

## Agenda

# Finance and Audit Committee Open Conference Call and Webinar

July 19, 2013 | 10:30 a.m.-12:30 p.m. Eastern

**DIAL-IN: 800-891-3472**

[Webex Registration Link](#)

**Broadcast Audio Code: 774336**

### Introductions and Chair's Remarks

### NERC Antitrust Compliance Guidelines

#### Agenda

1. **Review of Second Draft of NERC's 2014 Business Plan and Budget**
  - a. Overview\*
  - b. [Second Draft of NERC's 2014 Business Plan and Budget](#)
2. **Overview of Regional Entities' 2014 Business Plans and Budgets\***
  - a. Florida Reliability Coordinating Council, Inc.
    - Overview\*
    - [Business Plan and Budget – Clean](#)
    - [Business Plan and Budget – Redline](#)
  - b. Midwest Reliability Organization
    - Overview\*
    - [Business Plan and Budget – Clean](#)
    - [Business Plan and Budget – Redline](#)
  - c. Northeast Power Coordinating Council, Inc.
    - Overview\*
    - [Business Plan and Budget – Clean](#)
    - [Business Plan and Budget – Redline](#)
  - d. ReliabilityFirst Corporation
    - Overview\*
    - [Business Plan and Budget – Clean](#)

- [Business Plan and Budget – Redline](#)
- e. SERC Reliability Corporation
  - Overview\*
  - [Business Plan and Budget – Clean](#)
  - [Business Plan and Budget – Redline](#)
- f. Southwest Power Pool Regional Entity
  - Overview\*
  - [Business Plan and Budget – Clean](#)
  - [Business Plan and Budget – Redline](#)
- g. Texas Reliability Entity, Inc.
  - Overview\*
  - [Business Plan and Budget – Clean](#)
  - [Business Plan and Budget – Redline](#)
- h. Western Electricity Coordinating Council
  - Overview (includes WECC RCCO)\*
  - [Business Plan and Budget – Clean](#)
- i. Western Electricity Coordinating Council RCCO
  - [Business Plan and Budget – Clean](#)
- j. [WIRAB](#)

\*Background materials included.

# Antitrust Compliance Guidelines

## I. General

It is NERC's policy and practice to obey the antitrust laws and to avoid all conduct that unreasonably restrains competition. This policy requires the avoidance of any conduct that violates, or that might appear to violate, the antitrust laws. Among other things, the antitrust laws forbid any agreement between or among competitors regarding prices, availability of service, product design, terms of sale, division of markets, allocation of customers or any other activity that unreasonably restrains competition.

It is the responsibility of every NERC participant and employee who may in any way affect NERC's compliance with the antitrust laws to carry out this commitment.

Antitrust laws are complex and subject to court interpretation that can vary over time and from one court to another. The purpose of these guidelines is to alert NERC participants and employees to potential antitrust problems and to set forth policies to be followed with respect to activities that may involve antitrust considerations. In some instances, the NERC policy contained in these guidelines is stricter than the applicable antitrust laws. Any NERC participant or employee who is uncertain about the legal ramifications of a particular course of conduct or who has doubts or concerns about whether NERC's antitrust compliance policy is implicated in any situation should consult NERC's General Counsel immediately.

## II. Prohibited Activities

Participants in NERC activities (including those of its committees and subgroups) should refrain from the following when acting in their capacity as participants in NERC activities (e.g., at NERC meetings, conference calls and in informal discussions):

- Discussions involving pricing information, especially margin (profit) and internal cost information and participants' expectations as to their future prices or internal costs.
- Discussions of a participant's marketing strategies.
- Discussions regarding how customers and geographical areas are to be divided among competitors.
- Discussions concerning the exclusion of competitors from markets.
- Discussions concerning boycotting or group refusals to deal with competitors, vendors or suppliers.

- Any other matters that do not clearly fall within these guidelines should be reviewed with NERC's General Counsel before being discussed.

### **III. Activities That Are Permitted**

From time to time decisions or actions of NERC (including those of its committees and subgroups) may have a negative impact on particular entities and thus in that sense adversely impact competition. Decisions and actions by NERC (including its committees and subgroups) should only be undertaken for the purpose of promoting and maintaining the reliability and adequacy of the bulk power system. If you do not have a legitimate purpose consistent with this objective for discussing a matter, please refrain from discussing the matter during NERC meetings and in other NERC-related communications.

You should also ensure that NERC procedures, including those set forth in NERC's Certificate of Incorporation, Bylaws, and Rules of Procedure are followed in conducting NERC business.

In addition, all discussions in NERC meetings and other NERC-related communications should be within the scope of the mandate for or assignment to the particular NERC committee or subgroup, as well as within the scope of the published agenda for the meeting.

No decisions should be made nor any actions taken in NERC activities for the purpose of giving an industry participant or group of participants a competitive advantage over other participants. In particular, decisions with respect to setting, revising, or assessing compliance with NERC reliability standards should not be influenced by anti-competitive motivations.

Subject to the foregoing restrictions, participants in NERC activities may discuss:

- Reliability matters relating to the bulk power system, including operation and planning matters such as establishing or revising reliability standards, special operating procedures, operating transfer capabilities, and plans for new facilities.
- Matters relating to the impact of reliability standards for the bulk power system on electricity markets, and the impact of electricity market operations on the reliability of the bulk power system.
- Proposed filings or other communications with state or federal regulatory authorities or other governmental entities.

Matters relating to the internal governance, management and operation of NERC, such as nominations for vacant committee positions, budgeting and assessments, and employment matters; and procedural matters such as planning and scheduling meetings.

# NERC 2014 Business Plan and Budget – Second Draft Overview

July 19, 2013

Finance and Audit Committee Conference Call

**RELIABILITY | ACCOUNTABILITY**



- Recap and Overview of Second Draft changes
- Vegetation and GMD Research
- Standards Reform Initiative
- Reliability Assurance Initiative
- ES-ISAC
- Enterprise IT Applications and Infrastructure Support
- Capital Financing Program
- Budget and Assessment Impacts
- Preliminary 2015-2016 Forecast
- Remaining steps in 2014 Business Plan and Budget process

- Activities tied to FERC Orders
- Vegetation research — FERC FAC 3 Order
  - Formulate plan to conduct research on minimum vegetation clearance distance
  - Draft statement of work from EPRI
  - Spread funding out between 2014 (\$350k) and 2015 (\$150k)
- Vegetation management on public lands
  - Gather/analyze data regarding vegetation management issues on public lands
  - Reduced contractor support from \$100 to \$50k
- Reliability effects of GMD (\$250k)
  - No changes

- **Benefits**
  - Reduce unnecessary compliance costs/regulatory uncertainty
  - Clear, concise, cost effective and impactful results-based standards
- **2013 Standards Expert Review Project**
  - Retained panel of industry experts
  - Identifying existing standards which are low quality, low reliability impact, and impose unnecessary costs on industry
  - Providing roadmap for 2014-2015 standards development plan
- **Eliminated 2014 funding for outside experts**



- Focus for 2014
  - ERO auditor training using new ERO handbook
  - Implement recommendations to address self-reporting recommendations
  - Assess compliance tools and requirements
- Reduced funding for consultants from \$800k to \$400k
- \$250K of \$400k for assessment of existing compliance tools

- Included in Section 215 funding
- Described benefits to registered entities and electricity sector
- Three areas requiring additional resource support:
  - Tools and technologies to improve information sharing
  - Cyber risk preparedness tool kit
  - Additional personnel for analytics, portal monitoring and NCCIC staffing
  - \$786K in incremental funding (\$135k less than June 4 presentation)
- Identification of potential contingency funding for CFM and CRISP

- **Benefits**
  - Reduces overall ERO (NERC and Regional Entity) costs by building common core processes
  - Streamlines investments across enterprise
  - Facilitates compliance and enforcement process consistency across the ERO footprint
  - Expands data management and analytical capabilities
  - Enhances stakeholder access to provide and extract information
- Long-term strategic investments — multi-year commitments
- SOTC review July 15, 2013 conference call

- \$1.27M (Q4 2013) financing for BES and EIDS applications
- \$1.42M (2014) for Alerts (replacement application) and IT hardware
- Terms under negotiation — modeling assumes 3.5% interest rate, interest only in 2014 and 3-year amortization for each Tranche.
- RADS — potential to accelerate into 2014, subject to receipt of authorizations under working capital and operating reserves policy, as well as availability of operating reserves to fund debt service

- 6.4% operating expense increase, primarily driven by personnel costs
  - Reflects staff added in 2013, as well as proposed 2014 staff additions
  - Average salary increases below market in 2013
  - Salary increase pool budgeted below market for 2014
  - No increase in employer provided retirement and other benefits, which were substantially reduced in 2013
  - Total remuneration for staff between 50th and 75th percentile of market per CGHRC policy guidance
  - Senior Executive total remuneration below 50th percentile of market
- 7.5% increase in operating and capital expenses (net of depreciation)
- Capital cost increase tied IT applications and hardware

