



MIDWEST  
RELIABILITY  
ORGANIZATION

CLARITY ■ ASSURANCE ■ RESULTS

# NERC FAC Meeting

## 2017 Business Plan and Budget

Approved by the MRO Board of Directors June 30, 2016

July 21, 2016

Sue Clarke, VP of Finance and Administration

Improving RELIABILITY and mitigating RISKS to the Bulk Power  
System



# 2017 Statutory Budget Overview

- **Budget costs decrease by \$127,973 or (1.1%) (from \$11.4m to \$11.2m)**
- **Assessments decrease by \$397,217 or (3.6%) (from \$10.9m to \$10.5m)**
- **FTEs remain flat in 2017**
  - 43 FTEs reflects the nose count at year-end 2016
- **“Reset” 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 2017 will be a decrease of \$566,073



CHANGE IN ASSESSMENTS					Factors Impacting the Change in Assessments					
	2016 Budget	2017 Budget	\$ Change	% Change	Dec(Inc) in Penalties		Dec(Inc) in Reserves		Dec(Inc) in Budget	
<b>MRO</b>	\$10,891,562	\$10,494,345	(\$397,217)	-3.65%	(\$30,000)	-22.02%	(\$239,244)	-73.20%	(\$127,973)	-1.13%

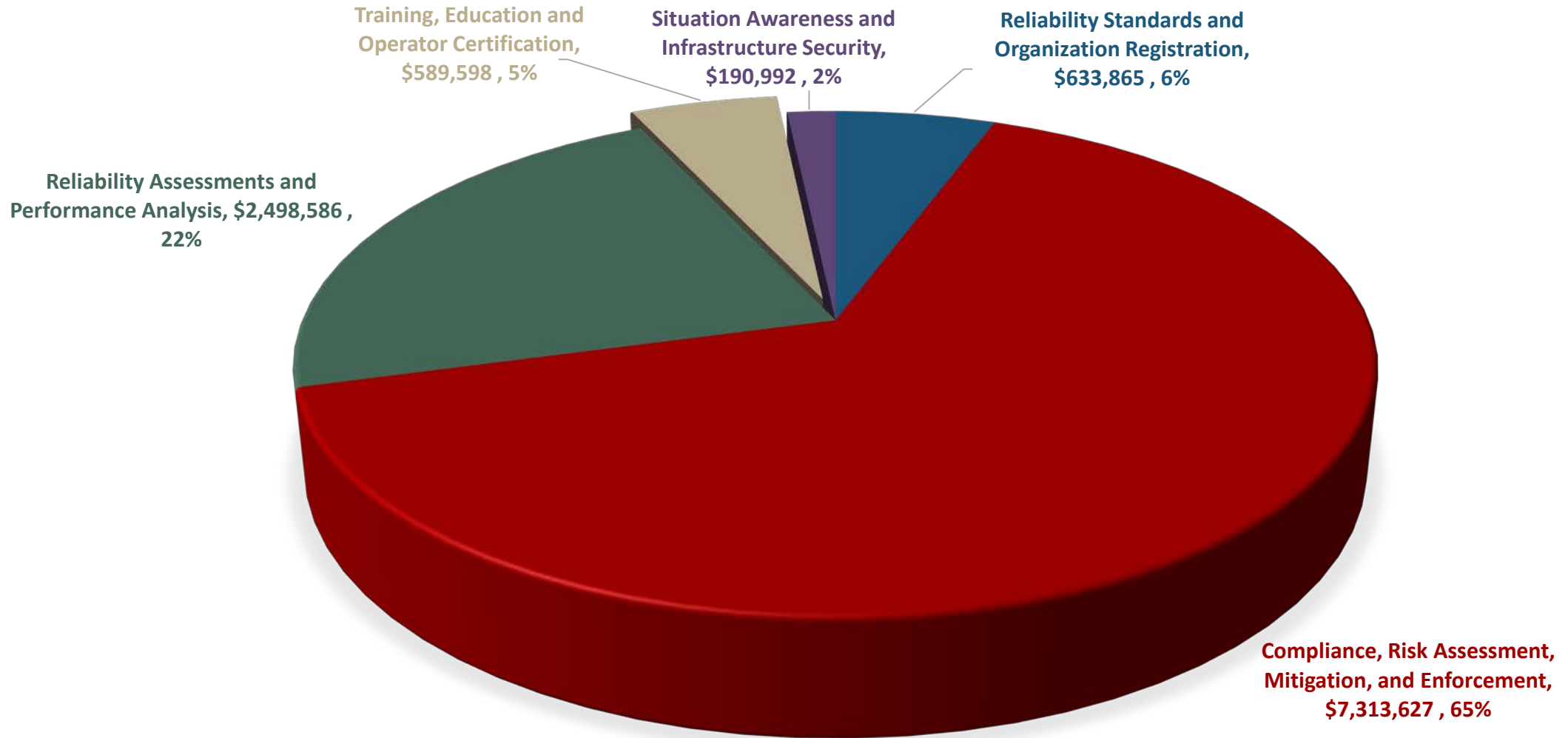


# Key Factors/Budget Assumptions

- **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**
  - Salary increases average 3%
  - Benefit increase of 7%
  - Facilities used to host all outreach workshops



