



Attached hereto is the unaudited report of NERC's budget-to-actual variance information for the fourth quarter of 2013, in accordance with the January 16 Order. This variance information was posted on NERC's website and reviewed in open session at the January 30, 2014 meeting of the NERC Finance and Audit Committee. The unaudited report was accepted by the NERC Board of Trustees at its meeting on February 6, 2014.

**I. NOTICES AND COMMUNICATIONS**

Notices and communications with respect to this filing may be addressed to:<sup>4</sup>

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\*Persons to be included on the  
Commission's official service list

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<sup>4</sup> Persons to be included on the Commission's service list are identified by an asterisk. NERC respectfully requests a waiver of Rule 203 of the Commission's regulations, 18 C.F.R. § 385.203 (2012), to allow the inclusion of more than two persons on the service list in this proceeding.

## II. 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/ Rebecca J. Michael*

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Dated: February 11, 2014

# **ATTACHMENT**

## North American Electric Reliability Corporation 2013 Unaudited Results – Actual to Budget Variance Analysis

Based upon preliminary, unaudited results for the year ending December 31, 2013, NERC ended the year almost exactly on budget, with an over budget variance of \$9.5k (0.0%) for total expenses and fixed asset (capital) purchases, inclusive of expenditures of reserves.<sup>1</sup> While there were some significant variances within the expense categories, as further explained below, this minor overall budget variance was primarily due to (1) higher personnel expenses resulting from the addition of senior personnel, higher than budgeted expenses for temporary office services needed to support NERC's ongoing operations during times of staff vacancies and higher incentive compensation based upon year-end performance results, which were partially offset by lower than budgeted benefits and retirement costs; (2) lower travel expenses due to having fewer FTEs on staff, fewer telecommuters, and various management initiatives to reduce overall travel expenses; (3) the reclassification of expenses related to development of the BES database and the Event Information Database System (EIDS), which were partially budgeted under consulting and contract expenses, but were recorded in Fixed Assets as capitalized software, and (4) lower contract and consulting expenses due to elimination or shifts in the timing of certain projects. All uses of operating reserves received necessary corporate authorizations and are further explained beginning on page 8 under the heading Operating Reserve Analysis.

### 2013 ACTUAL VERSUS BUDGET BY CATEGORY

	2013 Actual	2013 Budget	2013 Variance Over(Under)	%
TOTAL FUNDING	52,349,031	52,252,656	96,375	0.2%
<b>BUDGET - EXPENSES and FIXED ASSETS</b>				
PERSONNEL EXPENSES	31,811,932	31,298,403	513,527	1.6%
MEETINGS, TRAVEL and CONFERENCE CALLS	3,411,063	4,098,310	(687,247)	-16.8%
CONSULTANTS and CONTRACTS	7,585,573	8,816,254	(1,230,681)	-14.0%
RENT	2,722,106	2,756,840	(34,734)	-1.3%
OFFICE COSTS, PROFESSIONAL SERVICES and MISCELLANEOUS	5,403,217	5,494,346	(91,129)	-1.7%
Other Non-Operating Expenses	214,267	50,000	164,267	328.5%
FIXED ASSET PURCHASES (excludes the credit for depreciation)	3,147,577	1,772,100	1,375,477	77.6%
<b>TOTAL BUDGET</b>	<b>54,295,736</b>	<b>54,286,253</b>	<b>9,481</b>	<b>0.0%</b>
FTEs	174.75	186.25	(11.50)	-6.2%

<sup>1</sup> As of the writing of this report, management estimates approximately \$100k in outstanding 2013 vendor invoices will be accrued prior to preparation of the 2013 audit report. The company budgeted to spend \$1M in Known Contingencies Reserves in addition to planned operating and fixed asset (capital) expenditures. As further discussed under the Operating Reserve Analysis on page 8, the company spent a total of \$211,300 in Known and Unforeseen Contingency Reserves.

