

September 2, 2008

**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. RR08-6-000  
Motion to Submit Corrections to 2009 Business Plans and Budget Filing**

Dear Ms. Bose:

On August 22, 2008, the North American Electric Reliability Corporation (“NERC”) filed the “Request of the North American Electric Reliability Corporation for Acceptance of its 2009 Business Plan and Budget and the 2009 Business Plans and Budgets of Regional Entities and for Approval of Proposed Assessments to Fund Budgets” (“2009 Business Plan and Budget Filing”). Subsequent to that filing, NERC has identified five corrections to the narrative portion of the 2009 Business Plan and Budget Filing and corrections to two tables in Attachment 1 to the 2009 Business Plan and Budget Filing. Accordingly, NERC is hereby submitting the attached “Motion of the North American Electric Reliability Corporation to Submit Corrections to its 2009 Business Plan and Budget Filing.” The corrected versions of the narrative portion of the 2009 Business Plan and Budget Filing and of Attachment 1 thereto, both labeled “Corrected Version Filed September 2, 2008”, are also being submitted with the motion.

Please note that none of the corrections are to the actual 2009 Business Plan and Budgets of NERC, the eight Regional Entities or the Western Interconnection Regional Advisory Body (Attachments 2 through 11 to the 2009 Business Plan and Budget Filing).

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



**MOTION OF THE  
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION  
TO SUBMIT CORRECTIONS TO ITS  
2009 BUSINESS PLAN AND BUDGET FILING**

On August 22, 2008, the North American Electric Reliability Corporation (“NERC”) filed its 2009 Business Plan and Budget and the 2009 Business Plans and Budgets of the eight Regional Entities and the Western Interconnection Regional Advisory Body with the Commission (“2009 Business Plan and Budget Filing”). Subsequent to making that filing, NERC has identified a number of corrections that should be made to (i) the narrative portion of the 2009 Business Plan and Budget Filing (accompanying the filing letter), and (ii) Attachment 1 to that filing. Accordingly, NERC requests leave to submit the corrected versions of the narrative portion of, and Attachment 1 to, the 2009 Business Plan and Budget Filing. The corrected versions of the narrative portion of the filing and of Attachment 1, both labeled “Corrected Version Filed September 2, 2008,” are submitted with this motion.

All of the corrections to the narrative portion of the 2009 Business Plan and Budget Filing and Attachment 1 thereto are due to incorrect presentation, in those documents, of numbers from the NERC and Regional Business Plans and Budgets (**Attachments 2 through 10** of the 2009 Business Plan and Budget Filing), and do not represent errors in the NERC or Regional Entity Business Plans and Budgets themselves. NERC is not submitting any corrections to **Attachments 2 through 10** of the 2009 Business Plan and Budget Filing (nor to any of the other attachments, **Attachments 11 through 20**, of the filing).

Following is a listing of the corrections that have been made to the narrative portion of the 2009 Business Plan and Budget Filing and to Attachment 1 and that are reflected in the corrected versions of these documents being submitted herewith.

### **Corrections to narrative portion of filing**

Page 19, Table: Texas RE Budget for Non-Statutory Functions corrected from \$81,997 to \$871,997.

Page 23, Table: Caption of 6<sup>th</sup> column corrected from “2006 NEL” to “2007 NEL”.

Page 30, 2<sup>nd</sup> paragraph, 3<sup>rd</sup> line, \$3,715,804 corrected to \$3,715,084.

Page 38, 2<sup>nd</sup> full paragraph, 7<sup>th</sup> line, “office costs” inserted after “contracts”.

Page 52, 1<sup>st</sup> full paragraph, 12<sup>th</sup> line, “Administrative Services” corrected to “Information Technology”.

### **Corrections to Attachment 1**

Page 2, 1<sup>st</sup> Table (Proposed budget for statutory activities of each regional entity):

- Total Budget for Statutory Functions 2009 corrected from \$83,809,296 to \$93,904,842
- MRO Allocation to U.S. 2009 corrected from \$5,391,836 to \$5,416,569
- SERC Allocation to U.S. 2009 corrected from \$5,416,569 to \$10,095,546
- Total Allocation to U.S. 2009 corrected from \$77,708,150 to \$82,411,947

Page 3, 2<sup>nd</sup> Table (Aggregate U.S. ERO funding requirement of NERC, the regional entities and WIRAB for which approval is requested – 2009 Funding):

- FRCC Regional Entity Funding corrected from \$3,898,435 to \$3,898,438
- SERC Regional Entity Funding corrected from \$9,652,543 to \$9,652,546
- Total Regional Entity Funding corrected from \$86,413,206 to \$75,166,054

WHEREFORE, NERC requests leave to submit the corrected versions of the narrative portion of, and Attachment 1 to, the 2009 Business Plan and Budget Filing, that are submitted with this motion.

Respectfully submitted,

Rick Sergel  
President and Chief Executive Officer  
David N. Cook\*  
Vice President and General Counsel  
North American Electric Reliability  
Corporation  
116-390 Village Boulevard  
Princeton, NJ 08540-5721  
(609) 452-8060  
(609) 452-9550 – facsimile  
[david.cook@nerc.net](mailto:david.cook@nerc.net)

\*Persons included on the Commission's  
official service list

/s/ Owen E. MacBride  
Owen E. MacBride\*  
Debra Ann Palmer  
Schiff Hardin LLP  
1666 K Street, N.W., Suite 300  
Washington, DC 20036-4390  
(202) 778-6400  
(202) 778-6460 – facsimile  
[omacbride@schiffhardin.com](mailto:omacbride@schiffhardin.com)  
[dpalmer@schiffhardin.com](mailto:dpalmer@schiffhardin.com)

Rebecca J. Michael, Assistant General Counsel  
North American Electric Reliability Corporation  
1120 G Street, N.W., Suite 990  
Washington, D.C. 2005-3801  
(202) 393-3998  
(202) 393-3995 – facsimile  
[Rebecca.michael@nerc.net](mailto:Rebecca.michael@nerc.net)

**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 2nd day of September, 2008.

/s/ Owen E. MacBride

Owen E. MacBride

*Attorney for*

*North American Electric Reliability Corporation*



I.	INTRODUCTION .....	1
II.	NOTICES AND COMMUNICATIONS .....	4
III.	OVERVIEW OF PROPOSED BUDGETS AND FUNDING REQUIREMENTS.....	5
	A. NERC’s Proposed Business Plan, Budget and Funding Requirement.....	5
	1. Organization of NERC’s 2009 Business Plan and Budget .....	5
	2. Development of NERC’s 2009 Business Plan and Budget .....	9
	3. Summary of NERC’s Proposed 2009 Budget and Funding Requirement.....	12
	B. Regional Entity Proposed 2009 Budgets .....	15
	C. Western Interconnection Regional Advisory Board Funding Request.....	20
	D. Overall Funding Requirement and Allocations by Country, Region and LSE.....	20
	E. Treatment of Prior Years’ Budget Surpluses or Deficits .....	24
	F. Projected Costs for 2010 and 2011 .....	26
IV.	DISCUSSION OF NERC BUDGET .....	27
	A. 2008 Business Plans and Budgets by Program.....	27
	1. Reliability Standards Program .....	27
	2. Compliance Monitoring and Enforcement and Organization Registration and Certification Program .....	28
	3. Reliability Readiness Evaluation and Improvement Program.....	30
	4. Training, Education, and Operator Certification Program.....	32
	5. Reliability Assessment and Performance Analysis Program.....	33
	6. Situational Awareness and Infrastructure Security.....	36
	7. Administrative Services .....	39
	B. Recoupment of Prior Years’ Uncollected Assessments; Working Capital Reserve .....	42
V.	REGIONAL ENTITY BUDGETS .....	45
	A. Consistency Among Regional Entity Budgets.....	45
	B. Discussion of Individual Regional Entity Business Plans and Budgets .....	49
	1. FRCC .....	49



2.	MRO .....	50
3.	NPCC .....	50
4.	Reliability <i>First</i> .....	52
5.	SERC.....	53
6.	SPP.....	54
7.	Texas RE.....	56
8.	WECC.....	57
C.	Metrics Related to Regional Entity Budgets.....	59
VI.	EXPANDED POLICY ON ALLOCATION OF CERTAIN COMPLIANCE AND ENFORCEMENT COSTS AMONG THE UNITED STATES, CANADIAN PROVINCES AND MEXICO.....	62
VII.	ADDITIONAL RECONCILIATIONS OF 2007 BUDGETED VERSUS ACTUAL EXPENSES BASED ON AUDITED FINANCIAL STATEMENTS.....	68
VIII.	ADOPTION OF REVISED NERC RECORDS RETENTION POLICY BY MRO AND NPCC .....	69
IX.	CONCLUSION.....	70

**ATTACHMENTS**

**Attachment 1:** Summary tables showing NERC’s proposed 2009 budget and funding requirement by program; the proposed 2009 budget for statutory activities of each Regional Entity; the 2009 funding requirement for Section 215(j) activities requested by WIRAB; and the aggregate 2009 U.S. ERO funding requirement of NERC, the Regional Entities and WIRAB for which approval is requested.

**Attachment 2:** NERC’s proposed Business Plan and Budget for 2009

**Attachment 3:** Florida Reliability Coordinating Council proposed Business Plan and Budget for 2009

**Attachment 4:** Midwest Reliability Organization proposed Business Plan and Budget for 2009

**Attachment 5:** Northeast Power Coordinating Council, Inc. proposed Business Plan and Budget for 2009

**Attachment 6:** Reliability*First* Corporation proposed Business Plan and Budget for 2009

**Attachment 7:** SERC Reliability Corporation proposed Business Plan and Budget for 2009

**Attachment 8:** Southwest Power Pool Regional Entity proposed Business Plan and Budget for 2009

**Attachment 9:** Texas Regional Entity proposed Business Plan and Budget for 2009

**Attachment 10:** Western Electricity Coordinating Council proposed Business Plan and Budget for 2009

**Attachment 11:** Western Interconnection Regional Advisory Body proposed Business Plan and Budget for 2009

**Attachment 12:** Discussion of Comments Received During Development of NERC's 2009 Business Plan and Budget.

**Attachment 13:** A status report on the achievement of NERC's 2008 goals and objectives, by program.

**Attachment 14:** Table of Metrics Comparing Regional Entity Operations.

**Attachment 15:** Analysis of Indirect Expenses as Percentage of Total Statutory Budgeted Expenses, Direct Program Costs per FTE, and Compliance Program Costs per Registered Entity in the NERC and Regional Entity 2009 Budgets.

**Attachment 16:** NERC's Expanded Policy on Allocation of Certain Compliance and Enforcement Costs; Proposed Adjustment to the IESO 2009 NERC Assessment; and Proposed Adjustment to the Québec 2009 NERC Assessment.

**Attachment 17:** Changes from the NERC and Regional Entity Budget versus Actual Reconciliations for 2007 filed April 1, 2008, based on the NERC and Regional Entity Audited Financial Statements for 2007

**Attachment 18:** NERC and Regional Entity Audited Financial Statements for 2007.

**Attachment 19:** Midwest Reliability Organization revised records retention policy.

**Attachment 20:** Northeast Power Coordinating Council, Inc. revised records retention policy.

## I. INTRODUCTION

In accordance with 18 C.F.R. §39.4, the North American Electric Reliability Corporation (“NERC”) submits for the Commission’s acceptance and approval:

- (1) NERC’s proposed Business Plan and Budget as the electric reliability organization (“ERO”), for the year ending December 31, 2009;
- (2) the proposed Business Plans and Budgets for the year ending December 31, 2009, for the eight Regional Entities:
  - Florida Reliability Coordinating Council (“FRCC”),
  - Midwest Reliability Organization (“MRO”),
  - Northeast Power Coordinating Council, Inc. (“NPCC”),
  - Reliability*First* Corporation (“Reliability*First*”),
  - SERC Reliability Corporation (“SERC”),
  - Southwest Power Pool (“SPP”),
  - Texas Regional Entity (“Texas RE”), an independent division of the Electric Reliability Council of Texas (“ERCOT”), and
  - Western Electricity Coordinating Council (“WECC”);
- (3) the proposed budget of the Western Interconnection Regional Advisory Body (“WIRAB”) for activities under Section 215(j) of the Federal Power Act (“FPA”) for the year ending December 31, 2009; and
- (4) NERC’s proposed allocation of the proposed statutory funding requirements of NERC, the Regional Entities and WIRAB by country and among the Regions, and the proposed assessments to the load-serving entities (“LSE”) within each Region to collect the allocated statutory funding requirements.

This filing includes the following twenty attachments:

**Attachment 1** is a set of summary tables showing (i) NERC’s proposed 2009 budget by program and its proposed funding requirement, (ii) the proposed 2009 budget for statutory activities of each Regional Entity, (iii) the budget for Section 215(j) activities requested by WIRAB, and (iv) the aggregate ERO funding requirement of NERC, the Regional Entities and WIRAB, allocated to the U.S., for which approval is requested.

**Attachment 2** contains NERC’s detailed 2009 Business Plan and Budget and the allocation of assessments by Region and LSE to recover the resulting statutory funding requirements for 2009 (as well as the assessments to recover the statutory funding requirements of the Regional Entities and WIRAB).

**Attachments 3 through 11** contain the detailed 2009 Business Plans and Budgets of, respectively, FRCC, MRO, NPCC, ReliabilityFirst, SERC, SPP, Texas RE, WECC and WIRAB.

**Attachment 12** contains a discussion of how comments submitted by interested entities on posted drafts of NERC's 2009 Business Plan and Budget during the budgeting process were addressed in the final 2009 Business Plan and Budget.

**Attachment 13** is a status report on progress in achieving NERC's 2008 goals and objectives, by program.

**Attachment 14** contains a table of metrics comparing Regional Entity operations.

**Attachment 15** contains metrics and analysis of indirect expenses as a percentage of total statutory budgeted expenses, direct program costs per full-time equivalent employee ("FTE"), and Compliance Monitoring and Enforcement and Organization Registration and Certification Program costs per registered entity, included in the NERC and Regional Entity 2009 Budgets.

**Attachment 16** contains NERC's Expanded Policy on Allocation of Certain Compliance and Enforcement Costs, which is the basis for resolving issues relating to the allocation of NERC and NPCC statutory funding requirements among entities in the United States and the Provinces of Ontario and Québec; (ii) the resulting adjustment to the 2009 NERC assessment to the Ontario Independent Electric System Operator ("IESO"); and (iii) the resulting adjustment to the 2009 NERC assessment to Québec.

**Attachment 17** provides information on changes from the NERC and Regional Entity budget versus actual reconciliations for 2007 filed with the Commission on April 1, 2008, based on the NERC and Regional Entity audited financial statements for 2007, as directed in the Commission's Order issued June 19, 2008 in Docket No. RR07-16-003.<sup>1</sup>

**Attachment 18** contains the audited financial statements of NERC and each Regional Entity for the 12 months ended December 31, 2007.

**Attachment 19** contains MRO's revised records retention policy, as required by the June 19 2008 Budget Compliance Order.<sup>2</sup>

**Attachment 20** contains NPCC's revised records retention policy, as required by the June 19 2008 Budget Compliance Order.<sup>3</sup>

---

<sup>1</sup> *North American Electric Reliability Corporation, Order Conditionally Accepting Compliance Filing*, 123 FERC ¶ 61,282 (2008) ("June 19 2008 Budget Compliance Order"), at P 40.

<sup>2</sup> *Id.* at P 15.

<sup>3</sup> *Id.* at P 17.

The Commission's regulations require the ERO to file its proposed entire annual budget for statutory and non-statutory activities with the Commission 130 days before the beginning of the ERO's fiscal year. NERC's 2009 fiscal year will begin January 1, 2009. The filing must also contain the entire annual budget of each Regional Entity for statutory and non-statutory activities and include supporting materials, including the ERO's and each Regional Entity's complete business plan and organization chart, and explanation of the proposed collection of all dues, fees and charges and the proposed expenditure of funds collected.<sup>4</sup> The information required by 18 C.F.R. §39.4(b) is included in this filing. In accordance with 18 C.F.R. §39.4(c), NERC requests issuance of an order by November 2, 2008, accepting the proposed Business Plans and Budgets, and approving the proposed assessments, submitted in this filing.<sup>5</sup> Entry of the Commission's order by November 2, 2008 will enable billings to be issued to the LSEs or their designees for assessments with initial payment dates commencing on or about January 1, 2009, to support the activities of NERC and the Regional Entities during 2009.<sup>6</sup>

---

<sup>4</sup> 18 C.F.R. §39.4(b).

<sup>5</sup> 18 C.F.R. §39.4(c) states: "The Commission, after public notice and opportunity for hearing, shall issue an order either accepting, rejecting, remanding or modifying the proposed Electric Reliability Organization budget and business plan no later than sixty (60) days in advance of the beginning of the Electric Reliability Organization's fiscal year." For reference, NERC notes that the Commission conditionally approved NERC's 2007 ERO budget and funding requirement and the proposed 2007 budgets and funding requirements of the Regional Entities and WIRAB in an order issued October 24, 2006 and two subsequent orders. *North American Electric Reliability Corp.*, 117 FERC ¶ 61,091 (2006) ("2007 Budget Order"), *order on reh'g and establishing technical conference*, 118 FERC ¶ 61,111, *order on reh'g*, 119 FERC ¶ 61,059 (2007). The Commission conditionally approved NERC's 2008 ERO budget and funding requirement and the proposed 2008 budgets and funding requirements of the Regional Entities and WIRAB in an order issued October 18, 2007. *North American Electric Reliability Corp.*, 121 FERC ¶ 61,057 (2007) ("2008 Budget Order").

<sup>6</sup> NERC will calculate and bill assessments to certain entities, referred to herein as "designees", based on Net Energy for Load ("NEL") values that include the NEL for other LSEs served by the designee, or for which the designee has otherwise agreed to accept responsibility for

## II. NOTICES AND COMMUNICATIONS

Notices and communications with respect to this filing may be addressed to:

Rick Sergel  
President and Chief Executive Officer  
David N. Cook\*  
Vice President and General Counsel  
North American Electric Reliability  
Corporation  
116-390 Village Boulevard  
Princeton, NJ 08540-5721  
(609) 452-8060  
(609) 452-9550 – facsimile  
[david.cook@nerc.net](mailto:david.cook@nerc.net)

\*Persons to be included on the Commission’s official service list.

