

# Agenda

## Finance and Audit Committee

### Open Meeting

February 3, 2021 | 11:00 a.m. – 12:00 p.m. Eastern  
Virtual Meeting

WebEx: [Join meeting](#)

#### Introduction and Chair's Remarks

#### NERC Antitrust Compliance Guidelines and Public Announcement\*

#### Agenda Items

1. **Minutes\* — Approve**
  - a. November 4, 2020 Meeting
2. **2020 Year-End Unaudited Statement of Activities\* — Review and Recommend Board of Trustees Acceptance**
  - a. NERC Summary of Unaudited Results Fourth Quarter 2020
  - b. ERO Enterprise Combined 2020 Unaudited Results
  - c. Regional Entity Reports
3. **Proposed Amendments to Committee Mandate\* — Review and Recommend Corporate Governance and Human Resources Committee Approval**
4. **Other Business and Adjournment**

\*Background materials included.

# 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.

**DRAFT Minutes****Finance and Audit Committee**

November 4, 2020 | 11:00-11:45 a.m. Eastern

## Conference Call

Mr. Robert G. Clarke, 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" or the "Company") on November 4, 2020, at approximately 11:00 a.m. Eastern, and a quorum was declared present. The agenda is attached as **Exhibit A**.

Present at the meeting were:

**Committee Members**

Robert G. Clarke, Chair  
Suzanne Keenan  
Robin E. Manning  
Jim Piro  
Roy Thilly, *ex officio*

**Board of Trustees Members**

Jane Allen  
Kenneth W. DeFontes  
George Hawkins  
James B. Robb, President and Chief Executive Officer  
Jan Schori  
Colleen Sidford

**NERC Staff**

Tina Buzzard, Assistant Corporate Secretary  
Manny Cancel, Senior Vice President and Chief Executive Officer of the E-ISAC  
Kelly Hanson, Senior Vice President and Chief Administrative Officer  
Mark Lauby, Senior Vice President and Chief Engineer  
Meg Leonard, Controller  
Sônia Mendonça, Senior Vice President, General Counsel, and Corporate Secretary  
Janet Sena, Senior Vice President, External Affairs  
Andy Sharp, Vice President and Chief Financial Officer  
Mechelle Thomas, Vice President, Compliance

**Introduction and Chair's Remarks**

Mr. Clarke welcomed the participants to the meeting and provided an overview of the agenda. He welcomed Ms. Kristin Miller in her role as Director of Internal Audit.

**NERC Antitrust Compliance Guidelines**

Ms. Buzzard 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 Ms. Mendonça.

## **Minutes**

Upon motion duly made and seconded, the Committee approved the August 19, 2020, meeting minutes as presented.

## **Third Quarter Calendar of FAC Responsibilities**

Ms. Leonard reviewed the Third Quarter Unaudited Financial Statements for NERC and the ERO Enterprise, noting that NERC funding was 0.4 percent under budget and expenditures were 9.2 percent under budget in the third quarter. NERC projects to be 1.2 percent under budget for total funding and 4.2 percent under budget for total expenditures by the end of 2020. Ms. Leonard also reviewed the projected year-end reserves for 2020.

Ms. Leonard reported that NERC and all Regional Entities were under budget in the third quarter. She highlighted that the combined ERO Enterprise is projected to be approximately 4.3 percent under budget at year end. Ms. Leonard reviewed the combined 2020 ERO Enterprise operating reserves, and referred to the Regional Entity variance reports.

After discussion and upon motion duly made and seconded the Committee recommended the Third Quarter Unaudited Financial Statements for acceptance by the Board.

## **2021 Business Plan and Budget Status**

Mr. Sharp provided an update on the 2021 Business Plan and Budget, reporting that the Federal Energy Regulatory Commission approved the 2021 Business Plan and Budget and the 2021 Business Plan and Budget was filed with Canadian authorities. Mr. Clarke thanked the Committee and the Member Representatives Committee Business Plan and Budget Input Group for their work during the annual budget process.

## **2022 Business Plan and Budget Schedule**

Mr. Sharp reviewed the high-level schedule for the 2022 ERO Enterprise Business Plan and Budget.

## **Adjournment**

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

Submitted by,



Sônia Mendonça  
Corporate Secretary

# Summary of Unaudited Results For the Period Ending December 31, 2020

## Table of Contents

	<u>Page</u>
1. Executive Summary	
a. Year-to-Date Actual Results	2
2. Detailed Operating Results	
a. Variances by Revenue and Expense Category	4
b. Variances by Department	6
3. Supplemental Schedules	
a. Schedule 1 – Year-End Actual Reserves	8
b. Schedule 2 – IT Projects	9
c. Schedule 3 – E-ISAC & CRISP Summary of Activity	11

## Executive Summary

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

<u>FUNDING</u>	<u>Actual</u>	<u>Budget</u>	<u>Over (Under)</u>
Revenues	\$ 81.4	\$ 82.0	\$ (0.6)
Funding from Reserves			
Assessment Stabilization Reserve	-	-	-
<b>TOTAL FUNDING</b>	<b>\$ 81.4</b>	<b>\$ 82.0</b>	<b>\$ (0.6)</b>
<b><u>EXPENDITURES</u></b>			
Expenses (excluding Depreciation)	\$ 73.3	\$ 77.8	\$ (4.5)
Fixed Asset Additions	5.8	4.7	1.1
Net Financing Activity	(0.8)	0.1	(0.9)
<b>TOTAL EXPENDITURES</b>	<b>\$ 78.3</b>	<b>\$ 82.6</b>	<b>\$ (4.3)</b>
<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 3.1</b>	<b>\$ (0.6)</b>	<b>\$ 3.7</b>

### Funding

- Revenues
  - Slightly under budget due to lower investment income (from lower interest rates) and third-party revenues for the CRISP program.

### Expenditures

- Expenses (excluding depreciation)
  - Personnel expenses are under budget primarily due to deferred hiring of open positions and certain E-ISAC positions that were budgeted as FTEs and instead are being filled with contract labor, which is being partially offset by higher expenses in other departments because of lower attrition and transition costs.
  - Meeting and Travel expenses are below budget because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
  - Contracts and Consultants expenses are lower than budget, mainly attributable to lower than budgeted costs for a CRISP pilot program and reprioritization of certain projects due to the pandemic, though partially offset by higher E-ISAC costs from FTE positions being filled with contract labor.

- Professional Services expenses are under budget mainly due to lower than budgeted outside legal costs.
- Fixed Asset Additions
  - Over budget due to the unbudgeted capital investment costs of the Secure Evidence Locker project, though partially offset by the deferral of hardware and software costs to help fund a portion of both the Secure Evidence Locker project and 2020 Align costs to reduce future debt service, and the postponement of Atlanta office renovation costs.
- Net Financing Activity
  - The 2020 budget anticipated that NERC would make principal payments beginning in early 2020 on borrowings for ERO projects; however, borrowings for ERO projects weren't made until December 2020 therefore actual payments are lower than budget. Additionally, budgeted borrowings for certain audio visual equipment purchases weren't made which eliminated the budgeted payments, and certain software license and maintenance costs on leased equipment were budgeted as lease payments, but were more appropriately charged to Office Costs.

#### **Operating Reserve Increase (Decrease)**

- Actual reserve increase from operations is higher than budget by \$3.7 million.

## Detailed Operating Results

### Variances by Revenue and Expense Category

Total NERC (including CRISP)

	YTD Actual	YTD Budget	YTD Over (Under)	% Over (Under)
<b>TOTAL FUNDING</b>	<b>\$ 81,366,856</b>	<b>\$ 82,006,951</b>	<b>\$ (640,095)</b>	<b>(0.8%)</b>
<b>EXPENDITURES</b>				
Personnel	\$ 45,550,463	\$ 46,598,160	\$ (1,047,697)	(2.2%)
Meetings and Travel	1,087,997	3,323,250	(2,235,253)	(67.3%)
Consultants and Contracts	11,881,097	12,435,902	(554,805)	(4.5%)
Office Rent	3,451,714	3,450,468	1,246	0.0%
Office Costs, Professional, and Misc.*	11,273,553	11,696,724	(423,170)	(3.6%)
Other Non-Operating	52,633	306,623	(253,990)	(82.8%)
Fixed Asset Additions*	5,783,285	4,706,349	1,076,936	22.9%
Net Financing Activity**	(769,791)	139,558	(909,348)	(651.6%)
<b>TOTAL EXPENDITURES</b>	<b>\$ 78,310,951</b>	<b>\$ 82,657,034</b>	<b>\$ (4,346,083)</b>	<b>(5.3%)</b>
<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 3,055,905</b>	<b>\$ (650,083)</b>	<b>\$ 3,705,987</b>	<b>(570.1%)</b>
<b>FTEs</b>	<b>202.2</b>	<b>213.4</b>	<b>(11.2)</b>	<b>(5.2%)</b>

\* Excludes depreciation expense

\*\* A positive amount indicates that NERC is paying off more principal than it is receiving in loan proceeds. A negative amount indicates that NERC is receiving more in loan proceeds than it is paying off principal.

Following is a brief summary of variances by category:

- Personnel expenses are under budget primarily due to deferred hiring of open positions and certain E-ISAC positions that were budgeted as FTEs and instead are being filled with contract labor, though partially offset by higher expenses in several departments because of lower attrition and transition costs.
- Meetings and Travel expenses are under budget due to decreased in-person meetings and travel due to the pandemic.

