

September 16, 2014

**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 Notice of Filing of the North American Electric Reliability Corporation of its 2015 Business Plan and Budget and the 2015 Business Plans and Budgets of Regional Entities and Proposed Assessments to Fund Budgets. 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/ Nina H. Jenkins-Johnston

Nina H. Jenkins-Johnston  
*Counsel for the North American Electric  
Reliability Corporation*

Enclosure

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## ATTACHMENTS

**Attachment 1:** Summary tables showing NERC’s proposed 2015 budget; the proposed 2015 budget for statutory activities of each Regional Entity; and the 2015 Canadian ERO statutory assessments of NERC and the Regional Entities.

**Attachment 2:** NERC’s Proposed 2015 Business Plan and Budget

**Attachment 3:** Western Electricity Coordinating Council Proposed 2015 Business Plan and Budget

**Attachment 4:** Peak Reliability, Inc. Proposed 2015 Business Plan and Budget

**Attachment 5:** Western Interconnection Regional Advisory Body Proposed 2015 Business Plan and Budget

**Attachment 6:** Discussion of Comments Received During Development of NERC’s 2015 Business Plan and Budget.

**Attachment 7:** Calculation of Adjustments to the AESO 2015 NERC Assessment, the IESO 2015 NERC Assessment, the New Brunswick 2015 Assessment and the Québec 2015 NERC Assessment.

**Attachment 8:** Status Report on the Achievement of NERC’s 2014 Goals

**Attachment 9:** Metrics Comparing Regional Entity Operations Based on the 2015 Budgets

**Attachment 10:** Metrics on NERC and Regional Entity Administrative (Indirect) Costs Based on the 2014 and 2015 Budgets

## I. INTRODUCTION

The North American Electric Reliability Corporation (NERC) hereby submits:

- (1) NERC's proposed Business Plan and Budget as the electric reliability organization (ERO), for the year ending December 31, 2015;
- (2) the proposed Business Plan and Budget for the year ending December 31, 2015, for Western Electricity Coordinating Council (WECC);
- (3) the proposed budget of the Western Interconnection Regional Advisory Body (WIRAB) for activities under Section 215(j) of the Federal Power Act (FPA) for the year ending December 31, 2015;
- (4) the proposed Business Plan and Budget for the year ending December 31, 2015, for Peak Reliability, Inc. (Peak), which assumed responsibility for the Reliability Coordinator and Interchange Authority reliability functions in the Western Interconnection from WECC effective January 1, 2014; and
- (5) NERC's proposed allocation of the proposed ERO statutory assessment of NERC, the Regional Entities, Peak and WIRAB by country and among the Regional footprints, and the proposed assessments to the load-serving entities (LSE) within each Region to collect the allocated statutory funding requirements.

This filing includes the following attachments:

**Attachment 1** is a set of summary tables showing (i) NERC's proposed 2015 budget by program, (ii) the proposed 2015 budget for statutory activities of each Regional Entity, and (iii) the aggregate ERO statutory assessment of NERC and the Regional Entities allocated to Canada.

**Attachment 2** contains NERC's detailed 2015 Business Plan and Budget and the allocation of assessments by Region and LSE to recover the resulting statutory funding requirements for 2015 (as well as the assessments to recover the statutory funding requirements of the Regional Entities and WIRAB<sup>1</sup>).

**Attachments 3 through 5** contain the detailed 2015 Business Plans and Budgets of, respectively, WECC, Peak and WIRAB.

**Attachment 6** describes how comments submitted by interested entities on posted drafts of NERC's 2015 Business Plan and Budget during the budgeting process were addressed in developing the final 2015 Business Plan and Budget.

**Attachment 7** contains the calculation of the adjustment to the Alberta Electric System Operator (AESO) 2015 NERC assessment, the adjustment to the Ontario Independent

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<sup>1</sup> The assessments to recover Peak's funding requirements are provided in the Peak Business Plan and Budget (**Attachment 4**).

Electric System Operator (IESO) 2015 NERC assessment, the adjustment to the New Brunswick 2015 NERC assessment, and the adjustment to the Québec 2015 NERC assessment, for credits for certain NERC Compliance Program and Event Analysis and Situation Awareness Program costs.

**Attachment 8** is a status report on progress in achieving NERC's 2014 goals.

**Attachment 9** provides metrics, based on the 2015 budgets, comparing Regional Entity operations.

**Attachment 10** contains metrics, based on the 2014 and 2015 budgets, on NERC and Regional Entity administrative (indirect) costs.

NERC files its proposed entire annual budget for statutory and non-statutory activities with the applicable governmental authorities before the beginning of the ERO's fiscal year. NERC's 2015 fiscal year will begin January 1, 2015. The filing also contains the entire annual budget of each applicable Regional Entity for statutory and non-statutory activities and include supporting materials, including the ERO's and each applicable Regional Entity's complete business plan and organization chart, and explanation of the proposed collection of all dues, fees and charges and the proposed expenditure of funds collected.

## **II. NOTICES AND COMMUNICATIONS**

Notices and communications concerning this filing may be addressed to:

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### **III. OVERVIEW OF PROPOSED BUDGETS AND FUNDING REQUIREMENTS**

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

##### **1. Organization of NERC's 2015 Business Plan and Budget**

In this filing NERC provides notice of its 2015 Business Plan and Budget. NERC's 2015 Business Plan and Budget is organized based on its statutory program areas:

- Reliability Standards
- Compliance Monitoring and Enforcement and Organization Registration and Certification; this program is comprised of three groups:
  - Regional Entity Assurance and Oversight
  - Compliance Analysis, Registration and Certification Group
  - Compliance Enforcement Department
- Reliability Assessment and Performance Analysis (RAPA)
- Reliability Risk Management; this program is comprised of two departments:
  - Situation Awareness Department
  - Event Analysis Department
- Critical Infrastructure Department (CID)
- Electricity Sector Information Sharing and Analysis Center (ES-ISAC)
- Training, Education, and Operator Certification

Each of these program areas carries out or supports implementation of one or more of the statutory activities of the ERO.<sup>2</sup> Detailed explanations of the functions and activities performed by each of these programs is provided in the individual subsections of Section A of **Attachment 2** where the detailed plans, objectives and activities for each program or group in 2015, and its

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<sup>2</sup> Exhibit B to the 2015 Business Plan and Budget (**Attachment 2**) describes how the major activities in the 2015 Business Plan and Budget meet the criteria for determining whether a reliability activity is eligible to be funded.

2015 budget, are discussed.

NERC's statutory, or "direct," programs are supported by its Administrative Services, or "indirect," programs: Technical Committees and Member Forums,<sup>3</sup> General and Administrative, Legal and Regulatory, Information Technology (IT), Human Resources (HR), and Finance and Accounting. The functions and activities of each Administrative Services program are described in the individual sections on each indirect program, and in Exhibit B, to **Attachment 2**.

In its 2015 Business Plan and Budget, NERC has continued to provide increased granularity in the presentation of its planned activities and budgeted expenditures.

- NERC has previously presented individual budgets and related descriptions of functions, goals and objectives, resource requirements, and sources of variances from the previous year's budget, for five statutory programs. In the 2013 Business Plan and Budget, NERC disaggregated its presentation to provide individual budgets and the related supporting information for a total of eight statutory programs or departments. NERC is continuing to increase the granularity of its presentation in the 2015 Business Plan and Budget with (i) the Compliance Monitoring and Enforcement and Organization Registration Certification program now organized as three groups, rather than two groups, and (ii) the ES-ISAC now operated as a separate program from the CID with a separate business plan and budget.
- As was done in the 2013 and 2014 Business Plans and Budgets, in Section A of its 2015 Business Plan and Budget (**Attachment 2**), NERC has provided a more detailed discussion of each program's or department's 2015 goals and deliverables (objectives), as well as additional detail concerning the Consultants & Contracts expenses budgeted for the program or department.
- Also as was done in the 2013 and 2014 Business Plans and Budgets, in Exhibit C of the 2015 Business Plan and Budget (**Attachment 2**), NERC has provided detailed information on the activities and projects within each of the statutory programs and groups and Administrative Services departments for which Consultants & Contracts expense is budgeted.
- The 2015 Business Plan and Budget provides discussions of software application development projects and other infrastructure projects planned for 2015. These projects are described at pages xix-xx of **Attachment 2**, in the section on the IT

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<sup>3</sup> No activities are planned and no budget is requested for Technical Committees and Member Forums in 2015.

department's 2015 budget (page 77 of **Attachment 2**), and in Exhibit D, Capital Financing (pages 128-129) of **Attachment 2**.

- In Exhibit D of the 2015 Business Plan and Budget (**Attachment 2**), NERC has provided detailed information on its capital financing program through which NERC is financing the development cost of certain software applications and hardware projects and amortizing the recovery of the principal and interest payments through its budgets and assessments over several years, rather than including the entire cost of the projects in the current year assessments.
- In Exhibit E of the 2015 Business Plan and Budget, NERC provides a discussion of its working capital and operating reserves requirements, in accordance with its Working Capital and Operating Reserve Policy that was adopted in 2012 and amended in 2013.
- In its General and Administrative budget, NERC has separately identified the amounts budgeted for Board of Trustees expenses (costs of quarterly Board, Board committee and Member Representatives Committee (MRC) meetings, Trustee Travel expenses, Trustee fees, and Trustee search fees. *See* page 67 of **Attachment 2**.<sup>4</sup>
- In the IT department budget, NERC has provided detailed cost information on both Operating Expenses (budgeted as Office Costs), such as Telephone, Internet, Computer Supplies, and Computer Maintenance and Service Agreements; and on Computer & Software Capital Expenditures (CapEx) and Equipment CapEx.
- In Table B-9 of its 2015 Business Plan and Budget (**Attachment 2**), NERC has provided budgeted 2015 amounts for miscellaneous expenses, employee rewards and recognition expenses, community responsibility and employee engagement expenses, and year-end holiday expenses.<sup>5</sup>

The initial section of NERC's 2015 Business Plan and Budget (**Attachment 2** to this filing), About NERC, provides an overview of NERC's organization, membership and governance, scope of responsibilities, delegated authorities to Regional Entities, statutory and regulatory background and source of funding.

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<sup>4</sup> This presentation addresses agreed Recommendations 4 (with Board of Trustees meetings defined as a "major activity") and 30 in the Settlement Agreement for FERC's 2011 financial performance audit of NERC.

<sup>5</sup> This presentation addresses agreed Recommendations 22 from FERC's 2011 financial performance audit of NERC.

The Introduction and Executive Summary summarizes NERC's total resource requirements for 2015 including total full-time equivalent employees (FTEs) in statutory programs and administrative functions, statutory expenses, and required ERO funding assessments. It shows the distribution of the total net energy for load (NEL) among the U.S., Canada and Mexico to be used for allocating the ERO funding requirement among the three countries. It also highlights NERC's priorities and major activities for 2015 and the 2015 key business planning assumptions.<sup>6</sup> Finally, it provides an overview of NERC's budget and funding requirements for 2015 by major areas of expenditures.

NERC's 2015 strategic goals and objectives to carry out its statutory mission are based on its 2014-2017 *ERO Strategic Plan*, as approved by the NERC Board of Trustees (BOT or Board) in February 2014, as described in the Introduction and Executive Summary of the 2015 Business Plan and Budget. The 2015 strategic goals and objectives are focused on the areas of (i) continuing to implement NERC's risk-based strategy, with a focus on a set of current high-priority risk projects; (ii) physical and cyber security of the Bulk-Power System (BPS); (iii) continuing to implement NERC's Reliability Assurance Initiative (RAI); (iv) implementing the revised Bulk Electric System (BES) definition; (v) developing and implementing a risk-based registration system; and (vi) transforming the NERC Reliability Standards to a steady state.<sup>7</sup>

The Introduction and Executive Summary of the 2015 Business Plan and Budget provides an overview of the resource requirements and other factors driving NERC's proposed 2015

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<sup>6</sup> A detailed statement of the 2015-2017 Shared Business Plan and Budget Assumptions developed and used by NERC and the Regional Entities in developing their 2015 Business Plans and Budgets and 2016 and 2017 budget projections is provided in Exhibit A to **Attachment 2**.

<sup>7</sup> NERC defines "steady state" Reliability Standards as a set of clear, concise, high-quality, and technically sound Reliability Standards that are results based, and reflect the retirement of requirements that do little to promote reliability.

Budget. NERC is proposing an overall 2015 budget increase of \$10,259,212 (18.2%) over the 2014 Budget. A significant portion of this budget increase is for NERC's costs to participate in the Cyber Risk Information Sharing Program (CRISP); \$8,943,589 of NERC's costs for CRISP will be funded by participating utilities and other entities.<sup>8</sup> Without CRISP, NERC's 2015 budget would be increasing by \$1,328,097 (2.4%) over its 2014 budget. As compared to the 2014 budget, the proposed 2015 budget with CRISP reflects an increase of \$1,734,658 (5.1%) in Personnel Expenses; a decrease of \$223,379 (5.9%) in Meeting Expenses; an increase of \$8,251,224 (46.8%) in Operating Expenses (most of this increase is attributable to CRISP); and an increase of \$500,710 (63.8%) in Fixed Assets expenditures. As shown on page xxiii of **Attachment 2**, the 2015 budget reflects an overall increase of only 2.8 FTE in staffing from the 2014 budget, although there are increases or decreases in budgeted FTEs for each program area or department, due in large part to reassignments of personnel between program areas.<sup>9</sup> The Introduction and Executive Summary also provides an overview of increases and decreases in Consultants & Contracts expenses, by program area, from the 2014 budget. The proposed 2015 budget provides for an overall increase in Consultants & Contracts expense of \$7,482,493 from the 2014 budget, with \$7,666,055 of the budgeted Consultants & Contracts Expense attributable to CRISP. Finally, the Introduction and Executive Summary section identifies the major components of NERC's proposed 2015 capital budget. NERC is planning that \$1.9 million of

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<sup>8</sup> NERC will place the funding received from third parties for CRISP in a separate account to be utilized solely to fund CRISP expenses.

<sup>9</sup> In terms of new positions added for 2015, the 2.8 FTE addition is (i) for the ES-ISAC to manage NERC's CRISP responsibilities; and (ii) to provide dedicated administrative staff support for the ES-ISAC, which NERC plans to physically separate from the other NERC operations in its Washington, D.C. office.

the \$3,618,500 capital budget for 2015 will be financed as part of the capital financing program that was described in and authorized by the approval of NERC's 2014 Business Plan and Budget.

NERC's 2015 resource and funding requirements reflect a variety of steps that have been taken during the last three years to control costs and increase the efficiency of NERC's operations. NERC management also evaluates resource needs and allocations on an ongoing basis to ensure proper alignment between resources and priorities as set forth in the ERO Enterprise Strategic Plan.

The Introduction and Executive Summary provides tables showing (1) the 2014 Budget, 2015 Budget, and change from the 2014 Budget to the 2015 Budget, for each of the statutory programs and in total; and (2) the budgeted FTEs per the 2014 Budget and the 2015 Budget and the increase or decrease, for each of the statutory programs and Administrative Services departments. The Introduction and Executive Summary presents NERC's overall Statement of Activities and Fixed Asset Expenditures, showing information from the approved 2014 Budget, the 2014 Projection,<sup>10</sup> and proposed 2015 Budget, reflecting the proposed overall increase in the Total Budget of \$10,259,212 over the 2014 Budget.

NERC's proposed 2015 statutory assessment to LSEs is \$55,308,375, which is \$3,906,993, or 7.6%, higher than the 2014 statutory assessments, and which takes into account (1) NERC's budgeted non-assessment Funding sources in 2014 and 2015 (which in the 2015 Budget consist of \$8,943,589 of Third-Party Funding for CRISP, \$1,155,000 of Penalty payments,<sup>11</sup> \$50,000 of revenues from Services & Software, \$1,670,000 of Testing Fees,

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<sup>10</sup> The 2014 Projection is NERC's June 2014 projection of 2014 financial results.

<sup>11</sup> NERC is proposing to use \$1,000,000 of Penalty payments received on July 9, 2014, to reduce the required 2015 assessments, rather than holding this Penalty amount to reduce assessments in the 2016 budget. See §IV.D below and Table B-2 of **Attachment 2**.

\$241,300 in attendance fees for Workshops, and \$3,000 in Interest income, and in the aggregate are \$9,728,889 higher than in the 2014 Budget), and (2) the proceeds from capital financing activities which, net of debt amortization, is \$1,006,336.

Finally, the Introduction and Executive Summary presents NERC's budget projections for 2016 and 2017 (*see* §III.F below for further discussion of the 2016-2017 budget projections).

Section A of **Attachment 2** is NERC's detailed 2015 Business Plan and Budget. It is designed to address the applicable requirements of an ERO and applicable directives in Federal Energy Regulatory Commission (FERC) orders. Section A provides detailed program scope and functional descriptions, descriptions of key efforts under way in 2014, the 2015 goals and deliverables, and explanations of increases in resource requirements for 2015 over the 2014 budget by major component (*e.g.*, Personnel Expense, Consultants & Contracts Expense), for each of NERC's statutory programs (and groups or departments for those statutory programs that are comprised of more than one group or department) and Administrative Services functions. Section A includes a table at the start of the subsection on each statutory program or department and Administrative Services function showing total FTEs, total direct expenses, total indirect expenses,<sup>12</sup> other non-operating expenses, increase or decrease in Fixed Assets, and total budget for the statutory program (department) or Administrative Services function for the 2015 budget, with the comparable data from NERC's 2014 budget and the increase or decrease from the 2014 budget. A detailed Statement of Activities, Fixed Asset Expenditures and Changes in Working Capital is also provided for each statutory program or department and Administrative Services department. The Statements of Activities show funding and expense information from the 2014

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<sup>12</sup> Indirect expenses are the amount of Administrative Services expenditures that have been allocated to each of the statutory programs, on the basis of relative numbers of FTEs in each statutory program.

budget, the 2014 projection and the 2015 budget, as well as variances from the 2014 budget to the 2014 projection and from the 2014 budget to the 2015 budget.

In the Statements of Activities for each program or department, Funding is shown from the NERC Assessments and, as applicable, from other anticipated sources (Penalty Sanctions, Testing Fees, fees from Services & Software, fees from Workshop attendance, Interest income; Third-Party Funding; and Miscellaneous Funding).<sup>13</sup> Expenses are shown by the major categories (and sub-categories) of Personnel Expenses (Salaries, Payroll Taxes, Benefits, Retirement Costs); Meeting Expenses (Meetings, Travel, Conference Calls); Operating Expenses (Consultants & Contracts, Office Rent, Office Costs, Professional Services, Miscellaneous, Depreciation); and Other Non-Operating Expenses.<sup>14</sup> Finally, the Statements of Activities show Fixed Assets activity, comprised of Depreciation (an equal and offsetting amount to the Depreciation included in Operating Expenses<sup>15</sup>), Computer & Software CapEx, Furniture & Fixtures CapEx, Equipment CapEx, Leasehold Improvements, and the Allocation of Fixed Assets activity from the Administrative Services programs.

Section B of **Attachment 2** provides Supplemental Financial Information comprised of tables detailing the components of certain Funding and Expense categories and explanations of

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<sup>13</sup> Some of these other sources of Funding are anticipated only for certain of the statutory programs. For example, the Third-Party Funding is budgeted only for the ES-ISAC, since the ES-ISAC will be responsible for NERC's participation in CRISP. Income from Testing Fees is budgeted only for the Training, Education, and Operator Certification Program. Additionally, the template for the Statements of Activities includes line items for funding from Membership Dues and Miscellaneous sources. NERC has no funding budgeted from either of these sources, but some of the Regional Entities have funding budgeted from these sources.

<sup>14</sup> In NERC's 2015 Budget, Other Non-Operating Expenses are budgeted only in General and Administrative, to cover (i) property tax obligations in Atlanta, Georgia on the value of property and equipment in NERC's Atlanta office and data center, and (ii) anticipated interest expense that will be incurred in 2015 under NERC's capital financing program. See Table B-10 and Exhibit D in **Attachment 2** and §IV.C below.

<sup>15</sup> As a result of this offset, the Funding amounts do not include funding for Depreciation.

variances from the 2014 budget, including analysis of the Working Capital and Operating Reserve balance (Table B-1), Penalties (Table B-2), Supplemental Funding (Table B-3), Personnel Expenses (Table B-4), Office Rent (Table B-6), Office Costs (Table B-7), Professional Services (Table B-8), Miscellaneous Expenses (Table B-9), and Other Non-Operating Expenses (Table B-10). As was the case in NERC's 2013 and 2014 Business Plans and Budgets, Table B-5, Consultants & Contracts Expenses, which was provided in NERC's Business Plans and Budgets for years prior to 2013, has been replaced with a more detailed presentation of Consultants & Contracts Expense in Exhibit C to **Attachment 2**.<sup>16</sup>

Section C, Non-Statutory Activity, of **Attachment 2** is reserved for presentation of business plan and budget information on non-statutory activities. This section is empty for NERC, because NERC does not engage in non-statutory activities, but in the business plans and budgets of those Regional Entities that have non-statutory activities, it includes business plan and budget information on their non-statutory activities.