The following is an explanation the major factors influencing budgetary performance for 2013:

- **Personnel Expenses** were \$513.5k (1.6%) over budget
  - Salaries expense, which is comprised of base salaries, at risk performance compensation, employment agency fees, and temporary office services, was over budget \$1.3M (5.4%). Base salaries were over budget \$245.5k, primarily due to the addition of senior personnel. While total projected at risk performance compensation payments are approximately \$771k higher than budget, the payout amount is within approximately \$230,000 of the higher year end accrual amount contained in the September 2013 year end projection which was presented to the committee. Similar to previous budgets, the 2013 business budget for at risk performance compensation was based on a threshold payout level of 70 percent, with the final payout level dependent upon actual performance results, as well as the availability of funding for any payout amounts in excess of budget.<sup>2</sup> At risk performance compensation amounts are subject to subject to finalization and approval of corporate and departmental performance measures and year end performance reviews of personnel, as well as the receipt of management, CGHRC and Board of Trustee approvals in accordance with the company's compensation governance policies. Management will be providing the CGHRC, FAC and Board of Trustees with information regarding the financial impact of final year end performance results and incentive compensation recommendations and the final audited year end results will reflect actual performance and incentive compensation results.
  - Temporary office services expenses were approximately \$223.7k over budget due to the increased use of temporary staffing to support NERC's ongoing operations during times of staff vacancies.
  - Payroll taxes were \$68.0k (4.7%) over budget due to a higher maximum taxable earnings cap than the assumption in the budget.
  - Benefits expense, which is comprised of education and training, health and life, workers compensation, and relocation was \$250.3k (8.1%) under budget, primarily due to having fewer FTEs on staff than budgeted and due to lower than budgeted renewal costs associated with NERC's health plans. In the 2013 budget, NERC assumed the cost of health plans would increase 10% over 2012, but actual renewal rates, effective April 1, 2013, increased 9%.
  - Retirement expenses were \$614.5k (22.7%) under budget primarily due to having fewer FTEs on staff, later eligibility dates due to timing of hiring and due to forfeiture of unvested funds related to personnel attrition.

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<sup>2</sup> The Q1 and Q2 2013 year-end forecasts which were presented to the Finance and Audit Committee each quarter and associated performance compensation accruals were initially based on an assumed payout level of 80% and then increased to 83% in the September, 2013 (Q3) year-end forecast.

- **Meetings, Travel, Conferencing and Webinar** expenses were under budget \$687.2k (16.8%), primarily due to lower travel costs, as explained above. Travel costs, which were \$739.5k lower than budget, were offset by higher than budgeted meetings expense. Meetings expense, which includes the cost of rented space and catering for meetings and workshops held in hotels and the cost of catering for meetings held in NERC or Regional Entity offices, was over budget \$63.5k primarily due to meetings related to the standards reform initiative, GMD and RISC, which were not specifically budgeted.
- **Consultants and Contracts** expenses were \$1.2M (14.0%) under budget due primarily, as noted above, the reclassification of expenses related to development of the BES database and the Event Information Database System (EIDS), which were partially budgeted under consulting and contract expenses in Information Technology, but were recorded in Fixed Assets as capitalized software, in addition to the elimination or shifts in the timing of certain projects.. The following table summarizes the over and under budget variances for Consultants and Contracts by Program area.

<b>CONSULTANTS and CONTRACTS</b>	<b>Actual</b>	<b>Budget</b>	<b>Over(Under)</b>
STANDARDS	310,600	150,000	160,600
COMPLIANCE OPERATIONS	17,282	-	17,282
COMPLIANCE ENFORCEMENT	-	-	-
RELIABILITY ASSESSMENTS and PERFORMANCE ANALYSIS	757,899	685,000	72,899
<b>RELIABILITY RISK MANAGEMENT</b>			
EVENT ANALYSIS	22,050	120,000	(97,950)
SITUATION AWARENESS	2,736,898	2,743,180	(6,282)
<b>RELIABILITY RISK MANAGEMENT</b>	<b>2,758,948</b>	<b>2,863,180</b>	<b>(104,232)</b>
CRITICAL INFRASTRUCTURE DEPARTMENT	683,667	785,000	(101,333)
TRAINING, EDUCATION and OPERATOR CERTIFICATION	587,427	848,574	(261,147)
GENERAL and ADMINISTRATIVE and EXECUTIVE	-	-	-
POLICY and EXTERNAL AFFAIRS	39,223	150,000	(110,777)
LEGAL and REGULATORY	3,000	-	3,000
INFORMATION TECHNOLOGY	1,400,503	2,721,000	(1,320,497)
HUMAN RESOURCES	468,398	288,500	179,898
FINANCE and ACCOUNTING	558,625	325,000	233,625
<b>TOTAL CONTRACTS and CONSULTANTS</b>	<b>7,585,573</b>	<b>8,816,254</b>	<b>(1,230,681)</b>

