

# 2015 Draft NERC and ERO Consolidated Business Plans and Budgets

May 21, 2014

RELIABILITY | ACCOUNTABILITY



- Business Plan and Budget Background
- Major Initiatives and Key Focus
- Common and Key Assumptions (NERC and Regional Entities)
- Budgets
  - NERC
  - Regional Entity and WIRAB
- Assessments
  - NERC
  - Regional Entity Assessments
- Consolidated Budget and Assessments
- Next Steps
- Schedule

- Based on multi-year ERO Enterprise Strategic Plan, 2014-2017
  - Comprised of five goals
  - Risk-based focus – ensuring Reliability
  - Measured by specific performance metrics for current year activities
- Supported by Common Business Assumptions
  - Consolidated and individual assumptions for NERC and the Regions
- Informed by Stakeholder Input and Participation
  - MRC BP&B Input Group and RISC
  - Trade Associations and Forums
  - Quarterly MRC policy input to NERC Board

- Risk-based strategy - address highest reliability risks
- Registration – align and properly scope based on risk to BES
- CIPv5 transition
- Reliability Assurance Initiative
- BES Implementation
- Cyber and physical security
- Risk information sharing
- Training

- **Standards** –transition to steady state, support risk initiatives, improved quality and timing, address directives
- **Compliance and Enforcement** – RAI, CIP v5 transition, training, efficiency, reducing caseload
- **Reliability Assessment** – assessments, performance analysis, risk registry and prioritization process, improved analytics
- **Situation Awareness/Events Analysis** – event tracking, analysis, information sharing
- **Registration** – implement Risk-Based Registration

- **Critical Infrastructure** – security incident analysis, exercises, policy coordination
- **ES-ISAC** – analysis and secure information sharing regarding cyber threats and vulnerabilities
- **Training**
- **Retaining and attracting talent**
- **Controlling costs**

- Developed collaboratively with Regional Entities
- Help guide resource allocation and planning
- Not all inclusive
- In addition to NERC and Regional Entities specific assumptions
- Regional Entity drafts include regional specific assumptions

- Personnel Costs
  - No net increase in budgeted FTEs over 2014
  - 6% FTE adjustment (attrition, hiring delays)-based on 3 year average
  - 2.5% average salary increase pool (slightly below 3% market reference)
  - Incentive compensation budgeted at 18.4% of total base salary expense-represents 3-year average
  - Medical and dental benefit plan cost increase based on market data



- 3% reduction in contractor and consulting expense
- Does not include cost for ES-ISAC CRISP participation
  - \$200-\$300k participant level cost estimate-would increase operating expenses by approximately 0.5%
- Does not include cost of physical separation of ES-ISAC operations in NERC's DC office
  - \$300k per year estimate- would increase operating expenses approximately 0.5%

## Statement of Activities and Fixed Assets Expenditures 2014 Budget & Projection, and 2015 Budget

STATUTORY

|                                 | <u>2014 Budget</u>   | <u>2015 Budget</u>   | <u>Variance 2015<br/>Budget v 2014<br/>Budget Over(Under)</u> | <u>% Inc 2015<br/>over 2014</u> |
|---------------------------------|----------------------|----------------------|---|---------------------------------|
| <b>Expenses</b>                 |                      |                      |   |                                 |
| Total Personnel Expenses        | \$ 34,059,654        | \$ 35,159,894        | \$ 1,100,240  | 3.2%                            |
| Total Meeting Expenses          | \$ 3,789,525         | \$ 3,476,246         | \$ (313,280)  | -8.3%                           |
| Total Operating Expenses        | \$ 17,612,133        | \$ 17,234,950        | \$ (377,184)  | -2.1%                           |
| Other Non-Operating Expenses    | \$ 144,000           | \$ 144,000           | \$ -  |                                 |
| <b>Total Expenses</b>           | <b>\$ 55,605,313</b> | <b>\$ 56,015,089</b> | <b>\$ 409,776</b>   | <b>0.7%</b>                     |
| <b>Fixed Assets</b>             |                      |                      |   |                                 |
| Depreciation                    | \$ (2,333,006)       | \$ (2,333,006)       | \$ 0  |                                 |
| Computer & Software CapEx       | 2,904,790            | 3,253,500            | 348,710   |                                 |
| Equipment CapEx                 | 213,000              | 365,000              | 152,000   |                                 |
| <b>Inc(Dec) in Fixed Assets</b> | <b>784,784</b>       | <b>1,285,494</b>     | <b>500,710</b>  | <b>63.8%</b>                    |
| <b>TOTAL BUDGET</b>             | <b>\$ 56,390,096</b> | <b>\$ 57,300,583</b> | <b>\$ 910,486</b>   | <b>1.6%</b>                     |
| FTEs                            | 189.53               | 189.48               | -   |                                 |

