

# Analysis of 2017 Total ERO Enterprise Budget

## Total ERO Enterprise Budget and Assessments

The proposed 2017 budget for the Total ERO Enterprise<sup>1</sup>, inclusive of expenses and fixed asset expenditures, is \$191.6M, which is an increase of \$4.9M (2.6%), from the 2016 budget. NERC, NPCC, RF, SERC, SPP RE, and TRE are proposing increases, ranging from 0.5% for NPCC to 10.2% for SERC and 3.6% for NERC. SERC's budget increase of \$1.6M, (10.2%), is driven primarily by: (i) increases in personnel expenses resulting from market adjustments to salaries expense and a 25% increase in employee insurance benefits; (ii) an increase in contract and consultant expenses in lieu of staff additions; and, (iii) an increase in fixed asset expenditures to support SERC's infrastructure. SPP RE's budget increase of \$770k (7.6%) is primarily due to increases in personnel expenses related to merit increases and an increase in shared staff from SPP, Inc., which also increases the indirect expense allocation from SPP, Inc. NERC's budget increase of \$2.4M (3.6%) is primarily due to increased personnel costs resulting from market adjustments to base salaries and fixed asset expenditures related to the E-ISAC portal enhancement project. TRE's budget increase of \$385k (3.3%) is due to rent and office cost increases associated with an added conference center, contracts and consultants cost for a compensation study, a custom Regional Entity salary survey, and an executive coaching program. RF's budget increase of \$542k (2.8%) is primarily due to personnel cost associated with salary and medical benefits increases.

**Total Budget**

Entity	2016 Budget	% of Total ERO Budget	2017 Budget	% of Total ERO Budget	Change 2017 v 2016	% Change
NERC	67,187	36.0%	69,602	36.3%	2,416	3.6%
FRCC	7,262	3.9%	7,178	3.7%	-84	-1.2%
MRO	11,355	6.1%	11,227	5.9%	-128	-1.1%
NPCC	15,073	8.1%	15,147	7.9%	74	0.5%
RF	19,367	10.4%	19,909	10.4%	542	2.8%
SERC	15,867	8.5%	17,482	9.1%	1,616	10.2%
SPP RE	10,096	5.4%	10,866	5.7%	770	7.6%
TRE	11,782	6.3%	12,167	6.4%	385	3.3%
WECC	27,385	14.7%	26,797	14.0%	-588	-2.1%
WIRAB	1,370	0.7%	1,229	0.6%	-141	-10.3%
	<b>186,743</b>	<b>100.0%</b>	<b>191,604</b>	<b>100.0%</b>	<b>4,861</b>	<b>2.6%</b>

<sup>1</sup> The ERO Enterprise consists of NERC, the eight Regional Entities and WIRAB.

2017 assessments for the total ERO Enterprise are increasing approximately \$4.4M (2.6%), with the average increase for load serving entities (LSEs) by region ranging from 1.0% to 10.0% (combined NERC and RE assessments). Total assessments for LSEs in the FRCC and MRO Regions are decreasing approximately 2.0%. The average increase for LSEs in the United States, Canada and Mexico is 2.9%, 0.3% and 4.5%, respectively.

REGION	CHANGE IN TOTAL ERO ASSESSMENTS BY REGION					CHANGE IN REGIONAL ENTITY & WIRAB ASSESSMENTS	CHANGE IN NERC ASSESSMENTS
	TOTAL		US	Canada	Mexico	TOTAL	TOTAL
	\$	%	\$	\$	\$	\$	\$
FRCC	(172,796)	-2.0%	(172,796)	-	-	(464,561)	291,765
MRO	(277,045)	-2.1%	(256,266)	(20,779)	-	(397,217)	120,172
NPCC	215,681	1.0%	152,822	62,859	-	(94,136)	309,817
RF	529,964	1.8%	529,964	-	-	193,672	336,292
SERC	2,645,553	10.0%	2,645,553	-	-	1,975,037	670,516
SPP RE	560,265	4.5%	560,265	-	-	465,802	94,463
TRE	367,800	2.5%	367,800	-	-	34,808	332,992
WECC	530,172	1.4%	503,830	811	25,531	(88,680)	618,852
<b>Total</b>	<b>4,399,594</b>		<b>4,331,172</b>	<b>42,891</b>	<b>25,531</b>	<b>1,624,725</b>	<b>2,774,869</b>
<b>% Change</b>	<b>2.6%</b>		<b>2.9%</b>	<b>0.3%</b>	<b>4.5%</b>	<b>1.5%</b>	<b>4.9%</b>

As detailed in the following table, four factors impact the change in assessments: (1) the decline in the amount of penalties that offset assessments results in an increase of \$1.9M; (2) the increase in the release of excess working capital and operating reserves decreases assessments \$2.9M; (3) the decrease in other funding results in an increase in assessments of \$455k; and (4) the increase in the total ERO Enterprise and WIRAB budgets results in an increase of \$4.9M.

