



RELIABILITY FIRST

**RELIABILITYFIRST CORPORATION
2018 BUSINESS PLAN AND BUDGET**

**APPROVED BY BOARD OF DIRECTORS
APRIL 26, 2017 FOR STAKEHOLDER COMMENT**

DRAFT, VERSION 1

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Introduction

The following table summarizes ReliabilityFirst Corporation's (ReliabilityFirst) budget for 2018.

	2018 Budget			
	(in whole dollars)	U.S.	Canada	Mexico
Statutory FTEs	76.2			
Non-statutory FTEs	-			
Total FTEs	76.2			
Statutory Expenses	\$ 21,611,124			
Non-Statutory Expenses	\$ -			
Total Expenses	\$ 21,611,124			
Statutory Inc(Dec) in Fixed Assets	\$ (165,825)			
Non-Statutory Inc(Dec) in Fixed Assets	\$ -			
Total Inc(Dec) in Fixed Assets	\$ (165,825)			
Statutory Working Capital Requirement	\$ 640,286			
Non-Statutory Working Capital Requirement	\$ -			
Total Working Capital Requirement	\$ 640,286			
Total Statutory Funding Requirement	\$ 22,085,585			
Total Non-Statutory Funding Requirement	\$ -			
Total Funding Requirement	\$ 22,085,585			
Statutory Funding Assessments	\$ 20,147,707	\$ 20,147,707		
Non-Statutory Fees	\$ -	\$ -		
NEL (MWH)				
NEL%				

Organizational Overview

ReliabilityFirst is a not-for-profit company incorporated in the State of Delaware and authorized by the Federal Energy Regulatory Commission (FERC) to operate as a Regional Entity. ReliabilityFirst is responsible for promoting and improving the reliability of the Bulk Electric System (BES) in all or parts of thirteen states and the District of Columbia. As a Regional Entity, ReliabilityFirst performs key reliability functions delegated to it by the Electric Reliability Organization (ERO), the North American Electric Reliability Corporation (NERC). These include:

- Active participation in the development of North American Reliability Standards for the Bulk Electric System (BES), and as needed, development of Reliability Standards applicable within the ReliabilityFirst Region.
- Monitoring and enforcement of approved Reliability Standards, including the registration of responsible entities, and as needed, certification of such entities.
- Assessment of the present and future reliability, resiliency, security, and risks of the BES.
- Promoting effective training and education of personnel and entities.

- Promoting situational awareness and the protection of critical infrastructure.

ReliabilityFirst intends to perform only the functions delegated to it by the ERO in 2018.

Membership and Governance

Members

ReliabilityFirst has an open membership policy that permits participation of all industry stakeholders through their designated representatives. There are six (6) Industry Sectors: Suppliers, Transmission Companies, Regional Transmission Organizations (RTOs), Small Load Serving Entities (LSEs), Medium LSEs, and Large LSEs. There are three (3) Classes of Members: Regular Members, Associate Members, and Adjunct Members (an Associate Member is an affiliate or related party of a Regular Member, and an Adjunct Member is an entity that does not qualify to join an Industry Sector but has been approved for membership).

There are currently 58 Members of ReliabilityFirst; 42 are Regular Members with voting rights, 7 are Associate Members, and 9 are Adjunct Members. ReliabilityFirst's foundation has been and continues to be the broad, active participation of volunteer technical and policy experts representing electricity industry stakeholders within the Region who are committed to the reliability, security, and resiliency of the BES. ReliabilityFirst believes that partnering with industry expert resources, combined with a competent and independent ReliabilityFirst staff, provides a strong and cost effective approach that is consistent with the industry self-regulatory model envisioned by Congress in the Energy Policy Act of 2005.

Board of Directors

ReliabilityFirst is governed by a hybrid, independent, and balanced stakeholder Board that consists of 14 directors.

- Eight (8) directors are elected by the Industry Sectors as follows:
 - Suppliers elect two (2) directors;
 - Transmission Companies elect two (2) directors;
 - RTOs elect one (1) director;
 - Small LSEs elect one (1) director;
 - Medium LSEs elect one (1) director; and
 - Large LSEs elect one (1) director.
- Three (3) directors are at-large. At-large directors are elected by all of the Industry Sectors voting together as a single class.
- Three (3) directors are independent from ReliabilityFirst, any Member, Affiliate or Related Party of any Member. Independent directors are elected by all of the Industry Sectors voting together as a single class.

2018 Key Assumptions

The NERC and Regional Entity business plans and budgets reflect a set of common assumptions developed jointly by NERC and the Regional Entities as part of the annual business plan and budget process. The *ERO Enterprise 2018-2020 Shared Business Plan and Budget Assumptions and 2018 Key Focus Areas* document is located in Exhibit A of NERC's 2018 Business Plan and Budget. Additionally, ReliabilityFirst supports the ERO Strategic Plan in carrying out its duties.

2018 Key Deliverables

- Promote a culture that addresses reliability risks across the ReliabilityFirst Region and the ERO.
 - Ensure that the industry understands the essential reliability purpose of Reliability Standards and the corresponding expectations for those Reliability Standards.
 - Work with the industry to maintain and continuously improve effective risk control programs for reliability, security, and resiliency.
 - Use efficient processes and proportional exercise of discretion to verify that the industry meets reliability objectives.
- Identify the risks to reliability in the ReliabilityFirst Region.
 - Identify, understand, and prioritize risks based on reliability impacts, projected resources, and emerging issues.
 - Analyze events and system performance consistently to determine sequence, cause, and remediation. Identify reliability risks and trends to define reliability assurance activities.
 - Ensure that the industry is well-informed of emerging trends, risk analysis, lessons learned, and expected actions.
- Mitigate reliability risks.
 - Ensure that the industry understands identified risks and addresses them promptly and effectively.
 - Facilitate information sharing among the industry, Regions, ERO, and government.
 - Work with the ERO to track industry accountability for critical reliability recommendations.
- Communicate reliability risks.
 - Communicate identified and prioritized risks and mitigation strategies to the ERO Enterprise, across the ReliabilityFirst footprint, and/or to targeted entities, as appropriate.
 - Share staff expertise and leverage the expertise of ReliabilityFirst entities, to advance industry practices surrounding risk identification, mitigation, and prevention.

- Promote a culture of reliability excellence, and facilitate and encourage continuous improvement through training and education.
- Ensure useful and reliable data modeling. Verify that the data represents system behavior accurately. Facilitate data sharing among entities.
- Serve as leading resource to industry and policy makers to supply reliability information.
- Serve as an independent, objective, and fair compliance monitoring and enforcement authority, without conflicts of interest.
 - Register entities commensurate to the risk they pose to the BES and ensure that all key entities are certified to have essential capabilities.
 - Ensure that all compliance monitoring and enforcement activities are risk-based, reliability-focused, and adhere to the requirements of the ReliabilityFirst delegation agreement and the Risk Based Compliance Monitoring and Enforcement Program. Perform these activities in an efficient, effective, and transparent manner.
 - Ensure that all violations of mandatory Reliability Standards are mitigated in a timely, thorough, and comprehensive manner to prevent reoccurrence.
- Improve transparency, consistency, quality and timeliness of results; collaborate with NERC and the other Regions; improve efficiencies and cost effectiveness.
 - Identify, understand, and manage internal risks.
 - Ensure processes are effective, efficient, and continually improving.

2018 Overview of Budget

This Business Plan and Budget reflects ReliabilityFirst's best estimate of the costs it will incur in carrying out its delegated functions in support of the ERO in 2018. Overall, the ReliabilityFirst 2018 budget of \$21,445,299 increased 7.72% over the 2017 budget of \$19,908,939. The 2018 assessment of \$20,147,707 represents a 3% increase over the 2017 assessment of \$19,560,881.

Personnel costs increased by \$1,572,368, an increase of 9.6% over the 2017 budget. Incorporated into the personnel costs are four (4) additional Full Time Equivalent (FTEs), a 3% general wage increase, and a 12% medical premium increase. For 2018, ReliabilityFirst did not include a personnel vacancy rate because the corporation has recently reached full staffing levels and operates with a turnover rate well below 5%. Any remaining personnel dollars resulting from vacancies could be used to fund the company's recruitment activities to attract necessary employee candidates and support employee relocation needs.

The meetings, operating and fixed asset costs of \$3,516,309 decreased by 1% over the 2017 budget of \$3,552,317.

The ReliabilityFirst Board has approved a \$1,000,000 operating reserve for 2018, which is the same level that existed in 2017. This level of operating reserve is believed to be sufficient for any unbudgeted and unexpected expenditures of the organization, and is consistent with Board Policy.

The board of directors also approved an increase in the working capital reserve. Historically, the working capital reserve has consisted of the amount necessary to satisfy projected cash flow for daily operations. However, in an ERO Enterprise wide effort to better manage and stabilize assessments, the working capital reserve has been increased to include additional funds that will be used to enhance day to day cash flow management of expenditures, while providing the capability to stabilize future assessments. In the 2018 budget, the operating and working capital reserves have been differentiated to enable more granular identification and control in the utilization and monitoring of these funds in the appropriate manner.

The NERC Policy entitled Accounting, Financial Statement, and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards, and §1107.2 of the NERC Rules of Procedure (ROP), specify that penalty payments received by NERC or a Regional Entity during the 12 months ended June 30th are to be used in the subsequent budget year to offset assessments, unless an alternative treatment is approved by FERC (as allowed by §1107.4 of the ROP). ReliabilityFirst received \$1,912,877 of penalty payments between July 1, 2016 and June 30, 2017. ReliabilityFirst proposes, and requests an exception to §1107.2 of the ROP, to place \$482K of penalty payments into its working capital reserve, which will be used to stabilize future years' assessments.

The executive management group for NERC and the eight Regional Entities (known as the ERO EMG) concentrates on various initiatives to improve efficiency and consistency across NERC and the Regional Entities, including the development of enterprise-wide applications. As enterprise-wide projects are identified and prioritized by the ERO EMG, they are managed at NERC. ReliabilityFirst assumes agreed upon ERO Enterprise wide applications will be available, and has only included appropriate funding for applications and supporting systems necessary to satisfy its business needs that are not within the mutually agreed upon scope of the ERO Enterprise wide applications funded by NERC.

In the development of each annual Business Plan and Budget, ReliabilityFirst examines projected workload using the common assumptions referenced above and conducts a manpower analysis to determine staffing levels required to complete necessary tasks and meet the obligations of the Regional Delegation Agreement. The manpower analysis for 2018 yielded a requirement of 85.1 FTEs in order to fully address the expected workload.

Although ReliabilityFirst's manpower analysis justifies a need for 85.1 FTEs, its philosophy is to seek and achieve greater efficiencies in its tasks and workload each year. On this basis, ReliabilityFirst believes a staffing level of 76.2, which includes four additional FTE's, will be sufficient to perform its work. ReliabilityFirst's staffing level has been stable for the last four years and as a result of the increasing demands in CIP compliance monitoring, situational awareness and event analysis, and the finance management area, these four (4) additional positions are justified due to the presently identified and projected demands in these functional areas.

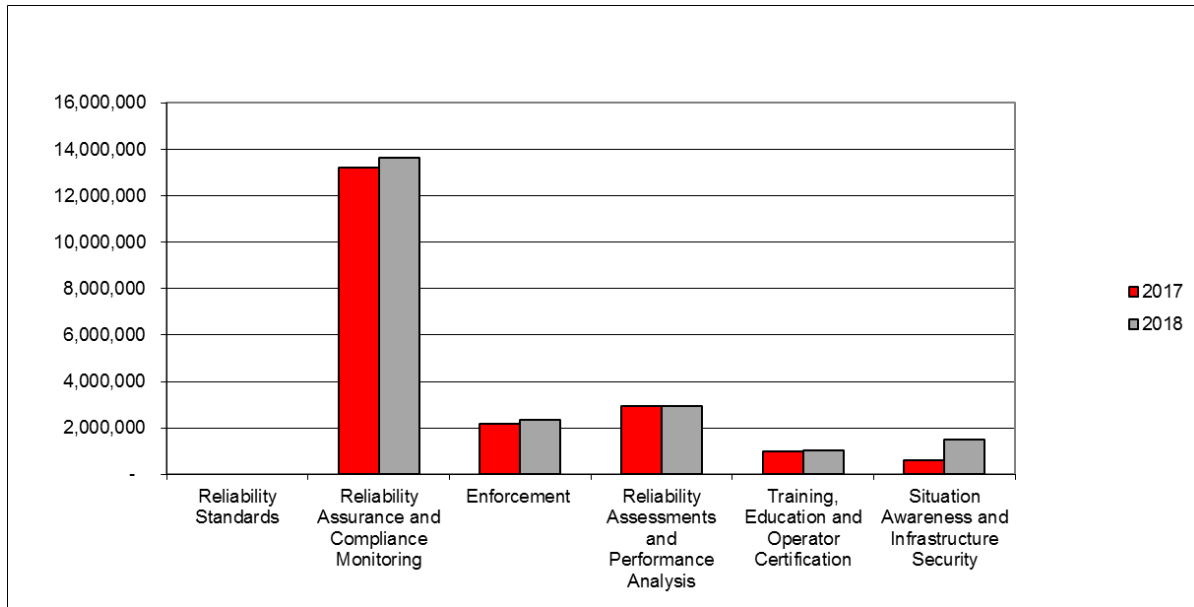
ReliabilityFirst will continue to ensure enhancements are being made in many process areas and that the maturation of the organization will continue to result in expected efficiency improvements.

Summary of Budget by Program Area

The following table and figure summarize and illustrate ReliabilityFirst's budget by program area.

Program	Budget 2017	Projection 2017	Budget 2018	Variance	
				2017 Budget v 2018 Budget	Variance %
Reliability Standards	-	-	-	-	0.0%
Reliability Assurance and Compliance Monitoring	13,238,645	13,238,645	13,654,372	415,726	3.1%
Enforcement	2,183,152	2,183,152	2,344,121	160,970	7.4%
Reliability Assessments and Performance Analysis	2,925,193	2,925,193	2,936,372	11,179	0.4%
Training, Education and Operator Certification	975,009	975,009	1,021,996	46,987	4.8%
Situation Awareness and Infrastructure Security	586,940	586,940	1,488,437	901,497	153.6%

2018 Versus 2017 Cost Allocation by Program Summary of Expenses



FTEs by Program Area

Total FTEs by Program Area	Budget 2017	Projection 2017	Total FTEs 2018 Budget	Change from 2017 Budget
STATUTORY				
Operational Programs				
Reliability Standards	0.00	0.00	0.00	0.00
Reliability Assurance and Compliance Monitoring	36.50	36.50	37.00	0.50
Enforcement	8.25	8.25	8.25	0.00
Reliability Assessment and Performance Analysis	8.35	8.35	8.35	0.00
Training and Education	3.00	3.00	3.00	0.00
Situation Awareness and Infrastructure Security	1.50	1.50	4.00	2.50
Total FTEs Operational Programs	57.60	57.60	60.60	3.00
Total FTEs Administrative Programs	14.70	14.70	15.60	0.90
Total FTEs	72.30	72.30	76.20	3.90

For an explanation of the variances, refer to the Resource Requirements section in each program area in Section A.

2017 Budget and Projection and 2018 Budget Comparisons

The following table lists the 2017 budget and projection compared to the 2018 budget.

