SCHIFF HARDIN LLP
A Limited Liability Partnership

233 SOUTH WACKER DRIVE
SUITE 6600
CHICAGO, ILLINOIS 60606

Tel.: 312.258.5500
Fax: 312.258.5700

www.schiffhardin.com

Owen E. MacBride
(312) 258-5680
Email: omacbride@schiffhardin.com

August 14, 2015

VIA ELECTRONIC FILING

Ms. 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. RR15-8_-000
Request for Approval of Revisions to NERC's Working Capital and Operating Reserve Policy

Dear Ms. Bose:

The North American Electric Reliability Corporation (NERC) hereby submits the "Compliance Filing of the North American Electric Reliability Corporation in Response to Paragraph 18 of June 18, 2015 Order Concerning Amendments to NERC's Working Capital and Operating Reserve Policy."

NERC's filing consists of: (1) this transmittal letter, (2) the narrative text of this filing, which follows this transmittal letter, and (3) Attachments 1 and 2, 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

UNITED STATES OF AMERICA
Before the
FEDERAL ENERGY REGULATORY COMMISSION

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION	)))	**Docket No. RR15-8-000**

COMPLIANCE FILING OF THE NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION IN RESPONSE TO PARAGRAPH 18 OF JUNE 18, 2015 ORDER CONCERNING AMENDMENTS TO NERC'S WORKING CAPITAL AND OPERATING RESERVE POLICY

Gerald W. Cauley
President and Chief Executive Officer
Michael Walker
Senior Vice President and Chief Financial and Administrative Officer
North American Electric Reliability Corporation
3353 Peachtree Road
Suite 600, North Tower
Atlanta, GA 30326
(404) 446-2560
(404) 446-9765 – facsimile

Charles A. Berardesco
Senior Vice President and General Counsel
North American Electric Reliability Corporation
1325 G Street, N.W., Suite 600
Washington, D.C. 20005
(202) 400-3000
(202) 644-8099 – facsimile
charles.berardesco@nerc.net

Owen E. MacBride
Schiff Hardin LLP
233 South Wacker Drive, Suite 6600
Chicago, IL 60606
(312) 258-5680
(312) 258-5700 – facsimile
omacbride@schiffhardin.com

AUGUST 14, 2015

I. INTRODUCTION

The North American Electric Reliability Corporation ("NERC") submits this compliance filing in response to P 18 of the Commission's order issued June 18, 2015 in this docket.[1] The June 18, 2015 Order conditionally approved proposed revisions to NERC's Working Capital and Operating Reserve Policy ("WCOR Policy"), but directed NERC to make a compliance filing, within 60 days, submitting revisions to the WCOR Policy in accordance with P 18.

Attachment 1 to this filing is a clean revised version of the WCOR Policy, with an amendment responsive to P 18 of the June 18, 2015 Order. **Attachment 2** is a redlined version of the revised WCOR Policy, showing the amendment made in response to P 18 of the June 18, 2015 Order.

II. NOTICES AND COMMUNICATIONS

Notices and communications concerning this filing may be addressed to:

Gerald W. Cauley
President and Chief Executive Officer
Michael Walker
Senior Vice President and Chief Financial and Administrative Officer
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Chicago, IL 60606
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(312) 258-5700 – facsimile
omacbride@schiffhardin.com

III. REVISIONS TO WCOR POLICY IN RESPONSE TO P 18 OF JUNE 18, 2015 ORDER

In the June 18, 2015 Order, the Commission reviewed proposed changes to NERC's WCOR Policy. NERC originally submitted the WCOR Policy to the Commission on August 24,

[1] *North American Electric Reliability Corporation, Order Conditionally Accepting Revisions to Working Capital and Operating Reserve Policy*, 151 FERC ¶61,225 (2015) ("June 18, 2015 Order").

2012, in compliance with Recommendation No. 1 contained in a performance audit report issued by Commission Staff.[2] Subsequently, on January 18, 2013, the Commission approved a Settlement Agreement between NERC and the Office of Enforcement concerning the performance audit findings.[3] As is pertinent to the WCOR Policy, the Commission-approved settlement, in Paragraph 7(b)(ii), requires NERC to file for Commission review and approval proposals to expend $500,000 or more from operating reserves designated for "unforeseen contingencies":

> 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.

In the June 18, 2015 Order, in discussing NERC's proposed revisions to the WCOR Policy, the Commission stated in PP 14 and 18:

> 14. NERC proposes to eliminate the requirement that budgeted but unspent funds from a budget area be transferred to the unforeseen contingency operating reserve before the president and CEO can expend such funds in other budget areas. NERC's proposed language, instead, gives authority to the president and CEO to reallocate and expend those unspent funds elsewhere so long as NERC's overall approved budget is not exceeded and such expenditures are reported to the Finance and Audit Committee and submitted in NERC's quarterly variance reports to the Commission. NERC reiterates that any such expenditure and reallocation also will be subject to the Commission filing and approval requirements under Paragraph 7(b)(ii) of the Settlement Agreement if the dollar amount exceeds $500,000. [Footnotes omitted.]

