

# NERC 2017 Business Plan and Budget Draft 1 Overview

NERC Finance and Audit Committee Conference Call  
May 26, 2016

**RELIABILITY | ACCOUNTABILITY**



- 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.*

	2016 Budget	2017 Budget	Variance \$ Over(Under)	Variance % Over(Under)
<b>Expenses</b>				
Personnel Expenses	\$ 37,283,807	\$ 38,683,857	\$ 1,400,050	3.8%
Meeting Expenses	3,620,286	3,372,886	(247,400)	-6.8%
Operating Expenses	24,903,515	24,879,956	(23,559)	-0.1%
Other Non-Operating Expenses	110,000	122,100	12,100	11.0%
<b>Total Expenses</b>	<b>\$ 65,917,608</b>	<b>\$ 67,058,799</b>	<b>\$ 1,141,192</b>	<b>1.7%</b>
<b>Inc(Dec) in Fixed Assets</b>	<b>1,269,057</b>	<b>1,780,543</b>	<b>511,486</b>	<b>40.3%</b>
<b>TOTAL BUDGET</b>	<b>\$ 67,186,665</b>	<b>\$ 68,839,343</b>	<b>\$ 1,652,677</b>	<b>2.5%</b>
<b>FTEs</b>	<b>192.47</b>	<b>193.11</b>	<b>0.65</b>	<b>0.3%</b>

- 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.

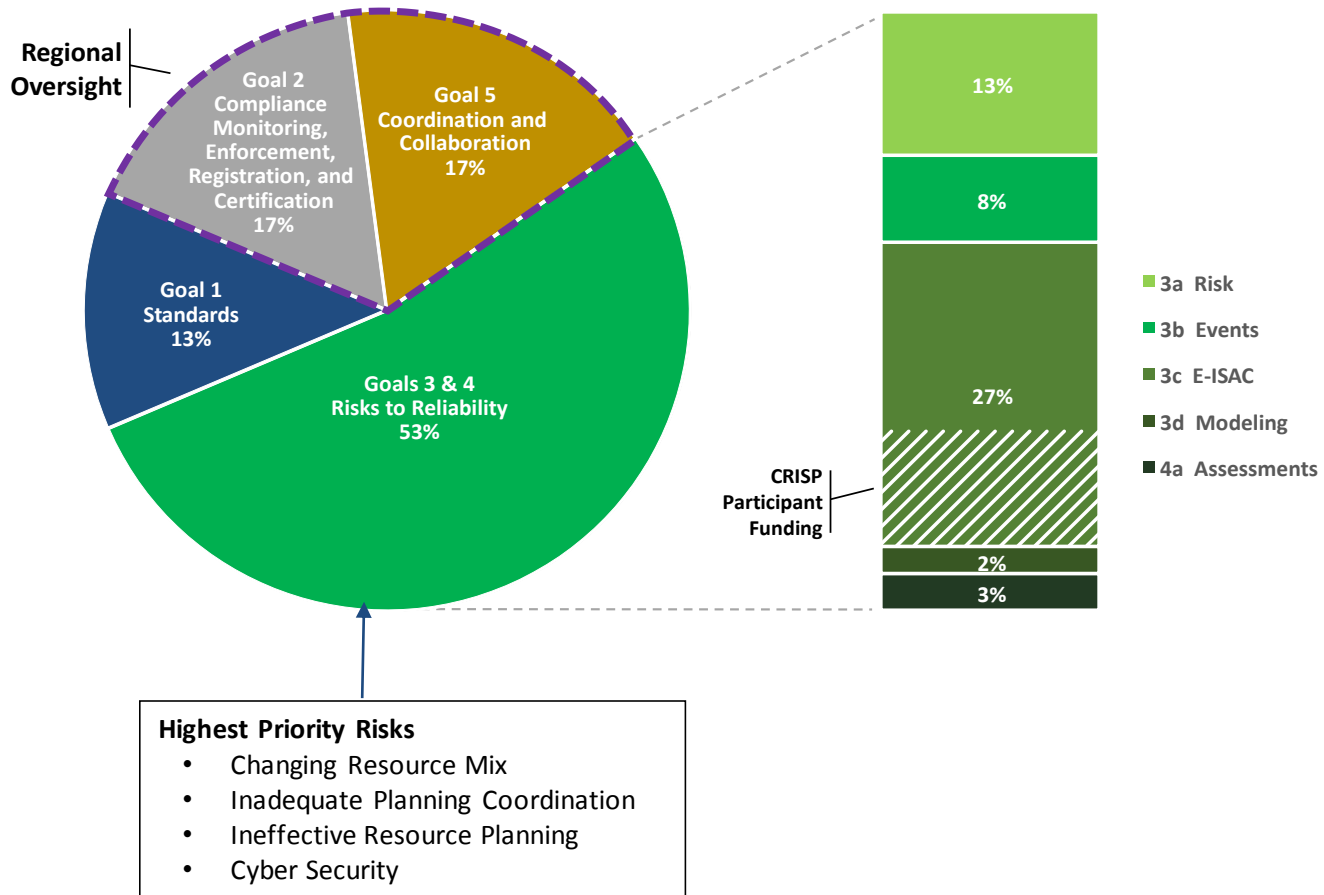
- Personnel Costs and Assumptions (including CRISP)
  - 205 headcount / 193.1 FTEs
    - 0.6 FTE increase driven by change in attrition assumption
  - Vacancy rate 5.8%, lower than 2016 budgeted rate of 8%
    - Experiencing more stable workforce, lower attrition
  - 3% average salary increase (merit, 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

