



## **Response to March 21, 2008 FERC Order Regarding NPCC Delegation Agreement**

The following are the NPCC responses to the Commission Determinations (by paragraph number):

171. NPCC proposes a revision to section 3.3 of the NPCC CMEP, which authorizes spot-checking for the limited purpose of verifying self-certifications. Section 3.3 is more limited than the parallel provision of the NERC *pro forma* CMEP. Accordingly, because NPCC has not provided any reason for this deviation, we direct NPCC to revise section 3.3 to conform to NERC's *pro forma* CMEP.

***NPCC Response:*** *NPCC concurs with the FERC finding and has revised accordingly Exhibit D, Section 3.0 of the NPCC CMEP to clarify that the Spot Check Program is utilized not only in the verification of Self-Certification submittals but also in the verification of Self-Reports and Periodic Data Submittals.*

172. Section 3.0 of the NPCC CMEP, as proposed, states that a compliance violation investigation will be conducted “upon completion of an initial event analysis.” However, these investigations should be commenced as soon as evidence of a possible violation of a reliability standard is discovered, whether during an event analysis or through other means. Accordingly, we direct NERC and NPCC to revise this provision.

***NPCC Response:*** *NPCC concurs and has revised Exhibit D Section 3.0 accordingly. NPCC assigns a Compliance Liaison at the on-set of an event analysis. The Compliance Staff begins to identify any applicable Reliability Standards related to the event. As soon as there is a determination that a Compliance Violation Investigation (CVI) is warranted, NERC is notified that the CVI will be conducted and a final report will be presented to NERC upon the completion of the CVI.*

173. NPCC has not described with specificity the difference between an “initial determination” of violation that its compliance staff is to make and a “final compliance determination” that compliance staff would make after consulting with the appropriate NPCC technical committees. In particular, NPCC states that its compliance staff will make a penalty determination in connection with this review process after issuing a notice of alleged violation. However, this procedure is inconsistent with CMEP section 5.1, which provides that a notice of alleged violation is to include a proposed penalty or sanction. Because NPCC has not justified this deviation from *pro forma* section 5.1, we direct NPCC to clarify the review procedures set forth in section 3.0 of its Exhibit D.

***NPCC Response: NPCC concurs and has clarified the review process in a revised Exhibit D, Section 3.0. If after, initially receiving a Compliance Submittal, the Compliance Staff identifies an instance of non-compliance, a Preliminary Notice of Alleged Violation (PNOAV), without penalty, is issued to the Registered Entity, the NPCC Compliance Committee and NERC while the Compliance Staff continues its more detailed and comprehensive review of the submittal. It is during this review that the Compliance Staff confirms the violation and also calculates an appropriate penalty or sanction. The Compliance Staff may consult with technical committees on a non-decisional basis for advice regarding a complex technical matter only, not a matter of compliance/non-compliance determination, before the Compliance Staff renders its final decision and issues a Notice of Alleged Violation with Penalty or Sanction (NOAV) to the Registered Entity and NERC.***

174. It is also unclear whether NPCC intends the review process for violations which NPCC has described in section 3.0 to be on an ongoing or temporary basis. It appears that the review process described is for routine matters. While there may be more complex and technical matters requiring the expertise of technical committees, we expect compliance staff to be able to make determinations on most routine matters, such as self-certifications, without consultation from others and ultimately to discontinue the technical committee review process. Accordingly, we direct NERC and NPCC to submit, within 60 days of the date of this order, a schedule for ending the technical committee review process or a justification supporting its continuation.

***NPCC Response: NPCC concurs with the FERC finding and clarifies that the NPCC Compliance Staff will be the sole entity responsible for issuing PNOAV and NOAV with Penalty or Sanction.***

***As indicated in the response to §173, NPCC will only consult technical committees non-decisional basis for advice regarding a complex technical matter, if necessary, not for a determination of compliance/non-compliance. The use of technical committees non-decisional basis is not an inherent part of the review process but instead is used on an ad hoc basis to provide technical expertise when the NPCC Compliance Staff determines it is necessary. The past experience of using these technical committees to address and resolve complex technical matters has always proven to be invaluable to NPCC. Any information furnished to a non-decisional technical committee will not include the identity of a specific Registered Entity but will include generic facts needed to resolve or clarify a particular technical matter. As NPCC will continue to utilize these technical committees as described above there is no need to develop a schedule to have the committees phased out at this time.***

