

## Agenda

# Finance and Audit Committee Informational Session and Webinar

July 23, 2020 | 1:00–3:00 p.m. Eastern

**Attendees:** [Click to Join Webex](#)

### Introductions and Chair's Remarks

### NERC Antitrust Compliance Guidelines and Public Announcement

### Agenda Items

1. [2021 NERC Business Plan and Budget Overview\\*](#) – Review
  - a. [2021 NERC Business Plan and Budget](#)
2. **Regional Entities' and WIRAB 2021 Draft Business Plans and Budgets\*** – Review
  - a. Midwest Reliability Organization
    - i. [2021 MRO Business Plan and Budget Overview](#)
    - ii. [2021 MRO Business Plan and Budget](#)
  - b. Northeast Power Coordinating Council, Inc.
    - i. [2021 NPCC Business Plan and Budget Overview](#)
    - ii. [2021 NPCC Business Plan and Budget](#)
  - c. ReliabilityFirst
    - i. [2021 RF Business Plan and Budget Overview](#)
    - ii. [2021 RF Business Plan and Budget](#)
  - d. SERC Reliability Corporation
    - i. [2021 SERC Business Plan and Budget Overview](#)
    - ii. [2021 SERC Business Plan and Budget](#)
  - e. Texas Reliability Entity, Inc.
    - i. [2021 Texas RE Business Plan and Budget Overview](#)
    - ii. [2021 Texas RE Business Plan and Budget](#)

- f. Western Electricity Coordinating Council
    - i. [2021 WECC Business Plan and Budget Overview](#)
    - ii. [2021 WECC Business Plan and Budget](#)
  - g. Western Interconnection Regional Advisory Body
    - i. [2021 WIRAB Business Plan and Budget Overview](#)
    - ii. [2021 WIRAB Business Plan and Budget](#)
3. [2021 ERO Enterprise Combined Budgets and Assessments Overview](#)\* – **Review**
4. **Adjournment**

# 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.

# 2021 Business Plan and Budget – Draft 2 Overview

Andy Sharp, Vice President and Chief Financial Officer  
July 2020

RELIABILITY | RESILIENCE | SECURITY



- Comments received from
  - US: Edison Electric Institute (EEI)
  - US: ISO RTO Council Standards Review Committee (SRC)
  - US: National Rural Electric Cooperative Association (NRECA)
  - Canada: Canadian Electricity Association (CEA)
  - Canada: Independent Electricity System Operator (IESO)
- The majority of the comments:
  - Supported the 2021 Business Plan and Budget (BP&B), especially the cost savings efforts and minimal budget and assessment increases
  - Emphasized financial pressures on industry from the effects of COVID-19
  - Encouraged continued budget stabilization efforts in future years

- EEI urged NERC to work with the Regional Entities to similarly maintain 2020 budget levels
- The ISO RTO Council SRC requested NERC to:
  - Explain NERC's plan for conducting in-person meetings in 2021
  - Clarify the decrease in Event Analysis program expenses
  - Expand BP&B charts to include additional historical data
- CEA requested NERC to:
  - Consider methods to provide relief to entities with the expected 2020 budget underrun funds
  - Examine ways to provide more cost certainty over a three-year horizon
  - Continue to engage with stakeholders on the E-ISAC value proposition
- **Response to comments posted on the NERC website**

- **Budget \$82.9M (\$226k or 0.3% increase over 2020)**
  - Includes Align tool delay costs funded by reserves (\$1.8M)
  - Budget without Align tool delay costs \$81.1M (1.9% decrease over 2020)
  - No increase in FTEs over 2020
- **Assessments \$72.0M (flat versus 2020)**
  - No use of Assessment Stabilization Reserve (ASR) funds
- **Assessments by country (based on 2019 NEL)**
  - US: \$65.0M (\$174k or 0.3% decrease over 2020)
  - Canada: \$6.7M (\$171k or 2.6% increase over 2020)
  - Mexico: \$225k (\$3k or 1.3% increase over 2020)

- 2021 budget and assessment assumptions consistent with Draft 1
  - Some cost adjustments within and among departments
    - Resulted in a slight increase of the budget from a 0.2% increase over 2020 in Draft 1 to a 0.3% increase over 2020 in Draft 2
    - No impact to 2021 assessment (remains flat, with no use of ASR)
- Inclusion of preliminary 2022 and 2023 projections
- Draft 2 posted on NERC website, with comments requested by **July 30, 2020**

- 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 the 2021 budget and assessment to 2020 levels, including the use of reserves to help flatten the 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

A stylized map of North America, including the United States, Canada, and Mexico. The map is rendered in shades of blue and grey. A horizontal band of a darker blue color runs across the middle of the map, behind the main title text.

