

Working Capital and Operating Reserve Policy

This policy governs the determination of the company's annual working capital and operating reserve requirements, as well as the authorization of management to access these funds.

The company's working capital and operating reserve requirements shall be set forth separately in the company's business plan and budget.

Working Capital represents the amount of funds necessary to satisfy the company's projected cash flow needs during the budget year, taking into account the projected timing of the receipt of funding and timing of capital and operating expenses. In addition to the foregoing, the company shall also maintain a line of credit, with a financial institution, in such amount and upon such terms and conditions, approved by the company's Finance and Audit Committee and the NERC Board of Trustees ("Board").

Operating Reserves represent reserves necessary to support operations, including contingencies. Operating Reserves shall be divided into four categories: (1) reserves that are being held in order to satisfy future obligations under any lease, credit, loan agreement or other obligation to which the company is a party (the "**Future Obligation Reserve**"); (2) reserves to support the System Operator Certification Program Area Reserve (the "**System Operator Certification Reserve**"); (3) reserves to support the Cybersecurity Risk Information Sharing Program, known as CRISP (the "**CRISP Reserve**"); (4) reserves to fund reasonable and appropriate expenditures that were not assumed likely or anticipated in the company's budget or for which the timing was uncertain (the "**Operating Contingency Reserve**"). In addition to the foregoing reserves, funds may periodically be set aside in a separate reserve and released in future periods in order to mitigate wide year-to-year variations in assessments (the "**Assessment Stabilization Reserve**").

The amount of the company's **Working Capital, Future Obligation Reserve, System Operator Certification Reserve, CRISP Reserve, Operating Contingency Reserve** and **Assessment Stabilization Reserve** shall be identified separately and quantified each year in the business plan and budget submitted to and reviewed by the Finance and Audit Committee, and approved by the Board.

The following additional guidelines shall apply to the determination of the company's Operating Reserves and Assessment Stabilization Reserve:

Future Obligation Reserve

The Future Obligation Reserve includes funding that has been received to satisfy future obligations under lease, credit, loan or other agreement to which the company is a party. An example is office lease funding that is in excess of actual office rent expense due to a landlord's partial abatement of rent and a budgeted lease expense based on the straight line amortization of rent expense over the term of the lease. In such a case, this surplus funding is being held to offset future rent

expense. Another possible example includes reserves or sinking funds requirements to meet covenant or other obligations under loan or other credit agreements.

System Operator Certification Reserve

The System Operator Certification Reserve supports the system operator certification program, and includes surplus funding from operator certification and testing fees that are above incurred expenses. Consistent with the intent of Section 604.4.10 of the Rules of Procedures, this reserve shall be used solely to support operator testing and certification needs, as determined by the company and the Personnel Certification Governance Committee.

CRISP Reserve

The CRISP Reserve is maintained to support CRISP. The CRISP Reserve shall be held in a separate bank account and used solely for CRISP funding.

Operating Contingency Reserve

The Operating Contingency Reserve are reserves for contingencies that were not anticipated, assumed to be likely or the timing of which was uncertain, at the time of preparation and approval of the company's business plan and budget. The determination of the amount of the Operating Contingency Reserve shall take into consideration the projected costs and risks of ongoing operations, projected resource requirements associated with significant ongoing or emerging reliability initiatives, capital-spending forecasts and other factors that the Board, Finance and Audit Committee, and management consider appropriate. Examples of unforeseen contingencies might include supplemental resources required to assist in the evaluation of significant unforeseen events affecting the Bulk-Power System or to address regulatory directives not final at the time of budgeting. Except as otherwise approved by the Board, after review by the Finance and Audit Committee, the amount of the Operating Contingency Reserve shall be between three and one half (3.5%) percent and seven (7%) percent of the company's total expense and fixed asset budget minus the sum of the System Operator Certification and CRISP budgets, each of which have separate reserves.