Section D, Supplemental Financial Statements, of **Attachment 2** provides NERC's actual and projected Statements of Financial Position at December 31, 2013, 2014, and 2015. The data at December 31, 2013 is actual data per the independent financial audit of 2013 results;<sup>17</sup> the data at December 31, 2014 is based on NERC's 2014 year-end Projection (as of June 30, 2014); and the data at December 31, 2015 is based on the detailed 2015 budget. In addition, Section D provides NERC's 2015 Consolidated Statement of Activities, showing its 2015 budgeted line-item Funding sources, Expenses, and Fixed Asset activity, in total and by statutory program and

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<sup>16</sup> The Regional Entity business plans and budgets continue to provide information on Consultants & Contracts Expense in Table B-5.

<sup>17</sup> The audited financial statements of NERC and each Regional Entity for 2013 were filed on July 10, 2014, in NERC's Report of Comparisons of Budgeted to Actual Costs for 2013 (*2013 Budget True-Up Report*).

Administrative Services function, as well as the direct expenses and indirect expenses for each statutory program.

Exhibit A to **Attachment 2** contains the 2014-2017 Shared Business Planning and Budget Assumptions developed and used by NERC and the Regional Entities in preparing their 2015 Business Plans and Budgets and their 2016-2017 budget projections.

Exhibit B to **Attachment 2** describes how the major activities included in the 2015 Business Plan and Budget for each of NERC's direct function programs and Administrative Services functions meet the NERC written criteria for eligibility for funding.

Exhibit C to **Attachment 2** contains a detailed list of NERC's budgeted 2015 Consultants & Contracts expenses, by program area and by major activity or project, including the changes from the 2014 Budget.

Exhibit D to **Attachment 2** describes proposed activities for 2015 under NERC's capital financing program for certain capital expenditures. Exhibit D includes an annual principal and interest repayment schedule for the 2015 borrowings required to finance these projects, based on projected interest rates and loan structure terms, as well as comparable information for the capital projects financings implemented in 2014.

Exhibit E to **Attachment 2** provides the budgeted 2015 amounts in each of the categories of working capital and operating reserves pursuant to NERC's Working Capital and Operating Reserve Policy adopted in 2012 and amended in 2013.<sup>18</sup> The policy provides for the separate

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<sup>18</sup> The amended Working Capital and Operating Reserves Policy was provided in *Notice of Filing of the North American Electric Reliability Corporation Regarding Modifications to the 2014 Business Plan and Budget*, filed on December 17, 2013.

budgeting and tracking of working capital and operating reserves.<sup>19</sup> Section IV.B below provides further discussion of the 2015 budgeted amounts for working capital and each category of operating reserves.

Exhibit F to **Attachment 2** provides a detailed description of CRISP and of NERC's participation in CRISP.

Appendix 1 to **Attachment 2** contains NERC's organization chart.

Appendix 2 to **Attachment 2** contains the calculation of the NEL-based allocation factors for each LSE and designee and the allocation of the NERC, Regional Entity and WIRAB statutory assessments,<sup>20</sup> by allocation method, to each LSE and designee, for 2015.<sup>21</sup> Development of the assessments presented in the Appendices is discussed in more detail in §III.A.3 and III.D below.

The detailed information in the Introduction and Executive Summary and in Sections A and B and Exhibits A, B, C, D, E and F of **Attachment 2** demonstrates that the programs included in NERC's 2015 Business Plan and Budget are necessary and appropriate to carry out NERC's responsibilities as the ERO and that the specific resource requirements budgeted meet the objectives for affordability, sustainability and efficiency and effectiveness of the ERO's expenditures. The discussion in the text and exhibits of **Attachment 2**, as well as in this

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<sup>19</sup> The Working Capital and Operating Reserve Policy also sets forth guidelines and authorities regarding access to Working Capital and Operating Reserve funds and approvals for personnel additions in excess of budgeted staffing.

<sup>20</sup> The calculation of the proposed assessments to LSEs for Peak are provided at the end of **Attachment 4** which is the Peak Business Plan and Budget.

<sup>21</sup> The NEL-based allocation factors are calculated using NEL data for 2013, which is the most current actual NEL data available as of August 2014. As has been the case in allocating the NERC and Regional Entity statutory assessments by country and by Regional footprint and calculating the assessments to LSEs or their designees for prior years' budgets, the allocation and calculation of assessments for the 2015 Budget is based on actual NEL data for the second preceding calendar year, 2013.

narrative, demonstrates how the activities and expenditures included in NERC's 2015 Business Plan and Budget lend themselves to accomplishment of NERC's statutory responsibilities and objectives as the ERO.

## **2. Development of the 2015 Business Plans and Budgets**

NERC prepared its 2015 Business Plan and Budget (and worked with the Regional Entities in the development of their business plans and budgets) through a rigorous process that provided ample opportunity for review and input by the NERC Board Finance and Audit Committee (FAC) as well as by stakeholders. During the development process, successive versions of the 2015 NERC and Regional Entity business plans and budgets were discussed in meetings and conference calls of the FAC and of the full NERC Board, in each case with opportunities for stakeholders to make comments.<sup>22</sup> Throughout the development of its 2015 Business Plan and Budget, NERC management also held numerous conference calls with a Business Plan and Budget Input Group formed by the NERC MRC. The following list highlights important steps in the preparation of the NERC and Regional Entity 2015 Business Plans and Budgets:

- During the fourth quarter of 2013 and early first quarter of 2014, the ERO Executive Management Group (ERO EMG), comprised of NERC and Regional Entity senior management, met to review strategic goals and objectives for 2015.
- In January 2014, the NERC BOT requested policy input on the proposed 2014-2017 *ERO Strategic Plan*, to be provided by the end of January.
- In January 2014, meetings were held with trade associations to review the 2014-2017 *ERO Strategic Plan*.
- On January 22, 2014 the draft 2014-2017 *ERO Strategic Plan* was publicly posted as part of the agenda for the February 5, 2014 meeting of the NERC Board Corporate

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<sup>22</sup> During the process of developing NERC's Business Plans and Budget, comments were received from stakeholders on posted drafts of the Business Plan and Budget. **Attachment 6** describes how stakeholder comments were considered and addressed in NERC's final 2015 Business Plan and Budget.

Governance and Human Resources Committee (CGHRC); the CGHRC reviewed the draft Strategic Plan at the February 5 meeting.

- During January and early February 2014, a proposed schedule for development of the 2015 NERC and Regional Entity Business Plans and Budgets was developed and circulated, and input on the schedule was obtained from stakeholder groups including the NERC MRC Business Plan and Budget Input Group, the FAC and the NERC BOT. The preparation schedule was reviewed with the FAC at its February 5, 2014 meeting.
- At the February 5, 2014 MRC meeting and February 6, 2014 BOT meeting, policy input on the 2015 Business Plan and Budget was provided and discussed.
- During February and March 2014, the NERC program areas provided input to the NERC Finance and Accounting department on their business plans and budget requirements for 2015.
- During March 2014, NERC and the Regional Entities worked to finalize the goals and objectives to be included in the first drafts of their 2015 Business Plans and Budgets.
- Early in the first quarter of 2014, drafts of common business planning and budget assumptions for the 2015 Business Plans and Budgets were circulated for comment internally at NERC and among the Regional Entities.
- During February, March and April 2014, NERC and Regional Entity managements worked on developing the underlying assumptions and inputs into, and first drafts of, their 2015 Business Plans and Budgets.
- On April 22, 2014, NERC met with representatives of trade associations and the MRC Business Plan and Budget Input Group to provide a preliminary overview of its 2015 Business Plan and Budget.
- On April 23, 2014, a meeting of the FAC was held with NERC management to review personnel (staffing), contracts and consultants, and other inputs for the 2015 Business Plan and Budget.
- In mid-April 2014, the Regional Entities submitted preliminary drafts of their 2014 Business Plans and Budgets to NERC for review and feedback by the NERC program managers. These drafts were prepared using a common template that was essentially the same as the common template used for the 2011, 2012, 2013 and 2014 NERC and Regional Entity Business Plans and Budgets. NERC program managers reviewed the sections of the draft Regional Entity business plans and budgets relevant to the program manager's program area and, where necessary, provided feedback to their Regional Entity counterparts.

- The May 6, 2014 MRC meeting included review of policy input for the 2015 NERC Business Plan and Budget and the Consolidated Overview ERO Enterprise (*i.e.*, including the Regional Entities) 2015 Business Plan and Budget. Additionally, NERC management presented a high-level summary of the Consolidated Overview ERO Enterprise 2015 Business Plan and Budget.
- The May 7, 2014 NERC Board meeting included a review of policy input for the 2015 NERC Business Plan and Budget and a review of the Consolidated Overview ERO Enterprise Business Plan and Budget. At the May 7, 2014 Board meeting, management also advised the Board that it would be setting up a process to track policy input and comments on NERC's Business Plan and Budget, as well as a response thereto, and post this information on NERC's website.<sup>23</sup>
- On May 16, 2013, Draft #1 of the NERC 2015 Business Plan and Budget was posted on the NERC Website for a 45-day stakeholder review and comment period. Notification of the posting (and of all subsequent postings) was sent by e-mail to a broad distribution list of interested persons and entities. On June 10, 2014, an updated Draft #1 of the NERC 2015 Business Plan and Budget was posted with a number of additions, revisions and updates. Five sets of written stakeholder comments were received during the 45-day comment period that ended July 1, 2014.<sup>24</sup> These comments were posted on NERC's website.
- Also on May 16, 2014, drafts of the Regional Entities' 2015 Business Plans and Budgets, along with an overview document for each Business Plan and Budget, were posted on the NERC website.
- Additionally, during May, 2014, the Regional Entities posted drafts of their 2015 Business Plans and Budgets for review and comment by their stakeholders, in accordance with each Regional Entity's public review process. (*See* §III.B below for further discussion of the stakeholder review opportunities provided by each Regional Entity for its 2015 Business Plan and Budget.)
- On May 20, 2014, representatives of NERC and of each of the Regional Entities met with FERC budget staff to provide an overview of Draft #1 of their respective 2015 Business Plans and Budgets.

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<sup>23</sup> An Accountability Matrix has been developed by NERC management to track this information and is posted on NERC's website at:

[http://www.nerc.com/gov/bot/Documents/2014%20Stakeholder%20Input%20Matrix%20Tracking\\_August\\_2014.pdf](http://www.nerc.com/gov/bot/Documents/2014%20Stakeholder%20Input%20Matrix%20Tracking_August_2014.pdf).

<sup>24</sup> Comments were submitted by (1) the Edison Electric Institute (EEI), (2) the Canadian Electricity Association (CEA), (3) the National Rural Electric Cooperative Association, (4) the American Public Power Association, the Large Public Power Council and the Transmission Access Policy Study Group, and (5) the Northwest Public Power Association. In addition, WIRAB submitted advice on WECC's proposed 2015 Business Plan and Budget. The comments are discussed in the Accountability Matrix, which is included in **Attachment 6** to this filing.

- On May 21, 2014, a conference call with the NERC FAC and NERC management was held, and a webinar was conducted, to review the NERC 2015 Business Plan and Budget and the Consolidated Overview ERO Enterprise 2015 Business Plan and Budget. Additionally, in this session, the Regional Entities made presentations concerning their 2015 Business Plans and Budgets to the NERC FAC.
- On June 6, 2014, NERC management met with the MRC Business Plan and Budget Input Group to review the draft NERC 2015 Business Plan and Budget and to obtain informal input from the MRC Business Plan and Budget Input Group.
- At various dates from late May to early July 2014, the Boards or other governing bodies of the Regional Entities met to review and approve their respective proposed 2015 Business Plans and Budgets, and the approved Regional Entity Business Plans and Budgets were transmitted to NERC. The approved Regional Entity Business Plans and Budgets were posted on the NERC Website on July 15, 2014.
- On July 8, 2014 (following the receipt of written comments on the posted Draft #1 of the NERC 2015 Business Plan and Budget), NERC management met with the MRC Business Plan and Budget Input Group and trade associations to discuss the comments received and to receive additional input.
- On July 9, 2014, a closed call was held with the NERC FAC for the purpose of allowing the FAC to provide input to NERC management on personnel, contracts, and other assumptions in the 2015 Business Plan and Budget.
- On July 15, 2014, the final draft of the NERC 2015 Business Plan and Budget, and a redline to Draft #1, were posted on the NERC website. Any additional stakeholder comments were requested, with a due date of July 29, 2014.<sup>25</sup>
- Also on July 15, 2014, the final, approved versions of the Regional Entity 2015 Business Plans and Budgets were posted on the NERC website. (Several of the Regional Entity Business Plans and Budgets were subsequently revised and reposted to reflect minor corrections or updates.)
- On July 17, 2014, a conference call with the NERC FAC and NERC management was held, and a webinar was conducted, to review the final draft of the NERC 2015 Business Plan and Budget, the final Regional Entity 2015 Business Plans and Budgets, and the Consolidated ERO Enterprise 2015 Business Plan and Budget.
- On August 5, 2014, the final version of the NERC 2015 Business Plan and Budget, including the proposed NERC and Regional Entity 2015 assessments, was posted on the NERC website for the upcoming MRC, FAC and NERC Board meetings.

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<sup>25</sup> Comments on the final draft of the NERC Business Plan and Budget were submitted by EEI and CEA. See **Attachment 6**.

- At its August 13, 2014 meeting, the NERC FAC recommended NERC Board approval of the 2015 Business Plans and Budgets and associated statutory assessments for NERC, the Regional Entities and WIRAB.
- The final 2015 Business Plans and Budgets of NERC and the Regional Entities were presented to the NERC MRC at its August 13, 2014 meeting.
- At its August 14, 2014 meeting, the NERC Board approved the 2015 Business Plans and Budgets and the proposed 2015 statutory assessments for NERC, the Regional Entities and WIRAB.

In summary, the processes followed by NERC and the Regional Entities to develop the proposed 2015 Business Plans and Budgets were thorough and comprehensive, involved significant input from NERC and Regional Entity management and financial and program area staffs, as well as iterative review and comment by the NERC FAC, and provided numerous opportunities for stakeholder input and comment, including in particular from the MRC Business Plan and Budget Input Group and interested trade associations. NERC and the Regional Entities developed and used a set of shared business planning and budget assumptions (provided in Exhibit A to **Attachment 2**) and a common business plan and budget format. The process was open and inclusive at all steps.

### **3. Summary of NERC's Proposed 2015 Budget and Funding Requirement**

NERC's proposed 2015 total Funding requirement is \$67,371,264. This total encompasses U.S., Canadian and Mexican activities. The proposed 2015 Funding requirement represents an increase of \$13,635,882 (25.4%) as compared to the 2014 total Funding requirement of \$53,735,382. The 2015 budget is comprised of \$65,363,815 of Expenses (including Depreciation) and a \$1,285,494 increase in Fixed Assets (Capital Expenditures of \$3,618,500 less Depreciation of \$2,333,006<sup>26</sup>). The 2015 Funding requirement reflects a

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<sup>26</sup> As noted earlier, an end result of this budget presentation is that Funding is not being requested for Depreciation expense.

provision for Working Capital and Operating Reserve funding of \$1,094,958, whereas the 2014 Funding requirement included a negative provision for Working Capital and Operating Reserve Funding of (\$1,660,724); as well as (due to the capital financing plan) proceeds from financing activities of \$1,900,000 and amortization of debt principal of \$893,664.<sup>27</sup>

As in past years, a portion of NERC's 2015 budget will be funded through Testing Fees charged to participants in certain NERC programs, including the System Operator Certification Program and the Continuing Education Program (budgeted at \$1,670,000, a \$50,000 (3.1%) increase from the 2014 Budget); by attendance fees for Workshops (budgeted at \$241,300, a \$112,700 (31.8%) decrease from the 2014 Budget<sup>28</sup>); by revenues from Services & Software (budgeted at \$50,000, the same amount budgeted in the 2014 Budget); and by Interest earned on bank balances and short-term investments (budgeted at \$3,000, a \$17,000 decrease from the 2014 Budget). The Funding sources in the 2015 Budget also include \$1,155,000 of Penalty payments received by NERC from July 1, 2013 through July 31, 2014 (including \$1,000,000 received on July 9, 2014), which is an increase from the \$290,000 of Penalty payments included in the 2014 budget.<sup>29</sup> Finally, funding for the 2015 budget includes \$8,943,589 of Third-Party Funding, representing funding provided by participating utilities and other entities to support

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<sup>27</sup> See §IV.B below and Table B-1 and Exhibit E in **Attachment 2**.

<sup>28</sup> NERC strives to set Workshop fees to cover the costs of presenting the workshops, such as costs to rent meeting space (if necessary) and prepare printed materials. The number of Workshops planned, of course, also impacts the projected total Workshop fee revenues.

<sup>29</sup> The NERC policy, *Accounting, Financial Statement and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards*, and §1107.2 of the NERC Rules of Procedure (ROP), specify that Penalty payments received by NERC or a Regional Entity during the period from July 1 of the second year preceding the budget year through June 30 of the year preceding the budget year are used to offset assessments to LSEs in the U.S. for the budget year, unless an alternative treatment is approved by FERC (as allowed by ROP §1107.4). As noted, NERC is proposing to apply a Penalty payment received on July 9, 2014 to the calculation of the 2015 assessment amount, in order to reduce the year-to-year variation in assessments. See §IV.D below.

NERC's participation in CRISP.

These budgeted non-assessment sources of Funding are projected to be \$12,062,889 in total. Additionally, based on its plan to finance the costs of certain ERO enterprise software applications and infrastructure projects, NERC projects proceeds of \$1,900,000 in 2015 from financing activities, less \$893,664 for amortization repayment of debt incurred in 2013-2014. Application of these funding sources results in a 2015 net Funding requirement of \$55,308,375 to be funded by assessments to LSEs. Of this amount, \$50,046,840 is allocated to the U.S., \$5,111,411 is allocated to Canadian provinces (in the aggregate), and \$150,123 is allocated to Mexico. Based on the aggregate NEL of Canada for 2013 on which the allocation of assessments is based,<sup>30</sup> the proposed Canadian net funding requirement for NERC represents less than \$0.000010 per end-user kilowatt-hour.

NERC's 2015 Business Plan and Budget was developed and is organized based on its statutory programs and, where applicable, departments within each program (2014 budgeted amounts by program are shown for comparison):

<b><u>Program</u></b>	<b><u>2015 Budget</u></b>	<b><u>2014 Budget</u></b>
Reliability Standards	\$10,247,145	\$10,167,369
<b><u>Compliance Monitoring and Enforcement</u></b>		
Regional Entity Assurance and Oversight	\$ 5,737,572	\$ 5,712,007
Compliance Analysis, Certification and Registration	\$ 4,864,863	\$ 3,784,438
Compliance Enforcement	\$ 5,806,866	\$ 6,395,091
Reliability Assessment and Performance Analysis	\$ 9,825,750	\$ 8,350,598
<b><u>Reliability Risk Management</u></b>		
Situation Awareness	\$ 3,646,902	\$ 4,583,264

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<sup>30</sup> The NEL data for the U.S., Canada and Mexico, by Region and by LSE or designee, is provided in Appendix 2-A of **Attachment 2**.

Event Analysis	\$ 4,203,169	\$ 4,048,371
Critical Infrastructure	\$ 4,495,972	\$ 5,507,708
ES-ISAC	\$13,870,144	\$ 4,103,777
Training, Education and Operator Certification	<u>\$ 3,950,926</u>	<u>\$ 3,737,472</u>
	<u>\$66,649,309</u>	<u>\$56,390,096</u>

The budgeted amounts for each program incorporate a total budget for Administrative Services of \$27,848,038 (an increase of \$2,612,565 (10.4%) from the 2014 budget), which has been allocated to the budgets for the direct function programs in proportion to the numbers of FTEs budgeted for each direct function program.

The discussion in §IV below, as well as the detailed discussion of the individual programs (or of individual departments where the presentation is disaggregated to the department level within a program) in **Attachment 2**, demonstrates that each of NERC’s programs is necessary and appropriate to the execution of NERC’s responsibilities as the ERO. Section A of **Attachment 2** describes the activities encompassed in each program or department (Background and Scope), key activities under way in 2014, the 2015 Goals and Deliverables (Objectives) for the Program, and the 2015 Resource Requirements for the program, including the principal causes of changes (increases or decreases) in the funding and expenditure categories for the program as compared to the 2014 budget. A Statement of Activities, Fixed Assets Expenditures and Changes in Working Capital showing the line item components of the 2015 budget (as well as, for comparison, the 2014 budget and the 2014 projection), is provided for each program or department. The functions of and resource requirements and budgets for each Administrative Services department are also provided and discussed in Section A of **Attachment 2**.

