
Briefing Note - Panel 2: Funding of the ERO

Background

NERC's membership is comprised of 10 Regional Reliability Councils. Funding is one of the responsibilities of NERC membership. The Regional Reliability Councils collect dues from their members and a portion of those dues is passed on for NERC funding. It is the end-use customers who ultimately fund these reliability organizations; however, whether all end-use customers in a region do so depends upon whether the utilities serving them have joined the Regional Reliability Council and charge rates that include a reliability organization funding component.

ERO

The pending U.S. reliability legislation provides that an entity seeking to qualify as the ERO should have rules that ". . . allocate equitably reasonable dues, fees, and other charges among end users for all activities under the legislation." Under the proposed legislation, the ERO may enter into agreements to delegate authority to a Regional Entity to propose and enforce the reliability standards, if the Regional Entity itself, satisfies the same funding criterion. Since FERC must certify the ERO in the U.S. and the ERO must seek standing in Canada and Mexico, FERC, Canadian, and Mexican regulators could condition approval on having a direct role in approving the ERO and Regional Entity budgets.

NERC

NERC's 2005 budget is on the order of US \$ 14.9 million, funded through membership fees assessed against the Regional Reliability Councils. NERC allocates most of its budget based on the relative Net Energy for Load (NEL) of the Regional Reliability Councils. NEL represents the electric energy consumption of end-use customers. NEL is comprised of system net generation, plus energy received from others, less energy delivered to others through interchange. NEL includes system losses but excludes energy at storage facilities. NERC prorates its assessments using NEL energy values for the second year preceding the budget year. Prior to the current method, each NERC region paid a one-tenth share of 50% of NERC's budget, the other 50% was based on load.

Regional Reliability Councils

A Regional Reliability Council recovers its annual budget through the assessment of membership fees and dues that its utility members, in turn, recover through their wholesale and retail services rates. The various regions use different methods to collect their revenues.

Cross-Border Regions

The Mid-Continent Area Power Pool's (MAPP's) budget is about US \$12 million including a \$1 million NERC obligation. A flat fee covers 10% of the budget and 90% is prorated on NEL. The Northeast Power Coordinating Council's (NPCC's) budget is approximately US \$6.1 million

including \$1.8 million for NERC. The budget is apportioned through a combination of fixed and variable components. A Full Member (i.e., a transmission provider or customer) other than an ISO/Control Area is assessed a membership fee of \$5,000. An ISO/Control Area is assessed a share of the remaining expenses prorated on the second previous year's NEL. Public-Interest Members pay no fee. The Western Electricity Coordinating Council's (WECC's) budget is about US \$13 million including a \$2 million NERC obligation. Electric Line of Business entities each pay \$5,000 in dues. End Users pay \$1,500. State and Provincial representatives pay no dues. The remainder of the budget is assessed against the Control Areas prorated on NEL.

Other Regions

The East Central Area Reliability Coordination Agreement (ECAR) allocates 95% of its costs to participants in the generation, transmission and load segments, of which 50% is split equally and 50% is prorated. Associate Members pay \$10,000. The Electric Reliability Council of Texas, Inc. (ERCOT) uses load ratios to allocate costs to Qualified Scheduling Entities. The Florida Reliability Coordinating Council (FRCC) divides a portion of its costs equally among market participants, and allocates the remainder based on either NEL for load serving entities, or generating capacity or transmission facilities. Affiliate and Adjunct members pay a nominal fixed administrative fee. The Mid-Atlantic Area Council (MAAC) prorates its costs on load. The Mid-America Interconnected Network, Inc. (MAIN) charges its Associate and Regular Members a flat \$6,000 fee. Regular Members pay the remainder of the costs prorated on energy for end-use load, energy that is marketed within MAIN, or any remaining energy that is generated within MAIN. The Southeastern Electric Reliability Council (SERC) assesses 10% of its costs equally among all members. The remainder is allocated on the basis of peak load (30%), installed generation (30%), and transmission circuit miles (30%). The Southwest Power Pool, Inc. (SPP) recovers its costs primarily through an assessment against load serving entities based on NEL. A flat fee of \$6,000 fee is assessed against other members. A secondary monthly assessment against all members covers the remainder.

Questions - Panel 2: Funding of the ERO

- What method should be used to allocate ERO funding responsibility? Net energy for load? Other?
- Since end-use customers will ultimately pay the costs of the ERO, what intermediate entities (control areas, load-serving entities, transmission service providers, generators, marketers, regional entities, other) should be responsible for collecting ERO funds and forwarding them to the ERO?
- Once ERO funding is required by regulators, what role should regulators and industry representatives have overseeing the level of the ERO's budget and its allocation to ERO activities?