175. In addition, it remains unclear whether the voting protocols applicable to the NPCC hearing body, the NPCC compliance committee, comply with the *April 19 Order's* directive that each Regional Entity's hearing body render its decisions by a majority of the votes cast by a hearing body quorum. Section VII of the NPCC bylaws provides that the compliance committee will use the quorum and voting rules applicable to the NPCC board, unless otherwise determined by the board, while section VI(E) provides that

actions by the board shall be approved upon receipt of a two-thirds affirmative majority of the weighted sector votes. Accordingly, we direct NPCC to modify these provisions or explain the manner and extent to which it has complied with this aspect of the *April 19 Order*. Further, NPCC does not explain how an NPCC compliance staff member may serve as chairman of the NPCC compliance committee that rules on matters brought by the NPCC compliance staff. We direct NPCC to submit a full explanation or amend its Exhibit D accordingly.

**NPCC Response:**

*In the April 19 Order the Commission stated, in § 297, that the NPCC bylaws and the representations made in Exhibit B of the NPCC Delegation Agreement satisfy the governance requirements of FPA section 215 and the pro forma Exhibit B Governance Criteria. The Commission goes on to state, further in §297, that "...As such, NPCC's board composition and voting protocols are designed to ensure that NPCC will be governed by an appropriate balance of stakeholder interests." As the Compliance Committee will use those same quorum and voting procedures as the NPCC Board will, all actions taken by the CC will require a majority (two-thirds) vote to be approved.*

*The NPCC Compliance Committee (CC) is charged with providing independent policy input for the NPCC Compliance Monitoring and Enforcement Program (CMEP). The NPCC CMEP covers compliance assessment and enforcement of NERC Reliability Standards and Regional Reliability Standards. With regard to NERC Reliability Standards and Regional Reliability Standards, the CC shall provide an oversight role of the NPCC Compliance Staff's implementation of the CMEP. In this oversight role the CC will endorse the processes used by the NPCC Compliance Staff in the conduct of the CMEP.*

*Since the CC will only have an oversight role in compliance matters related to NERC Reliability Standards the presence of an NPCC Compliance Staff as chairman of the committee does not present an issue with conflict of interest. In matters where there is a potential conflict the Chairman will recuse himself and be replaced by the stakeholder elected vice- chairman. For example, as a Hearing at the NPCC level will be between the NPCC Compliance Staff and a Registered Entity, the Chairman of the Compliance Committee will not be part of the Hearing Body and the Hearing Body will be chaired by the vice-chairman of the CC, as long as he/she does not represent the Registered Entity involved in the Hearing. NPCC Compliance Staff will be represented by NPCC Counsel and an appropriate member of the NPCC Compliance Staff.*

176. With respect to Exhibit E, NPCC has failed to include a list of its non-statutory activities or its procedures for ensuring that funding for these activities will be kept separate from funding for statutory activities. NPCC must demonstrate to the Commission how the various funding mechanisms are kept separate. For example, NPCC should address how its bank accounts and receivable/payable procedures are set up for both the statutory and non-statutory functions. In addition, NPCC should ensure that each employee involved in both statutory and non-statutory functions keeps accurate

timesheets reflecting his or her activities. Moreover, NPCC's proposed revision explaining its fee assessment policy does not address the Commission's directive that NPCC's Exhibit E specify NPCC's procedures for ensuring that non-statutory funding will be kept separate from funding for statutory activities. We direct NERC and NPCC to revise section 5 of the NPCC Exhibit E accordingly.

**NPCC Response:**

***NPCC List of Non-Statutory Activities***

***1. Regionally-specific Criteria***

- *NPCC develops and maintains regionally-specific more stringent criteria*
- *NPCC develops and maintains criteria establishing resource adequacy requirements within the Region*

***2. Criteria Compliance Program***

- *NPCC monitors and assesses compliance with its more stringent regional criteria*
- *NPCC conducts a Reliability Compliance and Enforcement Program (RCEP) utilizing non-monetary sanctions*

- a. *NPCC should address how its bank accounts and receivable/payable procedures are set up for both statutory and non-statutory functions. (P 176)*

**NPCC Response:**

***NPCC Procedures for Separating Statutory and Non-Statutory Funding and Expenditures***

*NPCC utilizes the NERC System of Accounts (NSOA) to provide consistency for account codes, divisional separation codes and activity codes. The then NPCC CBRE (statutory) and the then NPCC Inc. (non-statutory) adopted the NSOA effective January 1, 2007 and moved from a modified cash basis of accounting to an accrual basis at that time also in the name of consistency.*