	CHANGE IN ASSESSMENTS BY ENTITY		Factors Impacting the Change in assessments				
	2016 Budget (\$000's)	2017 Budget (\$000's)	Dec(Inc) in Penalties (\$000's)	Dec(Inc) in Release of Excess Reserves <sup>1</sup> (\$000's)	Dec(Inc) in Other Funding <sup>2</sup> (\$000's)	Budget Inc (Dec) (\$000's)	
NERC	\$ 57	\$ 60	\$ 339	\$ 234	\$ (213)	2,416	
FRCC	7	6	(14)	(391)	24	(84)	
MRO	11	10	(30)	(239)	-	(128)	
NPCC	14	14	67	(235)	-	74	
RF	19	20	89	(437)	-	542	
SERC	14	16	454	(189)	95	1,616	
SPP	9	9	(177)	(127)	-	770	
TRE	10	10	287	(636)	(1)	385	
WECC	25	25	924	(637)	551	(588)	
WIRAB	1	1	-	(197)	(0)	(141)	
	<b>\$ 167</b>	<b>\$ 171</b>	<b>1,939</b>	<b>(2,855)</b>	<b>\$ 455</b>	<b>4,861</b>	

<sup>1</sup>For NERC, this includes proceeds from capital financing activities

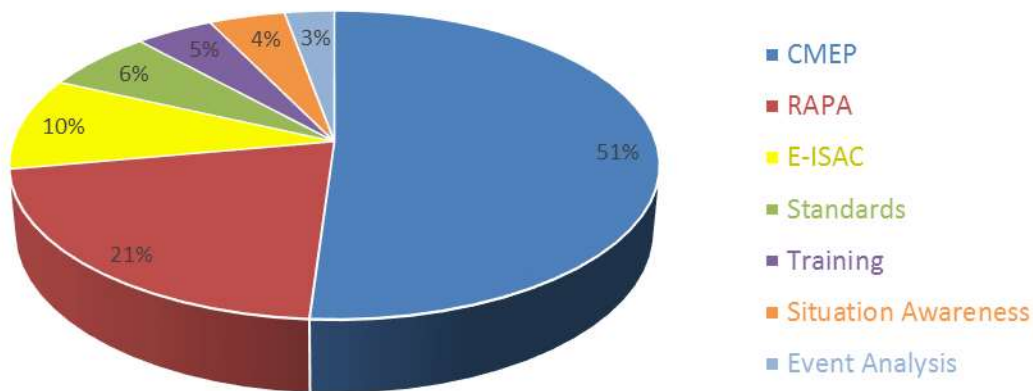
<sup>2</sup>For NERC, includes third-party funding for CRISP and system operator testing fees

**Total ERO Enterprise Budget by Program**

The total 2017 Budget for the ERO Enterprise is \$190.4M (excluding WIRAB), which is an increase of \$5M (2.7%) and reflects the ERO Enterprise’s allocation of resources and focus on the goals and objectives set forth in the Strategic Plan. The following charts, tables, and comments do not include the WIRAB budget because of the unique nature of their oversight and advisory role in the WECC Region.

The following chart reflects the percentage allocation of 2017 Total ERO Enterprise Budget by Program Area.

Total ERO Enterprise 2017 Budget By Program Area



The following tables show the change in the fully allocated budget from 2016 to 2017 for direct and indirect expenses and the expenditures for fixed assets by statutory program for NERC and the eight Regional Entities and the change in the number of full time equivalents (FTEs) by program area. <sup>2</sup>

<sup>2</sup> Excludes WIRAB.

