

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

NERC 2011 Business Plan and Budget Webinar

April 20, 2010

to ensure
the reliability of the
bulk power system

Outline of the NERC 2011 Business Plan and Budget Webinar

- **Introduction and Overview of Goals, Challenges, and Key Deliverables** — Gerry Cauley, NERC president and CEO
- **2011 Business Plan and Budget Background and Projections** — Mike Walker, NERC chief financial and administrative officer
- **Review of 2011 Business Plan and Budget Schedule** — Mike Walker, NERC chief financial and administrative officer
- **Questions**

Key Goals

- Developing clear, mandatory reliability standards
- Facilitating a learning environment in the industry
- Being a risk-informed organization
- Promoting a strong culture of performance excellence, and compliance
- Being a strong enforcement authority
- Building an ERO-wide enterprise
- Improving transparency, consistency, quality, and timeliness
- Leveraging technology and information systems
- Building constructive partnerships between industry and government

Significant Challenges

- Meeting regulatory mandates
- Addressing improvements identified in NERC's initial three-year self-assessment, as well as the recommendations identified in the external audit of the compliance program
- Addressing bulk power system critical infrastructure protection issues
- Achieving efficiencies
- Recruiting and retaining qualified personnel

Key Deliverables

- **Reliability Standards**
 - Transition to results-based standards
 - Streamline standards development procedure
 - Reestablish trust and foster industry leadership in standards process
 - Develop needed new standards
 - Identify areas for improvement to existing standards
 - Implement educational and technical assistance programs

- **Compliance**
 - Monitor and enforce compliance with standards
 - Improve quality and timeliness of compliance procedures
 - Improve transparency and consistency
 - Develop and apply risk-based approaches to audits, self certifications, and spot checks
 - Promote a strong culture of compliance
 - Align NERC and Regional Entity programs

Key Deliverables (cont'd.)

■ **Event Analysis**

- Improve event analysis using root case and risk-based methods
- Ensure analyses are conducted and reviewed at the right level
- Develop clear bright line event reporting and classification criteria
- Ensure timely communications of lessons learned to the industry
- Develop recommendations tracking capability

■ **Cyber Security**

- Develop policy goals and scope for cyber security protection
- Facilitate development of proactive and effective industry action plan
- Establish minimum bright line criteria for bulk power asset identification
- Improve communications with and between industry and government, as well as the public

Key Deliverables (cont'd.)

- **Information Technology**
 - Be a technology leader
 - Facilitate the integration of ERO and Regional Entity systems used for compliance and other ERO functions, such as alerts and recommendations tracking

- **Reliability Assessments**
 - Provide annual, seasonal, and special reliability assessments
 - Improve efficiency of data collection and analysis
 - Conduct thorough data validations
 - Develop and demonstrate system performance metrics to analyze reliability improvements and benefits, as well as risk/severity based methods

- **Situation Awareness**
 - Develop capability to include near real-time information and communications protocols
 - Improve lessons learned capabilities
 - Provide meaningful reliability issues tracking

Key Deliverables (cont'd.)

- **Critical Infrastructure Protection**
 - Facilitate and support industry compliance efforts
 - Effectively respond to security threats and alerts
- **Other**
 - Actively support staff development
 - Align committee structure and activities to better leverage industry expertise
 - Continue to improve as an ERO
 - Maintain effective controls and management of resources

Overview of Organization of the 2011 Business Plan and Budget

- About NERC
- Introduction and Executive Summary
- Reliability Standards Program
- Compliance Monitoring and Enforcement and Organization Registration and Certification Program
- Reliability Assessment and Performance Analysis Program
- Training, Education, and Operator Certification Program
- Situation Awareness and Infrastructure Security Program
- Administrative Services
 - Technical Committees and Members' Forums
 - General and Administrative
 - Legal and Regulatory
 - Information Technology
 - Human Resources
 - Finance and Accounting

Business Planning Framework

- Development of Common Assumptions with Regional Entities
- Review and Realignment of Existing NERC Staffing in Light of Key Goals, Significant Challenges, and Key Deliverables
- Projection of 2011 Cost Increases Associated With Existing Operations
- Identification of 2011 Incremental Resource Requirements and Costs