- Contracts and Consultants expenses are under budget mainly due to: (i) lower than budgeted costs for a CRISP pilot program; (ii) reprioritization of certain projects due to the pandemic; (iii) to fund a portion the Secure Evidence Locker project; and, (iv) 2020 Align costs, though partially offset by higher E-ISAC costs from FTE positions being filled with contract labor.

<b>CONTRACTS and CONSULTANTS</b>	<b>YTD Actual</b>	<b>YTD Budget</b>	<b>YTD Over (Under)</b>
Reliability Standards and Risk Issue Management	\$ 180,180	\$ 40,320	\$ 139,860
Compliance Assurance	-	50,000	(50,000)
Compliance Analysis, Registration, and Certification	38,964	40,320	(1,356)
Compliance Enforcement	-	-	-
Power System Analysis	-	63,000	(63,000)
Reliability Assessment and Technical Committees	88,264	365,320	(277,056)
Advanced System Analytics and Modeling	110,000	175,000	(65,000)
Performance Analysis	263,666	149,250	114,416
Situation Awareness	-	-	-
Event Analysis	84,046	10,000	74,046
E-ISAC	2,374,590	1,412,500	962,090
Training, Education and Personnel Certification	324,072	392,000	(67,928)
General and Administrative and Executive	(51,566)	-	(51,566)
Legal and Regulatory	169,962	300,000	(130,038)
Policy and External Affairs	111,140	20,000	91,140
Information Technology	1,564,316	1,805,692	(241,376)
Human Resources and Administration	783,774	760,000	23,774
Finance and Accounting	75,651	175,000	(99,349)
<b>TOTAL (excluding CRISP)</b>	<b>\$ 6,117,060</b>	<b>\$ 5,758,402</b>	<b>\$ 358,658</b>
CRISP	5,764,036	6,677,500	(913,464)
<b>TOTAL (including CRISP)</b>	<b>\$ 11,881,097</b>	<b>\$ 12,435,902</b>	<b>\$ (554,805)</b>

- Professional Services expenses are under budget largely due to lower than budgeted outside counsel costs.
- Fixed Asset Additions are over budget due to the unbudgeted capital investment costs of the Secure Evidence Locker project, though partially offset by the deferral of hardware and software costs to help fund a portion of both the Secure Evidence Locker project and 2020 Align costs to reduce future debt service, as well as the postponement of Atlanta office renovation costs.
- For Net Financing, the 2020 budget anticipated that NERC would make principal payments beginning in early 2020 on borrowings for ERO projects; however, borrowings for ERO projects weren't made until December 2020, therefore actual payments are lower than budget. Additionally, budgeted borrowings for certain audio video equipment purchases weren't made eliminating the budgeted payments. Further, certain software license and maintenance costs on leased equipment were budgeted as lease payments, however were more appropriately charged to Office Costs.

## Variances by Department

DIRECT EXPENSES, FIXED ASSETS, AND FINANCING ACTIVITY	YTD		
	YTD Actual	YTD Budget	Over (Under)
Reliability Standards and Risk Issue Management	\$ 3,549,404	\$ 3,918,311	\$ (368,908)
Compliance Assurance	6,597,150	5,156,756	1,440,394
Compliance Analysis, Registration, and Certification	1,203,888	1,354,660	(150,772)
Compliance Enforcement	4,419,639	3,279,697	1,139,941
Power System Analysis	1,182,762	1,705,525	(522,762)
Reliability Assessment and Technical Committees	1,909,764	2,199,387	(289,623)
Advanced System Analytics and Modeling	1,165,363	1,392,641	(227,278)
Performance Analysis	1,703,394	2,055,961	(352,567)
Situation Awareness	2,477,772	2,942,190	(464,418)
Event Analysis	2,693,642	2,426,341	267,301
E-ISAC	11,874,604	12,370,912	(496,308)
Training, Education and Personnel Certification	1,371,690	1,599,516	(227,826)
General and Administrative and Executive	7,441,641	8,580,315	(1,138,675)
Legal and Regulatory	3,889,418	4,588,376	(698,957)
Policy and External Affairs	2,700,515	3,003,778	(303,264)
Information Technology	12,266,219	12,830,975	(564,756)
Human Resources and Administration	2,773,226	2,724,553	48,673
Finance and Accounting	2,300,047	2,423,239	(123,192)
<b>TOTAL (excluding CRISP)</b>	<b>\$ 71,520,138</b>	<b>\$ 74,553,134</b>	<b>\$ (3,032,995)</b>
CRISP	6,790,812	8,103,900	(1,313,087)
<b>TOTAL DIRECT EXPENSES, FIXED ASSETS, AND FINANCING ACTIVITY</b>	<b>\$ 78,310,951</b>	<b>\$ 82,657,034</b>	<b>\$ (4,346,083)</b>

Following is a brief summary of significant variances by department:

- Compliance Assurance – Over budget mainly due to higher personnel expenses and unbudgeted costs for the Secure Evidence Locker, though partially offset by lower travel costs.
- Compliance Enforcement – Over budget primarily due to Secure Evidence Locker Costs, though partially offset by lower personnel costs.
- Power System Analysis – Under budget largely attributable to lower personnel and travel costs.
- General & Administrative and Executive – Under budget primarily due to the postponement of Atlanta office renovation costs, as well as lower meeting and travel expenses.
- Legal and Regulatory – Under budget mainly in personnel, consultant, and outside legal costs.
- Information Technology – Under budget primarily in Contracts and Consultants and Fixed Assets in order to help fund a portion of the Secure Evidence locker and 2020 Align costs to reduce future debt service, although these costs are partially offset by higher personnel costs due to lower attrition.

- CRISP – Under budget mainly due to the timing and implementation of Operational Technology (OT) pilot program costs that will be deferred to 2021. CRISP participants have approved to place the \$1.0M of OT pilot program funds collected from CRISP participants during 2020 into a reserve that will be used to fund OT pilot program costs in 2021.

## Supplemental Schedules

### Schedule 1 – Year-End Actual Reserves

Reserve Account	1/1/2020		Unbudgeted Funding/(Use)	Operating and Financing Activity Versus Budget <sup>(3)</sup>	12/31/2020 Ending Balance <sup>(4)</sup>
	Beginning Balance <sup>(1)</sup>	Budgeted Funding/(Use) <sup>(2)</sup>			
Operating Contingency	\$ 6,199,083	\$ (654,036)	\$ -	\$ 2,546,184	\$ 8,091,231
Future Obligations	2,119,719	(485,958)	-	-	1,633,761
Assessment Stabilization	2,521,000	-	-	-	2,521,000
System Operator	777,274	-	-	110,254	887,528
CRISP (Defense Fund)	500,000	-	-	-	500,000
CRISP (Special Projects)	-	-	-	1,049,549	1,049,549
<b>Total Reserves</b>	<b>\$ 12,117,076</b>	<b>\$ (1,139,994)</b>	<b>\$ -</b>	<b>\$ 3,705,987</b>	<b>\$ 14,683,069</b>

**NOTES:**

(1) 2020 beginning balances have been adjusted from the 12/31/2019 variance report balances as the result of a reconciliation to the final audited balance sheet.

(2) The 2020 Business Plan & Budget contained a budgeted use of Operating Contingency Reserves totaling \$654,036 to lower assessments. The Future Obligations Reserve decrease of \$485,958 is a budgeted use of deferred rent reserves to fund a portion of office lease costs.

(3) This column reflects the actual reserve impact of operating and financing activities versus budget. In 2020, NERC is under budget primarily due to the deferral of some open FTE positions to 2021, lower meeting and travel costs, lower software and hardware spending, reduction of the Atlanta meeting space renovation costs, and minimal debt service on ERO projects. Of the approved capital investment of \$3.8M for the ERO SEL project, \$3.1M of capital costs were incurred during the year, with approximately \$1.3M funded by loan financing and \$1.8M by the use of Operating Contingency reserves. Due to the timing of implementation and revised completion date of the ERO SEL project, \$700k of approved capital spending budget and approved borrowing is being carried over to 2021. We expect to be at or below the total ERO SEL project capital spending budget of \$3.8M and approved total debt financing of \$2.0M, but a portion of the costs and related financing will be incurred in 2021 versus 2020.

CRISP Special Projects Reserve - Due to the timing of the OT pilot project, the CRISP participants have agreed to carryover \$1.0M of unused funding to 2021.

(4) The Operating Contingency Reserve at year-end is higher than target but will be reduced by \$1.8 million in the 2021 Business Plan & Budget for Align project delay costs.

## Schedule 2 – IT Projects

<b>Projects in Progress</b>	<b>Project Budget <sup>(1)</sup></b>	<b>Actual Spend to Date</b>	<b>Expected Spend</b>	<b>Expected Over (Under) Budget</b>
Align (2017-2021)	\$ 7,203,000	\$ 5,330,368	\$ 7,284,524	\$ 81,524
Secure Evidence Locker	2,265,000	1,661,254	2,265,000	-
E-ISAC Portal Replacement	259,680	259,680	259,680	-

<b>Projects Completed in 2020</b>	<b>Project Budget <sup>(1)</sup></b>	<b>Actual Spend</b>	<b>Actual Over (Under) Budget</b>
Microsoft Windows 10 Upgrade	\$ 169,890	\$ 146,176	\$ (23,714)
Microsoft Teams Pilot	98,000	98,000	-
End-Point Management	76,000	76,682	682

**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.

## Schedule 2 (continued) – IT Projects

### **Align**

(Started May 2017 / Planned Completion Q4 2021)

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).

