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MIDWEST  
RELIABILITY  
ORGANIZATION

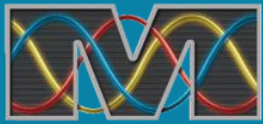
CLARITY ■ ASSURANCE ■ RESULTS

# MRO NERC FAC 2015 Budget Review

May 21, 2014

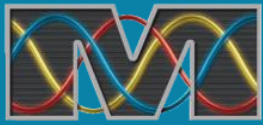
*Sue Clarke, VP-Finance and Administration*

Improving RELIABILITY and mitigating  
RISKS to the Bulk Power System



# 2015 Budget Overview

- **Overall, an assessments (or funding) increase of \$704,575 or 8%**
  - Excludes penalties
  
- **Overall, an expense increase of \$583,886 or 6%**
  
- **FTE increase of 1.75 in 2015, bringing FTE total to 42.50**
  - No additional staff are added in 2015, 42.5 reflects the nose count at year end 2014 – timing of hiring in 2014 results in an FTE increase in 2015



# Highlights

## Budget Reflects Strategic Direction

### Managing Productivity

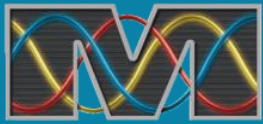
- Seventy percent of costs in people
- Productivity tools and accounting for time

### Reliability Assurance Initiative (RAI)

- Shifting resources to RAI

### Outreach

- Stakeholder survey points to more outreach
- Determining alternatives to improving outreach



## ■ RAI Costs

- Implementation results in more costs in developing oversight scope
  - Between 8 – 120 hours to establish scope depending on complexity of Registered Entity
- Tools and automation inadequacy
  - webCDMS design (not a tool; change orders are costly)
- Flat enforcement costs

## ■ Outreach

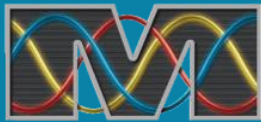
- Stakeholder survey points to more outreach needed

## ■ BES Definition Impacts on Registration

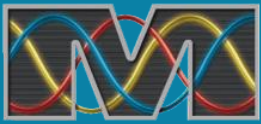


# Key Aspects of Funding

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



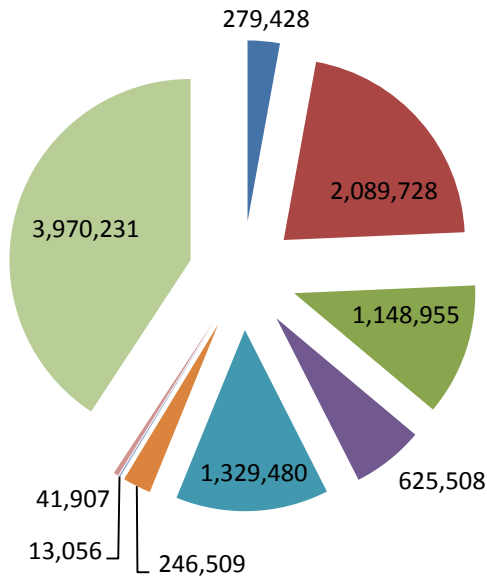
- **Policy and Procedure 13: Operating and Working Capital Reserves Policy**
  - MRO's Operating and Working Capital Reserves identified and quantified each year in the business plan and budget, submitted first to the FAC for review and then to the BOD
  
- **FAC and Board approved 45-day reserve**
  - More of an art than a science and an analysis is performed which establishes the targeted operating and working capital reserves amount
  
- **Budget process “resets” the working capital at the current level of 45 days for the start of the budget year**
  - Adjustment to achieve targeted operating and working capital reserves in 2015 will be a decrease of \$507,668
  - Excess operating and working capital reserves are applied to 2015 funding