- The over budget variance in the Reliability Standards Program was related to the NERC standards reform initiative which utilized outside expert consulting resources to review existing standards. These costs were funded from Unknown Contingency operating reserves.

- Compliance Operations – Over budget \$17.3k for outside consulting assistance in connection with the reliability assurance initiative. These costs were funded from the Unknown Contingency operating reserves.
- Reliability Assessments and Performance Analysis – Over budget \$72.9k primarily related to change orders in connection with improvements to the GADS and TADS databases and to evaluate the development of a web-based replacement for pcGAR. These costs were funded from the Unknown Contingency operating reserves.
- Critical Infrastructure Department – Under budget \$101.3k due to lower than budget expenses related to cyber risk preparedness assessments and outside contract and consulting support for the ES-ISAC.
- Reliability Risk Management – The use of subject matter experts to support event analysis was not required, resulting in an under budget variance of \$98.0k. Situation Awareness was \$6.3k under budget due to lower than budgeted costs for additional industry user licensing fees for SAFNR, which were incurred in 2012 but budgeted in 2013, and due to lower than budgeted costs for the current secure alerts system, the replacement of which is included in NERC's 2014 budget. The under budget expenses related to SAFNR and the alerts system were offset by higher than budgeted network communication expenses for NERCnet.
- Training, Education and Operator Certification – \$261.1k under budget due to lower than budgeted expenses for consulting and contract support for (1) maintenance of the current system operator certification and continuing education database (SOCCED), (2) web-based course development and, (3) the continuing education program.
- Policy and External Affairs – Under budget \$110.8k due to reductions in external contract support and assumption of greater responsibilities by NERC staff.
- Information Technology – Under expense budget \$1.3M due to the reclassification of expenses related to development of the Bulk Electric System Exception (BES) database and Events Information Data System (EIDS), which were partially budgeted as consulting and contract expense, but recorded in Fixed Assets as capitalized software, (\$850.0k of the total \$2.7M IT budget for consultants and contracts was allocated to these projects). In addition, the company is continuing to evaluate its data warehouse design requirements in connection with its long term IT infrastructure and application planning. This reduced budgeted expenses by \$250k. As discussed in previous budget variance reports, total costs to complete the BES database and EIDS were higher than budget, requiring expenditure of operating reserves as reflected in the operating reserve analysis.
- Human Resources - \$179.9k over budget at year end, due primarily to higher than budgeted costs associated with staff and board compensation studies.
- Finance and Accounting - \$233.6k over budget due to the use of budgeted operating reserves to fund additional outside auditor support in connection with various risk management and



internal control initiatives and for costs associated with the evaluation and implementation of upgrades to the company's accounting system.

