

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

North American Electric Reliability Corporation)
)

Docket No. FA11-21-000

COMPLIANCE FILING OF THE NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

I. INTRODUCTION

The North American Electric Reliability Corporation (“NERC”)¹ submits this compliance filing in accordance with the Commission’s January 16, 2013 Order in Docket No. FA11-21-000.² In the January 16 Order, the Commission approved a Settlement Agreement between the Office of Enforcement (“Enforcement”) and NERC related to Enforcement’s findings and recommendations arising out of its 2012 performance audit of NERC. Specifically, Section II.7(b)(i) of the Settlement Agreement requires that:

Within forty-five days of the end of each quarter, beginning with the quarter ending March 31, 2013, NERC will file with the Commission the unaudited report of the NERC budget-to-actual spending variances during the preceding quarter. This report will include information regarding sources and uses of operating and working capital reserves and will match or exceed the level of detail of the quarterly budget-to-actual variance report of NERC expenditures attached to the agenda of NERC Board of Trustees Finance and Audit Committee’s October 2012 meeting.³

Attached hereto is the unaudited report of NERC’s budget-to-actual variance information for the third quarter of 2016, in accordance with the January 16 Order. This variance information was

¹ NERC was certified by FERC as the electric reliability organization (“ERO”) authorized by Section 215 of the Federal Power Act. FERC certified NERC as the ERO in its order issued July 20, 2006 in Docket No. RR06-1-000. *Order Certifying North American Electric Reliability Corporation as the Electric Reliability Organization and Ordering Compliance Filing*, 116 FERC ¶ 61,062 (2006) (“ERO Certification Order”).

² See *North American Electric Reliability Corporation, Order Approving Settlement Agreement*, 142 FERC ¶ 61,042 (2013) (“January 16 Order”).

³ *Id.*

posted on NERC's website and reviewed at the October 27, 2016 open meeting of the NERC Finance and Audit Committee ("FAC"). The unaudited report was accepted by the NERC Board of Trustees at its meeting on November 2, 2016.

II. NOTICES AND COMMUNICATIONS

Notices and communications with respect to this filing may be addressed to:

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Senior Vice President and Chief Financial and
Administrative Officer
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Commission's official service list

III. DISCUSSION OF SIGNIFICANT VARIANCES BETWEEN 2016 BUDGET AND PROJECTED ACTUAL 2016 RESULTS

The attached third quarter 2016 variance report compares actual (unaudited) financial results to NERC's budgeted expenditures as of September 30, 2016, and projected year-end 2016 financial results to NERC's total 2016 budgeted expenditures. NERC is providing additional discussion of significant variances between the projected actual (unaudited) year-end 2016 results and NERC's 2016 budget, by NERC department or program area and by major activity within departments and program areas. This discussion focuses on variances of \$500,000 or more between projected year end 2016 results and the 2016 budget. For purposes of this discussion, NERC has focused on projected year end variances in excess of budget of \$500,000 or more,

because Section 7(b)(ii) of the Settlement Agreement specifies that NERC will file for Commission review and approval proposals approved by the NERC Board of Trustees to expend \$500,000 or more from Operating Reserves designated for “unforeseen contingencies” (as defined in NERC’s Working Capital and Operating Reserves Policy), *i.e.*, where any amount allocated from the unforeseen contingencies account of Operating Reserves plus any amount redirected from previously budgeted funds is, in the aggregate, \$500,000 or more for any one specific project or major activity in a program area. In addition, although not required by the Settlement Agreement, NERC is providing, for completeness, information in the attached report on actual cost variances less than budget of \$500,000 or more by department, program area or major activity.

A. Compliance Assurance Program⁴ and Information Technology

Actual 2016 direct expenses plus net fixed asset expenditures for the Compliance Assurance Program and Information Technology are projected at year end to be less than budgeted by \$755k and \$782k, respectively, as discussed on pages 4 and 5 of the third quarter 2016 variance report.