# Comparison of Budget Costs

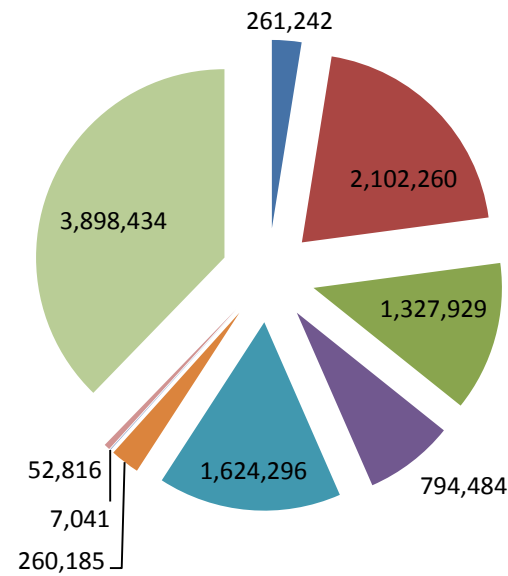
## 2014 Budget

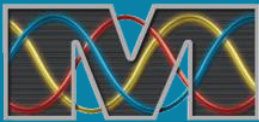
- Reliability Standards and Organization Registration
- Compliance
- Compliance Risk Assessment and Mitigation
- Compliance Enforcement
- Reliability Assessments and Performance Analysis
- Training and Education
- Situation Awareness
- Infrastructure Security
- Administrative Services



## 2015 Budget

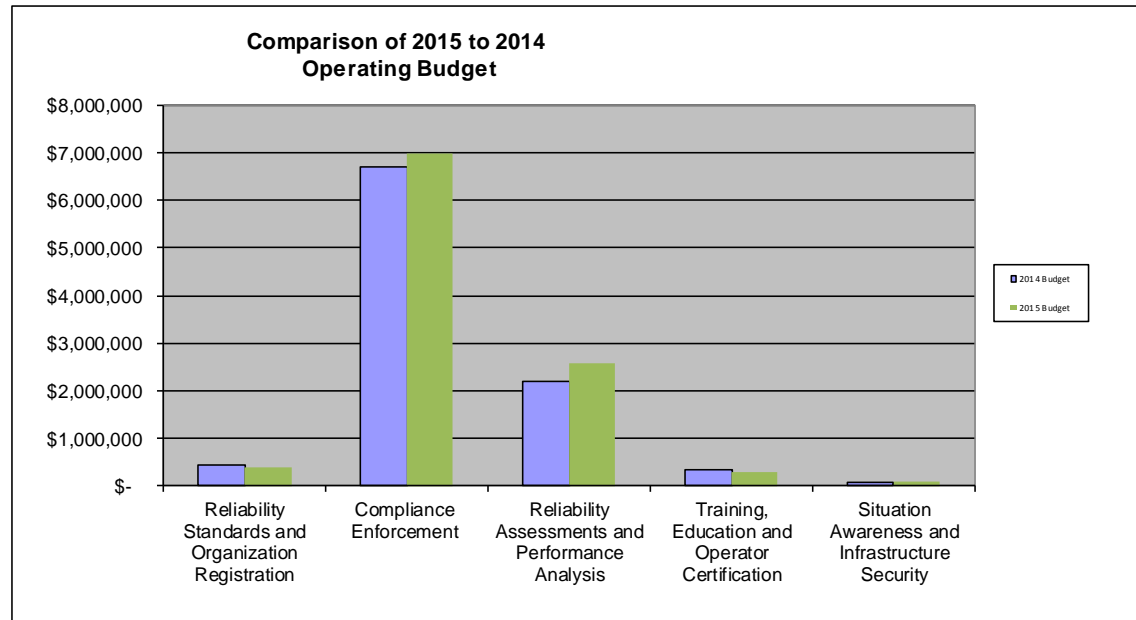
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# Budget Comparison

