

# Agenda

## Finance and Audit Committee

### Open Meeting

November 7, 2022 | 11:15 a.m.–12:00 p.m. Eastern

Attendee Webex: [Join Meeting](#)

**Call to Order**

**Introductions and Chair's Remarks**

**NERC Antitrust Compliance Guidelines**

#### Agenda

- 1. Minutes – Approve**
  - a. August 17, 2022 Meeting\*
- 2. Fourth Quarter Calendar of FAC Responsibilities \***
  - a. **Third Quarter Statement of Activities – Review and Recommend to Board of Trustees for Acceptance**
    - i. NERC Summary of Results as of September 30, 2022\*
    - ii. Total ERO Enterprise Summary of Results as of September 30, 2022\*
    - iii. Regional Entity Variance Reports as of September 30, 2022\*
- 3. 2023 Business Plan and Budget Status – Update**
- 4. Proposed 2024 Business Plan and Budget Schedule\* – Review**
- 5. Other Matters and Adjournment**

\*Background materials included.

# Antitrust Compliance Guidelines

## I. General

It is NERC's policy and practice to obey the antitrust laws and to avoid all conduct that unreasonably restrains competition. This policy requires the avoidance of any conduct that violates, or that might appear to violate, the antitrust laws. Among other things, the antitrust laws forbid any agreement between or among competitors regarding prices, availability of service, product design, terms of sale, division of markets, allocation of customers or any other activity that unreasonably restrains competition.

It is the responsibility of every NERC participant and employee who may in any way affect NERC's compliance with the antitrust laws to carry out this commitment.

Antitrust laws are complex and subject to court interpretation that can vary over time and from one court to another. The purpose of these guidelines is to alert NERC participants and employees to potential antitrust problems and to set forth policies to be followed with respect to activities that may involve antitrust considerations. In some instances, the NERC policy contained in these guidelines is stricter than the applicable antitrust laws. Any NERC participant or employee who is uncertain about the legal ramifications of a particular course of conduct or who has doubts or concerns about whether NERC's antitrust compliance policy is implicated in any situation should consult NERC's General Counsel immediately.

## II. Prohibited Activities

Participants in NERC activities (including those of its committees and subgroups) should refrain from the following when acting in their capacity as participants in NERC activities (e.g., at NERC meetings, conference calls and in informal discussions):

- Discussions involving pricing information, especially margin (profit) and internal cost information and participants' expectations as to their future prices or internal costs.
- Discussions of a participant's marketing strategies.
- Discussions regarding how customers and geographical areas are to be divided among competitors.
- Discussions concerning the exclusion of competitors from markets.
- Discussions concerning boycotting or group refusals to deal with competitors, vendors or suppliers.

- Any other matters that do not clearly fall within these guidelines should be reviewed with NERC's General Counsel before being discussed.

### **III. Activities That Are Permitted**

From time to time decisions or actions of NERC (including those of its committees and subgroups) may have a negative impact on particular entities and thus in that sense adversely impact competition. Decisions and actions by NERC (including its committees and subgroups) should only be undertaken for the purpose of promoting and maintaining the reliability and adequacy of the bulk power system. If you do not have a legitimate purpose consistent with this objective for discussing a matter, please refrain from discussing the matter during NERC meetings and in other NERC-related communications.

You should also ensure that NERC procedures, including those set forth in NERC's Certificate of Incorporation, Bylaws, and Rules of Procedure are followed in conducting NERC business.

In addition, all discussions in NERC meetings and other NERC-related communications should be within the scope of the mandate for or assignment to the particular NERC committee or subgroup, as well as within the scope of the published agenda for the meeting.

No decisions should be made nor any actions taken in NERC activities for the purpose of giving an industry participant or group of participants a competitive advantage over other participants. In particular, decisions with respect to setting, revising, or assessing compliance with NERC reliability standards should not be influenced by anti-competitive motivations.

Subject to the foregoing restrictions, participants in NERC activities may discuss:

- Reliability matters relating to the bulk power system, including operation and planning matters such as establishing or revising reliability standards, special operating procedures, operating transfer capabilities, and plans for new facilities.
- Matters relating to the impact of reliability standards for the bulk power system on electricity markets, and the impact of electricity market operations on the reliability of the bulk power system.
- Proposed filings or other communications with state or federal regulatory authorities or other governmental entities.
- Matters relating to the internal governance, management and operation of NERC, such as nominations for vacant committee positions, budgeting and assessments, and employment matters; and procedural matters such as planning and scheduling meetings.

# **DRAFT** Minutes Finance and Audit Committee Open Meeting

August 17, 2022 | 10:30-12:00 p.m. Pacific  
In-Person Meeting

Hyatt Regency Vancouver  
655 Burrard St.  
Vancouver, BC V6C 2R7, Canada

## **Call to Order**

Mr. Jim Piro, Chair, called to order a duly noticed open meeting of the Finance and Audit Committee (the “Committee”) of the Board of Trustees (“Board”) of the North American Electric Reliability Corporation (NERC) on August 17, 2022 at approximately 10:30 a.m. Pacific, and a quorum was declared present.

Present at the meeting were:

### **Committee Members**

Jim Piro, Chair  
Robert G. Clarke  
George S. Hawkins  
Susan Kelly  
Colleen Sidford  
Roy Thilly  
Kenneth W. DeFontes, *ex officio*

### **Board Members**

Jane Allen  
Robin E. Manning  
Suzanne Keenan

### **NERC Staff**

Tina Buzzard, Assistant Corporate Secretary  
Manny Cancel, Senior Vice President and Chief Executive Officer, Electricity Information Sharing and Analysis Center  
Howard Gugel, Vice President, Engineering and Standards  
Kelly Hanson, Senior Vice President and Chief Administrative Officer  
Stan Hoptroff, Vice President, Business Technology  
Mark Lauby, Senior Vice President and Chief Engineer  
Sônia Mendonça, Senior Vice President, General Counsel, and Corporate Secretary  
Kristin Miller, Director, Internal Audit  
Bryan Preston, Vice President, People and Culture  
Andy Sharp, Vice President, Chief Financial Officer  
Janet Sena, Senior Vice President, External Affairs

### **NERC Antitrust Compliance Guidelines**

Mr. Piro directed the participants' attention to the NERC Antitrust Compliance Guidelines included in the agenda, and directed all questions regarding antitrust compliance or related matters to Ms. Mendonça.

### **Minutes**

Upon motion duly made and seconded, the Committee approved the minutes of the July 7, 2022 informational session and webinar and May 11, 2022 open meeting.

### **Second Quarter Statement of Activities**

Mr. Sharp reviewed the second quarter statement of activities, noting that NERC was under budget year to date due to timing differences in spending, but expects to be over budget at year-end primarily due to increased CRISP expenses for PNNL due to higher membership levels (which will be funded by CRISP participant revenues) and the timing of costs expended for the cloud-based ISD project (which will be funded by CRISP reserves). NERC's net operating results (excluding CRISP) are projected to be close to budget at year-end. The Committee discussed NERC's efforts to increase CRISP membership while also right-sizing the budget. Upon motion duly made and seconded, the Committee approved a recommendation to the Board to accept the second quarter statement of activities.

### **NERC and Regional Entity Proposed 2023 Business Plans and Budgets and Associated Assessments**

Mr. Sharp reviewed the NERC 2023 Business Plan and Budget (BP&B) noting that the final budget was \$101.0 million, which is \$12.2 million or 13.7% higher than 2022, final NERC assessments were slightly lower than in the initial draft, and 11.1% higher than last year. He reported that NERC received no significant negative feedback on the key focus areas and priorities outlined in the Business Plan and Budget (BP&B) after conducting extensive outreach with key stakeholders. He reviewed the stakeholder comments on the BP&B submitted to NERC and provided a summary response at the meeting. He also noted that a detailed management response to comments was available on the NERC web site. Stakeholder outreach groups have been very engaged, including at the July 13, 2022 Members Representative Committee (MRC) Business Plan and Budget input group call as well as the July 27, 2022 Trades & Forums and MEC calls. Stakeholders indicated that they want to see transparency in the investments NERC is making, linkages to the Long-Term Strategic Plan, metrics around the value added by these investments, and efforts to reduce duplication. Upon motion duly made and seconded, the Committee approved a recommendation to the Board to approve the NERC and Regional Entity business plans and budgets.

In reviewing the high levels of reserves across the ERO Enterprise, including receipts of significant penalty collections in certain regions, the committee requested that management consider what process and procedure changes would be necessary to pursue consolidating penalty revenues and use them to potentially offset ERO Enterprise projects or capital investments instead of reducing regional assessments. Management committed to discussing this issue with regional entity boards leadership.

### **Line of Credit Renewal**

Mr. Sharp reviewed the line of credit renewal, noting that the Committee had previously given authorization to renew so long as there were not substantial changes. He noted that there was a material change due to a shift in the interest rate index from London Interbank Offered Rate (LIBOR) to the new

Secured Overnight Financing Rate (SOFR). Upon motion duly made and seconded, the Committee approved a recommendation to the Board to authorize NERC management to execute the updated renewal of the line of credit.

**Other Matters and Adjournment**

There being no further business, the meeting was adjourned.

Submitted by,



Sônia Mendonça  
Corporate Secretary

## **Fourth Quarter Calendar of FAC Responsibilities**

### **Action**

Review and recommend Board of Trustees acceptance.

### **Background**

NERC management will review the fourth quarter calendar of FAC responsibilities to include (i) NERC Summary of Results as of September 30, 2022; and (ii) Total ERO Enterprise Summary of Results as of September 30, 2022.

# Summary of Unaudited Results For the Period Ending September 30, 2022

## Table of Contents

	<u>Page</u>
1. Executive Summary	
a. Projected Year-End Results	2
b. Year-to-Date Actual Results	3
2. Detailed Operating Results	
a. Variances by Revenue and Expense Category	4
b. Variances by Department	6
3. Supplemental Schedules	
a. Schedule 1 – Year-End Projected Reserves	8
b. Schedule 2 – IT Projects	9
c. Schedule 3 – E-ISAC & CRISP Summary of Activity	11
d. Schedule 4 – Summary of Investments	13



## Executive Summary

### Projected Year-End Results (\$ millions)

<u>FUNDING</u>	<u>Projected</u>	<u>Budget</u>	<u>Over (Under)</u>
Revenues	\$ 89.6	\$ 88.3	\$ 1.3
Funding from Reserves			
Assessment Stabilization Reserve	-	-	-
<b>TOTAL FUNDING</b>	<b>\$ 89.6</b>	<b>\$ 88.3</b>	<b>\$ 1.3</b>
<b><u>EXPENDITURES</u></b>			
Expenses (excluding Depreciation)	\$ 86.6	\$ 85.1	\$ 1.5
Fixed Asset Additions	3.7	4.9	(1.2)
Net Financing Activity	(1.4)	(1.1)	(0.3)
<b>TOTAL EXPENDITURES</b>	<b>\$ 88.9</b>	<b>\$ 88.9</b>	<b>\$ -</b>
<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 0.7</b>	<b>\$ (0.6)</b>	<b>\$ 1.3</b>

Funding is projected to be over budget mainly due to higher CRISP third-party funding, investment income, and Personnel Certification/Credential Maintenance fees. Expenditures (excluding depreciation) are expected to be at budget with lower personnel, meetings, travel, and fixed asset additions costs offset by higher contracts and consultants, office costs, and professional services. The result is a reserve increase of \$1.3M more than budget. This activity is explained in more detail in the remainder of the report.

**Year-to-Date Actual Results**  
**(\$ millions)**

<u>FUNDING</u>	<u>Actual</u>	<u>Budget</u>	<u>Over (Under)</u>
Revenues	\$ 66.5	\$ 66.5	\$ -
Funding from Reserves			
Assessment Stabilization Reserve	-	-	-
<b>TOTAL FUNDING</b>	<b>\$ 66.5</b>	<b>\$ 66.5</b>	<b>\$ -</b>
<b><u>EXPENDITURES</u></b>			
Expenses (excluding Depreciation)	\$ 59.4	\$ 64.0	\$ (4.6)
Fixed Asset Additions	1.3	3.7	(2.4)
Net Financing Activity	0.1	(0.8)	0.9
<b>TOTAL EXPENDITURES</b>	<b>\$ 60.8</b>	<b>\$ 66.9</b>	<b>\$ (6.1)</b>
<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 5.7</b>	<b>\$ (0.4)</b>	<b>\$ 6.1</b>

Funding is on target with the budget. Expenses (excluding depreciation) year-to-date are under budget primarily because of lower personnel, meetings and travel, contracts and consultants, and fixed asset addition costs, and is partially offset by higher net financing activity. The result is a reserve increase of \$6.1M higher than budget. This activity is explained in more detail in the remainder of the report.

## Detailed Operating Results

### Variances by Revenue and Expense Category

Total NERC (including CRISP)

	YTD Actual	YTD Budget	YTD Over (Under)	% Over (Under)	Annual Projection	Annual Budget	Annual Over (Under)	% Over (Under)
<b>TOTAL FUNDING</b>	\$ 66,533,902	\$ 66,472,347	\$ 61,555	0.1%	\$ 89,607,316	\$ 88,268,926	\$ 1,338,389	1.5%
<b>EXPENDITURES</b>								
Personnel	38,089,815	39,363,842	(1,274,028)	(3.2%)	51,388,039	51,966,435	(578,396)	(1.1%)
Meetings and Travel	1,127,628	1,851,975	(724,347)	(39.1%)	2,010,946	2,608,050	(597,104)	(22.9%)
Contracts and Consultants	7,974,760	10,256,100	(2,281,340)	(22.2%)	15,392,933	13,674,800	1,718,133	12.6%
Office Rent	2,251,788	2,452,258	(200,470)	(8.2%)	3,284,222	3,243,277	40,945	1.3%
Office Costs, Professional, and Misc.*	9,948,036	10,006,479	(58,443)	(0.6%)	14,301,808	13,381,972	919,836	6.9%
Other Non-Operating	90,961	101,250	(10,289)	(10.2%)	194,274	135,000	59,274	43.9%
Fixed Asset Additions*	1,258,256	3,689,062	(2,430,807)	(65.9%)	3,672,741	4,918,750	(1,246,009)	(25.3%)
Net Financing Activity**	87,541	(825,000)	912,541	(110.6%)	(1,367,446)	(1,100,000)	(267,446)	24.3%
<b>TOTAL EXPENDITURES</b>	\$ 60,828,784	\$ 66,895,967	\$ (6,067,183)	(9.1%)	\$ 88,877,516	\$ 88,828,284	\$ 49,232	0.1%
<b>RESERVE INCREASE (DECREASE)</b>	\$ 5,705,118	\$ (423,620)	\$ 6,128,738	(1446.8%)	\$ 729,800	\$ (559,358)	\$ 1,289,157	(230.5%)
<b>FTEs</b>	<b>216.2</b>	<b>223.7</b>	<b>(7.5)</b>	<b>(3.4%)</b>	<b>216.6</b>	<b>223.7</b>	<b>(7.1)</b>	<b>(3.2%)</b>

\* Excludes depreciation expense

\*\* A positive amount indicates that NERC is paying off more principal than it is receiving in proceeds. A negative amount indicates that NERC is receiving more in proceeds than it is paying off principal.

Following is a brief description of variances by category, as illustrated in the table above:

- Funding is on target year-to-date. Funding is projected to be over budget mainly due to CRISP third-party funding being higher than budget largely because of new program participants that have joined in 2022, as well as program participants that are projected to join during the remainder of the year. Additionally, investment income and Personnel Certification/Credential Maintenance fees are expected to be higher than budget.
- Personnel expenses are under budget largely as a result of lower 1) salaries and retirement costs due to lower than budgeted FTEs, 2) medical insurance premiums because of different elections than budgeted, 3) relocation needs, and 4) parking and transportation expense mainly attributable to a continued remote workforce. Personnel expenses are projected to be under budget for similar reasons, with the exception of salaries expense which will be close to budget due to anticipated new hires in the fourth quarter and also lower than budgeted attrition.
- Meetings and Travel expenses are under budget and expected to be under budget because of reduced in-person meetings and travel due to the pandemic.
- Contracts and Consultants expenses are under budget primarily due to the timing of costs versus the budget, with a large part of that due to the CRISP third party subcontractor costs and the remainder due to work that may be completed in the fourth quarter in several departments but that was budgeted equally throughout the year. This category is expected to be over budget at year-end mainly as a result of 1) costs from the CRISP third party subcontractor for new program

participants (funded by revenues from the new participants), replacement of equipment for existing program participants (funded by revenues from those participants), costs for OT pilot projects (funded by the CRISP Special Projects Reserve), and cloud-based ISDs project costs (funded by CRISP Operating Reserves) and 2) two IT security contractors that were not budgeted (which will be partially funded by the deferral of FTEs in other departments).

CONTRACTS and CONSULTANTS	YTD	YTD	YTD	%	Annual	Annual	Annual	%
	Actual	Budget	Over (Under)	Over (Under)	Projection	Budget	Over (Under)	Over (Under)
Reliability Standards and Power Risk Issue Management	\$ 121,184	\$ 119,220	\$ 1,964	1.6%	\$ 158,960	\$ 158,960	\$ -	0.0%
Compliance Assurance	92,056	228,750	(136,695)	(59.8%)	305,000	305,000	-	0.0%
Registration and Certification	36,080	30,000	6,080	20.3%	40,000	40,000	-	0.0%
Compliance Enforcement	17,838	186,750	(168,913)	(90.4%)	249,000	249,000	-	0.0%
BPS Security & Grid Transformation	94,846	-	94,846	0.0%	94,846	-	94,846	0.0%
Reliability Assessment and Technical Committees	75,000	157,500	(82,500)	(52.4%)	100,000	210,000	(110,000)	(52.4%)
Advanced System Analytics and Modeling & Power System Analysis	75,000	187,500	(112,500)	(60.0%)	125,000	250,000	(125,000)	(50.0%)
Performance Analysis	135,676	165,920	(30,245)	(18.2%)	273,727	221,227	52,500	23.7%
Situation Awareness	48,750	11,250	37,500	333.3%	15,000	15,000	-	0.0%
Event Analysis	71,737	88,619	(16,882)	(19.0%)	118,158	118,158	-	0.0%
E-ISAC	1,434,277	1,628,281	(194,004)	(11.9%)	2,182,798	2,171,041	11,757	0.5%
Training, Education and Personnel Certification	239,899	422,391	(182,492)	(43.2%)	425,453	563,188	(137,735)	(24.5%)
General and Administrative and Executive	105,206	75,000	30,206	40.3%	157,565	100,000	57,565	57.6%
Legal and Regulatory	78,730	232,500	(153,770)	(66.1%)	452,820	310,000	142,820	46.1%
External Affairs	-	15,000	(15,000)	(100.0%)	20,000	20,000	-	0.0%
Information Technology	1,559,249	1,300,055	259,194	19.9%	2,233,167	1,733,406	499,761	28.8%
Human Resources and Administration	245,391	652,500	(407,110)	(62.4%)	752,265	870,000	(117,735)	(13.5%)
Finance and Accounting	106,399	138,750	(32,351)	(23.3%)	185,000	185,000	-	0.0%
<b>TOTAL (excluding CRISP)</b>	<b>\$ 4,537,315</b>	<b>\$ 5,639,985</b>	<b>\$ (1,102,670)</b>	<b>(19.6%)</b>	<b>\$ 7,888,759</b>	<b>\$ 7,519,980</b>	<b>\$ 368,779</b>	<b>4.9%</b>
CRISP	3,437,445	4,616,115	(1,178,670)	(25.5%)	7,504,174	6,154,820	1,349,354	21.9%
<b>TOTAL (including CRISP)</b>	<b>\$ 7,974,760</b>	<b>\$ 10,256,100</b>	<b>\$ (2,281,340)</b>	<b>(22.2%)</b>	<b>\$ 15,392,933</b>	<b>\$ 13,674,800</b>	<b>\$ 1,718,133</b>	<b>12.6%</b>

- Office Costs, Professional Services, and Miscellaneous expenses are expected to be over budget largely due to fees for an unbudgeted trustee search, increased costs for liability insurance, and various costs related to subscriptions and publications, equipment leases, and telephone expense.
- Fixed Asset Additions are under budget primarily as a result of 1) timing of costs versus the budget for capital lease assets related to new equipment leases, 2) IT equipment and servers that are being leased rather than purchased, and 3) leasehold improvements and office furniture budgeted for a new Atlanta office that did not materialize. The category is projected to be under budget mainly because of the aforementioned leasehold improvements and office furniture related to the Atlanta office and also due to IT equipment and servers that are being leased rather than purchased.
- The Net Financing Activity budget is comprised of financing proceeds/borrowings and principal payments. The budget included borrowings for new equipment leases spread evenly throughout the year. Those borrowings did not occur during the first part of the year and will occur later in the year. Accordingly, debt principal payments are lower than budgeted. The net result is that net financing activity is over budget because of more principal payments than borrowings on new equipment leases during the first part of the year.
- Reserves are over budget by \$6.1M, primarily due to the reasons noted above for expenses related to personnel, meetings and travel, contracts and consultants, and fixed asset additions. Reserves are projected to be over budget by \$1.3M mainly due to lower personnel, meetings and travel, and fixed asset additions, partially offset by higher than budgeted spend in contracts and consultants and office costs/professional services/miscellaneous.

