



MIDWEST
RELIABILITY
ORGANIZATION

CLARITY • ASSURANCE • RESULTS

MRO NERC FAC 2016 Budget Review

May 27, 2015

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Improving RELIABILITY and mitigating RISKS to the Bulk Power
System



- **Budget increase of \$1.0 million or 9.93%, from \$10.33 million to \$11.35 million**
 - Includes facilities expansion: \$490K or 49% of the increase is attributed to the expansion
 - Of the \$490K, \$357K is a one-time capital cost and \$133K in operating expenses are in 2016 and beyond

- **FTE remains relatively flat in 2016**
 - 43 FTEs reflects the 2015 revised nose count at year-end 2015

- **Reduce Working Capital requirement in 2016 from 45 days to 30 days**
 - Results in \$467K reduction to reserves and assessments

- **Assessments (or funding) increase of \$1,475,293 or 15.7% (from \$9.4m to \$10.9m)**
 - Annual funding impact on LSEs is \$0.038/Mwh (based on a 30-day reserve)
 - Lower penalties and working capital reset



- **Implementation of unplanned NERC/FERC requirements**
 - Need for travel, meeting costs, systems, etc. to implement

- **Large scale event**
 - Need for external resources, diversion of staff from other work, more travel, etc.

- **Regional consistency investments (resulting from Regional consistency hotline)**
 - Development of new process or coordination resulting in more staff travel, investments in new systems and/or procedures to improve consistency

- **Budget assumptions**
 - Benefits significantly higher



- **Responsibility to adequately fund functions under delegated authority**
- **Use of working capital reserves to manage short-term contingencies**
- **Penalties are never budgeted**
- **Assessments required to be based on end use load**



Operating and Working Capital Reserves

■ Policy and Procedure 13: Operating and Working Capital Reserves Policy

- MRO's Operating and Working Capital Reserves are identified and quantified each year in the business plan and budget, submitted first to the FAC for review and then to the BOD

■ FAC and Board approved 45-day reserve for 2015

- More of an art than a science and an analysis is performed that establishes the targeted operating and working capital reserves amount
- Regions vary between an established dollar amount, percentage, or days

■ FAC recommends to the Board approval of a 30-day reserve for 2016

- Budget process “resets” the working capital for the start of the budget year
 - Evaluation of reserves concluded that MRO has a stable stream of revenue and a cash management plan that would effectively bridge funding gaps within an operating budget year
- Adjustment to achieve targeted operating and working capital reserves in 2016 will be a decrease of \$326,829



Day-to-day Cash Requirements (short-term)

- MRO's Operating and Working Capital Reserves requirement shall be the amount necessary to satisfy projected annual cash flow and cash balance requirements