- **Rent** - \$34.7k, 1.3%, under budget due to lower than budgeted straight-line rent expense as a result of the refund of an excess tenant improvement associated with the expansion of the Atlanta office.
- **Office Costs, Professional Services and Miscellaneous**
  - Office Costs were \$26.8k, 0.8%, over budget primarily due to higher than budgeted, (1) communication expenses (i.e. internet and cellular services), (2) equipment costs to support employee communications, and (3) equipment repair and service contracts related to NERC's leased offices in Atlanta and Washington, DC. These higher than budgeted expenses were offset by lower than budgeted costs related to copying, use taxes and merchant card fees.
  - Professional Services were \$110.9k, 4.8%, under budget due lower than budgeted use of outside counsel. The under budget variance for outside counsel expenses was offset by an increase in outside services expenses related to the implementation of a new travel and expense management system which will improve efficiency and reduce long term costs.
  - Miscellaneous expenses, which were \$7.0k, 32.6%, under budget, consist of employee rewards and recognition expenses, costs associated with community responsibility activities, and charitable contributions. The total cost of year end employee recognition events in both Atlanta and DC was \$8.5k.
- **Other Non-Operating Expenses**, were over budget \$164.3k, 328.5%, due primarily to the retirement or disposal of certain fixed assets.
- **Fixed Asset Purchases**, excluding a credit for depreciation, were \$1.4M, 77.6%, over budget primarily due to, (1) capitalization of the development costs of the BES database and EIDS, as previously noted, and (2) furniture and leasehold improvement costs required for the approved increase in lease space for the Atlanta offices. As described in previous variance reports, the costs associated with the increase in lease space required for the Atlanta office was not fully known and was estimated at the time the budget was developed, but were within the range of projected expenditures at the time the lease amendment and associated improvements were authorized by the board and committee. Total costs also include the use of operating reserve funding for the Standards Balloting System, the BES database and EIDS and which are further detailed in the Operating Reserve Analysis and received necessary corporate authorizations in accordance with NERC's Working Capital and Operating Reserve Policy.

### Board of Trustees Expenses

The following table provides actual and budgeted expenses of the Board of Trustees. The amounts reflected in this table are included in the totals by expense category in the tables presented above. Trustee expenses were under budget \$30.5k, 2.2%, primarily due to lower than budgeted trustee compensation, which was due to a reduction in the total number of independent trustees from eleven to ten, offset by an increase in trustee compensation as approved by the Board on August 15, 2013.

	2013 Actual	2013 Budget	2013 Variance Over(Under)	%
<b>Board of Trustee Expenses</b>				
<b>Meetings and Travel Expenses</b>				
Quarterly Board Meetings	239,322	234,000	5,322	2.3%
Trustee Travel	161,425	155,000	6,425	4.1%
<b>Total Board of Trustees Meetings and Travel Expenses</b>	<b>400,747</b>	<b>389,000</b>	<b>11,747</b>	<b>3.0%</b>
<b>Professional Services</b>				
Independent Trustee Fees	931,250	980,000	(48,750)	-5.0%
Trustee Search Fees	6,495	-	6,495	0.0%
<b>Total Board of Trustee Professional Services Expenses</b>	<b>937,745</b>	<b>980,000</b>	<b>(42,255)</b>	<b>-4.3%</b>
<b>Total Board of Trustee Expenses</b>	<b>1,338,492</b>	<b>1,369,000</b>	<b>(30,508)</b>	<b>-2.2%</b>

### Analysis of Variance – 2013 Actual Compared to June 30, 2013 Projection

The following table provides a comparison by category of 2013 actual, unaudited results to the 2013 year-end projections included in the June 30, 2013 Budget to Actual Variance Report and the 2014 NERC Business Plan and Budget. As reflected, total actual expenses and fixed assets were approximately \$1.3M less than the prior projection. The main categories with reductions in total spending were travel expense, consultant and contract expenses, office costs and professional services.

	2013 Actual	2013 Budget	2013 Variance Over(Under)	%	2013 Projection as of June 30, 2013	2013 Actual Compared to June 2013 Projection Over/(Under)
TOTAL FUNDING	52,349,031	52,252,656	96,375	0.2%	52,246,830	102,201
<b>BUDGET - EXPENSES and FIXED ASSETS</b>						
PERSONNEL EXPENSES	31,811,932	31,298,403	513,527	1.6%	31,621,401	190,531
MEETINGS, TRAVEL and CONFERENCE CALLS	3,411,063	4,098,310	(687,247)	-16.8%	3,901,664	(490,600)
CONSULTANTS and CONTRACTS	7,585,573	8,816,254	(1,230,681)	-14.0%	8,140,646	(555,073)
RENT	2,722,106	2,756,840	(34,734)	-1.3%	2,695,217	26,889
OFFICE COSTS, PROFESSIONAL SERVICES and MISCELLANEOUS	5,403,217	5,494,346	(91,129)	-1.7%	5,877,172	(473,954)
Other Non-Operating Expenses	214,267	50,000	164,267	328.5%	128,060	86,207
FIXED ASSET PURCHASES (excludes the credit for depreciation)	3,147,577	1,772,100	1,375,477	77.6%	3,187,704	(40,128)
<b>TOTAL BUDGET</b>	<b>54,295,736</b>	<b>54,286,253</b>	<b>9,481</b>	<b>0.0%</b>	<b>55,551,864</b>	<b>(1,256,128)</b>
FTEs	174.75	186.25	(11.50)	-6.2%	179.04	(4.29)