* * * * *

[2] The Commission accepted the original WCOR Policy as part of NERC's 2013 Business Plan and Budget filing. *See* June 18, 2015 Order, PP 3-4.

[3] *North American Electric Reliability Corporation*, 142 FERC ¶ 61,042 (2013). *See* June 18, 2015 Order, PP 6-7

> 18. In its filing, NERC represents that any reallocation and expenditure of budgeted but unneeded funds would be subject to Paragraph 7(b)(ii) of the Settlement Agreement. Further, NERC notes that the assessment stabilization reserve would only be used as approved by the Commission in NERC's business plan and budget filings, except in extraordinary cases. We expect that any extraordinary use of assessment stabilization reserve funds would also be subject to the limits and filing requirements under Paragraph 7(b)(ii) of the Settlement Agreement. We note, however, that such requirements are not articulated in the revised Reserve Policy. Thus, we direct NERC to submit a compliance filing within 60 days of the date of this order proposing revisions to the Reserve Policy to clarify that any reallocation and expenditure of budgeted funds, including from the assessment stabilization reserve, is subject to the requirements of Paragraph 7(b)(ii) of the Settlement Agreement. [Footnotes omitted]

The proposed revision to the WCOR Policy, as submitted with this filing and shown in legislative style on **Attachment 2**, amends the WCOR Policy in accordance with P 18 of the June 18, 2015 Order. Specifically, text is added to the WCOR Policy to expressly state that any reallocation of budgeted funds and/or expenditure of Operating Reserves, including from the Assessment Stabilization Reserve, other than as approved by the NERC Board of Trustees and the Commission as part of NERC's annual business plan and budget filing, shall be submitted to the Commission in accordance with the terms and conditions of Paragraph 7(b)(ii) of the Settlement Agreement:[4]

> **Federal Energy Regulatory Commission (FERC) Filing Requirements**
>
> Any reallocation of budgeted funds and/or expenditure of Operating Reserves, including from the Assessment Stabilization Reserve, other than as approved by the NERC Board of Trustees and FERC as part of the company's annual business plan and budget, shall be submitted to FERC for approval in accordance with the terms and conditions of Section 7(b)(ii) of the Settlement Agreement dated January 15, 2013 between FERC and the company, approved by FERC in its order *North American Electric Reliability Corp.*, 142 FERC ¶ 61,042 (2013).

As Paragraph 7(b)(ii) requires a filing with the Commission for expenditures from the unforeseen contingencies operating reserve, and or redirections of budgeted funds, of $500,000 or more for any specific project or major activity in a program activity, the above-quoted

[4] Since NERC's annual business plan and budget is submitted and must be approved by the Commission, pursuant to 18 C.F.R. §39.4, there is no need for a separate Paragraph 7(b)(ii) filing for a use of unbudgeted funds or use of the Assessment Stabilization Reserve that is presented for approval in a business plan and budget filing.

provision that is being added to the WCOR Policy will apply to reallocations of budgeted funds and/or expenditures of Operating Reserves (including from the Assessment Stabilization Reserve), in an amount equal to or greater than $500,000.

On August 12, 2015, the NERC Finance and Audit Committee recommended approval of the amended WCOR Policy. On August 13, 2015, the NERC Board approved the amended WCOR Policy.

IV. CONCLUSION

The North American Electric Reliability Corporation respectfully requests that the Commission (1) accept this filing as compliance with P 18 of the Commission's June 18, 2015 Order in this docket, and (2) approve the further revised Working Capital and Operative Reserve Policy provided as **Attachment 1** to this filing, with the revisions shown in legislative style on **Attachment 2**.

Respectfully submitted,

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omacbride@schiffhardin.com

CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the foregoing document upon all parties listed on the official service list compiled by the Secretary in this proceeding.

Dated at Chicago, Illinois, this 14th day of August, 2015.

/s/ Owen E. MacBride
Owen E. MacBride

Attorney for North American
Electric Reliability Corporation

<u>ATTACHMENT 1</u>

REVISED WORKING CAPITAL AND OPERATING RESERVE POLICY

CLEAN VERSION

Working Capital and Operating Reserve Policy

This policy governs the determination of the company's annual working capital and operating reserve requirements, as well as the authorization of management to access these funds.

The company's working capital and operating reserve requirements shall be set forth separately in the company's business plan and budget.

