and information, and any pre-audit meetings), to perform the audit (whether on-site or off-site), and to report the results of the audit. Costs incurred in issuing and processing notices of alleged violations and proposed penalties resulting from the compliance audit (*i.e.*, the costs of enforcement activities, as contrasted with the costs of compliance monitoring activities) are not included in the estimated cost to perform the compliance audit. The costs per audit for each category of audit, shown in the table on page 4 and the bar charts on pages 8 through 10, are based on the Regional Entities' estimates of the man-hours required to complete the preparation, performance and reporting functions for each category of compliance audit in 2015. The costs include the direct Salary expense and related Personnel Expense (Payroll Taxes, Benefits and Retirement Costs) for the man-hours of the Regional Entity personnel involved in preparation, performance and reporting for the audit

[9] It is possible that implementation the revised Bulk Electric System (BES) definition, which became effective on July 1, 2014, and the application of the BES Definition exception procedure (Appendix 5C to the NERC Rules of Procedure), will result in some changes in registrations, at least in some Regions.

[10] These two metrics, however, do not capture other Compliance Program resources, most notably contractor or consultant support, nor support that other departments (such as Legal and Regulatory) may provide to the Regional Entities' Compliance Programs.

[11] Estimated costs of a particular size or type of audit are not provided in the table on page 4 or in the applicable bar chart on pages 8 through 10 if no audits are planned.

and/or the costs for consultant/contractor resources used by the Regional Entity to perform the audit, but do not include any allocation of Regional Entity indirect costs. The costs also include Travel Expense for personnel in connection with on-site audits at the registered entity's location.

NERC and the Regional Entities note the following factors, among others, that can contribute to the differences in estimated costs per compliance audit among the Regional Entities for the various compliance audit size and site categories, as reported in the table on page 4 and shown in the bar charts on pages 8 through 10:

- Some Regional Entities are using consultants or contractors on their audit teams, which may entail a higher cost per hour than the use of Regional Entity employees.[12] For example, as shown on the table on page 4, SERC and SPP RE are planning on the use of contractors in compliance audits in 2015. (In general and over time, as the Regional Entities have continued to build their Compliance Program staffs, they have been able to reduce their use of consultants or contractors in compliance audits. An exception is where very specialized subject matter expertise is required and there may not be cost justification for maintaining that expertise on staff in FTE positions.)

- The Regional Entity's footprint may affect the extent to which travel costs must be incurred in the performance of on-site compliance audits within the Region.

- Although consistent definitions of "large" operational and CIP audits have been used, *i.e.*, an operational audit encompassing more than 75 reliability standards requirements and a CIP audit encompassing more than 43 CIP standards requirements or 162 sub-requirements), some Regional Entities may project a greater number of requirements to be audited in a typical "large" compliance audit than other Regional Entities. A Regional Entity that projects a larger number of requirements to be audited in a "large" audit would, all other things equal, estimate a greater amount of resources to conduct its "large" audit (*e.g.*, more auditors, more days at the registered entity's site and/or more man-hours to review the registered entity's documentation and to prepare the audit report).

- Some Regional Entities may simply be planning more steps, or budgeting higher man-hours, for the preparation, completion and/or reporting phases of their compliance audits. In particular, there may be variations in the levels of activity and man-hours budgeted by the Regional Entities for review of registered entity responses to pre-audit questionnaires and RSAWs, and other registered entity documents and information, prior to the on-site phase of a compliance audit. In this regard, NERC notes that one of its initiatives during 2014 and continuing into 2015, in conjunction with the Regional Entities, is the development of, training of auditors on, and implementation of, a common compliance audit manual and checklist and set of

[12] It should be noted that although the cost to use a contractor or consultant on an individual audit assignment may be more costly than using a Regional Entity employee, the annual cost to the Regional Entity of retaining a contractor or consultant for a specific targeted assignment such as participating in certain compliance audits may be less than the cost of maintaining a FTE employee on staff for the year.

compliance audit procedures, in order to increase the consistency of compliance audit processes across the Regional Entities. *See* the discussion in the Regional Entity Assurance and Oversight section of NERC's 2015 Business Plan and Budget, **Attachment 2** to this filing.

- With respect to CIP compliance audits, the need to examine equipment or facilities that are the subject of one or more TFE Requests or to audit the registered entity's compliance with one or more approved TFEs complicates the difficulty of projecting the resource requirements for a CIP audit.

In addition to these factors, differences in estimated costs per audit among Regional Entities may reflect general differences in the market compensation levels in the different areas of the U.S. in which the various Regional Entities operate, thereby impacting their respective overall Personnel Expenses.

In conclusion, NERC reiterates that the development, collection, analysis and comparison of metrics on the Regional Entities' costs, operations and performance is an ongoing process. NERC and the Regional Entities will continue to work collaboratively to develop and refine appropriate metrics and to improve their analysis of the reported metrics values and the factors that may cause variations in values among the Regional Entities. In addition, NERC and the Regional Entities are evaluating whether additional or revised metrics should be developed to better reflect current practices in compliance auditing and other compliance monitoring activities, including the impacts of the ERO's Reliability Assurance Initiative.

ATTACHMENT 5

ATTACHMENT 17 TO NERC'S

2015 BUSINESS PLAN AND BUDGET FILING,

"METRICS ON NERC AND REGIONAL ENTITY

BUDGETED ADMINISTRATIVE (INDIRECT) COSTS

BASED ON THE 2014 AND 2015 BUDGETS"

ATTACHMENT 17

Analysis of
NERC and Regional Entity Budgeted Indirect (Administrative Services) Costs
2015 Budgets versus 2014 Budgets

In the preparation of the NERC and Regional Entity 2015 Business Plans and Budgets, indirect expenses have been defined as those expenses which cannot be directly attributed to one of the statutory program functions.[1]

The metrics presented in the tables on the last page of this Attachment are the same metrics presented in Attachment 16 to the 2010, 2011, 2012 and 2013 Business Plan and Budget filings and Attachment 17 to the 2014 Business Plan and Budget filing. These tables provide several metrics comparing indirect costs and FTEs[2] in relation to total statutory costs and FTEs and direct statutory costs and FTEs, for NERC and each of the Regional Entities, in their 2015 Business Plans and Budgets and their 2014 Business Plans and Budgets.

