

November 10, 2015

VIA ELECTRONIC FILING

Veronique Dubois
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RE: *North American Electric Reliability Corporation*

Dear Ms. Dubois:

The North American Electric Reliability Corporation ("NERC") hereby submits Notice of Filing of the North American Electric Reliability Corporation of its 2016 Business Plan and Budget and the 2016 Business Plans and Budgets of Regional Entities and of Proposed Assessments to Fund Budgets. NERC requests, to the extent necessary, a waiver of any applicable filing requirements with respect to this filing.

Please contact the undersigned if you have any questions.

/s/ Holly A. Hawkins

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

Enclosure

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**BEFORE THE
RÉGIE DE L'ÉNERGIE
THE PROVINCE OF QUÉBEC**

**NORTH AMERICAN ELECTRIC)
RELIABILITY CORPORATION)**

**NOTICE OF FILING OF THE
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
OF ITS 2016 BUSINESS PLAN AND BUDGET AND
THE 2016 BUSINESS PLANS AND BUDGETS OF REGIONAL ENTITIES
AND OF PROPOSED ASSESSMENTS TO FUND BUDGETS**

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ATTACHMENTS

Attachment 1: Summary tables showing NERC’s proposed 2016 budget; the proposed 2016 budget for statutory activities of each Regional Entity; and the 2016 U.S. ERO statutory assessments of NERC and the Regional Entities.

Attachment 2: NERC’s Proposed 2016 Business Plan and Budget

Attachment 3: Northeast Power Coordinating Council, Inc. Proposed 2016 Business Plan and Budget

Attachment 4: Discussion of Comments Received During Development of NERC’s 2016 Business Plan and Budget.

Attachment 5: Calculation of Adjustments to the AESO 2016 NERC Assessment, the IESO 2016 NERC Assessment, the New Brunswick 2016 Assessment and the Québec 2016 NERC Assessment.

Attachment 6: Metrics Comparing Regional Entity Operations Based on the 2016 Budgets

Attachment 7: Metrics on NERC and Regional Entity Administrative (Indirect) Costs Based on the 2015 and 2016 Budgets

Attachment 8: Board of Trustees Remuneration Review – July 2015

Attachment 9: Information on NERC Costs in 2015 and 2016 Budgets for Cyber Risk Information Sharing Program

I. INTRODUCTION

The North American Electric Reliability Corporation (NERC) submits:

- (1) NERC's proposed Business Plan and Budget as the electric reliability organization (ERO), for the year ending December 31, 2016;
- (2) the proposed Business Plans and Budgets for the year ending December 31, 2016, for the Northeast Power Coordinating Council, Inc. (NPCC); and
- (3) NERC's proposed allocation of the proposed ERO statutory assessment of NERC, the Regional Entities, and Western Interconnection Regional Advisory Body (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 2016 budget by program, (ii) the proposed 2016 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 2016 Business Plan and Budget and the allocation of assessments by Region and LSE to recover the resulting statutory funding requirements for 2016 (as well as the assessments to recover the statutory funding requirements of the Regional Entities and WIRAB).

Attachments 3 contains the detailed 2016 Business Plans and Budgets of NPCC.

Attachment 4 describes how comments submitted by interested entities on posted drafts of NERC's 2016 Business Plan and Budget during the budgeting process were addressed in developing the final 2016 Business Plan and Budget.

Attachment 5 contains the calculation of the adjustment to the Alberta Electric System Operator (AESO) 2016 NERC assessment, the adjustment to the Ontario Independent Electric System Operator (IESO) 2016 NERC assessment, the adjustment to the New Brunswick 2016 NERC assessment, and the adjustment to the Québec 2016 NERC assessment, for credits for certain NERC Compliance Program and Event Analysis and Situation Awareness Program costs.

Attachment 6 provides metrics, based on the 2016 budgets, comparing Regional Entity operations.

Attachment 7 contains metrics, based on the 2015 and 2016 budgets, on NERC and Regional Entity administrative (indirect) costs.

Attachment 8 is the summary report on Board of Trustee Remuneration, dated July 2015, prepared for NERC by the Towers Watson consulting firm.¹

Attachment 9 contains information on NERC Costs in 2015 and 2016 Budgets for Cyber Risk Information Sharing Program.

The filing contains NERC's proposed entire annual budget for statutory and non-statutory activities for the ERO's fiscal year. NERC's 2016 fiscal year will begin January 1, 2016. The filing also contains the entire annual budget of each relevant Regional Entity for statutory and non-statutory activities and supporting materials, including the ERO's and each Regional Entity's complete business plan and organization chart, and explanation of the proposed collection of all dues, fees and charges and the proposed expenditure of funds collected.

II. NOTICES AND COMMUNICATIONS

Notices and communications concerning this filing may be addressed to:

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¹ **Attachment 8** is provided with this Business Plan and Budget filing in accordance with Paragraph 12(a) of the Settlement Agreement for the Federal Energy Regulatory Commission's 2011 financial performance audit of NERC.

III. OVERVIEW OF PROPOSED BUDGETS AND FUNDING REQUIREMENTS

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

1. Organization of NERC's 2016 Business Plan and Budget

In this filing NERC provides notice of its 2016 Business Plan and Budget. NERC's 2016 Business Plan and Budget is organized based on its statutory program areas:

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

Each of these program areas carries out or supports implementation of one or more of the statutory activities of the ERO as specified in §215 of the FPA and the Federal Energy Regulatory Commission's ("FERC") regulations and orders.² Detailed explanations of the functions and activities performed by each of these programs is provided in the individual

² Exhibit B to the 2016 Business Plan and Budget (**Attachment 2**) describes how the major activities in the 2016 Business Plan and Budget meet the criteria for determining whether a reliability activity is eligible to be funded under FPA §215. FERC approved the FPA §215 criteria (with modifications to the criteria originally proposed by NERC) in *North American Electric Reliability Corporation, Order on Compliance*, 143 FERC ¶ 61,052 (2013) (*FPA §215 Criteria Order*).

subsections of Section A of **Attachment 2** where the detailed plans, objectives and activities for each program or group in 2016, and its 2016 budget, are discussed.

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

In its 2016 Business Plan and Budget, NERC has continued to provide a high level of granularity in the presentation of its planned activities and budgeted expenditures:

- Individual budgets and the related supporting information are presented for a total of nine statutory programs or departments.
- As was done in the 2013, 2014 and 2015 Business Plans and Budgets, in Section A of its 2016 Business Plan and Budget (**Attachment 2**), NERC has provided a discussion of each program's or department's current activities and its 2016 goals and deliverables, as well as additional detail concerning the Consultants & Contracts expenses budgeted (if any) for the program or department.
- Also as was done in the 2013, 2014 and 2015 Business Plans and Budgets, in Exhibit C of the 2016 Business Plan and Budget (**Attachment 2**), NERC has provided detailed information on the activities and projects within each of the statutory programs and groups and Administrative Services departments for which Consultants & Contracts expense is budgeted.
- In Exhibit D of the 2016 Business Plan and Budget (**Attachment 2**), NERC has provided information on its capital financing program through which NERC is financing the development cost of certain software applications and hardware projects and amortizing the recovery of the principal and interest payments through its budgets and assessments over several years, rather than including the entire cost of the projects in the current year assessments.
- In Exhibit E of the 2016 Business Plan and Budget, NERC provides a discussion of its working capital and operating reserves requirements, in accordance with its Working Capital and Operating Reserve Policy that was adopted in 2012 and amended in 2013 and, most recently, in 2015. This discussion includes explanation of

³ No activities are planned and no budget is requested for Technical Committees and Member Forums.

the proposed use of the Assessment Stabilization Reserve to reduce the proposed 2016 assessments to LSEs below the levels that would otherwise be required to support 2106 activities (this proposal is also discussed in §IV.D, below).

- In the General and Administrative section of its 2016 Business Plan and Budget (**Attachment 2**), NERC has separately identified the amounts budgeted for Board of Trustee compensation and expenses (costs of quarterly Board and Board committee meetings, Trustee Travel expenses, Trustee fees, and Trustee search fees). *See* page 71 of **Attachment 2**.⁴
- In the IT department budget, NERC has provided detailed cost information on both Operating Expenses (budgeted as Office Costs), such as Telephone, Internet, Computer Supplies, Computer Maintenance and Service Agreements, and Software; and on budgeted capital expenditures for IT projects.
- In Table B-9 of its 2016 Business Plan and Budget (**Attachment 2**), NERC has provided budgeted 2016 amounts for miscellaneous expenses, employee rewards and recognition expenses, community responsibility and employee engagement expenses, and expenses for a year-end employee recognition event.⁵

The NERC's 2016 Business Plan and Budget is contained in **Attachment 2** to this filing.

The initial section of **Attachment 2**, About NERC, provides an overview of NERC's organization, membership and governance, scope of oversight responsibilities, delegated authorities to Regional Entities, the ERO Enterprise operating model,⁶ statutory and regulatory background, and source of funding.

The Introduction and Executive Summary summarizes NERC's total resource requirements for 2016 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

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

⁵ This presentation addresses agreed Recommendation 22 from FERC's 2011 financial performance audit of NERC.

⁶ NERC uses the term "ERO Enterprise" to refer to NERC and the eight Regional Entities.

countries. It also highlights NERC's strategic goals, objectives and performance metrics and its priorities and major activities for 2016 and the 2016 key business planning assumptions.⁷ Finally, it provides an overview of NERC's budget and funding requirements for 2016 by major areas of expenditures.

NERC's 2016 strategic goals and objectives to carry out its statutory mission are based on the 2015-2018 *ERO Enterprise Strategic Plan*, approved by the NERC Board of Trustees in November 2014, as described in the Introduction and Executive Summary of the 2016 Business Plan and Budget. The 2016 strategic goals and objectives and priorities and major activities are focused on the areas of (i) continuing to implement NERC's risk-based strategy, with a focus on a set of current high-priority risk projects focused on risks to the reliability of the Bulk Electric System (BES) from changing resource mix, extreme physical events, cybersecurity threats, protection system misoperations, extreme weather preparedness, and right-of-way clearances; (ii) physical and cyber security of the BES; (iii) continuing to implement risk-based compliance monitoring and enforcement operations; (iv) implementing the revised BES definition; (v) continuing to implement a risk-based registration system including responding to requests for additional information from FERC;⁸ and (vi) transforming the NERC Reliability Standards to a steady state.⁹

The Introduction and Executive Summary of the 2016 Business Plan and Budget describes the focus of NERC and the Regional Entities on controlling costs and making

⁷ A detailed statement of the 2015-2018 Shared Business Plan and Budget Assumptions developed and used by NERC and the Regional Entities in developing their 2016 Business Plans and Budgets and 2017 and 2018 budget projections is provided in Exhibit A to **Attachment 2**.

⁸ See *North American Electric Reliability Corporation, Order on ERO Risk Based Registration Initiative and Requiring Compliance Filing*, 150 FERC ¶ 61,213 (2015).

⁹ NERC defines "steady state" Reliability Standards as a set of clear, concise, high-quality, and technically sound Reliability Standards that are results-based, and reflect the retirement of requirements that do little to promote reliability.

improvements to systems and processes to improve efficiency of operations and mitigate cost impacts on registered entities and LSEs. It then provides an overview of the resource requirements and other factors driving NERC's proposed 2016 Budget. NERC is proposing an overall 2016 budget increase of \$537,357 (0.8%) over the 2015 Budget. This comparison includes the 2015 and 2016 budgeted expenditures for the Cyber Risk Information Sharing Program (CRISP). The CRISP expenditures included in NERC's 2016 budget, \$7,973,019, will be primarily funded (\$6,830,738) by participating utilities.¹⁰ The remaining funding for CRISP will come from Assessments (\$1,108,641), Penalty Sanctions (\$33,572), and Interest (\$68). Budgeted CRISP expenditures are reduced by \$1,348,104 from the 2015 budget, due largely to the completion of startup activities. With CRISP expenditures excluded, NERC's 2016 budget represents an increase of \$1,885,460 (3.3%) from its 2015 budget.¹¹

As compared to the 2015 budget, the proposed 2016 budget (including CRISP) reflects an increase of \$1,480,495 (4.1%) in Personnel Expenses; an increase of \$54,140 (1.5%) in Meeting Expenses; and a decrease of \$959,843 (3.7%) in Operating Expenses. As shown on page 15 of **Attachment 2**, the 2016 budget reflects an overall increase of only 0.2 FTE in staffing from the 2015 budget, although there are increases or decreases in budgeted FTEs for each program area or department, due in whole or in part to the full or partial reallocation of personnel from one program area to another.¹²

The Introduction and Executive Summary also provides an overview of increases and decreases in Consultants & Contracts expenses, by program area, from the 2015 budget.

¹⁰ Funding received from third parties for CRISP is placed in a separate account to be utilized solely to fund CRISP expenses.

¹¹ The 2016 Business Plan and Budget includes detailed comparisons of the 2016 budget to the 2016 budget, both with and without CRISP. See pages 16 and 17 of **Attachment 2**.

¹² Another factor impacting the change in budgeted FTE by department from 2015 to 2016 is a change in the assumed vacancy rate (adjustment for personnel attrition and hiring delays) for budgeted positions.

(Consultants & Contracts expense is a component of the budget for Operating Expenses, referred to in the preceding paragraph.) The proposed 2016 budget provides for an overall decrease in Consultants & Contracts expense of \$1,445,554 (10.1%) from the 2015 budget, with \$5,888,594 of the budgeted Consultants & Contracts expense for 2016 attributable to CRISP (a reduction of \$1,777,461 in budgeted Consultants & Contracts expense for CRISP).

Finally, the Introduction and Executive Summary section identifies the major components of NERC's proposed 2016 capital budget. NERC is budgeting \$3,911,000 of capital expenditures for 2016, an increase of \$292,500 (8.1%) over the 2015 budget. Net of Depreciation, the budgeted Fixed Assets expenditures for 2016 are \$16,437 (1.3%) lower than in the 2015 budget.

NERC's 2016 resource and funding requirements reflect a variety of steps that have been taken during the last three years to control costs and increase the efficiency of NERC's operations. These steps include development of a coordinated long term ERO Enterprise information technology program for development and improvement of enterprise software tools for use by NERC and the Regional Entities; focused efforts to control travel and meeting expenses and outside contractor, consultant and legal expenses; transitioning financial responsibility for certain reliability tools from NERC to industry; development of more efficient and streamlined compliance enforcement methods, which have enabled staffing reductions; and reallocations of personnel among departments in accordance with current reliability needs. NERC management evaluates resource needs and allocations on an ongoing basis to ensure proper alignment between resources and priorities set forth in the ERO Enterprise Strategic Plan.

The Introduction and Executive Summary provides tables showing (1) the 2015 Budget, 2016 Budget, and change from the 2015 Budget to the 2016 Budget, for each of the statutory

programs and in total; and (2) the budgeted FTEs per the 2015 Budget and the 2016 Budget and the increase or decrease, for each of the statutory programs and Administrative Services functions. The Introduction and Executive Summary presents NERC's overall Statement of Activities and Fixed Asset Expenditures, showing information from the approved 2015 Budget, the 2015 Projection, and proposed 2016 Budget, reflecting the proposed overall increase in the Total Budget (including CRISP) of \$537,357 over the 2015 Budget.¹³

NERC's proposed 2016 statutory assessment to LSEs is \$57,081,445, which is \$1,773,070, or 3.2%, higher than the 2015 statutory assessments, and which takes into account NERC's budgeted non-assessment Funding sources in 2015 and 2016. The non-assessment Funding sources in the 2016 Budget consist of \$6,830,738 of Third-Party Funding for CRISP, \$1,439,000 of Penalty payments, \$50,000 of revenues from Services & Software, \$1,867,972 of Testing Fees, \$230,000 in attendance fees for Workshops, and \$3,000 in Interest income, and in the aggregate are \$1,642,179 lower than in the 2015 Budget.

Finally, the Introduction and Executive Summary presents NERC's budget projections for 2017 and 2018 (*see* §III.F below for further discussion of the 2017-2018 budget projections).

Section A of **Attachment 2** is NERC's detailed 2016 Business Plan and Budget. Section A provides program scope and functional descriptions, descriptions of key efforts under way in the current year, 2015, the 2016 goals and deliverables, and explanations of increases or decreases in Personnel Expenses and Consultants & Contracts expense for 2016 over the 2015 budget, for each of NERC's statutory programs (and groups or departments for those statutory programs that are comprised of more than one group or department) and for the Administrative Services functions. Section A includes a table at the start of the subsection on each statutory

¹³ The 2015 Projection is NERC's June 2015 projection of 2015 financial results.

program or department showing total FTEs, total direct expenses, total indirect expenses, other non-operating expenses, increase or decrease in Fixed Assets, and total budget for the statutory program (department) for the 2016 budget, with the comparable data from NERC's 2015 budget and the increase or decrease from the 2016 budget.¹⁴ For the Administrative Services functions, this table shows, for each of the five Administrative Services functions,¹⁵ the 2015 budget amount, 2016 budget amount, and the change from 2015 to 2016, as well as budgeted 2015 FTEs, budgeted 2016 FTEs, and the change in FTEs from the 2015 budget to the 2016 budget. A detailed Statement of Activities, Fixed Asset Expenditures and Changes in Working Capital is also provided for each statutory program or department, and for the Administrative Services functions in the aggregate. The Statements of Activities show funding and expenditure information from the 2015 budget, the 2015 projection and the 2016 budget, as well as variances from the 2015 budget to the 2015 projection and from the 2015 budget to the 2016 budget.

In the Statements of Activities for each program or department, Funding is shown from the NERC Assessments and, as applicable, from other anticipated sources (Penalty Sanctions, Testing Fees, fees from Services & Software, fees from Workshop attendance, Interest income, Third-Party Funding, and Miscellaneous Funding).¹⁶ 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,

¹⁴ Indirect expenses are the amount of Administrative Services expenditures that have been allocated to each of the statutory programs, on the basis of relative numbers of FTEs in each statutory program.

¹⁵ General and Administrative, Legal and Regulatory, IT, HR, and Finance and Accounting.

¹⁶ Some of these other sources of Funding are anticipated only for certain of the statutory programs. For example, Third-Party Funding is budgeted only for the ES-ISAC, since the ES-ISAC is responsible for managing NERC's participation in CRISP. Income from Testing Fees is budgeted only for the Training, Education, and Operator Certification Program. Additionally, for the 2016 budget, NERC has no funding budgeted from Miscellaneous sources.

Depreciation); and Other Non-Operating Expenses.¹⁷ Finally, the Statements of Activities show Fixed Assets activity, comprised of Depreciation (an equal and offsetting amount to the Depreciation included in Operating Expenses¹⁸), Computer & Software CapEx, Furniture & Fixtures CapEx, Equipment CapEx, Leasehold Improvements, and the Allocation of Fixed Assets activity from the Administrative Services programs.

Section B of **Attachment 2** provides Supplemental Financial Information comprised of tables detailing the components of certain Funding and Expense categories and explanations of variances from the 2015 budget, including analysis of the Working Capital and Operating Reserve balance (Table B-1), Penalties (Table B-2), Outside Funding (Table B-3), Personnel Expenses (Table B-4), Office Rent (Table B-6), Office Costs (Table B-7), Professional Services (Table B-8), Miscellaneous Expenses (Table B-9), and Other Non-Operating Expenses (Table B-10). As was the case in NERC's 2013, 2014 and 2015 Business Plans and Budgets, Table B-5, Consultants & Contracts Expenses, which was provided in NERC's Business Plans and Budgets for years prior to 2013, has been replaced with a more detailed presentation of Consultants & Contracts Expense in Exhibit C to **Attachment 2**.

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, Section C includes business plan and budget information on their non-statutory activities.

¹⁷ In NERC's 2016 Budget, Other Non-Operating Expenses are budgeted only in Administrative Services, to cover (i) property tax obligations in Atlanta, Georgia on the value of property and equipment in NERC's Atlanta office and data center, and (ii) anticipated interest expense that will be incurred in 2016 under NERC's capital financing program. See Table B-10 in **Attachment 2**.