B. Reliability Risk Management

Actual 2016 direct expenses plus net fixed asset expenditures for the Reliability Risk Management department, which includes Performance Analysis, Event Analysis, and Situation Awareness, are projected to be \$1.3M more than budgeted, primarily due to: (1) the allocation of additional staff resources to support coordination of data for the state of reliability reports, assistance with the BES exception resolution, and historical event data analysis (\$500k); (2) the approved use of reserves for webTADS software related to user interface and data import

⁴ The Compliance Assurance Program includes the Compliance Analysis, Certification and Registration Program and the Regional Entity Assurance and Oversight Program. These two operational programs were combined for reporting purposes in 2015.

enhancements (\$113k); (3) the approved use of reserves for analysis software to collect and analyze system inertia data (\$163k); (4) the development of Enterprise Reporting for GADS data (\$411k), and, enhancements to the Bulk Electric System database (\$111k), which were budgeted in IT but charged to the Performance Analysis program to align costs with the program utilizing the system. In the case of these last two items noted in item (4), there is no budget variance related to these items at the total company level, but rather the transfer of costs between departments that has generated an over, and offsetting under, budget variance in two departments.

IV. CONCLUSION

NERC respectfully requests that the Commission accept this filing as compliant with Section II.7(b)(i) of the Settlement Agreement and the Commission's January 16 Order in Docket No. FA11-21-000.

Respectfully submitted,

/s/ Meredith M. Jolivert

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*Counsel for North American Electric
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Dated: November 14, 2016

CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the foregoing document upon all parties listed on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C. this 14th day of November, 2016.

/s/ Meredith M. Jolivert

Meredith M. Jolivert
*Counsel for North American Electric
Reliability Corporation*

ATTACHMENT

North American Electric Reliability Corporation Summary of Unaudited Results September 30, 2016

Through September 30, 2016, NERC was \$2.5M (4.9%) under its expense and fixed asset budget, including costs related to the Cyber Risk Information Sharing Program (CRISP). NERC is projecting to be approximately \$926k (1.4%) over budget at year-end primarily due to higher than projected costs associated with the CRISP program which will be funded by CRISP participants.

Excluding the approved use of reserves, NERC was \$2.7M (5.4%) under its expense and fixed asset budget and is projecting to be very close to budget at year-end (\$290k or 0.4% over).

Actual vs Budget (YTD) and Projection vs Total Budget (including CRISP)

	Actual	Budget	Variance Over (Under)	%	Annual Projection	Annual Budget	Variance Over (Under)	%
TOTAL FUNDING	\$ 54,983,441	\$ 50,921,373	\$ 4,062,067	8.0%	\$ 68,234,109	\$ 67,502,155	\$ 731,953	1.1%
EXPENSES and FIXED ASSETS								
PERSONNEL EXPENSES	\$ 28,494,940	\$ 28,138,788	\$ 356,152	1.3%	\$ 37,695,509	\$ 37,283,807	\$ 411,702	1.1%
MEETINGS, TRAVEL and CONFERENCE CALLS	2,598,921	2,692,948	(94,027)	-3.5%	3,593,803	3,620,286	(26,483)	-0.7%
CONSULTANTS and CONTRACTS	8,059,564	9,649,449	(1,589,885)	-16.5%	13,176,799	12,865,914	310,885	2.4%
RENT	2,415,855	2,290,716	125,139	5.5%	3,224,287	3,054,287	170,000	5.6%
OFFICE COSTS, PROFESSIONAL SERVICES and MISC.	4,177,878	4,681,064	(503,186)	-10.7%	6,006,969	6,341,372	(334,402)	-5.3%
OTHER NON-OPERATING EXPENSES	99,313	95,000	4,313	4.5%	100,668	110,000	(9,332)	-8.5%
FIXED ASSET PURCHASES (excluding depreciation)	2,183,134	2,933,250	(750,116)	-25.6%	4,314,606	3,911,000	403,606	10.3%
TOTAL EXPENSES and FIXED ASSETS	\$ 48,029,604	\$ 50,481,215	\$ (2,451,611)	-4.9%	\$ 68,112,641	\$ 67,186,665	\$ 925,976	1.4%
APPROVED USE OF RESERVES	273,528	-	273,528		636,338	-	636,338	
TOTAL EXPENSES and FIXED ASSETS (excluding reserves)	\$ 47,756,077	\$ 50,481,215	\$ (2,725,139)	-5.4%	\$ 67,476,303	\$ 67,186,665	\$ 289,638	0.4%
FTEs	194.45	192.48	1.97	1.0%	193.32	192.48	0.84	0.4%

NERC VARIANCES - excluding CRISP

NERC was \$1.9M (4.1%) under its expense and fixed asset budget and is projecting to be \$227k (0.4%) over budget at year-end. The following expenditures, representing the approved or anticipated use of reserves, are expected to be mostly offset by reduced spending in other areas, as further explained below:

- (1) Approved use of reserves for data analysis software to collect and analyze system inertia data;
- (2) Approved use of reserves for enhancements to webTADS related to interface and data import;
- (3) Approved use of reserves for SAFNR-Data Modification;
- (4) Approved use of reserves for IT contract support during periods of staff vacancies;
- (5) Anticipated use of reserves for E-ISAC STIX/TAXII.