Overall, the tables show a decrease in the average indirect costs as a percent of total statutory costs and an increase in the average statutory indirect FTEs as a percentage of total statutory FTEs, in the NERC and Regional Entity 2015 budgets as compared to the 2014 budgets. This result is reflective of consistent application of the definition of indirect costs, as described above, in the preparation of the 2015 budgets.

Following is discussion of the individual metrics presented in the tables.

Percent of Statutory Indirect Budget to Total Statutory Budget

For NERC and the Regional Entities, the average percent of Statutory Indirect Budget to Total Statutory Budget (top row of tables) in the 2015 budgets is 34.8%, versus 35.5% in the 2014 budgets. For 2015, FRCC, MRO, NPCC, RF, Texas RE and WECC show percentages below or only slightly above (less than 10% higher than) the overall average. SERC's 2015 value for this metric is only 13% higher than the overall average.

FRCC's percentages for this metric calculated from both its 2014 budget and its 2015 budget are considerably lower than the overall average, which is reflective of the methodology used by FRCC to identify and allocate staff time and Office Costs to the appropriate program. SPP RE continues to have a higher percentage than the average (the highest percentage among the Regional Entities) for this metric, reflecting the allocation of indirect costs (support services charges) from SPP, Inc., which are driven by SPP, Inc.'s operating budget.

For NERC, MRO, NPCC, RF, SPP RE and WECC the percentages of Statutory Indirect Budget to Total Statutory Budget decreased in their 2015 budgets from the percentages based on

[1] NERC and Regional Entity provisions for Working Capital Reserve are not included in the budget data used to calculate these metrics.

[2] FTE = Full-time equivalent employee.

their 2014 budgets, ranging from a 0.2 percentage point decrease for NPCC to a 3 percentage point decrease for NERC. NERC's decrease for this metric is largely due to the increase in its budgeted statutory direct expenses in 2015 due to the commencement of NERC's participation in the Cyber Risk Information Sharing Program (CRISP), which in turn is being funded largely through Third-Party Funding payments from the electric utilities participating in the CRISP rather than through increased statutory assessments to all load-serving entities. For FRCC and SERC, the percentages increased by 1.7 percentage points and 2.2 percentage points, respectively. For Texas RE the percentages remained the same.

The overall average for the ratio of Statutory Direct Budget to Statutory Indirect Budget decreased from 2.57 based on the 2014 Business Plans and Budgets to 2.43 based in the 2015 Business Plans and Budgets. Overall, the changes in the average values of the two metrics shown in the top row of tables from the 2014 Budgets to the 2015 Budgets do not represent significant movement.

Budgeted Indirect FTEs as a Percent of Budgeted Total FTEs

In the NERC and Regional Entity 2015 Business Plans and Budgets, on average the budgeted statutory indirect FTEs are 24.7% of total statutory FTEs, compared to an average of 22.3% for the 2014 budgets, an increase of 2.4 percentage points (second row of tables). In the 2014 budget compared to the 2013 budget, the average number of statutory direct FTEs per statutory indirect FTE increased by 0.09, from 4.32 to 4.41. On average, there are 3.53 statutory direct FTEs per statutory indirect FTE in the 2015 budgets, compared to 4.41 statutory direct FTEs per statutory indirect FTEs in the 2014 budgets, for an average decrease of 0.88 statutory direct FTEs per statutory indirect FTE.

NERC, FRCC, SERC, SPP RE and Texas RE have higher percentages of budgeted statutory indirect FTEs to total statutory FTEs reflected in their 2015 budgets than in their 2014 budgets. RF and WECC have lower percentages of budgeted statutory indirect FTEs to total statutory FTEs reflected in their 2015 budgets than in their 2014 budgets. MRO's and NPCC's percentage of budgeted statutory indirect FTEs to total statutory FTEs reflected in their 2015 budgets are the same as in their 2014 budgets. NERC, FRCC, SPP RE and Texas RE have the largest decreases in the ratio of direct statutory FTEs to indirect statutory FTEs from their 2014 Budgets to their 2015 Budgets. SPP RE continues to have a very low percentage of indirect statutory FTEs to total statutory FTEs, which reflects the fact that SPP RE has a very small staff of indirect FTEs and obtains many of its administrative services from SPP, Inc. rather than through its own administrative staff as is the case for NERC and the other seven Regional Entities.

In considering this metric, it should be kept in mind that neither NERC nor any of the other Regional Entities are planning significant changes (increases or decreases) in overall staffing levels in their 2015 budgets from their 2014 budgets. Thus, the changes in the percentages of budgeted statutory indirect FTEs to total statutory FTEs and in the ratios of direct statutory FTEs to indirect statutory FTEs represent, primarily, reallocations of resources among direct and indirect program areas within each entity to support the goals and objectives of each entity.

Statutory Indirect Budget per Total FTE

The Statutory Indirect Budget per Total FTEs has increased from an average of $95,164 in the 2014 NERC and Regional Entity budgets to $97,312 in the 2015 budgets, an increase of $2,148, or 2.3% (bottom row of tables). In prior years, the increases in the statutory Indirect Budget per Total FTEs were generally reflective of an increased percentage of Statutory Indirect Budget to Total Statutory Budget (first row of tables). In 2015, this relationship is similar for FRCC and SERC. The statutory Indirect Budget per Total FTEs metric has decreased from the 2014 budget to the 2015 budget for MRO and WECC, and is reflective of their decreased percentages of Statutory Indirect Budget to Total Statutory Budget (first row of tables). The statutory Indirect Budget per Total FTEs metric has increased from the 2014 budget to the 2015 budget for NERC, NPCC, RF and SPP RE, while the percentage of Statutory Indirect Budget to Total Statutory Budget (first row of tables) decreased for these entities. The percentage differences in these two metrics from the 2014 Budgets to the 2015 Budgets for NPCC (2%), RF (4%) and SPP RE (2%) are not significant. For NERC, the statutory Indirect Budget per Total FTEs metric has increased 8.8% from the 2014 budget to the 2015 budget, while the percentage of Statutory Indirect Budget to Total Statutory Budget (first row of tables) decreased 3.0%. The increase in NERC's statutory Indirect Budget per Total FTEs (bottom row of tables) is reflective of the small increase in total FTEs, 189.53 FTEs in 2014 to 192.3 FTEs in 2015, or 1.5%, compared to the increase in NERC's statutory indirect budget, from $25.2M in 2014 to $27.8M in 2015, or 10.4%. While NERC's statutory indirect budget increased 10.4% in 2015 over 2014, NERC's statutory direct budget increased 24.5% in 2015 over 2014 ($38.8M in 2015 compared to $31.2M in 2014), due largely to the incorporation of the CRISP in the 2015 Budget, resulting in the decrease in NERC's percentage of Statutory Indirect Budget to Total Statutory Budget (first row of tables).

