Major Areas of Focus

- Goals and activities in Strategic Plan
- Increasing NERC’s analytical capabilities
- E-ISAC operations
- Enterprise Risk Management
- Highly skilled workforce
- Resource allocation and efficiency of operations
NERC with CRISP*

- 2.5% total budget increase (operating and cap-x)
  - 2017 forecast in 2016 Business Plan and Budget was 6.4%

NERC without CRISP*

- 2.5% total budget increase (operating and cap-x)

* These numbers do not include the costs related to the E-ISAC portal project being considered for 2017. More information is found on slide 14.
2017 Preliminary Budget

- Personnel expenses include salaries, at-risk incentive compensation, benefits, temporary staffing, and training. In addition to those categories, overall personnel expense is increasing in part due to lower attrition and stabilizing workforce.

- Change in fixed assets, excluding depreciation and allocations, is a reduction of $439,000.
• Personnel Costs and Assumptions (including CRISP)
  - 205 headcount / 193.1 FTEs
    - 0.6 FTE increase driven by change in attrition assumption
  - Vacancy rate 5.8%, lower than 2016 budgeted rate of 8%
    - Experiencing more stable workforce, lower attrition
  - 3% average salary increase (merit, promotion and market adjustments)
  - Incentive compensation budgeted using evaluation of past performance
  - Medical/dental premiums budgeted at high end of range provided by advisors
  - Retirement and Other Benefit Assumptions consistent with historical practice, no other changes
NERC Budget Details

• Contracts and Consultants - $420k increase
  • $250k for GridEx IV
  • $100k for BES Situation Awareness software
  • $100k additional Regional Entity audit support
  • $100k for additional CRISP data security (funded by CRISP participants)
<table>
<thead>
<tr>
<th>NERC CAPITAL BUDGET</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>ERO Application Development</td>
<td>$ 1,500,000</td>
<td>$ 800,000</td>
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<tr>
<td>Document Management</td>
<td>465,000</td>
<td>335,000</td>
</tr>
<tr>
<td>Hardware (Storage, servers, laptops)</td>
<td>955,000</td>
<td>991,000</td>
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<tr>
<td>Other Equipment</td>
<td>535,000</td>
<td>885,000</td>
</tr>
<tr>
<td>Disaster Recovery</td>
<td>200,000</td>
<td>150,000</td>
</tr>
<tr>
<td>NERC Software licenses</td>
<td>256,000</td>
<td>311,000</td>
</tr>
<tr>
<td><strong>Total Capital Budget</strong></td>
<td><strong>$ 3,911,000</strong></td>
<td><strong>$ 3,472,000</strong></td>
</tr>
</tbody>
</table>
NERC Resource Allocation to Strategic Goal Areas

- **Goal 1 Standards** 13%
- **Goal 2 Compliance Monitoring, Enforcement, Registration, and Certification** 17%
- **Goal 5 Coordination and Collaboration** 17%
- **Goals 3 & 4 Risks to Reliability** 53%
- **Regional Oversight**
- **CRISP Participant Funding**

**Highest Priority Risks**
- Changing Resource Mix
- Inadequate Planning Coordination
- Ineffective Resource Planning
- Cyber Security

- **3a Risk**
- **3b Events**
- **3c E-ISAC**
- **3d Modeling**
- **4a Assessments**
NERC 2017 Budget By Program Area

- E-ISAC: 26%
- CMEP: 18%
- RAPA: 12%
- Standards: 6%
- Event Analysis: 8%
- Situation Awareness: 5%
- Training: 25%
Note: CRISP is funded largely by third-parties. This chart reflects the distribution of resources funded primarily by assessments.
2017 Preliminary Assessments

- 6.4% assessment increase before application of Assessment Stabilization Reserve
- Historically, billed assessments were lower than otherwise required
- Release of penalty funds in prior years contributed to larger future increases
- Debt service and reserves requirements also impact assessments
- In 2016, Assessment Stabilization Reserve established to mitigate impacts, primarily for U.S. assessments
• Recommend multi-year strategy to better align budget increases, assessment requirements, and billed assessments

• Phased release of Assessment Stabilization Reserves*
  - 2017 assessment increase below 4.5%
  - 2018 assessment increase below 3.8%
  - 2019 assessment increase below 3.2%
  - 2020 and beyond 3.1% declining toward 2.75%

• Actual budget increases and use of reserves determined annually

* Assumed 2.5% budget increase for modeling purposes
Projected Reserve Balances

• Operating Reserves - $7.9M
  ▪ Future Obligation Reserve - $2.8M
  ▪ System Operator Certification Reserve - $845k
  ▪ CRISP Reserve - $500k* (Funded by participants)
  ▪ Operating Contingency Reserve - $2.0M

• Assessment Stabilization Reserve - $1.7M
  ▪ Funding with existing penalty funds
  ▪ Propose using $1.1M to reduce U.S. assessments
  ▪ Expect $500k addition in 2016 and 2017 under known penalty settlement

*Subject to refinement based on negotiations with participants; funded by participants
• Portal improvement high priority ESCC recommendation
  ▪ Enhance data sharing capabilities among registered users
  ▪ Support physical and cyber threat analysis
  ▪ Business case and requirements under development. Will be reviewed with ESCC/MEC. Further details will be included in next draft
  ▪ Current budget draft includes $250k placeholder; additional $750k may be needed based on preliminary third party estimate

• Impact of additional $750k in funding
  ▪ NERC budget increases from 2.5% to 3.6%
  ▪ NERC assessment increases 0.4%
  ▪ Impact on assessments is lower, assuming project is debt-funded
  ▪ Assumes no additional release of stabilization reserves
Questions and Answers