



MIDWEST
RELIABILITY
ORGANIZATION

CLARITY • ASSURANCE • RESULTS

MRO 2014 Budget Review

NERC Finance and Audit Committee
and Regional Entities

July 19, 2013 9:00 – 12:00 EDT

Sue Clarke, VP-Finance and Administration

Improving RELIABILITY and mitigating
RISKS to the Bulk Power System



2014 Budget Overview

- **Overall, a funding decrease of \$347k or 3.82% reduction (from \$9.1m to \$8.8m)**
 - Pick-up of excess working capital reserves into funding (\$867k)
 - Includes penalties (\$126k)
- **Overall, an expense increase of \$461k or 4.97% (from \$9.3m to \$9.7m)**
 - Salary increase assumed at 3% with benefits increasing by 5%
- **FTE increase of 3.0 in 2014 bringing FTE total to 40.75**
 - Leveling off of staffing levels – 2015 and beyond – 41.5 FTEs



Cost Comparison

By Program Area

Program Area	2013 Budget	2014 Budget	Variance 2014 Budget v 2013	% of Change	
Reliability Standards and Organization Registration	\$340,889	\$279,428	-\$61,461	-18.03%	Aligned with technical stakeholder to address reliability impacts and risk and consolidated standards and registration into one FTE
Compliance	\$2,292,102	\$2,089,728	-\$202,374	-8.83%	Efficient processes, skill level of staff increased, more automation and standardization
Compliance Risk Assessment and Mitigation	\$788,797	\$1,148,955	\$360,158	45.66%	Efficiencies in compliance have been re-invested in risk assessment and mitigation, key part of 3-step process
Compliance Enforcement	\$505,479	\$625,508	\$120,029	23.75%	Full year impact of 1 FTE which was approved in December 2012 (not in 2013 budget)
Reliability Assessments and Performance Analysis	\$1,380,676	\$1,329,480	-\$51,196	-3.71%	
Training and Education	\$193,171	\$246,509	\$53,338	27.61%	More outreach and training on emerging standards and other areas including RAI
Situation Awareness	\$35,683	\$13,056	-\$22,627	-63.41%	Operator accountability reduces scope of RE work
Infrastructure Security	\$21,390	\$41,907	\$20,517	95.92%	Greater emphasis on communication, facilitation, and coordination of cyber-security
Administrative Services	\$3,725,346	\$3,970,231	\$244,885	6.57%	Administrative service costs associated with a higher FTE
Total Budget	\$9,283,533	\$9,744,802	\$461,269	4.97%	



2013 and 2014 Change in Budget

(In Whole Dollars)

Funding		2013 Budget	2014 Budget	Variance 2014 Budget v 2013	% Change	Increase as Compared with Budget
ERO Funding						
	NERC Assessments	\$ 9,098,927	\$ 8,751,444	(347,483)	-3.8%	
	Penalty Sanctions	14,000	126,500	112,500	803.6%	
	Total NERC Funding (A)	\$ 9,112,927	\$ 8,877,944	\$ (234,983)	-2.6%	-2.58%
Expenses						
Personnel Expenses						
	Salaries	\$ 4,772,320	\$ 5,178,538	406,218	8.5%	
	Payroll Taxes	312,394	339,154	26,760	8.6%	
	Benefits	394,086	412,221	18,135	4.6%	
	Retirement Costs	833,228	968,920	135,692	16.3%	
	Total Personnel Expenses	\$ 6,312,028	\$ 6,898,834	\$ 586,806	9.3%	9.30%
Meeting Expenses						
	Meetings	\$ 132,464	\$ 100,514	(31,950)	-24.1%	
	Travel - Staff Business	396,965	342,600	(54,365)	-13.7%	
	Travel - Member Reimbursement	233,800	256,300	22,500	9.6%	
	Conference Calls	41,700	-	(41,700)	-100.0%	
	Total Meeting Expenses	\$ 804,929	\$ 699,414	\$ (105,515)	-13%	-13.11%
Operating Expenses						
	Consultants & Contracts	\$ 573,100	\$ 543,100	(30,000)	-5.2%	
	Office Rent	528,827	524,827	(4,000)	-0.8%	
	Office Costs	428,304	503,124	74,820	17.5%	
	Professional Services	246,500	205,000	(41,500)	-16.8%	
	Miscellaneous	-	-	-	-	
	Depreciation	305,665	471,000	165,335	54.1%	
	Total Operating Expenses	\$ 2,082,396	\$ 2,247,051	\$ 164,655	7.9%	7.91%
	Total Direct Expenses	\$ 9,199,353	\$ 9,845,299	\$ 645,946	7.0%	7.02%
Indirect Expenses						
Other Non-Operating Expenses						
		\$ -	\$ -	\$ -	0%	
(B) Total Expenses		\$ 9,199,353	\$ 9,845,299	\$ 645,946	7.0%	7.02%
Fixed Assets						
	Depreciation	(305,665)	(471,000)	(165,335)	54.1%	
	Computer Equipment CapEx	233,075	241,000	7,925	3.4%	
	Computer Software CapEx	106,776	79,500	(27,276)	-25.5%	
	Furniture & Fixtures CapEx	-	-	-	-	
	Equipment CapEx	-	-	-	-	
	Leasehold Improvements	50,000	50,000	-	-	
	(C) Inc(Dec) in Fixed Assets	\$ 84,186	\$ (100,500)	\$ (184,686)	-219%	-219.38%
Total Budget (B + C)	Total Budget	\$ 9,283,539	\$ 9,744,799	\$ 461,260	4.97%	4.97%
TOTAL CHANGE IN WORKING CAPITAL (=A-B-C)		\$ (170,612)	\$ (866,855)	\$ (696,243)		

