



MIDWEST
RELIABILITY
ORGANIZATION

MRO Copyright 2007

CLARITY • ASSURANCE • RESULTS

NERC FAC Meeting

July 20, 2017

2018 Business Plan and Budget

Approved by the MRO Board of Directors June 22, 2017

Sue Clarke, VP of Finance and Administration

Improving RELIABILITY and mitigating RISKS to the Bulk Power System



2018 Statutory Budget Overview

■ 2018 Budget

- Budget costs increase by \$500k or 4.5 percent (from \$11.2m to \$11.7m)
- Assessments increase by \$236k or 2.2 percent (from \$10.5m to \$10.7m)

■ Headcount increases by two in 2018

- From 43 FTEs to 45 in 2018

■ Budget process “resets” the working capital at the current level of 30 days for the start of the budget year

- Adjustment to achieve targeted operating and working capital reserves in 2018 will be a decrease of \$854,632



2017 – 2018 Budget Comparison

	2017 Budget	2017 Projection	Variance 2017 Projection v 2017 Budget Over(Under)	2018 Budget	Variance 2018 Budget v 2017 Budget Over(Under)	Budget %
Funding						
ERO Funding						
NERC Assessments	\$ 10,494,345	\$ 10,494,345	\$ -	\$ 10,730,104	\$ 235,759	2%
Penalty Sanctions	166,250	166,250	-	142,000	(24,250)	
Total Funding (A)	\$ 10,660,595	\$ 10,660,595		\$ 10,872,104	\$ 211,509	2%
Expenses						
Total Personnel Expenses	\$ 8,045,427	\$ 8,045,427		\$ 8,564,796	\$ 519,369	6%
Total Meeting Expenses	\$ 720,000	\$ 720,000	\$ -	\$ 749,380	\$ 29,380	4%
Total Operating Expenses	\$ 2,648,460	\$ 2,648,460	\$ -	\$ 2,704,390	\$ 55,930	2%
Total Expenses (B)	\$ 11,413,887	\$ 11,413,887		\$ 12,018,566	\$ 604,679	5%
Fixed Assets						
Depreciation	\$ (504,000)	\$ (504,000)	\$ -	\$ (578,000)	\$ (74,000)	
Computer & Software CapEx	173,670	173,670	-	286,170	112,500	
Furniture & Fixtures CapEx	-	-	-	-	-	
Equipment CapEx	-	-	-	-	-	
Leasehold Improvements	143,111	143,111	-	-	(143,111)	
Inc(Dec) in Fixed Assets (C)	(187,219)	(187,219)	-	(291,830)	(104,611)	56%
TOTAL BUDGET (=B + C)	\$ 11,226,668	\$ 11,226,668		\$ 11,726,736	\$ 500,068	4%
FTEs	43.00	43.00	-	45.00	2.00	-