¹⁸ As a result of this offset, the Funding requirements do not include funding for Depreciation.

Section D, Supplemental Financial Statements, of **Attachment 2** provides NERC's actual and projected Statements of Financial Position at December 31, 2014, 2015, and 2016. The data at December 31, 2014 is actual data per the independent financial audit of 2014 results;¹⁹ the data at December 31, 2015 is based on NERC's 2015 year-end Projection (as of June 30, 2015); and the data at December 31, 2016 is based on the detailed 2016 budget. In addition, Section D provides NERC's 2016 Consolidated Statement of Activities, showing its 2016 budgeted line-item Funding sources, Expenses, and Fixed Asset activity, in total and by statutory program and the Administrative Services functions, as well as the direct expenses and indirect expenses for each statutory program.

Exhibit A to **Attachment 2** contains the 2015-2018 Shared Business Planning and Budget Assumptions developed and used by NERC and the Regional Entities in preparing their 2016 Business Plans and Budgets and their 2017-2018 budget projections.

Exhibit B to **Attachment 2** describes how the major activities included in the 2016 Business Plan and Budget for each of NERC's direct function programs and Administrative Services functions meet the NERC written criteria for eligibility for FPA §215 funding as approved by FERC in the *FPA §215 Criteria Order*.

Exhibit C to **Attachment 2** contains a detailed list of NERC's budgeted 2016 Consultants & Contracts expenses, by program area and by major activity or project. Exhibit C also shows the 2015 budget amounts and the change in the 2016 budget from the 2015 budget.

Exhibit D to **Attachment 2** describes proposed borrowing and repayment activity under NERC's capital financing program for certain capital expenditures. Exhibit D shows the

¹⁹ The audited financial statements of NERC and each Regional Entity, except WECC, for 2014 were filed on June 17, 2015, in NERC's *Report of Comparisons of Budgeted to Actual Costs for 2014 (2014 Budget True-Up Report)*.

budgeted 2016 and projected 2017 and 2018 borrowings under the capital financing program, the projected year-end outstanding debt balance at the end of each year, and the annual payments for debt service (principal and interest) for each year, based on the loan structure terms and projected interest rates. Expenditures and debt service payments for 2014 and 2015 are also shown.

Exhibit E to **Attachment 2** provides the budgeted 2016 amounts for Working Capital and Operating Reserves pursuant to NERC's Working Capital and Operating Reserve Policy adopted in 2012 and amended in 2013 and 2015.²⁰ The policy provides for the separate budgeting and tracking of working capital and operating reserves.²¹ Section IV.B below provides further discussion of the 2016 budgeted amounts for working capital and each category of operating reserves.

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

Appendix 2 to **Attachment 2** contains the calculation of the NEL-based allocation factors for each LSE and designee and the allocation of the NERC, Regional Entity and WIRAB statutory assessments, by allocation method, to each LSE and designee, for 2016.²² Development of the assessments presented in the Appendices is discussed in more detail in §III.A.3 and III.D below.

The detailed information in the Introduction and Executive Summary and in Sections A and B and Exhibits A, B, C, D, and E of **Attachment 2** demonstrates that the programs included

²⁰ The most recently amended version of the Working Capital and Operating Reserve Policy was filed on September 10, 2015.

²¹ The Working Capital and Operating Reserve Policy also sets forth guidelines and authorities regarding access to Working Capital and Operating Reserve funds.

²² The NEL-based allocation factors are calculated using NEL data for 2014, which is the most current actual NEL data available as of August 2015. 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 2016 Budget is based on actual NEL data for the second preceding calendar year, 2014.

in NERC's 2016 Business Plan and Budget are necessary and appropriate to carry out NERC's responsibilities as the ERO and that the specific resource requirements budgeted meet the objectives for affordability, sustainability and efficiency and effectiveness of the ERO's expenditures. The discussion in the text and exhibits of **Attachment 2**, as well as in this narrative, demonstrates how the activities and expenditures included in NERC's 2016 Business Plan and Budget lend themselves to accomplishment of NERC's statutory responsibilities and objectives as the ERO.

2. Development of the 2016 Business Plans and Budgets

NERC prepared its 2016 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 Finance and Audit Committee (FAC) of the NERC Board, as well as by stakeholders. During the development process, successive versions of the 2016 NERC and Regional Entity business plans and budgets were discussed in meetings and conference calls of the FAC and of the full NERC Board, in each case with opportunities for stakeholders to make comments.²³ Throughout the development of its 2016 Business Plan and Budget, NERC management also held a number of conference calls with a Business Plan and Budget Input Group formed by the NERC Member Representatives Committee (MRC). The following list highlights important steps in the preparation of the NERC and Regional Entity 2016 Business Plans and Budgets:

- During the fourth quarter of 2014 and early first quarter of 2015, the ERO Executive Management Group (ERO EMG), comprised of NERC and Regional Entity chief executives or equivalents, met to review strategic goals and objectives for 2016.

²³ During the process of developing NERC's Business Plans and Budget, comments were received from stakeholders on posted drafts of the Business Plan and Budget. **Attachment 4** describes how stakeholder comments were considered and addressed in NERC's final 2016 Business Plan and Budget.

- On October 15, 2014, the NERC Board of Trustees requested policy input on the proposed 2015-2018 *ERO Enterprise Strategic Plan* and metrics.
- The November 12, 2014 MRC meeting included review of the input on the draft 2015-2018 *ERO Enterprise Strategic Plan* and metrics.
- On November 13, 2014, the NERC Board approved the 2015-2018 *ERO Enterprise Strategic Plan* and metrics.
- The February 11-12, 2015 MRC and NERC Board meetings included the provision and review of policy input to the Board concerning the NERC 2016 Business Plan and Budget and a review by NERC management of the preparation schedule for the 2016 Business Plan and Budget.
- On March 24, 2015, the Corporate Governance and Human Resources Committee (CGHRC) of the NERC Board met in closed session to review the compensation and benefit assumptions for the NERC 2016 Business Plan and Budget.
- During February and March 2015, the NERC program areas provided input to the NERC Finance and Accounting department on their business plans and budget requirements for 2016..
- During the first four months of 2015, NERC and the Regional Entities worked collaboratively in the development of their business plans and budgets, including the development of common business planning and budget assumptions.
- In mid-April 2015, the Regional Entities submitted preliminary drafts of their 2016 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 similar to the common template used for the 2011 through 2015 NERC and Regional Entity Business Plans and Budgets. NERC program managers reviewed the sections of the draft Regional Entity business plans and budgets relevant to the program manager's program area and, where necessary, provided feedback to their Regional Entity counterparts.
- On April 23, 2015, NERC management met with representatives of trade associations and the MRC Business Plan and Budget Input Group to discuss the NERC 2016 Business Plan and Budget.
- On April 23, 2015, a closed meeting of the NERC FAC was held with NERC management to review personnel (staffing), contracts and consultants, and other assumptions for the 2016 Business Plan and Budget.
- On or about May 1, 2015 (specific dates for each Regional Entity varied), the Regional Entities provided first drafts of their 2016 Business Plans and Budgets to NERC.

- The May 6, 2015 MRC meeting included review of policy input for the 2016 NERC Business Plan and Budget and a consolidated overview ERO Enterprise (*i.e.*, including the Regional Entities) 2016 Business Plan and Budget. NERC management presented a high-level summary of significant 2016 Business Plan and Budget items.
- The May 7, 2015 NERC Board meeting included a review of policy input for the 2016 NERC Business Plan and Budget and a review of the consolidated overview ERO Enterprise 2016 Business Plan and Budget.
- On May 19, 2015, Draft #1 of the NERC 2016 Business Plan and Budget, as well as a consolidated overview ERO Enterprise Business Plan and Budget, were posted on the NERC Website for a stakeholder review and comment period. Notification of the posting (and of all subsequent postings) was sent by e-mail to a broad distribution list of interested persons and entities. Three sets of written stakeholder comments were received during the comment period that ended June 30, 2015.²⁴ These comments were posted on NERC's website.²⁵
- Also on May 19, 2015, drafts of the Regional Entities' 2016 Business Plans and Budgets, along with an overview document for each Regional Entity Business Plan and Budget, were posted on the NERC website.
- Additionally, during May, 2015, the Regional Entities posted drafts of their 2016 Business Plans and Budgets on their respective websites for review and comment by their stakeholders, in accordance with each Regional Entity's public review process. (*See §III.B below for further discussion of the stakeholder review opportunities provided by each Regional Entity for its 2016 Business Plan and Budget.*)
- On May 27, 2015, a conference call with the NERC FAC and NERC management was held, and a webinar was conducted, to review the Draft #1 NERC 2016 Business Plan and Budget and Regional Entity 2016 Business Plans and Budgets. In this session, the Regional Entities made presentations concerning their 2016 Business Plans and Budgets to the NERC FAC.
- On June 1, 2015, representatives of NERC and of each of the Regional Entities met with FERC budget staff to provide an overview of Draft #1 of their respective 2016 Business Plans and Budgets.
- On June 7, 2015, NERC management met with the MRC Business Plan and Budget Input Group to review the draft NERC 2016 Business Plan and Budget and to obtain informal input from the MRC Business Plan and Budget Input Group. This meeting

²⁴ Comments were submitted by (1) the Edison Electric Institute, (2) the Canadian Electricity Association, and (3) the IESO. On July 15, 2015, NERC posted on its website, and provided stakeholders with notice of, a response to these comments. NERC's responses are provided in **Attachment 4** to this filing.

²⁵ <http://www.nerc.com/gov/bot/FINANCE/Pages/2016-NEEC-Business-Plan-and-Budget.aspx>.

was conducted in a conference call format that allowed other MRC members and stakeholders to participate.

- At various dates from late May to late June 2015, the Boards or other governing bodies of the Regional Entities met to review and approve their respective proposed 2016 Business Plans and Budgets, and the approved Regional Entity Business Plans and Budgets were transmitted to NERC. The approved Regional Entity Business Plans and Budgets were submitted to NERC in early July.
- On July 7, 2015 (following the receipt of the written comments on the posted Draft #1 of the NERC 2016 Business Plan and Budget), NERC management met with the MRC Business Plan and Budget Input Group and trade associations to discuss the comments received and to receive additional input. This meeting was conducted in a conference call format that allowed other MRC members and stakeholders to participate.
- On July 9, 2015, a closed call was held with the NERC FAC to review personnel, contracts, and other assumptions in the 2016 Business Plan and Budget.
- On July 15, 2015, the final draft of the NERC 2016 Business Plan and Budget, as well as the proposed 2016 NERC and Regional Entity assessments, were posted on the NERC website. Any additional stakeholder comments were requested, with a due date of July 31, 2015.²⁶
- Also on July 15, 2015, the final, approved versions of the Regional Entity 2016 Business Plans and Budgets were posted on the NERC website. (Several of the Regional Entity Business Plans and Budgets were subsequently revised and reposted to reflect minor corrections or updates.)
- On July 22, 2015, a conference call with the NERC FAC and NERC management was held, and a webinar was conducted, to review the final draft NERC 2016 Business Plan and Budget, the final Regional Entity 2016 Business Plans and Budgets, and the consolidated ERO Enterprise 2016 Business Plan and Budget.
- On August 4, 2015, the final version of the NERC 2016 Business Plan and Budget and Regional Entity 2016 Business Plans and Budgets, including the proposed NERC and Regional Entity 2016 assessments, were posted on the NERC website for the upcoming MRC, FAC and NERC Board meetings.
- At its August 12, 2015 meeting, the NERC FAC recommended NERC Board approval of the 2016 Business Plans and Budgets and associated statutory assessments for NERC, the Regional Entities and WIRAB.

²⁶ No comments were submitted on the final draft of the NERC Business Plan and Budget. Comments on WECC's Business Plan and Budget were submitted to NERC and are available at: <http://www.nerc.com/gov/bot/FINANCE/Pages/2016-NERC-Business-Plan-and-Budget.aspx>.

- The final 2016 Business Plans and Budgets of NERC and the Regional Entities were presented to the NERC MRC at its August 11, 2015 meeting.
- At its August 13, 2015 meeting, the NERC Board approved the 2016 Business Plans and Budgets and the proposed 2016 statutory assessments for NERC, the Regional Entities and WIRAB.

In summary, the processes followed by NERC and the Regional Entities to develop the proposed 2016 Business Plans and Budgets were thorough and comprehensive, involved significant input from NERC and Regional Entity management and financial and program area staffs, as well as iterative review and comment by the NERC FAC, and provided numerous opportunities for stakeholder input and comment, including in particular from the MRC Business Plan and Budget Input Group and interested trade associations. NERC and the Regional Entities developed and used a set of shared business planning and budget assumptions (provided in Exhibit A to **Attachment 2**) and a common business plan and budget format. The process was open and inclusive at all steps.

3. Summary of NERC's Proposed 2016 Budget and Funding Requirement

NERC's proposed 2016 total Funding requirement is \$67,502,155. This total encompasses U.S., Canadian and Mexican activities. The proposed 2016 Funding requirement represents an increase of \$130,891 (0.2%) as compared to the 2015 total Funding requirement of \$67,371,264. The 2016 budget is comprised of \$65,917,608 of Expenses (including Depreciation) and a \$1,269,057 increase in Fixed Assets (Capital Expenditures of \$3,911,000 less Depreciation of \$2,641,943²⁷). The 2016 Funding requirement reflects a provision for Working Capital and Operating Reserve funding of \$380,490, as well as (due to the capital financing plan) proceeds from financing activities of \$1,000,000 and debt service of \$1,055,000,

²⁷ As noted earlier, an end result of this budget presentation is that Funding is not being requested for Depreciation expense.

whereas the 2015 Funding requirement included a provision for Working Capital and Operating Reserve Funding of \$1,094,958.²⁸

As in past years, a portion of NERC's 2016 budget will be funded through Testing Fees charged to participants in certain NERC programs, including the System Operator Certification Program and the Continuing Education Program (budgeted at \$1,867,972, a \$197,972 (11.9%) increase from the 2015 Budget); by attendance fees for Workshops (budgeted at \$230,000, an \$11,300 (4.7%) decrease from the 2015 Budget²⁹); by revenues from Services & Software (budgeted at \$50,000, the same amount budgeted in the 2015 Budget); and by Interest earned on bank balances and short-term investments (budgeted at \$3,000, the same amount budgeted in the 2015 Budget). The Funding sources in the 2016 Budget also include \$1,439,000 of Penalty Sanctions payments, which is an increase from the \$1,155,000 of Penalty payments included in the 2015 budget.³⁰ Finally, funding for the 2016 budget includes \$6,830,738 of Third-Party Funding, representing funding provided by participating utilities and other entities to support NERC's participation in CRISP. This is a decrease in the Third-Party Funding for CRISP of \$2,112,851 from the CRISP funding provided in the 2015 budget.

²⁸ See §IV.B below and Table B-1 and Exhibit E in **Attachment 2**.

²⁹ NERC strives to set Workshop fees to cover the costs of presenting the workshops, such as costs to rent meeting space (if necessary) and prepare printed materials. The number of Workshops planned, of course, also impacts the projected total Workshop fee revenues.

³⁰ The NERC policy, *Accounting, Financial Statement and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards*, and §1107.2 of the NERC Rules of Procedure (ROP), specify that Penalty payments received by NERC or a Regional Entity during the period from July 1 of the second year preceding the budget year through June 30 of the year preceding the budget year are used to offset assessments to LSEs in the U.S. for the budget year, unless an alternative treatment is approved by the applicable governmental authority (as allowed by ROP §1107.4). NERC received \$4,710,000 of Penalty payments in the period July 1, 2014 – June 30, 2015, of which \$1,000,000 received on July 9, 2014, was used to offset 2015 assessments in the 2015 Business Plan and Budget. NERC proposes to place \$2,271,000 of the 2014-2015 Penalty payments into its Assessment Stabilization Reserve, leaving \$1,439,000 of Penalty payments to reduce the 2016 assessments. See Table B-2 of **Attachment 2** and §IV.D below.

These budgeted non-assessment sources of Funding are projected to be \$10,420,710 in total. Additionally, the 2016 budget includes a net requirement of \$55,000 for debt repayment from the capital financing program. Application of these funding sources results in a 2016 net Funding requirement of \$57,081,445 to be funded by assessments to LSEs. Of this amount, \$51,785,828 (90.72%) is allocated to the U.S., \$5,135,852 (9.00%) is allocated to Canadian provinces (in the aggregate), and \$159,765 (0.28%) is allocated to Mexico. Based on the aggregate NEL of Canada for 2014 on which the allocation of assessments is based,³¹ the proposed Canadian net funding requirement for NERC represents approximately \$0.0000098 per end-user kilowatt-hour.

NERC's 2016 Business Plan and Budget was developed and is organized based on its statutory programs and, where applicable, departments within each program (2015 budgeted amounts by program are shown for comparison):

<u>Program</u>	<u>2016 Budget</u>	<u>2015 Budget</u>
Reliability Standards	\$ 8,193,116	\$10,247,145
<u>Compliance Monitoring and Enforcement</u>		
Compliance Assurance ³²	\$ 9,420,903	\$ 5,737,572
Compliance Analysis, Certification and Registration	\$ 4,632,871	\$ 4,864,863
Compliance Enforcement	\$ 5,293,298	\$ 5,806,866
Reliability Assessment and Performance Analysis	\$ 9,918,728	\$ 9,825,750
<u>Reliability Risk Management</u>		
Situation Awareness	\$ 3,692,197	\$ 3,646,902
Event Analysis	\$ 5,355,795	\$ 4,203,169
ES-ISAC (including CRISP) ³³	\$16,767,525	\$18,366,117

³¹ 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**.

³² Regional Entity Assurance and Oversight in the 2015 budget.

³³ For the 2016 Business Plan and Budget, the Critical Infrastructure Department has been combined with the ES-ISAC budget, and there is not a separate budget for the Critical Infrastructure Department.

Training, Education and Operator Certification	<u>\$ 3,912,231</u>	<u>\$ 3,950,926</u>
	<u>\$67,186,665</u>	<u>\$66,649,309</u>

The budgeted amounts for each program incorporate a total budget for Administrative Services of \$30,442,435 (an increase of \$2,594,397 (9.3%) from the 2015 budget), which has been allocated to the budgets for the direct function programs in proportion to the numbers of FTEs budgeted for each direct function program.

The discussion in §IV below, as well as the detailed discussion of the individual programs (or of individual departments where the presentation is disaggregated to the department level within a program) in **Attachment 2**, demonstrates that each of NERC’s programs is necessary and appropriate to the execution of NERC’s responsibilities as the ERO. Section A of **Attachment 2** describes the activities encompassed in each program or department (Background and Scope), key activities under way in 2015, the 2016 Goals and Deliverables for the program or department, and the 2016 Resource Requirements for Personnel and Contractors and Consultants for the program or department. A Statement of Activities, Fixed Assets Expenditures and Changes in Working Capital showing the line item components of the 2016 budget (as well as, for comparison, the 2015 budget and the 2015 projection), is provided for each direct function program or department and for Administrative Services.

NERC proposes an allocation of its 2016 net funding requirement (statutory assessment) of \$57,081,445 to the Regional footprints as follows³⁴:

- FRCC \$ 2,907,605
- MRO \$ 3,754,043³⁵

³⁴ As described in §III.D below, the aggregate NERC statutory assessment has been allocated to the Regional footprints on the basis of (i) 8-Region NEL and (ii) 8-Region NEL to allocate adjustments (credits) to certain Canadian entities for CMEP, Event Analysis and Situation Awareness costs to the remaining LSEs. The detailed allocations of the NERC statutory assessment by allocation methodology are shown in Appendix 2 to **Attachment 2**.

• NPCC	\$ 6,919,438 ³⁶
• ReliabilityFirst	\$11,830,363
• SERC	\$13,315,250
• SPP RE	\$ 2,982,867
• Texas RE	\$ 4,416,501
• WECC	\$10,955.378 ³⁷

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.³⁸ NERC’s only sources of funding for its planned

³⁵ The total allocation to MRO consists of \$3,120,012 allocated to the U.S. and \$634,031 allocated to Canadian provinces.

