Agenda
Finance and Audit Committee Conference Call

April 11, 2008 | 10 a.m. EDT
Dial-In: 866-503-3045
Code: 42557010

Antitrust Compliance Guidelines

1. **February 11, 2008 Draft Meeting Minutes (open and closed sessions) — Approve**

2. **Draft #1 of the 2009 NERC Business Plan and Budget — Review**
   a. David Whiteley will give an overview of the business plan.
   b. Bruce Walenczyk will give an overview of the budget.
   c. Up to one hour allotted for comments from stakeholders.

3. **Future Meetings**
   - May 6, 2008 meeting (Orlando, Florida)
   - June 6, 2008 conference call — 10 a.m. EDT
   - July 11, 2008 conference call — 10 a.m. EDT
   - July 29, 2008 meeting (Montreal, Quebec)
   - October 28, 2008 meeting (Washington, D.C.)

4. **Other Business**
DRAFT #1

2009 Business Plan and Budget

April 2008

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609.452.8060 | 609.452.9550 fax
www.nerc.com
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Reliability Readiness Evaluation and Improvement Program

<table>
<thead>
<tr>
<th>Reliability Readiness Evaluation and Improvement Program Resources</th>
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Background
NERC’s Reliability Readiness Evaluation and Improvement Program will continue to conduct independent evaluations of balancing authorities, transmission operators, reliability coordinators, and other key entities that support the reliable operation of the bulk power system to assess their preparedness to meet their assigned reliability responsibilities.

The Reliability Readiness Evaluation and Improvement Program is an important component in helping NERC accomplish its mission. NERC evaluates entities that conduct activities and functions particularly critical to achieving the reliable operation of the bulk power systems. Readiness evaluations are designed to ensure operators of the bulk power system have adequate tools, processes, procedures, and infrastructure in place to operate reliably. The evaluations identify strengths and areas for improvement in an effort to promote excellence in operations among these organizations. Ensuring reliable system operations benefits all owners, operators, and users of the bulk power system and, ultimately, all users and consumers of electric power in North America.

Readiness evaluations are conducted on a three-year cycle. Many reliability readiness evaluation activities take place at the control centers of the evaluated entities, while the associated administrative support and report preparation takes place at NERC’s headquarters in Princeton, New Jersey. Reliability readiness evaluation teams are led by a NERC staff member or representative and consist of industry volunteers with appropriate technical expertise. A report of the evaluation team’s findings is published on the NERC Web site.

Based on the portion of its professional/technical staff time, and other resources that it expects to devote to the Reliability Readiness Evaluation and Improvement Program, NERC estimates that it will spend 9.7% percent of its resources on this activity.

2009 Highlights
In 2009, the Reliability Readiness Evaluation and Improvement Program staff will continue to pursue the program’s primary mission: to perform readiness evaluations of the registered entities across North America and assist them in implementing the evaluation team’s recommendations. In addition to improving the evaluation process, program staff will work to expand the assistance aspect of the program to improve reliability by helping the industry help itself.

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4 http://www.nerc.com/~rap/
Program staff will provide meaningful guidance to industry committees and NERC’s other program areas on topics that merit additional focus to support the goal of continuous improvement. To achieve this, program staff will continue to analyze readiness evaluation findings, while refining and expanding benchmarking activities. Program metrics will be expanded and the results will be shared with the industry. Using identified examples of excellence and reliability readiness evaluation experiences, program staff will work with industry committees and member forums to create useful excellent-practice guidelines for industry participants. Readiness program staff will have completed an inventory of the publicly posted positive observations by the end of 2008. In 2009, a database will be developed that could be accessed through the new NERC Web site.

In 2009, readiness staff will develop and implement a plan to shift the emphasis of a portion of the evaluations to a new area, assistance. The objective will be to improve reliability by helping the industry help itself. Readiness staff will also work with training staff to develop courses and workshops on topics requested by the industry. This activity will be driven by the owners, operators, and users on the issues they identify. Readiness staff will interface directly with entities that request assistance on specific issues and will work with input from the NERC Operating Committee and Operating Reliability Subcommittee to create a process for this initiative.

NERC will also focus on evaluating and improving the effectiveness of the reliability readiness program and staff through a self-audit of its program. In collaboration with the Training, Education, and Operator Certification Program, two new advanced training courses for readiness team leaders will be developed. This training will add to the efficiency, consistency, and effectiveness of the reliability evaluations. To potentially reduce the time entities spend preparing for an evaluation, program staff will continue its efforts of streamlining the process.

**Reliability Readiness Evaluation and Improvement Objectives**

- Evaluate 65 reliability coordinators, balancing authorities, or transmission operators in 2009, independent of regional compliance audits.
  - Continue to expand the program to include evaluations of the large transmission owners (local control centers) that have been delegated functions or provide significant support to registered reliability entities. In 2009, approximately 12 evaluations of transmission owners will be conducted.
- Develop and implement a new industry assistance module within the existing evaluation process.
- Work with industry and member forum groups to continue to shift the Reliability Readiness Evaluation and Improvement Program into an INPO-type program that contains objective metrics.
- Work with the Operating Committee to develop and implement a comprehensive assistance program.
- Enhance communications to the industry on examples of excellence identified through the Reliability Readiness Evaluation and Improvement Program.
- Coordinate with the industry’s technical groups to further develop and expand industry exceptional practices and work with the Training, Education, and Operator Certification Program to develop meaningful educational materials.
• Work with the Training, Education, and Operator Certification Program to develop an advanced training program for industry technical experts and volunteers who participate on reliability readiness evaluations.

• Maintain and enhance reporting of readiness evaluation recommendations.
  ▪ Report quarterly the status and mitigation of each recommendation identified in the reliability readiness evaluation process.
  ▪ Perform a critical analysis of evaluation recommendations and findings to determine meaningful trends, and communicate this information to the industry and the NERC board, as a mechanism for improvement.
  ▪ Provide routine feedback to the standards program on deficient areas in existing reliability standards determined during the execution of the readiness evaluation process.

• Ensure reporting of all probable violations of standards and requirements to the regional compliance officers within two weeks of the conclusion of the readiness evaluations, unless the probable violation falls under the 48-hour reporting requirements.
Reliability Readiness Evaluations and Improvement Program

Funding sources and related expenses for the reliability readiness audits and improvement section of the 2009 business plan are shown in the table below.

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<th>Funding</th>
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<th>2008 Projection</th>
<th>Variance to 2008 Budget</th>
<th>2009 Budget</th>
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| Meeting Expenses     |              |                 |                         |             |                             |
| Meetings             | $-           | $19,203         | $19,203                 | $20,164     | $960                        |
| Travel               | 157,500      | 157,500         | -                       | 187,000     | 29,500                      |
| Conference Calls     | -            | -               | -                       | -           | -                           |
| **Total Meeting Expenses** | $157,500 | $176,703        | $20,164                 | $207,164    | $30,460                     |

| Operating Expenses   |              |                 |                         |             |                             |
| Consultants          | $-           | $-              | $-                      | $-          | $-                          |
| Contracts            | -            | -               | -                       | -           | -                           |
| Office Rent          | -            | 9,600           | $9,600                  | -           | -                           |
| Office Costs         | -            | 9,600           | $9,600                  | 10,920      | 1,320                       |
| Professional Services| -            | -               | -                       | -           | -                           |
| Computer Purchase & Maintenance | - | - | - | - | - |
| Furniture & Equipment| -            | -               | -                       | -           | -                           |
| Miscellaneous        | -            | -               | -                       | -           | -                           |
| Contingency          | -            | -               | -                       | -           | -                           |
| **Total Operating Expenses** | $- | $9,600 | $9,600 | $10,920 | $1,320 |

| Other Non-Operating Expenses | $- | $- | $- | $- | $- |

| **Total Expenses** | $1,858,061  | $1,759,110     | $(98,951)               | $1,994,204  | $235,094                    |

| Change in Assets    | $-           | $98,951        | $98,951                 | $-          | $(98,951)                   |
Summary of Significant Variances — 2008 Projection to 2009 Budget

Funding Sources

- Personnel Expenses
- Meeting Expenses
- Operating Expenses
Table 3

President & CEO

Administration

Standards

Reliability Readiness

Training, Education & Personnel Certification

Technical Committees and Members’ Forums

Legal & Regulatory

Finance & Accounting

Compliance & Organization Certification

Reliability Assessment & Performance Analysis

Situation Awareness & Infrastructure Security

Information Technology

Human Resources

104.5
2009 Organizational Chart

Table 4

President & CEO

Administration

Standards

Reliability Readiness

Training, Education & Personnel Certification

Technical Committees and Members’ Forums

Legal & Regulatory

Finance & Accounting

Compliance & Organization Certification

Reliability Assessment & Performance Analysis

Situation Awareness, Infrastructure Security

Information Technology

Human Resources

104.5 → 119.5
Chairman Bruce Scherr called to order a duly noticed open meeting by conference call of the Finance and Audit Committee of the North American Electric Reliability Corporation on April 11, 2008 at 10 a.m. As required by the bylaws of the Corporation, dial-in access was provided to members of the Corporation and the public for the meeting. A copy of the agenda is attached as Exhibit A.

A quorum was declared present. Trustees present on the call in addition to Chairman Scherr were Richard Drouin, Fred Gorbet, Ken Peterson, and Janice Case. Additional attendees are listed in Exhibit B.

Antitrust Compliance Guidelines
Chairman Scherr acknowledged NERC’s Antitrust Compliance Guidelines.

Meeting Minutes
On motion by Ken Peterson, the committee approved the draft minutes from the February 11, 2008 meeting in Phoenix, Arizona with modifications reflecting comments from Ed Schwerdt regarding NPCC Cross-Border Compliance Monitoring and Enforcement Cost Allocation (Exhibit C).

Draft 1 of the 2009 NERC Business Plan and Budget
Chairman Scherr began the meeting by explaining this conference call begins a lengthy process that will culminate in the filing of the 2009 NERC Business Plan and Budget along with the Regional Entity Business Plans and Budgets with the Federal Energy Regulatory Commission (FERC), on or about August 24, 2008.

Mr. Scherr reviewed the key dates and actions included in the business plan and budget development process. They are as follows:

- On or before April 22 — distribute version 1.1 of the 2009 NERC Business Plan and Budget to the Board of Trustees (BOT) and Member Representatives Committee (MRC) with a request for comments. Simultaneously post this draft on NERC’s Website for stakeholder comments, which are due by May 16.
• May 7 — Budget Workshop following BOT meeting in Orlando, Florida.
• May 30 — Distribute second draft of business plan and budget to Finance and Audit Committee.
• June 6 — Finance and Audit Committee conference call to discuss and approve the second draft.
• June 13 — Second draft posted on NERC Website for stakeholder review and comments, due July 3.
• July 11 — Finance and Audit Committee conference call and Webcast to review and agree on final 2009 NERC Business Plan and Budget including assessments and to review the Regional Entity Business Plans and Budgets.
• July 15 — Distribute final draft of NERC and Regional Entity Business Plans and Budgets to BOT and MRC.
• July 29 — Presentation of business plan and budget to MRC.
• July 30 — Presentation of business plan and budget to BOT. Request for approval.
• On or about August 24 — File NERC and Regional Entity Business Plans and Budgets with FERC and Canadian Authorities.

Dave Whitely then provided a top level summary of the 2009 NERC Business Plan and Budget and Bruce Walenczyk reviewed the business plan and budget by program area. During the discussion, members of the Finance and Audit Committee asked numerous questions and provided direction and guidance with respect to the business plan and budget. Questions were asked and suggestions were provided by other participants on the call.

**Future Meetings**
The committee agreed on the following dates and times for future meetings:

a. May 6, 2008 meeting (Orlando, Florida)

b. June 6, 2008 conference call — 10 a.m. EDT

c. July 11, 2008 conference call — 10 a.m. EDT

d. July 29, 2008 meeting (Montreal, Quebec)

e. October 28, 2008 meeting (Washington, DC)

There being no further business, the call was terminated at 12:00 p.m.

Submitted by,

**Bruce E. Walenczyk**

Bruce E. Walenczyk
Chief Financial Officer
Antitrust Compliance Guidelines

1. **February 11, 2008 Draft Meeting Minutes (open and closed sessions) — Approve**

2. **Draft #1 of the 2009 NERC Business Plan and Budget — Review**
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4. **Other Business**
<table>
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## Conference Participant Report

**Company:** North American Electric  
**Leader:** Bruce Scherr  
**Conference Date:** 4/11/2008  
**Conference ID:** 42557010  
**Conf. Time:** 9:00CT

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<th>Company Name</th>
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<td>10:11.04</td>
<td>10:40.57</td>
<td>NELSON YIP</td>
<td>CON EDISON</td>
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Chairman Bruce Scherr called to order the duly noticed meeting of the North American Electric Reliability Corporation Finance and Audit Committee on February 11, 2008 at 9:15 a.m., MST, and a quorum was declared present. The agenda and list of attendees are attached as Exhibits A and B respectively. Chairman Scherr introduced and welcomed NERC’s new Chief Financial Officer Bruce Walenczyk.

**NERC Antitrust Compliance Guidelines**
Chairman Scherr directed participants’ attention to the NERC Antitrust Compliance Guidelines included in the agenda.

**Minutes**
The committee approved the January 25, 2008 conference call minutes (*Exhibit C*).

**First Quarter Mandate Items**
Bruce Walenczyk reviewed the first quarter mandate items which included:
- 2009 Business Plan and Budget Timeline (*Exhibit D*)
- December 31, 2007 Unaudited Treasurer’s Report
- December 31, 2007 Expanded Unaudited Treasurer’s Report
- Budget to Actual Performance Analysis

**December 31, 2007 Treasurer’s Report**
Bruce Walenczyk reported on the unaudited December 31, 2007 Treasurer’s Report. Mr. Walenczyk highlighted the variances across the budgeted areas. He reported that total funding in 2007 including an incremental assessment to increase cash reserves by $805K was $1.2M over budget. Testing fees, GADS service fees, and interest income exceeded budget by approximately $350K. Personnel expenses for the year were $760K below budget primarily due to the timing of new hires and lower medical insurance premiums. Meeting expenses exceeded budget by $540K primarily due to unanticipated activities required to develop standards, conduct assessments and become engaged as the ERO. Operating expenses were $138K over budget primarily due to expenditures for leasehold improvements in Washington D.C. and Princeton, computer supplies and maintenance, office supplies and a replacement server that were not budgeted. The Net Change in Assets in 2007 was $1,308K including $805K in incremental assessments to increase the
cash reserve. On motion by Ken Peterson, the committee approved bringing the Treasurer’s Report to the Board for approval.

**Regional Entity December 31, 2007 Treasurer’s Report**

Bruce Walenczyk reviewed the unaudited Regional Entity consolidated December 31, 2007 Treasurer’s Report. Mr. Walenczyk reported that across most of the Regional Entities personnel expenses were below budget due to delayed timing of new hires and the actual number of new employees. Meeting expenses were below budget due to lower staffing levels, fewer new employees and the use of teleconferencing all of which reduced the need for travel and in-person meetings. Total operating expenses were also below budget primarily to the fact that costs budgeted for computer purchases, relocation, furniture and equipment software did not fully materialize.

**NPCC Cross-Border Compliance Monitoring and Enforcement Cost Allocation**

Ed Schwerdt discussed the NPCC-approved cross-border compliance monitoring and enforcement cost allocation methodology for consideration by the FAC. Mr. Schwerdt explained that NPCC’s board does not endorse an ala carte funding approach, but recognizes the Canadian jurisdictional issues in regard to compliance monitoring and auditing. In those circumstances, an NEL based allocation methodology may not be the most accurate way to allocate such costs. NPCC has developed an allocation methodology with respect to certain CMEP costs that recognizes the number and size of audits to be performed, and will be seeking an expansion of the current NERC Policy on Allocation of Certain Compliance and Enforcement Costs in order for it to encompass such a methodology, prior to NPCC applying it to the 2009 budget. Chairman Scherr commended NPCC on their creative work and achieving a consensus.

**Finance and Audit Committee 2007 Self-Assessment**

Chairman Scherr reviewed the 2007 Self-Assessments for the committee.

**Future Meetings**

- April 11, 2008 conference call — 10 a.m. EDT
- May 6, 2008 meeting (Orlando, Florida)
- June 6, 2008 conference call — 10 a.m. EDT
- July 11, 2008 conference call — 10 a.m. EDT
- July 29, 2008 meeting (Montreal, Quebec)

The committee went into executive session at 10:10 a.m.

Submitted by,
Opening Script for Bruce Scherr  
FAC Conference Call  
April 11, 2008

The purpose of today's conference call is to review the First Draft of the NERC 2009 Business Plan and Budget. Dave Whiteley will provide a top level summary of the Business Plan and Bruce Walenczyk will provide an overview of the Budget. We will allow sufficient time for questions and answers from FAC members and then we will take comments and questions from the other participants on the call.

This conference call today begins a lengthy process that will culminate in the filing of the NERC Business Plan and Budget along with the Regional Entity Business Plans and Budgets with the Federal Energy Regulatory Commission on or about August 24. As a way of setting the stage for work required in advance of that filing, let me review the key dates and actions included in the Business Plan and Budget development process.

Following questions and answers and subject to any suggestions and/or recommendations from the FAC today, we will authorize management to make appropriate revisions and to distribute Draft #1 of the Business Plan and Budget to the Board of Trustees and the Member Representatives Committee on or before April 22 with a request for initial comments. Simultaneously, this first draft will be posted on NERC's website for stakeholder comments which will be due by May 16. Management will also conduct a Budget Workshop on Wednesday May 7 following the Board of Trustees meeting in Orlando, Florida.

The second draft of the Business Plan and Budget will then be distributed to the FAC on or about May 30. A FAC conference call is currently scheduled on Friday June 6 at 10am to discuss and approve the second draft and allow time for further industry
comment. The second draft will be posted on the NERC website by June 13 and comments will be due by July 3.

On July 11 there will be yet another FAC conference call and Webcast to review and agree on the final NERC Business Plan and Budget, including assessments, and to review the Regional Entity Business Plans and Budgets.

The final draft of the NERC Business Plan and Budget and the Regional Entity Business Plans and Budgets will be distributed to the Board of Trustees and the Member Representatives Committee on July 15.

There will be a presentation of these Business Plans and Budgets to the Member Representatives Committee on July 29 and the Board of Trustees on July 30 at which time the Board will be asked to approve them. They will then be filed with FERC on or about August 24.
**FAC Conference Call – April 11, 2008**

**Agenda Item 2.a.**

- Thank you Mr. Chairman.

- The draft before you is marked as Draft #1, but as Chairman Scherr has pointed out it is really the starting point for the draft that will be posted on or before April 22 for a review period with stakeholder comments due by May 16.

- So, if you think about how well we have defined the work for 2009 and how well the words in the business plan match the numbers in the budget, then we are in the right solar system, on the correct planet, in the right country and nearing the right ballpark.

- The goal is to get Draft #1 in the field of play by April 22.

- I don’t intend to read the preliminary draft to you, but I would like to give you a few highlights.

- First, the business plan calls for continued operation of NERC’s exiting programs and expansion of activities in certain areas. Additional resources - that is people and dollars - are needed to achieve the goals of these programs and further NERC’s mission of ensuring the reliability of the North American bulk power system.

- In total, the business plan calls for the addition of 15 positions to the NERC staff, bringing the total to 119.5 by the end of 2009.

- The business plan also calls for operating expenses such as consultants, infrastructure, and contract expenditures of approximately $5.4 million more than in 2008.

- While these increases are substantial, they are driven by the demands of the core NERC functions of standards setting, compliance monitoring and enforcement, reliability assessments and event analysis.

- Progress in achieving important goals in other areas, such as Metrics and Benchmarking, additional work in Assessments, and Training are being limited in this business plan and could benefit from additional staff resources. However, we have limited the number of new positions described in the business plan to 15 in recognition of the challenges of finding and hiring qualified people, and incorporating them productively into our existing work flow.

- In some cases, the objectives included in this initial draft of the business plan are not completely refined to be reflective of this limitation. Based on the direction
and input received today, the resources and objectives will closely match in the
draft to be posted on April 22.

- I'd now like to turn to a quick overview of the program areas. In each case, the
detailed objectives are contained in the business plan draft.

- In Standards, the 2009 plan is to continue to execute the 3-year work plan
working cooperatively with stakeholders through the Standards Committee and
approved processes. The focus is to make identified improvements to the highest
priority standards.

- In Compliance Monitoring and Enforcement, we will continue to add significant
resources to implement the program effectively and complete additional required
work in:

  registration and certification;
  compliance monitoring and reporting;
  enforcement and mitigation; and
  completing audits of the Regional Entity programs along with tracking of
  the implementation of audit findings

- In Readiness, we will shift some of the emphasis of a portion of the evaluations to
a new area designed to assist entities with issues they identify. No additional
resources are planned for this area, but the shift in emphasis will improve
effectiveness and meeting user needs.

- In Training, Education and Operator Certification, the existing operator
certification and continuing education program will continue. As you know, these
activities are funded through user fees. Additional non-staff resources are
included to provide the training needs of the compliance, standards, and readiness
programs, as well as continue the internal NERC staff training initiative started in
2008.

- In Reliability Assessment and Performance Analysis, the plan includes an
additional person in assessments to provide more depth in the assessment of key
areas and emerging issues. It also includes an additional person in event analysis
to keep pace with the events that requiring detailed review and to effectively
communicate lessons learned to the industry.

- In Situation Awareness and Infrastructure Security, the plan includes an enhanced
capability to monitor conditions on the bulk power system and rapidly
communicate about conditions. This effort will require additional staff resources
and approximately $2.3 million in operating expense increases to equip the
enhanced monitoring capability and continue to support reliability tools, which
includes budgeting for management of the North American SynchroPhasor
Initiative.
- Finally, on the Administrative Services side, the plan calls for the addition of 3 people to provide administration and support of all the NERC programs. This is the bare minimum we believe is needed to make the company function.

- Mr. Chairman, that concludes my overview and I'll turn it over to Bruce Walenczyk to provide an overview of the budget.
Antitrust Compliance Guidelines

1. **Review of Readiness Evaluation Program**
   a. Draft Proposal for *2009 NERC Business Plan and Budget* Write-up
   b. Draft Proposal — Integrated Reliability Information Help Desk
   c. Supplemental Input — 2009 Budget — Readiness Evaluation Program

2. **Future Meetings**
   - June 6, 2008 conference call — 10 a.m. EDT
   - July 11, 2008 conference call — 10 a.m. EDT
   - July 29, 2008 meeting (Montreal, Quebec)
   - October 28, 2008 meeting (Washington, D.C.)

3. **Other Business**
Reliability Assistance Program

Assistance Program Resources
(in whole dollars)

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Based on the portion of its professional/technical staff time, and other resources that it expects to devote to the Reliability Assistance Program (formerly Readiness Evaluation Program), NERC estimates that it will spend x.x percent of its resources on this activity.

Background

The NERC Readiness Evaluation Program (originally referred to as a readiness audit program) began in response to Federal Energy Regulatory Commission (FERC) directives following the August 14, 2003 blackout. The goal was to increase transparency on operating practices and to assess the industry’s overall preparedness to minimize the likelihood of another major blackout.

When FERC approved NERC as the electric reliability organization and began adopting NERC standards as mandatory in the United States, NERC created an associated compliance audit program. The readiness program, which had been asking compliance-type questions, shifted its full effort to encouraging entities to improve reliability performance and achieve excellence in their assigned functions and responsibilities.

The readiness program has been working with industry experts to conduct on-site evaluations of all balancing authorities, transmission operators, reliability coordinators, and other entities that support the reliable operation of the bulk power system in North America to determine their readiness to maintain safe and reliable operations. Final evaluation reports are posted on NERC’s Web site. A companion goal of the program has been to identify and promote examples of excellence within the industry.

Readiness evaluations have been conducted on a three-year cycle, approximately 50 to 60 evaluations per year, and actively seeks industry feedback regarding the impact of the evaluations. To gauge value to individual entities, NERC sends a questionnaire to entities upon completion of an evaluation. Feedback from the current cycle indicates that entities benefit from the evaluations and seek better access to information about excellent industry practices. (Please refer to the Supplemental Input 2009 Budget document for more details.) To reach out to industry experts, program staff have been working with members of the Operating Reliability Subcommittee (a subcommittee of the NERC.
DRAFT PROPOSAL

Operating Committee) on a white paper to identify opportunities for program improvement.

2009 Highlights
Based on experience and industry feedback, program staff have been outlining future improvement plans to enable the program to further benefit the industry. The original plan of coordinating new initiatives with the completion of the second (three-year) cycle of evaluations in 2009 has been accelerated in response to comments received from Regional Entities, the NERC Members Representative Committee, and others regarding the initial version of NERC’s 2009 Business Plan and Budget.

Beginning in 2009, the program will refocus its efforts towards a needs-based assistance and cooperative-improvement model. The current assessment-oriented evaluation process on a fixed 3-year cycle will be replaced with as-needed consulting. The goal of this initiative is to improve reliability by helping the industry help itself. To accomplish this goal, the program will incorporate a mixture of general and specific assistance based on entity requests and NERC-identified needs:

Integrated Reliability Information Help Desk
A help desk staffed by reliability information specialists (current full-time evaluators) will provide the industry one authoritative source to answer questions regarding reliability topics — compliance, standards, assessments, training, and readiness. Program staff will work to coordinate with any similar functions conducted by the Regional Entities.

On-site Consulting for Small to Midsize Entities
The program will explore ways to implement confidential, on-site consultations to small to midsize businesses, with priority given to at-risk entities. Consultation services will be totally separate from the compliance program.

Voluntary Reliability Excellence Program
The program will promote the highest levels of reliability by setting performance-based criteria for operational excellence, inviting entities to apply for a review, and assessing applicants against these criteria. Verification will be determined by an application review and a rigorous on-site evaluation by a team of NERC-led evaluators. Approval into the program will be NERC’s official recognition of the outstanding efforts of entities that have achieved exemplary reliability performance and implemented a comprehensive reliability management system.

Information Sharing — Positive Observations and Examples of Excellence
The program will implement a Web-based database to allow users to query for positive practices identified through the program. In addition, Webinars and reliability conferences (with industry trade groups) will be held to highlight examples of excellence, lessons learned, and industry trends.

Alliance Program
DRAFT PROPOSAL

As opportunities arise, the program will work with new and existing groups committed to reliability—including sector forums, trade or professional organizations, and educational institutions—to leverage resources and expertise and avoid duplicate efforts. The program will work with alliance participants on specific issues and projects and encourage their participation in NERC’s cooperative programs such as compliance assistance, the Voluntary Reliability Excellence and consultation program.

Strategic Partnership Program

The program will establish partnerships with manufacturing, engineering/design, and consulting firms to work cooperatively as critical reliability issues arise. The goal is to improve equipment performance and engineering design and promote reliability by developing protocols to address top causal factors and near misses.

The catalyst for this change will be a reduction of the 50 to 60 yearly scheduled, broad-based evaluations to approximately 20 as-needed or risk-based evaluations. The 20 confidential, targeted evaluations will be based on the following events:

- Requests by entities seeking specific assistance
- Needs or weakness identified through NERC events analysis, help desk, or benchmarking activities
- Pre-operational assessments for certification of reliability coordinators (mandatory)
- Voluntary Reliability Excellence Program verification

This focus shift will result in a reduced staffing need. The program will be able to eliminate two unfilled readiness evaluator positions (from the 2008 budget), reduce or eliminate the need for the current supplemental contract evaluators through 2009. An occasional need for contractor support may be necessary if more than 20 evaluations occur.

The revised program work will be reallocated among program staff. The current full-time readiness evaluators will support all areas of the program, specifically implementing the restructured evaluations (two evaluators) and staffing the new integrated reliability information help desk (three evaluators). Remaining staff will incorporate alliance and reliability excellence activities into the program, implement information-sharing and partnership initiatives, and support the evaluators.

To leverage industry and staff talent, program staff will interact with the following groups to ensure the revised program accomplishes its initiatives:

- NERC Operating Committee and its Operating Reliability Subcommittee (to develop a process for direct entity assistance)
- NERC’s Training, Education, and Personnel Certification Program (to develop courses and workshops requested by the industry)
DRAFT PROPOSAL

- Industry committees and member forums (to create useful excellent-practice guidelines for industry participants using identified examples of excellence)

A key aspect going forward will be judging program effectiveness. The program will continue to work with NERC’s Operating Committee to establish criteria for measuring program success and review the program against those criteria. Program staff members have been working with members of the Operating Reliability Subcommittee to help guide continuous improvement of the program. Efforts will focus on reviewing and discussing lessons learned and supporting information exchange within the industry.

NERC will also focus on evaluating and improving the effectiveness of the program and staff through a self-assessment process.

Assistance Objectives

- Create an Integrated Reliability Information Help Desk to provide the industry one authoritative source to answer questions regarding reliability topics: compliance, standards, assessments, training, and readiness.

- Implement confidential, on-site consultations for small to midsize businesses, with priority given to at-risk entities.

- Create a voluntary reliability program to promote excellence in reliability:
  - Set performance-based criteria for operational excellence, invite entities to apply for a review, and then assess applicants against these criteria.
  - Verify acceptance through an application review and a rigorous on-site evaluation by a team of NERC evaluators.
  - Recognize entities that have achieved exemplary reliability performance.

- Communicate positive observations and examples of excellence to the industry:
  - Inventory all examples of excellence and positive observations in a Web-based database to allow users to query for positive practices identified through the program.
  - Host Web-based conferences (Webinars) to highlight examples of excellence, lessons learned, and trends identified through the program.
  - Coordinate with industry trade groups to participate in technical conferences and share excellent industry practices.

- Create alliances, as appropriate, with new and existing groups committed to reliability—sector forums, trade or professional organizations, and educational institutions—to leverage resources and expertise and avoid duplication.

- Establish partnerships with manufacturing, engineering/design, and consulting firms as critical reliability issues arise.

- Conduct a self-assessment of the program and staff to judge effectiveness.
DRAFT PROPOSAL

- Provide routine feedback to the standards program on deficient areas in existing reliability standards.
- Work with the Operating Committee to develop and implement direct entity assistance.
- Work with the Training, Education, and Operator Certification Program to develop meaningful educational materials.
Reliability Assistance Program

Funding sources and related expenses for the assistance section of the 2009 business plan are shown in the table below.

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Summary of Significant Variances — 2008 Projection to 2009 Budget

Funding Sources

- Funding for this program is only provided through assessments to LSEs or designees (mandatory in the United States)

Personnel Expenses

- No additional FTEs are requested for 2009. The 2009 budget assumes elimination of two unfilled evaluator positions. One administrator position was transferred to the Situation Awareness Program in mid 2007. The current administrator supports both the Training Program and Readiness Program.

Meeting Expenses

- Estimated 20 targeted evaluations to be completed in 2009 versus 50 in 2007 and 2008

Operating Expenses

- Office costs: Cell phone and wireless broadband internet connections cards charged to appropriate departments instead of General and Administrative function
Goal
Establish an Integrated Reliability Information Help Desk (help desk) to provide prompt, accurate answers to stakeholders' reliability questions, including those regarding compliance and business practices.

Introduction
Since formally being recognized in July 2006 as the electric reliability organization by the Federal Energy Regulatory Commission in the United States, NERC has been inundated with questions and requests from registered entities. These questions are mainly focused on what is needed to become compliant with a certain requirement.

NERC’s Compliance Monitoring and Enforcement Program, in following with U.S. Government Accountability Office requirements to avoid conflicts of interest, will not answer these questions. Entities are often referred to other sources that may not present current information or consistent advice. The goal of the help desk is to provide the industry one authoritative source to answer questions regarding compliance and other reliability issues, while providing direction to entities with their practices.

Problem Statement
Currently, stakeholders can call NERC’s general information line at (609) 452-8060 or send NERC an inquiry e-mail to info@nerc.com. Calls and e-mails are forwarded to designated subject matter experts within NERC, who provide answers to the questions. On occasion, stakeholders are simply told to find industry experts or consultants who can answer the inquiry. There is no requirement of when the answers need to be provided, nor is there assurance that the answers provided are accurate and complete.

Benefits
NERC is committed to providing stakeholders with prompt and accurate answers to their reliability questions. With implementation of the help desk, stakeholders will have a single point of contact for answers to all their reliability inquires via phone, e-mail, or fax. The help desk representatives will be responsible for developing the responses by working with all appropriate NERC staff to ensure the answers are prompt, accurate, and complete.

An added benefit will be a more efficient internal process that may result in NERC subject matter experts and support staff dedicating less time to these requests.
Method
NERC will assign dedicated reliability information specialists to the help desk to address questions on such topics as

- Standards
- Compliance
- Critical Infrastructure Protection
- Assessments
- Training
- Readiness Evaluations

The help desk will initially be staffed from 9:00 a.m. to 6:00 p.m. eastern. A voice-mail system, a fax line, and an e-mail box will be set up to receive inquiries 24 hours a day. The specialists will be dedicated to responsiveness and follow-through; so in the event the specialists cannot answer a question directly, they will consult with someone who can and respond to the inquiry in 5 to 10 business days.

To maximize benefits provided by the help desk, all non-confidential correspondences will be stored in a knowledge database to be shared with the compliance and standards programs. This information will also be posted on the NERC Web site as a reference for industry participants. The specialists will coordinate with Regional Entities on any similar functions.

The specialists will help navigate the reliability landscape and answer NERC-related questions but will not provide legal advice or make a determination of compliance. A disclosure statement will be issued to clarify that the help desk is

- Not a compliance hotline
- Not a process to interpret standards, but can initiate an interpretation request
- Not a situation awareness center
- Not an IT help line

The following disclaimer can also be used to guide the specialists: “The information provided by NERC is offered as a service to the industry. Use of the information does not guarantee compliance with regulatory requirements nor create a safe harbor from regulatory responsibility.”

Resources
The reliability information specialists will be full-time readiness evaluators. Readiness evaluators are uniquely positioned for this function, as they are separated from the standards and compliance functions yet have a broad knowledge of industry concerns and needs from leading readiness evaluations. A second evaluator will act as a backup resource.
The help desk will require a tracking and reporting tool so that work progress can be updated and managed efficiently. Allowing the compliance and standards programs to actively see what information has been given to the industry will improve the consistency of audit results and target revisions to standards. It will also be important to use the tool to measure productivity and usefulness and assess the value the help desk brings to the industry. Things to measure include:

- Average number of calls responded to weekly or monthly
- Average length of time to respond
- Average length of time to provide complete answers

The searchable knowledge database needs to be in place to help the specialists link calls to create “threads of related discussion.”

**Schedule**

The target go-live date is August 1, 2008. The knowledge database, tracking software, and communications equipment need to be in place by July 1 so that the specialists could get training on how to use the tools.

