

was posted on NERC's website May 1, 2019 and reviewed at the May 8, 2019 open meeting of the NERC Finance and Audit Committee. The unaudited report was accepted by the NERC Board of Trustees at its meeting on May 9, 2019.

II. NOTICES AND COMMUNICATIONS

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

Meredith M. Jolivert
Senior Counsel
North American Electric Reliability
Corporation
1325 G Street, N.W., Suite 600
Washington, D.C. 20005
(202) 400-3000
(202) 644-8099 – facsimile
Meredith.jolivert@nerc.net

Scott Jones
Senior Vice President
Chief Financial and Administrative Officer
North American Electric Reliability
Corporation
3353 Peachtree Road NE, Suite 600 – North
Tower
Atlanta, GA 30326
(404) 446-9645
Scott.Jones@nerc.net

III. DISCUSSION OF SIGNIFICANT VARIANCES BETWEEN 2019 BUDGET AND ACTUAL PROJECTED 2019 RESULTS

The attached first quarter 2019 variance report compares actual (unaudited) financial results to NERC's budgeted expenditures as of March 31, 2019, and projected year-end 2019 financial results to NERC's total 2019 budgeted expenditures. NERC is providing additional discussion of significant variances between the projected (unaudited) year-end 2019 results and NERC's 2019 budgeted expenditures, by NERC department or program area and by major activity within departments and program areas. This discussion focuses on variances of \$500,000 or more between projected year-end 2019 results and the 2019 budget. NERC has focused on projected year-end variances in excess of budget of \$500,000 or more, because Section 7(b)(ii) of the Settlement Agreement specifies that NERC will file for Commission review and approval proposals approved by the NERC Board of Trustees to expend \$500,000 or more from Operating

Reserves designated for “unforeseen contingencies” (as defined in NERC’s Working Capital and Operating Reserves Policy), *i.e.*, where any amount allocated from the unforeseen contingencies account of Operating Reserves plus any amount redirected from previously budgeted funds is, in the aggregate, \$500,000 or more for any one specific project or major activity in a program area.

A. Projected Variances of \$500,000 or more by Department or Program Area

In late 2018, NERC management went through an organizational assessment, including the alignment of various programs and staffing resources according to roles and responsibilities, and re-characterized several employees across multiple departments. In general, these employees maintained the same responsibilities and functional oversight, but were assigned different managers or departments. In some cases, similar roles were consolidated to align certain technical functions. The changes had no effect on total FTEs for the company, and the net cost impact of these movements was immaterial. However, for financial presentation purposes as it relates to the original 2019 Business Plan & Budget, these three departments now reflect budget variances because of the change in alignment of staffing within and across these program areas: Compliance Assurance; Compliance Analysis, Registration and Certification; and Reliability Assessment and System Analysis. As of March 31, 2019, Compliance Assurance is projected to be over budget at year-end by \$1,154,650, Compliance Analysis, Registration and Certification is projected to be under budget by \$1,035,056 at year-end and Reliability Assessment and System Analysis is projected to be under budget at year-end by \$663,576. Other departments and program areas reflect over and under budget amounts as well resulting from this reorganization, but none were greater than \$500,000.

IV. CONCLUSION

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

Respectfully submitted,

/s/ Meredith M. Jolivert

Meredith M. Jolivert
Senior Counsel
North American Electric Reliability
Corporation
1325 G Street, N.W., Suite 600
Washington, D.C. 20005
(202) 400-3000
(202) 644-8099 – facsimile
meredith.jolivert@nerc.net

*Counsel for North American Electric Reliability
Corporation*

Dated: May 15, 2019

CERTIFICATE OF SERVICE

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

Dated at Washington, D.C. this 15th day of May, 2019.

