2010 Business Plan and Budget

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SPP RE

Supplement to Address
CIP Technical Feasibility Exceptions

July 21, 2009

Technical Feasibility Exceptions

Scope and Description

Background
The Critical Infrastructure Protection (CIP) Standards allow for registered entities to request Technical Feasibility Exceptions (TFEs) to the standard requirements in certain instances. Once these requests are made, they must be reviewed and approved, and then short and long-term plans to deal with the TFEs must also be evaluated, approved and monitored to completion.

At the time the Southwest Power Pool RE 2010 Business Plan and Budget were developed, submitted to the Board for review, and posted for stakeholder comment, NERC anticipated that the processing of TFEs would be handled centrally by NERC staff and thus Regional Entity resources would not be required for this work. Based upon feedback and input NERC received in response to the public posting of its proposed 2010 Business Plan and Budget, they revised this approach and directed the Regions to develop proposals to deal with TFE processing.

SPP RE decided to leave its base 2010 Business Plan and Budget as originally proposed and to develop this supplement devoted only to the TFE work. If approved by the NERC Board of Trustees, this supplement would be an additive to the 2010 SPP RE Business Plan and Budget. Should the NERC Board decide that Regional resources are not needed for TFE evaluations because NERC will centrally process them, this supplement will not be necessary and the NERC Board has the option to simply approve the base Business Plan and Budget.

There are a number of unknowns and evolving issues associated with the evaluation of TFEs. The ultimate answers to these questions will greatly impact resource requirements.

SPP RE is attempting to answer them as best we can in this supplement, given the information presently available. The assumptions made were used to determine the budget impact of TFE evaluations across the Region.

Key Issues and Assumptions

1. *Who performs the TFE evaluations?*

   Assumption – Based on the current information, SPP RE assumes that the Regions will be expected to evaluate all TFE requests, approve interim plans to operate while the TFE exists, and approve plans to ultimately eliminate the TFE.

2. *When are evaluations performed (pre-approval or during an audit)?*

   Assumption – The current plan, based on information from NERC is that the evaluations would take place during audits or spot checks, but some sort of initial evaluation must also be conducted.

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3. *What information must be collected in support of a TFE?*

   Assumption – TFEs are associated with CIP-005 requirements 2.4, 2.6, 3.1., 3.2 and CIP-007 requirements 2.4, 4, 5.3, 6 and 6.3. TFEs may also be associated with other requirements.

   Assumption – If a registrant refuses to submit materials or documents due to CEII concerns and requests that they can only be reviewed on-site, SPP RE anticipates complying with this request.

4. *What happens if we do not agree with the basis for the TFE request? Is it a violation of the associated standard? What is the process for any appeal or contest? Does the registrant get a second chance?*

   Assumption – The SPP RE assumptions here are consistent with the NERC Compliance Process Bulletin #2009-006, Interim Approach to Technical Feasibility Exceptions, Version 1.0, July 1, 2009, (http://www.nerc.com/files/2009-006_Public%20Notice-V1.pdf). If the TFE is rejected during our evaluation, the entity is given 31 days to make corrections and resubmit it. If the TFE is rejected again, then the alleged violation process will start and all of the same due process rights will be granted to the requestor.

5. *How will common TFEs be coordinated across regions? Can NERC issue a global TFE determination for common equipment? Can they maintain a database of already approved TFEs?*

   Assumption – At the time of this writing, a common NERC TFE data base and global determinations are not anticipated. Therefore, we believe the Regions must seek consistency on similar requests absent these tools, and it may add to the time required to evaluate a given TFE.

6. *How are TFE mitigation plans (interim and long term) evaluated and judged? What happens if the plan is not deemed acceptable?*

   Assumption – SPP RE believes that we will have to perform the evaluations and an insufficient interim or long term plan will be a basis for rejecting the TFE. If the TFE is rejected, after the opportunity to improve the initial plan, it becomes an alleged violation. We believe the evaluation will be much like those associated with mitigation plans for alleged or confirmed violations of Reliability Standards.

7. *What approval or oversight role will NERC play if TFE evaluation is delegated to the Regional Entities?*

   Assumption – NERC has indicated they will provide oversight and some analysis should the Regions be the primary evaluators; but the exact nature has not yet been clearly defined due to the uncertainty associated with the TFE evaluations. But it should not impact the Regional workload, other than to require us to address any questions NERC may have regarding the TFE and

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perhaps to ask more questions of the requestor. Depending on the answer to this question, TFE approval may experience some delays.