Total ERO Enterprise 2016 vs 2017 Budget By Program Area											
Entity	2016 Budget	Standards	Compliance	RAPA	Training	Event Analysis	Situation Awareness	E-ISAC	2017 v 2016		
									2017 Budget	\$ Variance Over(Under)	% Variance
	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
NERC	67,187	(93)	(2,042)	2,526	(155)	90	341	1,748	69,602	2,416	3.6%
FRCC	7,262	45	149	(288)	24	-	(12)	-	7,178	(84)	-1.2%
MRO	11,355	(50)	16	(260)	101	-	65	-	11,227	(128)	-1.1%
NPCC	15,073	(465)	76	35	29	-	399	-	15,147	74	0.5%
RF	19,367	-	41	228	(31)	-	305	-	19,909	542	2.8%
SERC	15,867	0	821	952	(421)	-	264	-	17,482	1,616	10.2%
SPP	10,096	(33)	339	628	(166)	-	2	-	10,866	770	7.6%
TRE	11,782	(23)	362	73	(27)	-	-	-	12,167	385	3.3%
WECC	27,385	(214)	152	(188)	(349)	-	10	-	26,797	(588)	-2.1%
	185,373	(833)	(85)	3,704	(995)	90	1,373	1,748	190,375	5,002	2.7%

Total ERO Enterprise 2016 vs 2017 FTEs Budget By Program Area												
Entity	2016 Budget	Standards	Compliance	RAPA	Training	Event Analysis	Situation Awareness	E-ISAC	Administrative Services	2017 v 2016		
										2017 Budget	\$ Variance Over(Under)	% Variance
NERC	192.47	(0.82)	(5.53)	4.83	(0.33)	0.22	0.11	0.84	(1.90)	189.89	(2.58)	-1.3%
FRCC	30.59	0.07	0.75	(1.11)	0.02	-	(0.05)	-	(0.28)	29.99	(0.60)	-2.0%
MRO	43.00	(0.15)	(0.15)	(1.10)	0.01	-	0.21	-	1.18	43.00	-	0.0%
NPCC	36.86	(1.00)	1.00	-	-	-	1.00	-	(1.00)	36.86	-	0.0%
RF	72.20	-	(1.00)	-	-	-	1.00	-	0.10	72.30	0.10	0.1%
SERC	78.12	(0.28)	(2.61)	1.52	(0.53)	-	0.47	-	(1.69)	75.00	(3.12)	-4.0%
SPP	32.26	(0.02)	0.40	1.12	(0.50)	-	-	-	-	33.26	1.00	3.1%
TRE	60.00	(0.25)	0.50	(0.25)	-	-	-	-	-	60.00	-	0.0%
WECC	140.50	(1.00)	1.00	3.50	(0.60)	-	-	-	(3.40)	140.00	(0.50)	-0.4%
	686.00	(3.45)	(5.64)	8.51	(1.93)	0.22	2.74	0.84	(6.99)	680.30	(5.70)	-4.4%

**Standards**

The total ERO Enterprise budget for the Standards Program area is decreasing by \$833k over 2016. The number of FTEs is decreasing by 3.45. NERC and all the Regions except for FRCC and RF are reducing the number of FTEs in the Standards Program area in 2017. The reduction in NERC’s budget and FTEs reflects reorganization initiatives and increased efficiencies in connection with the transformation of NERC Reliability Standards to a steady state. The number of FTEs is decreasing by 1.0 in the NPCC and WECC budgets for the Standards Program, resulting in budget reductions in those Regions.

**Compliance Monitoring and Enforcement (CMEP)**

The total ERO Enterprise budget for CMEP is decreasing by \$85k over 2016 and the number of FTEs allocated to CMEP is decreasing 5.64, primarily due to NERC’s budget decrease of \$2.0M due to reduction of cost associated with implementation of risk-based compliance monitoring program. All the Regions budget an increase in CMEP area ranging from 0.2% to 7.5%. SERC’s budgeted increase of \$821k results from an increase in indirect expenses being allocated to the CMEP program. SPP RE’s increase of

\$339k is primarily due to the return of 0.50 FTEs from the Training & Education program specifically designated as CIP V5 outreach in the 2016 Business Plan & Budget and the enforcement staff's participation on the RAPA data groups. TRE's budget is increasing \$362k due to the reallocation of FTEs from Reliability Standards and the RAPA programs, increased travel expense for an auditor workshop, and contracts and consulting expenses associated with operating costs for webCDMS. MRO, NPCC, RF and WECC budgets for CMEP are relatively flat compared to 2016.

