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ATTACHMENTS

Attachment 1: Summary tables showing NERC’s proposed 2013 budget; the proposed 2013 budget for statutory activities of each Regional Entity; and the 2013 U.S. ERO statutory assessments of NERC and the Regional Entities.

Attachment 2: NERC’s Proposed 2013 Business Plan and Budget

Attachment 3: Midwest Reliability Organization Proposed 2013 Business Plan and Budget

Attachment 4: Discussion of Comments Received During Development of NERC’s 2013 Business Plan and Budget.

Attachment 5: Calculation of Adjustments to the AESO 2013 NERC Assessment, the IESO 2013 NERC Assessment, the NBSO 2013 Assessment and the Québec 2013 NERC Assessment.

Attachment 6: Status Report on the Achievement of NERC’s 2012 Goals

Attachment 7: Metrics Comparing Regional Entity Operations Based on the 2013 Budgets

Attachment 8: Metrics on NERC and Regional Entity Administrative (Indirect) Costs Based on the 2012 and 2013 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, 2013;
- (2) the proposed Business Plan and Budget for the year ending December 31, 2013, for Midwest Reliability Organization (MRO); and
- (3) NERC's proposed allocation of the proposed ERO statutory assessment of NERC, the Regional Entities 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 2013 budget by program, (ii) the proposed 2013 budget for statutory activities of each Regional Entity, and (iii) the aggregate ERO statutory assessment of NERC and the Regional Entities allocated to the U.S., for which approval is requested.

Attachment 2 contains NERC's detailed 2013 Business Plan and Budget and the allocation of assessments by Region and LSE to recover the resulting statutory funding requirements for 2013 (as well as the assessments to recover the statutory funding requirements of the Regional Entities and WIRAB).

Attachment 3 contains the detailed 2013 Business Plan and Budget of MRO.

Attachment 4 contains a discussion of how comments submitted by interested entities on posted drafts of NERC's 2013 Business Plan and Budget during the budgeting process were addressed in developing the final 2013 Business Plan and Budget.

Attachment 5 contains the calculation of the adjustment to the Alberta Electric System Operator (AESO) 2013 NERC assessment, the adjustment to the Ontario Independent Electric System Operator (IESO) 2013 NERC assessment, the adjustment to the New Brunswick System Operator (NBSO) 2013 NERC assessment, and the adjustment to the Québec 2013 NERC assessment, for credits for certain NERC Compliance Program, Event Analysis and Investigations and Situation Awareness Program costs.

Attachment 6 is a status report on progress in achieving NERC's 2012 goals.

Attachment 7 provides metrics, based on the 2013 budgets, comparing Regional Entity operations.

Attachment 8 contains metrics, based on the 2012 and 2013 budgets, on NERC and Regional Entity administrative (indirect) costs.

NERC is filing its proposed entire annual budget for statutory and non-statutory activities before the beginning of the ERO's fiscal year. NERC's 2013 fiscal year will begin January 1, 2013. The filing also contains the entire annual budget of the relevant Regional Entity for statutory and non-statutory activities and includes supporting materials, including the ERO's and the relevant 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 with respect to this filing may be addressed to:

Gerald W. Cauley
President and Chief Executive Officer
Michael Walker
Senior Vice President and Chief
Financial and Administrative Officer
North American Electric Reliability
Corporation
3353 Peachtree Road
Suite 600, North Tower
Atlanta, GA 30326
(404) 446-2560
(609) 467-0474 – facsimile

Charles A. Berardesco
Senior Vice President and General Counsel
Rebecca J. Michael
Associate General Counsel for Corporate
and Regulatory Matters
North American Electric Reliability Corporation
1325 G Street, N.W., Suite 600
Washington, D.C. 20005
(202) 400-3000
(202) 644-8099 – facsimile
Charles.berardesco@nerc.net
rebecca.michael@nerc.net

III. OVERVIEW OF PROPOSED BUDGETS AND FUNDING REQUIREMENTS

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

1. Organization of NERC's 2013 Business Plan and Budget

NERC's 2013 Business Plan and Budget is organized based on its statutory program areas. Each of these program areas carries out or supports implementation of one or more of the statutory activities of the ERO as specified in §215 of the US Federal Power Act (FPA): development of reliability standards for the bulk power system (§215(d) of the FPA); enforcement of compliance with reliability standards, including imposition of penalties and sanctions for violations (§215(e) of the FPA); and conducting assessments of the reliability and adequacy of the bulk power system in North America (§215(g) of the FPA). Specifically:

- (1) The Reliability Standards Program implements the statutory activity of development of reliability standards.
- (2) The Compliance Monitoring and Enforcement and Organization Registration and Certification Program (which has separate departments for (i) Compliance Operations, Investigations and Organization Registration and (ii) Compliance Enforcement, Reporting, Tracking and Analysis) implements the statutory activity of monitoring and enforcement of compliance with reliability standards, including imposition of penalties and sanctions for violations of standards, and conducts analyses and investigations of bulk power system events.
- (3) The Reliability Assessment and Performance Analysis Program implements the statutory activity of conducting assessments of the reliability and adequacy of the bulk power system in North America. This program also provides information and feedback that supports the statutory activities of development of, and achieving compliance with, reliability standards, and includes NERC's metrics and benchmarking activities.
- (4) The Reliability Risk Management Group (comprised of the Situation Awareness Department and Event Analysis) and the Critical Infrastructure Department support the statutory activity of enforcing and achieving compliance with reliability standards and provides information and feedback that supports the

statutory activities of development of reliability standards and conducting assessments of the reliability and adequacy of the bulk power system.¹

- (5) The Training, Education and Operator Certification Program supports the statutory activity of enforcing and achieving compliance with reliability standards, and also provides information and feedback that supports the statutory activity of development of reliability standards.

More detailed explanations of the statutory functions performed by each of these programs is provided at pages 5-8 of **Attachment 2** as well as in the individual subsections of Section A of **Attachment 2** where the detailed plans and objectives for each program in 2013, and its 2013 budget, are discussed. NERC's statutory, or "direct," programs are supported by its Administrative Services, or "indirect," programs: Technical Committees and Member Forums, General and Administrative, Legal and Regulatory, Information Technology (IT), Human Resources (HR), and Finance and Accounting.

In its 2013 Business Plan and Budget, NERC has provided additional granularity in the presentation of its planned activities and budgeted expenditures, through the following revisions, among others, to the business plan and budget formats used in previous years:

- 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 has disaggregated its presentation to provide individual budgets and the related supporting information for a total of eight statutory programs or functions: Reliability Standards; Compliance Operations; Compliance Enforcement; Reliability Assessment and Performance Analysis; Situation Awareness; Event Analysis; Critical Infrastructure; and Training, Education, and Operator Certification.
- In Section A of the 2013 Business Plan and Budget (**Attachment 2**), NERC has provided a more detailed discussion of each program's or department's 2013 goals

¹ In NERC's 2012 Budget, Event Analysis and Investigations was budgeted as part of the CMEP. For 2013, Event Investigations is budgeted under CMEP and Event Analysis is budgeted under Reliability Risk Management, along with Situation Awareness; and Critical Infrastructure, which was previously included within the Situation Awareness and Infrastructure Security Program, is budgeted as a separate department. The 2013 budget presentation reflects the current NERC organization structure as shown on Appendix 1, Organization Chart, to **Attachment 2**.

and deliverables (objectives), as well as additional detail concerning the Consultants & Contracts expenses budgeted for the program or department.

- For each statutory program, a discussion of why the program's activities are within §215 of the FPA has been provided.
- In Exhibit B of the 2013 Business Plan and Budget (**Attachment 2**), NERC has provided detailed information on the activities and projects within each of the statutory programs and functions and Administrative Services departments for which Consultants & Contracts expense is budgeted. This more detailed presentation has been developed in response to stakeholder comments that greater granularity should be provided to facilitate understanding of the Consultants & Contracts budget and expenditures.
- In Exhibit C of the 2013 Business Plan and Budget, NERC presents a new Working Capital and Operating Reserves Policy pursuant to which separate Working Capital and Operating Reserve accounts, the latter with three separate categories of reserves, are established and the amounts in each reserve account are budgeted and justified. This Policy also establishes authorities to access the reserves, as well as authorities to utilize excess funds that may become available and to add personnel in excess of budgeted staffing.²
- 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).
- In its Information Technology budget, NERC has provided detailed descriptions of both the Operating Expenses (budgeted as Office Costs), such as Telephone, Internet, Computer Supplies, Computer hardware and software maintenance costs and service agreements, and the Capital Expenditure projects budgeted under the IT department, including the development of a data warehouse, a single application infrastructure, disaster recovery and other hardware supporting multiple departments and ERO functions. This more detailed presentation has also been developed in response to stakeholder comments that greater budget granularity should be provided.

² The Working Capital and Operating Reserves Policy was developed through an open and transparent process with multiple opportunities for public review and comment, including postings and presentations in connection with several meetings of the NERC Board Finance and Audit Committee (FAC) and inclusion in Draft #2 and the Final Draft of NERC's 2013 Business Plan and Budget. Only one set of comments were received relating to the proposed Policy, and those comments focused on specific amounts proposed for the reserve accounts for 2013, not on the Policy itself. NERC modified the amounts in the reserve accounts after considering these comments (*see Attachment 4*). The NERC Board approved the Policy on August 16, 2012.

- Under General and Administrative, NERC has included a small budget amount (\$10,000) in Miscellaneous expenses for employee rewards and recognition expenses, including such expenses as flowers in the event of a death in an employee's family, and a small budget amount (\$5,000) to support employee community service and engagement activities. No entertainment expenses are budgeted or projected for 2013.

The initial section of the document, About NERC, provides an overview of NERC's organization, scope of responsibilities, membership and governance, delegation of authorities to Regional Entities, and statutory funding, including a discussion of the basis for funding NERC's activities under §215 of the FPA.

The Introduction and Executive Summary summarizes NERC's total resource requirements for 2013 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 strategic goals and objectives, challenges, 2013 key assumptions underlying the Business Plan and Budget,³ and key deliverables (by program area) for 2013. Finally, it provides an overview of NERC's funding and resource requirements for 2013, in total and by program area.

NERC's 2013 strategic goals and objectives to carry out its statutory mission, as identified in the Introduction and Executive Summary, include:⁴

- Develop clear, reasonable and technically sound mandatory reliability standards in a timely and efficient manner.

³ A detailed statement of the 2013-2015 Shared Business Plan and Budget Assumptions developed and used by NERC and the Regional Entities in developing their 2013 Business Plans and Budgets and 2014 and 2015 budget projections is provided in Exhibit A to **Attachment 2**.

⁴ A complete statement of the 2013 strategic goals and objectives is found at page 13 of **Attachment 2**.

- Be a strong enforcement authority that is independent, without conflict of interest, objective and fair.
- Promote a culture of compliance with mandatory reliability standards across the industry.
- Identify the most significant risks to reliability – identify and prioritize reliability risks, identify actions to mitigate these risks, and monitor results.
- Be accountable for mitigating reliability risks.
- Ensure effective and timely compliance and mitigation, by working with industry stakeholders and experts to ensure the mitigation of known risks to reliability using standards enforcement and other methods where appropriate.
- Promote a culture of reliability excellence, by facilitating a learning environment throughout the industry through event causal analysis, communication of lessons learned, and tracking of recommendations.
- Improve transparency, quality and consistency of results
- Operate as a collaborative enterprise.
- Improve efficiencies and cost effectiveness, by engaging the support of stakeholders, being an efficient steward of resources, and leveraging information systems to create efficiencies and process controls.

These goals were developed through a strategic planning initiative involving NERC and Regional Entity senior management and the NERC Board of Trustees, and have been presented to and received the general support of the NERC MRC, NERC's technical standing committees, and industry groups. In furtherance of these strategic goals, NERC identified a number of high priority activities for 2013, including:

- Issuing new and revised standards, including the development of results-based standards, and working with industry, applicable governmental authorities and other stakeholders to improve the standards development process.
- Continuing to improve enforcement focus, efficiency and productivity, including working with regulatory authorities and stakeholders to develop and implement an improved enforcement framework which focuses both ERO and industry resources

on compliance activities that are most likely to support the reliability of the North American bulk power system.

- Regional Entity collaboration, coordination and oversight.
- Improving the ability of industry to respond to incidents, vulnerabilities and threats that have the potential to adversely affect bulk power system reliability.
- Educating stakeholders on the role and long-term strategy for the ES-ISAC.
- Event analysis, emerging issues and reliability risk reporting.
- Developing and implementing improvements to ERO processes, including the design and deployment of necessary IT infrastructure to facilitate these process improvements, and improvements in internal financial and operating controls.
- Improving compliance information and education.
- Enhancing reliability risk metrics and modeling capabilities.
- Developing competencies of ERO staff through training and providing training to stakeholders on standards and effective compliance.

The Introduction and Executive Summary also lists the key deliverables in support of these high priority activities for each NERC program area for 2013.⁵

The significant challenges and demands faced by NERC, the Regional Entities and industry participants in the ERO for 2013, as they work to achieve the ERO strategic objectives, include:

- Improving the standards development process.
- Focusing on reliability risk and delivery of results.
- Continuing to improve the compliance enforcement framework, focus and processes.
- Identifying and addressing critical infrastructure protection priorities.
- Addressing regulatory mandates.

⁵ **Attachment 2** at 17-19.

- Continuing to implement the improvements identified in NERC's *Three-Year ERO Performance Assessment*.⁶
- Balancing resource needs within financial constraints, and achieving efficiencies.
- Recruiting, integrating and retaining qualified personnel.

The Introduction and Executive Summary of NERC's Business Plan and Budget provides an overview of the principal resource requirements and other factors driving NERC's proposed 2013 Budget. NERC is proposing an overall 2013 increase of \$1,173,984 (2.2%) in operating expenses and capital additions over the 2012 Budget, before adjustments for Working Capital and Operating Reserves. The proposed increases in NERC's budget for 2013 can be separated based on two broad causative factors: (1) decreases in the cost of current operations (representing a \$3,464,163, or 6.5%, decrease from the 2012 base operating budget⁷), and (2) increases due to incremental 2013 resource additions and new initiatives, representing a \$4,638,146, or 8.7%, increase over the 2012 base operating budget. The Introduction and Executive Summary summarizes the additional resource needs and incremental funding requirements in each of the statutory programs and Administrative Services.