# 2017 Budget by Functional Area





# 2016 - 2017 Budget Comparison

	2016 Budget	2016 Projection	Variance 2016 Projection v 2016 Budget Over(Under)	2017 Budget	Variance 2017 Budget v 2016 Budget Over(Under)	
					\$	%
<b>Funding</b>						
<b>ERO Funding</b>						
NERC Assessments	\$ 10,891,562	\$ 10,891,562	\$ -	\$ 10,494,345	\$ (397,217)	-3.6%
Penalty Sanctions	136,250	136,250	-	166,250	30,000	
<b>Total Funding (A)</b>	<b>\$ 11,027,812</b>	<b>\$ 11,027,812</b>		<b>\$ 10,660,595</b>	<b>\$ (367,217)</b>	<b>-3.3%</b>
<b>Expenses</b>						
<b>Total Personnel Expenses</b>	<b>\$ 7,721,466</b>	<b>\$ 7,721,466</b>		<b>\$ 8,045,427</b>	<b>\$ 323,961</b>	<b>4.2%</b>
<b>Total Meeting Expenses</b>	<b>\$ 766,730</b>	<b>\$ 766,730</b>	<b>\$ -</b>	<b>\$ 720,000</b>	<b>\$ (46,730)</b>	<b>-6.1%</b>
<b>Total Operating Expenses</b>	<b>\$ 2,562,667</b>	<b>\$ 2,562,667</b>	<b>\$ -</b>	<b>\$ 2,648,460</b>	<b>\$ 85,793</b>	<b>3.3%</b>
<b>Total Expenses (B)</b>	<b>\$ 11,050,863</b>	<b>\$ 11,050,863</b>		<b>\$ 11,413,887</b>	<b>\$ 363,024</b>	<b>3.3%</b>
<b>Fixed Assets</b>						
Depreciation	\$ (480,722)	\$ (480,722)	\$ -	\$ (504,000)	\$ (23,278)	
Computer & Software CapEx	317,500	317,500	-	173,670	(143,830)	
Leasehold Improvements	467,000	467,000	-	143,111	(323,889)	
<b>Inc(Dec) in Fixed Assets ( C )</b>	<b>303,778</b>	<b>303,778</b>	<b>-</b>	<b>(187,219)</b>	<b>(490,997)</b>	<b>-161.6%</b>
<b>TOTAL BUDGET (=B + C)</b>	<b>\$ 11,354,641</b>	<b>\$ 11,354,641</b>		<b>\$ 11,226,668</b>	<b>\$ (127,973)</b>	<b>-1.1%</b>
<b>FTEs</b>	43.00	43.00	-	43.00	(0.00)	-



# 2016 – 2017 FTE Comparison

Total FTEs by Program Area	Budget	Projection	Direct FTEs	Shared FTEs	Total FTEs	Change
	2016	2016	2017 Budget	2017 Budget <sup>1</sup>	2017 Budget	from 2016 Budget
STATUTORY						
<b>Operational Programs</b>						
Reliability Standards and Organization and Certification	2.11	2.11	1.96		1.96	(0.15)
Compliance	11.22	11.22	9.77		9.77	(1.45)
Compliance Risk Assessment and Mitigation	6.97	6.97	8.39		8.39	1.42
Compliance Enforcement	3.07	3.07	2.95		2.95	(0.12)
Training and Education	1.34	1.34	1.35		1.35	0.01
Reliability Assessment and Performance Analysis	7.52	7.52	6.42		6.42	(1.10)
Situation Awareness and Infrastructure Security	0.28	0.28	0.49		0.49	0.21
<b>Total FTEs Operational Programs</b>	<b>32.51</b>	<b>32.51</b>	<b>31.33</b>	<b>-</b>	<b>31.33</b>	<b>(1.18)</b>
<b>Administrative Programs</b>						
General and Administrative	2.61	2.61	2.91		2.91	0.30
Legal and Regulatory	0.87	0.87	0.95		0.95	0.08
Information Technology	3.26	3.26	3.92		3.92	0.66
Human Resources	-	-	-		-	-
Finance and Accounting	3.75	3.75	3.89		3.89	0.14
<b>Total FTEs Administrative Programs</b>	<b>10.49</b>	<b>10.49</b>	<b>11.67</b>	<b>-</b>	<b>11.67</b>	<b>1.18</b>
<b>Total FTEs</b>	<b>43.00</b>	<b>43.00</b>	<b>43.00</b>	<b>-</b>	<b>43.00</b>	<b>-</b>
<sup>1</sup> A shared FTE is defined as an employee who performs both Statutory and Non-Statutory functions.						



# Operating and Working Capital Reserves

- **Adjustment to achieve targeted operating and working capital reserves in 2017 will be a decrease of \$566,073**

- **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 of Directors

- **FAC and Board approved a 30-day reserve for 2017**

- 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





# 2017 – 2019 Projections

	2017 Budget	2018 Projection	\$ Change 18 v 17	% Change 18 v 17	2019 Projection	\$ Change 19 v 18	% Change 19 v 18
Total Personnel Expenses	\$ 8,045,427	\$ 8,286,790	\$ 241,363	3.0%	\$ 8,535,394	\$ 248,604	3.0%
Total Meeting Expenses	720,000	741,600	21,600	3.0%	763,848	22,248	3.0%
Total Operating Expenses	2,648,460	2,727,914	79,454	3.0%	2,809,751	81,837	3.0%
Total Direct Expenses	\$ 11,413,887	\$ 11,756,304	\$ 342,417	3.0%	\$ 12,108,993	\$ 352,689	3.0%
Indirect Expenses	\$ -	\$ -	\$ -		\$ -	\$ -	
Other Non-Operating Expenses	\$ -	\$ -	\$ -		\$ -	\$ -	
<b>Total Expenses (B)</b>	<b>\$ 11,413,887</b>	<b>\$ 11,756,304</b>	<b>\$ 342,417</b>	<b>3.0%</b>	<b>\$ 12,108,993</b>	<b>\$ 352,689</b>	<b>3.0%</b>
FTEs	43.00	43.00	-		43.00	-	

## 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 \$330k in 2017
- Total budget increase of \$340k in 2018
- Zero penalties budgeted

