

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

2021 Business Plan and Budget – Final Draft

Andy Sharp, Vice President and Chief Financial Officer
Finance and Audit Committee Meeting
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RELIABILITY | RESILIENCE | SECURITY



- Goal to achieve little to no assessment increase in response to pandemic impacts despite significant budget pressures from:
 - ERO Secure Evidence Locker (SEL)
 - Align delay
 - IT security resources
 - Medical premiums
 - Investment in data management tools to support advanced analytics

- **ERO SEL & Align delay costs**

- ERO SEL debt service (\$430k) and software support costs (\$570k)
- Align delay costs (\$1.8M) funded by Operating Contingency Reserves (OCR)

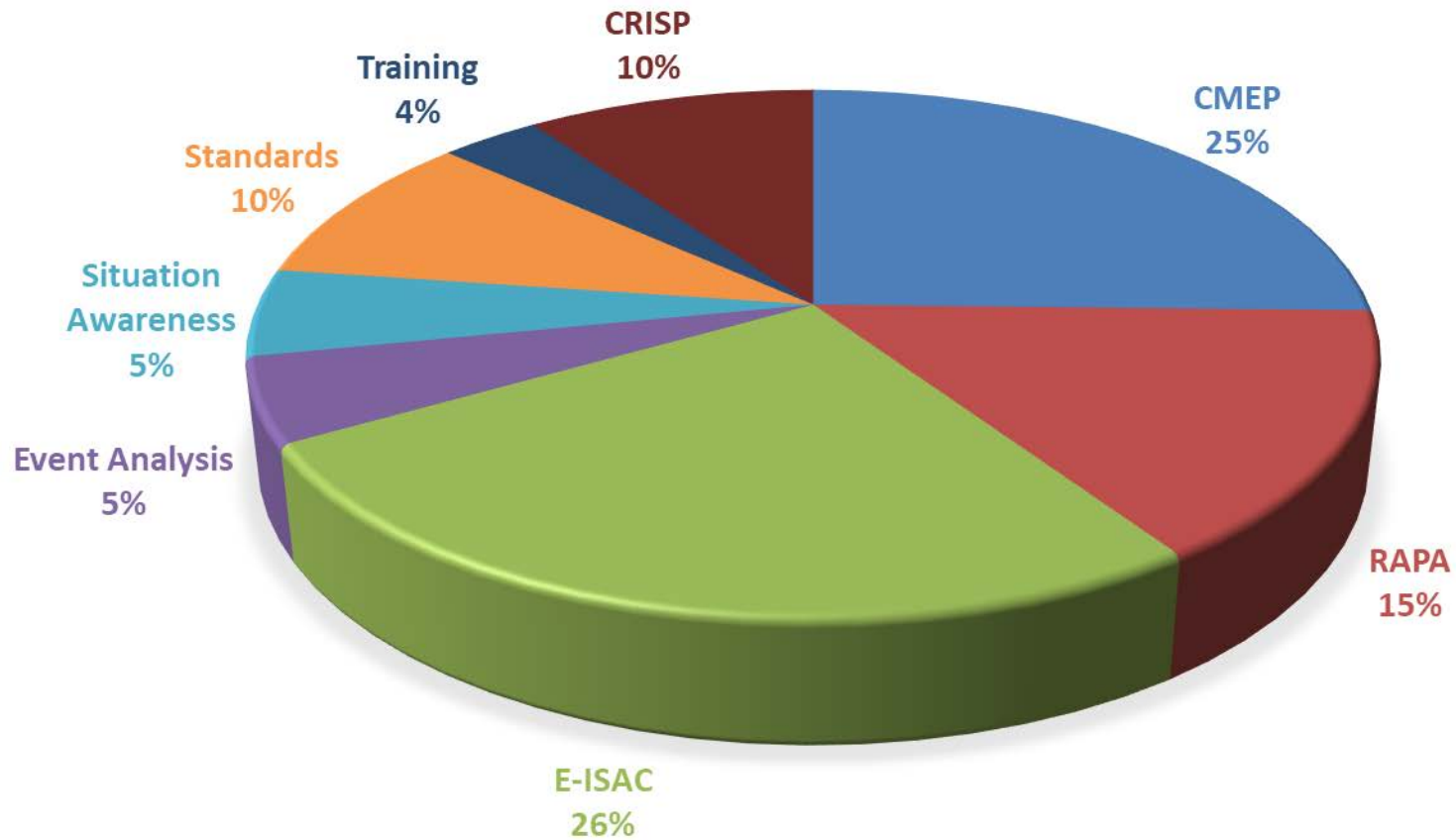
- **Lower spending in other areas**

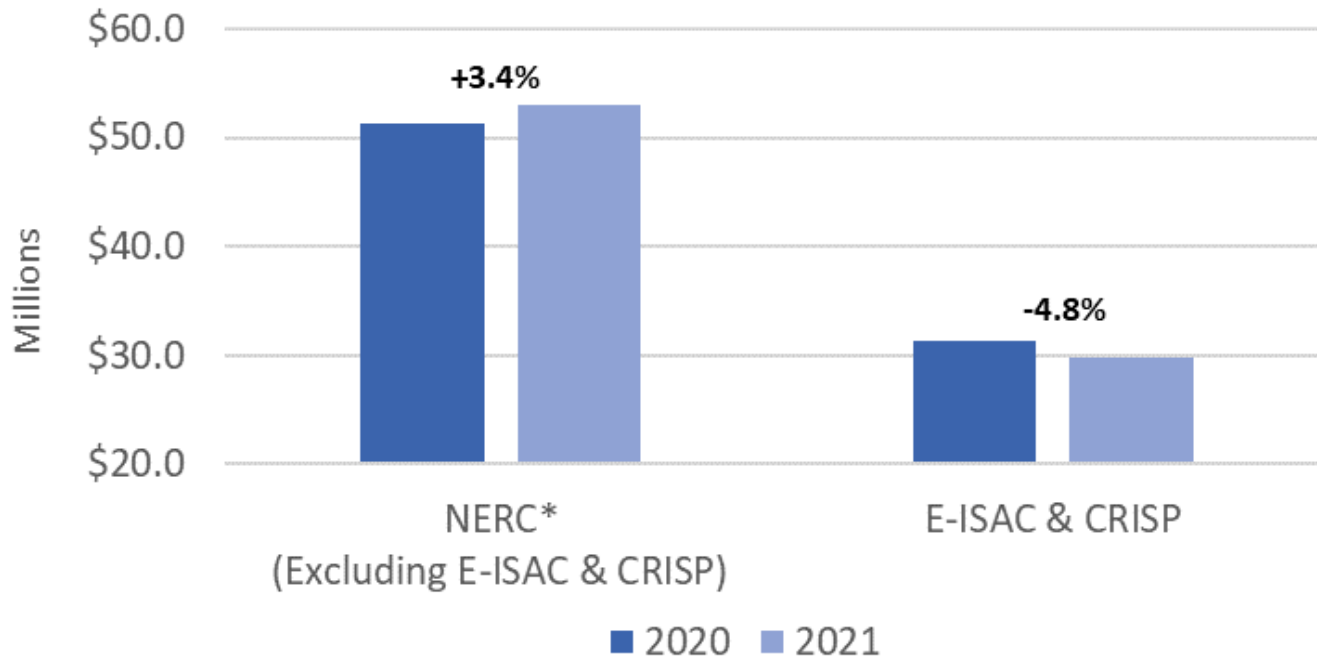
- No increase in FTEs
- E-ISAC and CRISP direct costs below prior projection
- Reduced 2021 debt service as a result of cash funding 2020 Align development costs versus budgeted financing
- Reductions in contracts and consultants and professional services
- Deferred non-critical system enhancements to future years
- Reduced meetings and travel assuming continued pandemic conditions

- Draft 1 posted for stakeholder comment May 19–June 26
 - Budget \$82.9M (0.2% increase over 2020); Assessment \$72.0M (flat)
 - Comments received from five entities
 - Support for cost savings efforts; emphasis on future budget stabilization
 - Work with Regions to also hold to 2020 budget and assessment levels
 - Request for clarity on Event Analysis budget and in-person meeting plans
 - Consider providing additional historical data and future year cost certainty
- Draft 2 posted for stakeholder comment July 16–30
 - Minimal budget adjustments and no assessment impact
 - Comments received from three entities
 - Support for 2021 budget; continued emphasis on future budget stabilization
 - Request for clarity on work of Power Risk Issue Strategic Management group
- Response to comments posted on NERC website