/s/ Meredith M. Jolivert

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

ATTACHMENT

Summary of Unaudited Results For the Month Ending March 31, 2019

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Executive Summary

Projected Year-End Results (\$ millions)

<u>FUNDING</u>	<u>Projected</u>	<u>Budget</u>	<u>Over (Under)</u>
Revenues	\$ 78.5	\$ 78.6	\$ (0.1)
Funding from Reserves			
Assessment Stabilization Reserve	\$ 0.6	\$ 0.6	-
TOTAL FUNDING	\$ 79.1	\$ 79.2	\$ (0.1)
<u>EXPENDITURES</u>			
Expenses (excluding Depreciation)	\$ 75.4	\$ 75.3	\$ 0.1
Fixed Asset Additions	4.5	4.8	(0.3)
TOTAL EXPENDITURES	\$ 79.9	\$ 80.1	\$ (0.2)
RESERVE INCREASE (DECREASE)	\$ (0.8)	\$ (0.9)	\$ 0.1

FUNDING

- Revenues
 - Expected to be slightly under budget at year-end primarily due to lower third-party revenues needed to fund the CRISP program.

EXPENDITURES

- Expenses (excluding depreciation)
 - Contracts and consultants are projected to be slightly over budget due to unplanned spending for FRCC transition work and SOCCED database system upgrades.
- Fixed Assets
 - Projected to be below budget at year-end in order to offset other increased costs.

RESERVE INCREASE (DECREASE)

- Projected to be near budget at year-end.

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

FUNDING	Actual	Budget	Over (Under)
Revenues	\$ 19.7	\$ 19.7	\$ -
Funding from Reserves			
Assessment Stabilization Reserve	0.6	0.6	-
TOTAL FUNDING	\$ 20.3	\$ 20.3	\$ -
EXPENDITURES			
Expenses (excluding Depreciation)	\$ 18.5	\$ 19.7	\$ (1.2)
Fixed Asset Additions	0.7	1.2	(0.5)
TOTAL EXPENDITURES	\$ 19.2	\$ 20.9	\$ (1.7)
RESERVE INCREASE (DECREASE)	\$ 1.1	\$ (0.6)	\$ 1.7

FUNDING

- Revenues
 - Revenues are at budget.

EXPENDITURES

- Expenses (excluding depreciation)
 - Personnel expenses are under budget primarily due timing of new hires, which are partially offset by increased medical insurance costs.
 - Contracts and Consultants are under budget mainly because of the expected timing of expenditures versus budget.
- Fixed Assets
 - Under budget largely due to the expected timing of expenditures versus budget.

OPERATING RESERVE INCREASE (DECREASE)

- Actual reserve increase from operations is higher than budget by \$1.7 million primarily due to expected timing of expenditures versus budget.

Detailed Operating Results

Total NERC (including CRISP)

Variances by Revenue and Expense Category

	YTD Actual	YTD Budget	YTD Over (Under)	% Over (Under)	Annual Projection	Annual Budget	Annual Over (Under)	% Over (Under)
TOTAL FUNDING	\$ 20,229,263	\$ 20,203,837	\$ 25,426	0.1%	\$ 79,070,473	\$ 79,130,349	\$ (59,875)	(0.1%)
EXPENDITURES								
Personnel	\$ 11,360,281	\$ 11,696,172	\$ (335,891)	(2.9%)	\$ 43,789,782	\$ 43,952,190	\$ (162,408)	(0.4%)
Meetings, Travel, and Conference Calls	948,641	856,975	91,666	10.7%	3,504,330	3,380,400	123,930	3.7%
Contracts and Consultants	3,201,789	4,044,717	(842,928)	(20.8%)	15,249,838	15,043,318	206,520	1.4%
Rent and Facilities	850,663	818,765	31,899	3.9%	3,335,058	3,335,058	-	0.0%
Office Costs, Professional, and Misc.*	2,179,484	2,313,897	(134,413)	(5.8%)	9,396,017	9,346,517	49,500	0.5%
Other Non-Operating Expenses	4,924	57,933	(53,009)	(91.5%)	141,171	214,171	(73,000)	(34.1%)
Fixed Asset Additions*	745,884	1,194,500	(448,616)	(37.6%)	4,521,200	4,778,000	(256,800)	(5.4%)
TOTAL EXPENDITURES	\$ 19,291,666	\$ 20,982,959	\$ (1,691,293)	(8.1%)	\$ 79,937,397	\$ 80,049,655	\$ (112,258)	(0.1%)
RESERVE INCREASE (DECREASE)	\$ 937,598	\$ (779,121)	\$ 1,716,719	(220.3%)	\$ (866,924)	\$ (919,306)	\$ 52,382	(5.7%)
FTEs	201.1	204.9	(3.9)	(1.9%)	201.3	204.9	(3.6)	(1.8%)