Program	2014 Budget	2015 Budget	Variance 2015 Budget v 2014 Budget	% of Change
Reliability Standards and Organization Registration	\$ 435,359	\$ 387,929	\$ (47,431)	-10.89%
Compliance Enforcement	6,697,593	6,994,216	296,623	4.43%
Reliability Assessments and Performance Analysis	2,194,427	2,571,309	376,882	17.17%
Training, Education and Operator Certification	333,138	295,306	(37,832)	-11.36%
Situation Awareness and Infrastructure Security	84,283	79,927	(4,356)	-5.17%
<b>TOTAL BUDGET</b>	<b>\$ 9,744,801</b>	<b>\$ 10,328,687</b>	<b>\$ 583,886</b>	<b>5.99%</b>







# 2014 and 2015 Change in Budget

(In Whole Dollars)

	2014 Budget	2015 Budget	Variance 2015 Budget v 2014	% Change	Increase as Compared with Budget
<b>Funding</b>					
<b>ERO Funding</b>					
NERC Assessments	\$ 8,741,444	\$ 9,446,019	\$ 704,575	8.1%	
Penalty Sanctions	136,500	375,000	238,500	174.7%	
<b>Total NERC Funding (A)</b>	<b>\$ 8,877,944</b>	<b>\$ 9,821,019</b>	<b>\$ 943,075</b>	<b>10.6%</b>	<b>10.62%</b>
<b>Expenses</b>					
<b>Personnel Expenses</b>					
Salaries	\$ 5,178,540	\$ 5,522,560	\$ 344,020	6.6%	
Payroll Taxes	339,154	357,594	18,440	5.4%	
Benefits	412,222	438,920	26,698	6.5%	
Retirement Costs	968,920	1,033,186	64,266	6.6%	
<b>Total Personnel Expenses</b>	<b>\$ 6,898,836</b>	<b>\$ 7,352,260</b>	<b>\$ 453,424</b>	<b>6.6%</b>	<b>6.57%</b>
<b>Meeting Expenses</b>					
Meetings	\$ 100,514	\$ 106,600	\$ 6,086	6.1%	
Travel - Staff Business	342,600	372,400	29,800	8.7%	
Travel - Member Reimbursement	256,300	249,800	(6,500)	-2.5%	
Conference Calls	-	-	-		
<b>Total Meeting Expenses</b>	<b>\$ 699,414</b>	<b>\$ 728,800</b>	<b>\$ 29,386</b>	<b>4%</b>	<b>4.20%</b>
<b>Operating Expenses</b>					
Consultants & Contracts	\$ 543,100	\$ 676,436	\$ 133,336	24.6%	
Office Rent	524,827	501,000	(23,827)	-4.5%	
Office Costs	503,124	539,891	36,767	7.3%	
Professional Services	205,000	193,500	(11,500)	-5.6%	
Miscellaneous	471,000	-	-		
Depreciation	471,000	521,000	50,000	10.6%	
<b>Total Operating Expenses</b>	<b>\$ 2,247,051</b>	<b>\$ 2,431,827</b>	<b>\$ 184,776</b>	<b>8.2%</b>	<b>8.22%</b>
<b>Total Direct Expenses</b>	<b>\$ 9,845,302</b>	<b>\$ 10,512,887</b>	<b>\$ 667,586</b>	<b>6.8%</b>	<b>6.78%</b>
<b>Indirect Expenses</b>					
<b>Other Non-Operating Expenses</b>	\$ -	\$ -	\$ -	0%	
<b>(B) Total Expenses</b>	<b>\$ 9,845,302</b>	<b>\$ 10,512,887</b>	<b>\$ 667,586</b>	<b>6.8%</b>	<b>6.78%</b>
<b>Fixed Assets</b>					
Depreciation	(471,000)	(521,000)	(50,000)	10.6%	
Computer Equipment CapEx	241,000	316,800	75,800	31.5%	
Computer Software CapEx	79,500	20,000	(59,500)	-74.8%	
Furniture & Fixtures CapEx	-	-	-		
Equipment CapEx	-	-	-		
Leasehold Improvements	50,000	-	(50,000)	(1)	
<b>(C) Inc(Dec) in Fixed Assets</b>	<b>\$ (100,500)</b>	<b>\$ (184,200)</b>	<b>\$ (83,700)</b>	<b>83%</b>	<b>83.28%</b>
<b>Total Budget (B + C)</b>	<b>\$ 9,744,802</b>	<b>\$ 10,328,687</b>	<b>\$ 583,886</b>	<b>5.99%</b>	<b>5.99%</b>
<b>TOTAL CHANGE IN WORKING CAPITAL (=A-B-C)</b>	<b>\$ (866,858)</b>	<b>\$ (507,668)</b>	<b>\$ 359,189</b>		