*Effective January 1, 2007, both affiliated independent corporations also moved from QuickBooks accounting software to the NERC recommended and used not-for-profit MIP Fund Accounting program by Sage Software to accurately account for income, time and labor. In August of 2007, NPCC CBRE merged into and with Northeast Power Coordinating Council, Inc. (referred to as NPCC) with the merged corporation having divisional separation for regional entity and criteria services.*

*Effective January 1, 2008, with corporate restructuring of NPCC completed in later 2007, 2008 actual program costs are being charged to appropriate program areas. NPCC does not conduct resource or transmission planning, is not an Independent System Operator (ISO), nor does it perform the functions of a Reliability Coordinator (RC). As such, while at this time, there is a breakout for criteria related activities, all functions performed by NPCC are in the furtherance of NERC's mission and reliability of the international bulk power system in Northeastern North America.*

**Methodology**

*NPCC's revenue and expenditure classification methodology identifies appropriate methods of accounting for income, time and costs to ensure that U.S. Federal/statutory and Canadian provincial and/or governmental authorities' agreed upon revenue and expenses are accounted for separately from NPCC's regionally-specific criteria development and criteria compliance non-statutory income, time and expense.*

**Division Codes**

*There are two division codes that are used by NPCC in accounting for revenues and expenses. The codes are as follows:*

	<i>Division ID</i>	<i>Division Name</i>
	<i>RE</i>	<i>Regional Entity – U.S. Statutory and Canadian Regulatory and/or Governmental Authority authorized</i>
	<i>CSD</i>	<i>Criteria Services - Non-Statutory</i>

*The two division codes allow NPCC to separate Regional Entity Statutory revenues and expenses from Criteria Services Non-Statutory revenues and expenses. These categories were developed to ensure that non-statutory related revenues and expenses are segregated and accounted for separately from statutory related revenues and expenses.*

**Program Codes**

*As required by NERC, NPCC adopted a financial accounting system consistent with NERC's functional categories. At NPCC, functional categories are referred to as Program Codes.*

*There are twelve program codes that are used by NPCC in accounting for expenses. The codes are as follows:*

	<i>Program ID</i>	<i>Program Name</i>
	<i>300</i>	<i>Reliability Standards</i>
	<i>400</i>	<i>Compliance Enforcement and Organization Registration and Certification</i>
	<i>700</i>	<i>Reliability Readiness</i>
	<i>800</i>	<i>Reliability Assessment and Performance Analysis</i>
	<i>900</i>	<i>Training and Education</i>
	<i>1000</i>	<i>Situational Awareness and Infrastructure Security</i>

<b>ADMIN</b>	<b>General Administration</b>
<b>FINANCE</b>	<b>Accounting and Finance</b>
<b>HR</b>	<b>Human Resources</b>
<b>IT</b>	<b>Information Technology</b>
<b>LEGAL</b>	<b>Legal and Regulatory</b>
<b>MEMBERS</b>	<b>Members Forum</b>

*Program codes are used in order to further delineate expenses into functional groupings that are assigned to program heads. NPCC staff utilize their assigned program codes (the program where they reside for payroll purposes) when coding expenses, unless otherwise authorized by management.*

- b. NPCC should ensure that each employee involved in both statutory and non-statutory functions keeps accurate timesheets reflecting his/her activities. (P 176)

**NPCC Response:**

*When time is spent in support of both statutory and non-statutory functions (applicable to a limited number of employees in Administrative Services which is highlighted in grey), staff members develop accurate timesheet allocations between division codes.*

- c. NPCC’s proposed revision to Exhibit E does not address FERC’s directive that Ex. E specify NPCC’s procedures for ensuring that non-statutory funding will be kept separate from funding for statutory activities. (P 176)

**NPCC Response:**

*Divisional separation with regard to statutory (Regional Entity division) and non-statutory (Criteria Services division) is reflected in the NPCC balance sheet and general ledger through the MIP Fund Accounting software programs.*

177. We accept NPCC’s proposal that General Members will not be assessed an annual fee. However, NPCC’s proposed revision to Exhibit E, which lists the fee assessment policy for Full Members, does not belong in the Delegation Agreement because it addresses a non-statutory obligation. As such, it is not relevant to FPA section 215 and should not be approved as part a delegation of authority by the ERO. Accordingly, we direct NERC and NPCC to remove the fee assessment policy for Full Members from Exhibit E.

