

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

North American Electric Reliability Corporation )  
 ) Docket No. FA11-21-000

**COMPLIANCE FILING OF THE NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION**

**I. INTRODUCTION**

The North American Electric Reliability Corporation (“NERC”)<sup>1</sup> submits this compliance filing in accordance with the Commission’s January 16, 2013 Order in Docket No. FA11-21-000.<sup>2</sup> In the January 16 Order, the Commission approved a Settlement Agreement between the Office of Enforcement (“Enforcement”) and NERC related to Enforcement’s findings and recommendations arising out of its 2012 performance audit of NERC. Specifically, Section II.7(b)(i) of the Settlement Agreement requires that:

Within forty-five days of the end of each quarter, beginning with the quarter ending March 31, 2013, NERC will file with the Commission the unaudited report of the NERC budget-to-actual spending variances during the preceding quarter. This report will include information regarding sources and uses of operating and working capital reserves and will match or exceed the level of detail of the quarterly budget-to-actual variance report of NERC expenditures attached to the agenda of NERC Board of Trustees Finance and Audit Committee’s October 2012 meeting.<sup>3</sup>

Attached hereto is the unaudited report of NERC’s budget-to-actual variance information for the fourth quarter of 2015, in accordance with the January 16 Order. This variance information was

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<sup>1</sup> NERC was certified by FERC as the electric reliability organization (“ERO”) authorized by Section 215 of the Federal Power Act. FERC certified NERC as the ERO in its order issued July 20, 2006 in Docket No. RR06-1-000. *Order Certifying North American Electric Reliability Corporation as the Electric Reliability Organization and Ordering Compliance Filing*, 116 FERC ¶ 61,062 (2006) (“ERO Certification Order”).

<sup>2</sup> See *North American Electric Reliability Corporation, Order Approving Settlement Agreement*, 142 FERC ¶ 61,042 (2013) (“January 16 Order”).

<sup>3</sup> *Id.*

posted on NERC's website and reviewed at the February 4, 2016 conference call meeting of the NERC Finance and Audit Committee ("FAC"). The unaudited report was accepted by the NERC Board of Trustees at its meeting on February 11, 2016.

## **II. NOTICES AND COMMUNICATIONS**

Notices and communications with respect to this filing may be addressed to:

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Commission's official service list

## **III. DISCUSSION OF SIGNIFICANT VARIANCES BETWEEN 2015 BUDGET AND ACTUAL 2015 RESULTS**

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The attached fourth quarter 2015 variance report compares actual (unaudited) year-end 2015 financial results to NERC's budgeted expenditures for the year 2015. NERC is providing additional discussion of significant variances between the actual (unaudited) year-end 2015 results and NERC's 2015 budget, by NERC department or program area and by major activity within departments and program areas. This discussion focuses on variances of \$500,000 or more between actual 2015 results and the 2015 budget. For purposes of this discussion, NERC has focused on actual cost variances in excess of budget of \$500,000 or more, because Section 7(b)(ii) of the Settlement Agreement specifies that NERC will file for Commission review and approval proposals approved by the NERC Board of Trustees to expend \$500,000 or more from Operating Reserves designated for "unforeseen contingencies" (as defined in NERC's Working Capital and

Operating Reserves Policy), *i.e.*, where any amount allocated from the unforeseen contingencies account of Operating Reserves plus any amount redirected from previously budgeted funds is, in the aggregate, \$500,000 or more for any one specific project or major activity in a program area. In addition, although not required by the Settlement Agreement, NERC is providing, for completeness, information on actual cost variances less than budget of \$500,000 or more by department, program area or major activity. The explanations of variances provided herein are consistent with information previously provided to the Commission in NERC's "Response to September 15, 2015 Letter" filed September 29, 2015, in NERC's 2016 Business Plan and Budget case, Docket No. RR15-16-000,<sup>4</sup> and in previous 2015 quarterly variance reports filed with the Commission. NERC will provide a more detailed analysis of variances between actual (audited) 2015 financial results and the 2015 budget, on a total company basis and by program or department, in its Report of Comparisons of Budgeted to Actual Costs for 2015, which is due to be filed with the Commission on May 30, 2016.

**A. Reliability Standards Program**

Actual 2015 direct expenses plus net fixed asset expenditures for the Reliability Standards Program were less than the 2015 budget by \$1,104,625 (23.0%).<sup>5</sup> This under-budget variance was driven primarily by having fewer full-time equivalent employees ("FTE") in this program during 2015 than were budgeted. Budgeted 2015 FTE staffing for Reliability Standards was 24.40 FTEs, while actual 2015 staffing was 18.88 FTEs. This reduced staffing was identified in NERC's September 29, 2016 Response, where NERC explained that, due to the transformation of the NERC Reliability Standards to a "steady state," together with reorganization and improved

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<sup>4</sup> *North American Electric Reliability Corporation's Response to September 15, 2015 Letter*, filed September 29, 2015, in Docket No. RR15-16-000 ("September 29, 2015 Response").