Owen E. MacBride\*  
Debra Ann Palmer  
Schiff Hardin LLP  
1666 K Street, N.W., Suite 300  
Washington, DC 20036-4390  
(202) 778-6400  
(202) 778-6460 – facsimile  
[omacbride@schiffhardin.com](mailto:omacbride@schiffhardin.com)  
[dpalmer@schiffhardin.com](mailto:dpalmer@schiffhardin.com)

Rebecca J. Michael, Assistant General Counsel  
North American Electric Reliability  
Corporation  
1120 G Street, N.W., Suite 990  
Washington, D.C. 2005-3801  
(202) 393-3998  
(202) 393-3995 – facsimile  
[Rebecca.michael@nerc.net](mailto:Rebecca.michael@nerc.net)

---

assessments. The calculation and billing of assessments to designees is not a departure from the principle that the ERO funding requirement should be recovered through assessments to LSEs based on NEL, but rather is a matter of administrative convenience and efficiency (*e.g.*, a generation and transmission (“G&T”) cooperative and its member distribution cooperatives may find it more efficient for the assessment to be calculated and billed to the G&T cooperative rather than to the individual distribution cooperatives). The lists of LSEs and designees for which assessments will be calculated and billed have been provided to NERC by the Regional Entities. NERC has had no involvement in developing the lists of LSEs or in arrangements between LSEs and designees pursuant to which a designee agrees to accept responsibility for an assessment that would otherwise be calculated for and billed to the LSE and the LSE agrees to be financially responsible to reimburse the designee for the assessment. Additionally, the assessments for the NPCC region will be billed to ISO New England and the New York ISO (and to similar entities in Ontario, Québec, New Brunswick and Nova Scotia), each of which will be responsible for billing and collecting assessments from the LSEs within their respective footprints. Similarly, the assessments for the Texas RE region will be billed entirely to ERCOT, which will be responsible for collecting the aggregate regional assessment from entities within Texas RE.

### **III. OVERVIEW OF PROPOSED BUDGETS AND FUNDING REQUIREMENTS**

#### **A. NERC's Proposed Business Plan, Budget and Funding Requirement**

##### **1. Organization of NERC's 2009 Business Plan and Budget**

In this filing NERC seeks acceptance of its 2009 Business Plan and Budget. NERC's 2009 Business Plan and Budget is organized based on six specific program areas. Each of these program areas carries out or supports implementation of one or more of the statutory activities of the ERO as specified in §215 of the FPA and the Commission's regulations: development of reliability standards for the bulk power system (§215(d) of the FPA; 18 C.F.R. §39.5); enforcement of compliance with reliability standards, including imposition of penalties and sanctions for violations (§215(e) of the FPA; 18 C.F.R. §39.7); and conducting periodic assessments of the reliability and adequacy of the bulk power system in North America (§215(g) of the FPA; 18 C.F.R. §39.11). Specifically:

- (1) The Reliability Standards program implements the statutory activity of development of reliability standards.
- (2) The Compliance Monitoring and Enforcement and Organization Registration and Certification Program implements the statutory activity of enforcement of compliance with reliability standards, including imposition of penalties and sanctions for violations of standards.
- (3) The Reliability Readiness Evaluation and Improvements Program supports the statutory activity of enforcing and achieving compliance with reliability standards and the statutory activity of conducting assessments of the reliability of the bulk power system. This program also provides information and feedback that supports the statutory activity of development of reliability standards.
- (4) The Training, Education and Operator Certification Program supports the statutory activity of enforcing and achieving compliance with reliability standards, and also provides information and feedback that supports the statutory activity of development of reliability standards.
- (5) The Reliability Assessment and Performance Analysis Program implements the statutory activity of conducting periodic assessments of the reliability and adequacy of the bulk power system in North America. This program also provides information and feedback that supports the statutory activities of

development of reliability standards and achieving compliance with reliability standards.

- (6) The Situational Awareness and Infrastructure Security Program supports the statutory activity of enforcing and achieving compliance with reliability standards, and also provides information and feedback that supports the statutory activities of development of reliability standards and conducting assessments of the reliability and adequacy of the bulk power system.

The information required by 18 C.F.R. §39.4(b) is contained in **Attachment 2**. The Introduction section provides an overview of NERC's planned 2009 activities and budget. It also summarizes NERC's total resource requirements for 2009 including statutory full-time equivalent employees ("FTEs"), statutory expenses, and required ERO funding assessments, and shows the distribution of the total NEL to be used for allocating the ERO funding requirement among the U.S., Canada and Mexico.

Section A of **Attachment 2** is NERC's Business Plan for 2009. The Business Plan is designed to address the requirements of 18 C.F.R. §39.4(b), the Commission's Order certifying NERC as the ERO,<sup>7</sup> and applicable directives in subsequent Commission orders including the 2007 Budget Order and 2008 Budget Order. The Business Plan provides detailed descriptions, work plans, and goals and objectives for 2009 for each of NERC's statutory programs and administrative services departments.<sup>8</sup> It also provides a table at the start of the section on each program and administrative department showing total FTEs, total direct expenses, total indirect expenses<sup>9</sup> and total expenses for the program or department as presented in NERC's approved

---

<sup>7</sup> *Order Certifying North American Electric Reliability Corporation as the Electric Reliability Corporation and Ordering Compliance Filing*, 116 FERC ¶ 61,062 (2006) ("ERO Certification Order"), at P 202.

<sup>8</sup> All of NERC's programs are statutory programs. NERC has no non-statutory activities planned or budgeted for 2009.

<sup>9</sup> Indirect expenses are the amount of Administrative Services expenditures that have been allocated to each of the statutory programs on the basis of numbers of FTEs in each program.



2008 budget (“2008 Budget”), NERC’s current projection of FTEs and expenses for 2008 (“2008 Projection”), and the proposed 2009 budget (“2009 Budget”).<sup>10</sup> The discussion for each program and Administrative Services department identifies the proposed increases or decreases (if any) in FTEs for 2009 and the reasons. Finally, a more detailed Statement of Activities, along with a summary of significant variances from the 2008 Projection to the 2009 Budget, is provided for each program and administrative department. The Statements of Activities show funding and expense information from the 2008 Budget, the 2008 Projection and the 2009 Budget, as well as variances from the 2008 Budget to the 2008 Projection and from the 2008 Projection to the 2009 Budget. Funding is shown from ERO Assessments and from other potential sources. Expenses are shown by the major categories (and sub-categories) of Personnel Expenses (Salaries, Payroll Taxes, Benefits and Retirement Costs), Meeting Expenses (Meeting, Travel and Conference Calls), Operating Expenses (Consultants, Contracts, Office Rent, Office Costs, Professional Services, Computer Purchases & Maintenance, Furniture & Equipment, Miscellaneous and Contingency<sup>11</sup>), and Other Non-Operating Expenses.

Section B of **Attachment 2** presents NERC’s detailed proposed 2009 Budget. Section B contains a Statement of Activities for the overall 2009 Budget (Table 1) in the same format and level of detail as described above. It also contains NERC’s organizational charts for 2008 and 2009 (Tables 3 and 4) and an analysis of FTEs and changes by program area in the 2008 Budget, 2008 Projection and 2009 Budget (Table 2). Section B contains an analysis of NERC’s working capital reserve position for 2008 and 2009 showing calculation of the adjustment to the proposed

---

<sup>10</sup> The 2008 Projection of expenses is based on actual 2007 operating experience, experience to date in 2008 in relation to the 2008 Budget, and conforming changes to the 2008 Budget. *See* page 5 of **Attachment 2**.

<sup>11</sup> “Contingency” was used in developing budgets for prior years but has not been used in developing the 2009 Budget.

2009 assessments necessary to achieve the desired working capital reserve at December 31, 2009 (Table 5).<sup>12</sup> Table 6 of Section B shows the 2007 NEL by Regional Entity and by country and the total 2007 NEL by country, which data is used in allocating the NERC and Regional Entity funding requirements.<sup>13</sup> Table 7 provides NERC's projections of funding requirements and expenses for 2010 and 2011. Finally, Tables B-1 through B-11 in Section B provide more detailed expense data for the major expense categories by program and administrative department, for the 2008 Budget, 2008 Projection and 2009 Budget.

Section C of **Attachment 2**, consisting of Appendices C-1, C-2, C-3 and C-4, contains the calculation of the NEL-based allocation factors for each LSE and designee, and the allocation of the NERC and Regional Entity statutory funding requirements (assessments), by allocation methodology, to each LSE and designee. The allocations presented in Section C are discussed in detail in §III.A. 3 and §III.D below.

The detailed information in Sections A and B of **Attachment 2** demonstrates that the programs included in NERC's 2009 Business Plan and Budget are necessary and appropriate to carry out NERC's responsibilities as the ERO and that the specific resource requirements budgeted meet the Commission's objectives for affordability, sustainability and efficiency and

---

<sup>12</sup> "Working capital reserve" as presented in the 2009 Budgets of NERC and the Regional Entities is calculated in the same manner as the "Net Funding Reserve (Deficit)" provided for NERC and the Regional Entities in NERC's July 21, 2008 Compliance Filing in Docket RR07-16-004 in response to the June 19 2008 Budget Compliance Order. *Compliance Filing of the North American Electric Reliability Corporation in Response to June 19, 2008 Order* ("July 21 2008 Budget Compliance Filing").

<sup>13</sup> NEL data for 2007 is the most current actual NEL data available as of August 2008. As was the case in allocating the NERC and Regional Entity statutory funding requirements by country and by Region and calculating the assessments to LSEs or their designees for 2007 and 2008, the allocation of funding requirements and calculation of assessments for the 2009 Budget is based on NEL data for the second preceding calendar year, 2007.

effectiveness of the ERO's expenditures.<sup>14</sup> The discussion in Section A of **Attachment 2**, as well as in this filing, demonstrates how the activities and expenditures included in NERC's 2009 Business Plan and Budget lend themselves to the accomplishment of NERC's statutory objectives as the ERO.<sup>15</sup>

## **2. Development of NERC's 2009 Business Plan and Budget**

NERC prepared its 2009 Business Plan and Budget (and oversaw the development of the Regional Entity Business Plans and Budgets) through a rigorous process that provided ample opportunity for review by the Finance and Audit Committee of the NERC Board of Trustees, and for stakeholder comment, during the process. NERC Finance and Accounting representatives initially met with counterparts from the Regional Entities in December 2007 to begin the 2009 budget process. At meetings of the NERC Member Representatives Committee and NERC Board on February 11-12, 2008, the NERC Finance and Audit Committee approved the proposed timeline for development of the NERC and Regional Entity 2009 Business Plans and Budgets. During February and March of 2008, NERC management and staff provided detailed input on program goals and objectives and personnel and spending requirements for 2009. Based on this input, the initial draft (Version 1.0) of the NERC 2009 Business Plan and Budget was issued on April 9, 2008 to the NERC Finance and Audit Committee. The Finance and Audit Committee

---

<sup>14</sup> ERO Certification Order, P 202 (budget principle (5)). The budget principles listed by the Commission in P 202 of the ERO Certification Order include specification of a method for calculating budget estimates, identification of who prioritizes competing needs, and transparency. NERC formally adopted these budget principles as part of its October 18, 2006 compliance filing in response to the ERO Certification Order. (*Compliance Filing of the North American Electric Reliability Corporation and North American Electric Reliability Council Addressing Non-Governance Issues*, at 5; see NERC Rules of Procedure, §1103.3.) The Commission approved this aspect of that filing in its January 18, 2007, Order in Docket No. RR06-1-003, accepting in part and rejecting in part the October 18, 2006 compliance filing. *North American Electric Reliability Corp., Order on Compliance Filing* (Jan. 18, 2007).

<sup>15</sup> ERO Certification Order, P 202 (budget principle (2)).

discussed Version 1.0 at a meeting (by conference call) on April 11, 2008, which included opportunity for public comment.

A revised version (Version 1.1) of the NERC 2009 Business Plan and Budget was issued to the NERC Board and the NERC Member Representatives Committee, and posted on the NERC website for public comment, on April 24, 2008. The draft Business Plan and Budget was discussed at meetings of the NERC Finance and Audit Committee, Board of Trustees and Member Representatives Committee on May 6-7, 2008. Immediately following the May 6-7 meetings, a budget workshop for interested stakeholders was held (also accessible by telephone conference bridge). In addition, numerous stakeholder comments were received in response to the public posting of Version 1.1.<sup>16</sup>

On May 30, 2008, a further revised draft (Version 2.0) of the Business Plan and Budget was issued to the Finance and Audit Committee, and was discussed by that Committee in a meeting (by conference call) on June 6, which also included time for public comment. Version 2.0 reflected reductions from Version 1.1 in the number of FTE additions proposed for 2009 as well as reductions in budgeted meeting expenses and operating expenses totaling \$2.16 million. Version 2.0 of the Business Plan and Budget was posted for stakeholder comment on the NERC

---

<sup>16</sup> Comments 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 TransÉnergie; the Ontario Independent Electric System Operator ("IESO"); the ISO-RTO Council; NPCC; Reliability *First*; SERC; Southern Company Services, Inc.; the NERC Standards Committee; and the State of Connecticut Consumer Counsel. **Attachment 12** discusses how concerns expressed in the comments were addressed in NERC's final 2009 Budget.

website on June 13, 2008. During this second public comment period, additional stakeholder comments were received.<sup>17</sup>

Following the second public posting period, the Finance and Audit Committee held a further discussion of Version 2.0 of the Business Plan and Budget in a meeting (by conference call) 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 then issued on July 21, 2008, for consideration by the NERC Board and Member Representatives Committee at their meetings on July 29-30, 2008. On July 30, 2008, the NERC Board approved the 2009 Business Plan and Budget for submission to the Commission.<sup>18</sup> On August 12, 2008, the NERC Board approved the proposed 2009 assessments to LSEs and designees to recover the 2009 statutory funding requirements for NERC, the Regional Entities and WIRAB, for submission to the Commission. **Attachment 2** (labeled Version 3.1) is the final 2009 Business Plan and Budget.

In summary, the processes followed by NERC to develop its proposed 2009 Business Plan and Budget were thorough and comprehensive, involved significant input from NERC executive management and senior staff as well as iterative review and comment by the Finance and Audit Committee of the NERC Board and the Member Representatives Committee, and provided significant opportunity for stakeholder input and comment. The process was open and inclusive at all steps.

---

<sup>17</sup> During the second public posting period, comments 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. **Attachment 12** discusses how concerns expressed in the comments were addressed in NERC's final 2009 Budget.

<sup>18</sup> At that meeting, the NERC Board also approved the 2009 Business Plans and Budgets of the Regional Entities, the 2009 budget submitted by WIRAB, and the proposed assessments to recover the related funding requirements.

### 3. Summary of NERC's Proposed 2009 Budget and Funding Requirement

NERC's proposed 2009 Budget is \$34,447,620. This total encompasses U.S., Canadian and Mexican activities. The proposed 2009 Budget 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.

A portion of NERC's 2009 Budget will be funded through fees charged to participants and users in certain NERC programs, including the Operator Certification Program, the Continuing Education Program, and the Transmission Owners and Operators Forum (*see* §IV.A.4 and IV.A.6 below); through fees charged for NERC software and services such as Generating Availability Data System ("GADS") data and pc-GAR (*see* §IV.A.5 below); and by interest earned on bank balances and short-term investments, resulting in a preliminary net funding requirement of \$30,795,696.<sup>19</sup> In addition, NERC is seeking to achieve a working capital reserve at December 31, 2009, of \$2,500,000, which requires an additional assessment component (taking into account NERC's projected working capital reserve balance as of December 31, 2008) of \$1,129,352.<sup>20</sup> As a result, NERC's proposed net funding requirement for 2009 is \$31,925,048, of which \$28,668,409 is allocated to the U.S. Based on the aggregate NEL of the United States for 2007 on which the allocation of assessments is based,<sup>21</sup> the proposed U.S. net funding requirement for NERC is equivalent to \$0.000007 per kilowatt-hour.

---

<sup>19</sup> As discussed in greater detail later in this filing, this figure includes \$264,144 for recovery of 2007 and 2008 assessments that could not be collected.

<sup>20</sup> In its 2007 and 2008 Budgets, NERC sought to achieve a cash reserve equal to 10% of the projected net ERO funding requirement (before additional provision for the cash reserve). The \$2,500,000 working capital reserve target is more representative of steady-state operations. *See* the discussion in §IV.B below.

<sup>21</sup> *See* Table 6 on page 79 of Section B of **Attachment 2**.

NERC's 2009 Business Plan and Budget was developed and is organized based on the following major program elements:

<u>Program</u>	<u>2009 Budget</u>
Reliability Standards	\$ 5,665,032
Compliance Enforcement and Organization Registration and Certification	\$12,290,829
Reliability Readiness Evaluation and Improvement <sup>22</sup>	\$ 485,429
Training, Education and Operator Certification	\$ 2,593,173
Reliability Assessment and Performance Analysis	\$ 6,519,959
Situational Awareness and Infrastructure Security	<u>\$ 6,893,198</u>
	<u>\$34,447,620</u>

The budgeted amounts for each program incorporate a total budget for Administrative Services of \$13,305,335 which has been allocated to the budgets for the programs listed above based on the numbers of FTEs budgeted for each program.<sup>23</sup> The discussion in Section IV below as well as the detailed discussion of each program in **Attachment 2** demonstrates that each of these programs is necessary and appropriate to the execution of NERC's responsibilities as the ERO. Sections A and B of **Attachment 2** describe the activities encompassed in each program, including the 2009 work plans, goals and objectives for each program, and provide the line item components of the budget for each program. The functions of and resource requirements (FTEs

---

<sup>22</sup> NERC is proposing to phase out and eliminate this program in 2009. See §IV.A.3 below.

<sup>23</sup> The 2009 Budget amount of \$13,305,335 for Administrative Services includes the 2009 budget of \$857,572 for Members' Forums. Although the NERC Business Plan and Budget classifies Members' Forums with Administrative Services, and the costs for Members' Forums are allocated to the statutory programs, the Members' Forum programs are designed so that the expenses for these programs will be funded entirely by reimbursements from the Forums for the services provided by NERC, with the reimbursements to be funded by dues and other charges to Members' Forum participants. Therefore, the expenses for the Members' Forums are not included in the statutory funding requirement and assessments for recovery of statutory costs.

and external resources) and budgets for the NERC Administrative Services departments are also discussed in Sections A and B of **Attachment 2**.