# **Additional Information**

- Guided by the *ERO Enterprise Long-Term Strategy*
- April 2020
  - 2021 budget assumptions shared with MRC BP&B Input Group, Trades & Forums, and Finance and Audit Committee (FAC) on April 23
- May 2020
  - First draft overview presented to FAC on May 13
  - First draft posted for comment on May 19
  - NERC and Regional Entity (RE) 2021 BP&B briefing with FERC on May 20
- June 2020
  - First FAC webinar to review 2021 NERC and RE BP&Bs on June 4
  - Comments due on first draft on June 26

- July 2020
  - Second draft assumptions shared with MRC BP&B Input Group, Trades & Forums, and FAC on July 9
  - Second draft posted for comment on July 16
  - Second FAC webinar to review NERC and RE 2021 BP&Bs on July 23
  - Comments due on second draft on July 30
- August 2020
  - Final draft posted on August 13
  - FAC and Board meetings to approve final NERC and RE 2021 BP&Bs on August 19 and 20
  - 2021 BP&Bs submitted to FERC for approval by August 25, with subsequent filings with Canadian authorities

- 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)

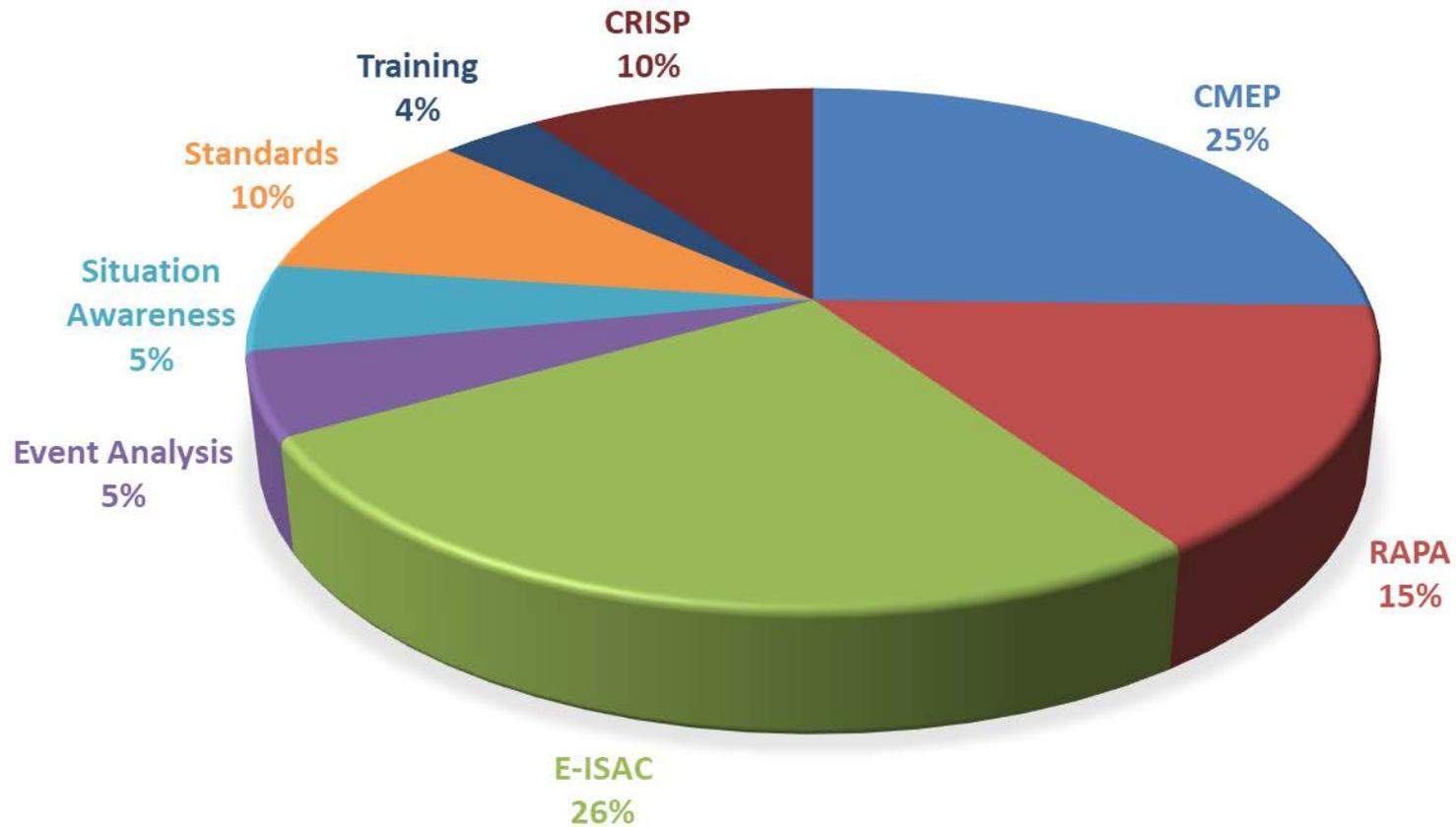
- **Lower spending in other areas**

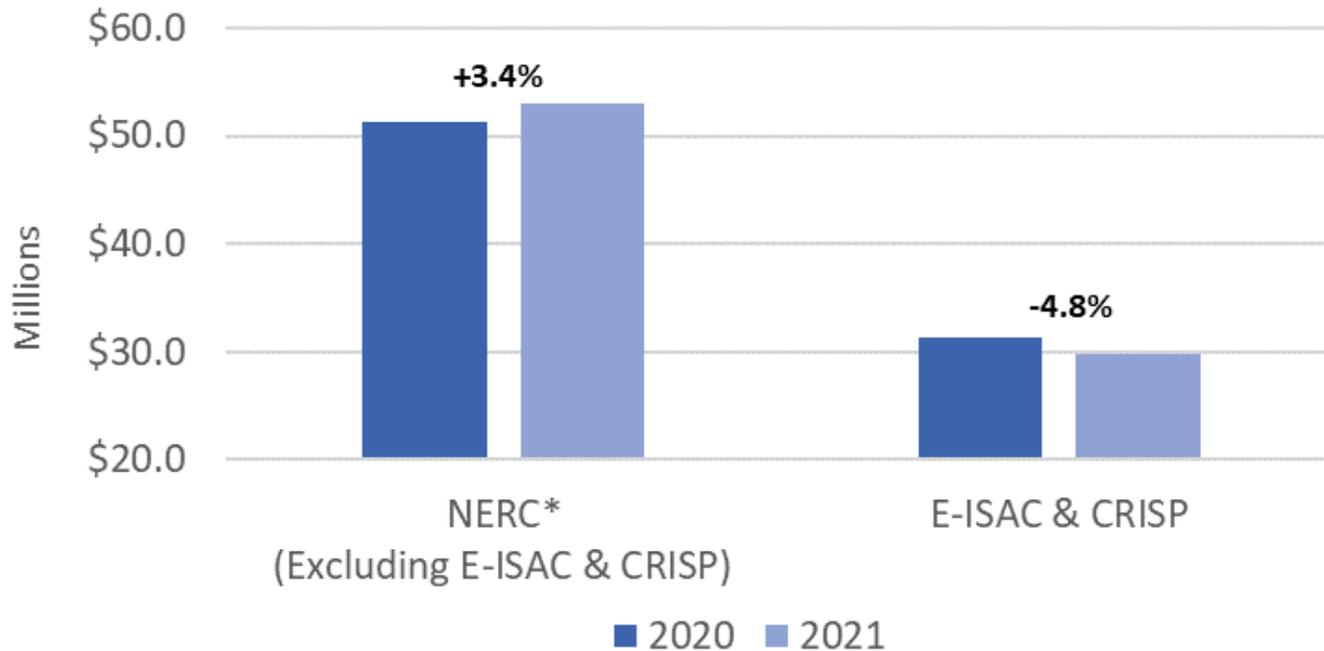
- No increase in FTEs
- E-ISAC and CRISP direct costs below prior projection
- Reduced 2021 debt service as a result of cash funding 2020 Align development costs versus budgeted financing
- Reductions in contracts and consultants and professional services
- Deferred non-critical system enhancements to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

