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September 29, 2015

VIA ELECTRONIC FILING

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

Re: North American Electric Reliability Corporation
Docket No. RR15-16-000
NERC's Response to September 15, 2015 Letter

Dear Ms. Bose:

The North American Electric Reliability Corporation (NERC) hereby submits the "North American Electric Reliability Corporation's Response to September 15, 2015 Letter" in Docket No. RR15-16-000.

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

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

Respectfully submitted,

/s/ Owen E. MacBride
Owen E. MacBride

Attorney for North American Electric Reliability Corporation

UNITED STATES OF AMERICA

Before the
FEDERAL ENERGY REGULATORY COMMISSION

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION	))	**Docket No. RR15-16-000**

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION'S RESPONSE TO SEPTEMBER 15, 2015 LETTER

I. INTRODUCTION

The North American Electric Reliability Corporation ("NERC") is providing responses to the questions in the September 15, 2015 letter from the Office of Energy Market Regulation ("September 15 Letter") requesting additional information concerning the 2016 Business Plans and Budgets of NERC, the Western Electricity Coordinating Council ("WECC"), and the Western Interconnection Regional Advisory Body ("WIRAB").[1]

II. NOTICES AND COMMUNICATIONS

Notices and communications concerning this filing may be addressed to:

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[1] References in this response to the 2016 Business Plans and Budgets of NERC, WECC and WIRAB are to Attachments 2, 10 and 11, respectively, to NERC's August 24, 2015 filing in this docket.

II. RESPONSES TO REQUESTS FOR INFORMATION IN SEPTEMBER 15 LETTER

A. Question 1:

Attachment 2 of NERC's filing shows large changes between the 2015 budgeted amounts, including full-time equivalent employees (FTE), and the end-of-year projections for NERC's compliance assurance program area. For instance, on page 28 of attachment 2, personnel expenses for the compliance assurance program area are anticipated to be over budget by $854,964 for the 2015 budget year, and an additional 3.91 FTEs are expected to be allocated to the program area. Similarly, significant deviations between 2015 budget levels and 2015 end-of-year projections can be found in NERC's reliability standards, event analysis, and administrative (indirect) cost program areas, and in NERC's overall fixed asset expenditures. However, the filing does not provide an adequate justification for these expected deviations, nor any discussion as to if or how these deviations relate to the limits and filing requirements under Paragraph 7(b)(ii) of the Settlement Agreement. Please provide such justifications and explanations. [Footnote omitted.]

Response:

By way of background, NERC notes that in past annual business plan and budget filings, it has not included explanations of variances between budgeted amounts and projected year-end results for the current year in individual expense items for individual programs, unless discussion of such a variance is useful in helping to explain changes between the current year budget for a program or expense item and the proposed budget for that program or expense item for the upcoming year.[2] Rather, NERC has focused its explanations in the annual business plan and budget filings on changes from the previous (current year) approved budget to the proposed budget for the upcoming year, which NERC is submitting to the Commission for approval pursuant to 18 C.F.R. §39.4(b). For purposes of reporting and explaining variances between budgeted and actual results for each year, the Commission has established a requirement for NERC to file an annual true-up report by May 31 of the following year explaining significant variances between the budgets of NERC and the Regional Entities for the preceding year and actual results for that year. However, NERC appreciates the opportunity to provide further information and clarification at this time.

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

In comparing amounts budgeted for the current year to the currently projected results for the year, it should be kept in mind that the NERC (and Regional Entity) budgets for each year are generally prepared during the first six to seven months of the preceding year, are approved by the NERC Board of Trustees at a Board meeting held in early to mid-August of the preceding year, and are filed with the Commission on or about August 24 of the preceding year as required by the Commission's regulations.[3] Therefore, by the time of the annual business plan and budget filing with the Commission, the current year budget is essentially more than a year old, and subsequent events and changing requirements of and demands on NERC's operations may have, and often do, result in variances between the budget for the current year and the currently projected year end results for the current year. These intervening events can include both emerging demands and priorities (resulting in a need for increased resources in the applicable program area), and the realization that there is less need for resources in another program area, due to realized efficiencies in operations or particular issues taking less time and fewer resources to resolve than anticipated in preparing the budget. In this connection, as described in NERC's business plans and budgets and in other presentations over the past several years, NERC senior management is increasingly focused on resource allocation and efficiency in order to respond to existing and emerging priorities within the limits of its approved overall budget for the current year. Accordingly, given the long lead time between budget preparation and the budget operating year, intra-year resource reallocations are neither unusual, nor should they be unexpected.[4]

As discussed below in the responses concerning variances between full-time equivalent staff ("FTEs") in the 2015 Budget and the 2015 Projection for specific programs, one cause of variances is reductions in the assumed vacancy rate for approved positions from the Budget to

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[3] 18 C.F.R. §39.4(b).