Increases in Costs of Existing Operations

2010 Base Operating Budget		2011 projected increase in base operating budget
\$ 16,347,156	Salaries	\$ 1,820,377
1,035,890	Payroll Taxes	53,546
2,267,910	Benefits	538,317
2,262,845	Retirement	366,391
\$ 21,913,801	Total Personnel Expense	\$ 2,778,631 7.2%
\$ 1,086,200	Meetings	\$ (324,700)
2,230,803	Travel	84,817
190,000	Conference Calls	37,800
\$ 3,507,003	Total Meeting Expense	\$ (202,083) -0.5%
\$ 5,122,400	Consultants	\$ (1,940,900)
1,752,012	Contracts	(200,670)
398,320	NERCnet Contract	(98,226)
1,646,625	IDC Contract	234,955
\$ 8,919,357	Contracts and Consultants	\$ (2,004,841) -5.2%
\$ 967,134	Office Rent	\$ 53,855
1,511,477	Office Costs	398,619
1,465,000	Professional Services	480,000
4,000	Miscellaneous	-
(300,000)	Overhead Allocation to TOOF	300,000
(750,000)	Efficiency Savings	750,000
\$ 2,897,611	Operating Expenses	\$ 1,982,474 5.2%
\$ 1,122,785	Computer & Software CapEx	\$ (327,585)
	Network Equipment	40,800
100,000	Furniture & Fixtures	(100,000)
\$ 1,222,785	Capital Expenditures	\$ (386,785) -1.0%
\$ 38,460,557	Total Base Operating Budget	\$ 2,167,396 5.6%
\$ 1,627,808	Unallocated costs*	\$ -
469,043	Working Capital Reserve Funding	
\$ 40,557,408	TOTAL FUNDING REQUIREMENT	\$ 2,167,396

*Expenses of the Transmission Owners and Operators Forum funded through membership dues and G&A expenses offset by interest income.

2011 Incremental Resource Requirements and Costs

2010 Base Operating Budget		Projected increase in staffing and programs
\$ 16,347,156	Salaries	\$ 2,416,075
1,035,890	Payroll Taxes	182,522
2,267,910	Benefits	394,961
2,262,845	Retirement	307,219
\$ 21,913,801	Total Personnel Expense	\$ 3,300,777 8.6%
\$ 1,086,200	Meetings	\$ 100,000
2,230,803	Travel	283,250
190,000	Conference Calls	-
\$ 3,507,003	Total Meeting Expense	\$ 383,250 1.0%
\$ 5,122,400	Consultants	\$ 3,146,000
1,752,012	Contracts	128,200
398,320	NERCnet Contract	
1,646,625	IDC Contract	
\$ 8,919,357	Contracts and Consultants	\$ 3,274,200 8.5%
\$ 967,134	Office Rent	\$ -
1,511,477	Office Costs	491,198
1,465,000	Professional Services	
4,000	Miscellaneous	
(300,000)	Overhead Allocation to TOOF	
(750,000)	Efficiency Savings	
\$ 2,897,611	Operating Expenses	\$ 491,198 1.3%
\$ 1,122,785	Computer & Software CapEx	\$ -
	Network Equipment	
100,000	Furniture & Fixtures	
\$ 1,222,785	Capital Expenditures	\$ - 0.0%
\$ 38,460,557	Total Base Operating Budget	\$ 7,449,425 19.4%
\$ 1,627,808	Unallocated costs*	\$ -
	Reductions in Other Sources of Funding	
469,043	Working Capital Reserve Funding	3,530,954
	Penalty Sanctions	
\$ 40,557,408	TOTAL FUNDING REQUIREMENT	\$ 10,980,379

*Expenses of the Transmission Owners and Operators Forum funded through membership dues and G&A expenses offset by interest income.