Analysis of Indirect (Administrative Services) Costs
2015 Budget versus 2014 Budget

2014 BUDGET						2015 BUDGET				
Total Statutory Budget	Total Statutory Direct Budget	Total Statutory Indirect Budget	% Statutory Indirect Budget to Total Statutory	Ratio of Statutory Direct Budget to Indirect Budget		Total Statutory Budget	Total Statutory Direct Budget	Total Statutory Indirect Budget	% Statutory Indirect Budget to Total Statutory	Ratio of Statutory Direct Budget to Indirect Budget
$ 56,390,096	$ 31,154,625	$ 25,235,471	44.8%	1.23	NERC	$ 66,649,306	38,801,269	27,848,037	41.8%	1.39
6,794,932	6,172,992	621,940	9.2%	9.93	FRCC	7,162,233	6,379,570	782,663	10.9%	8.15
9,744,799	5,774,572	3,970,227	40.7%	1.45	MRO	10,328,687	6,430,254	3,898,433	37.7%	1.65
14,129,006	9,095,248	5,033,758	35.6%	1.81	NPCC	14,778,540	9,544,174	5,234,366	35.4%	1.82
18,063,201	12,869,165	5,194,036	28.8%	2.48	RF	18,756,764	13,442,121	5,314,643	28.3%	2.53
16,877,288	10,610,814	6,266,474	37.1%	1.69	SERC	15,995,840	9,704,308	6,291,532	39.3%	1.54
11,823,629	5,736,162	6,087,467	51.5%	0.94	SPP RE	11,808,109	5,803,102	6,005,007	50.9%	0.97
11,771,248	7,653,236	4,118,012	35.0%	1.86	Texas RE	11,983,701	7,788,932	4,194,769	35.0%	1.86
25,638,084	16,296,214	9,341,870	36.4%	1.74	WECC	26,300,034	17,346,688	8,953,346	34.0%	1.94
			35.5%	2.57	AVERAGE				34.8%	2.43

2014 BUDGETED FTEs						2015 BUDGETED FTEs				
Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs		Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
189.53	130.39	59.14	31.2%	2.20	NERC	192.30	124.76	67.54	35.1%	1.85
30.40	27.04	3.36	11.1%	8.05	FRCC	30.91	26.87	4.04	13.1%	6.65
40.75	29.79	10.96	26.9%	2.72	MRO	42.50	31.08	11.42	26.9%	2.72
36.86	27.86	9.00	24.4%	3.10	NPCC	36.86	27.86	9.00	24.4%	3.10
72.00	57.20	14.80	20.6%	3.86	RF	72.20	57.60	14.60	20.2%	3.95
79.20	59.37	19.83	25.0%	2.99	SERC	78.70	54.57	24.13	30.7%	2.26
33.86	30.86	3.00	8.9%	10.29	SPP RE	32.75	28.25	4.50	13.7%	6.28
60.00	49.25	10.75	17.9%	4.58	Texas RE	60.00	44.50	15.50	25.8%	2.87
135.00	88.10	46.90	34.7%	1.88	WECC	137.50	92.60	44.90	32.7%	2.06
			22.3%	4.41	AVERAGE				24.7%	3.53

2014 BUDGET per FTE					2015 BUDGET per FTE			
Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Budget per Total FTE		Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Budget per Total FTE
$ 297,526	$ 238,934	$ 426,707	$ 133,148	NERC	$ 346,590	$ 311,007	$ 412,319	$ 144,816
223,518	228,291	185,101	20,459	FRCC	231,712	237,424	193,728	25,321
239,136	193,843	362,247	97,429	MRO	243,028	206,894	341,369	91,728
383,315	326,463	559,306	136,564	NPCC	400,937	342,576	581,596	142,007
250,878	224,985	350,948	72,139	RF	259,789	233,370	364,017	73,610
213,097	178,723	316,010	79,122	SERC	203,251	177,832	260,735	79,943
349,192	185,877	2,029,156	179,783	SPP RE	360,553	205,420	1,334,446	183,359
196,187	155,396	383,071	68,634	Texas RE	199,728	175,032	270,630	69,913
189,912	184,974	199,187	69,199	WECC	191,273	187,329	199,406	65,115
			$ 95,164	AVERAGE				$ 97,312

ATTACHMENT 6

TEMPLATE FOR REVISED FIRST PAGE

OF THE ADMINISTRATIVE SERVICES SECTION OF THE

NERC AND REGIONAL ENTITY BUSINESS PLANS AND BUDGETS

Administrative Services

Administrative Services						
	Direct Expenses and Fixed Assets			FTEs		
	2014 Budget	2015 Budget	Inc (Dec)	2014 Budget	2015 Budget	Inc (Dec)
General and Administrative	$ 7,752,337	$ 8,629,889	$ 877,552	10.56	13.13	2.57
Legal and Regulatory	$ 4,298,813	$ 4,448,015	$ 149,202	15.15	15.01	(0.14)
Information Technology	$ 9,462,202	$ 10,514,943	$ 1,052,741	18.07	19.70	1.63
Human Resources	$ 1,104,974	$ 1,158,034	$ 53,060	2.88	2.81	(0.07)
Finance and Accounting	$ 2,617,147	$ 3,096,886	$ 479,739	12.48	16.89	4.41
Total Administrative Services	$ 25,235,473	$ 27,847,767	$ 2,612,294	59.14	67.54	8.40

Program Scope and Functional Description

NERC's Administrative Services area includes the budget for all business and administrative functions of the organization, including (1) technical committees and member forums; (2) General and Administrative, which includes Board fees and expenses, the president and chief executive officer (CEO), chief reliability officer (CRO) and support staff, communications, external affairs and governmental relations, and office rent; (3) Legal and Regulatory; (4) Information Technology; (5) Human Resources; (6) Finance and Accounting; and (7) other general administrative expenses necessary to support program area activities. These functions are necessary to the existence and functioning of the organization and support the performance of NERC's ERO statutory activities. The resource requirements and comparative budget information for each of these functions is described further below.

