

**Shared Business Plan and Budget Assumptions  
NERC and the Regional Entities  
2013-2015 Planning Period**

Commencing in December 2011, NERC and the eight Regional Entities have been collaborating in the development of a common set of business planning goals, objectives and assumptions for the 2013-2015 period. At the February 2012 meetings of the NERC Member Representatives Committee and Board of Trustees, NERC's President and Chief Executive Officer presented a draft Strategic Plan which was jointly developed by NERC and the Regional Entities.

As part of the implementation of the Strategic Plan, NERC and the Regional Entities develop a set of common assumptions that are used to guide resource projections over the planning period for each entity and the ERO overall, recognizing there are often unique factors that drive differences in each organization's final determination of its resource needs and budget. The specific resource needs and budget of NERC and each Regional Entity will continue to be publicly posted for review and approved in open session by NERC's Finance and Audit Committee as part of the annual business plan and budget process.

This document represents the first draft of the common business planning assumptions. Efforts have been made to focus on assumptions affecting resource requirements versus specific program area goals, objectives and actions. It will be revised taking into account the provisions of the final Strategic Plan, comments from stakeholders and the ongoing work by NERC and Regional Entity leadership regarding specific goals, objectives and deliverables over the planning period. Updates to the Strategic Plan, as well as associated goals and objectives, will be posted and made available on NERC's website, as well as through the presentation and review of the various drafts of NERC and the Regional Entity 2013 Business Plans and Budgets.

**Legal and Operating Framework**

NERC and the Regional Entities are expected to continue to work under the existing regulatory framework governing the establishment and enforcement of reliability standards for the bulk power system established by applicable governmental authorities in the United States and Canada, as well as the authorizations contained in the FERC's order approving NERC as the ERO. No significant changes to this framework are assumed to occur over the planning period.

The terms of the existing delegation agreements between NERC and the Regional Entities are also assumed to continue to apply over the planning period. With respect to day to day routine operation of the ERO, the Regional Entities are expected to have the primary responsibility for interactions with registered entities. NERC will provide oversight of the Regional Entities and otherwise ensure that its responsibilities as the ERO are fulfilled. Over the planning period, NERC and the Regional Entities are also expected to refine and revise procedures to eliminate duplication, increase operational

efficiencies, enhance ERO-wide consistency, and achieve measureable reliability outcomes, consistent with their respective roles and responsibilities.

### **Business Environment**

NERC and the Regional Entities will work collaboratively to identify additional ways to improve efficiently and leverage overall ERO resources. Industry concerns relative to the overall cost of compliance with ERO requirements will likely continue.

Cost pressures may affect stakeholder resources available to participate in NERC and Regional Entity activities. NERC and the Regional Entities business plans, budgets, and resource requirements will continue to be established based upon the assumption of continued industry participation in support of key program areas, including but not limited to event analysis, reliability assessments, and standards development. Any significant change in the quality or availability of industry resources will likely affect ERO resource requirements.

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### **General**

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External factors will continue to affect both resource needs and allocation. These factors will likely include, but not be limited to:

- The number and significance of system events
- FERC orders, directives, audits, and performance assessment
- The final definition of the Bulk Electric System (BES), as well as the number of exception requests
- The rate of entity violations
- The assessment of the impact of new technologies
- Proposed and actual changes in applicable laws and regulations, including environmental and others

The activities of the transmission, generator and other forums are expected to compliment ERO activities and place downward pressure on the need to add incremental resources which might otherwise be required in the absence of these forums.

NERC and the Regional Entities expect gains in efficiency, year-upon-year, as programs and initiatives mature, experience is gained, standards are improved and internal process and performance improvements are achieved.