<sup>5</sup> Net fixed asset expenditures are equal to fixed asset additions less depreciation expense.

efficiency of operations within the Reliability Standards Program, fewer FTEs were necessary to support the ongoing operations, goals and objectives of the Reliability Standards Program. Positions were transferred from the Reliability Standards Program as follows: two (2) positions were transferred to Compliance Assurance to support implementation of the risk-based compliance monitoring program; one (1) position was transferred to the General and Administrative function to support the Senior Vice President and Chief Reliability Officer (“CRO”), who has oversight over most operating areas within NERC;<sup>6</sup> two (2) positions were transferred to the Information Technology department (“IT”) to provide for ERO application development and support as well as infrastructure support and software development for NERC operations in several program areas; and one (1) position was transferred to the Electricity Information Sharing and Analysis Center (“E-ISAC”) to provide added resources to support cybersecurity analysis and information sharing activities. The transfers of these positions from the Reliability Standards Program occurred at various times during 2015.

**B. Compliance Assurance Program**<sup>7</sup>

Actual 2015 direct expenses plus net fixed asset expenditures for the Compliance Assurance Program exceeded the 2015 budget by \$531,414 (9.9%). The allocation of additional resources to support development of the risk-based compliance monitoring program caused most of this over-budget variance, including the transfer of two (2) positions from the Reliability Standards Program as described above, as well as additional unbudgeted resources. The transfers

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<sup>6</sup> Areas for which the CRO has oversight responsibilities include Reliability Standards, Reliability Assessment and Performance Analysis (“RAPA”), Compliance Assurance, and Reliability Risk Management (“RRM”)

<sup>7</sup> The Compliance Assurance Program includes the Compliance Analysis, Certification and Registration Program and the Regional Entity Assurance and Oversight Program. These two operational programs were combined for reporting purposes in 2015.

and additions of these positions and associated filling of the positions occurred at various times during 2015. The combination of the transfers and additional resources is reflected in the actual 2015 staffing for the program of 27.67 FTEs compared to the budgeted FTEs for the Compliance Assurance Program of 23.44. The increase in actual costs over budget for this program was partially offset by an under-budget variance of \$90,346 (23.3%) in the Consultants & Contracts expense. While unbudgeted resources were added to this group to ensure the success of the risk-based compliance monitoring program in 2015, the FTEs for the company in total remained consistent with the 2015 budget.

**C. Reliability Assessment and Performance Analysis**

Actual 2015 direct expenses plus net fixed asset expenditures for RAPA exceeded the 2015 budget by \$661,307 (12.2%). The variance was primarily due to (1) higher than budgeted Consultants & Contracts expense, primarily incurred for analyses of reliability impacts of the U.S. Environmental Protection Agency's Clean Power Plan regulation ("EPA CPP"), issued by the EPA in final form during 2015, and for support of the NERC Reliability Issues Steering Committee ("RISC"); and (2) the transfer of budgeted expenditures for the development of the Reliability Assessment Data System ("RADS"), which will be administered by RAPA, from IT (where it was budgeted) to RAPA (the program using the system). Actual Consultants & Contracts expense for RAPA exceeded the 2015 budget by \$189,780, and included expenditures in excess of budget of \$158,700 for studies related to the EPA CPP and \$48,100 for support of the RISC. The use of funds from Operating Reserves for these additional activities received all required internal corporate authorizations pursuant to NERC's Working Capital and Operating Reserves Policy.

The development costs associated with the RADS project were budgeted in IT, similar to other system development costs. In keeping with NERC's standard practice, once the project was

completed, the actual costs were transferred to and recognized in RAPA in order to align cost responsibility with the users of the system. Therefore, the over-budget variance in RAPA for the RADS does not represent new or additional spending or program activity by NERC that was not reflected in the 2015 budget, or use of Operating Reserves or unspent budgeted funds, but rather is due to transfer of cost responsibility for the budgeted activity from NERC IT to RAPA. This reclassification resulted in a \$589,800 over-budget variance for RAPA.

**D. Reliability Risk Management**

Actual 2015 direct expenses plus net fixed asset expenditures for RRM exceeded the 2015 budget by \$1,462,578 (33.3%). The RRM Program includes the Event Analysis Department and Situation Awareness. The Event Analysis Department was over budget due primarily to development costs for the Event Analysis Management System (“EAMS”) being budgeted in IT, but the actual costs being recorded in Event Analysis in order to align cost responsibility for the EAMS with the department that will be responsible for operating it. Therefore, as with a portion of the over-budget variance for RAPA, described above, this over-budget variance for Event Analysis does not represent new or additional spending or program activity by NERC that was not reflected in the 2015 budget, or use of Operating Reserves or unspent budgeted funds, but rather is due to the transfer of cost responsibility for the budgeted activity from NERC IT to Event Analysis. This reclassification resulted in a \$389,600 over-budget variance for Event Analysis. In addition, one (1) position originally budgeted in Situation Analysis was transferred to Event Analysis to better align staffing resources to accommodate the workloads of these departments.

As reported in previous 2015 quarterly variance reports, the over-budget variance for Situation Awareness was due primarily to incurrence of higher than budgeted Consultants & Contracts expense on several activities, including work on multiple reliability tools, delays in the

replacement of the secure alert system, and delays in transitioning from NERCnet (for which NERC had cost responsibility) to the new network established by the Eastern Interconnection Data Sharing Network, Inc.

The aggregate over-budget variance in Consultants & Contracts expense for RRM was \$883,353, constituting 60.4% of the total over-budget variance in direct expenses and net fixed asset expenditures for RRM.

