

July 15, 2015

RE: Updated Draft of NERC's 2016 Business Plan and Budget, Final Regional Entity 2016 Business Plans and Budgets Available on NERC's Website

On May 19, 2015, NERC posted the first draft of the 2016 Business Plans and Budgets for NERC and the Regional Entities. NERC subsequently posted an updated version of Draft 1 which included certain technical corrections, an analysis of its major activities under Section 215 of the Federal Power Act, and supplemental consolidated ERO Enterprise budget analysis information. A webinar was conducted on May 21, 2015, to review the NERC, Regional Entity, and consolidated budgets and assessment projections. Written comments on the first draft of NERC's Business Plan and Budget were received from three entities and posted on NERC's website.

Management has revised the initial draft of its 2016 Business Plan and Budget to reflect the following changes:

1. Minor updates to personnel, contract and consulting, and operating expense projections
2. Updates to the Electricity Sector Information Sharing and Analysis Center (ES-ISAC) department text to reflect the functional separation of ES-ISAC personnel from other operating areas, further refinements regarding operational focus, and modifications to the ES-ISAC's internal organizational structure
3. Updates to the ES-ISAC budget to reflect NERC's proposed 2016 Cybersecurity Risk Information Sharing Program (CRISP) budget, as further described below
4. An increase in NERC's Operating Contingency Reserve from \$2.1M to \$2.5M
5. Incorporation of \$500k in additional penalty funds received since posting of the first draft. These funds will be used to offset assessment funding which would otherwise be required to fund the proposed \$400k increase in the Operating Contingency Reserve
6. Inclusion of additional background regarding information technology capital project planning and controls
7. Further refinements to the company's preliminary budget projections for 2017 and 2018

The net effect of the foregoing budget revisions is a total 2016 NERC budget of \$67,186,665, which represents an increase of \$537k (0.8 percent) over 2015. This represents a decrease of \$1.6M (2.3 percent) from the initial draft. Total average assessments are projected to increase by \$1.77M (3.2 percent) over 2015, representing a reduction of 0.2 percent from the original 3.4 percent increase projected in Draft 1.

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After taking into account preliminary projections of credits to certain Canadian entities pursuant to NERC's Expanded Policy on Allocation of Certain Compliance and Enforcement Costs, the U.S., Canadian and Mexico assessments will increase \$1,727,470 (3.5 percent), \$35,993 (0.7 percent) and \$9,607 (6.4 percent), respectively.

The updates to the CRISP budget, which are included in the overall ES-ISAC department, includes a significant reduction in contract support costs now that start up is complete and the program is in operation. Overall ES-ISAC Full-Time Equivalents (FTEs) are consistent with the initial budget draft. However, the allocation of FTEs to support CRISP has been increased from the initial draft and the 2015 budget, consistent with program growth and operational support needs. Costs associated with PNNL subcontractors and certain other costs are funded exclusively by CRISP participants. The remaining costs related to the ES-ISAC department associated with CRISP activities are allocated evenly (50/50) between CRISP participants and assessments. The allocation of additional ES-ISAC FTEs to support CRISP has generated a slight increase in CRISP assessment funding.

NERC has posted its second draft of the 2016 Business Plan and Budget and a presentation which provides an overview of this budget and the aforementioned changes to the NERC website. The final drafts of the 2016 budgets for all of the Regional Entities (and Western Interconnection Regional Advisory Body) are also posted with their associated presentations. Additionally, NERC posted responses to comments related to the first draft of the Business Plan and Budget (comments are also posted on the website). Finally, we have posted a presentation which includes an ERO Enterprise consolidated budget for 2016 and a consolidated projection of costs and assessments for 2017 and 2018.

The NERC Finance and Audit Committee will meet to review these materials via conference call and webinar on July 22, 2015, at 11:00 a.m. Eastern. Written comments are requested by July 31, 2015, and should be directed to the attention of Anya Josephson at [anya.josephson@nerc.net](mailto:anya.josephson@nerc.net).

As always, we both appreciate and look forward to your feedback.

