

**NERC**

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

# NERC 2016 Business Plan and Budget – Draft #1 Overview

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NERC Finance and Audit Committee Conference Call  
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**RELIABILITY | ACCOUNTABILITY**



- Transformation to risk-based methods
- Changing nature of reliability
- Changing nature of the grid
- Grid security
- Compliance, enforcement, and registration oversight
- Software applications supporting NERC and ERO Enterprise operations
- Information Technology security and disaster recovery
- Employee development and training
- Efficiency, resource allocation and cost control

- Personnel Costs and Assumptions
  - No increase in budgeted Full-Time Equivalents over 2015
  - Ongoing resource allocation reviews to ensure support to priority areas
  - Total budgeted FTEs adjusted to account for attrition, timing of hiring
  - Market-based compensation and benefits
- Retirement and other benefit assumptions
  - Executive supplemental retirement plan approved in February 2014
  - No other changes in retirement and other benefits plans
  - Market increase in premiums

<b>Consultants &amp; Contracts</b>	<b>2015 Budget</b>	<b>2016 Budget</b>	<b>Inc(Dec) v 2015</b>
Compliance Assurance	388,000	200,000	(188,000)
Reliability Risk Management	0	56,000	56,000
Compliance Investigation, Reg and Cert	0	50,000	50,000
Reliability Assessments and Performance Analysis	955,450	1,084,039	128,589
Situation Awareness	1,077,321	1,211,475	134,154
Critical Infrastructure Department	426,800	0	(426,800)
ES-ISAC	8,756,190	8,329,390	(426,800)
Training, Education and Operator Certification	752,130	871,600	119,470
General & Administrative	15,000	15,000	0
Information Technology	1,729,600	2,094,671	365,071
Human Resources	298,275	550,000	251,725
Finance and Accounting	339,500	297,000	(42,500)
<b>TOTAL CONSULTANTS AND CONTRACTS</b>	<b>14,738,266</b>	<b>14,759,175</b>	<b>20,908</b>

## NERC Capital Budget

	<b>2015</b>	<b>2016</b>
ERO Application Development	\$ 1,050,000	\$ 1,500,000
Document Management	-	465,000
ERO Data Analysis Tools	550,000	-
Generation Data Software	200,000	-
Other IT Hardware and Software	1,453,500	1,311,000
Network devices and A/V	365,000	535,000
<b>Total Capital Budget</b>	<b>\$ 3,618,500</b>	<b>\$ 3,811,000</b>
Depreciation (excluded from assessments)	(2,333,006)	(1,391,745)
<b>Fixed Assets (net)</b>	<b>\$ 1,285,494</b>	<b>\$ 2,419,255</b>

- 3.2% increase in total budget (operating and capital expenditures)
  - 3.5% increase in operating expenses (3.1%, excluding depreciation)
  - 5.3% increase in capital expenditures (9.1% decrease after reversal of depreciation)
  - 1.4% greater than 2016 forecast in 2015 BP&B
  - Equal to three-year average

- Operating Reserves - \$6.3M
  - Working Capital- \$0
  - Future Obligation Reserve - \$3.2M
  - System Operator Certification Reserve - \$411k
  - CRISP Reserve - \$590k\* (Funded by participants)
  - Operating Contingency Reserve - \$2.1M
  
- Assessment Stabilization Reserve - \$2.4M
  - Funding with existing penalty funds

*\*Subject to refinement based on negotiations with participants; funded by participants*

## Summary of Expenditures for 2015 and 2016 Budgets

			Over (Under)	
	2015	2016	\$	%
Total Expenses	\$ 65,363,815	\$ 67,629,030	\$ 2,265,215	3.5%
Fixed Assets (net)	1,285,494	1,169,057	(116,436)	-9.1%
<b>Total Budget</b>	\$ 66,649,309	\$ 68,798,087	\$ 2,148,779	3.2%
FTEs	192.3	192.5		



## Historic Change in Budget and Assessments

	<b>2016</b>	<b>3-YR AVG</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Annual Change in Budget (including CRISP)	3.2%	8.1%	18.1%	3.9%	2.3%
Annual Change in Assessments (including CRISP)	3.4%	3.2%	7.6%	8.0%	-6.0%
Annual Change in Budget (excluding CRISP)	3.6%	2.8%	2.3%	3.9%	2.3%
Annual Change in Assessments (excluding CRISP)	3.7%	2.9%	6.6%	8.0%	-6.0%

- 5% average increase in assessments using no penalty funds
  - Difference from budget primarily due to 2015 penalty offset (\$1.1M)
  - Other factors include depreciation adjustments, debt assumptions, and projected reserve requirements
  - Slightly less than forecast in 2015 BP&B
- After proposed application of penalty offsets and using same compliance credits as 2015 for Canadian assessments:
  - U.S.                3.5%
  - Canada            3.4%
  - Mexico            2.5%

- Policy Objectives
  - Mitigate wide year-to-year swings in assessments
  - Narrow the gap between annual percentage changes in budget and assessments
- Mechanics
  - Reserve funded with penalty funds and surplus operating reserves
  - Actual amount contributed and released determined annually
  - Determined by Board of Trustees, upon recommendation of Finance and Audit Committee, as part of annual business plan and budget process

- \$3.2M in penalty funds are available
- Using penalty funds to off-set some or all of assessments:
  - \$959k (30%) of penalty funds to match 3.2% increase in budget
  - \$839k (26%) of penalty funds - 3.4% increase in assessments
  - \$802k (25%) of penalty funds - 3.5% increase in assessments
  - \$1.6M (50%) of penalty funds - 2.1% increase in assessments
  - \$3.2M (100%) of penalty funds - 0.8% decrease in assessments
- Excess penalty funds will go into the Assessment Stabilization Reserve for future assessment offset



# Questions and Answers