### **Reliability Assessments and Performance Analysis (RAPA)**

The Total ERO Enterprise budget for RAPA is increasing by \$3.7M over 2016. The number of FTEs in RAPA is increasing by 8.51. NERC's budget is increasing \$2.5M primarily due to the reallocation of 4.83 FTEs to address increased resource demands associated with ongoing reliability assessment, performance analysis, and system analysis activities. FRCC's budget is decreasing \$288k primarily due to the reallocation of FTEs and a shift in expenses to Member Services to align Eastern Interconnection Model development with NERC's expectations for MOD-032. MRO's budget for RAPA is decreasing by \$260k primarily due to the reallocation of 1.1 FTE out of RAPA to Risk Assessment and Mitigation. RF's budget for RAPA is increasing by \$228k due to an increase in personnel and meeting expenses. SERC's RAPA budget is increasing by \$952k due to: (i) the increase of 1.52 FTEs; and (ii) the increase in contract and consultant costs associated with Under Frequency Load Shedding study, which is performed every five years, and the Dynamic Reduction Study, which is performed every two years. SPP RE is increasing its RAPA budget by \$628k due to an increase by 1.0 FTE resulting from the increasing number and scope of the annual reliability assessments and special engineering studies being requested by NERC, and contract and consultant costs associated with the Engineering Model Data Validation project. WECC's budget is decreasing \$188k primarily due to a decrease in contract and consultant expenses associated with the completion of some RAS modeling enhancements and other one-time RAPA consulting projects budgeted in 2016, which included scenario revision and software enhancements. The decrease was partially offset by personnel expenses due to the addition of three positions reclassified from other areas.

### **Training, Education and Operator Certification**

The Total ERO Enterprise budget for Training, Education and Operator Certification (Training) is decreasing \$995k compared to 2016. The number of FTEs is decreasing by 1.93. NERC and all the Regions except FRCC, MRO and NPCC decreased the budgets for Training. FRCC increased budget by \$24k primarily due to increased meeting expenses associated with higher SOS facility and meeting costs. MRO's budget is increasing \$101k due to anticipated increases in executive involvement in workshops, newsletters, and speaker engagements, and the reclassification of costs associated with outreach to stakeholders and regulators that were previously budgeted in Legal and Regulatory. RF's \$33k budget decrease is primarily due to a reduction in personnel costs partially offset by an increase in meeting costs associated with the semiannual Reliability Workshops and an additional workshop for substation personnel. SERC's decrease of \$421k is primarily due to a decrease in consultants resulting from the one-time costs budgeted in 2016 to expand the Restoration Drill to include more simulation exercises; for system simulator development for the SERC system; and for contractor support to develop training materials, a qualification program, and to implement a systematic approach to training. SPP RE's budget is decreasing \$166k due to a decrease of 0.50 FTE's to support efforts of the CIP audit team in conducting CIP V5 outreach; SPP RE's post-CIP V5 implementation outreach will continue to be performed by CIP auditors with the FTEs accounted for in the Compliance Program Area. Texas RE's budget is decreasing by \$27k primarily due to reduction in personnel cost to more accurately reflect

actual salary costs based on experience. WECC's budget for Training is decreasing by \$349k due to the refinement of hotel cost assumptions for Compliance outreach events, resulting in lower meeting expenses, and due to the elimination the System Operator Training Program.

### **Event Analysis**

NERC budgets and reports the expenses of Event Analysis in a separate department. The Regional Entities primarily include the costs associated with event analysis in RAPA. The Event Analysis Program at NERC is staying relatively flat compare to 2016 budget with a slight increase in in the allocation of indirect expenses.

### **Situation Awareness and Infrastructure Security (SAIS)**

The total ERO Enterprise budget for SAIS is increasing \$1.4M. The 2017 budgets for SAIS for NERC and all the Regions except FRCC increase. FRCC's budget is decreasing \$12k, primarily due to the decrease of 0.05 FTEs in the SAIS program. MRO, NPCC, RF, and SERC budget increases are due to increases in FTEs. SPP RE, Texas RE and WECC have no significant changes to their SAIS budgets. The increase in NERC's budget is due to the increase in personnel expenses resulting from increases in salaries and benefits, higher contract and consulting expenses associated with the reliability-related tools used to support department activities and SAFNR.

### **E-ISAC<sup>3</sup>**

NERC budgets activities supporting the E-ISAC initiatives as a separate department and a similar function to the E-ISAC does not exist at the Regional Entity level. NERC's E-ISAC budget is increasing by \$1.7M primarily due to the increase in contract and consultant services for the GridEx IV exercise and enhancements to the user interface and underlying functionality of the E-ISAC portal. As detailed in the NERC budget, costs related to Cyber Risk Information Sharing Program (CRISP) and a portion of the portal enhancement are paid primarily by third-party participants.

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<sup>3</sup> The Regional Entities primarily budget and account for critical infrastructure resource support under the compliance function, which is also more in line with the regional entity responsibilities under their delegation agreements with NERC.

## Total ERO Enterprise Budget by Expense Category

The following table shows the changes in the budget from 2016 to 2017 by expense category for NERC, each Region and WIRAB.