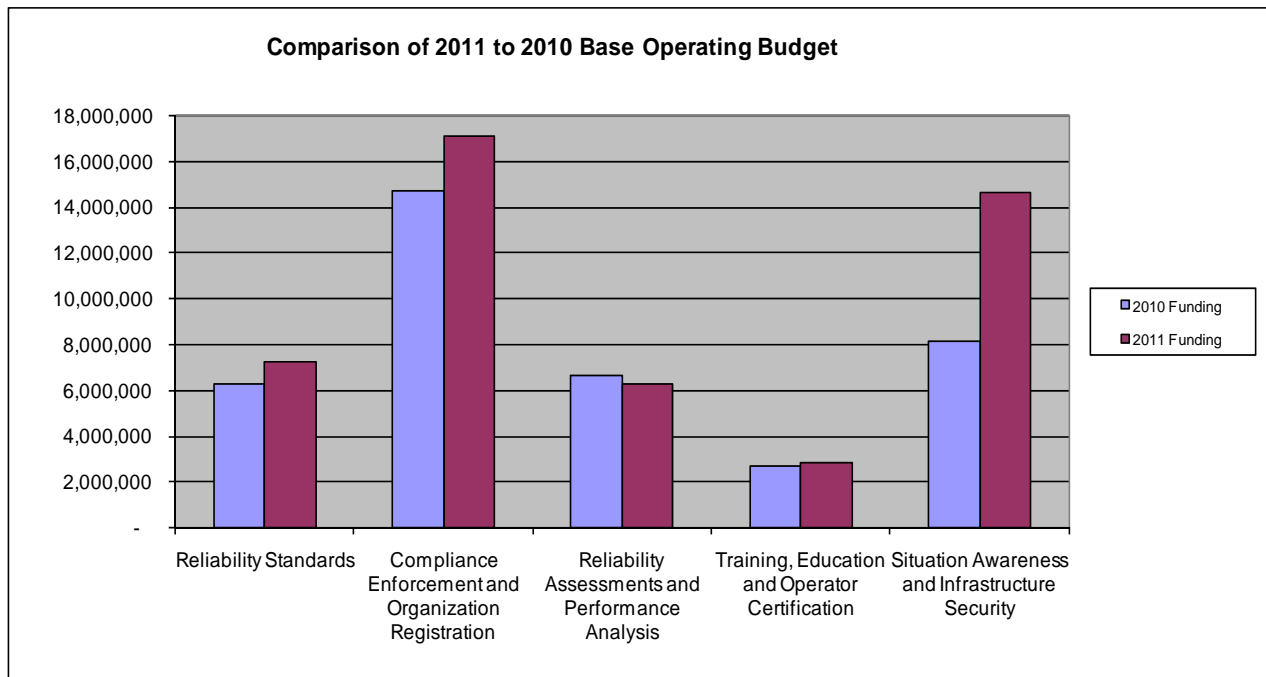
Total Projected 2011 Budget Increase

2010 Base Operating Budget		Total Projected 2011 Increase over 2010 Budgeted Expenses
\$ 16,347,156	Salaries	\$ 4,236,452
1,035,890	Payroll Taxes	236,068
2,267,910	Benefits	933,278
2,262,845	Retirement	673,610
\$ 21,913,801	Total Personnel Expense	\$ 6,079,408 15.8%
\$ 1,086,200	Meetings	\$ (224,700)
2,230,803	Travel	368,067
190,000	Conference Calls	37,800
\$ 3,507,003	Total Meeting Expense	\$ 181,167 0.5%
\$ 5,122,400	Consultants	\$ 1,205,100
1,752,012	Contracts	(72,470)
398,320	NERCnet Contract	(98,226)
1,646,625	IDC Contract	234,955
\$ 8,919,357	Contracts and Consultants	\$ 1,269,359 3.3%
\$ 967,134	Office Rent	\$ 53,855
1,511,477	Office Costs	889,817
1,465,000	Professional Services	480,000
4,000	Miscellaneous	-
(300,000)	Overhead Allocation to TOOF	300,000
(750,000)	Efficiency Savings	750,000
\$ 2,897,611	Operating Expenses	\$ 2,473,672 6.4%
\$ 1,122,785	Computer & Software CapEx	\$ (327,585)
100,000	Network Equipment	40,800
\$ 1,222,785	Furniture & Fixtures	(100,000)
\$ 38,460,557	Capital Expenditures	\$ (386,785) -1.0%
	Total Base Operating Budget	\$ 9,616,821 25.0%
\$ 1,627,808	Unallocated costs*	\$ -
469,043	Reductions in Other Sources of Funding	23,533
	Working Capital Reserve Funding	3,530,954
	Penalty Sanctions	(10,175,000)
\$ 40,557,408	TOTAL FUNDING REQUIREMENT	\$ 2,996,308 7.8%

*Expenses of the Transmission Owners and Operators Forum funded through membership dues and G&A expenses offset by interest income.