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

the Projection. As stakeholders and Commission staff are aware, vacancy rate assumptions are more of an art than a science, and NERC management has continued to work on these assumptions over the past several years in an effort to manage resources and resource allocation within its approved budget and reduce the potential for generation of significant unanticipated additional operating reserves at year end that could result from under-runs in NERC's overall personnel budget due to vacancies. Thus, the observed changes in FTEs between the 2015 Budget and 2015 Projection for individual programs are not due solely to timing of transfers of open budgeted positions or transfers of existing personnel, but also to changes in vacancy rate assumptions (and, to a lesser extent, to timing of filling open transferred positions on a different date than assumed in preparing the Budget). As noted in NERC's Summary of Results as of June 30, 2015,[5] as NERC moves through the year, the personnel vacancy rate is adjusted downward to account for the declining impact of vacancies as the year progresses.

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

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

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

> NERC will file for Commission review and approval Board-of-Trustees-approved proposals to expend $500,000 or more from operating reserves designated for

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

> "unforeseen contingencies" (as that term is defined in NERC's Working Capital and Operating Reserve Policy (Reserve Policy)). Each such filing will include supporting materials in sufficient detail to justify the proposed expenditure. The filing will be deemed approved if the Commission does not act on it or issue a tolling order extending the time for Commission action within thirty days of the filing date.
>
> The Parties agree that this requirement for Commission review and approval is triggered if any amount allocated from the unforeseen contingencies account of operating reserves plus any amount redirected from previously budgeted funds is, in the aggregate, $500,000 or more for any one specific project or major activity in a program area.

NERC notes that during 2015, it has had one use of Operating Reserves which necessitated a filing with the Commission pursuant to ¶7(b)(ii), specifically, NERC's proposed use of $600,000 from Operating Reserves during 2015 to accelerate development and implementation of an ERO-wide Document Management Program. The ¶7(b)(ii) filing relating to this use of Operating Reserve funds was submitted to the Commission on May 14, 2015, in Docket No. RR14-6-002,[6] and was approved by a letter order dated June 4, 2015.

1. Compliance Assurance Program

The Compliance Assurance program is part of NERC's Reliability Assurance operational group which in turn is part of the Compliance Monitoring and Enforcement and Organization Registration and Certification Program Area.[7] For 2015, budgeted Personnel Expense for the Compliance Assurance Program is $2,320,322, while the 2015 Projection for Personnel Expense is $3,175,286. Budgeted 2015 staffing for Compliance Assurance is 12.19 FTEs, and the 2015 Projection is 16.10 FTEs. The increase in Personnel Expense from 2015 Budget to 2015 Projection is due to the change in FTE staffing from Budget to Projection, as described below.

To support implementation of NERC's risk-based compliance monitoring program, during 2015, one (1) managerial position was transferred from Compliance Analysis,

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[6] *Request of the North American Electric Reliability Corporation for Approval of an Operating Expenditure Greater than $500,000 from Operating Reserves*, filed May 14, 2015, in Docket No. RR14-6-002.

[7] *See* NERC's 2016 Business Plan and Budget at 24.

Certification and Registration to Compliance Assurance,[8] and two (2) positions were transferred from the Reliability Standards Program to Compliance Assurance. Filling these positions with actual employees occurred at various times during the year. The Reliability Standards Program is requiring fewer resources in 2015 than originally budgeted, for the reasons discussed in the next subsection. In addition, the 2015 budget assumed a 6% vacancy rate across all departments. For purposes of the June 2015 projection, the vacancy rate was reduced to 3% for all positions that had been filled throughout the year.[9] Finally, a portion of the change from the budgeted FTEs to the Projection FTEs is attributable to earlier actual or planned start dates for new hires than were assumed in preparing the budget.

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

2. Reliability Standards Program

Budgeted Personnel Expense for 2015 for the Reliability Standards Program is $4,072,883, while the 2015 Projection for Personnel Expense is $3,010,127. Budgeted 2015 staffing for Reliability Standards is 24.40 FTEs, and the 2015 Projection is 18.51 FTEs. Due to the transformation of the NERC Reliability Standards to a "steady state," together with reorganization and improved efficiency of operations within the Reliability Standards Program,

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

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

management recognized that fewer FTEs are necessary to support the ongoing operations, goals and objectives of the Reliability Standards Program. These efficiency improvements and reduced resource needs allowed a total of six (6) positions to be reallocated to support other departments which were facing increased resource needs. Rather than continue to have budgeted but now unnecessary personnel continue to occupy positions in the Reliability Standards Program, where they would be underutilized, management implemented these transfers.

