1. On August 24, 2010, the North American Electric Reliability Corporation (NERC), the Commission-certified Electric Reliability Organization (ERO), filed its 2011 business plan and budget, as well as the 2011 business plans and budgets of each Regional Entity and of the Western Interconnection Regional Advisory Body (WIRAB). As discussed below, the Commission conditionally accepts the business plans and budgets of NERC, the Regional Entities, and WIRAB. NERC and the Regional Entities are hereby directed to submit a compliance filing within 60 days of the date of this order, as discussed in the body of this order. NERC is authorized to issue billing invoices to fund the fiscal year 2011 operations of the Regional Entities, WIRAB, and itself.

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1 See North American Electric Reliability Corp., 116 FERC ¶ 61,062, order on reh’g and compliance, 117 FERC ¶ 61,126 (2006), aff’d sub nom. Alcoa Inc. v. FERC, 564 F.3d 1342 (D.C. Cir. 2009).

2 NERC’s business plan and budget combined with the Regional Entities’ business plans and budgets are collectively referred to herein as NERC’s “Application.” The eight Regional Entities include: Florida Reliability Coordinating Council (FRCC); Midwest Reliability Organization (MRO); Northeast Power Coordinating Council, Inc. (NPCC); ReliabilityFirst Corporation (RFC); SERC Reliability Corporation (SERC); Southwest Power Pool Regional Entity (SPP RE); Texas Reliability Entity (Texas RE); and Western Electricity Coordinating Council (WECC).
2. In addition, the Commission accepts NERC’s status update on the remaining unprocessed alleged violations.

I. **Background**

   A. **Regulatory History**

3. Section 215 of the Federal Power Act (FPA) requires the Commission-certified ERO to develop mandatory and enforceable Reliability Standards, subject to Commission review and approval. Section 215(c)(2)(B) of the FPA provides that the ERO must have rules that “allocate equitably reasonable dues, fees, and other charges among end users for all activities under this section.”

4. On February 3, 2006, the Commission issued Order No. 672 to implement the requirements of section 215 of the FPA, which generally provides for Commission authorization of funding for “statutory” functions, i.e., those functions carried out pursuant to section 215 of the FPA. Among other things, Order No. 672 sets forth requirements for funding the ERO and the approval of an ERO business plan and budget. Moreover, the Commission’s regulations require the ERO to file with the Commission the ERO’s proposed annual budget for statutory and non-statutory activities 130 days before the beginning of its fiscal year. Further, the ERO’s filing must contain the annual budgets of each Regional Entity for statutory and non-statutory activities and provide supporting materials, including the ERO’s and each Regional Entity’s complete business plan and budget organizational chart. The filing must also explain the proposed collection of all dues, fees, and charges, as well as the proposed expenditure of funds collected.

5. In an October 2006 order, the Commission conditionally accepted NERC’s 2007 business plan and budget for its first year of operation as the ERO and provided NERC

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4 *Id.* § 824o(c)(2)(B).


6 Order No. 672, FERC Stats. & Regs. ¶ 31,204 at P 197.

7 18 C.F.R. § 39.4(b) (2010).
guidance on future business plan and budget submissions. 8 Subsequently, the Commission provided additional guidance on future business plan and budget submissions when it conditionally accepted NERC’s 2008, 2009, and 2010 business plans and budgets. 9

B. NERC’s 2011 ERO Business Plan and Budget Application

6. NERC’s Application contains its proposed business plan and budget for the year ending December 31, 2011, as well as the proposed business plans and budgets of WIRAB and each of NERC’s eight Regional Entities for the year ending December 31, 2011.

7. The total funding requirement for 2011 for reliability activities in the United States, Canada, and Mexico is $147,020,191, which includes $41,106,967 for NERC funding; $105,593,861 for Regional Entity funding; and $319,363 for WIRAB funding. NERC states that the portion of the total funding for United States statutory activities of NERC, the Regional Entities and WIRAB is $129,661,562.