**E. General and Administrative (including Executive)**

Actual 2015 direct expenses plus net fixed asset expenditures for the General and Administrative (including Executive) function exceeded the 2015 budget by \$1,440,751 (20.4%). The higher than budgeted expenditures were due in significant part to the approved use of Operating Reserves for leasehold improvements in NERC's Atlanta and Washington, D.C., offices. In addition, as stated earlier, one (1) position was transferred from the Reliability Standards Program to General and Administrative to support the CRO, who has oversight responsibility for several NERC programs. Further, one (1) position was transferred from Legal and Regulatory to provide administrative support for General and Administrative staff members supporting NERC's outreach efforts and operational coordination with the ERO. Finally, a 6% vacancy rate was budgeted for General and Administrative in the 2015 budget, but the General and Administrative function had no meaningful vacancies during 2015, creating an additional over-budget variance in Personnel expenses.

The additional expenditures for leasehold improvements at the Atlanta office, totaling \$170,686, were incurred to increase the number of offices; the use of Operating Reserves for this purpose was approved by the FAC at its November 2014 meeting (subsequent to finalization, approval, and submission to the Commission of NERC's 2015 Business Plan and Budget). The

additional expenditures for leasehold improvements at the Washington, D.C., office, totaling \$302,389, were incurred (1) to facilitate the addition of space necessary to accommodate the physical separation of the E-ISAC from other NERC operations in the office, and (2) to accommodate current and future staffing needs.<sup>8</sup> The use of Operating Reserves for this purpose was also approved by the FAC at its November 2014 meeting (again, subsequent to finalization, approval, and submission to the Commission of NERC's 2015 Business Plan and Budget).<sup>9</sup>

Additionally, the General and Administrative function incurred an unbudgeted Consultants & Contract expense in 2015 of \$63,045 for completion of the ERO effectiveness survey, which began and was expected to be completed in 2014, but was not in fact completed until 2015.

**F. Legal and Regulatory Department**

Actual 2015 direct expenses plus net fixed asset expenditures for the Legal and Regulatory Department were less than the 2015 budget by \$1,353,162 (30.4%). This under-budget variance was due primarily to having fewer FTEs in this department during 2015 than budgeted (as stated earlier, during 2015, one (1) position was transferred from Legal and Regulatory to General and Administrative); and incurring lower than budgeted expenses during 2015 for outside legal counsel. The occurrence of legal proceedings at the Commission or before other bodies, or of other legal needs, requiring the use of outside legal counsel during the budget year, is particularly difficult to forecast in the development of the annual budget which must be completed by July or

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<sup>8</sup> See September 29, 2015 Response at 9-10.

<sup>9</sup> The FAC approved the use of up to \$425,000 from Operating Reserves for the leasehold improvements at the Washington, D.C., office, but only about 71% of the authorized expenditure was required to complete the improvements. The FAC approved the use of up to \$285,000 from Operating Reserves for the leasehold improvements at the Atlanta office, but only about 60% of the authorized expenditure was required to complete the improvements.

August of the preceding year.<sup>10</sup>

**G. Information Technology**

Actual 2015 direct expenses plus net fixed asset expenditures for IT were less than the 2015 budget by \$638,231 (6.1%). This under-budget variance was primarily due to expenditures for several capital projects being budgeted in the IT department in the 2015 budget, but the actual costs expended on the projects were recorded in the user programs or departments. As described earlier, these reclassifications occurred for the RADS (\$589,800 reclassified to RAPA) and the EAMS (\$389,600 reclassified to Event Analysis), as well as for enhancements to the Compliance Reporting and Tracking System (\$396,300 reclassified to Compliance Enforcement). IT also experienced lower than budget expenses for ERO applications support and security programs.

The under-budget variance in IT was offset, in part, by the incurrence of unbudgeted (in the 2015 budget) expenditures for the accelerated development and implementation of a new ERO Enterprise corporate Document Management Program. Funding for the development and implementation of the Document Management Program during 2015 included \$600,000 from Operating Reserves. This use of \$600,000 from Operating Reserves was recommended by the NERC FAC on May 6, 2015, approved by the NERC Board on May 7, 2015, and was filed with and approved by the Commission in accordance with Section 7(b)(ii) of the Settlement Agreement.<sup>11</sup> In addition, as described earlier, during 2015 two (2) positions were transferred from the Reliability Standards Program to IT to provide additional support for development and management of software applications supporting operations in several programs, resulting in

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<sup>10</sup> See the September 29, 2015 Response at 3 for a discussion of this budgeting issue.

<sup>11</sup> *Request of the North American Electric Reliability Corporation for Approval of an Operating Expenditure Greater than \$500,000 from Operating Reserves*, filed May 15, 2015, in Docket No. RR14-6-002. The Commission approved this use of Operating Reserves in a letter order dated June 4, 2015.

higher than budgeted Personnel expenses in IT.

**H. Cyber Risk Information Sharing Program**

Actual 2015 direct expenses plus net fixed asset expenditures for the Cyber Risk Information Sharing Program (“CRISP”) were less than the 2015 budget by \$3,371,954 (37.8%). The under-budget variance was primarily due to lower than budgeted Consultants & Contracts expense for CRISP, due in part to a portion of expenditures for CRISP budgeted for 2015 actually being incurred in late 2014, as previously reported in quarterly variance reports. The under-run in actual versus budgeted CRISP expenses that are funded by CRISP participants will be credited to the CRISP participants pursuant to the terms of the CRISP participation agreements.

**IV. CONCLUSION**

NERC respectfully requests that the Commission accept this filing as compliant with Section II.7(b)(i) of the Settlement Agreement and the Commission’s January 16 Order in Docket No. FA11-21-000.