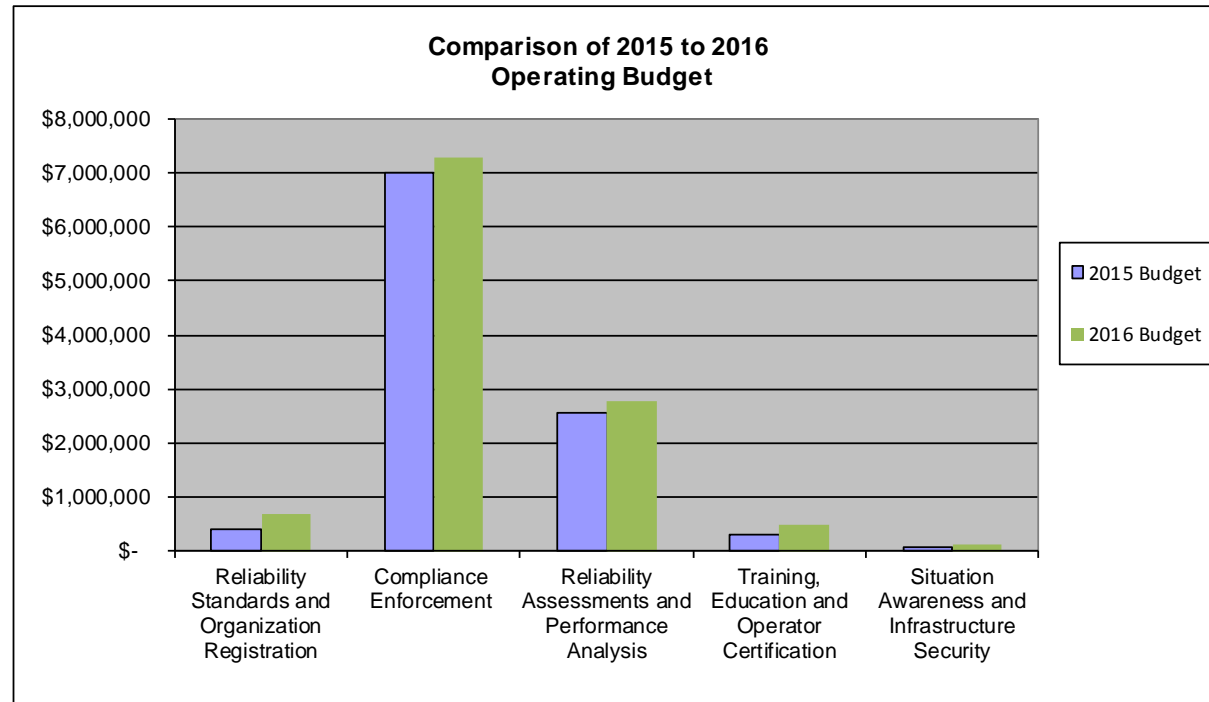
MRO has \$2.0m in credit line (intermediate)

MRO can request additional funding through NERC/FERC (long-term)



Budget Comparison

| Program | 2015 Budget | 2016 Budget | Variance 2016 Budget v 2015 Budget | % of Change |
|-----------------------------------------------------|----------------------|----------------------|------------------------------------|--------------|
| Reliability Standards and Organization Registration | \$ 387,930 | \$ 684,207 | \$ 296,277 | 76.37% |
| Compliance Enforcement | 6,994,216 | 7,297,310 | 303,093 | 4.33% |
| Reliability Assessments and Performance Analysis | 2,571,309 | 2,758,745 | 187,436 | 7.29% |
| Training, Education and Operator Certification | 295,307 | 488,857 | 193,550 | 65.54% |
| Situation Awareness and Infrastructure Security | 79,927 | 125,523 | 45,595 | 57.05% |
| TOTAL BUDGET | \$ 10,328,689 | \$ 11,354,641 | \$ 1,025,952 | 9.93% |