³⁶ The total allocation to NPCC consists of \$3,717,358 allocated to the U.S. and \$3,202,080 allocated to Canadian provinces.

³⁷ The total allocation to WECC consists of \$9,495,872 allocated to the U.S., \$1,299,741 allocated to Canadian provinces and \$159,765 allocated to Mexico.

³⁸ 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 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.

programs and operations will be the assessments to users, owners, and operators of the bulk power system (BPS) provided for in the U.S. in 18 C.F.R. §39.4(e) and comparable collections from entities in Canada and Mexico, the other sources listed as “Funding” on its Statements of Activities and described above, including but not limited to Third-Party Funding for CRISP, and proceeds from the 2016 capital financing.³⁹

B. Regional Entity Proposed 2016 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 2016 to meet their responsibilities under the approved delegation agreements.

As described above in §III.A.2, NERC staff provided guidance to the Regional Entities in the development of their business plan and budget submissions, and worked collaboratively with the Regional Entities to develop a set of shared business planning and budget assumptions for the Regional Entities’ 2016 Business Plans and Budgets. Further, the Regional Entities prepared their 2016 Business Plans and Budgets using a common format. The use of the common format

³⁹ NERC’s 2016 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.

facilitates comparisons among the Regional Entities' budgets.⁴⁰ NERC and the Regional Entities also developed and utilized a set of Shared Business Plan and Budget Assumptions for 2016-2018, which are provided in Exhibit A of **Attachment 2**. Additionally, in developing their 2016 Business Plans and Budgets, NERC and the Regional Entities continued to use the set of consistent accounting principles for presentation of the budgets, and the common definition of administrative (indirect) costs, that were originally developed in connection with preparation of the 2010 Business Plans and Budgets.

As described in greater detail in §III.A.2 above, NERC management and staff worked iteratively with the Regional Entities from January through June, 2015, on the development of the Regional Entity 2016 Business Plans and Budgets. The Regional Entities submitted initial drafts of their Business Plans and Budgets to NERC in mid-April 2015, for internal review and feedback by NERC program area managers. On or about May 1, 2015, more developed drafts of each Regional Entity's 2016 Business Plan and Budget were submitted to NERC and, and these drafts were posted on the NERC website on May 19, 2015 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 2016 Business Plan and Budget on its own website for comment by its stakeholders, and/or provided other opportunities for stakeholder input, as follows:

⁴⁰ Although the eight Regional Entities and NERC used a common format for their 2016 Business Plans and Budgets, the Regional Entities in general continue to present their 2016 Business Plans and Budgets based on the five statutory programs of Reliability Standards; CMEP; RAPA; Training, Education and Operator Certification; and Situation Awareness and Infrastructure Security; whereas NERC has presented 2016 business plan and budget information disaggregated into three departments or functions for the CMEP and two departments or functions for Reliability Risk Management.

FRCC: FRCC posts its proposed budget to the FRCC website and sends a copy (along with all presentation materials that will be presented to the FRCC Board) to each Board Member, Corporate Compliance Finance and Audit Committee, Alternate Board Member, all Standing Committee Chairs, and all Voting Members from the Supplier, Non-Investor-Owned Utility Wholesale, Load Serving Entity, Generating Load Serving Entity, Investor Owned Utility, and General Sectors of the membership, approximately 45 days prior to the expected FRCC Board vote date. The recipients are encouraged to contact FRCC with any comments or questions, so they can be resolved prior to the Board meeting date. Ten days prior to the Board meeting at which the vote on the budget will take place, another distribution is made to the same recipients, and posted to the FRCC website with any changes from the first version. After approval is finalized the process is repeated with a copy marked as Final with the Approval Date. The FRCC Board approved FRCC's 2016 Business Plan and Budget on June 25, 2015.

MRO: MRO posted its draft 2016 Business Plan and Budget for comments on May 15, 2015. MRO's 2016 Business Plan and Budget was presented in several meetings of the MRO Board and its stakeholders. On June 18, 2015 MRO's Board of Directors approved a resolution that approved the 2016 budget, approved MRO's reserves policy, and affirmed that the budget is sufficient to complete MRO's delegated responsibilities.

NPCC: On April 17, 2015, a preliminary 2016 total NPCC Expense Budget, along with the Business Plans and Budgets for both the Regional Entity and Criteria Services divisions, were presented to NPCC's Finance and Audit Committee (NPCC FAC) for review and discussion. On May 6, 2015 NPCC posted Draft #1 of its 2016 Business Plan and Budget on its website for stakeholder review and comment. Draft #1 was presented to the NPCC Reliability Coordinating Committee for comment following this posting. NPCC did not receive any formal comments from either the posting or various presentations to the stakeholders on any of its draft 2016 Business Plans and Budgets during the posting periods. There were a few comments received after the May 27 comment period close, but the comments were received in time to share them with the NPCC FAC at its June 16 meeting. NPCC addressed the subjects commented on with both stakeholders and the NPCC FAC. The NPCC FAC unanimously endorsed the "Draft for Approval" as presented. On June 25, 2015, the "Draft for Approval" of the 2016 Business Plan and Budget was presented to the NPCC Board, noting stakeholder areas of concern, and a final version was approved.

ReliabilityFirst: ReliabilityFirst's Board of Directors approved the first draft of its 2016 Business Plan and Budget on April 21, 2015. On April 23, 2015, the 2016 Business Plan and Budget was posted to the Reliability First website for a 30 day industry review and comment period. ReliabilityFirst did not receive any comments. The final 2016 Business Plan and Budget was approved by the ReliabilityFirst Board on June 4, 2015.

SERC: The SERC Board approved Draft #1 of the SERC 2016 Business Plan and Budget at its April 2015 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 Administrative

Services 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 2016 Business Plan and Budget, no comments were received, and the final version was approved and posted on June 17, 2015.

SPP RE: SPP RE presented a summary of the preliminary budget at the SPP RE Trustees public meeting on April 27, 2015. Prior to the meeting, the preliminary budget was posted on SPP RE's website on April 20, 2015 and the SPP RE April 2015 newsletter indicated that the budget would be posted for comments through May 30, 2015. The final SPP RE 2016 Business Plan and Budget was presented to the Trustees for approval at the June 15, 2015 public meeting. SPP RE posts all Board of Trustee materials on its public website prior to the meetings. SPP RE received no formal comments from stakeholders regarding the 2016 budget.

Texas RE: Texas RE's 2016 Business Plan and Budget was presented in multiple meetings of the Texas RE Board and member representatives committee. There were no written or oral challenges to the 2016 Business Plan and Budget. Texas RE posted the draft 2016 Business Plan and Budget on April 22, 2015. The Board of Directors approved Texas RE's 2016 Business Plan and Budget on May 21, 2015.

WECC: WECC's draft 2016 Business Plan and Budget was posted on its website on May 2, 2015 for a two-week comment period. The WECC Board of Directors and WECC Members were notified of the posting. Nine sets of comments were received from stakeholders on the draft 2016 Business Plan and Budget. WECC posted a response to the comments on its website on June 5, 2015. WECC's Board approved WECC's 2016 Business Plan and Budget on June 24, 2015.

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

1. Adequacy of the resources and activities to perform delegated functions;
2. Alignment of the Regional Entity's goals, objectives and major activities to the ERO Strategic Plan;
3. Quality and completeness of the financial information presented, including:
 - a. Conformance with FERC budget reporting requirements,

- b. Separation of statutory and non-statutory activities,
 - c. Supporting detail for projections, and
 - d. Working capital and operating reserve budgets, policies and controls; and
4. Descriptions of efforts to improve efficiency and control costs.

Through the processes described above and in §III.A.2, NERC has been able to satisfy itself that each Regional Entity's 2016 Business Plan and Budget provides necessary and adequate resources to carry out the Regional Entity's delegated functions in 2016.⁴¹

The Regional Entities submitted their final 2016 Business Plans and Budgets, approved by their respective governing bodies, to NERC in July 2015. These Business Plans and Budgets were submitted to the NERC FAC and the NERC Board, and reviewed at their respective meetings held on August 12 and 13, 2015. The Regional Entities' 2016 Business Plans and Budgets were approved by the NERC Board at the August 13, 2015 meeting, for submission to the applicable governmental authorities.

The table below shows the budgets for statutory and (where applicable) non-statutory functions for each Regional Entity as presented in their respective 2016 Business Plans and Budgets.⁴² For all Regional Entities, the total budget amount for statutory functions includes total Expenses and Fixed Asset activity. Because each Regional Entity has one or more other sources of income (*e.g.*, attendance fees for workshops; Penalty payments received from Registered Entities) that will be used to offset the costs of performing delegated functions, the requested ERO funding (assessments) for the Regional Entities is less than their budgets for statutory activities. The fourth column shows the total (*i.e.*, for all jurisdictions) net statutory

⁴¹ 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.

⁴² MRO, ReliabilityFirst and SERC do not plan to perform any non-statutory activities in 2016.

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, 2016, 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	\$ 7,261,527	\$ 8,691,997	\$ 6,628,457
MRO	\$11,354,641	-----	\$10,891,562 ⁴³
NPCC	\$15,072,998	\$ 1,060,542	\$14,349,196 ⁴⁴
ReliabilityFirst	\$ 19,367,209	-----	\$19,367,209
SERC	\$ 15,866,845	-----	\$13,730,986
SPP RE	\$ 10,095,819	\$199,886,181 ⁴⁵	\$ 8,819,751
Texas RE	\$ 11,782,215	\$ 1,029,073	\$ 9,560,448
WECC	\$ 27,384,956	\$ 1,796,011	\$25,032,134 ⁴⁶

C. Western Interconnection Regional Advisory Board Funding Request

In its Order issued July 20, 2006, in Docket No. RR06-02-000 (*WIRAB Order*), FERC concluded that reasonable costs incurred by WIRAB for activities under §215(j) of the FPA can be funded through the ERO funding process.⁴⁷ As specified in P 35 of the *WIRAB Order*, WIRAB submitted to NERC a proposed 2016 Business Plan and Budget for §215(j) activities. NERC has reviewed WIRAB's submission and believes it complies with the requirements of P

⁴³ The statutory assessment for MRO of \$10,891,562 consists of \$9,071,087 allocated to the U.S. and \$1,820,475 allocated to Canadian provinces.

⁴⁴ The statutory assessment for NPCC of \$14,349,196 consists of \$8,959,216 allocated to the U.S. and \$5,389,980 allocated to Canadian provinces.

⁴⁵ The figure of \$199,886,181 is the total 2015 budget of Southwest Power Pool, Inc. (\$209,982,000) less the 2016 Budget of SPP RE for statutory activities of \$10,095,819. The overall annual budget of Southwest Power Pool, Inc. is prepared on a schedule that will not result in approval of its 2016 budget until October 2015..

⁴⁶ The statutory assessment for WECC of \$25,032,134 consists of \$21,722,495 allocated to the U.S., \$2,921,574 allocated to Canadian provinces and \$388,066 allocated to Mexico.

⁴⁷ *Order on Petition to Establish a Regional Advisory Body for the Western Interconnection*, Docket No. RR06-2-000, 116 FERC ¶61,061 (2006) (*WIRAB Order*), PP 33-37.

35 of the *WIRAB Order*.

WIRAB's proposed 2016 budget for expenses is \$1,370,274, which is an increase of \$356,693 (35.2%) from its 2015 budget. As it did in preparing its 2015 budget, WIRAB anticipates monitoring the activities of, and potentially offering advice to, both WECC and Peak Reliability (Peak). WIRAB also anticipates the need to continue to devote increased attention to physical and cyber security issues and to implementation of recommendations resulting from FERC and NERC's investigations of the September 2011 Southwest outage event, as well as to evaluating the reliability implications for the Western regional BPS of the U.S. EPA's Clean Power Plan. WIRAB is planning an increase in staffing of 1.50 FTEs from its 2015 budget, to 5.50 FTEs. With increased staffing, WIRAB's budgeted 2016 Personnel Expenses increase by \$152,200 (39.3%) over its 2015 budget. WIRAB's 2016 budget includes \$150,000 for Consultants & Contracts Expense (the same amount as provided in its 2015 budget) to provide technical expertise to WIRAB on issues related to grid operating practices, Reliability Standards and compliance, to support WIRAB in providing technically sound advice to WECC and Peak under §215(j) of the FPA. WIRAB is also budgeting increases totaling \$48,580 (45.8%) in Meetings and Travel Expenses to enable both WIRAB staff and representatives of the states and provinces to attend meetings of WECC and Peak, and because WIRAB will hold two major in-person meetings with participation of state and provincial agencies with electric power responsibilities in the Western interconnection.

WIRAB's proposed statutory assessment for 2016 is \$1,239,998, which is an increase of \$181,846 (17.2%) from its 2015 assessment. The assessment increase includes a \$129,726 decremental adjustment for Working Capital Reserve, as compared to a \$45,021 incremental adjustment in the 2015 budget. This incremental adjustment to the assessment is based on a

target Working Capital Reserve amount of \$100,000 at December 31, 2016 and a projected Working Capital Reserve at December 31, 2015 of \$229,726.

WIRAB's overall statutory funding (assessment) request of \$1,239,998 for 2016 consists of \$1,048,819 allocated to the U.S., \$174,010 allocated to Canadian provinces, and \$17,169 allocated to Mexico, all based on 2014 NEL.

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

The total ERO statutory funding requirement for 2016, net of other NERC and Regional Entity income sources, to be funded by assessments is \$166,508,186 consisting of \$57,081,445 for funding of NERC's programs and \$109,426,741 for funding of Regional Entity statutory activities and the WIRAB. NERC has allocated its statutory assessment of \$57,081,445 to the LSEs within each Regional footprint primarily on the basis of NEL, as described below.⁴⁸

First, a total of \$1,662,982 of adjustments (credits) to the allocations to the AESO, the IESO, New Brunswick and Québec for certain Compliance Monitoring and Enforcement Program (CMEP), Event Analysis and Situation Awareness (SAFNR⁴⁹) costs was allocated using 8-Region NEL. In accordance with NERC's *Expanded Policy on Allocation of Certain Compliance and Enforcement Costs*, adjustments were made in the calculations of the assessments to the AESO, the IESO, New Brunswick and Québec, to provide credits for certain activity costs. These adjustments recognize that entities in certain of these provinces (Ontario, Alberta and New Brunswick) expend resources to perform compliance and enforcement activities in those provinces that otherwise would be performed by NERC or a Regional Entity,

⁴⁸See Appendix 2-A of **Attachment 2** for the 2014 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 2014 is the most recent calendar year for which NEL data is available.

⁴⁹ SAFNR = Situation Awareness – FERC, NERC and the Regions.

and that the compliance and enforcement resources NERC needs for Alberta and Québec are reduced due to the very small number of entities subject to compliance and enforcement activities in those provinces. These adjustments also recognize that certain NERC activities, including the SAFNR program, either overlap with Canadian regulatory programs or, as in the case of SAFNR, are not used by these Canadian provinces, and therefore these provinces were not allocated a share of these costs. This credit amount was allocated to all other LSEs (Balancing Authorities) on the basis of NEL.

Attachment 5 shows the calculations of these adjustments to the allocations to the AESO, the IESO, New Brunswick and Québec. The allocation of the \$1,662,982 of adjustments (credits) to the allocations to the AESO, the IESO, New Brunswick and Québec for certain CMEP, Event Analysis and Situation Awareness costs is reflected in Appendix 2-C of **Attachment 2**.

Second, an allocation based on the 8-Region NEL was used to allocate \$57,081,445 of the NERC statutory assessment – comprised of \$58,520,402 of assessments less \$1,439,000 of Penalty payments – to the Regional footprints.⁵⁰ 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, 23.61% of NPCC's Compliance Monitoring and Enforcement and Organization Registration and Certification (CORC) Program costs, representing CORC program fundamentals, has been allocated among the six Balancing Authority Areas in NPCC on the basis of NEL; 51.18% of the CORC costs has been allocated between the U.S. and Canadian Balancing Authority Areas in NPCC using a compliance audit-based methodology; and the

⁵⁰ Because the Penalty payments are collected solely from U.S. Registered Entities, the Penalty payments are allocated solely to offset statutory assessments to U.S. LSEs.

remaining 25.21% of the CORC costs has been allocated between the U.S. and Canadian Balancing Authority Areas using an enforcement activity-based methodology. As directed in the *July 16, 2009 Budget Compliance Order*, PP 38-41, the portion of NPCC CORC costs allocated to the U.S. using the compliance audit-based methodology and the portion of NPCC CORC costs allocated to the U.S. using the enforcement activity-based methodology has then been re-allocated between the New England and New York Balancing Authority Areas based on NEL.⁵¹

Second, WECC's allocation of its assessment to the AESO for the Province of Alberta has been reduced by \$938,424, 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.⁵²

After allocating the appropriate portions of the NERC, Regional Entity and WIRAB funding requirements to the United States and Mexico, and taking into account the NEL-based allocations, the adjustments to the NERC allocations to the AESO, the IESO, New Brunswick and Québec, the adjustments to the NPCC allocations to Canadian provinces, and the adjustment to the WECC assessment to the AESO, the total ERO statutory assessment for 2016 allocable to Canadian LSEs is \$15,441,890, comprised of:

NERC Assessment:	\$5,135,852
Regional Entity Assessments:	\$10,306,038 (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 2016

⁵¹ The allocation of NPCC CORC Program costs is described in greater detail at pages 63-65 of the NPCC 2016 Business Plan and Budget, **Attachment 3**.

⁵² 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.

ERO statutory assessment of \$15,441,890 for the Canadian activities of NERC and the Regional Entities (including WIRAB). The table also shows the assessments per kWh based on the 2014 Canadian NEL of each Region.

Regional Entity	NERC Assessment	Regional Entity Assessment	Total Canadian Assessment	Assessment per kWh (2014 NEL)
MRO	\$634,034	\$ 1,820,475	\$ 2,454,506	\$0.0000515
NPCC	\$ 3,202,080	\$5,389,980	\$ 8,592,060	\$0.0000243
WECC	\$ 1,299,741	\$3,095,583 ⁵³	\$ 4,395,324	\$0.0000361
Total	\$ 5,135,852	\$ 10,306,038	\$15,441,890	\$0.0000295

NERC obtained from each Regional Entity a listing of the LSEs or their designees in the Region and a breakdown of the Region’s 2014 NEL by LSE or designee.⁵⁴ 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.⁵⁵ 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**.⁵⁶

NERC will directly invoice the approved assessments to LSEs or designees, or to the other entities to be billed, in all Regions except WECC.⁵⁷ WECC will invoice LSEs or

⁵³ The number for WECC includes the portion of the WIRAB assessment allocated to Canada

⁵⁴ For the NPCC Region, assessments are allocated on the basis of NEL in each Balancing Authority Area (New York, New England, Ontario, Québec, Nova Scotia and New Brunswick).

⁵⁵ Certain LSEs in MRO and WECC serve end users only in the U.S. or Mexico and not in the U.S. These LSEs were not allocated any portion of the ERO funding requirement allocated to Canadian end users, but were allocated appropriate portions, based on NEL (except as noted above), of the ERO funding requirement allocated to the U.S. or Mexico, as applicable.

⁵⁶ For reasons of administrative convenience billing and payment by LSEs of annual assessments less than \$100 will not be required.

⁵⁷ As indicated above, the assessments in the NPCC Region will be billed to a single entity for each of the six Balancing Authority Areas within NPCC. (NERC also directly bills La Régie de l’énergie du Québec,

Balancing Authorities or their designees within the WECC footprint, collect the assessments and remit the funds collected for the NERC, WECC and WIRAB assessments to NERC. These arrangements are provided for in Exhibit E to the delegation agreement with each Regional Entity.