Respectfully submitted,

/s/ Meredith M. Jolivert

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*Counsel for North American Electric  
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Dated: February 16, 2016

**CERTIFICATE OF SERVICE**

I hereby certify that I have served a copy of the foregoing document upon all parties listed on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C. this 16<sup>th</sup> day of February, 2016.

*/s/ Meredith M. Jolivert*

Meredith M. Jolivert  
*Counsel for North American Electric  
Reliability Corporation*

# **ATTACHMENT**

## North American Electric Reliability Corporation 2015 Unaudited Results Actual to Budget Variance Analysis

Based upon preliminary, unaudited results for the year ending December 31, 2015, NERC was \$2.1M, 3.1%, under its expense and fixed asset budget, including costs related to CRISP. <sup>1</sup>

Excluding CRISP, NERC was \$1.3M, 2.2%, over budget. The year-end over budget variance is primarily due to the authorized use of reserves for various expenditures which are noted below in more detail.

### YTD Actual vs Budget By Category – Including CRISP

	Actual	Budget	Variance Over (Under)	%
<b>TOTAL FUNDING</b>	<b>\$ 66,219,499</b>	<b>\$ 67,371,264</b>	<b>\$ (1,151,764)</b>	<b>-1.7%</b>
<b>EXPENSES and FIXED ASSETS</b>				
PERSONNEL EXPENSES	\$ 35,957,450	\$ 35,803,311	\$ 154,139	0.4%
MEETINGS, TRAVEL and CONFERENCE CALLS	3,332,718	3,566,146	(233,428)	-6.5%
CONSULTANTS and CONTRACTS	12,110,467	14,311,466	(2,200,999)	-15.4%
RENT	2,934,191	2,987,777	(53,586)	-1.8%
OFFICE COSTS, PROFESSIONAL SERVICES and MISC.	5,594,131	6,231,108	(636,977)	-10.2%
Other Non-Operating Expenses	99,828	131,000	(31,172)	-23.8%
FIXED ASSET PURCHASES (excluding depreciation)	4,535,592	3,618,500	917,092	25.3%
<b>TOTAL</b>	<b>\$ 64,564,378</b>	<b>\$ 66,649,308</b>	<b>\$ (2,084,930)</b>	<b>-3.1%</b>
<b>FTEs</b>	<b>192.97</b>	<b>192.30</b>	<b>0.67</b>	<b>0.3%</b>

<sup>1</sup> Based on prior experience, management expects additional vendor invoices will be received that relate to the 2015 period. When received, these invoices will be recognized during the 2015 closing process and included in the final audit report. While it is difficult to estimate the impact perfectly, we expect an amount up to \$100k.

**NERC VARIANCES - excluding CRISP**

NERC was \$1.3M, 2.2% over budget at year-end due primarily to the following previously reported items which required and received all necessary reserve authorizations:

- (1) Consulting support for assessment studies regarding the EPA’s proposed Clean Power Plan;
- (2) Contract costs for multiple reliability tools and costs of a secure alert system that was anticipated to be replaced by another system at lower costs<sup>2</sup>;
- (3) Leasehold improvements in the Atlanta and DC offices, which were funded by reserves and approved by the FAC at their meeting in November, 2014;
- (4) Software costs for the development of the document management system for which reserve funding was authorized at the FAC meeting in May 2015 and affirmed through a subsequent FERC filing; and
- (5) The executive and employee compensation studies.

**YTD Actual vs Budget  
By Category – Excluding CRISP**

	Actual	Budget	Variance Over (Under)	%
<b>TOTAL FUNDING</b>	<b>\$ 57,600,538</b>	<b>\$ 57,550,142</b>	<b>\$ 50,398</b>	<b>0.1%</b>
<b>EXPENSES and FIXED ASSETS</b>				
PERSONNEL EXPENSES	\$ 35,616,251	\$ 35,344,061	\$ 272,190	0.8%
MEETINGS, TRAVEL and CONFERENCE CALLS	3,280,418	3,516,146	(235,728)	-6.7%
CONSULTANTS and CONTRACTS	7,111,455	6,645,411	466,044	7.0%
RENT	2,934,191	2,987,777	(53,586)	-1.8%
OFFICE COSTS, PROFESSIONAL SERVICES and MISC.	5,460,162	5,576,108	(115,946)	-2.1%
Other Non-Operating Expenses	99,828	131,000	(31,172)	-23.8%
FIXED ASSET PURCHASES (excluding depreciation)	4,503,722	3,518,500	985,222	28.0%
<b>TOTAL</b>	<b>\$ 59,006,027</b>	<b>\$ 57,719,003</b>	<b>\$ 1,287,024</b>	<b>2.2%</b>
<b>FTEs</b>	<b>191.31</b>	<b>190.42</b>	<b>0.89</b>	<b>0.5%</b>

<sup>2</sup> A replacement system is currently under evaluation.