2017 Budget and Projection, and 2018 Budget					
STATUTORY					
	2017 Budget	2017 Projection	Variance 2017 Projection v 2017 Budget Over(Under)	2018 Budget	Variance 2018 Budget v 2017 Budget Over(Under)
Funding					
ReliabilityFirst Funding					
ReliabilityFirst Assessments	\$ 19,560,881	\$ 19,560,881	\$ -	\$ 20,147,707	\$ 586,826
Penalty Sanctions	659,000	659,000	-	1,912,877	1,253,877
Total ReliabilityFirst Funding	\$ 20,219,881	\$ 20,219,881	\$ -	\$ 22,060,585	\$ 1,840,704
Membership Dues	-	-	-	-	-
Federal Grants	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	25,000	25,000
Miscellaneous	-	-	-	-	-
Total Funding	20,219,881	20,219,881	-	22,085,585	1,865,704
Expenses					
Personnel Expenses					
Salaries	\$ 11,895,781	\$ 11,895,781	\$ -	\$ 12,975,641	\$ 1,079,860
Payroll Taxes	705,869	705,869	-	765,357	59,488
Benefits	1,805,733	1,805,733	-	2,049,654	243,922
Retirement Costs	1,949,240	1,949,240	-	2,138,337	189,097
Total Personnel Expenses	\$ 16,356,622	\$ 16,356,622	\$ -	\$ 17,928,989	\$ 1,572,368
Meeting Expenses					
Meetings	\$ 243,490	\$ 243,490	\$ -	\$ 300,375	\$ 56,885
Travel	765,950	765,950	-	713,250	(52,700)
Conference Calls	49,200	49,200	-	50,400	1,200
Total Meeting Expenses	\$ 1,058,640	\$ 1,058,640	\$ -	\$ 1,064,025	\$ 5,385
Operating Expenses					
Consultants & Contracts	\$ 431,312	\$ 431,312	\$ -	\$ 390,132	\$ (41,180)
Office Rent	520,176	520,176	-	519,595	(582)
Office Costs	759,162	759,162	-	883,117	123,955
Professional Services	471,105	471,105	-	411,245	(59,860)
Miscellaneous	42,422	42,422	-	40,696	(1,726)
Depreciation	356,502	356,502	-	373,325	16,823
Total Operating Expenses	\$ 2,580,679	\$ 2,580,679	\$ -	\$ 2,618,109	\$ 37,430
Total Direct Expenses	\$ 19,995,941	\$ 19,995,941	\$ -	\$ 21,611,124	\$ 1,615,183
Indirect Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 19,995,941	\$ 19,995,941	\$ -	\$ 21,611,124	\$ 1,615,183
Change in Assets	\$ 223,940	\$ 223,940	\$ -	\$ 474,461	\$ 250,521
Fixed Assets					
Depreciation	(356,502)	(356,502)	-	(373,325)	(16,823)
Computer & Software CapEx	219,500	219,500	-	207,500	(12,000)
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	50,000	50,000	-	-	(50,000)
	\$ (87,002)	\$ (87,002)	\$ -	\$ (165,825)	\$ (78,823)
Allocation of Fixed Assets	-	-	-	-	-
Inc/(Dec) in Fixed Assets	\$ (87,002)	\$ (87,002)	\$ -	\$ (165,825)	\$ (78,823)
Total Budget	\$ 19,908,939	\$ 19,908,939	\$ -	\$ 21,445,299	\$ 1,536,360
Change in Working Capital	\$ 310,943	\$ 310,942	\$ -	\$ 640,286	\$ 329,344
FTEs	72.30	72.30	-	76.20	3.90

Section A – Statutory Programs

Reliability Standards Program

Reliability Standards Program (in whole dollars)			
	2017 Budget	2018 Budget	Increase (Decrease)
Total FTEs	0.00	0.00	0.00
Direct Expenses	\$ -	\$ -	\$ -
Indirect Expenses	\$ -	\$ -	\$ -
Inc(Dec) in Fixed Assets	\$ -	\$ -	\$ -
Total Funding Requirement	\$ -	\$ -	\$ -

Program Scope and Functional Description

ReliabilityFirst provides input to the NERC Reliability Standards development process from a Regional perspective to help ensure the Standards adequately mitigate the risks they are intended to address, particularly those risks facing the ReliabilityFirst footprint. ReliabilityFirst also may develop Regional Reliability Standards as necessary. ReliabilityFirst Standards must be developed in accordance with the ReliabilityFirst Reliability Standards Development Procedure and must be more stringent than a NERC Reliability Standard, addressing a regional matter that the NERC Reliability Standard does not, or a regional difference necessitated by a physical difference in the BES.

ReliabilityFirst may also develop regional criteria, which are good utility practices used to enhance the reliability of the BES and may augment Reliability Standards. Regional criteria are not Reliability Standards, and therefore are not enforceable. ReliabilityFirst regional criteria are developed in accordance with the ReliabilityFirst Reliability Standards Development Procedure.

2018 Key Assumptions

The Reliability Standards Program incorporates the regional specific common business planning assumptions as described in the *ERO Enterprise 2018 - 2020 Shared Business Plan and Budget Assumptions and 2018 Key Focus Areas* document.

ReliabilityFirst previously reallocated the resources and expenses associated with the Reliability Standards Program to the Reliability Assurance and Compliance Monitoring Program, due to decreased activity in the Reliability Standards Program. In the unanticipated instance that ReliabilityFirst needs to develop a new Regional Reliability Standard or regional criteria in 2018, ReliabilityFirst will temporarily redeploy the necessary resources from the existing Reliability Assurance and Compliance Monitoring Program and Reliability Assessment and Performance Analysis Program.

2018 Key Deliverables

- Review and provide feedback on potential reliability, security, or resiliency concerns associated with NERC Reliability Standards and RSAWs under development.
- Although none are anticipated, submit to NERC, and subsequently file with FERC any new Regional Reliability Standards that:

- May be needed to support revised NERC Reliability Standards.
- May address reliability gaps not currently covered by NERC Reliability Standards.
- Although none are anticipated, submit to ReliabilityFirst Board any new regional criteria that:
 - Address issues not within the scope of NERC Reliability Standards.
 - Promote more consistent implementation of a NERC Reliability Standard within the Region.
- Initiate and coordinate revisions to Regional Reliability Standards or regional criteria in any stage of development to align with NERC and FERC requirements.
 - Support for enhanced periodic reviews focused on conducting measured, in-depth reviews to further improve Reliability Standards.
 - Support for ERO activities necessary to incorporate Regional Reliability Standards into continent-wide Standards.
 - Retire Regional Reliability Standards and regional criteria that are duplicative with NERC Reliability Standards or no longer needed for reliability.

Resource Requirements

- **Personnel**

No increase in personnel is budgeted in this year.

- **Contractors and Consultants**

No contractor or consultant support is budgeted in this year.

Compliance Monitoring and Enforcement, and Organization Registration and Certification Program

Compliance Monitoring, and Enforcement, and Organization Registration and Certification Program (in whole dollars)			
	2017 Budget	2018 Budget	Increase (Decrease)
Total FTEs	44.75	45.25	0.50 ¹
Direct Expenses	\$ 10,987,785	\$ 11,311,462	\$323,677
Indirect Expenses	\$ 4,518,559	\$ 4,798,412	\$279,852
Inc(Dec) in Fixed Assets	\$ (84,548)	\$ (111,381)	\$ (26,833)
Total Funding Requirement	\$ 15,421,797	\$ 15,998,493	\$576,696

¹ As explained in further detail within this section, the FTE count reflects a decrease of one and a half (1.5) FTEs due to the transfer of the Event Analysis activities and its associated resources to the Situational Awareness and Infrastructure Program area, and an increase of two (2) FTEs to support the increase in resources needed for CIP Monitoring activities.

Program Scope and Functional Description

The Compliance Monitoring and Enforcement, and Organization Registration and Certification Program performs a variety of risk-based and dynamic activities to identify, communicate, and mitigate reliability, security and resiliency risks facing the ReliabilityFirst footprint. To achieve maximum effectiveness and consistency, ReliabilityFirst has delineated the responsibility to execute the Compliance Monitoring and Enforcement, and Organization Registration and Certification Program among three coordinated groups: Reliability Assurance, Compliance Monitoring, and Enforcement.

The Reliability Assurance group performs activities to drive continuous improvement; assess risk; and scope compliance monitoring and enforcement activities in accordance with risk. These activities, discussed in further detail in the Reliability Assurance section, include: (1) conducting Inherent Risk Assessments to assess the risk posed by each entity and help determine the scope of compliance monitoring activities; (2) conducting Internal Controls Evaluations to drive continuous improvement and further refine the scope of compliance monitoring activities, based upon the maturity of the entity's internal controls; (3) conducting industry training and education; (4) developing lessons learned and identifying key trends to share with the industry; (5) performing registration and certification activities; (6) conducting risk assessments and supporting mitigation plan activities associated with noncompliance's, and (7) performing reliability and compliance assessments of system events.

The Compliance Monitoring group monitors compliance to the NERC Reliability Standards (Reliability Standards) across 230 registered owners, operators, and users of the BES through a variety of risk-based activities. These monitoring activities are key to reliability, as they ensure that entities have effective controls in place and are following the requirements of the Reliability

Standards. These activities, discussed in further detail in the Compliance Monitoring section, include compliance audits, spot checks, guided self-certifications, investigations, assessing complaints, and assessing system events from a reliability and compliance perspective to identify and ensure the mitigation of potential risks.

The Enforcement group is responsible for performing ReliabilityFirst's delegated function to enforce, where necessary, compliance with the Reliability Standards. These efforts, discussed in further detail in the Enforcement section, involve ensuring that the selected disposition method for any noncompliance is (1) clearly communicated; (2) appropriately supported by the record in light of the risk posed by the noncompliance; and (3) promotes the desired entity behavior. The Enforcement group focuses on understanding the risks behind each noncompliance and how to effectively mitigate those risks, as well as sending the appropriate message to the noncompliant entity and the broader regulated community (whether deterrent-driven for undesired behavior or incentive-driven for desired behavior).

Major activities for the Reliability Assurance, Compliance Monitoring, and Enforcement groups for 2018 include the continued implementation of the Risk-Based Compliance Monitoring and Enforcement Program, and efforts connected to the recent transition to the CIP Version 5 Standards (CIP V5). These are joint ERO Enterprise level initiatives that benefit NERC, the Regional Entities, and the Registered Entities. ReliabilityFirst will continue to assess resource conditions and will redeploy existing staff, utilize contract resources, or provide a manpower evaluation for additional staffing to provide the resource support which is determined to be necessary to support the implementation of these major activities.

A detailed Program Scope and Functional Description for the Reliability Assurance, Compliance Monitoring, and Enforcement groups, as well as the Key Assumptions and Deliverables for each of these groups, can be found in their respective sections below.

Reliability Assurance and Compliance Monitoring (in whole dollars)			
	2017 Budget	2018 Budget	Increase (Decrease)
Total FTEs	36.50	37.00	0.50
Direct Expenses	\$ 9,626,528	\$ 9,819,591	\$ 193,063
Indirect Expenses	\$ 3,685,529	\$ 3,923,563	\$ 238,034
Inc(Dec) in Fixed Assets	\$ (73,412)	\$ (88,783)	\$ (15,371)
Total Funding Requirement	\$ 13,238,645	\$ 13,654,372	\$ 415,726

Reliability Assurance

Program Scope and Functional Description

The activities performed by the Reliability Assurance group include: Regional Risk Assessments (identifying and prioritizing risks impacting the ReliabilityFirst footprint); Inherent Risk Assessments (identifying risks impacting an entity); Internal Controls Evaluations (evaluating the effectiveness of internal controls and entity's capability in key management practice areas); Assist Visits (tailored training centered on the needs of the entity); organization registration and certification activities; mitigation plan acceptance, approval, and verification; processing and assessment of periodic data submittals; winter preparedness evaluations; risk-harm analysis of non-compliances and participating in the review of self-logged minimal risk issues; risk analytics; creating compliance oversight plans to align monitoring activities with potential risks; providing industry training; BES Definition Exception Process and Self-Determined Notification activities; and serving as a technical resource for the Corporation.

2018 Key Assumptions

The Reliability Assurance group incorporates the regional specific common business planning assumptions as described in the *ERO Enterprise 2018 - 2020 Shared Business Plan and Budget Assumptions and 2018 Key Focus Areas* document and includes the following regional assumptions:

1. Inherent Risk Assessment and Internal Controls Evaluation activities are expected to increase with the ongoing implementation of the Risk-Based Compliance Monitoring and Enforcement Program. This implementation includes completing Inherent Risk Assessments for all Registered Entities, implementing refinements to the Internal Controls Evaluation process and conducting Internal Controls Evaluations upon request by an entity, and ensuring that compliance oversight plans address emerging risks to reliability and are tailored to the inherent risks posed by specific entities.
2. Monitoring and management of compliance monitoring and enforcement metrics in support of NERC's Strategic Plan and Oversight Program is expected to continue.

3. The BES Definition and Exception Process and Self-Determined Notification processing continues as entities can submit an Exception Request or Self-Determined Notification at any time and staff will address entity questions related to the NERC BES Definition.
4. Entities have expressed a desire to consolidate and where applicable, increase the number of Joint Registration Organizations and Coordinated Functional Registrations. Requests are expected to increase as entities better delineate shared responsibilities and seek to achieve efficiency and effectiveness in compliance management by registering as a corporate entity. This increase will have a direct impact on the workload associated with registration and certification.
5. The Multi-Regional Registered Entity (MRRE) process expanded in 2017 and is expected to continue maturing in 2018. To date, ReliabilityFirst has been designated Lead Region for ten MRRE Groups encompassing 27 entities, and Affected Region for 14 MRRE Groups encompassing 71 entities. It is anticipated, taking into account ReliabilityFirst's location and impact on the eastern interconnection, that ReliabilityFirst may be designated as the Lead Region for additional MRREs. The expansion of the MRRE program has increased the workload associated with coordinating compliance monitoring and enforcement processes under the MRRE process.
6. As a result of revisions to the registration process in accordance with FERC's Order approving NERC's Risk-Based Registration Initiative, registration staff now participates in the NERC-led review panels described in the NERC ROP, Appendix 5A, Section III.D.
7. Assist Visits and Internal Controls Evaluations will continue to take place to collaboratively assist an entity's drive for continuous improvement and reliability excellence and its capability in key management practice areas. There was continued high demand for Assist Visits in 2016 and 2017, most of which focused on the transition to and implementation of the CIP V5 Standards. The demand for Assist Visits, including requests for onsite Assist Visits at the entity's offices, is expected to continue and potentially expand in 2018.
8. There will be an effort to ensure that a specific risk targeted by a particular Reliability Standard is being adequately addressed (i.e., whether the Reliability Standard as written, monitored and enforced for compliance, is effectively mitigating the identified risk.)
9. Work with NERC will continue on the development of educational materials for Registered Entities regarding the Risk-Based Compliance Monitoring and Enforcement Program, Risk-Based Registration, and new and revised Reliability Standards.
10. There will be continued ERO Enterprise-wide collaboration and implementation of consistent risk-based compliance monitoring and enforcement practices and new tools.

2018 Key Deliverables

- Process all registration requests and implement the Risk-Based Registration Initiative.
- Process BES Exception Requests and Self-Determined Notification submittals.

- Provide technical assessment of periodic data submittals.
- Provide technical subject matter expertise and support for compliance monitoring and enforcement activities, regional outreach activities, and other initiatives as identified within ReliabilityFirst and/or the ERO.
- Support the development and integration of advanced analytical capabilities for identifying and determining reliability risks, and conducting various risk assessments (i.e. Regional Risk Assessments, Inherent Risk Assessments, Risk-Harm Assessments, and explorative Probabilistic Risk Assessment).
- Support ERO Enterprise-wide data collection and analysis efforts.
- Participate in the annual Winter Preparedness program designed to help ensure the readiness of generating units to perform during extreme cold weather.
- Support the ongoing implementation of the Risk-Based Compliance Monitoring and Enforcement Program, with a focus on the ongoing assessment of ReliabilityFirst Regional Risk Elements, and maturation of the Inherent Risk Assessment and Internal Controls Evaluation processes.
- Perform Inherent Risk Assessments of entities in alignment with the ERO Guide for Compliance Monitoring to define the scope, recommended process (e.g., audit, spot check, guided self-certification), and interval of compliance monitoring activities for a given entity.
- Conduct risk-harm assessments and develop associated risk statements for all possible non-compliances to assess the potential risk posed by each noncompliance and inform the proper enforcement action(s).
- Perform mitigation plan activities in an effort to return entities to compliance and prevent reoccurrence by:
 - Reviewing proposed mitigation plans and accepting those that contain effective corrective and preventative actions.
 - Communicating with Enforcement and the entity throughout the mitigation plan review process to ensure defined corrective and preventative actions will mitigate the violation.
 - Verifying mitigation plan completion through the evaluation of evidence provided by the entity to demonstrate that agreed-to actions have been implemented according to established milestones.
 - Conducting outreach activities to help entities move beyond baseline compliance.
- Perform reviews of self-logged non-compliances, submitted quarterly by entities granted logging privileges, to assess the non-compliances and their associated risk determinations and mitigating activities.
- Support the development, training, and outreach for entities to successfully transition to the CIP V5 Standards.

- Perform Assist Visits, support regional workshops, and monthly “open” compliance calls to educate entities on reliability and compliance topics.
- Support the NERC Security Review Program, as requested.
- Support the integration and use of the ERO Enterprise Learning Management System.
- Assist NERC with the coordination, planning, delivery, and management of training and outreach activities across the ERO Enterprise in concert with Region-specific training and outreach activities.
- Participate in the ERO Enterprise staff learning development process through the ERO working groups and functional area program leaders.

Resource Requirements

- **Personnel**

As noted above in the 2018 Key Assumptions, Section 7, the demand for Assist Visits is expected to continue and potentially expand in 2018. ReliabilityFirst is not adding FTE's in this area for 2018, but will monitor this area and will reassess whether to add FTE's to this area in the 2019 Business Plan & Budget.

- **Contractors and Consultants**

Contractor and consultant support is budgeted for Data Analytics work or special projects, as applicable.