- **Budget \$82.9M (\$226k or 0.3% increase over 2020)**
 - Includes Align tool delay costs funded by OCR (\$1.8M)
 - Budget without Align tool delay costs \$81.1M (1.9% decrease over 2020)
- **Assessments \$72.0M (flat versus 2020)**
 - No use of Assessment Stabilization Reserve (ASR) funds
- No changes from Draft 2 other than minor language updates and clarifications

2021 Budget by Program Area





*Includes 2021 Align delay costs funded by reserves

- Total NERC Assessment: \$72.0M
 - **United States: \$65.0M**
 - Decrease of \$174k (0.3%) over 2020
 - Cost per NEL: \$0.016 per MWh
 - **Canada: \$6.7M**
 - Increase of \$171k (2.6%) over 2020
 - Includes compliance credits and true-ups
 - Cost per NEL: \$0.013 per MWh
 - **Mexico: \$225k**
 - Increase of \$3k (1.3%) over 2020
 - Cost per NEL: \$0.016 per MWh

- NERC working capital and operating reserve policy
 - OCR target between 3.5% and 7.0% of the company's total expense and fixed asset budget minus the sum of System Operator Certification and CRISP budgets
- \$7.6M – Projected OCR balance as of 12/31/2020
 - 10.5% of target (higher than target to fund 2021 Align costs)
- \$5.8M – Projected OCR balance as of 12/31/2021
 - 8.0% of target (higher than target to provide additional reserves during uncertain economic conditions to fund deferred projects if needed)

- 2022
 - Budget \$87.0M (5.0% increase over 2021)
 - Assessment \$77.8M (8.0% increase over 2021)
- 2023
 - Budget \$91.4M (5.0% increase over 2022)
 - Assessment \$82.1M (5.5% increase over 2022)

- Budget and assessment increases due to:
 - Holding 2021 budget and assessment to 2020 levels, including use of reserves to help flatten assessment; and
 - Funding for deferred resources and system enhancements that are necessary for the ERO to continue to fulfill its mission in the long-term
- Current 2022 budget and assessment projections compare favorably to the 2022 budget and assessment projections included in the 2020 BP&B
- Assessments do not yet include any potential use of ASR or OCR



Questions and Answers