

June 17, 2015

VIA ELECTRONIC FILING

David Erickson
President and Chief Executive Officer
Alberta Electric System Operator
2500, 330 - 5 Avenue SW
Calgary, Alberta
T2P 0L4

RE: *North American Electric Reliability Corporation*

Dear Mr. Erickson:

The North American Electric Reliability Corporation (“NERC”) hereby submits North American Reliability Corporation’s Report of Comparisons of Budgeted to Actual Costs for 2014 for NERC and the Regional Entities. NERC requests, to the extent necessary, a waiver of any applicable filing requirements with respect to this filing.

Please contact the undersigned if you have any questions.

Respectfully submitted,

/s/ Holly A. Hawkins

Holly A. Hawkins
*Associate General Counsel for the North
American Electric Reliability Corporation*

Enclosure

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I. INTRODUCTION

The North American Electric Reliability Corporation (“NERC”) respectfully submits this filing to provide comparisons of actual to budgeted costs for the year 2014 for NERC and the eight Regional Entities.¹ NERC is also submitting a comparison of actual to budgeted costs for 2014 for Peak Reliability, Inc. (“Peak”). The Federal Energy Regulatory Commission (“FERC”) originally directed NERC to file, each year, comparisons of actual to budgeted costs for the preceding year, in an order issued October 18, 2007 concerning the 2008 business plans and budgets of NERC and the Regional Entities.² In several subsequent orders, FERC has clarified and expanded upon the information to be included in the annual actual-to-budget cost comparisons filings.

The following information is provided in this filing:

- A comparison of the actual funding received and costs incurred by NERC and each Regional Entity, and by Peak, for statutory and (where applicable) non-statutory activities for the year ended December 31, 2014, to the budgets of NERC and each Regional Entity for that year, with explanations of significant actual cost-to-budget variances.
- Audited financial statements of NERC, and of each Regional Entity except WECC, for the year ended December 31, 2014.³
- Tables showing metrics concerning NERC and Regional Entity administrative costs in their 2014 budgets and actual results.

¹ The eight Regional Entities are the Florida Reliability Coordinating Council, Inc. (“FRCC”), Midwest Reliability Organization (“MRO”), Northeast Power Coordinating Council, Inc. (“NPCC”), ReliabilityFirst Corporation (“ReliabilityFirst”), SERC Reliability Corporation (“SERC”), Southwest Power Pool, Inc. Regional Entity (“SPP RE”), Texas Reliability Entity, Inc. (“Texas RE”), and Western Electricity Coordinating Council (“WECC”).

² *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) (“2008 ERO Budget Order”).

³ As explained below, WECC’s audited financial report was not completed as of the date of this filing; WECC’s audited financial report is expected to be available in June 2015 and will be provided in a supplemental filing.

This filing includes the following attachments:

Attachment 1: 2014 Actual Cost-to-Budget Comparison and Audited Financial Statements for NERC.

Attachment 2: 2014 Actual Cost-to-Budget Comparison and Audited Financial Statements for FRCC.

Attachment 3: 2014 Actual Cost-to-Budget Comparison and Audited Financial Statements for MRO.

Attachment 4: 2014 Actual Cost-to-Budget Comparison and Audited Financial Statements for NPCC.

Attachment 5: 2014 Actual Cost-to-Budget Comparison and Audited Financial Statements for ReliabilityFirst.

Attachment 6: 2014 Actual Cost-to-Budget Comparison and Audited Financial Statements for SERC.

Attachment 7: 2014 Actual Cost-to-Budget Comparison for SPP RE and Audited Financial Statements for Southwest Power Pool, Inc.

Attachment 8: 2014 Actual Cost-to-Budget Comparison and Audited Financial Statements for Texas RE.

Attachment 9: 2014 Actual Cost-to-Budget Comparison (based on unaudited financial statements) for WECC.

Attachment 10: 2014 Actual Cost-to-Budget Comparison and Audited Financial Statements for Peak.