Compliance Monitoring

Program Scope and Functional Description

The activities performed by the Compliance Monitoring group to monitor and help ensure the reliability, security, and resiliency of the BES include: Operations and Planning and Critical Infrastructure Protection (CIP) audits; guided self-certifications; investigations; spot checks; assessing complaints; assessing system events from a reliability and compliance perspective to identify and ensure the mitigation of potential risks; assisting in the review, approval, and verification of mitigation plans for noncompliances identified during compliance monitoring activities; and managing Technical Feasibility Exceptions (TFEs). The group also serves as industry subject matter experts and technical resources for the Corporation.

2018 Key Assumptions

The Compliance Monitoring group incorporates the regional specific common business planning assumptions as described in the *ERO Enterprise 2018 - 2020 Shared Business Plan and Budget Assumptions and 2018 Key Focus Areas* document and includes the following regional assumptions:

1. Assure reliability by monitoring compliance to the Reliability Standards through CMEP processes (e.g., audits, spot checks), using a risk-based approach, ensuring that all pre-audit, onsite or offsite, and post audit activities are completed per the established process and timelines.
2. Pursuant to the Risk-Based Compliance Monitoring and Enforcement Program, all entities will have an Inherent Risk Assessment completed to determine their Compliance Oversight Plans and the scope of their engagements. As required by the NERC ROP, Balancing Authority, Transmission Operator, and Reliability Coordinator audits will continue to occur on a three year cycle. For all other entities, ReliabilityFirst will evaluate the entity's Inherent Risk Assessment results to determine if its engagement will continue, be delayed, or be replaced by an alternate compliance monitoring method.
3. Perform a Compliance Assessment Review of each system event with special focus and analysis of Category 2 events and above.
4. Conduct focused spot checks and guided self-certifications as deemed appropriate to ensure that entities are addressing identified risks.
5. ReliabilityFirst will continue to implement the guidance and process steps contained in the ERO Auditor Handbook and Checklist, and support the continued use and development of ERO auditor tools. ReliabilityFirst will support the training requirements necessary to meet the criteria set forth by the ERO Auditor Manual and Handbook and the Compliance Auditor Capabilities and Competency Guide.
6. ReliabilityFirst and NERC will continue to collaborate and define ongoing training needs, priorities, and implementation schedules for the compliance staff. Through NERC training and other available training courses, ReliabilityFirst will provide the necessary training to

continue to provide a credible, skilled, competent, and respected compliance monitoring staff.

7. ReliabilityFirst will continue to seek and implement initiatives to increase efficiencies and productivity. Staff will continue to collaborate with NERC as it develops an ERO Enterprise-wide audit management tool, which will improve the efficiency of monitoring processes and NERC oversight for all the Regions.
8. With FERC approval of the CIP V5 Standards, the ERO Enterprise continues to evaluate:
 - a. Whether the approved changes in CIP V5 will materially change the amount of rigor and time Regional Entities will need to spend on compliance monitoring activities for entities with High, Medium, and Low BES Assets, and BES Cyber Systems, including whether field visits will be required; and
 - b. Whether material changes or additions are going to be required by the Regional Entity and NERC outreach efforts to communicate requirements to these entities.

Results of this evaluation may impact the audit scope, regional resource requirements, and expectations that will need to be factored into future resource recommendations for the budget.

9. The increased complexity of the CIP V5 Standards, and the substantial increase of assets within scope for the CIP V5 Standards (approximately a ten-fold increase in assets), has increased the workload for CIP auditors. Moreover, the time required to complete onsite CIP audit reviews often includes site and field visits, based on the scope of the audit and whether initial evidence provided is sufficient to substantiate that an entity is compliant. This has increased the time required for CIP audits, and has added workload in the CIP Monitoring area that is expected to continue. The supply chain management Reliability Standard that is currently being developed is also expected to add workload in the CIP Monitoring area.

The transition to the CIP V5 Standards has resulted in an additional workload to provide outreach and training to entities owning Low Impact BES Cyber Systems who are new to the monitoring process; and to all entities on the effective implementation of the CIP V5 Standards. Entity outreach is expected to be an ongoing need, given the increasing complexity and continually evolving nature of cybersecurity and the CIP Standards

10. For the reasons discussed in Section 9 above, current projections indicate the need for two additional FTEs in the CIP Monitoring area. The current staffing level forces overlap of audits for auditors, which is unsustainable on an individual staff member level. ReliabilityFirst is committed to year over year efficiency gains, however, efficiency gains alone will not make up for the resource shortfall. Although the 2018 FTE analysis shows a need to add 3 FTEs, ReliabilityFirst proposes to add two FTEs in this area, with the balance of the resource need being addressed through efficiency gains.

11. A Technical Feasibility Exception (TFE) Task Force was formed to assure consistency in the administration of TFE requests and to support the preparation of the TFE annual report submitted to FERC. The immediate impact of required changes will be determined as the TFE Task Force moves forward. ReliabilityFirst will continue to support the TFE program with existing CIP staff and will monitor the impact, which will guide the development of any future resource recommendations.
12. CIP Staff will support ERO and Regional outreach and training efforts including the NERC Security Reliability Program, CIP V5 Small Group Advisory Sessions, ReliabilityFirst CIP V5 Workshops, ReliabilityFirst CIP V5 Focus Group Sessions, and CIP-related Assist Visits.

2018 Key Deliverables

- Manage all compliance monitoring activities in a risk-based, fair, and consistent manner, affording all entities appropriate due process.
- Conduct thorough and professional compliance audits consistently with all Regions through the incorporation of the Auditor Handbook and Checklist. Audit teams will consist of staff supplemented, when necessary, by independent contractors.
- Prepare and distribute compliance monitoring process reports to NERC and Registered Entities.
- Ensure all auditors receive adequate training and meet all NERC auditor training requirements.
- Provide efficiencies in compliance monitoring processes through continued auditor training, development and enhancement of auditor tools, and process improvements.
- Support two reliability workshops, monthly "open" compliance calls, CIP V5 Outreach Workshops and training sessions, Assist Visits (as needed), and provide Registered Entity assistance as required.
- CIP audits will be performed as separate audits from Operations/Planning audits unless agreed to otherwise between ReliabilityFirst and the audited entity. The number of CIP audits targeted for 2018 is defined below:
 - 10 CIP audits of entities on the three year cycle (onsite).
 - These audits will be conducted on larger entities with High, Medium, and Low impact BES Cyber Systems.
 - 15 CIP audits of entities historically on the six year cycle (on-site or offsite).
 - These audits will be conducted on smaller entities with Medium and Low impact BES Cyber Systems and may require on-site visits as new assets will be in scope.
- The number of Operations/Planning engagements planned for 2018 is defined below and will be based on the entity's Inherent Risk Assessment and risk the entity poses to the BES.

- 9 audits of entities on the three year cycle (onsite).
 - 58 audits of entities based upon the Inherent Risk Assessment (previously six year entities).
 - Participating as Affected Regional Entity on MRRE Spot Checks, Guided Self-Certifications and Audits: to be determined, based upon risk and the entity's compliance oversight program.
- Spot Checks and Guided Self-Certifications will be used: (1) to assess performance to selected Reliability Standards when an audit is delayed; (2) as an alternate means of monitoring lower risk entities; and (3) on an as-needed basis to address identified risks. Guidance on when a Spot Check or Guided Self-Certification may be appropriate is outlined in the annual CMEP Implementation Plan and will be augmented by ReliabilityFirst's Regional Risk Assessment, Inherent Risk Assessments, and results from compliance monitoring activities that identify emerging risks. Spot Checks and Guided Self-Certifications may also be used to confirm prior self-certifications, self-reports, and the status of mitigation plans or agreed-to mitigation activities associated with settlement agreements.
 - Participate in NERC Security Review Program CIP Outreach sessions. The expectation is that NERC will conduct two to three security reviews of entities registered in the ReliabilityFirst region in 2018.
 - Support NERC in continuing the training and outreach for Registered Entities to successfully implement the CIP Version 5 standards and Operations/Planning Standards.
 - Complete Compliance Assessment Reviews of system events according to the ReliabilityFirst Compliance Assessment process, to determine if reliability issues associated with the system event require the initiation of a compliance monitoring process; performance of mitigation activities by involved entities; and/or industry outreach and education.

Resource Requirements

- **Personnel**

As discussed above in the 2018 Key Assumptions, Sections 8-10, the workload in the CIP monitoring area has continually increased and is expected to continue increasing. To support this additional workload, two additional FTEs will be added in the CIP Monitoring area. In the event the workload exceeds available resources, contractors may be used to temporarily supplement staff.

- **Contractors and Consultants**

Contractor and consultant support is budgeted in 2018 to temporarily supplement staff in the event workload exceeds available resources.

Reliability Assurance and Compliance Monitoring Budget Detail

The following table shows funding sources and related expenses for the Reliability Assurance and Compliance Monitoring section of the 2018 Business Plan and Budget. Explanations of variances by expense category are included with the Supplemental Financial Tables found in Section B.

2017 Budget and Projection, and 2018 Budget					
Reliability Assurance and Compliance Monitoring					
	2017 Budget	2017 Projection	Variance 2017 Projection v 2017 Budget Over(Under)	2018 Budget	Variance 2018 Budget v 2017 Budget Over(Under)
Funding					
ReliabilityFirstFunding					
ERO Assessments	\$ 12,821,050	\$ 12,821,050	\$ -	\$ 12,471,179	\$ (349,870)
Penalty Sanctions	417,595	417,595	-	1,167,928	750,333
Total ReliabilityFirst Funding	\$ 13,238,645	\$ 13,238,645	\$ -	\$ 13,639,108	\$ 400,462
Membership Dues	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Grants	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	15,264	15,264
Miscellaneous	-	-	-	-	-
Total Funding	13,238,645	13,238,645	-	13,654,372	415,726
Expenses					
Personnel Expenses					
Salaries	\$ 6,303,496	\$ 6,303,496	\$ -	\$ 6,499,775	\$ 196,279
Payroll Taxes	374,528	374,528	-	389,918	15,390
Benefits	950,873	950,873	-	1,000,275	49,402
Retirement Costs	987,840	987,840	-	1,012,231	24,391
Total Personnel Expenses	\$ 8,616,737	\$ 8,616,737	\$ -	\$ 8,902,200	\$ 285,462
Meeting Expenses					
Meetings	\$ 18,250	\$ 18,250	\$ -	\$ 44,675	\$ 26,425
Travel	513,000	513,000	-	456,300	(56,700)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 531,250	\$ 531,250	\$ -	\$ 500,975	\$ (30,275)
Operating Expenses					
Consultants & Contracts	\$ 152,400	\$ 152,400	\$ -	\$ 111,600	\$ (40,800)
Office Rent	-	-	-	-	-
Office Costs	297,897	297,897	-	293,885	(4,013)
Professional Services	-	-	-	-	-
Miscellaneous	4,100	4,100	-	3,500	(600)
Depreciation	24,144	24,144	-	7,432	(16,712)
Total Operating Expenses	\$ 478,541	\$ 478,541	\$ -	\$ 416,417	\$ (62,125)
Total Direct Expenses	\$ 9,626,528	\$ 9,626,528	\$ -	\$ 9,819,591	\$ 193,063
Indirect Expenses	\$ 3,685,529	\$ 3,685,529	\$ -	\$ 3,923,563	\$ 238,034
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 13,312,057	\$ 13,312,057	\$ -	\$ 13,743,154	\$ 431,097
Change in Assets	\$ (73,412)	\$ (73,412)	\$ -	\$ (88,783)	\$ (15,371)
Fixed Assets					
Depreciation	(24,144)	(24,144)	-	(7,432)	16,712
Computer Hardware & Software CapEx	-	-	-	20,000	20,000
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
Total Fixed Assets	\$ (24,144)	\$ (24,144)	\$ -	\$ 12,568	\$ 36,712
Allocation of Fixed Assets	\$ (49,268)	\$ (49,268)	-	\$ (101,351)	\$ (52,083)
Inc/(Dec) in Fixed Assets	\$ (73,412)	\$ (73,412)	\$ -	\$ (88,783)	\$ (15,371)
Total Budget	\$ 13,238,645	\$ 13,238,645	\$ -	\$ 13,654,372	\$ 415,726
Total Change in Working Capital	\$ -	\$ -	\$ -	\$ -	\$ 0
FTEs	36.50	36.50	-	37.00	0.50

Enforcement

Enforcement (in whole dollars)			
	2017 Budget	2018 Budget	Increase (Decrease)
Total FTEs	8.25	8.25	0.00
Direct Expenses	\$ 1,361,257	\$ 1,491,871	\$ 130,614
Indirect Expenses	\$ 833,031	\$ 874,849	\$ 41,818
Inc(Dec) in Fixed Assets	\$ (11,136)	\$ (22,598)	\$ (11,463)
Total Funding Requirement	\$ 2,183,152	\$ 2,344,121	\$ 160,970

Program Scope and Functional Description

The Enforcement group performs ReliabilityFirst's delegated function to enforce, where necessary, compliance with the Reliability Standards. This effort involves ensuring that the selected disposition method for any noncompliance is consistent with the risk posed by the noncompliance; is adequately supported by the record; and promotes desired entity behaviors to enhance reliability.

In the event that a noncompliance is enforced, Enforcement staff is responsible for (1) drafting and negotiating with entities all necessary disposition documents; (2) performing hearings where necessary; (3) ensuring all requisite notices are timely issued; (4) post-filing support and advocacy with NERC and FERC; and (5) ensuring that the record and related disposition documents comply with all applicable (a) FERC orders, rules, and regulations, (b) NERC ROP and Appendices, guidance, and ERO-wide program documents, and (c) ReliabilityFirst policies and procedures (collectively, "applicable orders, rules, and procedures"). In the event that a noncompliance is not enforced (e.g., compliance exception or dismissal), Enforcement staff is responsible for (1) drafting all necessary internal disposition reports and external disposition documents and notices; (2) ensuring all requisite notices are timely issued; (3) post-filing support and advocacy with NERC and FERC; and (4) ensuring that the record and related disposition documents comply with all applicable orders, rules, and procedures.

For continuity and stakeholder convenience, Enforcement staff also serve as a single point of contact for entities for noncompliance-related activities.

ReliabilityFirst frequently serves as the lead Region in resolving multi-regional enforcement actions for significant Registered Entities. Consequently, Enforcement staff devotes substantial resources to coordinate the enforcement work of various Regions, obtain consensus on a myriad of issues, and negotiate acceptable resolutions.

Enforcement staff regularly works with FERC, NERC, the other Regions, and industry to shape risk-based, effective enforcement policies that drive desired entity behavior. This work includes drafting, or supporting the drafting, of ERO-wide enforcement program documents and enforcement related regulatory filings, presenting and training on enforcement programs in

various forums, and monitoring and managing enforcement metrics in support of NERC's strategic Plan and Oversight Program. Enforcement staff also works with NERC and the other Regions to promote and otherwise ensure collaboration and implementation of consistent enforcement practices focused on higher reliability risks.

The Enforcement group has evaluated its processes and staffing levels and has determined that, since the number of noncompliances appear to be reaching more of a steady state and there has been implementation of various process improvements, Enforcement staff levels are adequate to ensure that noncompliances are processed as quickly as practicable consistent with their circumstances.

Although the number of noncompliances processed has remained steady over the past few years, ReliabilityFirst anticipates there may be an increase in the number of noncompliances during the initial stages of implementation of the CIP Version 5 (CIP V5) Standards, due to the increased scope of the assets covered. ReliabilityFirst anticipates that enforcement work in this regard will mostly occur in the compliance exception space and entail ensuring that adequate records are internally developed and maintained. Additionally, a modest increase in the number of noncompliances with the Operations and Planning Reliability Standards may occur, due to revisions of certain Reliability Standards and new Reliability Standards becoming effective.

2018 Key Assumptions

The Enforcement group incorporates the regional specific common business planning assumptions as described in the *ERO Enterprise 2018 - 2020 Shared Business Plan and Budget Assumptions and 2018 Key Focus Areas* document and includes the following regional assumptions:

1. The number of CIP noncompliances may increase due to implementation of the CIP V5 Standards. The number of Operations and Planning noncompliances may modestly increase due to revisions of certain Reliability Standards and new Reliability Standards becoming effective.
2. Enforcement staff levels are adequate to ensure the completion of the activities described in the Program Scope and Functional Description. If noncompliances increase in the future, additional Enforcement staff may be needed to avoid the creation of a backlog.
3. Complex, higher-risk noncompliances disposed as Settlement Agreements will require approximately 50% of Enforcement resources. These matters often involve more complex mitigation, above and beyond action items, and the negotiation of sanctions.
4. The Find Fix and Track (FFT) disposition method will be used for moderate risk issues. It will continue to be used less in favor of the Compliance Exception disposition method, which will be used for almost all qualified minimal risk noncompliances.
5. Enforcement staff will spend significant time ensuring adequate records are created for minimal risk issues. The expenditure of this time will be driven by anticipated receipt of minimal risk issues for the CIP V5 Standards, as well as increased participation in the self-logging program and case by case compliance exception mechanisms.