8. NERC’s Application indicates that it will continue to allocate costs to end users in the United States based on Net Energy for Load (NEL) in 2011. NERC states that it will calculate and bill the assessments to certain entities, referred to as “designees,” based on NEL values that include the NEL for other load-serving entities served by the designee or for which the “designee” has otherwise agreed to accept responsibility for assessments. 10 NERC also states that the calculation and billing of assessments to “designees” is not a departure from the principle that the ERO funding requirement should be recovered from load-serving entities based on NEL, but rather is a matter of administrative convenience and efficiency. 11


10 NERC Application at 19 n.36; see also id., Attachment 2 (NERC Business Plan and Budget), Appendix 2C.

11 NERC Application at 19 n.36.
9. In addition to the NERC and Regional Entity business plans and budgets, NERC has included various attachments in this filing, including: “Discussion of Comments Received During Development of NERC’s 2011 Business Plan and Budget” (Attachment 12), “Calculation of Adjustments to the IESO 2011 NERC Assessment, the Québec 2011 NERC Assessment, the AESO 2011 NERC Assessment and the NBSO 2011 Assessment” (Attachment 13), “Status Report on the Achievement of NERC’s 2010 Goals” (Attachment 14), “Metrics Comparing Regional Entity Operations Based on the 2011 Budgets” (Attachment 15), “Metrics on NERC and Regional Entity Administrative (Indirect) Costs Based on the 2011 Budgets” (Attachment 16), and “Status Report on Progress in Processing Violations of Reliability Standards” (Attachment 17).

C. **Status Report on Unprocessed Violations**

10. In a December 15, 2008 compliance filing in Docket No. RR08-6-002, NERC and the Regional Entities reported to the Commission on the status of alleged violations of Reliability Standards that had not yet been processed to completion. The Commission reviewed this report, which included plans for processing the violations, and issued an order directing NERC to include an additional report on the status of unprocessed violations in its 2010 business plan and budget filing. In Attachment 19 of its 2010 business plan and budget filing, NERC included this status report, as directed. In this filing NERC includes an updated status report as Attachment 17.

II. **Notice and Responsive Pleadings**


III. **Discussion**

A. **Preliminary Matters**

12. Pursuant to Rule 214 of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2010), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

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B. Substantive Issues

1. NERC Business Plan and Budget

   a. NERC Application

13. NERC states that its 2011 business plan and budget was developed under a rigorous process that provided ample opportunity for review by the Finance and Audit Committee of the NERC Board of Trustees and allowed for stakeholder comment during the process. NERC explains that its principal goals in 2011 include: (1) developing clear, mandatory reliability standards; (2) facilitating a learning environment in the industry concerning reliability performance; (3) being a risk-informed organization able to identify, understand, and help industry to manage reliability risks; (4) promoting a strong culture of performance excellence and compliance; (5) being a strong, independent, objective, and fair enforcement authority devoted to ensuring compliance with mandatory reliability standards; (6) building an ERO-wide enterprise, including NERC, Regional Entity, and stakeholder expertise and resources, with a common purpose of improving reliability; (7) improving transparency, consistency, quality, and timeliness of NERC and Regional Entity results; (8) leveraging technology and information systems to achieve greater efficiencies, consistency of outcomes, and more transparent accountability; and (9) building constructive partnerships between industry and government.  

14. NERC’s 2011 business plan and budget are based on the following statutory program areas: (1) Reliability Standards; (2) Compliance Monitoring and Enforcement and Organization Registration and Certification; (3) Training, Education, and Operator Certification; (4) Reliability Assessment and Performance Analysis; and (5) Situation Awareness and Infrastructure Security, and on a contribution to a Working Capital Reserve. For NERC’s five statutory program areas, NERC describes the program, identifies the program’s goals and objectives, and provides the number of full-time equivalent employees (FTE), as well as the amount budgeted for 2011. NERC also provides 2010 approved budget data and 2010 projected data for comparison.

15. NERC’s proposed total budget for 2011 is $53,726,465, an increase of $13,169,057 or 32.5 percent over the 2010 budget proposal. NERC’s proposed 2011 net funding requirement is $41,106,965 (i.e., total budget less funding from other sources), of which $35,989,995 is allocated to the United States. NERC states that its proposed total

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13 NERC Application at 7.