8. *How often and how will TFEs be re-evaluated?*

   Assumption – TFEs will need to be re-evaluated annually. Also, the mitigation plans must be tracked routinely.

9. *How many TFEs will there be, anyway?*

   Assumption – This is the most difficult question to answer. The answer depends on how a TFE is characterized. For instance, if a company has 200 of the same relays with the same TFE need for the same standard, is that one TFE or 200? We are treating it as one. However, the mitigation plans may need to be approved and tracked individually or in subsets with potential multiple assessments.

Estimated 2010 Manpower and Resource Needs

NERC conducted an analysis and estimated that it will take about a man-week for each TFE evaluation, excluding any enforcement activities associated with rejected TFE requests. An estimated 2 man-years of work is estimated. At this time, SPP RE intends to address the additional work-load with contractors. After 2010, once a steady state level of effort is better known, SPP RE may add direct personnel to carry out this work.

2010 Overview of Cost Impacts Including TFE Impact

Overall, the SPP RE 2010 budget will increase by 25% over the 2009 level if both the 'base' 2010 budget and this supplement are approved. ($8.1 million compared to $6.5 million). The total incremental cost over the base 2010 budget associated with performing the TFE evaluations is estimated at $0.7 million.

Funding Requirements — Explanation of Increase (Decrease)

Consultants and Contracts expense will increase due to the hiring of additional contractors to process TFEs.

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Supplement 1 Technical Feasibility Exceptions

Funding sources and related expenses for Supplement 1 - Technical Feasibility Exceptions section of the 2010 business plan are shown in the table below.

Statement of Activities
2009 Budget & Projection, and 2010 Budget
TFE

	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments			$ -	$ 700,000	$ 700,000
Penalty Sanctions					
Total ERO Funding	**$ -**	**$ -**	**$ -**	**$ 700,000**	**$ 700,000**
Membership Dues			-		-
Testing Fees			-		-
Services & Software			-		-
Workshops			-		-
Interest			-		-
Miscellaneous			-		-
Total Funding	**$ -**	**$ -**	**$ -**	**$ 700,000**	**$ 700,000**
Expenses					
Personnel Expenses					
Salaries			$ -		$ -
Payroll Taxes			-		-
Benefits			-		-
Retirement Costs			-		-
Total Personnel Expenses	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Meeting Expenses					
Meetings			$ -		$ -
Travel			-		-
Conference Calls			-		-
Total Meeting Expenses	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Operating Expenses					
Consultants & Contracts			$ -		$ -
Office Rent		-	-	700,000	700,000
Office Costs			-		-
Professional Services			-		-
Miscellaneous			-		-
Depreciation			-		-
Total Operating Expenses	**$ -**	**$ -**	**$ -**	**$ 700,000**	**$ -**
Total Direct Expenses	**$ -**	**$ -**	**$ -**	**$ 700,000**	**$ 700,000**
SPP Inc. Indirect Expenses			**$ -**		**$ -**
SPP RE Indirect Expenses	**$ -**	**$ -**	**$ -**		**$ -**
Total Expenses	**$ -**	**$ -**	**$ -**	**$ 700,000**	**$ 700,000**
Change in Assets	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Fixed Assets					
Depreciation			$ -		$ -
Computer & Software CapEx			-		-
Furniture & Fixtures CapEx			-		-
Equipment CapEx			-		-
Leasehold Improvements			-		-
(Incr)Dec in Fixed Assets	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Allocation of Fixed Assets					
Change in Fixed Assets	**-**	**-**	**-**	**-**	**-**
TOTAL CHANGE IN ASSETS	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

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Explanations of Variances – 2010 Budget versus 2009 Budget

This activity is new for 2010 and therefore it was not incorporated into the 2009 or 2010 base budget.

Funding Sources

SPP RE considers TFE evaluations to be a part of the functions delegated to the Regions by the ERO. Therefore, funding for this statutory program in 2010 is provided through assessments to LSEs or designees (mandatory in the United States).

Personnel Expenses

N/A

Operating Expenses

Operating Expenses are estimated to increase $700,000 in 2010 above the 2009 budget for contractor labor to work on TFEs.