**NPCC Response:**

*NPCC concurs with the FERC finding and has revised Exhibit E accordingly.*



## Northeast Power Coordinating Council, Inc.

### Exhibit D – Compliance Monitoring and Enforcement Program

#### 1.0 Regional Compliance Monitoring and Enforcement Program

##### 1.1 Obligations of NPCC

NPCC will implement the NERC Compliance Monitoring and Enforcement Program, including its Attachments, (Appendix 4C to the NERC Rules of Procedure) to monitor and enforce compliance with Reliability Standards by the owners, operators, and users within the U.S. portion of NPCC's geographic boundaries set forth on **Exhibit A** of this Agreement, subject to any deviations from the NERC Compliance Monitoring and Enforcement Program described in Section 1.2 below (the "Compliance Program").

##### 1.2 Deviations from the NERC Compliance Monitoring and Enforcement Program

Compliance monitoring and enforcement programs will be implemented within the Canadian portion of NPCC's geographic area, consistent with individual Canadian Provincial Memoranda of Understanding (MOU) and Canadian laws. All executed MOU's will be provided to NERC as allowable under Canadian law.

#### 2.0 REGIONAL HEARING OF COMPLIANCE MATTERS

NPCC shall establish and maintain a hearing body with authority to render decisions in compliance hearings in which a Registered Entity may contest a finding of alleged violation, proposed penalty or sanction, or a proposed mitigation plan. The NPCC Compliance Committee (CC) shall serve in the role as the hearing body. ~~This The committee~~ NPCC CC will consist of an NPCC Compliance Staff member as chairman and balanced stakeholder representatives appointed by the NPCC Board and reports directly to the NPCC Board. Members of the Committee will be selected by established NPCC procedure. Quorum and voting rules applicable to the NPCC Board shall apply to the NPCC Compliance Committee.

When the NPCC CC is acting as a Hearing Body, the Chairman of the CC will not be part of the Hearing Body and the Hearing Body will be led by the stakeholder elected Vice-Chair, as long as he/she does not represent the Registered Entity involved in the Hearing.

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Compliance Hearings will be conducted by a qualified, independent consultant Hearing Officer, who will present the results of the Hearing to the Hearing Body for their final determination. The Hearing Body will not be present at the actual Hearing but will have access to the complete record of that Hearing before it makes its final decision.

NPCC will utilize the Hearing Procedure described in Attachment 2 to address Remedial Action Directives that are contested. As such the Compliance Committee will be utilized in the hearing on Remedial Action Directives similar to as it is utilized in all other Hearings.

### 3.0 OTHER DECISION-MAKING BODIES

NPCC Compliance Staff will review compliance submittals from Registered Entities related to Self-Certification; Self-Reporting; Exception Reporting; and Periodic Data Submittals. NPCC Compliance Staff will initially review all submittals received to assure that the information forwarded is accurate and complete. This process will be conducted by the staff members and may require contact via e-mail or phone to confirm information. If after, initially receiving a compliance submittal, the Compliance Staff identifies an instance of non-compliance, a Preliminary Notice of Alleged Violation (PNOAV), without penalty, is issued to the Registered Entity, the NPCC Compliance Committee, and NERC while the Compliance Staff continues its more detailed and comprehensive review of the submittal. It is during this review that the Compliance Staff confirms the violation and also calculates an appropriate penalty or sanction. The Compliance Staff may consult with technical committees on a non-decisional basis for advice regarding a complex technical matter only, not a matter of compliance/non-compliance determination, before the Compliance Staff renders its final decision and issues a Notice of Alleged Violation with Penalty or Sanction (NOAV) to the Registered Entity and NERC.

Implementation of the NERC Compliance Monitoring and Enforcement Program by NPCC requires that the NPCC independent Compliance Staff make the initial compliance determination for all compliance submittals. After consultation, as appropriate, with the technical committee of NPCC, the Reliability Coordinating Committee, and the Task Forces on Coordination of Planning, Coordination of Operation, System Studies, System Protection and Infrastructure Technology, NPCC independent Compliance Staff then makes the final compliance determination before forwarding a report to the NPCC Compliance Committee.