The Introduction and Executive Summary provides tables showing (1) the 2012 Budget, 2012 Projection,⁸ 2013 Budget, and variance from the 2012 Budget to the 2013 Budget, for each of the statutory programs and in total; and (2) the FTEs per the 2012 Budget, 2012 Projection

⁶ *Three-Year Electric Reliability Organization Performance Assessment Report*, filed December 17, 2009 (*Three-Year ERO Performance Assessment*).

⁷ For purposes of the analysis presented in the Introduction and Executive Summary, NERC's base operating budget is defined as the costs associated with NERC's current (2012) operations, excluding any funding requirements for Working Capital and Operating Reserves *See Attachment 2* at 21.

⁸ The 2012 Projections are NERC's (and the Regional Entities') June 2012 projections of 2012 financial results.

and 2013 Budget, for each of the statutory programs and Administrative Services programs. The Introduction and Executive Summary presents NERC's overall Statement of Activities, Fixed Asset Expenditures and Changes in Working Capital (Statement of Activities), with information from the approved 2012 Budget, 2012 Projection, and proposed 2013 Budget, reflecting the proposed overall increase of \$1,173,984, or 2.2%, over the 2012 Budget, before adjustments for Working Capital and Operating Reserves.⁹ Taking into account NERC's budgeted non-assessment Funding sources in 2012 and 2013 (which for 2013 consists of \$2,512,500 of Penalty payments, \$1,680,000 of Testing Fees, \$436,000 in fees for Workshops, and \$20,000 in Interest, and in total are \$2,197,500 higher than in the 2012 Budget), NERC's statutory proposed assessments to LSEs are \$47,604,156, which is \$3,057,116, or 6.0%, lower than the 2012 statutory assessments. The Introduction and Executive Summary identifies the principal sources of variances in each of the major operating expense and capital expenditure categories between the 2013 Budget and the 2012 Budget.

Finally, the Introduction and Executive Summary presents NERC's budget projections for 2014 and 2015 (*see* §III.F below for further discussion of the 2014-2015 budget projections).

Section A of **Attachment 2** is NERC's detailed 2013 Business Plan and Budget. Section A provides detailed program scope and functional descriptions, 2013 goals and key deliverables, and 2013 resource requirements by major component (*e.g.*, Personnel, Consultants & Contracts), for each of NERC's statutory programs and Administrative Services functions. Section A includes a table at the start of the subsection on each statutory program and Administrative

⁹ The title of the Statement of Activities has been changed from "Statement of Activities and Capital Expenditures" to "Statement of Activities, Fixed Asset Expenditures and Changes in Working Capital," and the presentation has been revised at the bottom of the Statement of Activities to show separately the Total Budget and the Total Change in Working Capital. These changes have also been made to the Statements of Activities in the Regional Entities' 2013 Business Plans and Budgets.

Services function showing FTEs, total direct expenses, total indirect expenses,¹⁰ other non-operating expenses, increase or decrease in Fixed Assets, and total budget for the statutory program or Administrative Services function for the 2013 Budget, with the comparable data from NERC's 2012 Budget and the increase or decrease from the 2012 Budget. A detailed Statement of Activities is also provided for each program and administrative department. The Statements of Activities show funding and expense information from the 2012 Budget, the 2012 Projection and the 2013 Budget, as well as variances from the 2012 Budget to the 2012 Projection and from the 2012 Budget to the 2013 Budget. Rather than providing the above-described information, including the Statement of Activities, for Compliance Monitoring and Enforcement and Organization Registration and Certification Program (CMEP) and Situation Awareness and Infrastructure Security, as in previous business plans and budgets, the information, including Statements of Activities, has been provided on a more granular basis for the following five departments: Compliance Operations, Compliance Enforcement, Situation Analysis, Event Analysis, and Critical Infrastructure.¹¹

In the Statements of Activities, Funding is shown from the ERO Assessments and from other anticipated sources (Penalty Sanctions, Testing Fees, fees from Workshops, and Interest

¹⁰ Indirect expenses are the amount of Administrative Services expenditures that have been allocated to each of the statutory programs, on the basis of numbers of FTEs in each statutory program.

¹¹ In NERC's 2012 Budget, Event Analysis and Investigations was budgeted as part of the CMEP. For 2013, Event Investigations is budgeted under CMEP and Event Analysis is budgeted under Reliability Risk Management, along with Situation Awareness; and Critical Infrastructure, which was previously included within the Situation Awareness and Infrastructure Security Program, is budgeted as a separate department. The 2013 budget presentation reflects the current NERC organization structure as shown on Appendix 1, Organization Chart, to **Attachment 2**.

income).¹² 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.¹³ Finally, the Statements of Activities show Fixed Assets activity, comprised of Depreciation (an equal and offsetting amount to the Depreciation included in Operating Expenses¹⁴), Computer & Software Capital Expenditures (CapEx), Furniture & Fixtures CapEx, Equipment CapEx, and Leasehold Improvements.

Section B of **Attachment 2** provides Supplemental Financial Information comprised of tables detailing the components of certain Funding and Expense categories and explanations of variances from the 2012 Budget, including analysis of the Working Capital and Operating Reserve balance¹⁵ (Table B-1), Penalty Sanctions (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). Table B-5, Consultants & Contracts Expenses, which was provided in previous years' business plans and budgets, has been replaced with a more detailed

¹² Some of these other sources of Funding are anticipated only for certain of the statutory programs. For example, income from Testing Fees is budgeted only for the Training, Education, and Operator Certification Program.

¹³ In the 2013 Budget, Other Non-Operating Expenses are budgeted only in General and Administrative, to cover property tax obligations in Atlanta, Georgia on the value of property and equipment in NERC's Atlanta office and data center. See Table B-10 in **Attachment 2**.

¹⁴ As a result of this offset, the Funding amounts do not include funding for Depreciation.

¹⁵ The format of Table B-1 in NERC's 2013 Business Plan and Budget has been revised from the presentation of information in previous years' budgets to present more granular information in accordance with NERC's new Working Capital and Operating Reserve Policy. See §IV.B below.

analysis of Consultants & Contracts Expense in Exhibit B to **Attachment 2**.

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, 2011, 2012 and 2013. The data at December 31, 2011 is actual data per the independent financial audit of 2011 results; the data at December 31, 2012 is based on NERC's 2012 Projection; and the data at December 31, 2013 is based on the 2013 Budget. In addition, Section D provides NERC's 2013 Consolidated Statement of Activities, showing its 2013 budgeted line-item Funding sources, Expenses, and Fixed Asset activity, in total and by statutory program and Administrative Services function, as well as the direct expenses and indirect expenses for each statutory program.

Exhibit A to **Attachment 2** contains a list of the 2013-2015 Shared Business Planning and Budget Assumptions developed and used by NERC and the Regional Entities in preparing their 2013 Business Plans and Budgets and 2014 and 2015 budget projections.

Exhibit B to **Attachment 2** contains a detailed list of budgeted 2013 Consultants & Contracts expenses, by program area and by major activity or project, including the changes from the 2012 Budget.

Exhibit C to **Attachment 2** contains NERCs' recently-adopted Working Capital and

Operating Reserve Policy,¹⁶ under which the Working Capital Reserve is disaggregated into Working Capital to support short-term cash flow and expenditure variations and cash balance requirements in covenants to loan, credit or other agreements; Operating Reserves for known contingencies for which timing and amount are uncertain; Operating Reserves for unforeseen contingencies; and Operating Reserves for the System Operator Certification Program, with each of these reserve categories being separately budgeted and accounted for. As previously stated, the new 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. The new Working Capital and Operating Reserve Policy is discussed in §IV.B below.

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 and Regional Entity statutory assessments, by allocation method, to each LSE and designee, for 2013.¹⁷ 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 and C of **Attachment 2** demonstrates that the programs included in NERC's 2013 Business Plan and Budget are necessary and appropriate to carry out NERC's

¹⁶ The new Working Capital and Operating Reserve Policy was adopted by the NERC Board at its August 16, 2012 meeting.

¹⁷ The NEL-based allocation factors are calculated using NEL data for 2011, which is the most current actual NEL data available as of August 2012. 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 2013 Budget is based on NEL data for the second preceding calendar year, 2011.

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 Introduction and Executive Summary and Section A of **Attachment 2**, as well as in this narrative, demonstrates how the activities and expenditures included in NERC's 2013 Business Plan and Budget lend themselves to accomplishment of NERC's responsibilities and objectives as the ERO.

2. Development of the 2013 Business Plans and Budgets

NERC prepared its 2013 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 FAC as well as by stakeholders. During the development process, successive versions of the 2013 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.¹⁸ The following list highlights important steps in the preparation of the NERC and Regional Entity 2013 Business Plans and Budgets:

- During January 2012, the NERC program areas initially provided input to the NERC Finance and Accounting department on their business plans and budget requirements for 2013; and input was obtained from the Regional Entities' staffs on their 2013 business plan and budget requirements.
- In mid-January 2012, the ERO Executive Management Group (ERO EMG), comprised of NERC and Regional Entity senior management, met to review strategic goals and objectives for 2013.

¹⁸ During the process of developing NERC's 2013 Business Plans and Budget, comments were received from stakeholders on posted drafts of the Business Plan and Budget. **Attachment 4** discusses how concerns expressed in stakeholder comments were addressed in NERC's final 2013 Business Plan and Budget.

- On February 3, 2012, a meeting (conference call) of the FAC was held, which included a report on the schedule for and status of preparing the 2013 Business Plans and Budgets.
- In early February 2012, drafts of common business planning and budget assumptions for the 2013 Business Plans and Budgets were circulated for comment internally at NERC and among the Regional Entities. A meeting of the ERO EMG was held on February 9, 2012, to discuss the common business planning and budget assumptions, and the common assumptions were discussed in other meetings and conference calls among NERC staff and the Regional Entity Budget Group (REBG – the Regional Entity Finance and Accounting staffs). The common assumptions were given final approval by NERC and Regional Entity management (the ERO EMG) on February 15, 2012, and were then posted for a 21-day stakeholder comment period beginning February 17, 2012.
- On April 4, 2012, NERC met with representatives of trade associations to provide a preliminary overview of its 2013 budget and the budget preparation and finalization schedule.
- In mid-April 2012, the Regional Entities submitted preliminary drafts of their 2013 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 and 2012 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 provided feedback to their Regional Entity counterparts.
- Also in mid-April, a preliminary draft of the NERC 2013 Business Plan and Budget was submitted to the Regional Entities for review and comment.
- On May 2, 2012, Draft #1 of the NERC 2012 Business Plan and Budget was posted on the NERC Website for stakeholder review and comment, and sent to the FAC. Notification of the posting (and of all subsequent postings) was sent by e-mail to a broad distribution list of interested persons and entities. One set of written stakeholder comments was received during this comment period.
- On May 3, 2012, a conference call of the FAC was held to discuss Draft #1 of the NERC 2013 Business Plan and Budget; and a Webinar providing an overview of the NERC 2013 Business Plan and Budget was conducted. The Webinar materials were posted and maintained on the NERC Website for stakeholder review.
- On May 6, 2012, Draft #1 of each Regional Entity’s 2013 Business Plan and Budget was posted on the NERC website for stakeholder comment.
- Each Regional Entity’s draft 2013 Business Plan and Budget was also separately posted and available for comment on the Regional Entity’s website as part of each

Regional Entity's independent budget preparation, review and approval process. (*See §III.B below for further discussion of the stakeholder review opportunities provided by each Regional Entity for its 2013 Business Plan and Budget.*)

- On May 8, 2012, a meeting of the NERC MRC was held, at which a presentation was made on the draft NERC 2013 Business Plan and Budget and discussion ensued.
- On May 9, 2012, representatives of NERC and of each of the Regional Entities met with Federal Energy Regulatory Commission (FERC) budget staff to provide an overview of Draft #1 of their respective 2013 Business Plans and Budgets.
- On May 18, 2012, a FAC conference call and Webinar was held to review the Regional Entities' draft 2013 Business Plans and Budgets. In this session, the Regional Entities made presentations concerning their 2013 Business Plans and Budgets to the NERC FAC.
- On June 4, 2012, Draft #2 of NERC's 2013 Business Plan and Budget was posted on the NERC website for stakeholder comments. An updated version of Draft #2 was posted on June 29, 2012. Two sets of written stakeholder comments were received during this comment period.
- At various dates from mid-June to early July 2012, the Boards or other governing bodies of the Regional Entities met to review and approve their respective proposed 2013 Business Plans and Budgets, and the approved Regional Entity Business Plans and Budgets were transmitted to NERC. The Regional Entity Business Plans and Budgets were posted on the NERC Website.
- On July 11, 2012, the Chairman of the Board of NERC sent a letter to the members of the MRC requesting policy input on the 2013 Business Plan and Budget and associated processes. In response to this request, comments on the 2013 Business Plan and Budget were received from a total of 12 MRC Sectors and other entities.
- On July 19, 2012, a FAC Webinar was held to discuss Draft #2 of the NERC 2013 Business Plan and Budget and the final Regional Entity 2013 Business Plans and Budgets that had been submitted to NERC, including presentations to the FAC by the Regional Entities concerning their final 2013 Business Plans and Budgets.
- On July 31, 2012, NERC's Chief Financial Officer and Controller met with FERC budget staff to provide an update regarding the final drafts of the NERC's and the Regional Entities' 2013 Business Plans and Budgets.
- On August 3, 2012, the Final Draft of the NERC 2013 Business Plan and Budget was posted on the NERC Website and sent to the NERC MRC, FAC and Board of Trustees.

- Also on August 3, 2012, the proposed statutory assessments resulting from the 2013 Business Plans and Budgets were sent to the NERC Board and posted on the NERC Website.
- The final 2013 Business Plans and Budgets of NERC and the Regional Entities were presented to the NERC MRC at its August 15, 2012 meeting for comment, prior to the August 15 meeting of the NERC FAC.
- At its August 15, 2012 meeting, the NERC FAC recommended NERC Board approval of the 2013 Business Plans and Budgets and associated statutory assessments for NERC, the Regional Entities and WIRAB.
- At its August 16, 2012 meeting, the NERC Board approved the 2013 Business Plans and Budgets and the proposed 2013 statutory assessments for NERC, the Regional Entities and WIRAB.