As noted in the preceding subsection, two (2) positions were transferred to Compliance Assurance to support implementation of the risk-based compliance monitoring program. In addition, one (1) position was transferred to General and Administrative to support the senior vice president and chief reliability officer ("CRO"), who has oversight over most operating areas within the company, including Reliability Standards, Reliability Assessment and Performance Analysis ("RAPA"), Compliance Assurance, and Reliability Risk Management.[10] Further, two (2) positions were transferred to Information Technology to provide additional support for the development and management of software applications supporting operations in Compliance Monitoring and Enforcement, RAPA and Event Analysis, among other departments. Finally, one (1) position was transferred to the ES-ISAC to provide added resources to support cyber security analysis and information sharing activities. The transfers and filling of these positions with employees occurred at various times during the year.

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

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

¶7(b)(ii) was necessary.[11]

3. Event Analysis Program

Budgeted Personnel Expense for 2015 for the Event Analysis Program is $1,875,467, while the 2015 Projection for Personnel Expense is $2,198,627. Budgeted 2015 staffing for Event Analysis is 9.38 FTEs, and the 2015 Projection is 11.32 FTEs. The projected increase in FTEs and related Personnel Expenses is due to the transfer of one position from Situation Awareness to Event Analysis to better align existing staff to accommodate ongoing workload, and due to an updated and lower vacancy rate than was budgeted. The 2015 Personnel Expense and FTE budget is based upon a projected vacancy rate of 6%. As of June, 2015, there were no vacant budgeted positions in Event Analysis and the projected vacancy rate was reduced from 6% to 3%. This reduction in the vacancy rate increases the projection for Personnel Expenses and FTEs.[12] The personnel transfer moved a position into Event Analysis to work on existing, budgeted and approved activities, did not involve any transfers from Operating Reserves, and total FTEs remained within NERC's overall approved personnel budget. Therefore, no filing pursuant to ¶7(b)(ii) was necessary.[13]

4. Administrative Services

Budgeted Personnel Expense for 2015 for Administrative Services is $12,979,273, while the 2015 Projection for Personnel Expense is $14,156,890. Budgeted 2015 staffing for Administrative Services is 67.54 FTEs, and the 2015 Projection is 73.62 FTEs. As described in the subsection above relating to the Reliability Standards program, a portion of the projected

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

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

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

increase in staffing is due to transfers of three (3) budgeted FTEs from Reliability Standards, where they were no longer needed, to support the CRO and the Information Technology department.[14] In addition and as noted above, the 2015 Personnel Expense and FTE budget was based upon a projected vacancy rate of 6%. The June 2015 projected vacancy rate for Administrative Services is approximately 1%. This reduction in the vacancy rate increases the projection for Personnel Expenses and FTEs. Had the current vacancy rate of 1% been used in the development of the 2015 Budget, the budgeted FTEs for Administrative Services would have been approximately 3.75 FTEs higher than the budgeted number. The personnel transfers moved personnel into Administrative Services to work on existing, budgeted and approved activities, did not involve any transfers from Operating Reserves, and total FTEs remained within NERC's overall approved personnel budget. Therefore, no filing pursuant to ¶7(b)(ii) was necessary.

5. Overall Fixed Asset Expenditures

Budgeted total Fixed Asset expenditures for 2015 are $3,618,500, while the 2015 Projection for total Fixed Asset expenditures is $4,824,472. Of the difference between the 2015 Budget amount and the 2015 Projection amount, $600,000 is additional, unbudgeted expenditures in 2015 for accelerated development and implementation of the ERO Enterprise corporate Document Management Program, which is being funded from Operating Reserves. As noted earlier in this response, this unbudgeted 2015 capital expenditure from Operating Reserves was filed with the Commission on May 14, 2015, pursuant to ¶7(b)(ii) of the Settlement Agreement, and was approved by a letter order issued June 4, 2015.

With respect to the remainder of this increase: (1) $285,000 is for leasehold improvements to increase the number of offices in NERC's Atlanta office, is being funded from

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

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

NERC management anticipated and identified the exercise of the option to acquire additional space in the Washington, D.C., office in the 2015 Business Plan and Budget (*see* page 69, and Table B-6 on page 92 of NERC's 2015 Business Plan and Budget). However, when the 2015 budget was developed, the actual lease expense and build out costs, net of tenant improvement allowance, was not yet known, since the lease amendment was not finalized. NERC assumed an increase of $300,000 for rent expense and that the tenant improvement allowance would be sufficient to cover the cost of leasehold improvements, as was the case when the original lease was signed. However, the tenant improvement allowance included in the final negotiated lease was not sufficient to fully cover the cost of the buildout of the space. Therefore, on November 12, 2014, the NERC Finance and Audit Committee approved the use of up to $425,000 of Operating Reserves to fund the improvements to the space. The final costs related to the build out of the space and included in the 2015 Projection for Fixed Assets are $292,972, which is less than the total amount authorized by NERC's Finance and Audit Committee. Additionally, due to the delay in the commencement date of the lease, 2015 Rent Expense will be approximately $110,000 less than budgeted; as a result, the net impact on Operating Reserves for the expansion of the Washington, D.C., office will be approximately $183,000.

