

July 15, 2014

RE: Updated Draft of NERC's 2015 Business Plan and Budget, Final Regional Entities' 2015 Business Plans and Budgets Available on NERC's Website

On May 16, 2014, NERC posted the initial drafts of the NERC and Regional Entities' 2015 business plans and budgets. Written comments were received from five entities and posted on NERC's website. An open webinar of NERC's Finance and Audit Committee was conducted on May 21, 2014 to review the NERC and Regional Entity budgets and assessment projections. NERC subsequently posted an updated version of its initial draft which includes certain technical corrections, an analysis of major activities under Section 215 of the Federal Power Act, and supplemental consolidated ERO Enterprise budget analysis information.

Management revised the initial draft of its 2015 business plan and budget to reflect the following changes:

1. Updates and increased personnel expenses to reflect staff additions since the posting of the initial draft;
2. Reduces projected IT expenses to eliminate, phase in or defer certain internal IT expenditures;
3. Reduces projected benefit expenses based upon information projected by NERC's benefits broker;
4. Increases rent expense to reflect the exercise the option for the remaining lease space adjacent to the company's Washington, D.C. office to facilitate the physical separation of the ES-ISAC as further discussed in the initial draft of NERC's 2015 business plan and budget;
5. Increases rent expense to reflect reduced sublease income from the subtenant at NERC's former Washington, D.C. office space in connection with the renegotiation of the sublease as a result of the subtenant's bankruptcy reorganization;
6. Adds an administrative FTE to the ES-ISAC department. The ES-ISAC currently shares administrative support with other departments. This FTE will be dedicated to supporting ES-ISAC personnel to facilitate the functional separation of ES-ISAC personnel from other operating areas;
7. Updates NERC's 2014 year end working capital and operating reserve projection;
8. Increases NERC's operating reserves to from \$1M to \$2M, subject to receiving Board of Trustees and FERC approval to apply \$1M in penalty funds received on July 9, 2014 as an offset to 2015 assessment funding requirements;
9. Provides additional background regarding updates to NERC's Enterprise IT Application strategy and investment forecast;
10. Updates projected debt service repayment obligations to reflect budgeted capital expenditures under NERC's capital financing program;
11. Reduces NERC's outside counsel budget, which is included professional services expenses, due to the expected completion of certain matters in 2014; and
12. Incorporates preliminary budget projections for 2016 and 2017.

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The net effect of the foregoing budget revisions is to increase NERC's total 2015 budget by \$418.1k from \$57.3M to \$57.7M, which represents an increase of \$1.3M, 2.4%, over 2014. Average 2015 assessments are projected to increase by \$559.7k, 1.0%, over draft 1, which represents an increase of \$3.4M, 6.6% over 2014.

In addition to the foregoing, since the posting of the initial draft of NERC's 2015 business plan and budget, NERC has engaged in negotiations with a number of utilities regarding its oversight role in connection with the Cyber Security Risk Information Sharing Program (CRISP). Given the significance of this potential undertaking, a detailed description of NERC's potential oversight role, together with associated budgetary and funding projections, has been posted as a separate addendum to the updated draft of NERC's 2015 business plan and budget. The potential incorporation of these materials into NERC's final 2015 business plan and budget will be subject to the review and approval of NERC's Finance and Audit Committee and Board of Trustees. In addition to this review of comments from stakeholders, regarding NERC's potential oversight role and budget associated with CRISP, NERC's Board of Trustees will seek policy input from the Member Representatives Committee regarding NERC's potential oversight role in connection with CRISP.

NERC has posted the final 2015 Regional Entities' business plans and budgets and WIRAB's final business plan and budget, together with an updated consolidated budget projection and consolidated assessment projection. The consolidated assessment projection will be updated to reflect the application of certain credits for Canadian entities pursuant to the company's *Expanded Policy on Allocation of Certain Compliance and Enforcement Costs* to jurisdictions outside the United States. This update will be completed and posted with the final recommended 2015 business plan and budget materials for the August NERC Finance and Audit Committee and Board of Trustees meetings.

PowerPoint presentations, which provide an overview of the NERC and Regional Entity business plan and budget updates, are posted on NERC's website. In addition, a NERC Finance and Audit Committee conference call and webinar will be held on July 17, 2014 at 10:30 a.m. Eastern to review these materials.

Written comments are requested by July 29, 2014 and should be directed to my attention at Michael.walker@nerc.net.

As always we appreciate and look forward to your feedback.