In summary, the processes followed by NERC and the Regional Entities to develop the proposed 2013 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. NERC and the Regional Entities developed and used a set of shared business planning and budget assumptions and a common business plan and budget format. The process was open and inclusive at all steps.

3. Summary of NERC's Proposed 2013 Budget and Funding Requirement

NERC's proposed 2013 total Funding requirement is \$52,252,656. This total encompasses U.S., Canadian and Mexican activities. The proposed 2013 Funding requirement represents a decrease of \$859,616 (1.6%) as compared to the 2012 total Funding requirement of \$53,112,272. The 2013 Budget is comprised of \$54,093,957 of Expenses (including Depreciation) and a \$192,299 increase in Fixed Assets (Capital Expenditures of \$1,772,100 less

Depreciation of \$1,579,801¹⁹). The 2013 Funding requirement reflects a negative provision for Working Capital and Operating Reserve funding of (\$2,033,600), whereas the 2012 Funding requirement reflected no provision (increase or decrease) for Working Capital Reserve funding.²⁰

As in past years, a portion of NERC's 2013 Budget will be funded through Testing Fees charged to participants in certain NERC programs, including the Operator Certification Program and the Continuing Education Program (budgeted at \$1,680,000, a \$381,000 (18.5%) decrease from the 2012 Budget); by attendance fees for Workshops (budgeted at \$436,000, a \$316,000 (263%) increase over the 2012 Budget²¹); and by Interest earned on bank balances and short-term investments (budgeted at \$20,000, the same amount as in the 2012 Budget). NERC is not budgeting any revenue from Services & Software (as compared to \$250,000 in the 2012 Budget and \$135,500 in the 2012 Projection). These revenues have previously come primarily from licensing the Generator Availability Data System software, but NERC is no longer focusing on this activity. Finally, the Funding sources in the 2013 Budget include \$2,512,500 of Penalty payments received by NERC from July 1, 2011 through June 30, 2012. In the 2012 Budget, there was no Funding provided from Penalty payments.²²

¹⁹ As noted earlier, an end result of this budget presentation is that Funding is not being requested for Depreciation expense.

²⁰ See §IV.B below and Table B-1 and Exhibit C in **Attachment 2**.

²¹ NERC strives to set Workshop fees to cover the costs of presenting the workshops, such as costs to rent meeting space and prepare printed materials. The number of Workshops planned, of course, also impacts the projected Workshop fee revenues.

²² Pursuant to the NERC policy, *Accounting, Financial Statement and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards*, 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.

These budgeted non-assessment sources of Funding are projected to be \$4,648,500 in total, resulting in a 2013 net Funding requirement of \$47,604,156 to be funded by assessments to LSEs. Of this amount, \$43,036,224 is allocated to the U.S., \$4,443,246 is allocated to Canadian provinces (in the aggregate), and \$124,686 is allocated to Mexico. Based on the aggregate NEL of Canada for 2011 on which the allocation of assessments is based,²³ the proposed Canadian net funding requirement for NERC represents \$0.0000086 per end user kilowatt-hour.

NERC's 2013 Business Plan and Budget was developed and is organized based on its statutory programs (2012 budgeted amounts by program are shown for comparison²⁴):

<u>Program</u>	<u>2013 Budget</u>	<u>2012 Budget</u>
Reliability Standards	\$ 9,775,088	\$ 9,156,601
<u>Compliance Monitoring and Enforcement</u>		
Compliance Operations, Investigations and Organization Registration	\$ 8,928,994	\$ 7,860,024
Compliance Enforcement	\$ 6,725,004	\$ 6,528,040
Reliability Assessment and Performance Analysis	\$ 7,762,436	\$ 6,968,860
<u>Reliability Risk Management</u>		
Situation Awareness	\$ 5,324,311	\$ 6,534,397
Event Analysis	\$ 3,738,430	\$ 5,126,471
Critical Infrastructure	\$ 8,460,227	\$ 7,839,749

²³ 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**.

²⁴ As noted earlier, in the 2012 Budget, Event Analysis and Investigations was budgeted as part of the Compliance Monitoring and Enforcement Program, but for 2013 Event Investigations is budgeted as part of CMEP and Event Analysis is budgeted as part of Reliability Risk Management. Reliability Risk Management is comprised of Event Analysis and Situation Awareness; the latter function was previously budgeted under Situation Awareness and Infrastructure Security. The other function previously budgeted under Situation Awareness and Infrastructure Security, Critical Infrastructure, is now budgeted as a separate department. In the table, the 2012 budgeted amount for Event Analysis and Investigation has been removed from the Compliance Monitoring and Enforcement Program and included under Reliability Risk Management.

Training, Education and Personnel Certification	\$ 3,571,766	\$ 3,098,130
Contribution to Working Capital Reserve	<u>\$(2,033,600)</u>	<u>\$ 0</u>
	<u>\$52,252,656</u>	<u>\$53,112,272</u>

The budgeted amounts for each program incorporate a total budget for Administrative Services of \$23,376,855 (an increase of 3,454,028 (17.3%) from the 2012 Budget), which has been allocated to the budgets for the statutory programs in proportion to the numbers of FTEs budgeted for each program.

The discussion in §IV below, as well as the detailed discussion of each statutory program in **Attachment 2**, demonstrates that each of NERC’s statutory 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 statutory program (Background and Scope and Functional Description), the 2013 Goals and Deliverables (Objectives) for the Program, the 2013 Resource Requirements for the program, and the principal causes of changes (increases or decreases) in the funding and expenditure categories for the program as compared to the 2012 Budget (Summary of Variances by Category). A Statement of Activities, showing the line item components of the 2013 Budget (as well as, for comparison, the 2012 Budget and the 2012 Projection), is provided for each program. The functions of and resource requirements and budgets for each NERC Administrative Services department are also provided and discussed in Section A of **Attachment 2**.

NERC proposes an allocation of its 2013 net funding requirement (statutory assessment) of \$47,604,156 to the Regional footprints as follows²⁵:

²⁵ 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, (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, and (iii) IDC Defined Shares (based on

- FRCC \$ 2,419,233
- MRO \$ 3,123,936²⁶
- NPCC \$ 5,975,361²⁷
- ReliabilityFirst \$ 9,861,361
- SERC \$11,239,354
- SPP RE \$ 2,392,157
- TRE \$ 3,572,397
- WECC \$ 9,020,357²⁸

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.²⁹ NERC’s only sources of funding for its planned

usage of the NERC Interchange Distribution Calculator). The detailed allocations of the NERC statutory assessment by allocation methodology are shown in Appendix 2 to **Attachment 2**.

²⁶ The total allocation to MRO consists of \$2,611,375 allocated to the U.S. and \$512,561 allocated to Canadian provinces.

²⁷ The total allocation to NPCC consists of \$3,195,085 allocated to the U.S. and \$2,780,276 allocated to Canadian provinces.

²⁸ The total allocation to WECC consists of \$7,745,261 allocated to the U.S., \$1,150,409 allocated to Canadian provinces and \$124,686 allocated to Mexico.

²⁹ 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 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

programs and operations will be the assessments to users, owners, and operators of the bulk power system in the United States and equivalent collections from entities in Canada and Mexico, and the other sources listed as “Funding” on its Statements of Activities and described above.³⁰

B. Regional Entity Proposed 2013 Business Plans and Budgets

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 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 2013 to meet their responsibilities under the approved delegation agreements.

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.

³⁰ NERC’s 2013 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 derived from § 215 of the FPA will exclusively support statutory activities.

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' 2013 Business Plans and Budgets. Further, the Regional Entities prepared their 2013 Business Plans and Budgets using a format that is essentially the same as the format used to prepare the 2011 and 2012 Business Plans and Budgets.³¹ The use of the common format facilitates comparisons among the Regional Entities' budgets.³² Additionally, in developing their 2013 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, NERC management and staff worked iteratively with the Regional Entities from January through July, 2012, on the development of the Regional Entity 2013 Business Plans and Budgets. The Regional Entities submitted initial drafts of their Business Plans and Budgets to NERC in April, 2012, for internal review and feedback by NERC program area managers. In the development of the 2013 Regional Entity Business Plans and Budgets, NERC placed particular emphasis on having its program area managers perform

³¹ 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 and 2013 Business Plans and Budgets.

³² Although the eight Regional Entities and NERC used a common format for their 2013 Business Plans and Budgets, the Regional Entities continue to present their 2013 Business Plans and Budgets based on the five statutory programs of Reliability Standards; CMEP; Reliability Assessment and Performance Analysis; Training, Education and Operator Certification; and Situation Awareness and Infrastructure Security; whereas NERC has presented 2013 business plan and budget information disaggregated into two departments or functions for the CMEP and three departments or functions for Situation Awareness and Infrastructure Security.

substantive reviews of the applicable sections of each Regional Entity's draft Business Plan and Budget and provide feedback to their Regional Entity program counterparts. In early May 2012, more developed drafts (referred to as "Draft #1) of each Regional Entity's 2013 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 2013 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, 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 2013 Business Plan and Budget for comments on May 4, 2012. MRO's 2013 Business Plan and Budget was presented in several meetings of the MRO Board and its stakeholder and no comments were received. It was reviewed and approved by the MRO Board of Directors on June 28, 2012, without any comments being received, and the final version was posted on July 9, 2012.

NPCC: On May 4, 2012, NPCC posted Draft #1 of its 2013 Business Plan and Budget on its website. On June 13, Draft #1 was presented to the NPCC Reliability Coordinating Committee for comment. On June 26, a "Draft for Approval" of the 2013 Business Plan and Budget was presented to the NPCC Board for approval. NPCC did not receive any formal comments from stakeholders on the drafts of its 2013 Business Plan and Budget.

ReliabilityFirst: ReliabilityFirst's Board of Directors approved the first draft of its 2013 Business Plan and Budget on April 25, 2012. The 2013 Business Plan and Budget was posted to the ReliabilityFirst website from May 1 to June 15, 2012, for member comment. A request for comments was also provided in the ReliabilityFirst monthly newsletter for May. No comments were received. The final 2013 Business Plan and Budget was approved by the ReliabilityFirst Board of Directors on June 22, 2012.

SERC: The SERC Board approved Draft #1 of the SERC 2013 Business Plan and Budget at its April 2012 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 2013 Business Plan and Budget, no comments were received.

SPP RE: SPP RE initially presented a summary of its preliminary 2013 budget at its quarterly Trustees meeting in April 2012, and also included a summary of the preliminary budget in its monthly electronic newsletter for April 2012, which is e-mailed to stakeholders including the primary compliance contacts and authorizing officers for all Registered Entities in SPP RE. During May 2012, SPP RE posted a draft of its 2013 Business Plan and Budget on its website for comment and provided a notification of the posting in the May 2012 electronic newsletter. The final proposed SPP RE 2013 Business Plan and Budget was presented to the SPP RE Trustees for approval at the June 19, 2012 meeting. SPP RE received no formal comments from stakeholders regarding the 2013 budget.

Texas RE: Texas RE's 2013 Business Plan and Budget was presented in multiple meetings of the Texas RE Board and member representatives committee, with no written or oral challenges to the Business Plan and Budget received.

WECC: WECC posted a draft of its 2013 Business Plan and Budget on its website on May 15, 2012, and also sent a notice of the posting to its Board of Directors (which includes representatives of WECC members) on May 17, 2012. No comments were received from stakeholders on the draft 2013 Business Plan and Budget. WECC's Board approved WECC's 2013 Business Plan and Budget on June 26, 2012.

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. 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) verifying each Regional Entity's Business Plan and

Budget provided for sufficient resources to adequately carry out the functions delegated to the Regional Entity under the delegation agreement, (2) verifying that the Regional Entity was using the shared business planning and budget assumptions, common budget format and presentation, and agreed accounting methodology, (3) understanding the basis for any significant changes in a Regional Entity's 2013 Budget for a particular program or function from the 2012 Budget, and that an appropriate explanation was included in the Regional Entity's 2013 Business Plan and Budget, and (4) understanding the bases for any significant differences in amounts budgeted by different Regional Entities for the same function.

Through the processes described above and in §III.A.2, NERC has been able to satisfy itself that each Regional Entity's 2013 Business Plan and Budget provides necessary and adequate resources to carry out the Regional Entity's delegated functions in 2013.³³

The Regional Entities submitted their final 2013 Business Plans and Budgets, approved by their respective governing bodies, to NERC in mid-July 2012. These Business Plans and Budgets were submitted to the NERC FAC and the NERC Board of Trustees, and reviewed at their respective meetings held on August 15 and 16. The Regional Entities' 2013 Business Plans and Budgets were approved by the NERC Board at the August 16, 2012 meeting.

The table below shows the budgets for statutory and (where applicable) non-statutory functions for each Regional Entity as presented in their respective 2013 Business Plans and Budgets.³⁴ 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

³³ 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.

³⁴ MRO, ReliabilityFirst and SERC do not plan to perform any non-statutory activities in 2012.

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, 2013, determined to be appropriate by each Regional Entity.

Regional Entity	Total Budget for Statutory Functions	Budget for Non-Statutory Functions	Total Net Statutory Assessment
FRCC	\$ 6,531,782	\$ 6,561,975	\$ 5,957,971
MRO	\$ 9,283,539	-----	\$ 9,098,927 ³⁵
NPCC	\$ 13,879,226	\$ 1,022,172	\$12,352,264 ³⁶
ReliabilityFirst	\$ 17,426,838	-----	\$14,165,848
SERC	\$ 15,907,603	-----	\$13,829,878
SPP RE	\$ 11,514,818	\$140,439,182 ³⁷	\$ 8,530,054
Texas RE	\$ 10,935,779	\$ 1,029,100	\$ 8,152,520
WECC	\$ 51,025,092	\$ 1,506,146	\$40,962,547 ³⁸

³⁵ The statutory assessment for MRO consists of \$7,672,246 allocated to the U.S. and \$1,426,681 allocated to Canadian provinces.

³⁶ The statutory assessment for NPCC consists of \$7,441,691 allocated to the U.S. and \$4,910,573 allocated to Canadian provinces.

³⁷ The figure of \$140,439,182 is the total 2012 budget of Southwest Power Pool, Inc. (\$151,954,000) less the 2013 Budget of SPP RE for statutory activities of \$11,514,818. The overall annual budget of Southwest Power Pool, Inc. is prepared on a schedule that will not result in approval of its 2013 budget until October 2012. See §V.B.6 below.

