

**UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION**

**North American Electric Reliability Council     )**     **Docket No. RR06-3-000**  
**North American Electric Reliability Corporation)**

**ADVICE OF THE  
WESTERN INTERCONNECTION REGIONAL ADVISORY BODY  
ON FEES AND CONSOLIDATED BUDGET PROPOSAL OF THE NORTH  
AMERICAN ELECTRIC RELIABILITY COUNCIL**

Under Section 215(j) of the Federal Power Act, Regional Advisory Bodies, such as the Western Interconnection Regional Advisory Body (WIRAB), are authorized to provide advice to the Commission on "...whether fees proposed to be assessed within the region are just, reasonable, not unduly discriminatory or preferential, and in the public interest..."<sup>1</sup>

This document contains advice from the WIRAB to the Federal Energy Regulatory Commission on the North American Electric Reliability Council's (NERC's) submission to the Commission of a proposed Calendar Year 2007 budget for itself and the Western Electricity Coordinating Council (WECC).

The WIRAB offers advice on four subjects:

1. Allocation of NERC costs to entities in the Western Interconnection;
2. WECC's proposed budget;
3. Funding of WECC's Reliability Centers; and
4. Presentations of future budgets.

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<sup>1</sup> Section 215(j) of the Federal Power Act (FPA), 16 U.S.C. 824.

On April 4, 2006, the North American Electric Reliability Council filed an application with the Commission to become the Electric Reliability Organization under Section 215 of the Federal Power Act. On July 20, 2006, the Commission issued an Order approving NERC as the ERO and directing NERC to make a compliance filing. On August 23, 2006, NERC filed a proposed consolidated 2007 budget proposal with the Commission.<sup>2</sup> The filing includes the proposed budgets of NERC, Western Electricity Coordinating Council (WECC), other potential Regional Entities, and the Western Interconnection Regional Advisory Body.

Fees collected to support activities under Section 215 are directly related to NERC's proposed budget. Under NERC's budget, 96 percent of total expenditures fall within the purview of Section 215 reliability functions. Some of the NERC functions take place in Canada and Mexico. After adjusting for Canada and Mexico, 85 percent of the NERC budget applies to statutory functions under Section 215 within the United States.<sup>3</sup>

For WECC's total budget, 94 percent of proposed expenditures fit the category of statutory reliability functions that are applicable across North America. After deducting for costs in Canadian and Mexico, 74 percent of WECC's budget applies to statutory functions under Section 215 within the United States.<sup>4</sup>

## **Issue 1: Allocation of NERC Costs to Entities in the Western Interconnection**

### Statement of Issue

Historically, NERC has provided unique services to Regional Reliability Organizations in the Eastern Interconnection. These services have involved the

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<sup>2</sup> Request of the North American Electric Reliability Corporation for Acceptance of its 2007 Business Plan and Budget and the 2007 Business Plans and Budgets of Regional Entities and for Approval of Proposed Assessments to Fund Budgets, Federal Energy Regulatory Commission, Docket No. RR06-3, Aug. 23, 2006. (*Hereinafter "NERC Budget Filing"*)

<sup>3</sup> *NERC Budget Filing*, at 7.

<sup>4</sup> *NERC Budget Filing*, at 15.

coordination of activities among Eastern Interconnection organizations in areas such as the Interchange Distribution Calculator used in the Eastern Interconnection's Transmission Loading Relief (TLR) system. These NERC activities have not been germane to the Western Interconnection.

NERC's proposed 2007 budget recognizes that certain expenses relate only to the Eastern Interconnection. NERC proposes a formula by which it would allocate costs with specific Eastern Interconnection functions to parties in the Eastern Interconnection. Entities in the WECC and ERCOT would not pay these costs.

NERC developed an allocation formula that utilizes the following three factors to equitably allocate costs to LSEs (or designee): (1) eight region 100 percent net-energy-for-load (NEL); (2) six region 100 percent NEL; and (3) Interchange Distribution Calculator (IDC) defined shares. The method to allocate cost in the three factors is as follows:

- Eight region 100 percent NEL — This method is the default method of funding and will be used to allocate all expenses except those noted in the other two methods. Each region is asked to compile a list of all LSEs (or designee) and their 2005 NEL within each regional footprint. This list is combined to determine the proportional share of each entity's portion of ERO funding. For 2007 this method will also be used to raise the cash reserves to board approved levels.
- Six region 100 percent NEL — For expenses benefiting only the six regions in the Eastern Interconnection, the default formula is modified to exclude the LSEs (or designee) in the Western and Texas interconnections.
- IDC defined shares — To support expenses benefiting the users of the interchange distribution calculator (IDC), a formula has been developed to allocate the costs to users based on a usage level. This formula takes into account the number of tags entered in to the system, the number of transmission loading relief (TLRs) called, and a pro-rata share.<sup>5</sup>

Application of the formula results in the following allocation.