NERC proposes an allocation of its net funding requirement of \$31,925,048 to the regional entities as follows<sup>24</sup>:

• FRCC	\$1,695,602
• MRO	\$2,173,150 <sup>25</sup>
• NPCC	\$4,177,977 <sup>26</sup>
• RFC	\$6,909,527
• SERC	\$7,439,650
• SPP	\$1,592,876
• TRE	\$2,140,806
• WECC	\$5,795,459 <sup>27</sup>

Section C of **Attachment 2** contains tables showing (i) the development of the NEL-based allocation factors used to allocate the NERC and Regional Entity funding requirements by country and among the Regional Entities,<sup>28</sup> and (ii) the allocation of the NERC and Regional

---

<sup>24</sup> As described in §III.D below, the aggregate NERC funding requirement has been allocated to the Regions on the basis of (i) 8-Region NEL, (ii) 8-Region NEL (excluding certain entities outside the U.S. from certain compliance and enforcement costs – *see* §VI below), (iii) 8-Region NEL (excluding all entities outside the U.S.) for the cost of the three-year self-assessment due to be submitted to the Commission in July 2009; (iv) IDC Defined Shares (based on usage of the NERC interchange distribution calculator (“IDC”)), and (v) allocation of certain uncollectible prior-year assessments to the Region in which the non-payer was located. The detailed allocations of the NERC statutory funding requirement by allocation methodology are shown in Appendix C-3 in **Attachment 2**.

<sup>25</sup> The total allocation to MRO consists of \$1,846,842 allocated to the U.S. and \$326,308 allocated to Canadian provinces.

<sup>26</sup> The total allocation to NPCC consists of \$2,090,999 allocated to the U.S. and \$2,086,979 allocated to Canadian provinces.

<sup>27</sup> The total allocation to WECC consists of \$4,952,107 allocated to the U.S., \$775,640 allocated to Canadian provinces and \$67,713 allocated to Mexico.

<sup>28</sup> *See* Appendix C-1 in **Attachment 2**.



Entity funding requirements by country and by Region.<sup>29</sup> Section C also contains tables showing the allocation of the NERC and Regional Entity funding requirements to the individual LSEs or designees within the footprint of each Regional Entity. These allocations are discussed in greater detail in § III.D below.

Other than user-related dues and fees for certain specific programs and services, and interest on cash balances and short-term investments (all of which have been fully taken into account in the development of NERC's proposed net funding requirement), NERC will have no sources of funding for its planned programs and operations other than the assessments to owners, operators and users of the bulk power system provided for in 18 C.F.R. §39.4(e) and equivalent collections from entities in Canada and Mexico.<sup>30</sup> (However, as discussed in §VI below, NERC (and NPCC) expect shortly to sign an agreement with La Régie de l'énergie du Québec ("Régie") under which the Régie will pay NERC and NPCC for providing certain compliance monitoring and enforcement services to the Régie for the Province of Québec.)

#### **B. Regional Entity Proposed 2009 Budgets**

Section 39.4(b) of the Commission's regulations requires that the ERO's annual budget submission include "the entire annual budget for statutory and non-statutory activities for each Regional Entity, with supporting materials, including . . . each Regional Entity's complete business plan and organization chart, explaining . . . the proposed expenditure of funds collected

---

<sup>29</sup> See Appendix C-2 in **Attachment 2**.

<sup>30</sup> In the 2007 Budget Order and the 2008 Budget Order, the Commission found that the same six NERC programs on which the 2009 Business Plan and Budget is based are statutory activities. 2007 Budget Order at P 28; 2008 Budget Order at P 21. As noted earlier, NERC's 2009 Business Plan and Budget includes no non-statutory activities. Therefore, NERC has not developed or presented specific accounting processes to separate the funding of its statutory and non-statutory activities and to assure that funding derived from § 215 of the FPA will exclusively support statutory activities.

in sufficient detail to justify the requested funding collection and budget expenditures . . . .” Section 39.4(b) further states that the ERO’s annual budget submission “shall include the line item budgets for the activities of each Regional Entity that are delegated or assigned to each Regional Entity pursuant to § 39.8.” This information for 2009 is provided in the individual Regional Entity Business Plans and Budgets in **Attachments 3 through 10**.

The Regional Entity budgets for statutory activities that are to be funded through NERC are the budgets for the functions and activities relating to development of reliability standards; compliance monitoring and enforcement and organization registration and certification; reliability readiness evaluation and improvement;<sup>31</sup> training, education and operator certification; reliability assessment and performance analysis (including necessary data gathering activities); and situational awareness and infrastructure security, that have been delegated by NERC to the Regional Entity pursuant to the Commission-approved delegation agreements; as well as each Regional Entity’s budgeted costs for administrative services.<sup>32</sup> Funding the Regional Entities will enable them to carry out the activities necessary in 2009 to meet their responsibilities under the approved delegation agreements.

In Order No. 672, the Commission stated that “The ERO must determine, at a minimum, whether each Regional Entity’s proposed budget is adequate to carry out the functions delegated

---

<sup>31</sup> As noted in §III.A.3, NERC is phasing out and eliminating this program in 2009. Some Regional Entities have budgeted no resources for this program in 2009, under the assumption that they will complete any necessary activities for this program in 2008, while other Regional Entities have budgeted resources for Reliability Readiness Evaluation and Improvement in 2009.

<sup>32</sup> WECC’s proposed budget for statutory functions includes the cost of WECC’s reliability coordinator function. In its order on rehearing issued April 19, 2007, in Docket No. RR06-3-001, the Commission determined WECC’s reliability coordinator function is a statutory activity the costs of which can be recovered through the statutory funding and assessment mechanism. *North American Electric Reliability Corp., Order on Rehearing*, 119 FERC ¶61,059 (2007).

to it.”<sup>33</sup> NERC staff provided guidance to the Regional Entities on the expected scope and content of their business plan and budget submissions, and worked collaboratively with the Regional Entities to develop a template for the Regional Entities’ 2009 Business Plans and Budgets. The template represents a further evolution of the template that was used for the Regional Entities’ 2008 Business Plans and Budgets, and facilitates increased ability to make comparisons among the Regional Entities’ budgets. As noted earlier, an initial meeting among NERC and Regional Entity finance and accounting representatives to initiate the 2009 business plan and budget development process was held in December 2007. Additional meetings were held on March 13 and April 17, 2008. NERC provided a business plan and budget template and a budget procedures document to the Regional Entities in late January 2008. During February and March of 2008, NERC worked with the Regional Entities to further develop a standard organization and development of the Regional Entity business plans and budgets and to make the Regional Entity budgets more consistent and transparent. The Regional Entities submitted initial drafts of their 2009 Business Plans and Budgets, covering statutory functions only, to NERC in early May 2008, and submitted complete drafts of their 2009 Business Plans and Budgets (including non-statutory activities) to NERC in late May 2008.

The Business Plans and Budgets submitted by the Regional Entities were reviewed by NERC’s Finance and Accounting staff during May and June 2008; where appropriate, additional information was requested and other suggestions for changes were made. NERC staff also reviewed the internal processes used by each Regional Entity to develop its budget, to verify that these processes were rigorous. The review included individual conferences with each Regional

---

<sup>33</sup> *Rules Concerning Certification of the Electric Reliability Organization; Procedures for the Establishment, Approval and Enforcement of Electric Reliability Standards*, Order No. 672, FERC Stats. & Regs. ¶ 31,204 (2006) (“Order No. 672”), at P 229.

Entity. Two particular areas of focus in NERC's review were (1) verifying the Regional Entity's Business Plan and Budget provided for sufficient resources to adequately carry out the functions delegated to the Regional Entity under the delegation agreement, and (2) understanding the bases for any significant differences in amounts budgeted by different Regional Entities for the same function. Additionally, NERC worked with the Regional Entities to continue to develop and enhance the Regional Entity metrics (originally submitted to the Commission in August 2007 as part of NERC's 2008 Business Plan and Budget filing) to enable comparisons of the operations and resources of the Regional Entities in meeting their obligations under the delegation agreements. The current table of metrics is included in **Attachment 14**; additional discussion of the metrics is provided in §V.C below. Through the processes described above, NERC has been able to satisfy itself that each Regional Entity's 2009 Business Plan and Budget provides for necessary and adequate resources to carry out the Regional Entity's delegated functions.

The Regional Entities submitted their final 2009 Business Plans and Budgets, approved by their respective governing bodies, to NERC by early July 2008.<sup>34</sup> The Regional Entities Business Plans and Budgets were then submitted to the Finance and Audit Committee of the NERC Board of Trustees, which discussed the Regional Entity submissions in a meeting (by conference call) held on July 11, 2008. During that meeting, an opportunity for public comment was provided. Thereafter, the Regional Entity Business Plans and Budgets were submitted to the NERC Board of Trustees and the Member Representatives Committee, which discussed them at the meetings held on July 29-30, 2008. The Regional Entities' 2009 Business Plans and Budgets were approved by the NERC Board of Trustees at its July 30, 2008 meeting.

---

<sup>34</sup> In reviewing the Regional Entity Business Plans and Budgets, and in accordance with the Commission's directive in the ERO Certification Order, NERC afforded the proposed Regional Entity Business Plans and Budgets no presumption of reasonableness due to having been approved by the Regional Entities' governing bodies. *See* ERO Certification Order at P 203.

The table below shows the total budget amounts for statutory and (where applicable) non-statutory functions for each Regional Entity as presented in their respective Business Plans and Budgets (**Attachments 3-10**).<sup>35</sup> In addition, because several Regional Entities have other sources of income (*e.g.*, fees for workshops and interest on bank deposits) that will be used to offset the costs of performing delegated functions, the requested ERO funding for these Regional Entities is less than their budgets for statutory activities. The fourth column shows the statutory funding requested for each Regional Entity, taking into account other sources of income. For all Regional Entities except SPP, the budget for statutory functions and requested statutory funding amount includes amounts to achieve a target working capital reserve at December 31, 2009:

<b>Regional Entity</b>	<b>Budget for Statutory Functions</b>	<b>Budget for Non-Statutory Functions</b>	<b>Requested Statutory Funding</b>
<b>FRCC</b>	\$ 3,977,868	\$ 3,361,112	\$ 3,898,438
<b>MRO</b>	\$ 6,405,724	-----	\$ 6,376,474 <sup>36</sup>
<b>NPCC</b>	\$ 10,008,885	\$ 1,012,790	\$10,008,885 <sup>37</sup>
<b>ReliabilityFirst</b>	\$ 11,434,201	-----	\$ 8,833,834
<b>SERC</b>	\$ 10,095,546	-----	\$ 9,652,546
<b>SPP</b>	\$ 7,123,827	\$92,341,173 <sup>38</sup>	\$ 7,123,837
<b>Texas RE</b>	\$ 6,167,024	\$ 871,997	\$ 3,430,700
<b>WECC</b>	\$39,287,577	\$ 798,197	\$37,466,774 <sup>39</sup>

<sup>35</sup> MRO, ReliabilityFirst and SERC do not plan to perform any non-statutory activities in 2009.

<sup>36</sup> The requested ERO funding for MRO consists of \$5,391,836 allocated to the U.S. and \$984,638 allocated to Canadian provinces.

<sup>37</sup> The requested ERO funding for NPCC consists of \$5,328,802 allocated to the U.S. and \$4,680,083 allocated to Canadian provinces.

<sup>38</sup> The figure of \$92,341,173 is the total 2008 budget of Southwest Power Pool, Inc. less the 2009 Budget of the SPP Regional Entity for statutory activities of \$7,123,827. The overall annual budget of Southwest Power Pool, Inc. is prepared on a schedule that will not result in approval of its 2009 budget until October 2008. See §V.B.6 below and pages 72-73 of **Attachment 8**.

<sup>39</sup> The figures for WECC for budget for statutory functions and requested statutory funding includes the budget and funding amounts for WIRAB. The requested ERO funding for WECC (including funding for WIRAB) consists of \$31,827,407 allocated to the U.S., \$5,186,580 allocated to Canadian provinces and \$452,786 allocated to Mexico.

**C. Western Interconnection Regional Advisory Board Funding Request**

In its Order issued July 20, 2006, in Docket No. RR06-02-000 (the “WIRAB Order”), the Commission concluded that reasonable costs incurred by WIRAB for activities under Section 215(j) of the FPA can be funded through the overall ERO funding process.<sup>40</sup> As specified in P 35 of the WIRAB Order, WIRAB submitted to NERC a proposed 2009 Business Plan and Budget for Section 215(j) activities, which is included in **Attachment 11**. NERC has reviewed WIRAB’s submission and believes it complies with the requirements of P 35 of the WIRAB Order. WIRAB’s proposed 2009 Budget for expenses is \$595,810, which is an increase of \$118,549 from the 2008 Budget. The 2009 Budget will be funded by estimated unspent funds at the end of 2008 of \$214,562 (after setting aside a working capital reserve of \$100,000), interest income of \$2,976, and a proposed assessment of \$378,272.

WIRAB’s overall statutory funding request of \$378,272 for 2009 consists of \$321,336 allocated to the U.S., \$52,365 allocated to Canadian provinces and \$4,571 allocated to Mexico. At its July 30, 2008 meeting, the NERC Board of Trustees approved WIRAB’s 2009 Budget request.

**D. Overall Funding Requirement and Allocations by Country, Region and LSE**

The total ERO funding requirement for 2009 (net of other NERC and Regional Entity income sources) is \$118,716,526, consisting of \$31,925,048 for funding of NERC’s programs, \$86,413,206 for funding of Regional Entity statutory activities, and \$378,272 to fund the WIRAB. NERC has allocated its net funding requirement of \$31,925,048 to the Regions

---

<sup>40</sup>*Order on Petition to Establish a Regional Advisory Body for the Western Interconnection*, Docket No. RR06-2-000, 116 FERC ¶61,061 (2006), P 33-37.

primarily on the basis of NEL.<sup>41</sup> An allocation based on the 8-Region NEL was used to allocate \$18,787,383 of the total NERC funding requirement to the Regions. In accordance with its Expanded Policy on Allocation of Certain Compliance and Enforcement Costs (included in **Attachment 16**), NERC has made adjustments to that allocation to recognize that one entity outside the U.S. (the IESO) expends resources to perform compliance and enforcement activities outside the U.S. that otherwise would be performed by NERC or a Regional Entity, and that the compliance and enforcement resources NERC needs for another jurisdiction outside the U.S. (Québec) are reduced due to the very small number of entities subject to compliance and enforcement activities in that jurisdiction.<sup>42</sup>

Additionally, the costs of operating and maintaining NERC's IDC, which is used only in the Eastern Interconnection, were allocated to the six Regions in the Eastern Interconnection based on usage levels of the IDC ("IDC Defined Share"). The IDC Defined Share allocation approach is reasonable and equitable because it allocates the cost of this function based on its actual use by region, and does not assess the costs of the IDC to entities in Texas RE and WECC. Further, NERC has allocated the budgeted cost of conducting the three-year performance assessment of NERC and the Regional Entities required by 18 C.F.R. §39.3(c) and PP 715-716 of the ERO Certification Order, which is required to be submitted to the Commission in July 2009, only to U.S. entities. Finally, the portion of the total funding requirement (\$264,144) representing 2007 and 2008 assessments that could not be collected was allocated as follows: (i)

---

<sup>41</sup>See Table 6 on page 79 in Section B of **Attachment 2** for the 2007 NEL data by Regional Entity and calculation of the country allocation factors for each Regional Entity. MRO, NPCC and WECC are the only Regional Entities whose footprints encompass Canadian provinces (and in the case of WECC, Mexico). As noted earlier, the year 2007 is the most recent calendar year for which NEL data is available.

<sup>42</sup> See discussion and details in §VI below.

the portion of this amount that represented incorrectly calculated assessments for 2007 and 2008 was allocated based on 8-Region NEL<sup>43</sup>; and (ii) the amounts that represented properly-calculated and billed assessments that could not be collected were allocated to the Region in which the non-payer was located.<sup>44</sup>

After allocating the appropriate portions of the NERC, Regional Entity and WIRAB funding requirements to Canadian provinces (taking onto account both the NEL-based allocations and the adjustments to the cost allocations to the IESO and Québec based on the Expanded Policy on Allocation of Certain Compliance and Enforcement Costs) and Mexico, the total ERO funding requirement for 2009 allocable to U.S. end users for which Commission approval is sought in this filing is \$104,155,799, consisting of:

NERC Funding:	\$28,668,409
Regional Entity Funding:	\$75,166,055
WIRAB Funding:	\$ 321,336

The funding requirement of each Regional Entity for statutory activities is of course allocated 100% to that Regional Entity. The funding requirement for the WIRAB is allocated 100% to WECC. The following table shows the allocation to each Regional Entity of the total 2009 ERO funding requirement of \$104,155,799 for U.S. statutory activities of NERC, the Regional Entities and WIRAB. The table also shows the funding requirements per kWh based on 2007 U.S. NEL of each Regional Entity.

---

<sup>43</sup> The amount of incorrectly calculated assessments was \$103,831.53 for 2007 and \$137,120 for 2008, for a total of \$240,951.53. The incorrect calculations included attributing the entire NEL of a LSE that operates in two Regions to both Regions (*i.e.*, the LSE's NEL was counted twice); and inadvertently doubling a LSE's NEL.

<sup>44</sup> The amount of assessments that have been determined to be uncollectible is \$23,192.78, all relating to 2007 assessments. These assessments could not be collected because the LSEs were no longer serving any load.



