

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

2024 Business Plan and Budget Overview

RELIABILITY | RESILIENCE | SECURITY



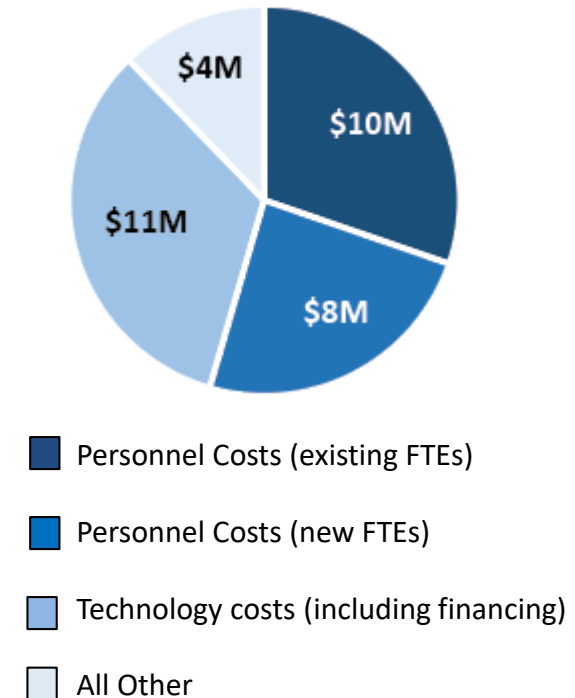
Energy: Tackle the challenge of grid transformation and climate change-driven, extreme weather

Security: Move the needle by focusing on supply chain, IT and OT system monitoring, cyber design, and evolution of CIP Standards

Agility: Tool the company to be more nimble in key areas, particularly standards development, internal operational processes

Sustainability: Invest in ERO systematic controls, strengthen succession planning, and ensure robust cyber security protections

2022–2025 Incremental Increase
\$33 million



Assessment will be slightly below last year's projection

FTE count will be consistent with last year's projection

Technology investment will be consistent with last year's projection

Budget will only slightly exceed prior year projection by \$500k

- Primarily due to medical insurance and other personnel related costs
- Budget variance funded by higher investment income

Workforce and technology strategy investments

Meetings and travel

Facilities and rent

Loan and lease financing to smooth assessments

Potential changes in final draft

Pressures

Preliminary planning

- January–March 2023 – Confirm and adjust 2024 and 2025 assumptions from three-year plan; add 2026 preliminary assumptions

Share 2024–2026 budget and assessments

- Late April – Closed CGHRC, TSC, and FAC, MEC Quarterly Update
- May 1 – MRC BP&B Input Group
- May 4 – Trades and Forums

Review NERC and Regional Entity 2024 BP&Bs

- May 25 to June 23 – Comment period on draft NERC 2024 BP&B
- June 1 – FAC webinar
- June 7 – FERC briefing

Review NERC proposed final 2024 BP&B

- July 12 – Closed FAC
- July 20 – MEC endorses E-ISAC 2024 budget
- July 24 – MRC BP&B Input Group
- July 27 – Trades and Forums

Approve NERC and Regional Entity final 2024 BP&Bs

- August 16 & 17 – Open FAC and Board

Budget – \$110.6M (\$9.6M or 9.5% increase from 2023)

- Primary drivers are costs related to workforce and technology strategy investments

Assessment – \$97.0M (\$9.9M or 11.4% increase from 2023)

- Assuming \$4.2M in loan and lease financing proceeds, which lowers assessment requirements
- NERC is currently not recommending any release from reserves to offset assessments

• FTEs – 246.4 (increase of 9.6 from 2023)

- Support for strategic areas of focus, primarily Security and Energy

Personnel – \$64.4M (11.0% increase from 2023)

- Weighted average merit increase of 5.5%
- Inflationary pressures and increased demand for technical talent
- Increase of 9.6 FTEs
 - Addition of 12 positions, offset by the reduction of 2 open positions
 - Expertise for standards development, enforcement, situation awareness, event analysis
 - E-ISAC and CRISP enhancement and expansion
 - Support functions related to cloud computing, system administration, communications
 - Reduction of one open position and combination of two positions into one as part of ongoing resource efficiency and optimization efforts