## Operating Reserve Analysis

As detailed by the table on page 10, the use of “Known Contingency Reserves” included expenditures for (1) the development of two new enterprise software applications, the BES Exception Application, and the Events Information Database System, which collectively utilized \$383.8k of operating reserves, (both of these software development projects were partially budgeted in the operating expense budget as Contracts and Consultants but actual costs are recorded as capital costs under fixed assets)<sup>3</sup>; (2) consulting support for the Reliability Assurance Initiative and risk management audits, collectively \$158.2k; and (3) implementation of additional back office accounting and expense management systems, together with consulting support, related to implementation of the FERC Audit recommendations, \$92.7k. The use of “Unknown Contingency Reserves” was primarily related to funding for (1) the Standards Overview Project, \$160.6k; (2) GADS and TADS upgrades and maintenance and development of a web-based replacement application for pcGAR, collectively \$253.7k; and (3), a total of \$164.2k in costs in excess of the tenant improvement allowance associated with an increase in lease space for the Atlanta office, of which \$49.6k was recorded as operating expenses and \$114.6k of which was recorded in fixed assets. As previously reported, the total cost of construction, furniture, equipment, leasehold improvements, and operating expenses was \$915,162. The tenant improvement allowance was \$751,007. The difference between these two figures of \$164,155 represents the total cash outlay by NERC for the build out of the additional leased space.

As part of the working capital and operating reserve analysis and review, it’s important to keep in mind that NERC’s 2013 approved budget included a reduction in assessments associated with the return of \$2,033,597 in excess operating reserves, which would be funded from \$1,686,309 from Unknown Contingency Reserves and \$347,290 from the System Operator Reserves. The actual return of excess operating reserves was \$1,946,705<sup>4</sup>, of which \$1,897,609 came from Known and Unknown Contingency Reserves and \$49,096 came from the System Operator Reserves. As further discussed in the next paragraph, lower than planned expenditures of System Operator Reserves reduced the actual amount of excess reserves returned.

In addition, the 2013 NERC budget provided for the use of up to \$1,000,000 from each of the Known and Unknown Contingency Reserve Balances. Actual use of the \$2M Known and Unknown Contingency Reserve balances was \$211,300.<sup>5</sup> The System Operator program reserve balance was reduced by \$49,096 compared to the planned reduction of \$347,288. This lower than anticipated reduction in System Operator reserves was due to (1) higher than budgeted funding from testing fees and certificate renewals, (2) lower than budgeted contract and consultant expenses related to exam development, and (3) lower than budgeted indirect costs.

<sup>3</sup> Funding for the Standards Balloting System was not specifically budgeted, but was available from reserves due to under runs in the IT capital budget which were transferred to reserves

<sup>4</sup> The \$2.0M budgeted return of excess reserves and the \$1.9M actual return of excess reserves do not include the \$120.8k amortization of future liabilities, which reduces the total reserve balance, but impacts the Statement of Financial Position only and is not reflected in the total budget for expenses and fixed assets.

<sup>5</sup> \$1,897,609 actual return of excess Known and Unknown Reserves minus \$1,686,309 budgeted, equals \$211,300.

The following table compares current reserve balance projections to the projected starting reserve balances contained in the 2014 budget. The company ended 2013 with approximately \$515k in additional reserves compared to the January 1, 2014 reserve projection contained in the company's approved 2014 budget.