E. Provision for Working Capital Reserve

In the development of their 2016 Business Plans and Budgets and their proposed assessment amounts to LSEs, NERC and the Regional Entities have taken into account the need to maintain appropriate amounts of working capital and operating reserves. NERC's Working Capital and Operating Reserve Policy, originally developed in 2012 and revised in 2013 and again in 2015, provides for budgeting and accounting for separate working capital and several categories of operating reserves with specified purposes; it 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. The amounts that NERC has budgeted for 2016 in the various reserves categories under its Policy, and the impacts on NERC's 2016 proposed statutory assessments, are discussed in §IV.B below and in Exhibit E to **Attachment 2**. The remainder of the discussion in this §III.E describes the development of the Regional Entities' Working Capital Reserve amounts and associated adjustments to assessments for 2016.

The process takes into account each Regional Entity's actual and projected Working Capital Reserves at December 31, 2014 and December 31, 2015, respectively, resulting from its accumulated prior years' surpluses and deficits, and results in an incremental or decremental adjustment to each Regional Entity's proposed 2016 statutory assessment amount, in order to arrive at its target Working Capital Reserve at December 31, 2016. Table B-1, Reserve Balance,

which is not a LSE, for the CMEP costs allocated to Québec, and, beginning in 2016, will directly bill the total assessment in New Brunswick. New Brunswick Power Corporation is the LSE in New Brunswick.)

in Section B of each Regional Entity's 2016 Business Plan and Budget, shows the calculation of the increment or decrement to the Regional Entity's requested 2016 assessment to achieve the Regional Entity's desired Working Capital Reserve at December 31, 2016. The calculations shown on Table B-1 take into account: (1) the Regional Entity's actual Working Capital Reserve (Deficit) at December 31, 2014, (2) assessment Funding, projected other Funding, and projected Expenses and Capital Expenditures for 2015, resulting in (3) a projected Working Capital Reserve at December 31, 2015, (4) the desired (target) Working Capital Reserve at December 31, 2016, (5) the budgeted Expenses and Capital Expenditures, and projected other funding sources (including Penalties collected from Registered Entities during the 12 months ended June 30, 2015), for 2016, resulting in (6) the increment or decrement to the requested 2016 assessments to achieve the target Working Capital Reserve at December 31, 2016.

As shown on Table B-1 in each Regional Entity's 2016 Business Plan and Budget, each Regional Entity (except SPP RE; *see* §V.B.6 below) has established a target Working Capital Reserve for 2016. The basis for each entity's Working Capital Reserve for 2016 is stated on its Table B-1 or explained elsewhere in the text of its 2016 Business Plan and Budget. Further discussion of the adjustment (increase or decrease) to each Regional Entity's proposed 2016 statutory assessment to achieve its target Working Capital Reserve is provided in the discussions of the individual Regional Entity 2016 Business Plans and Budgets in §V.B below.

As of the end of the second quarter of 2015, NERC and the Regional Entities are projecting year-end 2015 balances in working capital and operating reserves that are collectively \$11 million (55.8%), over the ending balance that were projected in their 2015 Business Plans and Budgets. This difference is due to higher beginning balances (\$10.5 million).

The table below shows the difference between the projected 2015 year-end balances in

working capital and operating reserves included in (i) the NERC and Regional Entity second quarter 2015 variance reports and (ii) the 2016 Business Plan and Budgets, by entity. The difference between the projected year-end balances for MRO, ReliabilityFirst, SERC, SPP RE, Texas RE and WECC are related to the timing difference in the preparation of the projections. The projections included in the 2016 Business Plans and Budgets were prepared earlier than the second quarter variance reports, based upon information available at the time, and were approved by their Boards prior to preparation of their second quarter 2015 variance reports. The table also includes the planned increase or decrease in reserves included in the 2016 Business Plan and Budget by entity. Funds in excess of projected starting working capital and operating reserve balances will be subject to applicable Regional Entity controls over the expenditure of such funds and will be taken into account in developing 2017 funding requirements.

Entity	2015 Projection per Q2 2015 Variance Report (\$)	2015 Projection per 2016 Budget (\$)	Variance - Q22015 Report versus 2016 Budget (\$)	2016 Budgeted Inc(Dec) in Reserves (\$)
NERC	6,313,523	6,313,523	0	2,496,104
FRCC	1,041,194	1,041,194	-	(436,070)
MRO	1,629,586	1,260,087	369,499	(326,829)
NPCC	3,935,947	3,932,546	3,401	(592,801)
ReliabilityFirst	2,139,804	1,055,079	1,084,723	590,176
SERC	4,930,621	3,288,284	1,642,337	(832,284)
SPP RE	3,508,817	1,276,068	2,232,749	(1,276,068)
Texas RE	4,102,676	4,288,102	(185,426)	(1,883,767)
WECC	2,726,673	2,394,170	332,503	844,377

30,328,841	24,849,056	5,479,785	(1,417,162)
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F. Budget Projections for 2017 and 2018

As it did its Business Plans and Budgets for each of the years 2008 through 2015, NERC is providing preliminary budget projections for the two years following the budget year (*i.e.*, 2017 and 2018).⁵⁸ This information is provided on pages 18-19 of **Attachment 2**.⁵⁹ These budget projections show that NERC’s 2017 total budget is projected to be approximately \$4.2 million, or 6.2%, above the 2016 total budget. For 2018, NERC’s total budget is projected to be approximately \$585,000, or 0.8%, lower than the amount projected for 2017. The significant assumptions underlying these projections include: (i) no increases in total FTEs over budgeted 2016 FTEs; (ii) Personnel and Benefits costs increases consistent with the 2016 budget assumptions; (iii) 2017 increase and 2018 decrease in Consultants & Contracts expense related to the NERC Grid Security Exercise, which is conducted every other year; (iv) debt service repayment obligations in connection with NERC’s capital financing program consistent with the projected capital forecast for Enterprise IT applications; and (v) no increase in expenditures related to CRISP except for Personnel and Benefits expense increases consistent with the general assumption (noted above) for these costs.

⁵⁸ The 2016 Business Plan and Budget of each Regional Entity also includes budget projections for 2017 and 2018.

⁵⁹ The NERC Board has not approved the 2016-2017 projections as official budgets, and NERC is not seeking approval of these budget projections by the applicable governmental authorities.

IV. DISCUSSION OF NERC BUSINESS PLAN AND BUDGET

A. 2016 Business Plan and Budget by Program

This section summarizes NERC's proposed 2016 Business Plan and Budget by statutory program and Administrative Services department. The proposed 2016 staffing and expenditure budgets for the individual NERC departments and programs are described in the subsections below. However, there are several aspects of NERC's 2016 budget that impact the budgets for all programs and departments.

First, in the 2016 budget, budgeted FTEs are maintained at approximately the same level as in the 2015 budget. However, some staff have been redeployed internally from one program or department to one or more other programs or departments which now have higher priority resource needs, including the need to address higher priority reliability risks.

Second, in presenting their budgeted staffing (FTEs) and related Personnel Expenses for 2016, all NERC programs and departments have applied a 7.8% vacancy rate reduction to FTEs to account for attrition and hiring delays. The vacancy rate adjustment reflects that actual staffing is typically less than budgeted staffing due to factors such as employees leaving NERC for other jobs and new positions being filled at a later date than was assumed in the preparation of the budget. In the 2015 NERC budget, a personnel attrition adjustment factor of 6% was used. The specific vacancy rate adjustment factor is based on review and analysis of historical attrition and vacancy rates and on the time it takes to recruit new personnel and bring them on board. The increase in the vacancy rate adjustment factor causes a slight downward reduction in the budgeted 2016 FTE and Personnel Expenses for each program and department (which may be fully or partially offset by other factors for the individual programs and departments).

Third, in the development of Personnel Expense in the 2016 budget, market-based

compensation and salary adjustments were assumed, based on guidelines established by the NERC CGHRC, market information provided by a nationally recognized compensation and benefits consulting firm, and other available data.

Fourth, budgeted Benefits Expense is increased for all programs (all other things equal) due to anticipated market increases in medical and dental plan cost from the 2015 budget, based on information provided by NERC's benefits consultants. However, NERC has been able to hold down health plan premium cost increases somewhat by restructuring its medical plan to a high deductible health savings account structure.

Fifth, Retirement Costs expense reflects the inclusion of incremental retirement plan funding for NERC's 457(f) plan, which was approved by the NERC Board in February 2015.

Sixth, budgeted Meetings and Travel Expense is kept relatively flat in the 2016 budget from the 2015 budget, reflecting the significant actions NERC has taken over the past several years to reduce these expenses, including by (1) implementing additional policies, systems and controls over Travel expenses, and (2) working with Regional Entities to share meeting space where possible.

Although the overall budgeted staffing for NERC's statutory direct programs is slightly reduced from the 2015 budget by 3.5 FTEs, there has been some reallocation of positions among the NERC programs to better align resources with needs, so that some statutory direct programs or departments are budgeted for increased staffing, and others for reduced staffing, as compared to the 2015 budget. The Administrative Services (Indirect) budget for expenses and Fixed Assets are allocated to the statutory direct programs on the basis of the ratio of the budgeted FTEs in each statutory program to the total budgeted statutory program FTEs. The changes in the numbers of FTEs budgeted for each statutory direct program for 2016 impact the allocation

of the Administrative Services costs among the statutory direct programs.

1. Reliability Standards Program

The Reliability Standards Program carries out the ERO's responsibility to develop, adopt, obtain approval of, and modify as and when appropriate, mandatory Reliability Standards for the reliable planning, operation and critical infrastructure protection of the North American BES. The major activities of the Reliability Standards Program include (1) providing project management and leadership to the Reliability Standard development process to deliver high-quality, continent-wide Reliability Standards, including standard development outreach activities, assistance to and facilitation of Standard Drafting Teams' activities, drafting support, and ensuring that the quality of documents produced are appropriate for approval by industry and the NERC Board, (2) facilitating continent-wide industry engagement in the standard development processes, and (3) conducting balloting, disseminating information, and supporting regulatory filings on proposed standards. The Reliability Standards Program staff also supports the Regional Entities' regional reliability standards development processes by providing technical advice, final quality review of Regional standards, presentation to the NERC Board, and submission to the applicable governmental authorities in the U.S. and Canada for adoption.

The key activities of the Reliability Standards Program underway in 2015 are described at page 20 of **Attachment 2**, and include focusing on the selection of standard projects undertaken; addressing FERC directives and responding to FERC orders on Reliability Standards; transforming NERC's Reliability Standards to steady state, including addressing possible outstanding Paragraph 81 candidates⁶⁰ and Independent Experts Review Project (IERP)

⁶⁰ The Paragraph 81 initiative is the result of FERC's invitation, in a March 2012 order, to identify specific Reliability Standards or requirements that need to be revised or retired based on lack of meaningful benefit to BPS reliability. *North American Electric Reliability Corporation, Order Accepting*

recommendations for retirements of Reliability Standard requirements; determining whether to make further improvements to Reliability Standards; and facilitating smooth transitions to new Reliability Standards, such as the CIP Version 5 standards and the Physical Security standard.

The 2016 goals and deliverables for the Reliability Standards Program are provided at page 22 of **Attachment 2**, and focus on: (1) completing addressing existing FERC directives and remaining recommendations for retirements from the Paragraph 81 project and the IERP; (2) addressing new FERC directives as necessary through the standards process; and (3) addressing reliability risks identified through the Reliability Risk Management Program or by the NERC Reliability Issues Steering Committee (RISC) for which a Reliability Standard is part of the solution.

NERC has budgeted 17.98 FTEs for the Reliability Standards Program for 2016, which is a decrease of 6.42 FTEs from the 2015 budget and reflects a reduced workload due to reduction in the number of new Reliability Standards under development, reduction in outstanding FERC directives, and more efficient workload and resource management. This has enabled the reallocation of some open budgeted FTEs to other programs with greater resource needs. The 2016 budgeted direct expenses for this program are \$3,888,768, which is a decrease of \$911,983 (19.0%) from the 2015 budget. Budgeted 2016 Personnel Expenses are decreased by \$1,071,285 (26.3%) from the 2015 budget, reflecting the decrease in staffing. Budgeted Meetings Expense is decreased by a total of \$39,104 (6.0%), including a reduction of \$67,312 (19.8%) in Travel Expense due in part to holding more meetings in NERC's Atlanta and Washington, D.C. offices. As was the case in the 2014 and 2015 budgets, no Consultant & Contracts expense is budgeted for this program for 2016. The allocation of Administrative Services expenses to this program is

with Conditions the Electric Reliability Organization's Petition Requesting Approval of New Enforcement Mechanisms and Requiring Compliance Filing, 138 FERC ¶ 61,193 (2012), at P81.

\$4,234,020, the Allocation of Fixed Assets from the Administrative Services programs is \$280,388, and no Fixed Asset additions are included in the 2016 budget for the Reliability Standards Program.

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

The Compliance Monitoring and Enforcement and Organization Registration and Certification Program carries out NERC's statutory responsibility to monitor, enforce and ensure registered entity compliance with mandatory Reliability Standards. This program is comprised of two operational departments: Reliability Assurance and Compliance Enforcement.

a. Reliability Assurance

Reliability Assurance is comprised of Compliance Assurance (Regional Entity Assurance and Oversight in the 2015 Business Plan and Budget), Compliance Analysis and Certification, and Registration. The latter two are combined for budgeting purposes.

i. Compliance Assurance

Compliance Assurance works collaboratively with the Regional Entities to ensure consistent and effective implementation of the CMEP across the ERO Enterprise. Compliance Assurance is responsible for the following major activities and functions: (i) consistent implementation of the risk-based compliance monitoring program for reliability improvements; (ii) development and delivery of comprehensive and ongoing education and training on risk-based compliance monitoring and enforcement for ERO Enterprise staff; (iii) oversight of the Regional Entities' delegated compliance functions, including CMEP planning, implementation and reporting, compliance operations and coordination, and auditor training; (iv) CIP Version 5 activities related to transition, training and compliance design of ERO education activities; (v) training and outreach activities related to implementation of the Physical Security standard (CIP-

014-1); (vi) development of baseline monitoring requirements; (vii) development and maintenance of Reliability Standards Audit Worksheets (RSAWs); (viii) supporting the NERC Compliance and Certification Committee and Regional Entity and industry committees, working groups and task forces; and (ix) development and delivery of guidance to the ERO Enterprise for Reliability Standards associated with current-year risk elements and training for every Reliability Standard.

The major activities under way for Compliance Assurance for 2015 are described at page 24 of **Attachment 2** and include continued implementation of risk-based compliance monitoring and enforcement, including continued training of ERO Enterprise staff, continued outreach efforts to industry, oversight of Regional Entity implementation of risk-based processes, and development and benchmarking of objective metrics for the risk-based CMEP; and consistent implementation of the risk-based CIP compliance monitoring program, including the transition from the Version 3 to Version 5 CIP standards.

The 2016 goals and deliverables for Compliance Assurance are described at page 27 of **Attachment 2**, and include: (1) developing and implementing a training program to support implementation of the common audit procedures and the ERO Auditor Capabilities and Competencies Guide; (2) working with NERC's Compliance Enforcement and IT departments and with Regional Entity staff regarding improvements to existing compliance, reporting, analysis tracking system (CRATS) and other compliance tools to support risk-based activities; (3) making effective internal controls models and information available to industry; (4) initiating compliance phase-in learning periods for new standards; (5) transitioning to a single ERO approach to compliance monitoring and common audit planning, with consistent implementation of risk-based techniques and principles; (6) consolidating to a common set of RSAWs or

successors for all standards; (7) creating technically sound training to support compliance methodologies and testing approaches for Reliability Standards; (8) supporting the transition to CIP Version 5 standards that become effective in 2016; and (9) continuing to monitor and support effective implementation and monitoring of the Physical Security standard.

The budgeted staffing for Compliance Assurance for 2016 is 19.36 FTEs, which is an increase of 7.17 FTEs from the 2015 budget and reflects the reallocation of personnel to support initiatives for successful implementation and oversight of the risk-based CMEP, as well as the transfer of audit personnel from the former Critical Infrastructure Department (which has been merged into ES-ISAC) to both better align audit resources and further separate the ES-ISAC from compliance-related functions. As a result, budgeted 2016 Personnel Expenses are increased by \$1,637,289 (70.6%) from the 2015 budget. Budgeted 2016 Meetings Expense is increased by a total of \$81,143 (29.5%), due primarily to an increase in budgeted Travel Expenses of \$78,343 (39.6%) reflecting additional training and outreach activities. Budgeted Consultants & Contracts Expense is reduced by \$188,000 (48.5%) from the 2015 budget, to \$200,000. However, Compliance Assurance is also supported by budgeted funding in the IT Department budget for the maintenance, evaluation, and development of enterprise tools supporting compliance activities.

The budgeted total direct expenses for Compliance Assurance for 2016 are \$4,559,233, which is an increase of \$1,542,627 (51.1%) from the 2015 budget, with the primary driver of the increase being the increased staffing and related Personnel Expenses. The allocation of Administrative Services expenses to Compliance Assurance is \$4,559,714, Fixed Assets allocated to Compliance Assurance are \$301,956, and no Fixed Asset additions or Depreciation are budgeted for Compliance Assurance for 2016.

ii. Compliance Analysis and Certification and Registration

The Compliance Analysis and Certification and Registration Groups are responsible for a range of requirements and activities embodied in Section 500 and Appendices 5A and 5B of the NERC ROP. Specific activities of these groups include: (1) identification and registration of BES users, owners and operators who are responsible for compliance with Reliability Standards; (2) certification of the competency of Reliability Coordinators, Balancing Authorities, and Transmission Operators to perform their reliability functions; (3) compliance investigations; (4) in conjunction with Regional Entity staffs, compliance evaluations of events and disturbances; (5) investigating complaints alleging violations of Reliability Standards; (6) conducting activities to reasonably assure that actions have been taken as reported in response to NERC Alerts or guidance to industry; and (7) oversight of Regional Entity registration, certification, compliance, investigation and complaint programs and processes. A major activity for the Registration Group during 2015 is implementation of the Risk Based Registration design and registration criteria submitted in July, 2015, as well as working on technical review and analysis to determine if further refinements are needed for Transmission Owners, Transmission Operators, Generation Owners and Generation Operators.

The 2016 goals and deliverables for the Compliance Analysis and Certification and Registration Groups are described at page 29 of **Appendix 2** and include continuation of current initiatives, including evaluation of the current certification program and implementation of any recommended changes, along with enhanced oversight and quality assurance reviews of Regional Entities' performance of delegated registration, certification, investigation and complaint duties.

The budgeted staffing for Compliance Analysis and Certification and Registration for

2016 is 10.14 FTEs, which is a decrease of 1.11 FTE from the 2015 budget and is due to reallocation of one position to another department and application of the revised vacancy rate factor. Budgeted 2016 Personnel Expenses for these groups are decreased by \$304,307 (14.1%) from the 2015 budget. Budgeted 2015 Meetings Expense is decreased by \$9,664 (5.7%), due primarily to a decrease in budgeted Travel Expenses. Consultants & Contracts Expense of \$50,000 (versus zero in the 2015 budget) is budgeted for outside technical support for Risk Based Registration implementation.

The budgeted total direct expenses for Compliance Analysis and Certification and Registration for 2016 are \$2,086,784, which is a decrease of \$266,935 (11.3%) from the 2015 budget, with the primary driver of the decrease being the reduced Personnel Expense. The allocation of Administrative Services expenses to Compliance Analysis and Certification and Registration is \$2,387,951; Fixed Assets allocated to Compliance Analysis and Certification and Registration are \$158,136; and no Fixed Asset additions or Depreciation are budgeted to Compliance Analysis and Certification and Registration for 2016.

b. Compliance Enforcement

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

collaborates with other NERC departments including Reliability Standards, Compliance Assurance and Event Analysis; provides training of ERO Enterprise staff and other education and outreach efforts; and coordinates with the Regional Entities on the implementation of risk-based processes.