### **Secure Evidence Locker**

(Started May 2020 / Planned Completion Apr 2021)

This is a key component of the NERC's reimagined suite of Compliance Monitoring and Enforcement Program (CMEP) work and data management tools and will be implemented in conjunction with Align. It will be used for the collection and analysis of evidence provided by registered entities in connection with CMEP activities.

### **E-ISAC Portal Replacement**

(Started Aug 2020 / Planned Completion Q1 2021)

This project will re-platform the current portal and ticket/case system, which will combine the functions and services into a single E-ISAC Sharing Platform (ESP) solution, allowing members, partners, and the E-ISAC staff to interact more effectively and efficiently.

### **Microsoft Windows 10 Upgrade**

(Started Dec 2019 / Completed Feb 2020)

This project involved the upgrade of all laptops and desktops from Windows 7 to Windows 10. This upgrade provided a more secure environment. Microsoft stopped support of Windows 7 security patches in January 2020.

### **Microsoft Teams Pilot**

(Started Apr 2020 / Completed Sep 2020)

This project implemented a basic Microsoft Teams environment that allows for a unified communication and collaboration platform that combines persistent workplace chat, video meetings, and file storage (including collaboration on files).

### **End-Point Management**

(Started May 2020 / Completed Sep 2020)

This project will replace the current tool that is used as the application used for Windows security patching and updates.

### Schedule 3 – E-ISAC and CRISP Summary of Activity

#### TOTAL E-ISAC (including CRISP)

FUNDING	Annual Actual	Annual Budget	Over (Under)
Assessments	\$ 23,363,353	\$ 23,363,353	\$ (0)
Other Funding	7,579,441	7,956,784	(377,343)
<b>TOTAL FUNDING</b>	<b>\$ 30,942,794</b>	<b>\$ 31,320,137</b>	<b>\$ (377,343)</b>
<b>EXPENDITURES</b>			
Personnel Expense	\$ 8,470,436	\$ 9,825,628	\$ (1,355,192)
Meetings and Travel Expense	365,133	464,200	(99,067)
Operating Expenses (excluding Depreciation)	9,488,135	9,728,189	(240,054)
Other Non-Operating Expenses	(10,467)	-	(10,467)
Fixed Asset Purchases (excluding Fixed Asset Allocation)	352,181	421,449	(69,268)
Net Financing Activity (excluding Net Financing Activity Allocation)	-	35,347	(35,347)
Total Direct Costs (excluding Depreciation and Allocations)	\$ 18,665,417	\$ 20,474,812	\$ (1,809,395)
Indirect Expense Allocation	8,187,834	10,119,683	(1,931,849)
Fixed Asset Allocation	100,674	439,831	(339,157)
Net Financing Activity Allocation	140,230	285,811	(145,581)
<b>TOTAL EXPENDITURES (excluding Depreciation, including Allocations)</b>	<b>\$ 27,094,155</b>	<b>\$ 31,320,137</b>	<b>\$ (4,225,982)</b>
<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 3,848,640</b>	<b>\$ -</b>	<b>\$ 3,848,640</b>

**Schedule 3 (continued) – E-ISAC and CRISP Summary of Activity**

**CRISP**

FUNDING	Annual Actual	Annual Budget	Over (Under)
Assessments	\$ 945,577	\$ 945,577	\$ (0)
Other Funding	7,499,623	7,850,577	(350,954)
<b>TOTAL FUNDING</b>	<b>\$ 8,445,201</b>	<b>\$ 8,796,155</b>	<b>\$ (350,954)</b>
<b>EXPENDITURES</b>			
Personnel Expense	\$ 665,703	\$ 627,736	\$ 37,967
Meetings and Travel Expense	17,395	49,200	(31,805)
Operating Expenses (excluding Depreciation)	6,053,262	7,289,465	(1,236,202)
Other Non-Operating Expenses	(10,467)	-	(10,467)
Fixed Asset Purchases (excluding Fixed Asset Allocation)	64,920	137,500	(72,580)
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	-
Total Direct Costs (excluding Depreciation and Allocations)	\$ 6,790,812	\$ 8,103,900	\$ (1,313,087)
Indirect Expense Allocation	685,669	645,937	39,732
Fixed Asset Allocation	8,431	28,074	(19,644)
Net Financing Activity Allocation	11,743	18,243	(6,500)
<b>TOTAL EXPENDITURES (excluding Depreciation, including Allocations)</b>	<b>\$ 7,496,655</b>	<b>\$ 8,796,155</b>	<b>\$ (1,299,499)</b>
<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 948,545</b>	<b>\$ -</b>	<b>\$ 948,545</b>

**E-ISAC (excluding CRISP)**

FUNDING	Annual Actual	Annual Budget	Over (Under)
Assessments	\$ 22,417,776	\$ 22,417,776	\$ (0)
Other Funding	79,818	106,207	(26,389)
<b>TOTAL FUNDING</b>	<b>\$ 22,497,594</b>	<b>\$ 22,523,983</b>	<b>\$ (26,389)</b>
<b>EXPENDITURES</b>			
Personnel Expense	\$ 7,804,733	\$ 9,197,892	\$ (1,393,159)
Meetings and Travel Expense	347,738	415,000	(67,262)
Operating Expenses (excluding Depreciation)	3,434,872	2,438,724	996,148
Other Non-Operating Expenses	-	-	-
Fixed Asset Purchases (excluding Fixed Asset Allocation)	287,261	283,950	3,311
Net Financing Activity (excluding Net Financing Activity Allocation)	-	35,347	(35,347)
Total Direct Costs (excluding Depreciation and Allocations)	\$ 11,874,604	\$ 12,370,912	\$ (496,308)
Indirect Expense Allocation	7,502,165	9,473,746	(1,971,581)
Fixed Asset Allocation	92,243	411,757	(319,513)
Net Financing Activity Allocation	128,487	267,568	(139,081)
<b>TOTAL EXPENDITURES (excluding Depreciation, including Allocations)</b>	<b>\$ 19,597,499</b>	<b>\$ 22,523,983</b>	<b>\$ (2,926,483)</b>
<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 2,900,094</b>	<b>\$ -</b>	<b>\$ 2,900,094</b>

## ERO Enterprise (NERC and Regional Entities) Combined Summary of Unaudited Results December 31, 2020

The ERO Enterprise was under budget \$11.1M (5.4%) for combined expense and fixed asset (capital) spending and net financing activity. The budget variances ranged from 2.6% to 10.4% under budget.

Total Budget (Total Expenses plus Fixed Assets & Net Financing Activity)						
Entity	2020 YTD		2020 YTD		Over (Under)	
	Actual		Budget		\$	%
NERC	\$ 78,310,952	\$	82,657,033	\$	(4,346,081)	(5.3%)
MRO	15,952,300		17,540,969		(1,588,669)	(9.1%)
NPCC	14,873,943		16,601,649		(1,727,706)	(10.4%)
RF	22,768,290		23,650,862		(882,572)	(3.7%)
SERC	23,166,823		24,525,014		(1,358,191)	(5.5%)
Texas RE	13,470,726		13,831,126		(360,400)	(2.6%)
WECC	26,918,864		27,756,089		(837,225)	(3.0%)
	<b>\$ 195,461,898</b>	<b>\$</b>	<b>206,562,742</b>	<b>\$</b>	<b>(11,100,844)</b>	<b>(5.4%)</b>

- For the ERO Enterprise, meetings and travel are under budget \$8.6M (79.9%) due to the COVID-19 pandemic.
- NERC was under budget \$4.3M (5.3%) primarily due to decreased in-person meetings and travel expenses due to the pandemic, deferred hiring of open positions and certain E-ISAC positions that were budgeted as FTEs that are being filled with contract labor, and deferred borrowing for ERO projects.
- MRO was under budget \$1.6M (9.1%), which is attributable primarily to the cancellation of travel and the transition to virtual meetings, and reduced spending in contracts, consultants, and office costs as a result of the pandemic.
- NPCC was under budget \$1.7M (10.4%) mainly as a result of lower meetings and travel expenses due to the pandemic and lower than budgeted personnel expenses.
- RF was under budget \$883k (3.7%) largely due to lower-than-expected employee benefits, and a reduction in meetings, travel, contracts and consultants, and fixed asset purchases, as a result of the cancellation and postponement of activities due to the pandemic.
- SERC was under budget \$1.4M (5.5%) primarily because of suspended travel due to the pandemic.
- Texas RE was under budget \$360k (2.6%) largely as a result of health benefits not increasing as projected and travel being suspended due to the pandemic.

- WECC was under budget \$837k (3.0%) primarily due to the cancellation of travel, meetings, and training due to the pandemic.

## Variances by Expense and Fixed Asset Categories

### Personnel Expenses

For the ERO Enterprise, personnel expenses, consisting of salaries, payroll taxes, benefits, and retirement costs, were collectively under budget \$587k (0.4%), ranging from 5.3% under budget to 3.5% over budget. The ERO Enterprise was under budget in FTEs by 19.1 (2.7%).