14 Id. at 4-5.
U.S. net funding requirement is equivalent to $0.0000093 per kWh, based on the aggregate NEL of the United States in 2009.\(^{15}\)

16. Additionally, in its Application NERC proposes to set aside $5,000,000 to its Working Capital Reserve to achieve a standing reserve of $2,151,891.\(^{16}\)

17. Finally, NERC proposes to set aside $750,000 in Other Non-Operating Expenses and rely on its Working Capital Reserve during 2011 to fund a relocation of NERC headquarters to Atlanta, Georgia. NERC anticipates that it will complete the headquarters relocation on a gradual basis, ending no later than May 2013.\(^{17}\)

18. As shown in the table below, NERC proposes a 2011 staffing level of 150.75 FTEs, which is an increase of 19.25 FTEs over the 2010 budget staff level of 131.5 FTEs.

<table>
<thead>
<tr>
<th>NERC Program</th>
<th>2011 Budget(^{18})</th>
<th>Direct FTEs(^{19})</th>
<th>FTE Change from 2010 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliability Standards</td>
<td>$7,682,752</td>
<td>20.08</td>
<td>2.58</td>
</tr>
<tr>
<td>Compliance Monitoring and Enforcement and Organization Registration and Certification</td>
<td>$17,457,901</td>
<td>47.08</td>
<td>1.33</td>
</tr>
<tr>
<td>Reliability Assessment and Performance Analysis</td>
<td>$6,292,329</td>
<td>13.75</td>
<td>-2.25</td>
</tr>
<tr>
<td>Training, Education and Operator Certification</td>
<td>$2,923,011</td>
<td>6.25</td>
<td>-.50</td>
</tr>
</tbody>
</table>

\(^{15}\) Id.

\(^{16}\) Id., Attachment 2, Table B-1 at 92.

\(^{17}\) Id. at 50.

\(^{18}\) The amounts projected for each program area are the total direct funding for Canada, Mexico, and United States. See NERC Application, Attachment 1, Table 1.

\(^{19}\) NERC Application, Attachment 2 at 25.
b. Commission Determination

19. The Commission conditionally accepts the NERC business plan and budget and directs NERC to make compliance filings. We find that NERC’s budget is reasonable and the associated costs of NERC’s jurisdictional functions are equitably allocated among end users.\(^{21}\) Below, we discuss specific concerns regarding NERC’s 2011 business plan and budget, and we direct NERC to submit a compliance filing and status updates. We accept NERC’s 2011 budget and business plan with regard to all other matters that are not discussed below.

2. Organizational Structure for Statutory Programs

a. Background

20. During the first quarter of 2010, NERC initiated substantial restructuring to its organizational structure, splitting many defined statutory program areas\(^{22}\) into new

| Situation Awareness and Infrastructure Security | $14,370,473 | 25.83 | 16.08 |
| Administrative Services\(^{20}\) | | 37.75 | 2.00 |
| Contribution to Working Capital Reserve | $5,000,000 | |
| Total Budget | $53,726,467 | 150.75 | 19.25 |
| Less other funding sources | ($12,619,500) | |
| Net Funding Requirement | $41,106,967 | |

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\(^{20}\) The budgeted amount for each program includes the cost for administrative services ($15,116,461), which is allocated to each program based on the number of FTEs budgeted for that program. \textit{See} NERC Application at 17.


\(^{22}\) The defined statutory program areas are: (1) Reliability Standards, (2) Compliance Monitoring and Enforcement and Organization Registration and Certification, (3) Reliability Assessment and Performance Analysis, (4) Training, Education, and Operator Certification, and (5) Situation Awareness and Infrastructure Security. NERC Application at 5.
departments. NERC states that this was done to increase the organization’s functional efficiency. In its filing, NERC briefly discusses the new departments and the manner in which they align with the statutory program areas.

b. **Commission Determination**

21. NERC has previously provided organizational charts for each of its new departments in its budget filings. However, in its Application the full extent of the duties performed by each new department, as well as the manner in which they fit within the statutory program as assigned, remain unclear. The Commission directs NERC to describe the roles and duties of each new department, similar to how NERC currently outlines the duties of its statutory program areas. Additionally, the Commission directs NERC to map the duties of each department to the statutory program areas to ensure that the statutory functions are fully addressed after the reorganization is complete.