<b>2009 Funding</b>					
<b>Regional Entity</b>	<b>NERC Funding</b>	<b>Regional Entity Funding</b>	<b>WIRAB Funding</b>	<b>Total Allocation</b>	<b>Allocation per kWh (2007 NEL)</b>
<b>FRCC</b>	\$ 1,695,602	\$ 3,898,438	--	\$ 5,594,040	\$0.000024
<b>MRO</b>	\$ 1,846,842	\$ 5,391,836	--	\$ 7,238,678	\$0.000031
<b>NPCC</b>	\$ 2,090,999	\$ 5,328,802	--	\$ 7,419,801	\$0.000025
<b>RFC</b>	\$ 6,909,527	\$ 8,833,834	--	\$15,743,361	\$0.000017
<b>SERC</b>	\$ 7,439,650	\$ 9,652,546	--	\$17,092,196	\$0.000016
<b>SPP</b>	\$ 1,592,876	\$ 7,123,827	--	\$ 8,716,703	\$0.000043
<b>TRE</b>	\$ 2,140,806	\$ 3,430,700	--	\$ 5,571,506	\$0.000017
<b>WECC</b>	\$ 4,952,107	\$31,506,071	\$ 321,336	\$36,779,514	\$0.000050
<b>Total</b>	\$28,668,409	\$75,166,054	\$ 321,336	\$104,155,799	\$0.000026

For all Regions except NPCC and Texas RE, NERC obtained from the Regional Entity a listing of the LSEs or their designees in the Region and a breakdown of the Regional Entity's 2007 NEL by LSE or designee. For the NPCC region, NERC obtained from NPCC the 2007 NEL for each Balancing Authority Area (New York, New England, Ontario, Québec, Nova Scotia and New Brunswick. For the Texas RE, NERC obtained from Texas RE the 2007 NEL for ERCOT. NERC used this information to further allocate the total ERO funding requirement allocated to each Regional Entity among the LSEs, their designees or the other entities to be billed the assessments within that Regional Entity's footprint.<sup>45</sup> The amount of the NERC and Regional Entity funding requirement allocated to each LSE or designee or other entity to be billed in each Regional Entity's footprint is shown in Appendix C-2 of **Attachment 2**. NERC requests that the Commission approve the funding amounts allocated to each LSE or designee, as

---

<sup>45</sup> Certain LSEs in MRO and WECC serve end users only in Canada or Mexico and not in the U.S. These LSEs were not allocated any portion of the ERO funding requirement allocated to U.S. end users, but were allocated appropriate portions, based on NEL (except as noted above), of the ERO funding requirement allocated to Canadian provinces or Mexico, as applicable.

shown in Appendix C-2, so that the LSEs and their designees may be billed for these assessments in accordance with 18 C.F.R. §39.4(e).<sup>46</sup>

NERC intends to directly invoice assessments to LSEs or designees, or to the other entities to be billed, in all Regions except WECC.<sup>47</sup> WECC will invoice LSEs or Balancing Authorities or their designees within the WECC footprint, collect the assessments and remit the funds to NERC. These arrangements have been provided for in Exhibit E to the delegation agreement with each Regional Entity.

#### **E. Treatment of Prior Years' Budget Surpluses or Deficits**

In the 2008 Budget Order, the Commission approved NERC's proposal to authorize a one-year suspension of NERC's policy of taking account of anticipated year-end budget surpluses in calculating the assessments required for the following year, and instead use anticipated 2007 year-end budget surpluses of NERC and the Regional Entities as reserves should the costs required to carry out statutory duties in 2008 – the first full year of operation in monitoring and enforcing compliance with Commission-approved mandatory and enforceable Reliability Standards – exceed the NERC and Regional Entity budgets.<sup>48</sup> Although the Commission stated that in its 2009 Business Plan and Budget filing, NERC could again propose to use anticipated year-end 2008 budget surpluses as reserves,<sup>49</sup> NERC has determined not to do

---

<sup>46</sup> As approved by the Commission in the ERO Certification Order at P 218, for reasons of administrative convenience billing and payment by LSEs of annual assessments less than \$100 will not be required.

<sup>47</sup> As noted above, the assessments in the NPCC region will be billed to a single entity for each of the six Balancing Authority Areas within NPCC (*see* Table 6 on p. 63 of **Attachment 5**); and the assessments in the Texas RE region will be billed to ERCOT.

<sup>48</sup> 2008 Budget Order at P 40.

<sup>49</sup> *Id.*

so. Instead, in the calculation of the NERC and Regional Entity net statutory funding requirements (assessments), any accumulated 2007 and anticipated 2008 surpluses (deficits) have been used to reduce (increase) the assessments requested for 2009.

In its 2008 Business Plan and Budget filing, NERC stated that its 2009 Business Plan and Budget filing would include an accounting and true-up for under-collections or over-collections in 2007.<sup>50</sup> The following table shows, for NERC and each Regional Entity, the surplus (deficit) of assessment revenues and other statutory revenues over (under) statutory expenses for 2007 and the projected year-end 2008 surplus (deficit) of assessment revenues and other statutory revenues over (under) statutory expenses for 2008.

<b>Entity</b>	<b>2007<sup>51</sup></b>	<b>2008<sup>52</sup></b>
<b>NERC</b>	\$1,046,155	\$ 56,432
<b>FRCC</b>	\$ 246,617	\$ 167,921
<b>MRO</b>	\$ 628,335	\$ 0
<b>NPCC</b>	\$ 284,735	\$(200,000)
<b>ReliabilityFirst</b>	\$2,497,880	\$(232,156)
<b>SERC</b>	\$ 582,394	\$(205,905)
<b>SPP</b>	\$ (438,754)	\$(204,036)
<b>Texas RE</b>	\$3,290,858	\$(585,698)
<b>WECC</b>	\$ (875,648)	\$ 0

---

<sup>50</sup> *Request of the North American Electric Reliability Corporation for Acceptance of its 2008 Business Plan and Budget and the 2008 Business Plans and Budgets of regional Entities and for Approval of Proposed Assessments to Fund Budgets* (Corrected Version filed August 31, 2007) (“2008 Budget Filing”), at 18.

<sup>51</sup> The amounts in this column are taken from Schedule 1, column 4 (Change in Net Assets – Statutory – 12/31/2007) in NERC’s July 21 2008 Budget Compliance Filing. These Change in Net Asset amounts also appear in the column “2007 Actual – Per Audit [Statutory]” for NERC and the Regional Entities in **Attachment 17** to this filing.

<sup>52</sup> The amounts in this column are the “Change in Assets” for the 2008 Projection shown in Table 1 of Section B of the 2009 Business Plan and Budget of NERC and each Regional Entity.

## F. Projected Costs for 2010 and 2011

As it did in its 2008 Business Plan and Budget, NERC is providing a projection of its expected revenues and expenses for the two years following the budget year (*i.e.*, 2010 and 2011). This information is provided in Table 7 in Section B of **Attachment 2**. NERC is providing these projections for informational purposes only. The NERC Board of Trustees has not approved these projections, and NERC is not seeking approval of the projections by the Commission or other governmental authorities. Based on the 2010 and 2011 Forecast Assumptions accompanying Table 7, NERC's 2010 expenses are projected to be approximately \$455,000 lower than its 2009 Budget, and its 2010 assessments to LSEs (or designees) for NERC funding are estimated to be approximately \$557,000 lower than the requested amount for 2009.<sup>53</sup> The 2011 expenses are projected to be approximately \$2,324,000 higher than the estimated 2010 expenses (6.8% increase), and the 2011 assessments are projected to be approximately \$2,045,000 higher than the estimated 2010 assessments (6.5% increase).

---

<sup>53</sup> Two major drivers of the projected decrease in NERC expenses and assessments in 2010 versus 2009 are (i) the 2009 Budget includes significant one-time expenses for the three-year performance assessment of NERC and the Regional Entities (due to be submitted to the Commission in July 2009, which will not be incurred in 2010 (or 2011)); and (ii) the 2009 Budget includes a total of \$1,393,496 to recoup 2007-2008 assessments that could not be collected and to achieve a working capital reserve of \$2,500,000 at December 31, 2009. The 2010 (and 2011) projections do not include any provision for recoupment of prior years' uncollected assessments, and assume that funding will equal expenses so that the working capital reserve will be maintained at \$2,500,000 without the need for an addition to the assessments to maintain the working capital reserve at the desired level. The elimination of these one-time items, totaling approximately \$2.4 million, offsets other cost increases projected for 2010 over 2009.

#### IV. DISCUSSION OF NERC BUDGET

##### A. 2008 Business Plans and Budgets by Program

This section summarizes NERC's proposed 2009 Business Plan and Budget by statutory program and Administrative Services department.<sup>54</sup>

##### 1. Reliability Standards Program

In this program NERC will accept and evaluate proposals for, and develop and approve, technically sound, fair and balanced bulk power system reliability standards to be submitted to the Commission (and to appropriate government authorities in Canada) for approval. The activities of NERC's Reliability Standards Development Process, which is overseen by its Standards Committee with the objective of seeing that all stakeholder interests are fairly represented in the development of standards, will be driven by the need to make identified improvements to the highest priority Reliability Standards in accordance with NERC's three-year *Reliability Standards Development Plan 2008-2010* and its successor for 2009-2011. The program description and the goals and objectives of the Reliability Standards Program for 2009 are presented in detail at pages 8-13 in Section A of **Attachment 2**. As there discussed, the 2009 objectives of the Reliability Standards Development Program are grouped into six categories: standards development, regional reliability standards development, standards improvement, business practice interface standards, process improvements, and communications.

---

<sup>54</sup> **Attachment 13** is a status report on NERC's progress in achieving its goals and objectives for 2008. A similar status report on achievement of the 2007 goals and objectives was provided as Attachment 4 to the 2008 Budget Filing. As it stated in the 2008 Budget Filing, NERC intends that its Business Plan submissions in future years will include a discussion of whether and to what extent the objectives of each program in the previous year were or are being) achieved, factors that may have contributed to the inability to achieve all objectives, and actions NERC plans to take in the upcoming year to meet unfulfilled objectives from the previous year and to provide greater assurance that objectives for the upcoming year will be met.

Although much of the work in the Reliability Standards Development Process is performed by committees and task groups comprised of volunteer technical experts from the electric industry, government and academia (including the Standards Committee), significant NERC professional staff resources are needed to facilitate and coordinate the work of industry volunteers and to administer the process. NERC has budgeted 14 FTEs for the Reliability Standards Program for 2009, which is a decrease of one FTE from the 2008 Budget and represents no change from the 2008 Projection. The 2009 budgeted expenses for this program (including indirect expenses) are \$5,665,032, which is an increase of \$674,509 over the 2008 Budget and an increase of \$706,277 over the 2008 Projection for this program.<sup>55</sup> The principal direct cost components of the 2009 Budget are personnel expenses (\$2,476,574), meetings and travel expenses (\$478,120), and consultants and office costs (\$86,750). The allocation of Administrative Services expenses to this program is \$2,623,587.

## **2. Compliance Monitoring and Enforcement and Organization Registration and Certification Program**

Under the Compliance Monitoring and Enforcement and Organization Registration and Certification Program, NERC monitors, audits, investigates and enforces compliance with the (currently 104) approved Reliability Standards by owners, operators and users of the bulk power system, in order to maintain a high level of reliable operation of the bulk power system. This program also includes registering owners, operators and users of the bulk power system as responsible for complying with Reliability Standards for each Region in which an entity owns, operates or uses bulk power system facilities, and maintaining a Compliance Registry (provided for in Section 500 of the NERC Rules of Procedure), to facilitate NERC's and the Regional Entities' compliance monitoring and enforcement activities. The NERC Compliance Registry

---

<sup>55</sup> See table on page 8 in Section A of **Attachment 2**.

now lists over 1,800 Registered Entities which have been registered to be responsible for approximately 4,500 functions affecting the reliability of some portion of the bulk power system.

The NERC Compliance Monitoring and Enforcement Program (“CMEP”) has processed, or is currently processing, over 1,400 violations of Reliability Standards that occurred after June 18, 2007 (the effective date of Commission-approved mandatory and enforceable Reliability Standards in the U.S.) and over 5,000 violations that occurred prior to June 18, 2007. During 2009, the NERC CMEP is expecting to participate in approximately 140 on-site audits and 238 off-site audits of Registered Entities. The NERC CMEP will also participate as needed in Compliance Violation Investigations, both those led by Regional Entities and those led by NERC. Another activity of the CMEP, which can be expected to increase in 2009, is participation in appeals by Registered Entities to NERC from compliance violation and penalty determinations by Regional Entities and in any subsequent appeals to the Commission from determinations of the NERC Board of Trustees Compliance Committee on the appeals. Finally, beginning in late 2008 and continuing into 2009, NERC will conduct audits of the Regional Entity compliance programs, as required by the NERC Rules of Procedure. The NERC CMEP expects to rely heavily on contractor resources for this latter activity.

The detailed 2009 program descriptions, activities, goals and objectives for Compliance Monitoring and Enforcement and Organization Registration and Certification are provided at pages 16-20 in Section A of **Attachment 2**. These activities fall into the areas of organization registration and certification, compliance monitoring and reporting, mitigation and enforcement, and Regional Entity compliance program oversight, audits and interfaces, as well as coordination and development activities with the Reliability Standards Program and with the Training, Education and Operator Certification program (primarily as to compliance auditor training).

Reflecting the continuing increases in compliance, enforcement, registration and certification activities in 2009, NERC has budgeted for 31 FTEs for the Compliance Monitoring and Enforcement and Organization Registration and Certification Program in 2009, an increase of four FTEs over NERC's staffing for this program in 2008. For 2009, NERC is also budgeting for significant increases in travel expenses and expenses for consultants for this program. As noted above, consultants are expected to be used in the audits of Regional Entity compliance programs; additionally, an outside software developer will be used in the development and implementation of a new Compliance Reporting, Analysis and Tracking System.

The budgeted expenses for this program (including indirect expenses) for 2009 total \$12,290,829, which is an increase of \$4,376,655 over the 2008 Budget and an increase of \$3,715,084 over the 2008 Projection for this program.<sup>56</sup> The principal drivers of this increase are increased personnel expenses reflecting four additional FTEs, increased travel expenses and increased (\$520,000) expense for consultants. The major direct cost budget components for the Compliance Monitoring and Enforcement and Organization Registration and Certification Program are personnel expenses (\$4,879,790); meetings and travel expenses (\$694,667); consultants, office costs and computer purchases and maintenance (\$907,000). The allocation of Administrative Services expenses to this program is \$5,809,372.

### **3. Reliability Readiness Evaluation and Improvement Program<sup>57</sup>**

The NERC Reliability Readiness Evaluation and Improvement Program began in response to the Commission's directives following the August 14, 2003 Northeast blackout. The

---

<sup>56</sup> See Table on page 16 in Section A of **Attachment 2**.

<sup>57</sup> This program began in 2004 as the Reliability Readiness Audit Program. In 2007, NERC changed the name of this program to the Reliability Readiness Evaluation and Improvement Program to more sharply distinguish the program from the CMEP.



goal of the program was to increase transparency on operating practices and to assess the industry's overall preparedness to minimize the likelihood of another major blackout. The Reliability Readiness Evaluation and Improvement Program has worked with industry experts to conduct on-site evaluations of balancing authorities, transmission operators, reliability coordinators and other entities that support the reliable operation of the bulk power system, to determine their readiness to maintain safe and reliable operations.

However, with the advent of mandatory and enforceable Reliability Standards and the implementation of the formal NERC CMEP, pursuant to §215 of the FPA enacted in 2005, NERC and industry participants have observed the following with respect to the Reliability Readiness Evaluation and Improvement Program: (1) the value of the program is diminishing; (2) NERC's focus and resources should be squarely on Reliability Standards and Compliance; and (3) NERC's role in enforcement of mandatory Reliability Standards may create a conflicted environment for this program, suggesting that its functions could be better undertaken by others (such as the Transmission Owners and Operators Forum). As a result, NERC has concluded that the Reliability Readiness Evaluation and Improvement Program in its current form should be discontinued. This program will, however, complete the remaining readiness reviews of entities scheduled for 2008 and 2009 and will terminate at the end of the first quarter of 2009.<sup>58</sup>

The Reliability Readiness Evaluation and Improvement Program currently has 8.5 FTEs; these positions will be eliminated in 2009 as the program concludes. NERC has budgeted \$485,429 to conclude the activities of this program in 2009, consisting of personnel expenses (\$462,474), travel costs (\$19,000) and office costs (\$3,955). No indirect expenses have been allocated to the Reliability Readiness Evaluation and Improvement Program for 2009.

---

<sup>58</sup> At present, 16 readiness evaluations are scheduled for the last four months of 2008 and 12 readiness evaluations are scheduled for the first quarter of 2009.

#### **4. Training, Education, and Operator Certification Program**

The Training, Education, and Operator Certification Program encompasses (i) the System Operator Certification Program, (ii) NERC's Continuing Education Program ("CEP") for owners, operators and users of the bulk power system and their operating personnel, and (iii) NERC's Education Program for NERC and Regional Entity staff.

The System Operator Certification Program provides a certification credential for operating personnel of owners, operators and users of the bulk power system. Initial certification is obtained through examinations, and is maintained or renewed through use of approved continuing education. The System Operator Certification Program is administered by NERC professional and technical staff and is overseen by the Personnel Certification Governance Committee, which is a NERC standing committee reporting to the Board of Trustees. Fees are charged for the certification examinations and renewals of credentials, which are structured to fully recover the costs of operating the System Operator Certification Program.

The objective of the NERC CEP is to foster improvement of and promote quality in the training programs used and implemented by owners, operators and users of the bulk power system. Through the CEP, NERC approves or accredits training programs of owners, operators and users of the bulk power system and of other continuing education providers. Among other functions, the CEP conducts periodic audits of continuing education providers and training activities to ensure that approved and accredited providers and training activities satisfy NERC's continuing education requirements. The costs of administering the CEP are fully recovered through fees paid by the continuing education providers.

In the Education Program, NERC develops and maintains learning materials and activities to establish training requirements for NERC and Regional Entity staff. NERC also provides educational activities and tools to industry stakeholders, participants and regulators.

These activities are carried out by NERC professional and technical staff and contractors with the assistance of industry volunteers possessing appropriate technical knowledge and competencies.

Detailed program descriptions and planned 2009 activities, goals and objectives for the System Operator Certification Program, the CEP and the Education Program are provided at pages 28-35 of Section A of **Attachment 2**.

NERC has budgeted 5.5 FTEs for these programs in 2009, which is the current level of staffing in 2008. The budgeted expense for the Training, Education and Operator Certification Program in 2009 (including indirect expenses) totals \$2,593,173, which is an increase of \$444,105 over the 2008 Budget and an increase of \$368,614 over the 2008 Projection.<sup>59</sup> Primary drivers of these increases are (i) the transfer of the NERC WebEx contract and associated expenses from General and Administrative to this program, and (ii) the addition of a total of ten new learning activities which will be developed by consultants or procured from vendors at a total budgeted cost of \$162,500. The direct cost components of the 2009 Budget for this program are personnel expenses (\$906,873), meetings, travel and conference call expenses (\$181,225), and consultants, contracts and office costs (\$474,380). The allocation of Administrative Services expenses to this program is \$1,030,695. As noted above, NERC charges fees for system operator certification examinations and continuing education providers. The 2009 Budget for this program reflects projected revenues from such fees of \$980,000.