Total Projected 2011 Budget Increase by Program Area

Base Operating Budget	Budget 2010	Projection 2010	Budget 2011	Variance 2011 Budget v 2010 Budget	Variance %
Reliability Standards	6,248,620	6,686,060	7,283,437	1,034,817	16.6%
Compliance Enforcement and Organization Registration	14,717,513	14,311,554	17,073,165	2,355,652	16.0%
Reliability Assessments and Performance Analysis	6,631,859	5,251,500	6,254,260	(377,599)	-5.7%
Training, Education and Operator Certification	2,713,631	2,398,456	2,845,711	132,080	4.9%
Situation Awareness and Infrastructure Security	8,148,935	10,550,878	14,620,804	6,471,869	79.4%
	38,460,557	39,198,448	48,077,377	9,616,820	25.0%



Total Projected 2011 Staffing by Program Area

Total FTE's by Program Area	Budget 2010	Projection 2010	Direct FTEs 2011 Budget	Shared FTEs ¹ 2011 Budget	Total FTEs 2011 Budget	Change from 2010 Budget
STATUTORY						
Operational Programs						
Reliability Standards	17.50	16.50	19.75		19.75	2.25
Compliance and Organization Registration and Certification	45.75	40.00	46.75		46.75	1.00
Training and Education	6.75	5.00	6.25		6.25	(0.50)
Reliability Assessment and Performance Analysis	16.00	11.75	13.75		13.75	(2.25)
Situation Awareness and Infrastructure Security	9.75	19.50	26.50		26.50	16.75
Total FTEs Operational Programs	95.75	92.75	113.00	-	113.00	17.25
Administrative Programs						
Technical Committees and Member Forums	5.00	-	-		-	(5.00)
General & Administrative	4.00	5.75	5.00		5.00	1.00
Legal and Regulatory	7.00	7.75	9.00		9.00	2.00
Information Technology	7.75	7.75	10.75		10.75	3.00
Human Resources	3.50	4.50	5.50		5.50	2.00
Finance and Accounting	8.50	6.50	6.50		6.50	(2.00)
Total FTEs Administrative Programs	35.75	32.25	36.75	-	36.75	1.00
Total FTEs	131.50	125.00	149.75	-	149.75	18.25

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

Note, this chart reflects:

1. A five FTE reduction in 2010 Projected FTEs under Technical Committees and Member Forums resulting from the spin out of Transmission Owners and Operators Forum;
2. The phasing in of budgeted new hires projected in 2010;
3. A reallocation of staffing resources and new hires in 2010; and
4. The phasing in of proposed 2011 FTE additions by Program Area.

Comparative Statement of Activities 2010–2011

Statement of Activities and Capital Expenditures 2010 Budget & Projection, and 2011 Budget

