

Minutes

Finance and Audit Committee

August 10, 2016 | 11:00 a.m.–12:00 p.m. Atlantic

Halifax Marriott Harbourfront
1919 Upper Water Street
Halifax, NS B3J 3J5, Canada

Ms. Jan Schori, 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 10, 2016, at 11:00 a.m. Atlantic, and a quorum was declared present. The agenda is attached as **Exhibit A**.

Present at the meeting were:

Committee Members:

Jan Schori, Chair
Janice B. Case
Robert G. Clarke
Kenneth W. DeFontes, Jr.
Frederick W. Gorbet
Kenneth G. Peterson

Board Members:

Paul F. Barber
Gerry W. Cauley, President and Chief Executive Officer
David Goulding
George Hawkins
Roy Thilly

NERC Staff:

Charles A. Berardesco, Senior Vice President, General Counsel, and Corporate Secretary
Tina Buzzard, Associate Director
Scott Jones, Vice President of Finance and Treasurer
Mark Lauby, Senior Vice President and Chief Reliability Officer
Marcus H. Sachs, Senior Vice President and Chief Security Officer
Janet Sena, Senior Vice President and Director of Policy and External Affairs
Michael Walker, Senior Vice President and Chief Financial and Administrative Officer

NERC Antitrust Compliance Guidelines

Ms. Schori directed the participants’ attention to the NERC Antitrust Compliance Guidelines included in the agenda package, and indicated that all questions regarding antitrust compliance or related matters should be directed to Mr. Berardesco.

Minutes

Upon motion duly made and seconded, the minutes from the May 4, 2016 and July 21, 2016 meetings were approved as presented to the Committee.

Report on Second Quarter Unaudited Results

Mr. Jones presented the unaudited second quarter variance reports for NERC and for the ERO Enterprise, referencing the materials included in the advance agenda package. NERC is currently under budget, mostly due to timing. Personnel is slightly over budget, but management is taking a careful approach to hiring that should bring personnel costs very close to budget by year end. Current projections are that NERC will be at budget at year end (prior to the use of authorized reserves and excluding the CRISP program). Mr. Jones reviewed the approach in the 2016 Budget that allocated additional reserves for certain preliminarily identified E-ISAC projects, which were ultimately authorized and for which the reserves will be utilized. The CRISP program is projected to be over budget at year end, but this is due to additional CRISP participants which will provide fees to cover the additional costs. Mr. Jones reviewed the various reserve levels, noting that operating reserves are slightly lower than projected, but that the proposed 2017 Budget provides for replenishment to the target level.

The ERO Enterprise is under budget, primarily due to timing and personnel costs, with current FTEs 4.8 percent under budget. It is expected that the ERO Enterprise will be slightly under budget by year end. Mr. Jones reviewed reserve levels across the ERO Enterprise, noting that they were \$8 million over budget at the beginning of the year, and are currently \$13.2 million over budget. It is expected that the ERO Enterprise reserve levels will be back to \$8.6 million over budget by year end. Management continues to focus closely on reserve levels and has experienced steady improvement in budgeting in projecting reserve levels across the ERO Enterprise.

Upon motion duly made and seconded, the Committee recommended the Second Quarter Unaudited Statement of Activities for acceptance by the Board.

NERC and Regional Entity Proposed 2017 Business Plans and Budgets and Associated Assessments

Mr. Jones presented the proposed 2017 Business Plan and Budgets for NERC, the Regional Entities and WIRAB, referencing the detailed materials included in the advance agenda package. He noted the significant interactions with the Board and stakeholders leading up to this meeting. Mr. Jones reviewed the major areas of focus for the NERC Budget, and then reviewed the minimal updates since the last draft, particularly the additional funding for the E-ISAC portal project, which adds 1.1 percent to the total NERC Budget increase and 0.4 percent to the assessment increase. The assessment increase is lower than the overall Budget increase due to the proposed use of the Capital Financing program. The Budget assumes the release of \$1.1 million from the Assessment Stabilization Reserve, as reviewed during prior Committee meetings. With respect to major costs drivers, Mr. Jones noted that personnel costs are well over 50 percent of the total Budget, and that while projected FTEs are essentially flat compared to 2016, there is a continuing challenge due to various personnel related cost increases. Overall, while FTEs are flat, management is moving personnel within the organization to carry out key initiatives without increasing the actual number of FTEs. Mr. Jones reviewed how other costs are declining year to year. He also reviewed the Budget by program area and by strategic goal. Mr. Jones concluded the Budget review by noting that the Budget authorized the addition of \$500,000 to the Assessment Stabilization Reserve as a result of penalty funds that will be received pursuant to a multi-year settlement.