2017 vs 2016 - Budget Variances by Expense Category

Entity	2016 Budget (\$000's)	2017 vs 2016 - Budget Variances by Expense Category						2017 Budget (\$000's)	2017 v 2016	
		Personnel	Meetings, Travel and Conferencing (\$000's)	Operating Expenses (\$000's)	Other Non- Operating Expenses (\$000's)	Indirect Expenses (\$000's)	Fixed Assets (\$000's)		\$ Variance Over(Under) (\$000's)	% Variance
NERC	67,187	1,358	(247)	(103)	(3)	-	1,411	69,602	2,416	3.6%
FRCC	7,262	(41)	2	(144)	-	-	100	7,178	(84)	-1.2%
MRO	11,355	324	(47)	86	-	-	(491)	11,227	(128)	-1.1%
NPCC	15,073	268	(79)	(111)	-	14	(18)	15,147	74	0.5%
RF	19,367	582	(43)	(88)	(2)	-	92	19,909	542	2.8%
SERC	15,867	816	65	451	-	-	284	17,482	1,616	10.2%
SPP	10,096	571	(113)	42	-	270	-	10,866	770	7.6%
TRE	11,782	84	9	404	-	-	(112)	12,167	385	3.3%
WECC	27,385	296	18	(1,519)	-	18	599	26,797	(588)	-2.1%
WIRAB	1,370	(74)	4	-	-	(71)	-	1,229	(141)	-10.3%
	<b>186,743</b>	<b>4,183</b>	<b>(432)</b>	<b>(982)</b>	<b>(6)</b>	<b>231</b>	<b>1,865</b>	<b>191,604</b>	<b>4,861</b>	<b>2.60%</b>

### Total Personnel Expenses

Total 2017 personnel expenses for the ERO Enterprise are increasing \$4.2M (3.4%) over 2016 primarily due to modest increases in salaries expense for existing staff and projected market increases in the cost of employee benefit plans.

### Total Meeting, Travel and Conferencing Expenses

The total ERO Enterprise budget for meetings, travel and conferencing expenses is decreasing by \$432k. NERC' budget is decreasing by \$247k primarily due to decrease in conferencing expenses resulting from a change in providers. SPP RE's \$113k decrease in travel expense is primarily due to the number of CIP audits and the completion of CIP V5 outreach, as well as a reduction in funds allocated for reimbursing travel expenses to participate in standard drafting teams. NPCC's \$78k budget decrease is primarily due to continued efforts to limit the number of attendees to offsite meetings and hold more meetings on-site and via webinar. SERC's \$65k increase is primarily related to additional planned meetings and additional travel by remote employees to SERC's office. RF's budget decreased by \$43k based on historical averages along with future travel expectations and assumptions.

### Operating Expenses

Total operating expenses for the ERO Enterprise are decreasing by \$982k, primarily due to a reduction in depreciation expense. FRCC's budget is decreasing \$144k primarily due to lower contract and consultant expenses associated with a shift in expenses to Member Services to align Eastern Interconnection Model development with NERC's expectations for MOD-032, using internal staff for a portion of the training seminars, and a reduction in costs for SERC to perform compliance enforcement activities in 2017. NPCC's budget is decreasing by \$111k due to ongoing effort to decrease the use of consultants and contractors. RF's budget is decreasing by \$88k primarily due to a reduction in contracts and consultants

and professional services expenses. Texas RE's budget is increasing by \$404k primarily due to increased rent associated with the additional conference center space, increased contract and consultant expenses for webCDMS, and increased office costs associated with the new conference center as well as cost of licenses and maintenance agreements for ongoing and new software programs. SERC's budget is increasing \$451k primarily due to the increase in contract and consultant costs associated with studies and surveys that are not performed every year, additional modeling services, support for regional analysis associated with environmental and reliability risk initiatives, and an increase in contract support in lieu of adding staff.

#### **Fixed Assets (excluding the reversal of depreciation)<sup>4</sup>**

The ERO Enterprise total fixed asset (capital) budget, including the reversal of depreciation, is increasing \$1.9M, as reflected in the table above. As reflected in the following table, the fixed asset budget for the Total ERO Enterprise, excluding the reversal of depreciation, is increasing \$210k (3.7%). NERC's 2017 budget is increasing \$461k due to funding requirements associated with a multiyear initiative to develop and implement software applications in support of common NERC and Regional Entity operations, and enhancements to the E-ISAC portal. FRCC's budget is increasing \$71.3k primarily due to increased compliance portal software enhancements and replacement of conference room tables. RF's budget is increasing due to an upgrade of the phone system, replacement of scanner/copier equipment, purchase of an analysis tool that will be used to quantify threats, and due to leasehold improvements. SERC's \$36k budget increase is for additional servers and other equipment for the Protected Entity Information (PEI) system and infrastructure requirements. WECC's \$18k increase is primarily due to scheduled server equipment refresh. MRO's \$468k budget decrease is due to the one-time facility expansion in 2016.