NERC proposes an allocation of its 2015 net funding requirement (statutory assessment) of \$55,308,375 to the Regional footprints as follows<sup>31</sup>:



Appendix 2 to **Attachment 2** contains tables showing (i) the development of the NEL-based allocation factors used to allocate the NERC and Regional Entity statutory assessments by country and among the Regional footprints (Appendix 2-A), and (ii) the allocation of the NERC and Regional Entity statutory assessments by country and by Region (Appendices 2-B, 2-C and 2-D). Appendix 2 shows the allocation of the NERC and Regional Entity assessments to the individual LSEs or designees within the footprint of each Regional Entity. These allocations are discussed in greater detail in §III.D below.<sup>35</sup> NERC’s only sources of funding for its planned

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<sup>31</sup> As described in §III.D below, the aggregate NERC statutory assessment has been allocated to the Regional footprints on the basis of (i) 8-Region NEL and (ii) 8-Region NEL to allocate adjustments (credits) to certain Canadian entities for CMEP, Event Analysis and Investigations and Situation Awareness costs to the remaining LSEs. The detailed allocations of the NERC statutory assessment by allocation methodology are shown in Appendix 2 to **Attachment 2**.

<sup>32</sup> The total allocation to MRO consists of \$3,066,780 allocated to the U.S. and \$601,204 allocated to Canadian provinces.

<sup>33</sup> The total allocation to NPCC consists of \$3,700,244 allocated to the U.S. and \$3,236,731 allocated to Canadian provinces.

<sup>34</sup> The total allocation to WECC consists of \$9,315,301 allocated to the U.S., \$1,273,976 allocated to Canadian provinces and \$150,123 allocated to Mexico.

<sup>35</sup> NERC will calculate and bill the assessments to certain entities, referred to as “designees,” based on NEL values that include the NEL for other LSEs served by the designee, or for which the designee is

programs and operations will be the assessments to users, owners, and operators of the BPS in the U.S. and comparable collections from entities in Canada and Mexico, the other sources listed as “Funding” on its Statements of Activities and described above, including but not limited to Third-Party Funding for CRISP, and proceeds from the 2015 capital financing.<sup>36</sup>

## **B. Relevant Regional Entity Proposed 2014 Business Plans and Budgets**

This required information for 2015 for the relevant Regional Entities is provided in the individual Regional Entity Business Plans and Budgets in **Attachments 3 through 5**.<sup>37</sup>

The Regional Entity budgets for statutory activities that are to be funded through NERC are the budgets for the functions and activities relating to development of reliability standards; compliance monitoring and enforcement and organization registration and certification; training, education and operator certification; reliability assessment and performance analysis (including necessary data gathering activities); and situation awareness and infrastructure security, that have been delegated by NERC to the Regional Entity pursuant to the delegation agreements; as well

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otherwise responsible for assessments. The calculation and billing of assessments to designees is not a departure from the principle that the ERO funding requirement should be recovered through assessments to LSEs based on NEL, but rather is a matter of administrative convenience and efficiency (*e.g.*, a generation and transmission (G&T) cooperative and its member distribution cooperatives may find it more efficient for the assessment to be calculated and billed to the G&T cooperative rather than to the individual distribution cooperatives). The lists of LSEs and designees for which assessments will be calculated and billed have been provided to NERC by the Regional Entities. NERC has had no involvement in developing the lists of LSEs or in arrangements between LSEs and designees pursuant to which a designee agrees to accept responsibility for an assessment that would otherwise be calculated for and billed to the LSE and the LSE agrees to be financially responsible to reimburse the designee for the assessment. The assessments for the NPCC Region will be billed to ISO New England and the New York ISO (and to similar entities in Ontario, Québec, New Brunswick and Nova Scotia), each of which will be responsible for billing and collecting assessments from the LSEs within their respective footprints. The assessments for the Texas RE region will be billed to the Electric Reliability Council of Texas (ERCOT), which will bill and collect assessments from the LSEs in ERCOT.

<sup>36</sup> NERC’s 2015 Business Plan and Budget includes no non-statutory activities; therefore, NERC has not developed or presented specific accounting processes to separate the funding of its statutory and non-statutory activities and to assure that funding will exclusively support statutory activities.

<sup>37</sup> Additionally, **Attachment 4** is the 2015 Business Plan and Budget for Peak Reliability, which has been developed and presented in the same format as the Regional Entity Business Plans and Budgets.

as each Regional Entity's budgeted costs for administrative services. Funding the Regional Entities in accordance with their proposed Business Plans and Budgets will enable them to carry out the activities necessary in 2015 to meet their responsibilities under the approved delegation agreements.

As described above in §III.A.2, NERC staff provided guidance to the Regional Entities in the development of their business plan and budget submissions, and worked collaboratively with the Regional Entities to develop a set of shared business planning and budget assumptions for the Regional Entities' 2015 Business Plans and Budgets. Further, the Regional Entities prepared their 2015 Business Plans and Budgets using a format that is essentially the same as the format used to prepare the 2011, 2012, 2013 and 2014 Business Plans and Budgets.<sup>38</sup> The use of the common format facilitates comparisons among the Regional Entities' budgets.<sup>39</sup> Additionally, in developing their 2015 Business Plans and Budgets, NERC and the Regional Entities continued to use the set of consistent accounting principles for presentation of the budgets, and the common definition of administrative (indirect) costs, that were originally developed in connection with preparation of the 2010 Business Plans and Budgets.

As described in greater detail in §III.A.2 above, NERC management and staff worked iteratively with the Regional Entities from January through June, 2014, on the development of

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<sup>38</sup> NERC and the Regional Entities originally developed a common format to use in preparing the 2008 Business Plans and Budgets, and the format evolved through the development of the 2009, 2010 and 2011 Business Plans and Budgets, to the format used for the 2011, 2012, 2013 and 2014 Business Plans and Budgets and now the 2015 Business Plans and Budgets.

<sup>39</sup> Although the eight Regional Entities and NERC used a common format for their 2015 Business Plans and Budgets, the Regional Entities in general continue to present their 2015 Business Plans and Budgets based on the five statutory programs of Reliability Standards; CMEP; RAPA; Training, Education and Operator Certification; and Situation Awareness and Infrastructure Security; whereas NERC has presented 2015 business plan and budget information disaggregated into three departments or functions for the CMEP, two departments or functions for Situation Awareness and Infrastructure Security, and the CID and the ES-ISAC as separate programs.

the Regional Entity 2015 Business Plans and Budgets. The Regional Entities submitted initial drafts of their Business Plans and Budgets to NERC in mid-April 2014, for internal review and feedback by NERC program area managers. On May 16, 2014, more developed drafts of each Regional Entity's 2015 Business Plan and Budget were submitted to NERC and posted on the NERC website for stakeholder comment. NERC staff also reviewed and provided feedback on these drafts. The draft Regional Entity Business Plans and Budgets were also the subject of presentations and discussion at meetings of the NERC FAC.

Additionally, each Regional Entity posted one or more drafts of its 2015 Business Plan and Budget on its own website for comment by its stakeholders, and/or provided other opportunities for stakeholder input, as follows:

**FRCC:** FRCC posts its proposed budget to the FRCC website and sends a copy (along with all presentation materials that will be presented to the FRCC Board) to each Board Member, Corporate Compliance Finance and Audit Committee, Alternate Board Member, all Standing Committee Chairs, and all Voting Members from the Supplier, Non-Investor-Owned Utility Wholesale, Load Serving Entity, Generating Load Serving Entity, Investor Owned Utility, and General Sectors of the membership, approximately 45 days prior to the expected FRCC Board vote date. The recipients are encouraged to contact FRCC with any comments or questions, so they can be resolved prior to the Board meeting date. Ten days prior to the Board meeting at which the vote on the budget will take place, another distribution is made to the same recipients, and posted to the FRCC website with any changes from the first version. After approval is finalized the process is repeated with a copy marked as Final with the Approval Date.

**MRO:** MRO posted its draft 2015 Business Plan and Budget for comments on May 2, 2014. MRO's 2015 Business Plan and Budget was presented in several meetings of the MRO Board and its stakeholder. On June 26, 2014 MRO's Board of Directors approved a resolution that approved the 2015 budget, re-affirmed MRO's reserves policy of 45 days, and affirmed that the budget is sufficient to complete MRO's delegated responsibilities. The final version was posted on July 15, 2014.

**NPCC:** On April 10, 2014, a preliminary 2015 total NPCC Expense Budget, along with the Business Plans and Budgets for both the Regional Entity and Criteria Services divisions, were presented to NPCC's Finance and Audit Committee (NPCC FAC) for review and discussion. On April 29, 2014, NPCC's Board of Directors challenged the preliminary draft of NPCC's 2015 Business Plan and Budget in terms of activities and services and associated financial resources as projected. On May 2, NPCC posted Draft

#1 of its 2015 Business Plan and Budget on its website for stakeholder review and comment. Draft #1 was presented to the NPCC Reliability Coordinating Committee for comment, the Regional Standards Committee and the Compliance Committee at their respective meetings following this posting. NPCC did not receive any formal comments from either the posting or various presentations to the stakeholders on any of its draft 2015 Business Plans and Budgets during the posting periods. There were a few comments received after the June 10 comment period close, but the comments were received in time to share them with the NPCC FAC at its June 16 meeting. Areas of concern included (i) contracts and consultant costs, (ii) wage package increase for 2015, and (iii) reserves balance level. NPCC addressed each area with both stakeholders and the NPCC FAC. The NPCC FAC unanimously endorsed the “Draft for Approval” as presented. On June 26, the “Draft for Approval” of the 2015 Business Plan and Budget was presented to the NPCC Board, noting stakeholder areas of concern, and a final version was unanimously approved.

**RF:** RF’s Board of Directors approved the first draft of its 2015 Business Plan and Budget on April 25, 2014. On May 1, 2014, the 2015 Business Plan and Budget was posted to the RF website for a 30 day industry review and comment period. A request for comments was also included in RF’s May monthly newsletter. One set of informal comments was received. The responses to these comments were addressed with the Board of Directors. The final 2015 Business Plan and Budget was approved by the RF Board on June 25, 2014.

**SERC:** The SERC Board approved Draft #1 of the SERC 2015 Business Plan and Budget at its April 2014 meeting, after which it was posted on the SERC Website for a 30-day comment period (*i.e.*, during the month of May). Any comments received would be reviewed by the SERC President and the Director of Finance and Human Resources and responses to the comments would be presented to the Board Executive Committee and incorporated into the Business Plan and Budget before final approval; however, for the 2015 Business Plan and Budget, no comments were received, and the final version was approved and posted on July 9, 2014.

**SPP RE:** SPP RE presented a summary of the preliminary budget at the SPP RE Trustees public meeting on April 28, 2014. Following the meeting, the preliminary budget was posted on SPP RE’s website on May 5, 2014 and the SPP RE April 2014 newsletter indicated that the budget would be posted for comments through May 30, 2014. The final SPP RE 2015 Business Plan and Budget was presented to the Trustees for approval at the June 17, 2014 public meeting. SPP RE posts all Board of Trustee materials on its public website prior to the meetings. SPP RE received no formal comments from stakeholders regarding the 2015 budget.

**Texas RE:** Texas RE’s 2015 Business Plan and Budget was presented in multiple meetings of the Texas RE Board and member representatives committee. There were no written or oral challenges to the 2015 Business Plan and Budget. Texas RE posted the draft 2015 Business Plan and Budget on June 17, 2014. The Board of Directors approved Texas RE’s 2014 Business Plan and Budget on June 24, 2014.

**WECC:** WECC's draft 2015 Business Plan and Budget was posted on its website on May 2, 2014 for a two-week comment period. The WECC Board of Directors and WECC Members were notified of the posting. Three sets of comments were received from stakeholders on the draft 2015 Business Plan and Budget. WECC posted a response to the comments on its website on June 16, 2014. WECC's Board approved WECC's 2015 Business Plan and Budget on June 25, 2014.

Throughout the process of NERC's review of the draft Regional Entity business plans and budgets, where appropriate, additional information was requested and other suggested changes were made. As needed, NERC and Regional Entity management and finance staffs convened meetings and conference calls to provide feedback and refine their respective business plans and budgets. NERC's review focused on:

1. Adequacy of the resources and activities to perform delegated functions;
2. Alignment of the Regional Entity's goals, objectives and major activities to the ERO Strategic Plan;
3. Quality and completeness of the financial information presented, including:
  - a. Conformance with FERC budget reporting requirements,
  - b. Separation of statutory and non-statutory activities,
  - c. Supporting detail for projections, and
  - d. Working capital and operating reserve budgets, policies and controls; and
4. Descriptions of efforts to improve efficiency and control costs.

Through the processes described above and in §III.A.2, NERC has been able to satisfy itself that each Regional Entity's 2015 Business Plan and Budget provides necessary and adequate resources to carry out the Regional Entity's delegated functions in 2015.<sup>40</sup>

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<sup>40</sup> In reviewing the Regional Entity Business Plans and Budgets, NERC afforded the proposed Regional Entity Business Plans and Budgets no presumption of reasonableness due to having been approved by the Regional Entities' governing bodies.

The Regional Entities submitted their final 2015 Business Plans and Budgets, approved by their respective governing bodies, to NERC in early July 2014. These Business Plans and Budgets were submitted to the NERC FAC and the NERC Board, and reviewed at their respective meetings held on August 13 and 14. The Regional Entities' 2015 Business Plans and Budgets were approved by the NERC Board at the August 14, 2014 meeting, for submission to the applicable governmental authorities.

The table below shows the budgets for statutory and (where applicable) non-statutory functions for each Regional Entity as presented in their respective 2015 Business Plans and Budgets.<sup>41</sup> For all Regional Entities, the total budget amount for statutory functions includes total Expenses and Fixed Asset activity. Because each Regional Entity has one or more other sources of income (*e.g.*, attendance fees for workshops; Penalty payments received from Registered Entities) that will be used to offset the costs of performing delegated functions, the requested ERO funding (assessments) for the Regional Entities is less than their budgets for statutory activities. The fourth column shows the total (*i.e.*, for all jurisdictions) net statutory assessment required for each Regional Entity, taking into account other sources of income including application of Penalty payments. The statutory assessment amounts include amounts (which for some Regional Entities are negative adjustments to the Funding requirement) to achieve the level of target Working Capital Reserve at December 31, 2015, determined to be appropriate by each Regional Entity.

<b>Regional Entity</b>	<b>Total Budget for Statutory Functions</b>	<b>Budget for Non-Statutory Functions</b>	<b>Total Net Statutory Assessment</b>
<b>FRCC</b>	\$ 7,162,233	\$ 8,391,982	\$ 6,062,838

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<sup>41</sup> MRO, ReliabilityFirst and SERC do not plan to perform any non-statutory activities in 2015.

<b>MRO</b>	\$ 10,328,687	-----	\$ 9,426,019 <sup>42</sup>
<b>NPCC</b>	\$ 14,778,539	\$ 1,129,441	\$14,068,878 <sup>43</sup>
<b>RF</b>	\$ 18,756,763	-----	\$18,713,897
<b>SERC</b>	\$ 15,995,840	-----	\$13,731,034
<b>SPP RE</b>	\$ 11,808,110	\$188,883,890 <sup>44</sup>	\$ 9,680,648
<b>Texas RE</b>	\$ 11,983,701	\$ 999,100	\$10,500,446
<b>WECC</b>	\$ 26,300,035	\$ 1,658,980	\$25,032,135 <sup>45</sup>

### C. Western Interconnection Regional Advisory Board Funding Request

WIRAB submitted to NERC a proposed 2015 Business Plan and Budget for its activities, which is **Attachment 5** to this filing. NERC has reviewed WIRAB's submission and believes it is just and reasonable.

WIRAB's proposed 2015 budget for expenses is \$1,013,581, which is an increase of \$309,881 (44.0%) from its 2014 budget. As it did in preparing its 2014 budget, WIRAB anticipates monitoring the activities of, and potentially offering advice to, both WECC and Peak. WIRAB also anticipates the needs to devote increased attention to physical and cyber security issues and to implement recommendations resulting from investigations of the September 2011 Southwest outage event. WIRAB is planning an increase in staffing of 1.25 FTE from its 2014 budget, to 4.00 FTEs. With increased staffing, WIRAB's budgeted 2015 Personnel Expenses increase by \$127,300 (49.0%) over its 2014 budget. WIRAB's 2015 budget includes \$150,000 for Consultants & Contracts Expense (the same amount as provided in its 2014 budget) to

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<sup>42</sup> The statutory assessment for MRO of \$9,426,019 consists of \$7,486,770 allocated to the U.S. and \$1,579,249 allocated to Canadian provinces.

<sup>43</sup> The statutory assessment for NPCC of \$14,068,878 consists of \$8,759,736 allocated to the U.S. and \$5,309,142 allocated to Canadian provinces.

<sup>44</sup> The figure of \$188,883,890 is the total 2014 budget of Southwest Power Pool, Inc. (\$200,692,000) less the 2015 Budget of SPP RE for statutory activities of \$11,808,110. The overall annual budget of Southwest Power Pool, Inc. is prepared on a schedule that will not result in approval of its 2014 budget until October 2014. .

<sup>45</sup> The statutory assessment for WECC of \$25,032,135 consists of \$22,032,878 allocated to the U.S., \$2,649,937 allocated to Canadian provinces and \$349,320 allocated to Mexico.

provide technical expertise to WIRAB on issues related to Reliability Standards and compliance, including best practices for operation of the BPS, to support WIRAB in providing technically sound advice to WECC and Peak. WIRAB is also budgeting increases totaling \$57,020 (105%) in Meetings and Travel Expenses in order to attend an increased number of meetings (including Board meetings of both WECC and Peak) and the related travel expenses.

WIRAB's proposed statutory assessment for 2015 is \$1,058,158, which is an increase of \$469,750 (79.8%) from its 2014 assessment. The assessment increase includes a \$45,027 incremental adjustment for Working Capital Reserve as compared to a \$114,792 decremental adjustment in the 2014 budget. This incremental adjustment to the assessment is based on a target Working Capital Reserve amount of \$100,000 at December 31, 2015 and a projected Working Capital Reserve at December 31, 2014 of \$54,973.

WIRAB's overall statutory funding (assessment) request of \$1,058,158 for 2015 consists of \$898,314 (84.89%) allocated to the U.S., \$145,693 (13.77%) allocated to Canadian provinces, and \$14,150 (1.34%) allocated to Mexico, all based on NEL. At its August 14, 2014 meeting, the NERC Board approved WIRAB's 2015 budget request for submission to the applicable governmental authorities.

**D. Allocation of Statutory Assessments by Country, Regional Entity Footprint and LSE**

The total ERO statutory funding requirement for 2015, net of other NERC and Regional Entity income sources, to be funded by assessments is \$163,582,428, consisting of \$55,308,375 for funding of NERC's programs and \$108,274,053 for funding of Regional Entity statutory activities and the WIRAB. (These amounts do not include the assessment for Peak, which is discussed separately below.) NERC has allocated its statutory assessment of \$55,308,375 to the

LSEs within each Regional footprint primarily on the basis of NEL, as described below.<sup>46</sup>

First, a total of \$1,485,926 of adjustments (credits) to the allocations to the AESO, the IESO, New Brunswick and Québec for certain Compliance Monitoring and Enforcement Program (CMEP), Event Analysis and Situation Awareness (SAFNR<sup>47</sup>) costs was allocated using 8-Region NEL. In accordance with NERC's *Expanded Policy on Allocation of Certain Compliance and Enforcement Costs*, adjustments were made in the calculations of the assessments to the AESO, the IESO, New Brunswick and Québec, to provide credits for certain activity costs. These adjustments recognize that entities in certain of these provinces (Ontario, Alberta and New Brunswick) expend resources to perform compliance and enforcement activities in those provinces that otherwise would be performed by NERC or a Regional Entity, and that the compliance and enforcement resources NERC needs for Alberta and Québec are reduced due to the very small number of entities subject to compliance and enforcement activities in those provinces. These adjustments also recognize that certain NERC activities, including the SAFNR program, either overlap with Canadian regulatory programs or, as in the case of SAFNR, are not used by these Canadian provinces, and therefore these provinces were not allocated a share of these costs. This credit amount was allocated to all other LSEs (Balancing Authorities) on the basis of NEL.

**Attachment 7** shows the calculations of these adjustments to the allocations to the AESO, the IESO, New Brunswick and Québec. These calculations have been reviewed with, respectively, the AESO, the IESO, New Brunswick Power Corporation and La Régie de

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<sup>46</sup>See Appendix 2-A of **Attachment 2** for the 2013 NEL data by Regional Entity and calculation of the country allocation factors for each Region. MRO, NPCC and WECC are the only Regional Entities whose footprints encompass Canadian provinces (and for WECC, Mexico). As noted earlier, the year 2013 is the most recent calendar year for which NEL data is available.

<sup>47</sup> SAFNR = Situation Awareness – FERC, NERC and the Regions.

l'énergie du Québec, and each has agreed with and accepted the calculations. The allocation of the \$1,485,926 of adjustments (credits) to the allocations to the AESO, the IESO, New Brunswick and Québec for certain CMEP, Event Analysis and Situation Awareness costs is reflected in Appendix 2-C of **Attachment 2**.

Second, an allocation based on the 8-Region NEL was used to allocate \$55,308,375 of the NERC statutory assessment – comprised of \$56,463,375 of assessments less \$1,155,000 of Penalty payments – to the Regional footprints.<sup>48</sup> The NEL-based allocations to the eight Regional footprints are shown in Appendix 2-C of **Attachment 2**.