The following table and summary of variances by category reflect 2016 year-to-date (YTD) actual and projected results without CRISP. A summary of results for CRISP is provided on page 5.

**Actual vs Budget (YTD) and Projection vs Total Budget
(Excluding CRISP)**

	Actual	Budget	Variance Over (Under)	%	Annual Projection	Annual Budget	Variance Over (Under)	%
TOTAL FUNDING	\$ 44,966,836	\$ 44,933,214	\$ 33,622	0.1%	\$ 59,562,309	\$ 59,529,136	\$ 33,172	0.1%
EXPENSES and FIXED ASSETS								
PERSONNEL EXPENSES	\$ 28,025,293	\$ 27,580,214	\$ 445,079	1.6%	\$ 36,954,418	\$ 36,542,135	\$ 412,283	1.1%
MEETINGS, TRAVEL and CONFERENCE CALLS	2,572,238	2,640,856	(68,618)	-2.6%	3,546,348	3,550,831	(4,483)	-0.1%
CONSULTANTS and CONTRACTS	3,860,407	5,233,005	(1,372,598)	-26.2%	6,379,310	6,977,320	(598,010)	-8.6%
RENT	2,415,855	2,290,716	125,139	5.5%	3,224,287	3,054,287	170,000	5.6%
OFFICE COSTS, PROFESSIONAL SERVICES and MISC.	4,069,238	4,321,599	(252,362)	-5.8%	5,673,269	5,862,095	(188,825)	-3.2%
OTHER NON-OPERATING EXPENSES	99,313	95,000	4,313	4.5%	100,668	110,000	(9,332)	-8.5%
FIXED ASSET PURCHASES (excluding depreciation)	2,125,092	2,858,250	(733,158)	-25.7%	4,256,564	3,811,000	445,564	11.7%
TOTAL	\$ 43,167,435	\$ 45,019,640	\$ (1,852,205)	-4.1%	\$ 60,134,863	\$ 59,907,668	\$ 227,196	0.4%
FTEs	192.10	189.71	2.39	1.3%	190.55	189.71	0.84	0.4%

Following is a brief summary of significant variances by major categories:

- Personnel expenses were over budget \$445k (1.6%) resulting from an additional 2.39 (1.3%) more FTEs than budgeted. Personnel expenses are projected to be \$412k (near 1%) over budget at year-end. This near-budget projection is based on current staffing assumptions and reflects a stabilizing work force resulting from the successful implementation of a hiring strategy to fill key resource needs and efforts to close the historic gap between budgeted and actual FTEs to reduce overall attrition. The 2016 personnel budget was based on 210 positions, reduced by a vacancy rate of 7.8% (accounting for attrition and timing of new hires).
- Consultants and Contracts expenses were under budget \$1.4M (26.2%) and are projected to be \$598k (8.6%) under budget at year-end. E-ISAC has a projected over budget variance that is related to the approved use of reserves for STIX/TAXII, a pilot project supported by the E-ISAC Members Executive Committee which is intended to enhance voluntary cyber risk information sharing. That projected over budget variance is offset by expected under budget variances in other departments, which are primarily due to: (1) lower costs related to implementation of risk-based compliance monitoring in Compliance Assurance; (2) lower costs for ERO application support in Information Technology; (3) lower costs for compensation consulting expenses in Human Resources; and (4) lower than budgeted costs in Accounting and Finance due to the use of internal resources in place of anticipated external resources to support NERC’s Internal Audit function.