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

B. <u>Question 2</u>:

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

<u>Response</u>:

The total 2016 budget for the Cyber Risk Information Sharing Program ("CRISP") is $7,973,019 compared to a total 2015 budget of $9,321,123 (not including a one-time cost of $500,000 in 2015 to establish an Operating Reserve fund for CRISP, which was paid for by the participating utilities), which is a decrease in the overall program costs of $1,348,104, as shown on page 17 of NERC's 2016 Business Plan and Budget (or a decrease of $1,848,104 taking into account the budgeted one-time payment in 2015 to create the Operating Reserve fund).[15] The principal reason for this decrease is that the 2015 Budget included one-time start-up costs for CRISP that will not be incurred in 2016.

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

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

2016 Budget are as follows:

- Personnel Expense: 2016 Budget of $741,671 versus 2015 Budget of $459,251, an increase of $282,420. Increased staffing is required, from 1.88 FTEs to 2.76 FTEs, in order to provide increased analytical and staff support for CRISP, which was one of the key findings and recommendations in the Electricity Sector Coordinating Council's strategic review of the ES-ISAC,[16] which was accepted by NERC's Board of Trustees at its August 12, 2015 meeting.

- Security review expense: 2016 Budget of $100,000 versus zero in the 2015 Budget. This expense is for a security audit governing CRISP data which is required pursuant to the terms of the Master Agreement for CRISP among NERC and the participating utilities.

- Professional Fees: 2016 Budget of $50,000 versus 2015 Budget of $250,000, a decrease of $200,000. This expense item is reduced because significant legal fees were budgeted in 2015 in connection with the development of contracts among NERC and other CRISP participants; this expense will not be required in 2016.

- Insurance Expense: 2016 Budget of $125,000 versus 2015 Budget of $100,000, an increase of $25,000. The budget for this expense item has been increased based on anticipated higher costs for certain insurance in connection with this program.

- Indirect cost allocation: 2016 Budget of $694,022 versus 2015 Budget of $390,817, an increase of $303,205. As with all of NERC's direct statutory function programs, Administrative Services (indirect) expenses are allocated to CRISP based on the ratio of CRISP FTEs to total direct statutory function FTEs. The budgeted indirect expense allocation for CRISP is increased in the 2016 Budget over the 2015 Budget due to (1) increased budgeted total Administrative Services expense for NERC in the 2016 Budget over the 2015 Budget, and (2) increased FTEs for CRISP in the 2016 Budget as compared to the 2015 Budget.

In connection with the implementation of CRISP, and as reflected in NERC's 2015 business plan and budget, 50% of NERC's costs for CRISP, exclusive of the cost of the Pacific Northwest National Laboratories subcontract and certain costs paid directly by CRISP participants, are paid for by the participating utilities, and the remaining 50% is included in the calculation of NERC's overall assessments to load-serving entities ("LSEs").[17] In the 2015 Budget, 50% of NERC's budgeted costs of $1,755,068, or $877,534, were budgeted to be paid by NERC, with an equal amount to be paid by the participating utilities. No change in this allocation formula is proposed for 2016, and in the 2016 Budget, 50% of NERC's budgeted costs

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[16] Available at: ESCC Strategic Review of the ES-ISAC Report.

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

of $2,284,425, or $1,142,213, are budgeted to be paid by NERC and funded through assessments, with an equal amount to be paid by the participating utilities. Therefore, the portion of NERC's costs for CRISP that is paid for by NERC and funded through assessments to LSEs increases from $877,534 in the 2015 Budget to $1,142,213 in the 2016 Budget, an increase of $264,679.

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

C. <u>Question 3</u>:

Pages 14-15 of attachment 11 show WIRAB's proposed 2016 budget, which is an increase of 35 percent from its 2015 budget, as well as WIRAB's proposed FTEs, 5.5, which is an increase from the 4 FTEs budgeted for 2015. However, on pages 5 through 13 of attachment 11, WIRAB lists many of the same key assumptions, goals, deliverables, initiatives, and cost impacts that it did in its 2015 business plan and budget. WIRAB does not adequately justify the difference in activities or cost of activities it is planning for 2016 to explain the proposed increase in budget and FTEs. Please provide additional descriptions for WIRAB's proposed 2016 activities to justify its overall budget and FTE increases from the 2015 budget to the proposed 2016 budget. [Footnotes omitted.]