The use of technical committees on a non-decisional basis is not an inherent part of the review process but instead is used on an ad hoc basis to provide technical expertise when the NPCC Compliance Staff determines it is necessary. The past experience of using these technical committees to address and resolve complex technical matters has always proven to be invaluable to NPCC. Any information furnished to a non-decisional technical committee will not include the identity of a specific Registered Entity but will include generic facts needed to resolve or clarify a particular technical matter. The NPCC



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independent Compliance Staff as well as the aforementioned technical groups committees will be bound by the antitrust guidelines, code of conduct, conflict of interest, confidentiality and any other applicable policies as referenced in the NERC Compliance Monitoring and Enforcement Program.

~~NPCC Compliance Staff will review compliance submittals from Registered Entities related to Self-Certification; Self-Reporting; Exception Reporting; and Periodic Data Submittals.~~

~~NPCC Compliance Staff will initially review all submittals received to assure that the information forwarded is accurate and complete. This process will be conducted by the staff members and may require contact via e-mail or phone to confirm information. Once information is confirmed, the Staff will review the information and make an initial determination. If the Compliance Staff identifies that a potential violation occurred it then issues a "Notice of Alleged Violation" to the Registered Entity, the Compliance Committee and NERC. The Compliance Staff will then conduct its detailed analysis of the potential violation, consulting the technical groups identified above if necessary and then making a final compliance determination. At this point the Compliance Staff will also make a penalty determination and include that in its report to the Compliance Committee. Once endorsement has been received by the NPCC Compliance Committee and BOD the Compliance Staff will issue a "Notice of Regionally Verified Violation" to the Registered Entity, the CC, BOD and NERC.~~

NPCC has implemented a comprehensive Compliance Audit and Spot Check Program that will be used to meet those requirements as included in the CMEP and consistent with the NERC Rules of Procedures. The annual Compliance Audit schedule is developed and included in the Annual CMEP Implementation Program. This schedule identifies the Registered Entities that will be audited, when they will be audited and what type of Audit it will be (on-site or off-site). Once the schedule is established an NPCC Pre-audit package is developed containing the pre-audit questionnaire; the appropriate Reliability Standards Audit Worksheets (RSAWs); copies of relative Reliability Standards and other related documentation. The package is sent out at least 60 days prior to the scheduled audit and in most cases the package goes out 90 days or more in advance. The same package is used for either an on-site or off-site audit. The audit team is formed and consists of an NPCC Staff person (Audit Team Leader), an NPCC Contract Auditor, a NERC Staff representative (as an observer) and a FERC representative (if they elect to participate). The audit is conducted and the NPCC members of the team write the audit report and present it to the Registered Entity for their review and comment before it is finalized. The audit team is responsible for reporting all compliance related information. Applicable Standards are identified and compliance and non-compliance is noted. In instances of non-compliance the submittals made by the audit team are processed as other compliance inputs through the compliance staff as previously described.

The Spot Check Program is used as a means of verifying self-certifications, self-reports and periodic data submittals that have been made earlier in the year. An internal, unpublished schedule is developed by the compliance staff and each applicable

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Registered Entity is given 30 days notice that they must supply the requested information in support of an earlier referenced self-certification, self-reports or periodic data submittals.~~self reports and periodic data submittals.~~ The staff reviews the submitted information and uses the submittal to verify the earlier self-certification, self-reports or periodic data submittals. Spot checking may also be random or may be initiated in response to events, as described in the Reliability Standards or by operating problems or system events. Upon completion of the compliance staff review an assessment is made and the Registered Entity is notified of the outcome. In instances of identified non-compliance the results are processed as other compliance inputs.

NPCC assigns a Compliance Liaison at the on-set of an event analysis. This event analysis thoroughly reviews the incident identifying all the facts and circumstances associated with the incident and a final report is developed summarizing the results of this analysis. The Compliance Liaison, in conjunction with other designated members of the NPCC Compliance Staff, begin to identify any applicable Reliability Standards related to the event. As soon as a determination is made that a Compliance Violation Investigation (CVI) is warranted (based on evidence of a possible violation of a Reliability Standard, whether based on information obtained in an event analysis or obtained through other means), NERC is notified that the CVI will be conducted and a final report will be presented to NERC upon the completion of the CVI.~~Compliance Violation Investigations are conducted upon completion of an initial event analysis. This initial event analysis thoroughly reviews the incident identifying all the facts and circumstances associated with the incident and a final report is developed summarizing the results of this analysis. This final report is then forwarded to the NPCC compliance staff who reviews the report, identifies applicable Reliability Standards, and performs a compliance assessment to determine if any violations have occurred. In the event that violations are identified they are submitted and processed through the CMEP as described above.~~