³⁸ The statutory assessment for WECC of \$40,962,547 consists of \$34,278,326 allocated to the U.S., \$6,118,015 allocated to Canadian provinces and \$566,206 allocated to Mexico.

C. Western Interconnection Regional Advisory Board Funding Request

WIRAB submitted to NERC a proposed 2013 Business Plan and Budget for §215(j) activities. NERC has reviewed WIRAB's submission and believes it is reasonable.

WIRAB's proposed 2013 Budget for expenses is \$595,180, which is a decrease of \$19,497 (3.2%) from its 2012 Budget. WIRAB is not budgeting any increase in staffing from its 2012 Budget; budgeted staffing remains at 2.75 FTEs. WIRAB's 2012 Budget was funded by Working Capital Reserve of \$369,828 in excess of WIRAB's target Working Capital Reserve of \$100,000, plus Interest income of \$2,000, resulting in an assessment of only \$242,849. The use of Working Capital Reserve in 2012 resulted in WIRAB's Working Capital Reserve being reduced from \$489,639 at December 31, 2011 to a projected balance of \$159,688 at December 31, 2012. Therefore, WIRAB's proposed 2013 Budget will be funded by a proposed assessment of \$534,692, which is an increase of \$291,843 over the 2012 assessment, plus \$59,688 from Working Capital Reserve.

WIRAB's overall statutory funding (assessment) request of \$534,692 for 2013 consists of \$471,491 (88.18%) allocated to the U.S., \$61,864 (11.57%) allocated to Canadian provinces, and \$1,337 (0.25%) allocated to Mexico, all based on NEL. At its August 16, 2012 meeting, the NERC Board of Trustees approved WIRAB's 2012 Budget request.

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

The total ERO statutory funding requirement for 2013, net of other NERC and Regional Entity income sources, to be funded by assessments is \$161,188,857, consisting of \$47,604,156 for funding of NERC's programs and \$113,584,701 for funding of Regional Entity statutory activities and the WIRAB. NERC has allocated its statutory assessment of \$47,604,156 to the

LSEs within each Regional footprint primarily on the basis of NEL, as described below.³⁹

First, the costs of operating and maintaining NERC's IDC, which is used only in the Eastern Interconnection, were allocated to the six Regional footprints in the Eastern Interconnection based on usage levels of the IDC (IDC Defined Share). NERC will cease to operate and maintain the IDC on March 31, 2013, at which time responsibility for operation and costs of the IDC will be assumed by a consortium of users. Therefore, NERC will only incur, and has only included in its 2013 budget, costs for the IDC for the first quarter of 2013. The IDC Defined Share allocation approach is reasonable and equitable because it allocates the cost of this function based on its actual use by Region, and does not assess the costs of the IDC to entities in Texas RE and WECC. A total of \$457,586 of the NERC Funding requirement was allocated based on the IDC Defined Share. The IDC Defined Share allocations to the six Regional footprints in the Eastern Interconnection are shown in Appendix 2-C of **Attachment 2**.

Second, a total of \$1,328,437 of adjustments (credits) to the allocations to the AESO, the IESO, the NBSO and Québec for certain CMEP, Event Analysis and Investigations and Situation Awareness (SAFNR⁴⁰) 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, the NBSO and Québec, to provide credits for certain NERC CMEP, Event Analysis and Situation Awareness 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

³⁹See Appendix 2-A of **Attachment 2** for the 2011 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 2011 is the most recent calendar year for which NEL data is available.

⁴⁰ SAFNR = Situation Awareness – FERC, NERC and Regional Entities.

provinces that otherwise would be performed by NERC or a Regional Entity, and that the compliance and enforcement resources NERC needs for 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. **Attachment 5** shows the calculations of these adjustments to the allocations to the AESO, the IESO, the NBSO and Québec. These calculations have been reviewed with, respectively, the AESO, the IESO, the NBSO and La Régie de l'énergie du Québec, and each has agreed with and accepted the calculations. The allocation of the \$1,328,437 of adjustments (credits) to the allocations to the AESO, the IESO, the NBSO and Québec for certain CMEP, Event Analysis and Situation Awareness (SAFNR) costs is reflected in Appendix 2-C of **Attachment 2**.

Finally, an allocation based on the 8-Region NEL was used to allocate \$47,146,570 of the NERC statutory assessment – comprised of \$49,659,070 of assessments less \$2,512,500 of Penalty payments – to the Regional footprints.⁴¹ 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, 40% of NPCC's Compliance Monitoring and Enforcement and Organization Registration and Certification (CORC) Program costs has been allocated among the six Balancing Authority Areas in NPCC on the basis of NEL, and 60% of the CORC costs has been allocated between the U.S. and Canadian Balancing Authority Areas using a compliance audit-based methodology. The allocation of NPCC CORC Program costs, including the NPCC audit-

⁴¹ Because the \$2,512,500 of Penalty payments are collected solely from U.S. Registered Entities, the Penalty payments are allocated solely to offset statutory assessments to U.S. LSEs.

based methodology, was explained at pages 70-73 of *Notice of Filing of the North American Electric Reliability Corporation of its Revised 2009 Business Plan and Budget*, filed December 19, 2008. The portion of NPCC CORC costs allocated to the U.S. using the compliance audit-based methodology has been allocated between the New England and New York Balancing Authority Areas based on NEL.⁴²

Second, WECC's allocation of its assessment to the AESO for the Province of Alberta has been reduced by \$810,419, 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.⁴³

After allocating the appropriate portions of the NERC, Regional Entity and WIRAB funding requirements to the United States and Mexico (taking into account the NEL-based allocations, the adjustments to the NERC allocations to the AESO, the IESO, the NBSO and Québec, the adjustments to the NPCC allocations to the IESO and Québec, and the adjustment to the WECC assessment to the AESO), the total ERO statutory assessment for 2013 allocable to Canadian LSEs is \$16,224,079, which is a \$3,281_____ (0.02__%) increase over the 2012 assessment to Canadian LSEs, and consists of:

NERC Assessment:	\$4,443,246 (_0.72_% increase from 2012)
Regional Entity Assessments:	\$11,780,833 ⁴⁴ (0.24__% decrease over 2012)

⁴² The allocation of NPCC CORC Program costs is described in greater detail in §V.B.3 below.

⁴³ The WECC 2013 Business Plan and Budget shows the calculation of the \$810,419 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.

⁴⁴ This amount 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 2013 ERO statutory assessment of \$16,224,079 for the Canadian statutory activities of NERC and the Regional Entities (including WIRAB). The table also shows the statutory assessments per kWh based on 2011 Canadian NEL of each Region.

Regional Entity	NERC Assessment	Regional Entity Assessments	Total Canadian Assessment	Assessment per kWh (2011 NEL)
MRO	\$ 512,561	\$ 1,426,680	\$ 1,939,241	\$0.0000438
NPCC	\$ 2,780,276	\$ 4,910,573	\$ 7,690,849	\$0.0000216
WECC	\$ 1,150,409	\$ 5,443,579	\$ 6,593,988	\$0.0000553
Total	\$ 4,443,246	\$ 11,780,833	\$ 16,224,079	\$0.0000312

For all Regions except NPCC, NERC obtained from the Regional Entity a listing of the LSEs or their designees in the Region and a breakdown of the Region's 2011 NEL by LSE or designee. For the NPCC Region, NERC obtained from NPCC the 2011 NEL for each Balancing Authority Area (New York, New England, Ontario, Québec, Nova Scotia and New Brunswick). Additionally, for Texas RE, NERC obtained from Texas RE the 2011 NEL for ERCOT, which acts as the billing agent for the Texas RE Region. 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.⁴⁵ 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**.

⁴⁵ 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.

NERC will directly invoice the approved assessments to LSEs or designees, or to the other entities to be billed, in all Regions except WECC.⁴⁶ WECC will invoice LSEs or Balancing Authorities or their designees within the WECC footprint, collect the assessments and remit the funds to NERC. These arrangements have been provided for in Exhibit E to the delegation agreement with each Regional Entity.

E. Provision for Working Capital Reserve

In the development of their 2013 Business Plans and Budgets and their proposed assessment amounts to LSEs, NERC and the Regional Entities have taken into account the need to maintain an appropriate amount of Working Capital Reserve. NERC has developed a new Working Capital and Operating Reserves Policy under which different categories of Working Capital and Operating Reserves are separately budgeted and accounted for.⁴⁷ The new 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 NERC Working Capital and Operating Reserve Policy, the amounts budgeted for 2013 in the various reserves categories, and the impacts on NERC's 2013 proposed statutory assessments, are discussed in detail in §IV.B below. 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 2013.

The process takes into account each Regional Entity's actual and projected Working

⁴⁶ As noted 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.)

⁴⁷ The proposed Working Capital and Operating Reserves Policy, which was approved by the NERC Board of Trustees on August 16, 2012, is provided in Exhibit C to **Attachment 2**.

Capital Reserves at December 31, 2011 and December 31, 2012, respectively, resulting from its accumulated prior years' surpluses and deficits, and results in an incremental or decremental adjustment to each Regional Entity's proposed 2013 statutory assessment amount, in order to arrive at its target Working Capital Reserve at December 31, 2013. Table B-1, Reserve Balance, in Section B of each Regional Entity's 2013 Business Plan and Budget, shows the calculation of the increment or decrement to the Regional Entity's requested 2013 assessment to achieve the Regional Entity's desired Working Capital Reserve at December 31, 2013. The calculations shown on Table B-1 take into account: (1) the Regional Entity's Working Capital Reserve (Deficit) at December 31, 2011, (2) assessment Funding, projected other Funding, and projected Expenses and Capital Expenditures for 2012, resulting in (3) the projected Working Capital Reserve at December 31, 2012, (4) the desired (target) Working Capital Reserve at December 31, 2013, (5) the budgeted Expenses and Capital Expenditures, and projected other funding sources (including Penalties collected from Registered Entities), for 2012,⁴⁸ resulting in (6) the increment or decrement to the requested 2013 assessments to achieve the target Working Capital Reserve at December 31, 2013.

As shown on Table B-1 in each Regional Entity's 2013 Business Plan and Budget, each Regional Entity (except SPP RE; *see* §V.B.6 below) has established a target Working Capital Reserve for 2013. The basis for each entity's Working Capital Reserve for 2013 is stated on its Table B-1 or explained elsewhere in the text of its 2013 Business Plan and Budget. Further

⁴⁸ As noted earlier, Penalty payments received by NERC or a Regional Entity between July 1 of the second year preceding the budget year and June 30 of the year preceding the budget year are used to reduce the requested assessments for the budget year; Penalty payments received after June 30 will be used to reduce the requested assessments for the year following the budget year. In the case of the 2013 Budgets, all Penalty payments being used by NERC and the Regional Entities to reduce their requested 2013 assessment amounts were received during the period July 1, 2011 – June 30, 2012.

discussion of the adjustment (increase or decrease) to each Regional Entity's proposed 2013 statutory assessment to achieve its target Working Capital Reserve is provided in the summaries of the individual Regional Entity 2013 Business Plans and Budgets in §V.B below.

At the August 15, 2012 meeting of the NERC Board FAC, the Committee requested that management work with the Regional Entities to further review their individual working capital and operating reserve policies and practices and to report back to the FAC at a future meeting regarding the potential for developing, in the context of the 2014 Regional Entity Business Plans and Budgets, a consistent approach to working capital and operating reserves, taking into account individual Regional Entity differences as appropriate.

F. Budget Projections for 2014 and 2015

As it did in its 2008, 2009, 2010, 2011 and 2012 Business Plans and Budgets, NERC is providing budget projections for the two years following the budget year (*i.e.*, 2014 and 2015).⁴⁹ This information is provided on pages 31-32 of **Attachment 2**.⁵⁰ These budget projections show that NERC's 2014 total Expenses plus (minus) any increase (decrease) in Fixed Assets are projected to be \$307,019, or 0.6%, higher than the amounts in the 2013 Budget. For 2015, NERC's total Expenses plus change in Fixed Assets are projected to be \$1,157,516, or 2.1%, higher than the amount projected for 2014. The 2014 projections reflect a \$2.776 million increase in Personnel Expenses over the 2013 Budget due to a total of 6 new positions, salary increases for existing staff, and increased Benefits expenses; and a \$2.334 million decrease in Consultants & Contracts expense from the 2013 Budget, including a \$1.5 million decrease in

⁴⁹ The 2013 Business Plan and Budget of each Regional Entity also includes budget projections for 2014 and 2015.

⁵⁰ The NERC Board of Trustees has not approved the 2014-2015 projections as official budgets, and NERC is not seeking approval of these budget projections by any applicable governmental authorities.

budgeted Consultants & Contracts Expense due to elimination of the IDC contract, completion of the North American Synchro-Phasor Initiative (NASPI) contract, and a reduction in the cost of the contract for the SAFNR platform. The 2015 projections do not reflect any personnel additions, since it was not possible to predict incremental 2015 resource needs with any degree of accuracy. However, the 2015 projections reflect budgeted salary increases and projected increases in Benefits expenses.

IV. DISCUSSION OF NERC BUSINESS PLAN AND BUDGET

A. 2013 Business Plan and Budget by Program

This section summarizes NERC's proposed 2013 Business Plan and Budget by statutory program and Administrative Services department.⁵¹

1. Reliability Standards Program

The Reliability Standards Program develops and maintains standards designed to ensure the reliability of the bulk power system in North America. NERC's American National Standards Institute-accredited standards development process was reaccredited in 2011 and was found to be open, balanced and transparent. The standards development process is very labor intensive involving NERC and Regional Entity staff and industry volunteer technical experts. NERC manages the work of over 200 industry contributors serving on standards drafting, interpretation and other project teams; additionally, hundreds of industry volunteers within Registered Entities and other entities review and comment on the products of the standards project teams, and all of this input must be reviewed and taken into account in the standards development process. The NERC standards process staff also supports the Regional Entities' regional reliability standards development processes by providing technical advice, final quality

⁵¹ **Attachment 6** is a status report on NERC's progress in achieving its 2012 goals.

review of Regional standards, presentation to the NERC Board, and submission to the applicable governmental authorities in the U.S. and Canada for adoption.