## Variations by Department

<b>DIRECT EXPENSES, FIXED ASSETS, AND FINANCING ACTIVITY</b>	<b>YTD Actual</b>	<b>YTD Budget</b>	<b>YTD Over (Under)</b>	<b>% Over (Under)</b>	<b>Annual Projection</b>	<b>Annual Budget</b>	<b>Annual Over (Under)</b>	<b>% Over (Under)</b>
Reliability Standards and Power Risk Issue Management	\$ 3,230,494	\$ 3,268,154	\$ (37,661)	(1.2%)	\$ 4,398,093	\$ 4,321,038	\$ 77,055	1.8%
Compliance Assurance	4,068,044	4,514,422	(446,378)	(9.9%)	5,607,039	5,972,082	(365,043)	(6.1%)
Registration and Certification	798,380	754,217	44,163	5.9%	1,054,916	995,345	59,571	6.0%
Compliance Enforcement	2,558,690	2,855,242	(296,552)	(10.4%)	3,677,228	3,782,700	(105,472)	(2.8%)
BPS Security & Grid Transformation	605,621	708,031	(102,410)	(14.5%)	920,257	935,162	(14,905)	(1.6%)
Reliability Assessment and Technical Committees	1,462,088	1,699,065	(236,978)	(13.9%)	2,037,844	2,246,928	(209,085)	(9.3%)
Advanced System Analytics and Modeling & Power System Analysis	1,449,338	1,993,741	(544,404)	(27.3%)	2,229,418	2,633,697	(404,279)	(15.4%)
Performance Analysis	1,443,562	1,617,419	(173,857)	(10.7%)	1,977,609	2,146,112	(168,503)	(7.9%)
Situation Awareness	2,317,209	2,334,435	(17,226)	(0.7%)	3,325,364	3,129,990	195,374	6.2%
Event Analysis	1,416,582	1,576,001	(159,419)	(10.1%)	1,980,669	2,078,854	(98,185)	(4.7%)
E-ISAC	9,062,839	10,033,147	(970,308)	(9.7%)	12,736,035	13,281,050	(545,014)	(4.1%)
Training, Education and Personnel Certification	1,045,583	1,229,497	(183,915)	(15.0%)	1,549,110	1,635,993	(86,882)	(5.3%)
General and Administrative and Executive	6,679,941	6,971,558	(291,617)	(4.2%)	9,394,988	9,385,265	9,723	0.1%
Legal and Regulatory	3,828,958	3,874,455	(45,497)	(1.2%)	5,525,496	5,123,376	402,120	7.8%
External Affairs	2,356,943	2,381,074	(24,131)	(1.0%)	3,228,769	3,151,081	77,688	2.5%
Information Technology	9,779,720	10,569,620	(789,900)	(7.5%)	14,148,711	14,026,598	122,112	0.9%
Human Resources and Administration	2,177,132	2,903,906	(726,774)	(25.0%)	3,438,689	3,852,313	(413,624)	(10.7%)
Finance and Accounting	1,589,616	1,649,394	(59,777)	(3.6%)	2,217,339	2,186,385	30,954	1.4%
<b>TOTAL (excluding CRISP)</b>	<b>\$ 55,870,739</b>	<b>\$ 60,933,379</b>	<b>\$ (5,062,640)</b>	<b>(8.3%)</b>	<b>\$ 79,447,575</b>	<b>\$ 80,883,970</b>	<b>\$ (1,436,395)</b>	<b>(1.8%)</b>
CRISP	4,958,045	5,962,587	(1,004,543)	(16.8%)	9,429,941	7,944,314	1,485,627	18.7%
<b>TOTAL DIRECT EXPENSES, FIXED ASSETS, AND FINANCING ACTIVITY</b>	<b>\$ 60,828,784</b>	<b>\$ 66,895,967</b>	<b>\$ (6,067,183)</b>	<b>(9.1%)</b>	<b>\$ 88,877,516</b>	<b>\$ 88,828,284</b>	<b>\$ 49,232</b>	<b>0.1%</b>

Following is a brief description of significant variances by department, as illustrated in the table above:

- **Compliance Assurance** – Under budget mostly because of lower personnel expenses due to less FTEs, lower travel and meeting expenses due to the pandemic, and lower than budgeted contractor costs due to timing of costs versus the budget, which is partially offset by higher year-to-date fixed asset additions cost for the Align project. Projected to be under budget at year-end for the same reasons, except for contractor costs that are expected to be on budget.
- **Compliance Enforcement** – Under budget mostly because of lower personnel expenses due to less FTEs and lower than budgeted contractor costs due to timing of costs versus the budget, which is partially offset by higher year-to-date fixed asset additions cost for the Align project.
- **Advanced System Analytics and Modeling & Power System Analysis** – Under budget and projected to be under budget primarily due to lower personnel expenses due to less FTEs, lower travel and meeting expenses due to the pandemic, and lower than budgeted contractor costs. Projected to be under budget for the same reasons at year-end.
- **E-ISAC** – Under budget mostly because of lower personnel expenses due to less FTEs, and lower travel and meeting expenses due to the pandemic and lower FTEs, and timing of contractor costs versus the budget. Projected to be under for the same reasons, except for contractor costs, which are expected to be near budget.
- **General & Administrative and Executive** – Under budget mainly attributable to leasehold improvements and office furniture budgeted for a new Atlanta office that did not materialize, partially offset by higher personnel expenses due to lower attrition, higher retirement plan costs, and unbudgeted trustee search fees.
- **Legal & Regulatory** – Projected to be over budget mainly due to higher personnel costs because of lower attrition, as well as some contractor support for Internal Audit staff augmentation.

- Information Technology – Under budget primarily due to timing of costs versus the budget for fixed asset additions and financing activity related to equipment leases, partially offset by higher than budgeted contractor needs for two cyber security consultants (that are being partially funded by FTE underruns in other departments).
- Human Resources – Under budget primarily due to lower personnel expenses due to less FTEs and also timing of costs versus the budget for contractor work that may occur in the fourth quarter. Projected to be under budget due to lower personnel expenses due to less FTEs and lower contracts and consultant expense.
- CRISP – Under budget largely as a result of timing of costs versus the budget for the third party subcontractor work and expected to be over budget because of costs from the CRISP third party subcontractor for new program participants and replacement of equipment for existing program participants, and also for costs for the OT equipment needs discussed earlier that were carried over from 2021 and being funded by the CRISP Special Projects Reserve.

## Supplemental Schedules

### Schedule 1 – Year-End Projected Reserves

Reserve Account	1/1/2022		Unbudgeted Funding/(Use) <sup>(3)</sup>	Operating and Financing Activity		12/31/2022	
	Beginning Balance <sup>(1)</sup>	Budgeted Funding/(Use) <sup>(2)</sup>		Versus Budget <sup>(4)</sup>	Ending Balance		
NERC Operating Contingency	\$ 8,728,678	\$ (64,253)	\$ -	\$ 968,281	\$	\$ 9,632,706	
Future Obligations	1,381,843	(679,629)	882,756	708,893		2,293,863	
Assessment Stabilization	2,521,000	-	735,000	-		3,256,000	
System Operator	915,083	(86,212)	-	108,859		937,730	
CRISP Defense Fund	512,821	-	50,000	-		562,821	
CRISP Operating	1,596,902	300,000	-	(109,134)		1,787,768	
CRISP Special Projects	445,316	-	-	(387,741)		57,575	
<b>Total Reserves</b>	<b>\$ 16,101,643</b>	<b>\$ (530,094)</b>	<b>\$ 1,667,756</b>	<b>\$ 1,289,157</b>	<b>\$</b>	<b>\$ 18,528,462</b>	

**NOTES:**

(1) 2022 beginning balances have been adjusted from the 12/31/2021 variance report balances as the result of a reconciliation to the final audited balance sheet.

(2) The amended 2022 Business Plan & Budget (2022 BP&B) contained a budgeted use of NERC Operating Contingency Reserves (OCR) totaling \$64,253 and a budgeted use of \$708,893 of Future Obligation Reserves (FOR) to help fund costs of a potential new Atlanta office space. Those costs will not materialize in 2022 and the money will go back into the NERC OCR and FOR.

The 2022 BP&B included a use of System Operator Reserves derived from budgeted revenues being \$86,212 lower than budgeted expenses.

The 2022 BP&B also contained \$300,000 to build the balance in the CRISP Operating Reserve.

(3) The unbudgeted addition to the Future Obligation Reserve of \$882,756 is primarily the result of lease concessions at the current Atlanta office that will be applied to future rent expense over the remainder of the Atlanta lease.

An increase of \$735,000 in the Assessment Stabilization Reserve is due to the unbudgeted collection of penalties.

(4) This column primarily reflects the net impact of normal operations. For example, under normal circumstances, if tracking well under budget in actual expenditures, this would reflect additional funds into the reserve account. It also reflects the increase or decrease in working capital during the period.

For the CRISP Special Projects Reserve, any amount remaining at the end of 2022 will be incorporated into the CRISP Operating Reserve.

## Schedule 2 – IT Projects (> \$250k)

Projects in Progress	Project Budget <sup>(1)</sup>	Actual Spend to Date	Expected Spend	Expected Over (Under) Budget
Align Release 4.5 <sup>(2)</sup>	\$ -	\$ 262,490	\$ 400,000	\$ 400,000
Disaster Recovery	490,000	450,160	490,000	-

Projects Completed in 2022	Project Budget	Actual Spend
E-ISAC Portal Replacement (fixed contract) <sup>(3)</sup>	\$ 259,680	\$ 259,680
CRISP Operational Technology Project <sup>(3)</sup>	426,000	366,975
Align Enhancements/Release 4.0	300,000	371,553

**NOTES:**

(1) The Project Budget noted above usually corresponds to the approved business case if required for each project and funds for each project are drawn from the available budget.

(2) The Align Release 4.5 project was not specifically identified in the 2022 BP&B, but is being funded by a portion of the 2022 budgeted Align and SEL enhancements and deferral of other software projects.

(3) The amounts do not include internal labor or license/maintenance/support costs and reflect only external (consultant) costs of the projects.

\* Some of these projects span multiple years, so the amounts above do not represent a single budget year expenditure.



## **Schedule 2 (continued) – IT Projects**

### **Align Release 4.5**

(Started Q1 2022 / Estimated Completion Q4 2022)

This will include required functionality for Inherent Risk Assessments (IRAs) and Compliance Oversight Planning (COPs).

### **Disaster Recovery**

(Started Q1 2022 / Estimated Completion Q4 2022)

This project will provide NERC with the capability to securely fail over and restore our network of our Tier 0 and Tier 1 mission critical applications in response to a malicious event or unplanned outage.

### **E-ISAC Portal Replacement**

(Started Q3 2020 / Completed Q1 2022)

This project re-platformed the current portal and ticket/case system, which combined the functions and services into a single E-ISAC Sharing Platform (ESP) solution, allowing members, partners, and the E-ISAC staff to interact more effectively and efficiently.

### **CRISP Operational Technology Pilot**

(Started Q4 2020 / Completed Q2 2022)

This project will promote E-ISAC analyst training and capabilities through guided-hunt participation and development of other cyber security threat intelligence best practices (such as generation of analytics and playbooks). The project is being funded through CRISP and benefit its participants, but will enrich the overall threat intelligence capabilities of the E-ISAC.

### **Align Enhancements/Release 4.0**

(Started Q1 2022 / Completed Q2 2022)

This work included enhancements from Release 3 (audit and scheduling) as requested and approved by the Align Steering Committee. It also includes platform performance and optimization enhancements resulting from the December 2021 outage event.

### Schedule 3 – E-ISAC and CRISP Summary of Activity

#### TOTAL E-ISAC (including CRISP)

FUNDING	YTD Actual	Annual Projection	Annual Budget	Projected Over (Under)
Assessments	\$ 18,851,925	\$ 25,135,900	\$ 25,135,900	\$ -
Other Funding	6,217,361	9,082,380	8,011,505	1,070,876
<b>TOTAL FUNDING</b>	<b>\$ 25,069,286</b>	<b>\$ 34,218,280</b>	<b>\$ 33,147,405</b>	<b>\$ 1,070,876</b>
<b>EXPENDITURES</b>				
Personnel Expense	\$ 7,265,796	\$ 9,827,483	\$ 10,430,408	\$ (602,926)
Meetings and Travel Expense	151,980	293,054	324,000	(30,946)
Operating Expenses (excluding Depreciation)	6,532,522	12,004,191	10,379,706	1,624,485
Other Non-Operating Expenses	-	-	-	-
Fixed Asset Purchases (excluding Fixed Asset Allocation)	70,586	41,250	91,250	(50,000)
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	-	-
<b>Total Direct Costs (excluding Depreciation and Allocations)</b>	<b>\$ 14,020,883</b>	<b>\$ 22,165,977</b>	<b>\$ 21,225,364</b>	<b>\$ 940,613</b>
Indirect Expense Allocation	7,756,514	11,239,383	10,944,281	295,102
Fixed Asset Allocation	117,441	707,342	1,132,166	(424,824)
Net Financing Activity Allocation	(63,175)	(528,727)	(454,407)	(74,320)
<b>TOTAL EXPENDITURES (excluding Depreciation, including Allocations)</b>	<b>\$ 21,831,664</b>	<b>\$ 33,583,976</b>	<b>\$ 32,847,405</b>	<b>\$ 736,571</b>
<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 3,237,622</b>	<b>\$ 634,304</b>	<b>\$ 300,000</b>	<b>\$ 334,304</b>

### Schedule 3 (continued) – E-ISAC and CRISP Summary of Activity

CRISP				
FUNDING	YTD Actual	Annual Projection	Annual Budget	Projected Over (Under)
Assessments	\$ 1,016,927	\$ 1,355,903	\$ 1,355,903	\$ -
Other Funding	6,144,168	8,962,867	7,929,423	1,033,444
<b>TOTAL FUNDING</b>	<b>\$ 7,161,096</b>	<b>\$ 10,318,770</b>	<b>\$ 9,285,326</b>	<b>\$ 1,033,444</b>
<b>EXPENDITURES</b>				
Personnel Expense	\$ 729,619	\$ 976,430	\$ 1,095,553	\$ (119,123)
Meetings and Travel Expense	58,349	62,827	34,000	28,827
Operating Expenses (excluding Depreciation)	4,099,490	8,390,685	6,814,761	1,575,924
Other Non-Operating Expenses	-	-	-	-
Fixed Asset Purchases (excluding Fixed Asset Allocation)	70,586	-	-	-
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	-	-
Total Direct Costs (excluding Depreciation and Allocations)	\$ 4,958,045	\$ 9,429,941	\$ 7,944,314	\$ 1,485,627
Indirect Expense Allocation	577,982	1,301,144	980,303	320,841
Fixed Asset Allocation	8,751	81,887	101,411	(19,524)
Net Financing Activity Allocation	(4,707)	(61,209)	(40,702)	(20,507)
<b>TOTAL EXPENDITURES (excluding Depreciation, including Allocations)</b>	<b>\$ 5,540,070</b>	<b>\$ 10,751,763</b>	<b>\$ 8,985,326</b>	<b>\$ 1,766,437</b>
<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 1,621,026</b>	<b>\$ (432,993)</b>	<b>\$ 300,000</b>	<b>\$ (732,993)</b>

**Note** - In its July 8, 2022 order in Docket No. RR21-9-001, the Commission held that expenditure of funds paid by new CRISP participants for costs associated with joining the program should be included in NERC's quarterly variance reports and annual true-up filings. Accordingly, NERC notes that year-to-date billings sent by NERC to new CRISP participants related to the program's third-party subcontractor total approximately \$330k. Year-to-date expenses sent by the third-party contractor to NERC for new CRISP participants totals approximately \$200k.