**Cost Analysis**

There are 51 readiness evaluations and 2 pre-operational evaluations (for WECC RC’s Preparedness) scheduled in 2008. If three evaluators are assigned to be the reliability information specialists in mid-June, 15 of 51 evaluations will not take place in 2008. Developing an information sharing process and database will cost $25,000.

**Next Phase**

An evaluation of the success and effectiveness of the help desk should be conducted three months after the function begins. The evaluation report should include recommendations for improvement and scope of next steps. Next steps will include developing an on-site program to assist entities in specific areas. The assistance aspect may include an active role for industry participants to share information on business practices beyond those generated by the help desk.
Sample “Contact Us” Web page

Contact NERC

Have a question on reliability?
1-800-ASK-NERC

Contact NERC 24 hours a day to ask reliability-related questions about the following topics:

• Standards interpretations
• Compliance reports
• Seasonal and long-term assessments
• Training and education schedules
• Readiness evaluation reports and examples of excellence

Please check out our frequently asked questions (FAQs). Our FAQ database contains answers to many questions asked most often by the stakeholders. If you still can't find an answer, you will be able to ask a question with our convenient online form.

Responses to your inquiries are for informational purposes only and do not constitute legal advice or compliance violation comments from the NERC. For an official response, please send your inquiry in writing to the following address:

North American Electric Reliability Corporation
116-390 Village Boulevard
Princeton, New Jersey 08540-5721

Compliance Hotline
Call 609-524-7069 or by sending an e-mail directly to hotline@nerc.net to report possible violations of Reliability Standards an entity

General Inquiry about NERC
Call (609) 452 – 8060 or send an e-mail directly to info@nerc.net
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Program Overview

The NERC Readiness Evaluation Program (originally referred to as a readiness audit program) began in response to Federal Energy Regulatory Commission (FERC) directives following the August 14, 2003 blackout. The goal was to increase transparency on operating practices and take the industry’s temperature on overall preparedness to minimize the likelihood of another major blackout.

NERC created a compliance audit program as part of becoming the Electric Reliability Organization approved by FERC. At that point, the readiness program, which had been asking compliance-type questions, shifted its full effort to encouraging entities to improve reliability performance and achieve excellence in their assigned functions and responsibilities. A companion goal of the program developed into the identification and promotion of examples of excellence within the industry.

The program works with industry experts to conduct on-site evaluations (on a three-year cycle) to independently review the culture, tools, facilities, and processes of all balancing authorities, transmission operators, reliability coordinators, and other entities that support the reliable operation of the bulk power system in North America to determine their readiness to maintain safe and reliable operations:

- NERC staff gathers preliminary information from the entity and its neighbors.
- Led by a NERC evaluator, industry peers (volunteers) review documents and visit the entity’s control center to tour facilities and interview entity staff.
  - Teams serve as subject matter experts to point out positive aspects of an entity’s operation and offer recommendations for improving practices.
  - Teams focus on evaluating the quality of entity and effectiveness of entity operations and processes to determine entity readiness and preparedness for present and future operations (consulting exercise).
  - Evaluations encompass a broad review of system operations functions with the assumption that standard requirements are being met (a caveat is in order: according to the *NERC Rules of Procedure*, an evaluation team is obligated to report evidence “of possible noncompliance with a reliability standard” to NERC “for resolution through the applicable compliance enforcement program”; teams do not seek such items).
- After the evaluation, the NERC team leader drafts a final report that is published on NERC’s public Web site. (Critical infrastructure information is communicated to the entity in a confidential version of the report.) The reports include a discussion of general team observations and entity practices and
  - highlight potential examples of excellence and positive observations;
  - offer recommendations to entities for improving practices.
- Potential examples of excellence are voted on and published on NERC’s Web site as a one- to two-page essay if approved.
Summary of Entity Feedback

Upon completion of an evaluation, NERC sends a 13-question form to evaluated entities. Between March 2007 and April 2008, NERC evaluated 54 entities using its updated INPO-influenced process and received feedback from 35 entities. Nine of the feedback questions request yes/no responses. As shown in the following table, entities benefit from the evaluations, find the team members to be qualified and professional, receive an appropriate review, and understand the evaluation objectives and findings.

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sufficient notice prior to the evaluation regarding dates, agendas, and logistics?</td>
<td>100%</td>
</tr>
<tr>
<td>Objectives of the evaluation clearly communicated?</td>
<td>100%</td>
</tr>
<tr>
<td>Appropriate topics and areas evaluated?</td>
<td>96%</td>
</tr>
<tr>
<td>Findings adequately supported and presented at the end of the on-site visit?</td>
<td>94%</td>
</tr>
<tr>
<td>Clear understanding of the basis for the evaluation team’s findings?</td>
<td>94%</td>
</tr>
<tr>
<td>Did the evaluation significantly disrupt your operations?</td>
<td>13%</td>
</tr>
<tr>
<td>Team members qualified to review your reliability readiness?</td>
<td>100%</td>
</tr>
<tr>
<td>Team members professional in performing their required duties?</td>
<td>100%</td>
</tr>
<tr>
<td>Overall, was the evaluation beneficial to your organization?</td>
<td>98%</td>
</tr>
</tbody>
</table>

The questionnaire includes text boxes for entities to elaborate on the above questions and respond to a number of open-ended questions, primarily seeking specifics on how the program can be improved. Most entities agreed on the primary benefits: the independent and self-review processes. Suggestions were slightly divergent but can be grouped into the general categories of scope and information sharing. The preparation process was considered a great benefit though a significant resource issue for some.

Benefits

- **Independent peer review** — entities praised the quality of the team member input and the process of receiving perspectives from industry peers and experts. The evaluations were viewed as thorough and appropriate; entities generally welcomed recommendations as opportunities to improve and were eager to hear which practices had peer support.

- **Self review** — entities stated the preparation process, which requires a critical self review, was an enlightening exercise. The process encouraged a thorough review of practices and beneficial interaction among departments and organization levels that would not normally occur.

Suggestions

- **Increase clarity of scope** — entities suggested a simplification and clarification of questions, an increase and better communication of evaluation criteria, a review to ensure three-year cycles are appropriate, and a further separation from compliance.

- **Improve the sharing of results** — entities want to learn more about the positive and excellent practices uncovered and suggested Web-based summaries and tabular data to improve access to results. (Current PDF Web postings are not efficient.)

Anecdotal input from entities displayed an awareness of the program’s unique opportunity to help the industry maintain a culture of continuous improvement.
Assistance Initiatives

The program is working on a number of initiatives designed to attain its goals of providing the general and specific assistance desired by entities.

Integrated Reliability Information Help Desk

NERC’s Compliance Monitoring and Enforcement Program, in following with U.S. Government Accountability Office requirements to avoid conflicts of interest, will not answer compliance questions. Entities are often referred to other sources that may not present current information or consistent advice. The program wishes to establish a help desk (staffed by reliability information specialists) to provide the industry one authoritative source to answer questions regarding reliability topics — compliance, standards, assessments, training, and readiness.

The reliability information specialists (readiness evaluators) will field reliability inquiries via phone, e-mail, or fax. The specialists will be responsible for working with all appropriate NERC staff to ensure the answers are prompt, accurate, and complete. Specialists will not provide legal advice or make a determination of compliance.

All non-confidential correspondences will be stored in a knowledge database to be shared with the compliance and standards programs and posted on the NERC Web site as a reference for industry participants. The database will help the specialists link calls to create “threads of related discussion.”

On-site Consulting for Small to Midsize Entities

The readiness program plans to explore ways to implement confidential, on-site consultations to small to midsize businesses, with priority given to at-risk entities. Consultation services will be totally separate from the compliance program.

Voluntary Reliability Excellence Program

The program will promote the highest levels of reliability by setting performance-based criteria for a reliable system, inviting entities to apply for a review, and assessing applicants against these criteria. Verification will be determined by an application review and a rigorous on-site evaluation by a team of NERC evaluators. Approval into the program will be NERC’s official recognition of the outstanding efforts of entities that have achieved exemplary reliability performance and implemented a comprehensive reliability management system.

Organizing and Sharing Positive Observations and Examples of Excellence

Entities have commented that it is difficult to review the readiness reports and examples of excellence on the NERC Web site for targeted needs.

- Database — Plans are in place to inventory all examples of excellence and positive observations by the end of 2008 and work towards the development of a Web-based database (in 2009) to allow users to query for positive practices identified through the program. The user will be able identify the contact information to investigate further and possibly implement these practices.
• Webinars — Program staff is currently organizing a Web-based conference to highlight three training-related examples of excellence (in June or July) and plans to host more Webinars on lessons learned and trends from readiness evaluations and examples of excellence.

• Reliability conference — Program staff seeks to coordinate with industry trade groups to participate in a fall 2008 technical conference and share excellent industry practices.

Alliance Program
As opportunities arise, the program will work with new and existing groups committed to reliability—including sector forums, trade or professional organizations, and educational institutions—to leverage resources and expertise and avoid duplicate efforts.

Strategic Partnership Program
The program embraces collaborative agreements and plans to establish partnership with manufacturing, engineering/design, and consulting firms. The program and its partners will work cooperatively as critical reliability issues arise. The strategic partnership will also be appropriate for many entities who want to do the right thing but need help in strengthening reliability performance.
Implementing New Initiatives

Coordinating with the proper groups will be a key factor in accomplishing the new program initiatives.

Achieving Program Goals
To leverage industry and staff talent, program staff will interact with the following groups to ensure the revised program accomplishes its initiatives:

- NERC Operating Committee and its Operating Reliability Subcommittee (to develop a process for direct entity assistance)
- NERC’s Training, Education, and Personnel Certification Program (to develop courses and workshops requested by the industry)
- Industry committees and member forums (to create useful excellent-practice guidelines for industry participants using identified examples of excellence)

Measuring Program Success
The program will continue to work with NERC’s Operating Committee to establish criteria for measuring program success and review the program against those criteria. Program staff members have been working with members of the Operating Reliability Subcommittee to help guide continuous improvement of the program. Efforts will focus on reviewing and discussing lessons learned and supporting information exchange within the industry. NERC will also focus on evaluating and improving the effectiveness of the program and staff through a self-audit.
Appendix 1: Detailed Entity Feedback by Region

ERCOT
One ERCOT entity submitted a feedback form. NERC received positive feedback related to the overall process, as the entity stated the preparation for and receipt of an external review was beneficial. The entity indicated the evaluation did not significantly disrupt operations and was coordinated as well as could be expected, but the evaluation process naturally impacts operations, due mainly to necessary preparation time.

Positive observations:
- The evaluation resulted in a number of benefits:
  - Prompted us to look more closely at internal processes. The evaluation questions caused us to ask ourselves about our responsibilities.
  - Allowed us to step back from routines and take a strategic view.
  - Verified that some of our initiatives are correctly designed.
  - Provided a clear external review of processes and procedures.

Recommendation:
- Incorporate some known examples of excellence into the presentation of preliminary results.

FRCC
One FRCC entity submitted a feedback form. The entity reported positive feedback and indicated the evaluation process did not significantly disrupt operations. The entity offered a recommendation related to assistance. The entity indicated the readiness program has a unique opportunity to independently evaluate entities without compliance implications — teams can influence change where needed through practical observations and recommendations that take into account the entity scope and functional model role.

Positive observations:
- Evaluation was thorough and covered key items of operations:
  - Organizational readiness and effectiveness
  - Tools, training, and processes
- Preparing for the evaluation was very helpful; prompts entities to evaluate themselves from an outsider’s perspective.

Recommendation:
- Focus the review process on helping organizations improve their operations in support of reliability.
MRO

Four MRO entities submitted a feedback form. All four entities reported that the evaluations were beneficial, especially due to the outside perspectives received, and not significantly disruptive to operations. The entities offered recommendations related to on-site approach and scheduling. One entity pointed out that NERC should thank CEOs for providing the financial support necessary to enable employees to participate as evaluation team members; the entity indicated these CEOs obviously understand the value of the readiness program and provide resources accordingly.

Positive observations:
- Helpful to get different perspectives on operations. (All four entities reported this.)
- Learned about areas needing improvement and received information helpful to organizational decisions.
- Team was professional and reassuring.

Recommendations:
- Avoid conducting evaluations during entity peak months.
- Consider standardizing what teams review. (An entity stated it received a specific request during the evaluation as a result of a team member’s personal experience at another site.)
- Reduce redundancy of questions between teams and simplify questions to better fit an oral review.

NPCC

One NPCC entity submitted a feedback form to NERC. The entity stated the evaluation was beneficial and not significantly disruptive. Though an on-site presentation covered the evaluation scope, the entity indicated a written explanation prior to the evaluation scope would have helped. The feedback included a recommendation related to sharing best practices.

Positive observations:
- Preparing to be evaluated prompted a more critical self review.
- The exit presentation discussions with the team were productive.

Recommendation:
- Create a library of best practices for entities to use for self improvement.

RFC

Five RFC entities submitted a feedback form. Entities praised the evaluation teams and the value of having an outside perspective from industry peers. Four of the five entities said the evaluation was beneficial, and most noted the preparation activities provided great value. The majority indicated no significant disruption, but two entities reported the evaluations were difficult due to staffing limitations (one due to a concurrent compliance audit) and suggested the program seek
ways to reduce the time burden. Three entities were concerned about the basis of recommendations, desiring more rationale or evidence regarding how reliability performance would improve as a result of implementation.

Positive observations:
- Revised (simpler) questionnaire was a great improvement.
- Positive experience to have an independent team of industry representatives with diverse backgrounds and experiences review operations and provide thoughtful, constructive feedback.
  - Quality of team exceeded expectations.
  - Team provided insight to how other organizations handle similar problems.
- Provided an opportunity to have company personnel interact.
- The preparation prompted a review and analysis of operating documentation and tools.

Recommendations:
- Improve pre-evaluation communications regarding information requests and on-site interviews (more information on what questions will be asked and who should or should not attend).
- Summarize frequent findings (examples of excellence, positive observations, and recommendations) and research ways to help entities adopt best practices.
- Reduce scope:
  - Remove potential compliance violation aspect.
  - Consider increasing the three-year cycle to five to seven years (or limit focus for three-year cycle).
  - Exclude personnel safety as a topic.
  - Find ways to reduce time burden (more in-depth pre-evaluation review of company materials, limit overlapping questions, scale back document request).
- Increase uniformity in the examples of excellence process (criteria, objectives, etc.)

SERC
Six SERC entities submitted feedback forms. All six entities reported the evaluations were beneficial to their organization, and most provided details about these benefits. Half the entities reported yes to a question asking if the evaluation process significantly disrupted their operations, citing the preparation process as the main factor; however, two of those entities as well as one other wrote that the preparation process was a key benefit.

Positive observations:
- Reviewing processes and documentation to prepare for the evaluation was helpful and enlightening (entities learned from getting their own people involved, especially subject matter experts).
- Receiving an outside perspective provided the following benefits:
o a benchmark and insight on improvements (through recommendations)
o verification that programs were achieving obligations to others
o insight on interpretation of NERC standards
o a chance to share excellent practices

Recommendations:

- Sponsor an industry advisory group(s) to review lessons learned and review the progress of evaluations.
- Find ways to streamline the process and enhance consistency.
  - Develop a requirements checklist with a rating scale for sub-teams to use when evaluating and interviewing an entity.
  - Review the questionnaires and interview guides to be sure questions match the refocused program objectives.
- Increase emphasis on process improvement suggestions and reduce compliance emphasis.

SPP

Three SPP entities submitted a feedback form. Two of the three entities praised the evaluation team and indicated the evaluation did not significantly disrupt operations. Suggestions for improvement mostly related to focus and included a rare suggestion supporting a compliance link. One entity indicated that the readiness program could guide entities toward improvements.

Positive observations:

- The shift towards improvement and readiness and away from compliance provides a greater benefit to the bulk power system.
- The well-prepared, professional team displayed balanced leadership and conducted quality interviews.
- Evaluation process provides an independent, thorough report on operational readiness.
  - Helps uncover deficiencies
  - Results in planned improvements
- Multiple areas of the company to participated in the evaluation preparations, raising the awareness of what is needed to maintain reliability as a main focus.

Recommendations:

- Improve the overall focus of the process:
  - Enhance the evaluation team’s preparation so evaluators have a better grasp of the content and objective of interview questions.
  - Find ways to increase the team’s insight on the functions and scope of the entity being evaluated to ensure recommendations are appropriate.
  - Revise the interview questions to be more focused and less general.
- Validate operational parameters through documentation of compliance, instead of a passive review, to ensure entities are responsible grid operators.
WECC

Eleven WECC entities submitted a feedback form. All eleven entities indicated the evaluations were beneficial, and nine said operations were not significantly disrupted. Preparing for the evaluation and hearing outside perspectives provided the key benefits. A few entities pointed out the preparation workload was significant but well worth the effort. Recommendations focused on efficiency and consistency.

Positive observations:
- Including human resources and corporate management personnel helped them understand operations responsibilities and see how they could provide support.
- Outside, impartial perspective from peers with diverse backgrounds was helpful:
  - The evaluation team focused on how we were managing our progress and asked meaningful questions; it did not seem as if the team was out to find faults.
  - It is important to hear about opportunities to improve.
  - The reinforcement of internal findings will help in allocation of time and money.
  - Provided a practice run for the audit.
- The preparation led to a better understanding of some details of operations, including requirements. Having to demonstrate proficiency led to increased focus on operations.

Recommendations:
- Combine the evaluations with compliance audits to reduce redundancy and confusion for preparations.
- Simplify and clarify interview questions.
- Find a way to share how other entities are managing similar issues (regarding team recommendations).
- Create a standard set of criteria and announce to industry NERC’s expectations for practices. (For example, should every entity have a training simulator?)

Multiregional

Three entities that operate in more than one region submitted feedback forms. One entity described the benefits of interacting with industry peers as necessary for maintaining a culture of continuous improvement, noting this culture is the key to keeping reliability as the industry’s top priority. Entities indicated no significant disruptions to operations, though one pointed out the preparation time was significant. The evaluation team’s discretion for offering recommendations was listed as a concern by one entity, which indicated a particular recommendation it received was not a requirement in current NERC standards.

Positive observations:
- Evaluation provided opportunities to learn from others, discuss improvement opportunities, and validate processes already in place.
  - Team members were qualified and professional.
Team conducted thorough review to understand our business, leading to valuable input on processes.

- The process stimulated ideas within our company through the discussion of policies and procedures. This will help us develop future operational documents.
- We support the INPO-type process used.

Recommendation:

- Clean up ambiguity in questions (intent and who should respond).
- Eliminate requests for historic data to further separate readiness from compliance.
- Consider providing a quarterly executive summary of frequently found positive observations and recommendations to increase industry awareness.
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Reliability Readiness Evaluation and Improvement Program

<table>
<thead>
<tr>
<th>Reliability Readiness Evaluation and Improvement Program Resources (in whole dollars)</th>
<th>2008 Budget</th>
<th>2008 Projection</th>
<th>2009 Budget</th>
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<td>Total Funding</td>
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<td>$3,326,833</td>
<td>$3,828,783</td>
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Background

NERC’s Reliability Readiness Evaluation and Improvement Program will continue to conduct independent evaluations of balancing authorities, transmission operators, reliability coordinators, and other key entities that support the reliable operation of the bulk power system to assess their preparedness to meet their assigned reliability responsibilities.

The Reliability Readiness Evaluation and Improvement Program is an important component in helping NERC accomplish its mission. NERC evaluates entities that conduct activities and functions particularly critical to achieving the reliable operation of the bulk power system. Readiness evaluations are designed to ensure operators of the bulk power system have adequate tools, processes, procedures, and infrastructure in place to operate reliably. The evaluations identify strengths and areas for improvement in an effort to promote excellence in operations among these organizations. Ensuring reliable system operations benefits all owners, operators, and users of the bulk power system and, ultimately, all users and consumers of electric power in North America.

Readiness evaluations are conducted on a three-year cycle. Many reliability readiness evaluation activities take place at the control centers of the evaluated entities, while the associated administrative support and report preparation takes place at NERC’s headquarters in Princeton, New Jersey. Reliability readiness evaluation teams are led by a NERC staff member or representative and consist of industry volunteers with appropriate technical expertise. A report of the evaluation team’s findings is published on the NERC Web site.

Based on the portion of its professional/technical staff time, and other resources that it expects to devote to the Reliability Readiness Evaluation and Improvement Program, NERC estimates that it will spend 9.8 percent of its resources on this activity.

2009 Highlights

In 2009, the Reliability Readiness Evaluation and Improvement Program staff will continue to pursue the program’s primary mission: to perform readiness evaluations of the registered entities across North America and assist them in implementing the evaluation team’s recommendations. In addition to improving the evaluation process, program staff will work to expand the assistance aspect of the program to improve reliability by helping the industry help itself.

http://www.nerc.com/~rap/
Program staff will provide meaningful guidance to industry committees and NERC’s other program areas on topics that merit additional focus to support the goal of continuous improvement. To achieve this, program staff will continue to analyze readiness evaluation findings, while refining and expanding benchmarking activities. Program metrics will be expanded and the results will be shared with the industry. Using identified examples of excellence and reliability readiness evaluation experiences, program staff will work with industry committees and member forums to create useful excellent-practice guidelines for industry participants. Readiness program staff will have completed an inventory of the publicly posted positive observations by the end of 2008. In 2009, a database will be developed that will be able to be accessed through the new NERC Web site.

In 2009, readiness staff will develop and implement a plan to shift the emphasis of a portion of the evaluations to a new area, assistance. The objective will be to improve reliability by helping the industry help itself. Readiness staff will also work with training staff to develop courses and workshops on topics requested by the industry. This activity will be driven by the owners, operators, and users on the issues they identify. Readiness staff will interface directly with entities that request assistance on specific issues and will work with input from the NERC Operating Committee and Operating Reliability Subcommittee to create a process for this initiative.

NERC will also focus on evaluating and improving the effectiveness of the reliability readiness program and staff through a self-audit of its program. In collaboration with the Training, Education, and Operator Certification Program, two new advanced training courses for readiness team leaders will be developed. This training will add to the efficiency, consistency, and effectiveness of the reliability evaluations. To potentially reduce the time entities spend preparing for an evaluation, program staff will continue its efforts of streamlining the process.

Reliability Readiness Evaluation and Improvement Objectives

- Evaluate 65 reliability coordinators, balancing authorities, or transmission operators in 2009, independent of regional compliance audits.
  - Continue to expand the program to include evaluations of the large transmission owners (local control centers) that have been delegated functions or provide significant support to registered reliability entities. In 2009, approximately 12 evaluations of transmission owners will be conducted.

- Develop and implement a new industry assistance module within the existing evaluation process.

- Work with industry and member forum groups to continue to shift the Reliability Readiness Evaluation and Improvement Program into an INPO-type program that contains objective metrics.

- Work with the Operating Committee to develop and implement a comprehensive assistance program.

- Enhance communications to the industry on examples of excellence identified through the Reliability Readiness Evaluation and Improvement Program.

- Coordinate with the industry’s technical groups to further develop and expand industry exceptional practices and work with the Training, Education, and Operator Certification Program to develop meaningful educational materials.
• Work with the Training, Education, and Operator Certification Program to develop an advanced training program for industry technical experts and volunteers who participate on reliability readiness evaluations.

• Maintain and enhance reporting of readiness evaluation recommendations.
  ▪ Report quarterly the status and mitigation of each recommendation identified in the reliability readiness evaluation process.
  ▪ Perform a critical analysis of evaluation recommendations and findings to determine meaningful trends, and communicate this information to the industry and the NERC board, as a mechanism for improvement.
  ▪ Provide routine feedback to the standards program on deficient areas in existing reliability standards determined during the execution of the readiness evaluation process.

• Ensure reporting of all probable violations of standards and requirements to the regional compliance officers within two weeks of the conclusion of the readiness evaluations, unless the probable violation falls under the 48-hour reporting requirements.
Reliability Readiness Evaluations and Improvement Program

Funding sources and related expenses for the reliability readiness evaluations and improvement section of the 2009 business plan are shown in the table below.

<table>
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<td>Testing Fees</td>
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Expenses

Personnel Expenses

| Salaries          | $1,340,884 | $1,240,150      | $1,375,490 | $135,340                   |
| Payroll Taxes     | 88,799     | 82,128          | 89,427     | 7,299                      |
| Benefits          | 173,945    | 160,877         | 141,879    | (18,998)                   |
| Retirement Costs  | 96,933     | 89,651          | 163,009    | 73,358                     |
| Total Personnel Expenses | $1,700,561 | $1,572,806      | $1,769,805 | $196,999                   |

Meeting Expenses

| Meetings          | -          | $19,203         | 20,164     | 960                        |
| Travel            | 157,500    | 157,500         | 187,000    | 29,500                     |
| Total Meeting Expenses | $157,500    | $176,703        | $207,164   | $30,460                     |

Operating Expenses

| Consultants       | -          | $125,000        | 125,000    | -                          | (125,000)               |
| Contracts         | -          | -               | -          | -                          |
| Office Rent       | -          | -               | -          | -                          |
| Office Costs      | -          | 9,600           | 9,600      | 10,920                     | 1,320                   |
| Professional Services | -          | -               | -          | -                          |
| Computer Purchase & Maintenance | -          | -               | -          | -                          |
| Furniture & Equipment | -          | -               | -          | -                          |
| Miscellaneous     | -          | -               | -          | -                          |
| Contingency       | -          | -               | -          | -                          |
| Total Operating Expenses | $ -          | $134,600        | $134,600   | $10,920                    | (123,680)               |

Other Non-Operating Expenses

| Total Expenses    | $1,858,061 | $1,884,110      | $26,049    | $1,987,889                 | $103,779                |
| Change in Assets  | $ -         | (26,049)        | (26,049)   | $ -                        | $26,049                 |
Summary of Significant Variances — 2008 Projection to 2009 Budget

Funding Sources
- Funding for this program is only provided through assessments to LSEs or designees (mandatory in the United States)

Personnel Expenses
- No additional FTEs are requested for 2009. The 2009 budget assumes all open positions in 2008 are filled.

Meeting Expenses
- Estimated 65 evaluations to be completed in 2009 versus 50 in 2007 and 2008

Operating Expenses
- Consultants: Used in 2008 until open positions are filled
- Office costs: Cell phone and wireless broadband internet connections cards charged to appropriate departments instead of General and Administrative function
Table 3

President & CEO

Administration

Standards
- Compliance & Organization Certification
- Reliability Assessment & Performance Analysis
- Reliability Readiness

Training, Education & Personnel Certification
- Situation Awareness & Infrastructure Security
- Technical Committees and Members' Forums

Legal & Regulatory
- Information Technology
- Technical Committees and Members' Forums

Finance & Accounting
- Human Resources

104.5
Table 4

President & CEO

Administration

Standards
Compliance & Organization Certification

Reliability Readiness

Reliability Assessment & Performance Analysis

Training, Education & Personnel Certification

Situation Awareness, Infrastructure Security

Technical Committees and Members’ Forums

Information Technology

Legal & Regulatory

Finance & Accounting

Human Resources

Compliance & Organization Certification
Reliability Assessment & Performance Analysis
Situation Awareness, Infrastructure Security
Technical Committees and Members’ Forums
Information Technology
Legal & Regulatory
Finance & Accounting
Human Resources

2009 NERC Business Plan and Budget — Version 1.1
Approved by Board of Trustees: XX, 2008
Policy Input to the NERC Board of Trustees - 2009 NERC Budget Proposal

As one of the largest industrial consumers of electricity in the ERO, Alcoa has long been a strong supporter of the reliability of the bulk electric system. When the ERO was initially proposed we participated through comments and filings at FERC in support of a strong central authority responsible for improving reliability. Following the formation of the ERO we invested internal resources to occupy a seat on the Operating Committee representing large industrial consumers. In light of our long term commitment to reliability we are disappointed by the recently outlined 2009 budget proposal that calls for a 47% year over year increase. An increase of this magnitude is typically a red flag in itself because few organizations are capable of managing such an increase effectively. Unfortunately, a review of the NERC budget proposal seems to support this concern.

Four areas account for 78% of the $12.4mm increase – General and Administrative $3.1mm, Situation Awareness $2.7mm, Enforcement $2.0mm and Legal $1.9mm. The supporting documentation in each of these budgets is sparse but it appears that the common theme is one of rapid funding growth with a lack of management justification directly linked to meaningful reliability results.

**General and Administrative**

General and Administrative is responsible for $3.1mm of the total funding increase, a 97% jump over the approved 2008 budget. Notes from the variation summary identify $2.1mm of the increase as a result of the proposal to change accounting practice to show the cash reserve as a budgeted amount and simultaneously increase it to 10% of assessments. While maintaining limited reserves is prudent there is no justification offered in terms of credit risk or other financial contingency to support the requested increase. NERC has the authority for special assessments when necessary. With this back stop authority in place, there is no need to build a reserve larger than the absolute minimal amount. Arbitrary funding requests of this type too often result in little more than stockpiling cash for contingencies that should be avoided by utilizing appropriate spending controls. The special assessment process is the preferred method to deal with unanticipated needs because it has a built in discipline requiring justification that is lacking in the proposed increase to reserves. While the accounting change in reporting this line item should be adopted the cash reserves increase should be removed from the budget.
There is no explanation for the remaining $1.0mm increase in this department budget which indicates this is a request with no apparent plan for effective use. It should be reduced to cover only expected wage inflation for the 3 FTEs assigned to the department.

**Situation Awareness**

Situation Awareness is the next largest increase at $2.7mm, 84% greater than the 2008 approved budget. Almost half of this is for contractor support of the SynchroPhasor Initiative. Before NERC endorses moving the phasor project to the next stage of development, a thorough evaluation of the cost effectiveness of this project must be completed. The technology has been around for some time and it seems fair to ask that if it were efficient and effective, why has there previously not been wider adoption by the industry. Continuing the development of this project at NERC could eventually result in an expensive deployment of technology across the bulk power system. A business case must first be made proving the value of these devices in preventing the occurrence of reliability contingencies before end users are asked to pay what will ultimately be a very significant amount. It would be unfortunate for the cause of reliability if NERC became too enthusiastic with an expensive technology that in hindsight turned out to be less effective than promised in preventing blackouts. This particular portion of the budget should be reviewed again with a bias towards significant reduction in the phasor project until the payback is firmly established.

This budget also requests an increase of 5 FTEs over the 2008 budget doubling the size of the staff in this area. The increase in manpower by 100% is disturbing because even under the best of circumstances it is difficult to absorb and make effective use of a doubling of any particular staff. Without a specific resource plan that shows how these new resources will become immediately value adding they should be reduced or eliminated.

Taken as a group, most of the 2009 spending proposals in Situation Awareness are the initial installments for longer term commitments. Because commitments made now will lead to a number of years of subsequent requirements, it’s important to ensure priorities and resources are correctly aligned to deliver tangible reliability improvements. Otherwise, these programs risk becoming ineffective expenditures that once begun will be difficult to abandon.

**Enforcement and Legal Departments**

Enforcement’s budget increases $2.0mm or 43% over the approved 2008 amount. FTEs increase by 7 over the 2008 budget to 33. Legal increases $1.9mm / 116% while reducing FTE’s by 1. The concern with these two budgets is they leave too much new spending unaccounted for in their individual department summaries. Both budgets provide basic details for expenditures related to contractors and self assessments. However, the remaining increases, when compared to the change in FTEs, are much too large to be
justified by salary related changes in headcount leaving no other choice than to conclude that undefined contingencies are being budgeted within the department budgets. The result is a pancaking of contingency money at the department level which is again ‘grossed up’ at the summary organization level in the cash reserves line. The enforcement budget should be reduced by amounts that cannot be justified by headcount and contractors. The legal budget should be reduced to allow for inflation for the remaining headcount and the self assessments.

Conclusions

From an end users perspective, budget proposals like this raise the fear that the ERO is using its new authority to spend without adequate processes in place to establish priorities that result in tangible reliability improvements. Even a cursory review indicates a significant amount of proposed new funding that is unexplained. While an increase is appropriate to support strengthening the new ERO, management must show how it will make effective use of new funding to directly enhance system reliability. Unfortunately, the impression from the current proposal is one where the current budget has been overspent by 6%, the new budget proposal is for a major increase, large portions of the increase are not justified and a number of the proposals that have some explanation are questionable in their value to improving reliability.

NERC must consider a hard rework of the budget including a roll back of the cash reserves increase to current levels, a reduction in scope to include only those items which are going to credibly improve reliability and FERC mandates, followed by reductions to all departments where new spending isn’t directly supported by line item requirements resulting from a critical evaluation process. The larger risk of not doing so is that the Regional Entities will take a cue from the current proposal and increase their budgets in lock step. That suddenly takes the spending increase for reliability in 2009 from $13mm to as much as $50mm. If NERC fails to assert its authority to lead by example and control the spending process both internally and at the regions, credibility with the consumer will be seriously undermined.

Thomas Gianneschi
Alcoa, Inc. - Energy Regulatory Affairs
NERC Operating Committee – Large End Use Electricity Customer
Canadian Regulators Comments to the Finance and Audit Committee – NERC 2009
Business Plan and Budget, Draft 1.1

As a MRC Canadian Provincial Regulator Representative, at the MRC meeting in Vancouver in August 2007, I indicated that:

- There is a perception that Canadian entities pay too large a share of the costs associated with reliability and that NERC and Regional Entities costs associated with FERC driven activities should be borne by U.S. participants only, and

- Some NERC or Regional Entities programs, initiatives or services which are not utilized by a particular Canadian province should not be borne by participants of that province.

I also mentioned that I expected that alternative budget allocation methodologies would be explored for the 2009 Budget.

I would like to commend NPCC for the development of a new allocation methodology principle and the Financial Audit Committee for approving it. This is a step in the right direction. This method recognizes that part of NPCC costs associated with its Compliance Monitoring and Enforcement Program would be apportioned based on the relative costs associated with conducting compliance audits.

In addition, the 2009 NERC Business Plan indicates on page 54 that costs of the ERO’s performance assessment will be allocated only to U.S. entities because the requirement for such an assessment was established in orders issued by FERC. Here again, it is a small step in the right direction and Canadian Regulators urge NERC to review all its 2009 Business Plan costs and identify those driven by U.S. concerns only.

We understand that NERC and Regional Entities are devoting a lot of efforts to implement the new regulatory framework in the U.S.

We understand also that NERC is expanding in areas that address U.S. concerns but where benefits for Canadian Entities are not significant. As an example, we are not convinced that a North American real time monitoring center would benefit any of the Canadian provinces.

Canadian concerns are still the same as last year and they become even more critical this year when we look at NERC’s 2009 Business Plan and Budget (draft 1.1) which shows a budget increase of 46%.