SUMMARY OF CONSULTANT AND CONTRACT EXPENSES BY DEPARTMENT

CONSULTANTS and CONTRACTS	Actual	Budget	Variance Over (Under)	Annual Projection	Annual Budget	Variance Over (Under)
COMPLIANCE ANALYSIS and CERTIFICATION	\$ -	\$ 37,503	\$ (37,503)	\$ -	\$ 50,000	\$ (50,000)
COMPLIANCE ASSURANCE	5,347	150,003	(144,656)	5,347	200,000	(194,653)
RELIABILITY ASSESSMENTS and SYSTEM ANALYSIS	261,208	431,253	(170,045)	442,425	575,000	(132,575)
RELIABILITY RISK MANAGEMENT	1,453,973	1,332,387	121,586	1,781,367	1,776,514	4,853
E-ISAC	278,497	497,502	(219,005)	886,756	663,335	223,421
TRAINING, EDUCATION & OPERATOR CERTIFICATION	358,567	506,853	(148,286)	706,400	675,800	30,600
GENERAL & ADMINISTRATIVE	65,710	60,003	5,707	80,000	80,000	-
POLICY and EXTERNAL AFFAIRS	10,332	11,250	(918)	15,000	15,000	-
INFORMATION TECHNOLOGY	883,375	1,571,004	(687,629)	1,845,046	2,094,671	(249,625)
HUMAN RESOURCES	356,484	412,497	(56,013)	418,078	550,000	(131,922)
FINANCE and ACCOUNTING	186,915	222,750	(35,835)	198,891	297,000	(98,109)
TOTAL (excluding CRISP)	\$ 3,860,407	\$ 5,233,005	\$ (1,372,598)	\$ 6,379,310	\$ 6,977,320	\$ (598,010)
CRISP	4,199,157	4,416,444	(217,287)	6,797,489	5,888,594	908,895
TOTAL CONTRACTS and CONSULTANTS	\$ 8,059,564	\$ 9,649,449	\$ (1,589,885)	\$ 13,176,799	\$ 12,865,914	\$ 310,885

- Rent expense was over budget \$125k (5.5%) and projected to be \$170k (5.6%) over budget at year-end due to higher than budgeted building maintenance and real estate taxes expense.
- Office Costs, Professional Services, and Miscellaneous expenses were collectively under budget \$252k (5.8%) and projected to be \$189k (3.2%) under budget at year-end, primarily due to lower than budgeted costs for outside counsel, which are included in professional services expenses.
- Fixed Asset Purchases (excluding depreciation) were under budget \$733k (25.7%) due to timing of expenses compared to budget allocation. This category is projected to be over budget \$446k (11.7%) at year-end, largely due to the GADS Wind project (originally budgeted in contracts and consultants but recognized in fixed assets) and the authorized use of reserves in connection with a data analysis software that collects and analyzes system inertia data.

SUMMARY OF VARIANCES BY PROGRAM

The following table reflects variances by department as of September 30, 2016.

DIRECT EXPENSES and NET FIXED ASSETS	2016 YTD Actual	2016 YTD Budget	Variance Over/(Under)	2016 Projection	2016 Budget	Variance Over/(Under)
RELIABILITY STANDARDS	\$ 2,604,637	\$ 2,766,223	\$ (161,585)	\$ 3,584,433	\$ 3,678,708	\$ (94,275)
COMPLIANCE ANALYSIS, CERTIFICATION and REGISTRATION	1,443,757	1,572,889	(129,132)	1,889,111	2,086,784	(197,673)
COMPLIANCE ASSURANCE	3,044,772	3,440,683	(395,911)	4,001,439	4,559,234	(557,794)
ENFORCEMENT	1,864,535	1,677,975	186,561	2,490,038	2,225,816	264,222
RELIABILITY ASSESSMENTS and SYSTEM ANALYSIS	2,835,084	2,565,756	269,328	3,715,376	3,392,571	322,805
RELIABILITY RISK MANAGEMENT	5,849,016	5,065,512	783,504	8,039,506	6,719,091	1,320,415
E-ISAC	3,372,412	3,535,929	(163,518)	4,921,207	4,742,862	178,345
TRAINING, EDUCATION and OPERATOR CERTIFICATION	1,341,032	1,549,032	(208,001)	2,024,283	2,060,167	(35,884)
GENERAL and ADMINISTRATIVE and EXECUTIVE	6,220,140	5,977,420	242,720	8,132,717	8,024,564	108,153
POLICY and EXTERNAL AFFAIRS	1,544,456	1,401,888	142,568	2,053,889	1,856,747	197,142
LEGAL and REGULATORY	2,337,659	2,610,899	(273,240)	3,234,120	3,465,966	(231,846)
INFORMATION TECHNOLOGY	7,130,939	9,134,010	(2,003,071)	11,374,748	12,156,674	(781,926)
HUMAN RESOURCES	903,862	1,134,773	(230,910)	1,221,116	1,510,177	(289,060)
FINANCE and ACCOUNTING	2,675,134	2,586,651	88,482	3,452,879	3,428,307	24,572
TOTAL (excluding CRISP)	\$ 43,167,435	\$ 45,019,640	\$ (1,852,205)	\$ 60,134,863	\$ 59,907,668	\$ 227,196