Following is a brief summary of variances by major categories (excluding CRISP):

- Personnel expenses were very close to budget (over \$272k or 0.8%). Salaries (including incentive compensation and employment agency fees) and associated payroll taxes were over budget approximately \$955k (3.3%) due primarily to the addition of staff resources during the year. This was offset by an under budget of \$683k (10.6%) in benefits and retirement costs due largely to the 2015 increase in medical premiums being lower than expected.
- Meeting, travel and conferencing expenses were collectively under budget \$236k, 6.7%. Meetings expenses were \$37k under budget. Travel expenses were \$153k under budget due to more aggressive travel expense management. Conferencing expenses were \$46k under budget.
- Consultant and Contract expenses were \$466k, 7.0%, over budget at year-end inclusive of the previously reported authorized uses of reserves. The table below summarizes actual vs. budget variances by department.
  - Reliability Assessments and Performance Analysis (RAPA) - Over budget \$190k primarily due to costs for consulting support for assessment studies regarding the EPA's proposed Clean Power Plan and added support for the Reliability Issues Steering Committee (RISC). The use of operating reserves received all required authorizations.
  - Reliability Risk Management – Over budget \$883k due to higher than budgeted costs for multiple reliability tools, costs resulting from delays in the replacement of a secure alert system, and costs resulting from delays in the transition from NERCnet to the new network established by the Eastern Interconnection Data Sharing Network, Inc. Effective September 30<sup>th</sup>, all NERCnet connections were discontinued and final billings are currently being settled.
  - General and Administrative – The over budget variance is related to the ERO effectiveness survey which began in 2014 and carried over into 2015.
  - Compliance Assurance and E-ISAC - Under budget due to lower than budgeted expenses related CIPC and CIP V5 support.
  - Training and Education – Under budget due to lower than budgeted costs associated with system operator testing, database maintenance and the database improvement project.
  - Information Technology – Under budget partially due to lower than budgeted costs for ERO application support and security programs. Additional under budget variances in this account were used to offset additional costs in fixed assets and travel.
  - Human Resources - Over budget due to costs for the executive and employee compensation study.

**Consultant and Contract Expenses  
By Department**

<b>CONSULTANTS and CONTRACTS</b>	<b>Actual</b>	<b>Budget</b>	<b>Variance Over (Under)</b>
COMPLIANCE ASSURANCE	\$ 297,654	\$ 388,000	\$ (90,346)
RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	1,145,230	955,450	189,780
RELIABILITY RISK MANAGEMENT	1,960,674	1,077,321	883,353
E-ISAC	990,391	1,090,135	(99,744)
TRAINING, EDUC and OP CERT	635,171	752,130	(116,959)
GEN & ADMIN	63,045	-	63,045
POLICY and EXTERNAL AFFAIRS	11,028	15,000	(3,972)
INFORMATION TECHNOLOGY	1,324,584	1,729,600	(405,016)
HUMAN RESOURCES	388,763	298,275	90,488
FINANCE and ACCOUNTING	294,915	339,500	(44,585)
<b>TOTAL (excluding CRISP)</b>	<b>\$ 7,111,455</b>	<b>\$ 6,645,411</b>	<b>\$ 466,044</b>

- Office Costs, Professional Services and Miscellaneous expenses were collectively \$116k, 2.1%, under budget.
  - Office Costs were \$229k, 7.0%, over budget due primarily to higher than budgeted expenses for subscriptions and publications, telecommunications, and service agreements related to network equipment and software licenses.
  - Professional services were \$340k, 15.1%, under budget due to lower than budgeted outside legal fees.
- Other Non-Operating expenses were \$31k, 23.8%, under budget due to lower than budgeted interest expense related to the capital financing loan. As a result of budget under runs in 2014, management did not draw on the loan in 2014 as was planned when the 2015 budget was developed.
- Fixed Asset Purchases (excluding depreciation) were \$985k, 28%, over budget due to the document management implementation and leasehold improvements in the Atlanta and DC offices, both funded by the authorized use of reserves (as previously mentioned above).

**SUMMARY OF VARIANCES BY PROGRAM**

The following table reflects variances by department as of December 31, 2015.

<b>DIRECT EXPENSES and NET FIXED ASSETS</b>	<b>2015 YTD Actual</b>	<b>2015 YTD Budget</b>	<b>Variance Over/(Under)</b>
RELIABILITY STANDARDS	3,696,126	4,800,751	(1,104,625)
COMPLIANCE ASSURANCE	5,901,739	5,370,325	531,414
ENFORCEMENT	2,581,585	2,456,441	125,144
RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	6,089,763	5,428,456	661,307
RELIABILITY RISK MANAGEMENT	5,857,313	4,394,735	1,462,578
E-ISAC	4,785,354	5,248,338	(462,983)
TRAINING, EDUCATION and OPERATOR CERTIFICATION	1,875,475	2,171,920	(296,445)
GENERAL and ADMINISTRATIVE and EXECUTIVE	8,512,551	7,071,800	1,440,751
POLICY and EXTERNAL AFFAIRS	1,869,977	1,558,089	311,888
LEGAL and REGULATORY	3,094,854	4,448,015	(1,353,162)
INFORMATION TECHNOLOGY	9,876,712	10,514,943	(638,231)
HUMAN RESOURCES	1,457,054	1,158,304	298,750
FINANCE and ACCOUNTING	3,407,524	3,096,886	310,638
<b>TOTAL (excluding CRISP)</b>	<b>59,006,027</b>	<b>57,719,003</b>	<b>1,287,024</b>
CRISP	5,558,351	8,930,306	(3,371,954)
<b>TOTAL (EXPENSES and NET FIXED ASSETS)</b>	<b>64,564,378</b>	<b>66,649,308</b>	<b>(2,084,930)</b>

Following is a brief summary of significant variances:

- Reliability Standards – Under budget primarily due to having fewer FTEs on staff than budgeted. As reliability standards transitioned to a steady state and the department improved efficiency, less resources were needed and therefore reallocated to other critical areas.
- Compliance Assurance – Over budget primarily due to the allocation of additional resources to support the implementation of the department’s risk-based compliance monitoring program.
- Reliability Assessments and Performance Analysis – Over budget due to higher than budgeted Consultant and Contract expenses (Clean Power Plan analysis mentioned above) and expenditures associated with the development of the Reliability Assessment Data System (RADS). These development costs were budgeted in the Information Technology department, but transferred to RAPA to align the costs with the users of the system.