- **Personnel \$48.2M (3.4% increase over 2020)**
  - Adding FTEs for cyber security and SEL, offset by lower FTEs in other areas
  - Placeholder salary increase of 3.0%
  - Medical insurance premium increase
- **Meetings and travel \$2.2M (33.7% decrease over 2020)**
  - Assuming fewer in-person meetings
  - Travel expense reduced versus 2020 budget
- **Operating Expenses \$28.7M (4.3% increase over 2020)**
  - Increased use of contractors in E-ISAC versus FTEs
  - Lower spending on other contracts and consultants and professional services for non-critical projects
  - Increased software support expenses, including ERO SEL

- **Fixed Assets \$2.7M (41.5% decrease over 2020)**
  - Includes \$1.8M for Align delay costs, which will be fully funded from OCR (no assessment impact)
  - Decreased spending on capital software in other areas by reducing scope or deferring non-urgent enhancements
  - No planned spending for office modifications
- **Net Financing Activity \$845k (505.2% increase over 2020)**
  - Loan activity
    - No borrowing budgeted in 2021
    - Loan payments for 2020 borrowing for ERO SEL
  - Financing lease activity
    - Lease proceeds for new IT equipment
    - Lease payments for existing IT equipment

# 2021 Budget by Program Area





\*Includes 2021 Align delay costs funded by reserves

- **Assessments \$72.0M (flat versus 2020)**
  - Lower interest income and third-party CRISP revenue
  - Funding 2021 Align delay costs from OCR
  - Assumes no ASR usage

- 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 (slightly higher than target to provide additional reserves during uncertain economic conditions to fund deferred projects if needed)