Following is a brief summary of significant variances:

- Reliability Standards; Compliance Analysis, Certification and Registration; Compliance Assurance – Under budget YTD and projected to be under budget at year-end primarily due to resource allocations and timing of new hires, and lower than budgeted outside contract support related to risk-based compliance monitoring, as noted above.
- Enforcement – Over budget YTD and projected to be over budget at year-end due to lower personnel attrition, as well as enhancements to the current CRATS database that was budgeted in 2015 but not completed until 2016. Funding for this project was reserved in the Future Obligations Reserve at the end of 2015.
- Reliability Assessments and System Analysis – Over budget YTD and projected to be over budget at year-end due to the allocation of additional resources to support ongoing program activities in specific departments within this program area.
- Reliability Risk Management (includes Event Analysis, Performance Analysis, and Situation Awareness departments) – Over budget YTD and expected to be over budget at year-end primarily due to (1) allocation of additional staff resources to support ongoing program activities, (2) the approved use of reserves for enhancements to webTADS related to interface and data import, and (3) development of Enterprise Reporting for GADS data, which was budgeted in IT but charged to the Performance Analysis program to align costs with the program utilizing the system.
- E-ISAC – Projected to be over budget at year-end due to the planned use of reserves for STIX/TAXII.

- Information Technology – Under budget year-to-date and projected to be under budget at year-end. The under budget variance is related to ERO Application development costs that are budgeted in IT but recorded in the programs utilizing the applications. The 2016 budget included \$1.5M in ERO Applications, of which \$1.2M was actually spent or expected to be spent. Approximately \$650k of that actual spend has been allocated from the IT department to the relevant operating programs utilizing the application.
- Human Resources – Under budget year-to-date and projected to be under budget at year-end due to lower than budgeted outside compensation and general HR consulting services.

BOARD OF TRUSTEES EXPENSES

Board of Trustees expenses were under budget YTD by \$73k (5.8%) and expected to be approximately on budget at year-end.

Board of Trustee Expenses	Actual	Budget	Variance Over (Under)	%
Meetings and Travel Expenses				
Quarterly Board Meetings and Conference Calls	\$ 145,685	\$ 185,000	\$ (39,315)	-21.3%
Trustee Travel	86,617	118,000	(31,383)	-26.6%
Total Board of Trustees Meetings and Travel Expenses	\$ 232,303	\$ 303,000	\$ (70,697)	-23.3%
Professional Services				
Independent Trustee Fees	841,564	844,767	(3,203)	-0.4%
Trustee Search Fees	101,134	100,000	1,134	0.0%
Total Board of Trustee Professional Services Expenses	\$ 942,698	\$ 944,767	\$ (2,069)	-0.2%
Total Board of Trustee Expenses	\$ 1,175,001	\$ 1,247,767	\$ (72,766)	-5.8%

CRISP VARIANCES (including indirect expenses and allocation of fixed assets)

CRISP was \$723k (12.1%) under budget YTD and is projected to be \$699k (8.8%) over budget at year-end primarily due to the additional costs associated with start-up expenses for new participants not originally included in the budget. These additional start-up costs will be funded by the new CRISP participants.

	Actual	Budget	Variance Over (Under)	%	Annual Projection	Annual Budget	Variance Over (Under)	%
TOTAL FUNDING	\$ 10,016,604	\$ 5,988,160	\$ 4,028,445	67.3%	\$ 8,671,800	\$ 7,973,019	\$ 698,781	8.8%
EXPENSES and FIXED ASSETS								
PERSONNEL EXPENSES	\$ 469,647	\$ 558,574	\$ (88,927)		\$ 741,091	\$ 741,671	\$ (580)	
MEETINGS, TRAVEL and CONFERENCE CALLS	26,683	52,092	(25,409)		47,455	69,455	(22,000)	
CONSULTANTS and CONTRACTS	4,199,157	4,416,444	(217,287)		6,797,489	5,888,594	908,895	
OFFICE COSTS, PROFESSIONAL SERVICES and MISC.	108,640	359,465	(250,824)		333,700	479,277	(145,577)	
FIXED ASSET PURCHASES (excluding depreciation)	58,042	75,000	(16,958)		58,042	100,000	(41,958)	
INDIRECT EXPENSES and ALLOCATION OF FIXED ASSETS	397,276	520,516	(123,240)		694,022	694,022	(0)	
TOTAL EXPENSES and FIXED ASSETS	\$ 5,259,445	\$ 5,982,091	\$ (722,646)	-12.1%	\$ 8,671,800	\$ 7,973,020	\$ 698,779	8.8%

OPERATING RESERVES – Current Balances

The balance in working capital and operating reserves YTD was \$14.8M, which was \$6.5M higher than budget. The increase was primarily due to higher CRISP reserves, which increased \$4.8M due to timing differences between receipt of third-party funding for CRISP and expenses incurred throughout the year.