Meetings & Travel – \$3.4M (8.3% increase from 2023)

- Continuing efficiencies gained from virtual meeting formats
- Costs and demand increasing
- 2024 marks return to pre-pandemic budget levels

Operating Expenses – \$40.3M (11.6% increase from 2023)

- CRISP contract with PNNL (completely participant funded)
- Additional contractor, consultant, and software costs to support technology strategy
- Reclassification of some capital software costs to contractors and consultants
- Escalation for existing software license and support expenses
- Offset by lower insurance and other office and miscellaneous costs

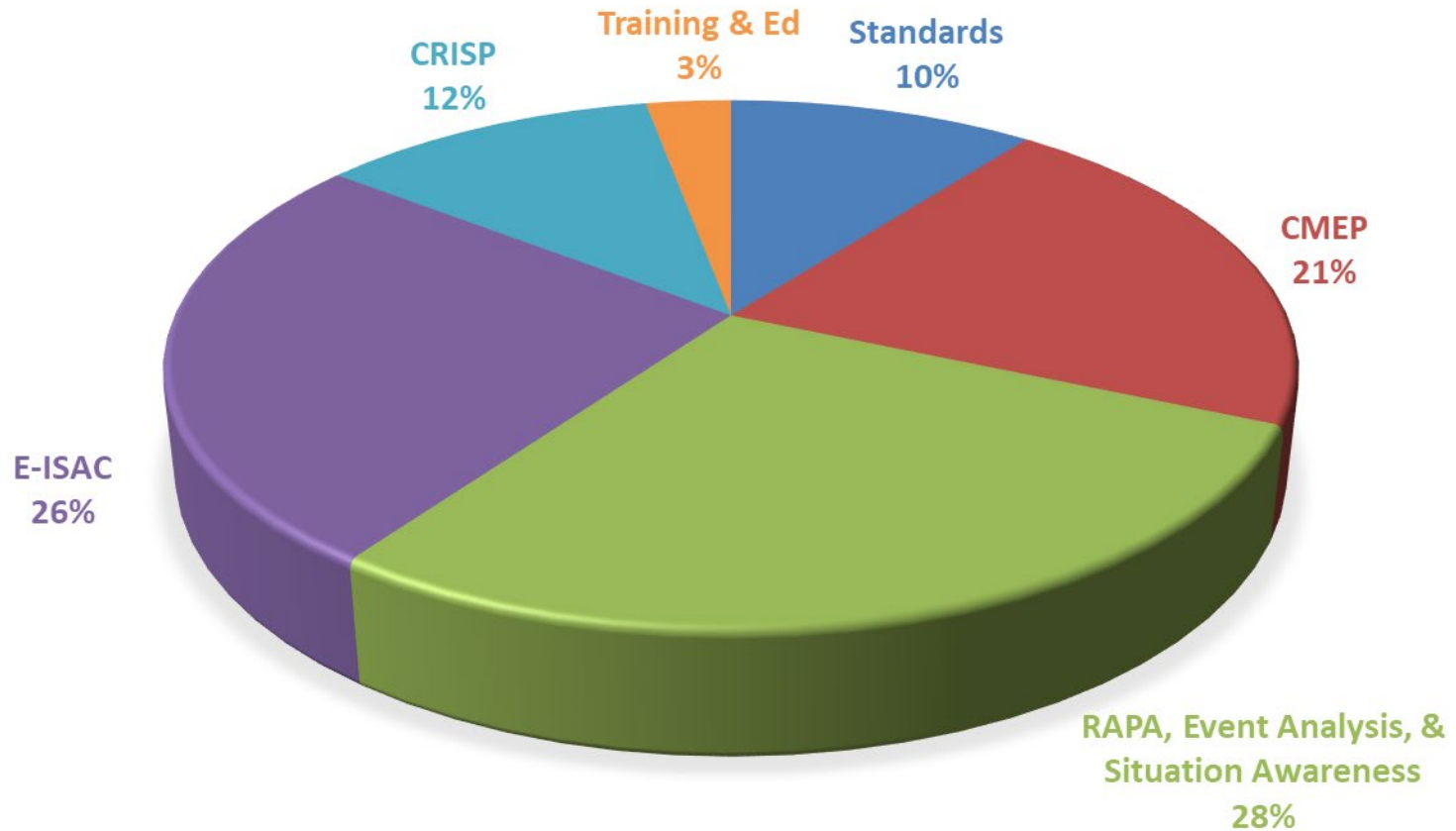
Fixed Assets – \$4.6M (25.7% decrease from 2023)