6. ReliabilityFirst will frequently serve as the lead Region for multi-regional Registered Entities and devote substantial resources to coordinate enforcement work and negotiate acceptable solutions among the Regions.
7. Enforcement staff will continue to work with FERC, NERC, the other Regions, and the industry to shape effective and risk-based enforcement policies that drive desired behavior and ensure consistency.
8. The number of hearings to be conducted in 2018 is unknown, and therefore no internal or external resources have been budgeted for hearings.
9. Enforcement staff will continue to provide outreach to industry through internal support of functional initiatives (e.g., Inherent Risk Assessments; Regional Risk Assessments; Internal Control Evaluations); workshop presentations and participation in panel discussions; webinars; targeted entity training; identification and sharing of lessons learned; and contributions to the RF newsletter.

2018 Key Deliverables

- Continue to focus on resolving enforcement actions in a thoughtful, risk-based, reliability focused manner.
- Ensure that the use of discretion in Enforcement is internally documented, repeatable, and consistent with NERC directives and FERC orders, rules, and regulations.
- Conduct initial fact and circumstance reviews of noncompliances and communicate with the entity through each step of the enforcement process.
- Continue to work with the Reliability Assurance group to refine the risk-harm assessment process, a key input into enforcement decision making.
- Continue to increase efficiency, through process improvement, in dispositioning enforcement actions and preparing settlement agreements.
- Continue to work with NERC and the other Regions to shape a well-reasoned Enforcement philosophy that results in risk-based, uniform, repeatable, transparent, and reliability-focused approaches.
- Use knowledge obtained in the context of Inherent Risk Assessments and Internal Controls Evaluations to inform decision-making.

Resource Requirements

- **Personnel**

No increase in personnel is budgeted in this year.

- **Contractors and Consultants**

No contractor and consultant support is budgeted in this year.

Enforcement Budget Detail

The following table shows funding sources and related expenses for the Enforcement section of the *2018 Business Plan and Budget*. Explanations of variances by expense category are included with the Supplemental Financial Tables found in Section B.

2017 Budget and Projection, and 2018 Budget					
Enforcement					
	2017 Budget	2017 Projection	Variance 2017 Projection v 2017 Budget Over(Under)	2018 Budget	Variance 2018 Budget v 2017 Budget Over(Under)
Funding					
ReliabilityFirstFunding					
ERO Assessments	\$ 2,088,764	\$ 2,088,764	\$ -	\$ 2,080,301	\$ (8,462)
Penalty Sanctions	94,388	94,388	-	260,416	166,028
Total ReliabilityFirst Funding	<u>\$ 2,183,152</u>	<u>\$ 2,183,152</u>	<u>\$ -</u>	<u>\$ 2,340,718</u>	<u>\$ 157,566</u>
Membership Dues	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Grants	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	3,403	3,403
Miscellaneous	-	-	-	-	-
Total Funding	<u>2,183,152</u>	<u>2,183,152</u>	<u>-</u>	<u>2,344,121</u>	<u>160,970</u>
Expenses					
Personnel Expenses					
Salaries	\$ 962,026	\$ 962,026	\$ -	\$ 1,058,684	\$ 96,658
Payroll Taxes	69,066	69,066	-	71,181	2,115
Benefits	147,725	147,725	-	163,026	15,301
Retirement Costs	153,346	153,346	-	165,691	12,345
Total Personnel Expenses	<u>\$ 1,332,163</u>	<u>\$ 1,332,163</u>	<u>\$ -</u>	<u>\$ 1,458,582</u>	<u>\$ 126,419</u>
Meeting Expenses					
Meetings	\$ 1,500	\$ 1,500	\$ -	\$ 2,500	\$ 1,000
Travel	17,000	17,000	-	23,000	6,000
Conference Calls	-	-	-	-	-
Total Meeting Expenses	<u>\$ 18,500</u>	<u>\$ 18,500</u>	<u>\$ -</u>	<u>\$ 25,500</u>	<u>\$ 7,000</u>
Operating Expenses					
Consultants & Contracts	\$ -	\$ -	\$ -	\$ -	\$ -
Office Rent	-	-	-	-	-
Office Costs	9,694	9,694	-	7,789	(1,905)
Professional Services	-	-	-	-	-
Miscellaneous	900	900	-	-	(900)
Depreciation	-	-	-	-	-
Total Operating Expenses	<u>\$ 10,594</u>	<u>\$ 10,594</u>	<u>\$ -</u>	<u>\$ 7,789</u>	<u>\$ (2,805)</u>
Total Direct Expenses	<u>\$ 1,361,257</u>	<u>\$ 1,361,257</u>	<u>\$ -</u>	<u>\$ 1,491,871</u>	<u>\$ 130,614</u>
Indirect Expenses	<u>\$ 833,031</u>	<u>\$ 833,031</u>	<u>\$ -</u>	<u>\$ 874,849</u>	<u>\$ 41,818</u>
Other Non-Operating Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Expenses	<u>\$ 2,194,288</u>	<u>\$ 2,194,288</u>	<u>\$ -</u>	<u>\$ 2,366,720</u>	<u>\$ 172,432</u>
Change in Assets	<u>\$ (11,136)</u>	<u>\$ (11,136)</u>	<u>\$ -</u>	<u>\$ (22,598)</u>	<u>\$ (11,463)</u>
Fixed Assets					
Depreciation	-	-	-	-	-
Computer Hardware & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
Allocation of Fixed Assets	\$ (11,136)	\$ (11,136)	-	\$ (22,598)	\$ (11,463)
Inc(Dec) in Fixed Assets	<u>\$ (11,136)</u>	<u>\$ (11,136)</u>	<u>\$ -</u>	<u>\$ (22,598)</u>	<u>\$ (11,463)</u>
Total Budget	<u>\$ 2,183,152</u>	<u>\$ 2,183,152</u>	<u>\$ -</u>	<u>\$ 2,344,121</u>	<u>\$ 160,970</u>
Total Change in Working Capital	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (0)</u>
FTEs	8.25	8.25	-	8.25	-

Reliability Assessment and Performance Analysis Program

Reliability Assessments and Performance Analysis Program (in whole dollars)			
	2017 Budget	2018 Budget	Increase (Decrease)
Total FTEs	8.35	8.35	0.00
Direct Expenses	\$ 2,095,713	\$ 2,076,169	\$ (19,544)
Indirect Expenses	\$ 843,128	\$ 885,453	\$ 42,325
Inc(Dec) in Fixed Assets	\$ (13,648)	\$ (25,249)	\$ (11,601)
Total Funding Requirement	\$ 2,925,193	\$ 2,936,372	\$ 11,179

Program Scope and Functional Description

ReliabilityFirst's Reliability Assessment and Performance Analysis (RAPA) staff independently analyzes, assesses, and reports on the reliability and adequacy of the BES within the ReliabilityFirst footprint. RAPA staff helps identify and assess risks across the ReliabilityFirst footprint, and its work is a key input to the risk-based efforts of the entire organization. This work includes the performance of resource and transmission assessment studies; special analyses and investigations as warranted; and the collection and dissemination of data, lessons learned, and other information. The RAPA program provides resources and data input for the technical analyses and support of the many risk-based activities described in the Reliability Assurance and Compliance Monitoring sections.

2018 Key Assumptions

The Reliability Assessment and Performance Analysis Program incorporates the regional specific common business planning assumptions as described in the *ERO Enterprise 2018 - 2020 Shared Business Plan and Budget Assumptions and 2018 Key Focus Areas* document for the 2018 budget cycle. There are no additional assumptions unique to the Reliability Assessment and Performance Program.

2018 Key Deliverables

- Assessments of Reliability Performance
 - Perform seasonal (summer and winter) risk analyses of the projected resource adequacy for PJM Interconnection, LLC (PJM) and Midcontinent Independent System Operator (MISO), the two Regional Transmission Organizations (RTO) that operate within ReliabilityFirst. As part of these risk analyses, produce seasonal RTO "waterfall" risk charts depicting the range of available capacity reserves for the forecasted normal (50/50) and extreme (90/10) seasonal peak demand levels; and historical long-term forecast and demand charts.
 - Perform seasonal (summer and winter); near-term (typically five years into the future); and extreme transmission assessment studies, and produce reports on these transmission assessment studies.

- Collect data and produce assessment reports for the NERC Reliability Assessment Subcommittee's seasonal, special assessment, and long-term reports.
- Provide technical support for the ERO Enterprise's expanded and enhanced system studies and help perform analyses as needed.
- Work with neighboring Regional Entities within the Eastern Interconnection Reliability Assessment Group (ERAG) to perform Eastern Interconnection assessment studies and produce reports.
- Update power flow base case models as needed for regional study efforts.
- Reporting Requirements
 - Submit ReliabilityFirst load, capacity, and transmission data and power flow base cases annually for the US Department of Energy's EIA-411 report.
 - Assist NERC in the verification and validation of data for the Transmission Availability Data System (TADS), Generator Availability Data System (GADS), Demand Response Availability Data System (DADS), Misoperation Information Data Analysis System (MIDAS), and the Reliability Assessment Data System (RADS). All these systems can be used for data analytics across the ERO Enterprise.
- Other Requirements and Activities
 - Publish lessons learned that are developed from misoperation reporting and other sources.
 - Continue to actively participate in ERAG (a ReliabilityFirst staff member chairs this group), the MMWG, and other ERAG groups.
 - Analyze protective relay misoperation information and track corrective action plans, as reported in the NERC MIDAS system. Facilitate a peer review process of this data via the ReliabilityFirst Protection Subcommittee.
 - Conduct initial and periodic Special Protection System reviews and maintain a database of regional Special Protection Systems.
 - Review under-frequency load shed (UFLS) information.
 - Review under-voltage load shed (UVLS) information.
 - Develop and maintain a linear contingency database for transmission assessment studies.
 - In support of the ERO Enterprise, actively participate (and in some cases serve in leadership roles) in NERC committees, subcommittees, task forces, and other technical groups, such as the Planning Committee, Operating Committee, and associated subgroups, as well as the ERO-RAPA group.
 - Continue to support stakeholder participation and interaction through various regional technical groups, including the Reliability Committee (a technical advisory body to the ReliabilityFirst Board of Directors) and its subcommittees and working

groups. These groups provide technical advice, perform technical reviews, and provide input on emerging reliability issues. These groups also provide the opportunity for stakeholders to debate current issues, share lessons learned, and discuss success stories and near-misses in a technical forum.

- Provide the various regional technical groups with information and knowledge to help entities improve human performance.
- Provide Registered Entities with tailored training and interaction through recurring workshops (such as the Protection Workshop for Technical Personnel).
- Provide knowledge, techniques, and data input in support of ReliabilityFirst's risk-based activities, including the Inherent Risk Assessments and Regional Risk Assessment efforts.

Resource Requirements

- **Personnel**

No increase in personnel is budgeted in this year.

- **Contractors and Consultants**

Contractor and consulting support is budgeted to support:

- ERAG steady state and dynamic base case model assembly through the MMWG processes,
- ERAG event analysis process(es) and tools to develop steady state and dynamic models for analyzing system disturbances,
- ERAG reviews of Planning Coordinator assessments, and
- ERAG assessment studies.

The total cost of ERAG contractor and consulting support is shared across all six Regional Entities in the Eastern Interconnection.

Reliability Assessment and Performance Analysis Program Budget Detail

The following table lists funding sources and related expenses for the Reliability Assessment and Performance Analysis section of the 2018 Business Plan and Budget. Explanations of variances by expense category are included with the Supplemental Financial Tables found in Section B.

2017 Budget and Projection, and 2018 Budget					
Reliability Assessment and Performance Analysis					
	2017 Budget	2017 Projection	Variance 2017 Projection v 2017 Budget Over(Under)	2018 Budget	Variance 2018 Budget v 2017 Budget Over(Under)
Funding					
ReliabilityFirstFunding					
ERO Assessments	\$ 2,829,661	\$ 2,829,661	\$ -	\$ 2,669,355	\$ (160,306)
Penalty Sanctions	95,532	95,532	-	263,573	168,041
Total ReliabilityFirst Funding	\$ 2,925,193	\$ 2,925,193	\$ -	\$ 2,932,928	\$ 7,735
Membership Dues	-	-	-	-	-
Federal Grants	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	3,445	3,445
Miscellaneous	-	-	-	-	-
Total Funding	2,925,193	2,925,193	-	2,936,372	11,179
Expenses					
Personnel Expenses					
Salaries	\$ 1,358,695	\$ 1,358,695	\$ -	\$ 1,329,564	\$ (29,131)
Payroll Taxes	83,237	83,237	-	83,004	(233)
Benefits	153,895	153,895	-	175,455	21,560
Retirement Costs	216,409	216,409	-	215,123	(1,286)
Total Personnel Expenses	\$ 1,812,237	\$ 1,812,237	\$ -	\$ 1,803,146	\$ (9,091)
Meeting Expenses					
Meetings	\$ 18,500	\$ 18,500	\$ -	\$ 16,700	\$ (1,800)
Travel	110,000	110,000	-	91,500	(18,500)
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 128,500	\$ 128,500	\$ -	\$ 108,200	\$ (20,300)
Operating Expenses					
Consultants & Contracts	\$ 110,012	\$ 110,012	\$ -	\$ 119,812	\$ 9,800
Office Rent	-	-	-	-	-
Office Costs	42,487	42,487	-	42,434	(53)
Professional Services	-	-	-	-	-
Miscellaneous	100	100	-	200	100
Depreciation	2,377	2,377	-	2,377	-
Total Operating Expenses	\$ 154,976	\$ 154,976	\$ -	\$ 164,823	\$ 9,847
Total Direct Expenses	\$ 2,095,713	\$ 2,095,713	\$ -	\$ 2,076,169	\$ (19,544)
Indirect Expenses	\$ 843,128	\$ 843,128	\$ -	\$ 885,453	\$ 42,325
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 2,938,841	\$ 2,938,841	\$ -	\$ 2,961,622	\$ 22,781
Change in Assets	\$ (13,648)	\$ (13,648)	\$ -	\$ (25,249)	\$ (11,601)
Fixed Assets					
Depreciation	(2,377)	(2,377)	-	(2,377)	-
Computer Hardware & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
Total Fixed Assets	\$ (2,377)	\$ (2,377)	\$ -	\$ (2,377)	\$ -
Allocation of Fixed Assets	(11,271)	(11,271)	-	(22,872)	(11,601)
Inc/(Dec) in Fixed Assets	\$ (13,648)	\$ (13,648)	\$ -	\$ (25,249)	\$ (11,601)
Total Budget	\$ 2,925,193	\$ 2,925,193	\$ -	\$ 2,936,372	\$ 11,179
Total Change in Working Capital	\$ -	\$ -	\$ -	\$ -	\$ (0)
FTEs	8.35	8.35	-	8.35	-

Training, Education, and Operator Certification Program

Training, Education and Operator Certification Program (in whole dollars)			
	2017 Budget	2018 Budget	Increase (Decrease)
Total FTEs	3.00	3.00	0.00
Direct Expenses	\$ 676,138	\$ 712,087	\$ 35,949
Indirect Expenses	\$ 302,920	\$ 318,127	\$ 15,207
Inc(Dec) in Fixed Assets	\$ (4,049)	\$ (8,218)	\$ (4,168)
Total Funding Requirement	\$ 975,009	\$ 1,021,996	\$ 46,987

Program Scope and Functional Description

Effective training and outreach is critical to leverage and advance industry practices surrounding risk identification, mitigation, and prevention. The ReliabilityFirst Training and Education Program focuses on providing relevant training to entities operating in the ReliabilityFirst region, as well as internal training for ReliabilityFirst staff. ReliabilityFirst's training is structured to provide timely information in a concise format to enable participation at all levels within an organization.

ReliabilityFirst's Instruction System Designer participates in the NERC Staff Training Group, which helps identify industry and Regional Entity staff training needs. ReliabilityFirst does not provide system operator certification training, as it is provided by the Regional Transmission Organizations within the Region.

2018 Key Assumptions

The Training and Education Program incorporates the regional specific common business planning assumptions as described in the *ERO Enterprise 2018 - 2020 Shared Business Plan and Budget Assumptions and 2018 Key Focus Areas* document. There are no additional assumptions unique to the ReliabilityFirst Training and Education Program.