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<sup>5</sup> NERC Budget Filing, at 16-17.

Region	8 Region NEL	6 Region NEL	IDC Defined Shared	Fund Balance Replenish	Total Assessment
ERCOT	1,339,613	-	-	54,042	<b>1,393,656</b>
FRCC	1,058,154	14,606	91,669	42,688	<b>1,207,116</b>
MRO	1,170,379	16,155	250,562	47,215	<b>1,484,311</b>
NPCC	3,046,895	42,056	137,503	122,917	<b>3,349,371</b>
RFC	4,424,363	61,069	470,567	178,487	<b>5,134,486</b>
SERC	4,343,048	59,947	374,315	175,206	<b>4,952,516</b>
SPP	859,786	11,868	203,199	34,685	<b>1,109,538</b>
WECC	3,706,799	-	-	149,539	<b>3,856,338</b>
<b>Total</b>	<b>\$ 19,949,037</b>	<b>\$ 205,700</b>	<b>1,527,815</b>	<b>804,779</b>	<b>22,487,331</b>

WIRAB Recommendation

**WIRAB recommends that FERC accept NERC’s proposed formula for allocating costs for functions that only benefit the Eastern Interconnection.**

WIRAB finds that the formula for allocating costs is just, reasonable and in the public interest. The NERC formula appropriately allocates costs of specific Eastern Interconnection functions to parties in the Eastern Interconnection. Costs, such as those associated the Interchange Distribution Calculator, would not be borne by entities in the WECC and ERCOT.<sup>6</sup> WIRAB offers no opinion on whether the cost amounts proposed in this budget are just, reasonable and in the public interest.

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<sup>6</sup> WIRAB notes that NERC is requesting funds to build a cash reserves balance to 10 percent of its requested 2007 assessments. The objective of the cash reserve balance is to provide NERC with (1) short-term working capital for flexibility in handling variations between receipts and expenditures, and (2) a source of contingency funds in response to expenses exceeding costs or unbudgeted costs occur. The fees for cash reserve balances are to be allocated to all entities based on net-energy-for-load. WIRAB presumes that the cash reserve balance will only be used to cover the costs of activities that benefit entities in all regions and that if shortfalls occur in costs to support activities only benefiting the Eastern Interconnection, such shortfalls will be covered by entities in the Eastern Interconnection. WIRAB anticipates reviewing the use of cash reserve funds for working capital and contingency purposes to ensure expenditures benefit all regions of North America.

## Issue 2: WECC Budget

### Statement of Issue

On July 28-29, 2006, the WECC Board of Directors adopted a Calendar Year 2007 budget of \$19,017,101. This is a significant increase from the prior year, which is a significant increase from the year before. The budget would be funded primarily by statutory assessments levied on entities in the U.S. portion of the Western Interconnection, and dues paid by control areas in Alberta, British Columbia, and Mexico. WECC also receives revenues from interest income, publications, data information, and fees to cover the cost of operating the Western Renewable Generation Information System (WREGIS).

WECC has been undergoing a significant change that will continue in 2007. WECC was formed in 2002 through the merger of the traditional regional reliability organization, the Western Systems Coordinating Council (WSCC), with the Western Regional Transmission Association (WRTA) and the Southwest Regional Transmission Association (SWRTA). FERC approved the formation of the WRTA, SWRTA and WECC. The creation of WECC featured a major shift in governance. WSCC was governed largely by transmission owners. By contrast, WECC is governed by a diverse board comprised of equal membership of Five Classes<sup>7</sup> and seven non-affiliated directors.

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<sup>7</sup> Class 1. Electric Line of Business Entities owning, controlling or operating more than 1000 circuit miles of transmission lines of 115 kV and higher voltages within the Western Interconnection.

Class 2. Electric Line of Business Entities owning, controlling or operating transmission or distribution lines, but not more than 1,000 circuit miles of transmission lines of 115 kV or greater, within the Western Interconnection.