- 5.6% increase in 2014 assessments before accounting for a reduction in amount of reserves applied to reduce assessments in 2013 (1.1%) and a reduction in penalty funding offset (4.7%)
- 2014 NERC U.S. average assessment increase
  - 11.4% U.S.
  - 6.7% Canada
- Total NERC assessment
  - 2012 - \$50.7M
  - 2013 - \$47.6M (\$3.1M less than 2012)
  - 2014 - \$53M (\$2.4M over 2012)
- 2014 assessments 1.63% higher than forecast in 2013 Business Plan and Budget
- 2.8% reduction in assessment impact from capital financing program

## 2013 Assessments

\$ 47,604,156

## Summary of Increase in 2014 Assessments

	\$	%
Ongoing operations	\$ 305,751	0.6%
Vegetation and GMD research	\$ 650,000	1.4%
Reliability Assurance Initiative	\$ 400,000	0.8%
ES-ISAC	\$ 785,751	1.7%
Alerts tool (replacement application)	\$ 646,000	1.4%
Enterprise IT Applications	\$ 1,190,000	2.5%
Financing assumption	\$ (1,322,000)	-2.8%
<b>Cost of Resource Requirements</b>	<b>\$ 2,655,502</b>	<b>5.6%</b>
Net reduction in return of excess operating reserves	\$ 531,585	1.1%
Net loss of penalty offset	\$ 2,222,500	4.7%
<b>Loss of penalty offset and operating reserve adjustment</b>	<b>\$ 2,754,085</b>	<b>5.8%</b>
<b>Total Change in Assessments</b>	<b>\$ 5,409,587</b>	<b>11.4%</b>

- Preliminary in nature
  - 3% increase in personnel expense
  - 8.5% increase in medical costs
  - Projected operating expenses (rent, meeting, travel, etc.) similar to 2014
  - Projected Enterprise IT application funding/financing
  - Projected increase in ES-ISAC costs to maintain tools and services added in 2013
- Projected assessment impact
  - 2015 - 9.74%
  - 2016 - 1.5%
- Projected 2015 funding spike primarily driven by Capital Financing Program
- Evaluating methods to reduce future volatility in assessments



- **End of July, Early August** — post and distribute final NERC and Regional Entity BP&Bs and assessments to FAC. Includes response to stakeholders comments.
- **August 14** – FAC meeting to recommend approval of final NERC and Regional Entity BP&Bs and assessments
- **August 14** – MRC Meeting - Recap of 2014 BP&B process and Review of 2015 BP&B Schedule
- **August 15** – Board of Trustees meeting to approve final NERC and Regional Entity BP&Bs and assessments
- **August 23** – Submit NERC and Regional Entity BP&Bs and assessments to FERC for approval, with subsequent filings with Canadian authorities



# **FRCC 2014 Business Plan & Budget**

**(Approved by the FRCC Board of Directors, June 26, 2013)**

**NERC Finance & Audit Committee**  
**July 19, 2013**  
**Linda Campbell**

# Change in RE Budget 2013 vs. 2014: Expenses Only

	2013	2014	\$ Change	% Change
Total Personnel Expenses	\$ 5,042,261	\$ 5,306,366	\$ 264,105	5.2%
Total Meeting Expenses	334,969	266,910	(68,059)	(20.3)%
Total Operating Expenses	<u>1,218,806</u>	<u>1,249,332</u>	<u>30,526</u>	2.5%
Total Expenses	\$ 6,596,036	\$ 6,822,608	\$ 226,572	3.4%
Change in Fixed Assets	<u>\$ 64,254</u>	<u>\$ 27,676</u>	<u>\$ (36,578)</u>	(56.9)%
Total Budget	\$ 6,531,782	\$ 6,794,935	\$ 263,150	4.0%

# 2014 RE Division Total Funding by Program Area

	2013	2014	% Change 2014:2013	\$ Change 2014:2013
<b>Statutory</b>				
Reliability Standards Development	400,675	409,591	2.2%	8,916
Compliance Monitoring and Enforcement	4,289,553	4,702,351	9.6%	412,798
Reliability Assessment & Performance Analysis	1,399,000	1,391,299	-0.6%	(7,701)
Training, Education and Operator Certification	378,953	272,310	-28.1%	(106,643)
Situational Awareness & Infrastructure Security	63,601	19,380	-69.5%	(44,221)
<b>Total Statutory Expenses &amp; Net Fixed Assets</b>	<b>6,531,782</b>	<b>6,794,931</b>	<b>4.0%</b>	<b>263,149</b>
<b>Funding:</b>				
<b>Total Statutory Funding Assessment</b>	<b>5,957,970</b>	<b>5,488,056</b>	<b>-7.9%</b>	<b>(469,914)</b>
Pass Thru Training & Education	90,000	90,000	0.0%	-
Pass Thru Software Maintenance	22,000	24,000	9.1%	2,000
Cash Reserve Refund	157,312	849,875	440.2%	692,563
Penalty Assessment Allocation	304,500	343,000	12.6%	38,500
<b>Total Statutory Funding (Equals Total Expenses)</b>	<b>6,531,782</b>	<b>6,794,931</b>	<b>4.0%</b>	<b>263,149</b>

# 2014 RE Budget Drivers & Risks

- Addition of one (1) position for a Manager of CIP Audit.
- Personnel Costs include:
  - 3% Increase in Salaries,
  - 10% increase in Medical Benefit costs,
  - an attrition factor of approximately 2% of total RE salaries,
  - a four month delay in hiring due to historical hiring delays,
  - a revised classification of training related travel from Travel Expenses to Personnel Costs and some additional training of current staff,
  - the introduction of an executive retirement benefit plan (457(b) Plan) to offset the effects created by the limits the IRS on 401(k) contributions for the officers of the FRCC.
- Maintenance and Software Enhancements on the Compliance Portal System.
- Uncertainty of impact of new CIP Version 5 on Monitoring & Enforcement
- Uncertainty of the timing, development and implementation of the RAI
- Uncertainty of CEA contract costs

# FRCC Working Capital and Operating Reserve Policy

- Policy was approved by the FRCC Board of Directors June 26, 2013
- Working Capital and operating reserve requirement (Reserve) shall be one (1) month of the total annual budget.
- In addition, a \$1.5 Million line of credit will be secured to be used for short term and other risks that may be needed to bridge budget cycles and approved assessments.
- Approval by the Board of Directors will be required should it be recommended by the President and Chief Executive officer that the Reserve requirement be adjusted.
- The amount of the Reserve shall be identified and quantified each year in the business plan and budget submitted to and approved by the Board of Directors.
- Reserves shall:
  - *be utilized to satisfy projected annual cash flow and cash balance requirements and to satisfy contingencies where the specific timing and amount is uncertain.*
  - *be reviewed annually by the President and Chief Executive Officer to evaluate whether the level is sufficient.*

# Guidelines and Authorities Applicable to Expenditures

- The Controller has authority to draw on Reserves to the extent necessary to satisfy daily cash flow requirements consistent with the approved aggregate annual budgeted expenses and budgeted capital expenditures.
  - *Any such draws of Reserves shall to the extent possible be promptly replenished from future available cash flow.*
- For expenditures of Reserves in excess of, or projected to be in excess of the RE approved aggregate annual budgeted expenses and budgeted capital expenditures:
  - *the FRCC's President and Chief Executive Officer is authorized to expend such Reserves up to \$250,000.*
  - *an amount exceeding \$250,000 requires the prior approval of the Board of Directors.*
- All expenditures of Reserves are subject to other applicable RE policies and procedures, and shall be separately reported in the budget variance reports prepared by management
  - *also included in the quarterly Board of Director agenda materials, which are posted on the FRCC's member website.*
- The procedures set forth in Section 1108 of the Rules of Procedure, including Board of Trustees and FERC approval, shall continue to apply in circumstances where the RE requires funding between normal annual budget cycles in excess of amounts available through approved assessments and reserve resources.

# Other Guidelines

## **Guidelines and Authorities Required to Reallocate Budgeted Expenditures on an Intra-year Basis**

During the course of the year events may unfold such that some approved budget areas may run below budget, making funds available to satisfy other resource needs based on changing priorities. In the event such under-runs occur, the funds shall be added to the reserve and the President and Chief Executive Officer shall have the authority to expend such funds.

## **Addition of Unbudgeted FTE or Headcount Additions**

Any FTE or headcount additions, which are in excess of the total FTEs or total headcount set forth in the FRCC's approved business plan and budget for the applicable budget year shall require approval of the Board of Directors.



