

June 17, 2013

Second Draft of NERC's 2014 Business Plan and Budget

Dear Stakeholders,

NERC has posted the second draft of its [2014 Business Plan and Budget](#). The following is a brief summary of the significant changes from the prior draft. The second draft:

- Represents a more complete version of the proposed 2014 business plan and budget, including department-by-department analysis, supporting schedules, and exhibits;
- Includes additional information regarding steps undertaken to control costs and increase the efficiency of current operations;
- Includes a discussion of current standards reform initiatives and reflects that 2014 support for the standards reform initiative will be provided by internal staff resources and industry volunteers and removes funding for outside consulting support;
- Spreads funding for a portion of the vegetation research to 2015 and reduces the proposed budget for outside consultants to conduct vegetation research on federal rights of ways;
- Provides additional details regarding the benefits associated with the Reliability Assurance Initiative and reduces outside consulting costs to support this initiative;
- Includes a discussion of the Find, Fix, and Track and other compliance and enforcement process reform initiatives;
- Provides additional detail regarding the benefits to registered entities from ES-ISAC operations, together with additional information regarding resource needs, costs and benefits; and
- Provides additional detail regarding the development and benefits of the Enterprise IT application outlined in the first draft, and updates projected costs and provides information regarding a proposed capital financing program that is being developed to spread these capital costs over several years.

NERC is projecting an overall 2014 increase of approximately \$4.1M in total operating expenses and capital expenditures, which is an increase of approximately 7.5% over 2013. NERC's 2014 projected operating expense is approximately \$57.6M, an increase of approximately 6.4% over 2013; the balance of the 7.5% increase is tied to capital costs. The projected increase in the 2014 operating expense budget is primarily associated with personnel costs. The projected increase in capital spending in 2014 is primarily associated with the development costs of enterprise software applications and associated infrastructure to support NERC and Regional Entity operations, as initially discussed in the first draft and further discussed in the attached second draft.

3353 Peachtree Road NE
Suite 600, North Tower
Atlanta, GA 30326
404-446-2560 | www.nerc.com

The average 2014 assessment increase is projected to be approximately 6.7% before taking into account the loss of penalty fund offsets to 2013 funding requirements. The average 2014 assessment increase is projected to be 11.4% after taking into account the \$2.2M reduction in the penalty offset to funding requirements. The reduced penalty offset from 2013 will not affect assessments in Canada or Mexico since U.S. penalty offsets are not applied to reduce assessments in these jurisdictions.

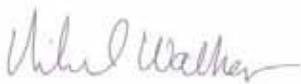
The projected percentage increase in 2014 assessments compared to 2013 is 1.63% higher than the projected 2014 percentage increase included in NERC's 2013 Business Plan and Budget. In 2013, NERC reduced U.S. assessments by approximately \$3.1M (6.0%). The 2014 proposed assessment increase represents a total net increase of \$2.4M (4.6%) in assessments over the two-year period between 2012 and 2013. Management is continuing to review methods to stabilize the potential year-to-year volatility in assessments. The capital financing program discussed in the attached draft is an example. Management and the NERC Finance and Audit Committee are also continuing to review projected short- and long-term working capital and operating reserve requirements and policies, as well as the policy applicable to the application of penalty funds.

NERC's Finance and Audit Committee will conduct a conference call on Friday, July 19, 2013 from 10:30 a.m. to 12:00 p.m. Eastern to review the second draft of NERC's 2014 Business Plan and Budget and the final Regional Entities' 2014 Business Plans and Budgets, including any stakeholder comments. This conference call will be open to the public. Dial-in information will be posted on NERC's website and announced at a later date.

The final draft of NERC's 2014 Business Plan and Budget will be posted on or about July 31, 2013, with a final review and recommendation of the 2014 NERC and Regional Entity Business Plans and Budgets, and associated assessments by the NERC Finance and Audit Committee on August 14 and review and action by the Board of Trustees on August 15, 2013.

Questions or comments regarding NERC's draft 2014 Business Plan and Budget should be directed to me at Michael.walker@nerc.net. **We would like to have any written comments on or before Monday, July 15, 2013.** As always, we would appreciate it if any comments regarding proposed comments in the overall or budget for or scope of activities could be as specific as possible.

We look forward to and appreciate your ongoing input.



Michael Walker
Senior Vice President and Chief Financial and Administrative Officer