2018 Key Deliverables

- Industry Education
 - ReliabilityFirst will continue its effort to increase and add greater focus to its activities aimed at helping entities achieve excellence in reliability, security and resiliency. These activities include:
 - The development and publication of lessons learned/best practices from system events and disturbances.
 - Guidance on the CIP V5 Reliability Standards and on other new and revised Reliability Standards.
 - Guidance on the implementation of the Risk-Based Compliance Monitoring and Enforcement Program, including on Inherent Risk Assessments and Internal Controls Evaluations

- Identification of common themes and root causes of Reliability Standard violations.
 - Efforts to better prepare entities for compliance audits and enforcement activities.
 - Open compliance and enforcement calls that cover a span of compliance, CIP V5 transition and enforcement related topics.
 - Sharing best practices concerning generator plant winter readiness.
 - Webinars on the compliance monitoring and enforcement process.
 - Increased focus on any lessons learned or trends identified from reliability assessments.
- Industry Workshops
 - Continue workshops and forums to allow for free exchange of information between ReliabilityFirst and its stakeholders. Workshops and forums will focus on understanding and mitigating risks to reliability, security, and resiliency within the ReliabilityFirst footprint. Workshops to be conducted in 2018 include:
 - Two Reliability workshops (spring and fall) to promote a culture of reliability focusing on security, resiliency, risk management, and targeted discussion on methods to demonstrate compliance.
 - Open forums to provide insight into new Reliability Standards developed and approved by the industry, changes in the Compliance Monitoring and Enforcement Program, Critical Infrastructure Protection issues, or other topics requested by entities.
 - CIP V5 Standards Seminar to provide insight into the evolution of these Standards and to provide a forum for entities to share thoughts, problems, and solutions.
 - Additional, targeted workshops to address emerging risks (e.g., misoperations, human performance) as the need is identified and the session can be scheduled.

Resource Requirements

- **Personnel**

No increase in personnel is budgeted in this year.

- **Contractors and Consultants**

No contractor and consultant support is budgeted in this year.

Training, Education, and Operator Certification Program Budget Detail

The following table shows funding sources and related expenses for the Training, Education, and Operator Certification section of the *2018 Business Plan and Budget*. Explanations of variances by expense category are included with the Supplemental Financial Tables found in Section B.

2017 Budget and Projection, and 2018 Budget					
Training, Education, and Operator Certification Program					
	2017 Budget	2017 Projection	Variance 2017 Projection v 2017 Budget Over(Under)	2018 Budget	Variance 2018 Budget v 2017 Budget Over(Under)
Funding					
ReliabilityFirstFunding					
ERO Assessments	\$ 940,686	\$ 940,686	\$ -	\$ 926,062	\$ (14,624)
Penalty Sanctions	34,323	34,323	-	94,697	60,374
Total ReliabilityFirst Funding	\$ 975,009	\$ 975,009	\$ -	\$ 1,020,758	\$ 45,750
Membership Dues	-	-	-	-	-
Federal Grants	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	1,238	1,238
Miscellaneous	-	-	-	-	-
Total Funding	975,009	975,009	-	1,021,996	46,987
Expenses					
Personnel Expenses					
Salaries	\$ 390,401	\$ 390,401	\$ -	\$ 416,078	\$ 25,677
Payroll Taxes	27,842	27,842	-	28,228	386
Benefits	58,311	58,311	-	65,095	6,784
Retirement Costs	62,184	62,184	-	66,286	4,102
Total Personnel Expenses	\$ 538,738	\$ 538,738	\$ -	\$ 575,687	\$ 36,949
Meeting Expenses					
Meetings	\$ 135,000	\$ 135,000	\$ -	\$ 136,400	\$ 1,400
Travel	-	-	-	-	-
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 135,000	\$ 135,000	\$ -	\$ 136,400	\$ 1,400
Operating Expenses					
Consultants & Contracts	-	-	-	-	-
Office Rent	-	-	-	-	-
Office Costs	2,400	2,400	-	-	(2,400)
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	-	-	-	-	-
Total Operating Expenses	\$ 2,400	\$ 2,400	\$ -	\$ -	\$ (2,400)
Total Direct Expenses	\$ 676,138	\$ 676,138	\$ -	\$ 712,087	\$ 35,949
Indirect Expenses	\$ 302,920	\$ 302,920	\$ -	\$ 318,127	\$ 15,207
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 979,058	\$ 979,058	\$ -	\$ 1,030,214	\$ 51,156
Change in Assets	\$ (4,049)	\$ (4,049)	\$ -	\$ (8,218)	\$ (4,168)
Fixed Assets					
Depreciation	-	-	-	-	-
Computer Hardware & Software CapEx	-	-	-	-	-
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
Allocation of Fixed Assets	\$ (4,049)	\$ (4,049)	-	\$ (8,218)	\$ (4,168)
Inc/(Dec) in Fixed Assets	\$ (4,049)	\$ (4,049)	\$ -	\$ (8,218)	\$ (4,168)
Total Budget	\$ 975,009	\$ 975,009	\$ -	\$ 1,021,996	\$ 46,987
Total Change in Working Capital	\$ -	\$ -	\$ -	\$ -	\$ -
FTEs	3.00	3.00	-	3.00	-

Situation Awareness and Infrastructure Security Program

Situation Awareness and Infrastructure Security Program (in whole dollars)			
	2017 Budget	2018 Budget	Increase (Decrease)
Total FTEs	1.50	4.00	2.50
Direct Expenses	\$ 420,237	\$ 1,085,245	\$ 665,008
Indirect Expenses	\$ 151,460	\$ 424,169	\$ 272,709
Inc(Dec) in Fixed Assets	\$ 15,243	\$ (20,977)	\$ (36,220)
Total Funding Requirement	\$ 586,940	\$ 1,488,437	\$ 901,497

Program Scope and Functional Description

In support of the ERO, the Situation Awareness and Infrastructure Security staff, in coordination with members of the Reliability Assessment and Performance Analysis and Reliability Assurance groups, monitors present conditions on and emerging threats to, the BES. The Situation Awareness and Infrastructure Security staff also performs event analysis for system disturbances and events. During the event analysis process, ReliabilityFirst works with entities to identify and analyze the root causes of system events, complete event analysis reports, and communicate the resulting information and lessons learned to the industry.

The Situation Awareness and Infrastructure Security activity continues to evolve to provide the tools and information required by the staff and stakeholders to promote infrastructure protection. The Situation Awareness and Infrastructure Security program area addresses two separate but related functions, Situation Awareness and Critical Infrastructure Protection (CIP).

The Situation Awareness and Infrastructure Security program supports the ReliabilityFirst staff and Registered Entities in understanding potential threats to the electricity sector, implementing Reliability Standards developed to reinforce infrastructure security, maintaining an awareness of conditions on the BES, and identifying potential and emerging threats to the BES.

2018 Key Assumptions

The Situation Awareness and Infrastructure Security Program incorporates the regional specific common business planning assumptions as described in the *ERO Enterprise 2018 - 2020 Shared Business Plan and Budget Assumptions and 2018 Key Focus Areas* document, and includes the following regional assumptions:

1. National level security exercises will be conducted to examine industry's cyber security and physical security preparedness and response capabilities through simulation of coordinated cyber and physical attacks on industrial control systems, System Control and Data Acquisition, and information technology assets. ReliabilityFirst will participate in these exercises as appropriate.

2. ReliabilityFirst Situation Awareness and Infrastructure Security staff will monitor projects related to grid resilience and security such as the Cyber Resilient Energy Delivery Consortium. Staff will participate in these projects as appropriate, incorporate lessons learned from these projects into ReliabilityFirst's tools and processes, and share lessons learned with entities as appropriate.
3. The event analysis program was recently reallocated from the Reliability Assurance and Compliance Monitoring Program to the Situation Awareness and Infrastructure Security Program, in order to group together ReliabilityFirst's activities connected to event analysis, situational awareness, and emerging threats. This centralizes and clarifies ReliabilityFirst's work in these three interrelated areas, as the work associated with them was previously dispersed across the organization.
4. Additional resources are needed for the event analysis program, as the number of events (while the majority are minor in nature) has tripled over the past three years, from 38 events in 2014 to 97 events in 2016. Although ReliabilityFirst is fortunate to have highly capable and cooperative entities that aid in cause coding, the work load required to close out approximately 100 events annually is substantial. The timely processing of events is key to the reliability of the BES, because it ensures that ReliabilityFirst promptly identifies any emerging risks and/or any increases in existing risks related to those events.

2018 Key Deliverables

- Support of the ReliabilityFirst Critical Infrastructure Protection Committee (CIPC)
 - The purpose of the ReliabilityFirst CIPC is to share information concerning CIP and to promote CIP within the Region. Situation Awareness and Infrastructure Security staff will support the CIPC through the scheduling and facilitation of CIPC meetings and webinars and the dissemination of messages, alerts, and warnings from NERC, the Electricity Information Sharing and Analysis Center (E-ISAC), and the U.S. Department of Homeland Security (U.S. DHS) to the CIPC as permitted. Staff will also work to encourage and support sharing of information between entities and the E-ISAC.
- Support/Oversee ReliabilityFirst Staff Compliance to the NERC Cyber Security Standards (CIP-002 - CIP-014)
 - ReliabilityFirst is committed to complying with the intent of the NERC Cyber Security Standards. The Situation Awareness and Infrastructure Security staff will provide training, guidance, and oversight to the ReliabilityFirst staff, particularly the Information Technology staff, in achieving compliance to these Standards.
- Provide Information on CIP-Related Issues
 - This activity involves dissemination of information to entities from agencies such as the E-ISAC, the U.S. Department of Homeland Security, and others containing information on events or suspected events representing potential threats to the electricity sector.

- Situation Awareness and Infrastructure Security staff will work with other members of the NERC CIPC and NERC staff to develop a robust messaging system for dissemination of CIP-related messages to the appropriate target audience and will promote the use of this messaging system for exchange of security-related information.
- Monitor the Health of the BES
 - The use of situation awareness tools by staff has been evolving over the last few years. Situation Awareness and Infrastructure Security staff continues to participate in the Situation Awareness for FERC, NERC, and the Regional Entities (SAFNR) project and uses the SAFNRv2 displays developed through this project. ReliabilityFirst is a signatory to the NERC Operating Reliability Data Confidentiality Agreement and the SAFNR Subscriber Agreement and as such, will use tools such as the Reliability Coordinator Information System (RCIS), System Data eXchange (SDX), Area Control Error (ACE), and Abnormal Frequency System Monitoring, in addition to SAFNR Version 2, to monitor the health of the BES within the ReliabilityFirst geographical area. In addition to the tools just mentioned, ReliabilityFirst will investigate other tools for monitoring the grid.
- Facilitate the ReliabilityFirst Threats and Vulnerabilities Team
 - In early 2014, ReliabilityFirst created a cross-functional team of subject matter experts to monitor, quantify, and assess new and emerging threats to the BES. The team continues to mature the tools and techniques used to perform this activity in support of the Reliability Assurance program. In 2018, the team will enhance its ability to collect and analyze data in order to better identify and quantify emerging threats to the BES and to provide additional input to the ReliabilityFirst Regional Risk Assessment program. Tools used to quantify threats will be assessed for applicability to the work of the Threats and Vulnerabilities Team.
- Maintain and Test Business Continuity/Disaster Recovery and Pandemic Plans for the ReliabilityFirst Office
 - A business continuity plan deals with the ability to continue business functions in a degraded situation such as the loss of corporate assets including office space or computer assets.
 - A disaster recovery plan deals with a more complete loss of access to corporate assets due to a large-scale event such as a tornado or blackout.
 - A pandemic plan focuses on business continuity in the face of a declared pandemic.
- Assist stakeholders in complying with CIP Standards
 - As the NERC Cyber Security Standards (CIP-002 - CIP-011), the Physical Security Standard (CIP-014), and the Supply Chain Standard (CIP-13) evolve, entities will continue to monitor and implement revisions to the Standards. Situation Awareness and Infrastructure Security staff will be available to answer questions concerning these Standards and, in coordination with the ReliabilityFirst CIPC, will

sponsor/support regional workshops and webinars as needed to foster the exchange of ideas and solutions developed by entities.

- Support the Compliance Monitoring and Enforcement Program
 - Support the activities involving CIP-related issues and events in the Compliance Monitoring and Enforcement program, by providing expertise on CIP monitoring, mitigation plans and settlements that include assessment of compliance to the CIP Standards (CIP-002 - CIP-014).
- Collect and validate data for, review, and analyze system events and disturbances as described in the NERC ERO Event Analysis Process.
 - For system events and disturbances, cooperate with NERC and FERC staff and other Regional staff to ensure root causes, corrective actions, lessons learned, and recommendations are identified and shared across the ERO Enterprise and the industry.
 - For system events and disturbances, review and make a timely decision regarding whether compliance monitoring, enforcement, or outreach actions need to be undertaken (considering the significance of the event or disturbance and its risk to the BES).
 - Collect and review disturbance reports as required in NERC Standard EOP-004 and as required by the Department of Energy in form OE-417.

Resource Requirements

- **Personnel**

As discussed above in the 2018 Key Deliverables Sections 3-4, the event analysis activity, and the one and a half FTEs to administer event analysis, were reallocated from the Reliability Assurance and Compliance Monitoring Program to the Situation Awareness and Infrastructure Security Program. As also discussed in the 2018 Key Deliverables, ReliabilityFirst is adding one additional FTE to support the increased workload in the event analysis program. In the event the workload exceeds available resources, contractors may be used to temporarily supplement staff.

- **Contractors and Consultants**

No contractor and consultant support is budgeted in this year.

Situation Awareness and Infrastructure Security Program Budget Detail

The following table shows funding sources and related expenses for the Situation Awareness and Infrastructure Security section of the 2018 Business Plan and Budget. Explanations of variances by expense category are included with the Supplemental Financial Tables found in Section B.

2017 Budget and Projection, and 2018 Budget					
Situation Awareness and Infrastructure Security					
	2017 Budget	2017 Projection	Variance 2017 Projection v 2017 Budget Over(Under)	2018 Budget	Variance 2018 Budget v 2017 Budget Over(Under)
Funding					
ReliabilityFirstFunding					
ERO Assessments	\$ 569,779	\$ 569,779	\$ -	\$ 1,360,524	\$ 790,745
Penalty Sanctions	17,161	17,161	-	126,263	109,101
Total ReliabilityFirst Funding	\$ 586,940	\$ 586,940	\$ -	\$ 1,486,787	\$ 899,847
Membership Dues	-	-	-	-	-
Federal Grants	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	1,650	1,650
Miscellaneous	-	-	-	-	-
Total Funding	586,940	586,940	-	1,488,437	901,497
Expenses					
Personnel Expenses					
Salaries	\$ 257,959	\$ 257,959	\$ -	\$ 740,911	\$ 482,952
Payroll Taxes	15,692	15,692	-	43,236	27,544
Benefits	32,936	32,936	-	113,990	81,054
Retirement Costs	41,175	41,175	-	118,000	76,825
Total Personnel Expenses	\$ 347,762	\$ 347,762	\$ -	\$ 1,016,137	\$ 668,375
Meeting Expenses					
Meetings	\$ 1,000	\$ 1,000	\$ -	\$ 1,600	\$ 600
Travel	35,000	35,000	-	53,750	18,750
Conference Calls	-	-	-	-	-
Total Meeting Expenses	\$ 36,000	\$ 36,000	\$ -	\$ 55,350	\$ 19,350
Operating Expenses					
Consultants & Contracts	\$ 25,000	\$ 25,000	\$ -	\$ -	\$ (25,000)
Office Rent	-	-	-	-	-
Office Costs	3,743	3,743	-	3,738	(5)
Professional Services	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Depreciation	7,732	7,732	-	10,020	2,288
Total Operating Expenses	\$ 36,475	\$ 36,475	\$ -	\$ 13,758	\$ (22,717)
Total Direct Expenses	\$ 420,237	\$ 420,237	\$ -	\$ 1,085,245	\$ 665,008
Indirect Expenses	\$ 151,460	\$ 151,460	\$ -	\$ 424,169	\$ 272,709
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 571,697	\$ 571,697	\$ -	\$ 1,509,414	\$ 937,717
Change in Assets	\$ 15,243	\$ 15,243	\$ -	\$ (20,977)	\$ (36,220)
Fixed Assets					
Depreciation	(7,732)	(7,732)	-	(10,020)	(2,288)
Computer Hardware & Software CapEx	25,000	25,000	-	-	(25,000)
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-
Total Fixed Assets	\$ 17,268	\$ 17,268	\$ -	\$ (10,020)	\$ (27,288)
Allocation of Fixed Assets	\$ (2,025)	\$ (2,025)	-	\$ (10,957)	\$ (8,932)
Incl/(Dec) in Fixed Assets	\$ 15,243	\$ 15,243	\$ -	\$ (20,977)	\$ (36,220)
Total Budget	\$ 586,940	\$ 586,940	\$ -	\$ 1,488,437	\$ 901,497
Total Change in Working Capital	\$ -	\$ -	\$ -	\$ -	\$ -
FTEs	1.50	1.50	-	4.00	2.50

Administrative Services

Administrative Services (in whole dollars)						
	Direct Expenses and Fixed Assets			FTEs		
	2017 Budget	2018 Budget	Increase (Decrease)	2017 Budget	2018 Budget	Increase (Decrease)
General and Administrative	\$ 2,452,289	\$ 2,343,480	\$ (108,809)	3.00	3.00	0.00
Legal and Regulatory	\$ 699,004	\$ 772,830	\$ 73,825	2.00	2.00	0.00
Information Technology	\$ 1,418,143	\$ 1,647,323	\$ 229,180	5.00	5.00	0.00
Human Resources	\$ 865,834	\$ 837,049	\$ (28,785)	3.00	3.00	0.00
Finance and Accounting	\$ 303,048	\$ 659,482	\$ 356,434	1.70	2.60	0.90
Total Administrative Services	\$ 5,738,319	\$ 6,260,164	\$ 521,846	14.70	15.60	0.90

Program Scope and Functional Description

Administrative Services is comprised of the following programs: General and Administrative, Legal and Regulatory Affairs, Information Technology, Human Resources, and Finance and Accounting.