In this respect, we support comments made by TransÉnergie, NPCC, SERC and FRCC on the 2009 Business Plan and Budget, draft 1.1.
Finally, we can summarize comments of Canadian Regulators by saying that NERC needs to focus on the following:

1. First, identify NERC Budget costs driven by U.S. concerns versus Canadian concerns, taking into account that some activities may be statutory in the U.S. but not in Canada, and

2. Second, to identify what activities are absolutely necessary to assure the reliability of the electric Bulk Power System and those that are not really statutory.

Thank you for taking our comments into consideration, and we look forward to the next version of NERC’s 2009 Business Plan and Budget.

Jean-Paul Théorêt
Président, Régie de l’énergie
and NERC MRC Canadian Provincial Regulator Representative
May 16, 2008

Mr. Rick Sergel  
President and CEO  
North American Electric Reliability Council  
Princeton Forrestal Village, 116-390 Village Boulevard  
Princeton, New Jersey 08540-5721

Dear Rick:

The Canadian Electricity Association (“CEA”) appreciates the opportunity to provide input with respect to the 2009 NERC Budget and Business Plan.

CEA recognizes that NERC’s responsibilities and functions have increased as a result of its transformation to the Electric Reliability Organization. CEA is supportive of those responsibilities and functions intended to ensure and improve the reliability of the North American bulk power system. However, in reviewing the draft budget, we believe that a budget increase of 46% is both unjustified and unsustainable. In the past, CEA has also expressed concern regarding the allocation of certain costs to Canadian entities and we remain concerned with the proposed allocation of these costs as discussed below.

Firstly, we are particularly concerned with substantial cost increases in most NERC program areas, since these will directly impact the programs carried out by cross-border Regional Entities. As a result, CEA members will face further substantial increases through their Regional Entity fees, yet NERC has provided no justification for the increases. CEA requests that NERC provide a risk-based analysis of any proposed options as well as other alternatives available to the industry in managing NERC’s mandate through the 2009 work plan.

Secondly, CEA is concerned with increased costs associated with the implementation of FERC directives. For example, the proposed Situation Awareness Monitoring Facility would appear to be duplicative of the functions performed by the Reliability Coordinators and appears to offer no additional reliability benefits to the system. CEA members are concerned by the need for this facility and by the allocation of these and other costs to Canadian entities where such costs result from directives of a non-jurisdictional regulatory authority.

Finally, CEA continues to be concerned with the allocation to Canadian entities of the costs relating to the compliance and enforcement of reliability standards, particularly as those costs continue to increase. Given that NERC’s compliance and enforcement role may be supplemented or supplanted by provincial regulatory or other governmental authorities, CEA continues to believe that the allocation of cost associated with compliance and enforcement activities should reflect that reality.

CEA looks forward to continuing to work with NERC in the ongoing development of the 2009 NERC Budget.

Yours sincerely,

Hans R. Konow  
President and Chief Executive Officer
May 16, 2008

Ms. Karen Spolar
Executive Assistant
North American Electric Reliability Corporation
116-390 Village Blvd.
Princeton, NJ 08540

Re: Request for Comment: 2009 NERC Business Plan and Budget

Ms. Spolar:

This letter is provided by Dominion Resources in response to the Request for Comment: 2009 NERC Business Plan and Budget included in your email of April 24, 2008.

Dominion Resources supports the SERC Board Policy Inputs to the NERC Board of Trustees dated April 30, 2008. Dominion shares the concern of the SERC Board that the continuing expansion of ERO activities competes with internal budgets for reliability management activities and places increasing pressure on staff at a time of increasing demands on the workforce. Dominion’s experience thus far with compliance and standards development is consistent with the stakeholder presentations provided to the MRC on May 6, 2008. Dominion believes that the first priority of the ERO at this time is to make sure its core compliance management and standards development activities are handled well, and urges that this be reflected in the priorities of the 2009 budget. Dominion supports the changes in the proposed budget that help to address these issues.

In particular, Dominion is concerned with the proposal to initiate a 24X7 monitoring and situation awareness center. Dominion believes that the reliability benefit of such a center is questionable and that the business case supporting implementation of this function is not sufficiently developed at this time to justify the level of expenditures proposed. If such a center is to be implemented, a much clearer picture of its scope, functionality, and cost is needed before its inclusion in the budget. In addition, Dominion is concerned that implementation of such a center may have adverse impact on the cost and reliability of system operation if such a center imposes additional burdens on Reliability Coordinators to provide information during times of emergencies. Dominion believes these issues must be fully explored before significant funding is approved, not after. As noted above, we believe there are higher priorities for ERO staffing and budgets at this time.

Thank you for the opportunity to provide this input.

Respectfully submitted,

Harold W. Adams, Jr.
Director – Electric Market Policy
Dominion Resources Services, Inc.
May 16, 2008  
Bruce Walenczyk  
Chief Financial Officer  
North American Electric Reliability Corporation  
116-390 Village Boulevard  
Princeton, NJ  08540  

Dear Bruce: 

On behalf of its member companies, Edison Electric Institute appreciates the opportunity to provide some general comments and observations on the draft 2009 NERC budget and business plan. 

Overall, EEI understands that NERC is aggressively seeking to satisfy multiple goals; maintaining the full range of legacy programs and activities that have served planning and operations functions for many years, and creating all the necessary structures and processes for building a strong Electric Reliability Organization (ERO) under Section 215 of the Federal Power Act. Industry participants are experiencing the same stresses, seeking to ensure that the ‘front office’ of planning and operations functions can be fully coordinated with the ‘back office’ of new documentation efforts for demonstrating compliance with the standards. As NERC and the industry move forward, it is critically important to not lose sight of the fundamental goal — maintaining bulk power system reliability in a cost effective manner. 

In this environment, as NERC and the regions seek a large increase in funding for 2009, EEI maintains its view that NERC needs to continue to focus its priorities on its core missions — standards setting and compliance enforcement, and reliability assessments. While the budget documents distinguish between NERC and the regions, a more explicit analysis may be useful in the budgeting process to ensure that NERC and regional activities are coordinated, no gaps or overlaps are being created, and stakeholders understand ‘who’ is going to accomplish ‘what’ going forward, especially in the core programs. Strong, clearly defined, and stable core programs will set a more durable foundation for a sustainable business platform. On this basis; 

- the proposed situation awareness center needs to be more carefully planned and discussed before NERC makes commitments to spend. There are legitimate needs to understand events as they are happening, there are equal needs to know ‘who’ does ‘what,’ and ‘when’ and ‘how’ its done. Without a much clearer plan, the cost of potential confusion and overlap could far outweigh the benefit of
entities’ improved awareness of any situation. As an alternative, it would be very helpful as a first step to develop clearer lines of communication with and coordination among federal agencies in considering whether and how NERC moves forward with a centralized situation awareness function. This should include clearer processes that describe the roles of functional entities, mainly Reliability Coordinators, in satisfying situation awareness goals,

- the situation awareness budget proposal also suggests generic long-term challenges that need a strategic discussion with stakeholders. While EEI understands that planning and operations entities strongly support the synchrophasor initiative, it is not a core program element at this time and raises several questions. As the core standards development and compliance enforcement functions of NERC continue to evolve, it will become increasingly important to ensure both the highest priority and independence of the core functions from other voluntary programs and activities. In addition, the funding and allocations of costs and benefits of non-core programs need to be carefully considered since not all users, owners, and operators participate in them,

- improvements in the LTRA and seasonal assessments continue to show strong progress to satisfy the requirements of Section 215(g). Adequate funding is critical at this time to sustain momentum, relieve the outstanding volunteer stakeholder efforts in a broad range of activities under the Planning Committee, and ensure that the improvement program is completed in a timely way,

- the readiness evaluation program has served an important purpose, it was one of NERC’s strongest responses to the 2003 blackout. Since that time, Section 215 has been enacted and mandatory standards and compliance enforcement have been put in place, including rigorous compliance audits. EEI understands that preparation for compliance audits is a significant resource intense activity, including mock audits, which may mirror the effect of a NERC readiness review. The resource burdens of readiness reviews brings into question the additional value provided by the reviews. If the readiness program contains needed training functions, NERC should consider moving them to the training and education program,

- in its third exercise as ERO, the NERC budget process continues to show improvement. EEI has a process suggestion. It could be useful in the future years for the document to provide out-year budget projections in order for stakeholders to better understand the implications of new programs and changing priorities. Consistent with the requirements for three-year business
plans for the program areas, a three-year projection should be included in the budget documents.

- EEI appreciates the daunting FERC-related workload and supports the proposed increases in the legal and regulatory program area. To better support NERC staff, EEI encourages NERC to increase its reliance on its new Legal Advisory Committee,

- NERC should further clarify its needs for proposed expenditures for the Compliance Monitoring and Enforcement Program (CMEP). Stakeholders have raised several concerns, including ambiguity in the standards, due process and ‘interpretations’ made for enforcement purposes, the allocation of responsibilities between NERC/Princeton and the regions, and the need for additional ‘before the fact’ assistance and guidance. A clearer roadmap for CMEP implementation is needed before committing additional resources.

Thank you again for the opportunity to provide these brief comments. Feel free to contact me if you need any additional information or have any questions.

Sincerely,

/s/

James P. Fama
Executive Director, Energy Delivery
FRCC POLICY INPUT TO THE
May 7, 2008
NERC BOARD OF TRUSTEES MEETING

The FRCC provides the following policy input for consideration by the NERC Board of Trustees at its meeting on May 7, 2008. While the FRCC continues to strongly support and endorse the concept of a self-regulated reliability organization, and commends NERC on their progress to-date in achieving important milestones to establish the ERO, we have the following concerns:

**Proposed 2009 Business Plan and Budget**

The FRCC echoes the comments of SERC and the NPCC in expressing our concern over the considerable expansion of staffing and costs of the ERO in 2009, which represents an approximate 46% increase over 2008. NERC’s budget increases are being compared to 2008 projections, not 2008 budget dollars, so the 2009 increase is even more than identified. We believe this is inappropriate. It should be compared to the approved 2008 budget. An increase of approximately 46% is unreasonable and is unsustainable for the registered entities year-to-year who are required to fund the ERO. The impacts of large increases in the ERO funding create an undue burden on the registered entities whose staffing limits and resources are already stretched beyond their limits, and who also have budgetary constraints within their own organizations.

The FRCC shares SERC’s concern that the preliminary budget proposes to expand into areas that should not be interpreted as statutory or necessary for an organization with reliability oversight responsibility. For example, NERC is proposing to initiate a 24/7 monitoring center which would be staffed by eight full time employees with access to real-time information across North America. Why? This concept has been discussed in the past and was considered impractical and ineffective. The FRCC does not support this proposed significant expansion to NERC’s Situational Awareness role and the related increase in the proposed 2009 budget to carry out this function. It is attempting to duplicate the existing responsibilities of Reliability Coordinators throughout North America.
NERC’s proposed 2009 budget includes an increase in consultant and contractor expenses from $3,906,860 to $8,204,270, representing approximately a 210% increase. In particular, NERC is proposing to spend $1.3 million to manage the SynchroPhasor project. The FRCC believes that this should not be under the direct management of the ERO and is exorbitant.

The FRCC does not support the proposed $4 million increase in the compliance program area as being consistent with the Regional Delegation Agreement model in which the vast majority of the compliance activity is conducted by the regional entities. We believe that readiness evaluations have declined in their value. The new and very rigorous compliance audits ensure both NERC and the regional entities have the opportunity to view the planning and operations of all registered entities. The FRCC, like SERC, supports eliminating onsite readiness evaluations and focus specifically on documenting best practices identified during compliance reviews and lessons learned from event analyses.

**NERC Role as the ERO**

The FRCC believes that NERC is limiting the role of industry stakeholders in providing expertise, leadership and involvement in NERC programs. NERC seems to be the driver and the industry stakeholders are in the passenger seat. We agree with SERC that from a stakeholder perspective, the industry is now being held at arms length, and the message is coming across that industry stakeholders are no longer a trusted partner in protecting the reliability of the bulk power system. While not intentional, this appears to be the message and goes against the concept of a self-regulatory ERO that the industry supported and helped make happen.

The FRCC believes that the current trend at NERC is for staff to lead activities and generate reports that lack industry perspective, when it should be the opposite. The FRCC strongly encourages and supports the use of stakeholder committees in providing effective and meaningful inputs, and that they take an active role in NERC’s statutory functions. We should all strive to promote openness and transparency in statutory functions, while maintaining strict confidentiality in areas such as alleged violations and compliance enforcement actions. The FRCC believes it is incumbent to allow registered entities to understand what is expected of them so that they can be well prepared and in compliance, as the ultimate goal is to increase reliability, not find them in non-compliance. Processes should be developed in an open and transparent manner in order to ensure and enhance reliability of the bulk power system now and into the future.
Montréal, May 6, 2008

Mr. Edward A. Schwerdt
President & CEO
Northeast Power Coordinating Council, Inc.
1515 Broadway, 43rd Floor
New York, NY 10036

Object: HQ TransEnergie’s position on 2009 NERC Business Plan and Budget Proposal and Cost Allocation

Ed,

As discussed, HQT would like to reiterate that NERC Business Plan and Budget Proposal lacks sufficient identified drivers and justifications to support the 46% increase and does not properly take into account the regulatory framework of HQT and other Canadian entities.

As you are aware, HQT is under the sole jurisdiction of the Régie de l’énergie du Québec and, thus, not of FERC and NERC. The Régie is in negotiation with NERC to sign a MOU under which the exact relations and participation in programs will be defined.

The Régie and other Canadian regulators seem to question the value to Canadian entities of many of the initiatives imposed by FERC to NERC and the regions. Canadian entities have always been very actively involved in compliance. It is not clear then why they should bear the costs of getting others entities up to speed.

It is also clear that many of the drivers for the increase are for initiatives that would not apply to HQT. One such example is the Compliance program for which an increase of 54% is proposed.

The budget and the cost allocation method should take these facts into account. NERC, and NPCC, have to come out with a proposal that reflect the reality that Canadian entities have always made great efforts in compliance and that they operate in a different regulatory framework.
Consequently, HQT cannot and will not support any budget and allocation method that do not reflect its regulatory framework. I, then, ask you to make all required representations to NERC to make sure that the allocation method for the funding of these programs reflects the reality of HQT. Of course, NPCC Business Plan and Budget Proposal, including the cost allocation, should also reflect this reality.

Should you require more information, please do not hesitate to contact me.

Best regards,

Isabelle Courville
President,
Hydro-Québec TransÉnergie

c.c. Members of the Board of Directors - NPCC
Jean-Paul Théorêt, Régie de l’énergie du Québec
Dear Mr. Sergel:

Introduction:

The IESO appreciates the opportunity to provide comments on NERC’s 2009 Business Plan and Budget, Version 1.1 (April 2008). We acknowledge NERC’s efforts to set out the comprehensive program backgrounds, objectives and goals in the business plan and appreciate NERC’s efforts at the recent budget workshop to explain the budget in detail.

NPCC Allocation Approval Process in Ontario:

The IESO is responsible for payment of ERO related cost for the province of Ontario through fees paid by end use consumers. While the Ontario Energy Board does not directly participate in the approval of NERC fees, the IESO must present its revenue requirements, which includes the NERC assessments, to the Ontario Energy Board for approval in late 2008. The IESO will need to defend any proposed increases in NERC fees as part of these proceedings. Since the IESO must convey its comments to NERC well before our provincial regulator will have the opportunity to review any NERC fees, it is particularly important that we have confidence in the rationale for increases in each of the program areas.

General Comments:

The NERC Business Plan proposes an overall budget increase of 46% over last year. The IESO believes that increases of this magnitude are unsustainable and unacceptable without suitable justification, including an explicit discussion of the consequences of alternatives, to permit a substantive debate. This justification should incorporate the consequences and risks of limiting or reducing the proposed increases through the identification of a number of budget scenarios (status quo, 10% increase, etc.). As an example, during a recent Finance and Audit Committee (FAC) meeting,
NERC stated that overall increases reflect an increase in “core services” and the industry must recognize that increases were considered in other areas but rejected, even though more staff was needed to fully implement the program’s goals. If this is the case, NERC should identify the specific risk to the industry of not increasing in these other program areas. Similarly, justification of any new initiatives, including the full multi-year program costs, must be provided to permit an informed debate. This exercise would permit the industry to review the initiatives, and compare the risks and benefits of alternatives in all program areas, and trade-offs between them.

The IESO also notes that in the business plan, NERC has not specifically addressed how the plan meets its strategic goals or how it incorporates earlier recommendations from the Members Representative Committee (MRC). Rather, the business plan appears to be built upon a bottom up approach with each program identifying its individual budget requirements. We suggest that the high-level recommendations of the MRC should be addressed in this Plan.

Although the plan presents a list of 2009 goals and objectives along with a discussion of additional resources required to meet those objectives, the IESO is concerned that some suggestions in the business plan duplicate existing IESO functions as well as other operating entities’ functions in terms of reliability and compliance. In Ontario, the regulatory framework in place is one that makes compliance with standards and rules mandatory. The Ontario framework continues to function effectively in setting and monitoring compliance with standards – and is backed up by a sanctioning authority. Furthermore, the IESO is concerned that many of the proposed program increases in the Plan are being directed by FERC and as such respond to US circumstances which may not be relevant to Canadian jurisdictions.

NERC should also be concerned with the ripple down effect of their program increases. It seems likely, given the preliminary NPCC budget, that the substantial increases in most NERC program areas will directly affect the programs carried out by Regional Entities. As a result, the industry may also see unacceptable increases through their Regional Entity fees.

Lastly, the IESO notes that NERC’s methodology in the Plan is to compare 2008 projections and the 2009 budget. We suggest that comparisons should be based on budgets not projections in order to provide an accurate assessment of the changes from the previous year.
Program Specific Comments:

Reliability Standards Program Resources:
- The funding attributed to this program seems reasonable due to the large standards effort.
- As discussed at the recent budget workshop we are concerned with the aggressive schedule that has been proposed for standards development and the toll that this will have on the industry participants and the quality of future reliability standards. We would therefore propose that the current schedule be re-examined.

Compliance Monitoring and Enforcement and Organization Registration and Certification Program Resources:
- NERC costs have increased alarmingly in this program area over the 2008 budget with the addition of seven staff. This seems excessive considering the majority of the activities are managed at the Regional Entity level.
- The IESO does not believe that any of these increases are required in order to address Compliance in Canadian jurisdictions given that the program’s 2009 objectives attribute the majority of effort at sustaining the new compliance, and organization and registration activities in the United States.

Reliability Readiness Evaluation and Improvement Program Resources:
- The IESO does not have issues with the proposed changes - however we question the overall value of the program in its current form. Although we recognize the benefits of identifying industry best practices, it remains to be seen how the existing program’s evaluations, based on post-Blackout recommendations, meet the industries needs. The IESO believes NERC should re-evaluate the program to examine less costly alternatives that truly permit best practices to be shared in a non-audit environment.

Training, Education, and Operator Certification Program Resources:
- The IESO acknowledges and accepts that the costs associated with reallocation of certain charges from General to Administrative to this Program results in the budget increase.

Reliability Assessment and Performance Analysis Program Resources:
- NERC costs have increased substantially in this area since 2006 and are driven by EPAct requirements in the United States.
• The IESO and other Canadian entities did not seek out additional Reliability Assessment reporting changes by NERC. These increases seem to be directed to support the ERO’s mandate, through EPAct 2005, to provide reliability assessments. The IESO is supportive of status quo efforts going back to 2006 funding levels, but we question increases beyond inflation in this program area.
• Similarly, the on-going support of TADS and GADs appears to be of limited value to the Ontario. In addition, the data collection represents some duplication for Canadian entities through current reporting to Canadian industry organizations. From IESO’s perspective, the main purpose of this reporting appears to be to provide information to U.S. authorities.

Situation Analysis and Infrastructure Security Program Resources:
• The IESO cannot support the substantial increase in this program area, which is effectively double last year’s budget including a doubling of the staff in this area.
• The IESO, like many others, does not support the addition of a situation awareness monitoring facility since we believe that NERC has not adequately assessed other options to meet what they understand to be FERC’s monitoring requirements. The inclusion of a real time monitoring centre duplicates many of the roles and responsibilities of the Reliability Coordinators (RC). NERC should consider improving coordination between these entities during significant system events rather than setting up a 24x7 monitoring facility.
• The IESO is also concerned about the additional burden that will be placed on RC’s if we are required to provide the requested information.
• We would recommend that NERC readdress the appropriateness of managing the North American SynchroPhasor Initiative (NASPI). It would seem that there are more appropriate industry players who could perform this work.
• In general, it appears to the IESO that the requirements in this program area are being driven by FERC requirements and as such should not be funded by Canadian entities.

General and Administrative:
• The IESO has no significant concerns in this area. We support NERC’s decision not to charge Canadian entities for the FERC required self-assessment.
Conclusion:

The IESO, and Ontario consumers, are willing to support the necessary costs to support an effective international reliability structure, however, the level of proposed increase is unreasonable and warrants further review, and hopefully, substantial reduction. We look forward to continued discussions.

Regards,

Original Signed by Nicholas Ingman

Nicholas Ingman
Manager – Regulatory Affairs
Independent Electricity System Operator

16 May 2008
The ISO RTO Council Standards Review Committee\(^1\) (SRC) provides the following comments on the 2009 NERC Business Plan and Budget.

As the representative group of North America’s ISO RTOs, we compose a majority of the Reliability Coordinators of North America responsible for the oversight of reliability on a wide area basis. We believe our interests are greatly impacted by certain proposals in the NERC budget.

**ERO Self Assessment**

There is no scope of work for $1.5 million for a FERC ordered self-assessment. It is not clear if this includes expenses for accumulating and gathering data and records to demonstrate NERC’s compliance to the FERC Order for the ERO, or whether this only for payment to an independent party to provide an “audit” of NERC. As registered entities subject to compliance reviews, the SRC believes there are significant costs to demonstrate compliance.

**Compliance Monitoring and Enforcement**

The SRC is concerned that NERC may be duplicating the efforts of the Regional Entities in the area of compliance monitoring and reliability assessment. The REs are likely to be increasing their budgets in this same area for 2009. NERC must assess in conjunction with the REs whether their increases overlap the responsibilities of the REs.

Increasing staff and costs to perform this function is becoming a concern. These audit teams are too large and there are too many items covered within a single audit. NERC should rethink how to conduct audits. These have real costs in terms of NERC staff and by the subject of the audit. In the industrial sector, one doesn’t sample every widget that goes down the production line. They take random samples of some things and measure all of the vital things. Audit teams should be smaller and rely more on sampling techniques as used in other industries. For example, audits could be done in 2-3 tiers:

- An administrative review prior to the audit.
- A streamlined on-site audit of a subset of the monitored standards.
- A deeper look if deficiencies are found.

**Situation Awareness and Infrastructure Security**

NERC’s 2009 budget for Situational Awareness comprises more than 19% of its total budget. Though a good portion of this budget is allocated to current NERC tools, the

\(^1\) ERCOT is a member of the SRC but is not a participant to these comments.
stage is being set in 2009 for far more extensive growth and expenditures in this non-
statutory function particularly the plan to establish a 24x7 grid monitoring center.

The fundamental issue with NERC’s plan for spending significant dollars to establish
24x7 monitoring is that NERC has failed to define the need for such a significant and on-
going investment. Lacking any specificity or scope, true costs to make this successful
will likely be unknown. Investments of $500K this year, and unforecasted amounts for
the future, expose the industry to an unknown financial liability for a project with ill-
defined reliability benefits. A much better approach would be for NERC to first better
explain the need for increasing NERC’s situational awareness capabilities. This is
particularly important to ensure that all the Canadian provincial authorities, as well as
FERC, have a strong sense of the need. Then, NERC should develop a range of
approaches that could increase its situational awareness capabilities. There could be a
range of options from: (a) leveraging existing Reliability Coordinator capabilities to (b)
building a redundant monitoring center and possibly other solutions in between. NERC
can best justify the costs of whatever approach it ultimately selects if it develops a range
of options so that costs can be compared.

Additionally, NERC has pursued this significant extension of its responsibilities without
any kind of Technical Workshop or study with NERC, DOE, FERC and its RC’s to
discuss what the role of such a situational awareness monitoring center could/should be.
Such a Technical Workshop would identify efficiencies in addressing FERC, DOE, DHS
and other governmental entities’ needs and interests in having real-time information
about the state of the electric grid. Redundant systems with dissimilar information will
lead to confusion and less situational awareness about the state of the grid.

There are other aspects of situation awareness NERC should include in its 2009 Business
Plan and Budget. NERC should consider more clearly defining the ISAC role in terms of
an Emergency Response Team, such as is the case with the Department of Energy’s
Computer Incident Advisory Capability Team (CIAC) and the emergency response team
at Carnegie Mellon. NERC should also more strongly reinforce the need for additional
work force with necessary skills. With regard to this latter item, NERC should
acknowledge that it will likely need to reach outside the industry to gain initial expertise
and experience in ISAC (and emergency response team) skill sets.

NASPI

We believe this technology will make a valuable contribution to reliability and should be
supported. A joint task force sponsored by the OC-PC should work with the designated
NERC project manager and the NASPI leadership for a thoughtful transition from the
current “proof of concept” effort to a viable production environment.

Readiness Reviews

Since becoming certified as the ERO, there are now regularly scheduled compliance
audits in place, NERC should scale back on the number of readiness reviews or extend
their periodicity. Readiness reviews should focus on those entities that have never been through one. NERC should extend the periodicity to do them every 5 years. In order to make them more valuable to the entity, allow the subject entity select from a “menu” those things that should be the focus (where they’d like some extra help). Get real experts rather than people that fill a slot in an urgent request for volunteers. NERC should develop some type of best practices forum to make the recommendations available to industry.

Standards Development Process

NERC should identify cost drivers in the Standards Process so that it can more focus its costs and efforts with a prioritization to what is most critical to the industry today:

Separate standards related costs into the following areas:

- Industry sponsored new standards.
- Recurring costs (5 year review). Streamline this process if there are few changes to be done to a given standard.
- Those standards efforts driven by REs, NERC or the Commission.

NERC should streamline the existing standards:

Streamline the standards over time to the true core requirements that support reliability. The first step of this could be done by flagging the most important of the existing requirements in a database provided to the industry. We do not believe the current 3 Year Standards Work Plan addresses this. These vital requirements would be the most actively monitored in the compliance process. Shorter, simpler standards would be easier to maintain and monitor. If the standards and compliance to those standards are focused on the core requirements, there are fewer things to audit, monitor and maintain. Industry should be focused on meeting objectives on the things that contribute most directly to reliability.
NPCC Stakeholder Comments for Submission by 5/16/08
on the Draft #1.1 NERC 2009 Business Plan & Budget

NPCC has compiled the comments made by its international constituency representing input from stakeholders throughout Northeastern North America. These comments are submitted in answer to NERC’s posting, request for industry input, and for use by the NERC Finance and Audit Committee and the NERC Board of Trustees.

The comments to the NERC “Draft #1.1 2009 Business Plan and Budget” are summarized with comments of a general nature, as well as program area specific comments which were submitted to NPCC repeatedly.

General comments from stakeholders within Northeastern North America include:

1) Projects presented in the draft need to be prioritized around NERC’s core business of reliability standards development, compliance monitoring and periodic assessments of the reliability and adequacy of the bulk power system in North America.
2) The draft lacks sufficient identified drivers and justification throughout each program area to justify a projected +$1 million overrun in 2008, and to support an approximate $12 million unacceptable and excessive increase (46% over 2008 Budget).
3) There is strong opposition to the magnitude of program increases from stakeholders in the Northeast.
4) Personnel increases must be clearly identified so the industry can assist NERC in reprioritizing and potentially reducing some of the 13 open positions in 2008 included in the draft. In addition, there is little to no analysis or justification with regard to the proposed addition of 15 FTEs for 2009.
5) Increases should be reported on the basis of the actual 2008 budget to projected 2009 budget to identify real growth from 2008 to 2009.
6) The development of projected percentage increases/decreases for the years 2010 and 2011 would be helpful to both the industry and the regional entities so that future expectations can be well managed. Northeast stakeholders are looking for examples of how future budgets will be reduced/contained through efficiency plans, process improvements, re-prioritizations, and specific initiatives.

Comments on the Reliability Standards Program include:

1) The program has stretched the industry’s ability to develop quality standards to the breaking point. NERC needs to re-focus on the quality, not quantity of standards.
2) The proposed $100,000 for conferencing capability for standards meetings held in hotels is short-sighted. NERC should look to a more effective and efficient solution.
3) NERC should encourage early FERC and Canadian governmental/regulatory authority involvement in the standards development process, as it is more desirable than notices made once the standards have been balloted for approval.

Comments on the Compliance Program include:

1) The proposed +$4 million increase (54% over 2008 Budget) in the compliance program is inconsistent and duplicative with the Regional Delegation Agreement model in which the majority of compliance activity is conducted at the regional entity level. Each of the steps in the compliance process needs to add reliability value and benefits such that a) the industry adds value through compliance attainment by registered entities; b) the regional entities add value through regional monitoring and enforcement activities for compliance; c) the NERC staff oversight activities add value through consistency; and, d) the NERC Board Compliance Committee adds value through provision of policy direction. NERC compliance activities should focus on oversight.

2) There is strong opposition to the magnitude of compliance program increases from Canadian stakeholders in the Northeast.

Comments on the Readiness Evaluation Program include:

1) The reliability readiness evaluation program, as a follow-up to the 2003 Blackout, was a valuable pre-cursor to mandatory standards and a comprehensive compliance monitoring and enforcement program. The readiness program no longer adds significant reliability value, and should be discontinued in 2009.

Comments on the Training, Education, and Operator Certification Program include:

1) The maturity of the NERC operator certification program is not reflected in cost containment for the 2009 training budget.

2) NERC must coordinate with the regional entities to avoid duplication of effort.

3) NPCC does not support consultant development of 10 new “learning activities”.

Comments on the Reliability Assessment and Performance Analysis Program include:

1) The need and value of the Generating Availability Data System (GADS) and the Transmission Availability Data System (TADS) programs is questioned, as well as the budgetary increases for 2009 associated with these efforts.

2) More analysis is required prior to contracting for software development and if contracts were to ensue, cost overruns should be avoided through close monitoring.

3) NPCC supports NERC’s potential role as an industry spokesperson on the reliability impacts of possible U.S. Federal climate change legislation, but does not support the $250,000 estimate for consultant assistance as the industry can provide that expertise.

4) NPCC does not support a NERC role in analyzing and identifying improvements to the interaction of the transmission system with nuclear plants.
Comments on the Situational Awareness Program include:

1) NERC, working with Reliability Coordinators, should explore alternate strategies regarding situational awareness as the proposed expansion in scope and costs is unwarranted and could result in operational uncertainty. The proposed Situation Awareness room is not mandated and is deemed duplicative of the well established and well integrated Reliability Coordinator role in the region and sets the industry on a path toward 24/7 staffing for the 2010 NERC Business Plan and Budget. There has been no reliability value identified for this resource intensive project.

2) No control or switching capability can or will exist in a Situation Awareness monitoring center. The data which is proposed for display at NERC will do no more than mirror the most basic operational parameters.

3) Stakeholders in the Northeast do not support the proposed NERC Situational Awareness Tool and reiterate that existing, real-time operational reliability support services, such as ACE monitoring and Real-Time System Flows, should be utilized to satisfy any data requests. The Northeast views such a tool, which proposes to display information (ie. raw operating data interpreted by Reliability Coordinators) as burdensome and without adding reliability value.

4) NERC’s management and Eastern Interconnection funding of an Eastern Interconnection SynchroPhasor Initiative is supported in Northeastern North America so long as a business case is developed by NERC’s project manager and approved by the Operating Committee prior to the expenditure of funds.

Comments on the Legal and Regulatory Program include:

1) The inclusion of $1.5 million with regard to industry self-assessment for 2009 is not supported by documentation or specific deliverables. NERC and regional entity coordinated development of metrics and performance evaluation parameters for such a review activity would provide an effective and efficient assessment process which could be delivered at a fraction of this self-assessment estimate.

Submitted 5/15/08
May 15, 2008

Mr. Bruce Walenczyk  
Chief Financial Officer  
North American Electric Reliability Corporation  
116-390 Village Boulevard  
Princeton, New Jersey 08540-5721  

RE: ReliabilityFirst Comments – NERC 2009 Budget and Business Plan

Dear Bruce:

On behalf of ReliabilityFirst Corporation and its Board of Directors, we wish to thank you for the opportunity to review the draft 2009 NERC Business Plan and Budget. ReliabilityFirst has two major comments that we would like to share. We want to stress that these opinions may not be reflective of every ReliabilityFirst member, but rather are being submitted on behalf of the organization and its Board.

1. The oversight model embodied in the Business Plan (and Budget) appears duplicative with efforts delegated to the Regional Entities. Throughout the report, but especially in the compliance and enforcement areas, the ERO oversight of activities delegated to Regional Entities under the Delegation Agreements appears to consist of constant monitoring and some duplication of effort. ReliabilityFirst recognizes that a high degree of monitoring and collaboration must exist as the SRO model is initially implemented, but was always under the impression that as the model matures, monitoring and oversight could be relaxed greatly.

For instance, is it necessary in the long run to expect NERC compliance staff to attend every audit conducted by Regional Entities operating under NERC’s delegated authority? To attend every investigation? To spend up to a week auditing Regional programs? To review and approve every mitigation plan for a confirmed violation of a reliability standard? Continuing NERC’s present practice in this area increases staff costs and travel expenses while the benefits are not apparent.

If NERC compliance staff were available to assist Regional Entities and supplement Regional Entity staff during cycles of high workload, that would be of great benefit. But to date, NERC staff participating on compliance audits has
been directed to maintain an independent observer status, rather than act as active audit participants under direction of the Regional Entity audit team leader.

ReliabilityFirst encourages NERC to examine more efficient ways to conduct its necessary and appropriate oversight of the Regional Entities short of duplicating their efforts. ReliabilityFirst stands ready to assist NERC to identify other areas in which efficiencies in NERC/RE activities could reduce duplication and overall costs, while providing the same or better level of service.

2. The proposed situational awareness effort scope and benefit is unclear. ReliabilityFirst clearly understands that the ERO has a situational awareness function and that certain expectations are being placed upon NERC regarding access and dissemination of important bulk power system information. We do question whether the proposal in the Business Plan is the most effective and efficient way to accomplish this goal. Rather than create systems, facilities, and staff that would monitor this information, can NERC leverage the efforts of those already routinely performing these functions to meet its situational awareness objectives? These objectives, by the way, are not entirely clear in the Business Plan. Perhaps a better understanding of what NERC needs to accomplish may help the industry and NERC develop an appropriate solution.

Thank you for your kind attention to these comments.

James R. Keller, Chairman

Timothy R. Gallagher, President

JRK:TRG/cjc
May 13, 2008

Comments on NERC Proposed 2009 Business Plan and Budget

SERC Reliability Corporation, on behalf of its members and funding load-serving entities, provides the following comments on NERC’s proposed 2009 Business Plan and Budget.