Entity	Personnel Expenses				FTEs*			
	2020 YTD Actual	2020 YTD Budget	Over (Under)		2020 YTD Actual	2020 YTD Budget	Over (Under)	
			\$	%				%
NERC	\$ 45,550,463	\$ 46,598,159	\$ (1,047,696)	(2.2%)	202.2	213.4	(11.2)	(5.2%)
MRO	12,914,902	12,482,691	432,211	3.5%	60.0	63.0	(3.0)	(4.8%)
NPCC	10,426,635	11,009,618	(582,983)	(5.3%)	37.9	41.1	(3.2)	(7.7%)
RF	20,252,920	19,868,757	384,163	1.9%	82.8	79.4	3.4	4.3%
SERC	19,176,037	18,831,497	344,540	1.8%	96.0	98.0	(2.0)	(2.0%)
Texas RE	10,649,275	10,743,622	(94,347)	(0.9%)	60.0	60.0	-	0.0%
WECC	21,335,399	21,357,916	(22,517)	(0.1%)	139.8	143.0	(3.2)	(2.3%)
	<b>\$ 140,305,631</b>	<b>\$ 140,892,260</b>	<b>\$ (586,629)</b>	<b>(0.4%)</b>	<b>678.7</b>	<b>697.8</b>	<b>(19.1)</b>	<b>(2.7%)</b>

\* Represents equivalent full time positions from a budget and actual financial perspective and does not necessarily represent headcount.

- NERC was under budget \$1M (2.2%) largely because of deferred hiring of open positions and certain E-ISAC positions that were budgeted as FTEs that are being filled with contract labor, which is being partially offset by higher expenses in several departments because of lower attrition and transition costs.
- MRO was over budget \$432k (3.5%) mainly due to mid-year adjustments related to promotions and improved employee retention efforts and an executive officer retirement.
- NPCC was under budget \$583k (5.3%) primarily due to several partial year open positions and lower than budgeted medical premiums.
- RF was over budget \$384k (1.9%) predominately due to the realignment of employees announced during the first quarter, and filling of all the vacant and overlap positions, which was offset by lower training expenses due to the pandemic. Medical benefits were under budget due to personnel count that was below the approved staffing levels during part of the year, along with employees selecting medical plans that differed from what was budgeted.
- SERC was over budget \$345k (1.8%) primarily because of improved hiring and retention of talent resulting in fewer than budgeted vacancies.
- Texas RE was under budget \$94k (0.9%) as a result of health benefits not increasing as projected, as well as lower education reimbursement and relocation costs.

- WECC was at budget.

### Travel, Meeting, and Conferencing Expenses

For the ERO Enterprise, travel, meeting, and conferencing expenses were collectively under budget \$8.6M (79.9%), due to cancellation of in-person meetings, conferences and travel due to the COVID-19 pandemic.

Meeting, Travel, and Conferencing Expenses

Entity	2020			2020		Over (Under)	
	Budget	Meetings & Conference Calls	Travel	Actual	\$	%	
NERC	\$ 3,323,250	\$ (420,043)	\$ (1,815,210)	\$ 1,087,997	\$ (2,235,253)	(67.3%)	
MRO	1,284,632	(165,776)	(1,033,496)	85,360	(1,199,272)	(93.4%)	
NPCC	1,243,650	(348,384)	(743,969)	151,297	(1,092,353)	(87.8%)	
RF	1,075,056	(287,077)	(590,909)	197,070	(877,986)	(81.7%)	
SERC	1,326,972	(484,719)	(693,906)	148,347	(1,178,625)	(88.8%)	
Texas RE	394,344	(50,250)	(245,004)	99,090	(295,254)	(74.9%)	
WECC	2,115,913	(610,887)	(1,113,462)	391,564	(1,724,349)	(81.5%)	
	<b>\$ 10,763,817</b>	<b>\$ (2,367,136)</b>	<b>\$ (6,235,956)</b>	<b>\$ 2,160,726</b>	<b>\$ (8,603,091)</b>	<b>(79.9%)</b>	

### Operating Expenses

For the ERO Enterprise, operating expenses, consisting of consultants and contracts expenses, office rent, office costs, professional services, miscellaneous costs, and depreciation expense, were collectively under budget \$2.0M (4.0%).

Operating Expenses

Entity	2020		Professional				2020		Over (Under)	
	Budget	Contracts & Consultants	Office Rent	Office Costs	Services	Miscellaneous	Actual	\$	%	
NERC	\$ 27,583,094	\$ (554,805)	\$ 1,246	\$ 65,866	\$ (454,849)	\$ (34,188)	\$ 26,606,364	\$ (976,730)	(3.5%)	
MRO	3,538,646	(688,302)	(50,846)	(373,017)	(79,756)	-	2,346,724	(1,191,922)	(33.7%)	
NPCC	4,587,831	(182,978)	18,818	41,927	103,656	(39,184)	4,530,070	(57,761)	(1.3%)	
RF	2,317,049	(222,305)	38,814	(1,407)	81,298	2,589	2,216,038	(101,011)	(4.4%)	
SERC	4,036,545	(689,127)	45,945	114,921	(74,233)	(1,200)	3,432,851	(603,694)	(15.0%)	
Texas RE	2,643,160	103,882	(7,550)	28,554	(45,686)	-	2,722,361	79,201	3.0%	
WECC	4,797,513	316,699	(12,561)	205,815	377,026	-	5,684,492	886,979	18.5%	
	<b>\$ 49,503,838</b>	<b>\$ (1,916,936)</b>	<b>\$ 33,866</b>	<b>\$ 82,659</b>	<b>\$ (92,544)</b>	<b>\$ (71,983)</b>	<b>\$ 47,538,900</b>	<b>\$ (1,964,938)</b>	<b>(4.0%)</b>	

- NERC was under budget \$976k (3.5%) partially due to contracts and consultants expenses, which are under budget due to lower than expected costs for a CRISP pilot program and reprioritization of certain other projects, though partially offset by higher E-ISAC costs from FTE positions being filled with contract labor. Professional Services expenses are under budget largely due to lower than budgeted outside counsel costs.
- MRO was under budget \$1.2M (33.7%) primarily due to reduced spending in contract and consultant and office costs as a result of the pandemic.
- NPCC was close to budget at \$58k (1.3%) under budget, with the underrun resulting from lower than budgeted consulting fees related to a CEO search effort and was partially offset by higher

than budgeted legal fees, accounting fees, and office costs related to IT security enhancements and office sanitizing.

- RF was under budget \$101k (4.4%) primarily due to the cancellation and postponement of planned contract support for most of the corporate activities as a result of the pandemic.
- SERC was under budget \$604k (15.0%) mainly attributable to the cancellation of workshops which reduced the need for third-party contractors supporting these events. In addition, expenses associated with an independent director search were less than budgeted.
- Texas RE was over budget \$79k (3.0%) predominately due to consulting cost for CEO search and for two members of Board of Directors. Only one director search was in the 2020 budget.
- WECC was over budget \$887k (18.5%) primarily due to the net of the elimination of RAPA consulting for a changing resource mix study, unbudgeted information technology consulting, higher-than-anticipated cost of computer equipment refreshes and licenses, and unanticipated regulatory activities.

### Indirect Expense Allocation

NPCC and WECC allocate overhead expenses to their non-statutory functions. At the end of 2020, NPCC allocated \$25k (6.1%) less than budgeted and WECC allocated \$3k (0.5%) more than budgeted.

### Fixed Asset (Capital) Additions

For the ERO Enterprise, fixed asset (capital) additions were over budget \$1.2M (21.0%).

Fixed Asset Additions					
Entity	2020 YTD		Over (Under)		
	Actual	Budget	\$	%	
NERC	\$ 5,783,285	\$ 4,706,349	\$ 1,076,936	22.9%	
MRO	605,314	235,000	370,314	157.6%	
NPCC	200,413	170,000	30,413	17.9%	
RF	102,262	390,000	(287,738)	(73.8%)	
SERC	409,588	330,000	79,588	24.1%	
Texas RE	-	50,000	(50,000)	(100.0%)	
WECC	77,584	52,014	25,570	49.2%	
	<b>\$ 7,178,446</b>	<b>\$ 5,933,363</b>	<b>\$ 1,245,083</b>	<b>21.0%</b>	

- NERC was over budget \$1.1M (22.9%) largely due to the unbudgeted capital investment costs of the Secure Evidence Locker project, which was partially offset by the deferral of hardware and software costs to help fund a portion of both the Secure Evidence Locker project and 2020 Align costs to reduce future debt service, as well as the postponement of Atlanta office renovation costs.

- MRO was over budget \$370k (157.6%) mainly due to construction expenditures toward an unbudgeted office space expansion.
- NPCC was over budget \$30k (17.9%) primarily due to the timing of a website development project, with more project benchmarks occurring during 2020 than originally projected.
- RF was under budget \$288k (73.8%) due to the cancellation and postponement of planned projects due to the impacts of the pandemic.
- SERC was over budget \$80k (24.1%) because of an accelerated timeline for Member Portal Consolidation project.
- Texas RE was under budget \$50k (100%) due to no spending for fixed asset additions.
- WECC was over budget \$26k (49.2%) primarily due to unbudgeted replacement of out-of-warranty network switches required for wireless access points.

### Net Financing Activity

NERC is the only entity in the ERO Enterprise with financing activity, consisting of loan borrowing, lease financing and principal debt service repayment for major ERO software projects, such as Align and the ERO Secure Evidence Locker, and leased audio visual and information technology equipment.

Entity	Net Financing Activity		Over (Under)	
	2020 YTD Actual	2020 YTD Budget	\$	%
NERC	\$ (769,791)	\$ 139,558	\$ (909,349)	(651.6%)
MRO	-	-	-	0.0%
NPCC	-	-	-	0.0%
RF	-	-	-	0.0%
SERC	-	-	-	0.0%
Texas RE	-	-	-	0.0%
WECC	-	-	-	0.0%
	<b>\$ (769,791)</b>	<b>\$ 139,558</b>	<b>\$ (909,349)</b>	<b>(651.6%)</b>

NERC's net financing activity was under budget due to anticipation that NERC would make principal payments beginning in early 2020 on borrowings for ERO projects; however borrowings for ERO projects weren't made until December 2020, therefore actual payments are lower than budget. Additionally, budgeted borrowings for certain audio video equipment purchases weren't made, which eliminated the budgeted payments.