- Reliability Risk Management – includes the Event Analysis, Situation Awareness and Infrastructure Security departments:
  - Event Analysis – Over budget primarily due to the reclassification of development costs for the Event Analysis Management System budgeted in Information Technology but recorded under Event Analysis.
  - Situation Awareness – Over budget due to higher than budgeted Consultant and Contract expenses (reliability tools and NERCnet costs mentioned above).
- E-ISAC – Under budget primarily due to lower than budgeted personnel expenses as a result of having fewer FTEs on staff than were budgeted.
- General and Administrative and Executive – Over budget due to the approved use of operating reserves for leasehold improvements in the Atlanta and DC offices. Additionally, this department includes personnel resources, including the Chief Reliability Officer and supporting staff, who have oversight and responsibilities across multiple operating areas.
- Legal and Regulatory – Under budget due to having fewer FTEs on staff than were budgeted and due to lower than budgeted expenses for outside legal counsel.
- Information Technology – Under budget due to several capital projects that were budgeted in IT, but charged to the program utilizing the product to properly align costs. These reductions were offset by additional developmental costs associated with the new document management program, which received all necessary reserve authorizations.

**Board of Trustees Expenses**

As detailed in the following table, Board of Trustee expenses were over budget by \$32k, 2.1% primarily due to unbudgeted trustee search fees related to the resignation of one trustee.

Board of Trustee Expenses	Actual	Budget	Variance Over (Under)	%
<b>Meetings and Travel Expenses</b>				
Quarterly Board Meetings and Conference Calls	213,561	244,000	(30,439)	-12.5%
Trustee Travel	153,891	150,000	3,891	2.6%
<b>Total Board of Trustees Meetings and Travel Expenses</b>	<b>367,453</b>	<b>394,000</b>	<b>(26,547)</b>	<b>-6.7%</b>
<b>Professional Services</b>				
Independent Trustee Fees	1,049,689	1,085,000	(35,311)	-3.3%
Trustee Search Fees	93,397	-	93,397	0.0%
<b>Total Board of Trustee Professional Services Expenses</b>	<b>1,143,086</b>	<b>1,085,000</b>	<b>58,086</b>	<b>5.4%</b>
<b>Total Board of Trustee Expenses</b>	<b>1,510,538</b>	<b>1,479,000</b>	<b>31,538</b>	<b>2.1%</b>

**Projection Variance - September 30, 2015 Projection vs December 31, 2015 Actual  
(Excluding CRISP)**

The following table compares 2015 year-end actual results to the September 30, 2015 year-end projection. Actual expenses and fixed assets were approximately \$500k less than the prior projection (less than 1%). NERC experienced less costs than expected in meetings and travel, contracts and consultants, and fixed assets while having slightly more than expected expenses in various other categories. The variance in fixed asset spending is primarily related to several projects that were expected to be completed by the end of 2015, but will carry over into first quarter, 2016. As further explained below under the operating reserve analysis, the necessary funds to complete these projects is available in the Future Obligation Reserve and their completion in 2016 will have no impact on that year’s budget.

	12/31/15 Year-End Actual	09/30/15 Year-End Projection	Variance (\$)	Variance (%)
<b>TOTAL FUNDING</b>	<b>\$ 57,600,538</b>	<b>\$ 57,564,083</b>	<b>\$ 36,455</b>	<b>0.1%</b>
<b>EXPENSES and FIXED ASSETS</b>				
PERSONNEL EXPENSES	\$ 35,616,251	\$ 35,442,306	\$ 173,945	0.5%
MEETINGS, TRAVEL and CONFERENCE CALLS	3,280,418	3,408,962	(128,544)	-3.8%
CONSULTANTS and CONTRACTS	7,111,455	7,584,139	(472,684)	-6.2%
RENT	2,934,191	2,877,749	56,442	2.0%
OFFICE COSTS, PROFESSIONAL SERVICES and MISC.	5,460,162	5,403,532	56,629	1.0%
Other Non-Operating Expenses	99,828	70,206	29,623	42.2%
FIXED ASSET PURCHASES (excluding depreciation)	4,503,722	4,724,472	(220,750)	-4.7%
<b>TOTAL</b>	<b>\$ 59,006,027</b>	<b>\$ 59,511,366</b>	<b>\$ (505,339)</b>	<b>-0.8%</b>
<b>FTEs</b>	<b>191.31</b>	<b>191.80</b>	<b>(0.49)</b>	<b>-0.3%</b>

**CRISP VARIANCES**

CRISP was \$3.4M, 37.7%, under budget at year-end, primarily due to lower than budgeted contract and consulting expenses. When the 2015 budget was prepared, it was assumed that all CRISP contracts would be executed and associated expenses would be incurred in 2015. However, as previously reported, a portion of CRISP expenses that were budgeted in 2015 were incurred in 2014. Contract and consulting expenses related to CRISP were \$2.7M under budget in 2015. The under runs in actual versus budgeted CRISP costs which are funded by CRISP participants will be credited to CRISP participants pursuant to the terms of the CRISP participant agreements.