	Total Reserves	Known Contingencies	Unknown Contingencies	Operator Certification
<b>Actual</b>				
<b>TOTAL Operating Reserves</b>				
Beginning Balance 1/1/2013	7,012,052	1,000,000	4,446,090	1,565,962
Generation (Use) from Budgeted Operations	1,169,150		1,218,245	(49,096)
Generation (Use)-Known and Unknown Contingency Reserve	(3,115,855)	(674,205)	(2,441,650)	
Proceeds from Financing Activities	-			
Amortize adjustment for future liabilities	(120,801)		(120,801)	
<b>Balance 12/31/13</b>	<b>4,944,546</b>	<b>325,795</b>	<b>3,101,884</b>	<b>1,516,866</b>
<b>Projection per 2014 Budget</b>				
<b>TOTAL Operating Reserves</b>				
Beginning Balance 1/1/2013	7,012,052	1,000,000	4,446,090	1,565,962
Generation (Use) from Budgeted Operations	6,212		6,212	
Generation (Use)-Known and Unknown Contingency Reserve	(3,311,246)	(836,706)	(2,115,324)	(359,216)
Proceeds from Financing Activities	843,000		843,000	
Amortize adjustment for future liabilities	(120,801)		(120,801)	
<b>Balance 12/31/13</b>	<b>4,429,217</b>	<b>163,294</b>	<b>3,059,177</b>	<b>1,206,746</b>
<b>Variance</b>				
<b>TOTAL Operating Reserves</b>				
Beginning Balance 1/1/2013	-	-	-	-
Generation (Use) from Budgeted Operations	1,162,938	-	1,212,033	(49,096)
Generation (Use)-Known and Unknown Contingency Reserve	195,391	162,501	(326,326)	359,216
Proceeds from Financing Activities	(843,000)	-	(843,000)	-
Amortize adjustment for future liabilities	-	-	-	-
<b>Balance 12/31/13</b>	<b>515,328</b>	<b>162,501</b>	<b>42,707</b>	<b>310,120</b>