					September 30, 2016 Reserve Balances				
	Actual	Budget	Variance Over (Under)		Future Obligations Reserve	Operating Contingency Reserve	System Operator Reserves	***CRISP Reserves	Assessment Stabilization Reserve
2016 Beginning Reserve Balances	\$ 6,075,782	\$ 6,313,523	\$ (237,741)		\$ 3,431,795	\$ 1,213,419	\$ 930,568	\$ 500,000	
Change in Reserves from Current Year Operations									
Change in Reserves from budgeted operations	7,516,657	440,158	7,076,499		-	2,787,662	(28,165)	4,757,160	
Approved use of reserves	(562,820)	-	(562,820)		(289,293)	(273,528)			
Capital Financing									
Proceeds from Financing Activities (non-current only)	589,375		589,375			589,375			
Debt Service	(758,190)	(703,333)	(54,856)			(758,190)			
Other adjustments to reserves**	1,923,647	2,271,000	(347,353)		(347,353)	-			2,271,000
Reserve Balance	\$14,784,451	\$ 8,321,348	\$ 6,463,104		\$ 2,795,149	\$ 3,558,740	\$ 902,403	\$ 5,257,160	\$ 2,271,000

** Represents transactions recorded only on the Statement of Financial Position (balance sheet) and do not impact the Statement of Activities (income statement), including recording of capitalized leases, amortization of future obligations and funding the 457f plan.

*** Represents \$500k of insurance reserves, plus 2016 CRISP funding billed, net of 2016 actual YTD expenses.

OPERATING RESERVES – Year-End Projection

The current year-end projection in total operating reserves is \$8.4M, including \$2.2M in the Operating Contingency Reserve (OCR) and \$2.3M in the Assessment Stabilization Reserve (ASR).

OCR: The 2016 projected ending balance is above the assumed starting balance of \$1.7M in the 2017 budget. The 2017 budget included additional funding for the OCR of \$500k and an ending balance for 2017 of \$2.2M. Therefore, NERC is currently tracking to be above the reserve target to start the 2017 budget year.

The following items reflect the anticipated or authorized use of reserves during 2016:

- E-ISAC STIX/TAXII project, which was not yet defined as of the 2016 budget approval (anticipated)
- Data analysis software to collect and analyze system inertia data (authorized - \$172k)
- Enhancements to webTADS related to interface and data support (authorized - \$113k)
- SAFNR data modification (authorized - \$50k)
- IT contract support during periods of staff vacancies (authorized - \$52k)

ASR: The 2016 projected ending balance agrees to the projected beginning balance for the 2017 budget. The 2017 budget anticipates \$500k in penalties to be deposited in the ASR and the use of \$1.1M in ASR funds to offset 2017 assessments. The ending ASR balance for 2017 is projected and budgeted to be \$1.7M.

					2016 Projected Year End Reserve Balances				
	2016 Projection	2016 Budget	Variance Over (Under)		Future Obligations Reserve	Operating Contingency Reserve	System Operator Reserves	***CRISP Reserves	Assessment Stabilization Reserve
2016 Beginning Reserve Balances	\$ 6,075,782	\$ 6,313,523	\$ (237,741)		\$ 3,431,796	\$ 1,213,419	\$ 930,568	\$ 500,000	\$ -
<u>Change in Reserves from Current Year Operations</u>									
Change in Reserves from budgeted operations	1,047,098	315,490	731,608			1,310,268	(263,170)	-	
Approved use of reserves	(925,631)	-	(925,631)		(289,293)	(636,338)			
<u>Capital Financing</u>									
Proceeds from Financing Activities (non-current only)	1,391,375	1,000,000	391,375			1,391,375			
Debt Service	(1,044,253)	(1,055,000)	10,747			(1,044,253)			
Other adjustments to reserves**	1,806,132	2,170,614	(364,482)		(464,868)	-			2,271,000
Reserve Balance	\$ 8,350,504	\$ 8,744,627	\$ (394,123)		\$ 2,677,634	\$ 2,234,473	\$ 667,398	\$ 500,000	\$ 2,271,000

** Represents transactions recorded only on the Statement of Financial Position (balance sheet) and do not impact the Statement of Activities (income statement), including recording of capitalized leases, amortization of future obligations and funding the 457f plan.