2015 and 2016 Change in Budget

| | | 2015 Budget | 2016 Budget | Variance 2016 Budget v 2015 Budget | % Change | |
|-------------------------------------------------|-------------------------------------|----------------------|----------------------|------------------------------------------|-----------------|-----------------|
| Funding | | | | | | |
| ERO Funding | | | | | | |
| | NERC Assessments | \$ 9,426,019 | \$ 10,901,312 | \$ 1,475,293 | 15.65% | |
| | Penalty Sanctions | 395,000 | 126,500 | (268,500) | -67.97% | |
| | Total NERC Funding (A) | \$ 9,821,019 | \$ 11,027,812 | \$ 1,206,793 | 12.29% | 12.29% |
| Expenses | | | | | | |
| Personnel Expenses | | | | | | |
| | Salaries | \$ 5,522,560 | \$ 5,682,871 | \$ 160,311 | 2.90% | |
| | Payroll Taxes | 357,593 | 361,827 | 4,234 | 1.18% | |
| | Benefits | 438,921 | 582,253 | 143,332 | 32.66% | |
| | Retirement Costs | 1,033,185 | 1,094,515 | 61,330 | 5.94% | |
| | Total Personnel Expenses | \$ 7,352,259 | \$ 7,721,466 | \$ 369,207 | 5.02% | 5.02% |
| Meeting Expenses | | | | | | |
| | Meetings | \$ 106,600 | \$ 85,500 | \$ (21,100) | -19.79% | |
| | Travel - Staff Business | 372,400 | 389,030 | 16,630 | 4.47% | |
| | Travel - Member Reimbursement | 249,800 | 291,300 | 41,500 | 16.61% | |
| | Conference Calls | - | 900 | 900 | | |
| | Total Meeting Expenses | \$ 728,800 | \$ 766,730 | \$ 37,930 | 5.20% | 5.20% |
| Operating Expenses | | | | | | |
| | Consultants & Contracts | \$ 676,436 | \$ 679,681 | \$ 3,245 | 0.48% | |
| | Office Rent | 501,000 | 648,946 | 147,946 | 29.53% | |
| | Office Costs | 539,891 | 534,818 | (5,073) | -0.94% | |
| | Professional Services | 193,500 | 218,500 | 25,000 | 12.92% | |
| | Miscellaneous | - | - | - | | |
| | Depreciation | 521,000 | 480,722 | (40,278) | -7.73% | |
| | Total Operating Expenses | \$ 2,431,827 | \$ 2,562,667 | \$ 130,840 | 5.38% | 5.38% |
| | Total Direct Expenses | \$ 10,512,886 | \$ 11,050,863 | \$ 537,977 | 5.12% | 5.12% |
| Indirect Expenses | | | | | | |
| Other Non-Operating Expenses | | | | | | |
| | | \$ - | \$ - | \$ - | 0.00% | |
| (B) Total Expenses | | \$ 10,512,886 | \$ 11,050,863 | \$ 537,977 | 5.12% | 5.12% |
| Fixed Assets | | | | | | |
| | Depreciation | (521,000) | (480,722) | 40,278 | -7.73% | |
| | Computer Equipment CapEx | 316,800 | 317,500 | 700 | 0.22% | |
| | Computer Software CapEx | 20,000 | - | (20,000) | -100.00% | |
| | Furniture & Fixtures CapEx | - | - | - | | |
| | Equipment CapEx | - | - | - | | |
| | Leasehold Improvements | - | 467,000 | 467,000 | | |
| | (C) Inc(Dec) in Fixed Assets | \$ (184,200) | \$ 303,778 | \$ 487,978 | -264.92% | -264.92% |
| Total Budget (B + C) | Total Budget | \$ 10,328,686 | \$ 11,354,641 | \$ 1,025,955 | 9.93% | 9.93% |
| TOTAL CHANGE IN WORKING CAPITAL (=A-B-C) | | \$ (507,667) | \$ (326,829) | \$ 180,838 | | |
| Head Count | | 42.50 | 43.00 | 0.50 | | |
| FTEs | | 42.16 | 43.00 | 0.84 | | |

- Salary increase 3%

Benefits – 32.7% increase

- Unbudgeted premium increase of 25% in 2015 plus 8% increase in 2016

Meetings – 19.8% decrease

- Addition of meeting space reduces cost for use of off-site facilities

Travel – Member – 16.6% increase

- Increased member travel with new security committee, SME teams, and CIP Standards

Office Rent – 29.5% increase

- \$133K increase due to lease of additional space

Professional Services – 12.9% increase

- Hearing body training

Computer Equipment & Software

- Costs to remain flat

Leasehold improvements

- Addition of meeting space for workshops and stakeholder meetings. One-time capital costs of \$357K