**OPERATING RESERVES ANALYSIS**

As of December 31, 2015, the balance in working capital and operating reserves was \$9.0M, which was \$3.9M higher than budget. As previously reported, this higher than budgeted reserve balance was the result of two factors that were not anticipated at the time the 2015 budget was approved:

- (1) The reserve balance reflects \$2.7M in CRISP reserves that are in addition to a \$541k CRISP insurance reserve, due to timing differences between receipt of third-party funding for CRISP, which occurs at the beginning of the year, and expenses incurred throughout the year.
- (2) The beginning balance in working capital and operating reserves was \$1.9M higher than budgeted due to expense and fixed asset under runs in 2014. The actual 2015 beginning balance in working capital and operating reserves was \$7.5M, based upon audited 2014 year-end results.

				December 31, 2015 Reserve Balances				
	Actual	Budget	Variance Over (Under)	Future	Operating	System	Assessment	
				Obligations Reserve	Contingency Reserve	Operator Reserves	***CRISP Reserves	Stabilization Reserve
<b>2015 Beginning Reserve Balances</b>	\$ 7,460,907	\$ 5,573,225	\$ 1,887,682	\$ 3,569,492	\$ 2,011,402	\$ 1,294,513	\$ 585,500	\$ -
<b><u>Change in Reserves from Current Year Operations</u></b>								
Change in Reserves from budgeted operations	3,041,747	721,956	2,319,792	320,218	407,263	(353,959)	2,668,224	
Approved use of reserves	(1,386,626)	-	(1,386,626)		(1,386,626)			
<b><u>Capital Financing</u></b>								
Proceeds from Financing Activities (non-current only)	645,172		645,172		645,172			
Debt Service	(421,667)	(893,664)	471,997		(421,667)			
<b>Other adjustments to reserves**</b>	(348,342)	(322,218)	(26,124)	(453,640)	149,131		(43,833)	
<b>Reserve Balance</b>	<b>\$ 8,991,191</b>	<b>\$ 5,079,299</b>	<b>\$ 3,911,893</b>	<b>\$ 3,436,071</b>	<b>\$ 1,404,675</b>	<b>\$ 940,554</b>	<b>\$ 3,209,891</b>	<b>\$ -</b>

\*\*Represents transactions recorded only on the Statement of Financial Position (balance sheet) and do not impact the Statement of Activities (income statement), including recording of capitalized leases, amortization

\*\*\*Represents 2015 CRISP funding billed, net of 2014 credits issued for budget under runs.

The year-end balance in the Operating Contingency Reserve reflected in the above table is \$1.4M, but is expected to be \$1.98M after final adjustments (see note below).

- Approximately \$320k has been transferred from the Operating Contingency Reserve to the Future Obligations Reserve to fund ongoing projects which will be completed in early 2016, as noted above. All of these projects are IT related, have approved RCA's and executed contracts, were budgeted in 2015, and work is underway. The completion of these projects and their funding from the Future Obligations Reserve will have no impact on the 2016 budget.
- As contemplated in the business plan and budget, improvements to the existing CRATS software, standards balloting software and Phase II of the enterprise reporting tool will be funded (in conjunction with other ERO projects) using the capital financing program (3-year term loan). We normally fund these projects with available cash (reducing the Operating Contingency Reserve) and borrow for these projects at the end of the year when they are completed (replenishing the Operating Contingency Reserve). At the end of 2015, our Operating Contingency Reserve balance will appear artificially low (\$1.4M) since the work on these projects is not complete. The bank has agreed to extend our access to the loan into early 2016, so once these projects are complete, we will execute the borrowing and replenish the Operating Contingency Reserve to its targeted level. We currently project adding \$577k back to this Reserve when we complete the borrowing, so the actual projection for the Reserve is approximately \$1.98M, not the \$1.4M reflected in the table above.

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION**  
**Statement of Activities and Fixed Assets Budget**  
**(Unaudited)**  
**For the period ended 12/31/2015**