Methodology for Allocation of Administrative Services Expenses to Statutory Programs

NERC's Administrative Services expenses and fixed asset expenditures, referred to as indirect expenses, are allocated to the statutory programs based on their respective number of FTEs.

For the Administrative Services functions included in the above table, the following sections will provide a discussion of current staffing and budgeted staffing for the function, an explanation of any change in budgeted staffing from the previous year's budget, a description of the functions and major activities of the function for the budget year, and an explanation of significant budget increases and decreases from the previous year's budget by major line item (e.g., Personnel Expenses, Consultants & Contracts Expense, Professional Services Expense.

ATTACHMENT 7

PAGES 10-19 OF NERC'S 2013 TRUE-UP REPORT

AND

ATTACHMENT 10 TO NERC'S 2013 TRUE-UP REPORT,

"METRICS CONCERNING ADMINISTRATIVE COSTS

IN 2013 NERC AND REGIONAL ENTITY BUDGETS

AND ACTUAL COSTS"

UNITED STATES OF AMERICA
Before the
FEDERAL ENERGY REGULATORY COMMISSION

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION	**)** **)** **)**	**Docket No. RR14-__-000**

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION'S REPORT OF COMPARISONS OF BUDGETED TO ACTUAL COSTS FOR 2013 FOR NERC AND THE REGIONAL ENTITIES

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May 30, 2014

completed in 2012 or were delayed or deferred into 2013, resulting in unbudgeted expenditures in 2013.

- Some entities budgeted certain expenditures as expenses (*e.g.*, as Office Costs), but then determined that the expenditure(s) needed to be capitalized (*i.e.*, recorded as Fixed Asset additions, such as Computer & Software Capital Expenditures or Equipment Capital Expenditures) based on the entity's capitalization policy. The determination to capitalize rather than expense these expenditures also resulted in additional Depreciation expense.
- Some entities experienced higher or lower Funding from Workshop attendance fees, or other programs conducted for industry participants, due to higher or lower attendance at workshops or other programs than projected in the budget, holding more or fewer Workshops than assumed in the budget, making a determination not to charge fees (or charging lower fees) for some programs for which fees had been budgeted, or a combination of these factors.

In addition to the above-described causes of actual-to-budget variances that were experienced by more than one entity, NERC and the Regional Entities experienced other above- or below-budget variances in actual Funding, Expenses and Fixed Asset Additions in individual line items due to particular events and circumstances impacting the particular entity. These variances are identified in the individual actual cost-to-budget comparisons presented in **Attachments 1** through **9**.

NERC and the Regional Entities are taking the actual cost-to-budget comparisons for 2013, as well as year-to-date actual cost-to-budget comparisons for 2014, into account in developing their business plans and budgets for 2015, which are to be submitted to the NERC Board for approval, and then filed with the Commission for approval, in August 2014. In addition, the Regional Entities' working capital and operating reserve policies are being reviewed as part of the 2015 business plan and budget review process.

IV. METRICS CONCERNING ADMINISTRATIVE COSTS IN 2014 NERC AND REGIONAL ENTITY BUDGETS AND ACTUAL COSTS

In the *June 19, 2008 Budget Compliance Order*, the Commission directed NERC to develop additional metrics analyzing its administrative expenses and those of the Regional

Entities, and to present these metrics in future annual actual cost-to-budget filings and Business Plan and Budget filings:

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

The administrative functions cited in footnote 13 of the *June 19, 2008 Budget Compliance Order* (Committees and Member Forums, General and Administration, Legal and Regulatory, Information Technology, Human Resources and Accounting and Finance) are the functions that NERC and the Regional Entities refer to as "indirect costs" in their business plans and budgets and reports of actual expenses. It is appropriate to analyze these indirect costs in the aggregate (as the Commission did in P 39 and footnote 13 of the *June 19, 2008 Budget Compliance Order*),

rather than by individual function, due to certain necessary inconsistencies among the Regional Entities in budgeting and recording these costs. For example, as noted earlier, some of the Regional Entities budget and record all Salary expense for Legal and Regulatory, Human Resources and/or Accounting and Finance under General and Administrative, because they have only one or two employees in each of these functions, and therefore reporting the budgeted and actual Salary expense for these individual functional categories could reveal salary information of individual employees.[14] As stated earlier, the actual cost-to-budget comparisons for 2013, as well as year-to-date actual cost-to-budget comparisons for 2014, are being taken into account in developing the NERC and Regional Entity business plans and budgets for 2015.

Attachment 10 provides the following three sets of metrics comparisons for NERC and the Regional Entities for their 2013 budgets and 2013 actual costs. In addition, **Attachment 10** provides a comparison of these metrics values for 2011, 2012 and 2013 actual results.

- Statutory indirect expenditures as a percent of total statutory expenditures,[15] and statutory direct expenditures per dollar of statutory indirect expenditures (top row of tables on **Attachment 10**).[16]
- Statutory indirect full-time equivalent employees ("FTE") as a percent of total statutory FTE, and ratio of statutory direct FTE to statutory indirect FTE (middle row of tables on **Attachment 10**).
- Total statutory expenditures per total FTE, statutory direct expenditures per direct FTE, statutory indirect expenditures per indirect FTE, and statutory indirect expenditures per total FTE (bottom row of tables on **Attachment 10**).

These are the same metrics that NERC provided in its previous annual filings comparing

[14] In addition, in some instances NERC or a Regional Entity has budgeted all of its projected costs for indirect functions such as General and Administrative, Legal and Regulatory or Information Technology in the indirect program, but has recorded some or all of the actual costs incurred for the function in the statutory program in which work was performed (*e.g.*, recording Professional Services expenses budgeted in Legal and Regulatory in the direct program for which outside legal services were performed).

[15] This is the metric shown in Attachment A to the *June 19, 2008 Budget Compliance Order*.