## **5. Reliability Assessment and Performance Analysis Program**

The Reliability Assessment and Performance Analysis Program is intended to enable NERC to meet its responsibility as the ERO to “conduct periodic assessments of the reliability

---

<sup>59</sup>See table on page 28 in Section A of **Attachment 2**.

and adequacy of the bulk power system in North America.”<sup>60</sup> NERC prepares three reliability assessments each year: a long-term reliability assessment report, a summer assessment report, and a winter assessment report. These reports analyze electricity demand and adequacy of supply throughout the North American bulk power system and examine the adequacy of the transmission system. NERC also prepares special reliability assessment reports as conditions warrant or as directed by the NERC Board. Beginning in 2008, and continuing into 2009, this program is responsible for implementing the Reliability Assessment Improvement Initiative, which is a plan approved by the NERC Planning Committee in March 2008 to improve the seasonal and long-term reliability assessments. Additional resources are required in the Reliability Assessment and Performance Analysis Program to support implementation and execution of the Reliability Assessment Improvement Initiative. Another significant activity planned for 2009 is performance of a special reliability assessment to evaluate a variety of CO<sub>2</sub> legislative scenarios and their impact on bulk power system reliability. Significant consultant resources are budgeted for this activity.

The Reliability Assessment and Performance Analysis Program also includes analyzing significant system events and other off-normal events occurring on the bulk power system; identifying the root causes of events that may be precursors of potentially more serious events impacting the reliable operation of the bulk power system; assessing past reliability performance for lessons learned; disseminating findings and lessons learned to the electric industry to improve reliability performance; and developing reliability performance benchmarks and monitoring performance against those benchmarks. This program includes maintaining and enhancing NERC’s *Blackout and Disturbance Response Procedure* (Appendix 8 to the NERC Rules of

---

<sup>60</sup> Section 215(g) of the FPA and 18 C.F.R. §39.11.

Procedure). These activities are intended to help prevent future abnormal system events and thereby to promote and improve reliable operation of the bulk power system.

The Reliability Assessment and Performance Analysis Program is responsible for maintaining the Generating Availability Data System (“GADS”) and for development of the Transmission Availability Data System (“TADS”). GADS provides performance benchmarks for improving individual generating unit reliability and availability and statistics for tracking generating unit availability. NERC receives revenues from the sale of GADS software and services, which are reflected in the budget. Development of the TADS was approved by the NERC Board in October 2007 and initial development activities, including contracting for the development of custom software, began in 2008.

Detailed program descriptions and planned 2009 activities, goals and objectives for the Reliability Assessment and Performance Analysis Program are provided at pages 38-44 in Section A of **Attachment 2**.

NERC’s budgeted expense for the Reliability Assessment and Performance Analysis Program for 2009 (including indirect expense) is \$6,519,959, which represents an increase of \$2,265,773 over the 2008 Budget and an increase of \$1,738,178 over the 2008 Projection.<sup>61</sup> The 2009 Budget reflects 13.5 FTEs for this program, which is an increase of 2.5 FTEs from the staffing in 2008. Primary drivers for the increased 2009 Budget, in addition to the increased personnel expenses resulting from addition of 2.5 FTEs, are increased costs for consultants and contracts totaling \$265,000, principally for the planned evaluation of the reliability impacts of CO<sub>2</sub> legislation and to support the Reliability Assessment Improvement Initiative and development of TADS. The direct costs in the 2009 Budget for this program include personnel

---

<sup>61</sup> See table on page 38 in Section A of **Attachment 2**.

expenses (\$2,594,580), meeting, travel and conference call expenses (\$457,875), and expenses for consultants, contracts, office costs and computer purchase and maintenance (totaling \$937,616). The allocation of Administrative Services expenses to this program is \$2,529,888. Revenues from the sale of GADS software and services are projected to be \$450,000.

## **6. Situational Awareness and Infrastructure Security**

NERC's Situational Awareness and Infrastructure Security Program encompasses a broad array of coordinated, complementary activities to (i) address critical infrastructure protection issues across NERC's program areas, (ii) facilitate the timely exchange of information between government agencies and owners, operators and users of the bulk power system about threats and vulnerabilities to the electricity infrastructure, (iii) develop and maintain processes, procedures and tools that address the industry's situational awareness and infrastructure security needs, and (iv) monitor conditions on the bulk power system and rapidly communicate substantive changes in those conditions to relevant parties. Activities in the Situational Awareness and Infrastructure Security Program are grouped into three functional areas: critical infrastructure protection ("CIP"), Electricity Sector – Information Sharing and Analysis Center ("ES-ISAC") operations, and reliability tools and support services.

With respect to CIP, NERC is consolidating responsibility for cyber security matters across all NERC activities into a single responsibility. NERC will staff a senior executive to be the Chief Security Officer who will serve as a single point of contact for the industry, the Electricity Sector Steering Group ("ESSG") and government stakeholders seeking to communicate with NERC on cyber and other infrastructure security matters.

With respect to ES-ISAC, it was formed by NERC in 1999 and has subsequently expanded its scope to include information about all types of threats to the reliability of the bulk power system, including natural disasters, power system operational issues, and physical and

cyber security. In May 2008, the NERC Board created the ESSG to enhance strategic and policy guidance to the ES-ISAC and to provide broad electricity sector participation and support on critical infrastructure security matters.

NERC provides tools and other support services for the use and benefit of bulk power system operators including reliability coordinators. These tools provide situation awareness and rapid communications capability, help implement transmission loading relief procedures, and meet requirements for same-time information to market participants and others. The tools and support services NERC provides to the industry under this program are important to promoting and maintaining reliable operation of the bulk power system. Further, to the best of NERC's knowledge, it is the only organization making tools and support services with these functionalities available to owners, operators and users of the bulk power system and other bulk power system participants.<sup>62</sup> In 2009, the NERC Situational Awareness and Infrastructure Security Program will manage the North American SynchroPhasor Initiative ("NASPI") project, including funding the contracted professional program manager, ensuring the successful installation of phasor measurement units at all key locations in the North American interconnections to provide optimal coverage and wide-area visibility, identify locations to house super data concentrators to improve data collection performance, reliability and availability, acquire necessary hardware and software to deploy at least three new sites in 2009, and design

---

<sup>62</sup> See P 188 of the ERO Certification Order, where the Commission stated: "[T]hese services are extremely useful for the provision of adequate reliability, because they relate specifically to compliance with existing standards and they proactively help avert Reliability Standard violations and system disturbances. At this time, in the absence of an independent organization stepping forward to provide some of these services as with the example of INPO in the nuclear industry, adequate reliability on the Bulk-Power System is better assured if the ERO offers to provide them."

and begin to construct the telecommunications network required to exchange data between super data concentrators and to deliver information created from that data to control centers.<sup>63</sup>

Detailed program descriptions and planned 2009 activities, goals and objectives for the Situational Awareness and Infrastructure Security Program are provided at pages 47-51 in Section A of **Attachment 2**.

NERC has budgeted \$6,893,198 (including indirect expenses) for the Situational Awareness and Infrastructure Security Program for 2009. This is an increase of \$3,024,760 over the 2008 Budget and an increase of \$2,429,247 over the 2008 Projection. The 2009 Budget reflects seven FTEs in this program, an increase of two FTEs over the budgeted staffing and of one FTE over the actual staffing in 2008.<sup>64</sup> The primary drivers of the increased costs for this program in 2009 are additional personnel expenses and additional costs totaling approximately \$1,577,000 for consultants, contracts, office costs and furniture purchases, including approximately \$1,453,000 associated with the NASPI project and \$125,000 for furniture purchases to outfit an emergency response room. The direct cost components of the 2008 budget are personnel expenses (\$1,403,770), meetings, travel and conference call expense (\$195,161), contracts and consultants (\$3,826,600), and office costs and furniture purchases (\$155,874). The allocation of Administrative Services expenses to this program in the 2009 Budget is \$1,311,793.

---

<sup>63</sup>The NASPI is the successor to the Eastern Interconnection Phasor Project and to the phasor development work done in the Western Interconnection. NASPI will be the international project to advance the application of phasor measurement technology in all interconnections in North America. The objective of NASPI is to use phasor measurement technology to provide grid operators with expanded interconnection visibility and improved situational awareness and to supplement the tools available to operators to monitor and control the bulk power system.

<sup>64</sup> See table on page 47 in Section A of **Attachment 2**.



## 7. Administrative Services

The Administrative Services departments support the other NERC programs. Administrative Services comprises the following functions: (i) Members' Forums; (ii) General and Administrative; (iii) Legal and Regulatory; (iv) Information Technology ("IT"); (iv) Human Resources, and (v) Finance and Accounting. Detailed functional descriptions and planned 2009 activities, goals and objectives for each of the functions included in Administrative Services are provided at pages 54-73 in Section A of **Attachment 2**.

**Members' Forums** – NERC's Rules of Procedures provides for members' forums that serve the interests of stakeholders within individual industry sectors and as a result help to improve the reliability of the bulk power system. NERC presently has one such forum, the Transmission Owners and Operators Forum. The 2009 Budget reflects two FTEs in this function, the same level of staffing as in 2008. The 2009 Budget for Members' Forums is \$857,572, consisting of personnel expenses (\$648,912), meeting and travel expenses (\$48,660) and contracts expense (\$160,000). The expenses for the Members' Forums are completely reimbursed through dues and other charges to the participants, and therefore do not impact the assessments to LSEs.

This function previously also included the management of the NERC Technical Committees; however, in the 2009 Business Plan and Budget that responsibility has been shifted to the Reliability Assessment and Performance Analysis and the Situational Awareness and Infrastructure Security programs.

**General and Administrative** – The General and Administrative Department consists of the NERC President and CEO, the Executive Vice President, the Director of Inter-Governmental Affairs, a communications specialist and two administrative assistants. The budget for this department also includes meeting, travel and conference call expenses (including such expenses

for the Board of Trustees and Board committees); NERC's office rent as well as other office costs; Board of Trustees fees (recorded in the budget under professional services expense); interest earned on cash balances and short-term investments of NERC funds; recoupment of uncollected assessments from prior years; and additions to the working capital reserve.

The 2009 Budget for General and Administrative is \$5,468,985, which is an increase of \$2,262,166 over the 2008 Budget and an increase of \$872,754 over the 2008 Projection. The six FTEs in the 2009 Budget in this department is the same as the current staffing but an increase of three FTE over the 2008 Budget. During 2008, one FTE position was moved from another Administrative Services department and two FTE positions were moved from the Reliability Standards Program to the General and Administrative department. However, the most significant drivers of the increased General and Administrative department 2009 Budget are the \$1,393,496 of other non-operating expenses, which consists of (i) \$264,144 to recoup uncollected prior years' assessments, and (ii) \$1,129,352 to increase NERC's working capital reserve to a target balance of \$2,500,000 at December 31, 2009. These items are discussed in §IV.B below.

**Legal and Regulatory** – The Legal and Regulatory function provides legal counsel to the NERC CEO, Board of Trustees, staff and committees on legal and regulatory matters affecting NERC; is responsible for preparing or overseeing filings with governmental entities; maintains relationships with governmental entities in the U.S., Canada and Mexico; reviews contracts entered into by NERC; and retains and oversees outside counsel. The 2009 Budget for Legal and Regulatory is \$2,986,510, which is an increase of \$1,385,227 over the 2008 Budget and an increase of \$1,489,602 over the 2008 Projection. The Legal and Regulatory 2009 Budget reflects the addition of one additional attorney to the current staffing, resulting in four FTEs for

this department. (Five FTEs were budgeted for Legal and Regulatory in the 2008 Budget, but one position was not filled and another position has been transferred to General and Administrative.) However, the most significant driver of the increased 2009 Budget for Legal and Regulatory is \$1,050,000 budgeted for consultants for the three-year performance assessment of NERC and the Regional Entities that will be performed beginning in late 2008 and must be submitted to the Commission by July 20, 2009.

**IT** – NERC’s IT team performs typical IT development and maintenance functions needed for organizational support, thereby providing the foundational computer networks, systems and tools that support NERC’s day-to-day business processes and ensuring these information assets meet NERC’s existing and future needs.<sup>65</sup> IT also supports the development, maintenance and operation of reliability tools used by system operators and others to monitor system conditions in near real time. During 2009, IT will continue development of the Situational Awareness Tool through additional pilot phases for new users, identify and deploy an emergency notification system, and assist in the design and build-out of a NERC emergency response room. NERC’s 2009 Budget reflects 8 FTEs in this function, which is the same as the budgeted 2008 staffing and the current staffing. The 2009 Budget for IT is \$2,467,531, which is an increase of \$163,796 over the 2008 Budget and an increase of \$172,456 over the 2008 Projection. The most significant cost increase items in the 2009 Budget for IT are \$42,575 for computer purchases and maintenance and \$85,000 for furniture and equipment, reflecting costs

---

<sup>65</sup> These functions include ensuring all information systems are functional and secure; ensuring all applications running on those systems meet business requirements for performance, availability and security; planning and implementing organization-wide information systems, services and network facilities including local-area networks, WANS and peripheral systems; and creating and managing an information security program aimed at reducing risk to acceptable levels.

to re-wire NERC's headquarters offices and to add air conditioning and fire suppression to the computer room.

**Human Resources** – Human Resources designs, plans and implements human resources policies and procedures for staffing, compensation, benefits, employee relations and training and development. NERC's 2009 Budget reflects 4.5 FTEs in this function, which is the current staffing but an increase of one FTE over the 2008 Budget. The 2009 Budget for Human Resources is \$668,293, which is an increase of \$194,335 over the 2008 Budget and an increase of \$98,916 over the 2008 Projection. The 2009 Budget includes \$100,000 for executive search firm fees which were not included in the 2008 Budget.

**Finance and Accounting** – Finance and Accounting directs the overall financial plans and accounting practices of NERC; oversees treasury, accounting, budgeting, tax and audit activities; and oversees financial and accounting system controls and standards. Finance and Accounting has principal responsibility for preparation of NERC's annual budget packages (including those of the Regional Entities) for filing with the Commission and appropriate governmental authorities in Canada. NERC's 2009 Budget reflects 5 FTEs in this function, which is the same as the 2008 Budget and the current staffing. The 2009 Budget for Finance and Accounting is \$856,446, which is a decrease of \$29,128 from the 2008 Budget and a decrease of \$15,883 from the 2008 Projection. This decrease is due to shifting consultant costs to the Legal and Regulatory department in the 2009 Budget.

**B. Recoupment of Prior Years' Uncollected Assessments; Working Capital Reserve**

NERC's 2009 Budget includes (i) \$264,144 for recoupment of prior years' uncollected assessments, and (ii) \$1,129,352 to achieve a target working capital reserve of \$2,500,000 at December 31, 2009. These two items increase the proposed ERO assessment for 2009 by a total

of \$1,393,496. The two items are discussed together here because both relate, ultimately, to the objective of maintaining a reasonable and proper working capital reserve.<sup>66</sup>

The \$264,144 of uncollected prior years' assessments consist of two categories: (i) assessments that were correctly calculated and billed in 2007 to LSEs or designees but which NERC has determined are uncollectible (\$23,192.78); and (ii) assessments to LSEs in 2007 and 2008 that were calculated incorrectly and could not be collected from the LSEs or designees because the errors were brought to the attention of NERC or the Regional Entity in a timely manner shortly after the initial assessment (\$103,831.53 for 2007 and \$137,120 for 2008, totaling \$240,951.53). With respect to the first category, these amounts were not collected because the LSEs were no longer serving any load. After reasonable effort and investigation, in conjunction with the applicable Regional Entity if appropriate, NERC has determined that these amounts are uncollectible. With respect to the second category, the erroneous calculation of assessments for 2007 occurred because the NEL of certain LSEs operating in two Regions was reported by both Regional Entities; and for 2008 occurred because a Regional Entity erroneously reported two times the actual load served by certain LSEs. The resulting erroneous calculation and overbilling of assessments to certain LSEs created a shortfall in collections, because the erroneous over-allocation of ERO funding requirements to one LSE or Region resulted in under-allocation of funding requirements to all other LSEs or Regions.

With respect to the working capital reserve, in its 2007 Budget and its 2008 Budget, NERC requested, and the Commission approved, additional funding sufficient to enable NERC

---

<sup>66</sup> NERC's projected working capital reserve at December 31, 2008 is \$1,370,648. See Table 5 on page 78 of Section B of **Attachment 2**. Had NERC collected some or all of the uncollected prior years' assessments of \$264,144, the working capital reserve at December 31, 2008 would be commensurately larger and the amount of additional assessment required in 2009 to achieve a working capital reserve of \$2,500,000 would be commensurately smaller.

to build its cash reserves balance to 10% of the requested assessments for the year (before the adjustment to increase the cash reserves balance).<sup>67</sup> As presented in NERC's July 21 2008 Budget Compliance Filing, NERC believes the concept of a net funding reserve is a more appropriate financial and accounting measure of a reserve to provide, in a cost-effective manner, flexibility in responding to varying cash flow requirements over the course of the year, to timing mismatches between receipt of assessment collections and expense payments obligations, and to any unexpected costs.<sup>68</sup> In this 2009 Budget filing (and those of the Regional Entities), the term "working capital reserve" has been used rather than "net funding reserve," but the working capital reserves are calculated in the same manner as the net funding reserves presented in the July 21 2008 Budget Compliance Filing.

Whereas NERC previously targeted a cash reserves balance equal to 10% of the proposed assessments for the budget year (excluding the additional assessment to achieve the desired cash reserve), for the 2009 Budget, NERC has determined that achieving a working capital reserve of \$2,500,000 at December 31, 2009, represents a reasonable and appropriate objective and will provide a reasonable and appropriate level of working capital reserve in light of the overall size of NERC's operations and budget and the availability of a \$4,000,000 bank revolving line of credit. The \$2,500,000 working capital reserve is a target reserve that is more representative of NERC's long-term, steady-state expenses and its cash and working capital requirements as it moves into its third full year of operation as the ERO. The analysis that NERC conducted to determine the working capital reserve of \$2,500,000 (rather than a target reserve of 10% of budget assessments) is discussed in greater detail on page 59 of **Attachment 2**.

---

<sup>67</sup> See 2007 Budget Order at P 81; 2008 Budget Order at P 14 and note 15.

<sup>68</sup> See July 21 2008 Budget Compliance Filing at 10-14 (Response to P 48 of the June 19 2008 Budget Compliance Order).