<u>Response</u>:

WIRAB is a regional advisory body under §215(j) of the Federal Power Act, established pursuant to a 2006 order of the Commission granting the petition of the governors of the WECC region to approve the formation of a regional advisory body for the WECC region. That order also granted the request of the Western governors that WIRAB receive statutory funding for the reasonable costs of its §215(j) activities, and it directed that WIRAB should develop an annual budget and submit it to the ERO for review and submission to the Commission for approval as part of the annual ERO budget process.[18] In light of WIRAB's statutory status, NERC is not in a

[18] *Order on Petition to Establish a Regional Advisory Body for the Western Interconnection,* 116 FERC ¶61,061 (2006).

position to review and approve or reject the business plans and budgets that WIRAB submits to NERC for submission to the Commission.

In response to Question 3 of the September 15 Letter, WIRAB, at NERC's request, has provided a description of its planned 2016 activities and explanation of the increase in its budgeted 2015 expenses and FTEs over its 2015 budget, which is provided below (references to "Attachment 11" are to WIRAB's Business Plan and Budget, Attachment 11 to NERC's 2016 Business Plan and Budget filing):

> WIRAB's goals, initiatives, and activities are similar in 2015 and 2016. The major driver of the proposed increase in budget and FTEs is a change in WIRAB's ability to leverage work funded with federal stimulus money to achieve its reliability mission and goals. Over the past five years, WIRAB's work has benefited from the reliability-related work funded by the State Provincial Steering Committee ("SPSC"). The SPSC received funds under the American Recovery and Reinvestment Act ("ARRA"). This funding ended in May 2015 and the expiration of this funding was a key assumption in WIRAB's 2015 and 2016 Business Plans and Budgets. The staff members that directed the SPSC reliability-related work are transitioning to WIRAB activities.
>
> WIRAB provides additional descriptions for the following proposed 2016 activities to justify the overall budget and FTE increases:
>
> 1. **Encourage WECC to Develop Staff Analytic Capabilities to Investigate Emerging Reliability Challenges:** WIRAB seeks to bolster WECC's staff analytical capabilities to investigate emerging reliability challenges in the West, and to encourage WECC to develop improved production cost and power flow analyses of different future resource mixes to identify potential reliability issues such as insufficient ramping capability; insufficient frequency response, or insufficient voltage stability. WIRAB also seeks to encourage WECC to expand its current analytic framework to include the evaluation and modeling of potential mitigation measures for identified reliability problems. (*See* Attachment 11 at 9-10).
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>   In 2015, the SPSC funded work by GE Energy Consulting to develop a roadmap for assessing the reliability challenges associated with high levels of variable energy resources and the retirement of coal plants in the Western Interconnection. The SPSC report discusses the types of analysis and data needed to identify and quantify potential reliability problems, as well as the identification and analysis of mitigation options that can provide promising solutions. In 2016, WIRAB staff will continue to work with WECC to implement the recommendations and follow the roadmap put forward in the SPSC report. For example, WIRAB staff is working with WECC to better integrate and align the work of its Planning Coordination Committee that is responsible for power flow analysis and the work of its Transmission Expansion Planning Policy Committee that is responsible for production cost analysis. With the expiration of the ARRA grant, this is work that WIRAB will undertake on its own without the ability to leverage the work of the SPSC.

2. **Encourage WECC to Use its Analytic Capabilities to Investigate the Ramping Capability and Flexibility of the Western Interconnection in Futures with High Levels of Variable Generation:** WIRAB seeks to encourage WECC in its efforts to evaluate and address this reliability challenge. (*See* Attachment 11 at 9-10). In 2015, the SPSC funded work by Energy and Environmental Economics ("E3") to develop and demonstrate a new tool for assessing the ramping capability and system flexibility of the Western Interconnection. This was a collaborative project among the SPSC, WECC, NREL and E3. The report investigates the need for power system flexibility to ensure reliable and economic operations of the interconnected Western electricity system under higher penetrations of variable energy resources. In 2016, WIRAB staff will continue to work with WECC, E3, and the National Renewable Energy Laboratory to further develop a flexibility planning paradigm and to use the Renewable Energy Flexibility ("REFLEX") model to assess system flexibility needs in futures with high levels of variable generation. With the expiration of the ARRA grant, this is work that WIRAB will undertake on its own without the ability to leverage the work of the SPSC.

3. **Encourage WECC to Use its Analytic Capabilities to Investigate the Reliability Impacts of Large-scale Development of Variable and Non-synchronous Generation:** WIRAB seeks to encourage WECC to evaluate the impacts large-scale development of non-synchronous generation may have on system frequency response and transient stability, and to examine the impact that large-scale tripping of photovoltaics, due to outdated interconnection standards, may have on grid reliability. (*See* Attachment 11 at 10). In 2015, GE Energy Consulting provided the SPSC with an analytical framework and a roadmap for assessing frequency response, transient stability and weak grid issues associated with the large-scale development of non-synchronous generation. The SPSC also funded work by EQL Energy to examine the technical challenges, operational issues, and steps that utilities and regulators can take to prepare for increased levels of Distributed Energy Resources ("DERs"). The report identified the large-scale tripping of DERs as a potential reliability issue for the Western Interconnection. The current version of the IEEE 1547 DER interconnection standard requires systems interconnected to the distribution grid to automatically shut-off in the event of even a brief power system anomaly. At higher penetrations of DER systems, this automatic shut-off can have undesirable impacts on grid reliability.