Overall Cost Increase

The proposed expansion of staffing and overall costs of the ERO in 2009, an increase of 47% above 2008, exceeds the threshold of reasonableness and is unsustainable year-to-year by the entities required to fund the electric reliability organization (ERO). The assessments for NERC and regional entity budgets typically come, at least in the near term, directly from operating and maintenance budgets of load-serving entities. These increasing costs compete with internal budgets for equipment and staff in the field necessary to make the system more reliable.

It is understandable that operating costs increased as NERC transitioned from a voluntary organization to its new responsibilities as the ERO. However, it would also be expected, given the focus of the ERO on statutory functions, that NERC should reach a stable growth rate fairly quickly. The figure below shows that NERC’s operating budget has not reached a sustainable plateau and is experiencing a growth spurt rather than a leveling effect.

NERC Operating Costs 2004 – 2009

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<thead>
<tr>
<th>Year</th>
<th>NERC $</th>
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<tr>
<td>2004</td>
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<tr>
<td>2005</td>
<td>$15,000,000</td>
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<tr>
<td>2007</td>
<td>$20,000,000</td>
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<tr>
<td>2008</td>
<td>$25,000,000</td>
</tr>
<tr>
<td>2009</td>
<td>$40,000,000</td>
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</tbody>
</table>

Charles White
SERC Chairman
South Carolina Electric & Gas

William Ball
SERC Vice-Chairman
Southern Company Services, Inc.

Terry Blackwell
SERC Secretary-Treasurer
South Carolina Public Service Authority
Furthermore, SERC notes that the business plan is lacking for the following reasons:

- Newly proposed initiatives expanding beyond the basic provision of statutory functions have not been justified with regard to reliability benefit compared to cost;
- There is no indication that initiatives have been prioritized to determine if some should proceed and others should be deferred or dropped; and
- There is no indication of the total downstream costs of initiatives in the out years.

**Impacts on Industry and Regional Entities**

The impacts of large increases in ERO scope are further exacerbated by the fact that every expansion at the ERO creates pressure for similar expansions at regional entities and increases the burdens on registered entities, which are already stretching beyond their staffing limits, to respond to ever broadening program requirements.

**Expansion beyond Statutory Activities**

In several areas, the preliminary budget proposes to expand into areas that should not be interpreted as statutory or necessary for a quasi-regulatory organization charged with reliability oversight. An example is the proposal to initiate a 24X7 monitoring center staffed by eight employees with access to real-time information from across North America. A similar concept of a North American-wide reliability coordinator has been considered in the past, but has been dismissed as impractical and ineffective. A 24X7 bulk power system monitoring center may even be viewed as placing NERC in conflict with its reliability oversight role. There are more sensible and cost effective alternatives to ensuring NERC and FERC have timely access to elevated risk conditions or system events.

A second example of this jurisdictional dilemma is the proposal for NERC to manage the SynchroPhasor project at a cost of $1.3 million on 2009. SERC does not dispute that this project will provide valuable information for monitoring bulk power system conditions and analyzing system events. However, the project is essentially an upgrade of the bulk power system infrastructure, aspects of which are covered by the mandatory standards that NERC has been charged with enforcing, and should be left to the jurisdictional bulk power system owners and operators to develop. NERC should solicit alternative approaches to managing this project.

**Declining Value of Onsite Readiness Reviews**

Readiness evaluations, an initiative stemming from the 2003 blackout, have declined in value following the recent completion of the initial review of all transmission operators, balancing authorities, and reliability coordinators. The new rigorous regime of compliance audits ensures NERC and regional entities have a regular opportunity to view the operations and planning of all registered entities. An onsite readiness review can only be viewed as redundant despite efforts to draw distinctions from compliance audits. This program should be remodeled, by eliminating the onsite readiness reviews and instead focusing on alternative approaches to documenting best practices and lessons learned from event analyses. Alternatives include allowing entities to submit best practices for verification and publication by NERC, allowing compliance audits teams to refer exceptional practices to NERC for follow up review and publication. These approaches would be compatible with NERC's recent merging of the readiness evaluation and reliability performance evaluation functions. What we need to eliminate are the onsite reviews that duplicate compliance audits.

May 13, 2008
Insufficient Business Case for Contractor Expenses

SERC is particularly concerned about the proposed increase in consultant and contractor expenses from $3,906,860 to $8,204,270 in 2009, an increase of 210%. The $1.5 million proposed for NERCs’ self-assessment appears to be excessive.

Alternatives to Contain Travel and Meeting Costs

Finally, the proposed increase in travel and meeting costs from $2,206,200 to $3,720,495, an increase of 68.6%, is unreasonable and is not commensurate with price increases in the travel industry. NERC should consider an even more aggressive move toward use of webex and conference calls, as well as use of regional entity facilities and other economical alternatives. Faced with exponential growth in travel and meetings, NERC should shift to less costly alternatives to getting the job done.
May 16, 2008

VIA ELECTRONIC MAIL
Mr. Bruce Walencyzk
Chief Financial Officer
North American Electric Reliability Corporation
116 – 390 Village Boulevard
Princeton, NJ 08540

Re: Comments on NERC’s Proposed 2009 Business Plan and Budget

Dear Mr. Walencyzk:

On behalf of Southern Company Services, Inc. (“SCS”), I am writing to share our views on the proposed NERC 2009 business plan and budget (version 1.1). We appreciate this opportunity to provide feedback on this important matter as well as your continued interest in stakeholder input.

SCS understands that NERC is seeking to meet its obligations under Section 215 of the Federal Power Act and is working, along with all industry participants, to maintain reliability of the bulk power transmission system. SCS proposes that NERC proceed to meet its goals by focusing more on programs that meet the core mission related to reliability and insuring that staff expansion and commensurate cost increases are reasonably and responsibly budgeted.

A review of the business plan and budget highlights the following items of note to SCS:

- Although NERC is transitioning from a voluntary organization to its responsibilities as the Electric Reliability Organization (“ERO”), the proposed sharp increase in operating costs from the 2008 budget merits a review of all projects to insure that NERC’s activities focus on the core mission in our view. Certain budgeted activities do not appear to be necessary to meet the goals of the ERO and should be deferred or deleted. As an example, a 24X7 monitoring center gathering real-time information is not necessarily a requirement for an organization charged with reliability oversight. SCS notes that this initiative
would create a “monitoring” role and is not focused on NERC’s core responsibility to establish reliability standards and ensure compliance with such standards.

- In addition, certain existing programs should be reviewed in order to evaluate their relevance to the current core mission. For example, readiness evaluations were implemented after the 2003 blackout and have served a useful purpose. However, with the implementation of mandatory standards and compliance enforcement, more energy has been focused on compliance audits and the effectiveness of readiness evaluations has diminished. NERC should consider an initiative to reduce or eliminate its efforts and costs associated with these reviews.

Detailed comments on the proposed 2009 business plan and budget are being submitted separately by, among others, SERC Reliability Corporation (“SERC”) and the Edison Electric Institute (“EEI”). SCS is a member of both of these organizations and in general expresses its support for the comments of both SERC and EEI.

We appreciate the opportunity to share our views on these matters. If you have any questions, please do not hesitate to contact us.

Regards,

B. L. “Pete” Ivey

cc. David Whitely
    David Cook
Comments on Proposed NERC 2009 Budget for the Reliability Standards Program

As a result of the discussion that ensued at the May Member Representatives Committee regarding Reliability Standards Development and the priorities for 2008 and beyond, the NERC Standards Committee discussed the specific issue of expanding the skill set of and resources available to standard drafting teams. This consideration reflects the current needs of the industry process to develop standards that are (i) clear, objective and technically sound, and (ii) meet the expectations of FERC and other regulatory authorities for enforceable, mandatory standards that subject violators to significant financial penalties. This point is further embodied in the following two program objectives found in Version 1.1 of the NERC 2009 Business Plan and Budget, under the Reliability Standards – Process Improvement section:

“Assign, as required, regulatory or legal expertise to drafting teams to assist in developing standards requirements and measures that are legally defensible.”

“Assign, as required, a professional technical writer to develop reliability standard language based on input from the drafting team.”

NERC’s Standards Committee has endorsed these objectives and believes their implementation to be vital to the future development of reliability standards in an efficient and effective manner. However, we are concerned that no specific consideration is given to additional NERC staff resources to support these objectives. It is our opinion, based on concerns expressed earlier by the Standards Committee that additional legal staff resources dedicated to support standards development should be included in the 2009 budget to fully implement these program objectives. The efficiency and effectiveness of the drafting teams would definitely be enhanced through the efforts of a highly skilled lawyer whose primary responsibility would be to resolve the final wording of a proposed standard before it is submitted in final format for balloting and approval. In addition, this staff legal position could lend valuable support to timely development of standards-related regulatory filings, including the transmittal letter and explanation of the standards drafting team’s responses to Commission directives. Dedicated staff would ensure a better integration of technical and regulatory considerations in the standards development process and make more efficient use of time committed by SDT volunteers.

Scott Henry
Chairman, NERC Standards Committee

Allen Mosher
Vice Chairman, NERC Standards Committee

May 16, 2008
May 16, 2008

Richard P. Sergel, President and CEO
North American Electric Reliability Corp.
116-390 Village Boulevard
Princeton, NJ 08540-5721

RE: Policy Input to the NERC Board of Trustees – 2009 NERC Budget Proposal

Dear Mr. Sergel and Members of the Board:

This letter provides additional follow up to comments made at the Members Representative Committee (“MRC”) Meeting and the Budget Workshop held on May 6-7, 2008 relating to concerns about the significant increases in the Proposed 2009 Budget. First, in the next iterations of the budget, it will be important to see a much more fiscally prudent budget, aligned with NERC’S critical priorities and accompanied by detailed cost justifications. I would also suggest that future budgets get scrubbed and vetted before dissemination to a wider audience—that is the responsibility of NERC management and would make our review as stakeholders more efficient and targeted. Second, I would like to thank NERC staff for their time and effort in answering our questions and providing further background on the NERC budget process and cost drivers. I found the budget workshop helpful in airing concerns from a variety of stakeholders and to hear NERC’s perspective on various areas of expansion.

As Consumer Counsel for the State of Connecticut, it is my responsibility to represent all utility ratepayers of the State. Certainly all ratepayers need and want reliable electric service and they are willing to pay all reasonable costs for that reliable service. It is these very customers that will shoulder the increased costs of NERC through the bills from their load serving entities. This is the regulatory compact we operate within and it therefore behooves NERC and all of us to make certain that all the approved costs in this 2009 budget are essential to maintaining the reliability of the bulk power system. That is the “business case” which Ms. Case, a member of the Board of Trustees, requested be developed and approved, an echo of similar requests by stakeholders at the MRC meeting the day before. A 47% increase to the budget is significant in ordinary economic times. Since these certainly are not good economic times, we must all require even sharper pencils and rigorous cost/benefit analyses. Businesses, government and households have to hold the line or cut budgets back significantly. Similarly, NERC must evidence a sensitivity to the reality we now face.

I am also in agreement with many of the important points raised in a letter dated May 5, 2008 from Mr. Gianneschi of Alcoa, relating to the areas of significant increases and the need for detailed justifications. In Connecticut, we require all our utilities to justify their expenditures based upon an economic or needs analysis. Many utilities have had significant reductions in their Return on Equity calculations in this current financial climate. It is also significant that the budget of the ISO-NE, a non-profit RTO serving New England, is under review by the GAO as a result of extraordinary increases since its inception and the expressed concerns voiced by many
of its stakeholders. Their budget has increased from $30 million in 1998 to $116 million in 2008 with some of the same cost drivers as in the proposed NERC budget.

As I shared with the MRC, Connecticut is currently dealing with an explosion of escalating costs, both at the state and regional level. Governor Rell has written our national leaders of concerns about gas and food costs; has ordered a travel ban on out of state travel for all state employees; is asking all state agencies to hold the line or cut costs. I believe the many voices raising concerns at the MRC Meeting were heard by NERC and hopefully the Board of Trustees. I trust we will see a much more fiscally prudent budget, reflective of NERC’s key priorities with detailed cost justifications. This will be critical to me as the state advocate for Connecticut’s utility ratepayers and many other stakeholders who have voiced concerns and who want to see evidence their voices have been heard.

Very Truly Yours,

Mary J. Healey
Consumer Counsel

Cc: M. Jodi Rell, Governor
Minutes
Finance and Audit Committee Conference Call

May 30, 2008
Conference Call

Chairman Bruce Scherr called to order a duly noticed open meeting by conference call of the Finance and Audit Committee of the North American Electric Reliability Corporation on May 30, 2008 at 3:35 p.m. As required by the bylaws of the Corporation, dial-in access was provided to members of the Corporation and the public for the meeting. A copy of the agenda is attached as Exhibit A.

A quorum was declared present. Trustees present on the call in addition to Chairman Scherr were Richard Drouin, John Anderson, Janice Case, Fred Gorbet, and Ken Peterson. Additional attendees are listed in Exhibit B.

Antitrust Compliance Guidelines
Chairman Scherr acknowledged NERC’s Antitrust Compliance Guidelines.

Review of Readiness Evaluation Program
In response to comments on the 2009 NERC Business Plan and Budget Version 1.1, which suggested the value of the program in its current form is diminishing, the Reliability Readiness and Evaluation program staff has developed a plan to refocus the program’s efforts from the current assessment-oriented evaluation process toward a needs-based assistance and cooperative-improvement model with as-needed consulting. The new proposal was presented for review and discussion and offered for inclusion in the 2009 NERC Business Plan and Budget Version 2.0.

NERC Executive Vice President David Whiteley introduced Jessica Bian, director of reliability readiness and benchmarking, to give a high-level view of the draft proposal for consideration. Seeking approval or concurrence, this draft of the proposal is being submitted for the 2009 NERC Business Plan and Budget Version 2.0 for further input from the stakeholders.

The proposal reflects a fundamental shift of the readiness program achieved by implementing an integrated help desk to which 50 percent of current readiness staff would be applied, in addition to implementing restructured evaluations. The remaining staff will be shifted to incorporate alliance and reliability excellence activities into the program, implement information-sharing and partnership initiatives, and support the evaluators.
The members of the Finance and Audit Committee asked questions which management responded to satisfactorily.

After much discussion, it was decided the proposal should be included in the 2009 NERC Business Plan and Budget Version 2.0.

**Future Meetings**
The committee agreed on the following dates and times for future meetings:
- June 6, 2008 conference call — 10 a.m. EDT
- July 11, 2008 conference call — 10 a.m. EDT
- July 29, 2008 meeting (Montréal, Québec)
- October 28, 2008 meeting (Washington, D.C.)

There being no further business, the call was terminated at 4:20 p.m.

Submitted by,

*Bruce E. Walenczyk*

Bruce E. Walenczyk
Chief Financial Officer
Antitrust Compliance Guidelines

1. Review of Readiness Evaluation Program
   a. Draft Proposal for 2009 NERC Business Plan and Budget Write-up
   b. Draft Proposal — Integrated Reliability Information Help Desk
   c. Supplemental Input — 2009 Budget — Readiness Evaluation Program

2. Future Meetings
   • June 6, 2008 conference call — 10 a.m. EDT
   • July 11, 2008 conference call — 10 a.m. EDT
   • July 29, 2008 meeting (Montreal, Quebec)
   • October 28, 2008 meeting (Washington, D.C.)

3. Other Business
### Exhibit B

#### Conference Participant Report
**Conf. Date:** 5/30/08  
**Conf. Time:** 2:30 pm CT  
**Company:** North American Electric  
**Leader:** Bruce Scherr  
**Conference ID:** 50075485

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**Page 1 of 1**
Finance and Audit Committee Conference Call
May 30, 2008

Readiness Program Review

There are 3 documents attached to the agenda as background for today’s call.

These documents include a draft proposal for a new approach in transforming the Readiness Program during the remainder of 2008 and 2009.

If I may, I would like to get to those in a minute, but first I would like to recognize Jessica Bian who has assumed the role of Director for the Readiness Program, Metrics and Benchmarking.

We combined the Readiness Program with the Metrics and Benchmarking Program, which Jessica led, following the retirement of Rich Schneider.

Bringing the rigor, data, and analysis of metrics and benchmarking work together with a forward looking program like the Readiness review program, made sense as a way of bringing additional value to entities being evaluated.

Jessica holds a PhD in EE and comes to NERC most recently from PJM, and formerly ERCOT.

Jessica took the lead on developing the documents in front of you today and the discussion of the new approach we will be talking about – of course, all the while running the combined Readiness and Benchmarking program’s day-to-day activities.

What you have before you is an extension and advancement of concepts embodied in the earlier draft of the 2009 BP&B.

They are also in response to the comments we received about the Readiness Program from that earlier draft BP&B.

With your agreement Mr. Chairman, I would like Jessica to describe the three documents in general, and then highlight the key elements of the new proposal for draft 2 of the BP&B.

-> draft Z - put this in to seek input

-> Gayle & OC - working with them & continue.
Excerpt from Draft 2.0 of the NERC 2009 Business Plan and Budget

“In this version 2.0 of the 2009 NERC Business Plan and Budget, 2008 projected personnel, meeting, and operating expenses are $966,379 below such expenses in the 2008 projection included in version 1.1. This is primarily due to the elimination of four FTE positions (two in readiness to reflect a refocusing of the program efforts and one each in compliance and reliability assessments) and a reduction in expected meeting costs resulting from greater utilization of conference calls rather than in-person meetings, limiting meeting locations to places where lower, pre-negotiated rates are available, and reduced travel costs for NERC staff by holding a greater percentage of meetings in Princeton.” [Emphasis added.]

“Meeting expenses were reduced by $1,002,702 in Version 2.0. At $2,717,793 this continues to represent a relatively sizeable portion of the total budget. In order to achieve this level of spending for meetings and travel, which represents a 23 percent increase over the 2008 budget and a 6 percent increase over the 2008 projection, NERC intends to require preferred hotels with pre-negotiated rates be utilized for all meetings, more meetings be held in Princeton, and a greater percentage of meetings be conducted via conference calls, WebEx, or a similar medium.” [Emphasis added.]
NERC Committee Chairman and Vice-Chairman:

Following comments at the May 2008 Member Representatives Committee on the first draft (version 1.1) of the 2009 NERC Business Plan and Budget (BP&B) there has been a great deal of discussion about how NERC structures all of its meetings. These discussions are among many taking place to search for creative solutions to reducing the projected budget increases. As an example, the Board of Trustees and Member Representative Committee leadership have engaged in a discussion about improving the efficiency and productivity of their meetings, while maintaining a high level of cost consciousness. On behalf of the Finance and Audit Committee of the NERC Board of Trustees, I ask that you undertake an effort to review how your committees’, and ultimately all of its subgroups, structure the times, agendas, and meeting schedules to reduce costs.

I would hope you will consider such actions as changing the structure of the meetings to more efficiently use the time available and shorten overall meeting duration, develop meeting agendas that efficiently use subgroup time and eliminate duplicate discussions and presentations, increased use of WebEx and conference calls particularly for informational items or “one-way” presentations, reduction in the number of committee subgroups, and potentially the committee organization structure itself. Attached is an excerpt from version 2.0 of the draft 2009 NERC Business Plan and Budget that is presently posted for stakeholder comment. This excerpt explains the steps taken to reduce meeting costs in the draft based on stakeholder comments.

NERC staff stands ready to help with this effort and provide input on topics such as logistic limitations and cost impacts, and to facilitate your work.

Thanks in advance for your effort to develop ideas that continue to achieve the goals of your committee at the same time reduce projected costs.

Sincerely,

Bruce Scherr

cc: Board of Trustees
MRC
NERC Management Team
Dear Bruce,

I have attached the Mandate to the Finance and Audit Committee Regarding the Readiness Program for your review.

We had trustees, management, and regions respond to my request for mandate topics. Karen and I chose the format of the mandate to establish broad topics without losing the specific input of those who chose to respond (in some cases with implicit views on their preferred outcome).

Open to additional thoughts or edits as always,

Rick

Karen A. Spolar
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North American Electric Reliability Corporation
116-390 Village Boulevard
Princeton, NJ 08540
(P) 609-452-8060
(F) 609-452-9550
(E) karen.spolar@nerc.net
www.nerc.com

6/4/2008
Mandate to the Finance and Audit Committee Regarding the Readiness Program

To Review the Readiness Evaluation Program and Reevaluate its Effectiveness in Meeting NERC’s Mission to Ensure Reliability

In doing so, the task force should consider the following:

Does the current readiness program really support increased compliance with NERC standards? Would an improved readiness program do a better job?

Are there alternative ways to conduct a readiness program that would achieve the most valuable parts of the NERC program, but at a lower cost?

What can we learn from other agencies/industries with serious reliability and safety concerns (e.g., airlines, nuclear power, chemical manufacturing, medical facilities) about how to manage readiness?

Can NERC avoid the concerns that a readiness evaluation will turn into findings of non-compliance and potential penalty?

Should NERC be engaged in helping Registered Entities understand better what they need to do to be in total compliance with Reliability Standards, or simply monitor, audit, and enforce compliance?

Can the objectives of the readiness and performance analysis programs be more efficiently achieved through alternative means other than onsite readiness reviews repeating every three years combined with compliance audits that also repeat every three years? E.g., can best practices be initially identified during a compliance audit with a follow up process to document the best practice?

Should NERC establish a process to publish nonbinding clarifications on the meaning and use of standards so that how standards are being interpreted within the compliance program is clearer to affected entities?
TO: NERC FINANCE AND AUDIT COMMITTEE  
RE: Response to Mandate – Readiness Program

Members of the Finance & Audit Committee:

I am submitting on behalf of the Regions our responses to questions outlined in the mandate to the Finance and Audit Committee regarding the effectiveness of the Readiness Program in meeting NERC’s mission to ensure reliability. The responses represent a consensus opinion among the regions in evaluating the effectiveness of the Readiness Program as it is today.

It is our consensus opinion that repeating the Readiness Evaluations as they are today is no longer useful. We feel that the Readiness Program should be evolved into a proactive reliability improvement program which prepares the industry to address new standards, requirements and emerging issues to improve reliability. This new program should help the industry prepare for new standards and address emerging issues.

We appreciate the opportunity to provide our opinion on the future of the Readiness Program.

SARAH S ROGERS  
President and CEO, FRCC  
On Behalf of the Regional Entity Management Group
Mandate to the Finance and Audit Committee Regarding the Readiness Program

To Review the Readiness Evaluation Program and Reevaluate its Effectiveness in Meeting NERC’s Mission to Ensure Reliability

In doing so, the task force should consider the following:

1) Does the current readiness program really support increased compliance with NERC standards? Would an improved readiness program do a better job?

Repeating the Readiness Evaluations as they are today is no longer useful. The Readiness program should be evolved into a proactive reliability improvement program which prepares the industry to address new standards, requirements and emerging issues to improve reliability.

2) Are there alternative ways to conduct a readiness program that would achieve the most valuable parts of the NERC program, but at a lower cost?

Yes, the new program should help the industry prepare for new standards and to address emerging issues. NERC should utilize lessons learned from event analyses and examples of excellence from compliance audits and metric/benchmarking to educate the industry on ways to improve reliability.

3) What can we learn from other agencies/industries with serious reliability and safety concerns (e.g., airlines, nuclear power, chemical manufacturing, medical facilities) about how to manage readiness?

Yes, we can learn from the other industries but it needs to be narrowly focused (example: event analysis-how does NTSB perform event analysis?).

4) Can NERC avoid the concerns that a readiness evaluation will turn into findings of non-compliance and potential penalty?

Yes, by evolving the program into a proactive reliability improvement program that is forward looking and is driven by stakeholders.

5) Should NERC be engaged in helping Registered Entities understand better what they need to do to be in total compliance with Reliability Standards, or simply monitor, audit, and enforce compliance?

Part of the design and benefits of a Self Regulatory Organization is a commitment to self evaluation and improvement, raising the bar, while enforcing the rules. These are not inconsistent, but complimentary and a strength of the intended design of an SRO. Therefore, NERC should be helping the industry, not just simply monitoring and enforcing. The overarching goal is to improve reliability, thus a proactive program is appropriate.
6) Can the objectives of the readiness and performance analysis programs be more efficiently achieved through alternative means other than onsite readiness reviews repeating every three years combined with compliance audits that also repeat every three years? E.g., can best practices be initially identified during a compliance audit with a follow up process to document the best practice?

Yes. See response to question 2.

7) Should NERC establish a process to publish nonbinding clarifications on the meaning and use of standards so that how standards are being interpreted within the compliance program is clearer to affected entities?

Yes, this would help the entities understand the rules of the road. It would also help the regional entities be more uniform in their interpretations.
Agenda
Finance and Audit Committee Conference Call

July 11, 2008 | 10 a.m. EDT
Dial-In: 866-503-3045
Code: 54577784

Antitrust Compliance Guidelines

1. Minutes
   - May 6, 2008 Meeting
   - May 30, 2008 Conference Call
   - June 6, 2008 Conference Call

2. Regional Entity Budgets
   a. Comparison of 2009 expense budget to 2008 expense projection
   b. Expenses by program area (2009 budget versus 2008 projection)

3. Potential Changes to be Reflected in Version 3.0 of the 2009 NERC Business Plan and Budget — Approve Changes for Inclusion in Posted Version
   a. Recommended adjustments to revenue and expenses
      i. Adjust GADS pricing to achieve break-even
      ii. Chief Security Officer — adjust salary and start date
      iii. Increase uncollected assessment by $138k (from $127k to $265k)
      iv. Modification to cash reserve
   b. Comments from stakeholders on Version 2.0 and recommended changes for Version 3.0
   c. Readiness program (discussion)

4. Future Meetings
   - July 29, 2008 meeting (Montreal, Quebec)
   - October 28, 2008 meeting (Washington, D.C.)

5. Other Business
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<td>Reliability Standards Program</td>
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<td>Compliance Monitoring and Enforcement and Organization Registration and Certification Program</td>
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<td>Reliability Assistance Program (formerly the Reliability Readiness and Evaluation Program)</td>
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<td>Reserve Analysis 2008–2009</td>
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<td>Breakdown by Statement of Activity Sections</td>
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Reliability Assistance Program (formerly the Reliability Readiness and Evaluation Program)

Reliability Assistance Program Resources
(in whole dollars)

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Background
The NERC Readiness Evaluation and Improvement Program began in response to Federal Energy Regulatory Commission (FERC) directives following the August 14, 2003 blackout. The goal was to increase transparency on operating practices and to assess the industry’s overall preparedness to minimize the likelihood of another major blackout.

When FERC approved NERC as the Electric Reliability Organization and began adopting NERC Reliability Standards as mandatory in the United States, NERC created an associated compliance audit program. The readiness program, which had been asking compliance-type questions, shifted its full effort to encouraging entities to improve reliability performance and achieve excellence in their assigned functions and responsibilities.

The readiness program has been working with industry experts to conduct on-site evaluations of all balancing authorities, transmission operators, reliability coordinators, and other entities that support the reliable operation of the bulk power system in North America to determine their readiness to maintain safe and reliable operations. Final evaluation reports are posted on NERC’s Web site. A companion goal of the program has been to identify and promote examples of excellence within the industry.

Readiness evaluations have been conducted on a three-year cycle with approximately 50 to 60 evaluations completed per year. In 2007 and 2008, 50 and 51 evaluations were completed or planned, respectively. Program staff actively seeks industry feedback regarding the impact of the evaluations. To gauge value to individual entities, NERC sends a questionnaire to entities upon completion of an evaluation. Feedback from the current cycle indicates that entities benefit from the evaluations and seek better access to information about excellent industry practices. To reach out to industry experts, program staff has been working with members of the Operating Reliability Subcommittee (a subcommittee of the NERC Operating Committee) on a white paper to identify opportunities for program improvement.

Based on the portion of its professional/technical staff time, and other resources that it expects to devote to the Reliability Assistance Program, NERC estimates that it will spend 8.4 percent of its resources on this activity.
2009 Highlights
Based on experience and industry feedback, program staff has been developing future improvement plans to enable the program to provide further benefit to the industry. While feedback from entities that have participated in readiness evaluations has generally been favorable, industry comments on the first draft of the NERC 2009 Business Plan and Budget suggest that the value of the readiness program in its current form is diminishing; beginning in 2008 and continuing in 2009, the program will refocus its efforts towards a needs-based assistance and cooperative-improvement model. The current assessment-oriented evaluation process on a fixed three-year cycle will be replaced with as-needed consulting. The goal of this initiative is to improve reliability by helping the industry help itself. To accomplish this goal, the program will incorporate a mixture of general and specific assistance based on entity requests and NERC-identified needs:

Integrated Reliability Information Help Desk
A help desk staffed by reliability information specialists (current full-time evaluators) will provide the industry one authoritative source to answer questions regarding a wide range of reliability topics. The help desk will serve as an information resource for areas of particular concern: compliance and new standards, such as those for critical infrastructure protection.

Problem
Since being designated as the electric reliability organization, NERC has been inundated with questions and requests from registered entities, with most requests focused on what is needed to become compliant with a certain requirement(s) of a NERC standard. NERC’s Compliance Monitoring and Enforcement Program, in following with U.S. Government Accountability Office requirements to avoid conflicts of interest, will not answer these questions.

Benefits of implementing the help desk
- Stakeholders will have a single point of contact for answers to all their reliability inquires. (Currently, calls and e-mails are forwarded to designated subject matter experts within NERC. On occasion, stakeholders are instructed to find industry experts or consultants who can answer the inquiry. The current process does not ensure prompt, accurate, or complete answers.)
- Non-confidential correspondences will be posted on NERC’s Web site as a reference for industry participants.
- Due to a more efficient internal process, NERC subject matter experts and support staff will dedicate less time to information requests.
- NERC will be able to coordinate with Regional Entities on any similar functions to provide consistent, clear, and integrated information.

On-site Consulting for Small to Midsize Entities
The program will explore ways to implement confidential, on-site consultations to small to midsize businesses, with priority given to entities that request an evaluation and to newly registered entities. Consultation services will be totally separate from the compliance program.
Information Sharing — Positive Observations and Examples of Excellence
The program will implement a Web-based database to allow users to query for positive practices identified through the program. In addition, Webinars and reliability conferences (with industry trade groups) will be held to highlight examples of excellence, lessons learned, and industry trends.

Alliance Initiative
As opportunities arise, program staff will coordinate with new and existing groups committed to reliability — including sector forums, trade or professional organizations, and educational institutions — to leverage resources and expertise and avoid duplication of efforts. The program will work with alliance participants on specific issues and projects and encourage their participation in NERC’s assistance initiatives, such as the reliability information help desk, the information sharing project, and on-site consultations.

Strategic Partnership Initiative
The program will establish partnerships with manufacturing, engineering/design, and consulting firms to work cooperatively as critical reliability issues arise. The goal is to improve equipment performance and engineering design and promote reliability by developing protocols to address top causal factors and near misses identified through event analysis and benchmarking, as some of these issues are not covered by standards.

The catalyst for this change in the readiness program will be a reduction of the 50 to 60 yearly scheduled, broad-based evaluations to approximately 20 as-needed or risk-based evaluations. The 20 confidential, targeted evaluations will be based on the following events:

- Requests by entities seeking specific assistance.
- Needs or weakness identified through NERC certification requirements, events analysis, help desk, or benchmarking activities.
- Pre-operational assessments for certification of reliability coordinators (mandatory).

This focus shift will result in a reduced staffing need. The program will be able to eliminate two unfilled readiness evaluator positions (from the 2008 budget) and reduce or eliminate the need for the current supplemental contract evaluators through 2009. An occasional need for contractor support may be necessary if more than 20 evaluations occur.

The revised program work will be reallocated among existing program staff. The current full-time readiness evaluators will support all areas of the program, specifically implementing the restructured evaluations (two evaluators) and staffing the new integrated reliability information help desk (three evaluators). Remaining staff will incorporate alliance and reliability excellence activities into the program, implement information-sharing and partnership initiatives, and support the evaluators.

To leverage industry and staff talent, program staff will interact with the following groups to ensure the revised program accomplishes its initiatives:

- Regional Entities (to provide stakeholders with consistent, clear, and integrated information)
- NERC Operating Committee and its Operating Reliability Subcommittee (to acquire technical support and advice)
NERC’s Training, Education, and Personnel Certification Program (to develop courses and workshops requested by the industry)

Industry committees and member forums (to create useful excellent-practice guidelines for industry participants using identified examples of excellence)

A key aspect going forward will be judging program effectiveness. The program will continue to work with NERC’s Operating Committee to establish criteria for measuring program success and review the program against those criteria. Program staff members have been working with members of the Operating Reliability Subcommittee to help guide continuous improvement of the program. Efforts will focus on reviewing and discussing lessons learned and supporting information exchange within the industry.

NERC will also focus on evaluating and improving the effectiveness of the program and staff through a self-assessment process.

**Program Objectives**

- Create an Integrated Reliability Information Help Desk staffed with existing personnel to provide the industry one authoritative source to answer questions regarding reliability topics: compliance, standards, critical infrastructure protection, assessments, training, and assistance.

- Implement confidential, on-site consultations for small to midsize businesses, with priority given to entities that request an evaluation and to newly registered entities.

- Communicate positive observations and examples of excellence to the industry:
  - Inventory all examples of excellence and positive observations in a Web-based database to allow users to query for positive practices identified through the program.
  - Host Web-based conferences (Webinars) to highlight examples of excellence, lessons learned, and trends identified through the program.
  - Coordinate with industry trade groups to participate in technical conferences and share excellent industry practices.

- Create alliances, as appropriate, with new and existing groups committed to reliability — sector forums, trade or professional organizations, and educational institutions — to leverage resources and expertise and avoid duplication.

- Establish partnerships with manufacturing, engineering/design, and consulting firms as critical reliability issues arise.

- Conduct a self-assessment of the program and staff to judge effectiveness.

- Provide routine feedback to the standards program on deficient areas in existing reliability standards.

- Work with the Operating Committee to acquire technical support and advice.

- Work with the Training, Education, and Operator Certification Program to develop meaningful educational materials.

**Value Added**

The Reliability Assistance Program adds, or proposes to add, value to the industry in the following ways:
Proposed industry value based on new program initiatives:

- The program will implement an Integrated Reliability Information Help Desk to provide the industry with one authoritative source to answer questions regarding reliability topics, especially in the areas of compliance and new standards (such as those for critical infrastructure protection).

- In order to target specific entity needs, the program will offer confidential, on-site consultations to small to midsize businesses, with priority given to entities that request an evaluation and to newly registered entities.

- Based on entity requests made through the feedback process, the program will create a searchable Web-based database to allow users to review positive practices and examples of excellence identified through the program for potential implementation.