Other Non-Operating Expenses

There are no other non-operating expenses

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2009 Budget and Projection and 2010 Budget Comparisons Including Technical Feasibility Exceptions

Table 2

Statement of Activities
2009 Budget & Projection, and 2010 Budget

STATUTORY

	2009 Budget	2009 Projection	Variance 2009 Projection v 2009 Budget Over(Under)	2010 Budget	Variance 2010 Budget v 2009 Budget Over(Under)
Funding					
ERO Funding					
ERO Assessments	$ 7,123,827	$ 7,123,827	$ -	$ 8,138,783	$ 1,014,955
Penalty Sanctions	-	-	-	-	-
Total ERO Funding	**$ 7,123,827**	**$ 7,123,827**	**$ -**	**$ 8,138,783**	**$ 1,014,955**
Membership Dues	-	-	-	-	-
Testing Fees	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	**$ 7,123,827**	**$ 7,123,827**	**$ -**	**$ 8,138,783**	**$ 1,014,955**
Expenses					
Personnel Expenses					
Salaries	$ 1,775,017	$ 2,009,894	$ 234,877	$ 2,861,623	$ 1,086,606
Payroll Taxes	135,789	153,769	17,980	194,700	58,911
Benefits	177,328	213,212	35,884	243,975	66,647
Retirement Costs	71,001	80,388	9,387	112,725	41,724
Total Personnel Expenses	**$ 2,159,134**	**$ 2,457,263**	**$ 298,129**	**$ 3,413,023**	**$ 1,253,888**
Meeting Expenses					
Meetings	$ 178,800	$ 115,000	$ (63,800)	$ 25,000	$ (153,800)
Travel	206,000	198,000	(8,000)	318,000	112,000
Conference Calls	-	-	-	-	-
Total Meeting Expenses	**$ 384,800**	**$ 313,000**	**$ (71,800)**	**$ 343,000**	**$ (41,800)**
Operating Expenses					
Consultants & Contracts	$ 395,660	$ 415,660	$ 20,000	$ 1,175,000	$ 779,340
Office Rent	-	-	-	-	-
Office Costs	-	-	-	-	-
Professional Services	285,000	285,000	-	290,000	5,000
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	**$ 680,660**	**$ 700,660**	**$ 20,000**	**$ 1,465,000**	**$ 784,340**
Total Direct Expenses	**$ 3,224,594**	**$ 3,470,923**	**$ 246,329**	**$ 5,221,023**	**$ 1,996,428**
SPP Inc. Indirect Expenses	**$ 3,256,442**	**$ 2,484,608**	**$ (771,834)**	**$ 2,917,760**	**$ (338,682)**
SPP RE Indirect Expenses	**$ -**	**$ -**	**$ -**	**$ (0)**	**$ (0)**
Total Expenses	**$ 6,481,036**	**$ 5,955,531**	**$ (525,505)**	**$ 8,138,783**	**$ 1,657,746**
Change in Assets	**$ 642,791**	**$ 1,168,296**	**$ 525,505**	**$ -**	**$ (642,791)**
Fixed Assets					
Depreciation	$ -	$ -	$ -	$ -	$ -
Computer & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Allocation of Fixed Assets	-	-	-	-	-
Change in Fixed Assets	**-**	**-**	**-**	**-**	**-**
TOTAL CHANGE IN ASSETS	**$ 642,791**	**$ 1,168,296**	**$ 525,505**	**$ -**	**$ (642,791)**

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Reserve Balance Including Technical Feasibility Exceptions

Table 3

Working Capital Reserve Analysis 2009-2010	
STATUTORY	
Beginning Working Capital Reserve (Deficit), December 31, 2008	214,632
Less: Penalty sanctions to be used as offset to 2010 assessments [1]	0
Plus: 2009 ERO Funding (from LSEs or designees)	7,123,827
Plus: 2009 Other funding sources	0
Less: '2009 Projected expenses & capital expenditures	(5,955,531)
Projected Working Capital Reserve (Deficit), December 31, 2009	**1,382,928**
Desired Working Capital Reserve, December 31, 2009 [2]	0
Less: Projected Working Capital Reserve, December 31, 2009	(1,382,928)
Increase(decrease) in assessments to achieve desired Working Capital Reserve	(1,382,928)
2010 Assessment for Expenses and Capital Expenditures	8,138,783
Less: Penalty Sanctions [1]	0
Less: Other Funding Sources	0
Adjustment to achieve desired Working Capital Reserve	(1,382,928)
2010 Assessment	6,755,854

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