NEL has also been used to allocate the Regional Entity assessments, with these exceptions: First, 22.41% of NPCC's Compliance Monitoring and Enforcement and Organization Registration and Certification (CORC) Program costs, representing CORC program fundamentals, has been allocated among the six Balancing Authority Areas in NPCC on the basis of NEL; 51.71% of the CORC costs has been allocated between the U.S. and Canadian Balancing Authority Areas in NPCC using a compliance audit-based methodology; and the remaining 25.88% of the CORC costs has been allocated between the U.S. and Canadian Balancing Authority Areas using an enforcement activity-based methodology. The portion of NPCC CORC costs allocated to the U.S. using the compliance audit-based methodology and the portion of NPCC CORC costs allocated to the U.S. using the enforcement activity-based methodology has then been re-allocated between the New England and New York Balancing Authority Areas based on NEL.

Second, WECC's allocation of its assessment to the AESO for the Province of Alberta

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<sup>48</sup> Because the Penalty payments are collected solely from U.S. Registered Entities, the Penalty payments are allocated solely to offset statutory assessments to U.S. LSEs.

has been reduced by \$880,629, representing WECC CMEP costs that are duplicative of programs of the AESO. The AESO credit amount was allocated to the remainder of the LSEs (Balancing Authorities) in the WECC Region on the basis of NEL.<sup>49</sup>

After allocating the appropriate portions of the NERC, Regional Entity and WIRAB funding requirements to Canadian provinces and Mexico (taking into account the NEL-based allocations, the adjustments to the NERC allocations to the AESO, the IESO, New Brunswick and Québec, the adjustments to the NPCC allocations to Canadian provinces, the adjustment to the WECC assessment to the AESO), the total ERO statutory assessment for 2015 allocable to Canadian LSEs is \$14,795,433, comprised of:

NERC Assessment:	\$5,111,411
Regional Entity Assessments:	\$9,684,022 (includes the WIRAB assessment)

The funding requirement of each Regional Entity for statutory activities is of course allocated 100% to that Region. The funding requirement for the WIRAB is allocated 100% to the WECC Region. The following table shows the allocation to each Region of the total 2015 ERO statutory assessment of \$14,795,433 for the Canadian statutory activities of NERC and the Regional Entities (including WIRAB). The table also shows the statutory assessments per kWh based on 2013 Canadian NEL of each Region.

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<sup>49</sup> See Appendix C of the WECC 2015 Business Plan and Budget, **Attachment 3** to this filing, which shows the calculation of the \$880,629 adjustment to the WECC assessment to the AESO. The adjustment to the WECC assessment to the AESO is provided for in a memorandum of understanding entered into effective July 15, 2010 among NERC, WECC and the AESO.

<b>Regional Entity</b>	<b>NERC Assessment</b>	<b>Regional Entity Assessments</b>	<b>Total Canadian Assessment</b>	<b>Assessment per kWh (2013 NEL)</b>
<b>MRO</b>	\$ 601,204	\$ 1,579,249	\$ 2,180,453	\$0.0000469
<b>NPCC</b>	\$ 3,236,231	\$ 5,309,142	\$ 8,545,373	\$0.0000240
<b>WECC</b>	\$ 1,273,976	\$ 2,795,630	\$ 4,069,607	\$0.0000340
<b>Total</b>	\$ 5,111,411	\$ 9,684,021	\$ 14,795,433	\$0.0000284

In addition to the NERC, Regional Entity and WIRAB assessments, the proposed 2015 statutory assessment for Peak is \$41,953,236, which is allocated 100% to the WECC region and is allocated jurisdictionally as follows: \$41,302,627 to U.S. LSEs and \$650,609 to Mexican entities.<sup>50</sup>

NERC obtained from each Regional Entity a listing of the LSEs or their designees in the Region and a breakdown of the Region's 2013 NEL by LSE or designee.<sup>51</sup> NERC used this information to allocate the total ERO statutory assessment allocated to each Region among the LSEs, their designees or the other entities to be billed the assessments within that Region.<sup>52</sup> The amount of the NERC and Regional Entity statutory assessments allocated to each LSE or designee or other entity to be billed in each Region is shown in Appendix 2-B of **Attachment 2**.

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<sup>50</sup> See §V.D below for discussion of why none of the Peak Reliability 2015 assessment has been allocated to Canadian entities.

<sup>51</sup> For the NPCC Region, assessments are allocated on the basis of NEL in each Balancing Authority Area (New York, New England, Ontario, Québec, Nova Scotia and New Brunswick). For Texas RE, assessments are allocated on the basis of the NEL for ERCOT, which acts as the billing agent for the Texas RE Region.

<sup>52</sup> Certain LSEs in MRO and WECC serve end users only in Canada or Mexico and not in the U.S. These LSEs were not allocated any portion of the ERO funding requirement allocated to U.S. end users, but were allocated appropriate portions, based on NEL (except as noted above), of the ERO funding requirement allocated to Canadian provinces or Mexico, as applicable (including, in the WECC Region, a portion of the RCCo assessment).

The statutory assessments to LSEs for Peak are provided in **Attachment 4**. NERC will directly invoice the approved assessments to LSEs or designees, or to the other entities to be billed, in all Regions except WECC.<sup>53</sup> WECC will invoice LSEs or Balancing Authorities or their designees within the WECC footprint, collect the assessments and remit the funds collected for the NERC, WECC and WIRAB assessments to NERC. These arrangements are provided for in Exhibit E to the delegation agreement with each Regional Entity. WECC will issue separate invoices to the LSEs in the WECC Region for the assessment for Peak. WECC will remit the collections on the Peak assessment directly to Peak.

#### **E. Provision for Working Capital Reserve**

In the development of their 2015 Business Plans and Budgets and their proposed assessment amounts to LSEs, NERC and the Regional Entities have taken into account the need to maintain appropriate amounts of working capital and operating reserves. In 2012, NERC developed a new Working Capital and Operating Reserves Policy under which working capital and operating reserves are separately budgeted and accounted for.<sup>54</sup> The NERC Working Capital and Operating Reserves Policy also sets forth guidelines and authorities for accessing Working Capital and Operating Reserves and for use of funds for activities in excess of budgeted amounts, as well as for hiring personnel in excess of budgeted staffing levels. The amounts that NERC has budgeted for 2015 in the various reserves categories under its Policy, and the impacts on

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<sup>53</sup> As indicated above, the assessments in the NPCC Region will be billed to a single entity for each of the six Balancing Authority Areas within NPCC; and the assessments in the Texas RE region will be billed to ERCOT. (NERC also directly bills La Régie de l'énergie du Québec, which is not a LSE, for the CMEP costs allocated to Québec.)

<sup>54</sup> The NERC Working Capital and Operating Reserves Policy was provided in Exhibit C to NERC's 2013 Business Plan and Budget. An Amended Working Capital and Operating Reserves Policy, currently in effect, was provided as Attachment 1 to NERC's *Notice of Filing of the North American Electric Reliability Corporation Regarding Modifications to the 2014 Business Plan and Budget*, filed on December 17, 2013.

NERC's 2015 proposed statutory assessments, are discussed in detail in §IV.B below and in Exhibit E to **Attachment 2**. The remainder of the discussion in this §III.E describes the development of the Regional Entities' Working Capital Reserve amounts and associated adjustments to assessments for 2015.

The process takes into account each Regional Entity's actual and projected Working Capital Reserves at December 31, 2013 and December 31, 2014, respectively, resulting from its accumulated prior years' surpluses and deficits, and results in an incremental or decremental adjustment to each Regional Entity's proposed 2015 statutory assessment amount, in order to arrive at its target Working Capital Reserve at December 31, 2015. Table B-1, Reserve Balance, in Section B of each Regional Entity's 2015 Business Plan and Budget, shows the calculation of the increment or decrement to the Regional Entity's requested 2015 assessment to achieve the Regional Entity's desired Working Capital Reserve at December 31, 2015. The calculations shown on Table B-1 take into account: (1) the Regional Entity's actual Working Capital Reserve (Deficit) at December 31, 2013, (2) assessment Funding, projected other Funding, and projected Expenses and Capital Expenditures for 2014, resulting in (3) a projected Working Capital Reserve at December 31, 2014, (4) the desired (target) Working Capital Reserve at December 31, 2015, (5) the budgeted Expenses and Capital Expenditures, and projected other funding sources (including Penalties collected from Registered Entities), for 2015,<sup>55</sup> resulting in (6) the increment or decrement to the requested 2015 assessments to achieve the target Working Capital

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<sup>55</sup> With two exceptions, Penalty payments received by NERC or a Regional Entity between July 1, 2013 and June 30, 2014 are used to reduce the requested assessments for 2015; Penalty payments received after June 30, 2014 will be used to reduce the requested assessments for 2016. The two exceptions for 2015 are: (i) NERC is proposing to use \$1,000,000 of Penalty payments received on July 9, 2014 to reduce its 2015 assessment amount (*see* §IV.D below); and (ii) WECC is proposing to use \$2,000,000 of Penalty payments received from July 1, 2013 to June 30, 2014 to pay Penalties incurred by WECC registered functions, rather than to reduce assessments to LSEs (*see* §V.B.1 below).

Reserve at December 31, 2015.

As shown on Table B-1 in each Regional Entity's 2015 Business Plan and Budget, each Regional Entity (except SPP RE) has established a target Working Capital Reserve for 2015. The basis for each entity's Working Capital Reserve for 2015 is stated on its Table B-1 or explained elsewhere in the text of its 2015 Business Plan and Budget. Further discussion of the adjustment (increase or decrease) to each Regional Entity's proposed 2015 statutory assessment to achieve its target Working Capital Reserve is provided in the discussions of the individual Regional Entity 2015 Business Plans and Budgets in §V.B below.

As of the end of the second quarter of 2014, NERC and the Regional Entities are projecting year-end 2014 balances in working capital and operating reserves that are collectively \$10 million (70.9%), over the ending balance that were projected in their 2014 Business Plans and Budgets. This difference is due to higher beginning balances (\$6.1 million), lower than budgeted expenses and capital expenditures in 2014 (\$3.6 million), and other adjustments to reserves as reported by NERC (approximately \$400,000).

The table below shows the difference between the projected 2014 year-end balances in working capital and operating reserves included in (i) the NERC and Regional Entity second quarter 2014 variance reports and (ii) the 2015 Business Plan and Budgets, by entity. The difference between the projected year-end balances for RF, SERC, SPP RE and Texas RE are related to the timing difference in the preparation of the projections. The projections included in the 2015 Business Plans and Budgets were prepared earlier than the second quarter variance reports, based upon information available at the time, and were approved by their Boards prior to preparation of their second quarter 2014 variance reports. The table also includes the planned increase or decrease in reserves included in the 2015 Business Plan and Budget by entity. Funds

in excess of projected starting working capital and operating reserve balances will be subject to applicable Regional Entity controls over the expenditure of such funds and will be taken into account in developing 2016 funding requirements.

<b>Entity</b>	<b>2014 Projection per Q2 2014 Variance Report (\$)</b>	<b>2014 Projection per 2015 Budget (\$)</b>	<b>Variance - Q22014 Report versus 2015 Budget (\$)</b>	<b>2015 Budgeted Inc(Dec) in Reserves (\$)</b>
<b>NERC</b>	2,005,511	2,005,511	0	585,363
<b>FRCC</b>	1,407,247	1,407,247	-	(810,395)
<b>MRO</b>	1,917,568	1,781,068	136,500	(507,668)
<b>NPCC</b>	5,011,226	4,945,068	66,158	(355,161)
<b>RF</b>	618,301	280,940	337,361	469,060
<b>SERC</b>	3,162,273	3,461,951	(299,678)	76,549
<b>SPP RE</b>	3,137,804	1,662,962	1,474,842	(1,662,962)
<b>TEXAS RE</b>	4,411,872	2,966,210	1,445,662	(966,210)
<b>WECC</b>	2,402,950	2,662,817	(259,867)	-
	<b>24,074,752</b>	<b>21,173,774</b>	<b>2,900,978</b>	<b>(3,171,424)</b>

#### **F. Budget Projections for 2016 and 2017**

As it did its Business Plans and Budgets for each of the years 2008 through 2014, NERC is providing preliminary budget projections for the two years following the budget year (*i.e.*, 2016 and 2017).<sup>56</sup> This information is provided on pages xxv-xxvi of **Attachment 2**.<sup>57</sup> These

<sup>56</sup> The 2015 Business Plan and Budget of each Regional Entity also includes budget projections for 2016 and 2017.

<sup>57</sup> The NERC Board has not approved the 2016-2017 projections as official budgets, and NERC is not seeking approval of these budget projections by the applicable governmental authorities.

budget projections show that NERC's 2016 total budget is projected to be \$1,211,349, or 1.8%, higher than the 2015 total budget. For 2017, NERC's total budget is projected to be \$1,170,787, or 1.7%, higher than the amount projected for 2016. The significant assumptions underlying these projections include: (i) no increases in total FTEs over budgeted 2015 FTEs; (ii) Personnel and Benefits costs increases consistent with the 2015 budget assumptions; (iii) no increases in Consultants & Contracts expense in 2016 and 2017 above the budgeted 2015 expense, with the exception of contract support for a Grid Security Exercise in 2016; (iv) debt service repayment obligations in connection with NERC's capital financing program consistent with the projected capital forecast for Enterprise IT applications; and (v) no increase in expenditures related to CRISP except for Personnel and Benefits cost increases consistent with the general assumption (noted above) for these costs.

#### **IV. DISCUSSION OF NERC BUSINESS PLAN AND BUDGET**

##### **A. 2015 Business Plan and Budget by Program**

This section summarizes NERC's proposed 2015 Business Plan and Budget by statutory program and Administrative Services department.<sup>58</sup> The proposed 2015 staffing and expenditure budgets for the individual NERC departments and programs are described in the subsections below. However, there are several aspects of NERC's 2015 budget that impact the budgets for all programs and departments.

First, in presenting their budgeted staffing (FTEs) and related Personnel Expenses for 2015, all NERC programs and departments have applied a 6% personnel attrition adjustment factor. The personnel adjustment attrition factor reflects that actual staffing is typically less than budgeted staffing due to factors such as employees leaving NERC for other jobs and new

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<sup>58</sup> **Attachment 8** is a status report on NERC's progress in achieving its 2014 goals.

positions being filled at a later date than was assumed in the preparation of the budget. In the 2014 NERC budget, a personnel attrition adjustment factor of 4% was used; in the 2015 budget, the adjustment factor is being increased to 6% based on experience.<sup>59</sup> This change in assumption causes a slight downward reduction in the budgeted 2015 Personnel Expenses for each program and department (which may be fully or partially offset by other factors).

Second, in the development of Personnel Expense in the 2015 budget, an average salary increase pool of 2.5% was used. The 2.5% average salary increase is slightly below the 3% market reference provided by NERC's compensation consultants.

Third, for 2015, a higher maximum salary is subject to FICA taxes. This change results in higher Payroll Tax Expense in Personnel Expense, all other things equal (*i.e.*, Payroll Tax Expense would be higher even assuming the same level of staffing and Salary Expense as in the 2014 budget).

Fourth, budgeted Benefits Expense is increased for all programs (all other things equal) due to anticipated market increases in medical and dental plan cost from the 2014 budget, based on information provided by NERC's benefits consultants.

Fifth, with the exception of subcontract support for CRISP, a 3% reduction was applied to each program's 2015 Consultants & Contracts budget to account for potential under-runs in actual expense, as has been experienced historically.

In addition, although the overall budgeted staffing for NERC's statutory direct programs is increased over the 2014 budget by only 2.8 FTEs, attributable to CRISP and the ES-ISAC, there has been considerable reallocation of positions among the NERC programs, so that some programs or departments are budgeted for increased staffing, and others for reduced staffing, as

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<sup>59</sup> The 6% adjustment is based on a three-year average of actual to budgeted FTE data.

compared to the 2014 budget. The Administrative Services (Indirect) budget for expenses and Fixed Assets, which is budgeted to increase by \$2,612,565 from the 2014 budget, are allocated to the statutory direct programs on the basis of the ratio of the budgeted FTEs in each statutory program to the total budgeted statutory program FTEs. The changes in the numbers of FTEs budgeted for each statutory direct program for 2015 impact the allocation of the Administrative Services costs among the statutory direct programs.

### **1. Reliability Standards Program**

The Reliability Standards Program develops, adopts, obtains approval of, and modifies as and when appropriate, Reliability Standards for the reliable planning, operation and critical infrastructure protection of the BPS in North America. The major activities of the Reliability Standards Program include (1) delivering high-quality, continent-wide Reliability Standards, (2) facilitating continent-wide industry engagement in the standards development process, and (3) conducting balloting, disseminating information, and supporting regulatory filings on proposed standards. NERC manages the work of over 200 industry contributors serving on the NERC Standards Committee, subgroups and other project teams for the development of Reliability Standards. Additionally, thousands of industry volunteers within hundreds of registered entities and other entities review, comment on and vote on the products of the standard drafting teams, and all of this input must be reviewed and taken into account in the standards development process. The NERC Reliability Standards Program staff also supports the Regional Entities' regional reliability standards development processes by providing technical advice, final quality review of Regional standards, presentation to the NERC Board, and submission to the applicable governmental authorities in the U.S. and Canada.

The key standards production efforts of the Reliability Standards Program underway in 2014 are described at pages 2-4 of **Attachment 2**, and include addressing emerging issues that

may require the development of new or revised Reliability Standards; continuing to respond to FERC directives; and continuing work on the Paragraph 81 initiative<sup>60</sup> and the results-based standards initiative to ensure that Reliability Standards are focused on required actions or results and not necessarily on the methods by which to accomplish them; as well as participating in cross-departmental and collaborative projects. Cross-departmental and collaborative projects include the Risk-Based Registration project, the development of related Reliability Standard Audit Worksheets (RSAWs) concurrently with development of Reliability Standards, working with other departments to conduct the technical analysis needed as foundation for standards projects, and verification of reliability risk evaluation with the Reliability Issues Steering Committee (RISC) prior to initiating a standards project.

The 2015 goals and deliverables for the Reliability Standards Program are provided at page 4 of **Attachment 2**, and they focus on: (1) the selection of standards projects so that resources are expended on issues determined to be a reliability risk through the Reliability Risk Management Process (RRMP); (2) addressing FERC directives and responding to FERC orders as necessary through the standards process; (3) transforming NERC's Reliability Standards to steady state; (4) improving the quality of standards to determine whether a Reliability Standard is of sufficient content and quality to be deemed steady state; and (5) working with other departments to facilitate smooth transitions to new standards such as the CIP Version 5 standards and the Physical Security standard.

NERC has budgeted 24.40 FTEs for the Reliability Standards Program for 2015, which is

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<sup>60</sup> The Paragraph 81 initiative is the result of FERC's invitation, in a March 2012 order, to identify specific Reliability Standards or requirements that need to be revised or retired based on lack of meaningful benefit to BPS reliability. *North American Electric Reliability Corporation, Order Accepting with Conditions the Electric Reliability Organization's Petition Requesting Approval of New Enforcement Mechanisms and Requiring Compliance Filing*, 138 FERC ¶ 61,193 (2012), at P81.

a decrease of 1.52 FTEs from the 2014 budget and reflects the transfer of one position to another department and the increase in the personnel attrition assumption from 4% to 6%. The 2015 budgeted direct expenses for this program are \$4,800,751, which is a decrease of \$350,103 (6.8%) from the 2013 budget. Budgeted 2015 Personnel Expenses are decreased by \$278,373 (6.4%) from the 2014 budget, reflecting the decrease in staffing. Budgeted Meetings Expense is decreased by a total of \$57,656 (8.1%), based on 2013 results, the anticipated level of standards development activity in 2015, and efforts to hold meetings at NERC's offices when possible. As was the case in the 2014 budget, no Consultant & Contracts expense is budgeted for this program for 2015. The allocation of Administrative Services expenses to this program is \$5,139,603, the Allocation of Fixed Assets from the Administrative Services programs is \$306,791, and no Fixed Asset additions or Depreciation Expense are included in the 2015 budget for the Reliability Standards Program.

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

The Compliance Monitoring and Enforcement and Organization Registration and Certification Program carries out NERC's statutory responsibility to monitor, enforce and ensure registered entity compliance with mandatory Reliability Standards. This program is comprised of three operational groups: Regional Entity Assurance and Oversight (formerly Compliance Operations); Compliance Analysis, Registration and Certification; and Compliance Enforcement.

### **a. Regional Entity Assurance and Oversight Group**

Regional Entity Assurance and Oversight works collaboratively with the Regional Entities to ensure consistent and effective implementation of the CMEP. Regional Entity Assurance and Oversight is responsible for the following major activities and functions: (i) consistent implementation of the risk-based compliance monitoring program for reliability

improvements; (ii) oversight of the Regional Entities' delegated compliance functions, including CMEP planning, implementation and reporting, compliance operations and coordination, and auditor training; (iii) CIP Version 5 transition, training and compliance design activities; (iv) development of minimum baseline monitoring requirements; (v) development and maintenance of the RSAWs; and (vi) supporting the NERC Compliance and Certification Committee.