# FRCC

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**QUESTIONS?**



MIDWEST  
RELIABILITY  
ORGANIZATION

CLARITY • ASSURANCE • RESULTS

# MRO 2014 Budget Review

NERC Finance and Audit Committee  
and Regional Entities

July 19, 2013 9:00 – 12:00 EDT

Sue Clarke, VP-Finance and Administration

Improving RELIABILITY and mitigating  
RISKS to the Bulk Power System



# 2014 Budget Overview

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



# Cost Comparison

## By Program Area

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



# 2013 and 2014 Change in Budget

(In Whole Dollars)

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

## Salary

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

## Retirement

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

## Meetings

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

## Travel - Staff

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

## Conferencing

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

## Office Costs

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

## Professional Services

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

## Depreciation

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

## Computer Software

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



# FTE Trend

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

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



# Key Factors

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

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

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

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



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

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





# Operating and Working Capital Reserve Analysis

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



# Questions?





# **NPCC 2014 Business Plan & Budget Draft for Approval**

**Jessica Hala  
Manager, Finance and Accounting  
Presentation to  
NERC FAC  
July 19, 2013**

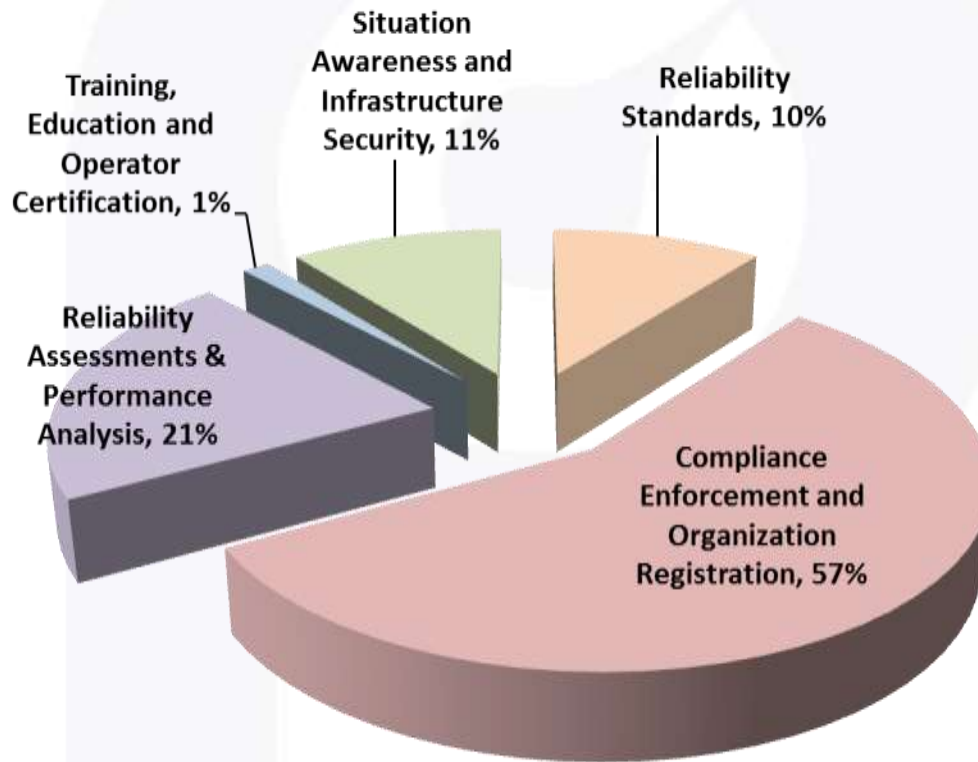


# 2014 Budget Overview

- Total NPCC budget increase of approximately 2%; total funding requirement increase of under 7%; and total assessments increase of approximately 8%
  - Salaries: Wage package increase of 3% including promotions
  - Benefits: Medical Insurance premium increase of 16% (could be less with delay in implementation of Obamacare)
- Staffing
  - Total of 39 FTEs in 2014 (RE 36.86, CS 2.14) ; up by one from 2013 total of 38 (37 FTEs and one open position due to recent retirement)
  - One additional FTE in 2014 represents the reclassification of a contractor to an hourly employee
- Decrease in Total Reserves requirement from 20% to 16.66% and break out of Total Reserves into separate Working Capital and Operating Reserve



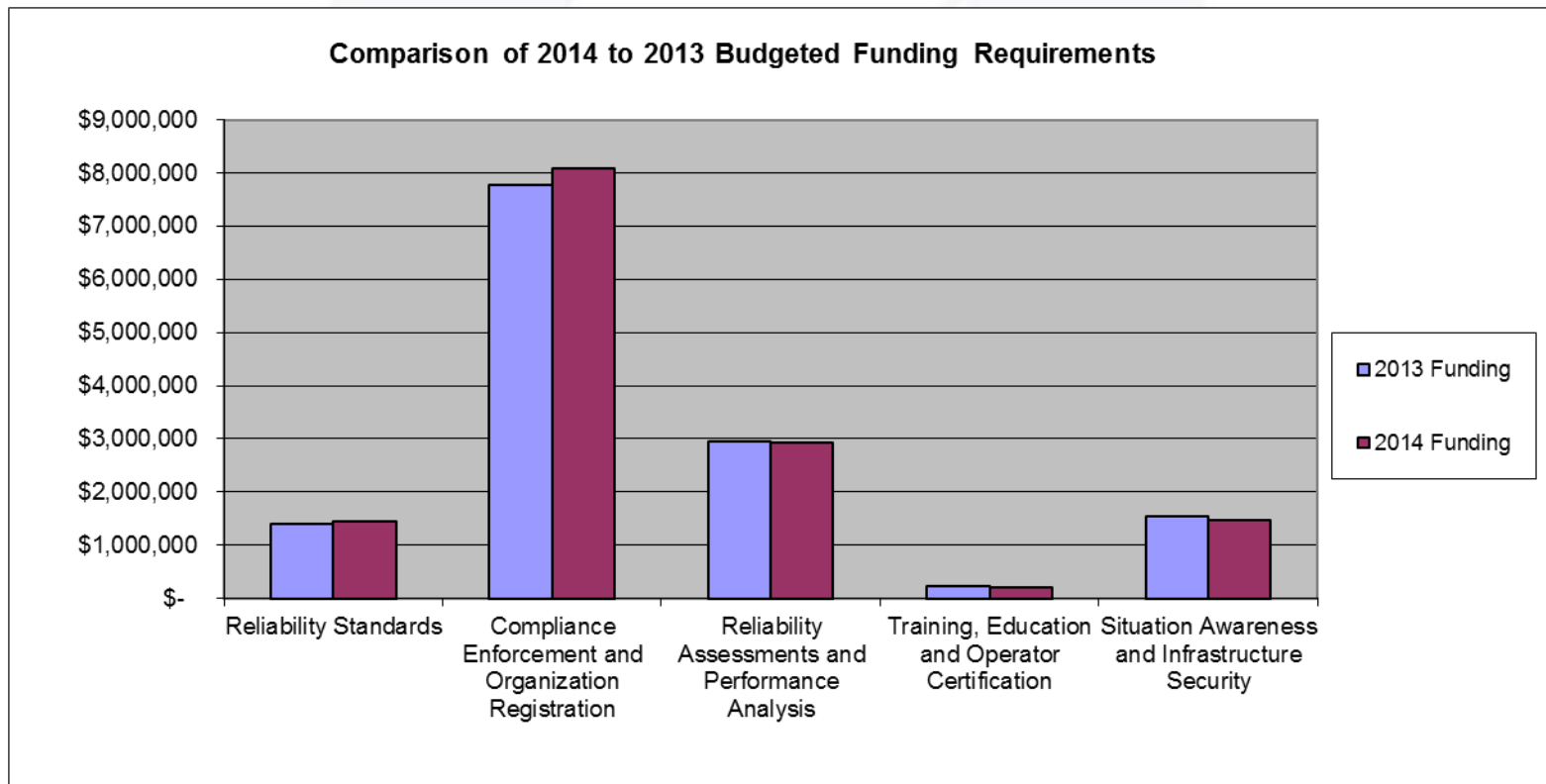
## 2014 Total Resources by Program Area Regional Entity (RE) Division





# Summary Comparison by Program

## Regional Entity (RE) Division





# 2013-2014 NPCC Expense Budget

	RE Division				Explanation
	2014	2013	Variance	% Variance	
<b>Funding</b>					
Assessments	13,611,880	12,352,264	1,259,617	10.20%	
Penalties	153,000	297,300	(144,300)	-48.54%	
Other Income	64,000	114,500	(50,500)	-44.10%	
<b>Total Funding</b>	<b>13,828,880</b>	<b>12,764,064</b>	<b>1,064,817</b>		
<b>Expenses</b>					
Personnel Expenses	8,850,160	8,478,697	371,463	4.38%	One additional FTE; 3% average wage package increase
Meetings	365,000	377,000	(12,000)	-3.18%	
Travel	890,000	855,000	35,000	4.09%	
Conference Calls	77,000	87,000	(10,000)	-11.49%	Lower negotiated rate
Consultants and Contracts	1,924,433	2,113,000	(188,567)	-8.92%	Decrease in compliance contracts
Rent & Improvements	737,272	706,500	30,772	4.36%	
Office Costs	536,500	468,500	68,000	14.51%	Computer/network maintenance costs
Professional Services	966,500	1,120,000	(153,500)	-13.71%	Decrease in legal fees
Miscellaneous	80,000	80,000	-	0.00%	
Depreciation	250,000	192,510	57,490	29.86%	Additional assets placed in service in 2013
Indirect Expenses	(405,859)	(406,471)	612	-0.15%	
Other Non-Operating Expenses	-	-	-		
<b>Total Expenses</b>	<b>14,271,006</b>	<b>14,071,736</b>	<b>199,270</b>	<b>1.42%</b>	
<b>Increase(Decrease) in Fixed Assets</b>	<b>(142,000)</b>	<b>(192,510)</b>	<b>50,510</b>		
<b>Total Budget</b>	<b>14,129,006</b>	<b>13,879,226</b>	<b>249,780</b>	<b>1.80%</b>	
<b>Change in Working Capital</b>	<b>(300,126)</b>	<b>(1,115,163)</b>	<b>815,037</b>		



# Working Capital and Operating Reserves

- New Working Capital and Operating Reserves Policy approved by NPCC FAC in October 2012
- Reduction in the required level of total reserves from 20% to 16.66% (representing two months of the annual budget)
- Policy is based on and supportive of historical cash flow patterns. The FAC will evaluate the need for a more detailed cash flow analysis and possible policy revision during 2013
- Segregation of funds into separate Working Capital and Operating Reserves, each with a targeted level of 8.33% (one month) of the annual budget
- Working Capital: VP and COO has authority to draw as needed to satisfy daily cash needs consistent with the approved aggregate annual budget
- Operating Reserve: Funding of unbudgeted contingencies up to \$100k requires President and CEO approval; up to \$250k requires FAC approval; greater than \$250k requires BOD approval. In **all instances** the BOD is advised





Questions?