### E-ISAC (excluding CRISP)

FUNDING	YTD Actual	Annual Projection	Annual Budget	Projected Over (Under)
Assessments	\$ 17,834,998	\$ 23,779,997	\$ 23,779,997	\$ -
Other Funding	73,193	119,513	82,082	37,432
<b>TOTAL FUNDING</b>	<b>\$ 17,908,190</b>	<b>\$ 23,899,510</b>	<b>\$ 23,862,079</b>	<b>\$ 37,432</b>
<b>EXPENDITURES</b>				
Personnel Expense	\$ 6,536,177	\$ 8,851,053	\$ 9,334,855	\$ (483,802)
Meetings and Travel Expense	93,630	230,227	290,000	(59,773)
Operating Expenses (excluding Depreciation)	2,433,032	3,613,506	3,564,945	48,561
Other Non-Operating Expenses	-	-	-	-
Fixed Asset Purchases (excluding Fixed Asset Allocation)	-	41,250	91,250	(50,000)
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	-	-
Total Direct Costs (excluding Depreciation and Allocations)	\$ 9,062,839	\$ 12,736,035	\$ 13,281,050	\$ (545,014)
Indirect Expense Allocation	7,178,533	9,938,239	9,963,978	(25,739)
Fixed Asset Allocation	108,689	625,456	1,030,756	(405,300)
Net Financing Activity Allocation	(58,467)	(467,518)	(413,705)	(53,813)
<b>TOTAL EXPENDITURES (excluding Depreciation, including Allocations)</b>	<b>\$ 16,291,594</b>	<b>\$ 22,832,212</b>	<b>\$ 23,862,079</b>	<b>\$ (1,029,866)</b>
<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 1,616,597</b>	<b>\$ 1,067,298</b>	<b>\$ -</b>	<b>\$ 1,067,298</b>

### Schedule 4 – Summary of Investments

	Quarter-End Balance	Ticker Symbol	Fund Name	S&P Credit Rating	Average Annualized Yield
<u>Cash Sweep Accounts</u>					
Operating Account Sweep	\$ 25,087,973	TDDXX	BlackRock Liquidity Fund FedFund Dollar	AAAm	2.06%
SOCED Account Sweep	1,194,021	TDDXX	BlackRock Liquidity Fund FedFund Dollar	AAAm	2.06%
CRISP Account Sweep	10,042,628	TDDXX	BlackRock Liquidity Fund FedFund Dollar	AAAm	2.06%
<u>Total Cash Sweep Accounts</u>	<u>\$ 36,324,622</u>				
<u>Investment Account</u>					
Reserve Funds	\$ 10,042,628		IAM OCIO Principal - IAM Bank Sweep		3.10%
<u>Total Investments</u>	<u>\$ 10,042,628</u>				

# NERC

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

Agenda Item 2(a)(i)

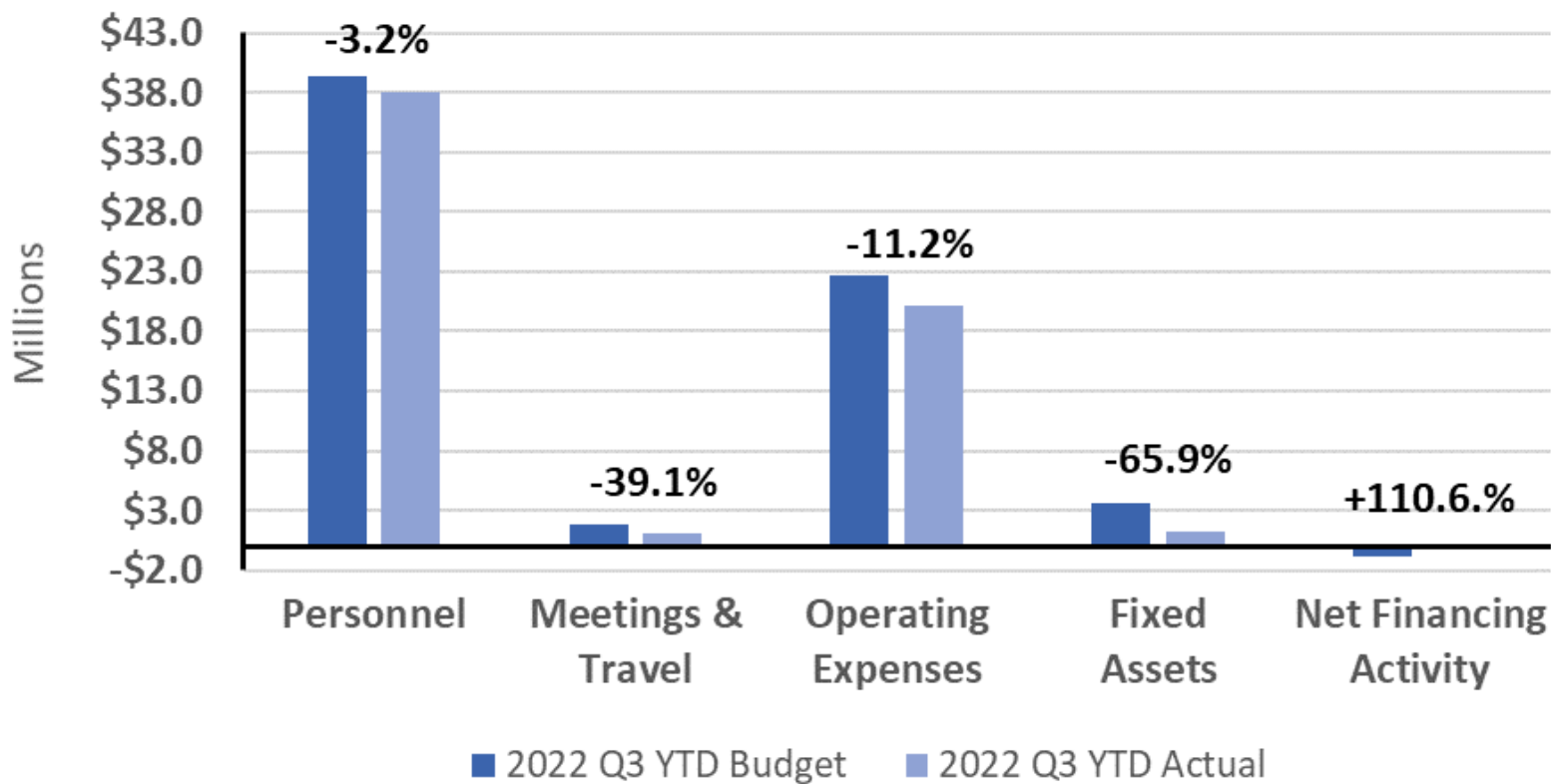
# NERC Summary of Unaudited Results as of September 30, 2022

Meg Leonard, Controller  
Finance and Audit Committee Meeting  
November 7, 2022

**RELIABILITY | RESILIENCE | SECURITY**

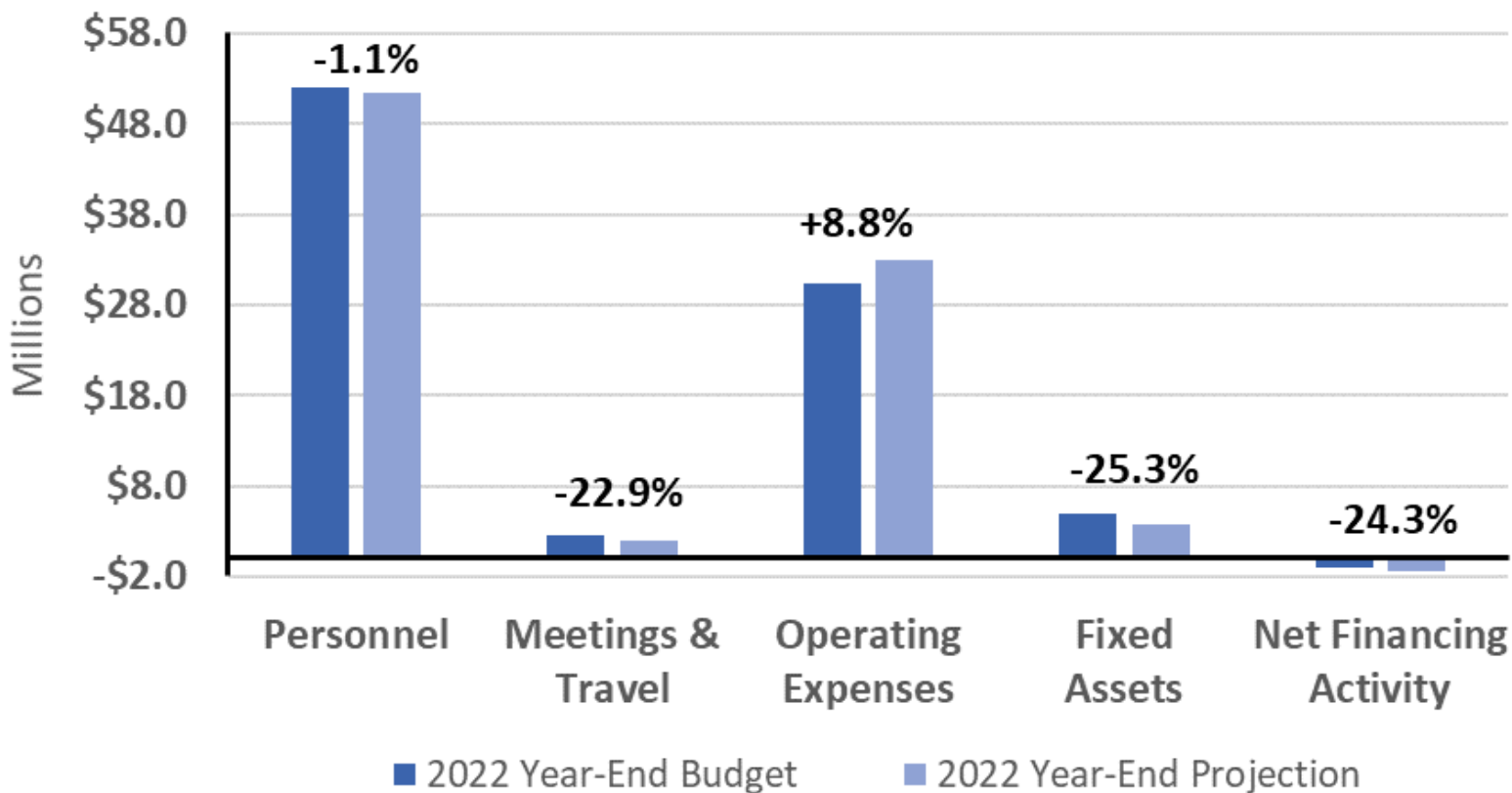


- Total funding – At budget
- Total expenditures – \$6.1M (9.1%) under budget
  - Lower personnel, contracts and consultants, and fixed asset additions
  - Decreased spending on meetings and travel due to the pandemic
  - Partially offset by higher net financing activity
- Reserve increase \$6.1M higher than budget



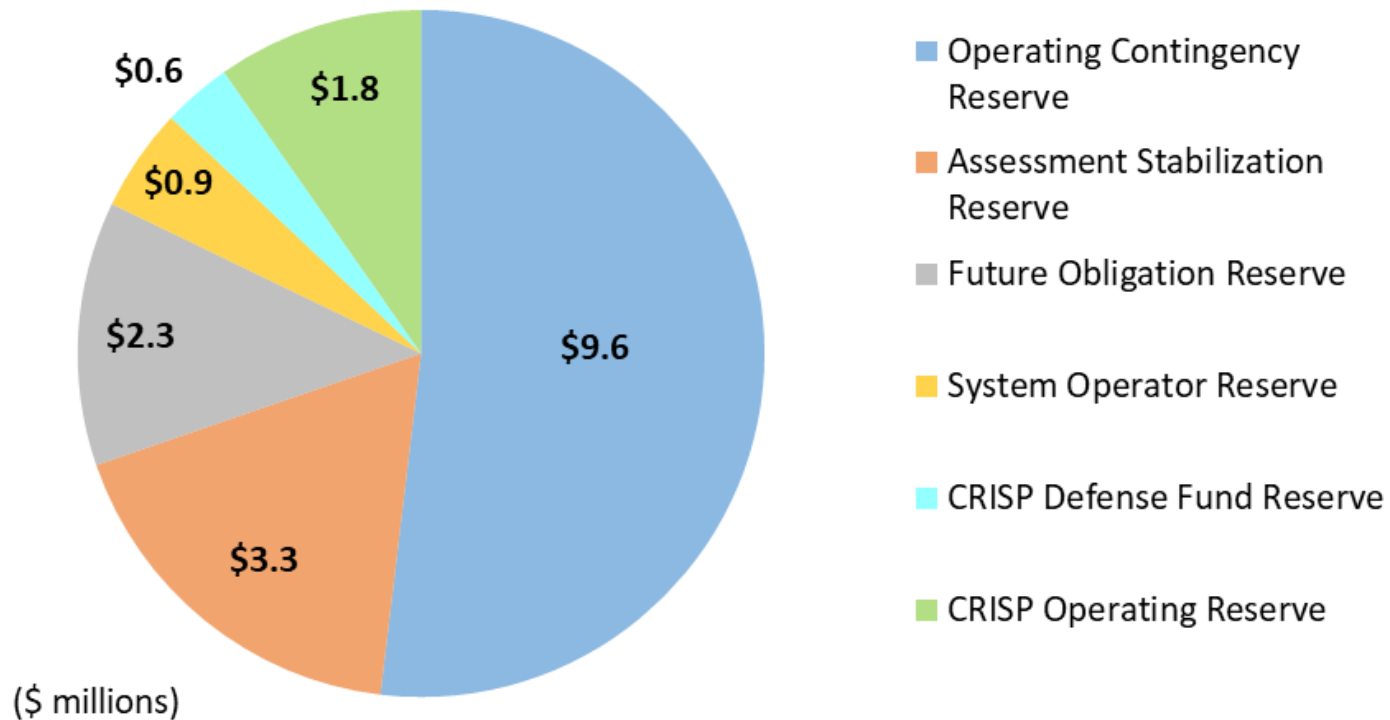
- Funding – \$1.3M (1.5%) over budget
  - CRISP third-party funding
- Total expenditures – At budget
  - Higher contracts and consultants, office costs, and professional services
  - Offset by lower personnel, meeting and travel expenses, and fixed asset additions
- Reserve increase \$1.3M higher than budget





- Operating Contingency Reserve (OCR)
  - Began year with \$8.7M
    - Budgeted use of \$65k to fund Atlanta leasehold improvements/equipment
    - Projected increase from 2022 operating activity \$968k
    - Projected ending balance of \$9.6M
- Assessment Stabilization Reserve (ASR)
  - Began year with \$2.5M
    - Added \$735k in 2022 penalties collected
    - Projected ending balance of \$3.3M

## TOTAL RESERVES OF \$18.5M





# Questions and Answers

## Total ERO Enterprise (NERC and Regional) Summary of Unaudited Results

September 30, 2022

The ERO Enterprise was under budget \$11.0M (6.6%) for combined expense and fixed asset (capital) spending and net financing activity. The budget variances ranged from 12.4% under budget to 0.8% over budget. The year-end projection for the ERO Enterprise is to be under budget \$2.2M (1.0%).

### Total Budget (Total Expenses plus Fixed Assets & Net Financing Activity)

Entity	2022 YTD		Over (Under)		2022 Year-End		Over (Under)	
	Actual	Budget	\$	%	Projected	Budgeted	\$	%
NERC	\$ 60,828,786	\$ 66,895,967	\$ (6,067,181)	(9.1%)	\$ 88,877,517	\$ 88,828,285	\$ 49,232	0.1%
MRO	14,308,326	15,025,772	(717,445)	(4.8%)	19,564,544	20,034,362	(469,818)	(2.3%)
NPCC	11,375,666	12,988,998	(1,613,332)	(12.4%)	16,586,115	17,465,133	(879,018)	(5.0%)
RF	19,130,592	19,793,654	(663,062)	(3.3%)	25,513,273	26,219,927	(706,654)	(2.7%)
SERC	19,486,881	19,333,164	153,717	0.8%	26,735,000	26,708,260	26,740	0.1%
Texas RE	11,173,496	12,299,545	(1,126,049)	(9.2%)	16,942,613	17,160,613	(218,000)	(1.3%)
WECC	20,743,466	21,741,818	(998,352)	(4.6%)	29,768,681	29,746,899	21,782	0.1%
	<b>\$ 157,047,213</b>	<b>\$ 168,078,917</b>	<b>\$ (11,031,704)</b>	<b>(6.6%)</b>	<b>\$ 223,987,743</b>	<b>\$ 226,163,479</b>	<b>\$ (2,175,736)</b>	<b>(1.0%)</b>

- NERC was under budget \$6.1M (9.1%) primarily because lower personnel, meeting, travel, contractor and consultant, and fixed asset addition costs, and was partially offset by higher net financing activity. The company expects to be over budget \$49k (0.1%) at year-end, which is predominately due to higher contractor and consultant and professional services costs associated with the Cybersecurity Risk Information Sharing Program (CRISP), which will be partially offset to lower spending in other categories. The majority of this will be funded by revenues from CRISP participants or CRISP reserves.
- MRO was under budget \$717k (4.8%), mainly as a result of lower meetings and travel expenses due to MRO's hybrid approach to meetings with fewer in-person attendees, lower office costs as a result of the hybrid work environment, and other operating expenses trending lower than anticipated, offset by higher fixed asset expenditures due to an incomplete audio visual (AV) project from the prior year and an unbudgeted replacement of conference room carpet. The company expects to be under budget \$470k (2.3%) at year-end.
- NPCC was under budget \$1.6M (12.4%) mainly as a result of lower meetings and travel expenses due to the pandemic and lower-than-budgeted personnel expenses. The company expects to be under budget \$879k (5.0%) at year-end.
- RF was under budget \$663k (3.3%) mainly because of lower than budgeted travel, meetings, and training due to the pandemic and lower than budgeted salaries due to an FTE count that was under the anticipated staffing levels in the first half of the year. These items were partially offset by higher-than-expected computer hardware and software, contracts and consultants,

professional services, and rent and utility expenses. The company expects to be under budget \$707k (2.7%) at year-end.

- SERC was over budget \$154k (0.8%) largely due to timing of expenditures. The company expects to be over budget \$27k (0.1%) at year-end.
- Texas RE was under budget \$1.1M (9.2%) primarily due to FTE vacancies in the Compliance department and travel not being fully engaged until Q3. This was offset by higher-than-anticipated costs for meetings and conference calls due to outside services for the virtual feed of the Extreme Events workshop, earlier-than-expected contracts and consultants expenses, unbudgeted professional services expenses, and higher office costs due to items for the new office space not meeting the capitalization threshold. The company expects to be under budget \$218k (1.3%) at year-end.
- WECC was under budget \$998k (4.6%) primarily due to the net of an underrun in personnel and meeting expenses and timing differences in consulting. The company expects to be over budget \$22k (0.1%) at year-end.

## Variations by Expense, Fixed Asset, and Net Financing Activity Categories

### Personnel Expenses

For the ERO Enterprise, personnel expenses, consisting of salaries, payroll taxes, benefits, and retirement costs, were collectively under budget \$4.4M (3.7%), ranging from 12.1% under budget to 0.8% under budget. The ERO Enterprise was under budget in FTEs by 42.5 (5.6%). The year-end projection for ERO Enterprise personnel expenses is to be under budget \$2.1M (1.3%), with FTEs under budget 2.4%. Significant variances are explained below.

Entity	Personnel Expenses					FTEs*				
	2022 YTD Actual	2022 YTD Budget	Over (Under) \$	Over (Under) %	Projected Year-End Variance	2022 YTD Actual	2022 YTD Budget	Over (Under) %	Over (Under) %	Projected Year-End Variance
NERC	\$ 38,089,816	\$ 39,363,843	\$ (1,274,027)	(3.2%)	(1.1%)	216.2	223.7	(7.6)	(3.4%)	(3.2%)
MRO	11,266,384	11,457,736	(191,352)	(1.7%)	(1.5%)	65.5	71.0	(5.5)	(7.7%)	(4.2%)
NPCC	9,045,750	9,767,856	(722,106)	(7.4%)	(4.1%)	43.1	47.9	(4.8)	(10.1%)	(9.5%)
RF	16,494,008	17,005,482	(511,474)	(3.0%)	(3.5%)	87.0	88.6	(1.6)	(1.9%)	(1.9%)
SERC	15,819,654	15,945,345	(125,691)	(0.8%)	1.2%	100.0	104.0	(4.0)	(3.8%)	0.0%
Texas RE	8,324,508	9,465,713	(1,141,205)	(12.1%)	(1.3%)	59.0	66.0	(7.0)	(10.6%)	0.0%
WECC	16,917,171	17,379,554	(462,383)	(2.7%)	(0.2%)	140.5	152.5	(12.0)	(7.9%)	(1.3%)
	<b>\$ 115,957,290</b>	<b>\$ 120,385,529</b>	<b>\$ (4,428,238)</b>	<b>(3.7%)</b>	<b>(1.3%)</b>	<b>711.2</b>	<b>753.7</b>	<b>(42.5)</b>	<b>(5.6%)</b>	<b>(2.4%)</b>

\* Represents equivalent full time positions from a budget and actual financial perspective and does not necessarily represent headcount.

- NERC was under budget \$1.3M (3.2%) largely as a result of lower (1) salaries and retirement cost due to lower-than-budgeted FTEs, (2) medical insurance premiums, (3) relocation expenses, and (4) parking and transportation benefits mainly attributable to a hybrid workforce. The company expects to be under budget \$578k (1.1%) at year-end.