* Excludes depreciation expense

CONTRACTS and CONSULTANTS	YTD Actual	YTD Budget	YTD Over (Under)	Annual Projection	Annual Budget	Annual Over (Under)
Reliability Standards	\$ -	\$ 12,500	\$ (12,500)	\$ 50,000	\$ 50,000	\$ -
Compliance Assurance	-	12,500	(12,500)	50,000	50,000	-
Compliance Analysis, Registration and Certification	-	-	-	-	-	-
Compliance Enforcement	20,256	40,250	(19,994)	161,000	161,000	-
Reliability Assessment and System Analysis	74,050	156,250	(82,200)	625,000	625,000	-
Situation Awareness	629,210	704,135	(74,925)	1,280,990	1,280,990	-
Event Analysis	-	-	-	-	-	-
Performance Analysis	141,747	163,391	(21,644)	748,365	653,565	94,800
E-ISAC	162,649	455,125	(292,476)	1,782,220	1,820,500	(38,280)
Training, Education, and Personnel Certification	147,456	124,250	23,206	647,000	497,000	150,000
General and Administrative and Executive	5,000	20,000	(15,000)	220,000	220,000	-
Legal and Regulatory	-	-	-	-	-	-
Policy and External Affairs	10,000	6,250	3,750	20,000	20,000	-
Information Technology	318,894	510,691	(191,797)	2,042,763	2,042,763	-
Human Resources and Administration	200,513	106,250	94,263	690,000	690,000	-
Finance and Accounting	41,144	118,750	(77,606)	475,000	475,000	-
TOTAL (excluding CRISP)	\$ 1,750,919	\$ 2,430,342	\$ (679,423)	\$ 8,792,338	\$ 8,585,818	\$ 206,520
CRISP	1,450,870	1,614,375	(163,505)	6,457,500	6,457,500	-
TOTAL (including CRISP)	\$ 3,201,789	\$ 4,044,717	\$ (842,928)	\$ 15,249,838	\$ 15,043,318	\$ 206,520

Variations by Department / Program

DIRECT EXPENSES and NET FIXED ASSETS	YTD			Annual Projection	Annual	
	YTD Actual	YTD Budget	Over (Under)		Budget	Over (Under)
Reliability Standards	\$ 880,931	\$ 900,962	\$ (20,032)	\$ 3,707,818	\$ 3,419,581	\$ 288,236
Compliance Assurance	1,526,802	1,306,791	220,011	6,333,155	5,178,505	1,154,650
Compliance Analysis, Registration and Certification	665,664	750,690	(85,026)	1,846,748	2,881,804	(1,035,056)
Compliance Enforcement	960,371	1,005,852	(45,481)	3,844,038	3,861,690	(17,653)
Reliability Assessment and System Analysis	892,469	1,218,035	(325,566)	3,942,531	4,606,107	(663,576)
Situation Awareness	989,936	1,147,680	(157,745)	3,074,354	3,012,404	61,950
Event Analysis	676,471	722,164	(45,693)	2,444,716	2,771,658	(326,942)
Performance Analysis	856,197	744,816	111,381	3,359,030	2,873,967	485,063
E-ISAC	2,086,688	2,725,642	(638,954)	10,305,095	10,649,090	(343,994)
Training, Education, and Personnel Certification	404,890	341,629	63,262	1,618,653	1,367,755	250,898
General and Administrative and Executive	2,102,647	2,112,992	(10,345)	8,071,858	8,144,200	(72,342)
Legal and Regulatory	1,056,029	1,028,693	27,335	3,974,958	3,878,791	96,167
Policy and External Affairs	643,932	669,228	(25,296)	2,481,207	2,510,721	(29,514)
Information Technology	2,609,592	2,995,330	(385,739)	11,676,763	11,696,532	(19,769)
Human Resources	678,453	594,273	84,180	2,535,698	2,562,371	(26,673)
Finance and Accounting	567,536	636,636	(69,100)	2,654,839	2,553,747	101,091
TOTAL (excluding CRISP)	\$ 17,598,607	\$ 18,901,413	\$ (1,302,807)	\$ 71,871,461	\$ 71,968,925	\$ (97,464)
CRISP	1,693,059	2,081,545	(388,486)	8,065,936	8,080,729	(14,793)
TOTAL EXPENSES and NET FIXED ASSETS	\$ 19,291,666	\$ 20,982,959	\$ (1,691,293)	\$ 79,937,397	\$ 80,049,655	\$ (112,258)