- Includes capital software and IT equipment in support of technology strategy
- Reclassification of some capital software costs to contractors and consultants

Net Financing Activity – (\$2.6M) (7.1% increase from 2023)

- Loan proceeds for capital software projects (\$2.4M)
- Lease financing proceeds for IT equipment (\$1.8M)
- Loan principal payments for ERO SEL and 2023 capital software borrowing
- Lease financing principal payments for laptops and IT equipment

2024 Budget by Program Area



Assessment – \$97.0M (\$9.9M or 11.4% increase from 2023)

- Assuming loan and lease financing of \$4.2M (reflected in budget under Net Financing Activity), which reduces assessment increase
- NERC is currently not recommending any release from reserves to offset assessments

2024 assessments by country (using 2022 NEL allocation) will be included in the final 2024 BP&B

Operating Contingency Reserve (OCR)

- Working capital funds and additional funds for unanticipated contingencies
- Target between 3.5% and 7.0% of total budget minus System Operator Certification and CRISP budgets

Assessment Stabilization Reserve (ASR)

- To date, funded entirely by previously received U.S. penalties
- Used to reduce U.S. assessments, subject to Board and FERC approval

Other reserves

- Future Obligation Reserve – Funding received to satisfy future obligations under lease, credit, loan, or other agreements (e.g., deferred rent)
- System Operator Certification Reserve – Surplus funding from operator certification and continuing education fees, used solely for operator certification program needs
- CRISP Reserve – Funds dedicated to CRISP, funded by CRISP participants

Total projected reserves at end of 2023 – \$23.8M

- OCR – \$13.1M (15.1%, above target)
- ASR – \$3.3M
- Future Obligation Reserve – \$2.9M
- System Operator Certification Reserve – \$756k
- CRISP reserves – \$3.7M

Total projected reserves at end of 2024 – \$23.5M

- OCR – \$13.1M (13.7%, above target)
- ASR – \$3.3M
- Future Obligation Reserve – \$2.9M
- System Operator Certification Reserve – \$542k
- CRISP reserves – \$3.7M

Key assumptions for 2025 projection (year 3 of 2023–2025 plan)

- Continued workforce and technology investments
- Lease-financed and one-time out-of-pocket expenses in 2025 for potential Atlanta office move
- Capital software financing and \$500k OCR release to offset assessments

2024 vs 2025

- Budget increase of 11.0% (\$12.2M)
- Assessment increase of 11.1% (\$10.8M)
- FTE increase of 11.1

Preliminary assumption for 2026 vs 2025

- Budget increase of 7.2% (\$8.8M)
- Assessment increase of 8.1% (\$8.8M)
- FTE increase of 7.5

<i>Year 2 (2024) and Year 3 (2025) of Three-Year Plan</i>				
<i>\$ millions</i>	2024	Over/(Under) prior projection	2025	Over/(Under) prior projection
Assessment Increase \$	\$9.9	\$(0.2)	\$10.8	\$0.0
Assessment Increase %	11.4%	-0.2%	11.1%	0.0%
Budget Increase \$	\$9.6	\$0.5M	\$12.1	\$(0.4)
Budget Increase %	9.5%	0.5%	11.0%	-0.3%

- 2024 assessment slightly below prior year projection
- 2024 budget slightly exceeds prior year projection
- 2025 assessment consistent with prior year projection
- 2025 budget slightly below prior year projection



Questions and Answers