Attachment 11: Metrics Concerning Administrative Costs in 2014 NERC and Regional Entity Budgets and Actual Costs

II. NOTICES AND COMMUNICATIONS

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

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III. COMPARISONS OF ACTUAL COSTS TO BUDGETS FOR THE YEAR ENDED DECEMBER 31, 2014 – NERC AND REGIONAL ENTITIES

As noted above, in the *2008 ERO Budget Order*, FERC directed NERC to make annual filings comparing the NERC and Regional Entity budgets to actual costs incurred in the preceding year, “in sufficient detail and with sufficient explanations for the Commission to determine, by program area, the reasons for deviations from the budget and the impacts of those deviations.”⁴ In its June 19, 2008 Order addressing NERC’s April 1, 2008 compliance filing to the *2008 ERO Budget Order*, FERC provided additional direction concerning the presentation of the annual filings comparing NERC’s and the Regional Entities’ actual to budgeted expenditures:

37. To promote consistency and transparency, the Commission directs the use of certain practices and formats in future true-up filings. In particular, Regional Entities must provide a cover letter discussing major areas of actual cost-to-budget variances for all of the Regional Entity’s statutory programs in the aggregate. Regional Entities should also follow NERC’s template for the presentation of actual costs and budgeted costs on a program-by-program and line-item basis. Significant variances must be explained on a line-item basis with enough particularized information to clearly support each such variance. Regional Entities should refrain from using generic, program area summaries to support significant variances. The cause for each such variance should therefore be clear on its face. Further, each Regional Entity must provide an explanation of the allocation methods it used to allocate indirect costs to the direct statutory program or functional areas, as well as any allocation between any statutory and non-statutory activities.

38. Cash reserves are meant to handle expenses which exceed the amount budgeted, as well as unforeseen events that could occur at any time. However, in the future, the Commission expects NERC and the Regional Entities to justify the use of cash reserves as variances in the April true-up. Cash reserves should not become a means to fund expected projects outside of the budget approval process. The Commission expects that as NERC and the Regional Entities develop experience in planning and functioning under their budgets the amounts and number of variance will decrease. In addition, the Commission expects that with experience, the explanations for the variances will improve.⁵

In addition, although the following directive in the *2008 ERO Budget Order* was

⁴ *2008 ERO Budget Order* at P 23.

⁵ *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 123 FERC ¶61,282 (2008) (“*June 19, 2008 Budget Compliance Order*”), PP 37-38.

expressly applicable to NERC's compliance filing comparing actual expenses to budgets for the year ended December 31, 2007 for NERC and the Regional Entities, NERC has treated the directive as intended to apply to the annual filings comparing actual expenses to budgets for future years as well:

66. . . . [T]he Commission reminds NERC and the Regional Entities that, to the extent funding identified as statutory is used to fund non-statutory activities, those funds must be reimbursed (e.g., to load serving entities or to statutory expenditures). NERC is directed to inform the Commission in the . . . compliance filing the extent to which this has occurred and document that the funds have been or will be reimbursed.

The comparisons of 2014 actual-to-budget funding and expenditures for NERC and the Regional Entities are provided in **Attachments 1 through 9**, as follows:

- **Attachment 1:** NERC
- **Attachment 2:** FRCC
- **Attachment 3:** MRO
- **Attachment 4:** NPCC
- **Attachment 5:** ReliabilityFirst
- **Attachment 6:** SERC
- **Attachment 7:** SPP RE
- **Attachment 8:** Texas RE
- **Attachment 9:** WECC

Each Attachment also includes the respective entity's audited financial report for the year ended December 31, 2014, as prepared by its independent public accounting firm, with the exception of the Attachment for WECC. WECC's outside auditors were unable to complete their audit of WECC's 2014 financial statements in time for inclusion in this filing, due to staffing shortages experienced by the auditors. WECC expects to receive its audited financial report for 2014 from its outside auditors in June 2015, and, when received, NERC will file WECC's audited 2014 financial statements in a supplemental filing.

The comparisons provided in **Attachments 1** through **9** conform to FERC's directives as quoted above:

- Each comparison contains a cover letter or an overview or summary section identifying overall actual-to-budget variances in Funding and total Expenses and in major Expense categories, and discussing reasons for major areas of actual cost-to-budget variances.
- Each comparison contains a summary table, prepared using a NERC-supplied template, showing the entity's 2014 budget, 2014 actual amounts, and the variance, for major line-item categories of Funding and Expenses.
- For those entities that engaged in both statutory and non-statutory activities in 2014, the comparisons include separate summary tables for statutory programs and non-statutory activities, prepared using the NERC-supplied template, showing the entity's 2014 budget, 2014 actual amounts, and the variance, for major line-item categories of Funding and Expenses.⁶
- The comparisons include individual tables, also prepared using a NERC-supplied template, showing 2014 budget, 2014 actual amounts, and the variance, for major line-item categories of Funding and Expenses, for each of the statutory programs⁷ (direct costs) and the overhead functions⁸ (indirect costs). Explanations for significant line-item actual-to-budget variances are provided following each table, either below the table or on the immediately following page(s).⁹

The Attachments also address (generally in the cover letter or overview section) (i) where applicable, whether any statutory funds were used in 2014 for non-statutory activities (neither NERC nor any Regional Entity reports using statutory funds for non-statutory activities during

⁶ FRCC, NPCC, Texas RE and WECC had non-statutory activities in 2014 and each has provided summary tables for statutory and non-statutory activities. NERC, MRO, ReliabilityFirst, SERC and SPP RE did not have non-statutory activities in 2014 (although SPP RE's parent organization, Southwest Power Pool, Inc. had non-statutory activities).