Table 5 on page 78 in **Attachment 2** shows the calculation of the \$1,129,352 additional assessment needed to achieve a \$2,500,000 working capital reserve at December 31, 2009. Based on the 2008 Projection, NERC estimates that it will have a working capital reserve of \$1,370,648 at December 31, 2008. Therefore, to achieve a working capital reserve of \$2,500,000 at December 31, 2009, an additional assessment of \$1,129,352 (*i.e.*, in addition to the net ERO assessment of \$30,795,696 needed to cover budgeted 2009 operating expenses) is needed. The resulting total net ERO assessment requested by NERC for 2009 is \$31,925,048.

## **V. REGIONAL ENTITY BUDGETS**

### **A. Consistency Among Regional Entity Budgets**

In developing the 2009 Regional Entity Business Plans and Budgets, NERC and the Regional Entities worked to build on the substantial effort they devoted to achieving consistency of format and presentation of information in the 2008 Business Plans and Budgets. NERC and the Regional Entities believe additional consistency has been achieved in the 2009 Business Plans and Budgets that are being submitted with this filing (**Attachments 3 through 10**).<sup>69</sup> Each Regional Entity Business Plan and Budget begins with an Introduction section that presents a table showing Total Regional Entity Resources for 2009, including statutory and non-statutory FTEs and expenses, the proposed ERO funding assessment to recover the Regional Entity's statutory costs and the assessments or charges to members and others to recover other costs; and the Regional Entity NEL, allocated if applicable between the U.S., Canadian provinces and Mexico. The Introduction section also provides general information on the Regional Entity, including its membership and governance, its 2009 primary objectives, and major cost impacts for 2009.

---

<sup>69</sup> The process and timeline by which NERC and the Regional Entities worked together to develop the 2009 Regional Entity Business Plans and Budgets was described in §III.B above.

The Regional Entity Business Plans next contain separate sections on each statutory program and administrative department or function of the Regional Entity. These sections are presented in similar format to the NERC Business Plan (Section A of **Attachment 2**), including (i) a table for each statutory program showing total FTEs, total direct expenses, total indirect expenses, and total expenses, and (ii) a Statement of Activities for the program showing funding and expenses by major categories, with the information presented in each of these tables for the 2008 Budget, the 2008 Projection and the 2009 Budget. The text of these sections for each statutory program includes discussion of the major areas of, and major factors affecting increases or decreases in, costs for 2009.

Section B of each Regional Entity Business Plan and Budget presents the Regional Entity's detailed 2009 Budget. Section B contains a Statement of Activity (Table 1), by major funding and expense categories, for all the Regional Entity's statutory programs and costs, with information presented for the 2008 Budget, the 2008 Projection and the 2009 Budget. Table 2 shows the Regional Entity's FTEs by statutory program and for Administrative Services, for the 2008 Budget, the 2008 Projection and the 2009 Budget. Tables 3 and 4 are the Regional Entity's organization charts for 2008 and 2009. Table 5 provides the calculation of the additional assessment (if any) needed in 2009 to achieve the Regional Entity's target working capital reserve (net funding reserve) at December 31, 2009, and the resulting total net assessment requested by the Regional Entity.<sup>70</sup> Subsequent tables (B-1 through B-11) in Section B provide more detailed information on funding and expenses for the major expense categories, comparable to the detailed tables in Section B of the NERC 2009 Business Plan and Budget.

---

<sup>70</sup> SPP has determined that it does not need to maintain a working capital reserve. See §V.B.6 below.



Section C of each Regional Entity Business Plan and Budget provides (where applicable) information on the Regional Entity's non-statutory activities for 2009, including program descriptions and objectives, budget information, FTEs and organization charts.<sup>71</sup>

At the end of each Regional Entity Business Plan and Budget, there is a one-page spreadsheet showing the Regional Entity's 2009 budgeted line-item funding sources and expenses, in total, by statutory and (if applicable) non-statutory, and by statutory program and administrative department, as well as the direct expenses and indirect expenses (overheads) for each statutory program.

NERC notes the following three topics which affect the Regional Entity 2009 Business Plans and Budgets. First, every Regional Entity has budgeted increased resources – in some cases significantly increased resources – in 2009 for its CMEP and Organization Registration and Certification Program, including increased FTEs for this program. Some Regional Entities (as well as NERC) have observed that the demand for technically qualified, experienced electric industry personnel for CMEP positions is likely exerting upward pressures on the personnel expense that must be incurred to fill these positions.

Second, as discussed above in §IV.A.3, NERC is eliminating Reliability Readiness Evaluation and Improvement as a separate program as of the end of the first quarter of 2009. As discussed in the Business Plan and Budget of each Regional Entity, some Regional Entities have budgeted no resources for this program for 2009, in the expectation that they can complete any necessary activities by year-end 2008, while other Regional Entities have budgeted some

---

<sup>71</sup> MRO, ReliabilityFirst and SERC do not plan to have, and have not budgeted for, any non-statutory activities in 2009. As explained in its Business Plan and Budget, SPP is unable to provide a non-statutory budget for 2009 because its planning and budgeting cycle does not result in finalization and Board approval of the overall SPP budget until October. SPP has included its overall 2008 budget (which the Commission has approved in the context of SPP's activities as an RTO) for information.

resources for this program for 2009, in the expectation that some activities will carry over into 2009 before the program is terminated (*e.g.*, performance or support of presently-scheduled readiness evaluations). NERC also notes that elimination of this program does not necessarily result in a corresponding decrease in Administrative Services staffing or expenses for the Regional Entity, with the result that Administrative Services expenses are reallocated to the other statutory programs on a proportional FTE basis, resulting in higher indirect expenses for those programs.

Third, each Regional Entity (except SPP, as noted above) has determined a target amount of working capital reserve to be achieved at December 31, 2009, and calculated the additional assessment amount needed in 2009 to achieve that target. The Business Plan and Budget of each Regional Entity identifies and explains its working capital reserve target and presents the calculation of the additional 2009 assessment amount needed to achieve the target.

NERC also notes that on June 4, 2008, it filed with the Commission the initial set of penalties assessed against Registered Entities for violations of Reliability Standards. These penalties were assessed by MRO (\$75,000) and ReliabilityFirst (\$180,000) to registered entities in their Regions. On July 3, 2008, the Commission issued its order in Dockets AD08-10-000 and NP08-1-000 through NP08-37-000 affirming these penalty assessments based on expiration of the statutory 30-day Commission review period.<sup>72</sup> NERC's delegation agreements with the Regional Entities specify (in accordance with prior directives of the Commission<sup>73</sup>) that all penalty monies received by a Regional Entity (other than penalty monies received from an operational function or division or affiliated entity of the Regional Entity) shall be applied as a

---

<sup>72</sup> *Guidance on Filing Reliability Notices of Penalties; North American Electric Reliability Corp.*, 124 FERC ¶ 61,015 (2008)

<sup>73</sup> *See* Order No. 672 at P 627.

general offset to the Regional Entity's budget requirements for U.S.-related activities for the subsequent fiscal year.<sup>74</sup> However, the penalties assessed by MRO and ReliabilityFirst, and confirmed by the Commission on July 3, 2008, have not been incorporated as offsets to these Regional Entities' budget requirements for 2009 in their 2009 Budgets, due to the timing of the Commission's Order confirming the penalties, the pendency of the rehearing period, and the fact that the penalties were still in process of being collected in July and August. NERC believes that penalties for violations of reliability standard should not be used as offsets to a Regional Entity's U.S. budget requirements until the penalty has actually been collected from the registered entity. NERC and the Regional Entities intend to adopt a formal policy establishing a cut-off date (likely to be on or about June 30) for receipt of penalty payments to be used as offsets to the Regional Entity budget requirements for the following budget year; penalties collected after the cut-off date would be used as offsets to the Regional Entity's U.S. budget requirements for the second succeeding budget year.

## **B. Discussion of Individual Regional Entity Business Plans and Budgets**

This section discusses highlights of the individual Regional Entity Business Plans and Budgets.

### **1. FRCC**

FRCC has budgeted total statutory expenses of \$3,977,868 for 2009, a decrease of approximately \$12,000 from its 2008 Budget. FRCC plans total staffing for statutory and administrative programs of 18.34 FTEs, an increase of 1.85 FTE over its 2008 Budget. Although FRCC's total 2009 statutory budget is essentially unchanged from 2008 (in part due to elimination of the Reliability Readiness Evaluation and Improvement program), FRCC is

---

<sup>74</sup> This provision is found in §4 of Exhibit E to the delegation agreements. The Commission noted this required treatment of penalty monies in its July 3, 2008 Order, at P 17.

budgeting increased resources for its CMEP for 2009. FRCC's target working capital reserve at December 31, 2009, is \$392,089, based on 10% of budgeted 2009 statutory expenses; however, FRCC does not require an additional assessment to reach this target. FRCC's 2009 Budget for non-statutory activities (total direct expense plus total indirect expense) is \$3,361,112.

## **2. MRO**

MRO has budgeted total statutory expenses of \$6,405,724 for 2009, an increase of \$1,074,236 over its 2008 Budget. MRO plans total staffing for statutory and administrative programs of 26.5 FTEs, an increase of 3.6 FTEs over its 2008 Budget. MRO is budgeting increased resources for its CMEP and Organization Registration and Certification Program for 2009, with a plan to increase FTEs in this program by 2.5 over current staffing and a budgeted total expense increase of \$398,709 for this program over its 2008 Budget. MRO is also budgeting significantly increased resources for its Reliability Assessment and Performance Analysis Program for 2009, with a plan to increase FTEs in this program by 2.55 over the 2008 Budget and a budgeted total expense increase of \$733,348 for this program over its 2008 Budget. MRO has identified a target working capital reserve of approximately \$790,000, representing 45 days' expenses, but has elected not to increase its assessments in 2009 to reach this level of reserve, in anticipation of a leveling of expenses beginning in 2010. MRO plans no non-statutory activities in 2009 and therefore has no 2009 Budget for non-statutory activities.

## **3. NPCC**

NPCC has budgeted total statutory expenses of \$10,008,885 for 2009, an increase of \$2,503,978 over its 2008 Budget. NPCC plans total staffing for statutory and administrative programs of 27.2 FTEs, an increase of 2 FTEs over its 2008 Budget. NPCC's 2009 Budget for CMEP and Organization Registration and Certification reflects an increase of \$1,466,665 in total (direct plus indirect) expenses over the 2008 Budget, including a staffing increase of 1.5 FTE

over the 2008 Budget and an increase in contractor usage and costs to assist in compliance audits. NPCC is also budgeting an increase of \$830,701 in total expenses for the Reliability Assessment and Performance Analysis Program over the 2008 Budget, which incorporates increases of approximately \$338,000 in personnel expenses and \$171,000 in contracts expense for this program. Finally, NPCC is budgeting an increase of \$652,771 in total expenses for the Situational Awareness and Infrastructure Security Program over the 2008 Budget, which incorporates an increase of approximately \$274,000 in personnel expenses for this program. With respect to Administrative Services, NPCC is budgeting an increase of \$1,806,657 for 2009 over the 2008 Budget. A significant component of this increase, \$1,269,339, represents one-time costs NPCC will incur in 2009 in connection with relocation of its offices to a new location in New York City. NPCC's target working capital reserve at December 31, 2009 is \$2,001,451 (20% of its total statutory budget); only a minimal additional assessment (\$1,629) is required in 2009 to achieve this target. NPCC's total non-statutory (Criteria Services Division) budget for 2009 is \$1,012,790.

For purposes of determining the assessments to recover NPCC's statutory funding requirement, the statutory funding requirement is allocated among the Balancing Authority Areas within NPCC in the U.S., Ontario, Québec, New Brunswick and Nova Scotia. As discussed in §III.D and §VI, the 2009 allocation of a portion of NPCC's statutory costs is affected by the application of NERC's Expanded Policy on Allocation of Certain Compliance and Enforcement Costs and the resulting adjustments to the allocation of NPCC's statutory funding requirement to IESO and Québec. Table 6 on page 63 of NPCC's Business Plan and Budget (**Attachment 5**) shows the development of the 2009 assessments by Balancing Authority Area within NPCC to

recover NPCC's statutory funding requirement, taking into account the adjustments to the assessment to IESO and Québec implementing the Expanded Policy.

#### **4. ReliabilityFirst**

ReliabilityFirst has budgeted total statutory expenses of \$11,434,201 for 2009, an increase of \$1,769,945 over its 2008 Budget. ReliabilityFirst plans total staffing for statutory and administrative programs of 44 FTEs, an increase of 10 FTEs over its 2008 Budget. ReliabilityFirst is budgeting significantly increased resources for its CMEP and Organization Registration and Certification Program for 2009, with a plan to increase FTEs in this program by 11 over the 2008 Budget and 5 FTEs over the current staffing, and a budgeted total expense increase of \$2,758,249 for this program over its 2008 Budget. ReliabilityFirst is also budgeting an increase of \$290,320 for the Situational Awareness and Infrastructure Security Program in 2009 over the 2008 Budget, including an increase of 1.2 FTE. In the Administrative Services functions, ReliabilityFirst is budgeting an increase of \$460,514 for Information Technology over the 2008 Budget, although this in fact represents a decrease of \$709,606 from the 2008 Projection. The significant areas of increase for Information Technology in the 2009 Budget over the 2008 Budget are consultants (\$33,000), office costs (\$176,000) and computer purchases and maintenance (\$223,000). ReliabilityFirst's target working capital reserve at December 31, 2009 is \$1,000,000 (representing approximately 10% of expenses), which is approximately \$2.5 million less than its projected working capital reserve at December 31, 2008. Therefore, ReliabilityFirst's statutory assessment amount for 2009 (\$8,833,834) is less than its budget (\$11,434,201). ReliabilityFirst plans no non-statutory activities in 2009 and therefore has no 2009 Budget for non-statutory activities.

## 5. SERC

SERC has budgeted total statutory expenses of \$10,095,546 for 2009, an increase of \$2,104,525 over its 2008 Budget. SERC plans total staffing for statutory and administrative programs of 43 FTEs, an increase of 11 FTEs over its 2008 Budget and 5.9 FTEs over its 2008 Projection. SERC is budgeting increased resources for its CMEP and Organization Registration and Certification Program for 2009, with a plan to increase FTEs in this program by 7.3 over the 2008 Budget and 4.5 FTEs over the current staffing, and a budgeted total expense increase of \$1,591,100 for this program over its 2008 Budget. In addition to an increase in personnel expenses for this program of \$1,041,906 over the 2008 Budget, SERC is budgeting increases in meetings and travel expenses of approximately \$320,000 and in contract costs of \$183,000.<sup>75</sup> SERC is also budgeting an increase of \$524,914 in total expenses for the Reliability Assessment and Performance Analysis Program over the 2008 Budget, which incorporates increases of \$208,649 in personnel expenses (increase of 1.9 FTEs) and \$230,000 in consultant expenses for this program. Finally, SERC is budgeting an increase of \$260,700 in total expenses for the Situational Awareness and Infrastructure Security Program over the 2008 Budget, which incorporates an increase of approximately \$198,000 in personnel expenses (increase of 1.3 FTEs) for this program.

With respect to Administrative Services as a whole, SERC's total 2009 budgeted have increased approximately \$269,000 over the 2008 Budget. Of this amount, approximately \$210,000 resulted from the increase for the working capital reserve (see next paragraph), resulting in a decrease of \$59,000 for Administrative Services from the 2008 Budget. In comparing the 2008 Budget to the 2009 Budget, the personnel expenses for Finance and

---

<sup>75</sup> SERC is budgeting higher meetings and travel expenses for many of its statutory programs and administrative services functions.

Accounting, Human Resources, Legal and Regulatory and IT were consolidated into General and Administrative in order to protect individual employees' salary information, which can be determined for administrative functions with very small staffing complements. Due to this consolidation, there was a large increase in General and Administrative personnel expenses and a corresponding decrease in the other Administrative Departments. SERC is not budgeting any increase in Administrative Services FTEs over the 2008 Budget.

SERC's target working capital reserve at December 31, 2009 is \$1,009,555 (10% of budgeted annual statutory expenses), which necessitates an additional assessment amount for 2009 of \$210,453. SERC plans no non-statutory activities in 2009 and therefore has no 2009 Budget for non-statutory activities.

## **6. SPP**

SPP has budgeted total statutory expenses of \$6,481,036 for 2009, an increase of \$1,871,952 over its 2008 Budget. SPP plans total staffing for statutory and administrative programs of 17.2 FTEs, an increase of 4.8 FTEs over its 2008 Budget and 3.3 FTEs over its 2008 Projection. SPP is budgeting increased resources for its CMEP and Organization Registration and Certification Program for 2009, with a plan to increase FTEs in this program by 2.5 over the 2008 Budget and a budgeted total expense increase of \$891,114 for this program over its 2008 Budget. Budgeted personnel expense for this program is \$416,769 higher than the 2008 Budget. SPP is also budgeting an increase of \$338,406 in total expenses for the Reliability Assessment and Performance Analysis Program over the 2008 Budget, which incorporates increases of \$108,227 in personnel expenses (increase of 1 FTE) and \$56,000 in consultants expense. Finally, SPP is budgeting an increase of \$221,303 in total expenses for the Situational Awareness and Infrastructure Security Program over the 2008 Budget; SPP had no FTEs assigned to this program in the 2008 Budget.



With respect to Administrative Services, SPP is budgeting an increase in General and Administrative expenses of \$624,991, and a decrease in Members' Forums and Technical Committees expense of \$130,000, from its 2008 Budget. SPP's budget for statutory activities includes the allocation of overheads from Southwest Power Pool, Inc.; the allocation of overheads to the SPP Regional Entity is determined by applying a standard hourly cost rate to the number of SPP FTEs directly performing statutory activities.<sup>76</sup> This cost allocation procedure is provided for in §5 of Exhibit E to the delegation agreement between NERC and SPP that is presently before the Commission for approval in Docket RR07-6-004:

[A]n allocation of SPP overhead costs to statutory activities is calculated and the allocated overhead costs are recorded on the NERC Statement of Activities. These overhead costs are shared throughout the SPP organization and include costs for payroll and accounts payable processing, human resources and benefits management, accounting, information technology, executive leadership, corporate affairs and communications, office costs and other support services and expenditures. This allocation is calculated using a standard hourly rate multiplied by the number of SPP staff hours spent directly performing SPP's statutory activities. The hourly rate for allocated overhead costs is developed using SPP's current year operating budget, by separating SPP's shared services support costs which support all of SPP's functions (*i.e.*, the costs for the activities identified in the second sentence of this paragraph) from SPP's operational resource pool. The total shared services support costs are then divided by estimated total annual available work hours for SPP's operational resource pool. The average annual employee utilization rate assumes each employee works an eight-hour work day with adjustments to reflect SPP's employment policies related to vacation allotment, SPP holidays and other non-productive leave.