Class 3. Electric Line of Business Entities doing business in the Western Interconnection that do not own, control or operate transmission or distribution lines in the Western Interconnection, including power marketers, independent power producers, load-serving entities and any other Entity whose primary business is the provision of energy services.

Class 4. End users of electricity in the Western Interconnection, including industrial, agricultural, commercial and retail entities as well as organizations in the Western Interconnection that represent the interests of a substantial number of end users or a substantial number of persons interested in the impacts of electric systems on the public or the environment.

Class 5. Representatives of states and provinces in the Western Interconnection, provided that such representatives will have policy or regulatory roles and do not represent state or provincial agencies and departments whose function involves significant direct participation in the market as end users or in Electric Line of Business activities. WECC Bylaws, Revised April 21, 2006

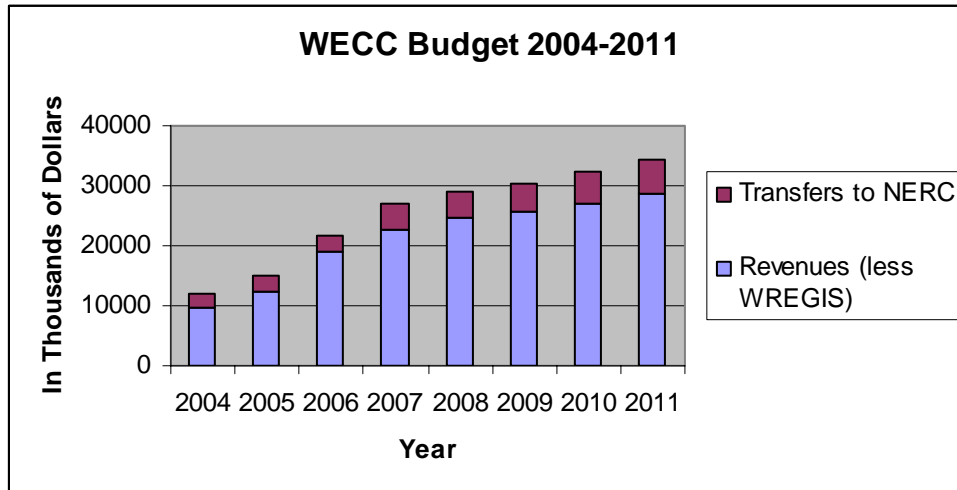
WECC Bylaws were recently changed to assure adequate representation of Canadian and Mexican entities. FERC has approved the revised WECC Bylaws.

In 2005, WECC agreed to assume responsibilities for functions related to the interface of reliability and commercial issues. WECC is implementing the recommendations of its strategic review of Reliability Centers in the Western Interconnection, and upgrading major computer-based tools for monitoring the system (West-wide System Model and Western Interchange Tool),. These major initiatives will continue in 2007.

WECC is the only region with significant experience enforcing mandatory regional reliability standards under its Reliability Management System. WECC initially established the RMS standards following the major western blackouts of 1996. This experience will be a significant benefit when implementing mandatory reliability standards under Section 215 of the Federal Power Act.

As discussed above, 94 percent of WECC's North American expenditures in 2007 fall within the statutory functions that may be financed under Section 215. The remaining WECC budget activities designated as non-statutory functions include: the operations of the WECC Market Interface Committee; WECC's participation in NAESB activities; and implementation of the WREGIS.

The following graph shows recent and forecasted WECC budgets. The increase reflects the significant activities WECC has underway, nearly all of which are important to maintain and improve the reliability of the Western Interconnection.



Source: Budget Presentation to the July 27-28, 2006, WECC Board of Directors Meeting.

WIRAB Recommendation

**WIRAB recommends that FERC approve WECC’s proposed Calendar Year 2007 budget.**

The proposed WECC budget includes funding for all elements necessary to implement the responsibilities of a Regional Entity under Section 215. The costs to support these activities – costs that will be borne by consumers in the Western Interconnection – are just, reasonable and in the public interest.