The key standards production efforts of the Reliability Standards Program for 2012 are described at pages 35-37 of **Attachment 2**, and include a standards process improvement initiative; formalization of a “rapid revision” process; development of Registered Entity internal controls programs as part of the standards development process; implementation of a cost effectiveness review of standards proposals; realignment of the standards development process to provide for quality review of standards under development earlier in the process; and creation of a structured project management environment to manage standards development to ensure that the number and complexity of standards posted for comment and ballot at the same time do not exceed the ability of stakeholders to provide the constructive, timely comments needed to reach technical consensus. The 2013 goals and deliverables for the Reliability Standards Program are provided at page 37 of **Attachment 2**, and they focus on two areas: (1) developing risk-based standards focused on key reliability outcomes under the prioritization process first developed in 2011; and (2) meeting regulatory obligations for standards development and revisions as specified in regulatory directives. The 2013 goals and objectives include implementing process changes proposed by FERC in 2012 to identify and slate for removal administrative requirements from existing standards where feasible and improving the throughput of the standards development process, particularly with respect to emerging reliability risks, while reducing the burden on industry.

Although a number of improvements have been made and efficiencies introduced to the standards development process in the last 3 years, NERC is committed to continuing to work

with stakeholders and applicable governmental authority staff to further improve the efficiency and effectiveness of the standards development process.

Although much of the work in the standards development process is performed by committees and task groups comprised of volunteer technical experts, significant NERC professional staff resources are needed to facilitate and coordinate the work of industry volunteers, to administer the process and help ensure that it functions efficiently, and to provide input to support development of technically sound standards. NERC has budgeted 26.50 FTEs for the Reliability Standards Program for 2013, which is an increase of 1.58 FTEs from the 2012 Budget, and reflects the addition of 3 new staff members during 2013.⁵² Specifically, NERC is planning to add:

- 2 standards development advisors to increase the number of concurrent standards development projects that can be processed in support of the goals of developing technically sufficient results-based standards, working with industry to develop options to improve the efficiency and timeliness of standards development, and developing technical references or application guides for standards to ensure clarity and facilitate implementation; and
- 1 standards specialist with technical writing skills to aid standards drafting teams in drafting standards and associated documents in the standards development process, thereby facilitating improvement in the quality of standards from the initiation of a project; helping to develop technical justification documents and presentations to industry; and verifying the accuracy of standards drafting team documents prior to posting.

NERC is budgeting \$150,000 of Consultants & Contracts expense for 2013 (as compared to \$15,000 in the 2012 Budget) to support standards process improvement initiatives under the auspices of the Standards Process Input Group (SPIG) formed by the MRC at the request of the NERC Board of Trustees and the Reliability Issues Steering Committee approved by the Board

⁵² The indicated increase of 1.58 FTEs reflects the phasing in of the 3 new positions during the year as well as the elimination of the chief reliability officer position which was partly allocated to the Reliability Standards Program.

at its August 16, 2012 meeting. With respect to the standards development process, in 2012, the SPIG has issued a report identifying five recommendations for improvement. The NERC Board accepted the SPIG report and endorsed the five recommendations at the May 2012 Board meeting. Efforts remain ongoing.

The 2013 budgeted direct expenses for this program are \$5,134,738, which is a decrease of \$173,205 (3.3%) from the 2012 Budget, with the principal driver of the decrease being the decrease of \$308,762 in budgeted Personnel Expense. Although, as noted above, additional staff is being added, the average salary cost per FTE is reduced from 2012, and Benefits expense and Retirement expense are also reduced as the result of changes to NERC's employee benefits and retirement plans. As noted above, budgeted Consultants & Contracts expense has been increased by \$135,000 over the 2012 Budget, and is the principal expense increase in the 2013 Budget for the Reliability Standards Program. The allocation of Administrative Services expenses to this program is \$4,581,241, the Allocation of Fixed Assets from the Administrative Services programs is \$59,109, and Fixed Asset additions net of Depreciation are budgeted to increase by \$222,293 over the 2012 Budget.

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

The Compliance Monitoring and Enforcement and Organization Registration and Certification Program (CMEP) carries out NERC's statutory responsibility to monitor, enforce and achieve compliance with mandatory bulk power system reliability standards that have been developed, adopted and approved through the standards development process and placed into effect pursuant to orders of FERC or applicable governmental authorities in other North

American jurisdictions. The CMEP is comprised of Compliance Operations and Compliance Enforcement.⁵³

a. Compliance Operations

Compliance Operations works jointly with the Regional Entities to ensure that mandatory compliance monitoring programs are effective and efficient. Compliance Operations is responsible for the following activities and functions: (i) the ERO registration and certification programs, including education programs that support industry compliance, and integration of internal controls; (ii) development of the annual CMEP Implementation Plan and Actively Monitored [Standards] List; (iii) oversight of the Regional Entities' delegated compliance functions, including CMEP planning, implementation, and reporting, compliance operations and coordination, and auditor training; (iv) investigating bulk power system events in support of NERC's compliance operations, oversight and enforcement activities, and (v) development and maintenance of the Reliability Standards Audit Worksheets; and supporting the NERC Operating Committee and Compliance and Certification Committee.⁵⁴

⁵³ As noted earlier, pursuant to an internal reorganization implemented in 2012, the Event Analysis and Investigations function, which for purposes of the 2012 Budget was included in the CMEP, has been moved to, and for 2013 is budgeted with, the Reliability Risk Management Group. However, the Event Investigations group will continue to support compliance monitoring and enforcement activities.

⁵⁴ On August 28, 2012, NERC transferred its Events Investigations group, consisting of six employees, from the Event Analysis and Investigations Department to the Compliance Operations and Organization Registration and Certification Department. This transfer will result in a closer alignment of the Events Investigation and Compliance Operations personnel and activities. It will also result in a clearer separation of NERC's event analysis activities from its compliance operations and enforcement activities. This separation is also anticipated to facilitate ongoing improvements in information exchanges between registered entities and the Electric Reliability Organization regarding bulk power system events by virtue of the further separation of personnel involved in events analysis and events investigations.

Compliance Operations' 2013 goals and deliverables are described at pages 44-46 of **Attachment 2**, and are focused on the areas of registration efficiencies; effective Registered Entity compliance programs and reliability risk controls; effective compliance monitoring by Regional Entities; auditor training (including auditor training workshops for NERC and Regional Entity operations and planning standards and Critical Infrastructure Protection (CIP) standards Compliance Audit personnel and auditor workshops for industry); supporting the standards development process; and Regional Entity compliance audit oversight. Compliance Operations staff will oversee approximately 32 Regional Entity Compliance Audits in 2013, generally consisting of 2 audits of operation and planning standards per Region and 2 audits of CIP standards per Region. Compliance Operations staff will also conduct 2 Key Reliability Standard Spot Checks, one for an operations and planning standard and one for a CIP standard for each Region, in each 6 month period.

The budgeted staffing for Compliance Operations for 2013 is 24.00 FTEs, which is an increase of 2.34 FTEs from the 2012 Budget. The increase in FTEs is due to: (i) the transfer of 6.0 FTEs from Events Analysis dedicated to the investigation of bulk power system events; (ii) elimination of the chief reliability officer position and support staff, a portion of which was allocated to Compliance Operations; (iii) transfer of one position to the IT department; and (iv) transfer of one position to a corporate support function in the General and Administrative department. Budgeted Personnel Expenses are increased by \$105,385 from the 2012 Budget as a result of the FTE increase and decreases in Benefits expense and Retirement expense due to changes in NERC's employee benefits and retirement plans. Compliance Operations is budgeting an increase in Meetings expense of \$48,825 from the 2012 Budget, reflecting increased costs for auditor workshops and for meetings of the NERC Compliance and

Certification Committee; and an increase in Travel expense of \$24,500. The increased Meetings expense is partially offset by budgeted fees for Workshops of \$40,000 (as compared to zero in the 2012 Budget). As in the 2012 Budget, Compliance Operations has budgeted no Consultants & Contracts expense for 2013.

The budgeted total direct expenses for Compliance Operations for 2013 are \$4,787,043, which is an increase of \$53,319 (1.1%) from the 2012 Budget. The allocation of Administrative Services expenses to Compliance Operations is \$4,149,048, the allocation of Fixed Asset additions to Compliance Operations is \$53,532, and Fixed Asset additions net of Depreciation are budgeted to increase by \$353,621 over the 2012 Budget.

b. Compliance Enforcement

Compliance Enforcement conducts all of NERC's enforcement activities, including docketing all Possible Violations coming into the enforcement program, processing compliance violation matters arising out of NERC-led investigations and audits, reviewing all dismissals approved and Mitigation Plans accepted by Regional Entities, processing all compliance violations arising out of Regional Entity compliance enforcement and monitoring activities, and analyzing compliance statistics. The 2013 goals and deliverables for Compliance Enforcement are described on pages 49-51 of **Attachment 2**, and are focused on increasing processing efficiencies (following up on the implementation of the Spreadsheet Notice of Penalty (SNOP) and the Find, Fix, Track, and Report (FFT) initiatives); sustaining and expanding the FFT process, by enabling NERC and Regional Entity compliance staffs to recommend Possible Violations to enforcement staffs for FFT treatment; reducing the outstanding caseload of compliance violations; and expanding violation trend analysis to identify the causes and trends of violations in enforcement cases, using the data gathered in the Compliance Reporting and

Tracking System data base. Future steps are currently being considered and will be addressed in NERC's upcoming twelve-month report due in March 2013 in another docket. These future steps are being developed with the engagement, input and participation of Regional Entities and industry stakeholders.

The budgeted staffing for Compliance Enforcement for 2013 is 21 FTEs, which is the same staffing provided in the 2012 Budget. Maintaining the same level of staffing reflects: (i) the growth of staffing for this function in recent years, and (ii) efficiencies realized through introduction of new processes such as the SNOP and the FFT process. However, budgeted Personnel Expenses are reduced by \$318,214 from the 2012 Budget as a result of lower average Salary expense per FTE and decreases in Benefits expense and Retirement expense due to changes in NERC's employee benefits and retirement plans. Compliance Enforcement is budgeting an increase in Travel expense of \$58,000 from the 2012 Budget, reflecting operations at full staffing levels for the entire year. As in the 2012 Budget, Compliance Enforcement is budgeting no Consultants & Contracts expense for 2013. Resource needs associated with improvements to Compliance Enforcement's reporting, analysis and tracking tools are budgeted in the IT department.

The budgeted total direct expenses for Compliance Enforcement for 2013 are \$3,047,746, which is a decrease of \$237,043 (7.2%) from the 2012 Budget, with the primary driver of the decrease being lower Personnel Expense, as described above. The allocation of Administrative Services expenses to Compliance Enforcement is \$3,630,417, the allocation of Fixed Asset additions to Compliance Enforcement is \$46,841, and Fixed Asset additions net of Depreciation are budgeted to increase by \$184,355 over the 2012 Budget.

3. Reliability Assessment and Performance Analysis Program

The Reliability Assessment and Performance Analysis Program carries out NERC's statutory responsibility as the ERO to "conduct periodic assessments of the reliability and adequacy of the bulk power system in North America."⁵⁵ The Reliability Assessment and Performance Analysis Program prepares annual seasonal (summer and winter) and long-term reliability assessment reports, which assess the short-term and long-term resource adequacy and operating reliability of the bulk power system in North America, both existing and planned. This program also identifies and assesses risk and severity in reliability performance, measures progress in improving current reliability, tracks leading indicators of future reliability, develops risk control solutions and measures their success, and provides risk-informed input to NERC's standards and compliance processes. The Reliability Assessment and Performance Analysis Program also provides engineering expertise on protection and control along with system analysis and modeling to simulate and study system disturbances, develop reliability guidelines, and support standards development. To support these activities, the Reliability Assessment and Performance Analysis Program maintains detailed databases measuring the planned and ongoing reliability performance of generation, transmission, and demand response resources. Finally, this program identifies and analyzes key emerging issues that may affect reliability, and conducts special reliability assessments based on specific issues as warranted.

The 2013 goals and key deliverables for the Reliability Assessment and Performance Analysis Program are summarized at pages 56-57 of **Attachment 2**. The 2013 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

⁵⁵ Section 215(g) of the FPA.

Winter Reliability Assessments, an annual State of Reliability Report consolidating several formerly separate reports, a report on geomagnetic disturbance (GMD) bulk electric system (BES) effects and vulnerability assessment, and up to two additional special assessments on key reliability issues); 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 quarterly updates in trends and measures of BES reliability; supporting NERC standards development, including responses to FERC directives by providing technical and system analysis expertise; and finalizing the BES exception procedures (depending on the timing of action on NERC proposals currently pending). However, based on NERC and industry priorities, a number of issues and initiatives are not being pursued in 2013, some of which will be deferred to 2014 and/or 2015.⁵⁶

The budgeted staffing for the Reliability Assessment and Performance Analysis Program for 2013 is 18.75 FTEs, which is an increase of 2.25 FTEs over the 2012 Budget. The staffing increase reflects: (i) the full-year effect of two positions that were added during 2012, specifically, an engineer to support reliability and system analysis activities and an engineer to lead NERC's BES risk identification and control strategy, and (ii) a risk control coordination specialist to be added in 2013. This new position will support NERC's initiatives to identify, evaluate and prioritize bulk power system risks and will support NERC's special risk control project teams by providing project management and high-level risk management. Budgeted 2013 Personnel Expense is increased by \$201,213 over the 2012 Budget, reflecting increased Salary and Payroll expenses of \$239,980 and \$8,496, respectively, partially offset by reductions

⁵⁶ See discussion at page 56 of **Attachment 2**.

in budgeted Benefits and Retirement expenses of \$3,761 and \$43,502, respectively (due to changes in NERC's employee benefits and retirement plans), from the 2012 Budget.

The budgeted 2013 expense for Consultants & Contracts for the Reliability Assessment and Performance Analysis Program is \$685,000, which is a reduction of \$313,000 from the 2012 Budget. Consultant and contractor resources will support the following initiatives: the GMD vulnerability assessment; special and/or scenario assessments focusing on key reliability issues; generator protection and controls modeling; and databases and availability systems (GADS, TADS, DADS, SED, Reliability Availability Data System, and Metrics and Benchmarking Database). Additional, more granular detail on the specific amounts budgeted for Consultants & Contracts for specific activities and initiatives is provided in Exhibit B to **Attachment 2**. One area in which additional resources could be required in 2013, depending on the timing and nature of approval of NERC's pending proposals, is to implement the revised BES definition and the new BES definition exceptions procedure. If additional resources are required for this purpose, they can be provided from NERC's Operating Reserves.