## **Northeast Power Coordinating Council, Inc. (NPCC)**

### **Exhibit E — Funding**

#### 1. Scope of activities funded through the ERO funding mechanism

NPCC shall include in its annual budget submission to NERC amounts for costs it will incur in support of delegated activities and activities that are in furtherance of NERC's responsibilities as the ERO under the Act, as specified in the NERC Rules. These activities shall include:

- Reliability Standard Development (Section 300)
- Compliance Enforcement (Section 400)
- Organization Registration and Certification (Section 500)
- Reliability Readiness Audit and Improvement (Section 700)
- Reliability Assessment and Performance Analysis (Section 800) (including necessary data gathering activities)
- Training and Education (Section 900)
- Situational Awareness and Infrastructure Security (Section 1000)

#### 2. Allocation of Costs

NPCC shall allocate its charges for its activities within the U.S. pursuant to the delegation agreement among all load-serving entities on the basis of net-energy-for load, unless a different method(s) of allocating and calculating such dues, fees and charges is expressly provided for in the annual business plan and budget submitted by NERC and NPCC to the Commission pursuant to 18 C.F.R. §39.4. NPCC shall submit to NERC annually at the same time it submits its budget request a list of the load-serving entities or their designees within its geographic boundaries and their proportionate net energy for load, and such other data and information as is necessary to allocate and calculate NPCC's charges under any such different method(s) of allocation and calculation that will be used.

#### 3. Collection of Funding

(a) NERC shall submit invoices to the load-serving entities or their designees identified by NPCC covering the NERC and NPCC budgets approved for collection.

NERC shall pursue any non-payments and shall request assistance from applicable governmental authorities as necessary to secure collection.

(b) Upon approval of the annual funding requirements by applicable governmental authorities, NERC shall fund NPCC's costs identified in this Exhibit E in four equal quarterly payments.

#### 4. Application of Penalties

All penalty monies received by NPCC from U.S. entities, other than penalty monies received from an operational function or division or affiliated entity of NPCC shall be applied as a general offset to the entity's budget requirements for U.S.-related activities under this Agreement for the subsequent fiscal year. Funds from financial penalties shall not be directly applied to any program maintained by the investigating entity. Any penalty monies received from an operational function or division or affiliated entity of NPCC shall be transmitted to or retained by NERC and shall be used by NERC as a general offset to NERC's budget for its activities as the ERO under the Act for the following year.

#### 5. Budget and Funding for NPCC's Non-Statutory Activities

NPCC performs functions or activities other than its delegated activities and activities that are in furtherance of NERC's responsibilities as the ERO under the Act, as specified in Section 1 of this **Exhibit E** (such other functions and activities being referred to herein as "non-statutory activities"). NPCC shall provide its budget for such non-statutory activities to NERC at the same time that NPCC submits its annual budget request to NERC pursuant to Section 1. NPCC's budget for non-statutory activities that is provided to NERC shall contain a detailed list of NPCC's non-statutory activities, a description of the funding sources for the non-statutory activities, and a description of the procedures NPCC will use to ensure that funding of the functions and activities listed in Section 1 of this **Exhibit E** will be kept separate from funding of the non-statutory activities. NPCC agrees that no costs of non-statutory activities are to be included in the calculation of NPCC's charges for its activities pursuant to this Agreement.

##### a. NPCC List of Non-Statutory Activities

###### 1. Regionally-specific Criteria

- NPCC develops and maintains regionally-specific more stringent criteria
- NPCC develops and maintains criteria establishing resource adequacy requirements within the Region

###### 2. Criteria Compliance Program

- NPCC monitors and assesses compliance with its more stringent regional criteria
- NPCC conducts a Reliability Compliance and Enforcement Program (RCEP) utilizing non-monetary sanctions

b. Funding of NPCC Non-statutory functions:- A separate membership based funding mechanism is utilized for Non-statutory functions