NPCC, Inc.



# **2014 Business Plan & Budget**

**July 19, 2013**

**Jill Lewton**

**Controller**

# 2014 Budget Overview

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- **Approved by Board of Directors on June 21, 2013**
- **Total Budget \$18,063,201**
- **Total Budget increase of 3.65% (\$636,363)**
- **Personnel Expenses increase of 2.26% (\$318,294)**
- **Operating and Fixed Asset increase of 9.47% (\$318,070)**
- **Total 2014 Assessment \$15,189,784**
- **Assessment increase of 7.23% (\$1,023,936)**
- **FTE decrease of 1 (72 FTEs)**

# Total Expense by Program Area

Programs	Budget 2013	Budget 2014	Variance 2013 Budget vs 2014 Budget	
			Variance	Variance %
Reliability Standards	\$ 131,192	\$ 148,671	\$ 17,479	13.32%
Compliance Enforcement and Organization Registration	\$ 9,275,591	\$ 9,680,337	\$ 404,746	4.36%
Reliability Assessments and Performance Analysis	\$ 2,198,926	\$ 2,213,283	\$ 14,357	0.65%
Training, Education and Operator Certification	\$ 649,614	\$ 634,858	\$ (14,756)	-2.27%
Situation Awareness and Infrastructure Security	\$ 187,883	\$ 192,015	\$ 4,132	2.20%
Administrative Services*	\$ 4,983,632	\$ 5,194,037	\$ 210,405	4.22%
<b>Total</b>	<b>\$ 17,426,838</b>	<b>\$ 18,063,201</b>	<b>\$ 636,363</b>	<b>3.65%</b>

\* Includes General & Administrative, Legal & Regulatory Affairs, Information Technology, Human Resources, Finance & Accounting

# 2014 Sources of Funding

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- **\$15,189,784 in Assessments**
- **\$1,328,133 in Penalties**
- **Operating Reserve of \$1,000,000, which was approved by the Reliability*First* Audit Committee in February 2013.**
- **\$1,000,000 Line of Credit, which was approved for renewal by the Reliability*First* Audit Committee in May 2013.**

# Working Capital

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- **Policy was approved by Board in May 2013.**
- **The company's working capital requirement shall be the amount necessary to satisfy projected cash flow for daily operations.**
- **Funds from unused budgeted expenditures may be reallocated to offset other expenditures throughout the year in accordance with internal controls.**
  - The President & CEO and Senior VP & Treasurer shall have the authority to reallocate funds as they deem necessary.
  - Managers shall have the authority to reallocate up to \$20,000 within their department.
  - Any reallocation in excess of \$100,000 shall be reported to the Audit Committee.

# Operating Reserve

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- **Policy was approved by Board in May 2013.**
- **It is the policy of ReliabilityFirst to maintain 10% of the budgeted year's expenses, or a minimum of \$1,000,000, as the Operating Reserve.**
- **The Operating Reserve Fund is set aside each year with the intention of providing for unbudgeted or unexpected expenditures.**
  - For expenditures less than \$499,999 prior approval of the Audit Committee is required.
  - For expenditures of \$500,000 or more, approval by the Board of Directors is required, after notice to and recommendation by the Audit Committee.

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# Questions?





# **2014 Business Plan and Budget FINAL**



## 2014 Budget Overview

- Increase in penalty sanctions (\$554,500 vs. \$51,000, in 2013)
- Staffing
  - Addition of 1.75 FTEs compared to 2013 budget
  - Continue funding 3 entry level engineering positions budgeted in 2013 to assist in information transfer and succession planning.
- Operating Reserve
  - 2014 Budget will fully fund the reserve, increasing the reserve by approximately \$600,000
- Budget assumptions
  - 2.5% merit increase
- Proposed 2014 budget includes \$158,250 for relocation

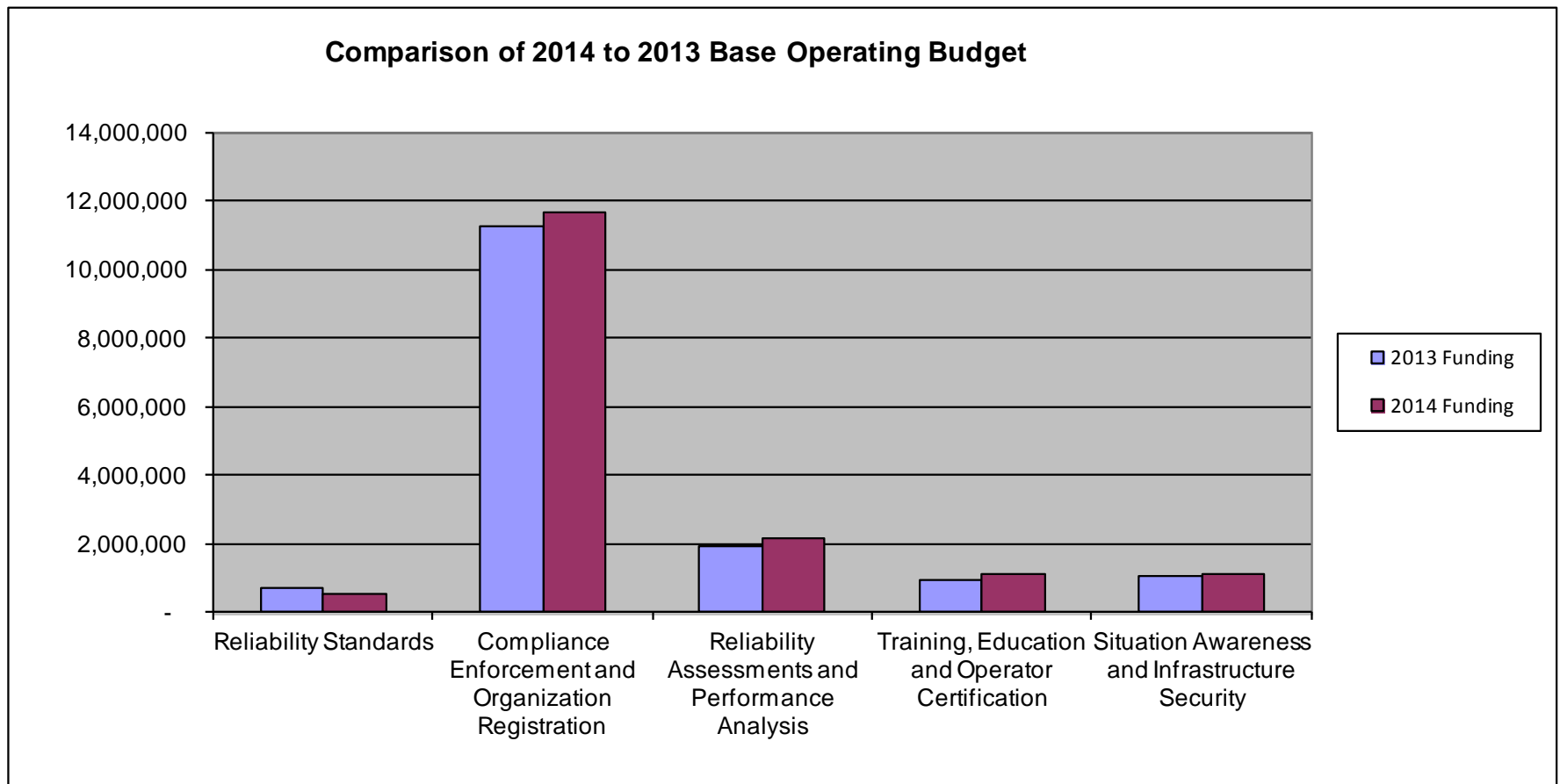


## Other Key Factors

### Penalty Funds

- Penalties collected from July 1 through June 30 applied to current budget development.
- Total penalties collected through June 30, 2013 \$2,054,500
  - If applied in full, Assessments would decrease approximately 11.5%
- Applying \$554,500 towards 2014 budget
  - Remainder included as a temporary increase to operating reserves

# Program Comparison





## Working Capital & Operating Reserve Policy

- Operating Reserve:
  - Approved by the BoD on April 23, 2008
  - Equal to up to 10% of its budgeted annual statutory operating costs.
- Working Capital:
  - Approved by the BoD on July 10, 2013
  - In the event that SERC's working capital is greater than 2 months of statutory operating costs, SERC will treat this excess as temporary operating reserves to be used for significant unexpected contingencies in the current year, or as an offset to future budget periods.
- Additionally, SERC has a line of credit available to be used as a supplement to, and in conjunction with, the working capital.