3. **Reliability Standards**

a. **Background**

22. NERC identifies several goals and assumptions regarding its Reliability Standards development program. One such goal is completing its compliance with the remaining Order No. 693 directives by the end of 2011. NERC states that “significant NERC professional staff resources are needed to facilitate and coordinate the work of industry volunteers and to administer the process.” NERC also contends that its staff will provide increased coordination of regional standards development to assure consistency in regional and continent-wide standard technical content, format, and quality.

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24. *Id.*, Attachment 2 at 28.

25. *Id.* at 35.

26. *Id.* at 28.
b. Commission Determination

23. We re-affirm our statements in the 2009 and 2010 Budget Orders regarding NERC’s responsibility for the content and quality of Reliability Standards, and the need for NERC to maintain sufficient independent expertise to provide advice to the Board of Trustees in the 14 categories of Reliability Standards that NERC develops and enforces.\footnote{See 2009 Budget Order, 125 FERC ¶ 61,056 at P 24-25; see also 2010 Budget Order, 129 FERC ¶ 61,040 at P 26-28.} NERC has also revised its Standard Processes Manual to include a “quality review” step to assess the quality of draft Reliability Standards, which may signal the need for greater technical staff resources.\footnote{On September 3, 2010, the Commission approved modifications to NERC’s Reliability Standards Development Procedure. NERC’s petition included a proposal to add a step to the standards development process that requires NERC staff to coordinate a formal “quality review” before the final draft of a standard is posted for formal stakeholder review. \textit{North American Electric Reliability Corp.}, 132 FERC ¶ 61,200, at P 7 (2010); see also NERC Petition, Docket No. RR10-12-000, at Exhibit A, p. 15.} Given these increased duties for its Reliability Standards staff, and an ongoing heavy load of active standard development projects, both continent-wide and within the regions, we continue to urge NERC to ensure that it has adequate technical staff resources commensurate with the statutory activities that it undertakes.

24. We note that in both this budget and its earlier 3-year assessment,\footnote{\textit{North American Electric Reliability Corp.}, 132 FERC ¶ 61,217, at P 98 (2010) \textit{(Three-Year Assessment Order)}.} NERC has indicated that it will develop priorities for standards development. We encourage NERC to continue this work, and to reflect its priorities, as appropriate, in future budget filings. We will continue to monitor closely the adequacy of NERC’s resources in the Standards Development program area in our review of NERC annual budgets.

4. Event Analysis and Investigations

a. Background

25. NERC states that its ability to quickly disseminate to industry lessons learned from events is key to NERC’s and the industry’s success in preventing recurring reliability risks and to assure adherence to the Reliability Standards.\footnote{NERC Application, Attachment 2 at 44.} NERC also states that it
expects the industry to complete its own investigations of system events. In addition, NERC notes that no additional personnel are planned in the Event Analysis and Investigations group for 2011.

b. **Commission Determination**

26. The Commission remains concerned about NERC’s approach regarding compliance violation investigations and staffing levels for addressing those investigations. Because the Three-Year Assessment Order was issued after NERC filed its annual budget filing, NERC should consider that staff investigators will now have event analysis added to their duties, and should reevaluate current staffing levels to ensure they are sufficient for the increased workload. While we will review the informational filing, we urge NERC to make any necessary supplemental budget requests, pursuant to section 39.4(d) of the Commission’s regulations, 18 C.F.R. § 39.4(d) (2010), prior to submitting the informational filing, i.e., as soon as NERC determines that a supplemental budget request is necessary.