- FTE increase 1.75
- Salary increase 3%
- Benefit increase 5%

- Meetings – 6.1% increase**
- Continued expansion of the workshops
- Travel – Staff – 8.7% increase**
- Increased staff travel with an increase in the number of audits, implementation of RAI and more outreach

- Consultants & Contracts – 24.6% increase**
- MRO increased due to SharePoint expansion and network optimization
- Professional Services – 5.6% decrease**
- Eliminate contingency dollars for unknown resource demands

- Depreciation – 10.6% increase**
- Impact of depreciating building improvements, equipment, and other capital investments related to our facility move

- Computer Software – 74.8% decrease**
- Decreased after one-time costs for new facility.

- Computer Equipment – 31.5% increase**
- Continue to expand expenditures for SharePoint, website, and network optimization



Total FTEs by Program Area	Budget 2014	Projection 2014	Direct FTEs 2015 Budget	Shared FTEs 2015 Budget <sup>1</sup>	Total FTEs 2015 Budget	Change from 2014 Budget
<b>STATUTORY</b>						
<b>Operational Programs</b>						
Reliability Standards and Organization and Certification	1.17	1.17	1.01		1.01	(0.16)
Compliance	11.16	11.16	10.63		10.63	(0.53)
Compliance Risk Assessment and Mitigation	6.31	6.31	7.03		7.03	0.72
Compliance Enforcement	3.79	3.79	4.42		4.42	0.63
Training and Education	0.65	0.65	0.28		0.28	(0.37)
Reliability Assessment and Performance Analysis	6.49	6.49	7.55		7.55	1.06
Situation Awareness and Infrastructure Security	0.22	0.22	0.16		0.16	(0.06)
<b>Total FTEs Operational Programs</b>	<b>29.79</b>	<b>29.79</b>	<b>31.08</b>	<b>-</b>	<b>31.08</b>	<b>1.29</b>
<b>Administrative Programs</b>						
Technical Committees and Member Forums	1.66	1.66	-		-	(1.66)
General and Administrative	1.94	1.94	2.24		2.24	0.30
Legal and Regulatory	0.93	0.93	1.31		1.31	0.38
Information Technology	3.13	3.13	4.24		4.24	1.11
Human Resources	-	-	-		-	-
Finance and Accounting	3.30	3.30	3.63		3.63	0.33
<b>Total FTEs Administrative Programs</b>	<b>10.96</b>	<b>10.96</b>	<b>11.42</b>	<b>-</b>	<b>11.42</b>	<b>0.46</b>
<b>Total FTEs</b>	<b>40.75</b>	<b>40.75</b>	<b>42.50</b>	<b>-</b>	<b>42.50</b>	<b>1.75</b>