# Regional Entity and WIRAB Budgets

|              | 2013 Actual<br>(000's) | 2014 Budget<br>(000's) | 2014 Projection<br>(000's) | 2014 Projected vs<br>2014 Budget<br>Over(Under)<br>(000's) % |              | 2015 Budget -<br>Draft 1 (000's) | 2014 Budget vs<br>2015 Budget<br>Over(Under)<br>(000's) % |             |
|--------------|------------------------|------------------------|----------------------------|--|--------------|----------------------------------|---|-------------|
| NERC         | \$ 54,154              | \$ 56,390              | \$ 55,214                  | \$ (1,176)   | -2.1%        | \$ 57,301                        | \$ 911  | 1.6%        |
| FRCC         | \$ 5,864               | \$ 6,795               | \$ 6,530                   | \$ (265)   | -3.9%        | \$ 7,162                         | \$ 367  | 5.1%        |
| MRO          | \$ 8,574               | \$ 9,745               | \$ 9,745                   | \$ -   | 0.0%         | \$ 10,329                        | \$ 584  | 5.7%        |
| NPCC         | \$ 11,275              | \$ 14,129              | \$ 14,129                  | \$ -   | 0.0%         | \$ 14,779                        | \$ 650  | 4.4%        |
| RFirst       | \$ 17,546              | \$ 18,063              | \$ 18,063                  | \$ -   | 0.0%         | \$ 18,757                        | \$ 694  | 3.7%        |
| SERC         | \$ 15,881              | \$ 16,877              | \$ 16,077                  | \$ (800)   | -4.7%        | \$ 16,248                        | \$ (629)  | -3.9%       |
| SPP RE       | \$ 9,681               | \$ 11,824              | \$ 11,417                  | \$ (407)   | -3.4%        | \$ 11,907                        | \$ 83   | 0.7%        |
| TRE          | \$ 10,597              | \$ 11,771              | \$ 11,771                  | \$ -   | 0.0%         | \$ 11,984                        | \$ 213  | 1.8%        |
| WECC         | \$ 66,511              | \$ 25,638              | \$ 25,623                  | \$ (15)  | -0.1%        | \$ 26,309                        | \$ 671  | 2.6%        |
| WIRAB        | \$ 595                 | \$ 704                 | \$ 709                     | \$ 5   | 0.7%         | \$ 1,014                         | \$ 310  | 30.6%       |
| <b>TOTAL</b> | <b>\$ 200,678</b>      | <b>\$ 171,936</b>      | <b>169,278</b>             | <b>\$ (2,658)</b>  | <b>-1.5%</b> | <b>\$ 175,790</b>                | <b>\$ 3,854</b>   | <b>2.2%</b> |

- 2013 NEL data- will be updated in next draft
- 2015 starting working capital and operating reserves will be updated in next draft to reflect June 30, 2014 year-end forecast
- Not broken down between U.S., Canada and Mexico
- Does not reflect Canadian credits based on Board approved *Expanded Policy on Allocation of Certain Compliance and Enforcement Costs*
- No additional costs of ES-ISAC items as described on slide 9