Meeting Expenses (Meetings, Travel and Conference Calls) for this Program in 2013 are budgeted to increase by \$106,125 (25.6%) over the 2012 Budget. The increase in Meeting expense (\$65,500) reflects the costs for workshops sponsored by the Reliability Assessment and Performance Analysis Program that were previously recorded in the Training, Education, and Operator Certification Program, and is partially offset by budgeted revenue from Workshop fees of \$40,000 (compared to zero in the 2012 Budget). The increase in Travel expense (\$40,625 (11%)) is due primarily to the increased staffing in this Program.

The Reliability Assessment and Performance Analysis Program is budgeting zero revenue from Services & Software in 2013, as compared to \$250,000 in the 2012 Budget.

Services & Software revenue previously came from licensing GADS software to third parties, but this effort will not be a focus of NERC's activities going forward.

The total budgeted direct expense for the Reliability Assessment and Performance Analysis Program for 2013 is \$4,516,620, which represents an increase of \$78,868 (1.8%) from the 2012 Budget. The allocation of Administrative Services expenses to this program is \$3,241,444, the allocation of Fixed Asset additions to this program is \$41,822, and Fixed Asset additions net of Depreciation are budgeted to increase by \$129,580 over the 2012 Budget.

4. Reliability Risk Management

The Reliability Risk Management 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 bulk power system, 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 Reliability Risk Management group includes three primary functions – bulk power system awareness, event analysis, and assessment of human performance challenges – and two departments, Situation Awareness and Event Analysis. The 2013 budgets for Situation Awareness and Event Analysis are discussed separately below.

a. Situation Awareness

NERC's Situation Awareness Department works with Registered Entities to monitor present conditions on the bulk power system using various software tools and applications. It also communicates and coordinates with Registered Entities to notify them of various types of disturbances that could negatively impact their ability to deliver power to end users. When significant bulk power system disturbances occur, Situation Awareness facilitates coordination of communications between Registered Entities and applicable governmental authorities.

Situation Awareness is responsible for overseeing the design, operation and maintenance of software, hardware and communications networks, including but not limited to the SAFNR platform, funding support of the NASPI (the direct support of which NERC expects to conclude by the end of 2013), and funding support for a number of reliability tools including the IDC (direct support of which, together with funding for the related Book of Flowgates and System Data Exchange (SDX) tools, will terminate on March 31, 2013, the expiration date of NERC's contract with the IDC vendor).

The 2013 goals and deliverables for Situation Awareness are described on pages 66-67 of **Attachment 2** and include completing implementation of the SAFNR communications platform; promoting reliability using a new NERC Alert System; integrating and monitoring information from the phasor measurement units developed and deployed as part of the NASPI; and, in conjunction with the Regional Entities, obtaining, reviewing, validating and disseminating information and lessons learned from Registered Entities concerning bulk power system events and disturbances pursuant to the NERC ERO Event Analysis Process.

The 2013 budgeted staffing for Situation Awareness is 6.50 FTEs, which is a reduction of 1.67 FTEs from the 2012 Budget. However, this FTE reduction is due to the elimination of the chief reliability officer and support staff which was partially allocated to Situation Awareness in 2012. Budgeted Personnel Expenses for 2013 is reduced by \$272,300 from the 2012 Budget due to the FTE reduction and reductions in budgeted Benefits and Retirement expenses due to changes in NERC's employee benefits and retirement plans. Budgeted Meetings Expense is increased by \$34,930 over the 2012 Budget reflecting an increase in Meetings expense of \$93,430 and a decrease in Travel expense of \$58,500. The increased budget for Meetings is primarily due to the costs of NASPI-related workshops and quarterly NERC Operating

Committee and Planning Committee meetings budgeted in this Department. The workshop-related Meetings expense is partially offset by budgeted revenues of \$105,000 for Workshop fees (as compared to zero in the 2012 Budget).

The 2013 Consultants & Contracts budget for Situation Awareness of \$2,743,180 is a reduction of \$844,936 (23.5%) from the 2012 Budget; the reduction is due to termination of the IDC and related Book of Flowgates and SDX contracts on March 31, 2013 (after which the IDC and related software tools will be financially supported by a consortium of users). Significant components of the Consultants & Contracts budget include a total of \$810,000 for NASPI, \$725,500 for SAFNR, a total of \$200,000 for the Secure Alerting System and Secure Alert change management, a total of \$250,000 for maintenance of various reliability tools, \$457,586 for the remainder of the contracts for the IDC and related software tools, and \$300,000 for Frame Relay.⁵⁷ Itemized information on the activities and initiatives supported by the 2013 Consultants & Contracts budget for Situation Awareness is provided in Exhibit B of **Attachment 2**.

The total budgeted direct expense for Situation Awareness for 2013 is \$4,193,507, which represents a decrease of \$1,126,964 (21.2%) from the 2012 Budget. The allocation of Administrative Services expenses to this program is \$1,123,701, the allocation of Fixed Asset additions to this program is \$14,498, and Fixed Asset additions net of Depreciation are budgeted to increase by \$127,266 over the 2012 Budget.

b. Event Analysis

The NERC Event Analysis Group supports the ERO's reliability goals by evaluating bulk power system events, conducting analysis to determine causes of events, assuring tracking of corrective actions to prevent recurrence, and disseminating lessons learned to the industry. .

⁵⁷ The information relating to the contracts for the IDC and related software tools and for Frame Relay is shown separately at the end of Exhibit B.

The 2013 goals and objectives for Event Analysis are described at page 71 of **Attachment 2**, and include ensuring that all reportable bulk power system events are analyzed for sequence of events, root cause, risk to reliability and mitigation; and ensuring that the industry is well informed of bulk power system events, emerging trends, risk analysis, lessons learned and expected actions.

The 2013 budgeted staffing for Event Analysis is 9.50 FTEs, which is a decrease of 3.50 FTEs from the 2012 Budget. The decreased staffing reflects: (i) the transfer of six positions to Compliance Operations; (ii) addition of a position in 2012 to support identification of emerging reliability risks and development of risk control strategies; (iii) transferring the Human Performance function to Event Analysis and Investigations from another program area; and (iv) the full year effect of a position added during 2012 and budgeted as 0.5 FTE in 2012. Budgeted 2013 Personnel Expense is decreased by \$858,821 over the 2012 Budget, reflecting decreased Salary and Payroll expenses of \$602,520 and \$43,057, respectively, due primarily to the decreased staffing, and by reductions in budgeted Benefits and Retirement expenses of \$87,508 and \$125,737, respectively (which in addition to the reduction in FTEs are also due to changes in NERC's employee benefits and retirement plans), from the 2012 Budget. Budgeted Meetings expense is increased from \$10,000 in the 2012 Budget to \$62,000, largely due to the projected cost of a Human Performance Workshop, which is offset by budgeted revenues from Workshop fees of \$52,000 (compared to zero in the 2012 Budget). Travel expense is budgeted to decrease by \$240,000 (60.8%) from the 2012 Budget, to \$155,000, based upon the reduction in FTEs, 2011 actual results and the 2012 Projection.

The 2013 Consultants & Contracts budget for Event Analysis is \$120,000, the same amount included in the 2012 Budget. Consulting and contractor expenses for Event Analysis are

primarily related to retaining subject matter experts (SMEs) to assist in the Event Analysis program. To the extent events occur requiring the use of SMEs in excess of the budget, funds can be provided from NERC's Operating Reserves.

The total budgeted direct expense for Event Analysis for 2013 is \$2,074,908, which represents a decrease of \$1,043,836 (33.5%) from the 2012 Budget. The allocation of Administrative Services expenses to this function is \$1,642,332, the allocation of Fixed Asset additions to this function is \$21,190, and Fixed Asset additions net of Depreciation are budgeted to increase by \$106,317 over the 2012 Budget.

5. Critical Infrastructure Department

The NERC Critical Infrastructure Department (CID) supports CIP reliability standards initiatives, the Compliance Operations Department's compliance audit oversight function with respect to CIP standards, and CIP and cyber information sharing, incident analysis, alerts, bulk power system-level risk assessment, and coordination between industry and government. The CID also supports industry-led activities and organizations including the NERC CIP Committee and the Electricity Sub-sector Coordinating Council (ESCC). Finally, the CID is responsible for implementing NERC's responsibilities as the Electricity Sector Information Sharing and Analysis Center (ES-ISAC). Responsibilities of the CID, including its responsibilities as the ES-ISAC, are detailed in Section 1003 of the NERC Rules of Procedure.

The 2013 goals and deliverables of the CID are described on pages 76-77 of **Attachment 2**. They include supporting the Reliability Standards Program in CIP standards development; supporting Compliance Operations in its oversight of Regional Entity CIP compliance audits to improve the consistency of compliance program results, improve risk-based approaches for auditing and spot checking, and promoting a culture of security and compliance through

education, transparency and incentives; continuing ES-ISAC capability enhancements and information sharing; working with Regional Entities to increase transparency of CIP compliance processes and program results among Regions, including improving risk-based approaches for CIP auditing; hosting 4 CIP auditor workshops in 2013; working jointly with Compliance Operations to improve CIP auditor training materials and programs; and facilitating events such as an annual Grid Security Conference, the bi-annual Grid Exercise, Cyber Risk Preparation Assessments, and the Sufficiency Review Program.

The 2013 budgeted staffing for the CID is 19.25 FTEs, which is an increase of 2.25 FTEs over the 2012 Budget. The additional staffing is comprised of: (i) an additional CIP auditor to be added in 2013 (resulting in a total of 5 CIP auditors on staff to support CIP audit oversight activities); (ii) a CIP Awareness Manager who was added in 2012; and (iii) addition of 2 Cyber Security Specialists in 2013.⁵⁸ The Cyber Security Specialists will be added to the ES-ISAC team. The budgeted 2.25 FTE increase reflects the anticipated phasing and timing of new hires during 2013. Although CID staffing will be increased, budgeted Personnel Expenses are lower by \$216,033 (5.7%) than in the 2012 Budget, due to (i) lower average salaries per FTE, and (ii) lower Benefits and Retirement expense per FTE due to changes in NERC's benefits and retirement plans.

The 2013 budgeted Consultants & Contracts expense for the CID is \$785,000, which is slightly less than the amount in the 2012 Budget (\$795,000). Consultant and contractor support is budgeted for the following activities: support for the ESCC (\$130,000); support for the 2013 Grid Security Exercise (\$200,000); support for a 2013 ES-ISAC Members Conference (\$30,000); buildout of a secure portal for the ES-ISAC (\$90,000); establishing a secure

⁵⁸ In addition, a Cyber Security Specialist position included in the 2012 Budget but not filled will be filled in 2013.

connection for ES-ISAC bi-directional information sharing (\$25,000); support for Cyber Risk Preparedness Assessments (\$150,000); software and support services for analytic capabilities and base line patterns and analysis; and integration support services for visual analytical tools (\$145,000). These activities are described in greater detail at pages 79-81 of **Attachment 2** and more detailed information on specific amounts budgeted for Consultants & Contracts for specific activities is provided in Exhibit B of **Attachment 2**.

The budgeted direct expense for 2013 for the CID is \$5,089,407, which is a decrease of \$124,853 (2.4%) from the 2012 Budget. The allocation of Administrative Services expenses to this Department is \$3,327,882, the allocation of Fixed Assets to the CID is \$42,937, and Fixed Asset additions net of Depreciation are budgeted to increase by \$135,447 over the 2012 Budget.

6. 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 bulk power system and their operating personnel, which ensure that personnel operating the bulk power system have the skills, training and qualifications needed to operate the system reliably. NERC maintains the credentials required to work in system control centers across North America for over 6,000 system operators. 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 2013 goals and deliverables of the Training, Education, and Operator Certification Program are described at page 85 of **Appendix 2**. A primary objective, in response to stakeholder and Regional Entity feedback, will be to further expand and focus training and education opportunities for NERC, Regional Entity and Registered Entity personnel, including on topics such as how best to comply with reliability standards and improve bulk power system reliability, cyber security, consistent audit and investigation techniques, and compliance auditor skills. 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 2013 is 8.00 FTEs, which is an increase of 1.25 FTEs over the 2012 Budget. One new position will be added to provide administrative support, the cost of which will be funded through operator certification and testing fees. The increased staffing of 1.25 FTE reflects the full year effect of 2012 personnel additions. However, budgeted 2013 Personnel Expense is reduced by \$66,475 (5.7%) from the 2012 Budget, primarily due to lower Benefits costs. Budgeted Meeting expense is reduced by \$94,450 (75.9%) from the 2012 Budget, reflecting that costs for workshops will now be budgeted in the department sponsoring the workshop, rather than in the Training Department. Correspondingly, no revenue from Workshop fees is budgeted in the Training Department for 2013 (as compared to \$120,000 budgeted in 2012). Budgeted

Travel expense and Conference Call expense are reduced by a net amount of \$9,100 (8.6%) from the 2012 Budget.

The budgeted Consultants & Contracts expense for the Training, Education, and Operator Certification Program for 2013 is \$848,574, an increase of \$252,126 (42.3%) over the 2012 Budget. This increase is primarily to support a multi-year project to continue improvements in the System Operator Certification and Continuing Education Database, as recommended in NERC's *Three-Year ERO Performance Assessment Report* issued in 2009. The upgrades will provide improved and efficient interface with and ease of use of the database for system operators and supervisors, trainers, training providers and staff, including automation of many operations currently performed manually and/or individually. A total of \$282,330 in Consultants & Contracts expense is budgeted for this project in 2013, and will be funded from the System Operator Certification Program Operating reserve account (*see* §IV.B below). In addition, a total of \$190,414 in Consultants & Contracts expense is budgeted for System Operator examination development, testing expenses, and examination analysis; and a total of \$152,330 is budgeted to support the Continuing Education Program. Additional details concerning amounts budgeted for Consultants & Contracts for specific activities is provided in Exhibit B of **Attachment 2**.

The direct expense budgeted for the Training, Education, and Operator Certification Program for 2013 is \$2,170,906, which is an increase of \$115,251 (5.6%) over the 2012 Budget. The allocation of Administrative Services expenses to this Program is \$1,383,016, the allocation of Fixed Assets to this Program is \$17,844, and Fixed Asset additions net of Depreciation are budgeted to increase by \$62,045 over the 2012 Budget.

