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CLARITY • ASSURANCE • RESULTS

MRO NERC FAC 2016 Budget Review

July 22, 2015

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Improving RELIABILITY and mitigating RISKS to the Bulk
Power System



2016 Budget Overview

As Compared to the 2015 Budget

- **Budget increase of \$1.0 million or 9.93%, from \$10.33 million to \$11.35 million**
 - Includes facilities expansion: \$490K or 49% of the increase is attributed to the expansion
 - Of the \$490K, \$357K is a one-time capital cost and \$133K in operating expenses are in 2016 and beyond
- **FTE remains relatively flat in 2016**
 - 43 FTEs reflects the 2015 revised nose count at year-end 2015
- **Reduce Working Capital requirement in 2016 from 45 days to 30 days**
 - Results in \$467K reduction to reserves and assessments
- **Assessments (or funding) increase of \$1,475,293 or 15.7% (from \$9.4m to \$10.9m)**
 - Annual funding impact on LSEs is \$0.038/Mwh (based on a 30-day reserve)
 - Lower penalties and working capital reset



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

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

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

- **Budget assumptions**
 - Benefits significantly higher



Key Aspects of Funding

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



Operating and Working Capital Reserves

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

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

■ FAC and Board approved 45-day reserve for 2015

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

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

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



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

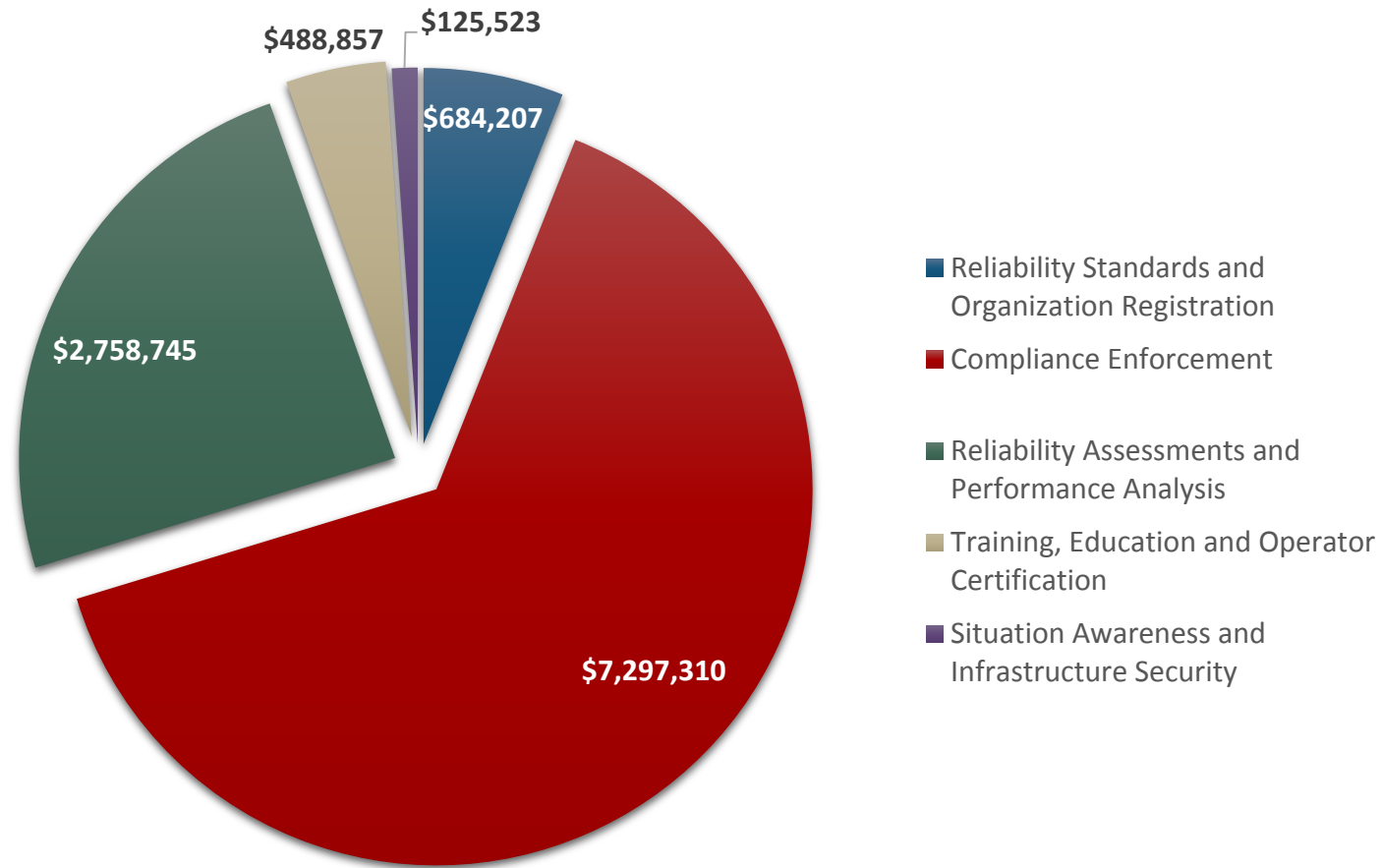
- MRO's Operating and Working Capital Reserves requirement shall be the amount necessary to satisfy projected annual cash flow and cash balance requirements