## Preliminary Assessments by Entity 2014 v 2015

|           | CHANGE IN ASSESSMENTS BY ENTITY |                                 |                               |                 | Factors Impacting the Change in Assessments |             |   |             |                                  |             |                        |             |
|-----------|---------------------------------|---------------------------------|-------------------------------|-----------------|---|-------------|---|-------------|----------------------------------|-------------|------------------------|-------------|
|           | <u>2014 Budget</u><br>(\$000's) | <u>2015 Budget</u><br>(\$000's) | <u>\$ Change</u><br>(\$000's) | <u>% Change</u> | <u>Dec(inc) in Penalties</u>                |             | <u>Dec(Inc) in Release of Excess Reserves</u> |             | <u>Dec(Inc) in Other Funding</u> |             | <u>Budget Inc(Dec)</u> |             |
|           |                                 |                                 |                               |                 | (\$000's)                                   | %           | (\$000's)                                     | %           | (\$000's)                        | %           | (\$000's)              | %           |
| NERC      | 51,401                          | 54,252                          | 2,851                         | 5.5%            | 135   | 0.3%        | 1,725   | 3.4%        | 80                               | 0.2%        | 911                    | 1.8%        |
| FRCC      | 5,488                           | 6,238                           | 750                           | 13.7%           | 190   | 3.5%        | 192   | 3.5%        |                                  | 0.0%        | 367                    | 6.7%        |
| MRO       | 8,741                           | 9,446                           | 705                           | 8.1%            | (239)                                       | -2.7%       | 359   | 4.1%        |                                  | 0.0%        | 584                    | 6.7%        |
| NPCC      | 13,612                          | 14,078                          | 466                           | 3.4%            | (128)                                       | -0.9%       | (55)  | -0.4%       |                                  | 0.0%        | 650                    | 4.8%        |
| RFirst    | 15,160                          | 18,522                          | 3,362                         | 22.2%           | 863   | 5.7%        | 1,805   | 11.9%       |                                  | 0.0%        | 694                    | 4.6%        |
| SERC      | 13,734                          | 13,734                          | (1)                           | 0.0%            | 313   | 2.3%        | 284   | 2.1%        | 32                               | 0.2%        | (629)                  | -4.6%       |
| SPP       | 9,219                           | 10,332                          | 1,113                         | 12.1%           | 97  | 1.0%        | 933   | 10.1%       |                                  | 0.0%        | 83                     | 0.9%        |
| TRE       | 10,509                          | 10,500                          | (9)                           | -0.1%           | (81)  | -0.8%       | (140)   | -1.3%       | (1)                              | 0.0%        | 213                    | 2.0%        |
| WECC      | 15,631                          | 25,175                          | 9,544                         | 61.1%           | 2,933                                       | 18.8%       | 2,410   | 15.4%       | 3,530                            | 22.6%       | 671                    | 4.3%        |
| WIRAB     | 588                             | 1,058                           | 470                           | 79.8%           |   | 0.0%        | 160   | 27.2%       |                                  | 0.0%        | 310                    | 52.7%       |
| <b>\$</b> | <b>144,085</b>                  | <b>\$ 163,336</b>               | <b>\$ 19,251</b>              | <b>11.8%</b>    | <b>\$ 4,083</b>                             | <b>2.8%</b> | <b>\$ 7,674</b>                               | <b>5.3%</b> | <b>\$ 3,640</b>                  | <b>2.5%</b> | <b>\$ 3,852</b>        | <b>2.7%</b> |

## Dollar and Percentage Increase (Decrease) in Preliminary Assessments by Region 2015 v 2014

|   | CHANGE IN TOTAL ERO ASSESSMENTS BY REGION |       | CHANGE IN REGIONAL ENTITY & WIRAB ASSESSMENTS | CHANGE IN NERC ASSESSMENTS |
|---|---|-------|---|----------------------------|
|   | \$  | %     | \$  | \$                         |
| FRCC  | 891,211                                   | 11.0% | 749,781                                       | 141,430                    |
| MRO   | 885,379                                   | 7.3%  | 704,575                                       | 180,804                    |
| NPCC  | 865,561                                   | 4.3%  | 466,497                                       | 399,064                    |
| RFirst  | 3,939,958                                 | 15.3% | 3,361,808                                     | 578,150                    |
| SERC  | 651,962                                   | 2.5%  | (893)   | 652,855                    |
| SPP   | 1,252,552                                 | 10.6% | 1,113,042                                     | 139,510                    |
| TRE   | 199,331                                   | 1.4%  | (8,862)                                       | 208,193                    |
| WECC and WIRAB  | 10,564,979                                | 42.1% | 10,014,033                                    | 550,946                    |
| <b>Total</b>  | <b>19,250,932</b>                         |       | <b>16,399,981</b>                             | <b>2,850,951</b>           |
| <b>% Change - NERC and Regional Entities Combined</b> | <b>13.4%</b>                              |       | <b>17.7%</b>                                  | <b>5.5%</b>                |
| <b>% Change for Total ERO</b>                         | <b>100.0%</b>                             |       | <b>85.2%</b>                                  | <b>14.8%</b>               |

- June 30 – comments due (45 day comment period)
- July 9 – closed FAC call/meeting to provide input to NERC management on personnel, contract and other assumptions
- July 15 – post final draft of BP&Bs and assessments
- July 17 – FAC webinar for management review of final BP&Bs
- August 13 – FAC meeting to recommend approval of final BP&Bs and assessments
- August 14 – Board of Trustees meeting to approve final BP&Bs and assessments
- August 23 – Submit BP&Bs and assessments to FERC for approval, with subsequent filings with Canadian authorities