⁷ Statutory programs encompass Reliability Standards, Compliance Operations and Enforcement, Reliability Assessment and Performance Analysis, Training, Education and Operator Certification, and Situation Awareness and Infrastructure Security (including Critical Infrastructure Protection).

⁸ Committees and Member Forums, General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Accounting and Finance. Some of the Regional Entities report budget and actual expenditure information for some or all of the overhead functions on a combined basis, in order to protect the confidentiality of compensation information for departments that have a limited number of staff members.

⁹ Generally, explanations have been provided for line-item variances that are greater than +/- 10% of the budgeted amount and greater than \$10,000 over or under the budgeted amount. For ease of formatting the tables, the placement of these explanations in the report has been changed slightly from prior years' reports, so that the explanations are now shown beneath the applicable table or on the page(s) immediately following the table, rather than adjacent to the line items to which they relate.

2014); (ii) the impact of the entity's 2014 results on its working cash reserve for statutory programs (*e.g.*, whether working cash reserves were used to fund expenditures during 2014)¹⁰; (iii) how indirect costs were allocated to the direct statutory programs or functions; and (iv) where applicable, whether, and if so how, costs were allocated between statutory programs and non-statutory activities in 2014.

NERC has provided additional information in its 2014 report in **Attachment 1** on (1) actual cost to budget variances for Consultants and Contracts expense, and (2) an analysis and comparison of the major sources of changes in its working capital and operating reserves for 2014, as budgeted and per actual results. The analysis of working capital and operating reserves includes a breakdown of the changes in working capital and operating reserves due to 2014 budgeted operations and to differences in actual funding or expenditures from amounts budgeted, including unbudgeted or above-budget expenditures funded from the Known Contingency Reserve or the Unknown Contingency Reserve. The table on page 4 of **Attachment 1** shows the actual cost to budget variances for Consultants and Contracts expense for 2014 by NERC program area, and is followed by a narrative discussion of the reasons for actual cost-to-budget variances for Consultants and Contracts expense in each program area. The analysis of changes in working capital and operating reserves is provided on pages 8 of **Attachment 1**, including a table which shows changes in reserves from current year (2014) operations for the Known Contingency Reserve, Unknown Contingency Reserve, and System Operator Reserve. In addition, in its 2014 report, NERC has provided an actual cost-to budget comparison of 2014

¹⁰ The summary comparison tables for total entity and (where applicable) statutory and non-statutory activities show the "Change in Working Capital" (or in "Operating Reserves") for the 2014 Actual Funding and Expenditures. A positive "Change in Working Capital" means the entity's total Actual Funding exceeded its total Actual Expenditures for the year 2014; therefore, it was not necessary for the entity to use a portion of its cash reserves balance at December 31, 2013 to fund 2014 expenditures.

Board of Trustees expenses, detailed by Meetings and Travel Expense (Quarterly Board Meetings and Trustee Travel expense) and Professional Services (Independent Trustee Fees and Trustee Search Fees). *See* page 6 of **Attachment 1**.

Because the NERC and Regional Entity reports in each Attachment identify and discuss major areas of actual cost-to-budget variances, and the individual tables for each direct statutory program and each indirect cost function contain specific explanations of significant variances on a line-item basis, a detailed, entity-by-entity discussion of the actual-to-budget variances experienced in 2014 by NERC and individual Regional Entities is not provided here. However, the list below describes several recurring drivers of actual cost-to-budget variances experienced by NERC and the Regional Entities in 2014, as identified by NERC's review of the comparisons.

- A number of entities¹¹ experienced under-budget variances in Salary Expense and related Personnel Expenses (Payroll Taxes, Employee Benefits and Retirement Expense), in one or more program areas, due to being unable to fill budgeted positions, due to higher vacancy rates (*i.e.*, higher number of unfilled positions), or to filling budgeted positions later in the year, than was assumed in the budget. Additionally, having fewer personnel on staff than budgeted was a factor tending to reduce Meetings and/or Travel Expense below the budgeted amounts.¹²
- In some instances, due to the difficulty in filling budgeted positions, the entity may have found it necessary to incur costs for temporary staffing services while budgeted positions were vacant.
- In order to address unfilled positions or emergent needs in particular program areas, some entities transferred one or more employees from one program area to another during 2014, or had shared FTEs who spent a greater portion of their time working in one program area and a lesser portion of time in another program area than was reflected in the budget. This resulted in actual cost-to-budget variances in Personnel

¹¹ The term "entities" is used in this discussion to include NERC as well as Regional Entities.