- NPCC was under budget \$722k (7.4%) mainly as a result of several open positions and lower-than-budgeted medical insurance premiums. The company expects to be under budget \$532k (4.1%) at year-end based on planned onboarding dates for new hires.
- RF was under budget \$511k (3.0%) primarily due to personnel count that was below the approved staffing levels during the first half of the year. This variance was also impacted by underutilized budgeted training because of the cancellation of training activities due to the pandemic. The company expects to be fully staffed, but under budget by \$779k (3.5%) at year-end due to the lower than budgeted staffing levels in the first half of the year.
- Texas RE was under budget \$1.1M (12.1%) predominately due to vacancies in the Compliance department, and employee benefits are lower than budgeted due to health benefits not increasing as projected. The company expects to be fully staffed and near budget at year-end.
- WECC was under budget \$462k (2.7%) primarily due to due to an unanticipated health insurance premium rebate, budgeted benefits enrollment level assumptions compared to actual, and lower-than-anticipated use of the Health Reimbursement Account (HRA). The company expects to be near budget at year-end.

### Meetings, Conference Calls, and Travel Expenses

For the ERO Enterprise, meetings, conference calls, and travel expenses were collectively under budget \$2.8M (49.7%). All entities were under budget because of decreased meeting and travel expenses due to the pandemic. The year-end projection for the ERO Enterprise is to be under budget \$2.8M (34.4%).

Meetings, Conference Calls, and Travel Expenses							
Entity	2022 Budget	Meetings & Conference Calls		2022 Actual	Over (Under)		Projected Year- End Variance to Budget
		Over (Under)	Travel Over (Under)		\$	%	
NERC	\$ 1,851,975	\$ (350,820)	\$ (373,527)	\$ 1,127,628	\$ (724,347)	(39.1%)	(22.9%)
MRO	570,410	(64,350)	(309,806)	196,255	(374,155)	(65.6%)	(54.1%)
NPCC	497,795	(127,229)	(276,299)	94,268	(403,527)	(81.1%)	(42.9%)
RF	658,005	(115,255)	(281,274)	261,476	(396,529)	(60.3%)	(49.9%)
SERC	906,952	21,369	(336,167)	592,154	(314,798)	(34.7%)	(34.4%)
Texas RE	283,488	4,939	(140,124)	148,303	(135,185)	(47.7%)	(36.7%)
WECC	802,682	(115,207)	(304,981)	382,494	(420,188)	(52.3%)	(28.6%)
	<b>\$ 5,571,308</b>	<b>\$ (746,552)</b>	<b>\$ (2,022,178)</b>	<b>\$ 2,802,578</b>	<b>\$ (2,768,730)</b>	<b>(49.7%)</b>	<b>(34.4%)</b>

### Operating Expenses

For the ERO Enterprise, operating expenses, consisting of contracts and consultants expenses, office rent, office costs, professional services, and miscellaneous costs, were collectively under budget \$3.0M (7.7%). The year-end projection for the ERO Enterprise is to be over budget \$3.3M (6.3%). Significant variances are explained below.

Operating Expenses

Entity	2022 Budget	Contracts & Consulting Expenses		Professional Services			2022 Actual	Over (Under)		Projected Year-End Variance to Budget
		Over (Under)	Office Rent Over (Under)	Office Costs Over (Under)	Over (Under)	Miscellaneous Over (Under)		\$	%	
NERC	\$ 22,714,837	\$ (2,281,340)	\$ (200,470)	\$ (235,211)	\$ 228,364	\$ (51,596)	\$ 20,174,584	\$ (2,540,253)	(11.2%)	8.8%
MRO	2,903,876	(133,480)	(74,944)	(97,080)	(102,346)	-	2,496,025	(407,850)	(14.0%)	(3.0%)
NPCC	2,908,796	(401,354)	(58,365)	(211,723)	86,677	(35,716)	2,288,316	(620,480)	(21.3%)	(6.1%)
RF	2,045,167	125,424	95,472	(38,677)	46,920	5,842	2,280,148	234,981	11.5%	17.3%
SERC	2,480,867	199,657	(6,642)	141,904	(50,735)	-	2,765,051	284,184	11.5%	(0.4%)
Texas RE	2,230,344	52,530	(134,867)	327,447	(99,995)	-	2,375,459	145,115	6.5%	3.2%
WECC	4,011,287	(273,464)	5,724	37,136	90,725	-	3,871,408	(139,879)	(3.5%)	8.3%
	<b>\$ 39,295,174</b>	<b>\$ (2,712,026)</b>	<b>\$ (374,092)</b>	<b>\$ (76,204)</b>	<b>\$ 199,611</b>	<b>\$ (81,470)</b>	<b>\$ 36,250,992</b>	<b>\$ (3,044,182)</b>	<b>(7.7%)</b>	<b>6.3%</b>

- NERC was under budget \$2.5M (11.2%) primarily due to timing of costs versus the budget in contracts and consultant expenses, with a large part due to the CRISP third party subcontractor costs. The company expects to be over budget \$2.7M (8.8%) at year-end, mainly as a result of (1) CRISP costs, including expenses from the CRISP third party subcontractor for new program participants (funded by revenues from the new participants), replacement of equipment for existing program participants (funded by revenues from those participants), costs for OT pilot projects (funded by the CRISP Special Projects Reserve), and cloud-based ISDs project costs (funded by CRISP Operating Reserves) and (2) the need for two IT security contractors that were not budgeted (which will be partially funded by the deferral of FTEs in other departments).
- MRO was under budget \$408k (14.0%), which is attributable to reduced spending in contracts consultants, office rent, and office costs as MRO realizes the impact of its hybrid work environment. The company expects to be 3.0% under budget at year-end.
- NPCC was under budget \$620k (21.3%) predominately due to lower than budgeted contract expenses and IT expenses. The company expects to be \$245k (6.1%) under budget at year-end.
- RF was over budget \$235k (11.5%) primarily due to the timing of contracts and consultants expenses for IT projects and unbudgeted data analytics support and security enhancements, increased rent and utilities related to an office expansion and extension, and an additional professional services costs for an independent director approved by the Board in May 2021. The company expects to be over budget \$492k (17.3%) at year-end primarily due to the same reasons.
- SERC was over budget \$284k (11.5%) primarily because of contractor and consulting support used to backfill vacant positions and higher-than-anticipated software renewal costs. The company expects to be slightly over budget \$17k (0.4%) at year-end due to planned deferrals on certain IT projects and RAPA studies.
- Texas RE was over budget \$145k (6.5%) due to increased contracts and consultants expenses related to a compensation study completed earlier in the year than expected and an unbudgeted IT Leadership Team Cross Function consultant, offset by lower professional services costs due to unused legal fees and an external IT audit that will not occur. The company expects to be over budget \$100k (3.2%) at year-end.



- WECC was under budget \$140k (3.5%) primarily due to the net of timing of IT consulting and modeling enhancement consulting budgeted for in 2021 but completed in early 2022. The company expects to be over budget \$434k (8.3%) at year-end primarily due to the procurement of the PI Historian Database system (funded by the Peak Reliability Donation), unbudgeted legal fees related to unanticipated regulatory activities, unbudgeted consulting for knowledge transfer efforts on protection and controls standards, and higher-than-anticipated renewal rates of insurance policies.

### Indirect Expense Allocation

NPCC and WECC allocate overhead expenses to their non-statutory functions. Through the second quarter, NPCC allocated \$55k (20.6%) less than budgeted and WECC allocated \$11k (2.2%) more than budgeted. At year-end, NPCC expects to allocate \$54k (15.0%) less than budgeted and WECC expects to allocate \$38k (5.5%) more than budgeted.

### Fixed Asset (Capital) Additions

For the ERO Enterprise, fixed asset (capital) additions were under budget \$1.8M (43.9%). The year-end projection for the ERO Enterprise is to be under budget \$484k (7.9%). Significant variances are explained below.

Entity	Fixed Asset Additions							
			Over (Under)				Over (Under)	
	2022 YTD Actual	2022 YTD Budget	\$	%	2022 Year-End Projected	2022 Year-End Budgeted	\$	%
NERC	\$ 1,258,256	\$ 3,689,062	\$ (2,430,806)	(65.9%)	\$ 3,672,741	\$ 4,918,750	\$ (1,246,009)	(25.3%)
MRO	349,662	93,750	255,912	273.0%	406,044	125,000	281,044	224.8%
NPCC	160,723	83,363	77,361	92.8%	271,150	111,150	160,000	143.9%
RF	94,960	85,000	9,960	11.7%	189,599	120,000	69,599	58.0%
SERC	310,022	-	310,022	0.0%	495,000	264,000	231,000	87.5%
Texas RE	-	-	-	0.0%	512,000	512,000	-	0.0%
WECC	82,463	69,594	12,869	18.5%	132,463	111,914	20,549	18.4%
	<b>\$ 2,256,086</b>	<b>\$ 4,020,769</b>	<b>\$ (1,764,682)</b>	<b>(43.9%)</b>	<b>\$ 5,678,997</b>	<b>\$ 6,162,814</b>	<b>\$ (483,817)</b>	<b>(7.9%)</b>

- NERC was under budget \$2.4M (65.9%) primarily as a result of timing of costs versus the budget for capital lease assets related to new equipment leases and IT equipment and servers, and also for leasehold improvements and office furniture budgeted for a new Atlanta office that did not materialize. The company expects to be under budget \$1.2M (25.3%) at year-end mainly because of the aforementioned leasehold improvements and office furniture related to the Atlanta office and also due to IT equipment and servers that are being leased rather than purchased.
- MRO was over budget \$256k (273.0%), which is due to the completion of a prior year budgeted AV project that was impacted by supply chain issues. The company expects to be over budget \$281k (224.8%) at year-end. Projected year-end underage from other budget areas should cover this over spend, however, working capital savings from the prior year is available to cover this cost should year-end actuals exceed projections.

- NPCC was over budget \$77k (92.8%) due to the timing of planned software development projects. The company expects to be \$160k (143.9%) over budget at year-end. Over budget fixed asset additions are offset by lower than budgeted IT operating expenses.
- RF was over budget \$10K (11.7%) due to the difference in timing of when projects were budgeted and when they are completed. The company expects to be \$70K (58.0%) over budget at year-end.
- SERC was over budget \$310k due to the ongoing Member Portal project. The company expects to be over budget \$231k (87.5%) at year-end due to completion of the Member Portal Consolidation project.
- WECC was over budget \$13k (18.5%) primarily due to the purchase of a development license for the PI Historian software, which was funded by the Peak Reliability Donation. The company expects to be over budget \$21k (18.4%) at year-end.

### **Net Financing Activity**

NERC is the only entity in the ERO Enterprise with financing activity, consisting of loan borrowing, lease financing, and principal debt service repayment for major ERO software projects, such as Align and the ERO Secure Evidence Locker (SEL), and leased AV and IT equipment.

Net financing activity is over budget by \$913k (110.6%), which means NERC made more principal payments than borrowings, due to timing differences on new equipment leases. The company is projected to be slightly under budget by \$267k (24.3%) at year-end.

### **Total ERO Enterprise Reserves**

ERO reporting of reserves includes the following three categories:

- **Working Capital and Operating Contingency Reserves (WCOCR)** – Includes excess working capital reserves and operating contingency reserves. These reserves typically have a policy target range.
- **Assessment Stabilization Reserves (ASR) and Unreleased Penalties** – Includes funds from penalties received but not yet released against assessments, and other surplus funds designated by the entity, to help reduce the volatility of future year assessments. Note that penalties received but not released are subject to timing of when they can be released to offset assessments as determined by the Rules of Procedure, with some exceptions provided with the proper request and filing of the entity's annual Business Plan and Budget as approved by FERC.
- **Other Reserves** – Includes funds set aside for a specific purpose and will offset future budgeted expense items.

### **2022 Total Reserve Summary**

The ERO Enterprise began the year with \$77.3M in total reserves, including \$43.1M in WCOCR, \$25.5M in ASR and Unreleased Penalties, and \$8.7M in Other Reserves.

The ERO Enterprise projects to end the year with \$88.7M in total reserves, including \$43.2M in WCOCR, \$35.7M in ASR and Unreleased Penalties, and \$9.8M in Other Reserves. The projected WCOCR for the end

of the year is 19.4% of the 2022 ERO Enterprise combined budget, or 2.3 months of operating expenses. The projected total reserves for the end of the year represents 39.8% of the 2022 ERO Enterprise combined budget, or 4.8 months of operating expenses.

The table below provides a summary of the reserve categories at the beginning of the year and projected year-end.

**ERO Enterprise Total Reserve Balances - 2022 Projected**

*\$ - millions*

Entity	Beginning WCOCR <sup>(1)</sup>	Beginning ASR <sup>(2)</sup> & Unreleased Penalties	Beginning Other Reserves	1/1/2022 Beginning Total Reserves	Projected Ending WCOCR <sup>(1)</sup>	Projected Ending ASR <sup>(2)</sup> & Unreleased Penalties	Projected Ending Other Reserves	12/31/2022 Projected Ending Total Reserves	Total 2022 Budget	% of Reserves to 2022 Total Budget
NERC	\$ 8.7	\$ 2.5	\$ 4.9	\$ 16.1	\$ 9.6	\$ 3.3	\$ 5.6	\$ 18.5	\$ 88.8	20.8%
MRO	5.2	3.2	-	8.4	4.2	2.8	-	7.0	18.3	38.3%
NPCC	7.0	0.5	-	7.5	6.3	0.5	-	6.8	17.5	38.9%
RF	7.7	5.3	-	13.0	8.5	3.5	-	12.0	26.9	44.6%
SERC	2.8	5.4	-	8.2	2.2	5.4	-	7.6	26.0	29.2%
Texas RE	2.0	1.9	-	3.9	1.3	-	0.6	1.9	15.6	12.2%
WECC	9.7	6.7	3.8	20.2	11.1	20.2	3.6	34.9	29.7	117.3%
	<b>\$ 43.1</b>	<b>\$ 25.5</b>	<b>\$ 8.7</b>	<b>\$ 77.3</b>	<b>\$ 43.2</b>	<b>\$ 35.7</b>	<b>\$ 9.8</b>	<b>\$ 88.7</b>	<b>\$ 222.8</b>	<b>39.8%</b>

<sup>(1)</sup> WCOCR - Working Capital & Operating Contingency Reserve - Projected 12/31/22 WCOCR is 19.4% of annual 2022 budget, or 2.3 months of budgeted expenses

<sup>(2)</sup> ASR - Assessment Stabilization Reserve

<sup>(3)</sup> Projected 12/31/22 total reserve balance is 39.8% of annual 2022 budget, or 4.8 months of budgeted operating expenses

The table below provides a summary of the projected year-end reserve balances compared to the budgeted year-end reserve balances. The projected total year-end reserve balance for the ERO Enterprise of \$88.7M is \$43.3M higher than the budgeted total year-end reserve balance of \$45.4M. A significant portion of the unbudgeted increase is due to penalty collections by the Regional Entities in 2022, with some of the remaining difference due to higher-than-budgeted reserve balances at the beginning of the year.

**2022 ERO Enterprise Year-End Projected versus Budgeted Reserves**

*\$ - millions*

Entity	Projected Ending WCOCR <sup>(1)</sup>	Projected Ending ASR <sup>(2)</sup> & Unreleased Penalties	Projected Ending Other Reserves	Projected Ending Total Reserves	Budgeted Ending WCOCR <sup>(1)</sup>	Budgeted Ending ASR <sup>(2)</sup> & Unreleased Penalties	Budgeted Ending Other Reserves	Budgeted Ending Total Reserves	Over/(Under) Ending WCOCR <sup>(1)</sup>	Over/(Under) Ending ASR <sup>(2)</sup> & Unreleased Penalties	Over/(Under) Ending Other Reserves	Over/(Under) Total Reserves
NERC	\$ 9.6	\$ 3.3	\$ 5.6	\$ 18.5	\$ 4.3	\$ 2.5	\$ 1.9	\$ 8.7	\$ 5.3	\$ 0.8	\$ 3.7	\$ 9.8
MRO	4.2	2.8	-	7.0	4.4	0.9	-	5.3	(0.2)	1.9	-	1.7
NPCC	6.3	0.5	-	6.8	3.8	0.4	-	4.2	2.5	0.1	-	2.6
RF	8.5	3.5	-	12.0	7.7	-	-	7.7	0.8	3.5	-	4.3
SERC	2.2	5.4	-	7.6	1.6	2.2	-	3.8	0.6	3.2	-	3.8
Texas RE	1.3	-	0.6	1.9	1.3	1.3	-	2.6	-	(1.3)	0.6	(0.7)
WECC	11.1	20.2	3.6	34.9	9.7	-	3.4	13.1	1.4	20.2	0.2	21.8
	<b>\$ 43.2</b>	<b>\$ 35.7</b>	<b>\$ 9.8</b>	<b>\$ 88.7</b>	<b>\$ 32.8</b>	<b>\$ 7.3</b>	<b>\$ 5.3</b>	<b>\$ 45.4</b>	<b>\$ 10.4</b>	<b>\$ 28.4</b>	<b>\$ 4.5</b>	<b>\$ 43.3</b>

<sup>(1)</sup> WCOCR - Working Capital & Operating Contingency Reserve

<sup>(2)</sup> ASR - Assessment Stabilization Reserve

# NERC

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

Agenda Item 2(a)(ii)

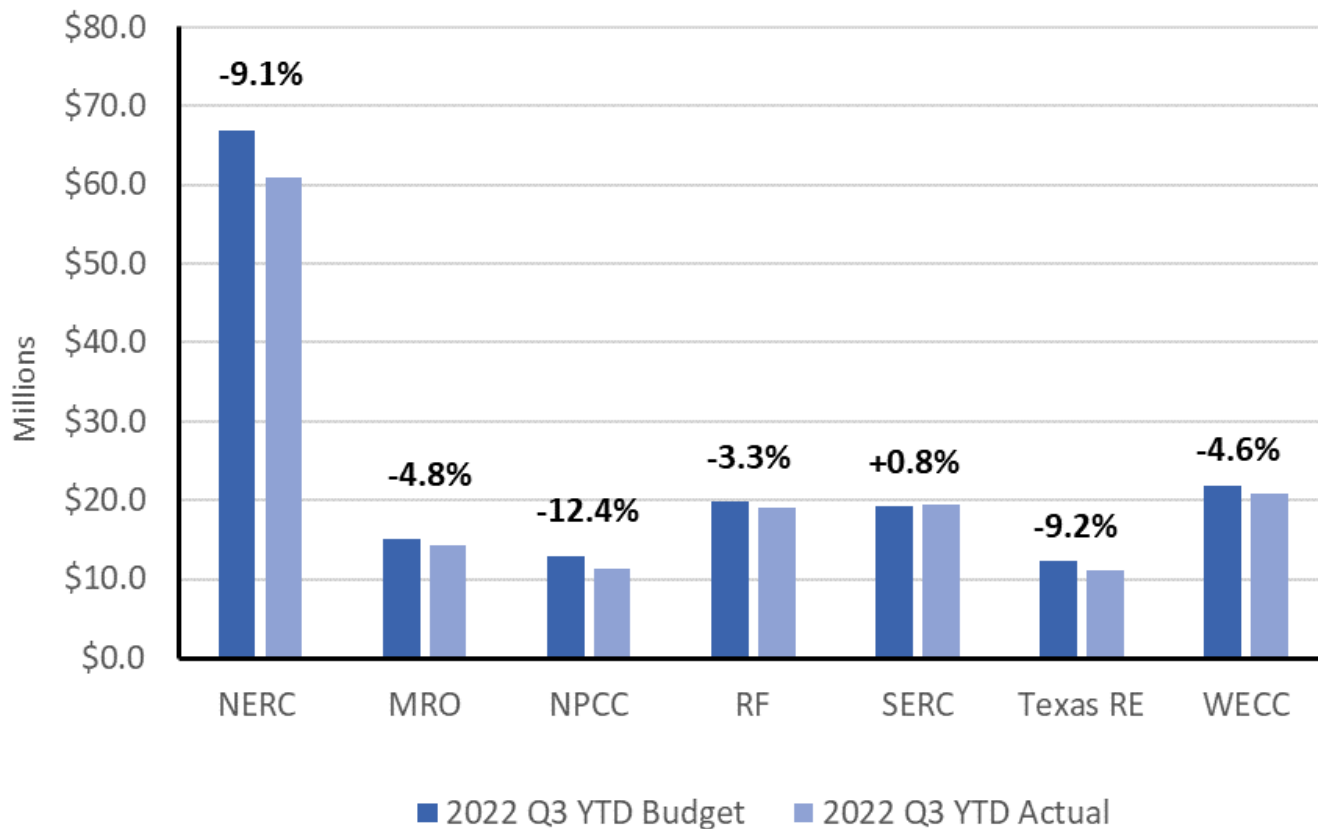
# Total ERO Enterprise Summary of Unaudited Results as of September 30, 2022