The major activities under way for Regional Entity Assurance and Oversight for 2014 are described at pages 9-10 of **Attachment 2** and include development of a single ERO methodology for registered entity reliability risk assessments and evaluation and testing of registered entity internal controls; and implementation of a complete auditor manual with the approved auditor handbook and checklist. Another ongoing activity is managing the smooth transition of compliance activities from CIP Version 3 to Version 5 by providing training, webinars and other outreach.

The 2015 goals and deliverables for Regional Entity Assurance and Oversight are described at pages 10-11 of **Attachment 2**, and are focused on supporting the ongoing RAI activities, including: (1) developing a training program to support implementation of the common audit procedures and the ERO Auditor Capabilities and Competencies Guide; (2) replacing or enhancing the existing compliance, reporting, analysis tracking system (CRATS) and other compliance tools to support RAI activities; (3) making effective internal controls models and information available to industry; (4) initiating compliance phase-in learning periods for new standards; (5) transitioning to a single ERO approach to compliance monitoring and common audit planning; (6) consolidating to a common set of RSAWs or successors for all standards; (7) enhancing the design of Regional Entity compliance audits to evaluate Regional Entity staffing, deployment of tools, and testing of compliance activities; (8) increasing the

frequency of audits to validate the implementation of RAI program designs; and (9) creating technically sound training to support compliance methodologies and testing approaches for Reliability Standards.

The budgeted staffing for Regional Entity Assurance and Oversight for 2015 is 12.19 FTEs, which is a decrease of 1.18 FTEs from the 2014 budget and reflects the transfer of one position to another department and the increase in the personnel attrition adjustment factor from 4% to 6%. As a result, budgeted 2015 Personnel Expenses are decreased by \$98,468 (4.1%) from the 2014 budget. Budgeted 2015 Meetings Expense is increased by a total of \$30,469 (12.4%), due to an increase in budgeted Travel Expenses based on actual 2013 results and the anticipated level of activity in 2015. Regional Entity Assurance and Oversight has budgeted \$388,000 in Consultants & Contracts Expense for 2015, a decrease of \$12,000 from the 2014 budget.

The budgeted total direct expenses for Regional Entity Assurance and Oversight for 2015 are \$3,016,607, which is a decrease of \$94,244 (3.0%) from the 2014 budget, with the primary driver of the decrease being the reduced Personnel Expenses. The allocation of Administrative Services expenses to Regional Entity Assurance and Oversight is \$2,567,695, Fixed Assets allocated to Regional Entity Assurance and Oversight are \$153,270, and no Fixed Asset additions or Depreciation are budgeted to Regional Entity Assurance and Oversight for 2015. In addition, Regional Entity Assurance and Oversight is not budgeting any funding from Workshop Fees for 2015 because auditor workshops are being held at NERC or Regional Entity offices, rather than at third-party facilities, at much lower costs.

**b. Compliance Analysis, Registration and Certification Group**

The Compliance Analysis, Registration and Certification Group is responsible for a

range of requirements and activities embodied in Section 500 and Appendices 5A and 5B of the NERC ROP. Specific activities of this group include: (1) identification and registration of BES users, owners and operators who are responsible for compliance with Reliability Standards; (2) certification of the competency of reliability coordinators, balancing authorities, and transmission operators to perform their reliability functions; (3) compliance investigations; (4) investigating complaints alleging the violation of Reliability Standards; (5) technical assurance including development of quarterly gap and risk assessment reports and recommended responses; and (6) oversight of Regional Entity registration, certification, investigation and complaint programs. A major activity for the Compliance Analysis, Certification and Registration Group during 2014 is continued development of the Risk Based Registration design and registration criteria.

The 2015 goals and deliverables for the Compliance Analysis, Registration and Certification Group are described at page 15 of **Appendix 2** and include: (1) deploying a sustainable Risk Based Registration design; (2) developing an implementation plan with business practices and IT requirements that addresses unintended industry burden; (3) aligning changes to the registration criteria with other NERC activities; (4) assessing the current certification program for opportunities to mature the program; (5) addressing effects to registration from the revised BES definition; (6) providing support to the continued development of RSAWs, aiding in the BES definition exception submittal process, aiding in the review of registration appeals, and assisting with the training modules for investigations, certifications and registrations; and (7) providing analysis in support of NERC projects addressing the top reliability risks.

The budgeted staffing for Compliance Analysis, Registration and Certification for 2015 is 11.25 FTEs, which is an increase of 1.65 FTEs from the 2014 budget and reflects the net effect

of the reallocation of personnel from other departments and the increase in the personnel attrition adjustment factor from 4% to 6%. Budgeted 2015 Personnel Expenses for this group are increased by \$408,809 (23.4%) from the 2014 budget. Budgeted 2015 Meetings Expense is increased by \$16,310 (10.6%), reflecting the increased staffing, including positions requiring travel. As was the case in the 2014 budget, no Consultants & Contracts Expense is budgeted for this group in 2015.

The budgeted total direct expenses for Compliance Analysis, Registration and Certification for 2015 are \$2,353,718, which is an increase of \$427,249 (22.2%) from the 2014 budget, with the primary driver of the increase being the increased Personnel Expenses. The allocation of Administrative Services expenses to Compliance Analysis, Registration and Certification is \$2,369,694; Fixed Assets allocated to Compliance Analysis, Registration and Certification are \$141,451; and no Fixed Asset additions or Depreciation are budgeted to Compliance Analysis, Registration and Certification for 2015.

**c. Compliance Enforcement**

Compliance Enforcement is responsible for overseeing enforcement processes, application of penalties or sanctions, and activities to mitigate and prevent recurrence of noncompliance with Reliability Standards. Compliance Enforcement monitors and provides oversight over the Regional Entities' enforcement processes; collects and analyzes compliance enforcement data and trends to identify emerging risks and inform the development of enforcement policy and processes; files notices of penalties and other submittals associated with violations discovered through Regional Entity compliance, enforcement and monitoring activities or through NERC-led investigations and audits; and collaborates with other NERC departments including Standards and Regional Entity Assurance and Oversight.

Major activities under way for the Compliance Enforcement department during 2014 are described at pages 21-22 of **Attachment 2** and are focused on reducing and eventually eliminating the number of violations in inventory that are older than 24 months; promoting the self-identification and prompt mitigation of noncompliances by registered entities (including through development of the *ERO Enterprise Self-Report User Guide* and the *ERO Enterprise Mitigation Plan Guide*; and supporting RAI activities and related process improvements.

The 2015 goals and deliverables for Compliance Enforcement are described on pages 22-23 of **Attachment 2**, and are focused on identifying processing efficiencies to improve enforcement activities, including consolidating new enforcement processes; ensuring the timely processing of violations, particularly those that pose greater risk and can provide lessons learned to industry; and ensuring early dissemination of violation information to registered entities to enable them to learn from prior events and violations and take preventative actions to eliminate similar risks.

The budgeted staffing for Compliance Enforcement for 2015 is 15.01 FTEs, which is a decrease of 3.23 FTEs from the 2014 Budget and reflects the transfer of three positions to other departments and the increase in the personnel attrition adjustment factor from 4% to 6%. Budgeted 2015 Personnel Expenses are reduced by \$378,931 (13.9%) from the 2014 budget, reflecting the reduced staffing from the 2014 budget. The 2015 budget for Meeting Expenses is reduced by \$30,079 (32.4%) from the 2014 budget, due primarily to a reduction in budgeted Travel Expenses. As in the 2012, 2013 and 2014 budgets, Compliance Enforcement is budgeting no Consultants & Contracts expense for 2015.

The budgeted total direct expenses for Compliance Enforcement for 2015 are \$2,456,441, a decrease of \$408,510 (14.3%) from the 2014 budget, with the primary drivers of

the decrease being lower Personnel Expenses and lower Travel Expenses, as described above. The allocation of Administrative Services expenses to Compliance Enforcement is \$3,161,698, the allocation of Fixed Asset additions to Compliance Enforcement is \$188,727, and no Fixed Asset additions or Depreciation are budgeted for Compliance Enforcement for 2015.

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

The RAPA Program carries out NERC's statutory responsibility to conduct periodic assessments of the reliability and adequacy of the BES in North America to provide insight and guidance about reliability risks and performance improvements. The activities of the RAPA Program also support identification of reliability performance issues and areas of concern, including equipment performance and reliability issues, for consideration in the development of new, or modification of existing, Reliability Standards, or other initiatives that enhance overall reliability. RAPA works to develop a solid technical framework and understanding of the reliability risks facing the industry and to communicate guidance and information to the industry to enhance reliability. The efforts of the RAPA Program are focused on preparing independent assessments of the overall reliability and adequacy of the BES and associated reliability risks that could impact the upcoming summer and winter seasons and the long-term (ten-year) planning horizon; performance analysis of and recommendations from historical reliability and associated trends; reliability assessment and BPS evaluation model development for analyzing steady state and dynamic conditions; assurance that electrical elements necessary for the reliable operation of the BPS are appropriately identified as BES Elements; reliability risk program management for improving key risk areas using analyses of reliability gaps, risk controls, and management efforts; determination of RRMP priorities that align with the ERO Strategic Plan and the Business Plan and Budget for appropriate levels of resources, timing, completion and execution;

and providing leadership and consistent, technically sound guidance and recommendations for industry and policy makers.

The major activities of the RAPA Program underway in 2014 are described at pages 26-32 of **Attachment 2**. These activities are focused on reliability risk analysis and the Reliability Risk Management Process, and include programs focused on managing the top priority reliability risks, as identified by the RISC, in the following areas: changing resource mix, resource planning, protection system reliability, uncoordinated protection systems, extreme physical events, availability of real-time tools and monitoring, protection system misoperations, and right-of-way clearances. The RAPA Program's 2014 activities also include preparation of the annual reliability assessments, and implementation of the revised BES definition which became effective July 1, 2014.

The 2015 goals and deliverables for the RAPA Program are summarized at pages 32-34 of **Attachment 2**. The 2015 goals and objectives include:

- issuing reliability assessment reports, guidelines, recommendations, and alerts as needed (including the annual 10-year Long-Term Reliability Assessment and Summer and Winter Reliability Assessments, the annual State of Reliability Report, a report on geomagnetic disturbance (GMD) BES effects and vulnerability assessment, and an additional special assessments on a key reliability issue);
- oversight of the Generating, Transmission and Demand Response Availability Data Systems (GADs, TADS and DADS) and the Spare Equipment Database (SED);
- strengthening the Program's data collection and validation processes;
- providing periodic updates in trends and measures of BPS reliability;
- developing a risk registry and systematic prioritization process consistent with the RISC framework and to support BES risk profile measurement and the assessment of standards;
- executing risk control strategies and plans across the ERO to address the highest priority existing or emerging risks to BES reliability, and measuring the results;

- supporting NERC standards development and responses to FERC directives by providing technical and system analysis expertise and supporting the technical foundation development for Reliability Standards;
- providing support and leadership to the NERC Planning Committee and the subcommittees, working groups and task forces of standing committees;
- developing a structured approach to evaluate and improve system models, model validation, system analysis, and assessments;
- assisting in development of approaches to registration and maintenance of the Actively-Monitored List based on reliability trends, risks and historical information;
- conducting major event investigations, analysis and reporting of major findings and recommendations that will improve reliability; and
- implementing effective oversight and tracking of various technical aspects of reliability, including frequency response performance, application of the TPL footnote b adoption, and root cause applications to assessments and analysis.

During 2015, RAPA will potentially conduct additional projects addressing top priority reliability risks identified by the RISC, such as development of standardized models for power flow and dynamic modeling components, gas coordination guidelines, assessment of potential impacts to BPS reliability of emerging and proposed environmental regulations, protection system reliability, guidelines for coordination of protection systems and other devices, emergency transformer replacement, and protection system guidelines.

The budgeted staffing for the RAPA Program for 2015 is 19.70 FTEs, which is an increase of 0.71 FTE over the 2014 budget. The staffing increase reflects the transfer of one FTE from another department, partially offset by the increase of the personnel attrition adjustment factor from 4% to 6%. Budgeted 2015 Personnel Expense is increased by \$293,975 (8.7%) over the 2014 budget. Budgeted 2015 Meetings Expense is reduced by \$71,439 (14.1%) from the 2014 budget, based on actual 2013 experience and projected 2014 results. The RAPA Program is budgeting \$955,450 for Consultants & Contracts Expense for 2015, which is an increase of \$317,365 (49.7%) from the 2014 budget. The budgeted consultant and contractor

resources will support the following activities: (1) research concerning reliability effects of GMD; (2) vegetation management research; (3) the long-term and special reliability assessments and the State of Reliability analysis; (4) licensing and support of existing data bases; and (5) software application development, including replacement for the software application for industry access to GADS data and development of enterprise software applications such as the Reliability Assessment Database applications.

The total budgeted direct expense for the RAPA Program for 2015 is \$5,456,456, which represents an increase of \$553,152 (11.3%) from the 2014 budget. The RAPA Program is budgeting \$50,000 of revenue from Services & Software and \$17,500 of revenue from Workshop attendance fees in 2015. The allocation of Administrative Services expenses to this program is \$4,149,598, the allocation of Fixed Asset additions to this program is \$219,696, and Fixed Asset additions net of Depreciation are budgeted to increase by \$200,000 from the 2014 Budget.

#### **4. Reliability Risk Management**

The Reliability Risk Management (RRM) group carries out NERC's statutory responsibility to perform assessments (including real-time or near-real-time assessments) of the reliability and adequacy of the BES, as well as identifying potential issues of concern relating to system, equipment, entity and human performance that may indicate a possible need to develop new or modified Reliability Standards. The RRM group includes four primary functions – (i) BES awareness, (ii) event analysis and determination of root and contributing causes, (iii) assessment of human performance challenges affecting BES reliability and identification of improvement opportunities, and (iv) support of the NERC Operating Committee. RRM has two

departments, Situation Awareness and Event Analysis. The 2015 budgets for Situation Awareness and Event Analysis are discussed separately below.

**a. Situation Awareness**

The Situation Awareness Department works with registered entities to monitor conditions on the BES using various software tools and applications. It also coordinates with Regional Entities and registered entities to notify them of various types of disturbances that could negatively impact the BES. When significant BES disturbances occur, Situation Awareness facilitates coordination of communications between registered entities and applicable governmental authorities.

During 2014, Situation Awareness is phasing out NERC's sponsorship of the North American Synchro-phasor Initiative. By the end of 2014, the NASPI will no longer be sponsored, funded or managed by NERC. During 2014, Situation Awareness is also focused on (1) operation and maintenance of the SAFNR Version 2 software application used for monitoring; (2) replacement of the current Secure Alerting System tool with a streamlined process that will notify industry via e-mail and direct entity representatives to the NERC alerts page for public alerts and to the ES-ISAC portal for confidential, non-public alerts; and (3) transfer of the NERCnet Interconnection Security Network to the Eastern Interconnection Data Sharing Network consortium, so that NERC will no longer be responsible for this tool.

The 2015 goals and deliverables for Situation Awareness are described on pages 39-40 of **Attachment 2** and include ensuring that the ERO is aware of all BES events above a threshold of impact; ensuring the sharing of data and information to facilitate wide area situation awareness; during crisis situations, facilitating the exchange of information among industry, Regional Entities, and U.S. and Canadian governments; keeping the industry informed of

emerging reliability threats and risks to the BES, including any expected actions; conducting the annual NERC Monitoring and Situation Awareness Conference and Human Performance Conference; enhancing tracking of notifications of expected actions in response to emerging actions, to promote greater industry accountability; and issuing timely updates regarding progress toward resolving issues identified in Recommendation and Essential Actions issued by NERC.

The 2015 budgeted staffing for Situation Awareness is 6.10 FTEs, which is a slight reduction of 0.14 FTEs from the 2014 budget. The change is due to the increase in the personnel attrition adjustment factor from 4% to 6%. Budgeted 2015 Personnel Expenses are decreased by \$76,252 (6.4%) from the 2014 budget, although budgeted 2015 Benefits Expense is slightly higher than in the 2014 budget due to market increases in medical and dental plan costs. Budgeted 2015 Meetings Expense is decreased by \$149,528 (73.7%) from the 2014 budget, primarily due to the transfer or allocation of the costs of certain meetings to other departments.

The 2015 Consultants & Contracts budget for Situation Awareness of \$1,077,321 is a reduction of \$211,787 (16.4%) from the 2014 budget. As noted above, in 2014, NERC is transferring its support for the NERCNet tool to an industry organization, resulting in a \$154,594 reduction in budgeted Consultants & Contracts Expense. The budgeted 2015 Consultants & Contracts Expense also reflects reductions in costs for SAFNR (\$72,216 reduction) and the Secure Alerting System (\$79,373 reduction). However, the budgeted 2015 Consultants & Contracts expense also incorporates an increase of \$94,396 for other reliability tools. Itemized information on the 2015 Consultants & Contracts budget for Situation Awareness is provided in Exhibit C of **Attachment 2**.

The total budgeted direct expense for Situation Awareness for 2015 is \$2,446,801, which

represents a decrease of \$444,292 (15.4%) from the 2014 budget. The allocation of Administrative Services expenses to this program is \$1,284,901, the allocation of Fixed Asset additions to this program is \$76,698, and Fixed Asset additions net of Depreciation are budgeted to decrease by \$603,843 from the 2014 budget. In addition, budgeted funding from Workshops is reduced from \$75,000 in the 2014 budget to zero in the 2015 budget due to the transfer of responsibility for the NASPI to private sector entities and the corresponding termination of related workshops.

**b. Event Analysis**

The Event Analysis Department performs assessments of the reliability and adequacy of the BES, including identifying potential issues related to system, equipment, entity and human performance that may indicate a need to develop remediation strategies, action plans, or data used to revise Reliability Standards or consider Reliability Standards. Event Analysis analyzes all reportable events for sequence of events, root cause, risk to reliability, and mitigation, assures tracking of corrective actions to prevent recurrence, and provides lessons learned, emerging trends, risk analysis and expected actions to the industry. Additionally, Event Analysis includes budgeted resources for the investigation team that reviews complaints and conducts compliance investigations; these resources are managed in the Compliance Analysis, Registration and Certification group. Further, Event Analysis focuses on identifying human-error risks and precursor factors that allow human error to impact system reliability.

The 2015 goals and deliverables for Event Analysis are described at pages 44-45 of **Attachment 2**, and include: (1) working with Regional Entities to obtain and review information regarding qualifying events and disturbances in order to advance awareness of these events, facilitating analysis of root and contributing causes, risks to reliability, wide-area assessments,

and remediation efforts, and disseminating information about events in a timely manner; (2) ensuring that all reportable events are analyzed for sequence of events, root cause, risk to reliability and mitigation; (3) refining risk-based methodologies to support better identification of reliability risks, including the use of more sophisticated cause codes; (4) ensuring consistency in reporting and analysis to support wide-area assessments of significant reliability risks and trends; (5) conducting training to inform industry and the ERO of lessons learned, root cause analysis, cause coding, human performance, and cold weather preparedness and recommendations; (6) developing reliability recommendations and alerts as needed; (7) tracking industry accountability for critical reliability recommendations; (8) ensuring that industry is well informed of system events, emerging trends, risk analysis, lessons learned and expected actions; (9) conducting major event analysis and reporting of major findings and recommendations that will improve reliability; and (10) advancing the quality and usefulness of reliability assessments and event analysis data. Additionally, Event Analysis will support several of the top priority reliability risk projects described in the RAPA section above.

The 2015 budgeted staffing for Event Analysis is 9.38 FTEs, which is a decrease of 0.22 FTE from the 2014 budget, and results from the increase in the personnel attrition adjustment factor from 4% to 6%. Budgeted 2015 Personnel Expense is decreased by \$22,052 (1.2%) from the 2014 budget, although budgeted Benefits Expense is increased slightly due to market increases in medical and dental plan costs. Budgeted 2015 Meetings Expense is decreased by \$50,136 (19.7%) from the 2014 budget, based primarily on 2013 actual costs and 2014 projected costs. As was the case in the 2014 budget, no Consultants & Contracts expense is budgeted for Event Analysis for 2015.

The total budgeted direct expense for Event Analysis for 2015 is \$2,303,098, which represents a decrease of \$80,970 (3.4%) from the 2014 budget. The allocation of Administrative Services expenses to Event Analysis is \$1,975,798, the allocation of Fixed Asset additions to Event Analysis is \$117,939, and Fixed Asset additions net of Depreciation are budgeted to increase by \$64,784 from the 2014 budget.

## **5. Critical Infrastructure Department**

The Critical Infrastructure Department supports the development and administration of CIP Reliability Standards. The CID conducts security outreach visits, provides training and exercise opportunities, and coordinates between industry and government on CIP matters. The CID actively participates in CIP standard drafting teams and through programs such as the Security Reliability Program (SRP; formerly known as the Sufficiency Review Program), the annual Grid Security Conference and the biennial Grid Security exercise. Further, the CID provides staff-level support to the NERC Critical Infrastructure Protection Committee (CIPC).

Major activities of the CID in 2014 are described at pages 49-50 of **Attachment 2** and include providing support for the transition from CIP Version 3 to CIP Version 5, providing subject matter expertise in the development of the Physical Security standard, and providing support for addressing the FERC Order No. 791 directives;<sup>61</sup> continuing the SRP; planning for the 2015 Grid Security Exercise; planning and holding the 2014 Grid Security Conference; and supporting the work of the CIPC and its task forces and working groups.