Major activities under way for the Compliance Enforcement department during 2015 are described at pages 33-38 of **Attachment 2** and are focused on implementing the risk-based CMEP, including providing training to ERO Enterprise staff on risk-based CMEP processes, outreach activities to industry concerning the risk-based CMEP, implementing the compliance exceptions and self-logging processes, and monitoring Regional Entity implementation of the risk-based CMEP; continuing to achieve improvements in the efficiency of enforcement processing throughout the ERO Enterprise; and continuing to reduce the number of violations in inventory that are older than 24 months;

The 2016 goals and deliverables for Compliance Enforcement are described on page 37 of **Attachment 2**, and are focused on refining and improving the risk-based CMEP processes; implementing the ERO Enterprise enforcement philosophy that is risk-focused and drives desired behaviors by registered entities; expanding the information feedback loop from Compliance Enforcement to Reliability Standards and other program areas; and working with Compliance Assurance, IT, and Regional Entity staff regarding improvements in the existing CRATS and other compliance tools to support risk-based CMEP activities.

The budgeted staffing for Compliance Enforcement for 2016 is 12.22 FTEs, which is a decrease of 2.79 FTEs from the 2015 Budget and reflects reduced resource requirements resulting from improvements in the efficiency and effectiveness of the department's operations and reduction in the inventory of violations to be processed. Budgeted 2016 Personnel Expenses

are reduced by \$208,627 (8.9%) from the 2015 budget, reflecting the reduced staffing from the 2015 budget. The 2016 budget for Meeting Expenses is slightly reduced, by \$2,364 (3.8%) from the 2015 budget. As in the 2012, 2013, 2014 and 2015 budgets, Compliance Enforcement is budgeting no Consultants & Contracts expense for 2016.

The budgeted total direct expenses for Compliance Enforcement for 2016 are \$2,225,938, a decrease of \$230,502 (9.4%) from the 2015 budget. The allocation of Administrative Services expenses to Compliance Enforcement is \$2,876,962, the allocation of Fixed Asset additions to Compliance Enforcement is \$190,520, and no Fixed Asset additions are budgeted for Compliance Enforcement for 2016.

3. Reliability Assessment and Performance Analysis Program

The RAPA Program carries out the ERO's statutory responsibility to conduct assessments of the reliability and adequacy of the BES in North America to provide insight and guidance about reliability risks and performance improvements. RAPA's activities also support identification of reliability performance issues and areas of concern, including equipment performance and reliability issues, for consideration in the development of new, or modification of existing, Reliability Standards, or other initiatives that enhance overall reliability. RAPA focuses on developing a technical framework and understanding of the reliability risks facing the industry and providing guidance and information to the industry to enhance reliability. The RAPA Program is responsible for preparing independent assessments of the overall reliability and adequacy of the BES and associated reliability risks that could impact the short-term and long-term (ten-year) planning horizons; performance analysis of and recommendations from historical reliability and associated trends; reliability assessment and bulk system evaluation model and case development for analyzing steady state and dynamic conditions; assurance that electrical elements necessary for the reliable operation of the BPS are appropriately identified as

BES Elements; reliability risk program management for identifying and improving key risk areas using analyses of reliability gaps, risk controls, and management efforts, as well as integration with the RISC, Long-Term Reliability Assessments (LTRA), and State of Reliability reports; management of reliability risk program priorities for appropriate levels of resources, timing, completion, and execution; and providing reliability leadership and consistent, technically sound guidance and recommendations for industry and policy makers.

The major activities of the RAPA Program underway in 2015 are described at pages 39-47 of **Attachment 2**. These activities are focused on reliability risk analysis and management and the Reliability Risk Management Program, and include programs focused on managing the top priority reliability risks, as identified by the NERC Board, the RISC, and other sources, in the following areas: changing resource mix, resource planning, protection system reliability, protection system misoperations, uncoordinated protection systems, extreme physical events, availability of real-time tools and monitoring, and right-of-way clearances. The RAPA Program's activities also include collection and analysis of data on transmission outages, generator performance, and demand response; preparation of the annual LTRA, Summer and Winter Reliability Assessments, and Special and Scenario Reliability Assessments; bulk power system analysis; and implementation of the revised BES definition which became effective July 1, 2014.

The 2016 goals and deliverables for the RAPA Program are summarized at pages 47-51 of **Attachment 2**. The 2016 goals and objectives include:

- issuing reliability assessment reports, guidelines, recommendations, and alerts as needed (including the annual 10-year LTRA and Summer and Winter Reliability Assessments, the annual State of Reliability Report, special reliability assessment reports on essential reliability services and the EPA Clean Power Plan, and a frequency response analysis report);

- oversight of the Generating, Transmission and Demand Response Availability Data Systems (GADs, TADS and DADS), the Spare Equipment Database (SED), and reliability metrics and misoperations;
- strengthening the Program's data collection and validation processes;
- providing periodic updates in trends and measures of BES reliability;
- developing a risk registry and systematic prioritization process consistent with the RISC framework and to support BES risk profile measurement and the assessment of standards;
- executing integrated risk control strategies and plans across the ERO Enterprise to address the highest priority existing or emerging risks to BES reliability, and measuring the results;
- supporting NERC Reliability Standards development and responses to FERC directives by providing technical and system analysis expertise;
- supporting the technical foundation development for Reliability Standards to address deficiencies or needs identified by RAPA;
- advancing NERC's analytical capability for identifying and determining reliability risks and conducting various reliability assessments;
- providing support and leadership to the NERC Planning Committee and the subcommittees, working groups and task forces of standing committees;
- assisting in development of approaches to registration and providing input in support of the development of CMEP risk elements;
- conducting major event investigations, analysis and reporting of major findings, recommendations and lessons learned that will improve reliability;
- implementing effective oversight and tracking of various technical aspects of reliability, including frequency response performance, application of the TPL footnote b adoption, and root cause applications to assessments and analysis;
- designating, developing, and supporting Interconnection-wide model-building groups; and
- developing a structured approach to evaluate and improve system models, model validation, system analysis, and assessments.

During 2016, RAPA will conduct additional projects addressing top priority reliability risks identified by the RISC, such as essential reliability services; development of standardized

models for power flow and dynamic modeling components and validation of such models; developing guidelines for performing analysis of loads to determine system needs for essential reliability services; frequency response initiatives, including calculating the Interconnection Frequency Response Obligations and Frequency Response Obligations for Balancing Authorities; developing rules for frequency and voltage disturbance ride-through obligations for distributed energy resources; gas-electric interdependencies and infrastructure assessment; assessment of potential impacts to BPS reliability of emerging and proposed environmental regulations such as the EPA Clean Power Plan; analysis of protection system reliability including single-point-of-failure data; guidelines for coordination of protection systems and other devices, emergency transformer replacement, and protection system performance improvements.

The budgeted staffing for the RAPA Program for 2016 is 18.67 FTEs, which is a decrease of 1.03 FTE from the 2015 budget and reflects the revised vacancy rate factor and the timing of new hires. Budgeted 2016 Personnel Expense is decreased by \$141,840 (3.9%) over the 2015 budget. Budgeted 2016 Meetings Expense is increased by \$27,999 (6.4%) from the 2015 budget. The RAPA Program is budgeting \$1,084,039 for Consultants & Contracts Expense for 2016, which is an increase of \$128,589 (13.5%) from the 2015 budget. The budgeted consultant and contractor resources will support the following activities: (1) research concerning reliability effects of geo-magnetic disturbances; (2) collaboration research with the U.S. DOE; (3) the LTRA and special reliability assessments (including the U.S. EPA Clean Power Plan and essential reliability services assessments) and the State of Reliability analysis; (4) licensing and support of existing data bases; and (5) software application development (funding for replacement of the software application for industry access to GADS data and development of enterprise software applications such as the Reliability Assessment Database applications is

included in the IT Department budget).

The total budgeted direct expense for the RAPA Program for 2016 is \$5,616,840, which represents an increase of \$160,384 (2.9%) from the 2015 budget. The RAPA Program is budgeting \$50,000 of revenue from Services & Software and \$15,000 of revenue from Workshop attendance fees in 2016. The allocation of Administrative Services expenses to this program is \$4,396,749, the allocation of Fixed Asset additions to this program is \$291,164, and there are no Fixed Asset additions budgeted for RAPA in 2016.

4. Reliability Risk Management

The Reliability Risk Management (RRM) group carries out NERC's statutory responsibility to perform assessments (including real-time or near-real-time assessments) of the reliability and adequacy of the BES, as well as identifying potential issues of concern relating to system, equipment, entity and human performance that may indicate a possible need to develop new or modified Reliability Standards. The RRM group includes four primary functions: (i) BES awareness, (ii) event analysis and determination of root and contributing causes, (iii) assessment of human performance challenges affecting BES reliability and identification of improvement opportunities, and (iv) support of the NERC Operating Committee. RRM has two departments, Situation Awareness and Event Analysis. The 2016 budgets for Situation Awareness and Event Analysis are discussed separately below.

a. Situation Awareness

The Situation Awareness Department works with the Regional Entities to monitor BES conditions, significant occurrences and emerging risks, and threats across the Reliability Coordinator regions. Situation Awareness also supports development and publication of Alerts

and awareness products and facilitates information sharing among industry, Regional Entities and government during crisis situations and major system disturbances.

During 2015, Situation Awareness is focusing on the following tools: (1) operation and maintenance of the SAFNR Version 2 software application; and (2) retirement of the NERCnet (Frame Relay Contract) – Interconnection Security Network and initiation of service using a new communication network developed, sponsored and managed by the Eastern Interconnection Data Sharing Network.

The 2016 goals and deliverables for Situation Awareness are described on pages 52-54 of **Attachment 2** and include ensuring that the ERO is aware of all BES events above a threshold of impact; ensuring the sharing of data and information to facilitate wide area situation awareness; during crisis situations, facilitating the exchange of information among industry, Regional Entities, and U.S. and Canadian governments; keeping the industry informed of emerging reliability threats and risks to the BES, including any expected actions; conducting the annual NERC Monitoring and Situation Awareness Conference and Human Performance Conference; and administering the NERC Alerts process as specified in NERC ROP §810.

The 2016 budgeted staffing for Situation Awareness is 5.53 FTEs, which is a reduction of 0.57 FTEs from the 2015 budget, and reflects the increased vacancy rate adjustment factor. Budgeted 2016 Personnel Expenses are decreased by \$103,349 (9.3%) from the 2015 budget. Budgeted 2016 Meetings Expense is decreased by \$12,987 (24.3%) from the 2015 budget, primarily due to a decrease in budgeted Travel Expenses.

The 2016 Consultants & Contracts budget for Situation Awareness of \$1,211,475 is an increase of \$134,154 (12.5%) from the 2015 budget. The budgeted 2016 Consultants & Contracts Expense includes increased costs of for reliability tools (\$104,088), continued use of

the Secure Alerting System (\$141,000), and the NERCnet replacement (\$55,975); reduced costs for SAFNR Version 2 (\$21,409); and elimination of costs for NERCnet (\$145,500). Itemized information on the 2016 Consultants & Contracts budget for Situation Awareness is provided in Exhibit C of **Attachment 2**.

The total budgeted direct expense for Situation Awareness for 2016 is \$2,310,875, which represents a decrease of \$135,926 (5.6%) from the 2015 budget. The allocation of Administrative Services expenses to this program is \$1,302,775, the allocation of Fixed Asset additions to this program is \$86,273, and no Fixed Asset additions are budgeted for this program for 2016.

b. Event Analysis

The Event Analysis Department performs assessments of the reliability and adequacy of the BES, including identifying potential issues related to system, equipment, entity and human performance that may indicate a need to develop remediation strategies, action plans, or data used to revise Reliability Standards or consider new Reliability Standards. Event Analysis analyzes and determines the cause of system events, assures tracking of corrective actions, and provides lessons learned to the industry. Event Analysis analyzes all reportable events for sequence of events, root cause, risk to reliability, and mitigation, and provides lessons learned, emerging trends, risk analysis and expected actions to the industry. Additionally, Event Analysis focuses on identifying human-error risks and precursor factors that allow human error to impact system reliability; educates industry regarding risks, precursors, and mitigation methods; supports compliance and standards training initiatives; and supports trending and analysis to identify emerging reliability risks to the BES.

The 2016 goals and deliverables for Event Analysis are described at page 56 of

Attachment 2, and include: (1) working with Regional Entities to obtain and review information on qualifying events and disturbances in order to advance awareness of these events, facilitating analysis of root and contributing causes, risks to reliability, wide-area assessments, and remediation efforts, and disseminating information about events in a timely manner; (2) ensuring that all reportable events are analyzed for sequence of events, root cause, risk to reliability and mitigation; (3) continuing to refine risk-based methodologies to support better identification of reliability risks, including the use of more sophisticated cause codes; (4) ensuring consistency in reporting and analysis to support wide-area assessments of significant reliability risks and trends; (5) conducting training to inform industry and the ERO of lessons learned, root cause analysis, cause coding, human performance, and cold weather preparedness and recommendations; (6) developing reliability recommendations and alerts as needed; (7) tracking industry accountability for critical reliability recommendations; (8) ensuring that industry is well informed of system events, emerging trends, risk analysis, lessons learned and expected actions; (9) conducting major event analysis and reporting of major findings and recommendations that will improve reliability; and (10) advancing the quality and usefulness of reliability assessments and event analysis data. Additionally, Event Analysis will support several of the top priority reliability risk projects described in the RAPA section above.

The 2016 budgeted staffing for Event Analysis is 11.06 FTEs, which is an increase of 1.68 FTE from the 2015 budget, and reflects the addition of personnel during 2015 to support increased workload, with no new positions planned for 2016. Budgeted 2016 Personnel Expense is increased by \$348,563 (18.6%) from the 2015 budget, reflecting the increased staffing. Budgeted 2016 Meetings Expense is increased by \$44,259 (21.7%) from the 2015 budget, primarily due to increased budgeted Travel Expenses. Consultants & Contracts expense of

\$56,000 is budgeted for Event Analysis for 2016 (versus zero in the 2015 budget), to augment internal capabilities in the areas of substation equipment, protection systems, and data analysis.

The total budgeted direct expense for Event Analysis for 2015 is \$2,650,065, which represents an increase of \$346,967 (15.1%) from the 2015 budget. The allocation of Administrative Services expenses to Event Analysis is \$2,605,551, the allocation of Fixed Asset additions to Event Analysis is \$172,546, and no Fixed Asset additions are budgeted for Event Analysis for 2016.

5. Electricity Sector Information Sharing and Analysis Center

The primary function of the ES-ISAC is the rapid and secure sharing of information with the electric industry and governmental entities regarding real and potential security threats to the electricity sector, and methods and tools used to avoid or mitigate the potential impact from these threats. The ES-ISAC facilitates sector coordination regarding physical security and cybersecurity events affecting the BES. The ES-ISAC develops alerts and notifications for distribution to registered entities, and utilizes its secure, private information-sharing portal to receive voluntary reports from industry members. The ES-ISAC also maintains a seat on the operations floor of the National Cybersecurity and Communications Integration Center within the Department of Homeland Security, which is the hub for real-time, classified threat and vulnerability work. The ES-ISAC maintains other information-sharing relationships with U.S. and Canadian government departments and agencies and with similar agencies in several other countries. The ES-ISAC supports an annual grid security conference and a biennial Grid Security Exercise (GridEx). ES-ISAC staff works with industry and governmental entities to examine critical infrastructure protection policy issues and provides staff-level support to the NERC Critical Infrastructure Protection Committee (CIPC).

The ES-ISAC performs a management role for CRISP, which became fully operational in 2015. CRISP is a public-private partnership whose purpose is to facilitate the sharing of cyber threat information and to develop situation awareness tools that enhance the electricity sector's ability to identify, prioritize, and coordinate the protection of its critical infrastructure.

During 2015, NERC combined its Critical Infrastructure Department (CID) into the ES-ISAC for both operational and budgeting and financial reporting purposes. The comparison of 2016 budget information for ES-ISAC to 2015 budget amounts, below, is based on the combined 2015 budgets for the ES-ISAC and the CID.

The major activities of the ES-ISAC in 2015 are described on pages 59-62 of **Attachment 2** and are focused on continuing to enhance the effectiveness and capabilities of its operations. The ES-ISAC's goals and deliverables for 2016 are described on page 62 of **Attachment 2** and include improving the usability and functionality of the information-sharing portal; advancing information collection and increasing analytical capabilities, portal monitoring and information sharing; ongoing improvements in CRISP program management; enhancing industry engagement; and continuing to work with the Electricity Sector Coordinating Council to build a more effective and responsive ES-ISAC. The ES-ISAC will continue to conduct Cyber Risk Preparedness Assessments for registered entities and will continue to develop, and deploy, a cyber risk preparedness toolkit to allow industry to conduct self-assessments of cyber risk preparedness. The ES-ISAC will also continue to work with vendors to develop and license cyber awareness and intelligence tools that collect and analyze information and then alert the user about selected threats. In carrying out its activities, the ES-ISAC will continue to use software integration support services, the analyst workbench toolset, and intelligence services from a specialized security information service provider that focuses on the electricity sub-

sector. ES-ISAC also plans to continue to provide webinars and other technical outreach support to industry in addressing the Aurora Vulnerability.

The budgeted 2016 staffing for the ES-ISAC is 18.90 FTEs, which is an increase of 0.14 FTEs from the 2015 budget. During 2015, compliance auditors in the CID were transferred to the Compliance Assurance group, while other personnel were added to the ES-ISAC staff, resulting in essentially no net change in positions. Budgeted 2016 Personnel Expenses are increased by \$253,155 (6.3%) over the 2015 budget, reflecting a staffing that includes more senior personnel. Budgeted 2016 Meeting Expense is decreased by \$45,389 (8.2%) from the 2015 budget, due primarily to reductions in Travel and Conference Call expenses. The budgeted 2016 expense for Consultants & Contracts is \$6,551,929, which is a decrease of \$2,204,261 (25.2%) from the 2015 budget. Of the Budgeted 2016 Consultants & Contracts Expense, \$5,888,594 is budgeted for CRISP (versus \$7,666,055 in the 2015 budget), while Consultants & Contracts Expense for CIPC support (\$184,300 in the 2015 budget) and GridEx support (\$242,500 in the 2015 budget) is eliminated (the GridEx is held every other year and will not be held in 2016). Finally, \$175,000 is budgeted for Professional Services (versus \$350,000 in the 2015 budget) for professional services support and insurance for CRISP.

The ES-ISAC budget for 2016 includes \$6,830,738 of Third-Party Funding, which represents the funding being provided by participating utilities and other entities, pursuant to the master services agreement for CRISP, to support NERC's participation and activities as program manager for CRISP. The amount of Third-Party Funding is reduced by \$2,112,851 from the amount budgeted in 2015. Third-Party Funding for CRISP is deposited in a separate account. Any underrun in the CRISP budget which is allocated to and funded by CRISP participants will be applied as a credit against future CRISP participant funding requirements, pursuant to the

terms of the CRISP agreements.

The budgeted direct expense for 2016 for the ES-ISAC is \$11,965,349, which is a decrease of \$2,113,294 (15.1%) from the 2015 budget. The allocation of Administrative Services expenses to the ES-ISAC is \$4,450,914, the allocation of Fixed Assets to the ES-ISAC is \$294,751, and no Fixed Asset additions are budgeted for the ES-ISAC for 2015.

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, which ensure that personnel operating the BES have the skills, training and qualifications needed to operate the system reliably. NERC maintains the credentials required to work in system control centers across North America for over 6,000 system operators. Certification exams are created by the Personnel Certification Governance Committee (PCGC), an industry group of operational experts, trainers and supervisors. Once an operator achieves certification by passing the examination, the operator's certification is maintained by completing NERC-approved continuing education courses and activities, under the oversight of the NERC Personnel Subcommittee.

The major activities of the Training, Education, and Operator Certification Program for 2015 are described at pages 66-67 of **Attachment 2** and include providing education for industry

and ERO personnel in the following areas: risk-based compliance monitoring and enforcement; standards and compliance; registration and certification; continuing education for system operators and other industry personnel as appropriate and related to their reliability functions; event analysis, cause analysis, and lessons learned; and new system operator certification exams for Reliability Coordinator, Transmission Operator, Balancing and Interchange Operator, and Balancing, Interchange and Transmission Operator.