Assessment Stabilization Reserve

The goal of the Assessment Stabilization Reserve is to mitigate assessment volatility and have changes in annual assessments track, within a reasonable band, changes in the company's total annual budget, with the total budget reflecting prudent fiscal discipline and good stewardship of resources. Assessment stabilization funds will be used when available to help stabilize assessments and mitigate year-to-year swings in assessments, which can result from a variety of factors, including but not limited to the application of penalty funds, surplus funds available from a prior period, a need to replenish the Operating Contingency Reserve, or significant but relatively short term operating or capital spending needs. The amount of the Assessment Stabilization Reserve which is budgeted in any given year shall be determined based on a review of a three-year rolling forecast of assessments, as well as the availability of surplus funds and penalty funds to fund this reserve. Except as otherwise approved by the Board, funds in the Assessment Stabilization Reserve may not be used for any purpose inconsistent with the goal of the reserve set forth in this paragraph.

Guidelines and Authorities Applicable to Expenditures of Working Capital and Operating Reserves

The following guidelines, limitations and authorities shall apply to expenditures of working capital and operating reserves.

1. The chief financial and administrative officer shall have the authority to draw on budgeted working capital reserves to the extent necessary to satisfy daily cash flow requirements. To the extent necessary to meet projected cash flow and cash balance requirements, any such draws of working capital reserves shall, to the extent possible, be promptly replenished from future surplus cash flow.
2. The company's president and chief executive officer is authorized to approve expenditures of System Operator Certification Reserves up to the amount set forth in the company's budget.
3. For Operating Contingency Reserve and CRISP Reserve expenditures:
 - i. The president and chief executive officer is authorized to make expenditures up to \$500,000 and management shall report such expenditures to the Finance and Audit Committee no less frequently than in the quarterly company budget variance report following the expenditure of such reserves;
 - ii. For expenditures greater than \$500,000 but less than \$1,000,000, prior approval of the Finance and Audit Committee is required; and
 - iii. For expenditures in excess of \$1,000,000, approval of the Board is required, after notice to and recommendation by the Finance and Audit Committee.
4. The company shall segregate Future Obligation Reserves to ensure they are available for use in satisfying such future obligations; provided however, such funds shall also be available to satisfy any coverage and liquidity requirements under the terms of any loan or credit agreement to which the company is a party.

All expenditures of reserve funds are subject to other applicable company policies and procedures, including currently effective procurement policies and delegations of authority approved by the president and chief executive officer, and shall be separately reported in the budget variance reports prepared by management, and included in the quarterly Finance and Audit Committee agenda materials that are posted on the company's website.

The procedures set forth in Section 1108 of the Rules of Procedure, including Board and FERC approval, shall continue to apply in circumstances where the company requires funding between normal annual budget cycles in excess of amounts available through approved assessments, working capital and operating reserve resources.

Guidelines and Authorities Required to Reallocate Budgeted Expenditures on an Intra-year Basis

During the course of the year, events may unfold such that some approved budget areas may run below budget, making funds available to satisfy other resource needs based on changing priorities. In the event such under runs occur, the president and chief executive officer shall have the authority to reallocate and expend such funds, provided that such reallocation and expenditure does not result in the company's overall approved budget being exceeded and such expenditures shall be reported by management in the company's quarterly budget variance reports, which are submitted to and reviewed by the Finance and Audit Committee.

Federal Energy Regulatory Commission (FERC) Filing Requirements

Any reallocation of budgeted funds and/or expenditure of Operating Reserves, including from the Assessment Stabilization Reserve, other than as approved by the NERC Board of Trustees and FERC as part of the company's annual business plan and budget, shall be submitted to FERC for approval in accordance with the terms and conditions of Section 7(b)(ii) of the Settlement Agreement dated January 15, 2013 between FERC and the company, approved by FERC in its order *North American Electric Reliability Corp.*, 142 FERC ¶ 61,042 (2013).