## **Working Capital & Operating Reserve Policy (cont'd)**

- All expenditures of reserves are subject to other applicable policies and procedures, including approval limits and signature authorities included in SERC's Internal Control Procedures, and shall be reported in the quarterly budget variance reports reviewed by SERC's Board of Directors.
- SERC has not done a formal cash flow analysis in preparation of its Working Capital and Operating Reserve policy
- 2013 excess operating reserves over and above 2013 budgeted levels applied as a reduction to future assessments



**Questions?**

# 2014 SPP RE Business Plan and Budget Overview

## NERC FAC Meeting

July 19, 2013

Ron Ciesiel

SPP RE General Manager

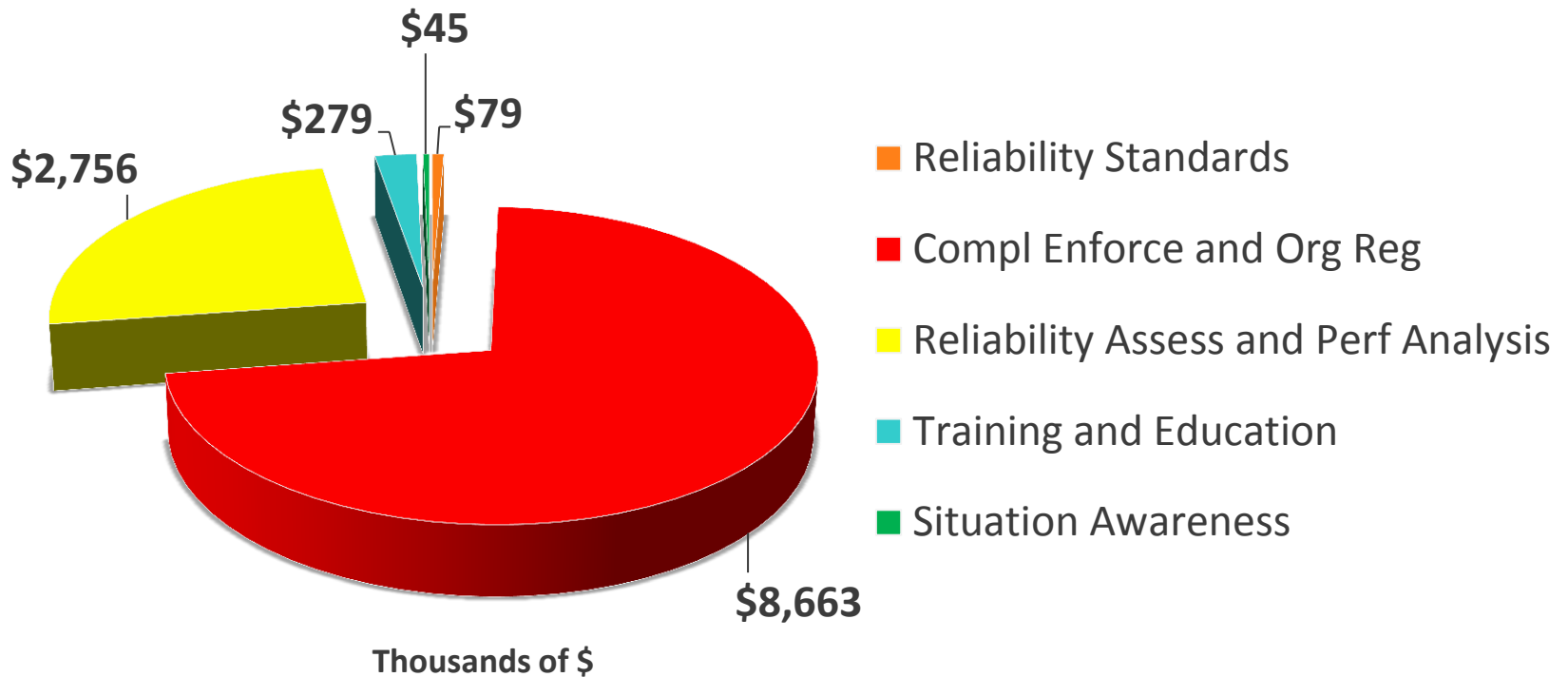
[rciesiel.re@spp.org](mailto:rciesiel.re@spp.org)





# 2014 Budget Overview

Budget - \$11.8 Million



# 2014-2013 Budget Comparison Overview

Resource Item	Approved 2013	Approved 2014	Increase / (Decrease)	% Increase / (Decrease)
SPP RE Direct FTEs	30.50	30.00	(0.50)	(2)%
SPP Shared FTEs	4.00	3.85	(0.15)	(4)%
Total FTEs	34.50	33.85	(0.65)	(2)%
Direct Expenses (millions)	\$ 7.1	\$ 6.9	\$ (0.2)	(2)%
SPP, Inc. Indirect Expenses (millions)	\$ 4.4	\$ 4.8	\$ 0.4	8%
Total Expenses (millions)	\$ 11.5	\$ 11.8	\$ 0.3	2.7%
Total Funding Requirement (millions)	\$ 9.5	\$ 9.7	\$ 0.2	2%
RE Assessments (millions)	\$ 8.5	\$ 9.2	\$ 0.7	8%

# 2014-2013 Budget Comparison Direct Expenses

Cost Item	Increase/ (Decrease)	Explanation
Personnel	\$ 53	2013 full-year merit & promotion increases
Consultant/Professional Services	\$ (202)	Increase in direct staff's experience level, process improvement efficiencies, delay in new BES definition effective date and increased litigation costs
Meetings/Office Costs	\$ 11	RE Workshops and BOT Meetings
Travel	\$ (13)	Reduced to balance 2012 actual results with expected 2014 needs
Total Direct Expenses *	\$ (152)	N/A
SPP Inc. Indirect Expenses	\$ 460	Increase in overhead rate
Total Increase in Budgeted Expenses	\$ 309	N/A

*\* Includes SPP RE General & Administrative Services and Legal and Regulatory program expenses*

# 2014-2013 Budget Comparison FTEs

Total FTEs by Program Area	Budget 2013	Projection 2013	Direct FTEs 2014 Budget	Shared FTEs <sup>1</sup> 2014 Budget	Total FTEs 2014 Budget	Change from 2013 Budget
<b>STATUTORY</b>						
<b>Operational Programs</b>						
Reliability Standards	1.25	0.25	0.15	0.10	0.25	-1.00
Compliance and Organization Registration and Certification	22.25	21.85	22.10	0.00	22.10	-0.15
Training and Education	1.00	1.25	1.25	0.00	1.25	0.25
Reliability Assessment and Performance Analysis	6.50	6.38	3.38	3.75	7.13	0.63
Situation Awareness and Infrastructure Security	0.25	0.13	0.13	0.00	0.13	-0.13
<b>Total FTEs Operational Programs</b>	<b>31.25</b>	<b>29.85</b>	<b>27.00</b>	<b>3.85</b>	<b>30.85</b>	<b>-0.40</b>
<b>Administrative Programs</b>						
Technical Committees and Member Forums	0.00	0.00	0.00	0.00	0.00	0.00
General & Administrative	3.25	3.00	3.00	0.00	3.00	-0.25
Information Technology	0.00	0.00	0.00	0.00	0.00	0.00
Legal and Regulatory	0.00	0.00	0.00	0.00	0.00	0.00
Human Resources	0.00	0.00	0.00	0.00	0.00	0.00
Finance and Accounting	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total FTEs Administrative Programs</b>	<b>3.25</b>	<b>3.00</b>	<b>3.00</b>	<b>0.00</b>	<b>3.00</b>	<b>-0.25</b>
<b>Total FTEs</b>	<b>34.50</b>	<b>32.85</b>	<b>30.00</b>	<b>3.85</b>	<b>33.85</b>	<b>-0.65</b>

# 2014-2013 Budget Comparison Program Summary

Program	Budget 2013	Projection 2013	Budget 2014	Change 2014 Budget v 2013 Budget	% Change
Reliability Standards	391,641	79,036	79,330	(312,311)	-79.7%
Compliance Enforcement and Registration	8,164,097	8,217,634	8,662,902	498,805	6.1%
Reliability Assess and Perf Analysis	2,606,215	2,564,534	2,756,961	150,746	5.8%
Training and Education	217,591	269,740	279,252	61,661	28.3%
Situation Awareness	135,273	43,989	45,184	(90,089)	-66.6%
	11,514,817	11,174,933	11,823,629	308,812	2.7%
Working Capital Reserve	\$ -	\$ -	\$ -	\$ -	
Total Funding	11,514,817	11,174,933	11,823,629	308,812	2.7%

# 2014 Proposed Budget Summary

- **Proposed 2014 budget**                      **\$11.8 million**
- **Increase in expenses**                      **\$.31 million / 2.7%**
- **Decrease in FTEs**                                      **.65**
- **Reallocation of resources among programs**
- **Budget Change Drivers**
  - **Overall reduction in Direct Expenses**
  - **Increase in SPP, Inc. overhead cost**

# Management Expenditure Authority

- Approval Level for Regional Entity Expenditures
- The table below represents approval levels for *budgeted* expenditures only related to the Regional Entity.