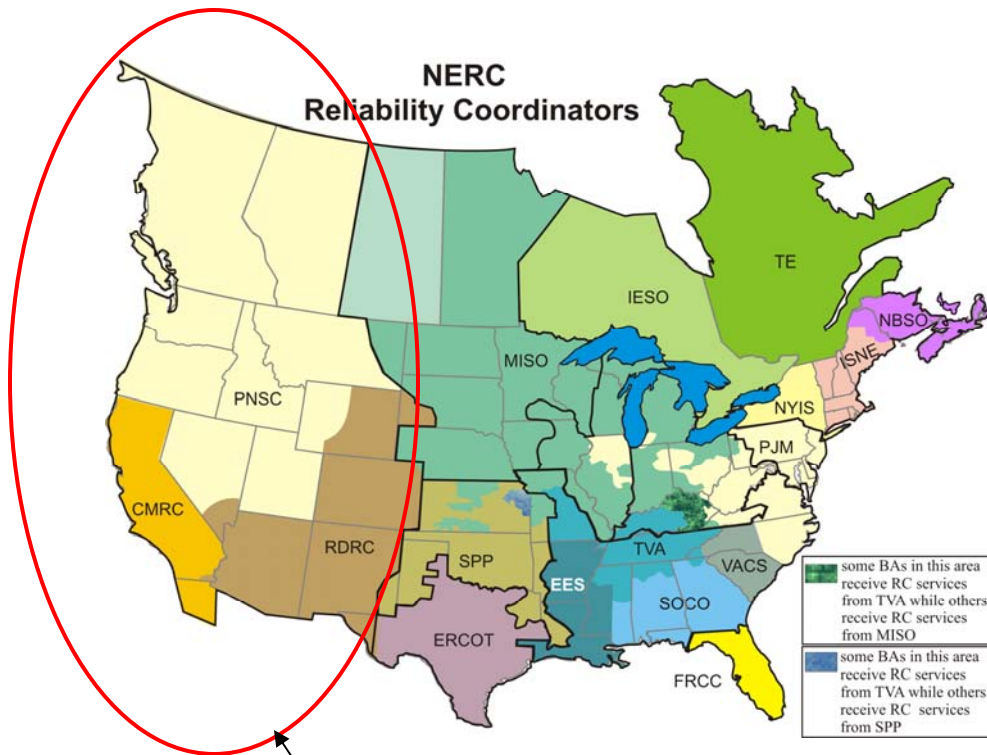
WECC’s 2007 budget features increased expenditures that are commensurate and appropriate for WECC’s expanded responsibilities and functions to enforce mandatory reliability standards, and upgrade reliability center functions for NERC compliance. As discussed below, WECC is the only regional entity to fund reliability centers because of the Western Interconnection’s unique institutional landscape with one ISO of limited geography and many transmission operators in the U.S. portion of the interconnection. The overall cost to Western Interconnection customers is reasonable in terms of the cost per kilowatt hour (\$0.000025 kWh) considering the new functions and benefits to the western system. WIRAB intends to monitor WECC expenditures in 2007 to ensure that

budgeted funds derived from assessments under Section 215 are spent in a cost-effective manner.

### Issue 3: Funding of WECC Reliability Centers

#### Statement of Issue

WECC proposes to fund Reliability Centers in the Western Interconnection through statutory assessments under Section 215. This is a different approach than other regional reliability organizations have proposed.



Current WECC reliability centers which may be consolidated to two more-robust centers under WECC Reliability Center Strategic Planning Initiative

In the case of WECC, the Reliability Centers are expected to cost approximately \$7 million in 2007, a number that will increase annually reaching \$12 million by 2011,

plus one-time costs of \$4.7 million.<sup>8</sup> The map shows the existing reliability coordinators (i.e., called Reliability Centers in the Western Interconnection).

Reliability Centers in the Western Interconnection were established following the 1996 Western blackouts. They have become an essential part of maintaining reliability in the interconnection. In 2006, WECC undertook a Reliability Center Strategic Initiative which examined the performance of current operations and evaluated strategies to improve western Reliability Centers.

In April 2006 the [Committee on Regional Electric Power Cooperation<sup>9</sup>](#) wrote [WECC](#) endorsing the general direction of the recommendations to improve western Reliability Centers. CREPC noted that “We believe that implementation of the recommendations will help ensure a cohesive and cooperative approach to complying with future NERC/ERO requirements and contribute to enhanced reliability of the grid.”<sup>10</sup>

In July, the WECC Board adopted recommendations to improve western Reliability Centers and directed WECC Committees and staff on specific next steps to implement the recommendations. The WECC 2007 proposed budget allocates funds to begin implementing policies to improve Western Interconnection Reliability Centers.