# ERO Enterprise Combined 2021 Budgets & Assessments

Andy Sharp, Vice President and Chief Financial Officer  
July 2020

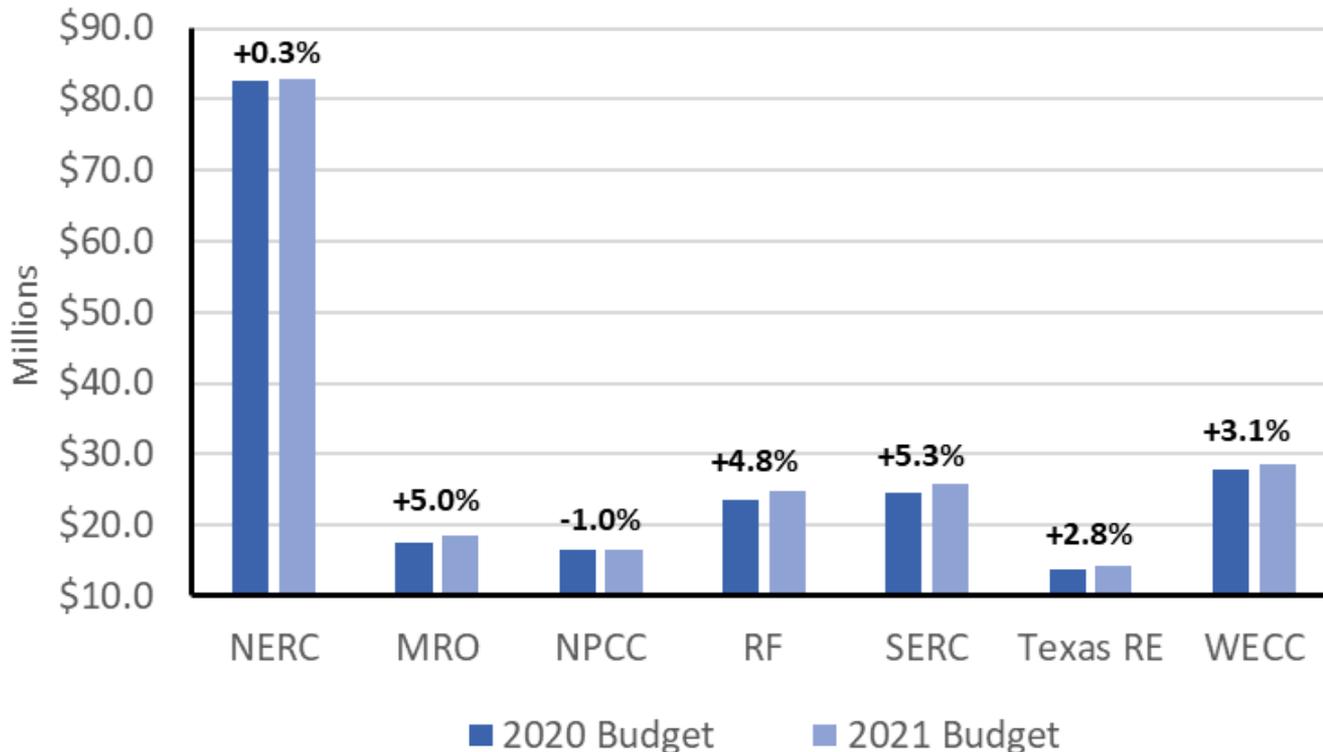
RELIABILITY | RESILIENCE | SECURITY



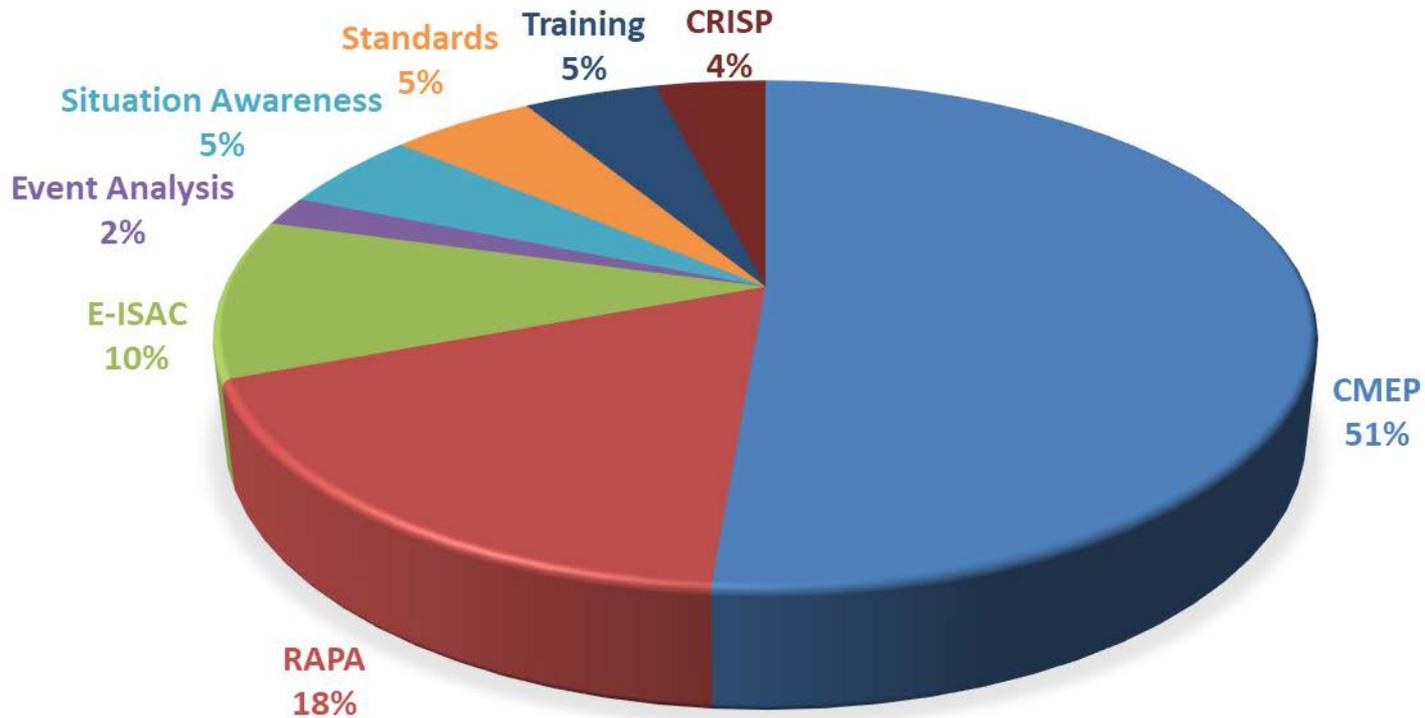
- Expand risk-based focus in Standards, Compliance Monitoring, and Enforcement
- Assess and catalyze steps to mitigate known and emerging risks to reliability and security
- Build a strong, E-ISAC-based security capability
- Strengthen engagement across the reliability and security ecosystem in North America
- Capture effectiveness, efficiency, and continuous improvement opportunities