<u>Tier</u>	<u>Budgeted Expense</u>	<u>Approval Required</u>
A	\$0 - \$50,000	Director or above
B	\$50,001 - within budget limits	RE General Manager

- The table below represents approval levels for *unbudgeted expenditures* related to the Regional Entity.

<u>Tier</u>	<u>Budgeted Expense</u>	<u>Primary Approval</u>	<u>Required Secondary Approval</u>
A	\$0 - \$10,000	Director or above	N/A
B	\$10,001 - \$100,000	RE General Manager	N/A
C	\$100,001 - \$250,000	RE General Manager	RE Trustees (majority)
D	\$250,001 - \$500,000	RE General Manager	RE Trustees (unanimous)

- Unbudgeted expenses that exceed \$500,000 will require the RE to seek Federal Energy Regulatory Commission approval for a change in its budget.

# Working Capital Statement

- **SPP RE does not maintain a working capital reserve. The expenses incurred by SPP RE are paid by SPP, Inc. from its operating cash balances and then reimbursed from SPP RE statutory funding on a monthly basis. If at any time SPP RE does not have sufficient statutory funds to finance its expenses, the statutory funding will be increased by the amount of the deficiency in the following year. When the funding is received from NERC, the SPP RE General Manager will authorize a reimbursement to SPP, Inc. for the amount of the shortfall. If needed, a line of credit is also available to SPP, Inc. to fund any shortfalls. SPP, Inc. would not charge any interest or penalties to SPP RE in the case of a shortfall.**





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# 2014 Business Plan and Budget Review

(Approved by Texas RE Board of Directors June 14, 2013)

Presented to NERC FAC  
July 19, 2013

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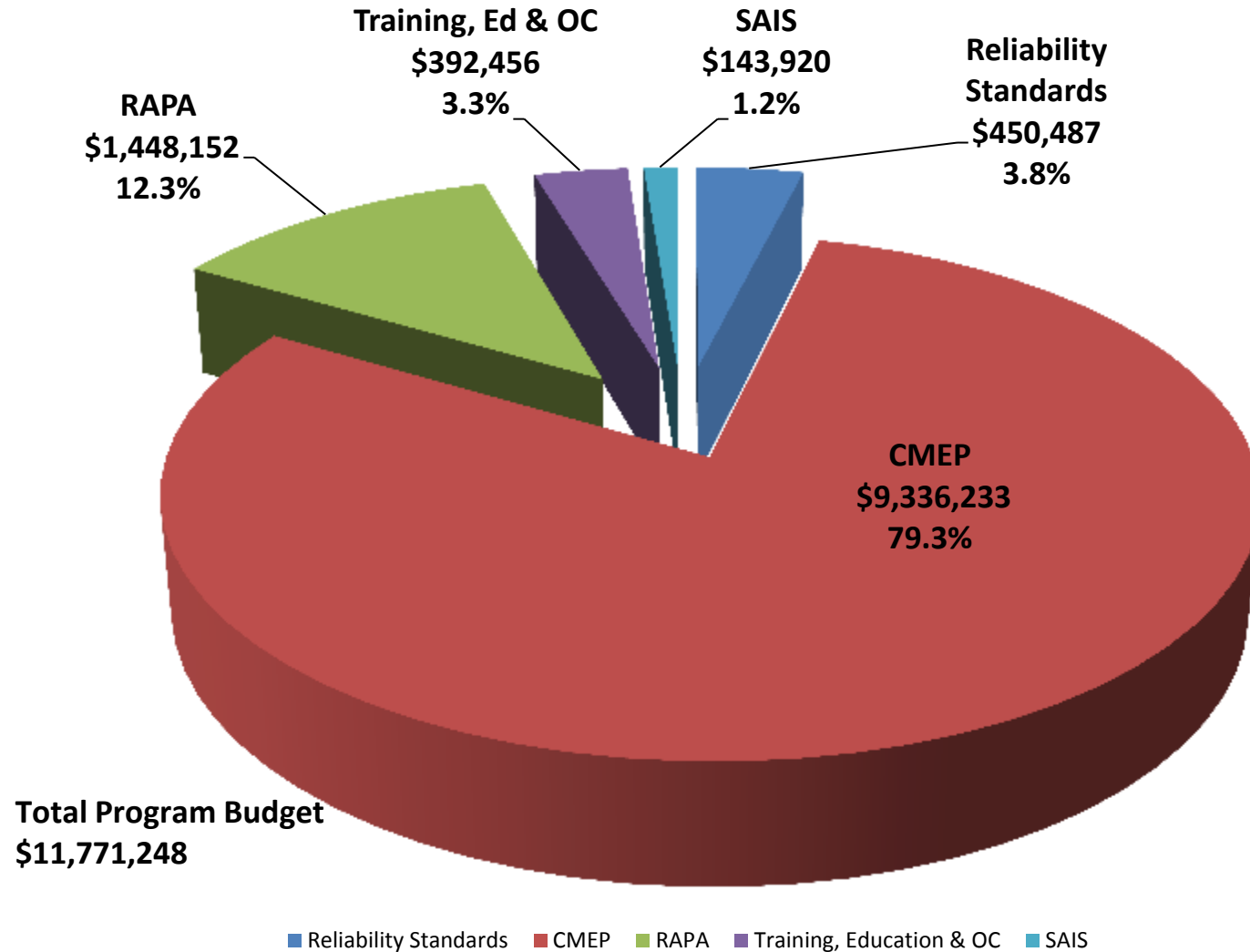
# 2014 Budget Overview

- Staffing remains flat with 60 Statutory & 5 Non-Statutory FTEs.
- Maintain cash reserve based on the policy.
- Overall personnel expense increase 5.5%.
  - Merit increases 4% with personnel vacancy assumption of 2%.
  - Insurance increase 9% ( based on current information).
- Office costs increase for the shift to leasing IT equipment instead of purchasing new equipment, which is offset by a reduction in depreciation.
- Penalty money received between July 1, 2012 and June 30, 2013 offset assessments for 2014.
- Total statutory budget increase of 5.8% over 2013 budget.

# 2013 – 2014 Budget Comparison

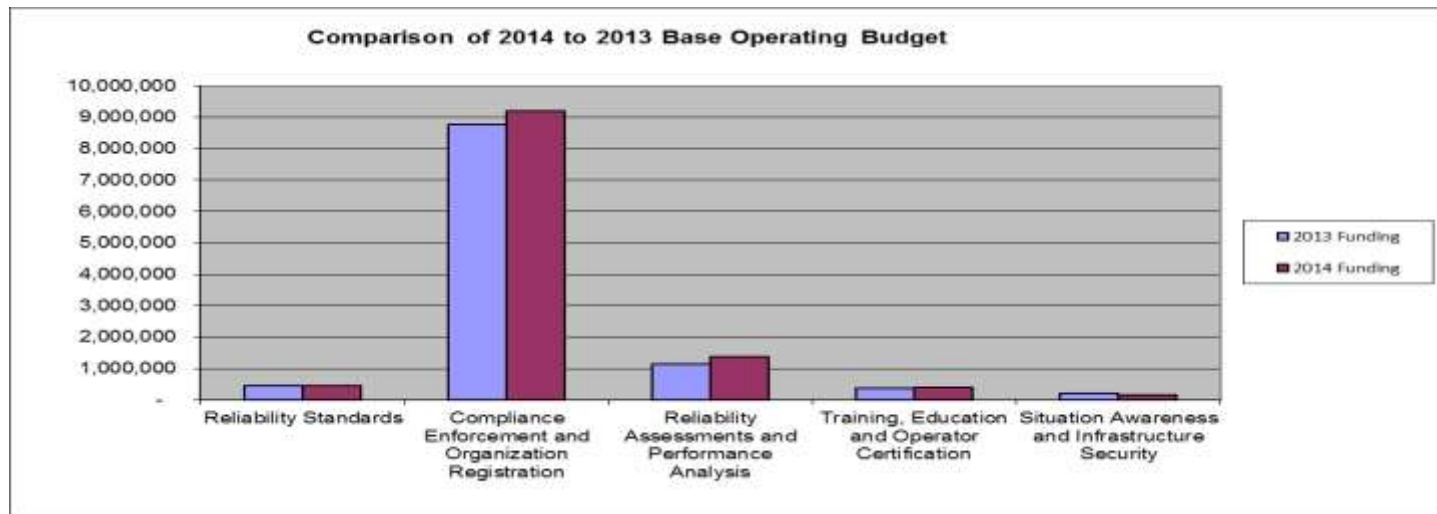
	2014	2013	Variance	% Variance	Explanation
<b>Funding</b>					
					2013 decrease in assessments was attributable to underspent funds for prior years. 2012 ended close to budget so in order to continue cash reserve
Assessments	10,509,308	8,152,520	2,356,788	28.9%	amount, the 2014 assessment will increase.
Penalties	402,833	849,000	(446,167)	-52.6%	Based on fines collected as of 6/30/2013.
Other Income	32,716	67,260	(34,544)	-51.4%	Workshops hosted by registered entities; entities not paying dues for affiliates.
<b>Total Funding</b>	<b>10,944,857</b>	<b>9,068,780</b>	<b>1,876,077</b>		
<b>Expenses</b>					
					4% increase for merit increases, market adjustments & promotions; health insurance appx. 9% increase, includes relocation and employee education
Personnel Expenses	8,513,423	8,068,952	444,471	5.5%	reimbursement
Meetings	95,213	38,316	56,897	148.5%	Off-site meetings for contested cases and outreach.
Travel	397,591	348,000	49,591	14.3%	Properly reflects necessary travel for 2014.
Conference Calls	3,500	18,540	(15,040)	-81.1%	maintained by Texas RE staff.
Consultants and Contracts	496,072	415,000	81,072	19.5%	Increasing for REMG Consultant and contract for PI software.
Rent & Improvements	510,864	533,930	(23,066)	-4.3%	
Office Costs	639,498	359,684	279,814	77.8%	Shift to lease IT equipment instead of purchasing new equipment.
Professional Services	1,073,088	888,225	184,863	20.8%	Contingency for outside counsel for one contested case.
Depreciation	263,213	888,000	(624,787)	-70.4%	Anticipated shift to leasing IT equipment.
Indirect Expenses	-	(223,856)	223,856	-100.0%	Charging all costs directly
<b>Total Expenses</b>	<b>11,992,462</b>	<b>11,334,791</b>	<b>657,671</b>	<b>5.8%</b>	
Increase(Decrease) in Fixed Assets	(221,213)	(399,012)	177,799	-44.6%	Reflects the shift to leasing IT equipment
<b>Total Budget</b>	<b>11,771,248</b>	<b>10,935,779</b>	<b>835,469</b>	<b>7.6%</b>	
Change in Working Capital	(826,390)	(1,867,000)	1,040,609		