In late 2018, NERC management went through an organizational assessment involving various program areas and re-characterized several employees across multiple departments. In most cases, these employees kept the same responsibilities and functional oversight, but were assigned new departments and/or consolidated with other similar roles to align certain technical functions. The changes had no effect on the total FTEs, and the net cost impact of these movements was immaterial. The following program areas were impacted by this review:

- Reliability Standards
- Compliance Assurance
- Compliance Analysis, Registration and Certification
- Reliability Assessment and System Analysis
- Event Analysis
- Performance Analysis
- E-ISAC: Under budget year-to-date largely because of the expected timing of hiring FTEs versus the budget, as well as the timing of expected expenditures versus the budget for contracts and consultant costs. Projected to be under budget at year-end due to timing in hiring of FTEs versus budget.
- Information Technology: Under budget year-to-date mainly because of the expected timing of expenditures versus budget.
- CRISP: Under budget year-to-date due to the expected timing of expenditures versus budget.

SUPPLEMENTAL SCHEDULE 1

Year-End Projected Reserves

<u>Reserve Account</u>	<u>Beginning Balance ⁽¹⁾</u>	<u>Budgeted Funding</u>	<u>Budgeted Uses</u>	<u>Other Funding (Uses) ⁽²⁾</u>	<u>Net Financing Activity ⁽³⁾</u>	<u>Ending Balance</u>
Operating Contingency	\$ 5,644,359	\$ 550,000	\$ (1,067,980)	\$ (254,403)	\$ 694,646	\$ 5,566,622
Future Obligations	2,535,333	-	(480,457)	64,843	-	2,119,719
Assessment Stabilization	2,071,000	-	(550,000)	-	-	1,521,000
System Operator	592,110	148,674	-	(243,215)	-	497,568
CRISP	500,000	-	-	-	-	500,000
Total Reserves	\$ 11,342,801	\$ 698,674	\$ (2,098,437)	\$ (432,775)	\$ 694,646	\$ 10,204,909

NOTES:

(1) Some 2019 beginning balances have been adjusted from the 12/31/2018 variance report balances as the result of a reconciliation to the final audited balance sheet.

(2) The column Other Funding (Uses) primarily reflects the net impact of normal operations. For example, under normal circumstances, if NERC was 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.

(3) Net financing activity in 2019 reflects principal debt repayments for borrowings originating in 2016. NERC did not make budgeted borrowings for 2017 and 2018 in light of a favorable working capital position, and is projected to borrow 50% of its 2019 budgeted financing in 2019.

SUPPLEMENTAL SCHEDULE 2

IT Projects

<u>Projects in Progress</u>	<u>Project Budget ⁽¹⁾</u>	<u>Actual Spend</u>	<u>Expected Spend</u>	<u>Expected Over (Under) Budget</u>
CMEP Technology Project (2017-2020)	\$ 5,403,000	\$ 1,864,971	\$ 5,403,000	\$ -
Entity Registration - CORES (2018-2019)	1,200,000	575,897	1,200,000	-
SAFNR V3	304,500	-	304,500	-
Document Management - Records Center Reconfiguration	190,500	37,500	190,500	-
Multifactor Authentication	27,660	-	27,660	-
FRCC Dissolution	128,497	50,550	125,425	(3,072)
Standards	300,000	8,475	300,000	-

NOTES:

(1) The Project Budget noted above usually corresponds to the approved business case for each project and funds for each project are drawn from the available budget. In some projects, business cases may not be prepared, particularly when a project is smaller and/or may be in response to a FERC order.