¹² In the development of their annual budgets, NERC and some of the Regional Entities have begun to address this "vacant position" variance issue by including an "attrition factor" or "labor float factor" into their budget calculations. The attrition factor recognizes that, as in any organization, a portion of the budgeted positions will be vacant during a part of the year due to delays in filling new or vacant positions and unexpected/unbudgeted departures of existing employees. Nonetheless, variances between the projected and actual attrition factor or labor float factor can result in variances between budgeted and actual Personnel Expenses.

Expenses and related Meeting and Travel expenses for the program areas involved in such transfers, although not necessarily for the entity as a whole.

- The inability to fill budgeted positions as planned also resulted in some instances in higher-than budgeted Consultants & Contracts expense, due to either or both the need to use consultants or contractors to perform work that would have been done by employees, or the need to make greater use than budgeted of personnel recruiting services and search firms.
- On the other hand, some entities were able to spend less on Consultants and Contracts than budgeted, as a result of having work budgeted to be performed by contractors and consultants handled by internal staff of the entity. As some entities have increased their staffing over time, they have seen less need to use outside services, due to increased in-house staff capabilities.
- Generally, NERC and the Regional Entities allocate Indirect Expenses to the direct statutory programs on the basis of numbers of FTEs in each statutory program. Therefore, due to differences in actual versus budgeted FTEs during the year in individual statutory programs, some entities experienced variances from budget in the amounts of Indirect Expenses allocated to the individual direct statutory programs.
- Some entities experienced higher or lower Employee Benefits expenses than budgeted due to actual renewal rates from services providers for their health and medical benefits programs being different than projected at the time of budget preparation.
- Some entities experienced lower than budgeted Employee Benefits expenses due to decisions by employees not to participate in the entity's medical benefits program. In some cases employees elected to stay on the health and medical programs of previous employers or of their spouse's employer.
- Some entities experienced either higher or lower costs than budgeted for Retirement costs due to greater or lesser participation by employees in the entity's retirement plan than was assumed in the budget. In addition, some entities increased the employer match component of their retirement plans, resulting in higher Retirement Costs than budgeted.
- A number of entities realized lower than budgeted actual costs for Meetings and Travel due to (i) continuing efforts to make greater use of teleconferencing, Webinars and other virtual meeting capabilities rather than in-person meetings; (ii) scheduling meetings at NERC or Regional Entity facilities or the facilities of stakeholders (e.g. at the offices of Regional Entity members) rather than in rented, third-party meeting spaces; or (iii) overall increased corporate attention to controlling travel and meeting costs.
- In particular with respect to Meetings and Travel expense, several entities which moved to new offices with larger meeting spaces, or expanded existing offices, in 2014 or in recent prior years have been able to reduce Meetings and Travel expense by holding more meetings in the entity's office rather than in outside facilities.

- Some entities experienced lower than budgeted Consultants and Contracts expense due to timing delays or deferrals in planned projects.
- Some entities experienced variances in Office Rent or Office Costs due to new or changed office lease terms (including as a result of moving to a new office or taking additional space in the existing office facility), or due to implementing changes in the manner in which the entity accounted for Office Rent or Office Costs, as compared to the terms or accounting reflected in the budget.
- Some entities which moved to new offices or expanded existing offices to accommodate increased staffing, incurred additional costs for capital expenditures (Furniture & Fixtures CapEx, Equipment CapEx, Computer & Software CapEx, and/or Leasehold Improvements) associated with the move to the new office or expansion of the existing office.
- Some actual cost-to-budget variances within program areas are due to the entity budgeting certain costs in one program area but then recording the actual costs in the program area responsible for incurring the cost (*e.g.*, budgeting all outside legal services in Legal and Regulatory but recording actual outside legal expenses in the program area(s) whose activities necessitate the services).
- Some entities budget Professional Services expense for one or two contested compliance hearing per year (*e.g.*, for outside counsel to handle the hearing or for hearing officer services); if no contested hearings occur during the year, an under-budget variance in Professional Services expenses results.
- For some entities, Information Technology projects or Fixed Asset purchases (*e.g.*, office furniture purchases) that were included in the 2014 budget were either (i) completed, or at least initiated, in late 2013, (ii) not carried out in 2014 (*i.e.*, delayed/deferred to 2015), or (iii) initiated later in 2014 than assumed in the budget and therefore not completed in 2014. This resulted in reduced actual IT costs, Capital Expenditures, and/or Consultants and Contracts expense (where the project was to require the use of consulting services or outside contracts compared to the budget). In other cases, projects that were planned and budgeted for execution and completion in 2013 were not fully completed in 2013 or were delayed or deferred into 2014, resulting in unbudgeted or over-budget expenditures in 2014.
- 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 or capitalization requirements of Generally Accepted Accounting Principles. In other instances, the reverse occurred. The determination to capitalize rather than expense these expenditures or (vice versa) also impacted actual versus budgeted 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, or making a determination not