- **Total ERO Enterprise Budget \$211.2M (\$4.6M or 2.2% increase over 2020)**

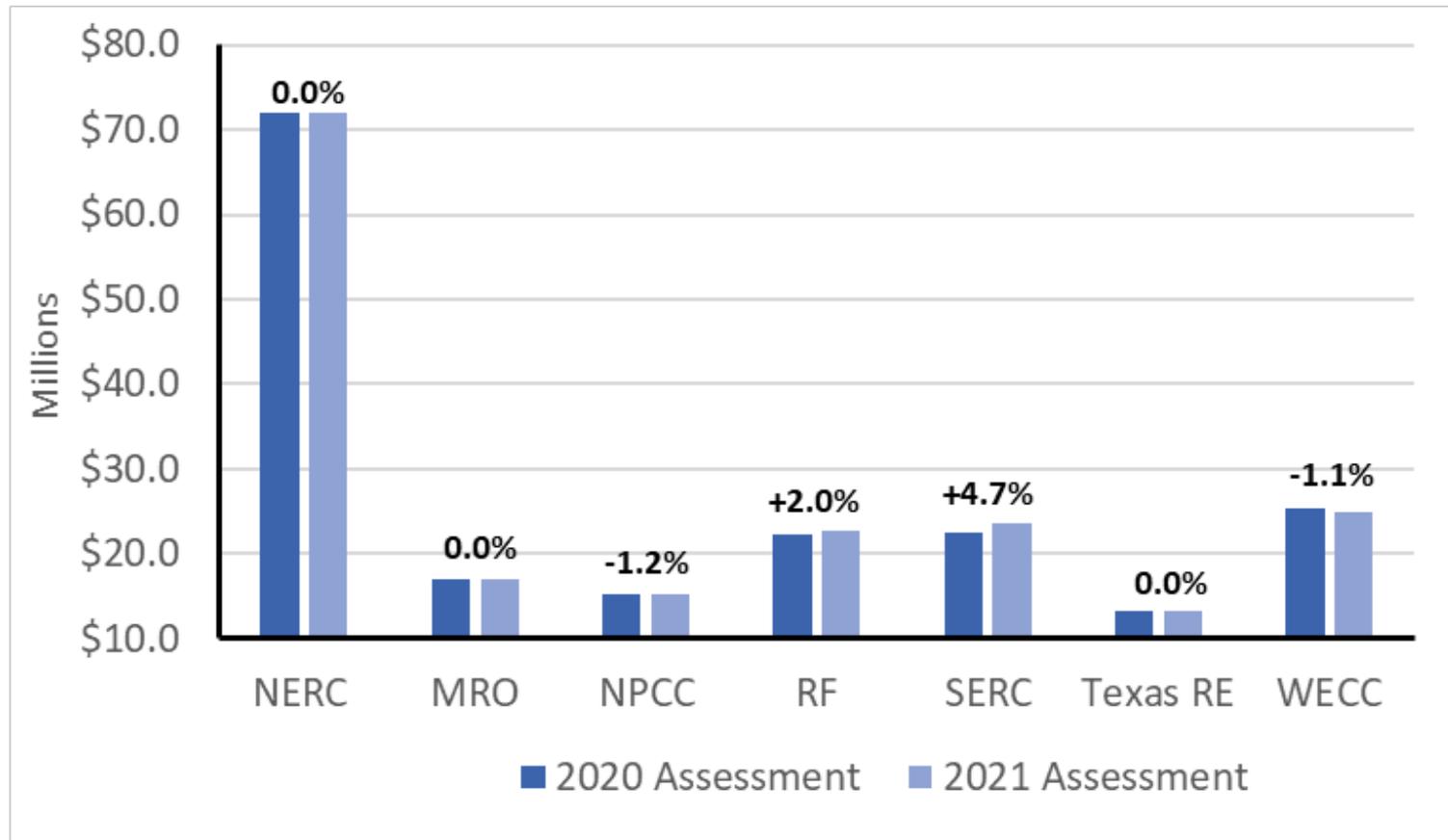
*NERC's budget includes the \$1.8M in NERC's budget for Align delay costs that will be funded by reserves (i.e., no impact to assessments)*