Meg Leonard, Controller  
Finance and Audit Committee Meeting  
November 7, 2022

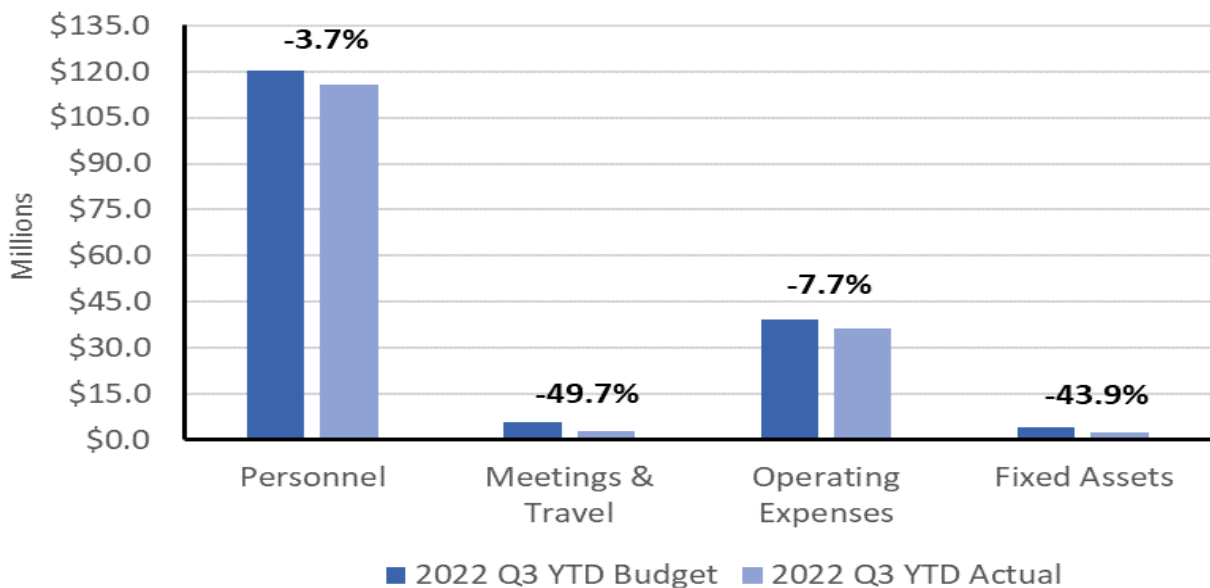
**RELIABILITY | RESILIENCE | SECURITY**



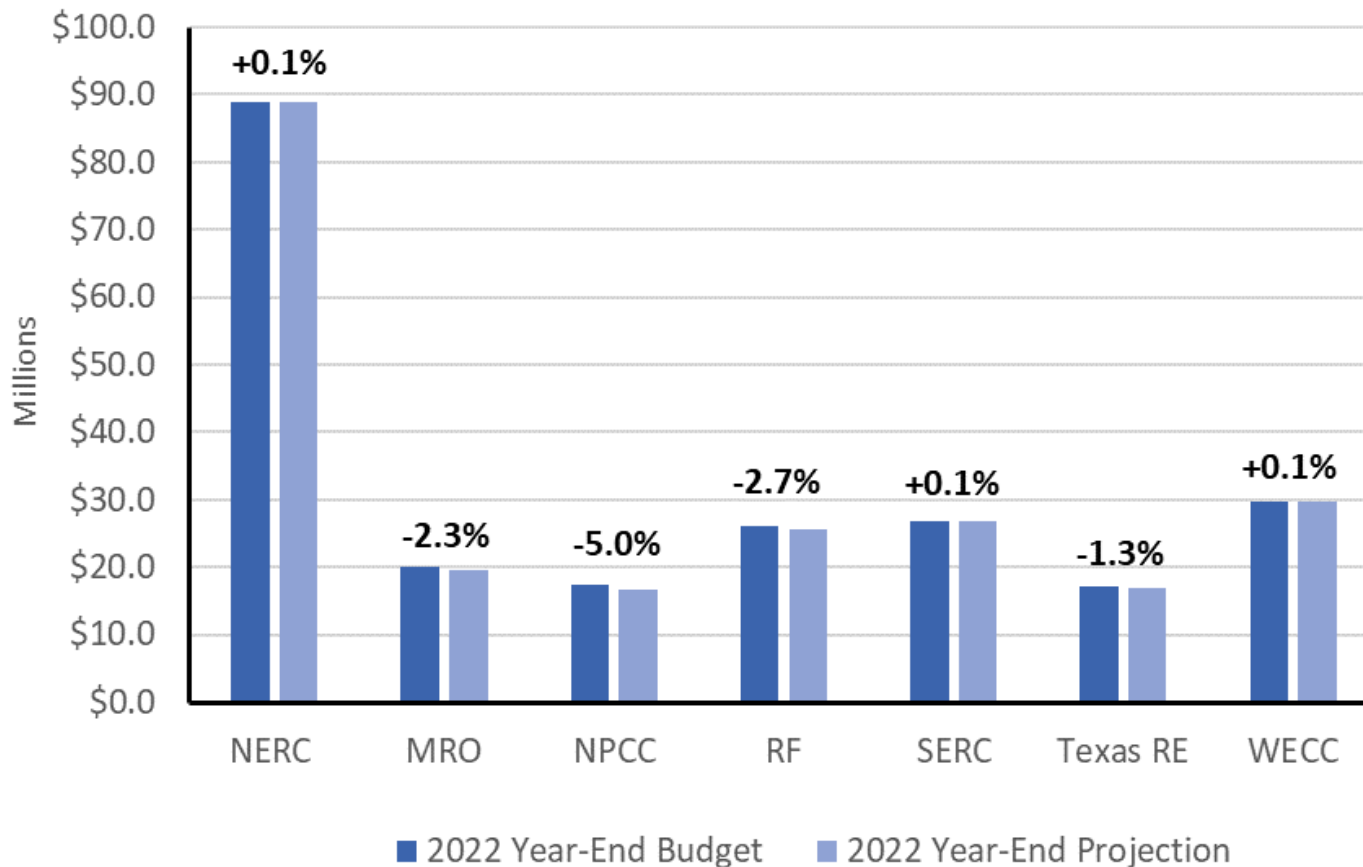
- Total expenditures for the ERO Enterprise were under budget \$11.0M (6.6%).

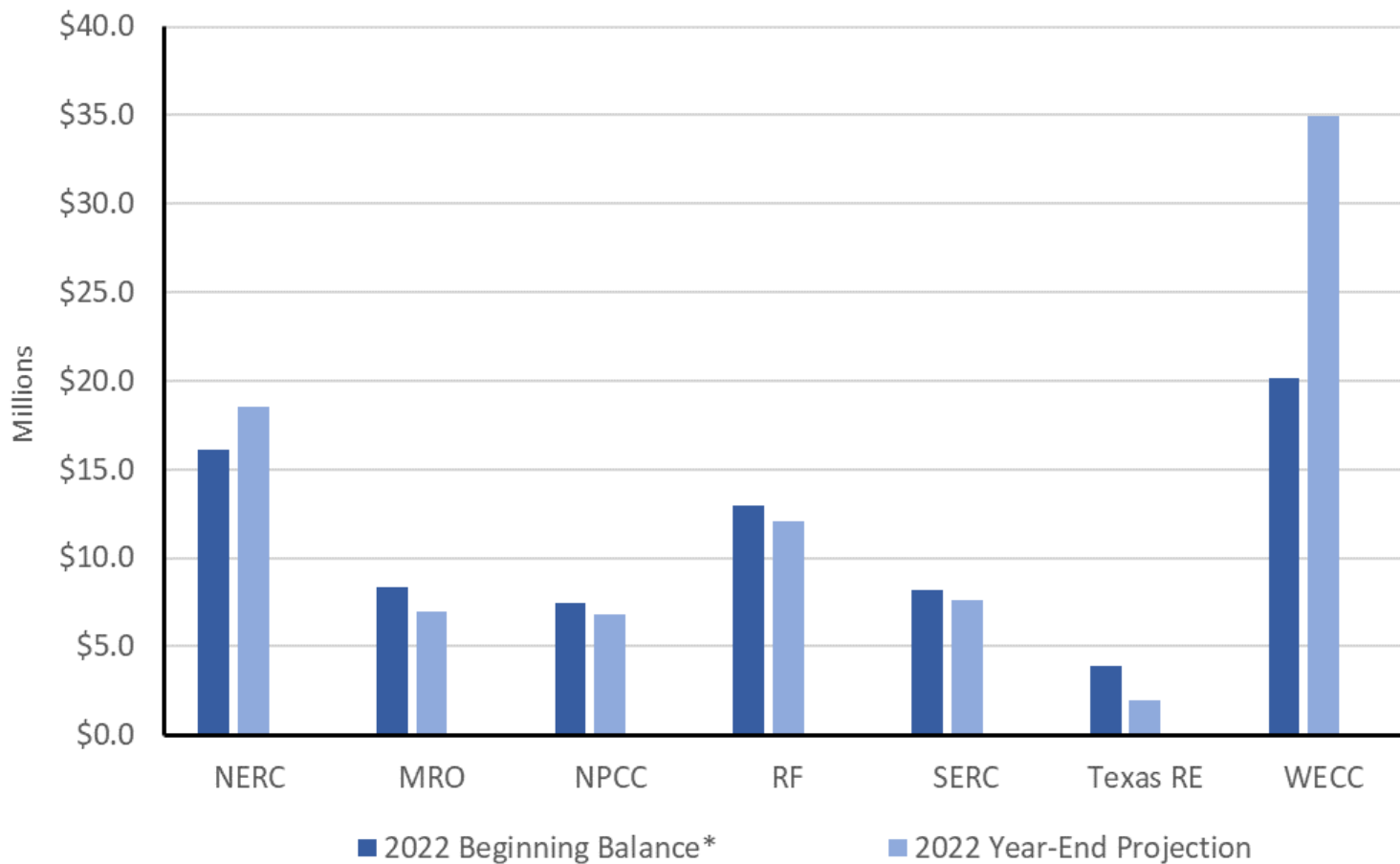


- Personnel – All entities were under budget.
- Meetings & Travel – All entities were under budget
- Operating Expenses – All entities were under budget except RF, SERC, and Texas RE
- Fixed Assets – NERC was under budget. MRO, NPCC, RF, SERC, and WECC were over budget. Texas RE had no budgeted or actual expenditures through Q3.



- The ERO Enterprise expects to be under budget \$2.2M (1.0%) at year-end.





*\*Adjusted for audited results*



## ERO Enterprise Total Reserve Balances - 2022 Projected

\$ - millions

Entity	Beginning WCOCR <sup>(1)</sup>	Beginning ASR <sup>(2)</sup> & Unreleased Penalties	Beginning Other Reserves	1/1/2022 Beginning Total Reserves	Projected Ending WCOCR <sup>(1)</sup>	Projected Ending ASR <sup>(2)</sup> & Unreleased Penalties	Projected Ending Other Reserves	12/31/2022 Projected Ending Total Reserves	Total 2022 Budget	% of Reserves to 2022 Total Budget
<b>NERC</b>	\$ 8.7	\$ 2.5	\$ 4.9	\$ 16.1	\$ 9.6	\$ 3.3	\$ 5.6	\$ 18.5	\$ 88.8	20.8%
<b>MRO</b>	5.2	3.2	-	8.4	4.2	2.8	-	7.0	18.3	38.3%
<b>NPCC</b>	7.0	0.5	-	7.5	6.3	0.5	-	6.8	17.5	38.9%
<b>RF</b>	7.7	5.3	-	13.0	8.5	3.5	-	12.0	26.9	44.6%
<b>SERC</b>	2.8	5.4	-	8.2	2.2	5.4	-	7.6	26.0	29.2%
<b>Texas RE</b>	2.0	1.9	-	3.9	1.3	-	0.6	1.9	15.6	12.2%
<b>WECC</b>	9.7	6.7	3.8	20.2	11.1	20.2	3.6	34.9	29.7	117.3%
	<b>\$ 43.1</b>	<b>\$ 25.5</b>	<b>\$ 8.7</b>	<b>\$ 77.3</b>	<b>\$ 43.2</b>	<b>\$ 35.7</b>	<b>\$ 9.8</b>	<b>\$ 88.7</b>	<b>\$ 222.8</b>	<b>39.8%</b>

<sup>(1)</sup> WCOCR - Working Capital & Operating Contingency Reserve - Projected 12/31/22 WCOCR is 19.4% of annual 2022 budget, or 2.3 months of budgeted expenses

<sup>(2)</sup> ASR - Assessment Stabilization Reserve

<sup>(3)</sup> Projected 12/31/22 total reserve balance is 39.8% of annual 2022 budget, or 4.8 months of budgeted operating expenses

# 2022 Projected Ending Reserves & Budgeted Ending Reserves

## 2022 ERO Enterprise Year-End Projected versus Budgeted Reserves

\$ - millions

Entity	Projected Ending WCOCR <sup>(1)</sup>	Projected Ending ASR <sup>(2)</sup> & Unreleased Penalties	Projected Ending Other Reserves	Projected Ending Total Reserves	Budgeted Ending WCOCR <sup>(1)</sup>	Budgeted Ending ASR <sup>(2)</sup> & Unreleased Penalties	Budgeted Ending Other Reserves	Budgeted Ending Total Reserves	Over/(Under) Ending WCOCR <sup>(1)</sup>	Over/(Under) Ending ASR <sup>(2)</sup> & Unreleased Penalties	Over/(Under) Ending Other Reserves	Over/(Under) Total Reserves
NERC	\$ 9.6	\$ 3.3	\$ 5.6	\$ 18.5	\$ 4.3	\$ 2.5	\$ 1.9	\$ 8.7	\$ 5.3	\$ 0.8	\$ 3.7	\$ 9.8
MRO	4.2	2.8	-	7.0	4.4	0.9	-	5.3	(0.2)	1.9	-	1.7
NPCC	6.3	0.5	-	6.8	3.8	0.4	-	4.2	2.5	0.1	-	2.6
RF	8.5	3.5	-	12.0	7.7	-	-	7.7	0.8	3.5	-	4.3
SERC	2.2	5.4	-	7.6	1.6	2.2	-	3.8	0.6	3.2	-	3.8
Texas RE	1.3	-	0.6	1.9	1.3	1.3	-	2.6	-	(1.3)	0.6	(0.7)
WECC	11.1	20.2	3.6	34.9	9.7	-	3.4	13.1	1.4	20.2	0.2	21.8
	<b>\$ 43.2</b>	<b>\$ 35.7</b>	<b>\$ 9.8</b>	<b>\$ 88.7</b>	<b>\$ 32.8</b>	<b>\$ 7.3</b>	<b>\$ 5.3</b>	<b>\$ 45.4</b>	<b>\$ 10.4</b>	<b>\$ 28.4</b>	<b>\$ 4.5</b>	<b>\$ 43.3</b>

<sup>(1)</sup> WCOCR - Working Capital & Operating Contingency Reserve

<sup>(2)</sup> ASR - Assessment Stabilization Reserve



# Questions and Answers



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*E: [lam.chung@mro.net](mailto:lam.chung@mro.net)*

October 20, 2022

Mr. Andy Sharp  
North American Electric Reliability Corporation (NERC)

RE: Unaudited Midwest Reliability Organization (MRO) 2022 Third Quarter Statement of Activity – Cash Flow through September 30, 2022

Dear Mr. Sharp:

MRO experienced variances greater than \$10,000 and 10 percent. Third quarter results indicate that MRO's budget is under spent by 4.8 percent.

**Meeting Expenses (Variance of \$374,155 (65.6%) under budget)**

Meetings and travel have increased but trending lower than budget. This is primarily due to the hybrid approach to conduct meetings resulting in fewer in-person attendees.

**Operating Expenses (Variance of \$407,850 (14.0%) under budget)**

Spending in consulting, contracts, office costs, and professional services did increase during the last quarter but is lower than budgeted for the year. Costs for consultants were less than anticipated. MRO used external support less than anticipated as it continues to manage its systems and processes with internal staff. Facility costs are less than budgeted due to reduction in utilities and building maintenance costs.

**Fixed Assets (Variance of \$255,774 (272.8%) over budget)**

A budgeted AV project from the prior year was completed in the current year. The result will be a 189 percent over spend in computer assets for the year.

**Budget Outlook**

Year-end projected budget results anticipate a 2.3 percent under budget performance, which is mainly a result of under spent meeting and travel costs. Salary costs are trending under budget. New hires to date have lagged turnovers for the year. It is anticipated that FTEs will be less than budgeted at year-end. Operating expenses are projecting a 3 percent under spend driven by consulting and contracts, office costs, and rent trending lower than budget while professional services are anticipated to be slightly over budget. Fixed assets will be over budget 225 percent due to the AV project as mentioned and also for an unbudgeted replacement of carpeting in the conference center. Under spend in other areas will offset the over spend in fixed assets.

If you have any questions regarding this report, please contact me. Thank you.