[16] The term "expenditures" is used in this discussion to mean expenses plus capital expenditures (fixed asset additions net of depreciation).

actual-to-budget costs for NERC and the Regional Entities for 2008, 2009, 2010, 2011 and 2012.[17] In the *June 29, 2009 Budget Compliance Order*, the Commission indicated that these metrics were acceptable.[18]

In reviewing indirect expenditures, it is important to take into consideration that NERC's indirect expenses support more than NERC's internal operations. NERC's indirect expenditures also include support of software applications that interface with Regional Entities. Costs for outside audit resources in connection with Regional Entity oversight, as well as Compliance and Certification Committee oversight of NERC's compliance with its Rules of Procedure, are also included in indirect expenses. In addition, expenses incurred in NERC's legal and executive (General and Administrative) operations, as well as those of the Regional Entities, directly support the activities of the standards, compliance and enforcement, and other statutory program areas. NERC's legal department, as well as those of the Regional Entities, devotes considerable resources to supporting standards development, compliance enforcement and registration matters.

The following subsections provide discussion and analysis of the metrics provided in **Attachment 10**.

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

The data and metrics in the top row of tables on **Attachment 10** measure the portions of

[17] *Additional Compliance Filing of the North American Electric Reliability Corporation in Response to October 18, 2007 Order – Comparisons of Budgeted to Actual Costs for 2008 for NERC and the Regional Entities*, filed April 1, 2009 in Docket No. RR07-16-005; *North American Electric Reliability Corporation's Report of Comparisons of Budgeted to Actual Costs for 2009 for NERC and the Regional Entities*, filed June 1, 2010 in Docket No. RR08-6-000; *North American Electric Reliability Corporation's Report of Comparisons of Budgeted to Actual Costs for 2010 for NERC and the Regional Entities*, filed May 31, 2011 in Docket No. RR11-4-000; *2011 True-Up Filing; 2012 True-Up Filing*.

[18] *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 127 FERC ¶ 61,307 (2009) ("*June 29, 2009 Budget Compliance Order*"), at PP 13-14.

the total statutory expenditures of NERC and each Regional Entity, and the Electric Reliability Organization ("ERO") in the aggregate, that are being expended on statutory direct functions and on statutory indirect functions. Based on 2013 actual data, statutory indirect expenditures averaged 33.61% of total statutory expenditures for NERC and the Regional Entities, and the average statutory direct expenditure per dollar of statutory indirect expenditure was $1.98.[19] The actual average statutory indirect expenditure percentage was almost equal, and the actual average statutory direct expenditure per dollar of indirect expenditure was equal, to the averages based on the NERC and Regional Entity budgets (33.51% and 1.98, respectively). Further, the 2011 and 2012 actual results are not significantly different from the 2013 actual results for these metrics. The 2013 actual average statutory indirect expenditure percentage was 33.61% while the 2011 and 2012 actual average statutory indirect expenditure percentages were 31.06% and 30.35%, respectively. The three-year average for this metric for 2011, 2012 and 2013 combined was 31.72%. The 2013 actual average statutory direct expenditure per dollar of indirect expenditure was $1.98 while the 2011 and 2012 statutory direct expenditure per dollar of statutory indirect expenditure was $2.22 and $2.29, respectively. The three-year average for 2011, 2012 and 2013 combined for this metric was $2.15.

Looking at the 2013 values of these metrics for the individual entities compared to the 2013 averages, the percentages of actual statutory indirect expenditures to total statutory expenditures for NERC and SPP RE were noticeably higher than the overall weighted and

[19] These figures are essentially weighted averages, *i.e.*, they are calculated using the sums of the total statutory expenditures, total statutory direct expenditures, and total statutory indirect expenditures, for NERC and the eight Regional Entities. Since NERC's and WECC's expenditures are substantially larger than those of the other Regional Entities, the NERC and WECC results significantly influence the weighted averages. (The significance of the WECC data to the averages is further magnified due to the amount of U.S. Department of Energy grant funds and related expenditures included in WECC's 2013 budget and actual results.) The arithmetic averages for these two metrics are 34.53% for statutory indirect expenditures as a percent of total statutory expenditures, and $2.57 for statutory direct expenditures per dollar of statutory indirect expenditures.

arithmetic averages, and their 2013 ratios of actual statutory direct expenditures to statutory indirect expenditures were noticeably lower than the overall weighted and arithmetic averages.

For NERC, its total actual direct statutory expenditures were approximately $337,600 less than budgeted while its total statutory indirect expenditures exceeded budget by approximately $766,300, resulting in its percentage of statutory indirect expenditures to total statutory expenditures rising from 43.06% in its budget to 44.13% actual. NERC's lower-than budgeted direct statutory expenditures was primarily due to: (1) lower than budgeted Personnel Expenses, which were collectively under budget $581,200, due to unfilled positions in the Compliance Enforcement, Situation Awareness and Training, Education, and Operator Certification departments; (2) lower than budgeted Meetings, Travel and Conferencing expenses, which were collectively $620,600 under budget, due primarily to management initiatives to lower these expenses; and (3) higher than budgeted Fixed Asset expenditures due to the capitalization (rather than expensing) of the Enterprise Bulk Electric System Exceptions application and the standards balloting software application.

SPP RE's actual 2013 indirect expense amount was in fact lower than budgeted (by approximately $337,500, or about 6%), but SPP RE's 2012 statutory direct expenditures were also lower than budgeted (by approximately $1,500,000, or about 25%), with the result that SPP RE's percentage of statutory indirect expenditures to total statutory expenditures increased from 47.33% as budgeted to 52.81% actual, and its ratio of statutory direct expenditures to statutory indirect expenditures fell from $1.11 as budgeted to $0.89 actual. In other words, the principal reason for SPP RE's actual percentage of statutory indirect expenditures to total statutory expenditures being higher than budgeted for 2013 was that SPP RE's actual direct statutory

expenditures were much lower than budgeted, not that its actual indirect expenses were higher than budgeted.

As shown by the data provided on the second page of **Attachment 10**, comparisons of the actual 2013 results for this first set of metrics to the actual results for 2012 and 2011 for these metrics show that, over this three-year period, NERC and the Regional Entities, in the aggregate, spent about the same portion of their total statutory expenditures on statutory indirect costs. Further, with only limited exceptions, each entity's annual values for these metrics were fairly consistent over the three-year period. This three-year view indicates that as their organizations and programs mature, with seven years of ERO and delegated function activities, each entity is reaching a steady state in terms of the portions of its total resources that are expended on statutory direct program costs and statutory indirect costs.