STATUTORY

	2010 Budget	2010 Projection	Variance 2010 Projection v 2010 Budget Over(Under)	2011 Budget	Variance 2011 Budget v 2010 Budget Over(Under)
Funding					
ERO Funding					
NERC Assessments	\$ 37,063,569	\$ 37,063,570	\$ 1	40,059,877	\$ 2,996,308
Penalty Sanctions	-	-	-	10,175,000	10,175,000
Total NERC Funding	\$ 37,063,569	\$ 37,063,570	\$ 1	\$ 50,234,877	\$ 13,171,308
Membership Dues	1,617,808	-	(1,617,808)	-	(1,617,808)
Testing Fees	1,118,750	1,118,750	-	1,500,000	381,250
Services & Software	250,000	250,000	-	250,000	-
Workshops	92,500	92,500	-	92,500	-
Interest	10,000	10,000	-	-	(10,000)
Miscellaneous	404,781	404,781	-	-	(404,781)
Total Funding	\$ 40,557,408	\$ 38,939,601	\$ (1,617,807)	\$ 52,077,377	\$ 11,519,969
Expenses					
Personnel Expenses					
Salaries	\$ 17,187,146	\$ 17,474,655	\$ 287,511	\$ 20,583,608	\$ 3,396,464
Payroll Taxes	1,082,240	1,064,802	(17,438)	1,271,958	189,718
Benefits	2,345,684	2,404,063	58,379	3,201,188	855,503
Retirement Costs	2,381,540	2,439,521	57,981	2,936,454	554,914
Total Personnel Expenses	\$ 22,996,610	\$ 23,383,042	\$ 386,433	\$ 27,993,208	\$ 4,996,599
Meeting Expenses					
Meetings	\$ 1,116,200	\$ 1,086,200	\$ (30,000)	\$ 861,500	\$ (254,700)
Travel	2,308,803	2,202,900	(105,903)	2,598,870	290,067
Conference Calls	190,000	190,000	-	227,800	37,800
Total Meeting Expenses	\$ 3,615,003	\$ 3,479,100	\$ (135,903)	\$ 3,688,170	\$ 73,167
Operating Expenses					
Consultants & Contracts	\$ 8,919,357	\$ 8,677,011	\$ (242,346)	\$ 10,188,716	\$ 1,269,359
Office Rent	967,134	1,004,034	36,900	1,020,988	53,855
Office Costs	1,580,475	1,741,475	161,000	2,401,294	820,819
Professional Services	1,533,000	1,695,000	162,000	1,945,000	412,000
Miscellaneous	4,000	4,000	-	4,000	-
Depreciation	752,988	141,170	(611,818)	752,988	-
Efficiency Savings	(750,000)	-	750,000	-	750,000
Total Operating Expenses	\$ 13,006,954	\$ 13,262,690	\$ 255,736	\$ 16,312,987	\$ 3,306,033
Total Direct Expenses	\$ 39,618,567	\$ 40,124,832	\$ 506,266	\$ 47,994,365	\$ 8,375,799
Indirect Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses	\$ 39,618,567	\$ 40,124,832	\$ 506,266	\$ 47,994,365	\$ 8,375,799
Change in Assets	\$ 938,841	\$ (1,185,230)	\$ (2,124,073)	\$ 4,083,012	\$ 3,144,170
Fixed Assets					
Depreciation	\$ (752,988)	\$ (141,170)	\$ 611,818	\$ (752,988)	\$ -
Computer & Software CapEx	1,122,785	906,210	(216,575)	795,200	(327,585)
Furniture & Fixtures CapEx	100,000	100,000	-	-	(100,000)
Equipment CapEx	-	-	-	40,800	40,800
Leasehold Improvements	-	-	-	-	-
(Incr)Dec in Fixed Assets	\$ (469,797)	\$ (865,040)	\$ (395,243)	\$ (83,012)	\$ 386,785
Allocation of Fixed Assets	\$ -	\$ 149,386	\$ 149,386	\$ -	\$ -
Change in Fixed Assets	(469,797)	(715,654)	(245,857)	(83,012)	386,785
TOTAL CHANGE IN NET ASSETS	\$ 469,043	\$ (1,900,884)	\$ (2,369,930)	\$ 4,000,000	\$ 3,530,954

Next Steps — Schedule

- 2011 BP&B on NERC Finance and Audit Committee and Member Representatives Committee meeting agendas for May 11th, and Board of Trustees meeting agenda for May 12th
- May 14th — Stakeholder comments on first draft due
- May 28th — NERC management post second draft of BP&B. The first draft of the Regional Entity Business Plans and Budgets are also scheduled to be posted on this date
- June 28th — Comment period ends on second draft of Business Plan and Budget
- Jul 12th — Updated Business Plan and Budget Materials posted on NERC's website and mailed to the Finance and Audit Committee
- July 19th — NERC Finance and Audit Committee Meets to Review second draft of NERC Business Plan and Budget, and initial drafts of Regional Entity Business Plans and Budgets

Next Steps — Schedule

- July 21st — Posting and mailing of final NERC and Regional Entity Business Plans, Budgets, and Assessments to NERC Finance and Audit Committee
- August 4th — NERC Finance and Audit Committee meets and takes action on final NERC and Regional Entity Business Plans, Budgets, and Assessments
- August 5th — NERC Board of Trustees meets and takes action on final NERC and Regional Entity Business Plans, Budgets, and Assessments
- August 24th — Outside date for filing of NERC and Regional Entity Business Plans, Budgets, and Assessments with FERC
- Post August 24 — File NERC and Cross-Border Regional Entity Business Plans, Budgets, and Assessments with appropriate governmental authorities in Canada

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QUESTIONS AND ANSWERS