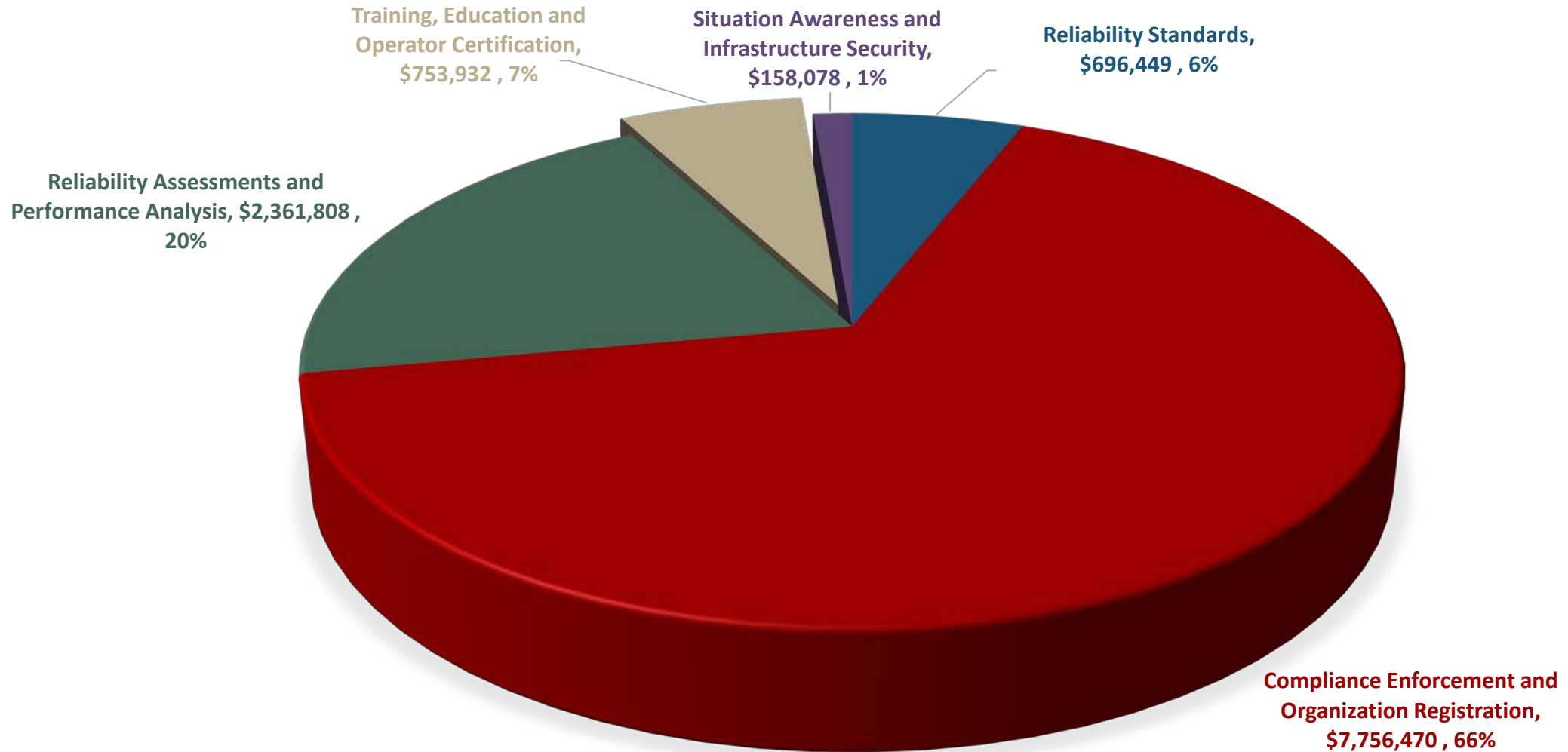
2017 – 2018 FTE Comparison

Total FTEs by Program Area	Budget 2017	Projection 2017	Direct FTEs 2018 Budget	Shared FTEs 2018 Budget ¹	Total FTEs 2018 Budget	Change from 2017 Budget
STATUTORY						
Operational Programs						
Reliability Standards and Organization and Certification	1.96	1.96	2.01		2.01	0.05
Compliance	9.77	9.77	10.06		10.06	0.29
Compliance Risk Assessment and Mitigation	8.39	8.39	9.97		9.97	1.58
Compliance Enforcement	2.95	2.95	2.99		2.99	0.04
Training and Education	1.35	1.35	2.10		2.10	0.75
Reliability Assessment and Performance Analysis	6.42	6.42	6.13		6.13	(0.29)
Situation Awareness and Infrastructure Security	0.49	0.49	0.33		0.33	(0.16)
Total FTEs Operational Programs	31.33	31.33	33.59	-	33.59	2.26
Administrative Programs						
Technical Committees and Member Forums	-	-	-		-	-
General and Administrative	2.91	2.91	2.85		2.85	(0.06)
Legal and Regulatory	0.95	0.95	0.92		0.92	(0.03)
Information Technology	3.92	3.92	4.02		4.02	0.10
Human Resources	-	-	-		-	-
Finance and Accounting	3.89	3.89	3.62		3.62	(0.27)
Total FTEs Administrative Programs	11.67	11.67	11.41	-	11.41	(0.26)
Total FTEs	43.00	43.00	45.00	-	45.00	2.00

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



2018 Budget by Functional Area





Key Factors/ Budget Assumptions

- **Responsibility to adequately fund functions under delegated authority**
- **Use of working capital reserves to manage short-term contingencies**
- **Penalties are never budgeted**
- **Assessments are required to be based on end-use load**
- **MRO budget assumptions**
 - Headcount increases by two in 2018
 - Salary increases average 3 percent
 - Benefit increase of 6 percent
 - Facilities used to host all outreach workshops



2018 Assessments

	CHANGE IN ASSESSMENTS				Factors Impacting the Change in Assessments					
	2017 Budget	2018 Budget	\$ Change	Change	Inc(Dec) in Penalties	Inc(Dec) in Reserves	Inc(Dec) in Budget			
MRO	\$10,494,345	\$10,730,104	\$235,759	2%	(\$24,250)	15%	(\$288,558)	51%	\$500,068	4%



Operating and Working Capital Reserves

- **Adjustment to achieve targeted operating and working capital reserves in 2018 will be a decrease of \$854,632**

- **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 board

- **FAC and board approved 30-day reserve**
 - 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



2018 – 2020 Projections

	2018 Budget	2019 Projection	\$ Change 19 v 18	% Change 19 v 18	2020 Projection	\$ Change 20 v 19	% Change 20 v 19
Total Personnel Expenses	\$ 8,564,796	\$ 8,821,740	\$ 256,944	3.0%	\$ 9,086,392	\$ 264,652	3.0%
Total Meeting Expenses	\$ 749,380	\$ 771,861	\$ 22,481	3.0%	\$ 795,017	\$ 23,156	3.0%
Total Operating Expenses	\$ 2,704,390	\$ 2,785,522	\$ 81,132	3.0%	\$ 2,869,087	\$ 83,566	3.0%
Total Direct Expenses	\$ 12,018,566	\$ 12,379,123	\$ 360,557	3.0%	\$ 12,750,497	\$ 371,374	3.0%
Indirect Expenses	\$ -	\$ -			\$ -	\$ -	
Other Non-Operating Expenses	\$ -	\$ -			\$ -	\$ -	
	\$ 12,018,566	\$ 12,379,123	\$ 360,557	3.0%	\$ 12,750,497	371,374	3.0%
FTEs	45.00	45.00	-		45.00	-	

Assumptions:

At this time, MRO does not anticipate significant changes in program areas for the next 3 years.

- FTEs remain flat
- Three percent escalation rate applied to expense categories
- Total budget increase of \$361k in 2019
- Total budget increase of \$371k in 2020
- Zero penalties budgeted



Questions