# 2014 Summary by Statutory Program



# 2014 – 2013 Program Comparison

Program Budgets	Budget 2013	Budget 2014	Change 2014 Budget v 2013 Budget	% Change
Reliability Standards	441,628	450,487	8,859	2.0%
Compliance Enforcement and Organization Registration	8,785,957	9,336,233	550,276	6.3%
Reliability Assessments and Performance Analysis	1,131,000	1,448,152	317,152	28.0%
Training, Education and Operator Certification	378,499	392,456	13,957	3.7%
Total Situation Awareness and Infrastructure Security	198,695	143,920	(54,775)	-27.6%
<b>Total</b>	<b>10,935,779</b>	<b>11,771,248</b>	<b>835,469</b>	<b>7.6%</b>



# Working Capital and Operating Reserve

- Texas RE has a written Working Capital and Operating Reserve policy approved by the Board of Directors on February 26, 2013.
- When Texas Reliability Entity, Inc. (Texas RE) assumed responsibility as a Regional Entity effective July 1, 2010, its Board of Directors recognized that the company should have an operating reserve for use in the event of a significant unanticipated increase in expenses. The target minimum amount for the operating reserve was set at approximately \$2 million. Being a new entity, Texas RE needed to show stability for the ongoing operations of the organization. After three years of operations, Texas RE maintains an operating reserve of approximately \$2 million to offset any large unanticipated expenditures that could occur.
- Only the CEO is authorized to withdraw from the reserve funds. Based on Texas RE's policy the CEO can authorize to spend up to \$500,000 without board approval. Any amount \$500k and greater requires board approval before withdrawal. Any use of the Reserve is reported to the Audit and Governance Committee and the Board of Directors, accompanied by a description of the need for use of the reserve and the amount being spent.
- The policy is based on historical cash flow patterns. The need for policy revisions will be evaluated and updated as needed annually.

# Contact information



Judy Foppiano  
CFO and Director of Corporate Services  
512.583.4959  
[Judy.foppiano@Texasre.org](mailto:Judy.foppiano@Texasre.org)



# 2014 Budget Overview

## Presentation to NERC Finance and Audit Committee

Jillian Lessner  
Director of Finance and Accounting  
July 19, 2013



# *2014 WECC Budget Overview*

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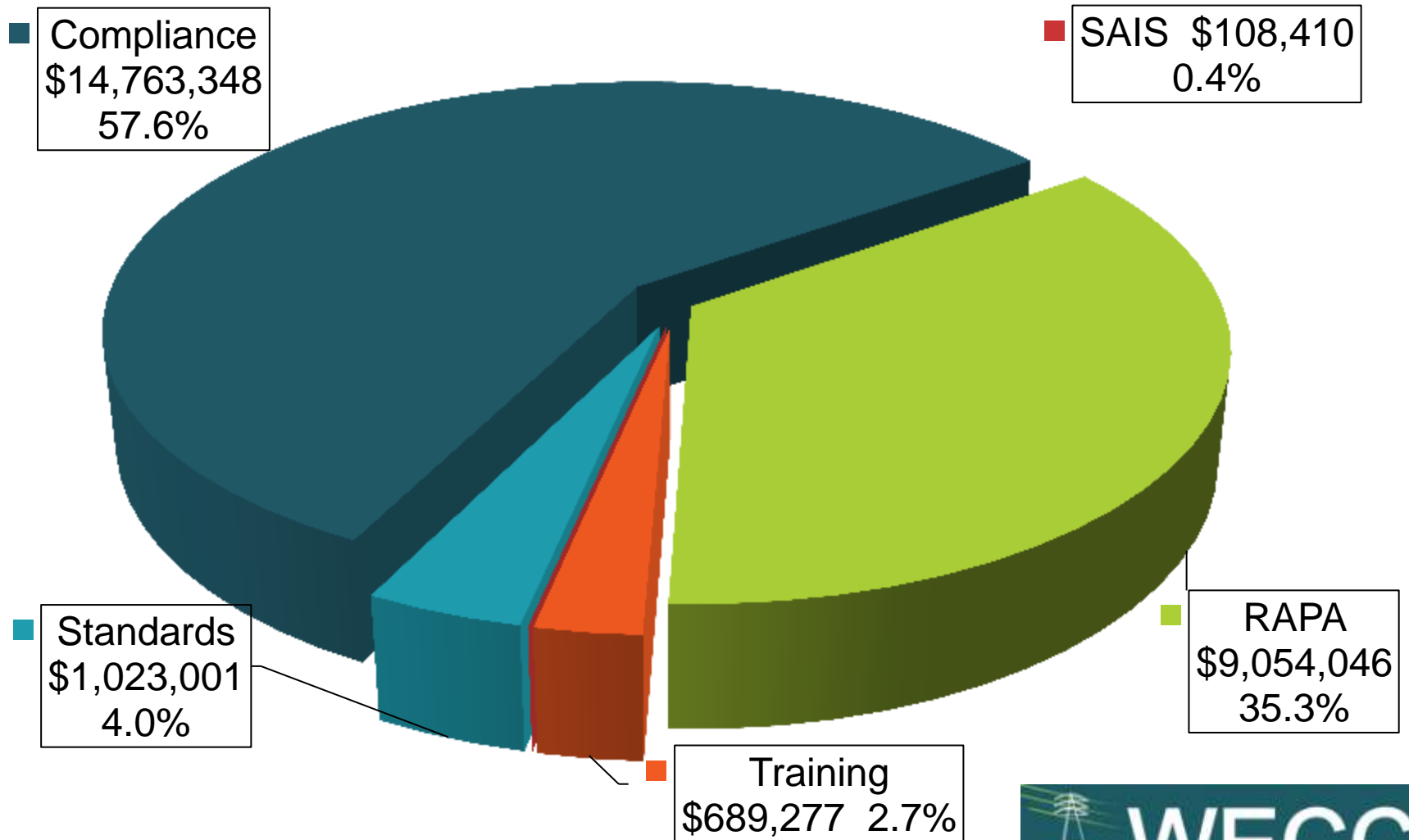
- Budget approved June 28
- Total budget decreases \$25.39MM
- Assessments
  - Decrease \$25.33MM
  - \$2.42MM of reserves to offset Assessments
- Other Funding
  - Grant revenue decreases \$2.29MM
  - Penalties decrease \$34K
- Headcount
  - Decreases by 108 (81.3 FTE)

# *Key Factors/WECC Assumptions*

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- **Bifurcation**
  - Effective 1/1/2014
  - SAIS separated into new company
- **Grants**
  - WISP transfers with RC to new entity
  - RTEP ends 12/2014
- **Program Areas**
  - Service levels remain flat
  - BES definition implementation
- **Personnel**
  - Labor float
  - Medical benefits increase 20%
  - Merit increase of 4%