Methodology for Allocation of Administrative Services Expenses to Programs

The majority of the Operating Expenses are accounted for within the related department's budget. If an expense cannot be specifically associated to a department, it is included in one of the Administrative Services programs. All expenses for the Administrative Services Programs, referred to as indirect expenses, are allocated proportionately based on FTE count to the direct programs. This allocation provides improved financial perspective for the direct program areas.

Administrative Services Budget Detail

The following table shows funding sources and related expenses for the Administrative Services section of the 2018 Business Plan and Budget. Explanations of variances by expense category are included with the Supplemental Financial Tables found in Section B.

2017 Budget and Projection, and 2018 Budget					
Administrative Services					
	2017 Budget	2017 Projection	Variance 2017 Projection v 2017 Budget Over(Under)	2018 Budget	Variance 2018 Budget v 2017 Budget Over(Under)
Funding					
ReliabilityFirstFunding					
ERO Assessments	\$ 310,942	\$ 310,942	\$ -	\$ 640,286	\$ 329,344
Penalty Sanctions	-	-	-	-	-
Total ReliabilityFirst Funding	\$ 310,942	\$ 310,942	\$ -	\$ 640,286	\$ 329,344
Membership Dues	-	-	-	-	-
Federal Grants	-	-	-	-	-
Services & Software	-	-	-	-	-
Workshops	-	-	-	-	-
Interest	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Funding	310,942	310,942	-	640,286	329,344
Expenses					
Personnel Expenses					
Salaries	\$ 2,623,203	\$ 2,623,203	\$ -	\$ 2,930,629	\$ 307,426
Payroll Taxes	135,504	135,504	-	149,790	14,286
Benefits	461,992	461,992	-	531,813	69,821
Retirement Costs	488,286	488,286	-	561,006	72,720
Total Personnel Expenses	\$ 3,708,984	\$ 3,708,984	\$ -	\$ 4,173,237	\$ 464,253
Meeting Expenses					
Meetings	\$ 69,240	\$ 69,240	\$ -	\$ 98,500	\$ 29,260
Travel	90,950	90,950	-	88,700	(2,250)
Conference Calls	49,200	49,200	-	50,400	1,200
Total Meeting Expenses	\$ 209,390	\$ 209,390	\$ -	\$ 237,600	\$ 28,210
Operating Expenses					
Consultants & Contracts	\$ 143,900	\$ 143,900	\$ -	\$ 158,720	\$ 14,820
Office Rent	520,176	520,176	-	519,595	(582)
Office Costs	402,941	402,941	-	535,271	132,330
Professional Services	471,105	471,105	-	411,245	(59,860)
Miscellaneous	37,322	37,322	-	36,996	(326)
Depreciation	322,249	322,249	-	353,496	31,247
Total Operating Expenses	\$ 1,897,694	\$ 1,897,694	\$ -	\$ 2,015,323	\$ 117,629
Total Direct Expenses	\$ 5,816,068	\$ 5,816,068	\$ -	\$ 6,426,160	\$ 610,093
Indirect Expenses	\$ (5,816,068)	\$ (5,816,068)	\$ -	\$ (6,426,160)	\$ (610,093)
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ -	\$ -	\$ -	\$ -	\$ 0
Change in Assets	\$ 310,942	\$ 310,942	\$ -	\$ 640,286	\$ 329,344
Fixed Assets					
Depreciation	(322,249)	(322,249)	-	(353,496)	(31,247)
Computer Hardware & Software CapEx	194,500	194,500	-	187,500	(7,000)
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	-	-	-	-	-
Leasehold Improvements	50,000	50,000	-	-	(50,000)
	\$ (77,749)	\$ (77,749)	\$ -	\$ (165,996)	\$ (88,247)
Allocation of Fixed Assets	\$ 77,749	\$ 77,749	-	\$ 165,996	\$ 88,247
Inc/(Dec) in Fixed Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Total Budget	\$ -	\$ -	\$ -	\$ -	\$ 0
Total Change in Working Capital	\$ 310,942	\$ 310,942	\$ -	\$ 640,286	\$ 329,344
FTEs	14.70	14.70	-	15.60	0.90

General and Administrative

Program Scope and Functional Description

The General and Administrative Department consists of the President and CEO, Senior Vice President and Treasurer, and Executive Assistant. Responsibilities include leadership, oversight, and management of all of ReliabilityFirst Corporation's activities, interacting with the Board of Directors and other Regional Entity Management Groups, performing the Corporate Treasurer function, and managing relationships with governmental agencies, regulators, members, stakeholders, and other industry organizations.

2018 Key Assumptions & Deliverables

The General and Administrative Program incorporates the regional specific common business planning assumptions as described in *the ERO Enterprise 2018 – 2020 Shared Business Plan and Budget Assumptions and 2018 Key Focus Areas document*. There are no additional assumptions or deliverables unique to the General and Administrative Program.

Resource Requirements

- **Personnel**

No increase in personnel is budgeted in this year.

- **Contractors and Consultants**

No contractor and consultant support is budgeted in this year.

Legal and Regulatory Affairs

Program Scope and Functional Description

The Legal and Regulatory Affairs program is responsible for four key areas: (1) all legal issues germane to the corporation; (2) regulatory affairs (communication and outreach to FERC, NERC, and the States); (3) external affairs (communication and outreach to ReliabilityFirst stakeholders and the public); and (4) corporate governance of the ReliabilityFirst Board of Directors and its committees. Each of these functions is discussed in turn below.

First, the department is responsible for all legal issues germane to the corporation. This responsibility includes ensuring legal and regulatory compliance with all applicable laws, orders, rules, and regulations; serving as advisor to the President and CEO and the Board of Directors; providing legal support to all other departments of the corporation; drafting, reviewing, and maintaining the corporation's contracts, policies and procedures, and governance documents; and overseeing all regulatory filings and interactions.

Second, the department is responsible for ReliabilityFirst's regulatory affairs. This responsibility includes communication and outreach to FERC, NERC, and the States on specific issues relating to ReliabilityFirst and/or the performance of its delegated functions; working to ensure the consistent application of ERO-wide programs and initiatives across NERC and the Regions; advising senior executives on various strategic and tactical initiatives for the corporation in light of the regulatory landscape; and advocating and advancing ReliabilityFirst's mission and strategic initiatives in a clear and articulate manner to FERC, NERC, and the States as applicable.

Third, the department is responsible for ReliabilityFirst's external affairs. This responsibility includes communication and outreach to ReliabilityFirst's stakeholders, the general public, and media. This work concerns media relations, and the issuance of announcements, newsletters, and reports on key issues facing the corporation and the industry. This work generally ensures that ReliabilityFirst clearly communicates its mission and strategic initiatives in a clear and articulate manner, and shares relevant and timely information to help enhance the reliability of the BES.

Finally, the department is responsible for the corporate governance of the ReliabilityFirst Board of Directors and its Committees. This responsibility includes the completion of all activities associated with the Corporate Secretary function (the General Counsel serves as the corporation's Corporate Secretary), such as preparing Board materials and minutes, facilitating and conducting Board training, and ensuring that director elections, Board of Directors and Committee meetings, and Meetings of Members adhere to the ReliabilityFirst Bylaws and other relevant governing documents.

2018 Key Assumptions

The Legal and Regulatory Affairs Program incorporates the regional specific common business planning assumptions as described in the *ERO Enterprise 2018 - 2020 Shared Business Plan and Budget Assumptions and 2018 Key Focus Areas* document, and includes the following regional assumptions:

1. Provide legal support to all other departments of the corporation to ensure that those departments and their activities are consistent with NERC directives, FERC orders, rules, and regulations, and other applicable law.
2. Provide legal support to all other departments to make all necessary regulatory filings with FERC, NERC, and any other applicable regulatory body or agency, as well as support NERC in its efforts to do the same.
3. Draft, review, and maintain the corporation's contracts, policies and procedures, and governance documents.
4. Lead interactions with the FERC, NERC, the States, and other governmental agencies regarding ReliabilityFirst and its mission.
5. Work to ensure the consistent application of ERO-wide programs and initiatives across NERC and the Regions, including its leadership role in the Multi-Regional Registered Entity program.
6. Lead public communications and outreach, including the ReliabilityFirst website and the issuance of the bimonthly corporate newsletter, reports on key issues facing the corporation and the industry, and ReliabilityFirst's annual report.
7. Provide legal support and perform the Corporate Secretary function for the Board of Directors and support the corporate governance needs of the organization. This work includes creating and issuing the Board materials prior to Board meetings, providing legal advice as needed during the Board and Committee meetings, and recording minutes for the Board and Committee meetings.

2018 Key Deliverables

- Support all legal and regulatory needs of the corporation.
- Perform the external affairs function for the corporation

Resource Requirements

- **Personnel**

No increase in personnel is budgeted in this year.

- **Contractors and Consultants**

No contractor or consultant support is budgeted in this year.

Information Technology

Program Scope and Functional Description

The Information Technology (IT) department provides users with cost-effective information technology tools and proactively delivers enabling technologies to assist the departments in meeting their goals, objectives, and deliverables. The IT department minimizes the outsourcing of any critical infrastructure services and as such must implement and manage controls to maintain a robust security posture that minimizes ReliabilityFirst's risks. The department provides the necessary technical services in the following categories:

- Infrastructure Maintenance (Data Center Management - Local/Remote)
- Website Hosting and Internal Portal
- Voice, Web, and Video Conferencing
- Vulnerability Management
- Mobile Device Management
- Wireless Network Management
- Audio/Video Management
- Document Management and Data Warehousing
- Email Management
- Help Desk Support
- Telecommuter Support
- Application Support and Development
- Business Analysis
- Information Security Protection and Monitoring
- Business Continuity and Disaster Recovery

ReliabilityFirst supports the ERO's efforts to implement, operate, and maintain software tools supporting common enterprise-wide IT operations. ReliabilityFirst is committed to working collaboratively with NERC and the other Regions to minimize duplication of effort and investments, and improve operational efficiency. This collaboration continues to refine existing strategies, governance and procurement practices applicable to the development, operation and maintenance of enterprise architecture, software, and data systems supporting combined NERC and Regional Entity operations.

NERC's business plan and budget will include ongoing funding support for the development, operation, and maintenance of NERC and Regional Entity approved enterprise wide applications. Funding for these applications will be subject to the budget and funding limits set forth in NERC's approved business plan and budget. If implementation of these applications are delayed or otherwise not available as planned, ReliabilityFirst could incur additional costs to conduct operations pending the availability of these applications. ReliabilityFirst assumes agreed upon ERO Enterprise applications will be available and has only included appropriate funding for applications and supporting systems necessary to satisfy its business needs that are not within the mutually agreed upon scope of the ERO Enterprise wide applications funded by NERC.

The implementation of an offsite Data Management Center will be in its fifth year of operation. Operational experience to date has been excellent and believed to be very effective in IT resource utilization. Initial data indicates substantial savings in the operation of our equipment, while affording the organization many benefits in security, utilities, and back-up capability.

2018 Key Assumptions

The IT Program incorporates the regional specific common business planning assumptions as described in the *ERO Enterprise 2018 - 2020 Shared Business Plan and Budget Assumptions and 2018 Key Focus Areas* document, including the support for building and implementing centralized enterprise applications for the ERO. The IT Program includes the following regional assumptions:

1. Provide IT support services to all corporate functions to ensure efficient and effective performance.
2. Continue monitoring and advancing the security posture across the company-wide data infrastructure and remediate any vulnerability to protect sensitive data.
3. Maintain lower fixed asset costs (infrastructure servers) by continuing operations of virtualization technologies, therefore minimizing replacement costs.
4. Continue to improve departmental processes and efficiencies where automation is needed.
5. Continue departmental training exercises for implemented technologies in order to maintain proficiency.

2018 Key Deliverables

- Perform necessary software upgrades including, but not limited to, the upgrade of various workstation and server applications and targeted server operating systems.
- Perform necessary hardware upgrades on user computer systems to replace aging hardware that is approaching end-of-life.
- Continue the enhancements in the development, integration, and expansion of databases and applications into a unified company-wide Information Management System.
- Continue enhancements of the internal "intranet" website and related applications to further improve employee efficiency and provide better user experience.
- Continue enhancements of the external-facing corporate website to provide better content and user experience.
- Continue the advancement of data security and defense technologies to provide layered prevention/detection of the latest advanced cyber security threats.
- Continue refinement of security awareness program by providing training documents, questionnaires, simulated exercises, assessment campaigns, and/or seminars on existing workplace vulnerabilities.

- Continue supporting ERO initiatives of developing, testing, and deploying ERO enterprise solutions.

Resource Requirements

- **Personnel**

No increase in personnel is budgeted in this year.

- **Contractors and Consultants**

Contractors and consultant support is budgeted for 2018 as needed for network maintenance projects, and document/data management system activities.

Human Resources

Program Scope and Functional Description

ReliabilityFirst realizes that talented, experienced employees are its greatest assets, and that finding, nurturing, developing, and retaining that talent is one of its most important tasks. Therefore, the responsibilities of the Human Resources program center on ReliabilityFirst's greatest resource, the staff. These responsibilities include attraction and retention, employee development through performance management and training initiatives, policy and procedure development and adherence measures, as well as compensation and benefits administration. The Human Resources staff must be vigilant in understanding and complying with federal and state employment laws covering six states and the respective reporting requirements for each.

ReliabilityFirst will increase its staff to 77 individuals including two part-time positions equaling one (1.2) FTE, which brings the total to an equivalent of 76.2 FTEs. The staff is comprised of qualified management, professional, and technical employees with the expertise necessary to serve its stakeholders and to support the ERO by properly carrying out the organization's delegated functions.

2018 Key Assumptions

The Human Resources Program incorporates the regional specific common business planning assumptions as described in the *ERO Enterprise 2018 - 2020 Shared Business Plan and Budget Assumptions and 2018 Key Focus Areas* document. There are no additional assumptions unique to the ReliabilityFirst Human Resources Program.

2018 Key Deliverables

- Recruit highly skilled and excellent employees.
- Sustain competitiveness via the use of annual third party salary and market analyses.
- Provide staff training and education
 - Train and educate staff on relevant technical topics, including emerging issues and technologies (e.g. virtualization, smart grid technologies).
 - Train and educate staff on the existing and new competencies required to perform their roles and responsibilities (e.g. identify and assess risks, perform internal controls assessments and evaluations).
 - Participate in knowledge management process to gather and utilize expertise from staff subject matter experts.
- Explore, develop and provide training on tools to further enhance staff efficiency and effectiveness.
- Review and manage employee benefits.
- Review succession plans.

Resource Requirements

- **Personnel**

No increase in personnel is budgeted in this year.

- **Contractors and Consultants**

Contractors and consultant support is budgeted in 2018 to continue the implementation of the knowledge capture and management program.

Finance and Accounting

Program Scope and Functional Description

The Finance and Accounting department is responsible for linking the strategy of ReliabilityFirst and its major departments to their annual operating budgets, managing accounting practices to ensure the accuracy of reported results, and making meaningful financial information available to decision makers. The Finance and Accounting department is responsible for directing the complete cycle of the financial management activities of ReliabilityFirst Corporation, including:

- Processing the day to day activities such as travel and expense reporting, monthly financial reporting, accounts payables and receivables, and cash flow management;
- Leading the creation of the annual business plan and budget that adequately supports its delegated functions;
- Establishing and maintaining accounting policies, procedures, and internal controls, including anti-fraud initiatives, to guide the preparation of ReliabilityFirst's internal and external financial statements in accordance with Generally Accepted Accounting Principles;
- Overseeing the annual external audit of ReliabilityFirst's financials and all required filings;
- Supporting the ERO's funding/collection mechanism, ReliabilityFirst will annually collect and supply the ERO with a list of LSEs within the ReliabilityFirst footprint and their associated Net Energy for Load (NEL) data as mandated by FERC; and
- Working with the ERO to develop common accounting practices throughout NERC and the Regions.
- Managing the retirement and corporate investment activities.
- Develop and implement the necessary internal audit function.