#### WIRAB Recommendation

#### **WIRAB recommends that Reliability Centers in the Western Interconnection be funded with statutory assessments under Section 215.**

Reliability Centers are a centerpiece of WECC’s strategy to maintain system reliability. WECC’s Reliability Center Strategic Initiative is a constructive course of

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<sup>8</sup> WECC Reliability Center Strategic Initiative presentation to the WECC Board of Directors in July 27-28, 2006.

<sup>9</sup> The Committee on Regional Electric Power Cooperation (CREPC) is a joint committee of the Western Interstate Energy Board and the Western Conference of Public Service Commissioners. It was formed in 1983. All regulatory, energy planning and siting agencies in the states and provinces in the Western Interconnection are eligible to participate in CREPC.

<sup>10</sup> April 14, 2006 letter from CREPC to the Chairman of the WECC Reliability Issues Policy Committee.

action to upgrade the functionality of the centers and streamline their operation. Among other benefits, the upgrades would bring WECC into compliance with NERC standards that require reliability centers have a wide area view of the real-time status of a broad geographic region.<sup>11</sup> WECC's proposed improvements will ensure that western Reliability Centers have the capability to view in real-time the operations of the power system throughout the Western Interconnection.

The western Reliability Centers upgrades will ensure that WECC can fulfill the function of situation awareness. In its application to become the ERO, NERC defines its responsibility to provide "situation awareness" as follows:

NERC shall through the use of reliability coordinators and available tools, monitor present conditions on the bulk power system and provide leadership coordination, technical expertise, and assistance to the industry in responding to events as necessary.<sup>12</sup>

NERC assumed the responsibility to perform situation awareness functions pursuant to certification as the Electric Reliability Organization (ERO). Situation awareness is a function that will be delegated to WECC under a delegation agreement. WECC will perform this function through its western Reliability Centers. Therefore, WECC's Reliability Centers should be funded by Section 215 assessments to fulfill the required function of situation awareness.

Western Interconnection Reliability Centers should be financed through mandatory assessments under Section 215 for two additional policy reasons. First, mandatory assessments eliminate the potential problem of "free riders." Reliability

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<sup>11</sup> NERC Standard IRO-003-1 requires that "The Reliability Coordinator must have a wide area view of its own Reliability Coordinator Area and that of neighboring Reliability Coordinators...Each Reliability Coordinator shall monitor all Bulk Electric System facilities, which may include sub-transmission information, within its Reliability Coordinator Area and adjacent Reliability Coordinator Areas, as necessary to ensure that, at any time, regardless of prior planned or unplanned events, the Reliability Coordinator is able to determine any potential System Operating Limit and Interconnection Reliability Operating Limit violation within its Reliability Coordinator Area." Effective August 1, 2006

<sup>12</sup> Electric Reliability Organization Rules of Procedure, North American Electric Reliability Council, Section 1000, at 74 of 84, in Appendix C, Request of the North American Electric Reliability Council and North American Reliability Corporation for Certification of the Electric Reliability Organization, Docket No. RR06-1-000, filed April 4, 2006.

Centers create benefits of improving reliability for all users of the bulk power system and it is not possible to exclude such entities from deriving these reliability benefits. Second, broad-based financing through Section 215 assessments ensures the independence of Reliability Centers from specific owners and operators of the transmission system. Up to now, Reliability Centers have been located and closely linked to the operation of a host transmission owner and operator. Funding western Reliability Centers from Section 215 assessments is essential to eliminate any potential conflict of interests. WIRAB concurs with WECC that this independence is a benefit, and that it is consistent with the Commission's policies favoring independent administration and enforcement of reliability-related functions.<sup>13</sup> The absence of conflicts of interest has been a central theme in the Commission's Orders implementing Section 215.<sup>14</sup>

Finally, we note that other regions finance Reliability Centers through FERC approved tariffs. For the Western Interconnection, however, a FERC approved tariff funding mechanism would be extremely difficult to implement because there is no single transmission organization such as an RTO or ISO that spans the entire interconnection. Given the large number of individual transmission providers, the tariff funding mechanism would result in a duplicative financing mechanism to the fees collected under Section 215.