Lam Chung  
Vice President and Engineer for Strategy, Innovation, and Finance

Cc: Sara Patrick, MRO President and CEO



**Midwest Reliability Organization  
Statement of Activity  
9/30/2022  
PRELIMINARY (Unaudited)**

(In Whole Dollars)

	2022 YTD Actual	2022 YTD Budget	2022 YTD Variance	%	Projected 2022 End Of Year	2022 Budget	2022 Variance	%
<b>Funding</b>								
<b>ERO Funding</b>								
ERO Assessments	\$ 13,374,311	\$ 13,374,311	-		\$ 17,832,414	\$ 17,832,414	-	
Penalty Sanctions	343,688	343,688	-		458,250	458,250	-	
<b>A. Total ERO Funding</b>	<b>\$ 13,717,999</b>	<b>\$ 13,717,998</b>	<b>\$ -</b>		<b>\$ 18,290,664</b>	<b>\$ 18,290,664</b>	<b>\$ -</b>	
<b>Expenses</b>								
<b>Personnel Expenses</b>								
Salaries	\$ 8,516,590	\$ 8,562,421	(45,830)		\$ 11,355,454	\$ 11,416,561	(61,107)	
Payroll Taxes	516,598	558,125	(41,527)		703,797	744,166	(40,369)	
Benefits	890,608	895,497	(4,889)		1,191,089	1,193,996	(2,907)	
Retirement Costs	1,342,588	1,441,694	(99,106)		1,802,103	1,922,258	(120,155)	
<b>Total Personnel Expenses</b>	<b>\$ 11,266,384</b>	<b>\$ 11,457,736</b>	<b>\$ (191,352)</b>	<b>-1.7%</b>	<b>\$ 15,052,443</b>	<b>\$ 15,276,981</b>	<b>\$ (224,538)</b>	<b>-1.5%</b>
<b>Meeting Expenses</b>								
Meetings & Conference Calls	\$ 69,808	\$ 134,158	(64,350)		\$ 116,577	\$ 178,877	(62,300)	
Travel	126,447	436,253	(309,806)		232,668	581,670	(349,002)	
<b>Total Meeting Expenses</b>	<b>\$ 196,255</b>	<b>\$ 570,410</b>	<b>\$ (374,155)</b>	<b>-65.6%</b>	<b>\$ 349,245</b>	<b>\$ 760,547</b>	<b>\$ (411,302)</b>	<b>-54.1%</b>
<b>Operating Expenses</b>								
Consultants & Contracts	\$ 770,120	\$ 903,600	(133,480)		\$ 1,156,320	\$ 1,204,800	(48,480)	
Office Rent	774,131	849,075	(74,944)		1,094,963	1,132,100	(37,137)	
Office Costs	628,870	725,951	(97,080)		910,179	967,934	(57,755)	
Professional Services	322,904	425,250	(102,346)		595,350	567,000	28,350	
<b>Total Operating Expenses</b>	<b>\$ 2,496,025</b>	<b>\$ 2,903,876</b>	<b>\$ (407,850)</b>	<b>-14.0%</b>	<b>\$ 3,756,812</b>	<b>\$ 3,871,834</b>	<b>\$ (115,022)</b>	<b>-3.0%</b>
<b>Total Direct Expenses</b>	<b>\$ 13,958,664</b>	<b>\$ 14,932,022</b>	<b>\$ (973,357)</b>	<b>-6.5%</b>	<b>\$ 19,158,500</b>	<b>\$ 19,909,362</b>	<b>\$ (750,862)</b>	<b>-3.8%</b>
<b>Indirect Expenses</b>								
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>B. Total Expenses</b>	<b>\$ 13,958,664</b>	<b>\$ 14,932,022</b>	<b>\$ (973,357)</b>		<b>\$ 19,158,500</b>	<b>\$ 19,909,362</b>	<b>\$ (750,862)</b>	
<b>Net Funding less Expenses (A-B)</b>	<b>\$ (240,665)</b>	<b>\$ (1,214,024)</b>	<b>\$ 973,357</b>		<b>\$ (867,836)</b>	<b>\$ (1,618,698)</b>	<b>\$ 750,862</b>	
<b>C. Fixed Asset Additions, excluding Right of Use Assets</b>	<b>\$ 349,524</b>	<b>\$ 93,750</b>	<b>\$ 255,774</b>	<b>272.8%</b>	<b>\$ 406,044</b>	<b>\$ 125,000</b>	<b>\$ 281,044</b>	<b>224.8%</b>
<b>Total Budget (B + C)</b>	<b>\$ 14,308,188</b>	<b>\$ 15,025,772</b>	<b>\$ (717,583)</b>	<b>-4.8%</b>	<b>\$ 19,564,544</b>	<b>\$ 20,034,362</b>	<b>\$ (469,818)</b>	<b>-2.3%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>\$ (590,189)</b>	<b>\$ (1,307,774)</b>	<b>\$ 717,583</b>		<b>\$ (1,273,880)</b>	<b>\$ (1,743,698)</b>	<b>\$ 469,818</b>	
<b>Head Count</b>	64.00	71.00	(7.00)		68.00	71.00	(3.00)	
<b>FTEs</b>	66.00	71.00	(5.00)		68.00	71.00	(3.00)	
<b>Reserve Activity:</b>								
Beginning Reserves - 1/1/22	\$ 8,377,927	\$ 7,541,460	\$ 836,467		\$ 8,377,927	\$ 7,541,460	\$ 836,467	
Change to Working Capital	(590,189)	(1,307,774)	717,584		(1,273,880)	(1,743,698)	469,818	
Penalties Received	-	-	-		355,100	-	355,100	
Penalties Released	(343,688)	(343,688)	-		(458,250)	(458,250)	-	
Other Reserve Activity	-	-	-		-	-	-	
<b>Ending Reserves at 9/30/22 :</b>	<b>\$ 7,444,050</b>	<b>\$ 5,889,999</b>	<b>\$ 1,554,051</b>		<b>\$ 7,000,897</b>	<b>\$ 5,339,512</b>	<b>\$ 1,661,385</b>	
<b>Reserve Summary</b>		<b>1/1/2022</b>	<b>Additions</b>	<b>Uses/Transfer</b>	<b>12/31/2022</b>			
Working Capital & Operating Contingency		3,752,946	469,818	-	4,222,764			
Assessment Stabilization & Penalty Reserves		4,624,981	355,100	(2,201,948)	2,778,133			
Other Reserve Activity		-	-	-	-			
<b>Total Reserves</b>		<b>8,377,927</b>	<b>824,918</b>	<b>(2,201,948)</b>	<b>7,000,897</b>			



October 19, 2022

North American Electric Reliability Corporation  
3353 Peachtree Road NE  
Suite 600, North Tower  
Atlanta, GA 30326  
Attention: Mr. Andy Sharp

Subject: NPCC Regional Entity Division Variance Comparison and  
Third Quarter 2022 Statement of Activities

Dear Andy:

The variance comparison for the period ended September 30, 2022 is included along with Northeast Power Coordinating Council, Inc.'s unaudited Third Quarter 2022 Statement of Activities.

Please do not hesitate to contact me via email at [jhala@npcc.org](mailto:jhala@npcc.org) or (646) 632-7071 should you have any comments or questions with regard to the materials provided.

Sincerely,

*Jessica Hala*

Jessica Hala  
Vice President, Finance

Enclosures

cc: Mr. Charles Dickerson – NPCC President & CEO  
Mr. Christopher Weir, CPA – NPCC Treasurer  
ERO Finance Group



**NPCC Regional Entity Division  
Budget to Actual  
Variance Comparison as of September 30, 2022**

**TOTAL EXPENSES**

For the quarter ending September 30, 2022, the NPCC Regional Entity Division is \$1.6M or 12.4% under budget year to date. Based on planned activities, NPCC's current full year projection (FYP) is an under budget variance of \$879k or 5.0%. NPCC will continue to reprioritize resources as necessary to fulfill all of its responsibilities under its Regional Delegation Agreement, agreements and memorandums of understanding respecting Canadian Provinces, and the NPCC Bylaws.

**INCOME**

- **Penalty Sanctions** (Penalties released of \$201k were applied to reduce 2022 assessments to NPCC U.S. load serving entity designees.) Penalty sanctions remitted are included in NPCC's Assessment Stabilization Reserve (ASR) to be applied to future budget years to reduce assessments to NPCC U.S. load serving entity designees. Penalties are reported in NPCC's audited financial statements in accordance with GAAP.
- **Workshop Fees** (As budgeted year-to-date and \$16k under budget FYP)  
NPCC will host one in-person workshop in the fall of 2022. The workshop will be offered in a hybrid format with in-person and virtual participation options available. Workshop fees are projected to be lower than budgeted due to some virtual participation. Fees are only charged for in-person attendance at workshops in order to offset the associated expenses. There are no fees collected for virtual attendance.
- **Interest & Investment Income** (Actual income of \$19k year-to-date and \$4k under budget FYP)  
Interest & investment income is earned from the investment of excess operating cash in a 100% U.S. Treasury Securities money market fund. NPCC allocated \$19k as a portion of total interest income (94%) to the Regional Entity Division consistent with the ratio of Regional Entity (RE) to Criteria Services (CS) Division 2022 funding. A common system of accounts, with divisional separation, is used for both RE and CS revenue tracking and financial reporting.

**EXPENSES**

- **Personnel Expenses** (Variance of \$722k under budget year-to-date and \$532k under budget FYP)  
NPCC is currently recruiting to retain qualified technical individuals to fill open positions. In the interim, current responsibilities of any open positions are being addressed through resource re-allocations among the existing workforce. The under budget full year projection is based on planned onboarding dates for new hires and lower than budgeted increases in medical insurance premiums.



- **Meeting Expenses** (Variance of \$404k under budget year-to-date and \$316k under budget FYP)  
Under budget variance resulted from continued in-person meeting and travel limitations due to the COVID-19 pandemic. Meetings and travel expenses are projected to increase through year end as a result of a measured return to meeting in-person. Some meetings will continue to be held in virtual or hybrid format to allow for remote participation and greater access.
- **Consultants and Contracts** (Variance of \$401k under budget year-to-date and \$140k under budget FYP)  
Year-to-date under budget variance is primarily due to timing. Full year projected underage is related to lower than budgeted consultant expenses in several program areas.
- **Rent and Improvements** (Variance of \$58k under budget year-to-date and \$66k over budget FYP)  
Year-to-date under budget variance is due to lower than budgeted landlord operating costs. Over budget full year projection includes costs associated with the early termination of the current office lease, which would otherwise terminate in June 2024. NPCC is in the process of negotiating the terms of a new lease for a smaller office space to accommodate the hybrid work environment while realizing long term cost savings beginning in 2023.
- **Office Costs** (Variance of \$212k under budget year-to-date and \$180k under budget FYP)  
Under budget variance is due to several IT software contracts and license renewals negotiated lower than budgeted and due to timing. Under budget IT costs are offset by over budget increase in fixed assets related to software development projects.
- **Professional Services** (Variance of \$87k over budget year-to-date and \$50k over budget FYP)  
Over budget variance is due to higher than budgeted audit fees related to additional work required to complete the 2021 audit, an unbudgeted actuarial valuation of a retiree benefit plan and higher than budgeted liability insurance premiums.
- **Fixed Assets** (Variance of \$77k over budget year to date and \$160k over budget FYP)  
Year to date over budget variance is due to software development projects, which include website enhancements and the implementation of an enterprise risk management system. The overage is offset by lower than budgeted IT office costs.

*(Unaudited)*

*Submitted October 19, 2022*





**Northeast Power Coordinating Council, Inc. - Regional Entity Division**  
**Statement of Activities, Fixed Assets and Change in Working Capital**  
**(Unaudited)**  
**For the Period Ended September 30, 2022**

	2022 YTD Actual	2022 YTD Budget	2022 YTD Actual Variance from Budget Over(Under)	%	2022 Projection	2022 Annual Budget	2022 Projection Variance from Budget Over(Under)	%
<b>Funding</b>								
Assessments	11,934,234	11,934,234	-		15,912,313	15,912,313	-	
Penalties Released*	201,132	201,132	-		201,132	201,132	-	
Testing	-	-	-		-	-	-	
Services & Software	-	-	-		-	-	-	
Workshop Fees	-	-	-		18,000	33,750	(15,750)	
Interest & Investment Income	19,282	21,349	(2,067)		24,000	28,465	(4,465)	
<b>Total Funding</b>	<b>12,154,648</b>	<b>12,156,715</b>	<b>(2,067)</b>	<b>0.0%</b>	<b>16,155,445</b>	<b>16,175,660</b>	<b>(20,215)</b>	<b>-0.1%</b>
<b>Expenses</b>								
<b>Personnel Expenses</b>								
Salaries	6,397,339	6,804,306	(406,967)		8,825,235	9,072,408	(247,173)	
Payroll Taxes	490,642	506,443	(15,801)		592,019	595,815	(3,796)	
Employee Benefits	1,421,050	1,676,053	(255,004)		2,058,244	2,234,738	(176,494)	
Savings & Retirement	736,720	781,054	(44,334)		937,021	1,041,405	(104,384)	
<b>Total Personnel Expenses</b>	<b>9,045,750</b>	<b>9,767,856</b>	<b>(722,106)</b>	<b>-7.4%</b>	<b>12,412,519</b>	<b>12,944,366</b>	<b>(531,847)</b>	<b>-4.1%</b>
<b>Meeting Expenses</b>								
Meetings & Conference Calls	16,666	143,895	(127,229)		110,666	230,600	(119,934)	
Travel	77,602	353,900	(276,299)		309,572	505,572	(196,000)	
<b>Total Meeting Expenses</b>	<b>94,268</b>	<b>497,795</b>	<b>(403,527)</b>	<b>-81.1%</b>	<b>420,238</b>	<b>736,172</b>	<b>(315,934)</b>	<b>-42.9%</b>
<b>Operating Expenses, excluding Depreciation</b>								
Consultants & Contracts	228,384	629,738	(401,354)		699,650	839,650	(140,000)	
Rent & Improvements	622,891	681,256	(58,365)		972,141	906,141	66,000	
Office Costs	701,830	913,553	(211,723)		1,038,071	1,218,071	(180,000)	
Professional Services	732,677	646,000	86,677		1,067,000	1,017,000	50,000	
Miscellaneous	2,534	38,250	(35,716)		10,000	51,000	(41,000)	
<b>Total Operating Expenses</b>	<b>2,288,316</b>	<b>2,908,796</b>	<b>(620,480)</b>	<b>-21.3%</b>	<b>3,786,862</b>	<b>4,031,862</b>	<b>(245,000)</b>	<b>-6.1%</b>
Indirect Expense Allocation	(213,391)	(268,813)	55,422	-20.6%	(304,654)	(358,417)	53,763	-15.0%
Other Non-Operating Expenses	-	-	-	n/a	-	-	-	n/a
<b>Total Expenses</b>	<b>11,214,943</b>	<b>12,905,635</b>	<b>(1,690,692)</b>	<b>-13.1%</b>	<b>16,314,965</b>	<b>17,353,983</b>	<b>(1,039,018)</b>	<b>-6.0%</b>
<b>Change in Net Assets</b>	<b>939,705</b>	<b>(748,920)</b>	<b>1,688,625</b>	<b>-225.5%</b>	<b>(159,520)</b>	<b>(1,178,323)</b>	<b>1,018,803</b>	<b>-86.5%</b>
<b>Fixed Asset Additions, excluding Right of Use Assets</b>	<b>160,723</b>	<b>83,363</b>	<b>77,361</b>	<b>92.8%</b>	<b>271,150</b>	<b>111,150</b>	<b>160,000</b>	<b>143.9%</b>
<b>Net Financing Activity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>n/a</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>n/a</b>
<b>Total Budget (Expenses plus Fixed Assets and Net Financing Activity)</b>	<b>11,375,666</b>	<b>12,988,998</b>	<b>(1,613,332)</b>	<b>-12.4%</b>	<b>16,586,115</b>	<b>17,465,133</b>	<b>(879,018)</b>	<b>-5.0%</b>
<b>Change in Working Capital (Total Funding less Total Budget)</b>	<b>778,982</b>	<b>(832,283)</b>	<b>1,611,265</b>	<b>-193.6%</b>	<b>(430,670)</b>	<b>(1,289,473)</b>	<b>858,803</b>	<b>-66.6%</b>
Equivalent Full Time Employees	43.07	47.90	(4.83)		45.15	49.90	(4.75)	
Headcount	46.00	50.00	(4.00)		55.00	52.00	3.00	
Beginning Total Reserves - 1/1/22	7,452,044	6,179,595	1,272,449		7,452,044	6,179,595	1,272,449	
Change to Working Capital	778,982	(832,283)	1,611,265		(430,670)	(1,289,473)	858,803	
Penalties Received (+)	10,080	-	10,080		10,080	-	10,080	
Penalties Released (-)	(201,132)	(201,132)	-		(201,132)	(201,132)	-	
Other Reserve Activity	-	-	-		-	-	-	
<b>Total Reserves at 12/31/22</b>	<b>8,039,974</b>	<b>5,146,180</b>	<b>2,893,794</b>		<b>6,830,322</b>	<b>4,688,990</b>	<b>2,141,332</b>	
<b>Reserve Balance Summary</b>								
Working Capital & Operating Contingency Reserves	7,503,089	4,743,312	2,759,777		6,293,437	4,286,122	2,007,315	
Assessment Stabilization & Penalty Reserves	536,885	402,868	134,017		536,885	402,868	134,017	
Other Reserves	-	-	-		-	-	-	
<b>Total Projected Reserve Balance at 12/31/22</b>	<b>8,039,974</b>	<b>5,146,180</b>	<b>2,893,794</b>		<b>6,830,322</b>	<b>4,688,990</b>	<b>2,141,332</b>	

\*Penalties Released reflect the designated amount of funds released to offset U.S. assessments. Actual penalties invoiced are reported in the audited financial statements as an increase in net assets in accordance with Generally Accepted Accounting Principles (GAAP).



Carol Baskey  
Treasurer and Manager – Finance and Accounting  
3 Summit Park Drive, Suite 600  
Cleveland, OH 44131  
Office: 216.503.0600  
Carol.Baskey@rfirst.org

October 20, 2022

Mr. Andy Sharp  
North American Electric Reliability Corporation  
3353 Peachtree Road, N.E.  
Suite 600, North Tower  
Atlanta, Georgia 30326

**ReliabilityFirst's 2022 3rd Quarter Statement of Activities Variance Report - Unaudited**

Dear Mr. Andy Sharp:

As requested, the attached 2022 3rd Quarter Statement of Activities (unaudited) provides a comparison of budgeted and actual expenses relative to the 2022 ReliabilityFirst Corporation's Budget.

For more information, please contact me at 216.503.0600 or carol.baskey@rfirst.org.

Very truly yours,

**RELIABILITYFIRST CORPORATION**

*Carol Baskey*

Carol Baskey  
Treasurer and Manager, Finance and Accounting



**RELIABILITY FIRST**

## ReliabilityFirst's 2022 3rd Quarter Statement of Activities Variance Report - Unaudited

### Significant Variances

For the quarter ending September 30, 2022 ReliabilityFirst Corporation is \$663K (3.4%) under budget. The major contributors to this variance are:

### Budget Funding

- **Investment Income:** \$479K under budget for YTD
  - Investment Income is under budget due to a greater than anticipated decrease in value of the company's investment portfolio, primarily the result of unrealized losses.

### Budget Expenses

- **Personnel Expenses**
  - **Salaries:** \$261K (2.1%) under budget for YTD  
Salaries are under budget primarily as the result of personnel count that was below the approved staffing levels during the first half of the year.
  - **Employee Benefits:** \$206K (11%) under budget for YTD  
Employee Benefits are under budget mainly due to variances in training and medical benefits. Training is under budget due to underutilized budgeted training, as a result of the cancellation of training activities due to the Covid 19 pandemic. Medical benefits are under budget due to personnel count that was below the approved staffing levels, along with employees selecting medical plans that differed from what was budgeted.
- **Meeting Expenses**
  - **Total Meeting Expenses:** \$397K (60.3%) under budget for YTD  
Total meeting expenses are under budget due to the cancellation and reduction of meetings and travel activities as a result of the Covid 19 pandemic.
- **Operating Expenses**
  - **Contracts & Consultants:** \$125K (52.3%) over budget for YTD  
Contracts and Consultants expense is over budget due to greater than anticipated data analytics support and placement fees for an open VP position.
  - **Rent & Utilities:** \$95K (21.3%) over budget for YTD  
Rent & Utilities were over budget primarily due to the 5th floor office expansion and lease extension.
  - **Office Costs:** \$39K (4.7%) under budget for YTD.  
Office costs are under budget primarily due to the difference in timing of laptop purchases and computer hardware and software projects compared to budget.



## RELIABILITY FIRST

- **Professional Services:** \$47K (9.3%) over budget for YTD  
Professional Services is over budget due to fees for an additional independent director approved by the board in May 2021 not included in the budget.

### **Fixed Assets**

- **Computer Hardware & Software:** \$10K (11.7%) over budget for YTD  
Computer Hardware & Software is over budget due to the difference in timing of when projects were budgeted and when they were completed.

### **FTE Count**

- FTE Count is lower than budget primarily due to several positions that were unfilled during the first half of the year.