<b>Increase(Decrease) in Fixed Assets - excluding Depreciation</b>				
<b>Entity</b>	<b>2017 Budget</b>	<b>2016 Budget</b>	<b>Change</b>	<b>% Change</b>
<b>NERC</b>	\$ 4,372,000	\$3,911,000	\$ 461,000	11.8%
<b>FRCC</b>	187,894	116,627	71,267	61.1%
<b>MRO</b>	316,781	784,500	(467,719)	-59.6%
<b>NPCC</b>	276,000	276,000	-	0.0%
<b>RF</b>	269,500	173,500	96,000	55.3%
<b>SERC</b>	243,000	207,311	35,689	17.2%
<b>SPP RE</b>	-	-	-	-
<b>TRE</b>	40,000	44,000	(4,000)	-9.1%
<b>WECC</b>	118,550	100,361	18,189	18.1%
<b>WIRAB</b>	-	-	-	-
	<b>\$ 5,823,725</b>	<b>\$5,613,299</b>	<b>\$ 210,426</b>	<b>3.7%</b>

## **Total ERO Enterprise Working Capital and Operating Reserves**

<sup>4</sup> Depreciation is reversed from fixed assets to eliminate the funding requirement that would otherwise be created due to the inclusion of depreciation expense in operating expenses.



The 2017 ending Working Capital and Operating Reserve budget for the Total ERO Enterprise is \$24.2M, based upon a projected beginning balance of \$31.4M and the planned reduction of \$7.2M. As reported in the Total ERO Enterprise Second Quarter Variance Report, the projected beginning balances for 2017 are closely aligned with the projected 2016 year-end balances included in the second quarter 2016 variance reports.

**Working Capital and Operating Reserves - 2017 Business Plan and Budget**

Entity	2017 Beginning Balance	2017 Adjustment	Projected 2017 Ending Balance	Stated Policy
NERC	\$ 7,828,700	\$ (69,598)	\$ 7,759,102	As detailed in Exhibit C of NERC's 2017 Budget
FRCC	1,425,113	(826,959)	598,154	One (1) month of the total annual budget
MRO	1,488,815	(566,075)	922,740	30-day cash reserve for 2017
NPCC	3,897,079	(827,994)	3,069,085	Range of 16.67% and 33.33% of Budget
RF	3,246,489	152,868	3,399,357	10% or a minimum \$1M in operating reserves, plus additional working capital to manage cash flow and stabilize assessments
SERC	2,020,855	(1,020,855)	1,000,000	Up to 10% of budgeted annual costs, plus temporary increase in income greater than two months of statutory operating costs
SPP RE	1,403,208	(1,403,208)	-	None required; rely on SPP, Inc.
TRE	4,702,756	(2,520,000)	2,182,756	Operating reserve of approximately \$2M
WECC	4,990,113	207,448	5,197,561	Working Capital Reserve balance equal to one to two months of Personnel and Operating Expenses
WIRAB	426,978	(326,978)	100,000	Working Capital Reserve of \$100,000
	<b>\$ 31,430,106</b>	<b>\$ (7,201,351)</b>	<b>\$ 24,228,755</b>	

Funds in excess of projected starting working capital and operating reserve balances will be subject to applicable NERC and Regional Entity controls over the expenditure of such funds and will be taken into account in developing 2018 funding requirements. The next table summarizes each entity's planned use of any increase or decrease in projected reserves.