Salary

- Overall, 3% salary increase and 5% benefits increase
- 8.5% salary increase, 47% from existing salaries, 53% from impact of 2013 and 2014 staff additions

Retirement

Post-retirement medical retiree obligations saw increase over the past year due to reduction in assumptions used to calculate long-term return on plan assets

Meetings

Continued savings from efficiencies gained in meeting costs continue to impact future meeting expenses

Travel - Staff

Reduced need for staff travel with increased use of on-site meetings and web conferences

Conferencing

Upgrades in audio and web conferencing media to impact future conferencing costs

Office Costs

Various increases in office expenses are a result of higher FTEs, i.e. training, phone service, office supplies, etc.

Professional Services

MRO reduced its Professional Services for 2014 by eliminating outside legal contingency dollars.

Depreciation

Full year impact of depreciating building improvements, equipment, and other capital investments

Computer Software

2013 included one-time expenditures for SharePoint, website, and time reporting system



FTE Trend

Total FTEs by Program Area	Budget	Projection	Direct FTEs	Shared	Total FTEs	Change
	2013	2013	2014 Budget	FTEs 2014 Budget ¹	2014 Budget	from 2013 Budget
STATUTORY						
Operational Programs						
Reliability Standards and Organization and Certification	1.51	1.51	1.17		1.17	(0.34)
Compliance	10.42	10.42	11.16		11.16	0.74
Compliance Risk Assessment and Mitigation	5.71	5.71	6.31		6.31	0.60
Compliance Enforcement	2.86	2.86	3.79		3.79	0.93
Training and Education	0.27	0.27	0.65		0.65	0.38
Reliability Assessment and Performance Analysis	6.68	6.68	6.49		6.49	(0.19)
Situation Awareness and Infrastructure Security	0.30	0.30	0.22		0.22	(0.08)
Total FTEs Operational Programs	27.75	27.75	29.79	-	29.79	2.04
Administrative Programs						
Technical Committees and Member Forums	1.35	1.35	1.66		1.66	0.31
General & Administrative	1.32	1.32	1.94		1.94	0.62
Legal and Regulatory	1.22	1.22	0.93		0.93	(0.29)
Information Technology	3.10	3.10	3.13		3.13	0.03
Human Resources	-	-	-		-	-
Finance and Accounting	3.01	3.01	3.30		3.30	0.29
Total FTEs Administrative Programs	10.00	10.00	10.96	-	10.96	0.96
Total FTEs	37.75	37.75	40.75	-	40.75	3.00

¹A shared FTE is defined as an employee who performs both Statutory and Non-Statutory functions.



Key Factors

**Efficiencies in Compliance
reinvested into Risk Assessment
and Mitigation to improve
speed and quality of technical
evaluations and mitigation**

**Reliability Assurance Initiative
(RAI) implementation requires
minor system investments and
more “Quality Assurance” in
compliance**

- Increase of FTEs by 1.25 in 2014, full-year impact in 2015 of 2.0
- Necessary to exercise more discretion in Region

**Standards area aligned with
technical stakeholder
engagement to address
identified compliance areas
posing reliability impacts and
risk**



Operating and Working Capital Reserve Policy (Approved by MRO Board March 2013)

- **MRO's policy outlines the access and use of the operating and working capital reserves.**
- If the approved amount is different than what MRO will have available for the upcoming budget year, then MRO will increase or decrease the reserve requirement as appropriate by the difference.
 - MRO staff shall have authority to make reallocations with respect to the approved aggregate budget provided it reports to the FAC
 - Reallocations that need additional funding or impact future years require approval by the FAC and the Board
 - Reallocations that materially impact the MRO's ability to meet its obligations under the RDA require approval by the FAC and the Board
 - Any expenditure of funds from the Operating and Working Capital Reserves and/or the credit line requires approval by the FAC and the Board
- All expenditures of funds are subject to other applicable company policies and procedures including procurement policies and delegation of authority
- **The amount of MRO's operating and working capital reserves shall be identified and quantified each year in the business plan and budget.**



Operating and Working Capital Reserve Analysis

- **Determination of a 45 days reserve is more of an art than a science and an analysis is performed which establishes the targeted operating and working capital reserves amount.**
- **The adjustment to achieve targeted operating and working capital reserves in 2014 will be a decrease of (\$867k). The excess operating and working capital reserves were applied to 2014 funding.**
- **In 2014 the 45 days operating and working capital reserves calculates to 8.11% of the 2014 budget.**
- **MRO submitted to the finance and audit committee (FAC) for review and then to the board of directors which was approved on June 27, 2013.**



Questions?