Working Capital represents the amount of funds necessary to satisfy the company's projected cash flow needs during the budget year, taking into account the projected timing of the receipt of funding and timing of capital and operating expenses. In addition to the foregoing, the company shall also maintain a line of credit, with a financial institution, in such amount and upon such terms and conditions, approved by the company's Finance and Audit Committee and the NERC Board of Trustees ("Board").

Operating Reserves represent reserves necessary to support operations, including contingencies. Operating Reserves shall be divided into four categories: (1) reserves that are being held in order to satisfy future obligations under any lease, credit, loan agreement or other obligation to which the company is a party (the "**Future Obligation Reserve**"); (2) reserves to support the System Operator Certification Program Area Reserve (the "**System Operator Certification Reserve**"); (3) reserves to support the Cybersecurity Risk Information Sharing Program, known as CRISP (the "**CRISP Reserve**"); (4) reserves to fund reasonable and appropriate expenditures that were not assumed likely or anticipated in the company's budget or for which the timing was uncertain (the "**Operating Contingency Reserve**"). In addition to the foregoing reserves, funds may periodically be set aside in a separate reserve and released in future periods in order to mitigate wide year-to-year variations in assessments (the **"Assessment Stabilization Reserve**").

The amount of the company's **Working Capital, Future Obligation Reserve**, **System Operator Certification Reserve**, **CRISP Reserve**, **Operating Contingency Reserve** and **Assessment Stabilization Reserve** shall be identified separately and quantified each year in the business plan and budget submitted to and reviewed by the Finance and Audit Committee, and approved by the Board.

The following additional guidelines shall apply to the determination of the company's Operating Reserves and Assessment Stabilization Reserve:

Future Obligation Reserve

The Future Obligation Reserve includes funding that has been received to satisfy future obligations under lease, credit, loan or other agreement to which the company is a party. An example is office lease funding that is in excess of actual office rent expense due to a landlord's partial abatement of rent and a budgeted lease expense based on the straight line amortization of rent expense over the term of the lease. In such a case, this surplus funding is being held to offset future rent expense. Another possible example includes reserves or sinking funds requirements to meet covenant or other obligations under loan or other credit agreements.

System Operator Certification Reserve

The System Operator Certification Reserve supports the system operator certification program, and includes surplus funding from operator certification and testing fees that are above incurred expenses. Consistent with the intent of Section 604.4.10 of the Rules of Procedures, this reserve shall be used solely to support operator testing and certification needs, as determined by the company and the Personnel Certification Governance Committee.

CRISP Reserve

The CRISP Reserve is maintained to support CRISP. The CRISP Reserve shall be held in a separate bank account and used solely for CRISP funding.

Operating Contingency Reserve

The Operating Contingency Reserve are reserves for contingencies that were not anticipated, assumed to be likely or the timing of which was uncertain, at the time of preparation and approval of the company's business plan and budget. The determination of the amount of the Operating Contingency Reserve shall take into consideration the projected costs and risks of ongoing operations, projected resource requirements associated with significant ongoing or emerging reliability initiatives, capital-spending forecasts and other factors that the Board, Finance and Audit Committee, and management consider appropriate. Examples of unforeseen contingencies might include supplemental resources required to assist in the evaluation of significant unforeseen events affecting the Bulk-Power System or to address regulatory directives not final at the time of budgeting. Except as otherwise approved by the Board, after review by the Finance and Audit Committee, the amount of the Operating Contingency Reserve shall be between three and one half (3.5%) percent and seven (7%) percent of the company's total expense and fixed asset budget minus the sum of the System Operator Certification and CRISP budgets, each of which have separate reserves.

Assessment Stabilization Reserve

The goal of the Assessment Stabilization Reserve is to mitigate assessment volatility and have changes in annual assessments track, within a reasonable band, changes in the company's total annual budget, with the total budget reflecting prudent fiscal discipline and good stewardship of resources. Assessment stabilization funds will be used when available to help stabilize assessments and mitigate year-to-year swings in assessments, which can result from a variety of factors, including but not limited to the application of penalty funds, surplus funds available from a prior period, a need to replenish the Operating Contingency Reserve, or significant but relatively short term operating or capital spending needs. The amount of the Assessment Stabilization Reserve which is budgeted in any given year shall be determined based on a review of a three-year rolling forecast of assessments, as well as the availability of surplus funds and penalty funds to fund this reserve. Except as otherwise approved by the Board, funds in the Assessment Stabilization Reserve may not be used for any purpose inconsistent with the goal of the reserve set forth in this paragraph.

Guidelines and Authorities Applicable to Expenditures of Working Capital and Operating Reserves

The following guidelines, limitations and authorities shall apply to expenditures of working capital and operating reserves.