2018 Key Assumptions

The Finance and Accounting Program incorporates the regional specific common business planning assumptions as described in the *ERO Enterprise 2018 - 2020 Shared Business Plan and Budget Assumptions and 2018 Key Focus Areas* document. There are no additional assumptions unique to the Finance and Accounting Program.

2018 Key Deliverables

- Work with all Regional Entities through the Electric Reliability Organization Finance Group (EROFG) to provide consistency in budget submittals to the ERO and to FERC.
- Provide all ReliabilityFirst program areas, the Board of Directors, the ERO, and ReliabilityFirst stakeholders with financial clarity and understanding of ReliabilityFirst's financial position.

- Direct the overall financial plans and accounting practices of the organization; oversee treasury, accounting, budget, payroll, tax, audit activities, and financial and accounting internal controls and standards.
- Participate with NERC on the annual Regional Entity true-up filing, and the quarterly statements of activity.
- In an effort to continuously improve the entire accounting and budgeting process, implement actions to monitor operating expenses at a more granular level with the management staff.
- Provide advice from the financial perspective on contracts into which the organization may enter.
- Perform financial related internal control reviews and internal audit reviews.

Resource Requirements

Personnel

One (1) additional FTE is being added this year. The additional position is necessary to provide the financial function with the necessary resources to support the accounting function, address and continuously improve internal controls, establish the internal audit function, oversee corporate investment plans, and advance the corporate risk management effort.

Contractors and Consultants

Contractors or consultants support is budgeted in 2018 to support the routine testing of the internal controls relating to financial reporting.

Section B – Supplemental Financial Information

Table B-1: Working Capital and Operating Reserve Analysis

Working Capital and Operating Reserve Analysis 2017-2018				
STATUTORY				
	<u>Total</u>	<u>Working Capital</u>	<u>Working Capital Reserve</u>	<u>Operating Reserve</u>
Beginning Reserve Balances, January 1, 2017	3,625,420	378,931	2,246,489	1,000,000
Plus: Penalty Funds Released from Restriction January 1, 2017	659,000			
Plus: 2017 ReliabilityFirst Funding (from LSEs or designees)	19,560,881		152,868	
Plus: 2017 Other funding sources	0			
Less: 2017 Projected expenses & capital expenditures	(19,908,939)			
Other Adjustments to Reserves ¹	(158,074)			
Projected Working Capital and Operating Reserves, December 31, 2017	<u>3,778,288</u>	<u>378,931</u>	<u>2,399,357</u>	<u>1,000,000</u>
Targeted Working Capital and Operating Reserves, December 31, 2018	4,260,500	0	3,260,500	1,000,000
Less: Projected Working Capital and Operating Reserves, December 31, 2017	(3,778,288)	(378,931)	(2,399,357)	(1,000,000)
Increase/(Decrease) in Assessments to Achieve Working Capital and Operating Reserves	<u>482,212</u>	<u>(378,931)</u>	<u>861,143</u>	<u>0</u>
2018 Expenses and Capital Expenditures	21,445,299			
Less: Penalty Sanctions ²	(1,912,877)			
Less: Other Funding Sources	(25,000)			
Adjustment to achieve Working Capital and Operating Reserves	482,212			
Other Adjustments to Reserve ¹	158,074			
2018 ReliabilityFirst Assessment	<u>20,147,707</u>			

¹ Represents transactions recorded only on the Statement of Financial Position (balance sheet) that do not impact the Statement of Activities (income statement), including true-up of current versus non-current deferred rent obligation.

² Represents penalty sanctions collected from July 1, 2016 to June 30, 2017.

Explanation of the Working Capital Reserve

Historically, the working capital reserve has consisted of the amount necessary to satisfy projected cash flow for daily operations. In an effort to better manage and stabilize future assessments, the targeted working capital reserve is being increased to \$3,261K which is funded by \$379K of actual 2016 budget variances, and \$482K of penalty funds.¹ The working capital reserve will be utilized to stabilize and minimize large fluctuations in the annual assessments.

Explanation of the Operating Reserve

The amount of the operating reserve is determined and recommended for approval by the Board of Directors during the annual budget process. On March 9, 2017, the ReliabilityFirst Board approved a \$1,000,000 operating reserve, which is consistent with ReliabilityFirst policy and historical experience and is believed to be appropriate for any unbudgeted and unexpected expenditures of the organization.

¹ The NERC Policy entitled Accounting, Financial Statement, and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards, and §1107.2 of the ROP, specify that penalty payments received by NERC or a Regional Entity during the 12 months ended June 30th are to be used in the subsequent budget year to offset assessments, unless an alternative treatment is approved by FERC (as allowed by §1107.4 of the ROP). ReliabilityFirst received \$1,912,877 of penalty payments between July 1, 2016 and June 30, 2017. ReliabilityFirst proposes, and requests an exception to §1107.2 of the ROP, to place \$482K of penalty payments into its working capital reserve, which will be used to stabilize future years' assessments.

Table B-2: Penalty Sanctions Received

Penalty Sanctions Received Between July 1, 2016 and June 30, 2017	
Dates Received	Amount Received
7/11/2016	25,000
7/28/2016	20,000
8/1/2016	1,700,000
Collected July 1, 2016 to December 31, 2016	<u>1,745,000</u>
2/6/2017	105,750
2/6/2017	62,127
Collected January 1, 2017 to June 30, 2017	<u>167,877</u>
Total	<u>1,912,877</u>

The NERC Policy entitled *Accounting, Financial Statement, and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards* and §1107.2 of the ROP specify that penalty payments received by NERC or a Regional Entity during the 12 months ended June 30th are to be used in the subsequent budget year to offset assessments, unless an alternative treatment is approved by FERC (as allowed by §1107.4 of the ROP). ReliabilityFirst received \$1,912,877 of penalty payments between July 1, 2016 and June 30, 2017. ReliabilityFirst proposes, and requests an exception to §1107.2 of the ROP, to place \$482K of penalty payments into its working capital reserve, which will be used to stabilize future years' assessments.

Allocation Method

Penalty monies received have been allocated based upon the number of FTEs to the following direct programs to reduce assessments:

- Reliability Standards;
- Reliability Assurance and Compliance Monitoring;
- Enforcement;
- Reliability Assessments and Performance Analysis;
- Training, Education and Operator Certification; and
- Situation Awareness and Infrastructure Security

Table B-3: Supplemental Funding

Outside Funding Breakdown By Program (excluding ReliabilityFirst Assessments & Penalty Sanctions)	Budget 2017	Projection 2017	Budget 2018	Variance 2018 Budget v 2017 Budget
Interest Income	\$ -	\$ -	\$ 25,000	\$ 25,000
Miscellaneous Income	-	-	-	-
Total Outside Funding	\$ -	\$ -	\$ 25,000	\$ 25,000

Explanation of Significant Variances – 2018 Budget versus 2017 Budget

- The increase in Interest Income is to account for the change in value of the company's investment portfolio.

Table B-4: Personnel Expenses

Personnel Expenses	Budget 2017	Projection 2017	Budget 2018	Variance 2018 Budget v 2017 Budget	Variance %
Salaries					
Salaries	\$ 11,846,534	\$ 11,846,534	\$ 12,945,519	\$ 1,098,985	9.28%
Employment Agency Fees	-	-	-	-	
Temporary Office Services	-	-	-	-	
Vacation Expense	49,247	49,247	30,122	(19,125)	-38.83%
Total Salaries	\$ 11,895,781	\$ 11,895,781	\$ 12,975,641	\$ 1,079,860	9.08%
Total Payroll Taxes	\$ 705,869	\$ 705,869	\$ 765,357	\$ 59,488	8.43%
Benefits					
Workers Compensation	\$ 27,000	\$ 27,000	\$ 20,000	\$ (7,000)	-25.93%
Medical Insurance	1,359,959	1,359,959	1,604,591	244,632	17.99%
Life-LTD Insurance	99,989	99,989	103,758	3,769	3.77%
Education	318,784	318,784	321,305	2,521	0.79%
Relocation	-	-	-	-	
Total Benefits	\$ 1,805,733	\$ 1,805,733	\$ 2,049,654	\$ 243,922	13.51%
Retirement					
Discretionary 401k Contribution	\$ 1,153,587	\$ 1,153,587	\$ 1,255,523	\$ 101,936	8.84%
Savings Plan	692,152	692,152	753,314	61,162	8.84%
Pension & Savings Admin	103,500	103,500	129,500	26,000	25.12%
Total Retirement	\$ 1,949,240	\$ 1,949,240	\$ 2,138,337	\$ 189,097	9.70%
Total Personnel Costs	\$ 16,356,622	\$ 16,356,622	\$ 17,928,989	\$ 1,572,368	9.61%
FTEs	72.30	72.30	76.20	3.90	5.39%
Cost per FTE					
Salaries	\$ 164,534	\$ 164,534	\$ 170,284	\$ 5,750	3.49%
Payroll Taxes	9,763	9,763	10,044	281	2.88%
Benefits	24,976	24,976	26,898	1,923	7.70%
Retirement	26,960	26,960	28,062	1,102	4.09%
Total Cost per FTE	\$ 226,233	\$ 226,233	\$ 235,289	\$ 9,056	4.00%

Explanation of Significant Variances – 2018 Budget versus 2017 Budget

- 4.6% of the variance in **Salaries** is due to the addition of four new FTEs, the remaining variance is due to a 3% general wage increase, market adjustments, promotions, and the establishment of a formal intern program.
- The decrease in **Vacation Expense** is due to the expectation that a disbursement will occur in 2018.
- The increase in **Medical Insurance** is primarily due to an estimated 12% increase in medical premiums, 6.2% of this variance is due to the four new FTEs.
- The increase in **Pension & Savings Admin** is due to the administrative costs relating to the management of the company's retirement plans. This increase of \$26,000 is reflected in the \$72,720 (15%) increase in Retirement Costs in the Administrative Services budget.

Table B-5: Meeting Expenses

Meeting Expenses	Budget 2017	Projection 2017	Budget 2018	Variance 2018 Budget v 2017 Budget	Variance %
Reliability Standards	\$ -	\$ -	\$ -	\$ -	
Reliability Assurance and Compliance Monitoring	531,250	531,250	500,975	(30,275)	-5.70%
Enforcement	18,500	18,500	25,500	7,000	37.84%
Reliability Assessment and Performance Analysis	128,500	128,500	108,200	(20,300)	-15.80%
Training and Education	135,000	135,000	136,400	1,400	1.04%
Situation Awareness and Infrastructure Security	36,000	36,000	55,350	19,350	53.75%
Administrative Services	209,390	209,390	237,600	28,210	13.47%
Total Meeting Expenses	\$ 1,058,640	\$ 1,058,640	\$ 1,064,025	\$ 5,385	0.51%

Explanation of Significant Variances – 2018 Budget versus 2017 Budget

- The variance in the **Reliability Assurance and Compliance Monitoring** program is due to an increase in Meetings to strengthen the coordination within and between departments and to facilitate and drive continuous improvement in both the efficiency and quality of the work being performed. This increase is offset by a decrease in travel which is a result of considering historical averages along with future travel expectations and assumptions.
- The decrease in **Reliability Assessment and Performance Analysis** is a result of considering historical averages along with future travel expectations and assumptions.
- The increase in **Situation Awareness and Infrastructure Security** is due to the additional travel expected to support the event analysis activities.
- The increase in **Administrative Services** is due to the costs associated with the fourth quarter Annual Meeting of the Members, and Board of Directors and Committee Meetings; along with the costs associated with the quarterly management meetings.

Table B-6: Consultants and Contracts

Contractors	Budget 2017	Projection 2017	Budget 2018	Variance 2018 Budget v 2017 Budget	Variance %
Reliability Assurance and Compliance Monitoring Enforcement	152,400	152,400	111,600	(40,800)	-26.77%
Reliability Assessment and Performance Analysis Training and Education	110,012	110,012	119,812	9,800	8.91%
Situation Awareness and Infrastructure Security	25,000	25,000	-	(25,000)	-100.00%
Administrative Services	143,900	143,900	158,720	14,820	10.30%
Contractors Total	\$ 431,312	\$ 431,312	\$ 390,132	\$ (41,180)	-9.55%

Explanation of Significant Variances – 2018 Budget versus 2017 Budget

- The decrease in **Reliability Assurance and Compliance Monitoring** is due to the process improvements and efficiency gains that are being achieved from implementing risk based compliance monitoring, resulting in less need for contractor services.
- The increase in **Reliability Assessment and Performance Analysis** is due to the additional assessments and studies projected by the ERAG Management Committee.
- The decrease in **Situational Awareness and Infrastructure Security** is due to the one time cost for the social engineering assessment that was planned in 2017.
- The increase in **Administrative Services** is due to the support needed to assist with additional document/data management system implementation activities.

Table B-7: Office Rent

Office Rent	Budget 2017	Projection 2017	Budget 2018	Variance 2018 Budget v 2017 Budget	Variance %
Office Rent	\$ 437,530	\$ 437,530	437,530	\$ -	0.00%
Data Center Rent	63,789	63,789	63,789	-	0.00%
Utilities	18,858	18,858	18,276	(582)	-3.08%
	-	-	-	-	-
Total Office Rent	\$ 520,177	\$ 520,177	\$ 519,595	\$ (582)	-0.11%

Explanation of Significant Variances – 2018 Budget versus 2017 Budget

- No explanation is needed.

Table B-8: Office Costs

Office Costs	Budget 2017	Projection 2017	Budget 2018	Variance 2018 Budget v 2017 Budget	Variance %
Telephone	\$ 82,915	\$ 82,915	\$ 85,890	\$ 2,975	3.59%
Internet	37,061	37,061	35,052	(2,009)	-5.42%
Office Supplies	25,530	25,530	22,900	(2,630)	-10.30%
Computer Supplies and Maintenance	552,449	552,449	675,805	123,356	22.33%
Publications & Subscriptions	15,719	15,719	14,886	(833)	-5.30%
Dues	20,403	20,403	17,222	(3,181)	-15.59%
Postage	1,382	1,382	1,200	(182)	-13.17%
Express Shipping	-	-	300	300	
Copying	15,204	15,204	24,120	8,916	58.64%
Reports	-	-	-	-	
Stationary Forms	20	20	350	330	1650.00%
Equipment Repair/Service Contracts	7,880	7,880	4,792	(3,088)	-39.19%
Bank Charges	600	600	600	-	0.00%
Total Office Costs	\$ 759,162	\$ 759,162	\$ 883,117	\$ 123,955	16.33%

Explanation of Significant Variances – 2018 Budget versus 2017 Budget

- The increase in **Computer Supplies and Maintenance** is due to the planned replacement of the employee laptops, which is budgeted for in the **Administrative Services Program**.

Table B-9: Professional Services

Professional Services	Budget 2017	Projection 2017	Budget 2018	Variance 2018 Budget v 2017 Budget	Variance %
Independent Trustee Fees	\$ 304,750	\$ 304,750	\$ 239,100	\$ (65,650)	-21.54%
Outside Legal	20,000	20,000	20,000	-	0.00%
Accounting & Auditing Fees	65,430	65,430	69,045	3,615	5.52%
Insurance Commercial	80,925	80,925	83,100	2,175	2.69%
Total Services	\$ 471,105	\$ 471,105	\$ 411,245	\$ (59,860)	-12.71%

Explanation of Significant Variances – 2018 Budget versus 2017 Budget

- Independent Trustee Fees** decreased due to not needing to conduct a search for a new independent director in 2018, which is budgeted for in the **Administrative Services Program**.

Table B-10: Miscellaneous

Miscellaneous Expense	Budget 2017	Projection 2017	Budget 2018	Variance 2018 Budget v 2017 Budget	Variance %
Miscellaneous	\$ 42,422	\$ 42,422	\$ 40,696	\$ (1,726)	-4.07%
	-	-	-	-	
Total Miscellaneous Expense	\$ 42,422	\$ 42,422	\$ 40,696	\$ (1,726)	-4.07%

Explanation of Significant Variances – 2018 Budget versus 2017 Budget

- No explanation is needed.

Table B-11: Non-Operating Expenses

Other Non-Operating Expenses	Budget 2017	Projection 2017	Budget 2018	Variance 2018 Budget v 2017 Budget	Variance %
Interest Expense	\$ -	\$ -	\$ -	\$ -	
Line of Credit Payment	-	-	-	-	
Office Relocation	-	-	-	-	
Total Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	

Explanation of Significant Variances – 2018 Budget versus 2017 Budget

- No explanation is needed.