- The program will work to create alliances with reliability-focused organizations—such as sector forums, trade or professional groups, and educational institutions—to leverage resources and expertise and avoid duplication of efforts.

- To address top causal factors and near misses identified through event analysis and benchmarking for areas not covered by standards, the program will work to establish strategic partnerships with manufacturing, engineering/design, and consulting firms. The program will work to encourage improvements in equipment performance and engineering design and promote reliability by developing appropriate protocols to improve reliability.

- To encourage ongoing improvement, the program will hold Webinars (starting in July 2008) and reliability conferences (with industry trade groups) to highlight examples of excellence, lessons learned, and industry trends.

Industry value realized through implementation of former program initiatives:

The examples of excellence provide a valuable resource for the industry. The program identified these examples as being exceptionally effective in ensuring and protecting the reliability of the interconnected bulk power system.

- Nearly all entities evaluated between March 2007 and April 2008 (98 percent of respondents to post-evaluation questionnaires) reported that on-site evaluations were beneficial to their organization.

- Entities have either implemented or started work on 89 percent (75 percent implemented and 14 percent in progress) of the nearly 3,200 recommendations offered by readiness evaluation teams for evaluations conducted through September 2007. The recommendations are not mandatory.

- Industry volunteers who participate on evaluation teams regularly report they acquired valuable experience and knowledge during on-site visits.

While significant changes are proposed for 2009, the program mission remains the same:

- Promote operational excellence.

- Provide industry assistance to improve reliability.
### Reliability Assistance Program

Funding sources and related expenses for the reliability readiness evaluations and improvement section of the 2009 business plan are shown in the table below.

#### Statement of Activities

<table>
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<td><strong>Total Expenses</strong></td>
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<td>$1,661,684</td>
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</tbody>
</table>
Summary of Significant Variances — 2008 Projection to 2009 Budget

Funding Sources
- Funding for this program is only provided through assessments to LSEs or designees (mandatory in the United States).

Personnel Expenses
- No additional FTEs are requested for 2009. The 2008 budgeted staffing level was 12 FTEs. The 2008 projection and 2009 budget assume the elimination of two approved and unfilled evaluator positions, the transfer of one administrative assistant to the Situation Awareness Program, and the sharing of the remaining administrative assistant with the Training, Education, and Personnel Certification Program.

Meeting Expenses
- Estimated 20 targeted evaluations to be completed in 2009 versus 50 in 2007 and 2008.

Operating Expenses
- Consultants: Reduced consultant expense resulting from a refocus of program activities.
- Office costs: Cell phone and wireless broadband internet connections cards charged to appropriate departments instead of General and Administrative function.
Section B — 2009 Schedules

2008 Organizational Chart

Table 3

President & CEO

Administration

Standards 14
Compliance & Organization Certification 27
Reliability Readiness 8.5
Reliability Assessment & Performance Analysis 11
Training, Education & Personnel Certification 5.5
Situation Awareness & Infrastructure Security 6
Technical Committees and Members’ Forums 2
Information Technology 8
Human Resources 4.5
Legal & Regulatory 3
Finance & Accounting 5

Total 100.5

2009 NERC Business Plan and Budget — Version 2.0
Approved by Board of Trustees: XX, 2008
2009 Organizational Chart

Table 4
Policy Input to the NERC Board of Trustees - 2009 NERC Budget Proposal V2.0

We commend NERC for taking the first step in aligning the 2009 ERO budget with a more deliberate and critical review of the work that must be accomplished to provide adequate reliability of the bulk power system.

Improvements noted from version 1.1 include:

- Reducing the 2009 YOY budget increase by $3.8mm from $12.4mm to $8.6mm.
- Reducing the 2009 YOY FTE’s budget from an increase of 18 to 7.
- Reducing the 2008 EOY forecast from a 6% budget over run to 5%

These improvements reflect NERC’s efforts to more carefully determine its remaining 2008 activities and engage in a more realistic assessment of what it can accomplish in 2009.

There remains however, significant work to be done before the budget can be considered ready for presentation to the Board. We recommend the following changes as the next step in preparing the final budget.

1. Adopt the changes to the Reliability Assistance Program recommended by the Operating Committee – $1.5mm Direct Expenses – The task force within the Operating Committee that formulated the recommendation recognized the initial 2003 blackout mission that served as the basis for this program has been fulfilled. They also recognize that the proposed 2009 program lacks sufficient business justification and incremental value to warrant its implementation. But most importantly, they recognized supporting the current budget proposal would result in a serious underutilization of excellent staff resources needed elsewhere within NERC. Because the recommendation reflects a value based consensus of the working group regarding the best use of limited NERC resources to achieve an adequate level of reliability we suggest the Board adopt their recommendation as proposed.

2. Increase fees for the Training, Education and Operator Certification Program to cover 100% of its cost - $1.6mm Direct Expenses – this program relies partially
on fees and partially on regional assessments to fund its activities. Given many agencies do not provide their own certification and education programs it is questionable why NERC continues to do so. We believe it would be more appropriate for NERC to adopt the model where education and certification are provided by unaffiliated organizations. However, as an interim step to preserve valuable program content until a handoff is arranged, the fees should be increased in 2009 to cover 100% of the direct and indirect costs of the program. Once a group of suitable vendors has been selected for the purpose of providing these courses in 2010 and later the certification and education process can be transferred out of NERC and the budget line can be eliminated.

3. Situational Awareness and Infrastructure Security Program - $5.3mm Direct Expenses – Buried in this budget is the NASPI Synchro Phasor project which we objected to in our V1.1 budget protest. The V2.0 program explanation is quite vague on how much of the $5.3mm is intended for this program however the task list sufficiently identifies specific items indicating little or no substantial change from the V1.1 budget plan. We again insist that before NERC endorses moving the phasor project to the next stage of development, a thorough evaluation of the cost effectiveness of this project must be completed. A business case still has not been made proving the value of these devices in preventing the occurrence of reliability contingencies. Before end users are asked to pay what will ultimately be a very significant amount NERC has the responsibility to show a direct, measurable and verifiable improvement in reducing outages from the implementation of this program. There should be a significant reduction in the phasor project until the payback is firmly established.

4. Section B 2009 schedules –
   a. Table B-3 Meeting Expenses – Increases by Reliability Assessment and Performance Analysis and to a lesser extent the General Admin departments offset notable reductions by Standards, Compliance and Training. The only effective way to control these costs is to set a limit at or below the 2008 projection and we encourage NERC to do just that.
   b. Table 5 Reserve Analysis has not been updated to reflect the reduction in the assessment. While I am encouraged by the $700k reduction from V1.1 I am unsure how this change was arrived at leaving some question on its substance.

We recognize the ERO has made progress since the budget process began. However there remain numerous opportunities to eliminate and reduce proposed expenditures with no degradation in achieving adequate reliability. By taking advantage of these reduction opportunities the ERO can demonstrate its recognition that consumers ultimately pay for
these activities and the thoughtful stewardship of their money in accomplishing its mission is part of the NERC culture.

Thomas Gianneschi
Alcoa, Inc. - Energy Regulatory Affairs
NERC Operating Committee – Large End Use Electricity Customer
July 4, 2008

Mr. Rick Sergel
President and CEO
North American Electric Reliability Council
Princeton Forrestal Village, 116-390 Village Boulevard
Princeton, New Jersey 08540-5721

Dear Rick:

The Canadian Electricity Association (“CEA”) appreciates the opportunity to provide input with respect to the 2009 NERC Budget and Business Plan, Version 2.0. First, we commend NERC on their actions to reduce the proposed budget. Version 2.0 reflects a significant reduction from the earlier submission, and CEA appreciates the open and transparent process used by NERC to revise the budget.

CEA, however, remains concerned that the budget still reflects a 32% overall increase from 2008. We believe that increases of this magnitude are troubling particularly where many of the proposed program increases in the Plan are in response to FERC directives. While CEA remains committed to an allocation of NERC costs based on a net energy for load (NEL) basis, we will continue to work with NERC to develop a 2009 budget that is fair to all interested entities.

CEA looks forward to continuing to work with NERC in the ongoing development of the 2009 NERC Budget as well as budgets for subsequent years.

Yours sincerely,

Pierre A. Guimond
President and Chief Executive Officer
July 3, 2008

Mr. Bruce Walenczyk
Chief Financial Officer
North American Electric Reliability Corporation
116-390 Village Boulevard
Princeton, NJ 08540

Dear Bruce:

On behalf of its member companies, Edison Electric Institute (EEI) is pleased to offer additional comments on the draft proposed 2009 NERC budget and business plan.

As upward cost pressures continue to rise throughout the industry, EEI recommends that NERC keep in mind two fundamental principles in reviewing the 2009 budget. First, EEI encourages NERC to maintain various activities that provide stakeholders with opportunities to participate in the broad range of programs and activities. Ranging from standing committees such as the Standards Committee, Operating Committee, and Planning Committee, through the various task forces and working groups, the meetings and conference calls that support the enormous range of work being done needs to be sustained.

Second, EEI strongly recommends that NERC continue to emphasize its core scope and mission --- setting mandatory reliability standards and conducting compliance enforcement. An example of a program that may have some future value but should be considered and implemented more carefully is the proposed situational awareness program. In addition, EEI continues to recommend that readiness evaluation program, and the newly proposed reliability assistance program, needs more careful consideration. A valuable tool in the post-August 2003 environment, enactment of Section 215 and the setting of mandatory standards and compliance enforcement suggest that the readiness program may have fully served its purpose.
The proposed Reliability Assistance Program is a step in the right direction. Some modifications are needed.

In general, EEI supports the redirection of the current Readiness Evaluation program. As indicated in previous comments on the draft budget, the Readiness Evaluation program has served an important purpose, however, enactment of Section 215 and implementation of mandatory standards and compliance enforcement require a thorough re-thinking of the need for these activities.

The proposal also raises several issues that NERC should address as it designs the various processes and decides the level of resources needed to support those processes.

**First, NERC should provide non-binding advice upon request.**

EEI strongly believes that NERC should have a function, where a Registered Entity can seek non-binding advice in certain circumstances. Many companies are facing business decisions that involve significant capital and operating expenditures, or business organization decisions, where such decisions depend on interpretations of a broad range of NERC performance requirements in the reliability standards. Many performance requirements can be broadly interpreted. Some believe that practices that have been acceptable in the past are being called into question or being reinterpreted by compliance enforcement entities. NERC has yet to announce that it will provide a searchable database that allows entities to research non-confidential materials in audit or investigation outcomes for purposes of informing those business decisions.

As a result, having a clear understanding for how NERC has judged similar facts and circumstances in the past, or might view an entity’s prospective actions, can significantly influence that entity’s decisionmaking on how to most efficiently ensure its compliance. Such advice would significantly reduce an entity’s compliance risk, but more importantly, it would better ensure that clearer business decisions can be made sooner for ensuring the reliability of the Bulk Power System. As upward cost pressures continue in the electric industry, this function could assist in providing some relief by reducing or eliminating the need to make unnecessary or inefficient spending decisions. The non-binding advice function should be performed by the NERC compliance enforcement program.

However, NERC states in budget version 2.0 that most requests it receives pertain to ‘what is needed to become compliant with a certain requirement of a NERC standard,’ and states that its compliance enforcement program will not answer any such requests,
arguing that this would violate U.S. Government Accountability Office (GAO) conflict of interest requirements in the GAO auditing standards.1

EEI disagrees with this reasoning. Providing such non-binding advice will not impair the independence of the NERC compliance enforcement function. The GAO auditing requirements clearly allow auditing entities to provide a broad range of ‘non-audit services’ if providing such services does not impair the auditing entity’s independence.2 Such services include, for example, a) the provision of information or data to a requesting party without auditor evaluation or verification, b) developing standards, audit guides and programs, or criteria, and c) developing question and answer documents to promote technical understanding of standards. Under the interpretation of the GAO requirements made by NERC in the version 2.0 budget document, it appears that even the provision of a ‘help desk’ function and ‘on-site consulting’ would violate the GAO independence requirements.

Moreover, the GAO standards, including the independence requirements, apply to audit functions only, and not broadly to all facets of the NERC compliance enforcement program. Put simply, EEI believes that the independence of the NERC compliance enforcement program is not impaired by having NERC provide non-binding technical information and guidance in response to requests by Registered Entities, where such requests would seek to compare actions being considered by a Registered Entity with decisions made by NERC or a Regional Entity in a compliance action that contains similar facts and circumstances, or under hypothetical circumstances as presented in the request for non-binding advice.3 Again, providing non-binding advice and information does not impair the independence of the compliance audit function.

Finally, such a function at NERC would mirror a similar function at FERC. As you know, FERC is implementing a broad range of compliance assistance functions, including for example no-action letters, interpretations of various FERC compliance requirements, and various other support activities. NERC should consider the potential value of the FERC approach.

NERC should assign the development of the non-binding advice process to its Legal Advisory Committee with oversight from NERC General Counsel. Issues for consideration include qualifying criteria for seeking non-binding advice, the procedural details, and the general form and content of documents developed during the course of the process.

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1 NERC 2009 Business Plan and Budget, p. 29.
3 See Chapter 3, GAO Auditing Standards, July 2007 revision, Sections 3.02 through 3.29, pp. 29-47.
Second, the potential value of on-site consulting for small and mid-size entities is unclear.

The budget document does not clearly describe the scope and functions provided through ‘on-site consulting’ and, therefore, it is difficult to understand the potential value of such a service.

FERC Order 706 (Paragraphs 253-255) and 706-A (Paragraphs 33-35) require that NERC provide technical support to ‘relatively smaller entities’ for purposes of helping with the identification of Critical Assets under CIP-002. However, the scope of this proposed activity appears to go well beyond the CIP standards.

What is the scope of the consulting service? Does this include the CIP-002 support? Both regulators and stakeholders deserve to understand the nature of the service being provided, including goals and objectives, specific functions, and limits on activities.

Why must on-site consulting be confidential? Readiness evaluations are presently posted at the NERC website.

Why is the service limited to ‘small and mid-size businesses’? FERC does not limit the availability of this service in any of its orders.

In addition and depending on the scope of the function, EEI believes that entities seeking consulting service should pay for the direct costs incurred by NERC. In addition, information supplied to entities through this function should be posted to the NERC website.

Third, the ‘help desk’ function should be electronic.

EEI believes that the preponderance of ‘help desk’ questions relate to entities that are new to the NERC structure and processes, raising three issues. First, the number of such questions would likely decline as entities become more familiar with NERC. Second, the questions tend to repeat themselves and, third, the questions tend to not be of an emergency operational nature.

These considerations indicate that the ‘help desk’ function should be designed to emphasize a searchable database and an email inquiry system. An electronic ‘help desk’ will help to ensure that any information provided is consistent throughout the regions and over time. Reliance on a telephone-based process will create significant risk for inconsistent responses and a potentially inefficient use of personnel and, therefore, should be avoided. An electronic-based function can also be shared with Regional Entities, thus reducing the potential of an unneeded redundancy. EEI understands that off-the-shelf software is available to support this important electronic ‘help desk’ function.
Fourth, the NERC Rules of Procedure need to be revised.

In conjunction with the budget proposal and in accordance with Section 1400 of the Rules of Procedure, NERC staff should support a stakeholder group to include representatives of the OC, PC, SC, CCC, and Legal Advisory Committee, who volunteer to develop a proposal that includes a redline edited revision to Section 700 of the Rules of Procedure pertaining to the readiness program. References to the readiness program throughout the Rules of Procedure also require careful review and change. The Board of Trustees should set a specific deadline for the ROP changes.

The program should not be implemented until such changes are approved by the Board of Trustees and FERC. Doing this will help ensure that owners, users, and operators clearly understand the nature, scope and objectives, and general process that supports this important new program, and contribute to its design and planning. If needed, the 2009 budget should include specific budget resources to ensure timely completion of this complex task.

Fifth, the proposed Information Sharing database should be expanded.

The proposed Reliability Assistance program includes ‘positive observations and Examples of Excellence’ feature, an Internet-based database to allow users to query for ‘positive practices’ identified through the program. (Version 2 budget, p. 30) EEI recommends that the database be expanded to also include information on lessons learned from previous practices and experiences, where such practices may have resulted in unexpected or harmful outcomes. There is value in ‘negative’ experience as well as ‘positive,’ and this tool could assist in broadening such awareness.

The situation awareness function needs a business plan.

EEI appreciates that version 2.0 of the proposed 2009 budget has reduced expenditures for this program area in the amount of $350,000. EEI also recognizes the critical importance of this program area. Government agencies, industry participants, and media outlets, all seek various forms of information on the status of various events.

To ensure that the NERC situational awareness program area is thoughtfully planned and managed, NERC should develop a clear and comprehensive business plan. The plan should include scope and objectives, the kinds of process and procedures that will be used, how NERC will interact and coordinate with federal and state agencies, how NERC will handle relationships and coordinate with ISO/RTO entities, coordination with Regional Entities, the relationship between the NERC events analysis function and situation awareness, whether and to what extent the situation awareness function will conduct any data or information sharing, approaches to confidentiality, and the program
area’s relationship with compliance enforcement. NERC should postpone additional expenditures until a comprehensive plan is developed.

Development of the business plan will enable NERC to more accurately budget both monetary and personnel resources, gain stakeholder support, coordinate activities with the Regional Entities, and improve process efficiency. As the recommendations of the Real-Time Tools Task Force are implemented, a NERC/Princeton situational awareness function coordinated with a broad range of other related activities will well serve both the industry and the public.

Thank you again for the opportunity to provide these comments. Feel free to contact me if you have any questions or need additional information.

Sincerely,

James P. Fama
Executive Director, Energy Delivery
Edison Electric Institute
ELCON Comments on NERC’s 2009 Budget Proposal V 2.0

The Electricity Consumers Resource Council (ELCON) appreciates the opportunity to comment on the North American Electric Reliability Corporation’s 2009 Budget Proposal V 2.0. ELCON is the national association of large industrial electricity consumers. Reliability is of utmost importance to industrial electricity consumers. That is why industrials have participated directly in nearly every standing committee of NERC and been an active participant before NERC, FERC and the U.S. Congress on many electricity matters, including electric reliability.

Large industrial electricity consumers operate in fiercely competitive world-wide markets. Thus, costs are of great importance. Unnecessary reliability costs simply cannot be supported.

ELCON congratulates NERC for making significant improvements between V 1.1 and V 2.0 of its proposed budget. However, much more needs to be done. As such, we urge NERC to carefully consider the detailed comments of one of our members – Alcoa Primary Metals. Alcoa specifically recommends significant reductions in the Reliability Assistance Program; the Training, Education and Operator Certification Program; the Situational Awareness and Infrastructure Security Program; Meeting Expenses and Reserves. ELCON supports the Alcoa recommendations and urges NERC to incorporate them into its next Budget iteration.

Thank you for the opportunity to comment.

Sincerely,

[Signature]
COMMENTS ON NERC PROPOSED 2009 BUSINESS PLAN AND BUDGET
VERSION 2.0

The Florida Reliability Coordinating Council (FRCC) provides the following comments on Version 2.0 of NERC’s proposed 2009 Business Plan and Budget:

General Comments

FRCC applauds the NERC staff for responding to many of the comments from the industry regarding the Draft 1.0 NERC 2009 Business Plan and Budget. Significant progress has been made. FRCC lauds the NERC staff for proving the opportunity to comment on this much improved Draft 2.0 NERC 2009 Business Plan and Budget.

Meeting Expenses

NERC proposes in its 2009 Business Plan and Budget to hold more meetings in Princeton, thereby reducing travel expenses for NERC staff. While this may be a good idea for NERC staff only meetings, it puts an undue burden for the rest of regions in North America because it a difficult location to get to and costly. NERC should consider using regional entity facilities, and/or holding more meetings in a location that is easy accessible and less costly for both NERC staff and the regions. As currently proposed, the reduction in meeting expenses shifts the costs from NERC to the industry. We commend NERC for having more meetings via conference calls, WebEx, or a similar medium.

Compliance Monitoring and Enforcement

As NERC and the regions gain more experience with the CMEP, NERC’s hands on approach to participating in audits and decision-making should evolve into more of an oversight role. After the initial implementation of the CMEP, it is intuitive to expect less registration changes, fewer violations and mitigation plans. NERC proposes to add IT systems to enhance efficiency of registry and reporting, yet NERC is requesting to add additional personnel. The FRCC feels that the need for additional FTE’s in compliance monitoring is not justified well enough in the Business Plan and Budget.
Reliability Assistance Program

The FRCC applauds NERC for recognizing that readiness evaluations have served their purpose, and that it is time to revamp the program. We support a program to proactively help the industry improve reliability; however, we do not support the program as proposed. Repeating readiness evaluations as conducted today on a three-year cycle have outlived their usefulness and are burdensome to registered entities. However, FRCC believes that NERC does have a role in helping the industry to improve reliability beyond simply being compliant to the mandatory NERC and Regional Reliability Standards.

FRCC believes that NERC should migrate the existing Reliability Improvement Process into a program that utilizes the lessons learned from event analyses, metrics and benchmarking, and examples of excellence to educate the registered entities on how to improve reliability. To this end, NERC should devote staff to mining the event analysis reports for ways to improve reliability going forward. NERC should devote staff to analyzing the metrics and benchmark data to determine where examples of excellence exist and to share these examples with the registered entities. Additionally, if the compliance audit reports evolve to the point of identifying entities that have risen above the norm in developing methods to meet or exceed reliability standards, NERC staff could also share these examples as well. Utilizing a concept such as this, NERC could continue to add value to the industry by proactively identifying ways to improve reliability in North America, beyond simply achieving compliance with the mandatory reliability standards.

Situational Awareness

The FRCC applauds NERC for scaling back in the area of situational awareness. We feel it is important that NERC work closely with the regions on situational awareness to avoid overburdening the industry with information requests during emergencies.

In Summary

The FRCC appreciates the opportunity to provide comments on NERC’s 2009 Business Plan and Budget, and applaud NERC for incorporating feedback from the 2009 Budget Workshop. While the FRCC continues to strongly support and endorse the concept of a self-regulated reliability organization and commends NERC on their progress to-date in achieving important milestones to establish the ERO, we still have concerns regarding the overall cost increases to the industry and hope that NERC will carefully review the comments from the industry and further minimize the cost burdens to the industry.

SARAH S. ROGERS
President and CEO
Mr. Rick Sergel  
President & CEO  
North American Electric Reliability Corporation  
116-390 Village Blvd.,  
Princeton, NJ 08540

Dear Mr. Sergel:

Introduction:
The IESO appreciates the opportunity to provide comments on NERC’s 2009 Business Plan and Budget, Version 2.0 (the “budget”). We acknowledge and appreciate NERC’s efforts to reduce the budget increase in the original 2009 budget (Version 1.1) and your explanation of the changes at the recent Finance and Audit Committee (FAC) meeting.

General Comments:
While Version 2.0 reflects a significant reduction from the 47% increase in budget version 1.1, the budget still proposes a very substantial 33% increase from the 2008 budget. The IESO continues to maintain that insufficient justification has been provided to demonstrate the reliability benefit to be gained by an increase of this magnitude. In particular, no risk-based assessment or scenario analysis has been conducted. Furthermore, presentation of multi-year program costs would be of significant value in assessing new initiatives and costs and facilitating informed discussion.

Finally, the IESO reiterates its concern that certain of the proposed program increases in the budget are in response to FERC directives, and as such may not be applicable to Canadian jurisdictions. In such a case, FERC-driven costs should not be allocated to Canadian entities.

Specific Comments:
Beyond the general concerns noted above, the IESO has the following specific comments:

Reliability Readiness Evaluation and Improvement Program

NERC’s responsiveness to industry comments on the predecessor of this program in Budget Version 1.1, the Reliability Readiness Evaluation and Improvement Program, is appreciated.
However, we have a number of concerns and recommendations on the new/repositioned program.

The rationale for creating the sub-program On-site Consulting for Small to Midsize Entities ("On-site Consulting") is justified, namely to create a program that is ring-fenced from NERC's compliance program, thereby avoiding the conflict between advising on compliance and enforcing compliance. However, if there is a need for such a service, it should be totally self-funding, i.e., paid for by the entities that use the service. To socialize the costs would penalize those small to midsize entities that provide for their own expertise on compliance matters,\(^1\) and those jurisdictions, such as Ontario, where there are no small to mid-size entities accountable to NERC and hence no need of the service.

The self-funding approach would apply both to entities that request the service, and "newly registered entities" as indicated in version 2.0. Whether there would be 20 evaluations per year, as indicated in Version 2.0 at page 30, or a greater or smaller number, would be determined by those willing to pay.

The second sub-program of interest is the Integrated Reliability Help Desk ("Help Desk"). Version 2.0 makes clear, at page 29, that the activity of the Help Desk would be dramatically reduced by removing specific advice on compliance requirements for a particular entity, by assigning the provision of such advice to the On-site Consulting service, as described above.\(^2\) As a result, we question whether the service would, in practice, be very useful. But in any event, the equity rationale given above is applicable here as well, that is, this service should also be self-funding. In addition, it would seem likely that more entities would acquire in-house expertise to avoid being charged by NERC, a healthy outcome. Moreover, Help Desk volume can be expected to decline significantly if user fees are introduced - people will look up the answer rather than simply phone NERC.

In fact, if the Help Desk is maintained, there would be merit in locating the Help Desk within the On-site Consulting service. This sub-program would therefore have a Princeton component and an on-site component. From a conflict of interest perspective, the essential requirement would be satisfied, namely to ring-fence the compliance monitoring and enforcement program from other parts of the organization, including the Help Desk and On-site Consulting.

The Alliance Initiative and the Strategic Partnership Initiative strike the IESO as coordination activities that do not warrant dedicated staff.

This leaves the sub-program Information Sharing - Positive Observations and Examples of Excellence ("Information Sharing"). The IESO supports assigning a modest level of resources to such a program (the staff level in Version 2.0 is not clear to us), and recovering its costs via NEL General & Administrative:

The IESO acknowledges that NERC has reduced the 2009 budget in the general and administrative program by $1 million relative to Version 1.1. However, the IESO seeks

\(^1\) Note that the entity could acquire such expertise by purchasing it from a third party, i.e., from other than NERC.

\(^2\) At page 29 it is stated, in the context of the Help Desk: "...NERC has been inundated with questions and requests from registered entities, with most requests focussed on what is needed to become compliant with certain requirements of a NERC standard."
justification for the remaining substantial increase of approximately $2 million relative to the
2008 budget.

Legal:
The IESO recognizes that $1.05 million of the $1.38 million increase from the 2008 budget to the
2009 budget is concerned with the NERC self-assessment and regional entity assessments. It is
noted that these costs are not to be allocated to Canadian entities.

Conclusion:
The IESO recognizes that significant levels of reduction have been achieved in Version 2.0 of
NERC’s budget. However, an increase of 33% relative to the 2008 budget remains a formidable
increase. The IESO, and Ontario consumers, are willing to support the costs necessary to
maintain an effective international reliability structure. However, we find Version 2.0 of the
budget has insufficient justification for the level of proposed increase in several of the program
areas. The IESO looks forward to further justification, and hopefully, substantial reductions, in
the next version.

Regards,

Original signed by Nicholas Ingman

Nicholas Ingman
Manager, Regulatory Affairs
Independent Electricity System Operator

2 July 2008
NERC Business Plan 2.0 – IRC Comments

The ISO/RTO Council (IRC)\(^1\) appreciates the opportunity to comment on NERC’s 2009 Business Plan and Budget 2.0 and commends NERC for making many changes to address the concerns expressed in the industry’s Version 1.0 comments. In its review of this second draft of the Budget the IRC provides the following comments:

1. NERC currently projects a staffing increase of eight FTE’s for 2009

“The 2009 budget reflects an increase of eight FTEs throughout the year. The Compliance Monitoring and Enforcement Program will add four FTEs, Reliability Assessment and Performance Analysis will add two, and Situational Awareness and Legal and Regulatory will each add one. P7”\(^1\).

The IRC believes that in the short-term for 2009 these staff increases appear to make sense considering NERC’s statutory mandates and growing workload in the compliance and assessment areas. However, it is the IRC’s expectation that the current headcount increase will begin to level off in 2010, as NERC becomes more comfortable with its new responsibilities and the need to share and not replicate its Regional Entities’ responsibilities.

From statements made by NERC CEO Rick Sergel during the June 6 NERC Board of Trustees Finance and Audit Committee Conference Call, the reduction to 8 FTEs from the original 15 FTEs proposed in the version 1.1 of draft budget is the result of a deferral of hiring 7 FTEs until 2010 due to the difficulty in bringing on so many staff. Mr. Sergel also stated that if NERC determines that they can successfully transition more than the eight FTEs that NERC may dip into the reserve funds that are being established in 2009. The IRC requests that NERC refrain from dipping into the reserve funds to expedite hiring additional FTEs slated for 2010. We also request that NERC re-evaluate the need for those 7 FTEs in the 2010 budget cycle especially considering the significant changes that are suggested to the Readiness Evaluation Program. If NERC continues to plan to hire the 7 additional FTEs, then the IRC requests that NERC make clear in any notes to the aforementioned budget change that the change is in fact a deferral and not an elimination. On Page 5 of the “Analysis of Changes from Version 1.1 to Version 2.0 of the 2009 NERC Business Plan and Budget”, it was identified as an elimination. Such terminology may inadvertently mislead some readers.

2. The IRC continues to have serious concerns regarding the re-tasking of the Readiness and Evaluation Program to the Readiness Assistance Program. Though it does make a great deal of sense that NERC is ending the “voluntary” Readiness Evaluations in 2009, NERC does not effectively justify the proposed shift in services. NERC needs to maintain the staff and ability to accomplish “Needs Based” evaluations for entity

\(^1\) ERCOT requested not to be included as signatory to these comments.
certifications and post event follow-ups. However, many of the new
initiatives proposed in the 2009 Business Plan 2.0 are redundant with
other initiatives and more importantly may only provide marginal value to
enhancing the reliability of the interconnections. Of particular note are the
following concerns:

a. Help Desk – The Help Desk may provide NERC with a clearing
house for receiving and coordinating questions. However, the staff
of this Help Desk will most likely need to reach out to subject matter
experts on staff and the industry, because it is unlikely that any
single Help Desk Staffer could be knowledgeable enough to opine
on the diversity of questions NERC could receive. The IRC also
believes that this desk will only provide value if it can make
judgments as to whether a particular action would be deemed
compliant by staff who are responsible for compliance (at NERC
and the Regional Entities). The important question becomes will
each Regional Entity also agree to such judgments made by the
ERO’s Help Desk? Considering that the Regions have the front
line responsibility for enforcing compliance this Help Desk may
create more confusion within the industry. Those entities with
questions regarding compliance should be directed to work with
their respective Regional Offices. Therefore, it appears NERC’s
Compliance and Enforcement Program working with the Regional
Entities really is the best approach for maintaining consistency
across the industry and a Help Desk would be limited in what it can
provide for this effort.

b. The Alliance Initiative seems to be what the industry expects all
NERC and Regional Staff to be doing on an on-going basis. As
such why should any one group be needed to perform these tasks
of working with committees and industry outreach? This initiative
needs more definition in its scope and purpose to provide value
added to the industry.

Consultation Services – The IRC opposes NERC providing consulting
services on the basis of socialized costs and potential conflicts of
interest. NERC should not be providing services to a particular class
of members and socializing the cost of these services across the
industry. There is not a clear scope of what services are available and
entities may attempt to have NERC perform a comprehensive pre-audit
creating considerable burden on these resources. If entities desire
such a service they should underwrite this initiative and fund it directly.
Questions of how such an engagement would be run and issues of
non-compliance are not effectively addressed in the business plan and
may create conflicts of interest.
c. The Strategic Partnership Program seems replete with potential conflicts of interest aside from it being repetitive to other industry trade groups. The conflicts of interests arise because with the ERO’s compliance authorities, RE’s might feel compelled to use particular vendors that have such “strategic partnerships” with the ERO. Such partnerships belong in organizations like EEI and EPRI and not at NERC.

Because the proposed initiatives do not justify NERC expending 8.4% of its budget on the Readiness Assistance Program, the IRC would recommend that NERC maintain enough of an organization structure and budget so that it can accomplish the needs-driven evaluations (new certification or required after a significant event) and provide a central depository for any lessons learned; however, the preponderance of this program’s resources should be reallocated to other more critical programs. In fact many of the highly qualified people already working in this program could easily fill the open 2009 positions in other programs reducing the effort, cost, and management issues around recruiting additional personnel.

Charles Yeung, SRC Chair

Patrick Brown
Jim Castle
Ron Falsetti
Kathleen Goodman
Brent Kingsford
Anita Lee
Bill Phillips

SPP
PJM
NY-ISO
IESO
ISO-NE
CA-ISO
AESO
MISO
The MRO Board of Directors, on behalf of the members, stakeholders and load serving entities, generally supports the 2009 NERC Business Plan and Budget and provides the following comments.

**Stemming the Tide of Rising Budgets**

The Board of the MRO passed a motion to urge NERC to work closely with the Regions and the Commission (in the United States) to minimize duplication and to work very closely to prudently stem the budgetary increases to rational escalations. The MRO Board suggests that much of the duplication results from an expansive view of program oversight under the model intended by the U.S. legislation. Considering MRO and other Regional Entities met the governance requirements set forth in the U.S. legislation, oversight from NERC should be more sharply focused on assuring good decisions in the field (by the Regions), rather than duplicate decision-making and the processes to support it. Specifically, MRO suggests that NERC consider the following:

1. In the immediate term, NERC and the Regions should work together to assure effective oversight that meets the expectations of the regulators, while not resulting in duplication of efforts. Again, we urge NERC to assume leadership to assure the delegated authority model is implemented without duplication between the Regions and NERC. We cannot escape professional judgment in decision-making; the oversight model should recognize this and evaluate the outcome in an independent manner by those trained in conducting such evaluations. NERC should provide more focus on working collaboratively with the Regions to assure the best decisions are made to improve reliability in the field. Furthermore, NERC should recognize that when a Regional Entity fails to perform its job, MRO, as a Regional Entity, has an obligation to address improvements or there will be serious consequences for continued non-performance. MRO understands the risks of non-performance under the delegation agreement; therefore, NERC oversight should be aligned accordingly.
2. In the short-term, the next budget year, the MRO Board suggests that NERC and the Regional Entities formally establish a common budget process and schedule which integrates the priorities of NERC with the Regional Entities. This budget would proactively illustrate more efficiency from the very outset of the annual budget process. For example, there are some functions which can be centralized at NERC to handle one-time “peaks” in workload or to better share resources across NERC and the Regional Entities. Two workload peaks, Event Analysis and Investigations, require specific expertise in process and procedures. It is very costly for each Region to separately staff to meet the “peaks” and maintain the level of expertise to handle such one-time occurrences in a consistent, professional manner. NERC should collaborate with the Regions whereby Regions can rely on NERC as a backstop for such assistance. Regions, on the other hand, should focus their efforts on the day-to-day process activities of carrying out the delegated functions. Such a division of labor will only occur early in the budgeting process and should be formalized as much as possible.