1. The chief financial and administrative officer shall have the authority to draw on budgeted working capital reserves to the extent necessary to satisfy daily cash flow requirements. To the extent necessary to meet projected cash flow and cash balance requirements, any such draws of working capital reserves shall, to the extent possible, be promptly replenished from future surplus cash flow.
2. The company's president and chief executive officer is authorized to approve expenditures of System Operator Certification Reserves up to the amount set forth in the company's budget.
3. For Operating Contingency Reserve and CRISP Reserve expenditures:
   i. The president and chief executive officer is authorized to make expenditures up to $500,000 and management shall report such expenditures to the Finance and Audit Committee no less frequently than in the quarterly company budget variance report following the expenditure of such reserves;
   ii. For expenditures greater than $500,000 but less than $1,000,000, prior approval of the Finance and Audit Committee is required; and
   iii. For expenditures in excess of $1,000,000, approval of the Board is required, after notice to and recommendation by the Finance and Audit Committee.
4. The company shall segregate Future Obligation Reserves to ensure they are available for use in satisfying such future obligations; provided however, such funds shall also be available to satisfy any coverage and liquidity requirements under the terms of any loan or credit agreement to which the company is a party.

All expenditures of reserve funds are subject to other applicable company policies and procedures, including currently effective procurement policies and delegations of authority approved by the president and chief executive officer, and shall be separately reported in the budget variance reports prepared by management, and included in the quarterly Finance and Audit Committee agenda materials that are posted on the company's website.

The procedures set forth in Section 1108 of the Rules of Procedure, including Board and FERC approval, shall continue to apply in circumstances where the company requires funding between normal annual budget cycles in excess of amounts available through approved assessments, working capital and operating reserve resources.

Guidelines and Authorities Required to Reallocate Budgeted Expenditures on an Intra-year Basis

During the course of the year, events may unfold such that some approved budget areas may run below budget, making funds available to satisfy other resource needs based on changing priorities. In the event such under runs occur, the president and chief executive officer shall have the authority to reallocate and expend such funds, provided that such reallocation and expenditure does not result in the company's overall approved budget being exceeded and such expenditures shall be reported by management in the company's quarterly budget variance reports, which are submitted to and reviewed by the Finance and Audit Committee.

Federal Energy Regulatory Commission (FERC) Filing Requirements

Any reallocation of budgeted funds and/or expenditure of Operating Reserves, including from the Assessment Stabilization Reserve, other than as approved by the NERC Board of Trustees and FERC as part of the company's annual business plan and budget, shall be submitted to FERC for approval in accordance with the terms and conditions of Section 7(b)(ii) of the Settlement Agreement dated January 15, 2013 between FERC and the company, approved by FERC in its order *North American Electric Reliability Corp.*, 142 FERC ¶ 61,042 (2013).

ATTACHMENT 2

REVISED WORKING CAPITAL AND OPERATING RESERVE POLICY

REDLINED VERSION

Working Capital and Operating Reserve Policy

This policy governs the determination of the company's annual working capital and operating reserve requirements, as well as the authorization of management to access these funds.

The company's working capital and operating reserve requirements shall be set forth separately in the company's business plan and budget.

Working Capital represents the amount of funds necessary to satisfy the company's projected cash flow needs during the budget year, taking into account the projected timing of the receipt of funding and timing of capital and operating expenses. In addition to the foregoing, the company shall also maintain a line of credit, with a financial institution, in such amount and upon such terms and conditions, approved by the company's Finance and Audit Committee and the NERC Board of Trustees ("Board").

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   ii. For expenditures greater than $500,000 but less than $1,000,000, prior approval of the Finance and Audit Committee is required; and
   iii. For expenditures in excess of $1,000,000, approval of the Board is required, after notice to and recommendation by the Finance and Audit Committee.
4. The company shall segregate Future Obligation Reserves to ensure they are available for use in satisfying such future obligations; provided however, such funds shall also be available to satisfy any coverage and liquidity requirements under the terms of any loan or credit agreement to which the company is a party.

All expenditures of reserve funds are subject to other applicable company policies and procedures, including currently effective procurement policies and delegations of authority approved by the president and chief executive officer, and shall be separately reported in the budget variance reports prepared by management, and included in the quarterly Finance and Audit Committee agenda materials that are posted on the company's website.

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Federal Energy Regulatory Commission (FERC) Filing Requirements

Any reallocation of budgeted funds and/or expenditure of Operating Reserves, including from the Assessment Stabilization Reserve, other than as approved by the NERC Board of Trustees and FERC as part of the company's annual business plan and budget, shall be submitted to FERC for approval in accordance with the terms and conditions of Section 7(b)(ii) of the Settlement Agreement dated January 15, 2013 between FERC and the company, approved by FERC in its order *North American Electric Reliability Corp.*, 142 FERC ¶ 61,042 (2013).