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

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

SUPPLEMENTAL SCHEDULE 2

(continued)

CMEP Technology Project

(Started May 2017 / Planned Completion Dec 2020)

This project will provide registered entities, Regional Entities, and NERC the ability manage the compliance and enforcement processes and data in a single ERO Enterprise system. Today, those processes and related data are managed across three separate systems that have to be synchronized (webCDMS, CITS, and CRATS).

Entity Registration - CORES

(Started Dec 2017 / Planned Completion Dec 2019)

NERC is undertaking an effort to both standardize and modernize the Entity Registration process. The discovery phase of the Centralized Organization Registration Entity System (CORES) project includes the capture of Region-specific needs, variations, and exceptions in the registration process. CORES will be a centralized entity registration process, which will require the retirement of registration in CDMS, CITS, and CRATS. The Joint Registration Organization (JRO) portion of the project will be combined with the CORES production release in 2019.

SAFNR V3

(Planned Start Date May 2019 / Planned Completion Nov 2019)

One of the primary functions of the ERO Enterprise is to maintain situational awareness of Bulk Power System conditions and provide accurate and timely information regarding threats that may adversely impact reliability. This project will replace the existing Situation Awareness for FERC, NERC, and the Regional Entities system (SAFNR V2) system with a new version to reduce reliability risk, provide new capabilities, reduce corporate risk, and increase productivity.

Document Management – Records Center Reconfiguration

(Planned Start Date May 2019 / Planned Completion Dec 2019)

The Record Center is in alignment with the original intent and business case for Document Management. One of the key items for addressing information management across all program areas, was to have the ability to address document retention. The Record Center will be configured in accordance with the NERC Records Retention and Destruction policy, allowing records to be managed and retained in accordance with policy.

Multifactor Authentication

(Started Jan 2019 / Planned Completion Jun 2019)

The purpose of this project is to implement the DUO Multi Factor Authorization solution to enhance the overall security of the NERC ERO suite of applications and to meet existing requirements for applications currently under development, primarily CORES and CMEP/Align projects. Multi-factor authorization provides functionality requiring multiple means of user authentication (Mobile PIN code, etc.) in addition to traditional user authentication methods like user name and password.

FRCC Dissolution

(Started Jan 2019 / Planned Completion Oct 2019)

With FRCC dissolving, NERC assessed the changes required to applications that contained FRCC data and the reassignment/classification of such information. The inventory requires the mapping utility, functionality, migration, and support efforts by both Region and entity. Activities include facilitated discussions with IT and business owners of impacted applications to capture and document high-level, as well as more detailed, requirements necessary to support the transition of registered entities from FRCC to SERC.

Standards

(Started Jan 2019 / Planned Completion Oct 2019)

In support of the CMEP Technology Project, this project involves the movement all of the Standards data from the old source system to the new one.

SUPPLEMENTAL SCHEDULE 3

E-ISAC and CRISP Summary of Activity

TOTAL E-ISAC (including CRISP)

<u>FUNDING</u>	YTD <u>Actual</u>	Annual <u>Projection</u>	Annual <u>Budget</u>	Projected <u>Over (Under)</u>
Assessments	\$ 4,906,974	\$ 19,627,897	\$ 19,627,897	\$ -
Other Funding	2,067,888	7,688,320	7,767,730	(79,410)
TOTAL FUNDING	\$ 6,974,863	\$ 27,316,217	\$ 27,395,627	\$ (79,410)
<u>EXPENDITURES</u>				
Personnel Expense	\$ 1,816,160	\$ 7,765,736	\$ 8,180,123	\$ (414,388)
Meeting Expense	131,527	511,880	418,000	93,880
Operating Expenses (excluding Depreciation)	1,811,127	9,393,416	9,431,696	(38,280)
Fixed Assets (excluding Depreciation and Fixed Asset Allocation)	20,932	700,000	700,000	-
Total Direct Costs (excluding Depreciation and Allocations)	\$ 3,779,747	\$ 18,371,031	\$ 18,729,819	\$ (358,788)
Indirect Expense Allocation	1,975,063	8,549,005	9,004,572	(455,567)
Fixed Asset Allocation	(115,877)	(308,775)	(338,764)	29,989
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 5,638,933	\$ 26,611,261	\$ 27,395,627	\$ (784,366)
RESERVE INCREASE (DECREASE)	\$ 1,335,929	\$ 704,956	\$ -	\$ 704,956