3. In the long-term, at the next filing of revised delegation agreements, NERC and the Regional Entities should work closely together to “tighten up” the Regional Delegation Agreements (RDA) to bring about more uniformity, where appropriate, by further refining the roles in executing the functions under the RDA and making the functions less administratively burdensome to the Registered Entities, Regional Entities, NERC, and the Commission. MRO suggests the preparation for this task should begin at the end of 2008.

4. With a year of experience, MRO strongly encourages NERC to accelerate the existing work to establish a risk-based approach to compliance and enforcement, focusing the compliance program more on the real risks to reliability. MRO suggests the compliance and enforcement costs need to be aligned with the risks to bulk power system reliability by streamlining the compliance and enforcement process for minor infractions while maintaining adequate due process for Registered Entities.

5. MRO suggests that NERC project a multi-year budget, at least two years, to better prepare the stakeholders and regulators for any significant changes to the budget.

Resource Allocation within the NERC Budget

- MRO is concerned about resources to adequately address the Event Analysis program. Event Analysis provides real situations which, if properly and timely analyzed, can provide significant benefit to the industry. MRO believes that Event Analysis needs to be more timely and responsive to the industry. MRO suggests that there are two issues to be resolved in Event Analysis. First, NERC needs to invest its budget dollars in Event Analysis as a high priority program. NERC should consider re-allocating resources from Readiness to Event Analysis. Clearly, our priorities should be in analyzing recent disturbances and translating key learnings for the industry in the form of timely alerts and bulletins, improving existing standards, or developing
new standards. Second, for future learning and study, MRO recommends that the Event Analysis process should be re-engineered to be focused on “what happened”, instead of co-mingling this with “what could happen”. The former is more important to immediate reliability, while the latter can be an epilogue.

- NERC and the Regions need to carefully invest in the three large components of “keeping the lights on”: prevention, containment and mitigation, and restoration. Administration support is an underlying supportive category. This is based on the premise that no amount of investing in standards or compliance will ensure reliability because “Mother Nature” and other threats will be destructive from time to time. Therefore, the industry needs to ensure that the “NERC dollar” to be invested is appropriately balanced properly among these components of the budget. The “bottom line” is disturbances will occur and the industry has to be at its best in getting the lights back on quickly and safely. MRO suggests a discussion on this for future budgets.

- MRO agrees with NERC’s proposal to re-direct the Readiness program in a more productive direction. The concept of a “help desk” seems to be a bit misguided, however. The brunt of educating and providing help to Registered Entities rests with the field, those in the Regions. MRO suggests that NERC develop a “Readiness Resource Center” where Registered Entities can call to obtain the necessary materials, contact information, etc. to solve issues and improve their performance. MRO is concerned that NERC should offer specific help such as staff to perform site evaluations of readiness using criteria to assure proper resource allocation. NERC should focus its resources on Registered Entities who are assuming or changing functions, on helping all Registered Entities on meeting new or emerging standards, or on Registered Entities which NERC deem to have a genuine need for assistance because they pose a risk to system reliability or provide other benefits to overall reliability.

MRO understands that NERC and the Regional Entities have many priorities and challenges. We all need to work together to provide prudent and collaborative management of the resources necessary to accomplish our shared mission. Thank you for the opportunity to provide our comments.
NB Power Transmission Corporation Comments
Re: Draft #2 NERC 2009 Business Plan & Budget

NB Power Transmission Corporation (NBPTC) recognizes and appreciates NERC’s efforts to incorporate many of NPCC’s previous recommendations into the Draft #2 NERC 2009 Business Plan and Budget. Specifically, NBPTC supports:

- The removal of the planned situation awareness monitoring center;
- The elimination of the previously projected +$1 million overrun in 2008;
- The redefined scope of the FERC required self-assessment effort;
- The reduction in proposed meeting and travel costs for 2009, and,
- The overall reduction in staff additions and a decrease of approximately $4 million to the originally proposed 2009 NERC budget increases.

In support of the comments submitted by NPCC, NBPTC offers the following comments on Draft #2 for consideration by the NERC Finance and Audit Committee and the NERC Board of Trustees.

General Comments:

1) The Business Plan should put more emphasis on NERC’s core functions of reliability standards development, compliance monitoring, and periodic assessments of the reliability and adequacy of the bulk power system in North America.

2) With increased pressure on rates due to world oil prices, the NERC Board must be cognisant of the magnitude (+33%) of the overall budget increase and concern regarding the lack of identified drivers from stakeholders in Northeastern North America.
Comments on Reliability Assistance Program (formerly the Readiness Evaluation Program):

1) NBPTC supports a NERC role in reliability assistance but recommends that such function can be most effectively and efficiently offered through the individual program areas for which assistance would be sought (standards assistance, compliance assistance, etc.) and not through a stand alone Reliability Assistance Program.

3) NBPTC does not support an on-site consulting role for NERC for provision to a select group of stakeholders as it would be anticompetitive and also should not socialize any such associated costs

4) NBPTC recommends that a user-pay regime be instituted if any voluntary, confidential reliability evaluations are requested by industry participants

5) NBPTC does not support what appears to be an expansionist program structure characterized as reliability assistance i.e.: Information Sharing, Alliance Initiative and Strategic Partnership Initiative

Comments on the Reliability Assessment and Performance Analysis Program:

1) NPCC supports NERC’s provision of a fully user funded Generating Availability Data System (GADS).

2) NPCC recognizes and supports the complementary nature of continent-wide reliability assessments to regional and intra-regional assessment efforts, but recommends that NERC not expand into what are duplicative assessment activities.

Wayne Snowdon
Vice President
NBPTC
To: NERC Finance and Audit Committee  
From: Gayle Mayo, Chairman, NERC Operating Committee  
CC: NERC Operating Committee  
Date: July 3, 2008  
Re: Reliability Readiness Evaluation Program and Proposed Reliability Assistance Program

As part of its charter, the Operating Committee is charged with providing technical support, guidance and advice to the Reliability Readiness Program. At its June meeting in Toronto, the Operating Committee discussed the Reliability Readiness Program and approved the following motion:

"Although the NERC readiness evaluation program filled an important role in enhancing the industry's reliability following the August 14, 2003 blackout, the Operating Committee believes that many of these functions have become redundant within the new ERO and compliance environment, and that most of the benefits of the program were achieved by the initial series of these evaluations. Additionally, the committee has serious concerns with the current proposal for the readiness assistance program. As such, the committee requests the opportunity to provide greater direction and recommends the future suspension of the current readiness evaluation program. The committee will provide this direction to NERC staff by July 1, 2008. This direction will at least address the current Board of Trustees Finance and Audit Committee proposal, mandatory readiness evaluations, information sharing, and best practices. The intent of this additional direction would be to establish a complete transition plan for the program by September 1, 2008."

As Chairman of the Operating Committee, I appointed a Reliability Readiness Program Task Force, Chaired by OC Vice Chairman Sam Holeman, to develop a recommended direction for the Reliability Readiness Program and the proposed Reliability Assistance Program, as provided for in this motion. The Task Force conducted three meetings by conferences call, including one meeting with NERC staff, and completed its work on July 1. The Task Force presented its findings and recommendations to the Executive Committee of the Operating Committee on July 1. The Executive Committee unanimously approved the Task Force findings and recommendations.

The attached summary report highlights the findings and recommendations of the Task Force. For additional background, the complete report of the Task Force, and a summary of the comments made by members of the Operating Committee at the Committee’s June meeting are also attached.

I would be happy to discuss these findings and recommendations with the members of the Finance and Audit Committee at your convenience.

Enclosures: Summary Report of NERC OC Review of the Reliability Readiness Program  
NERC Operating Committee Reliability Readiness Program Report  
Excerpts from the June Minutes of the NERC Operating Committee
NERC Operating Committee Readiness Reliability Program Report Summary
July 1, 2008

- Task Force Members
  - Jacque Smith, ReliabilityFirst Corporation
  - Ron Donahue, Tampa Electric Company
  - Jerry Mosier, Northeast Power Coordinating Council
  - Kent Saathoff, ERCOT
  - Dennis Florom, Lincoln [Nebraska] Electric System
  - Tom Bowe, PJM Interconnection
  - Jerry Rust, Northwest Power Pool Company
  - Jim Griffith, Southern Company Services
  - Sam Holeman, Chairman, Duke Energy

- Task Force Positions on NERC Readiness Reliability Program 2008 & Beyond
  - The Task Force considered 3 types of reviews
    - Reliability Readiness Reviews (similar to the reviews done in the past)
    - Readiness Assessments resulting from Functional Certification Changes (new certifications or changes to existing certifications)
    - Follow-up Assessments resulting from the Event Analysis Program
  - Position 1 – No NERC Reliability Readiness Reviews should be scheduled after 1/1/09
  - Position 2 – Reliability Readiness Reviews scheduled in 2008
    - If Reliability Entity has completed a Reliability Readiness Review since 9/2003, the Reliability Entity will have the option of continuing with the review or declining the review
    - If Reliability Entity has not completed a Reliability Readiness Review since 9/2003, the Reliability Readiness Review will be carried out as scheduled. The Task Force recognizes that this category of reviews may extend into 2009 for scheduling/logistical reasons.
  - Position 3 – Needs based assessments from event investigations and functional certification changes
    - Readiness assessments based on new or changing functional certifications will be managed out of the Compliance & Certification Program and should leverage the NERC Operating Committee for support of these assessments.
    - Follow-up assessments based on event analysis should be managed out of the Event Analysis Program and should leverage the NERC Operating Committee for support of these assessments.

- Task Force Position on NERC Reliability Assistance Program
  - The Task Force thinks that the value propositions of the Reliability Assistance Program services are marginal at best.
  - The Task Force has not had the opportunity to review any type of business case analysis for these services in terms of industry need and service funding.
- The Task Force does not think the services defined in the Reliability Assistance Program are justified as a NERC Program area.
- The Task Force recognizes the important role the Reliability Readiness Program has played in the industry since the 2003 blackout. The Reliability Readiness Program staff is a talented, experienced, and professional. The Task Force would suggest that these resources could be redirected to potential open positions in other NERC Programs such as Standards, Event Analysis, and Compliance & Certification.
NERC Operating Committee Reliability Readiness Program Report
July 1, 2008

- Task Force Members
  - Jacquie Smith, ReliabilityFirst Corporation
  - Ron Donahey, Tampa Electric Company
  - Jerry Mosier, Northeast Power Coordinating Council
  - Kent Saathoff, ERCOT
  - Dennis Florom, Lincoln [Nebraska] Electric System
  - Tom Bowe, PJM Interconnection
  - Jerry Rust, Northwest Power Pool Company
  - Jim Griffith, Southern Company Services
  - Sam Holeman, Chairman, Duke Energy

- Issue 1 – NERC Reliability Readiness Program 2008 & Beyond

- NERC OC Reliability Readiness Program Task Force Position
  - The NERC Reliability Readiness Evaluation Staff and Program has effectively completed its post 2003 Blackout mission. Based on the following accomplishments/developments, it is time to stand down the program.
    - Post 2003 blackout Reliability Readiness Evaluations produced sets of blackout-related recommendations for Reliability Entities that drove operational improvement.
    - Helped to bolster post blackout confidence in grid reliability and security in the industry and nationally.
    - Major support and involvement from Reliability Entity volunteers in the post 2003 blackout Reliability Readiness Evaluation Program benefited the industry and the individual Reliability Entities by providing focus on situational awareness and maintaining wide area views.
    - Prepared Reliability Entities for Reliability Standards with mandatory compliance requirements and the Compliance Enforcement Program implemented across NERC.
    - Aggressive compliance audit processes are in place.
    - Event Analysis program established within NERC and the regions.
    - Recent cycles of Reliability Readiness Evaluations appear to overlap the Compliance/Certification program and the Event Analysis program indicating a large degree of redundancy and creating confusion over the objectives of and relationships between compliance audits, event analysis, and readiness evaluations.
  - No NERC Reliability Readiness Evaluations should be scheduled after 1/1/09.
  - NERC Reliability Readiness Evaluations scheduled in 2008
    - If a Reliability Entity has completed a NERC Reliability Readiness Evaluation since the 2003 blackout, the Reliability Readiness Evaluation scheduled for 2008 will be cancelled unless the
Reliability Entity expresses a desire to proceed with the evaluation as scheduled.

- If a Reliability Entity has not completed a NERC Reliability Readiness Evaluation since the 2003 Blackout, the Reliability Readiness Evaluation will be conducted under the existing 2008 schedule and plan.
  - Reliability Entities requesting a new or changed Functional Certification will be expected to complete a Reliability Readiness assessment.
    - If the new or changed Functional Certification request is within 1 Regional Entity, that Regional Entity will manage the Reliability Readiness assessment process.
    - If the new or changed Functional Certification request is across multiple Regional Entities, the NERC Compliance & Certification program will manage the Reliability Readiness assessment process.
    - The NERC Operating Committee’s Operating Reliability Subcommittee (ORS) should be viewed as a resource in these efforts.
  - Event analyses that result in scheduled Reliability Readiness follow-up assessments will fall under the direction of the NERC Event Analysis program and the applicable Regional Reliability Entities. The NERC OC’s ORS should be viewed as a resource in this effort.

- Issue 2 – NERC Assistance Initiative Proposal
  - Integrated Reliability Information Help Desk
  - On-site Consultation for Small to Midsize Entities
  - Alliance Program
  - Voluntary Reliability Excellence Program
  - Strategic Partnership Program
  - Organizing and Sharing Positive Observations and Examples of Excellence

- NERC OC Reliability Readiness Evaluation Program Task Force Position
  - The OC Task Force continues to have serious concerns regarding the re-tasking of the Reliability Readiness Evaluation Program to the Reliability Assistance Program. Though it does make a great deal of sense that NERC is ending the “voluntary” Readiness Evaluations in 2009, the proposed shift in services towards assistance is not effectively justified. NERC needs to maintain the staff and ability to accomplish “Needs Based” evaluations for entity certifications and post event follow-ups. However, many of the new initiatives proposed in the 2009 Business Plan 2.0 are redundant with other initiatives and more importantly may only provide marginal value to enhancing the reliability of the interconnections. NERC has not supported any of these proposed initiatives with a business case that lays out a level of due diligence in ensuring the initiative is addressing a problem the industry sees as a critical priority. Of particular note are the following concerns:
Help Desk

The Help Desk may provide NERC with a clearing house for receiving and coordinating questions. However, the staff of this Help Desk will most likely need to reach out to subject matter experts on staff and in the industry, because it is unlikely that any single Help Desk staffer could be knowledgeable enough to opine on the diversity of questions NERC could receive. The OC Task Force also believes that this desk will only provide value if it can make judgments as to whether a particular action would be deemed compliant by staff who are responsible for compliance (at NERC and the Regional Entities). It is not likely each Regional Entity will agree to such judgments made by the ERO’s Help Desk. Considering that the Regions have the front line responsibility for enforcing compliance, this Help Desk may create more confusion within the industry. Those entities with questions regarding compliance should be directed to work with their respective Regional Offices. Therefore, it appears NERC’s Compliance and Enforcement Program working with the Regional Entities really is the best approach for maintaining consistency across the industry and a Help Desk would be limited in what it can provide for this effort.

If responding to direct compliance questions will not be a function of the Help Desk, the Task Force has not had the opportunity to review any type of business plan/business case for the Help Desk concept.

Consultation Services

The OC Task Force opposes NERC providing consulting services on the basis of socialized costs and potential conflicts of interest. NERC should not be providing services to a particular class of members and socializing the cost of these services across the industry. There is not a clear scope of what services are available and entities may attempt to have NERC perform a comprehensive pre-compliance audit creating potential conflicts with the NERC Compliance & Certification program. If entities desire such a service they should underwrite this initiative and fund it directly. Questions of how such an engagement would be run and how issues of non-compliance would be treated are not effectively addressed in the business plan and may create conflicts of interest.

Further clouding the potential conflicts of interest are the additional concerns around equity experienced by those entities that may be able to receive such consultation within a given year and those that do not. Those entities that requested consultation but were denied, may use this as their defense in a compliance dispute. NERC may later need to feel it needs to continually grow this function in order to better address this likely sense of inequity, further compounding industry concerns of NERC’s growing costs.
• If a Reliability Entity desires this type of service, it would most likely be more effective and appropriate to contact private consultation firms that already provide these services.
• The Task Force has not had the opportunity to review any type of business plan/business case for this Consultation concept.
  o Alliance Initiative
    • The Alliance Initiative is what the industry expects all NERC and Regional Staff to be doing on an on-going basis. It is not appropriate to designate any one group to perform these tasks of working with committees and industry outreach. This initiative needs more definition in its scope and purpose to provide value added to the industry.
  o Strategic Partnership Program
    • The Strategic Partnership Program seems replete with potential conflicts of interest aside from it being repetitive to other industry trade groups. The conflicts of interests arise because with the ERO’s compliance authorities, Reliability Entities might feel compelled to use particular vendors that have such “strategic partnerships” with the ERO. Such partnerships belong in organizations like EEI and EPRI and not at NERC.
  o Organizing and Sharing Positive Observations and Examples of Excellence
    • Examples of excellence found through the Reliability Readiness program, while of interest, are typically subjective and the value they add to enhanced reliability is difficult to quantify. Compiling and promoting examples of excellence could be more effectively tied with development of the Reliability Metrics program. Entities scoring high on the metrics could be reviewed to determine what applications or procedures that they have in place lead to those high scores. However, Reliability Metrics are in the early stages of development and it is premature to include examples of excellence program with them at this time.
• Task Force Position Summary
  o The proposed initiatives do not justify NERC expending 8.4% of its budget on the Reliability Assistance Program. The OC Task Force would recommend that NERC maintain enough of an organization structure and budget so that is can accomplish the needs driven evaluations (new certification or evaluations required after a significant event) and provide a central depository for any lessons learned; however, the preponderance of this program’s resources should be reallocated to other more critical programs. In fact many of the highly qualified people already working in this program could easily fill the open 2009 positions in other programs and be redirected to eliminate cuts in areas like the NERC Event Analysis Program, thus reducing the effort, cost, and management issues around recruiting additional personnel.
Excerpt: Discussion of the Reliability Readiness Program from the Minutes of the June Meeting of the Operating Committee

"Reliability Readiness Program"
Jessica Bian, director of reliability readiness and benchmarking, provided an overview of the reliability assistance program’s mission and objectives as reflected in a draft proposal for discussion by the Board of Trustees Finance and Audit Committee at its June 6, 2008 meeting (http://www.nerc.com/~filez/finance.html) (Presentation 4). Ms. Bian highlighted the integrated reliability information help desk, on-site consulting for small to midsize entities, voluntary reliability excellence program, information sharing (i.e., positive observations and examples of excellence), and an alliance/partnership program that promotes dialogue on reliability.

Kevin Conway, reliability readiness evaluator, summarized the status of development of a white paper that will present recommendations for improvement to the reliability readiness evaluation program.

Following their presentation, the committee dismissed Ms. Bian and Mr. Conway and continued its discussion of the reliability readiness evaluation program. The committee’s discussion is summarized into the following general categories:

Initially Valuable
1. Program initially served a great purpose. With NERC now into compliance, benefit of the program is significantly lessened.
2. There was significant benefit to having the first evaluation. Follow-up evaluations are not nearly as beneficial.

Outlived Its Usefulness/Kill Program
1. Option 1 (Retain Program as is), take this off the table. Dollars are getting squeezed. One region would like to kill. No support for the program in this region after the first cycle. General consensus in this specific region is that the program should go away. Prioritizing of programs and dollars would indicate that.
2. There are budget and manpower constraints. Program has outlived its time frame of usefulness.
3. Concerned about the cost effectiveness of program. NERC is providing a service that is very resource intensive. Standards development process is very resource intensive as well, and more beneficial. Other forums, such as Transmission Owners and Operators Forum (TOOF) provide this service.
4. Don’t see the incremental benefit of continuing going forward.
5. The program could have achieved better results if the opportunity of open dialog existed, but because of the risk of findings of noncompliance, open dialog was lacking. With compliance at the forefront, evaluations outlived usefulness. Need to get NERC out of this process.
6. Readiness evaluation will not help address cyber standard implementation.
Retain Some/All of Program
1. Some residual value of program (e.g., certification of new entities, reviewing entities that score especially high (for Examples of Excellence (EoE)) or low in metrics). Stop short of killing the program.
2. Readiness evaluations of cyber standards or other new standards would be beneficial.
3. Readiness evaluations focused on specific standards may be beneficial.
4. Some value to evaluations. Current time frame is probably not appropriate. Program does need to be scaled back.
5. TOOF is not open to everyone. Need something for nonmembers of TOOF.

Combine Compliance and Readiness Audits
1. Benefit to combining compliance and readiness programs and audits.
2. May be an opportunity to use the experience of the ORS discussions of the Readiness Evaluation Program to improve the compliance audits.
3. During compliance audits look for best practices. Don’t need to perform a duplicative readiness evaluation.

Help Desk
1. Help desk function at NERC may not provide answers that are consistent with regional enforcement.
2. NERC help desk would fail.
3. If an entity has a standards question go to standards program or a compliance question go to compliance program. Not go to single source.
4. Help desk not likely to work because questioners need definitive answers.
5. Help desk questionable.
6. Scope of help desk and on-site consulting needs to be very clear.
7. Help desk concept is noble, but belongs in the compliance area.

Voluntary Evaluations
1. If an entity wants an evaluation that entity would pay for all expenses. Evaluations should be voluntary.
2. NERC should not compete with others to provide fee-based reviews.
3. Pay as you go is a good idea.
4. Most companies already have mandatory (financial) audits. Auditor also provides best practices. Company pays for those audits. If IRS compliance becomes an issue, the company goes to the auditor for help. Should have similar model for reliability evaluations.
5. NERC as a compliance consultant does not make any sense.

Redeploy Resources
1. Refocus readiness personnel into other programs such as events analysis.
2. There should be something in the program that NERC can build on and re-channel staff to work on, such as situational awareness.
3. Better use of resources include operations lessons learned, and not just engineering lessons learned, from event analysis.
4. Several committee members mentioned providing more resources to event analysis.

**Examples of Excellence (EoE)**
1. There is value in EoE. Don’t allow residual value to die.
2. EoE could be absorbed into compliance.
3. EoE are great and need to be pursued. However, they become outdated.

**Other**
1. As great as the program has been, there may be a conflict if something is discovered that is not reported to compliance.
2. The NERC proposal seems to be more of a holding pattern option while waiting to determine what to do with the NERC employees in the readiness evaluation program.
3. Even with the proposed change, there is no reduction in the NERC budget.
4. Need innovation and better ways to perform duties concerned that we are taking our eyes off of the ball in terms of reliability and security of the system.
5. Several committee members mentioned questions around entity certification (initial) and how that would work without readiness reviews.
6. ORS members mentioned that ORS could take on the initial entity certification readiness review responsibilities.”
NPCC Board of Directors and Stakeholder Comments  
on Draft #2 NERC 2009 Business Plan & Budget

NPCC recognizes NERC’s efforts to incorporate many of the region’s international constituency’s previous recommendations submitted May 16, 2008 into the Draft #2 NERC 2009 Business Plan and Budget. Specifically, NPCC supports:

- the elimination of the previously projected +$1 million overrun in 2008;
- the removal of the planned situation awareness monitoring center;
- the reduction in proposed meeting and travel costs for 2009;
- the redefined scope of the FERC required self-assessment effort; and,
- the overall reduction in staff additions and a decrease of approximately $4 million to the originally proposed 2009 NERC budget increases.

NPCC also appreciates the opportunity to make the following additional comments on Draft #2 for consideration by the NERC Finance and Audit Committee and the NERC Board of Trustees.

General Comments from Stakeholders within Northeastern North America include:

1) Greater emphasis still needs to be incorporated into the Business Plan regarding NERC’s core functions of reliability standards development, compliance monitoring, and periodic assessments of the reliability and adequacy of the bulk power system in North America.

2) There continues to be opposition to the magnitude (+33%) of the overall budget increase and concern regarding the lack of identified drivers from stakeholders in Northeastern North America.

Comments on Reliability Assistance Program (formerly the Readiness Evaluation Program) include:

1) NPCC appreciates NERC’s recognition that the reliability readiness evaluation and improvement (RREI) program has effectively concluded its post 2003 Blackout mission and as currently constituted no longer adds significant reliability value.

2) NPCC supports a NERC role in reliability assistance (helper function), but recommends that such function can be most effectively and efficiently offered through the individual program areas for which assistance would be sought (standards assistance, compliance assistance, etc.) and not through a stand alone Reliability Assistance Program.
3) NPCC does not support an on-site consulting role for NERC for provision to a select group of stakeholders as it would be anticompetitive and also should not socialize any such associated costs
4) NPCC recommends that a user-pay regime be instituted if any voluntary, confidential reliability evaluations are requested by industry participants
5) NPCC does not support what appears to be an expansionist, catch-all program structure characterized as reliability assistance ie: Information Sharing, Alliance Initiative and Strategic Partnership Initiative

Comments on the Reliability Assessment and Performance Analysis Program include:

1) NPCC supports NERC’s provision of a fully user funded Generating Availability Data System (GADS)
2) NPCC recognizes and supports the complementary nature of continent-wide reliability assessments to regional and intra-regional assessment efforts, but recommends that NERC not expand into what are duplicative assessment activities

Submitted
7/2/08
Karen,  
The ORCS is meeting this week and we have the following comments to V2.0 of the Draft 2009 Business Plan and Budget:

The Proposed Reliability Assistance Program section states:

- Pre-operational assessments for certification of reliability coordinators (mandatory)

**ORCS Recommendation:**
The ORCS recommends that this bullet be deleted because the certification for Reliability Coordinators (RC), Balancing Authorities (BA), and Transmission Operators (TOP) is identified in NERC RoP 500 and Appendix 5.

Regards

Jim Hughes  
Compliance and Certification Auditor  
North American Electric Reliability Corporation  
116-390 Village Boulevard  
Princeton, New Jersey  08540-5721  
Cell:  609-203-2288

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Chairman Bruce Scherr called to order a duly noticed open meeting by conference call of the Finance and Audit Committee of the North American Electric Reliability Corporation on July 11, 2008 at 10:10 a.m. As required by the bylaws of the Corporation, dial-in access was provided to members of the Corporation and the public for the meeting. A copy of the agenda is attached as Exhibit A.

A quorum was declared present. Trustees present on the call in addition to Chairman Scherr were Richard Drouin, Janice Case, Fred Gorbet, and Ken Peterson. Additional attendees are listed in Exhibit B.

**Antitrust Compliance Guidelines**
Chairman Scherr acknowledged NERC’s Antitrust Compliance Guidelines.

**Minutes**
The committee approved the following minutes:
- May 6, 2008 Meeting
- May 30, 2008 Conference Call
- June 11, 2008 Conference Call

**Regional Entity Budgets**
NERC CFO Bruce Walenczyk informed the committee that over the last few weeks NERC staff had received and reviewed drafts of the Regional Entity budgets. He reported that all budgets had been approved by their respective boards. After discussion, the committee requested updated metrics to make comparisons across the regions. Mr. Walenczyk stated he would have the requested metrics ready for the meeting on July 29, 2008.

**Potential Changes to be Reflected in Version 3.0 of the 2009 NERC Business Plan and Budget**
Bruce Walenczyk then reviewed the potential changes to be reflected in Version 3.0 of the 2009 NERC Business Plan and Budget. He pointed out changes to the GADS program, the hiring of a new CSO, uncollected assessments, and cash reserves. The
committee asked Mr. Walenczyk to do a study on how NERC determines what the cash reserves should be for the year, with the initial input by the October meeting. Rick Sergel, NERC President and CEO, informed the committee that NERC had received several comments on the budget and was addressing the issues raised. He also reported that expenses for meetings and travel were under much scrutiny and in response, cuts were made to the travel budget. A number of commenters asked for risk-based analysis to justify increases in the budget. Mr. Sergel stated staff will do that in next year’s budget process.

Chairman Scherr reported the committee was tasked to review the necessity of the Reliability Readiness Evaluation and Improvement Program. He stated there was strong consensus to no longer do readiness evaluations on a chronological schedule, rather substitute a more targeted needs-based approach. After discussion by the committee Chairman Scherr requested staff to develop in Version 3 of the budget a phasing out of the changes to the readiness program.

**Future Meetings**
- July 29, 2008 meeting (Montreal, Quebec)

**Adjournment**
There being no further business, Chairman Scherr adjourned the meeting at 12 p.m. EDT.

Submitted by,

Bruce E. Walenczyk
Agenda
Finance and Audit Committee Conference Call

July 11, 2008 | 10 a.m. EDT
Dial-In: 866-503-3045
Code: 54577784

Antitrust Compliance Guidelines

1. Minutes
   • May 6, 2008 Meeting
   • May 30, 2008 Conference Call
   • June 6, 2008 Conference Call

2. Regional Entity Budgets
   a. Comparison of 2009 expense budget to 2008 expense projection
   b. Expenses by program area (2009 budget versus 2008 projection)

3. Potential Changes to be Reflected in Version 3.0 of the 2009 NERC Business Plan and Budget — Approve Changes for Inclusion in Posted Version
   a. Recommended adjustments to revenue and expenses
      i. Adjust GADS pricing to achieve break-even
      ii. Chief Security Officer — adjust salary and start date
      iii. Increase uncollected assessment by $138k (from $127k to $265k)
      iv. Modification to cash reserve
   b. Comments from stakeholders on Version 2.0 and recommended changes for Version 3.0
   c. Readiness program (discussion)

4. Future Meetings
   • July 29, 2008 meeting (Montreal, Quebec)
   • October 28, 2008 meeting (Washington, D.C.)

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Introductions and Chairman’s Remarks

Antitrust Compliance Guidelines

1. Working Draft Response to FERC’s October 16, 2008 Order — Discuss
   a. Clean version (Attachment 1)
   b. Redline against version discussed by MRC on November 14, 2008 (Attachment 2)
   c. FERC October 16, 2008 Order (Attachment 3)
   d. Request for Clarification (Attachment 4)
Working Draft of Proposed Compliance Filing to Address NERC Program Directives from FERC's October 16, 2008 Order on NERC’s 2009 Business Plan and Budget

On August 31, 2008 NERC filed with the Federal Energy Regulatory Commission (FERC or Commission) the 2009 Business Plan and Budget as well as the 2009 business plans and budgets for each of the Regional Entities and the Western Interconnection Regional Advisory Body (WIRAB). On October 16, 2008, the FERC issued an order conditionally accepting NERC’s 2009 Business Plan and Budget and ordered compliance filings to address several issues. The first of those filings is a 60-day compliance filing that is due to the FERC on December 15, 2008. The issues to be addressed in the 60-day compliance filing can be grouped as follows:

NERC Program Area Issues

1. Reliability Standards Development program – NERC must reassess the sufficiency of its allocation of FTEs and other resources, such as consultants, budgeted in 2009 for the Reliability Standards program, provide an explanation in its compliance filing, and, if appropriate, request supplemental funding for this program. (P 25)

2. Compliance Monitoring and Enforcement program (CMEP) – NERC must address the adequacy of its 2009 budget for CMEP, including the budget for Compliance Violation Investigations (CVI). NERC must include a meaningful plan and schedule for processing outstanding alleged violations, mitigation plans, notices of penalty, and CVIs. NERC should submit a supplemental budget request if appropriate. (P 28)

3. Reliability Readiness Evaluation and Improvement Program – NERC should reconsider funding for and the decision to eliminate this program; provide additional explanation of the decision to eliminate the program (including the allegation that the program places NERC in a conflicted position vis-à-vis CMEP); and, if appropriate, present a supplemental funding request to continue the program in 2009. (P 34)

4. Reliability Readiness Evaluation and Improvement Program – NERC should explain the effect of the proposed elimination of this program on Section 700 of the NERC Rules of Procedure (ROP). (P 34)

Note - FERC states that NERC must obtain FERC approval before eliminating a previously-approved statutory program, and indicates that if this program

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is eliminated, NERC must file for FERC approval of deletion or appropriate modifications of NERC ROP Section 700.

5. Reliability Assessment and Performance Analysis Program – NERC must reconsider the sufficiency of the 2009 funding for this program, provide an explanation, and if appropriate provide a supplemental budget request for additional funding. (P 37)

6. Development of metrics and benchmarks to support bulk power system reliability – NERC must provide a detailed description of its goals and plans to achieve its goals in 2009 for developing real-time performance metrics. (P 72)

7. Benchmarking objectives are included in NERC’s 2008 Business Plan and Budget (at 26) but omitted from its 2009 Business Plan and Budget – NERC must explain why the following benchmarking objectives were omitted from its 2009 Business Plan and Budget (P 73)
   a. Incorporate results of the latest reliability threats survey on the Reliability Dashboard.
   b. Report on changes in reliability performance compared to established benchmarks for each reliability performance indicator.
   c. Develop and submit SARs, as required, for any deficiencies or needs revealed by the benchmarking program.
   d. Maintain a GADS on the performance of electric generating equipment.
   e. Communicate performance results, trends, recommendations, and initiatives to those responsible to take actions; follow with confirmations of actions to correct any deficiencies identified.
   f. Establish and maintain a TADS and report on trends in transmission equipment performance.

Finance, Accounting, and Regional Entity Budget Issues

1. Regional Entity metrics – NERC should provide (1) standardized terminology for the different types of audits conducted by the Regional Entities and (2) revised audit-related metrics applying the standardized methodology.