As noted earlier, SPP has determined it does not need to establish a working capital reserve, because it has access to operating cash balances and bank lines of credit for short-term funding needs. However, as stated in Table 5 on page 61 of **Attachment 8**, SPP has included \$642,791 in its proposed 2009 statutory funding requirement to recover its 2007 and projected

---

<sup>76</sup> See pages 6 and 74 of **Attachment 8**. For the SPP 2009 Budget, the standard rate used is \$101 per hour based on 1,880 annual hours of resource availability. This rate could be changed in future years.

2008 under-funding of statutory activities (\$438,754 and \$204,037, respectively). As also noted earlier, SPP is unable to provide a 2009 Budget for non-statutory activities because its overall annual budget for 2009 will not be approved, in accordance with SPP's normal planning and budgeting cycle, until October 2008. SPP has included its 2008 Budget for non-statutory activities (which has been approved by the Commission in the context of SPP's RTO activities) in its Business Plan and Budget, for information.<sup>77</sup>

## **7. Texas RE**

Texas RE has budgeted total statutory expenses of \$6,167,024 for 2009, an increase of \$2,870,958 over its 2008 Budget. Texas RE plans total staffing for statutory and administrative programs of 26.95 FTEs, an increase of 7.62 FTEs over its 2008 Budget and 6.2 FTEs over its 2008 Projection. Texas RE is budgeting increased resources for its CMEP and Organization Registration and Certification Program for 2009, with a plan to increase FTEs in this program by 7.75 over the 2008 Budget and a budgeted total expense increase of \$2,724,455 for this program over its 2008 Budget. Budgeted personnel expense for this program is \$783,120 higher than the 2008 Budget. Texas RE is also budgeting an increase of \$345,951 in total expenses for the Situational Awareness and Infrastructure Security Program over the 2008 Budget, which incorporates an increase of approximately \$115,335 in personnel expenses (increase of 1.1 FTEs) for this program.

With respect to Administrative Services, Texas RE is budgeting an increase in General and Administrative expenses (excluding provision for working capital reserve) of \$862,216 over its 2008 Budget. The principal components of this increase are personnel expenses (\$337,887; Texas RE is increasing FTEs in Administrative Services by 2.3 FTEs over the 2008 Budget),

---

<sup>77</sup> See pages 70-73 of **Attachment 8**.

contracts expense (\$191,654), office rent (\$437,550), and computer purchases and maintenance (\$77,400), partially offset by a decrease in budgeted professional services expense of \$130,000. Texas RE is expecting increased office rent in 2009. In addition, Texas RE has budgeted in Administrative Services for a number of systems-related projects that will benefit all of Texas RE's statutory programs and administrative departments.<sup>78</sup>

Texas RE's target working capital reserve at December 31, 2009 is \$855,000, representing approximately 60 days of operating expenses, which is a commonly used measure in the financial community for appropriate cash reserves. However, Texas RE's projected statutory working capital reserve at December 31, 2008 (\$2,666,323) substantially exceeds this target, enabling a reduction in the 2009 assessment amount. Although Texas RE's budgeted statutory expenses for 2009 are \$6,167,024 (\$5,312,024 excluding the target working capital reserve amount), its requested statutory assessment amount for 2009 is only \$3,430,700. Texas RE's total non-statutory budget for 2009 is \$871,997.

## **8. WECC**

WECC has budgeted total statutory expenses of \$38,691,767 for 2009, an increase of \$6,019,893 over its 2008 Budget. WECC plans total staffing for statutory and administrative programs of 140 FTEs, an increase of 28 FTEs over its 2008 Budget. WECC is budgeting significantly increased resources for its CMEP and Organization Registration and Certification Program for 2009, with a plan to increase FTEs in this program by 10 over the 2008 Budget and a budgeted total expense increase of \$4,405,842 for this program over its 2008 Budget.

---

<sup>78</sup> Texas RE receives facilities, treasury, finance, human resources, legal and IT support from ERCOT, pursuant to a memorandum of understanding between Texas RE and ERCOT that sets forth the details of the support and services provided by ERCOT and the associated expenses. A copy of the memorandum is included at the end of Texas RE's Business Plan and Budget, **Attachment 9**.

Budgeted personnel expense, meetings, travel and conference call expenses, consultant expense and office costs for this program are, respectively, \$871,998, \$666,640, \$929,500 and \$150,468 higher than the 2008 Budget. These increased budgeted expenses for the CMEP and Organization Registration and Certification Program are partially offset by lower budgeted expenses totaling \$1,021,419 for contracts, office rent, professional services and computer purchases and maintenance. WECC is also budgeting increases in total expenses for the Training, Education and Operation Certification Program, the Reliability Assessment and Performance Analysis Program and the Situational Awareness and Infrastructure Security Program of \$427,806, \$569,426, and \$468,556, respectively, over the 2008 Budget. The increased total expense budgeted for the Situational Awareness and Infrastructure Security Program is attributable to an increase in budgeted indirect expenses of \$4,332,719, which in turn is due primarily to the 2009 debt service and repayment cost of \$3,256,063 relating to the \$6 million line of credit WECC obtained in 2008 to fund accelerated completion of the WECC Reliability Coordination Strategic Initiative including the completion and operation of the two new WECC-owned Reliability Coordination Centers in Vancouver, Washington and Fort Collins, Colorado.<sup>79</sup>

WECC's total 2009 budgeted expense for Administrative Services is \$7,868,381 higher than the 2008 Budget, excluding a \$1,000,000 provision for working capital reserve.<sup>80</sup> In light of

---

<sup>79</sup> In its order issued April 17, 2008 in Docket No. RR07-16-002, the Commission approved the amendment to WECC's 2008 Budget to provide for the increased expenditures for the accelerated completion of the Reliability Coordination Strategic Initiative and the use of a \$6 million line of credit in 2008 to fund these increased expenditures, and also approved the inclusion of loan repayment and interest costs in WECC's 2009 and 2010 assessments. *Order Approving Amendment to Western Electricity Coordinating Council Business Plan and Budget*, 123 FERC ¶ 61,031 (2008).

<sup>80</sup> See the table on page 41 of **Attachment 10**.

other factors driving increases in its 2009 assessments (including the incremental assessment amount of \$3,256,063 for debt service and repayment of the \$6 million line of credit), WECC determined to request an additional assessment amount of only \$1,000,000 towards establishing a reasonable statutory working capital reserve, even though a much higher amount could be justified based on a target working capital reserve equal to three months of cash expenses. As a result, WECC projects it will have a statutory working capital reserve of approximately \$124,000 at December 31, 2009. WECC's total non-statutory budget for 2009 is \$798,197.

### **C. Metrics Related to Regional Entity Budgets**

NERC's 2008 Business Plan and Budget filing included an attachment (Attachment 7) setting forth a series of metrics developed by NERC and the Regional Entities to be used as a further aid to understanding where and why differences exist among the Regional Entities' activities and budgets. The metrics provided, by Regional Entity, detailed information about how the Regional Entity is organized, how it does its business, and the relative sizes of the organizations and the amount of work they have to do. The metrics took the form of a series of responses to a number of specific questions, first with respect to the general structure and makeup of each Regional Entity, followed by responses for each program area in its Business Plan. NERC indicated that it would continue to present these metrics in future years' annual business plan and budget filings. In the 2008 Budget Order, the Commission stated that it found these metrics to be helpful, but also directed NERC to include, at a minimum, the following additional metrics in its 2009 Business Plan and Budget filing:

Identify the number of shared employees, including the portion of time spent on statutory and non-statutory activities, for the following three categories – supervisory/management, technical and support personnel.

Identify in a uniform manner information about planned Reliability Standards compliance audits, including the number of on-site, paper audits and self-certifications checked; the number of man-hours estimated for each type of audit;

and the number and type (i.e., dedicated, shared, contractor or volunteer) of personnel to be involved in each type of audit.<sup>81</sup>

**Attachment 14** (comparable to Attachment 7 in the 2008 Business Plan and Budget filing) provides the metrics for the Regional Entities based on their current operations and their 2009 Business Plans and Budgets. Information on shared employees is provided in items 3 and 4 under “Organization-Wide” (pages 2-3) in **Attachment 14**. Information on planned compliance audits, by type (*e.g.*, on-site and off-site), as well as other compliance activities such as self-certifications and spot checks, for each Regional Entity for 2009, is provided in item 4 under “Compliance Enforcement and Organization Registration” on pages 10-11 in **Attachment 14**. (A number of the Regional Entities also provided some or all of this information in the CMEP section of their Business Plans.) Additionally, the Commission has indicated that the Regional Entity Business Plans should state the total number of Registered Entities within each Region;<sup>82</sup> this information is provided in item 4 of “Organization-Wide” on pages 2-3, and in item 2 under “Compliance Enforcement and Organization Registration” on page 9, in **Attachment 14**.<sup>83</sup> (Again, a number of the Regional Entities provided this information within their Business Plans.)

In P 35 of the 2008 Budget Order, the Commission stated:

The metrics are an evolving tool designed to assist in the review and evaluation of the budgets, both in the current year and in the future. Review of the metrics is one method for ensuring that the Regional Entities have sufficient staffing and funding in order to accomplish their delegated responsibilities. While the Commission will analyze the metrics in its review of the Regional

---

<sup>81</sup> 2008 Budget Order at P 34.

<sup>82</sup> 2007 Budget Order at P 125.

<sup>83</sup> In addition, item 3 under “Compliance Enforcement and Organization Registration” on page 9 of **Attachment 14** provides information on the number of functions per registered entity for each Regional Entity.

Entity budgets, the Commission directs NERC to also conduct an analysis and include in its budget and business plan a discussion of significant inconsistencies or other issues revealed by such analysis and an explanation of such matters and why any inconsistencies are reasonable and should be accepted by the Commission.

Additionally, in the June 19 2008 Budget Compliance Order, at P 39, the Commission directed NERC to develop additional metrics on the Regional Entities' administrative costs, such as the data presented in Attachment A to that Order (although the Commission stated that these additional metrics would not need to be provided in the annual Business Plan and Budget filings until the filing for 2010).

In response to these directives, NERC has prepared, as **Attachment 15**, an additional set of metrics comparing and analyzing certain components of the NERC and Regional Entity 2009 Business Plans and Budgets. Specifically, **Attachment 15** shows, for NERC's and each Regional Entity's proposed 2009 Budget (i) total indirect expenses as a percentage of total statutory budgeted expenses (page 1 of **Attachment 15**<sup>84</sup>); (ii) direct program costs per FTE (page 2 of **Attachment 15**); and (iii) Compliance Monitoring and Enforcement and Organization Registration and Certification Program costs per registered entity (page 3 of **Attachment 15**). Following the three pages of tables, **Attachment 15** contains text describing the manner in which these calculations were performed, and providing observations on the resulting metrics.<sup>85</sup>

---

<sup>84</sup> Page 1 of **Attachment 15** also shows the budgeted indirect FTEs and the budgeted total FTEs, and the indirect FTEs as a percentage of total FTEs, in the 2009 Business Plans and Budgets of NERC and each Regional Entity; and lists whether and to what extent various categories of costs are included by NERC and each Regional Entity in their respective budgeted indirect expenses for 2009.

<sup>85</sup> Because of the importance the Commission attached to performing further metrics analyses as reflected in the portions of the 2008 Budget Order quoted above, the Finance and Audit Committee of the NERC Board held a special meeting on August 18, 2008 to discuss the Regional Entity metrics. **Attachment 15** is the result, in part, of directions given by the Finance and Audit Committee at that meeting.

NERC and the Regional Entities intend to use analyses such as **Attachment 15** as tools as they continue to work to eliminate inconsistencies in the allocation and recording of costs, and to eliminate variances in costs and costs-per-measure, among NERC and the Regional Entities, for future years' budget submissions.

## **VI. EXPANDED POLICY ON ALLOCATION OF CERTAIN COMPLIANCE AND ENFORCEMENT COSTS AMONG THE UNITED STATES, CANADIAN PROVINCES AND MEXICO**

In its 2008 Business Plan and Budget filing, in response to issues regarding cost allocation that were raised by certain Canadian entities during the preparation of the 2007 budget, NERC provided a policy statement on the allocation of certain compliance and enforcement costs that had been adopted by the Finance and Audit Committee of the NERC Board of Trustees.<sup>86</sup> The policy statement applied to entities outside the United States that are carrying out an active compliance monitoring and enforcement program and thereby incur costs that would otherwise be incurred by NERC or a Regional Entity. The policy statement described five conditions that must be met:

1. The special allocation adjustment will be available only for jurisdictions outside the United States, consistent with applicable agreements or memoranda of understanding with provincial regulatory and/or governmental authorities.
2. The special allocation adjustment will be available only for activities associated with a Compliance Monitoring and Enforcement Program. Other program areas will be subject to NERC's normal allocation policies.
3. The special allocation adjustment will be available only where the provincial government, by statute or regulation, has designated an entity other than a Regional Entity to have primary responsibility for reliability services such as compliance monitoring and enforcement and where NERC and the designated entity have entered into an agreement or memorandum of understanding recognizing the respective responsibilities of the various organizations.
4. The designated entity must actually be conducting an effective compliance monitoring and enforcement program.

---

<sup>86</sup> See the 2008 Business Plan and Budget filing at 43-44 and Attachment 5.



5. The special allocation adjustment will be applied to the costs of the Regional Entity, and where appropriate, costs of NERC.

As reported in the 2008 Business Plan and Budget filing, based on the cost allocation policy statement, (i) NERC and NPCC negotiated an arrangement with the IESO that recognized the IESO performs compliance monitoring and enforcement activities with respect to reliability standards pursuant to legislation and regulations adopted within Ontario designating the IESO as principally responsible for compliance monitoring, and (ii) NERC and the Ontario Energy Board executed a memorandum of understanding recognizing the IESO's role.<sup>87</sup> NERC stated that because the IESO is performing that activity, it is incurring costs that would otherwise be incurred by NERC and NPCC. The effect of the arrangement described in the 2008 Business Plan and Budget filing excluded certain NERC and NPCC costs in calculating the NERC and NPCC assessment that the IESO would be asked to pay in 2008; the excluded amounts were allocated to all other entities under the general allocation methodology used in developing the assessments.<sup>88</sup> The details of the adjustments for NERC and NPCC, and the effects of the adjustment on the allocations to other entities, were shown elsewhere in the 2008 Business Plan and Budget filing.<sup>89</sup> Additionally, NERC reported that during preparation of the 2008 Business Plan and Budget, TransÉnergie had also raised certain cost allocations questions regarding both the NERC and NPCC assessments, but that TransÉnergie had informed NERC and NPCC that it would not contest the 2008 allocations for NERC or NPCC so long as NERC and NPCC

---

<sup>87</sup> *Id.* at 44.

<sup>88</sup> *Id.*

<sup>89</sup> *Id.*; see also Attachment 5, and Appendices C-3 and C-4 of Attachment 2, to the 2008 Business Plan and Budget filing.

continued to work on those issues for the 2009 budget, and that NERC and NPCC had committed to do so.<sup>90</sup>

As a result of these further negotiations, NERC has developed and adopted an Expanded Policy on Allocation of Certain Compliance and Enforcement Costs (“Expanded Policy”) that it believes will be acceptable to TransÉnergie, the Régie and other governmental authorities in Québec (as well as to NPCC and the IESO). The Expanded Policy, which was adopted by the NERC Board of Trustees on July 30, 2008, is provided in **Attachment 16**. To address the situation with Québec, the policy was revised in two respects, and the significant changes are quoted below:

Being respectful of jurisdictional responsibilities, and consistent with executed agreements or memoranda of understanding between provincial and/or regulatory governmental authorities, NERC also considers incorporation of alternatives to the NEL based on allocation methodology for Province-specific costs associated with certain implementation aspects of the Compliance Monitoring and Enforcement Program within Canada, which can be apportioned based on the number and complexity of compliance audits conducted in a particular Province.

In addition, in the Province of Québec, where the Régie de l’énergie may enter into an agreement with a body to monitor compliance with reliability standards and provide enforcement recommendations, where all these criteria are satisfied, NERC, the appropriate regional entity, and the designated entity will develop a special allocation adjustment that takes account of all the facts and circumstances of the particular situation and is equitable to both the designated entity as well as all other entities. The special allocation adjustment is subject to approval of the NERC Board of Trustees.

The Expanded Policy has been used in this filing to allocate the NERC and NPCC 2009 assessments for certain costs of their CMEP among the IESO, Québec and the remaining Balancing Authority Areas within NPCC. As a result of implementation of the Expanded Policy, certain NERC and NPCC CMEP and Organization Registration and Certification program costs have been excluded in calculating the NERC and NPCC assessment that the IESO will be asked

---

<sup>90</sup> *Id.* at 44-45.

to pay in 2009; the excluded amounts are allocated to all other entities under the general allocation methodology used in developing the assessments. In addition, NERC and NPCC expect shortly to sign an agreement with the Québec Régie under which the Régie will pay NERC and NPCC for providing certain compliance monitoring and enforcement services to the Régie for the Province of Québec. The amount NPCC will charge the Régie for compliance monitoring and enforcement services in 2009 takes account of the relatively smaller number of audits that would be necessary in Québec, and was calculated as follows: 45% of NPCC's CMEP budget was allocated to Québec on the basis of a per audit cost, and 55% was allocated to Québec on the basis of NEL. NERC's allocation to Québec also took account of the relatively low number of audits and other CMEP activities that would be necessary in Québec, and was calculated by excluding the costs of nine of the 18 compliance auditors in the NERC CMEP and associated indirect expenses, and then allocating the remaining portion of NERC's CMEP budget on the basis of NEL. As is the case with Ontario, the excluded amounts are allocated to all other entities under the general allocation methodology used in developing the assessments.<sup>91</sup>

**Attachment 16** contains, in addition to the Expanded Policy, (i) a one-page narrative explaining the proposed adjustment to the IESO 2009 NERC assessment, (ii) the calculation of the proposed adjustment to the IESO 2009 NERC assessment, (iii) a letter from the IESO accepting the 2009 adjustment, (iv) a one-page narrative explaining the proposed adjustment to the Québec 2009 NERC assessment, (ii) the calculation of the proposed adjustment to the Québec 2009 NERC assessment. The proposed adjustment to the Québec NERC 2009 assessment is subject to the final approval of the Régie and other governmental entities in

---

<sup>91</sup> Both the IESO and TransÉnergie will pay the 2009 assessment for all NERC and NPCC programs other than the CMEP and Organization Registration and Certification Program based upon the general NEL-based allocation formulas.

