

May 14, 2015

**VIA ELECTRONIC FILING**

Hon. Kimberly D. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, N.E.  
Washington, D.C. 20426

**Re: North American Electric Reliability Corporation  
Docket No. RR15-\_\_\_\_-000  
Request for Approval of an Expenditure Greater Than \$500,000 from  
Operating Reserves**

Dear Ms. Bose:

The North American Electric Reliability Corporation (NERC) hereby submits the "Request of the North American Electric Reliability Corporation for Approval of an Expenditure Greater Than \$500,000 from Operating Reserves." This request is submitted in accordance with Paragraph 7(b)(ii) of the Settlement Agreement entered into and approved in Docket No. FA11-21-000.

NERC's filing consists of: (1) this transmittal letter, (2) the narrative text of this filing, which follows this transmittal letter, and (3) Attachment 1 to the filing, all of which are being transmitted in a single pdf file.

Please contact the undersigned if you have any questions concerning this filing.

Respectfully submitted,

/s/ Owen E. MacBride  
Owen E. MacBride

Attorney for North American Electric  
Reliability Corporation



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## **I. INTRODUCTION**

The North American Electric Reliability Corporation (“NERC”), in accordance with Paragraph 7(b)(ii) of the Settlement Agreement in Docket No. FA11-21-000 (“Paragraph 7(b)(ii)”), submits for Commission review and approval a proposed expenditure in excess of \$500,000 from NERC’s unforeseen contingencies Operating Reserve.<sup>1</sup>

Specifically, NERC requests approval of a proposed expenditure of up to \$600,000 from Operating Reserves during 2015 for expedited development and implementation of a centralized corporate document management program. For reasons described herein, including the results and recommendations of an evaluation completed in early 2015, NERC seeks to spend up to \$913,000 during 2015 to expedite development and implementation of the document management program. As described herein, the implementation of the document management program is critical to supporting a number of important business requirements which are central to NERC’s operations. NERC plans to use \$200,000 of funds budgeted in its 2015 Information Technology (“IT”) budget for Computer & Software CapEx, \$50,000 of funds budgeted in its 2015 IT budget for Office Costs – Computer Supplies and Maintenance, and \$63,000 of funds budgeted in its 2015 IT budget for Consultants & Contracts – Application Enhancements, Consulting and Help Desk Support, for this project in 2015.<sup>2</sup> For the additional funding needed, NERC seeks to spend up to \$600,000 from Operating Reserves during 2015 on this project.<sup>3</sup>

NERC’s current Working Capital and Operating Reserves (“WCOR”) Policy requires that expenditures in excess of \$500,000 from the Operating Reserve for unforeseen contingencies must be approved by the NERC Board of Trustees, after notice to and

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<sup>1</sup> See *North American Electric Reliability Corporation*, 142 FERC ¶61,042 (2013).

<sup>2</sup> NERC’s 2015 Business Plan and Budget was filed with the Commission as Attachment 2 to NERC’s 2015 Business Plan and Budget Filing in Docket No. RR14-6-000 (filed August 22, 2014).

<sup>3</sup> Additional planned expenditures for the project during 2016 and 2017 will be included in NERC’s business plans and budgets for those years that are submitted to the Commission for approval pursuant to 18 C.F.R. §39.4(b).

recommendation by the Finance and Audit Committee (“FAC”) of the NERC Board.<sup>4</sup> The proposed expenditure from Operating Reserves was approved by the NERC Board on May 7, 2015, following a recommendation made by the FAC on May 6, 2015. Paragraph 7(b)(ii) specifies that NERC will file for Commission review and approval any Board-approved proposals to expend \$500,000 or more from unforeseen contingencies Operating Reserves for any one specific project. Paragraph 7(b)(ii) further specifies that the filing will be deemed approved if the Commission does not act on it or issue a tolling order extending the time for Commission action within thirty days of the filing date.

## **II. NOTICES AND COMMUNICATIONS**

Notices and communications concerning this filing may be addressed to:<sup>5</sup>

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<sup>4</sup> NERC’s current WCOR Policy was submitted to the Commission as Attachment 1 to NERC’s November 22, 2013 compliance filing on NERC’s 2014 Business Plan and Budget filing in Docket No. RR13-9-000. *Compliance Filing of the North American Electric Reliability Corporation in Response to Paragraph 23 of November 1, 2013 Commission Order*, filed November 22, 2013 in Docket No. 13-9-001. The Commission accepted the November 22, 2013 compliance filing in a letter order issued January 3, 2014 in Docket No. RR13-9-001. Presently pending before the Commission, in Docket No. RR15-8-000, is a proposed revision to NERC’s WCOR Policy, filed on March 6, 2015.