The 2015 goals and deliverables for the CID are described on page 50 of **Attachment 2**, and include: (1) holding the annual Grid Security Conference, which will focus on physical

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<sup>61</sup> *Version 5 Critical Infrastructure Protection Reliability Standards*, Order No. 791, 145 FERC ¶ 61,160 (2013).

security and cybersecurity issues facing the electricity sub-sector; (2) conducting Grid Exercise III, which will focus on analyzing industry's response to a physical security and cybersecurity scenario and gathering lessons learned; (3) coordinating with government departments and agencies on critical infrastructure policy issues; (4) supporting preparations for public presentations and follow on actions; (5) supporting CIP standards development and implementation through outreach presentations, webinars, and other training opportunities; and (6) working with the CIPC to address emerging risk issues and projects.

The 2015 budgeted staffing for the CID is 8.44 FTEs, which is a decrease of 4.04 FTEs from the 2014 budget. The decrease is due primarily to the transfer of the CIP auditors to the Regional Entity Assurance and Oversight group as well as to the increase in the personnel attrition adjustment factor from 4% to 6%. Budgeted 2015 Personnel Expenses for the CID are decreased by \$609,195 (25.1%) from the 2014 budget. Budgeted 2015 Meeting Expenses for the CID are reduced by \$74,582 (17.9%) due to the reduction in staffing as well as actual 2013 costs and projected 2014 costs. The 2015 budgeted Consultants & Contracts expense for the CID is \$426,800, which is an increase of \$236,800 (125%) over the 2014 budget. The increase is primarily due to the 2015 costs for the Grid Security Exercise, which is conducted every other year (*i.e.*, was not budgeted or held in 2014). The continuing portion of the budgeted Consultants & Contracts Expense is for support of the CIPC.

The budgeted direct expense for 2015 for the CID is \$2,612,056, which is a decrease of \$480,293 (15.5%) from the 2014 budget. The allocation of Administrative Services expenses to the CID is \$1,777,797, the allocation of Fixed Assets to the CID is \$106,120, and Fixed Asset additions net of Depreciation are budgeted to increase by \$37,019 over the 2014 budget.

## 6. ES-ISAC

The primary function of the ES-ISAC is the rapid and secure sharing of information with the electric industry and governmental entities regarding real and potential cyber related threats to the electricity sector, and maintenance of methods and tools used to avoid or mitigate the potential impact from these threats. The ES-ISAC facilitates sector coordination, mitigation development, and mitigation delivery for physical security, cybersecurity and all hazards events, and supports the Electricity Sub-sector Coordinating Council under the National Infrastructure Protection Plan. The ES-ISAC supports the functions of information sharing and analytics, develops alerts and notifications for registered entities, and utilizes its secure, private information-sharing portal to receive voluntary reports from industry members. The ES-ISAC also maintains a seat on the operations floor of the National Cybersecurity and Communications Integration Center within the Department of Homeland Security, which is the hub for real-time, classified threat and vulnerability work. The ES-ISAC maintains other information-sharing relationships with U.S. and Canadian government departments and agencies and with similar agencies in several other countries.

In the 2015 Business Plan and Budget, the ES-ISAC is being budgeted as a separate department. In the 2014 budget and previously, the ES-ISAC was budgeted within the Critical Infrastructure Protection function or the Situation Awareness and Infrastructure Security Program.

The major activities of the ES-ISAC in 2014 are described on pages 54-55 of **Attachment 2** and are focused on continued execution and maturation of its capabilities and processes. The ES-ISAC's key goals and deliverables for 2015 are described on pages 55-58 of **Attachment 2** and include improving the usability and functionality of the information-sharing

portal; preparing and increasing analytical capabilities; portal monitoring; and information sharing. The ES-ISAC will continue to conduct Cyber Risk Preparedness Assessments (CRPA) for registered entities and will continue to develop, and deploy, a cyber risk preparedness toolkit to allow industry to conduct self-assessments of cyber risk preparedness. The ES-ISAC will also continue work with vendors to develop and license cyber intelligence tools that collect and analyze information and then alert the user about selected threats. In carrying out its activities, the ES-ISAC will continue to use software integration support services, the analyst workbench toolset, secure bidirectional communications including the U.S. Department of Energy's Contested Operational Network for Reporting and Defense (CONRAD) system, and intelligence services from a specialized security information service provider that focuses on the electricity sub-sector. ES-ISAC also plans to continue to provide webinars and other technical outreach support to industry in addressing the Aurora Vulnerability.

The major new initiative for the ES-ISAC in the 2015 Business Plan and Budget that was not included in the 2014 Business Plan and Budget is CRISP. The ES-ISAC will be responsible for NERC's participation in CRISP and for the program management role that NERC will take in CRISP.<sup>62</sup> NERC's costs and the funding for CRISP are budgeted within the ES-ISAC budget for 2015. CRISP is a public-private partnership whose purpose is to facilitate timely information sharing of cyber threat information and to develop situation awareness tools that enhance the electricity sector's ability to identify, prioritize, and coordinate the protection of its critical infrastructure. Participants include the U.S. Department of Energy, the Pacific Northwest National Laboratories (PNNL), and Argonne National Laboratories (ANL). NERC's 2015

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<sup>62</sup> NERC's participation in CRISP is scheduled to begin on or about October 1, 2014. All of NERC's 2014 costs for CRISP will be funded by Third-Party Funding from industry participants.

budget for CRISP assumes that CRISP monitoring devices will be installed at 28 sites no later than the end of 2015. CRISP will provide near-real-time capability for critical infrastructure owners and operators to voluntarily share cyber threat data, analyze the data, and receive machine-to-machine mitigation measures. Passive sensors called information-sharing devices (ISDs) that are installed on participants' networks send encrypted data to a CRISP analysis center operated by PNNL, which analyzes the data and sends alerts and mitigation measures to CRISP participants through a secure network. In addition to the ISDs, CRISP uses (1) the Cyber Fed Model – software that enables the secure communication of cybersecurity threat information between PNNL, ANL, ES-ISAC, the participating sites, and other participating organizations, and (2) CONRAD – a secure communications device comprised of hardware and software that enables the secure transmission of voice communications and data.

CRISP provides the ability to integrate other cyber-related threat information provided through governmental sources with the cyber threat information gathered by the ISDs installed on participants' networks. CRISP also provides the ability to look across organizations within the electricity subsector to identify correlation and trends. A more detailed description of CRISP is provided in Exhibit F of **Attachment 2**.

The ES-ISAC will assume the role of program manager for CRISP and will be responsible for providing certain services to the participating utilities, including oversight of the installation of ISDs and associated analytical services. ES-ISAC will provide a central point for coordination and be the hub for collaborative analysis of CRISP data. Unattributed CRISP reporting and data will be shared with registered users of the ES-ISAC portal, thereby providing more widespread benefits to industry. NERC will subcontract substantially all of these services to PNNL. As detailed below, the vast majority of NERC's 2015 costs for CRISP will be funded

by Third-Party Funding from the other participants. In the future, the ES-ISAC may work with PNNL and utility participants to evaluate the costs and benefits of NERC developing the capability to either performing these services in-house without PNNL support, with reduced PNNL support, or through a combination of in-house, PNNL and other commercially available subcontractor capabilities. The results of any such evaluation, and any decision for NERC to assume responsibility for performing the CRISP services provided by PNNL in-house or through the use of subcontractors other than PNNL, will be subject to further review by NERC's FAC, approval of the CRISP utility participants, and the receipt of stakeholder input and all necessary corporate and budgetary approvals.

Also in 2015, in furtherance of efforts initiated in 2012 to maintain and enhance separation between the ES-ISAC and the NERC compliance monitoring and enforcement activities, NERC plans to exercise an option to acquire additional space in its Washington, D.C. office in order to physically separate the ES-ISAC from NERC's other operations and to restrict personnel access between the ES-ISAC and other operating areas.

The budgeted 2015 staffing for the ES-ISAC is 10.32 FTEs, which is an increase of 2.60 FTEs from the 2014 budget. The increase reflects the addition of two positions to support CRISP and a dedicated administrative support position (due to the planned physical separation of the ES-ISAC in NERC's Washington, D.C. office), net of the impact of increasing the personnel attrition adjustment factor applied to all program areas and departments from 4% to 6%. Budgeted 2015 Personnel Expenses are increased by \$516,892 (30.4%) over the 2014 budget. Budgeted 2015 Meeting Expense is increased by \$122,457 (138%) over the 2014 budget, due to the increased staffing and to the fact that in the 2014 budget, Meeting and conferencing expenses were included in the Critical Infrastructure Protection budget but were not specifically allocated

to the ES-ISAC. The budgeted 2015 expense for Consultants & Contracts is \$8,329,300, which is an increase of \$7,542,940 from the 2014 budget. Of the Budgeted 2015 Consultants & Contracts Expense, \$7,666,055 is new costs for CRISP, while other Consultants & Contracts Expenses reflect a net reduction of \$123,115 from the 2014 budget. In addition, budgeted 2015 Office Costs for the ES-ISAC are increased by \$324,139 over the 2014 budget, due to data storage needs to support CRISP as well as expenses for certain software maintenance agreements that were included in the CID budget for 2014 but are now included in the ES-ISAC budget for 2015. Finally, \$350,000 is budgeted for Professional Services (versus zero in the 2014 budget) for professional services support and insurance for CRISP.

The ES-ISAC budget for 2014 includes \$8,943,589 of Third-Party Funding (versus zero in the 2014 budget), which represents the funding being provided by participating utilities and other entities, pursuant to the master services agreement for CRISP, to support NERC's participation and activities as program manager for CRISP. This Third-Party Funding substantially offsets the increase of \$9,766,176 in the 2015 total budget for the ES-ISAC over the 2014 budget. Third-Party Funding for CRISP will be deposited in a separate account. Any underrun in the CRISP budget which is allocated to and funded by CRISP participants shall be applied as a credit against future CRISP participant funding requirements, pursuant to the terms of the CRISP agreements.

The budgeted direct expense for 2015 for the ES-ISAC is \$11,466,588, which is an increase of 8,856,928 from the 2014 budget. The allocation of Administrative Services expenses to the ES-ISAC is \$2,173,799, the allocation of Fixed Assets to the ES-ISAC is \$229,758, and Fixed Asset additions net of Depreciation are budgeted to increase by \$186,821 over the 2014 budget.

## 7. Training, Education, and Operator Certification Program

The Training, Education, and Operator Certification Program provides oversight and coordination of the delivery of training programs that support the ERO's statutory responsibilities, by providing training and education to NERC and Regional Entity staff, including compliance auditors, relating to their job responsibilities, and to industry participants on the requirements of Reliability Standards, the standards development process, and the compliance monitoring and enforcement process. The Training, Education, and Operator Certification Program also supports NERC's System Operator Certification and Continuing Education Programs for owners, operators and users of the BES and their operating personnel, which ensure that personnel operating the BES have the skills, training and qualifications needed to operate the system reliably. NERC maintains the credentials required to work in system control centers across North America for over 6,000 system operators. Certification exams are created by the Personnel Certification Governance Committee (PCGC), an industry group of operational experts, trainers and supervisors. Once an operator achieves certification by passing the examination, the operator's certification is maintained by completing NERC-approved continuing education courses and activities, under the oversight of the NERC Personnel Subcommittee.

The major activities of the Training, Education, and Operator Certification Program for 2014 are described at page 62 of **Attachment 2** and include providing training for industry and ERO personnel in the following areas: auditor training; standards and compliance training; training on registration and certification (for registered entities); continuing education for system operators and other industry personnel as appropriate and related to their reliability functions; and training on event analysis, cause analysis, and lessons learned.

The 2015 goals and deliverables of the Training, Education, and Operator Certification Program are described at page 62 of **Appendix 2**. A primary objective, in response to stakeholder and Regional Entity feedback, is to continue to further expand and focus training and education opportunities for NERC, Regional Entity and registered entity personnel, including on topics for registered entities such as objectives of Reliability Standards, standards compliance, emerging cyber-related issues that could affect BES reliability; and topics for ERO personnel such as consistent audit and investigation techniques, standards compliance reviews, compliance practices and enforcement practices such as RAI and FFT, and compliance auditor skills. Other training will focus on knowledge and skills development in a number of areas, including development and implementation of clear and technically sound reliability standards, lessons learned and trends from events, common cause analysis, effective compliance cultures, effective root, apparent, and common cause analysis methods, registered entity self-reporting and self-certification, and entity registration processes, issues, and alternatives.

Training and education opportunities will be provided through workshops hosted by NERC and the Regional Entities, webinars, training courses, and vendor-provided training modules and other offerings.

The budgeted staffing for the Training, Education, and Operator Certification Program for 2015 is 7.97 FTEs, which is a slight decrease of 0.19 FTE from the 2014 budget and is due to the increase in the personnel attrition adjustment factor from 4% to 6%. Budgeted 2015 Personnel Expense increases by \$113,470 (10.3%) from the 2014 budget, due to budgeted salary increases and changes in job responsibilities for some positions, partially offset by the increase in the personnel attrition adjustment factor from 4% to 6%. The budgeted Consultants & Contracts Expense for 2015 of \$752,130 represents a decrease of \$96,700 (11.4%) from the 2014 budget.

The decrease in Consultants & Contracts Expense is primarily due to lower costs for system operator testing and exam development costs. Of the total budgeted amount of \$752,130, \$359,406 is for training and education (including continuing education) activities and \$392,724 is for system operator certification activities.

The direct expense budgeted for the Training, Education, and Operator Certification Program for 2015 is \$2,171,919, which is a small increase of \$13,720 (0.6%) over the 2014 budget. The allocation of Administrative Services expenses to this Program is \$1,678,797, the allocation of Fixed Assets to this Program is \$100,210, and Fixed Asset additions net of Depreciation are budgeted to increase by \$55,029 over the 2014 budget.

The System Operator Certification Program generates revenues from fees charged for system operator certification examinations and fees charged to continuing education providers, which are intended to recover the costs (including an allocation of indirect expenses) of the Program. The 2015 Budget includes projected revenues from Testing Fees totaling \$1,670,000, which is an increase of \$50,000 (3.1%) from the 2014 budget.

Under NERC's Working Capital and Operating Reserves Policy, a separate Operating Reserve account is established for any revenues realized by the System Operator Certification Program in excess of expenses incurred for the Program, to be used solely for operator training and certification needs as determined by NERC management and the PCGC. NERC has established a target Operating Reserve for this program of \$591,388 at December 31, 2015, and has projected a \$996,430 Operating Reserve balance for the System Operator Certification Program at December 31, 2014. Therefore, for 2014, the System Operator Certification Program will use \$405,042 of Operating Reserves to fund budgeted costs in excess of program funding.

## 8. Administrative Services

The Administrative Services departments support the NERC statutory programs. Administrative Services comprises the following functions: (i) Technical Committees and Members' Forums (which has no budget for 2014); (ii) General and Administrative (which includes senior executive and administration and Board functions); (iii) Legal and Regulatory; (iv) Information Technology; (v) Human Resources, and (vi) Finance and Accounting. Descriptions of the responsibilities of each of the functions included in Administrative Services are provided in the text at pages 66-86 of **Attachment 2**.

The total amount budgeted for expenses and Fixed Assets in Administrative Services for 2015 (before provision for Working Capital and Operating Reserves) is \$27,848,038, which is an increase of \$2,612,565 (10.4%) over the 2014 budget and is reflective of the scope and depth of resources required to effectively support the ERO operations. All Administrative Services expenses and Fixed Asset additions are allocated to the statutory programs on the basis of proportional numbers of budgeted FTEs in the statutory programs.<sup>63</sup> The total budgeted staffing for the Administrative Services departments for 2015 is 67.54 FTEs, which is an increase of 8.40 FTEs over the 2014 budget.

The following paragraphs provide further detail on the 2015 activities and budgets for the individual Administrative Services departments.

**Technical Committees and Members' Forums** – While NERC management and staff will continue to interact with and support numerous reliability-related industry forums during

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<sup>63</sup> NERC has installed enhancements to its accounting system to provide the capability to allocate expenses by major activity code and department utilizing time-keeping information from its workforce management system. Management has been testing and refining the system, activity codes and reports and plans to use the information from this system in 2015 as an input to the development of NERC's 2016 Business Plan and Budget.

2015, including the North American Transmission Forum and the North American Generator Forum, the 2015 budget does not include any specific projected expense or funding for any forum activities.

**General and Administrative** – The General and Administrative function is responsible for administration and general management of NERC. Expenses budgeted in this area include Office Rent; Personnel Expense and related costs of the Chief Executive Officer (CEO), the Chief Reliability Officer, and the CEO’s executive assistant; communications, external affairs and governmental relations; and costs related to the Board. Budgeted staffing for this function for 2015 is 13.13 FTEs, which is an increase of 2.57 FTE over the 2014 budget. The staffing increase is due primarily to reallocations of certain positions to General and Administrative from other departments.

The 2015 budgeted direct expense for General and Administrative is \$8,918,288, which is an increase of \$890,552 (11.1%) over the 2014 budget. The most significant component of this increase is a \$542,288 (21.5%) increase in Personnel Expenses. Budgeted 2015 Meetings Expense is increased by \$80,525 (11.3%) over the 2014 budget, based on 2013 actual costs. Budgeted 2015 Operating Expenses are increased by \$267,739 (5.6%) from the 2014 budget, which reflects an increase of \$370,477 (14.2%) in Office Rent and decreases of \$60,000 (80%) in Consultants & Contracts Expense and \$57,738 (11.5%) in Office Costs. The increase in budgeted Office Rent is due to the proposal to acquire additional space in NERC’s Washington, D.C. office in order to separate the ES-ISAC from other NERC operations, plus a projected decrease in rental income from the subtenant in NERC’s former Washington, D.C. office.<sup>64</sup>

NERC is budgeting a total amount of \$1,479,000 for Board of Trustee costs in 2015,

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<sup>64</sup> Office Rent for all NERC facilities is budgeted in General and Administrative.

comprised of \$244,000 for costs of quarterly Board, Board committee and MRC meetings, \$150,000 for Trustee Travel expense for all their NERC activities (*i.e.*, not just travel in connection with the quarterly Board meetings), and \$1,085,000 for Independent Trustee fees. This total is \$20,000 higher than the 2014 budget of \$1,459,000, with the increase due to a planned increase in Trustee fees of \$85,000 (8.5%) and a net increase of \$5,000 of the costs of quarterly Board meeting and Trustee Travel expense, less a reduction in Trustee search fees from \$70,000 in the 2014 budget to zero in the 2015 budget. The table on page 67 of **Attachment 2** details the budgeted Board expenses.

The General and Administrative budget includes \$131,000 of Other Non-Operating Expenses to cover NERC's property tax obligations in Atlanta, Georgia and Interest expense for 2015 under NERC's capital financing plan, which is discussed in §IV.C below. The 2015 budgeted amount is a decrease of \$13,000 (9.0%) from the 2014 budget, and reflects changed assumptions as to the timing of draws on the capital financing loan.

**Legal and Regulatory** – The Legal and Regulatory function provides legal and regulatory support to the organization, including to Compliance Analysis, Registration and Certification, Reliability Risk Management, RAPA and Standards. In addition, Legal and Regulatory is responsible for providing a wide range of legal support to the organization in corporate, commercial, contractual, employment, insurance, real estate, intellectual property, tax and other legal matters.

The 2015 budget for Legal and Regulatory is \$4,448,015, an increase of \$149,202 (3.5%) over the 2014 budget. Budgeted staffing for 2015 for Legal and Regulatory is decreased slightly from 15.15 FTEs to 15.01 FTEs. Budgeted 2015 Personnel Expense is increased by \$217,130 (6.5%) from the 2014 budget. Budgeted 2015 Travel expense is decreased by \$15,579 (11.3%)

from the 2014 budget based on 2013 actual costs, and budgeted Professional Services expense is reduced by \$60,000 (7.9%).

**Information Technology** – NERC’s IT department is responsible for supporting the development and maintenance of ERO Enterprise applications, data analysis and ongoing operations. The IT’s activities fall into three categories: (1) development (using well-qualified vendors), enhancement, and support of applications that are strategic to the ERO Enterprise but not readily available in a commercially-off-the-shelf solution; (2) ERO data analysis – professional services (vendor support) for implementation and configuration of data analytics; tools (software applications) used to mine data from databases; and support (ongoing upgrades, enhancements, and help desk support); and (3) ongoing operations to support existing software applications, network security testing and planning, website maintenance and development, and development and management of a document management system. Ongoing operations include maintenance and enhancements for the compliance data base (CRATS/webCDMS); maintenance and enhancements for various legacy databases; quarterly penetration and vulnerability testing for all NERC networks and systems; and NERC security program, which is the subject of ongoing enhancements; implementation of a document management system; and continuing enhancements to the NERC public website.