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

On average for NERC and the Regional Entities, 2013 actual statutory indirect FTEs were 24.28% of total statutory FTEs, and on average NERC and the Regional Entities had 3.12 statutory direct FTEs per statutory indirect FTE in 2013. The 2013 actual value for statutory indirect FTEs as a percent of total statutory FTEs was slightly lower than the 2012 value for this metric of 24.65% and slightly higher than the 2011 value for this metric of 23.42%; while the 2013 actual value for the number of statutory direct FTEs per statutory indirect FTE was slightly higher than the 2012 value for this metric of 3.06, and lower than the 2011 value for this metric of 3.27. Overall, however, the annual averages for this metric were fairly consistent across the three-year period 2011-2013.

In 2013, the actual percentage of statutory indirect FTEs to statutory total FTEs was less than 25% for each entity in the ERO except NERC (for which the percentage was 30.84%) and

SERC (26.94%); and NERC and each Regional Entity had at least 2.24 statutory direct FTE per statutory indirect FTE. Among the Regional Entities, FRCC, MRO, Texas RE and WECC each had a lower actual percentage of statutory indirect FTEs to statutory total FTEs in 2013 than in 2012 and 2011. NPCC and SERC each experienced higher actual percentages of statutory indirect FTEs to statutory total FTEs in 2013 than in 2012 and 2011. NERC's actual percentage of statutory indirect FTEs to statutory total FTEs in 2013 was approximately equal to its value for this metric in 2012 and was somewhat higher than its value for this metric in 2011. ReliabilityFirst's actual percentage of statutory indirect FTEs to statutory total FTEs in 2013 was lower than its value for this metric in 2012 and higher than its value for this metric in 2011.

Similarly, FRCC, MRO, Texas RE and WECC each had a higher actual ratio of statutory direct FTEs per statutory indirect FTE in 2013 than in 2012 and 2011, while NPCC and SERC each had lower actual ratios of statutory direct FTEs per statutory indirect FTE in 2013 than in 2012 and 2011. NERC's actual ratio of statutory direct FTEs per statutory indirect FTE in 2013 was equal to its 2012 value, and lower than its 2011 value, for this metric. ReliabilityFirst's actual ratio of statutory direct FTEs per statutory indirect FTE in 2013 was higher than its value for this metric in 2012 and lower than its value for this metric in 2011.

The three-year average percentage of actual statutory indirect FTEs to total statutory FTEs was 24.14%. The three-year average actual ratio of statutory direct FTEs per statutory indirect FTE was 3.14. As noted above in the discussion of the first set of metrics, comparisons of the actual 2013 results for this second set of metrics to the actual results for 2012 and 2011 for these metrics show that, over this three-year period, NERC and the Regional Entities, in the aggregate, had about the same percentage of indirect FTEs to total statutory FTEs and about the same ratio of statutory direct FTEs per statutory indirect FTEs for each of the three years (*i.e.*,

the highest annual average value for each metric was within 7% or less of the lowest annual average value for the metric).

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

The bottom row of metrics in the tables in **Attachment 10** shows the (i) total statutory expenditures per total FTE (total statutory expenditures divided by total number of statutory FTE), (ii) statutory direct expenditures per direct FTE, (iii) statutory indirect expenditures per indirect FTE, and (iv) statutory indirect expenditures per total FTE (statutory indirect expenditures divided by total number of FTE), for NERC and each Regional Entity. For NERC and the eight Regional Entities, in the aggregate:

- The actual average total statutory expenditures per statutory FTE were approximately 7.6% higher than budgeted ($273,210 actual versus $253,971 budgeted).
- The actual average statutory direct expenditures per statutory direct FTE were also approximately 7.6% higher than budgeted ($239,565 actual versus $222,630 budgeted).
- The actual average statutory indirect expenditures per statutory indirect FTE were 7.3% higher than budgeted ($378,131 actual verses $352,402 budgeted).
- The actual average statutory indirect expenditures per total statutory FTE were higher than budgeted by 7.9% ($91,815 actual versus $85,109).

Overall, for NERC and the Regional Entities in the aggregate, the actual 2013 value for each of the first three metrics was lower than the actual values for 2012 and 2011, with only one exception:

- The actual average total statutory expenditures per statutory FTE were $273,210 in 2013, as compared to $278,306 in 2012 and as compared to $291,503 in 2011. The three-year average value for this metric was $281,007.
- The actual average statutory direct expenditures per statutory direct FTE were $239,565 in 2013 as compared to $257,242 in 2012 and as compared to $262,409 in 2011. The three-year average value for this metric was $253,072.

- The actual average statutory indirect expenditures per statutory indirect FTE were $378,131 in 2013 as compared to $342,707 in 2012 and as compared to $386,650 in 2011. The three-year average value for this metric was $369,163.

This latter comparison shows that from 2011 to 2013, the ERO's FTE staffing (both direct function and indirect function personnel) grew faster than statutory expenditures grew, indicating an increase in the efficiency of use of the ERO's personnel.

A final, overall observation on the entire set of metrics data presented in **Attachment 10** (similar to the observation stated earlier based on the first set of metrics), is that, after seven years of ERO operations, as their organizations and programs mature, with only limited exceptions, each of the nine entities appears to be reaching a steady state in terms of the portions of its total statutory expenditures and personnel resources that are being devoted to statutory direct program activities and to statutory indirect activities. While some differences remain in the individual metrics values among the entities, these differences (*i.e.* each entity's metrics values) can be seen as becoming ingrained in their organizational and program structures.

V. CONCLUSION

The North American Electric Reliability Corporation respectfully requests that the Commission accept this filing and Attachments as compliant with the Commission's requirements for annual presentation of comparisons of actual-to-budgeted funding and costs for NERC and the Regional Entities for the year ended December 31, 2013.