<sup>5</sup> Persons to be included on the Commission’s official service list are identified by an asterisk. NERC respectfully requests a waiver of the Commission’s regulations at 18 C.F.R. §385.203(b)(3) to allow the inclusion of more than three persons on the service list on behalf of NERC in this proceeding.

### **III. DESCRIPTION OF THE PROPOSED EXPENDITURE FROM OPERATING RESERVES**

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Paragraph 7(b)(ii) of the Settlement Agreement in Docket No. FA11-21-000 states:

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

[T]his 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.

At present, NERC does not have a corporate-wide document management program for creation, editing, sharing, storage, maintenance, and orderly destruction of documents created and/or maintained by NERC and its employees. Documents created or received by NERC employees are processed and maintained on a number of disparate systems, including individual employee computers and shared corporate drives, with no centralized corporate sharing, editing, storage and maintenance capability and no centralized oversight. NERC management determined that a consultant should be retained to evaluate options, benefits and costs for development of a centralized corporate document management program. NERC management conducted a competitive solicitation of proposals for this consulting engagement. A nationally-recognized consulting firm with extensive experience in assisting a wide variety of public and privately-held companies in successfully implementing document management programs was retained to assist in the evaluation.

The evaluation of document management program options, costs and benefits was completed early in 2015. Detailed results and recommendations of the evaluation, including a proposed project plan and funding requirements, were presented by management to the Standards Oversight and Technology Committee of the NERC Board and to the FAC, at

meetings on May 6, 2015.

Implementation of a centralized corporate document management program will address a number of internal audit recommendations relating to information security and will support a number of important business requirements for NERC's operations, including the following: (1) information access and search capabilities; (2) facilitating working group, team and stakeholder collaboration; (3) version control of documents; (4) workflow control (review and approval of documents); (5) simplification of document retrieval; (6) proper classification and management of confidential information; (7) creation and maintenance of audit trails; and (8) adherence to document retention policy and procedures. Implementation of the document management program will increase efficiency and employee productivity and will mitigate corporate risk. The document management program envisioned by the evaluation will include features for document classification, document access, document retention, document sharing, collaboration and versioning, document work flow and audit trail. The development and implementation project will include program design, hardware and software procurement, and installation, as well as development of management oversight policies and employee training and communications.

Implementation of the centralized corporate document management program will be a multi-year project, with significant funding requirements. **Attachment 1** to this filing shows the actual and proposed expenditure requirements for this project in 2014, 2015, 2016 and 2017. The projected total expenditures over the four-year period are \$2,211,000, comprised of \$1,746,000 of capital expenditures and \$465,000 of operating expenses based on applicable capitalization policies. The planned expenditures include \$1,861,000 in professional services fees and related expenses for design, development, installation and implementation (including employee training and communications) of the document management program; \$200,000 of

hardware and software purchases from vendors; and \$150,000 for maintenance and support.<sup>6</sup> The evaluation determined that the projected cost of implementing the document management program, in terms of average cost per user, is comparable to the costs incurred by a comparison group of U.S. utilities. NERC plans to use recognized industry consultants and technology providers for the project. NERC believes that exposure to financial risk due to potential cost overruns on the project is limited because the majority of the consulting costs are contractually capped and the hardware and software costs are known in advance.

In 2014, \$208,000 was expended on this initiative; NERC proposes to expend the balance needed to complete the project in 2015 through 2017. As noted earlier, NERC is planning to use for this initiative a total of \$313,000 of budgeted funds from its 2015 IT budget, which was developed during 2014 and submitted to the Commission in August 2014, prior to the document management program evaluation being completed. Based on the results of the evaluation completed in early 2015 and the significant benefits of implementing a centralized corporate document management program, management has recommended, and the FAC and Board have concurred, that the project should proceed as soon as possible. In order to proceed with development and implementation of the document management program, significant unbudgeted expenditures will be required during 2015. The plan developed by management in consultation with the consultant provides for the expenditure of approximately \$913,000 during 2015 for hardware, software and consulting support to stand up the document management program and to provide initial training. The planned 2015 activities and expenditures will enable the document management program to be operational by the end of 2015. To this end, on May 7, 2015, the NERC Board, following the recommendation of the FAC, authorized the expenditure of up to \$600,000 from Operating Reserves on the project during 2015 in accordance with