SUPPLEMENTAL SCHEDULE 3

(continued)

CRISP

FUNDING	YTD	Annual	Annual	Projected
	Actual	Projection	Budget	Over (Under)
Assessments	\$ 381,597	\$ 1,526,388	\$ 1,526,388	\$ -
Other Funding	1,908,472	7,437,909	7,517,319	(79,410)
TOTAL FUNDING	\$ 2,290,069	\$ 8,964,297	\$ 9,043,707	\$ (79,410)
EXPENDITURES				
Personnel Expense	\$ 182,852	\$ 950,000	\$ 965,793	\$ (15,793)
Meeting Expense	6,680	49,000	48,000	1,000
Operating Expenses (excluding Depreciation)	1,503,527	6,966,936	6,966,936	-
Fixed Assets (excluding Depreciation and Fixed Asset Allocation)	-	100,000	100,000	-
Total Direct Costs (excluding Depreciation and Allocations)	\$ 1,693,059	\$ 8,065,936	\$ 8,080,729	\$ (14,793)
Indirect Expense Allocation	201,727	803,478	1,000,605	(197,127)
Fixed Asset Allocation	(11,835)	(29,020)	(37,628)	8,608
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 1,882,951	\$ 8,840,394	\$ 9,043,707	\$ (203,313)
RESERVE INCREASE (DECREASE)	\$ 407,119	\$ 123,903	\$ -	\$ 123,903

E-ISAC (excluding CRISP)

FUNDING	YTD	Annual	Annual	Projected
	Actual	Projection	Budget	Over (Under)
Assessments	\$ 4,525,377	\$ 18,101,509	\$ 18,101,509	\$ -
Other Funding	159,416	250,411	250,411	-
TOTAL FUNDING	\$ 4,684,793	\$ 18,351,920	\$ 18,351,920	\$ -
EXPENDITURES				
Personnel Expense	\$ 1,633,308	\$ 6,815,736	\$ 7,214,330	\$ (398,594)
Meeting Expense	124,847	462,880	370,000	92,880
Operating Expenses (excluding Depreciation)	307,600	2,426,480	2,464,760	(38,280)
Fixed Assets (excluding Depreciation and Fixed Asset Allocation)	20,932	600,000	600,000	-
Total Direct Costs (excluding Depreciation and Allocations)	\$ 2,086,688	\$ 10,305,095	\$ 10,649,090	\$ (343,994)
Indirect Expense Allocation	1,773,336	7,745,527	8,003,966	(258,439)
Fixed Asset Allocation	(104,041)	(279,755)	(301,136)	21,381
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 3,755,983	\$ 17,770,867	\$ 18,351,920	\$ (581,052)
RESERVE INCREASE (DECREASE)	\$ 928,811	\$ 581,052	\$ -	\$ 581,052

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

NERC Summary of Unaudited Results First Quarter 2019

Andy Sharp, Controller
Finance and Audit Committee Meeting
May 8, 2019

RELIABILITY | ACCOUNTABILITY



- Total funding is on budget
- Total expenditures were \$1.7M (8.1%) under budget
 - Primarily due to the expected timing of expenditures versus budget
- Net impact was \$1.7M increase in operating reserves

- NERC projecting to be near budget for funding (-0.1%)
 - Lower third-party revenues needed to fund CRISP
- NERC projecting to be near budget for total expenditures (-0.1%)
 - Contracts and consultants projected to be slightly over budget due to FRCC transition work and SOCCED database system upgrades
 - Fixed assets projected to be below budget to offset other increases
- Projected operating reserve usage near budget
 - Loan borrowing projected to be 50% less than budgeted

- Total projected reserves balance is \$10.2M
 - Operating Contingency Reserve (OCR) – \$5.6M
 - Assessment Stabilization Reserve (ASR) – \$1.5M
 - Future Obligation Reserve – \$2.1M
 - System Operator Reserve – \$500k
 - CRISP Reserve – \$500k



Questions and Answers