OPERATING RESERVE ANALYSIS - December 31, 2013

	2013 Actual	2013 Budget	Generation (Use) of Reserves	2013 Generation (Use) of Reserves in Excess of Budget		
				Known Contingency Reserves	Unknown Contingency Reserves <sup>1</sup>	System Operator Reserves
<b>Beginning Working Capital and Operating Reserves</b>						
Balance as of 12/31/12 - per audit	8,167,396	5,440,748	2,726,648			
Release of penalty funding from restriction	2,512,500		2,512,500			
Less: Adjustment for future liabilities	(3,667,844)		(3,667,844)			
<b>Available Working Capital and Operating Reserves</b>	<b>7,012,052</b>	<b>5,440,748</b>	<b>1,571,304</b>	<b>1,000,000</b>	<b>4,446,090</b>	<b>1,565,962</b>
<b>(1) Generation (Use) of Operating Reserves from Budgeted Operations</b>						
Funding	52,262,956	52,252,656	10,300		10,300	
Personnel	(31,811,932)	(31,298,403)	(513,527)		(513,527)	
Meetings, Travel and Conference Calls	(3,411,063)	(4,098,310)	687,247		687,247	
Contracts and Consultants	(6,435,212)	(7,386,518)	951,306		951,306	
Operating Expenses (excl. contracts, consultants & depreciation)	(7,999,285)	(8,214,186)	214,901		263,997	(49,096)
Non-Operating Expenses	(114,559)	(50,000)	(64,559)		(64,559)	
Fixed Assets (excluding depreciation)	(1,321,755)	(1,444,600)	122,845		122,845	
<b>Total Operating Reserves Generated(Used) from Budgeted Operations</b>	<b>1,169,150</b>	<b>(239,361)</b>	<b>1,408,512</b>	<b>-</b>	<b>1,457,608</b>	<b>(49,096)</b>
<b>(2) Additions to Operating Reserves</b>						
Services and Software Fees not budgeted	86,075	-	86,075		86,075	
<b>Total Additions to Operating Reserves</b>	<b>86,075</b>	<b>-</b>	<b>86,075</b>	<b>-</b>	<b>86,075</b>	<b>-</b>
<b>(3) Expenditures of Operating Reserves</b>						
<b>Contracts and Consultants</b>						
NERC Standards Overview Project	(310,600)	(150,000)	(160,600)		(160,600)	
GADS and TADS Change Management and Consulting	(269,479)	(80,000)	(189,479)		(189,479)	
pcGAR web-based application development	(64,225)	-	(64,225)		(64,225)	
ERO Applications - BES/EIDS - Non-Capitalized Costs	(50,150)	(994,736)	944,586	944,586		
Reliability Assurance Initiative and Other Auditing	(363,232)	(205,000)	(158,232)	(158,232)		
Systems review and implementation (FERC Audit)	(92,675)		(92,675)	(92,675)		
<b>Subtotal</b>	<b>(1,150,361)</b>	<b>(1,429,736)</b>	<b>279,375</b>	<b>693,679</b>	<b>(414,304)</b>	<b>-</b>
<b>Operating Expenses</b>						
Travel and invoice system implementation	(76,452)	(37,000)	(39,452)	(39,452)		
AFC Expansion	(49,587)		(49,587)		(49,587)	
<b>Subtotal</b>	<b>(126,039)</b>	<b>(37,000)</b>	<b>(89,039)</b>	<b>(39,452)</b>	<b>(49,587)</b>	<b>-</b>
<b>Other Non-Operating Expenses</b>						
Disposal of assets	(99,708)		(99,708)		(99,708)	
Interest on Capital Financing						
<b>Subtotal</b>	<b>(99,708)</b>	<b>-</b>	<b>(99,708)</b>	<b>-</b>	<b>(99,708)</b>	<b>-</b>
<b>Fixed Assets</b>						
SAS Software Upgrade	(33,190)	-	(33,190)		(33,190)	
AFC Expansion - Furniture, Equipment and LI - net in excess of TIA	(114,568)	-	(114,568)		(114,568)	
ERO Applications - BES Exceptions - Capitalized Costs	(772,177)	-	(772,177)	(772,177)		
ERO Applications - EIDS - Capitalized Costs	(638,755)	(82,500)	(556,255)	(556,255)		
Standards Balloting Software	(267,131)	(245,000)	(22,131)		(22,131)	
<b>Subtotal</b>	<b>(1,825,821)</b>	<b>(327,500)</b>	<b>(1,498,321)</b>	<b>(1,328,432)</b>	<b>(169,889)</b>	<b>-</b>
<b>Total Expenditure of Operating Reserves</b>	<b>(3,201,929)</b>	<b>(1,794,236)</b>	<b>(1,407,693)</b>	<b>(674,205)</b>	<b>(733,488)</b>	<b>-</b>
<b>(4) Net Expenditure of Operating Reserves</b>	<b>(3,115,855)</b>	<b>(1,794,236)</b>	<b>(1,321,619)</b>	<b>(674,205)</b>	<b>(647,413)</b>	<b>-</b>
<b>Total Generation (Use) of Operating Reserves</b>	<b>(1,946,705)</b>	<b>(2,033,597)</b>	<b>86,894</b>	<b>(674,205)</b>	<b>810,195</b>	<b>(49,096)</b>
<b>TOTAL Operating Reserves</b>				<b>2013 Reserve Balance</b>		
Beginning Balance 1/1/2013	7,012,052	5,440,748	1,571,304	1,000,000	4,446,090	1,565,962
Generation (Use) from Budgeted Operations	1,169,150	(239,361)	1,408,512	-	1,218,245	(49,096)
Generation (Use) - Known and Unknown Contingency Reserve	(3,115,855)	(1,794,236)	(1,321,619)	(674,205)	(2,441,649)	
Proceeds from Financing Activities (non-current portion only)						
Amortize adjustment for future liabilities	(120,801)		(120,801)		(120,801)	
<b>Balance 12/31/13</b>	<b>4,944,546</b>	<b>3,407,151</b>	<b>1,537,397</b>	<b>325,795</b>	<b>3,101,885</b>	<b>1,516,866</b>

<sup>1</sup>The use of Unknown Contingency Reserves includes the \$1,686,309 budgeted reduction in reserves. The 2013 budget also included a \$347,288 planned reduction in the System Operator Reserves, for a total budgeted reduction in reserves of \$2,033,057.