### **Reserves**

- **Working Capital Reserve**  
The Working Capital Reserve of \$6,743,577 will be utilized to satisfy projected cash flow for daily operations and to stabilize and minimize volatility in future years' assessments.
- **Operating Reserve**  
The Operating Reserve of \$1,000,000 has been designated with the intention of providing for any unbudgeted and unexpected expenditures for the organization.

### **Year-End Projection**

- **Expenses**  
For the year-end projection ReliabilityFirst is \$707K (2.7%) under budget. The variances in Salaries are expected to be under for the remainder of the year due to several positions that were unfilled during the first half of the year. The variances in Employee Benefits, Meetings, and Travel are directly impacted by the Covid 19 pandemic, and these variances are expected to continue through the remainder of the year. Contracts & Consultants are expected to be over budget due to unbudgeted security enhancements and data analytics support in the second half of the year. Rent and Utilities are expected to be over budget as the result of an unbudgeted office expansion and lease extension. Professional Services is projected to be over budget due to fees for an additional independent director approved by the board in May 2021. Office Costs and Computer Hardware & Software are predicted to be over budget due to a laptop replacement program impacting all employees in 2022, instead of half of the employees per budget to address possible supply chain delays.



**RELIABILITY FIRST**

- **FTE Count**

FTE count is projected to be slightly lower than budget due to the impact of several unfilled positions in the first half of the year.

- **Reserves**

Working Capital Reserve is projected to increase by \$0.6M and will be used to stabilize and minimize volatility in future years' assessments.



ReliabilityFirst Corporation  
Statement of Activities, Net Assets, and Change in Working Capital  
(unaudited)  
(in whole numbers)  
From 01/01/2022 to 09/30/2022

CONFIDENTIAL

2022 YTD Actual	2022 YTD Budget	YTD Variance Over/(Under)	% Variance		Total 2022 Projection	Total 2022 Budget	Total 2022 Projected Variance Over/(Under)	% Projected Variance
				<b>Funding</b>				
17,585,959	17,585,959	0	0.00%	Assessments	23,447,945	23,447,945	0	0.00%
3,488,681	3,488,681	0	0.00%	Penalties Released *	3,488,681	3,488,681	0	0.00%
(441,588)	37,500	(479,088)	-1277.57%	Investment Income	(429,088)	50,000	(479,088)	-958.18%
3,473	0	3,473	0.00%	Miscellaneous Income	3,500	0	3,500	0.00%
<u>20,636,525</u>	<u>21,112,140</u>	<u>(475,615)</u>	<u>-2.25%</u>	<b>Total Funding</b>	<u>26,511,038</u>	<u>26,986,626</u>	<u>(475,588)</u>	<u>-1.76%</u>
				<b>Expenses</b>				
				<b>Personnel Expenses</b>				
11,971,084	12,232,480	(261,396)	-2.14%	Salaries	15,761,842	16,274,245	(512,403)	-3.15%
821,572	860,681	(39,109)	-4.54%	Payroll Taxes	984,996	992,282	(7,286)	-0.73%
1,676,454	1,882,538	(206,084)	-10.95%	Employee Benefits	2,184,874	2,412,806	(227,932)	-9.45%
2,024,898	2,029,783	(4,885)	-0.24%	Savings & Retirement Costs	2,570,338	2,602,105	(31,767)	-1.22%
<u>16,494,008</u>	<u>17,005,482</u>	<u>(511,474)</u>	<u>-3.01%</u>	<b>Total Personnel Expenses</b>	<u>21,502,049</u>	<u>22,281,438</u>	<u>(779,389)</u>	<u>-3.50%</u>
				<b>Meeting Expenses</b>				
92,000	207,255	(115,255)	-55.61%	Meetings & Conference Calls	162,000	379,635	(217,635)	-57.33%
169,476	450,750	(281,274)	-62.40%	Travel	329,476	601,000	(271,524)	-45.18%
<u>261,476</u>	<u>658,005</u>	<u>(396,529)</u>	<u>-60.26%</u>	<b>Total Meeting Expenses</b>	<u>491,476</u>	<u>980,635</u>	<u>(489,159)</u>	<u>-49.88%</u>
				<b>Operating Expenses</b>				
365,049	239,625	125,424	52.34%	Contracts & Consultants	1,065,049	448,874	616,175	137.27%
544,041	448,569	95,472	21.28%	Rent & Utilities	734,041	598,092	135,949	22.73%
785,253	823,930	(38,677)	-4.69%	Office Costs	935,253	1,110,388	(175,135)	-15.77%
551,712	504,792	46,920	9.29%	Professional Services	551,712	631,765	(80,053)	-12.67%
34,093	28,251	5,842	20.68%	Miscellaneous	44,093	48,735	(4,642)	-9.53%
<u>2,280,148</u>	<u>2,045,167</u>	<u>234,981</u>	<u>11.49%</u>	<b>Total Operating Expenses</b>	<u>3,330,148</u>	<u>2,837,854</u>	<u>492,294</u>	<u>17.35%</u>
0	0	0	0.00%	<b>Non-Operating Expenses</b>	0	0	0	0.00%
<u>19,035,632</u>	<u>19,708,654</u>	<u>(673,022)</u>	<u>-3.41%</u>	<b>Total Expenses</b>	<u>25,323,674</u>	<u>26,099,927</u>	<u>(776,253)</u>	<u>-2.97%</u>
<u>1,600,893</u>	<u>1,403,486</u>	<u>197,407</u>	<u>14.07%</u>	<b>Net Change in Assets</b>	<u>1,187,364</u>	<u>886,699</u>	<u>300,665</u>	<u>33.91%</u>
94,960	85,000	9,960	11.72%	<b>Increase/(Decrease) in Fixed Assets</b>	189,599	120,000	69,599	58.00%
19,130,592	19,793,654	(663,062)	-3.35%	<b>Total Budget (Expenses + Incr/(Decr) in Fixed Assets)</b>	25,513,272	26,219,927	(706,655)	-2.70%
<u>1,505,933</u>	<u>1,318,486</u>	<u>187,446</u>	<u>14.22%</u>	<b>Change in Working Capital (Total Funding less Total Budget)</b>	<u>997,766</u>	<u>766,699</u>	<u>231,067</u>	<u>30.14%</u>
86.96	88.60	(1.64)	-1.85%	<b>FTE Count</b>	86.96	88.60	(1.64)	-1.85%
91,767	(608,625)	700,392		WC - 12/31/2021	91,767	(608,625)	700,392	
(146,231)	0	(146,231)		Less: Adjustment for future liabilities	(146,231)	0	(146,231)	
(54,464)	(608,625)	554,161		Available Working Capital	(54,464)	(608,625)	554,161	
1,505,933	1,318,486	187,446		Change to WC - 2022	997,766	766,699	231,067	
(118,556)	(118,556)	0		Other Adjustments to Reserves	(158,074)	(158,074)	0	
<u>1,332,913</u>	<u>591,306</u>	<u>741,607</u>		<b>Total Working Capital</b>	<u>785,228</u>	<u>0</u>	<u>785,228</u>	
6,743,577	6,743,577	0		Working Capital Reserve	6,743,577	6,743,577	0	
1,000,000	1,000,000	0		Operating Reserve	1,000,000	1,000,000	0	
<u>9,076,490</u>	<u>8,334,883</u>	<u>741,607</u>		<b>Total Working Capital and Operating Reserve</b>	<u>8,528,805</u>	<u>7,743,577</u>	<u>785,228</u>	

\* Penalties Released reflect the designated amount of funds released to offset U.S. assessments. Actual penalties invoiced are reported in the audited financial statements as an increase in net assets in accordance with Generally Accepted Accounting Principles (GAAP).



# SERC RELIABILITY CORPORATION

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October 17, 2022

Mr. Andy Sharp  
North American Electric Corporation  
3353 Peachtree Road, NE  
Atlanta, GA 30326

RE: SERC 2022 Q3 Unaudited Financial Statement – Budget vs. Actual

Andy:

Following please find SERC's unaudited 2022 Q3 financial statement, reflecting actual to budgeted amounts with variance explanations.

If you have any questions, please let me know.

Thank you,

George Krogstie  
Chief Financial Officer and Corporate Treasurer

cc: Jason Blake

**SERC Reliability Corporation**  
**Statement of Activities, Fixed Assets Expenditures, and Change in Working Capital**

From 1/1/2022 Through 9/30/2022

	2022 YTD Actuals	2022 YTD Budget	Variance 2022 YTD Actual v 2022 YTD Budget		2022 Projection	2022 Budget	Variance 2022 Projection v 2022 Budget	
			Over(Under)	%			Over(Under)	%
<b>Funding</b>								
<b>Statutory Funding</b>								
SERC Assessments	\$ 18,599,200	\$ 18,599,200	\$ -		\$ 24,798,934	\$ 24,798,934	-	
Penalties Released*	\$ 900,000	900,000	-		1,200,000	1,200,000	-	
<b>Total Statutory Funding</b>	<b>\$ 19,499,200</b>	<b>\$ 19,499,200</b>	<b>\$ -</b>	<b>0.00%</b>	<b>\$ 25,998,934</b>	<b>\$ 25,998,934</b>	<b>\$ -</b>	<b>0.00%</b>
Workshops & Miscellaneous	88,903	148,000	(59,097)		125,000	166,000	(41,000)	
Interest	(23,994)	22,500	(46,494)		30,000	30,000	-	
<b>Total Funding (A)</b>	<b>\$ 19,564,109</b>	<b>\$ 19,669,700</b>	<b>\$ (105,591)</b>	<b>-0.54%</b>	<b>\$ 26,153,934</b>	<b>\$ 26,194,934</b>	<b>\$ (41,000)</b>	<b>-0.16%</b>
<b>Expenses</b>								
<b>Personnel Expenses</b>								
Salaries	\$ 12,246,067	\$ 12,179,860	\$ 66,207		\$ 16,570,000	\$ 16,239,814	330,186	
Payroll Taxes	826,384	728,974	97,410		1,087,000	971,965	115,035	
Benefits	1,164,706	1,490,430	(325,724)		1,760,000	1,981,828	(221,828)	
Retirement Costs	1,582,497	1,546,081	36,416		2,097,000	2,061,442	35,558	
<b>Total Personnel Expenses</b>	<b>\$ 15,819,654</b>	<b>\$ 15,945,345</b>	<b>\$ (125,691)</b>	<b>-0.79%</b>	<b>\$ 21,514,000</b>	<b>\$ 21,255,049</b>	<b>\$ 258,951</b>	<b>1.22%</b>
<b>Meeting Expenses</b>								
Meetings & Conference Calls	\$ 239,395	\$ 218,026	\$ 21,369		\$ 336,000	\$ 443,307	(107,307)	
Travel	352,759	688,926	(336,167)		516,000	855,340	(339,340)	
<b>Total Meeting Expenses</b>	<b>\$ 592,154</b>	<b>\$ 906,951</b>	<b>\$ (314,797)</b>	<b>-34.71%</b>	<b>\$ 852,000</b>	<b>\$ 1,298,647</b>	<b>\$ (446,647)</b>	<b>-34.39%</b>
<b>Operating Expenses, excluding Depreciation</b>								
Consultants & Contracts	\$ 878,920	\$ 679,263	\$ 199,658		\$ 1,272,000	\$ 1,377,944	(105,944)	
Office Rent	623,408	630,050	(6,642)		837,000	840,067	(3,067)	
Office Costs	938,846	796,942	141,904		1,320,000	1,171,193	148,807	
Professional Services	323,877	374,613	(50,736)		445,000	501,360	(56,360)	
Miscellaneous	-	-	-		-	-	-	
<b>Total Operating Expenses</b>	<b>\$ 2,765,051</b>	<b>\$ 2,480,868</b>	<b>\$ 284,183</b>	<b>11.45%</b>	<b>\$ 3,874,000</b>	<b>\$ 3,890,564</b>	<b>\$ (16,564)</b>	<b>-0.43%</b>
<b>Total Direct Expenses</b>	<b>\$ 19,176,859</b>	<b>\$ 19,333,164</b>	<b>\$ (156,305)</b>	<b>-0.81%</b>	<b>\$ 26,240,000</b>	<b>\$ 26,444,260</b>	<b>\$ (204,260)</b>	<b>-0.77%</b>
<b>Indirect Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Total Expenses (B)</b>	<b>\$ 19,176,859</b>	<b>\$ 19,333,164</b>	<b>\$ (156,305)</b>	<b>-0.81%</b>	<b>\$ 26,240,000</b>	<b>\$ 26,444,260</b>	<b>\$ (204,260)</b>	<b>-0.77%</b>
<b>Change in Assets</b>	<b>\$ 387,250</b>	<b>\$ 336,536</b>	<b>\$ 50,714</b>	<b>15.07%</b>	<b>\$ (86,066)</b>	<b>\$ (249,326)</b>	<b>\$ 163,260</b>	<b>-65.48%</b>
<b>Fixed Asset Additions, excluding Right of Use Assets (C)</b>	<b>\$ 310,022</b>	<b>\$ -</b>	<b>\$ 310,022</b>	<b>0.00%</b>	<b>\$ 495,000</b>	<b>\$ 264,000</b>	<b>\$ 231,000</b>	<b>87.50%</b>
<b>TOTAL BUDGET (B+C)</b>	<b>\$ 19,486,881</b>	<b>\$ 19,333,164</b>	<b>\$ 153,717</b>	<b>0.80%</b>	<b>\$ 26,735,000</b>	<b>\$ 26,708,260</b>	<b>\$ 26,740</b>	<b>0.10%</b>
<b>TOTAL CHANGE IN WORKING CAPITAL (A-B-C)</b>	<b>\$ 77,228</b>	<b>\$ 336,536</b>	<b>\$ (259,308)</b>	<b>-77.05%</b>	<b>\$ (581,066)</b>	<b>\$ (513,326)</b>	<b>\$ (67,740)</b>	<b>13.20%</b>
FTE's	100.00	104.00	(4.00)		104.00	104.00	-	
Head Count	100.00	104.00	(4.00)		104.00	104.00	-	
<b>Beginning Reserve at 1/1/2022</b>	<b>8,186,304</b>	<b>5,478,703</b>	<b>2,707,601</b>		<b>8,186,304</b>	<b>5,478,703</b>	<b>2,707,601</b>	
Change to Working Capital	77,228	336,536	(259,308)		(581,066)	(513,326)	(67,740)	
Penalties Received (+)	1,183,000	-	1,183,000		1,183,000	-	1,183,000	
Penalties Released (-)	(900,000)	(900,000)	-		(1,200,000)	(1,200,000)	-	
Other Reserve Activity	-	-	-		-	-	-	
<b>Ending Reserves at 12/31/2022</b>	<b>8,546,532</b>	<b>4,915,239</b>	<b>3,631,293</b>		<b>7,588,238</b>	<b>3,765,377</b>	<b>3,822,861</b>	
Working Capital & Operating Contingency Reserves	2,855,194	2,450,239	404,955		2,196,900	1,600,377	596,523	
Assessment Stabilization & Penalty Reserves	5,691,338	2,465,000	3,226,338		5,391,338	2,165,000	3,226,338	
Other Reserves	-	-	-		-	-	-	
<b>Total Reserves Balance</b>	<b>8,546,532</b>	<b>4,915,239</b>	<b>3,631,293</b>		<b>7,588,238</b>	<b>3,765,377</b>	<b>3,822,861</b>	

\* Penalties Released in the current year reflects the designated amount of funds released from the Assessment Stabilization Reserve (ASR) to offset U.S. assessments as approved by the SERC Board of Directors and FERC. Actual penalties invoiced in the current reporting year are shown as an increase in the ASR on the reserve summary table and will be reported as income on the audited financial statements in accordance with Generally Accepted Accounting Principles (GAAP).





## Budget to Actual Comparison as of September 30, 2022 (Unaudited)

### Overall Summary

- Spending \$154k over budget as timing of expenditures varies from budget
- Funding \$106k under budget attributable to loss on investments and lower than anticipated Spring System Operator Conference workshop revenues

### Income

- **Funding (Actual - \$106k under budget)**
  - Investment income lower due to rising interest rates decreasing market value of existing bond holdings
  - Workshop revenue lower than budget due to ongoing pandemic travel restrictions in first half of year

### Expense

- **Personnel Expenses (Actual - \$126k under budget)**
  - Lower than expected employee training, relocation and health insurance renewal driving year-to-date benefits under budget
  - Full year projected to be \$259k over budget due to wage inflation, lower vacancies in Q4, expected recruiting and relocation fees, and potential impact of exceeding corporate goals
- **Meeting/Travel Expenses (Actual - \$315k under budget)**
  - Decreased meeting and travel associated with pandemic travel restrictions and fewer in-person meetings; full year projected to be \$447k under budget
- **Contracts/Consultants (Actual - \$200k over budget)**
  - Contractor expertise used to provide support for vacant positions; full year projected to be \$106k under budget due to planned deferrals on certain IT projects and RAPA studies
- **Office Rent (Actual - \$7k under budget)**
  - Common area maintenance expenses lower than expected
- **Office Costs (Actual - \$142k over budget)**
  - Software renewal costs higher than anticipated; full year projected to be \$149k over budget
- **Professional Services (Actual - \$51k under budget)**
  - Overall legal needs less than historical norms driving expenses under budget
- **Fixed Asset Purchases (Actual - \$310k over budget)**
  - Full year impact projected at \$231k over budget due to completion of Member Portal Consolidation project

October 12, 2022

Mr. Andy Sharp  
North American Electric Reliability Corporation  
3353 Peachtree Road NE, Suite 600, North Tower  
Atlanta, GA 30326

RE: Texas Reliability Entity, Inc. 3rd Quarter 2022 Statement of Activities and Variance Report

Dear Andy,

Attached is the 2022 third quarter Statement of Activities (unaudited) and Variance Report for Texas RE with variance explanations.

Please contact me if you have questions or comments.

Thank you.

*Judy Foppiano*

Judy A. Foppiano, CPA  
CFO & Director of Corporate Services  
**Texas Reliability Entity, Inc.**  
805 Los Cimas Parkway, Suite 200  
Austin, Texas 78746  
Judy.foppiano@texasre.org  
512.583.4959

## **Budget to Actual Comparison as of September 30, 2022**

Year-to-date variances greater than \$10,000 and 10% explained below.

### **FUNDING**

- **Penalty Sanctions:** (Actual penalty income of \$558,750 remitted to Texas RE as of June 30, 2021 has reduced 2022 assessments.) All penalty sanctions remitted from July 1, 2021 through June 30, 2022 will be included in the Texas RE 2023 Business Plan and Budget and applied to reduce 2023 assessments.
- **Interest:** \$2,401 greater than budget. Texas RE's banking account is the Business Banking U.S. End of Day Money Market Mutual Fund Sweep account. Interest rates are lower than anticipated at the time the 2022 budget was prepared. This account did not receive any interest or dividends until June 2022; the account started receiving interest in Q3. The variance is expected to be immaterial by year end.

### **EXPENSES**

**Total Budget as of September 30, 2022 is \$1,126,049 less than budget (-9.2%).**

- **Personnel Expenses:** \$1,141,205 less than budget (-12.1%).
  - Salaries and taxes are less than budget 8.8% and 14.1%, respectively, due to personnel vacancies in the CMEP department.
  - Employee benefits are less than budget 28.9%. This variance is due to health benefits not increasing as projected when the 2022 budget was prepared. Benefits also include employee training not been used at the end of Q3. The forecast for Employee benefits has been adjusted to reflect reduced benefits cost.
  - Savings and Retirement is less than budget 14.0% due to vacancies. Taxes and savings and retirement are directly related to the FTE count and vacancies.
  - Salaries, taxes and retirement forecast is not being adjusted. Some positions are being filled at salaries higher than budget which impacts all accounts in personnel expenses. Salary market adjustments are also being made in Q4.
- **Meetings and Travel Expenses:** \$135,185 less than 2022 budget (-47.7%).
  - Meetings and Conference Calls are greater than budget due to a production company being used for the virtual feed of the Extreme Events workshop. In person meetings resumed in Q3 and will continue through year-end.
  - Travel is less than budget. Travel resumed mid second quarter and will continue the remainder of the year.