- ~~Full Members, other than Full Members that perform the Balancing Authority function, shall not be assessed an annual membership fee.~~
- ~~Full Members that perform the Balancing Authority function shall be assessed and pay a proportional share of the expenses for non-statutory criteria services in proportion to the ratio of the second previous year's Net Energy for Load within the Balancing Authority Area to the aggregate Net Energy for Load within all Balancing Authority Areas in Northeastern North America. NPCC will directly assign non-statutory criteria services costs to a Balancing Authority Area or entity where significant costs are incurred by NPCC for such Area or entity.~~
- ~~No Full Member shall, without its consent, be responsible for expenses of NPCC in any one calendar year in excess of its assessed portion of the amount budgeted for non-statutory criteria services for that year; *provided, however,* that special assessments may be separately budgeted and their cost allocated by the Board to the Full Members that perform the Balancing Authority function.~~

**c. NPCC Procedures for Separating Statutory and Non-Statutory Funding and Expenditures**

NPCC utilizes the NERC System of Accounts (NSOA) to provide consistency for account codes, divisional separation codes and activity codes. The then NPCC CBRE (statutory) and the then NPCC Inc. (non-statutory) adopted the NSOA effective January 1, 2007 and moved from a modified cash basis of accounting to an accrual basis at that time also in the name of consistency.

Effective January 1, 2007, both affiliated independent corporations also moved from QuickBooks accounting software to the NERC recommended and used not-for-profit MIP Fund Accounting program by Sage Software to accurately account for income, time and labor. In August of 2007, NPCC CBRE merged into and with Northeast Power Coordinating Council, Inc. (referred to as NPCC) with the merged corporation having divisional separation for regional entity and criteria services.

Effective January 1, 2008, with corporate restructuring of NPCC completed in later 2007, 2008 actual program costs are being charged to appropriate program areas.

NPCC does not conduct resource or transmission planning, is not an Independent System Operator (ISO), nor does it perform the functions of a Reliability Coordinator (RC). As such, while at this time, there is a breakout for criteria related activities, all functions performed by NPCC are in the furtherance of NERC's mission and reliability of the international bulk power system in Northeastern North America.

## Methodology

NPCC's revenue and expenditure classification methodology identifies appropriate methods of accounting for income, time and costs to ensure that U.S. Federal/statutory and Canadian provincial and/or governmental authorities' agreed upon revenue and expenses are accounted for separately from NPCC's regionally-specific criteria development and criteria compliance non-statutory income, time and expense.

## Division Codes

There are two division codes that are used by NPCC in accounting for revenues and expenses. The codes are as follows:

	<u>Division ID</u>	<u>Division Name</u>
	<u>RE</u>	<u>Regional Entity – U.S. Statutory and Canadian Regulatory and/or Governmental Authority authorized</u>
	<u>CSD</u>	<u>Criteria Services - Non-Statutory</u>

The two division codes allow NPCC to separate Regional Entity Statutory revenues and expenses from Criteria Services Non-Statutory revenues and expenses. These categories were developed to ensure that non-statutory related revenues and expenses are segregated and accounted for separately from statutory related revenues and expenses.

## Program Codes

As required by NERC, NPCC adopted a financial accounting system consistent with NERC's functional categories. At NPCC, functional categories are referred to as Program Codes.

There are twelve program codes that are used by NPCC in accounting for expenses. The codes are as follows:

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	<u>700</u>	<u>Reliability Readiness</u>
	<u>800</u>	<u>Reliability Assessment and Performance Analysis</u>
	<u>900</u>	<u>Training and Education</u>
	<u>1000</u>	<u>Situational Awareness and Infrastructure Security</u>
	<u>ADMIN</u>	<u>General Administration</u>
	<u>FINANCE</u>	<u>Accounting and Finance</u>

<u>HR</u>	<u>Human Resources</u>
<u>IT</u>	<u>Information Technology</u>
<u>LEGAL</u>	<u>Legal and Regulatory</u>
<u>MEMBERS</u>	<u>Members Forum</u>

Program codes are used in order to further delineate expenses into functional groupings that are assigned to program heads. NPCC staff utilize their assigned program codes (the program where they reside for payroll purposes) when coding expenses, unless otherwise authorized by management.

When time is spent in support of both statutory and non-statutory functions (applicable to a limited number of employees in Administrative Services which is highlighted in grey), staff members develop accurate timesheet allocations between division codes.

Divisional separation with regard to statutory (Regional Entity division) and non-statutory (Criteria Services division) is reflected in the NPCC balance sheet and general ledger though the MIP Fund Accounting software programs.