#### **Issue 4: Presentation of Future Budgets**

##### Issue Statement

For more than 30 years Regional Reliability Organizations have evolved with limited central guidance from NERC. Indeed, NERC was funded by payments from RROs. During this period, RROs have developed different approaches to foster the

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<sup>13</sup> WECC motion to intervene and comment on Docket No. RR06-3-000, July 13, 2006.

<sup>14</sup> For example, in reference to comments that RTOs/ISOs should be eligible to become Regional Entities, the Commission stated that "A system operator/Regional Entity is a single corporation – absent a strong separation between oversight and operations function – should not oversee its own compliance with Reliability Standards." 114 FERC ¶ 61,104 (Order No. 672) at ¶ 698 and "The separation plan must show full independence between the enforcement/Reliability Standard development and the transmission operations." 114 FERC ¶ 61,104 (Order 672) at ¶ 700.

reliability of the grid in their footprint. Some of NERC's activities over the past several years (e.g., development of Version 0 standards) have created greater uniformity among RROs. The Commission's Orders implementing Section 215 have made clear its desire for uniformity in standards and enforcement of standards wherever possible.<sup>15</sup>

The differences among the RROs and the short timeframe in which to develop the proposed consolidated budget NERC submitted to FERC on August 23, 2006, has not allowed a standardized presentation of information in the RRO portion of the NERC submission. Commenters on NERC's submission have suggested more standardized budget presentation in future budgets.<sup>16</sup> In its July 23 Order, FERC identified eight budget principles NERC should apply and directed NERC in its compliance filing in 90 days.<sup>17</sup> Because of the limited time available, however, the Commission does not expect the application of such budget principles in the first NERC budget submission.

#### WIRAB Recommendation

**WIRAB supports implementation of the Commission's budget principles. WIRAB recommends that future budget submissions include the identification of "best practices" and "innovations" in Regional Entity programs.**

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<sup>15</sup> See Federal Energy Regulatory Commission, Rules Concerning Certification of the Electric Reliability Organization; and Procedures for the Establishment, Approval, and Enforcement of Electric Reliability Standards, Order No. 672, Feb. 3, 2006, at 53, 737; and Order Certifying the North American Reliability Corporation as the Electric Reliability Organization and Ordering Compliance Filing, July 20, 2006, at P 519.

<sup>16</sup> For example, the Edison Electric Institute supports more standardized reporting of regional budgets as well as a detailed description of any major new spending initiative by NERC. Motion of the Edison Electric Institute to Intervene and Comments on the Proposed 2007 Budget and Business Plan of the North American Electric Reliability Corporation, Docket No. RR06-3-000, Sept. 13, 2006.

<sup>17</sup> "...we direct NERC to submit in its compliance filing a list of budget principles for approval. These principles should include budget execution as well as budget formulation matters, including: (1) budget component justification based on statutory or other authorities; (2) how the budgeted activity lends itself to the accomplishment of the statutory or other authorities; (3) methods of calculating budget estimates; (4) who prioritizes competing needs; (5) affordability, sustainability, and efficiency and effectiveness of expenditures; (6) implementation to meet international standards; (7) transparency; and (8) accountability and execution in accordance with operating plan, performance measures, and shifting priorities. Moreover, we expect NERC to submit its first detailed budget in the coming months that should answer many of these questions.<sup>17</sup> Parties will have an opportunity to comment on the budget." Order ERO Certification (P 202)

Implementation of the Commission’s budget principles will introduce more accountability in the budgeting process.

The identification of “best practices” will allow REs to learn from one another and provide NERC a sound informational base from which foster development of better practices throughout North America. The identification of “innovations” is especially important to not lose the strengths of the pre-Section 215 reliability system where diversity generated innovation. The goal of Section 215 is not lockstep uniformity; it is improvement in the reliability of power grids. By requiring that innovations be identified in the budget submission the Commission will send a strong signal to NERC, REs, the industry and stakeholders that its implementation of Section 215 is not meant to stifle creativity and innovation and that the Commission values innovation that can lead to improvements within a region which may ultimately benefit consumers in all regions.

The advantage of requiring the identification of best practices and innovations in the annual budget submissions is two fold: (1) it ensures that best practices and innovations are annual reporting expectations that will continually raise these topics on the NERC and RE agenda; and (2) it provides an easy, centralized place where stakeholders can find information on best practices and innovations. Clearly, the descriptions of best practices and innovations in a budget document will necessarily be shorter than necessary to completely understand the topic. This information should be supplemented in separate reports by NERC and the REs.