The 2016 goals and deliverables of the Training, Education, and Operator Certification Program are described at pages 67-68 of **Appendix 2**. A primary objective, in response to stakeholder and Regional Entity feedback, is to further expand and focus training and education opportunities for NERC, Regional Entity and registered entity personnel, including on topics for registered entities such as objectives of Reliability Standards, standards compliance, emerging cyber-related issues that could affect BES reliability; and topics for ERO personnel such as consistent audit and investigation techniques, including risk-based compliance monitoring and enforcement and other improvements in compliance and enforcement practices. Training will continue to be offered in auditor skills to promote continued development of auditing expertise. Other training will focus on knowledge and skills development in a number of areas, including development and implementation of clear and technically sound Reliability Standards; lessons learned and trends from events; identified themes from trending and common cause analysis; effective compliance cultures with practices, procedures and controls to address reliability risks; effective root, apparent, and common cause analysis methods; quality improvement of registered entity self-reporting and self-certification; entity registration processes, issues, and alternatives; human performance fundamentals; and developing and incorporating a systematic approach to ongoing training.

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.

Additionally, as part of the System Operator Certification exam development cycle, a Job Task Analysis is being conducted in 2015; the results will be the baseline for the next set of exams. Further, the Continuing Education Program will review and enhance the program manual.

The budgeted staffing for the Training, Education, and Operator Certification Program for 2016 is 7.38 FTEs, which is a decrease of 0.59 FTE from the 2015 budget. Budgeted 2016 Personnel Expense decreases by \$61,085 (5.0%) from the 2015 budget, reflecting the revised vacancy rate adjustment. Budgeted Meeting Expense for 2016 is increased by \$23,066 (20.1%) over the 2015 budget, due primarily to an increase in the budget for Meetings. The budgeted Consultants & Contracts Expense for 2016 of \$675,800 is a decrease of \$76,330 (10.1%) from the 2015 budget, with the principal area of increase being additional funding to support Web-based course hosting (increase of \$25,200), while budgeted expenditures are reduced for job task analysis (by \$25,874) and the Continuing Education Program (by \$30,730). There is a decrease of \$159,104 in the use of working capital required to cover expenses in excess of System Operator Certification fees. Of the total budgeted Consultants & Contracts Expense of \$675,800, \$327,600 is for training and education (including continuing education) activities and \$348,200 is for System Operator Certification activities.

The direct expense budgeted for the Training, Education, and Operator Certification Program for 2016 is \$2,062,086, which is a decrease of \$109,834 (5.1%) from the 2015 budget. The allocation of Administrative Services expenses to this Program is \$1,737,034, the allocation

of Fixed Assets to this Program is \$115,031, and no Fixed Asset additions are budgeted for this program in 2016.

The System Operator Certification Program generates revenues from fees charged for system operator certification examinations, which are intended to recover the costs (including an allocation of indirect expenses) of the Program. In addition, fees charged to continuing education providers offset costs associated with the review of courses taken by certified operators to maintain their certification. The 2016 Budget includes projected revenues from Testing Fees totaling \$1,867,972, which is an increase of \$197,972 (11.9%) from the 2015 budget.

Under NERC's Working Capital and Operating Reserve Policy, a separate Operating Reserve account is established for any revenues realized by the System Operator Certification Program in excess of expenses incurred for the Program, to be used solely for operator certification needs as determined by NERC management and the PCGC. NERC has established a target Operating Reserve for this program of \$389,832 at December 31, 2016, and has projected a \$791,155 Operating Reserve balance for the System Operator Certification Program at December 31, 2015. Therefore, for 2016, the System Operator Certification Program will use \$245,937 of Operating Reserves to fund budgeted costs in excess of program funding.

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 2016); (ii) General and Administrative (which includes senior executive and administration and Board functions); (iii) Legal and Regulatory; (iv) Information Technology; (v) Human Resources, and (vi) Finance and Accounting.

Descriptions of the responsibilities of each of the functions included in Administrative Services are provided in the text at pages 70-78 of **Attachment 2**.

The total amount budgeted for expenses and Fixed Assets in Administrative Services for 2016 (before provision for Working Capital and Operating Reserves) is \$30,442,435, which is an increase of \$2,594,397 (9.3%) over the 2015 budget. The total budgeted staffing for the Administrative Services departments for 2016 is 71.23 FTEs, which is an increase of 3.69 FTEs from the 2015 budget. Budgeted Personnel Expenses for 2016 for Administrative Services are \$14,111,254, which is an increase of \$1,131,981 (8.7%) from the 2015 budget.

Consultants & Contracts Expense budgeted for 2016 is \$3,036,671, which is an increase of \$654,296 (27.5%) over the 2015 budget. The principal areas of increase are increases for IT, totaling \$365,071, for ERO Application Development and Support and Applications Enhancement, Consulting and Help Desk Support (total budgeted Consultants & Contracts Expense for these activities is \$1,994,671); and increases for HR of \$174,650 for Training and Development and \$70,900 for Compensation Consulting (total budgeted Consultants & Contracts Expenses for these activities are \$325,000 and \$100,000, respectively); partially offset by a decrease of \$42,500 for Finance and Accounting for Internal Controls and Outside Auditor Consulting Support (total budgeted Consultants & Contracts Expense for this activity is \$200,000).

Budgeted Office Rent for 2016 (budgeted entirely in General & Administrative for all NERC programs and functions) is \$3,054,287, which is an increase of \$66,510 (2.2%) from the 2015 budget. This increase is related to additional space in NERC's Washington, D.C. office to allow for the physical separation of the ES-ISAC from other NERC operations; and a decrease in

offsetting income from the subtenant in NERC's former Washington, D.C. office. Budgeted Office Costs for 2016 are increased by \$209,908 (7.7%) over the 2015 budget.

Budgeted 2016 Professional Services Expense for Administrative Services is \$2,334,300, which is an increase of \$73,020 (3.2%) over the 2015 budget. The budgeted amount for Independent Trustee fees is increased by \$41,345 (3.8%) from the 2015 budget. The increased Independent Trustee compensation is supported by a compensation study performed by an independent compensation consultant, and was approved by the NERC Board at its August 13, 2015 meeting based on the recommendation of the CGHRC of the Board.⁶¹ Based on its review of the compensation study and other industry information, as well as the increasing workload for NERC Trustees and overall budgetary constraints, the Board determined to: (1) maintain an annual retainer structure (rather than per-event or time-based payments), as consistent with industry best practices; (2) phase in a new annual retainer amount for Trustees of \$112,500 in installments over a three-year period (2016-2018); (3) make no change to the current annual retainer amount for Board committee chairs and for the Board member serving on the Electricity Subsector Coordinating Council; (4) phase in a new target annual retainer for the Board Chair of \$160,000 in installments over a three-year period (2016-2018); and (5) make no change to the current annual retainer amount for the Board Vice Chair.

Total budgeted Board of Trustees expenses for 2016, excluding Trustee compensation, are \$100,000 higher than in the 2015 budget, due to budgeting \$100,000 for trustee search fees in 2016 (versus zero in the 2015 budget). (The table on page 71 of **Attachment 2** details the budgeted Board expenses.)

Professional Services Expense also includes budgeted outside Legal Expense, which is

⁶¹ The compensation study performed by the Towers Watson consulting firm (*Board of Trustee Remuneration Review*, July 2015) is provided as **Attachment 8**.

reduced by \$240,000 from the 2015 budget.

The 2016 Administrative Services budget includes \$110,000 of Other Non-Operating Expenses to cover NERC's property tax obligations in Atlanta, Georgia (\$50,000), and Interest expense for 2016 under NERC's capital financing plan (\$60,000), which is discussed in §IV.C below. The 2016 budgeted amount for interest expense is a decrease of \$21,000 (16.0%) from the 2015 budget, and reflects lower interest expense due to lower outstanding debt balances than was assumed in the 2015 budget.

The 2016 Administrative Services budget includes \$2,347,000 of Computer & Software Capital Expenditures and \$1,464,000 of Equipment Capital Expenditures. The Computer & Software Capital Expenditures are described further under IT, below.

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 following paragraphs provide further information on the 2016 activities and budgeted expenditures and staffing for the individual Administrative Services functions.

Technical Committees and Members' Forums – While NERC management and staff will continue to interact with and support numerous reliability-related industry forums during 2016, including the North American Transmission Forum and the North American Generator Forum, the 2016 budget does not include any specific projected expense or funding for any forum activities.

General and Administrative – The General and Administrative function is responsible for administration and general management of NERC. Expenses budgeted in this area include Office Rent; Personnel Expense and related costs of the Chief Executive Officer (CEO), the

Chief Reliability Officer, and the CEO's executive assistant; communications, external affairs and governmental relations; and costs related to the Board. Budgeted staffing for this function for 2016 is 17.52 FTEs, which is an increase of 4.39 FTE over the 2015 budget. The staffing increase is due primarily to reallocations occurring during 2015 of personnel supporting the MRC and Regional Entity Management Group activities to General and Administrative. The total 2016 budgeted Expenses plus Fixed Assets for General and Administrative is \$9,881,311, which is an increase of \$1,251,422 (14.5%) over the 2015 budget.

Legal and Regulatory – The Legal and Regulatory function provides legal and regulatory support to the organization, including to Compliance Analysis and Certification and Registration, Reliability Risk Management, RAPA and Reliability Standards. In addition, Legal and Regulatory is responsible for providing a wide range of legal support to the organization in corporate, commercial, contractual, employment, insurance, real estate, intellectual property, tax and other legal matters. Budgeted staffing for 2016 for Legal and Regulatory is decreased from 15.01 FTEs to 12.22 FTEs. The total 2016 budgeted Expenses plus Fixed Assets for Legal and Regulatory is \$3,465,966, which is a decrease of \$982,049 (22.1%) from the 2015 budget,.

Information Technology – NERC's IT department is responsible for supporting the development and maintenance of ERO Enterprise applications, data analysis and ongoing operations. The IT's activities fall into three categories: (1) development of new functionality, enhancements, and support of applications used by the ERO Enterprise; (2) ERO data analysis – professional services (vendor support) for implementation and configuration of data analytics; tools (software applications) used to mine data from databases; and support (ongoing upgrades, enhancements, and help desk support); and (3) ongoing operations to support existing software applications, network security testing and planning, and website maintenance and development.

Ongoing operations include maintenance and enhancements for the compliance data base (CRATS/webCDMS); maintenance and enhancements for various legacy databases; quarterly penetration and vulnerability testing for all NERC networks and systems; the NERC security program, which is the subject of ongoing enhancements based on internal audit recommendations; implementation of a document management program; and continuing enhancements to the NERC public website.

The 2016 budgeted Expenses plus Fixed Assets for the IT Department is \$12,156,674, which is an increase of \$1,641,731 (15.6%) over the 2015 budget. The 2016 budgeted staffing for IT is 22.13 FTEs, which is an increase of 2.43 FTEs over the 2015 budget and reflects the transfer of personnel from other departments.

Office Costs budgeted in IT for 2016 total \$2,239,195, which is an increase of \$95,775 (4.5%) over the 2015 budget. Costs budgeted in this expense item include telephone expenses, Internet, computer supplies and maintenance (including computer maintenance and service agreements), subscriptions and publications, dues, and express shipping costs for shipping of computers and computer supplies. The principal areas of increase in the 2016 budget are \$108,000 for Subscriptions and Publications (versus zero in the 2015 budget) and \$31,975 for Maintenance & Service Agreements, partially offset by decreases of \$25,000 in Internet expense and \$29,000 for software. Additional description of the costs budgeted in these expense categories is provided at pages 75-76 of **Attachment 2**.

The 2016 NERC budget includes total Capital Expenditures of \$3,911,000, versus \$3,618,500 in the 2015 budget. The IT Capital Expenditures budget includes expenditures for development of ERO Enterprise applications (\$1,500,000, an increase of \$450,000 over the 2015 budget) and a document management program (\$465,000, not budgeted in the 2015 budget), plus

expenditures for other IT hardware and software (\$1,411,000, versus \$1,453,500 in the 2015 budget) and \$535,000 for network devices and audio visual equipment (versus \$365,000 in the 2015 budget).⁶²

Human Resources – HR manages all of NERC’s human resources functions, including new hires, benefits and employee functions, and oversees employee performance appraisals and the incentive structure process. HR’s activities include management training and development, staff development, use of compensation consultants to provide employment market data, stakeholder surveys including surveys of Board and committee effectiveness, succession planning, and automation of HR products and services. The total budgeted Expenses and Fixed Assets for HR for 2016 is \$1,510,177, which is an increase of \$351,872 (30.4%) from the 2015 budget. The increased budget amount includes an increase of \$251,725 in Consultants & Contracts expense for 2016 over the 2015 budget, due primarily to increased expenses for staff training and development and compensation consulting. The 2016 budgeted staffing for HR is 2.77 FTEs, which is a slight reduction of 0.04 FTE from the 2015 budget.

Finance and Accounting – Finance and Accounting manages all of NERC’s finance and accounting functions, including employee payroll, retirement plans, travel and expense reporting, monthly financial reporting, sales and use taxes, meeting/events planning and services, insurance, internal audit, and facilities management. Finance and Accounting has primary responsibility for development of the annual business plan and budget, and for NERC’s internal controls and risk management function. The total budgeted Expenses and Fixed Assets for 2016 for Finance and Accounting is \$3,428,307, which is an increase of \$331,421 (10.7%) from the

⁶² The planned development of an ERO Enterprise document management program was described in NERC’s *Request for Approval of an Expenditure Greater than \$500,000 from Operating Reserves*, filed May 14, 2015 with FERC in Docket No. RR14-6-002.

2015 budget. The 2016 budgeted staffing for Finance and Accounting is 16.60 FTEs, which is a decrease of 0.29 FTE from the 2015 budget.

B. Working Capital and Operating Reserves

NERC's Working Capital and Operating Reserve Policy, adopted by the NERC Board in 2012 and amended in 2013 and in 2015, provides for separation of Working Capital from Operating Reserves, establishes criteria and authorities for funding and access to Working Capital and Operating Reserves and transfers of funds between the reserve accounts, establishes controls and authorities regarding the reallocation of budgeted funds to other uses, and establishes transparent reporting requirements. The 2015 amendments to the Working Capital and Operating Reserve Policy, which were submitted on September 10, 2015, established the current categories of Operating Reserves maintained by NERC: Future Obligations Reserve, Operating Contingency Reserve, Operator Certification Program Reserve, CRISP Reserve and Assessment Stabilization Reserve. Exhibit E of **Attachment 2** sets forth and explains the amounts of Working Capital and Operating Reserves proposed to be budgeted, and reflected in the setting of NERC's assessments, for 2016.

The amounts budgeted for 2016 for each Working Capital and Operating Reserve category are as follows:

Working Capital: \$0.

NERC maintains a \$4,000,000 line of credit with a major financial institution, and does not anticipate a need to access working capital in 2016 to meet monthly cash flow needs.

Operating Reserves: \$8,809,627.

Future Obligations Reserve: \$3,158,074

Operating Contingency Reserve:⁶³ \$2,475,000

⁶³ The Working Capital and Operating Reserve Policy specifies that the budgeted Operating Contingency Reserve level is to be between 3.5% and 7.0% of NERC's total expenses and Fixed Assets budget, except as otherwise approved by the NERC Board.

System Operator Certification Program Reserve: \$389,832.

The projected December 31, 2015 reserve balance of the System Operator Certification Program is \$791,155; of this amount, \$245,937 is projected to be used in 2016 to fund budgeted costs of the program that are in excess of projected funding.

CRISP: \$515,721

The CRISP Operating Reserve is used solely for certain contingencies in connection with CRISP.

Assessment Stabilization Reserve: \$2,271,000

NERC proposes to utilize \$1,439,000 of Penalty Sanction collections during the period July 1, 2015 – June 30, 2015 (less \$1,000,000 of Penalty Sanctions received on July 9, 2014, which was used to reduce 2015 assessments) to reduce 2016 assessments, and to place the balance of \$2,271,000 into the newly created Assessment Stabilization Reserve for use to offset and stabilize assessments in future years' budgets.

Total Desired Working Capital and Operating Reserve: \$8,809,627.

Based on the beginning Working Capital and Operating Reserve at December 31, 2014, the projected funding and expenditures for 2015, the budgeted funding and expenditures for 2016, and the desired Working Capital and Operating Reserve at December 31, 2016, Table B-1 on page 80 of **Attachment 2** shows the calculation of the resulting adjustment (increase) to NERC's 2016 statutory assessment of \$380,490. (As shown on Table B-1, there are additional adjustments to the 2016 assessment calculation for (1) proceeds from financing activities, and (2) debt service, as discussed in the next section.) To the extent NERC's actual year-end 2015 Working Capital and Operating Reserves are higher than projected (as shown on Table B-1), the excess funds will be included in the Operating Contingency Reserve account, System Operator Certification Program Reserve account, or CRISP Reserve account, as applicable, and subject to the limitations and authorities regarding their use as set forth in the Working Capital and Operating Reserve Policy.

C. Capital Expenditures Financing Plan

As described in Exhibit D to NERC's 2014 Business Plan and Budget, NERC is financing the development costs of certain software applications and IT hardware and amortizing

these investments over a multi-year period. As described in Exhibit D to **Attachment 2** of this filing, NERC successfully closed its capital financing program on January 10, 2014, establishing a \$7,500,000 non-revolving credit facility. NERC made an initial draw on the revolving line of credit of \$1,265,000 in 2014, and included a draw of \$1,900,000 in the 2015 budget, leaving a balance of \$4,500,000 available.

For 2016, NERC's proposed capital expenditures budget is \$3,911,000, of which NERC is proposing to finance \$1,500,000. The capital expenditures in the 2016 budget are listed on page 124 of **Attachment 2** in Exhibit D, and include \$1,500,000 for ERO Application Development, \$465,000 for development of the ERO Enterprise Document Management Program, \$1,411,000 for other Hardware and Software, and \$535,000 for network devices and audio-visual equipment.

The table included in Exhibit D (page 125) of **Attachment 2** shows the projected year-end outstanding debt balances and the annual payments for debt service for 2015, 2016, 2017 and 2018 under the capital financing program. These projections assume an average interest rate of 3.5% over the life of the financing, which is consistent with the 2014 and 2015 budgets. NERC is continuing to use a 3.5% interest rate assumption given the potential for interest rate increases in 2016. The actual interest rate and interest expense will be reflected in the quarterly budget-to-actual variance reports that NERC posts on its website, reviews in open session with the NERC FAC and files with the FERC. Any savings in interest expense compared to the budgeted expense will be captured and reported as a contribution to NERC's Operating Reserves, expenditures from which are subject to the terms of the Working Capital and Operating Reserve Policy.

D. Proposed Addition of Penalty Sanction Collections to the Assessment Stabilization Reserve

The NERC policy, *Accounting, Financial Statement and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards*, and §1107.2 of the NERC ROP, specify that Penalty payments received by NERC or a Regional Entity during the period from July 1 of the second year preceding the budget year through June 30 of the year preceding the budget year are used to offset assessments to LSEs in the U.S. for the budget year, unless an alternative treatment is approved by the applicable governmental authority. For the period July 1, 2014 through June 30, 2015, NERC received \$4,710,000 of Penalty collections. Of this amount, \$1,000,000 received on July 9, 2014, was used to reduce 2015 assessments, as described in NERC's 2015 Business Plan and Budget,⁶⁴ leaving an available amount of \$3,710,000. NERC proposes to use \$1,439,000 of this amount to reduce 2016 assessments and to place the remaining \$2,271,000 into the Assessment Stabilization Reserve pursuant to the amended Working Capital and Operating Reserve Policy submitted on September 10, 2015. In accordance with ¶19 of FERC's Order in Docket No. RR15-8-000, and pursuant to §1107.4 of the NERC ROP, NERC requested from FERC an exception to §1107.2 of the ROP to permit it to place \$2,271,000 of the balance of Penalty collections for the 12 months ended June 30, 2015 into the Assessment Stabilization Reserve, rather than using this amount to reduce 2016 assessments.