This 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 2013 Budget includes projected revenues from Testing Fees totaling \$1,680,000, which is a decrease of \$381,000 (18.5%) from the 2012 Budget, and is due in part to the reduction in fees for system operator certification tests and certificate renewals discussed in the next paragraph.

Under NERC's newly-adopted Working Capital and Operating Reserves Policy, discussed in detail in §IV.B below, a separate Operating Reserve account will be 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 is projecting a \$1,754,439 Operating Reserve balance for the System Operator Certification Program at December 31, 2012. A portion of this amount will be used to fund \$250,000 of the budgeted 2013 upgrades to the System Operator Certification and Continuing Education Database, discussed above. Additionally, the PCGC has decided to use approximately \$100,000 of this amount to reduce fees for system operator certification examinations and certificate renewals in 2013.

7. 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 2013); (ii) General and Administrative; (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 90-115 of **Attachment 2**.

The total amount budgeted for Administrative Services for 2013 (before provision for Working Capital and Operating Reserves) is \$23,376,855, which is an increase of \$3,454,028 (17.3%) over the 2012 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. The total budgeted staffing for the Administrative Services departments for 2013 is 52.75 FTEs, which is an increase of 5 FTEs over the 2012 Budget.

The following paragraphs provide further detail on the 2013 activities and budget requirements 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 2013, the 2013 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 and related costs of the CEO, a senior advisor to the CEO, and the CEO's executive assistant; communications and public relations; and costs related to the Board of Trustees. Budgeted staffing for this function for 2013 is 8.00 FTEs, which is an increase of 1.0 FTE over the 2012 Budget. The added position is the Manager of Technical Publications position, which is being transferred from another program and does not represent an increase in NERC's overall FTE staffing.

The 2012 budgeted Direct Expense for General and Administrative is \$7,725,556, which is an increase of \$475,307 (7.0%) over the 2012 Budget. The most significant component of this increase is an increase of \$452,583 in Office Rent expense, due to an increase in the rented space in NERC's offices in Atlanta, Georgia required to support additional staff and increases in rent in accordance with the leases for the Atlanta and Washington, D.C. offices. The additional space for the Atlanta office will be secured through the exercise of an option negotiated in connection with NERC's existing Atlanta office lease. NERC's Atlanta office is almost 100% occupied due to successful recruiting efforts. In addition, open 2012 budgeted staff positions in the Reliability Standards department are being filled during the fourth quarter of 2012 and further additions are planned for 2013. The lease terms NERC management negotiated several years ago are even more attractive in the current market, which has seen some increase over 2011, and will apply to the option space. Similar to the terms of the base lease, rent on the expansion space will be abated for all of 2013 and a negotiated tenant improvement allowance will offset all or a significant portion of the expense of building out and furnishing the expansion space.⁵⁹ Management will present the full terms of the proposed lease amendment for the expansion space to the NERC Board FAC for review and approval prior to executing the lease amendment. The lease on the expansion space will not become effective until the approval of NERC's 2013 Business Plan and Budget which incorporates the additional Office Rent expense for the expansion space.

In addition, budgeted Meetings Expense (Meetings, Travel and Conference Calls) is higher by \$92,880, budgeted Consultants & Contracts Expense is higher by \$150,000, and

⁵⁹ Although NERC's cash rent obligation for the expansion space will be abated for 2013, Generally Accepted Accounting Principles require that the cost of the lease amendment be amortized over its term, resulting in a financial statement and budget impact for 2013.

budgeted Depreciation Expense is higher by \$94,751, as compared to the 2012 Budget. The Meetings Expense includes the costs of quarterly Board of Trustees and MRC meetings, as well as ERO executive staff meetings and employee meetings. The budgeted Consultants & Contracts expense of \$150,000 (as compared to zero in the 2012 Budget) reflects that the budget to support external affairs has been moved from Legal and Regulatory to General and Administrative. Offsetting these increases, the 2013 budgeted Personnel Expense is reduced by \$338,960 (16.4%) from the 2012 Budget, due to lower average Salary expense per FTE and lower Benefits expense and Retirement expense due to changes in NERC's benefits and retirement programs.

NERC is budgeting a total amount of \$1,369,000 for Board of Trustee costs in 2013, comprised of \$234,000 for quarterly Board, Board committee and MRC meetings, \$155,000 for Trustee Travel expense for all their NERC activities (*i.e.*, not just travel in connection with the quarterly Board meetings), and \$980,000 for Trustee fees. This total is slightly lower than the 2012 Budget of \$1,389,000; however, the 2012 Budget included Trustee Search Fees for two new Trustees to be appointed in 2013. Trustee Search Fees are not budgeted for 2013.⁶⁰

The General and Administrative budget includes \$50,000 of Other Non-Operating Expenses to cover NERC's property tax obligations in Atlanta, Georgia.

Legal and Regulatory – The Legal and Regulatory function provides legal and regulatory support to the organization (as noted above, responsibility for external affairs has been moved to General and Administrative). Increased demands for Legal and Regulatory support are coming primarily from three areas: Reliability Standards (for legal participation with and drafting assistance to standards drafting teams, quality review of standards projects, and

⁶⁰ See table on page 91 of **Attachment 2**.

increased participation in development of filings for approval of standards), Compliance Operations (for legal support for significant audits), and Event Analysis and Investigations (for legal support for investigation teams). In addition, Legal and Regulatory is responsible for providing a wide range of legal support to the organization in corporate, commercial, contractual, employment, real estate, intellectual property and other legal matters.

The 2013 Budget for Legal and Regulatory is \$4,045,729, an increase of \$24,435 (0.6%) over the 2012 Budget. Budgeted staffing for 2013 for Legal and Regulatory is increased from 13.0 FTEs to 14.0 FTEs, reflecting the transfer of an administrative staff member into this function in 2012; no additional increase in staffing is budgeted to occur in 2013. Budgeted Travel expense is increased by \$70,500 over the 2012 Budget, based on increased Legal staff travel to participate in meetings of standards drafting teams and the ERO legal working group. Budgeted Consultants & Contracts expense is reduced from \$141,750 in the 2012 Budget to zero in 2013 due to responsibility for support of external affairs being moved to General and Administrative. Budgeted Professional Services expense is increased by a total of \$200,000 over the 2012 Budget, with \$150,000 of this amount budgeted to support initiation of the next ERO performance assessment which is due to be submitted to the applicable governmental authorities in July 2014.

Information Technology – NERC’s IT department is responsible for planning, designing, implementing and operating technology in support of the ERO’s goals and objectives. The 2013 goals and deliverables of the IT department are described at pages 97-98 of **Attachment 2**. An important IT initiative for 2013 (described in greater detail at pages 96-97 of **Attachment 2**), is the implementation of a centralized data repository with the necessary

infrastructure to accept inbound data and catalog the data in one location for access across the ERO (*i.e.*, by NERC and the Regional Entities).

The 2013 budgeted expense for IT is \$7,978,705, which is an increase of \$1,349,126 (20.4%) over the 2012 Budget. The 2012 Budget reflects 16.75 FTEs in this function, which is an increase of 4.00 FTEs over the 2012 Budget. The staffing increase reflects the transfer of three positions into IT in 2012 in connection with creation of a Project Management Office within IT to manage the identification, prioritization, design and deployment of IT applications; and addition of a SharePoint Administrator/Developer position in 2013. Primarily as a result of the added staffing, the 2013 budgeted Personnel Expense is increased by \$248,994 (13.0%) over the 2012 Budget; however, the budgeted average Salary expense per FTE is lower than in the 2012 Budget, and budgeted Retirement expense is lower than the amount in the 2012 Budget due to changes in NERC's retirement plans.

The 2013 budget for Consultants & Contracts for IT is \$2,721,000, which is an increase of \$1,303,000 over the 2012. The projects for which Consultants & Contracts expense is budgeted are described at pages 99-101 of **Attachment 2**, and include projects relating to redesign of the NERC Website; security vulnerability testing; hardware and software design and integration to support NERC production activities; redesign of the compliance database modules using SharePoint 2010; rewrite of the standards balloting application using SharePoint 2010; quality assurance testing for new applications; data warehouse design; selection of a common technology platform for NERC and the Regional Entities; hardware and applications to set up a disaster recovery site; backup of electronic files; and other studies, assessments and IT project management support. Information on the amounts budgeted for Consultants & Contracts support for individual projects in 2013 is provided in Exhibit B of **Attachment 2**.

The 2013 IT Budget includes \$1,893,725 for Office Costs, which is a slight (\$4,745) reduction from the 2012 Budget. The Office Costs budget is comprised of \$175,000 for Telephone expenses, \$335,000 for Internet expenses, \$3,000 for Computers expense (expenses for items that are not large enough to be capitalized), \$116,900 for Computer Supplies, \$1,226,325 for Maintenance & Service Agreements, and \$37,500 for Software.⁶¹ Additional description of the costs budgeted in these expense categories is provided at pages 101-105 of **Attachment 2**.

Finally, the 2013 IT Budget includes a total of \$1,772,100 for Computer & Software Capital Expenditures and Equipment Capital Expenditures, which is an increase of \$1,000,010 over the 2012 Budget. Major components of the IT Capital Expenditures budget include \$600,000 for data warehouse hardware, \$300,000 for disaster recovery hardware, \$267,000 for software, \$174,000 for laptop computers for new staff and for replacement, \$153,000 for network devices, and \$100,000 for data backup and storage. The IT Capital Expenditure projects are described in detail on pages 105-108 of **Attachment 2**.

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. The 2013 goals and objectives for HR are summarized at pages 111-112 of **Attachment 2**, and are focused on executive training and development, staff development, use of compensation consultants to provide market data, stakeholder surveys including surveys of Board of Trustee effectiveness, succession planning, and automation of HR products and services.

⁶¹ See table on page 102 of **Attachment 2**.

The 2013 Budget for HR is \$1,527,797, which is an increase of \$83,656 (5.8%) over the 2012 Budget. The 2013 budgeted staffing is 3.00 FTEs in this function, which is a reduction of 3.00 FTEs from the 2012 Budget. Two FTEs transferred from HR to other departments during 2012, and HR staffing will be reduced by an additional FTE in 2012. Benefits expense in the HR budget is increased over the 2012 Budget primarily due to including the cost of providing parking for employees (formerly part of Office Rent) at the Atlanta and Washington, D.C. offices in the HR budget. The budgeted Consultants & Contracts expense for HR in 2013 of \$288,500 is approximately the same as the 2012 Budget amount (\$290,000). As detailed in Exhibit B of **Attachment 2**, use of consultants and contractors is budgeted in the areas of executive training and development, instruction technologies for staff development, compensation consulting, stakeholder surveys, succession planning, and improvements to employee-facing HR processes.

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 proposed ERO risk management framework.

The 2013 budgeted expense for Finance and Accounting is \$2,201,294, which is an increase of \$328,999 (17.6%) from the 2012 Budget. The 2012 budgeted staffing for this function is 11.00 FTEs, which is an increase of 2.00 FTEs from the 2012 Budget. Both of these FTEs were added during 2012, one to provide facilities management and one to provide additional administrative and internal controls support. No new FTEs are budgeted to be added

in 2013. As a result of the staffing addition, budgeted 2013 Personnel Expenses are increased by \$215,862 over the 2012 Budget, although budgeted Retirement expense is decreased slightly due to changes in NERC's retirement plans.

The 2013 budgeted expense for Consultants & Contracts for Finance and Accounting is \$325,000, which is the same amount as in the 2012 Budget, and take into account the higher accounting and auditing fees projected for the external audits of NERC's financial statements and the 401(k) plan. In addition to the external audit function, Consultants & Contracts costs are budgeted to support oversight of the Regional Entities' compliance auditing functions by Compliance Operations and the CID as part of the internal controls and risk management function for which Finance and Accounting has responsibility.

B. Working Capital Reserve

NERC has adopted a new Working Capital and Operating Reserve Policy which is intended to provide greater transparency and granularity in the budgeting of reserve amounts and place greater controls on the use of funds from the reserve accounts. The Policy 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 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. The new Working Capital and Operating Reserve Policy is provided in Exhibit B of **Attachment 2**. Exhibit B also 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 2013.

The Working Capital and Operating Reserves Policy was developed through an open and transparent process with multiple opportunities for public review and comment, including

postings and presentations in connection with several meetings of the NERC Board FAC and inclusion in Draft #2 and the Final Draft of NERC's 2013 Business Plan and Budget. Only one set of comments were received relating to the proposed Policy, from the IESO, and those comments focused on specific amounts proposed for the reserve accounts for 2013, not on the Policy itself. The IESO comments are reproduced in **Attachment 4**. As described in **Attachment 4**, NERC modified the amounts in the reserve accounts after considering these comments. The NERC Board of Trustees approved the Policy on August 16, 2012.

The Working Capital and Operating Reserves Policy establishes the Working Capital requirement as the amount necessary to satisfy projected annual cash flow (short-term variances between funding receipts and expenditures) and cash balance requirements to satisfy covenants under loan, credit or other agreements to which NERC is party. If cash balances (if any) required to satisfy covenant requirements are reduced during the year, the excess cash balance will be transferred to the Operating Reserve for unforeseen contingencies. The Policy provides for the separate establishment of Operating Reserves, to include: (1) an amount necessary to satisfy known contingencies where the specific amount and timing is uncertain, (2) an amount available to be utilized for unforeseen contingencies, and (3) excess funds applicable to the Personnel Certification and Operator Training Program (which may be used solely for operator training and certification needs as determined by NERC and the PCGC).⁶² The amount of Working Capital and Operating Reserves in each category shall be separately identified and quantified each year in the Business Plan and Budget. Transfers of Working Capital to Operating Reserves and transfers of Operating Reserve Funds between categories require approval of the NERC Board after review and recommendation by the Board FAC.

⁶² See Exhibit C of **Attachment 2** for further description of these categories.

The Policy also establishes specific guidelines and authorities (levels of approval required) for expenditures from Working Capital and Operating Reserves. The Policy further provides that if, during the course of a year, funds budgeted for a specific purpose are not fully spent, the excess funds shall be added to the Operating Reserve for unforeseen contingencies, and the President and CEO shall have the authority to expend such funds in the same manner as the expenditure of funds for other unforeseen contingencies as specified in the Policy. Finally, the Policy specifies that any FTE or headcount additions during a year in excess of the total FTEs or total headcount, respectively, set forth in the approved Business Plan and Budget shall require approval of the NERC Board after review by the Board FAC and Corporate Governance and Human Resources Committee.