Table B-12: Fixed Assets

Fixed Assets	Budget 2017	Projection 2017	Budget 2018	Variance 2018 Budget v 2017 Budget	Variance %
Computer Hardware	\$ 174,500	\$ 174,500	\$ 167,500	\$ (7,000)	-4.01%
Computer Software	45,000	45,000	40,000	(5,000)	-11.11%
Furniture & Fixtures	-	-	0	-	
Leasehold Improvements	50,000	50,000	0	(50,000)	-100.00%
Total Fixed Assets	\$ 269,500	\$ 269,500	\$ 207,500	\$ (62,000)	-23.01%

Explanation of Significant Variances – 2018 Budget versus 2017 Budget

- The decreases in **Computer Hardware** and **Computer Software** are due to the following program variances:
 - The increase in the **Reliability Assurance and Compliance Monitoring Program** is due to the need to develop techniques and tools to mine the existing data and be able to connect that information to the most significant risks, as ReliabilityFirst continues its transition to a data-driven risk-based organization.
 - The decrease in the **Situation Awareness and Infrastructure Security Program** is due to the elimination of costs associated with the purchase of an analysis tool used to quantify threats that was included in the 2017 budget.
- The decrease in **Leasehold Improvements** is due to the planned upgrade to the office restrooms that was included in the 2017 budget.

Table B-13: 2019 and 2020 Projections

Statement of Activities 2019 and 2020 Projections							
	2018 Budget	2019 Projection	\$ Change 18 v 19	% Change 18 v 19	2020 Projection	\$ Change 18 v 19	% Change 18 v 19
Funding							
ERO Funding							
ERO Assessments	\$ 20,147,707	\$ 21,003,985	\$ 856,278	4.3%	\$ 21,949,164	\$ 945,179	4.5%
Penalty Sanctions	1,912,877	1,700,000	-212,877	-11%	200,000	(1,500,000)	-88.2%
Total ERO Funding	\$ 22,060,585	\$ 22,703,985	\$ 643,400	2.9%	\$ 22,149,164	\$ (554,821)	-2.4%
Membership Dues	\$ -	\$ -	\$ -		\$ -	\$ -	
Federal Grants	-	-	-		-	-	
Services & Software	-	-	-		-	-	
Workshops	-	-	-		-	-	
Interest	25,000	25,000	-	0.0%	25,000	-	0.0%
Miscellaneous	-	-	-		-	-	
Total Funding	\$ 22,085,585	\$ 22,728,985	\$ 643,400	2.9%	\$ 22,174,164	\$ (554,821)	-2.4%
Expenses							
Personnel Expenses							
Salaries	\$ 12,975,641	\$ 13,494,667	\$ 519,026	4.0%	\$ 14,034,453	\$ 539,787	4.0%
Payroll Taxes	765,357	795,971	30,614	4.0%	827,810	31,839	4.0%
Benefits	2,049,654	2,299,830	250,176	12.2%	2,569,536	269,706	11.7%
Retirement Costs	2,138,337	2,225,696	87,359	4.1%	2,316,264	90,568	4.1%
Total Personnel Expenses	\$ 17,928,989	\$ 18,816,163	\$ 887,174	4.9%	\$ 19,748,063	\$ 931,899	5.0%
Meeting Expenses							
Meetings	\$ 300,375	\$ 303,379	\$ 3,004	1.0%	\$ 306,413	\$ 3,034	1.0%
Travel	713,250	731,081	17,831	2.5%	749,358	18,277	2.5%
Conference Calls	50,400	50,904	504	1.0%	51,413	509	1.0%
Total Meeting Expenses	\$ 1,064,025	\$ 1,085,364	\$ 21,339	2.0%	\$ 1,107,184	\$ 21,820	2.0%
Operating Expenses							
Consultants & Contracts	\$ 390,132	\$ 394,033	\$ 3,901	1.0%	\$ 397,974	\$ 3,940	1.0%
Office Rent	519,595	524,791	5,196	1.0%	530,039	5,248	1.0%
Office Costs	883,117	891,948	8,831	1.0%	900,867	8,919	1.0%
Professional Services	411,245	415,357	4,112	1.0%	419,511	4,154	1.0%
Miscellaneous	40,696	41,103	407	1.0%	41,514	411	1.0%
Depreciation	373,325	377,058	3,733	1.0%	380,829	3,771	1.0%
Total Operating Expenses	2,618,109	2,644,290	26,181	1.0%	2,670,733	26,443	1.0%
Total Direct Expenses	\$ 21,611,124	\$ 22,545,818	\$ 934,694	4.3%	\$ 23,525,980	\$ 980,162	4.3%
Indirect Expenses	\$ -	\$ -	\$ -		\$ -	\$ -	
Other Non-Operating Expenses	\$ -	\$ -	\$ -		\$ -	\$ -	
Total Expenses	\$ 21,611,124	\$ 22,545,818	\$ 934,694	4.3%	\$ 23,525,980	\$ 980,162	4.3%
Change in Assets	\$ 474,461	\$ 183,167	\$ (291,294)	-61.4%	\$ (1,351,816)	\$ (1,534,983)	-838.0%
Fixed Assets							
Depreciation	\$ (373,325)	\$ (377,058)	\$ (3,733)	1.0%	\$ (380,829)	\$ (3,771)	1.0%
Computer & Software CapEx	207,500	282,500	75,000	36.1%	207,500	(75,000)	-26.5%
Furniture & Fixtures CapEx	-	-	-		-	-	
Equipment CapEx	-	-	-		-	-	
Leasehold Improvements	-	80,000	80,000		-	(80,000)	-100.0%
	\$ (165,825)	\$ (14,558)	\$ 151,267	-91.2%	\$ (173,329)	\$ (158,771)	1090.6%
Allocation of Fixed Assets	\$ -	\$ -	\$ -		\$ -	\$ -	
Inc/(Dec) in Fixed Assets	\$ (165,825)	\$ (14,558)	\$ 151,267	-91.2%	\$ (173,329)	\$ (158,771)	1090.6%
Total Budget	\$ 21,445,299	\$ 22,531,260	\$ 1,085,961	5.1%	\$ 23,352,651	\$ 821,392	3.6%
Change in Working Capital	\$ 640,286	\$ 197,725	\$ (442,561)	-69.1%	\$ (1,178,487)	\$ (1,376,213)	-696.0%
FTEs	76.2	76.2	-	0.0%	76.2	-	0.0%

Explanation of 2019 and 2020 Budget Projections

ReliabilityFirst has projected budget increases for 2019 and 2020. The projected range for 2019 is 5.1% to 7.9%; and the projected range for 2020 is 3.6% to 6.4%. ReliabilityFirst identified a range for its 2019 and 2020 budget projections to reflect both its baseline projections (the lower end of the range) and its projections of significant at-risk initiatives (the higher end of the range).

These at-risk initiatives primarily concern projected staffing needs to support increased internal work load to implement various programs currently under way or under consideration in support of the five year strategic plan. They also concern the need to mature ReliabilityFirst's data management capability along with risk analytics and management applications. Below is an overview of each of these at-risk initiatives.

Additional Staffing

- To advance the Risk Based Reliability Program, ReliabilityFirst projects that a resource investment will be necessary to increase staffing to yield significant savings for stakeholders. This staffing increase is intended to effectively reduce and otherwise shift the current administrative burden from the stakeholders to ReliabilityFirst. The staffing increase is intended to position ReliabilityFirst to perform meaningful internal control evaluations, entity development, risk management and outreach activities, and ensure ReliabilityFirst's activities are focused on reliability, risk, and security. The need for additional staffing will be solely driven by and dependent on demand for voluntary outreach, assist visits, CIP activities, risk and reliability activities, internal control/management practice evaluations, and internal audit activities.

Fixed Asset Additions

- With the accumulation of significant amounts of documentation and data, the present documentation management tools need to be updated to assure improved controls, improved configuration management, and advanced data mining capabilities.
- Risk analytics and management software will enable more robust risk assessment capability in support of risk based reliability activities.
- Personal Computers will be required to be partially replaced in 2019.

The following is a breakdown of the projected budget ranges for 2019 and 2020.

2019 Lower Range: 5.1%

- Personnel Expense: 4.9%
 - Salary Increase: 3%
- Medical/Dental/Vision Premiums: 15%/8%/8%
- Meeting Expense: 1%
- Travel Expense: 2.5%
- Operating Expense: 1%
- Fixed Assets Additions:
 - Personal Computers: \$75,000

2019 Higher Range Increase to Address At-Risk Initiatives: 7.9%

- Personnel Expense: 6.9%
 - Salary Increase: 3%
 - Medical/Dental/Vision Premiums: 15%/8%/8%
 - Hire 2 FTEs
- Meeting Expense: 1%
- Travel Expense: 2.5%
- Operating Expense: 1%
- Fixed Asset Additions:
 - Data Management Application: \$100,000
 - Strategic Plan Initiatives: \$150,000

2020 Lower Range: 3.6%

- Personnel Expense: 5.%
 - Salary Increase: 3%
 - Medical/Dental Premiums: 15%/8%
- Meeting Expense: 1%
- Travel Expense: 2.5%
- Operating Expense: 1%

2020 Higher Range Increase to Address At-Risk Initiatives: 6.4%

- Personnel Expense: 6.9%
 - Salary Increase: 3%
 - Medical/Dental Premiums: 15%/8%
 - Hire 2 FTEs
- Meeting Expense: 1%
- Travel Expense: 2.5%
- Operating Expense: 1%
- Fixed Asset Additions:
 - Risk Management Software: \$100,000
 - Strategic Plan Initiatives: \$150,000

Notes:

1. 2019 projections are based on 2018 budget.
2. 2020 projections are based on the 2019 lower range.

Section C – Non-Statutory Activities

ReliabilityFirst performed only those functions delegated to it by the ERO in 2017 and the organization does not intend to perform any functions outside its ERO delegated activities in 2018, therefore Section C is not applicable.

**Section D – Additional Consolidated Financial
Statements**

2018 Consolidated Statement of Activities by Program

	Functions in Delegation Agreement												
	Total	Statutory Total	Reliability Standards (Section 300)	Reliability Assurance and Compliance Monitoring	Enforcement	Reliability Assessment and Performance Analysis (Section 800)	Training and Education (Section 900)	Situation Awareness and Infrastructure Security (Section 1000)	General and Administrative	Legal and Regulatory	Information Technology	Human Resources	Accounting and Finance
Funding													
ReliabilityFirst Funding													
ReliabilityFirst Assessments	20,147,707	20,147,707	-	12,471,179	2,080,301	2,669,355	926,062	1,360,524	640,286	-	-	-	-
Penalty Sanctions	1,912,877	1,912,877	-	1,167,928	260,416	263,573	94,697	126,263	-	-	-	-	-
Total ReliabilityFirst Funding	22,060,585	22,060,585	-	13,639,108	2,340,718	2,932,928	1,020,758	1,486,787	640,286	-	-	-	-
Non-statutory Funding	-	-	-	-	-	-	-	-	-	-	-	-	-
Federal Grants	-	-	-	-	-	-	-	-	-	-	-	-	-
Services & Software	-	-	-	-	-	-	-	-	-	-	-	-	-
Workshops	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest	25,000	25,000	-	15,264	3,403	3,445	1,238	1,650	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Funding	22,085,585	22,085,585	-	13,654,372	2,344,121	2,936,372	1,021,996	1,488,437	640,286	-	-	-	-
Expenses													
Personnel Expenses													
Salaries	12,975,641	12,975,641	-	6,499,775	1,058,684	1,329,564	416,078	740,911	1,180,422	557,885	587,931	306,359	298,031
Payroll Taxes	765,357	765,357	-	389,918	71,181	83,004	28,228	43,236	38,088	24,338	43,161	21,343	22,859
Benefits	2,049,654	2,049,654	-	1,000,275	163,026	175,455	65,095	113,990	90,693	39,953	134,379	212,491	54,297
Retirement Costs	2,138,337	2,138,337	-	1,012,231	165,691	215,123	66,286	118,000	160,299	80,963	93,786	48,811	177,147
Total Personnel Expenses	17,928,989	17,928,989	-	8,902,200	1,458,582	1,803,146	575,687	1,016,137	1,469,503	703,140	859,257	589,004	552,334
Meeting Expenses													
Meetings	300,375	300,375	-	44,675	2,500	16,700	136,400	1,600	70,900	2,000	1,600	24,000	-
Travel	713,250	713,250	-	456,300	23,000	91,500	-	53,750	33,000	33,000	13,000	4,200	5,500
Conference Calls	50,400	50,400	-	-	-	-	-	-	-	-	50,400	-	-
Total Meeting Expenses	1,064,025	1,064,025	-	500,975	25,500	108,200	136,400	55,350	103,900	35,000	65,000	28,200	5,500
Operating Expenses													
Consultants & Contracts	390,132	390,132	-	111,600	-	119,812	-	-	-	-	63,000	85,720	10,000
Office Rent	519,595	519,595	-	-	-	-	-	-	455,806	-	63,789	-	-
Office Costs	883,117	883,117	-	293,885	7,789	42,434	-	3,738	63,376	14,690	404,377	11,980	40,848
Professional Services	411,245	411,245	-	-	-	-	-	-	239,100	20,000	-	101,345	50,800
Miscellaneous	40,696	40,696	-	3,500	-	200	-	-	11,796	-	4,400	20,800	-
Depreciation	373,325	373,325	-	7,432	-	2,377	-	10,020	166,199	-	187,297	-	-
Total Operating Expenses	2,618,109	2,618,109	-	416,417	7,789	164,823	-	13,758	936,277	34,690	722,863	219,845	101,648
Total Direct Expenses	21,611,124	21,611,124	-	9,819,591	1,491,871	2,076,169	712,087	1,085,245	2,509,679	772,830	1,647,120	837,049	659,482
Indirect Expenses	-	-	-	3,923,563	874,849	885,453	318,127	424,169	(2,509,679)	(772,830)	(1,647,120)	(837,049)	(659,482)
Other Non-Operating Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenses	21,611,124	21,611,124	-	13,743,154	2,366,720	2,961,622	1,030,214	1,509,414	-	-	-	-	-
Change in Assets	474,461	474,461	-	(88,783)	(22,598)	(25,249)	(8,218)	(20,977)	640,286	-	-	-	-
Fixed Assets													
Depreciation	(373,325)	(373,325)	-	(7,432)	-	(2,377)	-	(10,020)	(166,199)	-	(187,297)	-	-
Computer & Software CapEx	207,500	207,500	-	20,000	-	-	-	-	-	-	187,500	-	-
Furniture & Fixtures CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-
Equipment CapEx	-	-	-	-	-	-	-	-	-	-	-	-	-
Leasehold Improvements	-	-	-	-	-	-	-	-	-	-	-	-	-
	(165,825)	(165,825)	-	12,568	-	(2,377)	-	(10,020)	(166,199)	-	203	-	-
Allocation of Fixed Assets	0	0	-	(101,351)	(22,598)	(22,872)	(8,218)	(10,957)	166,199	-	(203)	-	-
Inc/(Dec) Fixed Assets	(165,825)	(165,825)	-	(88,783)	(22,598)	(25,249)	(8,218)	(20,977)	-	-	-	-	-
Total Budget	21,445,299	21,445,299	-	13,654,372	2,344,121	2,936,372	1,021,996	1,488,437	-	-	-	-	-
Change in Working Capital	640,286	640,286	-	-	-	-	-	-	640,286	-	-	-	-
FTEs	76.20	76.20	-	37.00	8.25	8.35	3.00	4.00	3.00	2.00	5.00	3.00	2.60

Statement of Financial Position

Statement of Financial Position 2016 Audited, 2017 Projection, and 2018 Budget

STATUTORY and NON-STATUTORY

	(Per Audit) 31-Dec-16	Projected 31-Dec-17	Budget 31-Dec-18
ASSETS			
Cash	10,726,351	10,609,600	10,394,427
Accounts receivable, net of allowance for uncollec	230,574	-	-
Lease Incentives	-	-	-
Prepaid expenses and other current assets	212,464	212,464	212,464
Property and equipment	2,327,871	2,240,869	2,075,044
Total Assets	13,497,259	13,062,932	12,681,934
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable and accrued expenses	117,976	117,976	117,976
Accrued expenses	3,797,686	3,797,686	3,797,686
Notes Payable	-	-	-
Deferred Revenue	-	-	-
Total Current Liabilities	3,915,663	3,915,663	3,915,663
Long Term Liabilities			
Accrued expenses	448,279	777,468	980,670
Deferred Revenue	350,000	350,000	350,000
Deferred Rent	2,215,231	2,048,567	1,870,710
Total Long Term Liabilities	3,013,510	3,176,036	3,201,380
Net Assets - unrestricted	3,996,209	3,399,357	4,064,891
Net Assets - restricted	2,571,877	2,571,877	1,500,000
Total Liabilities and Net Assets	13,497,259	13,062,932	12,681,934

Appendix A – 2018 Organization Chart