MRO FTE Trend

Flattening of Resources

| MRO FTE Trend | | | | | | | | | | |
|-----------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| STATUTORY | | | | | | | | | | |
| Total FTEs by Program Area | 2007 Budget | 2008 Budget | 2009 Budget | 2010 Budget | 2011 Budget | 2012 Budget | 2013 Budget | 2014 Budget | 2015 Budget | 2016 Budget |
| Operational Programs | | | | | | | | | | |
| Standards and Organization Registration and Certification | 2.25 | 2.25 | 2.00 | 1.25 | 2.00 | 1.50 | 1.50 | 1.25 | 1.00 | 2.00 |
| Compliance | 4.25 | 8.75 | 7.25 | 10.00 | 11.50 | 13.00 | 10.50 | 11.25 | 10.50 | 11.00 |
| Risk Assessment and Mitigation | | | 1.00 | 1.00 | 3.00 | 3.25 | 5.75 | 6.25 | 7.00 | 7.00 |
| Enforcement | 1.00 | 1.00 | 2.50 | 2.50 | 3.00 | 3.00 | 2.75 | 3.75 | 4.50 | 3.00 |
| Operations - Assessments, Event Analysis, Other | 5.50 | 4.00 | 7.25 | 7.75 | 8.00 | 8.50 | 7.25 | 7.25 | 8.00 | 8.00 |
| Total FTEs Operational Programs | 13.00 | 16.00 | 20.00 | 22.50 | 27.50 | 29.25 | 27.75 | 29.75 | 31.00 | 31.00 |
| Total FTEs Administrative Programs | 7.00 | 7.00 | 6.50 | 6.50 | 7.00 | 7.75 | 10.00 | 11.00 | 11.50 | 12.00 |
| Total FTEs | 20.00 | 23.00 | 26.50 | 29.00 | 34.50 | 37.00 | 37.75 | 40.75 | 42.50 | 43.00 |
| Actual Nose Count at 12/31 | 20.00 | 23.00 | 28.00 | 33.50 | 32.50 | 35.00 | 39.00 | 40.50 | 41.00(5/1) | |



CMEP Cost Trend

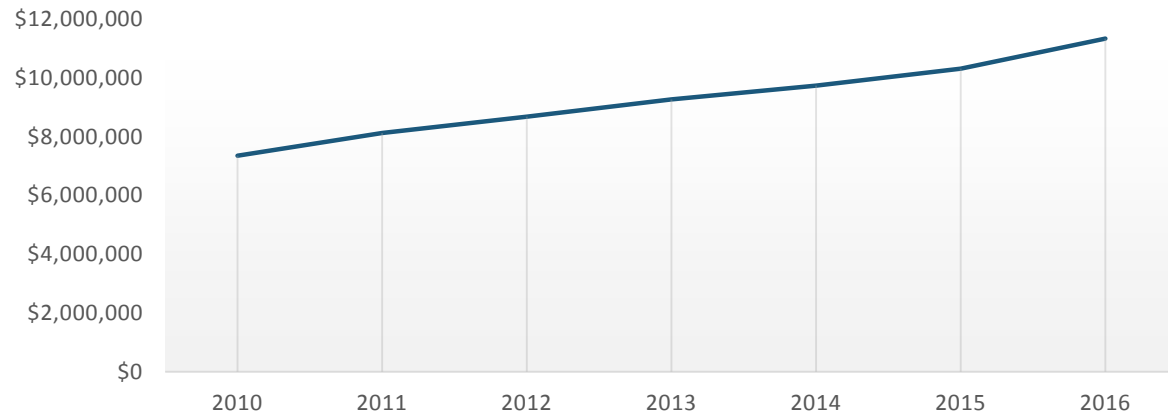
| | 2009 Budget | % to Total CMEP Costs | 2010 Budget | % to Total CMEP Costs | 2011 Budget | % to Total CMEP Costs | 2012 Budget | % to Total CMEP Costs | 2013 Budget | % to Total CMEP Costs | 2014 Budget | % to Total CMEP Costs | 2015 Budget | % to Total CMEP Costs | 2016 Budget | % to Total CMEP Costs |
|--------------------|--------------------|-----------------------------|--------------------|-----------------------------|--------------------|-----------------------------|--------------------|-----------------------------|--------------------|-----------------------------|--------------------|-----------------------------|--------------------|-----------------------------|--------------------|-----------------------------|
| Compliance | \$2,011,510 | 100% | \$2,485,569 | 80% | \$2,390,377 | 72% | \$2,718,084 | 74% | \$2,292,102 | 64% | \$2,089,728 | 54% | \$2,102,260 | 48% | \$2,280,537 | 53% |
| RAM | | | 634,636 | 20% | 517,228 | 16% | 496,983 | 14% | 788,797 | 22% | 1,148,955 | 30% | 1,327,929 | 31% | 1,405,446 | 32% |
| Enforcement | | | | | 425,931 | 13% | 438,199 | 12% | 505,478 | 14% | 625,508 | 16% | 794,484 | 18% | 649,307 | 15% |
| Total | \$2,011,510 | | \$3,120,205 | | \$3,333,536 | | \$3,653,266 | | \$3,586,377 | | \$3,864,191 | | \$4,224,673 | | \$4,335,290 | |