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## Key Assumptions by Program Area

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### Reliability Standards Program

1. NERC will need to allocate additional resources to support improvements in the quality of standards development and guidance, including related training activities.
2. Review and modifications to the standards process are not expected to have a material effect on resources within the standards program area within NERC or the Regional Entities. Significant increases in throughput may create additional resource needs to review and comment on proposed standards, support regulatory filings and oversee new standards as they become effective. However, these incremental resource needs are expected to be offset by improvements in the efficiency of the standards development process.
3. Implementing a cost effectiveness analysis or assessment of proposed standards is likely to impact resource requirements, but the extent of the impact cannot be fully assessed at this time.
4. The number of interpretation and guidance requests is expected to decrease reflecting the impact of the results-based standards initiative and improved standards development process.
5. The number of projects contained in the Reliability Standards Development Plan is expected to increase over the planning period. However, the scope of these projects is generally expected to be narrower than would otherwise exist in the absence of the Results- Based Standards initiative.
6. Activity associated with Regional Standards development is expected to decrease, and staffing levels will not be increased in this area.
7. Improvements in the quality of standards drafting and implementation should result in improvements in the efficiency and effectiveness of auditing and enforcement activities towards the end of the planning period

### Compliance Monitoring and Enforcement and Organization Registration and Certification Program

#### *Compliance and Enforcement*

1. Resource implications associated with the Find, Fix and Track (FFT) process are unclear at this time given the nascent state of the program. However, efficiency gains are expected as the program matures.

2. Prospective entity risk assessments will be accomplished using existing resources.
3. Changes in TFE processing, including equipment class-based exceptions, audit sampling, and elimination of much of the reporting and review burden, must be implemented to improve efficiency.
4. The future use of spots checks will increase as risk-based monitoring is rolled out, but is not expected to affect overall resource requirements.
5. Improvements in consistency among the Regional Entities may facilitate more efficient resource allocation within the compliance and enforcement areas at NERC, as well as potentially reduce compliance costs for some registered entities.
6. Improvements in audit guidance may increase ERO efficiency, support improvements to resource allocation and help mitigate overall compliance costs.
7. Improvements in consistency among Regional Entities, improved efficiencies for Regional Entities and registered entities is expected from an improved centralized compliance, registration, analysis and tracking system. A significant multiyear investment will be required to develop and implement the system.
8. As risk based monitoring activities increase, strong consideration will be given to modifying the current three (3) and six (6) year audit cycles for registered entities. The rigor, scope, depth and recurrence of audits and spot checks will be driven by reliability risk and not a predetermined schedule. As Standards are improved, the need for clarifying documents, such as Compliance Application Notices (CANs) or interpretations should decrease. Until the Standards have been improved, CAN and interpretation activity is anticipated to occur at current levels.
9. The number of non-CIP violations discovered in 2011 is expected to decrease as most registered entities have now been audited at least once and the standards and their application has matured. The number of CIP violations is not expected to decrease and may increase over the planning period until all entities have undergone a CIP audit and until a measure of stability in the standards is reached.

### ***Organization Registration and Certification***

1. Implementation of the BES definition may place additional resource demands in the Registration area but the significance cannot be fully assessed at this time. If a high number of BES exceptions are requested the potential for a backlog situation in the first years of implementation is possible.

### ***Reliability Assessment and Performance Analysis Program***

1. Implementation of a BES exception process is expected to impact resources requirements in this program area, but the significance of the impact cannot be fully assessed at this time, as resource requirements will be driven by the number of exception requests received. It's also expected that there may be resource impacts at the Regional Entity level. More information regarding these potential impacts will be addressed in the first draft of the NERC and Regional Entities' Business Plans and Budgets.
2. Investments will be needed to develop and implement improved data collection and analysis systems and capabilities and should improve overall ERO resource allocation and efficiency in the long term.
3. Resource impacts associated with new technologies and environmental regulations are uncertain at this point.
4. Implementation of an outcome based approach to achieve measureable improvements in reliability will likely require allocation of resources to this program area, the significance of which from an overall budget perspective cannot be determined at this time.