	Actual	Budget	Variance Over (Under)	%
<b>Funding</b>				
Assessments	\$ 55,308,374	\$ 55,308,375	-	
Penalties	1,155,000	1,155,000	-	
Third-Party Funding (CRISP)	7,740,505	8,943,589	(1,203,084)	
Testing	1,683,977	1,670,000	13,977	
Services & Software	71,000	50,000	21,000	
Workshop Fees	249,726	241,300	8,426	
Interest	10,761	3,000	7,761	
Miscellaneous	156	-	156	
<b>Total Funding</b>	<b>\$ 66,219,499</b>	<b>\$ 67,371,264</b>	<b>\$ (1,151,764)</b>	<b>-1.7%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 28,384,654	\$ 27,580,676	\$ 803,977	
Payroll Taxes	1,727,949	1,673,628	54,321	
Employee Benefits	3,241,432	3,547,177	(305,745)	
Savings & Retirement	2,603,415	3,001,829	(398,414)	
<b>Total Personnel Expenses</b>	<b>\$ 35,957,450</b>	<b>\$ 35,803,311</b>	<b>\$ 154,139</b>	<b>0.4%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 1,009,168	\$ 1,050,000	\$ (40,832)	
Travel	2,060,644	2,203,395	(142,751)	
Conference Calls	262,905	312,751	(49,846)	
<b>Total Meeting Expenses</b>	<b>\$ 3,332,718</b>	<b>\$ 3,566,146</b>	<b>\$ (233,428)</b>	<b>-6.5%</b>
<b>Operating Expenses</b>				
Consultants and Contracts	\$ 12,110,467	\$ 14,311,466	\$ (2,200,999)	
Rent & Improvements	2,934,191	2,987,777	(53,586)	
Office Costs	3,508,538	3,583,328	(74,790)	
Professional Services	2,053,450	2,611,280	(557,830)	
Miscellaneous	32,143	36,500	(4,357)	
Depreciation	2,115,118	2,333,006	(217,888)	
<b>Total Operating Expenses</b>	<b>\$ 22,753,907</b>	<b>\$ 25,863,357</b>	<b>\$ (3,109,450)</b>	<b>-12.0%</b>
<b>Other Non-Operating Expenses</b>				
	\$ 99,828	\$ 131,000	\$ (31,172)	-23.8%
Indirect Expenses	\$ -	\$ -	\$ -	
<b>Total Expenses</b>	<b>\$ 62,143,904</b>	<b>\$ 65,363,815</b>	<b>\$ (3,219,911)</b>	<b>-4.9%</b>
<b>Net Change in Assets</b>	<b>\$ 4,075,596</b>	<b>\$ 2,007,450</b>	<b>\$ 2,068,147</b>	<b>103.0%</b>
<b>Fixed Assets</b>				
Depreciation	\$ (2,115,118)	\$ (2,333,006)	\$ 217,888	
Computer & Software	3,027,213	3,153,500	(126,287)	
Furniture & Fixtures	193,216	-	193,216	
Equipment	1,035,303	465,000	570,303	
Leasehold Improvements	279,860	-	279,860	
Allocation of Fixed Assets	-	-	-	
<b>Incr(Dec) in Fixed Assets</b>	<b>\$ 2,420,474</b>	<b>\$ 1,285,494</b>	<b>\$ 1,134,981</b>	<b>88.3%</b>
<b>Total Budget (Expenses plus Incr(Dec) in Fixed Assets)</b>	<b>\$ 64,564,378</b>	<b>\$ 66,649,308</b>	<b>\$ (2,084,930)</b>	<b>-3.1%</b>
FTE's	192.97	192.30	0.67	0.3%

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION**  
**Statement of Financial Position**  
**(Unaudited)**  
**For the period ended 12/31/2015**

	Unaudited	Audited	Working Capital and Operating Reserves	
	12/31/2015	12/31/2014	12/31/2015	12/31/2014
<b>ASSETS</b>				
Cash	\$ 40,308,955	\$ 38,904,711	\$ 40,308,955	\$ 38,904,711
Accounts receivable, net of allowance for uncollectible accounts of \$0	3,823,561	5,059,002	3,823,561	5,059,002
Prepaid expenses and other current assets	1,291,805	756,727	1,291,805	756,727
Security deposit	125,416	99,136		
Employee Fiduciary - 457b	522,756	522,756		
457(f) Non-Qualified Def Comp	271,200	-		
Property and equipment	8,277,940	5,929,365		
Total Assets	\$ 54,621,633	\$ 51,271,697		
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities</b>				
<b>Current Portion</b>				
Accounts payable and accrued expenses (includes vacation accrual)	\$ 4,763,813	\$ 4,970,198	\$ (4,763,813)	\$ (4,970,198)
Accrued incentive compensation	4,724,260	4,054,329	(4,724,260)	(4,054,329)
Deferred rent-current	322,016	249,269	(322,016)	(249,269)
Deferred compensation - current	-	14,257	-	(14,257)
Capital lease obligations - current	64,728	56,457	(64,728)	(56,457)
Accrued retirement liabilities	1,869,077	1,907,562	(1,869,077)	(1,907,562)
Debt service - current portion	744,253	421,667	(744,253)	(421,667)
Deferred income	7,961,316	6,228,959	(7,961,316)	(6,228,959)
Deferred revenue - other	-	-	-	-
Deferred revenue - penalties	-	-	-	-
Deferred revenue - CRISP	-	3,953,379	-	(3,953,379)
Regional assessments	12,273,666	11,438,455	(12,273,666)	(11,438,455)
<b>Total Current Portion</b>	\$ 32,723,130	\$ 33,294,532		
<b>Long-Term Portion</b>				
Deferred compensation <sup>1</sup>	840,937	783,446		
Long-Term Debt	680,311	456,806		
Deferred Rent-non-current	3,412,298	3,569,492		
CRISP Insurance Reserve	541,667	500,000		
Capital lease obligations - non-current	151,752	216,481		
<b>Total Long-Term Portion</b>	\$ 5,626,965	\$ 5,526,224		
Total Liabilities	\$ 38,350,095	\$ 38,820,756		
Net Assets - unrestricted	\$ 12,561,538	\$ 8,485,941		
Net Assets - restricted	3,710,000	3,965,000	(3,710,000)	(3,965,000)
Total Liabilities and Net Assets	\$ 54,621,633	\$ 51,271,697	\$ 8,991,191	\$ 7,460,907
 <sup>1</sup> Includes 457b and 457f liabilities, life insurance for former executive, and retiree medical				
<b>Working Capital and Operating Reserves</b>	<b>\$ 8,991,191</b>	<b>\$ 7,460,907</b>		

<b>Financial Covenants</b>	
1 - WC & OR Balance to Debt Service Ratio > 1.2 to 1.0 (Working Capital / Debt Service)	12.08
2 - Liquidity to Debt Service Ratio > 1.5 to 1.0* (= Cash - Regional Assessments - Restricted Net Assets)	32.68