- 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)

## NERC CAPITAL BUDGET

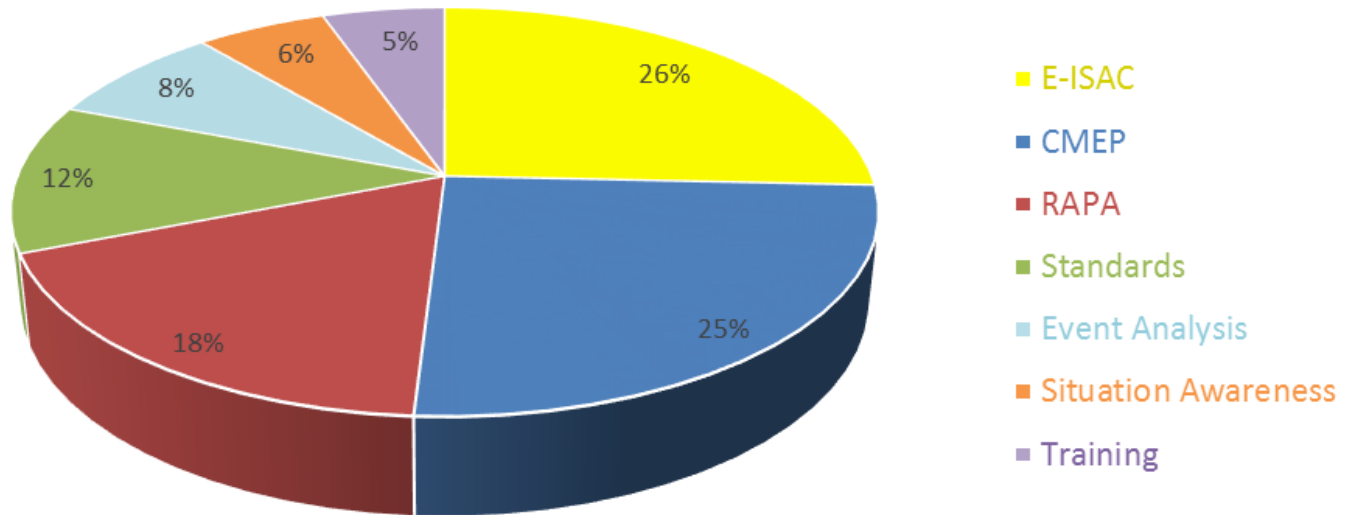
	<u>2016</u>	<u>2017</u>
ERO Application Development	\$ 1,500,000	\$ 800,000
Document Management	465,000	335,000
Hardware (Storage, servers, laptops)	955,000	991,000
Other Equipment	535,000	885,000
Disaster Recovery	200,000	150,000
NERC Software licenses	256,000	311,000
<b>Total Capital Budget</b>	<b><u>\$ 3,911,000</u></b>	<b><u>\$ 3,472,000</u></b>

## NERC Resource Allocation to Strategic Goal Areas

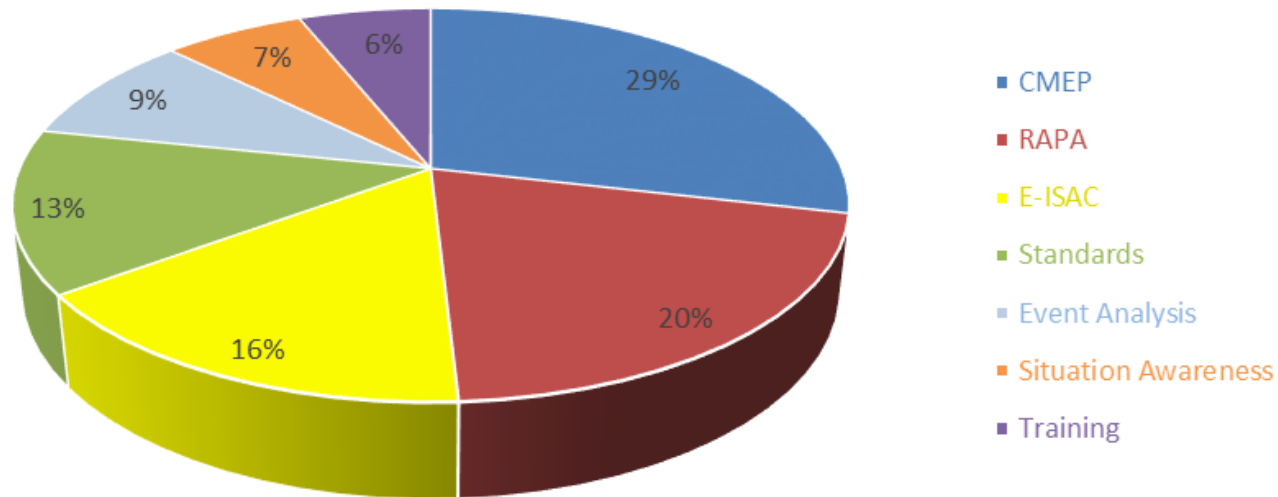




NERC 2017 Budget By Program Area



NERC 2017 Budget By Program Area  
without CRISP



*Note: CRISP is funded largely by third-parties. This chart reflects the distribution of resources funded primarily by 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

- 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