*Excludes WIRAB*

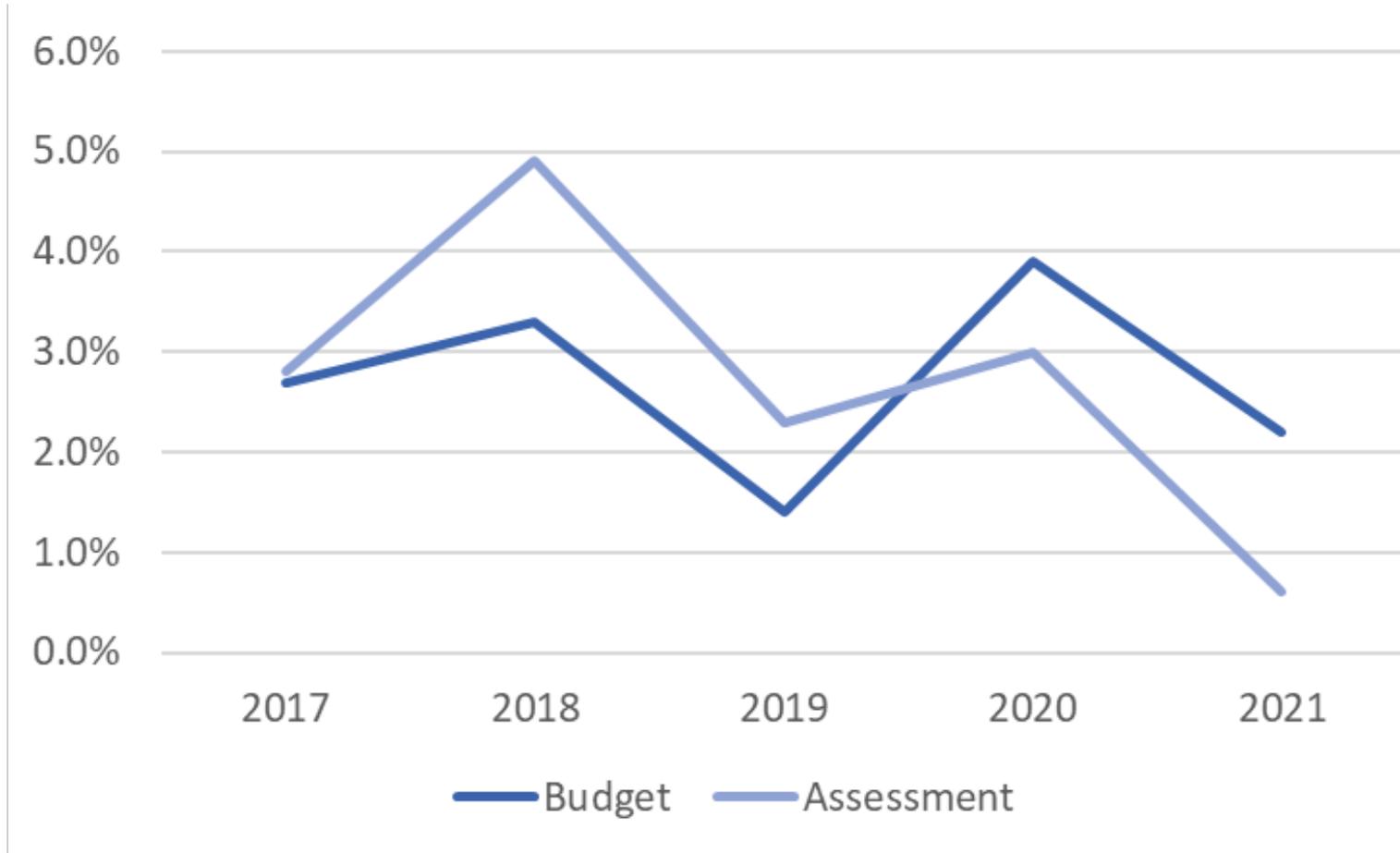


- Total ERO Enterprise Assessment \$188.8M (\$1.0M or 0.6% increase over 2020)



*Excludes WIRAB*

# ERO Enterprise Weighted Average Budget and Assessment Increases



*Excludes WIRAB*



# Questions and Answers