V. REGIONAL ENTITY BUSINESS PLANS AND BUDGETS

A. Consistency Among Regional Entity Budgets

In developing the 2016 Regional Entity Business Plans and Budgets, NERC and the Regional Entities continued the substantial efforts they devoted to achieving consistency of

⁶⁴ See §IV.D of NERC's 2015 Business Plan and Budget Filing.

format and presentation of information in the 2008, 2009, 2010, 2011, 2012, 2013, 2014 and 2015 Business Plans and Budgets. NERC and the Regional Entities: (i) used a common and consistent format for the 2016 Business Plan and Budget documents, (ii) continued to use the consistent accounting methodologies that were developed in connection with the 2010 Business Plans and Budgets, (iii) continued to use the common definition of administrative (indirect) costs that was originally developed in connection with the 2010 Business Plans and Budgets, and (iv) again developed and used extensive Shared Business Plan and Budget Assumptions for their 2016 Business Plans and Budgets. The Shared Business Plan and Budget Assumptions are provided in Exhibit A to the NERC 2016 Business Plan and Budget (**Attachment 2**) and are cross-referenced in the Regional Entity Business Plans and Budgets.⁶⁵

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

⁶⁵ The Shared Business Plan and Budget Assumptions have been developed for the 2016-2018 period, and therefore are applicable to the NERC and Regional Entity 2017 and 2018 budget projections as well as to their 2016 Business Plans and Budgets.

its own labor float or labor attrition factor based on its experience. In the preparation of the 2015 and 2016 Business Plans and Budgets, however, some Regional Entities elected not to use a labor float factor adjustment, while other Regional Entities have continued to apply this adjustment. The 2016 Business Plans and Budgets of the Regional Entities that have continued to use a labor float adjustment discuss the specific adjustment that each Regional Entity used.

As discussed in NERC's 2014 and 2015 Business Plan and Budget filings and the Regional Entities' 2014 and 2015 Business Plans and Budgets, the Regional Entities have jointly retained a coordinator, employed by SERC, to manage joint Regional Entity projects, including development of common IT applications that are being conducted under the auspices of the Regional Entity Management Group. The development and implementation of common IT applications and other processes on a joint basis among the Regional Entities results in (i) lower costs for each Regional Entity and (ii) adoption of systems and processes that are consistent across the Regions, to the benefit of stakeholders, particularly stakeholders operating in multiple Regions. Each Regional Entity's 2016 Budget includes an expense for the Regional Entity's share of the costs for the coordinator position, which are paid to SERC.

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

The Regional Entity Business Plans and Budgets follow a similar format to that used for the NERC Business Plan and Budget. Each Regional Entity Business Plan and Budget begins with an Introduction section that presents a table showing the Regional Entity's budgeted Total Resources for 2016, 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.⁶⁶ The Introduction also provides general information on the Regional Entity, including information on its organization, membership and governance; provides the Regional Entity's key assumptions and its goals and key deliverables for 2016; and provides an overview of the primary cost impacts to the Regional Entity's 2016 budget. The Introduction section includes a table showing the Regional Entity's 2015 budget, 2015 projection, 2016 budget, and variance between the 2015 budget and 2016 budget, for each of the statutory programs. It also contains a chart comparing the Regional Entity's 2015 to 2016 budgeted expenses by statutory program; and a table showing the Regional Entity's FTEs, by statutory program and administrative department, for its 2015 budget, 2015 projection, and 2016 budget. Finally, the Introduction section includes the Regional Entity's overall statutory Statement of Activities, with information presented for its 2015 budget, 2015 projection, variance between its 2015 budget and 2015 projection, 2016 budget, and variance between its 2016 budget and 2015 budget.

The Regional Entity Business Plans and Budgets next contain, in Section A – Statutory Programs, separate subsections on each statutory program and on the administrative services functions 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 showing total FTEs, total Direct Expenses, total Indirect Expenses, increase or decrease in Fixed

⁶⁶ 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 RE, Texas RE and WECC.

Assets, and total Funding Requirement, for the 2015 budget and 2016 budget and the Increase/(Decrease); (ii) a table for Administrative Services showing the 2015 and 2016 budgeted Expenses and Fixed Assets and budgeted FTEs and the changes in budgeted expenditures and FTEs, for each Administrative Services function; and (iii) a Statement of Activities for the statutory program or for Administrative Services showing Funding, Expenses and Fixed Asset activity by major line item categories, Total Budget and Total Change in Working Capital. Information is presented in each of the Statements of Activities for the 2015 budget, the 2015 projection and the 2016 budget, and the variances between the 2015 budget and 2015 projection and between the 2016 budget and 2015 budget. The text of these sections for each statutory program includes discussion of the program scope and functional description, 2016 key assumptions, goals and key deliverables for 2016, and reasons for increases or decreases in funding sources and costs in 2016, for the program.⁶⁷

Section B of the Regional Entity Business Plans and Budgets presents supplemental financial information supporting the 2016 statutory budget. Section B contains tables detailing the development of the adjustment to the Regional Entity's 2016 assessment to achieve its target Working Capital Reserve at December 31, 2016 (Table B-1); Penalty payments received in the 12 months ended June 30, 2015, 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); Meeting Expense (Table B-5); Consultants & Contracts expense (Table B-6); Office Rent (Table B-7); Office Costs (Table B-8); Professional Services expense (Table B-9); Miscellaneous Expense (Table B-10); Other Non-Operating Expenses (Table B-11); and Fixed Assets additions (Table B-12). Tables B-3 through B-12 are

⁶⁷ All Expenses and Fixed Asset activity for the Administrative Services functions are allocated to, and included in the Funding Requirements for, the statutory programs.

followed, where applicable, by explanations of significant variances between the Regional Entity's 2015 and 2016 Budgets for the funding or cost category. Finally, Table B-13 provides the Regional Entity's statutory budget projections for 2017 and 2018, in Statement of Activities format.⁶⁸

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 2016, including program descriptions and objectives, budget information, and FTEs.⁶⁹

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 2016 Consolidated Statement of Activities, Fixed Asset Expenditures and Changes in Working Capital showing the Regional Entity's 2016 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, 2014, based on 2014 actual audited results;⁷⁰ (ii) December 31, 2015, based on the Regional Entity's 2015 projection; and (iii) December 31, 2016, based on the Regional Entity's 2016 budget; and (3) the Regional Entity's organization chart, showing staffing comparisons for 2016 versus 2015.

⁶⁸ WECC has included its budget projections for 2017 and 2018 in Appendix A to its 2016 Business Plan and Budget, rather than in Table B-13 of Section B.

⁶⁹ MRO, ReliabilityFirst and SERC do not plan to have, and have not budgeted for, any non-statutory activities in 2016. SPP RE is unable to provide a non-statutory budget for 2016 because its planning and budgeting cycle does not result in finalization and SPP Board approval of the overall SPP, Inc. budget until October. SPP RE has included the overall SPP, Inc. 2015 budget and 2014 actual income statement, for information.

⁷⁰ The audited financial statements of each Regional Entity for 2014, except WECC, were filed on June 17, 2014, in NERC's *2014 Budget True-up Report*.

C. Discussion of Relevant Individual Regional Entity Business Plan and Budget

This section summarizes highlights of the individual relevant Regional Entity 2016 Business Plan and Budget.

1. NPCC

NPCC's statutory budget for 2016 is \$15,072,998, an increase of \$294,458 (2.0%) over its 2015 budget. NPCC's 2016 assessments are increased by \$280,318 (2.0%) from its 2015 budget. The increase in assessments reflects (in addition to the increased budget) Penalty collections of \$67,000 (a decrease of \$223,500 from the 2015 budget) and a decremental adjustment for Working Capital Reserve of \$592,801 versus a decremental adjustment of \$355,161 in the 2015 budget (*i.e.*, the adjustment to assessments for Working Capital Reserve reduces the 2016 assessment by \$237,640 less than in the 2015 budget).

NPCC's 2016 budget does not reflect any change in staffing in any statutory or administrative program from its 2015 budget (nor from its 2014 budget). Budgeted total staffing is 36.86 FTEs, comprised of 27.86 FTEs for the statutory programs and 9.00 FTEs for the administrative programs. Reflecting that there is no change in budgeted staffing, NPCC's budgeted 2016 Personnel Expense is increased by only 2.5% (\$229,204) from its 2015 budget. This increase is impacted by a reduction in NPCC's vacancy rate adjustment factor from 2% to 0%, based on recent experience. Within total Personnel Expense, budgeted Benefits Expense is increased by \$108,205 (8.6%) over the 2015 budget, due primarily to increases in medical, life and disability insurance premiums and vacation pay assumptions. However, budgeted Retirement expense is reduced by \$256,895 from the 2015 budget, due to NPCC's plan to terminate its defined benefit pension plan (partially offset by increased expenses for the employee savings plan).

NPCC is budgeting increased total resources (including allocated indirect expenses) for

each of its statutory programs in 2016, as follows: \$31,290 (2.1%) in Reliability Standards; \$82,051 (1.0%) in CMEP; \$117,651 (3.9%) in RAPA; \$20,946 (10.5%) in Training, Education, and Operator Certification; and \$42,520 (2.8%) in Situation Awareness and Infrastructure Security. In the CMEP, budgeted Consultants & Contracts Expense is reduced by \$168,000 (9.7%) from the 2015 budget reflecting efficiencies realized through the risk-based CMEP. In Situation Analysis, budgeted Consultants & Contracts Expense is increased by \$57,000 (57%) over the 2015 budget in order to enhance investigations and root cause analyses and the integration of ES-ISAC, GADS and TADS information with event analysis.

NPCC's budgeted 2016 Administrative Services expenses (which are allocated to the statutory programs) are \$240,356 (4.2%) higher than in the 2015 budget.⁷¹ Budgeted Office Rent is increased by \$51,000 (6.8%) over the 2015 budget, with the primary driver being increased real estate taxes. Budgeted Office Costs are increased by \$60,800 (10.5%) over the 2015 budget, due primarily to increased expenses for Computer Supplies and Maintenance due to additional software contracts and new equipment leases, partially offset by decreases in costs for equipment service and repair contracts.

NPCC's target Working Capital and Operating Reserve at December 31, 2016 is \$3,339,746, comprised of \$2,083,712 for Operating Reserve and \$1,256,033 for Working Capital. As approved by the NPCC Board of Directors, the Operating Reserve target is within the range of 30 days (8.33%) and 90 days (25.00%) of budgeted expenditures, while the Working Capital target is 30 days (8.33%) of budgeted expenditures. NPCC's Table B-1 shows a projected Working Capital and Operating Reserve of \$3,932,546 (Operating Reserve -

⁷¹ NPCC budgets Office Rent, Office Costs, Professional Services, Miscellaneous Operating Expense, and Depreciation as Indirect Expenses, rather than budgeting these costs individually in the statutory program budgets, and allocates them to the statutory programs on the basis of the proportion of direct statutory FTEs in each program.

\$2,676,513; Working Capital - \$1,256,033) at December 31, 2015; thus, NPCC's 2015 assessment amount is reduced by \$592,801 to reach its desired Working Capital and Operating Reserve at December 31, 2016.

For purposes of determining the assessments to recover NPCC's statutory funding requirement, the statutory funding requirement is allocated among the Balancing Authority Areas within NPCC in the U.S. (New York and New England), Ontario, Québec, New Brunswick and Nova Scotia. A portion (23.61%) of NPCC's statutory costs for the Compliance and Organization Registration Program (CORC) is allocated between the U.S. and Canadian Balancing Authority Areas on the basis of NEL, a portion (51.18%) of the CORC costs is allocated between the U.S. and the Canadian provinces using a compliance audit-based methodology, and the remaining portion (25.21%) of the CORC costs, representing mitigation and enforcement-related costs, is allocated between the U.S. and Canadian Balancing Authority Areas using an enforcement activity-based methodology.⁷² The portion of the costs allocated to the U.S using the audit-based methodology and the enforcement activity-based methodology is then re-allocated between the New York and New England Balancing Authority Areas on the basis of NEL, as required by PP 40-41 of the *July 16, 2009 Budget Compliance Order*. The narrative discussion on pages 63-64, and the table on page 65, of NPCC's Business Plan and Budget (**Attachment 3**) explain and show the development of the 2016 assessments by Balancing Authority Area within NPCC to recover NPCC's statutory funding requirement. Appropriate adjustments to the costs to be allocated are made for Penalty payments received by NPCC from U.S. registered entities (used solely to offset CORC costs to be charged to U.S.

⁷² These allocation percentages reflect the respective scopes of work to be performed by NPCC and the relevant provincial governmental and/or regulatory authorities in the Compliance area, as negotiated between NPCC and the relevant authorities in each of the provinces and reflected in the Memorandum of Understanding between NPCC and the relevant authorities for each province.

Balancing Authority Areas).

NPCC's total non-statutory (Criteria Services Division) Funding Requirement for 2016 is \$1,060,542.

C. Metrics Related to Regional Entity Budgets

Consistent with NERC's February 25, 2015 *Notice of Filing of Revisions to Certain "Metrics" Filing Components for its Annual Business Plan and Budget Filings and its Annual Actual Cost-to-Budget True-Up Filings*, NERC is providing the metrics information listed below in **Attachment 6** and **Attachment 7** to this filing.

Attachment 6: Metrics Comparing Regional Entity Operations Based on the 2016 Budgets

Attachment 6 provides the following information relating to the Regional Entities' operations based on their 2016 Business Plans and Budgets:

1. Numbers of registered entities
2. Numbers of registered functions
3. Total NEL (GWh)
4. NEL (Gwh) per registered entity
5. Total ERO Funding (sum of assessments plus Penalty sanctions collections)
6. ERO Funding per registered entity
7. ERO Funding per registered function
8. Total Budget (sum of Total Expenses plus Capital Expenditures)
9. Total Budget per registered entity
10. Total Budget per registered function
11. Total Statutory FTE (FTE are based on working 2,080 hours per year)
12. Registered entity per Statutory FTE
13. Registered function per Statutory FTE

14. Total Compliance Budget (sum of Direct Expenses, Indirect Expenses allocated to the Compliance Program, and Capital Expenditures)
15. Compliance budget per registered entity
16. Compliance budget per registered function
17. Total Compliance FTE
18. Registered entity per Compliance FTE
19. Registered function per Compliance FTE

In addition, **Attachment 6** provides the following metrics and graphics based on the Regional Entities' 2016 Business Plans and Budgets:

20. Compliance Budget per Number of Registered Functions and per Number of Registered Entities.
21. Number of Registered Functions per Registered Entity
22. Compliance Program Budget as a Function of Number of Registered Entities and Number of Registered Functions
23. Number of Registered Entities per Compliance Program FTE and Number of Registered Functions per Compliance Program FTE
24. Comparisons of Number of Registered Entities per Compliance program FTE and Number of Registered Functions per Compliance Program FTE for the current year (2015) and the budget year (2016).

Attachment 7: Metrics on NERC and Regional Entity Administrative (Indirect) Costs Based on the 2015 and 2016 Budgets

Attachment 7 provides the following metrics on the budgeted Administrative Services costs of NERC and each Regional Entity, based on their budgets for 2015 and 2016:

1. Statutory Indirect Budget as a Percentage of Total Statutory Budget, for 2015 and 2016.
2. Ratio of Statutory Direct Budget to Statutory Indirect Budget, for 2015 and 2016.
3. Statutory Indirect (Administrative) FTEs as a Percentage of Total Statutory FTEs, for 2015 and 2016.
4. Number of Direct Statutory FTEs per Indirect (Administrative) FTE, for 2015 and

2016.

D. Peak Reliability Business Plan and Budget

Peak Reliability has advised NERC and FERC that Peak has developed a new funding arrangement to be implemented on a contractual basis through a Reliability Coordinator Funding Agreement (RC Agreement).⁷³ The new funding arrangement has been approved by the Peak Board and membership, and the RC Agreement has been executed by funding parties representing at least 90% of the NEL in the U.S. portion of the Western Interconnection. The new funding arrangement should become effective beginning January 1, 2016. Accordingly, beginning January 1, 2016, Peak will no longer require \$215 funding, and therefore, Peak has not submitted a 2016 business plan and budget for inclusion in this filing.

VI. RESPONSES TO QUESTIONS FROM FERC

On September 15, 2015, FERC's Office of Energy Market Regulation forwarded a letter to NERC ("September 15 Letter") requesting additional information concerning the 2016 Business Plans and Budgets of NERC, the Western Electricity Coordinating Council ("WECC"), and the Western Interconnection Regional Advisory Body ("WIRAB"). NERC's responses to the questions are provided, below.⁷⁴

A. Question 1:

Attachment 2 of NERC's filing shows large changes between the 2015 budgeted amounts, including full-time equivalent employees (FTE), and the end-of-year projections for NERC's compliance assurance program area. For instance, on page 28 of attachment 2, personnel expenses for the compliance assurance program area are anticipated to be over budget by \$854,964 for the 2015 budget year, and an additional 3.91 FTEs are expected to be allocated

⁷³ See *Informational Filing of Peak Reliability*, filed August 11, 2015 in Docket Nos. RR13-12-000 and 13-52-000.

⁷⁴ In addition to the questions referenced in this section, FERC also included in the letter questions relating specifically to WIRAB and WECC. The responses to those questions are not included in this filing.

to the program area. Similarly, significant deviations between 2015 budget levels and 2015 end-of-year projections can be found in NERC's reliability standards, event analysis, and administrative (indirect) cost program areas, and in NERC's overall fixed asset expenditures. However, the filing does not provide an adequate justification for these expected deviations, nor any discussion as to if or how these deviations relate to the limits and filing requirements under Paragraph 7(b)(ii) of the Settlement Agreement. Please provide such justifications and explanations. [Footnote omitted.]

Response:

By way of background, NERC notes that in past annual business plan and budget filings, it has not included explanations of variances between budgeted amounts and projected year-end results for the current year in individual expense items for individual programs, unless discussion of such a variance is useful in helping to explain changes between the current year budget for a program or expense item and the proposed budget for that program or expense item for the upcoming year.⁷⁵ Rather, NERC has focused its explanations in the annual business plan and budget filings on changes from the previous (current year) approved budget to the proposed budget for the upcoming year, which NERC is submitting. For purposes of reporting and explaining variances between budgeted and actual results for each year, FERC has established a requirement for NERC to file an annual true-up report by May 31 of the following year explaining significant variances between the budgets of NERC and the Regional Entities for the preceding year and actual results for that year. However, NERC appreciates the opportunity to provide further information and clarification at this time.