   In 2016, WIRAB staff will continue to work with WECC to implement an analytical framework to conduct round-trip production cost and power flow modeling to analyze system frequency response, transient stability, and weak grid issues. WECC's current analysis of reliability in futures with high levels of distributed generation is limited to production cost modeling. The results of this modelling do not address the frequency response, transient stability, and weak grid issues identified in the GE Energy roadmap. WIRAB staff will provide feedback and continue to work with WECC modelling staff to integrate power flow modelling into the analytic framework so that these important issues are addressed. WIRAB staff will also encourage WECC to investigate the IEEE ride-through issue and potential solutions including the use of "smart inverters" and the use of two-way communication systems to improve system operators with visibility of distributed generation and better situational awareness. With the expiration of the ARRA grant, this is work that WIRAB will undertake on its own without the ability to leverage the work of the SPSC.

4. **Encourage WECC to Use its Analytic Capabilities to Investigate the Reliability Implications of the EPA's Clean Power Plan:** WIRAB and the SPSC have been vocal advocates of WECC conducting rigorous and transparent reliability analysis of the Clean Power Plan ("CPP"). WIRAB staff emphasized the importance of this activity as a participant at FERC's Technical Conference on Environmental Regulations and Electric Reliability, Wholesale Electricity Markets, and Energy Infrastructure for the Western Region, held in Denver, Colorado, on February 25, 2015. WIRAB also identified this activity as a key goal in its 2016 Business Plan and Budget. (*See* Attachment 11 at 7).

   In 2015, the SPSC funded work by Energy Solutions to develop future state-level resource mixes that could result from strategies that states may employ to comply with the CPP. This report documents the assumptions underlying four planning scenarios developed in consultation with an SPSC modeling work group. WIRAB submitted two of the scenarios to WECC as a "practice run" of the modeling and analysis needed to analyze the CPP prior to the EPA's release of its final rule. In 2016, WIRAB staff will continue to work with WECC to analyze the reliability implications of the CPP. WIRAB will work with Western States to develop future state-level resource mixes that could be used to comply with the CPP. WIRAB will continue to send scenarios to WECC for production cost and power flow analysis of the different future resource mixes to identify potential reliability issues such as insufficient ramping capability; insufficient frequency response, or insufficient voltage stability. With the expiration of the ARRA grant, this is work that WIRAB will undertake on its own without the ability to leverage the work of the SPSC.

5. **Foster Testing of a Methodology to Establish Dynamic Transfer Limits on Major Transmission Path in the Western Interconnection:** WIRAB has encouraged both WECC and Peak Reliability to examine the current method of assigning static transfer limits to major transmission paths based on long-term operating limits. It may be possible to improve both grid reliability and utilization of the existing transmission system by establishing a real-time path rating methodology that relies on the significant investment in synchrophasor technology in the West. (*See* Attachment 11 at 12).

   In 2015, the SPSC funded work by Quanta Technology to develop a new methodology. The report provides a detailed description of a new Flexible, Adaptable, and Scalable Path Transfer Capability ("FASTC") methodology. The report includes a detailed description of the analytical methodology and how to implement it in different calculation periods, including real-time. In 2016, WIRAB staff will continue to work with WECC and (as necessary) Peak Reliability to explore opportunities to further develop this methodology and an implementation tool for system operators. WIRAB staff will work closely with WECC's Path Operator Implementation Task Force ("POITF") to align the work on the FASTC methodology with the POITF's efforts to develop a new paradigm for setting path limits. With the expiration of the ARRA grant, this is work that WIRAB will undertake on its own without the ability to leverage the work of the SPSC.

6. **Examine the Impact of New Market Structures on Grid Reliability:** WIRAB seeks to encourage WECC to evaluate the major changes to regional power flows that may result from higher penetration levels of renewable energy. The development of California Independent System Operator's ("CAISO") expanding Energy Imbalance Market ("EIM") and the potential development of a Regional ISO in the West represent

efforts to expand the market footprint and use transmission to balance over-generation from renewable resources. (*See* Attachment 11 at 9).

In 2015, the SPSC funded work by E3 to describe the anticipated changes in resource mix and transmission path flows across the Western United States over the next decade. A conclusion of the report is that major changes to regional power flows may begin to occur at higher penetration levels of renewables, and higher reliance on solar would exacerbate the trend. The development of the EIM and the potential development of a Regional ISO in the West may produce real-time reliability benefits in a future with high penetrations of renewable resources.