	<b>Uses of Reserves</b>
<b>NERC</b>	No change in 2016 projection included in the 2017 budget versus the Q2 2016 Variance Report. Establishing an assessment stabilization reserve in 2017 and increasing the operating contingency reserve based on the range established by the Working Capital and Operating Reserve Policy
<b>FRCC</b>	Does not have an assessment stabilization reserve. Excess reserves generated above the projection included in the budget would be used to increase reserve balances or reduce assessments as approved by the FRCC Board
<b>MRO</b>	The 2017 budget was not adjusted based upon the updated projection in the Q2 2016 Variance Report. Any amounts greater, or less, than the projected working capital and operating reserve balances will be used to reduce, or increase, 2018 assessments.
<b>NPCC</b>	Minor change in 2016 projection included in the 2017 budget versus the Q2 2016 Variance Report. NPCC's targeted reserve balance is a range of 16.67% to 33.33% of total budget, which allows for assessment stabilization. If NPCC were to exceed the range, the excess would reduce assessments in a subsequent budget year.
<b>RF</b>	The 2017 budget was not adjusted based upon the updated projection in the Q2 2016 Variance Report. The higher balance will be used to increase the assessment stabilization reserve, reduce the 2018 assessments, or a combination of both.
<b>SERC</b>	The 2017 budget was not adjusted based upon the updated projection in the Q2 2016 Variance Report. SERC has established an assessment stabilization reserve. Reserves in excess of two months operating costs are considered a temporary increase in operating reserves under SERC's Working Capital and Operating Reserve Policy and may be used to offset significant unexpected contingencies in the current year or as an offset to future budget periods.
<b>SPP</b>	The 2017 budget was not adjusted based upon the updated projection in the Q2 2016 Variance Report. SPP intends to use any additional reserves to temper 2018 assessments.
<b>TRE</b>	The 2017 budget was not adjusted based upon the updated projection in the Q2 2016 Variance Report. Texas RE intends to use any additional reserves to reduce 2018 assessments.
<b>WECC</b>	If WECC adds funds to reserves as a result of final 2016 year-end results, those monies will be used for future assessment stabilization.

**Consolidated ERO**  
**Statement of Activities, Fixed Assets and Change in Working Capital**  
**2017 Budget v 2016 Budget**

	2017 Budget	2016 Budget	\$ Change	% Change
<b>Funding</b>				
<b>ERO Funding</b>				
ERO Assessments	\$ 170,907,781	\$ 166,508,186	\$ 4,399,594	
Penalty Sanctions	3,694,500	5,633,700	(1,939,200)	
<b>Total ERO Funding</b>	<b>\$ 174,602,281</b>	<b>\$ 172,141,886</b>	<b>\$ 2,460,394</b>	<b>1.4%</b>
Federal Grants	\$ 6,990,447	\$ 6,831,210	159,237	
Membership Dues	-	-	-	
Testing Fees	1,921,900	1,867,972	53,928	
Services & Software	50,000	74,000	(24,000)	
Workshops	1,149,901	1,725,575	(575,674)	
Interest	81,650	89,550	(7,900)	
Miscellaneous	383,500	444,000	(60,500)	
<b>Total Funding (A)</b>	<b>\$ 185,179,678</b>	<b>\$ 183,174,193</b>	<b>\$ 2,005,486</b>	<b>1.1%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 94,929,512	\$ 91,731,611	\$ 3,197,901	
Payroll Taxes	6,135,923	6,059,931	75,992	
Benefits	13,110,453	12,398,925	711,528	
Retirement Costs	11,299,190	11,101,344	197,847	
<b>Total Personnel Expenses</b>	<b>\$ 125,475,079</b>	<b>\$ 121,291,812</b>	<b>\$ 4,183,268</b>	<b>3.4%</b>
<b>Meeting Expenses</b>				
Meetings	\$ 3,080,818	\$ 3,122,897	\$ (42,079)	
Travel	7,450,740	7,626,213	(175,473)	
Conference Calls	342,372	556,548	(214,176)	
<b>Total Meeting Expenses</b>	<b>\$ 10,873,930</b>	<b>\$ 11,305,658</b>	<b>\$ (431,728)</b>	<b>-3.8%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 22,996,228	\$ 23,176,713	\$ (180,485)	
Office Rent	7,847,633	7,552,972	294,661	
Office Costs	9,060,314	8,465,703	594,611	
Professional Services	6,140,028	6,130,320	9,708	
Miscellaneous	146,122	191,585	(45,463)	
Depreciation	3,814,603	5,469,656	(1,655,053)	
<b>Total Operating Expenses</b>	<b>\$ 50,004,928</b>	<b>\$ 50,986,948</b>	<b>\$ (982,020)</b>	<b>-1.9%</b>
<b>Total Direct Expenses</b>	<b>\$ 186,353,937</b>	<b>\$ 183,584,418</b>	<b>\$ 2,769,519</b>	<b>1.5%</b>
<b>Indirect Expenses</b>	<b>\$ 3,134,086</b>	<b>\$ 2,902,605</b>	<b>\$ 231,481</b>	<b>8.0%</b>
<b>Other Non-Operating Expenses</b>	<b>\$ 106,725</b>	<b>\$ 112,483</b>	<b>\$ (5,758)</b>	<b>-5.1%</b>
<b>Total Expenses (B)</b>	<b>\$ 189,594,748</b>	<b>\$ 186,599,506</b>	<b>\$ 2,995,242</b>	<b>1.6%</b>
<b>Change in Assets</b>	<b>\$ (4,415,070)</b>	<b>\$ (3,425,313)</b>	<b>\$ (792,505)</b>	<b>23.1%</b>
<b>Fixed Assets</b>				
Depreciation	(3,814,603)	(5,469,656)	1,655,053	
Computer & Software CapEx	3,604,064	3,596,938	7,126	
Furniture & Fixtures CapEx	-	40,000	(40,000)	
Equipment CapEx	2,020,000	1,494,000	526,000	
Leasehold Improvements	193,111	467,000	(273,889)	
Allocation of Fixed Assets	6,550	15,361	(8,811)	
<b>Inc(Dec) in Fixed Assets (C)</b>	<b>\$ 2,009,122</b>	<b>\$ 143,643</b>	<b>\$ 1,865,479</b>	<b>1298.7%</b>
<b>TOTAL BUDGET (=B + C)</b>	<b>\$ 191,603,870</b>	<b>\$ 186,743,149</b>	<b>\$ 4,860,721</b>	<b>2.6%</b>
<b>CHANGE IN WORKING CAPITAL (=A-B-C)</b>	<b>\$ (6,424,192)</b>	<b>\$ (3,568,957)</b>	<b>\$ (2,855,236)</b>	<b>80.0%</b>
<b>FTEs</b>	<b>685.8</b>	<b>691.5</b>	<b>(5.7)</b>	<b>-0.8%</b>