## Total ERO Reserves

Prior ERO Enterprise Combined Summaries of Unaudited Results (ERO Quarterly Variance Reports) have focused primarily on the analysis and reporting of Working Capital and Operating Contingency Reserves as determined by information submitted on the Statement of Activities and Regional Entity Variance Reports. However, since some of the Regional Entities have established additional reserve categories, including assessment stabilization reserves and future obligation reserves, future reporting on the combined ERO will be expanded to include the following three categories of reserves:

- **Working Capital and Operating Contingency Reserves (WCOCR)** – Includes excess working capital reserves and operating contingency reserves. These reserves typically have a policy target range.
- **Assessment Stabilization Reserves (ASR) and Unreleased Penalties** – Includes funds from penalties received but not yet released against assessments, and other surplus funds designated by the entity, to help reduce the volatility of future year assessments. Note that penalties received but not released are subject to timing of when they can be used to offset assessments as determined by the Rules of Procedure, with some exceptions provided with the proper request and filing of the entity's annual Business Plan and Budget as approved by FERC.
- **Other Reserves** – Includes funds set aside for a specific purpose and will offset future budgeted expense items.

### 2020 Total Reserve Summary

The ERO Enterprise began the year with \$60.6M in total reserves, including \$33.3M in WCOCR, \$23.0M in ASR and Unreleased Penalties, and \$4.3M in Other Reserves. The total reserves at the beginning of the year represented 29.3% of the 2020 combined ERO budgets, or 3.5 months of budgeted operating expenses.

The ERO Enterprise ended the year with \$70.5M in total reserves, including \$36.5M in WCOCR, \$24.3M in ASR and Unreleased Penalties, and \$9.7M in Other reserves. The total reserves at the end of the year are 33.4% of the 2021 combined ERO budgets, or 4.0 months of budgeted operating expenses.

NERC and the Regional Entities each have a minimum and/or targeted range for Working Capital and Operating Contingency Reserves. NERC and all of the Regions were within or exceeded their policy WCOCR targets at year-end.

The table below provides a summary of the reserve categories at the beginning and end of the year, to include reserves such as unreleased penalties, assessment stabilization reserves, and other reserves reported by the Regional Entities.

*\$ - millions*

Entity	Beginning WCOCR <sup>(1)</sup>	Beginning ASR <sup>(2)</sup> & Unreleased Penalties	Beginning Other Reserves	1/1/2020 Beginning Total Reserves	Ending WCOCR <sup>(1)</sup>	Ending ASR <sup>(2)</sup> & Unreleased Penalties	Ending Other Reserves	12/31/2020 Ending Total Reserves	Total 2021 Budget	% of Reserves to 2021 Total Budget
NERC	\$ 6.2	\$ 2.5	\$ 3.4	\$ 12.1	\$ 8.1	\$ 2.5	\$ 4.1	\$ 14.7	\$ 82.9	17.7%
MRO	4.8	2.6	-	7.4	5.8	2.6	-	8.4	18.4	45.7%
NPCC	4.7	-	0.9	5.6	4.9	0.6	0.6	6.1	16.4	37.2%
RF	4.2	4.4	-	8.6	4.0	6.4	-	10.4	24.8	41.9%
SERC	1.9	5.6	-	7.5	3.1	4.8	-	7.9	25.8	30.6%
Texas RE	4.2	0.7	-	4.9	2.0	1.6	1.2	4.8	14.2	33.8%
WECC	7.3	7.2	-	14.5	8.6	5.8	3.8	18.2	28.6	63.6%
	<b>\$ 33.3</b>	<b>\$ 23.0</b>	<b>\$ 4.3</b>	<b>\$ 60.6</b>	<b>\$ 36.5</b>	<b>\$ 24.3</b>	<b>\$ 9.7</b>	<b>\$ 70.5</b>	<b>\$ 211.1</b>	<b>33.4%</b> <sup>(3)</sup>

<sup>(1)</sup> WCOCR - Working Capital & Operating Contingency Reserve

<sup>(2)</sup> ASR - Assessment Stabilization Reserve

<sup>(3)</sup> 33.4% of total 2020 reserves to total budget equates to 4.0 months of 2021 budgeted operating expenses



*Lam Chung, Corporate Treasurer*

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January 15, 2021

Mr. Andy Sharp  
North American Electric Reliability Corporation (NERC)

RE: Unaudited Midwest Reliability Organization (MRO) 2020 Fourth Quarter Statement of Activity –  
Cash Flow through December 31, 2020

Dear Mr. Sharp:

MRO experienced variances greater than \$10,000 and 10 percent. Fourth quarter results indicate that MRO's budget remains underspent by 9.1 percent.

**Meeting Expenses (Variance of \$1,199,272 (93.4%) under budget)**

Meetings and travel have been severely impacted by COVID-19. MRO transitioned to 100 percent virtual means using WebEx technology through year-end. In-person meetings and travel will be re-evaluated in first quarter 2021.

**Operating Expenses (Variance of \$1,191,922 (33.7%) under budget)**

There is reduced spending in Consultants and Contracts and Office Costs due to COVID-19. Staff worked through remote capability and much of the cost to maintain onsite operations remained low. Need for outside consulting in main technical areas was also minimal as staff managed its work with greater use of virtual technology. Internal IT staff continue to maintain MRO's virtual environment, reducing the need for external IT support.

**Budget Outlook**

The 2020 budget has seen minimal travel and in-person meetings in response to COVID-19. Reallocation of budget costs in this area and in budgeted consulting and office costs was used to offset the unbudgeted costs of a board-approved office expansion to accommodate increased staff and physical distancing.

If you have any questions regarding this report, please contact me. Thank you.

Lam Chung  
Vice President and Engineer for Strategy, Innovation, and Finance

Cc: Sara Patrick, MRO President and CEO



**Midwest Reliability Organization  
Statement of Activity  
12/31/2020  
PRELIMINARY (Unaudited)**

(In Whole Dollars)

		2020 YTD Actual	2020 YTD Budget	2020 YTD Variance	%
<b>Funding</b>					
<b>ERO Funding</b>					
	ERO Assessments	\$ 16,983,251	\$ 16,983,251	-	
	Penalty Sanctions	557,718	557,718	-	
<b>A. Total ERO Funding</b>		<b>\$ 17,540,970</b>	<b>\$ 17,540,969</b>	<b>\$ -</b>	
	<b>Personnel Expenses</b>				
	Salaries	\$ 9,855,113	\$ 9,334,262	520,851	
	Payroll Taxes	567,729	586,604	(18,875)	
	Benefits	1,003,158	1,061,581	(58,423)	
	Retirement Costs	1,488,902	1,500,244	(11,342)	
<b>Total Personnel Expenses</b>		<b>\$ 12,914,902</b>	<b>\$ 12,482,691</b>	<b>\$ 432,211</b>	<b>3.5%</b>
	<b>Meeting Expenses</b>				
	Meetings & Conference Calls	\$ 10,124	\$ 175,900	(165,776)	
	Travel	75,236	1,108,732	(1,033,496)	
<b>Total Meeting Expenses</b>		<b>\$ 85,360</b>	<b>\$ 1,284,632</b>	<b>\$ (1,199,272)</b>	<b>-93.4%</b>
	<b>Operating Expenses</b>				
	Consultants & Contracts	\$ 618,017	\$ 1,306,319	(688,302)	
	Office Rent	723,154	774,000	(50,846)	
	Office Costs	557,310	930,327	(373,017)	
	Professional Services	448,244	528,000	(79,756)	
<b>Total Operating Expenses</b>		<b>\$ 2,346,724</b>	<b>\$ 3,538,646</b>	<b>\$ (1,191,922)</b>	<b>-33.7%</b>
	<b>Total Direct Expenses</b>	<b>\$ 15,346,986</b>	<b>\$ 17,305,969</b>	<b>\$ (1,958,983)</b>	<b>-11.3%</b>
	<b>Indirect Expenses</b>				
	<b>Other Non-Operating Expenses</b>	\$ -	\$ -	\$ -	
<b>B. Total Expenses</b>		<b>\$ 15,346,986</b>	<b>\$ 17,305,969</b>	<b>\$ (1,958,983)</b>	
	<b>Net Funding less Expenses (A-B)</b>	<b>\$ 2,193,984</b>	<b>\$ 235,000</b>	<b>\$ 1,958,983</b>	
<b>C. Fixed Asset Additions, excluding Right of Use Assets</b>		<b>\$ 605,314</b>	<b>\$ 235,000</b>	<b>\$ 370,314</b>	<b>157.6%</b>
<b>Total Budget (B + C)</b>		<b>\$ 15,952,300</b>	<b>\$ 17,540,969</b>	<b>\$ (1,588,669)</b>	<b>-9.1%</b>
<b>Head Count</b>		61.00	63.00	(2.00)	
<b>FTEs</b>		62.13	63.00	(0.87)	
	Beginning WC-1/1/20	\$ 4,211,767	\$ 4,934,448	\$ (722,681)	
	Change to WC-2020	1,588,670	-	1,588,670	
	Working Capital at December 31, 2020	\$ 5,800,437	\$ 4,934,448	\$ 865,989	
	<b>Reserve Activity:</b>				
	Beginning ASR - 1/1/20	\$ 3,157,719	\$ 3,157,719	\$ -	
	Penalties Released	(557,718)	(557,718)	-	
	Penalties Received	-	-	-	
	<b>ASR at December 2020 :</b>	<b>\$ 2,600,001</b>	<b>\$ 2,600,001</b>	<b>\$ -</b>	



NORTHEAST POWER COORDINATING COUNCIL, INC.  
1040 AVE OF THE AMERICAS. NEW YORK. NY 10018 (212) 840-1070 FAX (212) 302-2782

January 19, 2021

North American Electric Reliability Corporation  
3353 Peachtree Road NE  
Suite 600, North Tower  
Atlanta, GA 30326  
Attention: Mr. Andy Sharp

Subject: NPCC Regional Entity Division Variance Comparison and  
Fourth Quarter 2020 Statement of Activities

Dear Andy:

The variance comparison for the period ended December 31, 2020 is included along with Northeast Power Coordinating Council, Inc.'s unaudited Fourth Quarter 2020 Statement of Activities.