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

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



2016 Budget Costs





2015 and 2016 Change in Budget

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

- Salary increase 3%
- Benefits – 32.7% increase**
- Unbudgeted premium increase of 28% in 2015 plus 8% increase in 2016

- Meetings – 19.8% decrease**
- Addition of meeting space reduces cost for use of off-site facilities
- Travel – Member – 16.6% increase**
- Increased member travel with new security committee, SME teams, and CIP Standards

- Office Rent – 29.5% increase**
- \$133K increase due to lease of additional space
- Professional Services – 12.9% increase**
- Hearing body training

- Computer Equipment & Software**
- Costs to remain flat
- Leasehold improvements**
- Addition of meeting space for workshops and stakeholder meetings. One-time capital costs of \$357K



MRO FTE Trend

Flattening of Resources

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



CM EP Cost Trend

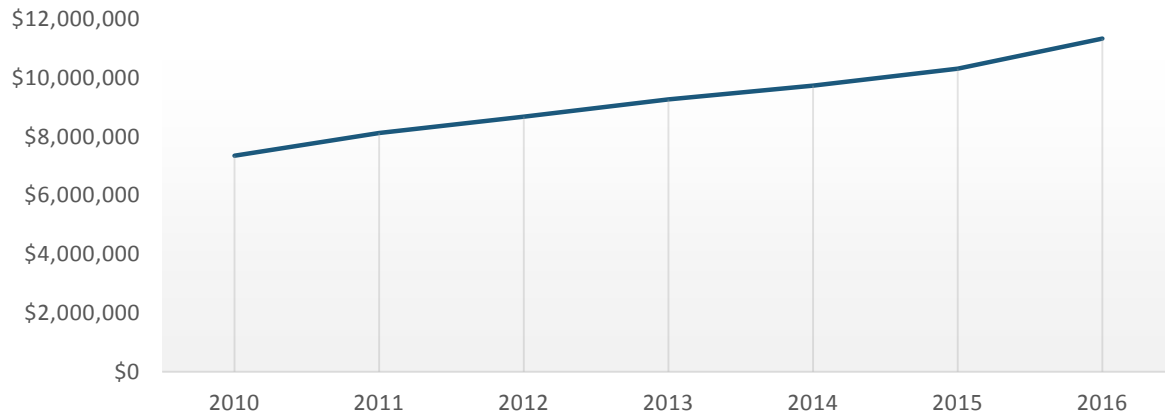
	2009 Budget	% to Total CMEP Costs	2010 Budget	% to Total CMEP Costs	2011 Budget	% to Total CMEP Costs	2012 Budget	% to Total CMEP Costs	2013 Budget	% to Total CMEP Costs	2014 Budget	% to Total CMEP Costs	2015 Budget	% to Total CMEP Costs	2016 Budget	% to Total CMEP Costs
Compliance	\$2,011,510	100%	\$2,485,569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



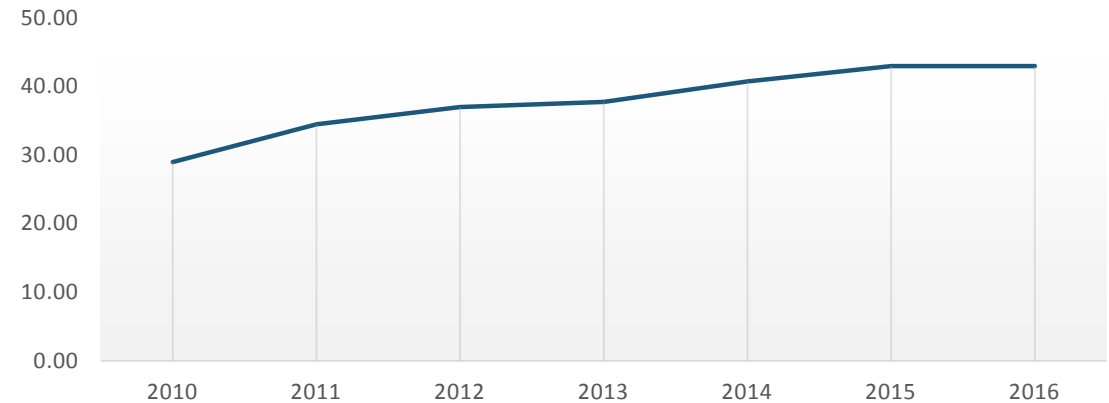
Budget Trends

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

Budgeted Expenses



FTE Growth Chart





2017 and 2018 Projections

- **No significant changes in program areas**
- **FTE remains flat**
- **Three percent escalation rate applied to expense categories**
 - Total budget increase of \$330k in 2017
 - Total budget increase of \$340k in 2018
 - Zero penalties budgeted



Alignment between MRO, Regions and ERO

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



Questions