5. **Regional Entity Business Plans and Budgets**

27. NERC’s Application includes the 2011 Business and Budget Plan of each Regional Entity. NERC states that it reviewed the Regional Entity business plans and budgets and concludes that each Regional Entity proposes necessary and adequate resources to carry out its delegated functions. The Commission has reviewed each Regional Entity budget, and the Commission has determined that each submission reasonably supports the level of expenditures identified in the budget.

28. Except for the specific concerns discussed in this order, we are satisfied that the Regional Entities have focused on adequately staffing and funding all of their program areas to perform the delegated, statutory functions. Accordingly, the Commission conditionally accepts the Regional Entity business plans and budgets. In order to address our remaining concerns about the Regional Entity business plans and budgets, the Commission directs NERC and the Regional Entities to submit a compliance filing, as discussed below.

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31 Id.

32 Id. at 46.

33 Three-Year Assessment Order, 132 FERC ¶ 61,217 at P 169-178).

34 Id.

35 NERC Application at 13.
a. **FTE Discrepancy**

29. **RFC.** In its 2011 overview of cost impacts, RFC states that its targeted staffing level for 2011 is 68 FTEs, which is a net increase of 10 FTEs compared to its 2010 staffing levels.\footnote{Id., Attachment 6 at 9.} Again, in Table B-4: Personnel Expenses, RFC discloses a net increase of 10 FTEs. However, in its explanation of significant variances, RFC states that its net staffing is increasing by 11 FTEs.\footnote{Id. at 73.} The Commission assumes that this is an error, and that RFC expects to hire 10 FTEs. Consistent with previous orders, we direct NERC and RFC to clarify its expected staffing levels for fiscal year 2011 in the compliance filing.\footnote{See 2008 Budget Order, 125 FERC ¶ 61,056 at Appendix B; 2010 Budget Order, 129 FERC ¶ 61,040 at P 43-46.}

b. **Budget Discrepancy**

30. **WECC.** The table summarizing WECC’s General and Administrative budget appears to be truncated.\footnote{Id., Attachment 10 at 43.} The Commission directs WECC and NERC to resubmit this table in its compliance filing.

6. **Other Matters**

a. **Updated Status Report on Remaining Unprocessed Violations (Docket No. RR08-06-002)**

i. **Background**

31. In a December 15, 2008 compliance filing, NERC and the Regional Entities reported to the Commission on the status of alleged violations of Reliability Standards that had not yet been processed to completion. The report included plans for processing these matters to completion. The Commission subsequently issued an order directing NERC to include an additional report on the status of unprocessed violations in the 2010 ERO business plan and budget filing.\footnote{2009 Budget Compliance Order, 128 FERC ¶ 61,025 at P 18.}

32. In response, NERC included in its 2010 ERO business plan and budget filing an update on the status of unprocessed alleged violations. NERC indicated that its goal for
2010 would be to reach a steady state of processing violations and to maintain reasonable queue management and a minimal backlog of alleged violations. NERC included information tables tracking the processing of the backlog as of December 31, 2008, and June 30, 2009, in order to demonstrate the increased number of matters that had moved from assessment and validation to settlement or which had been completed, closed, or dismissed during that six-month period. This information indicated that, in the aggregate, 83 more alleged violations needed processing in June 2009 than in December 2008.

ii. NERC Updated Filing

33. NERC includes in its Application a further status report on the progress of NERC and the Regional Entities in processing alleged violations and in reducing the time required to process a violation from the time of the allegation to closure. Attachment 17 of its Application updates the information provided in Attachment 19 of the 2010 budget filing.

34. NERC states that it is acutely aware and concerned about the current number of Reliability Standard violations to be processed, and is working closely with the Regional Entities’ staffs to address that caseload with targeted initiatives and by streamlining current processes. NERC has undertaken a number of activities to facilitate more efficient violations processing, both to expedite the disposition of pending violations and to ensure that enforcement resources are appropriately allocated based on the reliability impact of each violation. First, NERC states that, in October 2009, it made an Omnibus filing with the Commission that disposed of most of the older, lower-risk violations that were pending at the time and that had been assessed a zero or low dollar amount penalty. Second, NERC states that it and Regional Entities have undertaken a concerted effort in 2010 to streamline enforcement activities and that this streamlining should be fully implemented by 2011.