### ***Training, Education, and Operator Certification Program***

1. Both NERC and the Regional Entities agree that there are opportunities for improvements in the coordination, content and manner of internal and external training programs.
2. While additional or different resources will be required for certain training initiatives, it is not clear at this time whether these needs will translate into a significant increase in NERC's or any of the Regional Entities' budgets. The general sense at this point is that improvements with minimal budgetary impact can be achieved through better coordination, planning and management of training programs. The one possible exception is in the area of additional resources need to support CEA staff auditor training, as further discussed below.
3. Implementation of auditor credentialing may result in resource impacts due to time period required to obtain necessary credentials.

### ***Situation Awareness and Event Analysis Program***

1. NERC will restructure this program area by merging the Situation Awareness function into the Event Analysis department and include the ES-ISAC within the CIP department for budgeting purposes. NERC will budget and manage Event

Analysis separately from the Compliance and Enforcement functions. NERC will budget the ES-ISAC as part of its CIP department.

2. NERC will propose amendments to the Rules of Procedure to reflect this reorganization.
3. NERC will cease providing contracted funding support for GPA and the NASPI initiative at the end of 2013.
4. NERC will cease funding the IDC at the conclusion of its existing contract in May 2013 and will provide billing services to the IDC Users Group in a transitional basis, subject to FERC approval.
5. NERC will continue to review the appropriateness of continued funding of other reliability tools, with any proposed changes thereto subject to review and input from the Regional Entities, appropriate NERC committees and working groups, and other affected parties.
6. SAFNR will provide additional situational awareness capabilities at both NERC and Regional Entity levels. Significant additional resource investments are not anticipated to be necessary for the Regional Entities to utilize SAFNR. NERC will continue to budget and incur costs to operate and maintain SAFNR.
7. The number of events requiring review and analysis are expected to increase but not materially impact resource requirements.

#### ***Critical Infrastructure Protection***

1. NERC will need to increase CIP resource support for auditor training and credentialing, as well as compliance enforcement activities. The increased support will likely be in retaining outside experts to train/credential NERC and Regional staff as opposed to increasing the size of NERC staff.
2. The ES-ISAC will be budgeted as part of the CIP department.
3. NERC will continue to conduct and budget grid security exercises.

### ***Information Technology***

1. Significant investments will be required over the planning period to develop and implement program area and enterprise wide applications to support business needs, including compliance, registration and tracking systems and other project, data management and analysis tools to provide greater cost efficiency and uniformity across the ERO. NERC and the Regional Entities have put in place a framework to define business requirements, establish priorities, define and manage resource requirements associated with ERO IT investments over the planning period. NERC has also established a more rigorous and coordinated program for assessing its own internal IT needs. Further information regarding these frameworks, as well as preliminary projected resource requirements over the planning period, will be included in NERC's draft 2013 Business Plan and Budget.
2. Ongoing investments will be required to develop, implement and maintain enhancements to the NERC and Regional Entity websites.

### ***Finance and Administrative***

1. It's too early to predict any potential additional resource requirements associated with the implementation of the ERO Risk Management framework, however monies were budgeted for this activity in 2012 and expenditures and resource requirements will at least be at that level. Regional Entities do not anticipate increased resource requirements due to this effort.
2. NERC and the Regional Entities will work cooperatively to reduce overall operating expenses, focusing on opportunities to further reduce and/or improve the efficiency of travel, meeting, conference call, software licensing and hardware purchase, and insurance costs. Efforts will be made to improve the transparency of information regarding these categories of costs as part of the annual business plan and budget process.
3. NERC and the Regional Entities will work to improve budgeting and forecasting capabilities, as well as variance reporting.
4. NERC and the Regional Entities will work cooperatively to establish a common set of principles regarding the determination of working capital and contingency reserve requirements. However, working capital requirements will continue to be established on an entity by entity basis, with the requirements clearly set forth in and subject to review and approval as part of the annual business plan and budget process at the Regional Entity and NERC level.