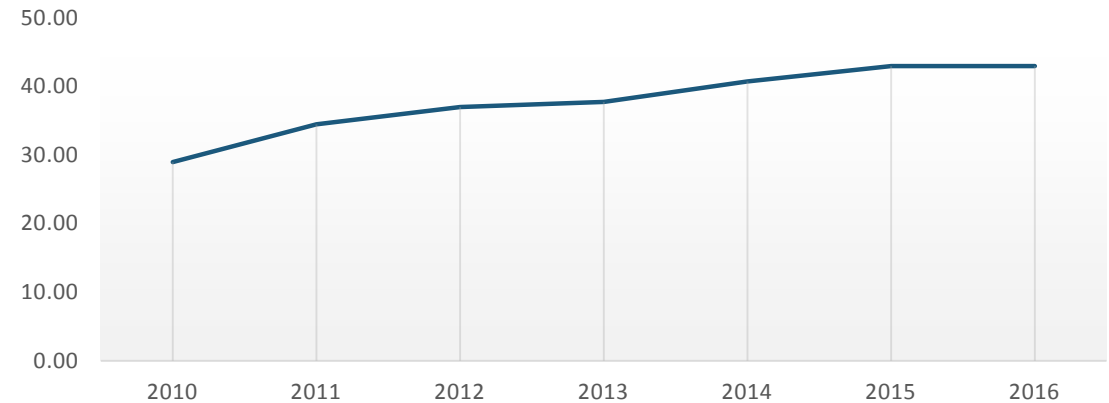
Budget Trends

| | 2010 | % Change Previous Budget | 2011 | % Change Previous Budget | 2012 | % Change Previous Budget | 2013 | % Change Previous Budget | 2014 | % Change Previous Budget | 2015 | % Change Previous Budget | 2016 | % Change Previous Budget |
|-----------------------------|-------------|--------------------------|-------------|--------------------------|-------------|--------------------------|-------------|--------------------------|-------------|--------------------------|--------------|--------------------------|--------------|--------------------------|
| Budget | \$7,366,117 | 3.0% | \$8,130,825 | 10.4% | \$8,694,358 | 6.9% | \$9,283,537 | 6.8% | \$9,744,795 | 5.0% | \$10,328,687 | 6.0% | \$11,354,641 | 9.9% |
| Actual | \$7,225,934 | 1.1% | \$7,385,721 | 0.3% | \$8,819,026 | 8.5% | \$8,574,820 | -1.4% | \$9,614,099 | 3.6% | NA | NA | NA | NA |
| Budget Variance - \$ | -\$140,183 | | -\$745,104 | | \$124,668 | | -\$708,717 | | -\$130,696 | | NA | | NA | |
| Budget Variance - % | -1.9% | | -9.2% | | 1.4% | | -7.6% | | -1.3% | | NA | | NA | |
| Assessments | \$7,503,747 | 17.6% | \$8,260,503 | 10.1% | \$8,349,029 | 1.1% | \$9,098,927 | 9.0% | \$8,741,444 | -3.9% | \$9,426,019 | 7.8% | \$10,901,312 | 15.7% |
| FTEs | 29.00 | 2.50 | 34.50 | 5.50 | 37.00 | 2.50 | 37.75 | 0.75 | 40.75 | 3.00 | 43.00 | 5.50 | 43.00 | 0.00 |

Budgeted Expenses



FTE Growth Chart





Alignment between MRO, Regions and ERO

- **MRO's corporate goals and objectives along with NERC and the remaining Regional Entities are aligned with the ERO Enterprise's business planning goals and assumptions for the 2015-2018 planning period.**
- **MRO supports and coordinates its strategic plan with the ERO Strategic Plan**
- **The 2016 MRO budget does not have an overlap in approved Enterprise IT investments**