Mr. Jones reviewed the budgeted reserve balances, assessments by North American country, and total Canadian assessments by province. He noted that NERC assessments are increasing more than some Regional Entity assessments as NERC assumes the costs of certain ERO Enterprise initiatives and due to increased E-ISAC costs that are not duplicated at the Regional Entity level.

Ms. Schori noted the effort to analyze the Budget in alignment with NERC's Strategic Plan, which is an ongoing effort. She also thanked the E-ISAC Member Executive Committee and Jim Fama for their support of the E-ISAC budget. Mr. Fama spoke in support of the new E-ISAC projects.

Mr. Sylvain Clermont, a member of the MRC, complimented management on its approach with the MRC Budget working group in developing the Budget, and also spoke in favor of the proposed use of the Assessment Stabilization Reserve.

Mr. Jones then reviewed the combined ERO Enterprise budgets (noting the individual Regional Entity budgets had been reviewed during the Committee's recent webinar), and then provided a three-year budget forecast.

Upon motion duly made and seconded, the Committee recommended the 2017 NERC Business Plan and Budget and the business plan and budgets for each of the Regional Entities and WIRAB, including the related assessments and contributions to and distributions from the Assessment Stabilization Reserve, for Board approval.

Extension of Capital Financing Program

Mr. Walker reviewed the proposed extension of the Capital Financing program, referencing the materials included in the advance agenda package. Upon motion duly made and seconded, the Committee recommend the extension for Board approval.

Audio Visual Project Implementation

Mr. Jones provided an update on the audio-visual project, referencing the materials included in the advance agenda package. He noted that due to the use of vendor financing, there was no impact on 2016 results, and repayment of the financing would be reflected in future budgets.

Adjournment

There being no further business, and upon motion duly made and seconded, the meeting was adjourned.

Submitted by,



Charles A. Berardesco
Corporate Secretary

Agenda

Finance and Audit Committee

August 10, 2016 | 11:00 a.m.–12:00 p.m. Atlantic

Halifax Marriott Harbourfront
1919 Upper Water Street
Halifax, NS B3J 3J5, Canada

Conference Room: Nova Scotia Ballroom – 2nd Floor

Call to Order

Introductions and Chair's Remarks

NERC Antitrust Compliance Guidelines

Agenda

1. Minutes* – Approve

- a. July 21, 2016 Conference Call
- b. May 4, 2016 Meeting

2. Third Quarter Calendar of FAC Responsibilities

- a. Second Quarter Unaudited Statement of Activities* – **Review and Recommend to Board of Trustees for Acceptance**
 - i. NERC Summary of Results as of June 30, 2016
 - ii. Total ERO Enterprise Summary of Results as of June 30, 2016
 - iii. Regional Entity Variance Reports as of June 30, 2016
- b. NERC and Regional Entity Proposed 2017 Business Plans and Budgets and Associated Assessments*
 - i. NERC 2017 Business Plan and Budget – **Review and Recommend to Board of Trustees for Approval**
 - ii. Regional Entity and WIRAB 2017 Business Plans and Budgets – **Review and Recommend to Board of Trustees for Approval**
 - iii. 2017 Total ERO Budget and Assessment Schedule* – **Review**

3. Extension of Capital Financing Program* – Review and Recommend to Board of Trustees for Approval

4. Audio Visual Project Implementation – Update

5. Other Business

6. Adjournment

*Background materials included.