In 2016, WIRAB staff will work to encourage WECC to evaluate the potential for major changes to regional power flows and the potential reliability benefits of a Western EIM or a Regional ISO. WIRAB staff will work closely with the EIM Body of State Regulators, the CAISO, and WECC to ensure that reliability benefits of the EIM are more fully understood. With the expiration of the ARRA grant, this is work that WIRAB will undertake on its own without the ability to leverage the work of the SPSC.

7. Finally, WIRAB notes that travel costs and meeting costs to be included in costs to be funded through assessments increase in WIRAB's 2016 Budget due to the expiration of the SPSC grant. (*See* Attachment 11 at 13).

D. Question 4:

In its 2015 business plan and budget, Western Electricity Coordinating Council (WECC) withheld $3.4M in received penalty monies to offset payments of penalties imposed on WECC's registered entity functions, rather than use that $3.4M to offset 2015 assessments. In its proposed 2016 business plan and budget, WECC does not explain the status of the $3.4M in penalty monies withheld in 2015. Please provide the current and year-end projected balance of the withheld penalty monies, and an explanation of any use of the monies in 2015, and, if a balance remains, any anticipated use of those monies in 2016. [Footnote omitted.]

Response:

The $3.4 million of penalty collections referred to were received by WECC during the period from July 1, 2013 to June 30, 2014. The use of the $3.4 million of penalties was shown on Table B-2 of WECC's 2015 Business Plan and Budget and in WECC's annual actual cost-to-budget true-up reports for the years 2013 and 2014.[19] Specifically, Table B-2 in WECC's 2015 Business Plan and Budget states that the $3.4 million of penalties is allocated to pay for (1) $1.4 million of penalty expense recorded by WECC in 2013 to recognize potential liability to pay

[19] NERC filed WECC's true-up report for 2013 with the Commission on May 30, 2014 in Docket No. RR14-4-000. NERC filed WECC's true-up report for 2014 with the Commission on June 29, 2015, in Docket No. RR15-10-000.

penalties for violations of NERC Reliability Standards committed by WECC's registered Reliability Coordinator function; and (2) $2.0 million of penalty expense recorded by WECC in 2014 to recognize potential liability to pay penalties for violations of NERC Reliability Standards committed by WECC's registered Reliability Coordinator function, in each case as required by generally accepted accounting principles.. The recognition of probable penalty expense in 2013 ($1.4 million) and 2014 ($2.0 million) both related to potential violations of Reliability Standards in connection with the September 8, 2011 Southwest outage event.

The penalty expense of $1.4 million recorded in 2013 was reported as Miscellaneous Expense, was shown in the tables for total company and Situation Awareness and Infrastructure Security in WECC's 2013 true-up report, and was identified in the narrative explanation of actual cost to budget variances on page 4 of WECC's 2013 true-up report. The penalty expense of $2.0 million recorded in 2014 was reported as Miscellaneous Expense, was shown in the tables for total company and Situation Awareness and Infrastructure Security in WECC's 2014 true-up report, and was identified in the narrative explanation of actual cost to budget variances on pages 4 and 8 of WECC's 2014 true-up report.

In terms of cash payments of the $3.4 million in penalties for violations of Reliability Standards by WECC's registered Reliability Coordinator function in connection with the September 8, 2011 Southwest outage event, payments have been made or are due to be made as follows:

1. $400,000 paid to NERC in January 2015 in settlement of Reliability Standards violations as determined by Northeast Power Coordinating Council, Inc., which performed the Compliance Enforcement Authority function with respect to Peak's registered Reliability Coordinator function.

2. $1 million paid in May 2015, $500,000 to the U.S. Treasury and $500,000 to NERC.

3. $1 million to be paid in May 2016, $500,000 to the U.S. Treasury and $500,000 to NERC.

4. $1 million to be paid in May 2017, $500,000 to the U.S. Treasury and $500,000 to NERC.

The payment of one-half of the penalty amounts due in May 2015, May 2016 and May 2017 to the U.S. Treasury and the payment of the other one-half to NERC is in accordance with the terms of the Settlement Agreement among the Commission, NERC, WECC and Peak Reliability relating to the September 8, 2011 outage event, approved by the Commission on May 26, 2015.[20]

Accordingly, the balance of the $3.4 million in penalty revenues remaining to be paid as of the date of this filing is $2.0 million, the remaining balance at December 31, 2015 will be $2.0 million, the remaining balance at December 31, 2016 will be $1.0 million, and the remaining balance at December 31, 2017 will be zero.