Québec, which had not been obtained as of the date of this filing. NERC will make a supplemental filing in this docket to advise the Commission when the necessary governmental approvals in Québec have been obtained.

The effect of these adjustments on the NERC assessment is shown in Appendix C-3 in Section C of **Attachment 2**. The effect of these adjustments on the NPCC assessment is shown in Appendix C-4 of **Attachment 2**.<sup>92</sup> Specifically, \$228,579 of NERC's compliance program costs and \$410,332 of NPCC's compliance program costs are excluded from IESO's assessment, and \$143,420 of NERC's compliance program costs and \$455,035 of NPCC's compliance program costs are excluded from the calculation of the assessment to the Balancing Authority Area for Québec. The adjustments to the NPCC allocations for IESO and Québec are based on an alternate allocation that appropriately charges the Québec province based upon an approved audit-based allocation methodology. The excluded costs are allocated to the remaining entities using the general allocation methodologies for NERC and using the audit-based allocation methodology for NPCC.<sup>93</sup>

NERC notes that in its Order issued March 21, 2008 in Docket Nos. RR06-1-012 *et al.* concerning the delegation agreements between NERC and the Regional Entities, the Commission directed NERC and the Regional Entities to revise §8(b), and §2 of Exhibit E, of their delegation agreements to provide that a proposed change in cost allocation formula must be submitted in advance of the annual business plan and budget (as opposed to being filed with the annual

---

<sup>92</sup> The allocation of NPCC's statutory funding requirement to the Balancing Authority Areas within NPCC, including the effect of the adjustments to the costs allocated to the IESO and to Québec, is also shown in Table 6 on page 63 of the NPCC Business Plan and Budget (**Attachment 5**).

<sup>93</sup> That is, the NERC costs are allocated among all remaining entities, and the NPCC costs are allocated among the remaining Balancing Area Authority Areas within NPCC based on an audit-based allocation methodology.

business plan and budget), with the change in allocation formula not to be effective until the following year's business plan and budget are in effect.<sup>94</sup> In response to this directive, NERC and the Regional Entities have proposed amendments to the pertinent provisions of their delegation agreements to provide that where a Regional Entity seeks to adopt a cost allocation formula other than NEL, it shall submit the proposed formula to NERC in sufficient time that NERC may review and approve the revised formula and file it with the Commission for approval by May 15, with the revised cost allocation formula to be effective for the following budget year if the Commission approves it on or before the date it approves the proposed business plan and budget submitted by NERC for that year. As required by the March 21 2008 Order, NERC filed this proposed revision with the Commission in a compliance filing submitted on July 21, 2008, and it is awaiting Commission approval.<sup>95</sup>

Accordingly, NERC and the Regional Entities have developed and submitted to the Commission a revision to their delegation agreements that will address the Commission's concerns expressed in P 25 of the March 21 2008 Order going forward. However, NERC and NPCC request that the Commission, in its upcoming order on the 2009 Business Plans and Budgets, approve the Expanded Policy and its implementation for the allocation of the 2009 assessments within NPCC, as described above. The Expanded Policy, and its implementation to allocate assessments beginning with the 2009 budget, are acceptable to NERC and NPCC and to the most directly impacted entities responsible for assessments in Ontario and Québec. Approval of the Expanded Policy will finally resolve a long-standing concern of the IESO and

---

<sup>94</sup> *Order Addressing Revised Delegation Agreements*, 122 FERC ¶ 61,245 (2008) ("March 21 2008 Order"), at P 25.

<sup>95</sup> *Compliance Filing of the North American Electric Reliability Corporation in Response to the March 21, 2008 Order*, filed July 21, 2008 in Docket Nos. RR06-1-017 *et al.* See pp. 5-7 and Attachment 1 of that filing.

TransÉnergie concerning the allocation to Canadian entities of assessments to recover U.S.-related compliance monitoring and enforcement costs and other U.S. statutory program costs.

## **VII. ADDITIONAL RECONCILIATIONS OF 2007 BUDGETED VERSUS ACTUAL EXPENSES BASED ON AUDITED FINANCIAL STATEMENTS**

In the 2008 Budget Order, the Commission directed NERC to prepare and file, by April 1 of the following year, a reconciliation of each year's annual approved NERC and Regional Entity budgets against actual expenditures, beginning with a reconciliation for 2007.<sup>96</sup> NERC provided these reconciliations for 2007 in the April 1 2008 Budget Compliance Filing, but noted that because, pursuant to the approved delegation agreements, the Regional Entities are not required to provide their audited financial statements for a calendar year to NERC until 150 days following the end of that year, the reconciliations presented in the April 1 Budget Compliance Filing were based on unaudited financial statements for all but one of the Regional Entities.<sup>97</sup> In the June 19 2008 Budget Compliance Order, the Commission directed that NERC's 2009 Business Plan and Budget Filing include an additional reconciliation(s), if necessary, showing any changes from the 2007 budget versus actual reconciliations provided in the April 1 2008 Budget Compliance Filing based on the audited financial statements for 2007.<sup>98</sup>

The audited financial statements of NERC and the Regional Entities for 2007 did in fact result in some changes to the unaudited financial statements used to prepare the reconciliations provided in the April 1 2008 Budget Compliance Filing. Accordingly, NERC has prepared the additional reconciliations of budgeted to actual costs for NERC and the Regional Entities for

---

<sup>96</sup> 2008 Budget Order at P 23 and ordering paragraph (G).

<sup>97</sup> *Additional Compliance Filings of the North American Electric Reliability Corporation in Response to October 18, 2007 Order* filed April 1, 2008 in Docket No. RR07-16-003 ("April 1 2008 Budget Compliance Filing"), at 17.

<sup>98</sup> June 19 2008 Budget Compliance Order at P 40.

2007 as required by P 40 of the June 19 2008 Budget Compliance Order. These additional reconciliations are provided in **Attachment 17**.<sup>99</sup> For NERC and each Regional Entity, **Attachment 17** shows the 2007 actual funding and expenses per the April 1 2008 Budget Compliance Filing; 2007 actual funding and expenses per the entity's 2007 Audit; the variance (if any) between the actual 2007 funding and expenses provided in the April 1 2008 Budget Compliance Filing and in the 2007 Audit; and an explanation of the cause of the variance (if any). For each entity, this information is provided for statutory funding and expenses and, if applicable, for non-statutory funding and expenses and in total.

Additionally, §1105.1 of the NERC Rules of Procedure specifies that the annual Business Plan and Budget filing must include the previous year's audited financial statements for NERC and the Regional Entities. Therefore, the audited 2007 financial statements for NERC and the Regional Entities, including the opinion of the entity's independent auditor (or, in the case of Texas RE, the auditor's statement of agreed procedures), are provided in **Attachment 18**.<sup>100</sup>

#### **VIII. ADOPTION OF REVISED NERC RECORDS RETENTION POLICY BY MRO AND NPCC**

In the 2008 Budget Order, the Commission directed NERC to adopt certain revisions to its records retention policy.<sup>101</sup> In response to this directive, NERC filed a revised records

---

<sup>99</sup> The reconciliation presented for FRCC in the April 1 2008 Budget Compliance Filing was based on FRCC's audited financial statements for 2007; therefore, no additional reconciliation for FRCC has been provided in **Attachment 17**.

<sup>100</sup> In **Attachment 18**, NERC's 2007 audited financial statements are presented first, followed by the 2007 audited financial statements of the Regional Entities, in alphabetical order. The audited financial statements provided for SPP are the audited financial statements for Southwest Power Pool, Inc., since the SPP Regional Entity is not a separate corporate entity.

<sup>101</sup> 2008 Budget Order at P 82.

retention policy.<sup>102</sup> In submitting the revised records retention policy, NERC stated that six of the eight Regional Entities had confirmed in writing to NERC that they were adopting the revised records retention policy. The two who had not yet done so were MRO and NPCC, both of which were still in the process of revising their document retention policies to be consistent with the Commission's requirements.<sup>103</sup> In the June 19 2008 Budget Compliance Order, the Commission accepted the revised NERC records retention policy, and directed NERC to submit revised, conforming records retention policies of MRO and NPCC with the 2009 Business Plan and Budget filing.<sup>104</sup>

MRO and NPCC have now completed the revision and adoption of their records retention policies to conform to NERC's revised records retention policy and the Commission's requirements specified in P 82 of the 2008 Budget Order. MRO's revised records retention policy is provided in **Attachment 19**. NPCC's revised records retention policy is provided in **Attachment 20**. Both the MRO records retention policy and the NPCC records retention policy conform to the NERC records retention policy (in fact, for some categories of documents, the MRO policy provides for a longer retention period than does the NERC policy.)

## **IX. CONCLUSION**

Based on the information in this filing, including **Attachments 1 through 20**, NERC requests that the Commission issue an order pursuant to 18 C.F.R. §39.4, on or before November 2, 2008: (1) accepting NERC's proposed 2009 Business Plan and Budget set forth in

---

<sup>102</sup> April 1 2008 Budget Compliance Filing, Attachment 2.

<sup>103</sup> April 1 2008 Budget Compliance Filing at 11-12; *see* June 19 2008 Budget Compliance Order at P 15.

<sup>104</sup> June 19 2008 Budget Compliance order at PP 16-17.



**Attachment 2;** (2) accepting the proposed 2009 Business Plans and Budgets of the eight Regional Entities for statutory activities set forth in **Attachments 3 through 10;** (3) accepting the proposed budget and funding requirement of WIRAB for 2009 set forth in **Attachment 11;** and (4) approving the proposed assessments to each load-serving entity or designee or other entities to be billed within each Region, as set forth in Appendix C-2 to **Attachment 2,** to be billed to and paid by each such load-serving entity or designee or other entity to fund the portion of NERC's 2009 funding requirement allocated to the United States and the 2009 funding requirement for statutory activities of each Regional Entity allocated to the United States.

Respectfully submitted,

/s/ Rick Sergel  
Rick Sergel  
President and Chief Executive Officer  
David N. Cook  
Vice President and General Counsel  
North American Electric Reliability  
Corporation  
116-390 Village Boulevard  
Princeton, NJ 08540-5721  
(609) 452-8060  
(609) 452-9550 – facsimile  
[david.cook@nerc.net](mailto:david.cook@nerc.net)

/s/ Owen E. MacBride  
Owen E. MacBride  
Debra Ann Palmer  
Schiff Hardin LLP  
1666 K Street, N.W., Suite 300  
Washington, DC 20006  
(202) 778-6400  
(202) 778-6460 – facsimile  
[omacbride@schiffhardin.com](mailto:omacbride@schiffhardin.com)  
[dpalmer@schiffhardin.com](mailto:dpalmer@schiffhardin.com)

Rebecca J. Michael, Assistant General Counsel  
North American Electric Reliability  
Corporation  
1120 G Street, N.W., Suite 990  
Washington, D.C. 20005-3801  
(202) 393-3998  
(202) 393-3955 – facsimile  
[Rebecca.michael@nerc.net](mailto:Rebecca.michael@nerc.net)

**DOCKET NO. RR08-6-000**

**NORTH AMERICAN ELECTRIC RELIABILITY  
CORPORATION**

**2009 BUSINESS PLAN AND BUDGET FILING**

**ATTACHMENT 1**

**SUMMARY TABLES FOR NERC AND REGIONAL ENTITY**

**PROPOSED 2009 BUSINESS PLANS AND BUDGETS**

**AND FUNDING REQUIREMENTS**

**CORRECTED VERSION FILED SEPTEMBER 2, 2008**

# Attachment 1

## NERC's proposed budget and funding requirement by program

<b>NERC Program</b>	<b>Budget for Statutory Functions 2008</b>	<b>Budget for Statutory Functions 2009</b>
<b>Reliability Standards</b>	\$ 4,990,523	\$ 5,665,032
<b>Compliance Enforcement and Organization Registration and Certification</b>	\$ 7,914,174	\$ 12,290,829
<b>Reliability Readiness Evaluation and Improvement</b>	\$ 3,355,606	\$ 485,429
<b>Training, Education and Operator Certification</b>	\$ 2,149,068	\$ 2,593,173
<b>Reliability Assessment and Performance Analysis</b>	\$ 4,254,186	\$ 6,519,959
<b>Situational Awareness and Infrastructure Security</b>	\$ 3,868,438	\$ 6,893,198
<b>Total Budget</b>	\$ 26,531,995	\$ 34,447,620 <sup>1</sup>
<b>Less: Non-Assessment Revenues</b>	\$ 1,593,000	\$ 2,522,572
<b>Plus: Provision for Reserves</b>	\$ 755,036	[See footnote 1]
<b>Total Funding Requirement</b>	\$ 25,694,031	\$ 31,925,048
<b>Allocation of Funding to U.S. Entities</b>	\$ 22,780,492	\$ 28,668,409
<b>Administrative Services (allocated to program areas)</b>	\$9,359,657	\$13,305,335

<sup>1</sup> Includes provision for working capital reserve of \$1,129,352, which has been allocated to the statutory programs and included in the budgeted statutory program costs listed above.

**Proposed budget for statutory activities of each regional entity**

<b>Regional Entity</b>	<b>Budget for Statutory Functions 2008</b>	<b>Allocation to U.S. 2008</b>	<b>Budget for Statutory Functions 2009</b>	<b>Allocation to U.S. 2009</b>
<b>FRCC</b>	\$ 3,989,948	\$ 3,989,948	\$ 3,977,868	\$ 3,977,868
<b>MRO</b>	\$ 5,331,487	\$ 4,477,592	\$ 6,405,724	\$5,416,569
<b>NPCC</b>	\$ 7,648,718	\$ 3,426,793	\$10,008,885	\$ 5,328,803
<b>RFC</b>	\$ 9,664,256	\$ 9,664,256	\$11,434,201	\$11,434,201
<b>SERC</b>	\$ 7,991,021	\$ 7,991,021	\$10,095,546	\$10,095,546
<b>SPP</b>	\$ 4,609,083	\$ 4,609,083	\$ 7,123,827	\$ 7,123,827
<b>TRE</b>	\$ 3,296,066	\$ 3,226,066	\$ 6,167,024	\$ 6,167,024
<b>WECC<sup>2</sup></b>	\$ 32,671,874	\$ 27,659,056	\$38,691,767	\$32,868,109
<b>Total</b>	\$ 75,202,453	\$ 64,748,315	\$93,904,842	\$82,411,947

**Funding requirement for Section 215(j) activities requested by WIRAB**

<b>2008 Funding</b>				
<b>Regional Advisory Body Funding</b>	<b>U.S. Funding</b>	<b>Canadian Funding</b>	<b>Mexico Funding</b>	<b>Total Allocation</b>
<b>WIRAB</b>	\$ 404,035	\$ 66,966	\$ 6,260	\$ 477,261

<b>2009 Funding</b>				
<b>Regional Advisory Body Funding</b>	<b>U.S. Funding</b>	<b>Canadian Funding</b>	<b>Mexico Funding</b>	<b>Total Allocation</b>
<b>WIRAB</b>	\$ 321,336	\$ 52,365	\$ 4,571	\$ 378,272

<sup>2</sup> 2008 amounts for WECC in this **Attachment 1** are based on the amended and corrected WECC 2008 Budget approved by the Commission on April 17, 2008 (123 FERC ¶ 61,031).

**Aggregate U.S. ERO funding requirement of NERC, the regional entities and WIRAB for which approval is requested**

<b>2008 Funding</b>					
<b>Regional Entity</b>	<b>NERC Funding</b>	<b>Regional Entity Funding</b>	<b>WIRAB Funding</b>	<b>Total Allocation</b>	<b>Allocation per kWh (2006 NEL)</b>
<b>FRCC</b>	\$ 1,351,106	\$ 3,989,948	--	\$ 5,341,054	\$0.000023
<b>MRO</b>	\$ 1,456,333	\$ 4,477,592	--	\$ 5,933,925	\$0.000026
<b>NPCC</b>	\$ 1,673,102	\$ 3,628,338	--	\$ 5,301,440	\$0.000018
<b>RFC</b>	\$ 5,475,002	\$ 9,584,256	--	\$15,059,258	\$0.000016
<b>SERC</b>	\$ 5,930,268	\$ 7,775,521	--	\$13,705,789	\$0.000014
<b>SPP</b>	\$ 1,281,787	\$ 4,609,083	--	\$ 5,890,870	\$0.000030
<b>TRE</b>	\$ 1,673,872	\$ 3,226,066	--	\$ 4,899,938	\$0.000016
<b>WECC</b>	\$ 3,939,023	\$22,515,832	\$ 404,035	\$26,858,890	\$0.000037
<b>Total</b>	\$22,780,492	\$59,806,636	\$ 404,035	\$82,991,164	\$0.000021

<b>2009 Funding</b>					
<b>Regional Entity</b>	<b>NERC Funding</b>	<b>Regional Entity Funding</b>	<b>WIRAB Funding</b>	<b>Total Allocation</b>	<b>Allocation per kWh (2007 NEL)</b>
<b>FRCC</b>	\$ 1,695,602	\$ 3,898,438	--	\$ 5,594,040	\$0.0000235
<b>MRO</b>	\$1,846,842	\$ 5,391,836	--	\$ 7,238,678	\$0.0000314
<b>NPCC</b>	\$ 2,090,999	\$ 5,328,802	--	\$ 7,419,801	\$0.0000246
<b>RFC</b>	\$ 6,909,527	\$ 8,833,834	--	\$ 15,743,361	\$0.0000166
<b>SERC</b>	\$ 7,439,650	\$ 9,652,546	--	\$17,092,196	\$0.0000163
<b>SPP</b>	\$ 1,592,876	\$ 7,123,827	--	\$ 8,716,703	\$0.0000427
<b>TRE</b>	\$2,140,806	\$3,430,700	--	\$5,571,506	\$0.0000174
<b>WECC</b>	\$ 4,952,107	\$ 31,506,071	\$ 321,336	\$ 36,779,514	\$0.0000498
<b>Total</b>	\$28,668,409	\$ 75,166,054	\$ 321,336	\$104,155,799	\$0.0000258