ATTACHMENT 10

METRICS CONCERNING ADMINISTRATIVE COSTS IN 2013 NERC AND REGIONAL ENTITY BUDGETS AND ACTUAL COSTS

Analysis of Administrative (Indirect) Costs
2013 Actual and Budget

2013 ACTUAL SPEND

	Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect
NERC	$ 54,714,887	$ 30,571,766	$ 24,143,121	44.13%	$ 1.27
FRCC	5,864,298	5,249,163	615,135	10.49%	8.53
MRO	8,574,820	5,185,929	3,388,891	39.52%	1.53
NPCC	11,275,494	7,240,821	4,034,673	35.78%	1.79
RFC	17,545,584	11,493,152	6,052,432	34.50%	1.90
SERC	15,880,967	9,677,541	6,203,426	39.06%	1.56
SPP RE	9,681,482	4,568,970	5,112,512	52.81%	0.89
Texas RE	9,536,748	6,400,635	3,136,113	32.88%	2.04
WECC	66,511,396	52,124,780	14,386,616	21.63%	3.62
TOTAL/Average	$ 199,585,676	$ 132,512,757	$ 67,072,919	33.61%	$ 1.98

2013 BUDGET SPEND

	Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect
NERC	$ 54,286,255	$ 30,909,400	$ 23,376,855	43.06%	$ 1.32
FRCC	$ 6,531,782	$ 5,861,218	$ 670,564	10.27%	8.74
MRO	$ 9,283,539	$ 5,558,189	$ 3,725,350	40.13%	1.49
NPCC	$ 13,879,226	$ 8,969,958	$ 4,909,268	35.37%	1.83
RFC	$ 17,426,838	$ 12,443,206	$ 4,983,632	28.60%	2.50
SERC	$ 15,907,603	$ 10,433,393	$ 5,474,210	34.41%	1.91
SPP RE	$ 11,514,817	$ 6,064,830	$ 5,449,987	47.33%	1.11
Texas RE	$ 10,935,780	$ 7,916,802	$ 3,018,978	27.61%	2.62
WECC	$ 51,025,093	$ 38,697,715	$ 12,327,378	24.16%	3.14
TOTAL/Average	$ 190,790,933	$ 126,854,711	$ 63,936,222	33.51%	$ 1.98

2013 ACTUAL FTEs

	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
NERC	174.75	120.86	53.89	30.84%	2.24
FRCC	28.99	25.92	3.07	10.59%	8.44
MRO	37.91	28.51	9.40	24.80%	3.03
NPCC	35.22	26.22	9.00	25.55%	2.91
RFC	69.80	53.70	16.10	23.07%	3.34
SERC	69.89	51.06	18.83	26.94%	2.71
SPP RE	30.00	25.80	4.20	14.00%	6.14
Texas RE	56.15	43.50	12.65	22.53%	3.44
WECC	227.81	177.57	50.24	22.05%	3.53
TOTAL/Average	730.52	553.14	177.38	24.28%	3.12

2013 BUDGET FTEs

	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
NERC	186.25	133.50	52.75	28.32%	2.53
FRCC	30.12	26.37	3.75	12.45%	7.03
MRO	37.75	27.75	10.00	26.49%	2.78
NPCC	35.86	26.86	9.00	25.10%	2.98
RFC	73.00	57.20	15.80	21.64%	3.62
SERC	77.45	57.52	19.93	25.73%	2.89
SPP RE	34.50	31.25	3.25	9.42%	9.62
Texas RE	60.00	49.25	10.75	17.92%	4.58
WECC	216.30	160.10	56.20	25.98%	2.85
TOTAL/Average	751.23	569.80	181.43	24.15%	3.14

2013 ACTUAL SPEND per FTE

	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE
NERC	$ 313,104	$ 252,952	$ 448,007	$ 138,158
FRCC	202,287	202,514	200,370	21,219
MRO	226,189	181,899	360,520	89,393
NPCC	320,145	276,156	448,297	114,556
RFC	251,369	214,025	375,927	86,711
SERC	227,228	189,533	329,444	88,760
SPP RE	322,716	177,092	1,217,265	170,417
Texas RE	169,844	147,141	247,914	55,852
WECC	291,960	293,545	286,358	63,152
TOTAL/Average	$ 273,210	$ 239,565	$ 378,131	$ 91,815

2013 BUDGETED SPEND per FTE

	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE
NERC	$ 291,470	$ 231,531	$ 443,163	$ 125,513
FRCC	216,859	222,268	178,817	22,263
MRO	245,922	200,295	372,535	98,685
NPCC	387,039	333,952	545,474	136,901
RFC	238,724	217,539	315,420	68,269
SERC	205,392	181,387	274,672	70,681
SPP RE	333,763	194,075	1,676,919	157,971
Texas RE	182,263	160,747	280,835	50,316
WECC	235,900	241,710	219,348	56,992
TOTAL/Average	$ 253,971	$ 222,630	$ 352,402	$ 85,109

The accompanying narrative in this filing is essential to understanding the financial information on this schedule

Analysis of Administrative (Indirect) Costs
2011, 2012 and 2013 Actual

2011 ACTUAL SPEND

	Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect
NERC	$ 51,331,461	$ 29,699,184	$ 21,632,277	42.14%	$ 1.37
FRCC	5,177,020	4,476,298	700,722	13.54%	6.39
MRO	7,385,721	4,593,792	2,791,929	37.80%	1.65
NPCC	11,754,576	9,256,662	2,497,914	21.25%	3.71
RFC	15,158,286	10,361,567	4,796,719	31.64%	2.16
SERC	11,438,066	7,155,166	4,282,900	37.44%	1.67
SPP RE	8,397,845	4,116,846	4,280,999	50.98%	0.96
Texas RE	8,179,402	5,289,369	2,890,033	35.33%	1.83
WECC	57,554,596	46,643,617	10,910,979	18.96%	4.27
TOTAL/Average	$ 176,376,973	$ 121,592,501	$ 54,784,472	31.06%	$ 2.22
3-Year Average					

2012 ACTUAL SPEND

	Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect
NERC	$ 51,200,212	$ 30,071,355	$ 21,128,857	41.27%	$ 1.42
FRCC	5,519,156	4,918,683	600,473	10.88%	8.19
MRO	8,819,027	4,607,445	4,211,582	47.76%	1.09
NPCC	12,916,639	10,619,055	2,297,584	17.79%	4.62
RFC	16,014,703	10,712,245	5,302,458	33.11%	2.02
SERC	13,271,927	8,658,435	4,613,492	34.76%	1.88
SPP RE	9,552,118	4,400,658	5,151,460	53.93%	0.85
Texas RE	9,031,959	5,991,084	3,040,875	33.67%	1.97
WECC	62,137,704	51,286,671	10,851,033	17.46%	4.73
TOTAL/Average	$ 188,463,445	$ 131,265,631	$ 57,197,814	30.35%	$ 2.29
3-Year Average					