*** Represents \$500k of insurance reserves.

NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
Statement of Activities and Fixed Assets Budget
(Unaudited)
For the period ended 09/30/2016

	Actual	Budget	Variance Over (Under)	%	Annual Projection	Annual Budget	Variance Over (Under)	%
Funding								
Assessments	\$ 42,811,092	\$ 42,811,092	-		\$57,081,445	\$57,081,445	\$ -	
Assessment Stabilization Reserves - Penalties	1,439,000	1,439,000	-		1,439,000	1,439,000	-	
Assessment Stabilization Reserves - Non-Penalties	-	-	-		-	-	-	
Third-Party Funding (CRISP)	9,150,333	5,123,053	4,027,280		7,528,287	6,830,738	697,549	
Testing	1,323,760	1,400,976	(77,216)		1,867,972	1,867,972	-	
Services & Software	41,000	37,502	3,498		50,000	50,000	-	
Workshop Fees	192,970	107,500	85,470		231,304	230,000	1,304	
Interest	25,083	2,250	22,833		35,898	3,000	32,898	
Miscellaneous	202	-	202		202	-	202	
Total Funding	\$ 54,983,441	\$ 50,921,373	\$ 4,062,067	8.0%	\$ 68,234,109	\$ 67,502,155	\$ 731,953	1.1%
Expenses								
Personnel Expenses								
Salaries	\$ 22,140,766	\$ 21,663,383	\$ 477,384		\$29,425,809	\$28,842,336	\$ 583,473	
Payroll Taxes	1,524,153	1,593,151	(68,998)		1,785,932	1,871,367	(85,435)	
Employee Benefits	2,739,387	2,684,520	54,867		3,622,484	3,579,280	43,204	
Savings & Retirement	2,090,634	2,197,735	(107,101)		2,861,284	2,990,823	(129,539)	
Total Personnel Expenses	\$ 28,494,940	\$ 28,138,788	\$ 356,152	1.3%	\$ 37,695,509	\$ 37,283,807	\$ 411,702	1.1%
Meeting Expenses								
Meetings	\$ 672,841	\$ 800,113	\$ (127,272)		\$ 1,130,868	\$ 1,096,500	\$ 34,368	
Travel	1,765,553	1,652,832	112,721		2,242,955	2,203,786	39,169	
Conference Calls	160,527	240,003	(79,476)		219,980	320,000	(100,020)	
Total Meeting Expenses	\$ 2,598,921	\$ 2,692,948	\$ (94,027)	-3.5%	\$ 3,593,803	\$ 3,620,286	\$ (26,483)	-0.7%
Operating Expenses								
Consultants and Contracts	\$ 8,059,564	\$ 9,649,449	\$ (1,589,885)		\$13,176,799	\$12,865,914	\$ 310,885	
Rent & Improvements	2,415,855	2,290,716	125,139		3,224,287	3,054,287	170,000	
Office Costs	2,455,007	2,846,714	(391,707)		3,594,545	3,795,572	(201,027)	
Professional Services	1,711,941	1,806,975	(95,034)		2,371,922	2,509,300	(137,378)	
Miscellaneous	10,930	27,375	(16,445)		40,502	36,500	4,002	
Depreciation	1,809,122	1,981,467	(172,345)		2,614,736	2,641,943	(27,207)	
Total Operating Expenses	\$ 16,462,418	\$ 18,602,696	\$ (2,140,278)	-11.5%	\$ 25,022,792	\$ 24,903,515	\$ 119,276	0.5%
Other Non-Operating Expenses	\$ 99,313	\$ 95,000	\$ 4,313	4.5%	\$ 100,668	\$ 110,000	\$ (9,332)	-8.5%
Indirect Expenses	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	
Total Expenses	\$ 47,655,592	\$ 49,529,432	\$ (1,873,841)	-3.8%	\$ 66,412,771	\$ 65,917,608	\$ 495,163	0.8%
Net Change in Assets	\$ 7,327,849	\$ 1,391,941	\$ 5,935,908	426.4%	\$ 1,821,337	\$ 1,584,547	\$ 236,790	14.9%
Fixed Assets								
Depreciation	\$ (1,809,122)	\$ (1,981,467)	\$ 172,345		\$ (2,614,736)	\$ (2,641,943)	\$ 27,207	
Computer & Software	1,798,213	1,760,250	37,963		2,800,934	2,347,000	453,934	
Furniture & Fixtures	-	-	-		-	-	-	
Equipment	384,921	1,173,000	(788,079)		1,513,672	1,564,000	(50,328)	
Leasehold Improvements	-	-	-		-	-	-	
Allocation of Fixed Assets	-	-	-		-	-	-	
Incr(Dec) in Fixed Assets	\$ 374,012	\$ 951,783	\$ (577,771)	-60.7%	\$ 1,699,870	\$ 1,269,057	\$ 430,813	33.9%
Total Budget (Expenses plus Incr(Dec) in Fixed Assets)	\$ 48,029,604	\$ 50,481,215	\$ (2,451,611)	-4.9%	\$68,112,641	\$67,186,665	\$ 925,976	1.4%
Change in Operating Reserves (Total Funding less Total Budget)	6,953,837	440,158	6,513,678	1479.8%	121,468	315,490	(194,022)	
FTE's	194.45	192.48	1.97	1.0%	193.32	192.48	0.84	0.4%

**NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
STATEMENT OF FINANCIAL POSITION
(Unaudited)**

	Unaudited		Audited		Working Capital and Operating Reserves	
	9/30/2016	12/31/2015	9/30/2016	12/31/2015	9/30/2016	12/31/2015
ASSETS						
Cash	\$ 45,407,645	\$ 40,308,955	\$ 45,407,645	\$ 40,308,955		
Accounts receivable, net of allowance for uncollectible accounts of \$0	13,522,676	3,986,346	13,522,676	3,986,346		
Prepaid expenses and other current assets	1,561,602	1,291,805	1,561,602	1,291,805		
Security deposit	125,416	125,416				
457(b) – Non-Qualified Deferred Compensation	744,439	744,438				
457(f) - Non-Qualified Def Comp	473,741	271,200				
Property and equipment	8,621,340	8,301,731				
Total Assets	\$ 70,456,859	\$ 55,029,891				
LIABILITIES AND NET ASSETS						
Liabilities						
Current Portion						
Accounts payable and accrued expenses (includes vacation accrual)	\$ 3,373,771	\$ 5,326,723	\$ (3,373,771)	\$ (5,326,723)		
Accrued incentive compensation	3,687,008	4,721,278	(3,687,008)	(4,721,278)		
Deferred rent-current	377,752	322,016	(377,752)	(322,016)		
Deferred compensation - current	6,818	-	(6,818)	-		
Capital lease obligations - current	64,728	64,728	(64,728)	(64,728)		
Accrued retirement liabilities	1,514,807	1,878,830	(1,514,807)	(1,878,830)		
Debt service - current portion	1,038,940	744,253	(1,038,940)	(744,253)		
Deferred income	14,356,939	7,961,316	(14,356,939)	(7,961,316)		
Deferred revenue - CRISP	-	2,508,514	-	(2,508,514)		
Regional assessments	20,786,709	12,273,666	(20,786,709)	(12,273,666)		
Total Current Portion	\$ 45,207,472	\$ 35,801,324				
Long-Term Portion						
Deferred compensation ¹	1,132,171	1,038,350				
Long-Term Debt	511,497	680,311				
Penalties-Assessments stabilization	2,271,000	-				
Deferred Rent-non-current	3,119,263	3,412,298				
CRISP Insurance Reserve	500,000	500,000				
Capital lease obligations - non-current	151,752	151,752				
Total Long-Term Portion	\$ 7,685,682	\$ 5,782,711				
Total Liabilities	\$ 52,893,154	\$ 41,584,035				
Net Assets - unrestricted	\$ 17,063,705	\$ 9,735,856				
Net Assets - restricted	500,000	3,710,000	(500,000)	(3,710,000)		
Total Liabilities and Net Assets	\$ 70,456,859	\$ 55,029,891	\$ 14,784,451	\$ 6,075,782		
¹ Includes 457b and 457f liabilities, life insurance for former executive, and retiree medical						
Working Capital and Operating Reserves	\$ 14,784,451	\$ 6,075,782				
Financial Covenants						
1 - WC & OR Balance to Debt Service Ratio > 1.2 to 1.0 (Working Capital / Debt Service)		14.23				
2 - Liquidity to Debt Service Ratio > 1.5 to 1.0* (= Cash - Regional Assessments - Restricted Net Assets)		23.22				