2. Regional Entity Indirect Cost Increases – NERC must provide a more detailed explanation of the General and Administrative expenses for certain Regional Entities, including additional, detailed information that is sufficient to justify these cost increases. (P 53)
   a. NPCC
   b. ReliabilityFirst
   c. Texas Regional Entity
   d. SPP Regional Entity
e. WECC

3. FRCC non-statutory activities – NERC and FRCC must explain (i) the increase in non-statutory activities as a percentage of FRCC’s total budget from 39.5% to 45.7%, and (ii) whether FRCC expects this percentage to continue to increase in future years. (P 54)

4. SPP Regional Entity working capital reserve – (i) NERC and SPP Regional Entity should provide additional information on the operating cash balances to which SPP Regional Entity has access. (ii) NERC and SPP Regional Entity must clarify whether the operating cash balances and bank line of credit to which SPP Regional Entity has access are solely under SPP Regional Entity’s name and not shared in any way with SPP, Inc. (P 55)

5. SPP Regional Entity use of and cost of shared staff of SPP, Inc. – SPP Regional Entity must provide (i) specific information regarding the proposed hours shared employees will work on SPP Regional Entity business and (ii) the actual per hour rate for each indirect cost allocation for shared services. (P 57)

6. Regional Entity interest income – Certain Regional Entities have not included any interest income in their 2009 Business Plans and Budgets; NERC and these Regional Entities should explain why there is no interest income in these budgets, or correct the budgets to include interest income. (P 59)

a. FRCC
b. MRO
c. NPCC
d. SPP Regional Entity
e. Texas Regional Entity

7. Salary increases – NERC and the Regional Entities must provide additional information explaining the proposed salary increases per FTE for certain programs. (P 60)

8. WIRAB budget – NERC and WIRAB must provide additional explanation for the increase in WIRAB’s budget (including the 55% increase for indirect expenses) when WIRAB projects $214,562 in unspent funds at year-end 2008. (P 62)

9. Allocation of costs excluded from IESO and Quebec assessments – (i) NERC and NPCC must explain how costs excluded from the allocations to IESO and Quebec are allocated to U.S. entities. (ii) If this allocation is done otherwise than via NEL, the deviation from NEL must be explained and justified. (P 67)

NERC is developing its compliance filing considering input from the Member Representatives Committee, NERC’s technical committees and the stakeholder
community in a similar manner to the process used to develop the original budget. This document presents, for consideration by the NERC Board of Trustees Finance and Audit Committee and continued stakeholder input and comment, the proposed response to the program area issues raised in the FERC’s order. The Member Representatives Committee discussed an earlier version of this document during a conference call on November 14, 2008. This version considers the comments and input received during that call and written comments received by November 19, 2008.

This document deals only with the program area issues raised in the FERC order. NERC is continuing to work with the Regional Entities on issues related to their business plans and budgets and will be posting the response to those issues as part of the compliance filing document to be considered by the Board of Trustees during a conference call currently scheduled for December 12, 2008.

Executive Summary

The 2009 Business Plan and Budget, developed in the late spring and early summer of 2008 through a robust multi-step process with industry input and support, adequately addressed the projected resource needs for 2009 based on the information available at that time. Given the additional experience and information gained since that time, and in compliance with the FERC’s order, NERC now anticipates that it will need to acquire additional staff and contract for additional resources in 2009 to supplement those originally called for in the plan. Those additional resources include 6 new full-time equivalent (FTE) staff and $750,000 to obtain needed consulting resources and subject matter expertise to supplement NERC staff resources. These additions bring NERC’s total 2009 year-end staff projection to 106.5 and result in a revised budget for 2009 that totals $ 36,006,226.

However, NERC believes that the funding level and assessments defined in the 2009 Business Plan and Budget are sufficient to carry out its responsibilities as the Commission-certified Electric Reliability Organization. NERC proposes to utilize the $2.5 million reserve, already included in the 2009 Business Plan and Budget, to fund the difference. Therefore, as part of its 60-day compliance filing, NERC does not plan to seek an increase to the funding level or assessments shown in the 2009 Business Plan and Budget (as corrected) filed on August 31, 2008.

NERC filed on November 14, 2008 a request for clarification of PP24-25 of the Commission’s October 16, 2008 budget order.

Issue: NERC seeks clarification that the Commission, in PP 24-25 of the 2009 ERO Budget Order, is not intending to modify previous orders approving NERC’s use of its Reliability Standards development process; and that the Commission is not directing that NERC staff take responsibility for determining the substantive content of new and modified Reliability Standards NERC submits to the Commission for approval, to the extent of substantively modifying the content of
new and modified Reliability standards that are developed through NERC’s open, public and industry consensus-based Reliability Standards development process and approved by the registered ballot body. Rather, NERC assumes the Commission is directing NERC to have sufficient professional and technical staff in its Reliability Standards Development Program to (i) ensure timely and efficient management of the Reliability Standards development process, and (ii) provide technically informed analyses, advice and recommendations to the NERC Board and to the Commission on whether to approve new or modified Reliability Standards that have been approved by the registered ballot body.²

NERC expects to reiterate this request for clarification in its December 15 compliance filing. However, as described more fully below, NERC plans to add consulting resources for drafting team facilitation and subject matter experts needed to support standards project work in 2009.

NERC’s long-standing philosophy regarding business plans and budgets is to include the resources that are needed and can be reasonably brought to bear in accomplishing the goals set out for the coming year. In other words, budget what is necessary to get the job done as efficiently and cost effectively as possible. Unfortunately, the “job” is rarely predictable, especially during periods of significant change. The initial years of standing up a brand new self-regulatory organization certainly qualify as such a period. Furthermore, the annual business plans and budgets do not set a spending “cap” or rigid assignment of resources. If an issue arises that is critical to the reliability of the bulk power system that was not anticipated in the business plan or included in the budget, NERC will shift or add resources as needed to do what it takes to address the issue. That may mean readjusting priorities on other projects and programs, drawing down its reserve funds, drawing on its credit line, or proposing a special assessment. In the end, NERC will take the steps it believes necessary and sufficient to meet its mandate of ensuring the reliability of the bulk power system.

The following sections of this document deal with the program areas discussed in the Commission’s October 16, 2008 order and describe NERC’s proposed response.

**Reliability Standards**

The Reliability Standards Program is addressed in paragraphs 22 through 25 of the October 16, 2008 FERC order.

> 22. **Reliability Standards Program.** NERC proposes to decrease its FTEs from 15 to 14 for this program. Yet, NERC states that its three-year work plan

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contemplates over 35 Reliability Standards development projects (from 2008 through 2010). The Commission is concerned that the 14 FTEs NERC budgeted for the 2009 Reliability Standards program may not allow NERC to meet its anticipated increase in Reliability Standards development projects and carry over other projects from the previous year.

23. In its advice to the Commission, WIRAB states that it is concerned with NERC’s delays in approving and forwarding proposed Interconnection-wide regional Reliability Standards to the Commission.

24. While NERC relies on volunteer technical experts and stakeholders to develop proposed Reliability Standards under the facilitation of NERC’s professional staff, NERC as the ERO is ultimately responsible for both the process and content of Reliability Standards proposed for Commission approval.

25. Thus, the Commission expects that NERC should have or acquire the necessary high level of internal technical expertise to further the development and improve the quality of proposed Reliability Standards. Utilization of industry technical expertise does not discharge the ERO of its obligation to ensure Reliability Standards are developed that are responsive to the Commission’s orders and provide for reliable operation of the Bulk-Power System. NERC anticipates over 35 Reliability Standards development projects and needs to be technically fluent about all of these projects to ensure that the development of the standards and NERC’s subsequent approval or remand are based on its own technical expertise in addition to that of the industry’s used to help draft the standards. Accordingly, the Commission directs NERC to reassess its allocation of FTEs and other resources, such as consultants, budgeted in 2009 for the Reliability Standards program, to provide an explanation in its compliance filing and, if appropriate, to request supplemental funding to support this program.

NERC Response:

NERC believes the resources in the 2009 Business Plan and Budget would have been sufficient to accomplish the goals and planned projects set out for the program when the budget was developed. However, there are a number of factors that call for an adjustment to the projected 2009 resource requirements based on changes that have occurred since the 2009 NERC Business Plan and Budget was finalized and to comply with the Commission’s October 16, 2008 order.

3 2009 Business Plan and Budget at 9.
4 See Order No. 672, FERC Stats. & Regs. ¶ 31,204 at P 175; ERO Certification Order, 116 FERC ¶ 61,062 at P 234; NERC 2009 Business Plan and Budget at 8.
5 NERC filed a request for clarification in PP 24-25 of the October 16, 2008 order as described in the Executive Summary.
One of these factors is the increased focus on critical infrastructure protection standards and the need to expedite their development in support of FERC Order 706. This effort is targeted for completion in an 18 to 24 month window and was advanced from the originally contemplated 2009 work plan into 2008. To reasonably meet this objective, the standard drafting team will need to meet on an accelerated schedule throughout the development process and require greater than normal facilitation. Standards staff coordinators are already fully committed to support the 35 projects (active and planned for 2009/2010) described in the 2009 Business Plan and Budget and to address any new requests for standard interpretations or variances.

NERC’s experience with the current standards development process shows that a standards development coordinator can generally manage four projects on a regular (non-accelerated) schedule. The 2009 Business Plan and Budget includes five full-time coordinators. In addition, four managers in the standards group are available to support projects as time permits in their workload. In order to successfully accomplish the standards development projects in the work plan and meet the need to develop critical infrastructure protection standards in accordance with Order 706, NERC proposes to add consulting resources to facilitate drafting team work throughout 2009. The estimated cost of this additional expenditure is $250,000. This estimate is based on a projected need for approximately 1,600 manhours at an hourly rate for consultant facilitation of approximately $150 per man-hour.

Another factor in reviewing projected resource requirements is that NERC, as the Electric Reliability Organization, is ultimately responsible for the process and content of Reliability Standards, both for continent-wide standards and for regional standards in accordance with the Regional Delegation Agreements. NERC relies on subject matter experts on staff as one resource in carrying out this responsibility, but also contracts for services with subject matter experts in technical areas that go beyond staff expertise. A review of the projects underway or scheduled to commence in 2009 at either the continent-wide or regional level for which contract expertise may be required includes:

**Continent-Wide Projects**
- Voltage and Reactive Control
- Underfrequency and Undervoltage Load Shedding
- Phasor Measurement Units
- Protection Systems
- Balancing Authority Controls
- Reliability-Based Control
- Frequency Response
- Generation Verification/Performance
- Power System Stabilizers

**Regional Projects**
- Misoperation of Control Systems
- Generator Performance during Frequency and Voltage Excursions
- System Performance
Recent experience shows that additional subject matter expertise will be required to support drafting team efforts in 2009 for these topics. The current estimate to acquire the contracted subject matter expert resources required for 2009 is $250,000 more than originally estimated. This estimate is based on a projection that at least half of the areas above will require supplemental subject matter expertise for a 4 to 6 week engagement.

Finally, through the end of October 2008, NERC has submitted more than 25 filings to regulatory agencies as a result of work completed by the Reliability Standards Development program. An additional 15 to 20 filings are anticipated by the end of 2008. The number of regulatory filings is now expected to increase in 2009 as additional projects are completed and work progresses to revise Violation Severity Levels (VSLs) in consideration of FERC’s guidelines articulated in its June 19, 2008 order and its November 20, 2008 order on rehearing and clarification and accepting compliance filing. These activities are beyond the workload projected when the 2009 Business Plan and Budget was developed. Furthermore, the work to develop the initial draft filings is currently done by the drafting team coordinators and managers in conjunction with the Vice-President of Standards Development. This draws needed resources away from standards project work and overall coordination and management of the program. As a result of these factors, NERC now expects to add 0.5 FTE staff to assist in developing timely regulatory filings.

As noted above, NERC has filed a request for clarification to the extent the October 16, 2008 FERC budget order suggests NERC staff take responsibility for determining the substantive content of new and modified Reliability Standards.

**Compliance Monitoring and Enforcement**

Paragraphs 26 through 28 of the October 16, 2008 FERC order address the Compliance Monitoring and Enforcement Program.

26. **Compliance Monitoring and Enforcement.** In Order No. 672, the Commission stated its expectation for the ERO to have a compliance program that incorporates proactive enforcement audits and investigations of alleged violations. This program is to provide for “rigorous” audits of compliance with

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6 North American Electric Reliability Corporation, Order on Violation Severity Levels Proposed by the Electric Reliability Organization, 123 FERC ¶ 61,248 (June 19, 2008 Order)
7 North American Electric Reliability Corporation, Order on Rehearing and Clarification and Accepting Compliance Filing, 125 FERC ¶ 61,212 (November 20, 2008 Order)
8 The Compliance Monitoring and Enforcement Program has a similar need for additional resources to assist with the preparation of filing documents including Notices of Penalty and will share an added FTE with Standards.
9 Order No. 672, FERC Stats. & Regs. ¶ 31,204 at P 45.
the Reliability Standards. The Commission is concerned that NERC may not be able to adequately perform its compliance and enforcement duties with the proposed 2009 staffing. NERC proposes to add five FTEs to the compliance and enforcement functions, for a total of 31 FTEs. Of these, three FTEs appear to mainly perform tracking functions, rather than auditing or investigating potential violations or approving Notices of Penalty and mitigation plans.

27. Of primary concern is NERC’s ability to substantively review and process alleged violations. Since June 18, 2007, NERC has identified more than 1,400 alleged violations. However, to date, NERC has processed (and filed for Commission approval of) 37 Notices of Penalty addressing only 105 alleged violations. Moreover, NERC has not completed its review of many of the approximately 5,000 alleged pre-June 18, 2008 violations and accompanying mitigation plans that require ERO/Regional Entity approval and monitoring. It is also unclear whether NERC has budgeted sufficient FTEs to ensure consistency across regions with respect to how entities must demonstrate compliance with the Reliability Standards and how differing interpretations of Reliability Standards during audits will be resolved.

28. NERC reports that 12 compliance violation investigations (CVI) have been initiated (four by NERC and eight by the Regional Entities), but none has been completed. CVIs and related event analyses are critically important to ensure reliability of the Bulk-Power System, because events or disturbances are often symptomatic of underlying reliability issues that require remediation. The Commission is concerned that NERC will not have enough staff to complete all event analyses and compliance violation investigations fully and in a timely manner. Accordingly, NERC must address in a compliance filing the adequacy of its 2009 budget for compliance monitoring and enforcement, and for CVI, including a meaningful plan and schedule for processing outstanding alleged violations, mitigation plans, notices of penalty, CVI, and a supplemental budget request if appropriate.

NERC Response:

NERC recognizes the need for additional resources in the CMEP. During the fall of 2008 but prior to receiving the October 16, 2008 budget order, NERC had begun the process of refocusing parts of its compliance program staff into two areas: compliance violations and audits. New workload estimates for each of those areas show an increase in staffing requirements from those included in the 2009 Business Plan and Budget, even with the additional efficiency of the new organization. As a result, NERC now believes an additional 4 FTE staff positions will be required in the program bringing the total staffing level in the compliance area to 35 FTEs in 2009. The compliance violation and audit

10 Id. P 463 (citing 18 C.F.R. § 39.7(a)).
areas are described more fully in the next two paragraphs along with NERC’s current projection of 2009 resources for each.

Compliance Violation Investigations

NERC identified a need to establish a group dedicated to CVIs. The length of time required to complete a CVI is of concern and is exacerbated by the complexity of the issues, lack of experience in conducting investigations, need to bring on additional personnel, and time to train those individuals. Much of the burden of this effort currently falls upon the Regional Entities. By taking the lead on certain CVIs going forward, NERC expects that CVIs can be completed in a more timely fashion, allow leveraging Regional Entity resources on NERC-led CVIs, and free-up resources within the Regional Entities so that they can be applied to processing the backlog of alleged reliability standard violations. For 2009, the CVI group will include a staff of 11 FTEs comprised of one manager and 10 dedicated investigators. Based on the experience of this work during 2008, this level of resources should allow NERC to lead or participate in approximately 20 CVIs and inquiries.

In addition, experience during 2008 has shown that CVIs will require subject matter expertise that supplements NERC’s experienced staff resources. The number and specific areas of expertise required will depend on the CVIs initiated and on-going during 2009. The current estimate to acquire the contracted subject matter expert resources required for 2009 CVIs is $250,000 more than originally estimated. This estimate is based on a projection that at least 5 CVIs will require substantial involvement of supplemental subject matter expertise.

Audits – Achieving Consistency in Program Application

NERC will move the existing regional oversight activity into an audit function. This function will report directly to the CEO. NERC will continue to conduct audits of the Regional Entity compliance programs on a three-year basis as required by the Rules of Procedure. In addition, the audit function will conduct audits of field work conducted on behalf of NERC by the Regional Entities. The 2009 consolidated Regional audit schedule includes in excess of 400 audits, some of which will be on-site and some off-site. NERC will audit how the Regional Entities conduct compliance audits, spot checks, self-certifications, and other activities upon the users, owners, and operators of the bulk power system. NERC will conduct these audits of field work on a scheduled and unscheduled (without notice to the Regional Entity) basis. The 2009 Business Plan and Budget included a staff of 4 FTEs in this group. With the enhanced responsibility described above, NERC will increase this staffing to a total of 9 FTEs in 2009. Based on the initial experience of this work in 2008, this level of resources should allow NERC to attend approximately 40 Regional Entity audits in addition to auditing the processes, work practices and results of the Regional programs.
Backlog of Outstanding Alleged Violations, Mitigation Plans, and Notices of Penalty

Paragraph 28 of the October 16, 2008 FERC order calls for NERC to include “a meaningful plan and schedule for processing outstanding alleged violations, mitigation plans, notices of penalty” in the 60-day compliance filing. This plan and schedule for completion is being developed for the compliance filing and will include: 1) a general description of the routine work NERC does to review, track and process alleged violations and mitigation plans for the Board of Trustees Compliance Committee, 2) a description from each Region on their plans and schedules to address any backlog they have, and 3) a more detailed description of NERC’s efforts to prioritize work and provide direction to the Regions that supplements the high level summary in the next paragraph.

The Board of Trustees Compliance Committee has developed metrics identifying the scope and location of the greatest backlogs and provided direction to the Regional Entities on priorities in reducing the backlog. To help facilitate this effort, NERC has moved a senior staff person to this effort as a special assignment. The objective of this special assignment is to expedite the processing of the backlog of alleged violations by converting the direction provided by the Board of Trustees Compliance Committee into specific priorities and actions, and directing the Regional Entities regarding expediting those alleged violations on a schedule that meets NERC’s expectations. The assignment also includes implementation of the “knowledge management” initiative described in NERC’s 2009 CMEP implementation plan. The knowledge management initiative will collect lessons learned from compliance audits and other field work including any knowledge about the application of the reliability standards, provide a process for vetting this knowledge within NERC, and create a searchable database of this knowledge for use by the Regional Entities and all users, owners, and operators. The knowledge management initiative will, in part, continue the effort to communicate lessons learned currently included as part of the Reliability Readiness Program.

As a result of efforts to reduce the backlog within the compliance process, additional resources will be needed to process and file compliance related documents with the appropriate regulatory agencies. In recognition of this need, NERC now projects it will add 0.5 FTE staff to assist with the preparation of filing documents including Notices of Penalty.11

Reliability Readiness Evaluation and Improvement

Paragraphs 29 through 34 of the October 16, 2008 FERC order address the Reliability Readiness Evaluation and Improvement Program. Paragraph 34 provides the FERC’s direction.

11 The Reliability Standards Development Program has a similar need for additional resources to assist with the preparation of filing documents and will share an added FTE with Compliance.
34. Accordingly, the Commission directs NERC to reconsider the funding for the Reliability Readiness Evaluation and Improvement Program, to provide additional explanation in a compliance filing about the proposed elimination of this program and, if appropriate, to provide a supplemental budget request for the continued funding of the program beyond the first quarter of 2009. Moreover, this compliance filing should address the affect of the proposed elimination on section 700 of its Rules of Procedure that implement this program.

NERC Response:

NERC supports the original decision to phase out the Reliability Readiness Evaluation and Improvement Program and will support that decision in the 60-day compliance filing. The following information will be used in part to develop that section of the filing.

Program Overview

To understand why NERC decided to phase out the Reliability Readiness Evaluation and Improvement Program, it is necessary to look back its origin and evolution. The program (originally referred to as a Readiness Audit program) began in response to directives following the August 14, 2003 blackout. As a result of the blackout, FERC, NERC, and the U.S.-Canada Power System Outage Task Force all recognized a need to assess the vulnerability of the bulk power system in North America to similar events.

Recommendation 18 of the U.S.-Canada Power System Outage Task Force final report addressed the readiness activities.12

18. Support and strengthen NERC’s Reliability Readiness Audit Program.
A. Readiness Audits
NERC:
In its directives of February 10, 2004, NERC indicated that it and the regional councils would jointly establish a program to audit the reliability readiness of all reliability coordinators and control areas within three years and continuing thereafter on a three-year cycle. Twenty audits of high-priority areas will be completed by June 30, 2004, with particular attention to efficiencies identified in the investigation of the August 14 blackout.

Task Force:
Recommend that the remainder of the first round of audits be completed within two years, as compared to NERC’s plan for three years.

B. Public Release of Readiness Audit Reports
Task Force:

Recommends that NERC require all readiness audit reports to be publicly posted, excluding portions pertaining to physical and cyber security. Reports should also be sent directly to DOE, FERC, and relevant authorities in Canada and state commissions. Such reports should draw clear distinctions between serious and minor violations of reliability standards or related requirements.

NERC quickly responded to this recommendation and instituted a reliability readiness audit program to assess the readiness of bulk power operations throughout North America (adapted from a WECC program already in place). The first audit took place the week of March 8, 2004.

Absent enforceable and mandatory NERC standards, the goal of the program was to increase transparency on operating practices and assess the industry’s overall preparedness to minimize the likelihood of another major blackout. By leveraging publicly posted and balanced reports, NERC could encourage adoption of best practices, identify industry trends, and become a proactive force in encouraging continent-wide reliability practices. The program became one of the many driving forces aimed at increasing reliability of the bulk power system. The Reliability Readiness Audit Program was later renamed as the Reliability Readiness Evaluation and Improvement Program.

In February 2007, the Reliability Readiness Evaluation and Implementation Program began its second three-year cycle of evaluations. With mandatory standards and the start of the CMEP approaching, the readiness program quickly acknowledged the changed landscape and shifted its evaluations away from compliance with standards. However, stakeholders continued to comment that many of readiness evaluation functions had become redundant with the new compliance audits and that most of the benefits of the readiness program had been achieved in the initial series of evaluations conducted during its first three-year cycle (2004 through 2006).

With the industry’s overwhelming attention to preparing for and participating in the implementation of the mandatory standards, little resources were available to address the ongoing changing needs of readiness evaluations in the new compliance environment. This was the result, at least in part, of the industry viewing the program as “voluntary”.

Reliability Enhancement Activities Continue

NERC’s reliability enhancement resources are being applied in the highest value areas. These include the following areas:

- Protection System Improvements Initiative (Event Analysis) - The purpose of this initiative is to improve reliability by reducing the incidents of system protection as causal or contributory to disturbances and other system events. It began with the relay loadability recommendations from the 2003 blackout. Activities include relay loadability, protection system redundancy, transmission protection coordination, and transmission protection coordination with generation protection and generation control systems.
System Modeling Improvement Initiative (Events Analysis) - The purpose of this initiative is to promote technical excellence in modeling of the power system in order to better predict its behavior. It is tied to the 1996 WSCC (WECC) recommendations on model validation, as well as the NERC recommendations on modeling related to the 2003 blackout. Activities include promoting improvements in quality of powerflow and dynamic models, improved understanding of dynamic system behavior and inter-area oscillations, and improved modeling techniques.

Synchro Phasor Initiative (Situation Awareness/Event Analysis) - NERC has taken a leadership role in the North American Synchro Phasor Initiative (NASPI) to facilitate the rapid deployment of phasor technology. The phasor technology will improve the control of the bulk power system and will allow for more optimal asset utilization of the infrastructure. The phasor technology will also improve wide area situational awareness for the monitoring of the bulk power system. Another benefit of the technology is in the area of system forensics after the bulk power system has experienced a disturbance. NERC has budgeted funds for the next five years to fulfill its role as a facilitator for the integration and sharing of phasor derived information to achieve greater reliability on the bulk power system.

Standards Development Plan (Standards) - NERC maintains its three-year Reliability Standards Development Plan as a management tool to guide, prioritize, and coordinate the development of reliability standards, to communicate with applicable governmental agencies in the United States and Canada, and to engage stakeholders in standards development. Through the implementation of this development plan, NERC’s reliability standards will improve reliability of the bulk power system by addressing known gaps in the current set of reliability standards, by improving the overall quality of the reliability standards so that users of the standards are clear as to obligations and the consequences for non-performance, and by condensing the set of reliability standards to eliminate redundancies and to focus them on key reliability objectives.

Performance Metrics (Metrics and Benchmarking/Standards) - NERC continues to establish more meaningful and tangible set of performance metrics that define how well the set of reliability standards accomplish the goal of ensuring an adequate level of reliability. Recent experience shows that additional resources are needed in this area as described in the Metrics and Benchmarking section below. This development will permit the benchmarking of overall reliability performance and provide a more meaningful objective baseline to which future reliability standards can be developed and against which existing reliability standards can be judged.
Reliability Assessment and Performance Analysis

Paragraphs 35 through 37 of the October 16, 2008 FERC order address the Reliability Assessment and Performance Analysis Program. Paragraph 37 provides FERC’s direction.

37. The Commission expects NERC to be proactive when gathering and assessing data. Currently, data is provided by entities to the appropriate Regional Entity and then forwarded by the Regional Entity to NERC where the information for each region is validated by members of other regions. The Commission is concerned that this current practice does not constitute a sufficient method of validating another region’s data. Potentially invalid data poses a potential risk for reducing the accuracy of the conclusions drawn from the data and thus rendering the steps taken to protect the grid less successful. Thus, the Commission is concerned whether NERC’s Reliability Assessment and Performance Analysis Program is adequately funded and staffed to properly validate data, rather than passively accepting data received from other entities. Accordingly, the Commission directs NERC to reconsider the funding for the Reliability Assessment and Performance Analysis Program, to provide an explanation in a compliance filing and, if appropriate, to provide a supplemental budget request for additional funding of the program. In response to WIRAB’s suggestion that NERC’s findings for the long-term reliability assessment become subject to a public review process, the Commission finds that that topic is beyond the scope of this order and encourages NERC to work with WIRAB to resolve this issue.

NERC Response:

In compliance with the Commission order, NERC will in 2009 review its internal data collection and validation processes to fortify its current data analysis system by designing, creating, testing and putting in place additional automated data checking systems to accommodate the increasing amount of data NERC collects for its reliability assessments. These enhancements will not require additional manpower or other costs, as it will be an internally-developed system. Further, the Reliability Assessment Subcommittee (RAS) has recently added one representative from each Regional Entity to supplement its membership of industry subject matter experts and to further assist NERC in carrying out peer review and data validation.

The aforementioned automated data checks will complement the rigorous peer review performed by NERC staff, Regional Entity staff, and industry subject matter experts described above. It will also expedite this review and increase the productivity of NERC staff and industry experts who are tasked with developing independent and comprehensive reliability assessments of bulk power system reliability.
NERC’s unique, independent ability to validate the data it gathers from industry in the preparation of its reliability assessment reports is not a matter of resources, but rather a matter of the processes NERC and the Regional Entities use to perform their respective portions of the reliability assessments. As stated in the Introduction section of each of NERC’s reliability assessment reports, NERC prepares its reliability assessments with detailed data, information, and regional self assessments from the Regional Entities as well as active support from the RAS under the direction of NERC’s Planning Committee with additional review from the NERC Operating Committee.

The data, information, and regional self assessments submitted by each of the Regional Entities is periodically updated throughout the report drafting process to ensure that it is as current as possible. This data and information is first analyzed, vetted, and attested to by the Regional Entities as part of their own self assessment process, which follows a detailed set of assessment criteria established by NERC. After it is received, it undergoes further review by NERC staff and the RAS to ensure accuracy and consistency.

On this basis, NERC believes that no additional funding or personnel are required to support data and information validation in 2009.

**Metrics and Benchmarking**

NERC’s metrics and benchmarking efforts are addressed in paragraphs 72 and 73 of the October 16, 2008 FERC order.

> 72. *The Commission believes that NERC’s development of grid reliability performance metrics is an important and timely topic to support Bulk-Power System reliability.* Improved reliability performance metrics will increase both operator and regulatory understanding of the condition of the Bulk-Power System. Proactive measurement tools and strategies can detect reliability problems in real-time, and resolve occurrences or prevent further vulnerability. *The Commission, therefore, encourages NERC to provide the necessary resources to timely develop metrics and benchmarks to support Bulk-Power System reliability.* Further, the Commission directs NERC to provide in a compliance filing a detailed description of NERC’s goals and plans to achieve those goals for fiscal year 2009 with regard to real-time performance metrics.

> 73. *To that effect, we note that NERC’s 2009 Business Plan and Budget omit the following benchmarking objectives that were included in previous year business plans and budgets:*

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13 In Order No. 672, the Commission stated that it “may determine that reliability and adequacy assessments should include appropriate metrics, if applicable, to assist the Commission in monitoring actual reliability performance and plans.” Order No. 672, FERC Stats. & Regs. ¶ 31,204 at P 805.

threats survey into the Reliability Dashboard;\textsuperscript{15} (2) report on changes in reliability performance compared to established benchmarks for each reliability performance indicator; (3) develop and submit standards authorization requests, as required, for any deficiencies or needs revealed by the benchmarking program; (4) maintain a Generating Availability Data System (i.e., GADS) on the performance of electric generating equipment; (5) communicate performance results, trends, recommendations, and initiatives to those responsible to take actions; follow with confirmation of actions to correct any deficiencies identified; and (6) establish and maintain a Transmission Availability Data System (i.e., TADS) and report on trends in transmission equipment performance. The Commission directs the ERO to explain in the compliance filing why the above benchmarking objectives have been omitted.

NERC Response:

The purpose of NERC’s metrics and benchmarking activities is to identify, understand, and, whenever possible, facilitate adoption of best practices or techniques that help improve reliability performance over time. In the budget order, FERC correctly recognized that NERC’s metrics and benchmarking activities are important to support Bulk Power System reliability.

Resources have been committed to metrics and benchmarking development since 2006. At that time, NERC launched its first ever reliability benchmarking dashboard and later formed an internal benchmarking team in 2007, bringing functional expertise and the perspectives from each NERC program together to help direct the effort. The team proposed three main reliability indices and an advanced system for establishing performance metrics, benchmarks, and reliability leading indicators.

In 2008, NERC’s reliability dashboard was updated with revised performance indices and leading indicator trends.\textsuperscript{16} These performance indices and trends will be tracked in 2009 and changes in reliability performance reported. With experience in 2009, benchmarks for each indicator may then be developed. As an example, NERC has identified that protection system misoperation is a leading root cause of bulk power system disturbances. Protection system performance has caused or exacerbated a growing percentage of bulk power system outages over the past several years, contributing to over 40% of tracked disturbances in 2007. This trend will require additional analysis in 2009 and ultimately require new approaches to mitigate root causes.

\textsuperscript{15} Section 809 of NERC’s Rules of Procedure requires NERC to maintain a performance metrics “dashboard” on its website which identifies and tracks key reliability indicators as a means of benchmarking reliability performance and measuring reliability improvements. NERC’s current benchmarking dashboard includes sections on Reliability Performance Gap Index, Adequacy Gap Index, and Leading Indicators.

\textsuperscript{16} \url{http://www.nerc.com/page.php?cid=437}
NERC’s Planning Committee formed a Reliability Metrics Working Group (RMWG) in early 2008 to advise and support the needs of the metrics and benchmarking program. The group is now formed and has provided input on enhancements to the program. With this input, NERC now believes the scope of work in 2009 is increased to include defining metrics for assessing an Adequately Level of Reliability, determining data collection and reporting guidelines, and initializing data collection and analyses not previously identified. NERC’s approach follows a four-phase continuous process improvement cycle – plan, collect, analyze and adapt. With sufficient performance data and clear metrics trends, NERC plans to work with industry, regulatory and governmental organizations to propose benchmarks for each characteristic of Adequate Level of Reliability, identify best practices and recommend changes to standards based on those trends.

Additionally, the benchmarking objectives included in the 2008 Business Plan and Budget as highlighted in paragraph 73 of the October 16, 2008 FERC order have been included in different sections of the 2009 Business Plan and Budget.

“(1) incorporate the results of the latest reliability threats survey into the Reliability Dashboard”

The reliability threats survey\(^{17}\) was more closely linked to long-term reliability assessment and the survey results were incorporated into the 2007 Long-Term Reliability Assessment report\(^{18}\) (LTRA, page 19-20). Nevertheless, NERC will review the survey in light of the metrics data currently being collected to determine if changes should be made to the dashboard. NERC will include an update of that work in the reliability enhancement discussion to be included in the 2010 Business Plan and Budget.

“(2) report on changes in reliability performance compared to established benchmarks for each reliability performance indicator”

Reports will be addressed in the 2009 performance metric and leading indicator work described above. Benchmark levels will be determined as the experience with metrics and leading indicators increases.

“(3) develop and submit standards authorization requests, as required, for any deficiencies or needs revealed by the benchmarking program”

Standard Authorization Requests may be developed as a result of the metrics work as described above.

“(4) maintain a Generating Availability Data System (i.e., GADS) on the performance of electric generating equipment”


This effort is included in the 2009 Business Plan and Budget (pp. 43-44). The data and trend analysis developed by these systems are incorporated into the metrics and benchmarking effort described above.

“(5) communicate performance results, trends, recommendations, and initiatives to those responsible to take actions; follow with confirmation of actions to correct any deficiencies identified”

Reports will be addressed in the 2009 performance metric and leading indicator work described above.

“(6) establish and maintain a Transmission Availability Data System (i.e., TADS) and report on trends in transmission equipment performance.”

This effort was included in the 2009 Business Plan and Budget (pp. 42-43). The data and trend analysis developed by these systems are incorporated into the metrics and benchmarking effort described above.

Considering the increased scope of work for 2009, the Commission’s comments that encourage NERC to timely develop metrics and benchmarks, the desire to more frequently update the dashboard and the newly developed work plan to define metrics for assessing an Adequate Level of Reliability, NERC now intends to add one FTE data analyst to the metrics and benchmarking group in 2009. This staff member will more frequently update and maintain the existing metrics database, incorporate additional data sources, refresh the dashboard with the revised data, and develop and maintain data for the new metrics.
Minutes
Finance and Audit Committee

November 24, 2008
Conference Call

Chairman Bruce Scherr convened a duly noticed open meeting by conference call of the Finance and Audit Committee of the North American Electric Reliability Corporation on November 24, 2008 at 1 p.m., EST. As required by the bylaws of the Corporation, dial-in listen-only access was provided to members of the Corporation and the public for the meeting. The meeting agenda is attached as Exhibit A.

Trustees present on the call in addition to Chairman Scherr were Richard Drouin, John Anderson, Janice Case, Fred Gorbet, and Ken Peterson. Ed Schwerdt, Regional Entity representative, was also present on the call. Additional attendees are listed in Exhibit B.

Antitrust Compliance Guidelines
Chairman Scherr directed the participants’ attention to the NERC Antitrust Compliance Guidelines.

Working Draft Response to FERC’s October 16, 2008 Order
On August 31, 2008 NERC filed with the Federal Energy Regulatory Commission (FERC or Commission) the 2009 Business Plan and Budget as well as the 2009 business plans and budgets for each of the Regional Entities and the Western Interconnection Regional Advisory Body (WIRAB). On October 16, 2008, the FERC issued an order conditionally accepting NERC’s 2009 Business Plan and Budget and ordered compliance filings to address several issues.1 The first of those filings is a 60-day compliance filing that is due to the FERC on December 15, 2008. The issues to be addressed in the 60-day compliance filing can be grouped as follows:

- Reliability Standards Development Program
- Compliance Monitoring and Enforcement Program
- Reliability Readiness Evaluation and Improvement Program
- Reliability Assessment and Performance Analysis Program
- Development of Metrics and Benchmarks
- Benchmarking Objectives
- Regional Entity Metrics

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Chairman Scherr stated the objective for the call was to discuss NERC staff’s suggestions for the response submittal to FERC’s Order with stakeholder input.