The 2015 budgeted expense for the IT Department is \$8,526,886 which is an increase of \$206,041 (2.4%) over the 2014 budget. The 2015 budgeted staffing for IT is 19.70 FTEs, which is an increase of 1.62 FTEs over the 2014 budget and reflects the transfer of positions from other departments and the addition of a Chief Information Officer in 2014. The 2015 budgeted Personnel Expense is increased by \$574,665 (21.3%) over the 2014 budget. Budgeted 2015

Meetings Expense is decreased by \$17,874 (25.9%) from the 2014 budget, based on 2013 actual costs.

The 2015 budget for Consultants & Contracts for IT is \$1,729,600, which is a decrease of \$214,400 (11.0%) from the 2014 budget. The reduction in this expense category is primarily due to lower budgeted costs for applications enhancements, consulting and help desk support, for which the budgeted Consultants & Contracts Expense is reduced by \$353,700. This reduction is partially offset by the addition to the 2015 budget of \$100,000 of Consultants & Contracts Expense for ERO data analysis (versus zero in the 2014 budget). The 2015 IT budget includes \$2,143,420 for Office Costs, which is a decrease of \$136,350 (4.9%) from the 2014 budget. The Office Costs budget includes \$228,000 for Telephone and Telephone Answering Services expenses, \$375,000 for Internet expenses (\$100,000 increase from the 2014 budget), \$9,000 for Computers expense (expenses for items that are not large enough to be capitalized), \$100,100 for Computer Supplies, \$1,333,320 for Maintenance & Service Agreements (\$206,050 reduction from the 2014 budget), \$88,000 for Software (\$52,500 reduction from the 2014 budget), and \$10,000 for express shipping of computers and computer supplies (\$10,000 increase – not separately budgeted in 2014). Additional description of the costs budgeted in these expense categories is provided at pages 75-77 of **Attachment 2**.

The 2015 IT budget includes a total of \$3,318,500 for Computer & Software Capital Expenditures (\$2,953,500) and Equipment Capital Expenditures (\$365,000), which is an increase of \$846,700 (34.3%) over the 2014 budget. The IT Capital Expenditures budget includes both expenditures for major applications development, implementation and enhancement projects and costs for software, servers, laptops and other hardware to support NERC's daily operations. A more detailed list of 2015 capital expenditures is provided in Exhibit D – Capital Financing of

**Attachment 2**; all of the projects listed in the table on page 129 in Exhibit D are included in the 2015 IT capital expenditures budget, with the exception of the Generation Data Software project which is included in the RAPA budget.

**Human Resources** – HR manages all of NERC’s human resources functions, including new hires, benefits and employee functions, and oversees employee performance appraisals and the incentive structure process. HR’s activities are focused on executive training and development, staff development, use of compensation consultants to provide employment market data, stakeholder surveys including surveys of Board and committee effectiveness, succession planning, and automation of HR products and services.

The 2015 Budget for HR is \$1,158,304, which is an increase of \$53,330 (4.8%) from the 2014 budget. The 2015 budgeted staffing for HR is 2.81 FTEs, which is a slight reduction of 0.07 FTE from the 2014 budget due to the increase in the personnel attrition adjustment factor from 4% to 6%; no additions or deletions of positions is planned. The budgeted Consultants & Contracts expense for HR in 2015 of \$298,275 is \$40,775 (15.8%) higher than the 2014 budget amount, due primarily to the addition of \$48,500 for HR consulting services to support HR’s activities. As shown in Exhibit C of **Attachment 2**, use of consultants and contractors for HR is budgeted in the areas of executive training and development, staff training and development, compensation consulting, stakeholder surveys, succession planning, improvements to employee-facing HR processes, and other HR consulting services.

**Finance and Accounting** – Finance and Accounting manages all of NERC’s finance and accounting functions, including employee payroll, retirement plans, travel and expense reporting, monthly financial reporting, sales and use taxes, meeting/events planning and services, insurance, internal audit, and facilities management. Finance and Accounting has primary

responsibility for development of the annual business plan and budget, and for NERC's internal controls and risk management function.

The 2015 budgeted expense for Finance and Accounting is \$3,096,886, which is an increase of \$479,739 (18.3%) from the 2014 budget. The 2015 budgeted staffing for this function is 16.89 FTEs, which is an increase of 4.41 FTEs from the 2014 budget and reflects the reallocation of several FTEs to this department from other departments and the addition of one new FTE to further strengthen internal control capabilities. As a result of the staffing additions and market increases in medical and dental plan costs (Benefits Expense), budgeted 2015 Personnel Expenses are increased by \$527,491 (28.7%) over the 2014 budget.

The 2015 budgeted expense for Consultants & Contracts of \$339,500 for Finance and Accounting is decreased by \$60,500 (15.1%) from the 2014 budget, primarily due to a reduction in outside auditor and internal controls consulting support, as significant consulting support was used in implementing system and process improvements in 2014. Additionally, the 2015 budgeted expense for Professional Services is increased by \$16,000 (5.7%) over the 2014 budget, primarily for services in the implementation of new systems to improve efficiency and controls in processing expenses.

## **B. Working Capital and Operating Reserves**

NERC's Working Capital and Operating Reserve Policy, adopted by the NERC Board in 2012 and amended in 2013, provides for separation of Working Capital from Operating Reserves, establishes criteria and authorities for funding and access to Working Capital and Operating Reserves and transfers of funds between the reserve accounts, establishes controls and authorities regarding the reallocation of budgeted funds to other uses, establishes controls regarding annual headcount and FTE budgets, and establishes transparent reporting requirements. Exhibit E of **Attachment 2** sets forth and explains the amounts of Working

Capital and Operating Reserves proposed to be budgeted, and reflected in the setting of NERC's assessments, for 2015.<sup>65</sup>

The amounts budgeted for 2015 for each Working Capital and Operating Reserve category are as follows:

Working Capital:     \$3,250,000.

Primarily comprised of funding (\$3,200,000) NERC has collected and is reserving to offset future liabilities in connection with lease agreements for the Atlanta and Washington DC offices. NERC does not anticipate a need to access working capital in 2014 to meet monthly cash flow needs or to satisfy conditions in its credit agreement.

Operating Reserves:   \$3,090,000.

Known Contingencies where timing and amount are uncertain: \$0.

NERC's 2015 expense and fixed asset budget was developed taking known contingencies into consideration.

Unforeseen Contingencies:     \$2,000,000.

Represents contingency for unknowns which were not anticipated at the time of the preparation and approval of the Business Plan and Budget, including significant litigation, compliance with new governmental or regulatory mandates, major system event investigations, etc.

System Operator Certification Program:   \$591,400.

The projected December 31, 2014 reserve balance of the System Operator Certification Program is \$996,430; of this amount, \$405,042 is projected to be used in 2015 to fund budgeted costs of the program that are in excess of projected funding.

CRISP:   \$500,000

Pursuant to the terms of the master services agreement between NERC and the participating utilities, a separate CRISP participant (third party) funded reserve will be established for certain contingencies in connection with CRISP.

Total Desired Working Capital and Operating Reserve:     \$6,300,000.

Based on the beginning Working Capital and Operating Reserve at December 31, 2013, the projected funding and expenditures for 2014, the budgeted funding and expenditures for

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<sup>65</sup> Working Capital Reserves include funds reserved for future liabilities, such as deferred rent obligations.

2015, and the desired Working Capital and Operating Reserve at December 31, 2015, Table B-1 on page 87 of **Attachment 2** shows the calculation of the resulting adjustment (increase) to NERC's 2015 statutory assessment of \$1,094,958. (As shown on Table B-1, there are additional adjustments to the 2015 assessment calculation for (1) anticipated proceeds from financing activities, and (2) debt service, as discussed in the next section.) To the extent NERC's actual year-end 2014 Working Capital and Operating Reserves are higher than projected (as shown on Table B-1), the excess funds will be included in the Working Capital, Unforeseen Contingency Operating Reserve account or System Operator Certification Program account, as applicable, and subject to the limitations and authorities regarding their use set forth in the Working Capital and Operating Reserves Policy.

### **C. Capital Expenditures Financing Plan**

As described in Exhibit D to NERC's 2014 Business Plan and Budget, NERC is financing the development costs of certain software applications and IT hardware and amortizing these investments over a three year period. As described in Exhibit D to **Attachment 2** of this filing, NERC successfully closed its capital financing program on January 10, 2014, establishing a \$7,500,000 revolving line of credit. Consistent with the terms of the loan documentation and the approved 2014 budget, NERC made an initial draw on the revolving line of credit of \$1,265,000 in late January 2014, leaving a balance of \$1,416,000 available for draw in the remainder of 2014, consistent with the approved 2014 budget.

For 2015, NERC's proposed capital expenditures budget for 2015 is \$3,618,000, of which it is proposing to finance \$1,900,000. The capital expenditures in the 2015 budget are listed on page 129 of **Attachment 2** in Exhibit D, and include \$3,253,500 of Computer & Software CapEx and \$365,000 of Equipment CapEx. NERC plans to finance \$1,900,000 of the

Computer & Software CapEx, comprised of expenditures for development of ERO applications (\$1,050,000), ERO data analysis tools (\$550,000), generation data software (the Reliability Assessment Data System project) (\$200,000), and other computer hardware (\$100,000). The remaining Computer & Software CapEx is comprised of \$1,353,500 for IT hardware and software including hardware and software for disaster recovery (\$250,000), data storage (\$425,000), replacement servers (\$202,000), software licenses (\$350,500), and replacement laptops (\$126,000). The \$365,000 of Equipment CapEx is for replacement network devices.

The table included in Exhibit D (page 130) of **Attachment 2** shows the projected principal and interest repayment schedule for the amounts of capital expenditures financed to date and the additional \$1,900,000 of capital financing planned for 2015.<sup>66</sup> The 2015 financing plan assumes an average interest rate of 3.5%, as was used in the 2014 budget. Although the initial capital financing in 2014 was obtained at an interest rate lower than 3.5%, NERC believes that a 3.5% interest rate should again be used in 2015 for budgeting purposes in light of the prospects for interest rate increases in 2015.<sup>67</sup> The actual interest rate and interest rate expense will be reflected in the quarterly budget-to-actual variance reports that NERC posts on its website, reviews in open session with the NERC FAC and provides to the applicable governmental authorities. Any savings in interest expense compared to the budgeted expense will be captured and reported as a contribution to NERC's operating reserves, the expenditures of which are subject to the terms of its Working Capital and Operating Reserve Policy.

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<sup>66</sup> The amount financed to date totals \$2,681,000 and consists of Tranche A, \$1,265,000 (the initial draw from the line of credit in January 2014) and Tranche B, \$1,416,000 (financing executed in the remainder of 2014). The 2015 capital financing of \$1,900,000 (Tranche C) will bring the total amount financed through 2015 to \$4,581,000.

<sup>67</sup> Any difference between actual and budgeted interest expense for draws under NERC's credit facility becomes an addition to NERC's Unforeseen Contingency Operating Reserve Balance.

**D. Proposal to Use Penalty Payments Received on July 9, 2014**

The NERC policy, *Accounting, Financial Statement and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards*, and §1107.2 of the NERC ROP specify that Penalty payments received by NERC or a Regional Entity during the period from July 1 of the second year preceding the budget year through June 30 of the year preceding the budget year are used to offset assessments to LSEs in the U.S. for the budget year, unless an alternative treatment is approved by FERC. However, on July 9, 2014, NERC received a significant Penalty payment of \$1,000,000 (*see* Table B-2, Penalties, in **Attachment 2**). Pursuant to and as required by §1107.4 of the ROP, NERC has requested FERC's approval to apply the \$1,000,000 Penalty payment received on July 9, 2014, to reduce 2015 assessments. This proposal is based on: (1) the increase in NERC's 2015 budget over the 2014 budget of \$1,315,623 (this number excludes the budget increase for CRISP that will be supported by Third-Party Funding), (2) the decrease in Penalty funding in the 2015 budget of \$135,000 from the 2014 budget that would otherwise occur, (3) the net decrease in other funding sources (Testing Fees, Services & Software, Workshops and Interest) in the 2015 budget of \$79,700 from the 2014 budget, (4) the need to increase the 2015 assessment by \$1,000,000 to maintain an appropriate Working Capital and Operating Reserve level (excluding the Working Capital Reserve for the System Operator Certification Program), in contrast to a downward adjustment to the assessment of approximately \$1.22 million in 2014 for this purpose, and (5) the fact that the \$1,000,000 Penalty payment was received shortly after June 30, 2014.

The proposed inclusion of the July 9, 2014 Penalty payment in the 2015 budget will help to dampen the increase in the 2015 assessment that would otherwise occur. With the use of the July 9, 2014 Penalty payment as Penalty funding in the 2015 budget, the 2015 assessment will be

higher than the 2014 assessment by \$3,906,993 (7.6%). If the July 9, 2014 Penalty payment is not used as Penalty funding in the 2015 budget, the 2015 assessment will be higher than the 2014 assessment by \$4,906,993 (9.5%). Stakeholders have commented in this year and previous years that NERC should consider ways to dampen the fluctuations in assessment amounts from year-to-year, such as through management of Penalty revenues, in order to provide more predictability for LSEs in forecasting and budgeting for their assessment expense. The proposed use of the July 9, 2014 Penalty payment as Penalty funding in the 2015 budget would be consistent with this objective.

## **V. REGIONAL ENTITY BUSINESS PLANS AND BUDGETS**

### **A. Consistency Among Regional Entity Budgets**

In developing the 2015 Regional Entity Business Plans and Budgets, NERC and the Regional Entities continued the substantial efforts they devoted to achieving consistency of format and presentation of information in the 2008, 2009, 2010, 2011, 2012, 2013 and 2014 Business Plans and Budgets. NERC and the Regional Entities: (i) used a common and consistent format for the 2015 Business Plan and Budget documents, (ii) continued to use the consistent accounting methodologies that were developed in connection with the 2010 Business Plans and Budgets, (iii) continued to use the common definition of administrative (indirect) costs that was originally developed in connection with the 2010 Business Plans and Budgets, and (iv) again developed and used extensive Shared Business Plan and Budget Assumptions for their 2015 Business Plans and Budgets. The Shared Business Plan and Budget Assumptions are provided in Exhibit A to the NERC 2015 Business Plan and Budget (**Attachment 2**) and are cross-referenced

in the Regional Entity Business Plans and Budgets.<sup>68</sup>

In preparing their 2014 Business Plans and Budgets, the Regional Entities developed and applied adjustments to Personnel Expenses for labor “float” or “attrition.” Use of this factor was intended to reflect the fact that, historically, the Regional Entities (and NERC) have often been unable to achieve or maintain budgeted staffing levels throughout the year due to (i) unanticipated departures of individual employees (*e.g.*, employees leave to take positions with other employers), and (ii) inability to fill budgeted positions within the time periods anticipated in preparing the budget (*e.g.*, it is assumed that a new position can be filled by the start of the second quarter but in fact it is not filled until the start of the third quarter). As a result, actual Personnel Expenses have often been less than budgeted. To recognize this experience in their 2014 Budgets, the Regional Entities applied labor float factors to either or both their budgeted staffing numbers (FTEs) or their budgeted Personnel Expenses. Each Regional Entity developed its own labor float or labor attrition factor based on its experience. In the preparation of the 2015 Business Plans and Budgets, however, some Regional Entities have elected not to use a labor float factor adjustment, while other Regional Entities have continued to apply this adjustment. The 2015 Business Plans and Budgets of the Regional Entities that have continued to use a labor float adjustment for 2015 discuss the specific adjustment that each Regional Entity used.

As discussed in NERC’s 2014 Business Plan and Budget filing and the Regional Entity 2014 Business Plans and Budgets, the Regional Entities have jointly retained a coordinator, employed by SERC, to manage joint Regional Entity projects, including development of common IT applications that are being conducted under the auspices of the Regional Entity

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<sup>68</sup> The Shared Business Plan and Budget Assumptions have been developed for the 2015-2017 period, and therefore are applicable to the NERC and Regional Entity 2016 and 2017 budget projections as well as to their 2015 Business Plans and Budgets.

Management Group. The development and implementation of common IT applications and other processes on a joint basis among the Regional Entities results in (i) lower costs for each Regional Entity and (ii) adoption of systems and processes that are consistent across the Regions, to the benefit of stakeholders, particularly stakeholders operating in multiple Regions. Each Regional Entity's 2015 Budget includes an expense for the Regional Entity's share of the costs for the coordinator position, which are paid to SERC.

Achieving and maintaining consistency among the Regional Entity business plans and budgets is an ongoing process, and NERC intends to continue to work collaboratively with the Regional Entities to maintain and enhance consistency in the presentation of the NERC and Regional Entity business plans and budgets in the future.

The Regional Entity Business Plans and Budgets follow a similar format to that used for the NERC Business Plan and Budget. Each Regional Entity Business Plan and Budget begins with an Introduction section that presents a table showing the Regional Entity's budgeted Total Resources for 2015, including statutory and (where applicable) non-statutory FTEs and expenses; the proposed increases or decreases in statutory and non-statutory Fixed Assets and Working Capital Requirement; the total statutory and non-statutory Funding Requirement; and the proposed Assessments to recover the Regional Entity's statutory Funding Requirement, allocated (where applicable) among the U.S., Canadian provinces and Mexico.<sup>69</sup> The Introduction also provides general information on the Regional Entity, including information on its organization, membership and governance; provides the Regional Entity's key assumptions and its goals and key deliverables for 2015; and provides an overview of the primary cost

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<sup>69</sup> Information on non-statutory FTEs, expenses, and funding is, of course, only provided in the business plans and budgets of the Regional Entities that have non-statutory activities – FRCC, NPCC, SPP, Texas RE and WECC.

impacts to the Regional Entity's 2015 budget. The Introduction section includes a table showing the Regional Entity's 2014 budget, 2014 projection, 2015 budget, and variance between the 2014 budget and 2015 budget, for each of the statutory programs. It also contains a chart comparing the Regional Entity's 2014 to 2015 budgeted expenses by statutory program; and a table showing the Regional Entity's FTEs, by statutory program and administrative department, for its 2014 budget, 2014 projection, and 2015 budget. Finally, the Introduction section includes the Regional Entity's overall statutory Statement of Activities, with information presented for its 2014 budget, 2014 projection, variance between its 2014 budget and 2014 projection, 2015 budget, and variance between its 2015 budget and 2014 budget.

The Regional Entity Business Plans and Budgets next contain, in Section A – Statutory Programs, separate subsections on each statutory program and administrative department or function of the Regional Entity. These sections are presented in similar format to the NERC Business Plan (Section A of **Attachment 2**), including: (i) a table for each statutory program and administrative function showing total FTEs, total Direct Expenses, total Indirect Expenses, increase or decrease in Fixed Assets, and total Funding Requirement, for the 2014 budget and 2015 budget and the Increase/(Decrease), and (ii) a Statement of Activities for the statutory program or administrative function showing Funding, Expenses and Fixed Asset activity by major line item categories, Total Budget and Total Change in Working Capital. Information is presented in each of the Statements of Activities for the 2014 budget, the 2014 projection and the 2014 budget, and the variances between the 2014 budget and 2014 projection and between the 2015 budget and 2014 budget.<sup>70</sup> The text of these sections for each statutory program includes

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<sup>70</sup> The Statement of Activities for each Regional Entity's General and Administrative function shows its proposed adjustment, if any, to its 2015 statutory assessment to provide for Working Capital Reserve as a Funding Requirement (positive or negative) for the General and Administrative function. All Expenses

discussion of the program scope and functional description, 2015 key assumptions, goals and key deliverables for 2015, and reasons for increases or decreases in funding sources and costs in 2015, for the program.

Section B of each Regional Entity Business Plan and Budget presents supplemental financial information supporting the 2015 statutory budget. Section B contains tables detailing the development of the adjustment to the Regional Entity's 2015 assessment to achieve its desired Working Capital Reserve at December 31, 2015 (Table B-1); Penalty payments received in the 12 months ended June 30, 2014, to be used as an offset to the Regional Entity's funding requirement (Table B-2); Supplemental Funding (*e.g.*, Workshop fees and Interest income) (Table B-3); Personnel Expenses (Table B-4); Consultants & Contracts expense (Table B-5); Office Rent (Table B-6); Office Costs (Table B-7); Professional Services expense (Table B-8); and Other Non-Operating Expenses (Table B-9). Tables B-3 through B-9 are followed, where applicable, by explanations of significant variances between the Regional Entity's 2014 and 2015 Budgets for the funding or cost category. Finally, Table B-10 provides the Regional Entity's statutory budget projections for 2016 and 2017 (along with, for comparison, its 2014 and 2015 budgets), in Statement of Activities format.<sup>71</sup>

Section C – Non-Statutory Activities of each Regional Entity Business Plan and Budget provides (where applicable) information on the Regional Entity's non-statutory activities for

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and Fixed Asset activity for the administrative programs are allocated to, and included in the Funding Requirements for, the statutory programs; therefore, no other Funding Requirement is shown for any of the Regional Entity's administrative functions.

<sup>71</sup> MRO has included its budget projections for 2016 and 2017 in Section D of its 2015 Business Plan and Budget, and WECC has included its budget projections for 2016 and 2017 in Appendix B to its 2015 Business Plan and Budget, rather than in Table B-10 of Section B.