35. Further, NERC maintains that its enforcement staff has realized greater efficiencies in the past few months before its August 2010 filing in this proceeding in their day-to-day violation processing activities. In addition, NERC states that, while it has taken steps to more expeditiously and efficiently process violations of all Reliability Standards, special consideration should be given to the impact of the increasing numbers of violations of Reliability Standards CIP-002 through CIP-009. This particular set of Reliability Standards has presented unique challenges in identifying, mitigating, and processing violations, according to NERC. NERC indicates that it has begun to explore innovative ways to address what may ultimately represent a fairly large number of Critical Infrastructure Protection (CIP) Reliability Standards violations as registered entities are first required to be compliant and/or auditably compliant with these standards. NERC adds that for the same reasons the Omnibus filing was justified, a similarly novel approach may be needed to address the increasing number of CIP Reliability Standards violations. Lastly, NERC states that a number of initiatives are underway to aid the
industry in understanding how to comply with the CIP Reliability Standards and clarify how to establish compliance.

iii. Commission Determination

36. The Commission commends NERC for its efforts to reduce the number of alleged violations pending before December 31, 2008. However, Regional Entities and NERC are still actively considering a number of alleged violations from 2009 and 2010, including analyzing whether violations occurred and the penalty amounts that should be imposed, or engaging in settlement discussions. The Commission’s expectation is that NERC will take appropriate measures if its budgeted resources are not enough to achieve desired efficiencies in enforcement processing to diminish the number of alleged violations under active consideration, especially those that are more than six months old.

37. The Commission, to that end, directs NERC to include in its future business plan and budget filings NERC’s progress in processing violations. The business plan and budget filings should include an assessment of violations status by region and also provide background on NERC’s caseload and caseload management. The status of NERC’s active violations should be broken down into six month time frames and reach back to NERC’s earliest active violation. Moving forward, NERC should remove any time periods that no longer contain active violations. Additionally, NERC’s discussion and compliance statistics contained in the Compliance Enforcement section of NERC’s business plan should also be included in this status report.41 In this regard, the Commission notes that Attachment 17 to NERC’s Application lacks a summary of all current outstanding violations, summarized by state and region, similar to what was filed in NERC’s 2010 business plan and budget.42 The Commission directs NERC to include this table in its compliance filing.

b. Regional Entity Metrics

38. NERC provides metrics on Regional Entity operations in Attachments 15 and 16 of its Application. The Commission directs NERC to make additions to the section regarding metrics used to analyze the Regional Entities operations in future business plan and budget filings. NERC should include an analysis of the current fiscal year in addition to the “Metrics for Budget Submission” for the next budget year, specifically a “projected” versus “budgeted” amount, similar to the way NERC presents its budget information within its business plan and budget filing.

41 NERC Application at 39-43.

42 NERC Petition, Docket No. RR09-09-000, at Attachment 19, Table 4 (filed August 24, 2009).
c. **WIRAB Budget**

39. WIRAB’s total budget for 2011 is $614,470, a $340 decrease over its 2010 budget. WIRAB proposes funding through its Working Capital Reserve and interest income and, therefore, its statutory funding for 2011 will be $319,363 for 2011 (of which $271,230 will be allocable to the United States). WIRAB states that it will employ 2.5 FTEs for 2011, a decrease of .25 FTEs over 2010.

40. Based on the information provided by WIRAB, the Commission concludes that WIRAB’s 2011 budget is reasonable and, accordingly, the Commission approves the WIRAB 2011 budget.

The Commission orders:

(A) NERC’s 2011 business plan and budget is hereby conditionally accepted as discussed in the body of this order.

(B) The Regional Entity 2011 business plans and budgets are hereby conditionally accepted as discussed in the body of this order.

(C) The WIRAB Budget is hereby approved for funding, as discussed in the body of this order.

(D) NERC and the Regional Entities are hereby directed to submit a compliance filing within 60 days of the date of this order, as discussed in the body of this order.

By the Commission.

( SEAL )

Kimberly D. Bose,
Secretary.