to charge fees (or charging lower fees) for some programs for which fees had been budgeted.

In addition to the above-described causes of actual-to-budget variances, 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 2014, as well as year-to-date actual cost-to-budget comparisons for 2015, into account in developing their business plans and budgets for 2016, which are to be submitted to the NERC Board for approval, and then filed with the applicable governmental authorities.

IV. COMPARISON OF ACTUAL COSTS TO BUDGET FOR THE YEAR ENDED DECEMBER 31, 2014 – PEAK RELIABILITY, INC.

Attachment 10 is a comparison of actual costs to budget for 2014 prepared by Peak. Because NERC included Peak's 2014 Business Plan and Budget in NERC's 2014 Business Plan and Budget Filing, NERC and Peak concluded that an actual cost-to-budget report for Peak for 2014 should be included as part of this filing. Similar to its approach to reviewing Peak's business plans and budgets, NERC has not substantively reviewed and critiqued Peak's 2014 actual cost-to-budget report in the same manner that it reviews the Regional Entities' reports. NERC has, however, reviewed Peak's 2014 actual cost-to-budget report for consistency in presentation and level of detail of information provided with the report format used by the Regional Entities.

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

In the *June 19, 2008 Budget Compliance Order*, FERC directed NERC to develop

additional metrics analyzing its administrative services 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. NERC has provided administrative cost metrics for NERC and the Regional Entities and accompanying discussion and analysis in its annual actual cost-to-budget reports for the subsequent years, through 2013. In accordance with the *June 19, 2008 Budget Compliance Order*, the costs incurred by NERC and the Regional Entities in the following functions are and have been considered to be the administrative services costs: Committees and Member Forums, General and Administrative, Legal and Regulatory, Information Technology, Human Resources, and Accounting and Finance.¹³

On February 25, 2015, NERC submitted a filing to remove or revise certain metrics components in its annual business plan and budget filings and in its annual actual cost-to-budget comparison filings. Specifically with respect to its annual actual cost-to-budget comparison filings, NERC proposed (1) to continue to provide the same metrics data on NERC and Regional Entity administrative services costs and staffing as it has been providing in the annual actual cost-to-budget comparison filings, but (2) to eliminate the narrative discussion of the administrative cost metrics that NERC has previously provided in the text of the annual actual cost-to-budget comparison filings.¹⁴

NERC has decided to include in this filing the NERC and Regional Entity administrative services metrics data, as in previous annual filings, but not the narrative discussion of the data, consistent with its filing on February 25, 2015. Should FERC subsequently deny NERC's request as it pertains to the annual actual cost-to-budget comparison filings, NERC will promptly submit a revised version of this filing including a narrative discussion of the administrative costs

¹³ See *June 19, 2008 Budget Compliance Order*, footnote 13.

¹⁴ *Id.* at 21-22.

metrics data.

Attachment 11 provides the following three sets of metrics comparisons for NERC and the Regional Entities for their 2014 budgets and 2014 actual costs. In addition, **Attachment 11** provides a comparison of these metrics values for 2012, 2013 and 2014 actual results.

- Statutory indirect expenditures as a percent of total statutory expenditures, and statutory direct expenditures per dollar of statutory indirect expenditures (top row of tables on **Attachment 11**).¹⁵
- Statutory indirect FTE as a percent of total statutory FTE, and ratio of statutory direct FTE to statutory indirect FTE (middle row of tables on **Attachment 11**).
- 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 11**).

These are the same administrative cost metrics that NERC has provided in its previous annual filings comparing actual-to-budget costs for NERC and the Regional Entities for the years 2008 through 2013.

Respectfully submitted,

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¹⁵ The term “expenditures” as used here means expenses plus capital expenditures (fixed asset additions net of depreciation).

ATTACHMENTS 1 -- 11

(Available on the NERC Website at

http://www.nerc.com/FilingsOrders/ca/Canadian%20Filings%20and%20Orders%20DL/Attach_NERC_2014_TrueUp_Report.pdf)