David Whiteley, NERC Executive Vice President, gave an overview of NERC’s response to the FERC Order dated October 15, 2009. He reported that given the additional experience and information gained since the development of the 2009 NERC Business Plan and Budget, and in compliance with the FERC’s order, NERC now anticipates that it will need to acquire additional staff and contract for additional resources in 2009 to supplement those originally called for in the plan. Those additional resources include 6 new full-time equivalent (FTE) staff and $750,000 to obtain needed consulting resources and subject matter expertise to supplement NERC staff resources. These additions bring NERC’s total 2009 year-end staff projection to 106.5 and result in a revised budget for 2009 that totals $36,006,226.

After discussion, the committee requested NERC staff to complete the filing document and bring it back for approval on a December 12, 2008 conference call.

There being no further business, the call was terminated at 2 p.m.

Submitted by,

Bruce E. Walenczyk
Chief Financial Officer
Introductions and Chairman’s Remarks

Antitrust Compliance Guidelines

1. **Working Draft Response to FERC’s October 16, 2008 Order — Discuss**
   a. Clean version (Attachment 1)
   b. Redline against version discussed by MRC on November 14, 2008 (Attachment 2)
   c. FERC October 16, 2008 Order (Attachment 3)
   d. Request for Clarification (Attachment 4)
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DISCUSSION OF COMMENTS
RECEIVED DURING DEVELOPMENT OF
NERC'S 2009 BUSINESS PLAN AND BUDGET

Overview

Throughout the development of NERC's 2009 Business Plan and Budget, interested entities were offered numerous opportunities to provide comments.

The NERC Finance and Audit Committee discussed Version 1.0 of the 2009 Business Plan and Budget at a meeting by conference call on April 11, 2008, which included an opportunity for public comment. A revised version of the 2009 Business Plan and Budget (Version 1.1) was then issued to the NERC Board of Trustees and the NERC Member Representatives Committee and posted on the NERC website for public comment on April 24, 2008. This draft was discussed at open meetings of the NERC Finance and Audit Committee, Member Representatives Committee and Board of Trustees on May 6-7, 2008. Immediately following the May 6-7 meetings, a budget workshop was held for interested entities. This workshop was accessible by telephone conference bridge. Over 30 participants participated in the four-hour workshop session with NERC staff. In addition, 15 sets of written comments were received in response to the public posting of Version 1.1.¹

On May 30, 2008, a further revised draft of the 2009 Business Plan and Budget (Version 2.0) was issued to the Finance and Audit Committee and was discussed by that Committee in an open meeting by conference call held on June 6, 2008. Version 2.0 was posted for comment on the NERC website on June 13, 2008. Twelve sets of written comments on Version 2.0 were received during this second public comment period.²

Following the second posting period, the Finance and Audit Committee held a further discussion of Version 2.0 in an open conference call meeting on July 11, 2008. Additional changes to the Business Plan and Budget were approved by the Committee. Version 3.0 of the 2009 Business Plan and Budget was issued on July 21, 2008 for consideration by the NERC Member

¹ Written comments on Version 1.1 of the 2009 Business Plan and Budget were received from Alcoa, Inc; Jean-Paul Theoret, President of Régie de l'énergie and NERC Member Representatives Committee Provincial Regulator Representative; the Canadian Electricity Association ("CEA"); Dominion Resources Services; Edison Electric Institute ("EEI"); FRCC; Hydro-Québec TransEnergie; the Ontario Independent Electric System Operator ("IESO"); the ISO-RTO Council; NPCC; ReliabilityFirst, SERC; Southern Company Services, Inc.; the NERC Standards Committee; and the State of Connecticut Consumer Counsel. All of these comments are posted on the NERC web site at http://www.nerc.com/filez/business_plan.html

² Written comments on Version 2.0 were received from Alcoa, Inc., CEA, EEI, the Electricity Consumers Resource Council, FRCC, IESO, the ISO-RTO Council, MRO, NB Power Transmission Corporation, NPCC, the NERC Operating Committee and the NERC Organization Registration and Certification Subcommittee. All of these comments are posted on the NERC web site at http://www.nerc.com/filez/business_plan.html

-1-
Representatives Committee and Board of Trustees at their meetings on July 29-30, 2008. On July 30, 2008, the NERC Board of Trustees approved the 2009 Business Plan and Budget for submission to the Commission. The final 2009 NERC Business Plan and Budget is labeled Version 3.1 and is Attachment 2 to this filing.

Summary of Concerns Expressed in Comments on Drafts of the 2009 Business Plan and Budget and How These Concerns Were Addressed in the Final Business Plan and Budget

The comments that were received on Versions 1.1 and 2.0 of the 2009 Business Plan and Budget can be grouped into eleven subject matter areas. NERC's summary of the eleven areas of concern (or support) expressed in the comments are listed below, followed by a discussion of how each concern was addressed in the final 2009 Business Plan and Budget.

1. 2009 Budget increases over 2008 are too high.

This concern was expressed in comments received on Version 1.1 of the 2009 Business Plan and Budget, which reflected a 46% increase over 2008. Thereafter, Version 2.0 of the 2009 Budget reflected reductions from Version 1.1 in the number of FTEs (eleven), personnel expenses ($832,119), meeting expenses ($1,002,702) and operating expenses ($1,157,750). Total proposed assessments for statutory funding were reduced by $4,034,272 in Version 2.0 from Version 1.1. The final approved 2009 Budget reflects further reductions from Version 2.0 in FTEs (eight), personnel expenses ($778,524), meeting expenses ($73,164) and operating expenses ($146,035). The proposed statutory assessments were further reduced by $858,345. The final proposed 2009 Budget is $34,447,620, which represents an increase of $7,915,626 (29.8%) over the 2008 Budget and an increase of $6,527,022 (23.4%) over the 2008 Projection.

2. Expenditures to create 24x7 Situational Awareness Room are not justified because this facility would duplicate the role of Reliability Coordinators, create a monitoring function at NERC that is not focused on the core responsibilities of standards development and compliance monitoring and enforcement, and could impose additional burdens on Reliability Coordinators during times of emergencies.

In the final 2009 Budget, the proposed 24x7 Situational Awareness Room has been replaced with a plan for a less costly Emergency Response Room that would be used in the case of significant system events and other emergency situations affecting the bulk power system. The proposed costs for the 24x7 Situational Awareness Room were approximately $475,000; whereas the projected costs for the Emergency Response Room total $125,000.

3. The Reliability Readiness Evaluation and Improvement Program should be studied to determine its ongoing value and relevance to the core mission of NERC.

The NERC Board of Trustees tasked the NERC Finance and Audit Committee to evaluate the Reliability Readiness Evaluation and Improvement Program (Readiness Program). In addition, the NERC Operating Committee formed a task force to consider this issue. NERC staff
developed a recommendation on the future of the Readiness Program as well, and proposed, among other things, implementation of a Reliability Assistance Program. The Finance and Audit Committee met by conference call on May 30, 2008 and July 11, 2008 to discuss the Readiness Program and to consider input and comments from interested entities. Opinions expressed by industry participants reflected the views that the Readiness Program was one of NERC’s strongest responses to the August 2003 Northeast blackout and had served an important purpose in the past; however, in light of the subsequent enactment of Section 215 of the Federal Power Act and the certification of NERC as the Electric Reliability Organization with authority to develop, adopt, and monitor and enforce compliance with mandatory reliability standards, the Readiness Program no longer serves a purpose. In addition, concerns have been expressed that NERC’s and the Regional Entities’ performance of the Readiness Program functions may conflict with performance of the compliance monitoring and enforcement functions. Accordingly, the decision was made to terminate the Readiness Program on or about the end of the first quarter of 2009, upon the completion of previously scheduled readiness evaluations. NERC’s 2009 Budget includes some expenses to complete these remaining activities of the Readiness Program before it is terminated.

4. The North American SynchroPhasor Initiative (NASPI) Project will make a valuable contribution to reliability and, subject to development of a comprehensive business plan, should be supported.

The final 2009 Business Plan and Budget NERC includes $1,453,000 for the first year funding of the NASPI Project, as part of the budget for the Situational Awareness and Infrastructure Security Program. At this time, NERC has engaged a consultant for this project and the consultant has completed a business plan.

5. Compliance audit teams are too large and too many items are covered in compliance audits. An assessment should be completed to determine the level of overlap with the Regional Entity compliance audit function. In the long run, is it necessary for NERC compliance staff to attend every audit conducted by a Regional Entity? NERC should examine more efficient ways to conduct oversight of Regional Entities short of duplicating their efforts.

In light of the singular importance of the compliance monitoring and enforcement program (CMEP) to the ERO’s statutory mission, NERC, as well as all of the Regional Entities, are budgeting increased resources for the CMEP in 2009. NERC also notes that the 2009 NERC and Regional Entity Budgets were developed without the benefit of full year 2008 actual results of compliance audits and the actual, overall costs of the CMEP. However, in response to the concerns expressed in comments with respect to the compliance audit function as summarized above, NERC has initiated a process to study and identify possible process improvements and efficiencies in the CMEP. NERC’s Finance and Audit Committee has established a process that will lead to the development of improved metrics with respect to all programs at NERC and the Regional Entities prior to the start of the 2010 budget cycle. The first meeting in this process will occur at the end of October, 2008. The metrics are expected to provide analytical data that will serve as a foundation for the development of the 2010 budget. Included in this process will be the gathering and analysis of statistical data associated with the NERC and Regional Entity
CMEPs. It is expected that this analysis will facilitate the examination of potential efficiency improvements in NERC's oversight methodologies, to the extent they exist, and lead to their implementation in the 2010 Business Plan and Budget.

6. **Allocations of NERC compliance and enforcement costs to Canadian entities should reflect situations in which such activities are provided or supplemented by provincial regulatory or other governmental authorities in Canada.** Canadian entities expressed concern with respect to allocations of costs associated with the implementation of FERC directives.

NERC recognizes that the concerns summarized above are ongoing concerns for Canadian entities, and has worked with Canadian entities (including governmental bodies) to address these concerns. NERC's efforts in this regard are discussed in detail in §VI of the narrative portion of this filing and in Attachment 16, which includes the Expanded Policy on Allocation of Certain Compliance and Enforcement Costs adopted by the NERC Board of Trustees for the 2009 Budget, as well as the calculation of proposed adjustments to the allocation of NERC's 2009 CMEP costs to entities in Ontario and Québec. The adjustments reflect the facts that (i) certain compliance and enforcement activities are performed in Ontario (by the IESO), and (ii) in Québec, fewer compliance audits will be performed due to the small number of entities to be audited; as a result some portion of the costs of NERC's CMEP should not be allocated to entities in these two Provinces.

7. **NERC should include 2010 and 2011 forecasts of expenses and assessments in the 2009 Business Plan and Budget.**

NERC included a forecast in its 2008 Business Plan and Budget of expenses and assessments in 2009 and 2010 and has included a forecast of 2010 and 2011 NERC expenses and assessments in its 2009 Business Plan and Budget. See §III.F of the narrative portion of this filing and Table 7 in Section B of Attachment 2.

8. **The need for and value of the Generator Availability Data System (GADS), the Transmission Availability Data System (TADS) and expenditures on these programs were questioned by certain commenters.**

In the early stages of the 2009 Business Plan and Budget development process, NERC initiated an analysis of the historic revenues and expenses associated with the GADS program. The results indicated that GADS products and services were of significant value to certain segments of the industry and to certain industry participants. NERC concluded that the expenses of the GADS program should not be assessed (in whole or in part) to all load-serving entities (LSEs) in North America, but instead should be borne by the entities requiring or requesting the data. NERC therefore decided to increase the prices associated with GADS products and services to achieve breakeven. Price increases were effective July 1, 2008. The 2009 Budget reflects this breakeven pricing methodology; as a result, the expenses associated with GADS are, in effect, no longer included in the statutory assessments to LSEs.
With respect to TADS, which was approved by the NERC Board in October 2007 and is still in a developmental stage, data does not yet exist to conduct an analysis similar to the analysis conducted for GADS. Therefore, in the 2009 Budget, the costs associated with TADS continue to be included in the calculation of assessments to LSEs. NERC will periodically re-evaluate TADS and its uses by industry participants with a view to potentially structuring and pricing TADS products and services to achieve breakeven at some point in the future.

9. **NERC should evaluate the level of working capital reserve included in the 2009 Business Plan and Budget, in light of the 2009 expense budget and historic operating results.**

As part of development of the 2009 Budget, NERC conducted an analysis of the reserve amounts requested and approved by the Commission in the 2007 and 2008 Budgets. For 2007 and 2008 the budgeted reserve balances were established at an amount equal to 10 percent of total assessments for the budget year. The analysis conducted for 2009 Budget preparation compared previously budgeted reserves to actual and forecasted cash on hand during the course of the operating year. In addition, actual and forecasted cash on hand was compared to expected reserve levels, assuming a continuation of the previously-employed methodology. It was concluded that a reserve equal to 10 percent of the budgeted 2009 assessments would be excessive and was not required. Based upon (i) historic month-end cash balances, which are typically expected to reach a low point in December, and (ii), NERC’s access to a $4,000,000 bank revolving line of credit, it was concluded that a working capital reserve of $2,500,000 was sufficient. This working capital reserve amount, along with the bank revolving line of credit, is expected to provide adequate working capital to support the planned operating activities. This working capital reserve amount was recommended to, and accepted by, NERC’s Finance and Audit Committee.

10. **NERC should consider adding resources to the Event Analysis function.**

The final 2009 Business Plan and Budget adds one engineer and one manager of alerts to the Events Analysis function, which is part of the Reliability Assessment and Performance Analysis Program.

11. **NERC should increase fees for the Training, Education and Operator Certification Program to cover 100% of the costs of these programs.**

The Training, Education and Operator Certification Program has three distinct components: (i) certification of new transmission system operators, (ii) continuing education programs for system operators (to enable them to maintain their certifications), and (iii) “internal” training programs for NERC and Regional Entity compliance auditors and other personnel. NERC analyzed the fees charged for activities in the operator certification and continuing education components and determined that while fees charged cover the direct costs of these programs, they do not cover the total costs (i.e., direct costs plus indirect or allocated costs). The 2009 Budget does not incorporate increases in any of these fees for these programs. However, NERC will further evaluate changes to the fee schedules for the operator certification and continuing education programs to determine the feasibility of increasing fees to cover all of the costs of these
programs. With respect to the third component, internal training programs for NERC and Regional Entity personnel, this activity supports NERC's overall statutory mission and therefore it is appropriate that the costs of this activity are recovered through statutory assessments to LSEs.
BY ELECTRONIC MAIL

November 19, 2008

Mr. Bruce Walenczyk
Chief Financial Officer
North American Electric Reliability Corporation
116-390 Village Blvd.
Princeton, NJ 08540

Dear Bruce:

IESO Input to: NERC’s Draft Response to FERC Respecting its Order on NERC’s 2009 Business Plan and Budget

This submission contains IESO’s input regarding matters raised in FERC’s October 16, 2008 order which conditionally approved the business plans and budgets of NERC, the Regional Entities and the Western Interconnection Regional Advisory Board (WIRAB).

IESO’s input addresses five aspects of the order:

1. FERC’s concerns regarding the adequacy of the resources for 2009 in a number of NERC’s programs;

2. FERC’s concerns regarding the decision to eliminate NERC’s Reliability Readiness Evaluation and Improvement Program;

3. FERC’s requiring clarification regarding NERC’s processes and the technical content of standards, and the implication that NERC staff, rather than the industry, should have responsibility for determining the substantive content of new and modified reliability standards;

4. NERC’s Expanded Policy on Allocation of Certain Compliance and Enforcement Costs; and

5. FERC’s approach to the approval of NERC’s business plans and budgets.
SUMMARY OF CONCLUSIONS

Adequacy of 2009 Resources
NERC should confirm the appropriateness of its submitted budget and business plan and those of the regional entities, with the proviso that NERC will shift resources and/or utilize reserves should it become apparent during early 2009 that 2009 program results are in jeopardy. This is an appropriate way to manage deviations from assumptions made in the business planning process and maintains the credibility of the process.

In the alternative, if NERC decides that it is appropriate to proactively utilize its reserves at this time to fund additional resources, NERC should confirm the adequacy of its resources in the submitted budget, which include the allowances available to deal with inherent risk and uncertainty, but accept that FERC's judgment that a higher degree of certainty is not unreasonable, and that NERC is prepared to commit the reserve funds required to provide this additional certainty.

In short, the IESO believes that it is important for both NERC and FERC to reinforce, and not undermine, the credibility of the business plan developed through a robust multi-step process with strong industry support.

Reliability Readiness Evaluation and Improvement Program
NERC should reconfirm its decision to eliminate the Reliability Readiness Evaluation and Improvement Program.

NERC Conformance with Statutes and Staff Role in Standards Development
The IESO supports NERC's characterization of the adequacy of its processes with respect to U.S. statutes, FERC orders and ANSI requirements.

On technical content, the IESO supports NERC's position on the adequacy of its technical expertise, when considered together with the expertise of the industry.

On the question of the technical role of NERC staff, NERC should affirm that having the industry, not NERC staff, determine the substantive content of standards is fundamental to the ERO model, and must be maintained.

Expanded Policy on Allocation of Certain Compliance and Enforcement Costs
NERC should confirm the appropriateness of the Expanded Policy on Allocation of Certain Compliance and Enforcement Costs, which formed the basis for the methodology for the allocation of NPCC and NERC compliance costs excluded from the IESO and Quebec assessments.

November 19, 2008
FERC Approach to the Approval of NERC's Business Plans and Budgets

NERC should clarify that FERC's approach to approving a NERC business plan and budget should respect two related factors: (1) the fact that in addition to FERC, Canadian regulators review NERC's business plans and budgets, and (2) the nature of the budget process and mechanisms for addressing uncertainty.

Given the nature of the NERC budget process and NERC management's ability within that budget to address changed circumstances, it is neither efficient nor effective for FERC to undertake, what is in effect a multi-step approval process. This would be further exacerbated if the other regulators were to take this approach. Business plans and budgets are based on the best information available at a particular point in time, and can reasonably be expected to change throughout the year as new information becomes available. NERC's ability to shift existing resources to emerging priority areas, together with its ability and to utilize reserves to increase program resources, provide it sufficient flexibility to respond to changes in the original assumptions.

DISCUSSION

1. FERC's concerns regarding the adequacy of the resources for 2009 in a number of NERC programs

The IESO participated extensively in the processes for the development of both NERC's and NPCC's business plans and budgets for 2009. In our view these processes were effective and provide an adequate basis for defining and justifying the 2009 resource requirements.

The IESO therefore does not share the concern expressed in the order:

"... the Commission has concerns regarding whether NERC's 2009 budget provides sufficient funding for NERC to adequately perform specific functions."

We note that at a high level, the NERC and NPCC processes had common elements:

- Version 1 (draft) documents were issued for industry review, with industry response recommending program changes that would reduce resource levels without sacrificing their effectiveness;
- NERC and NPCC reviewed the industry recommendations, resulting in version 2 documents, which were also posted for industry comment; and
- The final versions of the resource levels in the business plans and budgets therefore reflected two iterations of industry comment and staff review.

A key aspect of the budget development process, in the current context of the FERC order, is that NERC and NPCC staff provided assurance to the industry generally, and
to the NERC and NPCC Boards in particular, that the approved levels of resources for 2009 were adequate to meet the stated program objectives.

As a result, the IESO has confidence in the judgments and assurances of NERC and NPCC staff in developing these budgets and in the appropriateness of the 2009 resource levels. Moreover, for NERC to deviate from these judgments and assurances in its response to FERC would have negative consequences, not least to the credibility of the business planning process.

It is noted that NERC staff, in recommending approval of the business plan and budget, qualified the recommendation by noting that risk and uncertainty are inherent in any business plan and budget, and especially so in NERC’s changing circumstances. Further, it was acknowledged that part of a normal response to changing circumstances is the ability to shift resources or to utilize reserves for additional resources.

**Recommended Response**
Based on the above considerations, the IESO believes it would be appropriate for NERC, in its response to FERC, to confirm (i.e., not modify) the approved resource levels for 2009.

This response could be accompanied by a statement that NERC will shift resources and/or utilize its reserves to add resources during 2009, if it becomes apparent during the early part of 2009 that there is a demonstrable prospect for slippage in program results.

As noted, this approach is consistent with conclusions reached during the development of the business plan and budget.

**Alternative Response**
NERC's draft response proposes an alternative response to FERC, in which NERC would move proactively to utilize its reserves to increase resource levels at this time, rather waiting for a clearer indication of need.

The draft response attributes the additional resources to "additional experience and information":

*Given the additional experience and information gained since the 2009 Business Plan and Budget was developed, and in compliance with FERC's order, NERC now anticipates that it will need to acquire additional staff and contract for additional resources in 2009 to supplement those originally called for in the plan. Those additional resources include six new full-time equivalent (FTE) staff and $750,000 to obtain needed consulting resources and subject matter expertise to supplement NERC staff resources. These additions bring NERC's total 2009 year-end staff projection to 106.5 and result in a revised budget for 2009 that totals $36.0 million.*
Should NERC choose this alternative approach, the IESO suggests the positioning around “additional experience and information” be refined. The following assessment and recommendation are offered for NERC’s consideration.

In August, at the time of the submission of the budgets and business plans to FERC, NERC did not, to our knowledge, qualify its support for the submitted resource levels regarding their adequacy to achieve the stated program results, beyond the acknowledgement of risk and uncertainty.

In the three-month period since the budget submissions, we are not aware of notification by NERC that the budgeted resources were likely to prove substantively inadequate. There would therefore not appear to be a documented basis in programs for NERC to justify the increased resources as a result of “additional experience and information”.

The IESO suggests that the characterization of the proposed resource increases be based on a difference between NERC and FERC regarding either the level of risk for achieving the stated program results, or the amount of risk that is acceptable. Accordingly, and in deference to FERC’s position, NERC’s response would state that it has decided to proactively utilize its reserves to include additional resources in the budget at this time, rather than delaying a decision to acquire additional resources following further assessment in early 2009.

NERC should also confirm that it had already deferred, to beyond 2009, the hiring of additional staff, and that it is now bringing forward these hires into 2009. The advancement of the deferred hires should be reflected in the business plan and budget for 2010, i.e., the additional 6 FTEs do not all become part of the base for 2010 resources.

The above position, in addition to providing a more accurate description, allows NERC to maintain its conclusions derived from its 2009 budget process, thereby maintaining the credibility of that process.

2. **FERC’s concern regarding the decision to eliminate NERC’s Reliability Readiness Evaluation and Improvement Program**

In our view this as a subset of the general questioning of 2009 resource levels; the above IESO comments therefore apply to this program decision. NERC’s response to FERC should confirm its decision to eliminate the program.

On the specifics of the program decision, the IESO’s view was, and continues to be, that this program has been very effective to help organizations prepare for the mandatory standards regime, especially for organizations not previously involved in NERC standards, but that the value would be realized for a limited period. Therefore we do not believe that there is a need for the program on an ongoing basis.
3. FERC requiring clarification regarding NERC’s processes and the technical content of standards, and the implication that NERC staff, rather than the industry, should have responsibility for determining the substantive content of new and modified reliability standards.

Process
Regarding the process, NERC, in its request for rehearing, states that its Reliability Standards Development Process, Bylaws, and Rules of Procedure are consistent with the statutes of the EPA and FERC’s observations/conclusions in its order on the ERO (Order 672). NERC states that its criteria of Openness, Transparency, Consensus-Building, Fair Balance of Interests, Due Process, and Timeliness meet specifications laid down by Section 215 of the FPA and these are also consistent with Order 672. NERC also lists the various steps involved in a standard development process indicating that these are consistent with procedures of ANSI and other standards setting organizations in the U.S. and Canada.

The IESO supports NERC’s characterization of the adequacy of its processes.

Technical Content
On technical content, NERC, in its request for rehearing, states that the Commission is undermining ("dismissive" of) the role of the industry’s technical expertise in the standard development process. It also states that NERC has the technical and professional staff to guide the standards development process and advise the NERC Board of Trustees whether to approve or remand a standard. The clarification request highlights the role of the NERC Board in adopting or remanding a particular standard on the basis of technical and professional guidance and analysis by NERC staff. NERC states that "...these responsibilities cannot be successfully carried out unless the NERC Reliability Standards Program has a sufficiently deep staff of personnel with the expertise to provide technically sound and meaningful analysis, advice and recommendations to the NERC Board and presentations to the Commission."

On technical content, the IESO generally supports the NERC position on the adequacy of its technical expertise, especially when considered together with the expertise of the industry. However, the IESO cautions that NERC should not overstate its technical expertise respecting region-specific issues or standards vis-a-vis the expertise of regional experts.

On the general question, the IESO’s position is that it is fundamental to the ERO model that the industry, not NERC staff, determine the substantive content of standards. This should be made clear in the compliance filing.

4. Expanded Policy on Allocation of Certain Compliance and Enforcement Costs

NERC should confirm the appropriateness of the Expanded Policy on Allocation of Certain Compliance and Enforcement Costs, which formed the basis for the
methodology for the allocation of NPCC and NERC compliance costs excluded from the IESO and Quebec assessments.

The IESO is not commenting on FERC's requirement for additional justification of methodology for the allocation of NPCC and NERC compliance costs excluded from the IESO and Quebec assessments, on the grounds that the methodology does not apply to the IESO. The IESO, however, has a strong interest in the related matter of the determination of the excluded costs themselves, and supports NERC’s Expanded Policy on Allocation of Certain Compliance and Enforcement Costs on which the determination of the excluded costs was based. FERC indicated that it will defer consideration of this policy until the review of NERC’s and NPCC’s compliance filing. The IESO recommends NERC support the expanded policy, and the manner of its application, in its compliance filing.

5. FERC Approach to the Approval of NERC’s Business Plans and Budgets

The IESO recommends that NERC in its compliance filing reference the fact that in addition to FERC, Canadian regulators review NERC’s business plans and budgets. NERC should reinforce in its response that FERC should allow NERC to operate within its approved resource envelope and working capital reserve, and discourage substantive changes to those business plans and budgets, such as those contained in the October 16 order. Business plans and budgets are based on the best information available at a particular point in time, and can reasonably be expected to change throughout the year as new information becomes available. NERC’s ability to shift existing resources to emerging priority areas, together with its ability and to utilize reserves to increase program resources, provide it sufficient flexibility to respond to changes in the original assumptions.

Please do not hesitate to contact me if I can be of any further assistance.

Regards,

Nicholas Ingman
Manager, Regulatory Affairs
Independent Electricity System Operator

November 19, 2008
December 10, 2008

Mr. David Whiteley
Executive Vice President
North American Electric Reliability Corporation
116-390 Village Boulevard
Princeton, NJ  08540

Dave;

EEI appreciates the opportunity to provide some comments on the final draft compliance filing in RR08-6, the NERC 2009 budget and business plan. We recognize that there is very little time to make substantive revisions to the filing under a pressing deadline; therefore these comments are very brief and limited only to those areas where NERC consideration of additional material would improve the responsiveness to FERC in next week’s filing and not require extensive writing or editing. EEI looks forward to submitting more comprehensive and detailed comments to FERC.

Compliance Monitoring and Enforcement

The filing would benefit from a description of how NERC plans to handle the completed cases already in the NERC ‘inbox.’ At the Board of Trustees meeting in October, NERC staff indicated that approximately 70 completed cases were almost ready for filing at FERC. The compliance filing should include a report on the disposition of these cases, including a schedule for filing.

Compliance Violation Investigations

While the draft filing suggests that NERC will take the lead on higher priority compliance violation investigations, there is no description of the changes needed in the NERC Rules of Procedure to support this important change, and how NERC will involve
stakeholders in the consideration of such changes. More specifically, due process provisions should be recognized in the compliance filing, including how NERC will handle the appeals of final decisions in cases where it leads an investigation. EEI also recommends, as a general matter, that NERC limit the use of compliance filings to make policy and management decisions that should include discussion with stakeholders.

Readiness Evaluations

EEI supports the proposed filing in its arguments that the program has served a critically important role as a strong response to the August 2003 blackout, and that Section 215 and the enforcement of mandatory reliability standards appropriately serves as the replacement.

Thanks again very much for the opportunity to comment.

Sincerely,

/s/

Jim Fama
Executive Director, Energy Delivery
Edison Electric Institute
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Reliability Readiness Evaluation and Improvement Program

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<th>Reliability Assistance Program Resources (in whole dollars)</th>
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<th>2008 Projection</th>
<th>2009 Budget</th>
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<td>Total Direct Expenses</td>
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<td>Total Expenses</td>
<td>$3,355,606</td>
<td>$2,915,807</td>
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Background

The NERC Reliability Readiness Evaluation and Improvement Program began in response to FERC directives following the August 14, 2003 blackout. The goal was to increase transparency on operating practices and to assess the industry’s overall preparedness to minimize the likelihood of another major blackout.

When FERC approved NERC as the electric reliability organization and began adopting NERC standards as mandatory in the United States, NERC created an associated compliance audit program (Compliance Monitoring and Enforcement Program — CMEP). The readiness program, which had been asking compliance-type questions, shifted its full effort to encouraging entities to improve reliability performance and achieve excellence in their assigned functions and responsibilities.

The readiness program has been working with industry experts to conduct on-site evaluations of all balancing authorities, transmission operators, reliability coordinators, and other entities that support the reliable operation of the bulk power system in North America to determine their readiness to maintain safe and reliable operations.

While feedback from entities that have participated in readiness evaluations has generally been favorable, industry comments on the first draft of the NERC 2009 Business Plan and Budget suggest that: (1) the value of the readiness program is diminishing; (2) the focus and resources of NERC should be squarely on standards and compliance particularly during this critical time; and (3) the mandatory enforcement role at NERC creates a conflicted environment for the readiness program, suggesting the role can be better undertaken by others (such as the Transmission Owners and Operators Forum). This leads to the overall conclusion that the assessment-oriented evaluation process in its current form be discontinued.

Based on the direction provided by the NERC Board’s Finance and Audit Committee, the readiness evaluation program will complete the remaining scheduled readiness reviews and close at the end of the first quarter of 2009.
Work Plan for the Remainder of 2008 and Beginning of 2009

At the initiation of activities as the ERO NERC provisionally certified all Reliability Coordinators (RC), Balancing Authorities (BA), and/or Transmission Operators (TOP) that were already performing the functions for which they were registered. This provisional certification would become a NERC certification upon completion of a NERC readiness evaluation and a regional entity or NERC compliance audit (details are available at ftp://www.nerc.com/pub/sys/all_updl/compliance/org/Provisional_Certification_20080620.doc).

Our initial review of the NERC compliance registry dated July 8, 2008, showed 26 entities registered as RC, BA and/or TOP that have never participated in a readiness evaluation. These entities are operating under the provisional certification described above. For the remainder of 2008 and continuing into the beginning of 2009, the readiness program will conduct the 26 evaluations required to complete the review of entities with provisional certifications. With the current staffing level, it is estimated these evaluations will be completed by the end of the first quarter of 2009. The final number of provisional certification evaluations may vary slightly after working with regional entities and the 26 registered entities.

In addition, evaluations for 2 transmission owners had been tentatively scheduled in October and December, 2008. The need for these evaluations will be reviewed with the entities involved and cancelled if they are deemed unnecessary or the need accommodated through another means.

The present schedule calls for the 26 provisional certification evaluations (and potentially 2 previously scheduled evaluations) to be completed as follows:

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<th>Year</th>
<th>Month</th>
<th># of Evaluations</th>
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<td>5</td>
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<tr>
<td></td>
<td>March</td>
<td>3</td>
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Note – the specific schedule of evaluations will depend on availability of entity and Regional resources necessary to complete the evaluations.

The projected expenditures for 2009 shown in the table above and included in NERC’s 2009 budget are based on a proportional expense for historic readiness evaluations of approximately $36,500 per evaluation. For the anticipated remaining evaluations in 2009, the expected cost is $485,429.

Program Summary

Industry value realized through implementation of readiness evaluation program initiatives include examples of excellence that provide a valuable resource reference for the industry. The program identified these examples as being exceptionally effective in ensuring and protecting the reliability of the interconnected bulk power system. In addition, the following results can be reported:

- Nearly all entities evaluated between March 2007 and April 2008 (98 percent of respondents to post-evaluation questionnaires) reported that on-site evaluations were beneficial to their organization.
• Entities have either implemented or started work on 89 percent (75 percent implemented and 14 percent in progress) of the nearly 3,200 recommendations offered by readiness evaluation teams for evaluations conducted through September 2007. The recommendations are not mandatory.

• Industry volunteers who participate on evaluation teams regularly report they acquired valuable experience and knowledge during on-site visits.
Reliability Readiness Evaluation and Improvement Program

Funding sources and related expenses for the reliability readiness evaluations and improvement section of the 2009 business plan are shown in the table below.

<table>
<thead>
<tr>
<th>Funding</th>
<th>2008 Projection</th>
<th>2008 Budget</th>
<th>Variance to 2008 Budget</th>
<th>Over(Under)</th>
<th>2009 Budget</th>
<th>Variance to 2009 Budget</th>
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<td>Testing Fees</td>
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Expenses

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<td>50,097</td>
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Summary of Significant Variances — 2008 Projection to 2009 Budget

Funding Sources
- Funding for this program is only provided through assessments to LSEs or designees (mandatory in the United States)

Personnel Expenses
- The 8.5 FTE positions will be eliminated in 2009. The 2008 budgeted staffing level was 12 FTEs. The 2008 projection assumes the removal of two unfilled evaluator positions, the transfer of one administrative assistant to the Situational Awareness Program, and the sharing of the remaining administrative assistant with the Training, Education, and Personnel Certification Program

Meeting Expenses
- Estimated 13 evaluations to be completed in 2009 versus 50 in 2007 and 2008

Operating Expenses
- Office costs: Cell phone and wireless broadband internet connections cards charged to appropriate departments instead of General and Administrative function
2008 Organizational Chart

Table 3

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<tr>
<th>President &amp; CEO</th>
<th>Administration</th>
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<td>Standards</td>
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<td>Reliability Readiness</td>
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<td>Technical Committees and Members' Forums</td>
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<td>Training, Education &amp; Personnel Certification</td>
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<td>Situation Awareness &amp; Infrastructure Security</td>
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<td>Finance &amp; Accounting</td>
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