- Forecast for both categories has been adjusted.
- **Total Operating Expenses: \$145,115 greater than 2022 budget (6.5%).**
  - A compensation study completed earlier in the year than planned and an unbudgeted IT Leadership Team Cross Function consultant is causing the 22.2% variance in Consultants and Contracts. The forecast as been adjusted to reflect the additional consultant.
  - Rent and Utilities are less than budget 12.5%. Utilitites in the office space have been less than anticipated. The forecast is not being adjusted due to a possible year-end true up.
  - Office Cost is greater than budget 70.9% due to supplies, software, and office equipment and furniture for the new office space that do not meet the capitalization threshold. Some of the variance is timing; the forecast has been adjusted for Q4 anticipated expenses.
  - Professional services are less than budget 22.1% due to unused legal fees and an external IT audit that will not occur. The forecast reflects the unused audit fees.

**Other Non-Operating Expenses: \$5,226 greater than budget (1.6%).**

- Cost to relocate the office that cannot be capitalized. The forecast has been adjusted accordingly.

**Texas Reliability Entity, Inc.**  
Statement of Activities and Fixed Assets  
For period ended September 30, 2022  
(Unaudited)

	2022 Actual	2022 Budget	YTD Actual Variance from Budget		2022 Forecast	2022 Annual Budget	Forecast Variance from Budget	
<b>Funding</b>								
ERO Funding								
Assessments	\$ 11,252,525	\$ 11,252,525	\$ -	0.0%	\$ 15,003,365	\$ 15,003,365	\$ -	\$ -
Penalties Released	558,750	558,750	-	0.0%	558,750	558,750	-	-
Interest Income	13,651	11,250	2,401	21.3%	15,000	15,000	-	0.0%
<b>Total Funding</b>	<b>\$ 11,824,926</b>	<b>\$ 11,822,525</b>	<b>\$ 2,401</b>	<b>0.0%</b>	<b>\$ 15,577,115</b>	<b>\$ 15,577,115</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Expenses</b>								
<b>Personnel Expenses</b>								
Salaries	\$ 6,253,081	\$ 6,858,371	(605,290)	-8.8%	\$ 9,199,332	\$ 9,199,332	-	0.0%
Payroll Taxes	432,754	503,617	(70,863)	-14.1%	635,827	635,827	-	0.0%
Employee Benefits	811,002	1,141,430	(330,428)	-28.9%	1,476,720	1,641,720	(165,000)	-10.1%
Savings & Retirement	827,671	962,295	(134,624)	-14.0%	1,290,440	1,290,440	-	0.0%
<b>Total Personnel Expenses</b>	<b>\$ 8,324,508</b>	<b>\$ 9,465,713</b>	<b>\$ (1,141,205)</b>	<b>-12.1%</b>	<b>\$ 12,602,319</b>	<b>\$ 12,767,319</b>	<b>\$ (165,000)</b>	<b>-1.3%</b>
<b>Meeting &amp; Travel Expenses</b>								
Meetings & Conference Calls	\$ 42,555	\$ 37,616	4,939	13.1%	\$ 71,900	\$ 71,900	-	0.0%
Travel	105,748	245,872	(140,124)	-57.0%	208,684	371,684	(163,000)	-43.9%
<b>Total Meeting &amp; Travel Expenses</b>	<b>\$ 148,303</b>	<b>\$ 283,488</b>	<b>\$ (135,185)</b>	<b>-47.7%</b>	<b>\$ 280,584</b>	<b>\$ 443,584</b>	<b>\$ (163,000)</b>	<b>-36.7%</b>
<b>Operating Expenses</b>								
Consultants & Contracts	\$ 288,808	\$ 236,278	52,530	22.2%	\$ 401,700	\$ 351,700	50,000	14.2%
Rent & Improvements	945,462	1,080,329	(134,867)	-12.5%	1,459,545	1,459,545	-	0.0%
Office Costs	789,041	461,594	327,447	70.9%	798,840	698,840	100,000	14.3%
Professional Services	352,148	452,143	(99,995)	-22.1%	557,625	607,625	(50,000)	-8.2%
<b>Total Operating Expenses</b>	<b>\$ 2,375,459</b>	<b>\$ 2,230,344</b>	<b>\$ 145,115</b>	<b>6.5%</b>	<b>\$ 3,217,710</b>	<b>\$ 3,117,710</b>	<b>\$ 100,000</b>	<b>3.2%</b>
<b>Other Non-Operating Expenses</b>	<b>\$ 325,226</b>	<b>\$ 320,000</b>	<b>5,226</b>	<b>1.6%</b>	<b>\$ 330,000</b>	<b>\$ 320,000</b>	<b>10,000</b>	<b>3.1%</b>
<b>Total Expenses</b>	<b>\$ 11,173,496</b>	<b>\$ 12,299,545</b>	<b>\$ (1,126,049)</b>	<b>-9.2%</b>	<b>\$ 16,430,613</b>	<b>\$ 16,648,613</b>	<b>\$ (218,000)</b>	<b>-1.3%</b>
Change in Assets	\$ 651,430	\$ (477,020)	\$ 1,128,450	-236.6%	\$ (853,498)	\$ (1,071,498)	\$ 218,000	-20.3%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ -	-	0.0%	\$ 512,000	\$ 512,000	\$ -	0.0%
<b>Total Budget</b>	<b>\$ 11,173,496</b>	<b>\$ 12,299,545</b>	<b>\$ (1,126,049)</b>	<b>-9.2%</b>	<b>\$ 16,942,613</b>	<b>\$ 17,160,613</b>	<b>\$ (218,000)</b>	<b>-1.3%</b>
<b>Change in Working Capital (Total Revenue less Total Budget)</b>	<b>\$ 651,430</b>	<b>\$ (477,020)</b>	<b>\$ 1,128,450</b>	<b>-236.6%</b>	<b>\$ (1,365,498)</b>	<b>\$ (1,583,498)</b>	<b>\$ 218,000</b>	<b>-13.8%</b>
FTE's	59	66	(7)		66	66	-	
Beginning WC - 1/1/22	\$ 3,885,000	\$ 3,885,000	\$ -		\$ 3,885,000	\$ 3,885,000	\$ -	
Change to WC - 2022	651,430	(477,020)	1,128,450		(1,365,498)	(1,583,498)	218,000	
Penalties Released	(558,750)	(558,750)	-		(558,750)	(558,750)	-	
Other Reserve Activity	-	-	-		-	-	-	
Working Capital 9/30/2022	<b>\$ 3,977,680</b>	<b>\$ 2,849,230</b>	<b>\$ 1,128,450</b>		<b>\$ 1,960,752</b>	<b>\$ 1,742,752</b>	<b>\$ 218,000</b>	
Working Capital & Operating Contingency					\$ 1,330,000	\$ 1,330,000	-	
Assessment Stabilization & Contingency Fund					-	412,752	(412,752)	
Other (Replenish Operating Reserve)					630,752	-	630,752	
<b>Total Reserves and Contingency</b>					<b>\$ 1,960,752</b>	<b>\$ 1,742,752</b>	<b>\$ 218,000</b>	



**Wynne Schweitzer**  
**Manager, Finance and Accounting**  
**October 20, 2022**

Mr. Andy Sharp  
Vice President and Chief Financial Officer  
North American Electric Reliability Corporation  
3353 Peachtree Road, N.E. Suite 600, North Tower  
Atlanta, GA 30326

RE: WECC Q3 2022 Statutory Statement of Activities and Variance Report

Dear Andy,

Attached is WECC's third-quarter Statutory Statement of Activities (Unaudited) and Variance Report. WECC's 2022 unaudited year-to-date results are \$998,000 under budget, excluding the impact of the Generally Accepted Accounting Principles (GAAP) treatment of penalty revenue recognition. Explanations and drivers are noted below.

If you have questions or need more information, please do not hesitate to contact me.

Regards,

Wynne Schweitzer  
Manager, Finance and Accounting

Enclosures

Cc: Melanie Frye, President and Chief Executive Officer  
Jillian Lessner, Vice President and Chief Financial and Administrative Officer  
WECC Finance and Audit Committee

*Year-to-date variances greater than \$10,000 and 10% are explained below. The explanations pertain to all statutory activities.*

## **Funding**

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- Workshops & Miscellaneous: \$17,000 under budget

Workshops & Miscellaneous funding is under budget primarily due to the move of two Grid Fundamentals Classes to a virtual format. Workshops & Miscellaneous funding is expected to be \$8,000 over budget at year-end.

- Interest: \$120,000 over budget

Interest is over budget due to higher-than-expected unrealized gains on short-term investments. Interest is expected to be \$186,000 over budget at year-end.

## **Expenses**

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- Payroll Taxes: \$106,000 over budget

Payroll Taxes are over budget primarily due to higher-than-anticipated payroll taxes due to changes in state and local tax rates and timing of merit awards paid in the first quarter. Payroll Taxes are expected to be \$120,000 over budget at year-end.

- Employee Benefits: \$411,000 under budget

Employee Benefits are under budget primarily due to an unanticipated health insurance premium rebate issued by United Healthcare, budgeted benefits enrollment level assumptions compared to actual, and lower-than-anticipated use of the Health Reimbursement Account (HRA). Employee Benefits are expected to be \$399,000 under budget at year-end.

- Meetings & Conference Calls: \$115,000 under budget

Meetings & Conference Calls are under budget primarily due to the cancellation of most in-person meetings and workshops through May due to COVID-19 and are anticipated to be \$64,000 under budget at year-end.

## Statutory Statement of Activities and Variance Explanations (October 20, 2022)

- Travel: \$305,000 under budget

Travel is under budget primarily due to the cancellation of most on-site audits and in-person meetings and training through May due to COVID-19 and is anticipated to be \$288,000 under budget at year-end.

- Consultants & Contracts: \$273,000 under budget

Consultants & Contracts are under budget primarily due to the timing of information technology consulting that was budgeted for the first quarter but will be spent in the fourth quarter. Consultants & Contracts are anticipated to be \$102,000 over budget at year-end.

- Professional Services: \$91,000 over budget

Professional Services are over budget primarily due to unbudgeted legal fees related to unanticipated regulatory activities and the higher-than-anticipated renewal rates of insurance policies. Professional Services are anticipated to be \$127,000 over budget at year-end.

- Fixed Assets: \$13,000 over budget

Fixed Assets are over budget primarily due to the purchase of a development license for the PI Historian software, which was funded by the Peak Reliability Donation. Fixed Assets are anticipated to be \$21,000 over budget at year-end.





# Statutory Statement of Activities and Variance Explanations (October 20, 2022)



## Western Electricity Coordinating Council Statutory Statement of Activities From 1/1/2022 to 9/30/2022 (Unaudited)

(In Whole Dollars)

	2022 YTD Actual	2022 YTD Budget	2022 YTD Variance	%	2022 Projection	2022 Annual Budget	2022 Projected Variance	%
<b>Funding</b>								
Assessments	25,000,000	25,000,000	-	0.0%	25,000,000	25,000,000	-	0.0%
Penalties Released <sup>1</sup>	5,298,000	5,298,000	-	0.0%	5,298,000	5,298,000	-	0.0%
Workshops & Miscellaneous	2,400	19,800	(17,400)	-87.9%	202,366	194,700	7,666	3.9%
Interest	201,768	81,750	120,018	146.8%	295,602	109,501	186,101	170.0%
<b>Total Funding</b>	<b>30,502,168</b>	<b>30,399,550</b>	<b>102,618</b>	<b>0.3%</b>	<b>30,795,968</b>	<b>30,602,201</b>	<b>193,767</b>	<b>0.6%</b>
<b>Expenses</b>								
<b>Personnel Expenses</b>								
Salaries	13,175,253	13,295,830	(120,577)	-0.9%	18,664,151	18,411,644	252,507	1.4%
Payroll Taxes	1,019,093	913,265	105,828	11.6%	1,337,210	1,217,683	119,527	9.8%
Employee Benefits	1,558,007	1,968,691	(410,684)	-20.9%	2,206,633	2,605,571	(398,938)	-15.3%
Retirement Costs	1,164,818	1,201,768	(36,950)	-3.1%	1,647,547	1,663,608	(16,061)	-1.0%
<b>Total Personnel Expenses</b>	<b>16,917,171</b>	<b>17,379,554</b>	<b>(462,383)</b>	<b>-2.7%</b>	<b>23,855,541</b>	<b>23,898,506</b>	<b>(42,965)</b>	<b>-0.2%</b>
<b>Meeting Expenses</b>								
Meetings & Conference Calls	96,944	212,151	(115,207)	-54.3%	394,312	458,044	(63,732)	-13.9%
Travel	285,550	590,531	(304,981)	-51.6%	484,429	772,654	(288,225)	-37.3%
<b>Total Meeting Expenses</b>	<b>382,494</b>	<b>802,682</b>	<b>(420,188)</b>	<b>-52.3%</b>	<b>878,741</b>	<b>1,230,698</b>	<b>(351,957)</b>	<b>-28.6%</b>
<b>Operating Expenses, excluding Depreciation</b>								
Consultants & Contracts	518,937	792,401	(273,464)	-34.5%	1,106,905	1,004,600	102,305	10.2%
Office Rent	987,702	981,978	5,724	0.6%	1,314,958	1,306,912	8,046	0.6%
Office Costs	1,480,044	1,442,908	37,136	2.6%	2,041,334	1,844,335	196,999	10.7%
Professional Services	884,725	794,000	90,725	11.4%	1,171,902	1,045,000	126,902	12.1%
Miscellaneous	-	-	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>3,871,408</b>	<b>4,011,287</b>	<b>(139,879)</b>	<b>-3.5%</b>	<b>5,635,099</b>	<b>5,200,847</b>	<b>434,252</b>	<b>8.3%</b>
<b>Total Direct Expenses</b>	<b>21,171,073</b>	<b>22,193,523</b>	<b>(1,022,450)</b>	<b>-4.6%</b>	<b>30,369,381</b>	<b>30,330,051</b>	<b>39,330</b>	<b>0.1%</b>
<b>Indirect Expenses</b>	<b>(510,070)</b>	<b>(521,299)</b>	<b>11,229</b>	<b>-2.2%</b>	<b>(733,163)</b>	<b>(695,066)</b>	<b>(38,097)</b>	<b>5.5%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Expenses</b>	<b>20,661,003</b>	<b>21,672,224</b>	<b>(1,011,221)</b>	<b>-4.7%</b>	<b>29,636,218</b>	<b>29,634,985</b>	<b>1,233</b>	<b>0.0%</b>
<b>Change in Net Assets</b>	<b>9,841,165</b>	<b>8,727,326</b>	<b>1,113,839</b>	<b>12.8%</b>	<b>1,159,750</b>	<b>967,216</b>	<b>192,534</b>	<b>19.9%</b>
<b>Fixed Asset Additions, excluding Right of Use Assets</b>	<b>82,463</b>	<b>69,594</b>	<b>12,869</b>	<b>18.5%</b>	<b>132,463</b>	<b>111,914</b>	<b>20,549</b>	<b>18.4%</b>
<b>Total Expenditures</b>	<b>20,743,466</b>	<b>21,741,818</b>	<b>(998,352)</b>	<b>-4.6%</b>	<b>29,768,681</b>	<b>29,746,899</b>	<b>21,782</b>	<b>0.1%</b>
<b>Change in Working Capital (Total Funding less Total Budget)</b>	<b>9,758,702</b>	<b>8,657,732</b>	<b>1,100,970</b>		<b>1,027,287</b>	<b>855,302</b>	<b>171,985</b>	
FTEs	140.49	152.50	(12.01)		150.49	152.50	(2.01)	
Headcount	143.00	152.00	(9.00)		153.00	152.00	1.00	
Working Capital at 1/1/2022	9,690,377	8,410,422	1,279,955		9,690,377	8,410,422	1,279,955	
Peak Reliability Donation Expenditures	245,860				245,860	400,000	(154,140)	
Non-Statutory Fund Change	178,203				178,203		178,203	
Change to WC - 2022	9,758,702	8,657,732	1,100,970		1,027,287	855,302	171,985	
<b>Working Capital at 9/30/2022<sup>2</sup></b>	<b>19,873,142</b>	<b>17,068,154</b>	<b>2,380,925</b>		<b>11,141,727</b>	<b>9,665,724</b>	<b>1,476,003</b>	

<sup>1</sup> Penalties released in the current year reflects the designated amount of funds released to offset U.S. assessments as approved by the WECC Board of Directors and FERC. Actual penalties invoiced in the current reporting year will be reported as income on the audited financial statements in accordance with GAAP.

<sup>2</sup> See Working Capital and Reserve Analysis table for additional details.



## Working Capital and Reserve Analysis

Working Capital and Reserve Analysis				
STATUTORY				
	Total	Working Capital Reserve	Unreleased Penalties	Peak Reliability Donation
<b>Beginning Reserve, January 1, 2022</b>	\$ 20,154,417	\$ 9,690,377	\$ 6,636,646	\$ 3,827,394
Plus: Total Funding	49,408,168	30,502,168	18,906,000	-
Penalties Release	(5,298,000)	-	(5,298,000)	-
Less: Expenditures	(20,743,466)	(20,497,606)	-	(245,860)
Plus: Non-Statutory Fund Adjustment	178,203	178,203	-	-
<b>Reserve (Deficit), September 30, 2022</b>	<b>\$ 43,699,322</b>	<b>\$ 19,873,142</b>	<b>\$ 20,244,646</b>	<b>\$ 3,581,534</b>

*Note: Penalty sanction amounts received are considered deferred revenue and are not included in working capital amounts until approved by FERC.*



## **Proposed 2024 Business Plan and Budget Schedule**

### **Action**

Review

### **Background**

NERC management will review the approach for 2024–2026 planning and the proposed schedule for preparation of the 2024 Business Plan and Budget.

# NERC

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

# 2024 Business Plan and Budget Preparation Schedule

Agenda Item 4

Andy Sharp, Vice President and Chief Financial Officer  
Finance and Audit Committee Meeting  
November 7, 2022

**RELIABILITY | RESILIENCE | SECURITY**



- Build upon 2023–2025 plan
  - Continue with strategic focus areas: Energy, Security, Agility, Sustainability
  - Refinements for 2024 and 2025 as needed
  - Add 2026
- Continue business plan and budget (BP&B) development process improvements
  - Early stakeholder outreach for any significant changes or assumptions
  - First draft includes 2024 budget and 2025 and 2026 projections
  - One public comment period and webinar, with additional informal outreach touchpoints

- **Q4 2022 and Q1 2023**

- Partner with Regional Entities on three-year business planning
- Evaluate resource plans for 2024 and 2025; identify 2026
- Initial touchpoint with Member Representatives Committee (MRC) BP&B Input Group
- Additional stakeholder outreach as needed

- **Q2 2023**

- Review 2024–2026 assumptions, budgets, and assessments with applicable Board committees, MRC BP&B Input Group, Trades & Forums, and Member Executive Committee (MEC)
- Post draft NERC 2024 BP&B for public comment
- FAC webinar
- FERC briefing

- **Q3 2023**

- Review stakeholder comments, responses, and proposed final 2024 BP&B with FAC, MRC BP&B Input Group, Trades & Forums, and MEC
- Provide response to comments
- Submit 2024 BP&Bs for Board approval
- File 2024 BP&Bs with FERC



# Questions and Answers