# WECC Budget by Functional Area



# WECC 2013-2014 Budget Comparison

	2014	2013	Variance	% Variance	Explanation
Funding					
Assessments	15,630,851	40,962,547	(25,331,696)	-61.84%	
Penalties	2,933,050	2,966,850	(33,800)	-1.14%	
Other Income	4,655,237	7,095,695	(2,440,458)	-34.39%	WISP grant funding ends in 2013
Total Funding	<u>23,219,138</u>	<u>51,025,092</u>	<u>(27,805,954)</u>		
Expenses					
Personnel	15,773,971	31,239,871	(15,465,900)	-49.51%	Decrease in FTEs due to bifurcation
Meeting	2,472,154	3,110,747	(638,593)	-20.53%	WISP grant ends in 2013; bifurcation
Operating Expenses <sup>1</sup>	7,487,584	14,743,784	(7,256,200)	-49.22%	WISP grant ends in 2013; bifurcation
Indirect	(541,111)	(443,310)	(97,801)	22.06%	Fewer FTEs increases Non-stat allocation
Total Expenses	<u>25,192,598</u>	<u>48,651,092</u>	<u>(23,458,494)</u>		
Fixed Assets <sup>1</sup>	<u>445,487</u>	<u>2,374,000</u>	<u>(1,928,513)</u>	-81.23%	WISP grant ends in 2013; bifurcation
Total Budget	<u>25,638,085</u>	<u>51,025,092</u>	<u>(25,387,007)</u>	-49.75%	
Change in Working Capital	<u>(2,418,947)</u>	-	<u>(2,418,947)</u>		Use reserves in 2014 to offset Assessments

<sup>1</sup>Depreciation excluded from these values

# WECC FTE Comparison

Total FTEs by Program Area	Budget 2013	Projection 2013	Direct FTEs 2014 Budget	Shared FTEs* 2014 Budget	Total FTEs 2014 Budget	Change from 2013 Budget
<b>STATUTORY</b>						
<b>Operational Programs</b>						
Reliability Standards	3.5	3.3	4.0	0.0	4.0	0.5
Compliance and Organization Registration and Certification	50.5	54.5	58.0	0.0	58.0	7.5
Training and Education	1.5	1.5	2.0	0.0	2.0	0.5
Reliability Assessment and Performance Analysis	19.6	21.7	23.6	0.0	23.6	4.0
Situation Awareness and Infrastructure Security	85.0	97.5	0.5	0.0	0.5	(84.5)
<b>Total FTEs Operational Programs</b>	<b>160.0</b>	<b>178.5</b>	<b>88.1</b>	<b>0.0</b>	<b>88.1</b>	<b>(71.9)</b>
<b>Administrative Programs</b>						
Technical Committees and Member Forums	7.6	6.6	9.0	0.0	9.0	1.4
General & Administrative	18.8	17.3	15.2	0.0	15.2	(3.6)
Information Technology	9.0	8.2	9.0	0.0	9.0	-
Legal and Regulatory	12.1	9.6	6.0	0.0	6.0	(6.1)
Human Resources	3.1	3.6	3.0	0.0	3.0	(0.1)
Finance and Accounting	5.7	7.0	4.7	0.0	4.7	(1.0)
<b>Total FTEs Administrative Programs</b>	<b>56.3</b>	<b>52.3</b>	<b>46.9</b>	<b>0.0</b>	<b>46.9</b>	<b>(9.4)</b>
<b>Total FTEs</b>	<b>216.3</b>	<b>230.8</b>	<b>135.0</b>	<b>0.0</b>	<b>135.0</b>	<b>(81.3)</b>

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



# *Working Capital*

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- Reserve policy reviewed by FAC in June
  - Policy and target balance shall be reviewed annually
  - Reduction in WECC's large reserve balance
    - Offset Assessments
    - One month of OpEx reasonable to cover unbudgeted expenditures
  - BOD approves reserve usage over CEO limits (3% of budget)
- \$5.8MM transferred from Non-statutory
- \$7.8MM transferred to RCCo
- \$5.6MM offset to 2014 Assessments
  - WECC \$2.4MM
  - RCCo \$3.2MM

# *RCCo Budget Overview*

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- Budget approved June 28
- Total direct budget increases \$9.9MM
- Assessments
  - \$3.23MM of reserves to offset Assessments
- Other Funding
  - Grant revenue decreases \$2.79MM
  - No penalties offset
- Headcount
  - Increases by 59 (64.1 FTE)

# *Other Key Factors/RCCo Assumptions*

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- **Bifurcation**
  - Effective 1/1/2014
- **Grants**
  - WISP funding ends 12/2013
- **Program Areas**
  - RCTF Recommendations
  - Enhanced Curtailment Calculator
  - New Administrative Services
- **Personnel**
  - Labor float
  - Medical benefits increase 20%
  - Merit increase of 4%



# RCCo Budget Comparison

	2014	2013	Variance	% Variance	Explanation
Funding					
Assessments	29,568,031	24,476,506	5,091,525	20.80%	
Penalties	-	1,575,157	(1,575,157)	-100.00%	No Penalties revenue in the RCCo
Other Income	156,000	2,942,585	(2,786,585)	-94.70%	WISP grant funding ends in 2013
<b>Total Funding</b>	<b>29,724,031</b>	<b>28,994,248</b>	<b>729,783</b>		
Expenses					
Personnel	19,397,409	12,986,645	6,410,764	49.36%	Increase in FTEs due to RCTF and bifurcation
Meeting	1,155,405	453,646	701,759	154.69%	Bifurcation; offsite Board and Committee mtgs
Operating Expenses <sup>1</sup>	10,193,834	7,713,675	2,480,159	32.15%	WISP grant ends in 2013; bifurcation
Indirect	-	6,278,766	(6,278,766)	-100.00%	2013 is WECC SAIS Program Area
<b>Total Expenses</b>	<b>30,746,648</b>	<b>27,432,732</b>	<b>3,313,916</b>		
Fixed Assets <sup>1</sup>	2,212,000	1,561,516	650,484	41.66%	Enhanced Curtailment Calculator
<b>Total Budget</b>	<b>32,958,648</b>	<b>28,994,248</b>	<b>3,964,400</b>	13.67%	
Change in Working Capital	(3,234,617)	-	(3,234,617)		Use reserves in 2014 to offset Assessments

<sup>1</sup>Depreciation excluded from these values

# RCCo FTE Comparison

Total FTEs by Program Area	Budget 2013	Projection 2013	Direct FTEs 2014 Budget	Shared FTEs* 2014 Budget	Total FTEs 2014 Budget	Change from 2013 Budget
<b>STATUTORY</b>						
<b>Operational Programs</b>						
Reliability Standards	0	0	0	0	0	0
Compliance and Organization Registration and Certification	0	0	0	0	0	0
Training and Education	0	0	0	0	0	0
Reliability Assessment and Performance Analysis	0	0	0	0	0	0
Situation Awareness and Infrastructure Security**	85.00	85.00	119.08	0	119.08	34.08
<b>Total FTEs Operational Programs</b>	<b>85.00</b>	<b>85.00</b>	<b>119.08</b>	<b>0.00</b>	<b>119.08</b>	<b>34.08</b>
<b>Administrative Programs</b>						
Technical Committees and Member Forums	0	0	0	0	0	0.00
General & Administrative	0	0	12.00	0	12.00	12.00
Information Technology	0	0	3.00	0	3.00	3.00
Legal and Regulatory	0	0	7.00	0	7.00	7.00
Human Resources	0	0	3.00	0	3.00	3.00
Finance and Accounting	0	0	5.00	0	5.00	5.00
<b>Total FTEs Administrative Programs</b>	<b>0.00</b>	<b>0.00</b>	<b>30.00</b>	<b>0.00</b>	<b>30.00</b>	<b>30.00</b>
<b>Total FTEs</b>	<b>85.00</b>	<b>85.00</b>	<b>149.08</b>	<b>0.00</b>	<b>149.08</b>	<b>64.08</b>

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

\*\*The 2013 values presented are from WECC's 2013 Business Plan and Budget to provide comparative figures.



# Total WECC and RCCo Budget Comparison

	2014	2013	Variance	% Variance
Funding				
Assessments	45,198,882	40,962,547	4,236,335	10.34%
Penalties	2,933,050	2,966,850	(33,800)	-1.14%
Other Income	4,811,237	7,095,695	(2,284,458)	-32.19%
Total Funding	<u>52,943,169</u>	<u>51,025,092</u>	<u>1,918,077</u>	
Expenses				
Personnel	35,171,380	31,239,871	3,931,509	12.58%
Meeting	3,627,559	3,110,747	516,812	16.61%
Operating Expenses <sup>1</sup>	17,681,418	14,743,784	2,937,634	19.92%
Indirect	(541,111)	(443,310)	(97,801)	22.06%
Total Expenses	<u>55,939,246</u>	<u>48,651,092</u>	<u>7,288,154</u>	
Fixed Assets <sup>1</sup>	<u>2,657,487</u>	<u>2,374,000</u>	<u>283,487</u>	11.94%
Total Budget	<u>58,596,733</u>	<u>51,025,092</u>	<u>7,571,641</u>	14.84%
Change in Working Capital	<u>(5,653,564)</u>	-	<u>(5,653,564)</u>	

<sup>1</sup>Depreciation excluded from these values

# Questions?

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