Please do not hesitate to contact me via email at [jhala@npcc.org](mailto:jhala@npcc.org) or via telephone at (212) 840-1070 should you have any comments or questions with regard to the materials provided.

Sincerely,

*Jessica Hala*

Jessica Hala  
Director, Finance and Accounting

Enclosures

cc: Mr. Christopher Weir, CPA – NPCC Treasurer  
Mr. Edward A. Schwerdt – NPCC President & CEO  
Ms. Jennifer Budd Mattiello – NPCC Senior Vice President & COO  
ERO Finance Group



NORTHEAST POWER COORDINATING COUNCIL, INC.  
1040 AVE OF THE AMERICAS, NEW YORK, NY 10018 (212) 840-1070 FAX (212) 302-2782

## **NPCC Regional Entity Division Budget to Actual Variance Comparison as of December 31, 2020**

### **TOTAL EXPENSES**

For the year ending December 31, 2020, the NPCC Regional Entity Division is \$1.7M or -10.4% under budget, based on invoices received to date. This under-spend will be factored into NPCC's reserve requirements calculations to reduce future assessments. Meeting and travel expenses were significantly under budget as a result of travel being suspended since early March due to the COVID-19 pandemic. Personnel expenses were under budget as a result of several partial year open positions which NPCC successfully filled mainly through virtual means throughout 2020. Despite onboarding of seven professionals throughout the year, NPCC, due to its dedicated staff, who performed with focus, dedication and increased time and effort, successfully reprioritized resources during 2020 to fulfill all of its responsibilities under its Regional Delegation Agreement and MOUs/governmental agreements. Continuing volunteerism and engagement of subject matter experts from within the NPCC membership also contributed greatly to NPCC achieving its corporate reliability objectives during 2020.

### **INCOME**

- **Penalty Sanctions** (Actual income of \$120k remitted to NPCC as of June 30, 2019 had been applied to reduce 2020 assessments to NPCC U.S. load serving entity designees.) Penalty sanctions remitted from July 1, 2019 through June 30, 2020 are included in NPCC's Assessment Stabilization Reserve to be applied to budget year 2021 and future budget years to reduce assessments to NPCC U.S. load serving entity designees. Penalties collected will be reported in NPCC's audited financial statements in accordance with GAAP.
- **Interest & Investment Income** (Actual income of \$18k at year end, \$38k under budget)  
Interest & investment income earned from the investment of excess operating cash into a 100% U.S. Treasury Securities mutual fund was nearly flat and much lower than budgeted based on current yields. NPCC allocated \$18k as a portion of total interest and investment income (93%) to the Regional Entity Division consistent with the ratio of Regional Entity (RE) to Criteria Services (CS) Division 2020 funding. A common system of accounts, with divisional separation, is used for both RE and CS revenue tracking and financial reporting.

### **EXPENSES**

- **Personnel Expenses** (Variance of \$583k under budget at year end)
  - Several open positions during portions of the year resulted in lower than budgeted salaries and related benefits. The resulting underage was partially offset by a Board approved one-time 2020 vacation policy exception for non-officer employees due to COVID-19 which allowed for an elective payout of a portion of unused vacation time. In response to the COVID-19 pandemic, NPCC also successfully adjusted recruiting and hiring procedures, conducting teleconference, WebEx and video conference interviews with candidates and remote onboarding. NPCC ended the year fully staffed, with the exception of a successor President and CEO budgeted to start working for the Board of Directors in November of 2020, currently projected to be onboarded toward the end of the first quarter of 2021.

- **Meetings and Travel** (Variance of \$1.1M under budget at year end)
  - Under budget variance is due to travel being suspended since early March 2020 due to the COVID-19 pandemic. NPCC’s Spring and Fall Compliance and Standards Workshops were converted to a remote attendance webinar format. The increased number of attendees encouraged NPCC to deliver a third workshop in the Summer to reach as wide an audience of participants as possible. There was very positive feedback received on the virtual format and that feedback will influence NPCC to likely deliver workshops both in person and virtually even when herd immunity is accomplished. From mid-March planned meetings and activities, including the 2020 Annual Meeting of NPCC Members, were conducted successfully via webinar, video conferencing and teleconference.
  
- **Consultants and Contracts** (Variance of \$183k under budget at year end)
  - Under budget variance is due to the timing of the use of independent contractors for virtual compliance audits and other contract engagements that have been deferred due to the suspension of access to registered entity physical sites related to the COVID-19 pandemic. It is anticipated that onsite compliance audits could resume during the second half of 2021 potentially.
  - Consulting fees related to successor CEO search efforts were less than budgeted. Legal expenses associated with this search effort were properly recorded under legal fees, but this facilitation had originally been budgeted under consulting fees, also contributing to the underage.
  
- **Office Costs** (Variance of \$42k over budget at year end)
  - Over budget variance is primarily due to unbudgeted IT expenses related to security enhancements and risk management. NPCC provided additional sanitation and cleaning with the goal of safety to staff members who were required to be at the NYC offices sporadically over 2020.
  
- **Professional Services** (Variance of \$104k over budget at year end)
  - Over budget variance is related to legal fees and accounting fees. Legal fees associated with successor CEO search efforts were budgeted under consulting fees, but properly recorded under legal fees. There is an offsetting underage in consulting fees.
  
- **Fixed Assets** (Variance of \$30k over budget at year end)
  - Over budget variance is due to the timing of a website development project, with more project benchmarks occurring during 2020 than originally projected. The website development project was completed in December 2020.

*(Unaudited)*  
*Submitted January 19, 2021*



**Northeast Power Coordinating Council, Inc. - Regional Entity Division**  
**Statement of Activities, Fixed Assets and Change in Working Capital**  
**(Unaudited)**  
**For the Period Ended December 31, 2020**

	2020 YTD Actual	2020 YTD Budget	2020 YTD Actual Variance from Budget Over(Under)	%
<b>Funding</b>				
Assessments	15,338,737	15,338,737	-	
Penalties Released*	120,000	120,000	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	67,500	(67,500)	
Interest & Investment Income	17,543	55,800	(38,257)	
<b>Total Funding</b>	<b>15,476,280</b>	<b>15,582,037</b>	<b>(105,757)</b>	<b>-0.68%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	7,479,537	7,704,262	(224,725)	
Payroll Taxes	476,401	495,520	(19,118)	
Employee Benefits	1,704,588	1,926,885	(222,296)	
Savings & Retirement	766,109	882,951	(116,841)	
<b>Total Personnel Expenses</b>	<b>10,426,636</b>	<b>11,009,617</b>	<b>(582,981)</b>	<b>-5.30%</b>
<b>Meeting Expenses</b>				
Meetings & Conference Calls	49,366	397,750	(348,384)	
Travel	101,931	845,900	(743,969)	
<b>Total Meeting Expenses</b>	<b>151,297</b>	<b>1,243,650</b>	<b>(1,092,353)</b>	<b>-87.83%</b>
<b>Operating Expenses, excluding Depreciation</b>				
Consultants & Contracts	1,888,172	2,071,150	(182,978)	
Rent & Improvements	851,518	832,700	18,818	
Office Costs	727,908	685,981	41,927	
Professional Services	1,050,656	947,000	103,656	
Miscellaneous	11,816	51,000	(39,184)	
<b>Total Operating Expenses</b>	<b>4,530,070</b>	<b>4,587,831</b>	<b>(57,761)</b>	<b>-1.26%</b>
Indirect Expense Allocation	(434,472)	(409,450)	(25,022)	6.11%
Other Non-Operating Expenses	-	-	-	n/a
<b>Total Expenses</b>	<b>14,673,531</b>	<b>16,431,648</b>	<b>(1,758,117)</b>	<b>-10.70%</b>
<b>Change in Net Assets</b>	<b>802,749</b>	<b>(849,611)</b>	<b>1,652,360</b>	<b>-194.48%</b>
<b>Fixed Asset Additions, excluding Right of Use Assets</b>	<b>200,413</b>	<b>170,000</b>	<b>30,413</b>	<b>17.89%</b>
<b>Net Financing Activity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>n/a</b>
<b>Total Budget (Expenses plus Fixed Assets and Net Financing Activity)</b>	<b>14,873,944</b>	<b>16,601,648</b>	<b>(1,727,704)</b>	<b>-10.41%</b>
<b>Change in Working Capital (Total Funding less Total Budget)</b>	<b>602,336</b>	<b>(1,019,611)</b>	<b>1,621,947</b>	<b>-159.08%</b>
Equivalent Full Time Employees	37.94	41.09	(3.15)	
Headcount	42.00	43.00	(1.00)	
Beginning Total Reserves - 1/1/20	5,623,649	4,426,112	1,197,537	
Change to Reserves	602,336	(1,019,611)	1,621,947	
<b>Total Reserves at 12/31/20</b>	<b>6,225,985</b>	<b>3,406,501</b>	<b>2,819,484</b>	

\*Penalties Released reflect the designated amount of funds released to offset U.S. assessments. Actual penalties invoiced are reported in the audited financial statements as an increase in net assets in accordance with Generally Accepted Accounting Principles (GAAP).