2013 ACTUAL SPEND

	Total Statutory Expenses & Capital Expenditures	Total Statutory Direct Expenses & Capital Expenditures	Total Statutory Indirect Expenses & Capital Expenditures	% Statutory Indirect to Total Statutory	Statutory Direct Spend per Spend on Indirect
NERC	$ 54,714,887	$ 30,571,766	$ 24,143,121	44.13%	$ 1.27
FRCC	5,864,298	5,249,163	615,135	10.49%	8.53
MRO	8,574,820	5,185,929	3,388,891	39.52%	1.53
NPCC	11,275,494	7,240,821	4,034,673	35.78%	1.79
RFC	17,545,584	11,493,152	6,052,432	34.50%	1.90
SERC	15,880,967	9,677,541	6,203,426	39.06%	1.56
SPP RE	9,681,482	4,568,970	5,112,512	52.81%	0.89
Texas RE	9,536,748	6,400,635	3,136,113	32.88%	2.04
WECC	66,511,396	52,124,780	14,386,616	21.63%	3.62
TOTAL/Average	$ 199,585,676	$ 132,512,757	$ 67,072,919	33.61%	$ 1.98
3-Year Average				31.72%	$ 2.15

2011 ACTUAL FTEs

	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
NERC	140.25	101.04	39.21	27.96%	2.58
FRCC	25.48	21.15	4.33	16.99%	4.88
MRO	32.97	24.47	8.50	25.78%	2.88
NPCC	29.83	23.08	6.75	22.63%	3.42
RFC	62.05	48.77	13.28	21.40%	3.67
SERC	56.70	43.95	12.75	22.49%	3.45
SPP RE	26.38	22.51	3.87	14.67%	5.82
Texas RE	42.70	31.60	11.10	26.00%	2.85
WECC	188.70	146.80	41.90	22.20%	3.50
TOTAL/Average	605.06	463.37	141.69	23.42%	3.27
3-Year Average					

2012 ACTUAL FTEs

	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
NERC	167.83	116.03	51.80	30.86%	2.24
FRCC	25.42	21.22	4.20	16.52%	5.05
MRO	35.44	25.14	10.30	29.06%	2.44
NPCC	33.34	25.42	7.92	23.76%	3.21
RFC	65.46	49.58	15.88	24.26%	3.12
SERC	68.70	52.95	15.75	22.93%	3.36
SPP RE	29.77	26.27	3.50	11.76%	7.51
Texas RE	51.29	38.79	12.50	24.37%	3.10
WECC	199.93	154.88	45.05	22.53%	3.44
TOTAL/Average	677.18	510.28	166.90	24.65%	3.06
3-Year Average					

2013 ACTUAL FTEs

	Total Statutory FTEs	Total Statutory Direct FTEs	Total Statutory Indirect FTEs	Indirect FTE as % of Total FTE	# Direct to Indirect Statutory FTEs
NERC	174.75	120.86	53.89	30.84%	2.24
FRCC	28.99	25.92	3.07	10.59%	8.44
MRO	37.91	28.51	9.40	24.80%	3.03
NPCC	35.22	26.22	9.00	25.55%	2.91
RFC	69.80	53.70	16.10	23.07%	3.34
SERC	69.89	51.06	18.83	26.94%	2.71
SPP RE	30.00	25.80	4.20	14.00%	6.14
Texas RE	56.15	43.50	12.65	22.53%	3.44
WECC	227.81	177.57	50.24	22.05%	3.53
TOTAL/Average	730.52	553.14	177.38	24.28%	3.12
3-Year Average				24.14%	3.14

2011 ACTUAL SPEND per FTE

	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE
NERC	$ 366,000	$ 293,935	$ 551,703	$ 154,241
FRCC	203,180	211,645	161,830	27,501
MRO	224,013	187,732	328,462	84,681
NPCC	394,052	401,069	370,061	83,738
RFC	244,291	212,458	361,199	77,304
SERC	201,730	162,802	335,914	75,536
SPP RE	318,341	182,890	1,106,201	162,282
Texas RE	191,555	167,385	260,363	67,682
WECC	305,006	317,736	260,405	57,822
TOTAL/Average	$ 291,503	$ 262,409	$ 386,650	$ 90,544
3-Year Average				

2012 ACTUAL SPEND per FTE

	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE
NERC	$ 305,072	$ 259,169	$ 407,893	$ 125,894
FRCC	217,119	231,795	142,970	23,622
MRO	248,844	183,271	408,891	118,837
NPCC	387,422	417,744	290,099	68,914
RFC	244,649	216,060	333,908	81,003
SERC	193,187	163,521	292,920	67,154
SPP RE	320,864	167,516	1,471,846	173,042
Texas RE	176,096	154,449	243,270	59,288
WECC	310,797	331,138	240,866	54,274
TOTAL/Average	$ 278,306	$ 257,242	$ 342,707	$ 84,465
3-Year Average				

2013 ACTUAL SPEND per FTE

	Total Statutory	Total Statutory Direct	Total Statutory Indirect	Statutory Indirect Spend per Total FTE
NERC	$ 313,104	$ 252,952	$ 448,007	$ 138,158
FRCC	202,287	202,514	200,370	21,219
MRO	226,189	181,899	360,520	89,393
NPCC	320,145	276,156	448,297	114,556
RFC	251,369	214,025	375,927	86,711
SERC	227,228	189,533	329,444	88,760
SPP RE	322,716	177,092	1,217,265	170,417
Texas RE	169,844	147,141	247,914	55,852
WECC	291,960	293,545	286,358	63,152
TOTAL/Average	$ 273,210	$ 239,565	$ 378,131	$ 91,815
3-Year Average	$ 281,007	$ 253,072	$ 369,163	$ 88,941

The accompanying narrative in this filing is essential to understanding the financial information on this schedule