The amounts budgeted for 2013 for each Working Capital and Operating Reserve category are as follows:

Working Capital: \$0.

(Developed based on historical experience concerning the timing of assessment receipts, NERC's maintenance of a \$4,000,000 line of credit, and the requirement of NERC's credit agreement that it maintain a minimum of \$1,250,000 in net assets.)

Operating Reserves: \$3,400,000.

Known Contingencies where timing and amount are uncertain: \$1,000,000.

(based on discounting the high end of estimated costs for: BES definition implementation, \$0 - \$600,000; implementation of NERC's revision to Reliability Standard TPL-002-ob, Table 1, footnote b, \$0-\$250,000; Events Information database, \$0-\$300,000; automated system to collect reliability assessment data, \$0-\$200,000; generation protection and controls modeling support, \$0-\$50,000; implementation of Commission audit recommendations, \$0-\$1,000,000; additional CIP audit support, \$0-\$100,000.)

Unforeseen Contingencies: \$1,000,000.

(Represents a contingency for unknowns including significant litigation, compliance with new governmental or regulatory mandates, major system event investigations, etc.)

System Operator Certification Program: \$1,407,149.

(The System Operator Testing and Certification Program generated revenues in excess of expenses of \$1,400,000 in 2010 and 2011 and is projected to generate \$321,300 of revenues in excess of expenses in 2012. The 2013 Budget uses \$347,000 of the excess revenues generated between 2010 and 2012 to fund 2013 costs for the Program.)

Total Desired Working Capital and Operating Reserve: \$3,407,149.

Based on the beginning Working Capital Reserve at December 31, 2011, the projected funding and expenditures for 2012, the budgeted funding and expenditures for 2013, and the desired Working Capital and Operating Reserve at December 31, 2013, Table B-1 on page 118 of **Attachment 2** shows the calculation of the resulting adjustment (decrease) to NERC's 2013 statutory assessment of \$2,033,600. To the extent NERC's actual year-end 2012 Working Capital Reserve is higher than projected (as shown on Table B-1), the excess funds will be included as Operating Reserves in the Unknown Contingencies 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.

V. REGIONAL ENTITY BUSINESS PLANS AND BUDGETS

A. Consistency Among Regional Entity Budgets

In developing the 2013 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 and 2012 Business Plans and Budgets. NERC and the Regional Entities: (i) used a common and consistent format for their 2013 Business Plan and Budget documents, (ii) continued to use the more consistent accounting methodologies that were developed collaboratively 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 an extensive set of Shared Business Plan and Budget Assumptions for their

2013 Business Plans and Budgets. The Shared Business Planning and Budget Assumptions are provided in Exhibit A to the NERC 2013 Business Plan and Budget (**Attachment 2**), which is cross-referenced in each of the Regional Entity Business Plans and Budgets.⁶³ NERC believes that 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 2013, 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.⁶⁴ The Introduction also provides general information on the Regional Entity, including information on its organization, membership and governance; provides the Regional Entity's goals and key deliverables and key assumptions for 2013; and provides an overview of the primary cost impacts to the Regional Entity's 2013 Budget. The Introduction section includes a table showing

⁶³ The Shared Business Plan and Budget Assumptions have been developed for the 2013-2015 period, and therefore are applicable to the NERC and Regional Entity 2014 and 2015 budget projections as well as to their 2013 Business Plans and Budgets.

⁶⁴ 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.

the Regional Entity's 2012 Budget, 2012 Projection, 2013 Budget, and Variance between the 2012 Budget and 2013 Budget, for each of the five statutory programs. It also contains charts comparing the Regional Entity's 2012 to 2013 budgeted expenses by statutory program and showing the percent change in funding for each statutory program from the 2012 Budget to the 2013 Budget; and a table showing the Regional Entity's FTEs, by statutory program and administrative department, for its 2012 Budget, 2012 Projection, and 2013 Budget. Finally, the Introduction section includes the Regional Entity's overall statutory Statement of Activities, with information presented for its 2012 Budget, 2012 Projection, Variance between its 2012 Budget and 2012 Projection, 2013 Budget, and variance between its 2013 Budget and 2012 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 2012 Budget and 2013 Budget as well as 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.⁶⁵ Information is presented in each of the Statements of Activities for the 2012 Budget, the 2012 Projection and the 2013 Budget, and the Variances between the 2012 Budget and 2012

⁶⁵ The FRCC 2013 Business Plan and Budget provides a consolidated summary table, Statement of Activities, and discussion for General and Administrative covering all its administrative functions, and does not include separate tables, Statements of Activity and discussion for each individual administrative function.

Projection and between the 2013 Budget and 2012 Budget.⁶⁶ The text of these sections for each statutory program includes discussion of the program scope and functional description, 2013 key assumptions, goals and key deliverables for 2013, and reasons for increases or decreases in funding sources and costs in 2013, for the program.

Section B of each Regional Entity Business Plan and Budget presents supplemental financial information supporting the 2013 statutory Budget. Section B contains tables detailing the development of the adjustment to the Regional Entity's 2013 assessment to achieve its desired Working Capital Reserve at December 31, 2013 (Table B-1); Penalty payments received in the 12 months ended June 30, 2012, 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 2012 and 2013 Budgets for the funding or cost category. Finally, Table B-10 provides the Regional Entity's statutory budget projections for 2014 and 2015 (along with, for comparison, its 2012 and 2013 budgets), in Statement of Activities format.⁶⁷

⁶⁶ The Statement of Activities for each Regional Entity's General and Administrative function shows its proposed adjustment, if any, to its 2013 statutory assessment to provide for Working Capital Reserve as a Funding Requirement (positive or negative) for the General and Administrative function. All Expenses 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.

⁶⁷ MRO has included its budget projections for 2014 and 2015 in Section D of its 2013 Business Plan and Budget, and WECC has included its budget projections for 2013 and 2014 in Appendix B to its 2013 Business Plan and Budget, rather than in Table B-10 of Section B.

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 2013, including program descriptions and objectives, budget information, and FTEs.⁶⁸

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 2013 Consolidated Statement of Activities, Fixed Asset Expenditures and Changes in Working Capital showing the Regional Entity’s 2013 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, 2011, based on 2011 actual audited results; (ii) December 31, 2012, based on the Regional Entity’s 2012 Projection; and (iii) December 31, 2013, based on the Regional Entity’s 2013 Budget; and (3) the Regional Entity’s organization chart, showing staffing comparisons for 2013 versus 2012.

B. Discussion of Individual Regional Entity 2013 Business Plan and Budget

This section summarizes highlights of the relevant Regional Entity 2013 Business Plan and Budget.

1. MRO

MRO’s total statutory budget for 2013, before adjustment for Working Capital Reserve, is \$9,283,539, an increase of \$226,309 (2.5%) over its 2012 Budget. MRO’s statutory

⁶⁸ MRO, ReliabilityFirst and SERC do not plan to have, and have not budgeted for, any non-statutory activities in 2013. SPP RE is unable to provide a non-statutory budget for 2013 because its planning and budgeting cycle does not result in finalization and Board approval of the overall SPP, Inc. budget until October. SPP RE has included the overall SPP, Inc. 2012 budget and 2011 actual income statement, for information.

assessment for 2013 is \$749,898 (9.0%) higher than its 2012 assessments, reflecting (in addition to the increased budget) (i) \$14,000 of Penalty payment offsets, as compared to \$418,499 of Penalty payment offsets in its 2012 Budget; and (ii) a decremental adjustment (reduction) to its assessments of \$170,612 for Working Capital Reserve, as compared to a decremental adjustment of \$289,702 for this purpose in its 2012 Budget.

MRO's budgeted 2013 staffing for statutory and administrative programs is 37.75 FTEs, an increase of 0.75 FTE over its 2012 Budget. MRO's budgeted staffing for its CMEP for 2013 is 18.99 FTEs, only slightly less than the 19.16 FTEs budgeted for the CMEP in the 2012 Budget, but higher than the staffing of 17.17 FTEs in the 2012 Projection. Consultants & Contracts expense in the 2013 Budget for the CMEP is reduced to \$157,000, a decrease of \$145,000 (48.0%) over the 2012 Budget; the decreased reliance on consultants and contractors is enabled by the hiring of additional staff in 2012 who can perform tasks previously performed by consultants and contractors. The overall increase in budgeted expenditures for the CMEP over the 2012 Budget is \$237,019 (4.0%). MRO is also budgeting 2013 staffing for its Reliability Assessment and Performance Analysis Program of 6.68 FTEs, which is less than the budgeted 2012 staffing of 8.04 FTEs but equal to the staffing in the 2012 Projection.

MRO is not planning significant staffing changes in any other statutory programs or administrative departments for 2013. Total 2013 budgeted staffing in statutory programs is lower by 1.40 FTEs compared to MRO's 2012 Budget, while total 2013 budgeted staffing for MRO's Administrative programs is increased by 2.15 FTEs over the 2012 Budget. In addition to the change in 2013 budgeted resources for the CMEP, described above, MRO is budgeting the following changes in total resources over its 2012 Budget for its statutory programs: (i) Reliability Standards, increase of \$65,986 (13.8%); (ii) Reliability Assessment and Performance

Analysis, decrease of \$157,543 (6.5%); (iv) Training, Education, and Operator Certification, increase of \$55,631 (32.0%); and (v) Situation Awareness and Infrastructure Security, increase of \$25,217 (35.0%). The reduction in the budget for the Reliability Assessment and Performance Analysis program is primarily due to the reduction in budgeted staffing of 1.36 FTE from the 2012 Budget. The changes in the individual budgeted line items for Personnel Expenses (Salaries, Payroll Tax, Benefits expense and Retirement expense) in the budgets for the MRO statutory programs reflect the correction of an allocation error in MRO's 2012 Budget which had overstated the budgeted 2012 expense for Salaries, Payroll tax and Benefits by \$106,750, \$18,092 and \$76,908, respectively, and had understated the budgeted 2012 amount for Retirement expense by \$201,750 (*see* pages 8-9 of **Attachment 3**).

MRO's budgeted Consultants & Contracts expense for 2013 is \$223,676 (28.1%) lower than in the 2012 Budget, due primarily to increased use of internal resources in the CMEP and in IT to perform tasks previously performed by consultants and contractors, and greater efficiencies expected through the use of the webCDMS. MRO's budgeted Office Rent for 2013 is increased by \$137,147 (35.0%) over its 2012 budget, reflecting that during 2012, MRO moved to new office space in downtown St. Paul. The increased Office Rent expense for 2013 reflects a full year of rent expense in the new facility plus costs for Leasehold Improvements that will be completed in 2013. The higher Office Rent expense is partially offset by slightly lower budgeted Meeting expense in 2013; the new office facility has improved meeting and audiovisual capabilities as compared to the old office, enabling MRO to hold more meetings in its offices as opposed to using third party facilities.

MRO has added Independent Trustee Fees of \$100,000 to its 2013 Budget. Pursuant to amendments to the MRO Bylaws that were approved by FERC in 2012, MRO will be adding

independent trustees to its Board in 2013.

MRO's desired Working Capital Reserve at December 31, 2013, is \$1,144,546, representing 45 days of cash. MRO currently projects a Working Capital Reserve of \$1,315,158 at December 31, 2012, resulting in a decremental adjustment (decrease) of \$170,612 to its 2013 assessments.

MRO plans no non-statutory activities in 2013 and therefore has no 2013 Budget for non-statutory activities.

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 the FERC's Orders.⁶⁹ In each of the 2010, 2011 and 2012 Business Plan and Budget filings, NERC provided two sets of metrics information. The first metrics attachment 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 second metrics attachment focused on the NERC and Regional

⁶⁹ 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.

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 7 and **Attachment 8** provide the same metrics information, in the same format, as presented in of the relevant attachments in the 2010, 2011 and 2012 Business Plan and Budget filings, from NERC's and the Regional Entities' 2013 Business Plans and Budgets. Each Attachment contains analysis and discussion of the metrics information presented in that Attachment.

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

In its 2010, 2011 and 2012 Business Plan and Budget filings, NERC provided status reports on the progress achieved by NERC and the Regional Entities in reducing the backlog of alleged violations of reliability standards that had not been processed to completion.⁷⁰ The status reports also described the initiatives being undertaken by NERC and the Regional Entities to process new allegations of violations in a more expeditious manner. As noted, in its 2010, 2011 and 2012 Business Plan and Budget filings, NERC provided this information in a separate Attachment. However, in this 2013 Business Plan and Budget filing, NERC has incorporated the status report into the Compliance Enforcement section of its Business Plan and Budget, at pages

⁷⁰ 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 included in the 2011 Business Plan and Budget filing, and the 2012 Business Plan and Budget filing.

48-51 and 54 of **Attachment 2**, where the information specified in P 37 of the FERC *2011 Budget Order* is provided as of June 30, 2012. The information presented shows that NERC and the Regional Entities have made steady progress in closing out older violations; as of June 30, 2012, approximately 57% of the active violations were discovered in the preceding 12 months and 74% were discovered in the preceding 18 months, while only about 10% of the active violations were discovered prior to January 1, 2010. Further, in 9 of the 12 months ended June 30, 2012, the number of violations dismissed or filed with FERC exceeded the number of new violations opened.

Respectfully submitted,

Gerald W. Cauley
President and Chief Executive Officer
Michael Walker
Senior Vice President and Chief
Financial and Administrative Officer
North American Electric Reliability
Corporation
3353 Peachtree Road
Suite 600, North Tower
Atlanta, GA 30326
(404) 446-2560
(609) 467-0474 – facsimile

/s/ Charles A. Berardesco
Charles A. Berardesco
Senior Vice President and General Counsel
Rebecca J. Michael
Associate General Counsel for Corporate
and Regulatory Matters
North American Electric Reliability Corporation
1325 G Street, N.W., Suite 600
Washington, D.C. 20005
(202) 400-3000
(202) 644-8099 – facsimile
Charles.berardesco@nerc.net
rebecca.michael@nerc.net

ATTACHMENTS 1 – 8

(Available on the NERC Website at
http://www.nerc.com/fileUploads/File/Filings/Attachments_2013_BP_Central.pdf)