Jill S. Lewton  
Controller  
3 Summit Park Drive, Suite 600  
Cleveland, OH 44131  
Office: 216.503.0600  
Jill.lewton@rfirst.org

January 20, 2021

Mr. Andy Sharp  
North American Electric Reliability Corporation  
3353 Peachtree Road, N.E.  
Suite 600, North Tower  
Atlanta, Georgia 30326

**ReliabilityFirst's 2020 4th Quarter Statement of Activities Variance Report - Unaudited**

Dear Mr. Andy Sharp:

As requested, the attached 2020 4th Quarter Statement of Activities (unaudited) provides a comparison of budgeted and actual expenses relative to the 2020 ReliabilityFirst Corporation's Budget.

For more information, please contact me at 216.503.0600 or [jill.lewton@rfirst.org](mailto:jill.lewton@rfirst.org).

Very truly yours,

**RELIABILITYFIRST CORPORATION**

*Jill S. Lewton*

Jill S. Lewton  
Controller



## ReliabilityFirst's 2020 4th Quarter Statement of Activities Variance Report - Unaudited

### Significant Variances

For the year ending December 31, 2020, ReliabilityFirst Corporation is \$883K (3.73%) under budget. The major contributors to this variance are:

### Budget Funding

- **Investment Income:** \$103K (206%) over budget for YTD
  - Investment Income is over budget due to greater than anticipated growth in interest and the value of unrealized gains in the company's investment portfolio.

### Budget Expenses

- **Personnel Expenses**
  - **Salaries:** \$886K (6%) over budget for YTD  
Salaries are primarily over budget due to the realignment of employees that was announced during the first quarter, and filling of all the vacant and overlap positions.
  - **Employee Benefits:** \$563K (23%) under budget for YTD  
Employee Benefits are under budget mainly due to variances in training, medical benefits, and workers' compensation insurance. Training is under budget due to underutilized budgeted training, as a result of the cancellation of training activities due to the Covid 19 pandemic. Medical benefits are under budget due to personnel count that was below the approved staffing levels during part of the year, along with employees selecting medical plans that differed from what was budgeted. Workers' compensation insurance is under budget due to a dividend that was given to employers to assist in keeping businesses open and people employed during the pandemic.
- **Meeting Expenses**
  - **Total Meeting Expenses:** \$878K (82%) under budget for YTD  
Meeting Expenses are under budget due to the cancellation of meetings and travel as a result of the Covid 19 pandemic.
- **Operating Expenses**
  - **Contracts & Consultants:** \$222K (46%) under budget for YTD  
Contracts and Consultants expense is under budget due to the cancellation and postponement of planned contract support for most of the corporate activities, as a result of the Covid 19 pandemic.
  - **Professional Services:** \$82K (18%) over budget for YTD  
Professional Services are over budget due to the increase in Independent Director Fees.



## RELIABILITY FIRST

- **Fixed Assets**

- **Fixed Assets:** \$288K (74%) under budget for YTD

Fixed Assets are under budget due to the cancellation and postponement of planned projects due to the impacts of the Covid 19 pandemic.

### FTE Count

- FTE count is higher than the budget due to the usage of interns and the filling of overlap positions, which are not accounted for in the budgeted FTE count.

### Reserves

- **Working Capital Reserve**

The Working Capital Reserve of \$1,528,149 will be utilized to satisfy projected cash flow for daily operations and to stabilize and minimize volatility in future years' assessments.

- **Operating Reserve**

The Operating Reserve of \$1,000,000 has been designated with the intention of providing for any unbudgeted and unexpected expenditures for the organization.



ReliabilityFirst Corporation  
Statement of Activities, Fixed Assets and Change in Working Capital  
(unaudited)  
From 01/01/2020 Through 12/31/2020  
*(in Whole Numbers)*

	2020 YTD Actual	2020 YTD Budget	YTD Variance Over/(Under)	% Variance
<b>Funding</b>				
Assessments	22,318,623	22,318,623	0	0.00%
Penalties Released *	267,627	267,627	0	0.00%
Investment Income	152,893	50,000	102,893	205.79%
Miscellaneous Income	4,231	0	4,231	0.00%
<b>Total Funding</b>	<b>22,743,374</b>	<b>22,636,250</b>	<b>107,124</b>	<b>0.47%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	15,075,806	14,189,599	886,207	6.25%
Payroll Taxes	900,634	846,790	53,844	6.36%
Employee Benefits	1,930,780	2,493,615	(562,835)	-22.57%
Savings & Retirement Costs	2,345,700	2,338,753	6,947	0.30%
<b>Total Personnel Expenses</b>	<b>20,252,920</b>	<b>19,868,757</b>	<b>384,163</b>	<b>1.93%</b>
<b>Meeting Expenses</b>				
Meetings & Conference Calls	90,063	377,140	(287,077)	-76.12%
Travel	107,007	697,916	(590,909)	-84.67%
<b>Total Meeting Expenses</b>	<b>197,070</b>	<b>1,075,056</b>	<b>(877,986)</b>	<b>-81.67%</b>
<b>Operating Expenses</b>				
Contracts & Consultants	258,810	481,115	(222,305)	-46.21%
Rent & Utilities	578,106	539,292	38,814	7.20%
Office Costs	808,993	810,400	(1,407)	-0.17%
Professional Services	523,781	442,483	81,298	18.37%
Miscellaneous	46,348	43,759	2,589	5.92%
<b>Total Operating Expenses</b>	<b>2,216,038</b>	<b>2,317,049</b>	<b>(101,011)</b>	<b>-4.36%</b>
<b>Non-Operating Expenses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00%</b>
<b>Total Expenses</b>	<b>22,666,028</b>	<b>23,260,862</b>	<b>(594,834)</b>	<b>-2.56%</b>
<b>Net Change in Assets</b>	<b>77,346</b>	<b>(624,612)</b>	<b>701,958</b>	<b>-112.38%</b>
<b>Increase/(Decrease) in Fixed Assets</b>	<b>102,262</b>	<b>390,000</b>	<b>(287,738)</b>	<b>-73.78%</b>
<b>Total Budget (Expenses + Incr/(Decr) in Fixed Assets)</b>	<b>22,768,290</b>	<b>23,650,862</b>	<b>(882,572)</b>	<b>-3.73%</b>
<b>Change in Working Capital (Total Funding less Total Budget)</b>	<b>(24,916)</b>	<b>(1,014,612)</b>	<b>989,696</b>	<b>-97.54%</b>
<b>FTE Count</b>	<b>82.79</b>	<b>79.35</b>	<b>3.44</b>	<b>4.34%</b>
WC - 12/31/2019	2,465,448	1,172,687	1,292,761	
Less: Adjustment for future liabilities	(802,422)	0	(802,422)	
Available Working Capital	1,663,026	1,172,687	490,339	
Change to WC - 2020	(24,916)	(1,014,612)	989,696	
Other Adjustments to Reserves	(158,073)	(158,073)	0	
<b>Total Working Capital</b>	<b>1,480,037</b>	<b>2</b>	<b>1,480,035</b>	
Working Capital Reserve	1,528,149	1,528,149	0	
Operating Reserve	1,000,000	1,000,000	0	
<b>Total Working Capital and Operating Reserve</b>	<b>4,008,186</b>	<b>2,528,151</b>	<b>1,480,035</b>	

\* Penalties Released reflect the designated amount of funds released to offset U.S. assessments. Actual penalties invoiced are reported in the audited financial statements as an increase in net assets in accordance with Generally Accepted



SERC RELIABILITY CORPORATION

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January 19, 2021

Mr. Andy Sharp  
North American Electric Corporation  
3353 Peachtree Road, NE  
Atlanta, GA 30326

RE: SERC 2020 Q4 Unaudited Financial Statement – Budget vs. Actual

Andy:

Following please find SERC's unaudited 2020 Q4 financial statement, reflecting actual to budgeted amounts with variance explanations.

If you have any questions, please let me know.