## 2018 and 2019 Preliminary Projections

The 2018 total budget for the ERO Enterprise (NERC, Regional Entities and WIRAB) is projected to increase approximately \$4.7M (2.5%) over the 2017 Total Budget. NERC and the Regional Entities are projecting the 2019 Total budget to increase approximately \$5.5M (2.8%) over the 2018 Total Budget. Total FTEs projected for 2018 and 2019 remain relatively flat compared to 2017. Much of the proposed increase across the ERO Enterprise is due to ongoing personnel increases to hire, train, and retain ongoing staff levels. NERC and Regional Entity management will continue to review and refine these projections as part of the 2018 business plan and budget cycle with the continued objective of maximizing the efficiency and effectiveness of overall enterprise operations and mitigating significant budget increases where possible.

Total Budget							
Entity	2017	2018	2018 v		2019	2019 v	
	Budget	Budget	2017	%	Budget	2018	%
	(\$000's)	(\$000's)	(\$000's)	Change	(\$000's)	(\$000's)	Change
NERC	69,602	71,322	1,719	2.5%	73,113	1,791	2.5%
FRCC	7,178	7,569	392	5.5%	7,672	103	1.4%
MRO	11,227	11,416	189	1.7%	11,759	342	3.0%
NPCC	15,147	15,499	352	2.3%	15,864	365	2.4%
RF	19,909	20,591	682	3.4%	21,318	727	3.5%
SERC	17,482	18,048	566	3.2%	18,818	769	4.3%
SPP RE	10,866	11,191	326	3.0%	11,527	336	3.0%
TRE	12,167	12,654	487	4.0%	13,160	506	4.0%
WECC	26,797	26,754	-43	-0.2%	27,287	534	2.0%
WIRAB	1,229	1,270	41	3.3%	1,322	52	4.1%
	<b>191,604</b>	<b>196,315</b>	<b>4,711</b>	<b>2.5%</b>	<b>201,840</b>	<b>5,525</b>	<b>2.8%</b>

Total FTEs							
Entity	2017	2018	Change		2019	Change	
			2018 v 2017	%		2019 v 2018	% Change
NERC	189.88	189.88	-	0.0%	189.88	-	0.0%
FRCC	29.99	29.99	-	0.0%	29.92	(0.07)	-0.2%
MRO	43.00	43.00	-	0.0%	43.00	-	0.0%
NPCC	36.86	36.86	-	0.0%	36.86	-	0.0%
RF	72.30	72.30	-	0.0%	72.30	-	0.0%
SERC	75.00	75.00	-	0.0%	75.00	-	0.0%
SPP RE	33.25	33.25	-	0.0%	33.25	-	0.0%
TRE	60.00	60.00	-	0.0%	60.00	-	0.0%
WECC	140.00	140.00	-	0.0%	140.00	-	0.0%
	<b>680.28</b>	<b>680.28</b>	<b>-</b>	<b>0.0%</b>	<b>680.21</b>	<b>(0.07)</b>	<b>0.0%</b>