

Minutes

Finance and Audit Committee

May 10, 2017 | 11:00 a.m. – 12:00 p.m. Central

The Ritz-Carlton, St. Louis
100 Carondelet Plaza
St. Louis, MO 63105

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 May 10, 2017, at 11:00 a.m. Central, 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
Deborah S. Parker
Kenneth G. Peterson
Roy Thilly

Board Members

Gerald W. Cauley, President and Chief Executive Officer
Robert G. Clarke
Kenneth W. DeFontes
Frederick W. Gorbet
David Goulding
George S. Hawkins

NERC Staff

Charles A. Berardesco, Senior Vice President, General Counsel, and Corporate Secretary
Tina Buzzard, Associate Director
Scott Jones, Vice President, Director of Finance, and Corporate 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 Strategic Development 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 February 2, 2017 meeting were approved as presented to the Committee.

Report on April 18 and May 9, 2017 Closed Sessions

Ms. Schori provided an update on the Committee's April 18 and May 9, 2017, closed sessions. She highlighted that the Committee reviewed assumptions for the 2018 Business Plan and Budget (the "BP&B"), met with Grant Thornton, the company's independent accountants, and the general counsel, and reviewed the financial aspects of the Form 990.

2016 Financial Statement Audit Results

Mr. Jones summarized the presentation of the 2016 Audited Financial Statements to the Committee and indicated that the independent accountants would be delivering a clean audit opinion. Upon motion duly made and seconded, the Committee recommended the 2016 Audited Financial Statements for acceptance by the Board.

First Quarter Statement of Activities

Mr. Jones presented the First Quarter Unaudited Statement of Activities and variance reports for NERC and for the ERO Enterprise, referencing the materials included in the advance agenda package. He noted that at this early point in the year, NERC was slightly under budget, primarily due to timing differences, but projected to be slightly over budget at year-end. Mr. Jones also summarized the status of working capital and operating reserves. The ERO Enterprise was also under budget through the first quarter, and Mr. Jones summarized the significant reasons by Regional Entity, but noted that the ERO Enterprise expects to be close to budget by year-end. Mr. Jones also summarized the aggregate working capital and operating reserves, noting the positive effect of enhanced accuracy in projecting both reserves and employment levels.

After discussion, and upon motion duly made and seconded, the Committee recommended the First Quarter Unaudited Statement of Activities for acceptance by the Board.

Proposed Amendment to Committee Mandate

Mr. Berardesco presented the proposed amendment to the Committee mandate, which had been included in the advance agenda package, noting that the amendment was designed to clarify the roles of the Committee and the Enterprise-wide Risk Committee in the review of internal financial controls. He also suggested that the proposed amendment be moved to a different section of the mandate for enhanced clarity. After discussion and upon motion duly made and seconded, the Committee recommended the proposed Mandate amendment to the Corporate Governance and Human Resources Committee.

2018 Business Plan and Budget

Mr. Jones provided an overview of the preliminary 2018 BP&B, referencing the materials in the advance agenda package. He reviewed areas of focus, including enhanced analytical capabilities, expansion of E-ISAC operations and CMEP tool development. Mr. Jones noted the potential upward pressure on the 2018 BP&B from potential E-ISAC expenditures and GMD research required pursuant to a FERC directive. The BP&B that will be posted for comment will include a "base case" BP&B, that does not include any additional expenditures related to the proposed E-ISAC strategic plan or any potential GMD research that may be directed by FERC.

With respect to employment levels, there is no proposed increase in overall NERC FTEs other than for the E-ISAC, although there will likely be some internal reallocation of FTE positions. Mr. Jones provided an overview of the base case BP&B, highlighting personnel costs, meeting expenses, general operating costs, and capital expenditures. He reviewed the BP&B as allocated against strategic goals, noting that for the ERO Enterprise, compliance related activities are the largest allocation of overall expenditures, due, in part, to the Regional Entities' focus on those functions.

Mr. Jones provided information on past BP&Bs and assessment levels. He reviewed the use of the Assessment Stabilization Reserve in 2017 and potential use for 2018. Mr. Jones also provided information on assumed reserve levels. In response to a question, Mr. Jones noted that management was continuing to assess the possibility of requesting FERC authorization for a reduction in assessments in the instance where NERC or a Regional Entity determines that its reserve levels are such that it does not need to collect the level of assessments set forth in the filed budget.

Mr. Jones reviewed the proposed CMEP tools project and its potential effect on the 2018 BP&B. Management expects to propose the overall project to the Board for approval this fall. With respect to the GMD research, the costs could exceed \$1.5 million, but are not included in the BP&B. Mr. Jones reviewed the potential FERC filing strategy and potential funding scenarios. Mr. Cauley stated that while NERC will comply with the current FERC directive to propose a GMD research work plan, much of the proposed research will likely be outside NERC's core capabilities. NERC will likely request additional time to seek research partners and additional funding. If additional funding is required from assessments, NERC intends to file a supplemental budget request to the extent reserves are not adequate.

Mr. Jones reviewed the status of the E-ISAC strategic plan development and potential additional resource needs. Related potential expenditures will not be reflected in the base case BP&B, but will be set forth in a separate addendum. Mr. Sachs will present more detailed information on the E-ISAC strategic plan during the upcoming MRC and Board meetings, and the proposed expenditures will be presented to the E-ISAC Member Executive Committee in June. The details of the E-ISAC strategic plan will also be included as an exhibit to the first draft of the 2018 BP&B to solicit additional feedback.

Mr. Jones reviewed the ERO Enterprise proposed budgets and assessments, noting in particular the assessment increase at TRE due to a reduction in penalty credits.

Mike Walker reviewed the budget development activity for Mexico. There will be meetings in Mexico in May to discuss budget and governance issues. Management intends to recommend a funding approach based on net energy for load, with a possible phase-in of assessment amounts, consistent with the approach for Canadian assessments. Depending on timing, expenditures could be included in the 2018 BP&B or reflected in a supplemental BP&B. NERC management will continue to keep the MRC budget working group informed.

Mr. Jones closed by reviewing the schedule for BP&B posting, comments, and approval.

Adjournment

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

Submitted by,

A handwritten signature in black ink, appearing to read 'Charles A. Berardesco', written in a cursive style.

Charles A. Berardesco
Corporate Secretary

Agenda

Finance and Audit Committee

May 10, 2017 | 11:00 a.m.-12:00 p.m. Central

The Ritz-Carlton, St. Louis
100 Carondelet Plaza
St. Louis, MO 63105

Conference Room: Ritz-Carlton Ballroom (Lobby Level)

Call to Order

Introductions and Chair's Remarks

NERC Antitrust Compliance Guidelines

Agenda

1. Minutes* – Approve

- a. February 2, 2017 Meeting

2. Report on April 18 and May 9, 2017 Closed Sessions

3. Second Quarter Calendar of FAC Responsibilities*

- a. 2016 Financial Statement Audit Results – **Review and Recommend to Board of Trustees**
- b. First Quarter Statement of Activities – **Review and Recommend to Board of Trustees**
 - i. NERC Summary of Results as of March 31, 2017
 - ii. Total ERO Enterprise Summary of Results as of March 31, 2017
 - iii. Regional Entity Variance Reports as of March 31, 2017

4. Proposed Amendment to Committee Mandate* – Approve and Recommend to the Corporate Governance and Human Resources Committee

5. 2018 Business Plan and Budget* – Update

6. Adjournment

*Background materials included.