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION**  
**Statement of Activities and Fixed Assets**  
**(Unaudited)**  
**For the period ended 12/31/2013**

	2013 Actual	2013 Budget	2013 Variance Over(Under)	%
<b>Funding</b>				
Assessments	47,604,156	47,604,156	0	
Penalties	2,512,500	2,512,500	(0)	
Testing	1,822,154	1,680,000	142,154	
Services & Software	86,075	-	86,075	
Workshop Fees	320,725	436,000	(115,275)	
Interest	3,197	20,000	(16,803)	
Miscellaneous	224	-	224	
<b>Total Funding</b>	<b>52,349,031</b>	<b>52,252,656</b>	<b>96,375</b>	<b>0.2%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	25,366,448	24,056,165	1,310,283	
Payroll Taxes	1,527,728	1,459,710	68,018	
Employee Benefits	2,829,678	3,079,941	(250,263)	
Savings & Retirement	2,088,077	2,702,588	(614,511)	
<b>Total Personnel Expenses</b>	<b>31,811,932</b>	<b>31,298,403</b>	<b>513,527</b>	<b>1.6%</b>
<b>Meeting Expenses</b>				
Meetings	1,105,474	1,042,000	63,474	
Travel	1,998,987	2,738,500	(739,513)	
Conference Calls	306,603	317,810	(11,207)	
<b>Total Meeting Expenses</b>	<b>3,411,063</b>	<b>4,098,310</b>	<b>(687,247)</b>	<b>-16.8%</b>
<b>Operating Expenses</b>				
Consultants and Contracts	7,585,573	8,816,254	(1,230,681)	
Rent & Improvements	2,722,106	2,756,840	(34,734)	
Office Costs	3,208,331	3,181,515	26,816	
Professional Services	2,180,405	2,291,331	(110,926)	
Miscellaneous	14,482	21,500	(7,018)	
Depreciation	1,945,946	1,579,801	366,145	
<b>Total Operating Expenses</b>	<b>17,656,843</b>	<b>18,647,241</b>	<b>(990,398)</b>	<b>-5.3%</b>
<b>Other Non-Operating Expenses</b>	<b>214,267</b>	<b>50,000</b>	<b>164,267</b>	<b>328.5%</b>
<b>Total Expenses</b>	<b>53,094,105</b>	<b>54,093,954</b>	<b>(999,851)</b>	<b>-1.8%</b>
<b>Net Change in Assets</b>	<b>(745,075)</b>	<b>(1,841,298)</b>	<b>1,096,225</b>	<b>-59.5%</b>
<b>Fixed Assets</b>				
Depreciation	(1,945,946)	(1,579,801)	(366,145)	
Computer & Software CapEx	2,177,164	1,556,100	621,064	
Furniture & Fixtures CapEx	354,745	-	354,745	
Equipment CapEx	540,478	216,000	324,478	
Leasehold Improvements	75,189	-	75,189	
<b>Incr(Dec) in Fixed Assets</b>	<b>1,201,630</b>	<b>192,299</b>	<b>1,009,331</b>	<b>524.9%</b>
<b>Total Budget (Expenses plus Incr(Dec) in Fixed Assets)</b>	<b>54,295,736</b>	<b>54,286,253</b>	<b>9,481</b>	<b>0.0%</b>
<b>Change in Operating Reserves (Total Funding less Total Budget)</b>	<b>(1,946,705)</b>	<b>(2,033,597)</b>	<b>86,894</b>	<b>-4.3%</b>
FTE's	174.75	186.25	(11.50)	-6.2%

**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 11<sup>th</sup> day of February, 2014.

*/s/ Rebecca J. Michael*

Rebecca J. Michael  
*Attorney for North American  
Electric Reliability Corporation*