In comparing amounts budgeted for the current year to the currently projected results for the year, it should be kept in mind that the NERC (and Regional Entity) budgets for each year are generally prepared during the first six to seven months of the preceding year, are approved by the NERC Board of Trustees at a Board meeting held in early to mid-August of the preceding

⁷⁵ The "2016 Projection" numbers provided in NERC's 2016 Business Plan and Budget are NERC's June 2015 projections of final year-end 2015 results.

year, and are filed with the applicable governmental authority on or about August 24 of the preceding year. Therefore, by the time of the annual business plan and budget filing with the applicable governmental authorities, the current year budget is essentially more than a year old, and subsequent events and changing requirements of and demands on NERC's operations may have, and often do, result in variances between the budget for the current year and the currently projected year end results for the current year. These intervening events can include both emerging demands and priorities (resulting in a need for increased resources in the applicable program area), and the realization that there is less need for resources in another program area, due to realized efficiencies in operations or particular issues taking less time and fewer resources to resolve than anticipated in preparing the budget. In this connection, as described in NERC's business plans and budgets and in other presentations over the past several years, NERC senior management is increasingly focused on resource allocation and efficiency in order to respond to existing and emerging priorities within the limits of its approved overall budget for the current year. Accordingly, given the long lead time between budget preparation and the budget operating year, intra-year resource reallocations are neither unusual, nor should they be unexpected.⁷⁶

As discussed below in the responses concerning variances between full-time equivalent staff ("FTEs") in the 2015 Budget and the 2015 Projection for specific programs, one cause of variances is reductions in the assumed vacancy rate for approved positions from the Budget to the Projection. As stakeholders and FERC staff are aware, vacancy rate assumptions are more of an art than a science, and NERC management has continued to work on these assumptions over the past several years in an effort to manage resources and resource allocation within its

⁷⁶ NERC management prepares and reviews in open session quarterly budget variance reports with NERC's Finance and Audit Committee. These reports track actual to budgeted results for each of the categories of funding, expense and fixed assets set forth on NERC's statement of activities which sets forth its overall budget for the current year. These reports are filed with FERC.

approved budget and reduce the potential for generation of significant unanticipated additional operating reserves at year end that could result from under-runs in NERC's overall personnel budget due to vacancies. Thus, the observed changes in FTEs between the 2015 Budget and 2015 Projection for individual programs are not due solely to timing of transfers of open budgeted positions or transfers of existing personnel, but also to changes in vacancy rate assumptions (and, to a lesser extent, to timing of filling open transferred positions on a different date than assumed in preparing the Budget). As noted in NERC's Summary of Results as of June 30, 2015,⁷⁷ as NERC moves through the year, the personnel vacancy rate is adjusted downward to account for the declining impact of vacancies as the year progresses.

On a total company basis, as shown on page 16 of Attachment 2 to NERC's 2016 Business Plan and Budget filing:

- Budgeted 2015 Total Expense is \$65,363,815, while the 2015 Projection is \$64,656,044; therefore, 2015 Total Expense is projected to be \$707,771 (1.1%) less than the budget.
- Budgeted 2015 Personnel Expense is \$35,803,312, while the 2015 Projection is \$35,758,363; therefore, 2015 Personnel Expense is projected to be \$44,949 (0.13%) less than the budget.
- Budgeted 2015 total FTEs is 192.3 FTEs, while the 2015 Projection is 192.0 FTEs.

The following subsections discuss the specific variances between the 2015 Budget and 2015 Projection for the programs and expenditure items identified in Question 1. For reference, the text of ¶7(b)(ii) of the Settlement Agreement referred to in this question is as follows:

NERC will file for Commission review and approval Board-of-Trustees-approved proposals to expend \$500,000 or more from operating reserves designated for "unforeseen contingencies" (as that term is defined in NERC's Working Capital and Operating Reserve Policy (Reserve Policy)). Each such filing will include supporting materials in sufficient detail to justify the proposed expenditure. The filing will be deemed approved if the Commission does not act on it or issue a

⁷⁷ Available at:
http://www.nerc.com/gov/bot/FINANCE/2013%20Finance%20and%20Audit%20Committee%20DL/FAC_Open_August_2015_Package.pdf.

tolling order extending the time for Commission action within thirty days of the filing date.

The Parties agree that this requirement for Commission review and approval is triggered if any amount allocated from the unforeseen contingencies account of operating reserves plus any amount redirected from previously budgeted funds is, in the aggregate, \$500,000 or more for any one specific project or major activity in a program area.

NERC notes that during 2015, it has had one use of Operating Reserves which necessitated a filing with FERC pursuant to ¶7(b)(ii), specifically, NERC's proposed use of \$600,000 from Operating Reserves during 2015 to accelerate development and implementation of an ERO-wide Document Management Program. The ¶7(b)(ii) filing relating to this use of Operating Reserve funds was submitted on September 10, 2015 .

1. Compliance Assurance Program

The Compliance Assurance program is part of NERC's Reliability Assurance operational group which in turn is part of the Compliance Monitoring and Enforcement and Organization Registration and Certification Program Area.⁷⁸ For 2015, budgeted Personnel Expense for the Compliance Assurance Program is \$2,320,322, while the 2015 Projection for Personnel Expense is \$3,175,286. Budgeted 2015 staffing for Compliance Assurance is 12.19 FTEs, and the 2015 Projection is 16.10 FTEs. The increase in Personnel Expense from 2015 Budget to 2015 Projection is due to the change in FTE staffing from Budget to Projection, as described below.

To support implementation of NERC's risk-based compliance monitoring program, during 2015, one (1) managerial position was transferred from Compliance Analysis, Certification and Registration to Compliance Assurance,⁷⁹ and two (2) positions were transferred from the Reliability Standards Program to Compliance Assurance. Filling these positions with

⁷⁸ See NERC's 2016 Business Plan and Budget at 24.

⁷⁹ The Compliance Analysis, Certification and Registration program, like the Compliance Assurance program, is part of the Compliance Monitoring and Enforcement Program Area. Thus, the transfer of this position was an intra-program area transfer.

actual employees occurred at various times during the year. The Reliability Standards Program is requiring fewer resources in 2015 than originally budgeted, for the reasons discussed in the next subsection. In addition, the 2015 budget assumed a 6% vacancy rate across all departments. For purposes of the June 2015 projection, the vacancy rate was reduced to 3% for all positions that had been filled throughout the year.⁸⁰ Finally, a portion of the change from the budgeted FTEs to the Projection FTEs is attributable to earlier actual or planned start dates for new hires than were assumed in preparing the budget.

All of these changes resulted in the projected increase in Personnel Expenses and FTEs from the 2015 Budget to the 2015 Projection. Since the personnel transfers moved personnel to existing budgeted and approved activities, the filling of these positions occurred at different times during the year, the transferred FTEs work on a variety of activities, no funds were being transferred from Operating Reserves, and total FTEs remained within NERC's overall approved personnel budget, no filing pursuant to ¶7(b)(ii) was necessary.

2. Reliability Standards Program

Budgeted Personnel Expense for 2015 for the Reliability Standards Program is \$4,072,883, while the 2015 Projection for Personnel Expense is \$3,010,127. Budgeted 2015 staffing for Reliability Standards is 24.40 FTEs, and the 2015 Projection is 18.51 FTEs. Due to the transformation of the NERC Reliability Standards to a "steady state," together with reorganization and improved efficiency of operations within the Reliability Standards Program, management recognized that fewer FTEs are necessary to support the ongoing operations, goals and objectives of the Reliability Standards Program. These efficiency improvements and

⁸⁰ The impact of the change in vacancy rate assumption can be viewed as follows: Had the current vacancy rate assumption of 3% been used in the preparation of the 2015 Budget, the indicated budgeted FTEs would have been approximately 12.6 FTEs, or approximately 0.4 FTE higher than the budgeted FTE number.

reduced resource needs allowed a total of six (6) positions to be reallocated to support other departments which were facing increased resource needs. Rather than continue to have budgeted but now unnecessary personnel continue to occupy positions in the Reliability Standards Program, where they would be underutilized, management implemented these transfers.

As noted in the preceding subsection, two (2) positions were transferred to Compliance Assurance to support implementation of the risk-based compliance monitoring program. In addition, one (1) position was transferred to General and Administrative to support the senior vice president and chief reliability officer (“CRO”), who has oversight over most operating areas within the company, including Reliability Standards, Reliability Assessment and Performance Analysis (“RAPA”), Compliance Assurance, and Reliability Risk Management.⁸¹ Further, two (2) positions were transferred to Information Technology to provide additional support for the development and management of software applications supporting operations in Compliance Monitoring and Enforcement, RAPA and Event Analysis, among other departments. Finally, one (1) position was transferred to the ES-ISAC to provide added resources to support cyber security analysis and information sharing activities. The transfers and filling of these positions with employees occurred at various times during the year.

The forgoing personnel transfers moved personnel to work on other existing, budgeted and approved activities, did not involve any transfers from Operating Reserves, and total FTEs remained within NERC’s overall approved personnel budget. Therefore, no filing pursuant to

⁸¹ NERC does not directly allocate the expenses for the CRO and CRO support staff to the operating departments under the supervision of the CRO. Instead the CRO-related costs are allocated among all departments as General and Administrative expenses, using an allocation method based on FTEs consistent with past business plans and budgets. However, NERC has installed and implemented a time keeping and expense allocation system which allows it to track expenses by major activity and department and use this information in both the development and management of its overall budget.

¶7(b)(ii) was necessary.⁸²

3. Event Analysis Program

Budgeted Personnel Expense for 2015 for the Event Analysis Program is \$1,875,467, while the 2015 Projection for Personnel Expense is \$2,198,627. Budgeted 2015 staffing for Event Analysis is 9.38 FTEs, and the 2015 Projection is 11.32 FTEs. The projected increase in FTEs and related Personnel Expenses is due to the transfer of one position from Situation Awareness to Event Analysis to better align existing staff to accommodate ongoing workload, and due to an updated and lower vacancy rate than was budgeted. The 2015 Personnel Expense and FTE budget is based upon a projected vacancy rate of 6%. As of June, 2015, there were no vacant budgeted positions in Event Analysis and the projected vacancy rate was reduced from 6% to 3%. This reduction in the vacancy rate increases the projection for Personnel Expenses and FTEs.⁸³ The personnel transfer moved a position into Event Analysis to work on existing, budgeted and approved activities, did not involve any transfers from Operating Reserves, and total FTEs remained within NERC's overall approved personnel budget. Therefore, no filing pursuant to ¶7(b)(ii) was necessary.⁸⁴

4. Administrative Services

Budgeted Personnel Expense for 2015 for Administrative Services is \$12,979,273, while the 2015 Projection for Personnel Expense is \$14,156,890. Budgeted 2015 staffing for

⁸² Comparison of the 2015 Budget to the 2015 Projection for Reliability Standards also shows a variance in Depreciation Expense, from \$0 to \$194,645. The variance in Depreciation Expense reflects completion of a new standards ballot software application. NERC does not budget for Depreciation Expense (as it is completely offset in Fixed Asset Additions) and while this activity and expense was contemplated in the preparation of the 2015 Business Plan and Budget, the exact cost and timing of completion were not known at the time of budget preparation.

⁸³ Had the current 3% vacancy rate assumption been used in the preparation of the 2015 Budget, the budgeted FTEs for Event Analysis you have been approximately 0.3 FTE higher.

⁸⁴ Additionally, the increase in Personnel Expense for Event Analysis from the 2015 Budget to the 2015 Projection is less than \$500,000.

Administrative Services is 67.54 FTEs, and the 2015 Projection is 73.62 FTEs. As described in the subsection above relating to the Reliability Standards program, a portion of the projected increase in staffing is due to transfers of three (3) budgeted FTEs from Reliability Standards, where they were no longer needed, to support the CRO and the Information Technology department.⁸⁵ In addition and as noted above, the 2015 Personnel Expense and FTE budget was based upon a projected vacancy rate of 6%. The June 2015 projected vacancy rate for Administrative Services is approximately 1%. This reduction in the vacancy rate increases the projection for Personnel Expenses and FTEs. Had the current vacancy rate of 1% been used in the development of the 2015 Budget, the budgeted FTEs for Administrative Services would have been approximately 3.75 FTEs higher than the budgeted number. The personnel transfers moved personnel into Administrative Services to work on existing, budgeted and approved activities, did not involve any transfers from Operating Reserves, and total FTEs remained within NERC's overall approved personnel budget. Therefore, no filing pursuant to ¶7(b)(ii) was necessary.

5. Overall Fixed Asset Expenditures

Budgeted total Fixed Asset expenditures for 2015 are \$3,618,500, while the 2015 Projection for total Fixed Asset expenditures is \$4,824,472. Of the difference between the 2015 Budget amount and the 2015 Projection amount, \$600,000 is additional, unbudgeted expenditures in 2015 for accelerated development and implementation of the ERO Enterprise corporate Document Management Program, which is being funded from Operating Reserves. As

⁸⁵ Additional information regarding the increase in Administrative Services expense may be found starting on page 70 of NERC's 2016 Business Plan and Budget and was also included in Management's Response to Comments on the first posted draft of NERC's 2016 Business Plan and Budget:
<http://www.nerc.com/gov/bot/FINANCE/2016NERCBusinessPlanandBudget/Response%20to%20Comments.pdf>.

noted earlier in this response, this unbudgeted 2015 capital expenditure from Operating Reserves was filed on September 10, 2015.

With respect to the remainder of this increase: (1) \$285,000 is for leasehold improvements to increase the number of offices in NERC's Atlanta office, is being funded from Operating Reserves, and was approved by the NERC Finance and Audit Committee on November 6, 2014. (2) \$295,972 is for leasehold improvements in the Washington, D.C., office in connection with the exercise of an option under the existing Washington, D.C., lease at 1325 G Street (i) to facilitate the addition of space necessary to accommodate the physical separation of the ES-ISAC (recently renamed the Electricity Information Sharing and Analysis Center) from other NERC operations in this office and (ii) to accommodate existing and future staffing needs.

NERC management anticipated and identified the exercise of the option to acquire additional space in the Washington, D.C., office in the 2015 Business Plan and Budget (*see* page 69, and Table B-6 on page 92 of NERC's 2015 Business Plan and Budget). However, when the 2015 budget was developed, the actual lease expense and build out costs, net of tenant improvement allowance, was not yet known, since the lease amendment was not finalized. NERC assumed an increase of \$300,000 for rent expense and that the tenant improvement allowance would be sufficient to cover the cost of leasehold improvements, as was the case when the original lease was signed. However, the tenant improvement allowance included in the final negotiated lease was not sufficient to fully cover the cost of the buildout of the space. Therefore, on November 12, 2014, the NERC Finance and Audit Committee approved the use of up to \$425,000 of Operating Reserves to fund the improvements to the space. The final costs related to the build out of the space and included in the 2015 Projection for Fixed Assets are \$292,972, which is less than the total amount authorized by NERC's Finance and Audit Committee.

Additionally, due to the delay in the commencement date of the lease, 2015 Rent Expense will be approximately \$110,000 less than budgeted; as a result, the net impact on Operating Reserves for the expansion of the Washington, D.C., office will be approximately \$183,000.

Since the exercise of the option to acquire additional space in the Washington, DC, office was included in the 2015 Business Plan and Budget, and is requiring an expenditure of less than \$500,000 from Operating Reserves, no filing pursuant to ¶7(b)(ii) was necessary. Further, while the leasehold improvements in the Atlanta office were not included in the 2015 Business Plan and Budget, the projected use of Operating Reserves to fund these leasehold improvements is less than \$500,000 (actual expense of approximately \$300,000); therefore no filing pursuant to ¶7(b)(ii) was necessary.

B. Question 2:

On page 8 of the transmittal letter and pages 17, 61, and 62 of attachment 2, NERC provides information regarding proposed funding for the Cyber Risk Information Sharing Program (CRISP). However, unlike NERC's 2015 business plan and budget, NERC's 2016 business plan and budget does not provide adequate justification for the amount of statutory funding required for CRISP. In its 2015 business plan and budget, NERC outlined the specific costs to the Electricity Sector Information Sharing and Analysis Center due to CRISP, and linked those costs to the statutory funding requirement portion of its CRISP funding request. Please provide similar justification for the statutory funds budgeted for CRISP in 2016. Additionally, please explain why statutory funding proposed for CRISP is increasing from the 2015 budget to 2016, while overall user-funding for CRISP is decreasing. [Footnote omitted.]

Response:

The total 2016 budget for the Cyber Risk Information Sharing Program ("CRISP") is \$7,973,019 compared to a total 2015 budget of \$9,321,123 (not including a one-time cost of \$500,000 in 2015 to establish an Operating Reserve fund for CRISP, which was paid for by the participating utilities), which is a decrease in the overall program costs of \$1,348,104, as shown on page 17 of NERC's 2016 Business Plan and Budget (or a decrease of \$1,848,104 taking into

account the budgeted one-time payment in 2015 to create the Operating Reserve fund).⁸⁶ The principal reason for this decrease is that the 2015 Budget included one-time start-up costs for CRISP that will not be incurred in 2016.

Attachment 9 to this filing provides a comparison of the 2015 Budget and the 2016 Budget for NERC's costs for CRISP, detailed by major line item categories. NERC's budgeted costs for CRISP for 2016 are \$2,284,425, versus \$1,755,068 in the 2015 Budget, an increase of \$529,357. Significant line item variances for NERC's costs between the 2015 Budget and the 2016 Budget are as follows:

- Personnel Expense: 2016 Budget of \$741,671 versus 2015 Budget of \$459,251, an increase of \$282,420. Increased staffing is required, from 1.88 FTEs to 2.76 FTEs, in order to provide increased analytical and staff support for CRISP, which was one of the key findings and recommendations in the Electricity Sector Coordinating Council's strategic review of the ES-ISAC,⁸⁷ which was accepted by NERC's Board of Trustees at its August 12, 2015 meeting.
- Security review expense: 2016 Budget of \$100,000 versus zero in the 2015 Budget. This expense is for a security audit governing CRISP data which is required pursuant to the terms of the Master Agreement for CRISP among NERC and the participating utilities.
- Professional Fees: 2016 Budget of \$50,000 versus 2015 Budget of \$250,000, a decrease of \$200,000. This expense item is reduced because significant legal fees were budgeted in 2015 in connection with the development of contracts among NERC and other CRISP participants; this expense will not be required in 2016.
- Insurance Expense: 2016 Budget of \$125,000 versus 2015 Budget of \$100,000, an increase of \$25,000. The budget for this expense item has been increased based on anticipated higher costs for certain insurance in connection with this program.
- Indirect cost allocation: 2016 Budget of \$694,022 versus 2015 Budget of \$390,817, an increase of \$303,205. As with all of NERC's direct statutory function programs, Administrative Services (indirect) expenses are allocated to CRISP based on the ratio of CRISP FTEs to total direct statutory function FTEs. The budgeted indirect expense allocation for CRISP is increased in the 2016 Budget over the 2015 Budget due to (1) increased budgeted total Administrative Services expense for NERC in the 2016 Budget over the 2015 Budget, and (2) increased FTEs for CRISP in the 2016 Budget as compared to the 2015 Budget.

⁸⁶ The table on page 17 of NERC's 2016 Business Plan and Budget shows the 2015 and 2016 budgets for CRISP, broken out using the standard line items shown in NERC's budget presentations.

⁸⁷ Available at: ESCC Strategic Review of the ES-ISAC Report.

In connection with the implementation of CRISP, and as reflected in NERC's 2015 business plan and budget, 50% of NERC's costs for CRISP, exclusive of the cost of the Pacific Northwest National Laboratories subcontract and certain costs paid directly by CRISP participants, are paid for by the participating utilities, and the remaining 50% is included in the calculation of NERC's overall assessments to load-serving entities ("LSEs").⁸⁸ In the 2015 Budget, 50% of NERC's budgeted costs of \$1,755,068, or \$877,534, were budgeted to be paid by NERC, with an equal amount to be paid by the participating utilities. No change in this allocation formula is proposed for 2016, and in the 2016 Budget, 50% of NERC's budgeted costs of \$2,284,425, or \$1,142,213, are budgeted to be paid by NERC and funded through assessments, with an equal amount to be paid by the participating utilities. Therefore, the portion of NERC's costs for CRISP that is paid for by NERC and funded through assessments to LSEs increases from \$877,534 in the 2015 Budget to \$1,142,213 in the 2016 Budget, an increase of \$264,679.

The budgeted 2016 CRISP costs to be paid by the participating utilities is \$6,830,807, compared to \$8,943,589 in the 2015 Budget, a decrease of \$2,112,783. The most significant factor in this decrease is the non-recurrence of the one-time program start-up costs budgeted and incurred in 2015 (including a one-time payment of \$500,000 to establish a reserve fund for CRISP).

⁸⁸ See NERC 2015 Business Plan and Budget, Exhibit F-Additional CRISP Detail, Funding, page 136.

Respectfully submitted,

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ATTACHMENTS 1 – 9

(Available on the NERC Website at

http://www.nerc.com/FilingsOrders/ca/Canadian%20Filings%20and%20Orders%20DL/Attachments_2016budget_NPCC_filing.pdf)