E. <u>Question 5</u>:

On page 22 of attachment 10, WECC states that a goal and key deliverable for 2016 is to support interconnection-wide transmission expansion planning processes. Moreover, on page 48 of attachment 10, WECC states that it proposes to increase its Reliability Assessment and Performance Analysis budget in 2016 due to, among other things, an increase of $111,000 in consultant expenses for transmission expansion planning for transmission scenario studies. We note that WECC's budgeted 2015 consultants and contracts expense decreased by $2,036,000 from its 2014 budget, "due primarily to completion of the U.S. Department of Energy Regional Transmission Expansion Program grant and completion of one-time 2014 projects..." Please explain if the increase in consultant expenses for transmission expansion planning activities proposed for 2016 relates to such past transmission expansion planning activities and, if so, how, or otherwise explain the nature of WECC's proposed transmission expansion planning activities. [Footnote omitted.]

<u>Response</u>:

WECC's transmission expansion planning related activities involve the work of the WECC Transmission Expansion Planning and Policy Committee ("TEPPC"). The TEPPC has three main functions: (1) to oversee and maintain public data bases to support transmission planning across the Western Interconnection; (2) to develop, implement and coordinate planning processes and policy; and (3) to conduct Interconnection-wide transmission planning studies with an eye towards resource and transmission adequacy assessments. WECC's proposed 2016 transmission planning support activities, and the associated increase in consultant expenses

[20] *Western Electricity Coordinating Council, Order Approving Stipulation and Consent Agreement*, 151 FERC ¶ 61,175 (2015).

referred to in this question, are directly related to WECC's past transmission planning support activities. The scope of WECC's transmission planning related activities has not significantly changed since 2007. Transmission planning support activities and related costs have been included in WECC's annual Business Plans and Budgets for previous years, which have been approved by the Commission. *See* the references below in WECC's Business Plans and Budgets for the years 2007 through 2015.

- 2007: WECC 2007 Business Plan and Budget at 6. (Docket RR06-3-000.)
- 2008: WECC 2008 Business Plan and Budget at 3, 4 and 17. (Docket RR07-16-000.)
- 2009: WECC 2009 Business Plan and Budget at 8 and 31-36. (Docket RR08-6-000.)
- 2010: WECC 2010 Business Plan and Budget at 30-32. (Docket RR09-9-000.)
- 2011: WECC 2011 Business Plan and Budget at 24-26. (Docket RR10-13-000.)
- 2012: WECC 2012 Business Plan and Budget at 25-28. (Docket RR11-7-000.)
- 2013: WECC 2013 Business Plan and Budget at 24-27. (Docket RR12-13-000.)
- 2014: WECC 2014 Business Plan and Budget at 24-25. (Docket RR13-9-000.)
- 2015: WECC 2015 Business Plan and Budget at 20-21. (Docket RR14-6-000.)

WECC did in fact experience a decrease in Consultants and Contracts Expense from the 2014 budget to the 2015 budget due to the expiration of the Regional Transmission Expansion Planning "(RTEP") grant from the U.S. Department of Energy ("DOE"). However, while WECC was able to use the RTEP grant funds efficiently to add significant value to its transmission expansion planning related activities, many of the activities funded through the RTEP grant were one-time initiatives to develop or procure tools. WECC's budgets for Consultants and Contracts for 2015 and 2016 (and projected for subsequent years) include, among other things, activities to build upon, enhance, or maintain initiatives that began under the aegis of the DOE RTEP grant.

IV. CONCLUSION

The North American Electric Reliability Corporation respectfully submits the forgoing information in compliance with the September 15, 2015 letter from the Office of Energy Market Regulation in this docket.

Respectfully submitted,

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CERTIFICATE OF SERVICE

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

Dated at Chicago, Illinois, this 29th day of September, 2015.

/s/ Owen E. MacBride
Owen E. MacBride

Attorney for North American
Electric Reliability Corporation

DOCKET NO. RR15-16-000

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

RESPONSE TO SEPTEMBER 15, 2015 LETTER

ATTACHMENT 1

INFORMATION ON NERC COSTS IN 2015 AND 2016 BUDGETS FOR CYBER RISK INFORMATION SHARING PROGRAM

NERC Costs	2015 Budget	2016 Budget	Variance
Personnel	$ 459,251	$ 741,671	$ 282,420
Data Storage	300,000	300,000	-
Hardware and Software	100,000	100,000	-
ES-ISAC Portal Upgrades/Enhancements	100,000	100,000	-
Security review		100,000	100,000
Meetings, travel and conferences	50,000	69,455	19,455
Cellular and other Office Costs	5,000	4,277	(723)
Professional Fees	250,000	50,000	(200,000)
Insurance	100,000	125,000	25,000
Indirect cost allocation	390,817	694,022	303,205
Total	$ 1,755,068	$ 2,284,425	$ 529,357

50% funded through assessments	$ 877,534	$ 1,142,213	$ 264,679

PNNL Costs funded only by participants	$ 7,566,055	$ 5,688,594	$ (1,877,461)
50% of NERC costs	877,534	1,142,213	264,679
Insurance reserve fund	500,000	-	(500,000)
Total funding by participants	$ 8,943,589	$ 6,830,807	$ (2,112,783)