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<sup>6</sup> To be clear, this filing is not requesting Commission approval for the total project expenditures, but rather only for the expenditure in 2015 of up to \$600,000 from Operating Reserves on the project.

management's plan.<sup>7</sup>

NERC's approved 2015 Business Plan and Budget provides for \$2,000,000 for the unforeseen contingencies Operating Reserve.<sup>8</sup> As reported in NERC's most recent quarterly variance report for the period ended March 31, 2015,<sup>9</sup> the balance in the Operating Contingency Reserve was \$2,497,392 as of that date; and NERC management projects a balance of approximately \$2.65 million in the Operating Contingency Reserve at year-end 2015 (absent the expenditure proposed herein). NERC management has therefore determined that up to \$600,000 can be expended from the Operating Contingency Reserve in 2015 without adversely impacting the 2015 working capital and contingency reserves budget.

Based on the foregoing explanation and justification of the document management program project and proposed expenditures on the project from Operating Reserves in 2015, and in accordance with Paragraph 7(b)(ii), NERC requests the Commission's approval to expend up to \$600,000 from the unforeseen contingencies Operating Reserve during 2015 on the document management program project. As provided in Paragraph 7(b)(ii), the proposed expenditure from Operating Reserves will be deemed approved if the Commission does not act on it or issue a tolling order extending the time for Commission action within thirty days of May 15, 2015.

#### **IV. CONCLUSION**

For the reasons set forth herein, the North American Electric Reliability Corporation respectfully requests the Commission's approval of the proposed expenditure during 2015 of up

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<sup>7</sup> Additional expenditures during 2016 and 2017 will support the integration of all departments of NERC into the document management program on a phased basis through 2017. Details of the planned 2016 and 2017 expenditures will be provided in NERC's business plans and budgets submitted to the Commission for those years.

<sup>8</sup> See Exhibit E to NERC's 2015 Business Plan and Budget, Attachment 2 to NERC's August 22, 2014 filing in Docket No. RR14-6-000.

<sup>9</sup> Available at:

[http://www.nerc.com/gov/bot/FINANCE/2013%20Finance%20and%20Audit%20Committee%20DL/FA C Agenda Package May 6 2015.pdf](http://www.nerc.com/gov/bot/FINANCE/2013%20Finance%20and%20Audit%20Committee%20DL/FA%20C%20Agenda%20Package%20May%206%202015.pdf). See pages 11-12.

to \$600,000 from NERC's unforeseen contingencies Operating Reserve on the document management program project described herein.

Respectfully submitted,

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**ATTACHMENT 1**

**ACTUAL AND PLANNED EXPENDITURES  
FOR THE  
CORPORATE DOCUMENT MANAGEMENT PROGRAM PROJECT  
2014 THROUGH 2017**

**ACTUAL AND PLANNED EXPENDITURES  
FOR THE  
CORPORATE DOCUMENT MANAGEMENT PROGRAM PROJECT  
2014 THROUGH 2017  
(Dollars)**

<b>Item</b>	<b>2014 CapEx</b>	<b>2014 OpEx</b>	<b>2015 CapEx</b>	<b>2015 OpEx</b>	<b>2016 CapEx</b>	<b>2016 OpEx</b>	<b>2017 CapEx</b>	<b>2017 OpEx</b>
<b>Professional Services</b>	<b>208,000</b>		<b>538,000</b>	<b>125,000</b>	<b>465,000</b>	<b>135,000</b>	<b>335,000</b>	<b>55,000</b>
<b>Hardware &amp; Software</b>			<b>200,000</b>					
<b>Maintenance &amp; Support</b>				<b>50,000</b>		<b>50,000</b>		<b>50,000</b>
<b>Subtotal</b>	<b>208,000</b>		<b>738,000</b>	<b>175,000</b>	<b>465,000</b>	<b>185,000</b>	<b>335,000</b>	<b>105,000</b>

**Year Total                      208,000                      913,000                      650,000                      440,000**