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



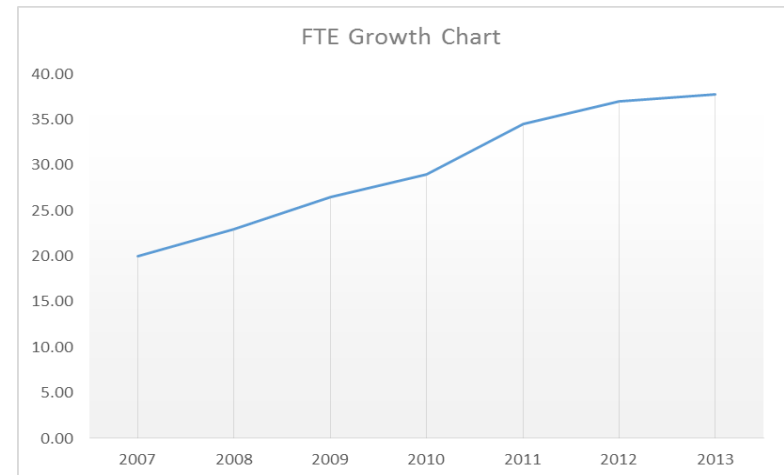
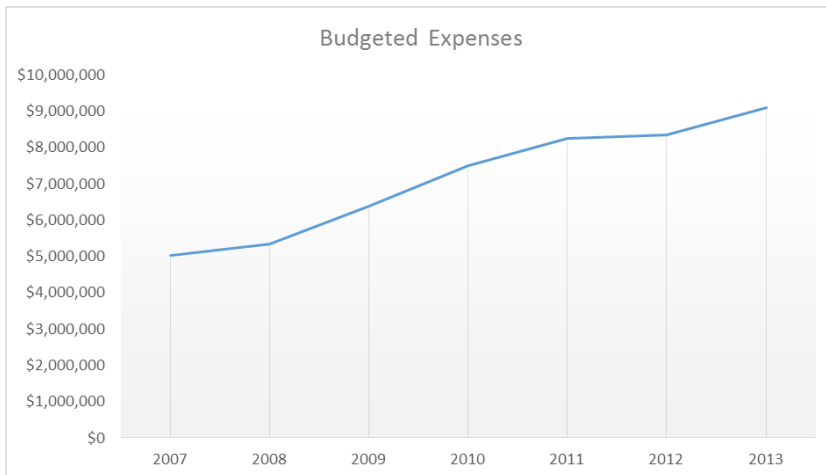
# CMEP Cost Trend by Department

	2009		2010		2011		2012		2013		2014		2015	
		% to Total CMEP Costs		% to Total CMEP Costs		% to Total CMEP Costs		% to Total CMEP Costs		% to Total CMEP Costs		% to Total CMEP Costs		% to Total CMEP Costs
<b>Compliance</b>	\$2,011,510	100%	\$2,485,569	80%	\$2,390,377	72%	\$2,718,084	74%	\$2,292,102	64%	\$2,089,728	54%	\$2,102,260	50%
<b>RAM</b>			634,636	20%	517,228	16%	496,983	14%	788,797	22%	1,148,955	30%	1,327,929	31%
<b>Enforcement</b>					425,931	13%	438,199	12%	505,478	14%	625,508	16%	794,484	19%
<b>Total</b>	<u>\$2,011,510</u>		<u>\$3,120,205</u>		<u>\$3,333,536</u>		<u>\$3,653,266</u>		<u>\$3,586,377</u>		<u>\$3,864,191</u>		<u>\$4,224,673</u>	
	Combined													



# Budget Growth

	2007	2008	2009	2010	2011	2012	2013
<b>Budgeted Expenses</b>	\$5,021,588	\$5,331,487	\$6,405,724	\$7,366,117	\$8,130,824	\$9,057,229	\$9,283,539
<b>FTEs</b>	20.00	23.00	26.50	29.00	34.50	37.00	37.75
<b>Milestones</b>	Separates from Mappcor	Increase compliance staff  Begin to add CIP staff	"Three Step" CMEP Process results in creation of Risk Assessment and Mitigation department; reduced compliance staff  Increase enforcement staff from 1 to 3	Additional outreach-application guides; expand RAM staff  Stopped outsourcing CIP expertise; added CIP audit staff	Additional outreach-model controls; more meetings and workshops  Full year's impact from staffing in 2010	Expand RAM staff – CIP workload – complexity of mitigation plans in CIP area  Office move	Inourced more IT work; reduced contractor and consultants costs.  Business applications development with NERC/Regions – added business analyst, kicked off major IT projects  Full year of office rent; however, actual savings from meetings largely offset the increase





# Alignment between MRO, Regions and ERO

- **MRO's corporate goals and objectives along with NERC and the remaining Regional Entities are aligned with the ERO Enterprise's business planning goals and assumptions for the 2014-2017 planning period.**



# Questions?