2015, including program descriptions and objectives, budget information, and FTEs.<sup>72</sup>

Following Section C, each Regional Entity Business Plan and Budget also provides, in Section D – Additional Consolidated Financial Statements, or in separate appendices: (1) a 2015 Consolidated Statement of Activities, Fixed Asset Expenditures and Changes in Working Capital showing the Regional Entity’s 2015 budgeted line-item funding sources, expenses, and Fixed Asset activity, in total, by statutory and (if applicable) non-statutory, and by statutory program and Administrative Services department, as well as the Direct Expenses and Indirect Expenses for each statutory program; (2) a combined (statutory and, where applicable, non-statutory) Statement of Financial Position at (i) December 31, 2013, based on 2013 actual audited results;<sup>73</sup> (ii) December 31, 2014, based on the Regional Entity’s 2014 projection; and (iii) December 31, 2015, based on the Regional Entity’s 2015 budget; and (3) the Regional Entity’s organization chart, showing staffing comparisons for 2015 versus 2014.

## **B. Discussion of Individual Regional Entity 2015 Business Plan and Budget**

This section summarizes highlights of the individual Regional Entity 2014 Business Plan and Budget.

### **1. WECC**

WECC’s 2015 total statutory budget is \$26,300,035 before provision for Working Capital, an increase of \$661,950 (2.6%) from its 2014 budget. WECC’s 2015 statutory assessment is increased by \$9,401,283 (60.1%) over its 2014 assessment. The principal reasons

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<sup>72</sup> MRO, RF and SERC do not plan to have, and have not budgeted for, any non-statutory activities in 2014. SPP RE is unable to provide a non-statutory budget for 2015 because its planning and budgeting cycle does not result in finalization and SPP Board approval of the overall SPP, Inc. budget until October. SPP RE has included the overall SPP, Inc. 2014 budget and 2013 actual income statement, for information.

<sup>73</sup> The audited financial statements of each Regional Entity for 2013 were filed on July 10, 2014, in NERC’s *2013 Budget True-up Report*.

for the increase in the assessment amount are (i) the increased budget, (ii) a decrease of \$2,790,050 in Penalty funds (from \$2,933,050 in the 2014 budget to \$143,000 in the 2015 budget), (iii) a decrease of \$3,628,308 in Federal Grant funds, due to the completion of the federal grant programs that WECC has participated in for several years, and (iv) no adjustment to the assessment for Working Capital Reserve, as compared to a \$2,418,946 decremental adjustment to the assessment in the 2014 budget. These impacts are slightly offset by an increase in budgeted Workshop fees of \$97,971. WECC received \$3,520,000 in Penalty payments in the period from July 1, 2013 to June 30, 2014. However, pursuant to §1107.4 of the NERC ROP, WECC is requesting approval to deviate from the treatment of Penalty payments specified in ROP §1107.2 and in the NERC policy *Accounting, Financial Statement and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards*, in order to apply or reserve a total of \$3,400,000 of this amount, collected from U.S. registered entities, to offset penalties imposed on WECC's registered Reliability Coordinator and Interchange Authority functions, in order to ensure that only U.S. registered entities contribute to the payment of WECC registered function penalties paid to NERC and/or FERC under FPA §215.<sup>74</sup>

WECC's budgeted total staffing for statutory and administrative programs for 2015 is 137.5 FTEs, which is an increase of 2.5 FTEs from the budgeted 2014 staffing. The budgeted 2015 staffing is comprised of 92.6 FTEs (increase of 4.5 FTEs) in statutory programs and 44.9 FTEs (decrease of 2.0 FTEs) in Administrative programs. WECC is budgeting an increase in staffing of 1.1 FTEs for its Training and Education Program, 7.2 FTEs for its RAPA Program,

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<sup>74</sup> Effective January 1, 2014, Peak, rather than WECC, is responsible for performing the RC and IA functions in the Western Interconnection.

0.7 FTEs for Situation Awareness and Infrastructure Security, 5.7 FTEs for General & Administrative, 1.0 FTE for IT, and 0.3 FTE for Finance and Accounting. WECC is budgeting decreased staffing of 4.5 FTEs for its CMEP and 9.0 FTEs for Technical Committees and Member Forums. No changes in budgeted staffing levels are proposed for the remaining statutory and administrative programs.

WECC's 2015 budgeted Personnel Expense is higher by \$1,504,580 (10.0%) compared to its 2014 budget. This increase is primarily due to (i) the increased staffing; (ii) a reduction in the labor float adjustment factor from 15% used in the 2014 budget to a range of zero to 10%, depending on the department, and averaging 8%; and (iii) the elimination from the budget of \$175,000 for severance and retention expense. Other components of the 2015 budget reflecting significant changes from the 2014 budget are: (i) Meetings and Travel Expense, reduced by \$160,544 (6.5%); (ii) Consultants & Contracts Expense, reduced by \$2,264,082 (51.6%); (iii) Office Costs, increased by \$222,157 (15.8%); and (iv) Professional Services, increased by \$229,594 (30.3%). Budgeted 2015 Consultants & Contracts expense is decreasing by \$2,036,000 from the 2014 budget, due primarily to completion of the U.S. Department of Energy Regional Transmission Expansion Program grant and the completion of one-time 2014 projects (both of these decreases are reflected in the budget for the RAPA Program), offset in part by the transfer of some Consultants & Contracts costs from Technical Committees and Member Forums to the RAPA Program. Budgeted 2015 Office Costs are increased from the 2014 budget due primarily to increased costs for office supplies (based on actual experience) and computer supplies and maintenance. Budgeted 2015 Professional Services Expense is increased from the 2014 budget due primarily to a change in WECC's fee structure for its independent directors.

WECC's 2015 budget for its CMEP is \$13,178,512, which represents a \$1,584,836 (10.7%) decrease from its 2014 budget. The primary components of this decrease are a reduction of \$600,890 (40.9%) in budgeted Meeting and Travel Expenses, and a reduction of \$1,011,977 in allocated Indirect Expenses due to the reduced number of FTEs in the CMEP relative to the other statutory programs. A primary reason for the reduction in Meetings and Travel Expenses for the CMEP is that the stakeholder outreach function is being shifted to the Training and Education Program. Budgeted 2015 Meetings and Travel Expenses in Training and Education are increased from \$64,680 in the 2014 budget to \$450,220 in the 2015 budget.

The budgeted changes in total costs for each of the other four statutory programs from the 2014 Budget are as follows: (i) Reliability Standards, increase of \$3,817 (0.4%); (ii) RAPA, increase of \$1,247,940 (13.8%); (iii) Training, Education and Operator Certification, increase of \$808,440 (117.3%); and (iv) Situation Awareness and Infrastructure Security, increase of \$186,593 (172.1%). For each of the latter three programs, the allocated Indirect Expenses increases over the 2014 Budget because the budgeted staffing in these three programs is increasing while the budgeted staffing in the CMEP is decreasing. Additionally, in RAPA, the increased budgeted staffing of 7.2 FTEs is reflected in an increase in budgeted Personnel Expenses of \$1,363,502. The increase in budgeted staffing for RAPA is due primarily to the transfer of nine positions to this program from Technical Committees and Member Forums. The increased 2015 budget for Training, Education and Operator Certification reflects, as noted, the transfer of the compliance outreach and stakeholder relations functions to this program, which is more consistent with the placement of these functions in other Regional Entity organizations.

WECC's budgeted 2015 Administrative Services expenses are reduced by \$446,193 (4.4%) from its 2014 budget. Although overall budgeted staffing for Administrative Services is

decreased by 2.0 FTEs from the 2014 budget, staffing is increased in General & Administrative by 5.7 FTEs, due primarily to the transfer of six positions from Compliance Program Administration to more closely align with the scope of work performed by these positions. The budgeted 2015 expenses for Technical Committees and Member Forums are reduced by \$1,124,082 (50%) from the 2014 budget due primarily to the transfer of personnel and certain Meetings expense to the RAPA Program. Budgeted 2015 Office Costs are increased over the 2014 budget by \$173,499 in General & Administrative, due primarily to the transfer of some license and maintenance fees from Compliance; by \$94,117 in IT due to scheduled refreshes of laptop and desktop computers and fees for moving WECC's mail server to a cloud-hosted service; and by \$59,257 in Finance and Accounting due to the State of Washington Business and Occupation Tax that WECC is now subject to with respect to Washington source income. Budgeted 2015 Consultants & Contracts Expense in HR is reduced by \$125,000 from the 2014 budget due to the completion of a compensation and benefits survey in 2014.

WECC's target Working Capital Reserve at December 31, 2015 is \$2,662,817, which is equal to WECC's projected Working Capital reserve at December 31, 2014.<sup>75</sup> At December 31, 2013, WECC's Working Capital reserve balance was \$5,416,545. In connection with the formation and commencement of operations of Peak effective January 1, 2014, WECC converted \$5,874,245 of non-statutory reserves to statutory reserves and transferred \$5,811,568 of reserves to Peak. Additionally, in its 2014 Business Plan and Budget, WECC used \$2,418,946 of its Working Capital reserves to offset the impacts on its 2014 assessment amount due to the formation of Peak. WECC is not proposing any adjustment (upward or downward) to its 2015

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<sup>75</sup> The WECC Board previously approved a Working Capital Reserve balance objective of one month of Personnel and Operating Expenses.

assessment amount in respect of Working Capital Reserve, in order to maintain the projected December 31, 2014 Working Capital Reserve balance of \$2,662,817, as shown on WECC's Table B-1, through 2015.

WECC's non-statutory budget for 2015 is \$1,660,634, and its total non-statutory Funding requirement is \$1,630,875. WECC's non-statutory activity is the maintenance and operation of the Western Renewable Energy Generation Information System.

WECC's allocation of its assessment to the AESO for the Province of Alberta has been reduced by \$880,629, representing WECC CMEP costs (including allocated Indirect Costs and Fixed Asset Expenditures) that are considered duplicative of Compliance and Enforcement Programs of the AESO. The AESO credit amount is allocated to the remainder of the LSEs (Balancing Authorities) in the WECC Region on the basis of NEL. Appendix C to the 2015 WECC Business Plan and Budget (**Attachment 3**) shows the calculation of the \$880,629 adjustment to the assessment to AESO.

### **C. Metrics Related to Regional Entity Budgets**

Beginning with its 2008 Business Plan and Budget filing, NERC has included, as part of these annual filings, attachments providing and discussing metrics developed by NERC and the Regional Entities to be used as a further aid to understanding where and why differences exist among the Regional Entities' activities and budgets. The presentations in these attachments have been revised and expanded over time based on NERC's and the Regional Entities' analysis of appropriate and useful metrics, and directives in FERC's Orders.<sup>76</sup> In Attachments in each of the 2010, 2011, 2012 and 2013 Business Plan and Budget filings and Attachments in its 2014

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<sup>76</sup> See, e.g., 2008 Budget Order at PP 34-35; 2009 Budget Order at PP 47-48; *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 123 FERC ¶ 61,282 (2008), at P 39; 2012 Budget Order at PP 23-27.

Business Plan and Budget filing, NERC provided two sets of metrics information. The metrics in the first of the listed attachments to these filings depicted and compared the Regional Entities' total statutory budgets and staffing, CMEP budgets and staffing, total statutory budget and CMEP budget dollars per registered entity and per registered function, registered entities and registered functions per statutory FTE and per CMEP FTE, numbers of "small," medium" and "large" non-CIP compliance audits and "small" and "large" CIP compliance audits, and cost per compliance audit by type and size of audit. The metrics in the second of the two attachments to these filings focused on the NERC and Regional Entity administrative (indirect) costs and staffing relative to total and direct program costs and staffing, including

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

**Attachment 9** and **Attachment 10** of this 2015 Business Plan and Budget filing provide the same metrics information, in the same format, as presented in the Attachments in the 2010, 2011, 2012 and 2013 Business Plan and Budget filings and the Attachments in the 2014 Business Plan and Budget filing, from NERC's and the Regional Entities' 2015 Business Plans and Budgets. Each Attachment contains analysis and discussion of the metrics information presented in that Attachment.

#### **D. Peak Reliability Business Plan and Budget**

In accordance with the process followed for its 2014 Business Plan and Budget, Peak submitted its proposed 2015 Business Plan and Budget to NERC for inclusion in this Business Plan and Budget filing. As was the case with Peak's 2014 Business Plan and Budget, NERC has

not participated in the development of Peak's 2015 Business Plan and Budget, or substantively reviewed and approved Peak's Business Plan and Budget in the same manner that NERC does for Regional Entity business plans and budgets.<sup>77</sup> NERC management has, however, reviewed Peak's 2015 Business Plan and Budget for consistency of presentation and format with Regional Entity business plans and budgets. The following paragraphs provide a brief summary of Peak's proposed 2015 Business Plan and Budget, which is **Attachment 4** to this filing.

Peak has presented its Business Plan and Budget in the same format as the Regional Entity business plans and budgets. However, Peak has only one direct function program, which Peak has labeled (as was done in 2014) the Situation Awareness and Infrastructure Security Program. Peak performs RC and IA registered functions in the WECC Region through this program. Peak has also organized its Administrative Services functions under the same program categories used by NERC and the Regional Entities: Technical Committees and Member Forums, General and Administrative, Legal and Regulatory, IT, HR, and Finance and Accounting.

Peak's proposed budget for 2015, before provision for Working Capital, is \$38,926,722, which is an increase of \$5,968,073 (18.1%) over its 2014 budget. Peak's proposed statutory assessment for 2015 is \$41,953,236, which is an increase of 12,385,205 (41.9%) over Peak's total 2014 assessment. Peak's only other budgeted source of funding, besides the assessment, is Interest Income of \$78,000.

Peak's total proposed staffing for 2015 is 161.67 FTEs, comprised of 134.67 FTEs in the

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<sup>77</sup> In the 2014 Business Plan and Budget filing, Peak was referred to as the Reliability Coordination Company. At NERC's August 14, 2014 Board meeting, no review or action was taken regarding the Peak 2015 Business Plan and Budget. The chair of the FAC explained that it is NERC's position that review of a Registered Entity business plan and budget would not be appropriate given NERC's role as the ERO and that NERC would simply pass the Peak Business Plan and Budget to the applicable governmental authorities for review.

Situation Awareness and Infrastructure Security Program and 27.0 FTEs in Administrative Services. The budgeted staffing for 2015 represents an increase of 15.57 FTEs in the Situation Awareness and Infrastructure Security Program, and a decrease of 3.0 FTEs in Administrative Services, from the 2014 budget. The increase in budgeted FTEs represents the addition of 14 positions. Peak states that the new positions are being added as the result of the recommendations of the Reliability Coordination Task Force, which was appointed by the WECC Board, to enhance Peak's ability to carry out its functions in the Western Interconnection. The new positions will be focused primarily on the areas of operations planning and real-time operations, including monitoring and analyzing real-time system conditions, coordinating system restoration activities, responding to and mitigating potential adverse impacts to the BES, and identifying and directing corrective and mitigating actions for System Operating Limit and Interconnection Reliability Operating Limit exceedances.

Peak's budgeted 2015 staffing for its Administrative Services programs is as follows: General and Administrative, 13.0 FTEs; Legal and Regulatory, 3.0 FTEs; IT, 3.0 FTEs; HR, 3.0 FTEs; and Finance and Accounting, 5.0 FTEs. Peak is increasing staffing in General & Administrative by 1.00 FTE and is decreasing staffing in Legal and Regulatory by 4.00 FTEs, from the 2014 budget.

Peak's total budgeted Personnel Expenses for 2015 are \$24,072,756, which is an increase of \$4,675,347 (19.4%) from the 2014 budget. In Peak's 2014 Business Plan and Budget, a 15% labor float adjustment factor was used; based on experience, in its 2015 budget, Peak has applied a 7% labor float adjustment factor. In addition to the increased staffing of 15.57 FTEs, the significantly reduced labor float adjustment is a significant factor in the increased Personnel Expenses. Peak is also budgeting \$906,600 in Consultants & Contracts Expense, which is a

\$360,900 (28.5%) decrease from the 2014 budget. The principal reason for the decrease in Consultants & Contracts Expense is the completion of activities associated with the review of the September 8, 2011 Pacific Southwest outage event. Peak's budgeted total Operating Expenses (which include Consultants & Contracts Expense) are increasing by \$1,569,836 (13.5%) over the 2014 budget. Budgeted Office Rent is increasing primarily due to the acquisition of additional space in Peak's Loveland, Colorado facility; budgeted Office Costs are increasing primarily due to increases in telephone and Internet expenses and to the fact that Peak's funding is now subject to State of Washington Business & Occupation Tax;<sup>78</sup> budgeted Professional Services Expense is increasing due to the reduction in FTEs in the Legal and Regulatory department; and Depreciation Expense is increasing, reflecting a full year of depreciation on assets purchased during 2014. Peak has budgeted \$2,886,000 in Fixed Asset additions (before Depreciation Expense), with the most significant component being increased Computer & Software CapEx primarily for information technology required to comply with the CIP Version 5 Reliability Standards, corporate monitoring equipment, and normal hardware replacements.

Peak's target Working Capital Reserve at December 31, 2015 is \$3,230,000, representing approximately one month of operating costs. Although Peak began its separate operations in 2014 with \$5,811,568 of reserves transferred from WECC, \$3,234,617 of the initial reserves was used to reduce Peak's 2014 assessment. As the result of the use of reserves to reduce assessments for 2014 and Peak's projected 2014 expenses and capital expenditures being higher than budgeted, Peak's projected Working Capital Reserve at December 31, 2014 is \$125,485. Peak states that in order to rebuild its Working Capital Reserve balance to a prudent level, it is proposing an incremental adjustment (increase) of \$3,104,515 to its 2015 assessment amount.

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<sup>78</sup> WECC is also subject to this tax on its Washington-sourced income.

On July 23, 2014, NERC filed with FERC a petition requesting authority for a special assessment for Peak, due to the fact that the portion of Peak's approved 2014 assessment allocated to the AESO and British Columbia Hydro & Power Authority (BC Hydro) had not been paid.<sup>79</sup> Although NERC understands that discussions between Peak and the AESO and Peak and BC Hydro on this matter are continuing, as of the date of this filing, no agreement has been reached as to any assessment or compensation amount that the AESO or BC Hydro would pay to Peak in respect of either 2014 or 2015. As a result, in this filing, Peak's entire proposed 2015 assessment amount of \$41,953,236 is being allocated to LSEs and designees in the U.S. and Mexico portions of WECC.<sup>80</sup> If Peak ultimately receives assessment funding or other compensation from either or both of the AESO or BC Hydro in respect of either 2014 or 2015, NERC anticipates that Peak will initiate appropriate steps to reduce assessments prospectively to the LSEs in the U.S. and Mexico portions of WECC, in recognition of the compensation received from the Canadian entities.

## **VI. STATUS REPORT ON PROGRESS IN PROCESSING ALLEGED VIOLATIONS OF RELIABILITY STANDARDS**

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In its 2010, 2011, 2012, 2013 and 2014 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

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<sup>79</sup> *Petition of the North American Electric Reliability Corporation for Approval of a Supplemental Assessment to Fund the 2014 Budget of Peak Reliability, Inc.*, filed July 23, 2014, Docket No. RR13-9-003. Notice of this filing was filed with the National Energy Board, the British Columbia Utilities Commission and the Alberta Electric System Operator on August 22, 2014.

<sup>80</sup> Tables showing the calculation of the Peak assessments by LSE are provided at the end of **Attachment 4**.

completion.<sup>81</sup> The status reports have also described the initiatives being undertaken by NERC and the Regional Entities to process new allegations of violations in a more expeditious manner.

Following the approach used in its 2013 and 2014 Business Plan and Budget filings, NERC has incorporated the status report on violations processing into the Compliance Enforcement section of its Business Plan and Budget, at pages 19-21 of **Attachment 2**. The information presented shows that NERC and the Regional Entities have made steady progress in continuing to close out older violations. As of June 30, 2014, there were only 273 active violations discovered prior to January 1, 2013 that had not been processed and resolved.<sup>82</sup> 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. As of June 30, 2014, there were 1,453 instances of noncompliance in the ERO Enterprise inventory available for processing. During the 12 months ended June 30, 2014, 2,025 instances of noncompliance were filed, dismissed or posted.

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<sup>81</sup> A status report on processing alleged violations was originally included in the 2010 Business Plan and Budget filing, in response to a FERC directive in the *July 16, 2009 Budget Compliance Order*, at P 18. The status reports were an Attachment to the 2010 Business Plan and Budget filing, an Attachment to the 2011 Business Plan and Budget filing, and an Attachment to the 2012 Business Plan and Budget filing. In the 2013 and 2014 Business Plan and Budget filings, the status reports were incorporated into the Compliance Enforcement section of NERC's Business Plan and Budget.

<sup>82</sup> The number of "active violations" excludes violations that are being held by an appeal, a regulator or a court.

Respectfully submitted,

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## **ATTACHMENTS 1 – 10**

Available on the NERC Website:

[http://www.nerc.com/FilingsOrders/ca/Canadian%20Filings%20and%20Orders%20DL/Attachments\\_2015budget\\_WECC\\_filing.pdf](http://www.nerc.com/FilingsOrders/ca/Canadian%20Filings%20and%20Orders%20DL/Attachments_2015budget_WECC_filing.pdf)