

September 23, 2016

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. RR16-6-000
Supplemental Clarification Filing Concerning Proposed 2017 Business Plans and
Budgets of Northeast Power Coordinating Council, Inc. and
ReliabilityFirst Corporation**

Dear Ms. Bose:

The North American Electric Reliability Corporation (NERC) hereby submits the “Supplemental Clarification Filing of the North American Electric Reliability Corporation Concerning Proposed 2017 Business Plans and Budgets of Northeast Power Coordinating Council, Inc. and ReliabilityFirst Corporation” in Docket No. RR16-6-000.

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

regional assessments or NPCC's identification of the necessity for such assessments consistent with NERC Rules of Procedure section 805, associated with implementation of the U.S. EPA Clean Power Plan."

To be clear, in its 2017 Business Plan and Budget Filing and the related proposed assessments for 2017, NPCC is not proposing any allocation of any specific "sub-regional reliability assessment costs in response to U.S. only regulatory initiatives" to U.S.-only BAAs, or an allocation of costs of its 2017 activities of the Reliability Assessment and Performance Analysis program in any manner other than on the basis of Net Energy for Load ("NEL"), nor is NPCC requesting pre-approval of any such allocation of such costs to U.S.-only BAAs,. Any such allocation could and would be requested only in a future year's business plan and budget filing (or in a supplemental filing requesting approval to revise assessments), based on specific activities and costs and with complete supporting information. Further, before being included in a future year's business plan and budget filing, any such proposed allocation would first be presented to and approved by (1) the NPCC Board of Directors, (2) the NERC Finance and Audit Committee ("FAC"), and (3) the NERC Board of Trustees. In approving NPCC's 2017 Business Plan and Budget, NERC did not approve any special or separate allocation process for the allocation of costs of any such studies; and the NERC FAC advised NPCC that any such separate allocation, if proposed, would need to be reviewed based on the particular facts and circumstances surrounding any such study, if and when it were undertaken.

NERC has discussed this matter with NPCC and can state that NPCC is in agreement with the statements in the preceding paragraph.

II. ReliabilityFirst 2017 Business Plan and Budget

Table B-1, Working Capital and Operating Reserve Analysis, on page 53 of ReliabilityFirst's 2017 Business Plan and Budget (Attachment 6 to the 2017 Business Plan and Budget Filing), as filed on August 23, 2016, shows that \$250,000 of Penalty sanction funds

released from restriction on January 1, 2016, is being placed into ReliabilityFirst's Operating Reserve during 2016. In addition, the "Explanation of the Working Capital Reserve" on Table B-1 states that ReliabilityFirst's proposed increase in its target Working Capital Reserve to \$2,399,357 "is being funded by the 2015 budget under run and the penalty dollars that will be released in 2017." However, Table B-1 (as well as the Statement of Activities on page 11) shows that the full amount of Penalties collected during the 12 months ended June 30, 2016, \$659,000, is being used to reduce the 2017 statutory assessments. (Similarly, ReliabilityFirst's 2016 Business Plan and Budget showed that the entire amount of Penalties collected in the 12 months ended June 30, 2015, \$748,250, is being used to reduce the 2016 statutory assessments.)

Based on further consultation concerning Table B-1, ReliabilityFirst and NERC wish to clarify that ReliabilityFirst used its Penalty collections for the 12 months ended June 30, 2015, solely to reduce 2016 assessments; and is proposing to use its Penalty collections for the 12 months ended June 30, 2016, solely to reduce 2017 assessments. **Attachment 1** to this filing is a revised Table B-1 (page 53) to the ReliabilityFirst 2017 Business Plan and Budget, which: (i) shows that the increase in the Operating Reserve is being funded from 2016 assessment revenues; and (ii) revises the "Explanation of the Working Capital Reserve" to explain that the proposed increase in the Working Capital Reserve is being funded by the actual 2015 and projected 2016 budget variances (*i.e.*, expenditures for both years less than budgeted).

III. Conclusion

NERC respectfully requests that the Commission accept and consider this supplemental filing in clarification of NERC's 2017 Business Plan and Budget Filing in this docket, specifically, for the purpose of clarifying the items in the 2017 NPCC and ReliabilityFirst Business Plans and Budgets discussed above.

Respectfully submitted,

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

/s/ Owen E. MacBride
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

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 23rd day of September, 2016.

/s/ Owen E. MacBride

Owen E. MacBride

Attorney for North American
Electric Reliability Corporation

DOCKET NO. RR16-6-000

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

ATTACHMENT 1

REVISED TABLE B-1 (PAGE 53)

TO 2017 BUSINESS PLAN AND BUDGET

OF RELIABILITYFIRST CORPORATION

Table B-1: Working Capital and Operating Reserve Analysis

Working Capital and Operating Reserve Analysis 2016-2017			
STATUTORY			
	<u>Total</u>	<u>Working Capital Reserve</u>	<u>Operating Reserve</u>
Beginning Working Capital, December 31, 2015 Per Audited Financial Statements	4,508,577		750,000
Less: Adjustment for Future Long-Term Liabilities	(1,078,718)		
Less: Temporarily Restricted Funds as of December 31, 2015	(1,200,250)		
Plus: Penalty Funds Released from Restriction January 1, 2016	748,250		
Plus: 2016 ReliabilityFirst Funding (from LSEs or designees)	19,367,209		250,000
Less: 2016 Projected expenses & capital expenditures	(18,940,505)		
Other Adjustments to Reserves ¹	(158,074)		
Projected Working Capital and Operating Reserves, December 31, 2016	<u>3,246,489</u>	<u>2,246,489</u>	<u>1,000,000</u>
Targeted Working Capital and Operating Reserves, December 31, 2017	3,399,357	2,399,357	1,000,000
Less: Projected Working Capital and Operating Reserves, December 31, 2016	(3,246,489)	(2,246,489)	(1,000,000)
Increase/(Decrease) in Assessments to Achieve Working Capital and Operating Reserves	<u>152,868</u>	<u>152,868</u>	<u>0</u>
2017 Expenses and Capital Expenditures	19,908,939		
Less: Penalty Sanctions ²	(659,000)		
Less: Other Funding Sources	0		
Adjustment to achieve Working Capital and Operating Reserves	152,868		
Other Adjustments to Reserve ¹	158,074		
2017 ReliabilityFirst Assessment	<u>19,560,881</u>		

¹ Represents transactions recorded only on the Statement of Financial Position (balance sheet) that do not impact the Statement of Activities (income statement), including true-up of current versus non-current deferred rent obligation.

² Represents penalty sanctions collected from July 1, 2015 to June 30, 2016.

Explanation of the Working Capital Reserve

Historically, the working capital reserve has consisted of the amount necessary to satisfy projected cash flow for daily operations. In an effort to better manage and stabilize future assessments, the targeted working capital reserve is being increased to \$2,399K, which is primarily funded by the actual 2015 and projected 2016 budget variances. The working capital reserve will be utilized to stabilize and minimize large fluctuations in the annual assessments.

Explanation of the Operating Reserve

The amount of the operating reserve is determined and recommended for approval by the Board of Directors during the annual budget process. On March 3, 2016, the ReliabilityFirst Board approved a \$1,000,000 operating reserve, which is consistent with ReliabilityFirst policy and historical experience and is believed to be appropriate for any unbudgeted and unexpected expenditures of the organization.