Thank you,



George Krogstie  
Chief Financial Officer and Corporate Treasurer

cc: Jason Blake

**SERC Reliability Corporation**  
**Statement of Activities, Fixed Assets Expenditures, and Change in Working Capital**

From 1/1/2020 Through 12/31/2020

	2020 YTD Actual	2020 YTD Budget	Variance 2020 YTD Actual v 2020 YTD Budget Over(Under)	%
<b>Funding</b>				
<b>Statutory Funding</b>				
SERC Assessments	\$ 22,459,123	\$ 22,459,123	\$ -	
Penalties Released*	1,900,000	1,900,000	-	
<b>Total Statutory Funding</b>	<b>\$ 24,359,123</b>	<b>\$ 24,359,123</b>	<b>\$ -</b>	<b>0.00%</b>
Membership Fees	\$ -	\$ -	\$ -	
Services & Software	-	-	-	
Workshops & Miscellaneous	8,615	165,000	(156,385)	
Interest	80,576	60,000	20,576	
<b>Total Funding (A)</b>	<b>\$ 24,448,314</b>	<b>\$ 24,584,123</b>	<b>\$ (135,809)</b>	<b>-0.55%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 14,827,825	\$ 14,135,382	\$ 692,443	
Payroll Taxes	937,058	1,028,204	(91,146)	
Benefits	1,580,263	1,843,730	(263,467)	
Retirement Costs	1,830,891	1,824,181	6,710	
<b>Total Personnel Expenses</b>	<b>\$ 19,176,037</b>	<b>\$ 18,831,497</b>	<b>\$ 344,540</b>	<b>1.83%</b>
<b>Meeting Expenses</b>				
Meetings & Conference Calls	\$ 37,105	\$ 521,824	\$ (484,719)	
Travel	111,242	805,148	(693,906)	
<b>Total Meeting Expenses</b>	<b>\$ 148,347</b>	<b>\$ 1,326,972</b>	<b>\$ (1,178,625)</b>	<b>-88.82%</b>
<b>Operating Expenses, excluding Depreciation</b>				
Consultants & Contracts	\$ 1,680,453	\$ 2,369,580	\$ (689,127)	
Office Rent	835,221	789,276	45,945	
Office Costs	825,270	710,350	114,920	
Professional Services	91,907	166,140	(74,233)	
Miscellaneous	-	1,200	(1,200)	
<b>Total Operating Expenses</b>	<b>\$ 3,432,851</b>	<b>\$ 4,036,546</b>	<b>\$ (603,695)</b>	<b>-14.96%</b>
<b>Total Direct Expenses</b>	<b>\$ 22,757,235</b>	<b>\$ 24,195,014</b>	<b>\$ (1,437,779)</b>	<b>-5.94%</b>
<b>Indirect Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Total Expenses (B)</b>	<b>\$ 22,757,235</b>	<b>\$ 24,195,014</b>	<b>\$ (1,437,779)</b>	<b>-5.94%</b>
<b>Change in Assets</b>	<b>\$ 1,691,079</b>	<b>\$ 389,109</b>	<b>\$ 1,301,970</b>	<b>334.60%</b>
<b>Fixed Asset Additions, excluding Right of Use Assets (C)</b>	<b>\$ 409,588</b>	<b>\$ 330,000</b>	<b>\$ 79,588</b>	<b>24.12%</b>
<b>TOTAL BUDGET (B+C)</b>	<b>\$ 23,166,823</b>	<b>\$ 24,525,014</b>	<b>\$ (1,358,191)</b>	<b>-5.54%</b>
<b>TOTAL CHANGE IN WORKING CAPITAL (A-B-C)</b>	<b>\$ 1,281,491</b>	<b>\$ 59,109</b>	<b>\$ 1,222,382</b>	<b>2068.02%</b>
FTE's	96.00	98.00	(2.00)	
Head Count	96.00	98.00	(2.00)	
Beginning WC Reserve at 1/1/2020	1,855,528	1,201,725	653,803	
Change to WC - 2020	1,281,491	59,109	1,222,382	
Working Capital Reserve at 12/31/2020	<u>3,137,019</u>	<u>1,260,834</u>	<u>1,876,185</u>	
Assessment Stabilization Reserve:				
Beginning AS Reserve at 1/1/2020	5,645,000			
Penalties Released	(1,900,000)			
Penalties Received	1,010,000			
Assessment Stabilization Reserve 12/31/2020	<u>4,755,000</u>			
Net Assets Designated for Operating Reserves (from audited financial reports)	1,855,528			
Beginning WC - 1/1/2020	<u>1,855,528</u>			

\* Penalties Released in the current year reflects the designated amount of funds released from the Assessment Stabilization Reserve (ASR) to offset U.S. assessments as approved by the SERC Board of Directors and FERC. Actual penalties invoiced in the current reporting year are shown as an increase the ASR on the reserve summary table and will be reported as income on the audited financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

## Budget to Actual Comparison as of December 31, 2020 (Unaudited)

### Overall Summary

- Spending \$1,358k under budget due to impacts associated with the pandemic
- Funding \$136k under budget attributable to cancellation of workshops due to COVID-19 restrictions

### Income

- **Funding (Actual - \$136k under budget)**
  - Workshop revenue lower than budget due to cancellation of workshops, partially offset by increased investment income

### Expense

- **Personnel Expenses (Actual - \$345k over budget)**
  - Improved hiring and retention of talent resulting in fewer than budgeted vacancies, partially offset by insurance renewal lower than budget
- **Meeting/Travel Expenses (Actual - \$1.2k under budget)**
  - Decreased meeting and travel associated with COVID-19 related cancellations
- **Contracts/Consultants (Actual - 683k under budget)**
  - The cancellation of workshops reduced the need for third-party contractors supporting these events. In addition, expenses associated with the Compliance User Group and the independent director search were less than budgeted.
  - Certain software costs budgeted in Contracts, but expensed in Office Costs
- **Office Rent (Actual - \$46k over budget)**
  - Common area maintenance expenses higher than expected
- **Office Costs (Actual – \$115k over budget)**
  - Certain software costs budgeted in Contracts, but expensed in Office Costs
- **Professional Services (Actual - \$74k under budget)**
  - Legal fees budgeted for bylaw changes were less than expected
- **Fixed Asset Purchases (Actual - \$80k over budget)**
  - Accelerated timeline for Member Portal Consolidation project



January 12, 2021

Mr. Andy Sharp  
Controller  
North American Electric Reliability Corporation  
3353 Peachtree Road NE, Suite 600, North Tower  
Atlanta, GA 30326

RE: Texas Reliability Entity, Inc. Fourth Quarter 2020 Statement of Activities and Variance Report

Dear Andy,

Attached is the 2020 fourth quarter Statutory Statement of Activities (unaudited) and Variance Report for Texas RE.

Texas RE is 2.5% under budget and explanations are noted below.

Please contact me if you have questions or comments.

Thank you.

*Judy Foppiano*

Judy A. Foppiano, CPA  
CFO & Director of Corporate Services  
**Texas Reliability Entity, Inc.**  
805 Los Cimas Parkway, Suite 200  
Austin, Texas 78746  
Judy.foppiano@texasre.org  
512.583.4959

## **Budget to Actual Comparison as of December 31, 2020**

Year-to-date variances greater than \$10,000 and 10% explained below.

### **FUNDING**

- **Penalties Released:** Actual penalty income of \$710,000 remitted to Texas RE as of June 30, 2020 has reduced 2020 assessments. All penalty sanctions remitted from July 1, 2019 through June 30, 2020 will be included in the Texas RE 2021 Business Plan and Budget and applied to reduce 2021 assessments.
- **Interest:** \$25,546 less than budget. Texas RE's banking account is the Business Banking U.S. End of Day Money Market Mutual Fund Sweep account. Interest rates are lower at the end of Q4 than anticipated at the time the 2020 budget was prepared.

### **EXPENSES**

**Total Budget as of December 31, 2020 is \$340,400 less than budget (-2.5%).**

- **Personnel Expenses:** \$94,347 less than budget (-0.9%).
  - This variance is due to health insurance not increasing as projected. The benefit was budgeted to increase 14% but actual costs stayed consistent with prior year.
  - Salaries are slightly above budget due to promotions and market adjustments that were done after the 2020 budget was prepared.
  - Employee Benefits include education reimbursement and relocation costs not used to date.
- **Meetings and Travel Expenses:** \$295,254 less than 2020 budget (-74.9%).
  - Meetings and Conference cost is \$50,250 (-66.0%) less than budget. A workshop and all meetings were held remotely beginning in March because of the COVID-19 pandemic.
  - Travel is \$245,004 (-77.0%) less than expected. All travel was suspended beginning in March due to the COVID-19 pandemic.
- **Total Operating Expenses: \$79,201 greater than 2020 budget (3.0%).**
  - Costs for executive coaching and search fees are causing Consultants and Contracts to be over budget.
  - IT managed services are less than budget due to negotiations with vendors after this budget was prepared. Office costs are slightly over budget due to the pandemic for cleaning and making employees more comfortable working remotely.
  - Unsued Legal fees and cost for penetration testing add to the variance in Professional Services.

**Additional Fixed Asset budget was not used in 2020.**

**Texas Reliability Entity, Inc.**  
Statement of Activities and Fixed Assets  
For period ended December 31, 2020  
(Unaudited)

	2020 Actual	2020 Budget	Budget Variance	% Budget Variance
<b>Revenue</b>				
ERO Funding				
Assessments	\$ 13,344,127	\$ 13,344,127	\$ -	0.0%
Penalty Sanctions	710,000	710,000	-	0.0%
Interest Income	14,454	40,000	(25,546)	-63.9%
<b>Total Revenue</b>	<b>\$ 14,068,581</b>	<b>\$ 14,094,127</b>	<b>\$ (25,546)</b>	<b>-0.2%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	\$ 7,942,362	\$ 7,641,282	\$ 301,080	3.9%
Payroll Taxes	533,210	527,533	5,677	1.1%
Employee Benefits	1,119,758	1,501,005	(381,247)	-25.4%
Savings & Retirement	1,053,944	1,073,802	(19,858)	-1.9%
<b>Total Personnel Expenses</b>	<b>\$ 10,649,275</b>	<b>\$ 10,743,622</b>	<b>\$ (94,347)</b>	<b>-0.9%</b>
<b>Meeting &amp; Travel Expenses</b>				
Meetings & Conference Calls	\$ 25,890	\$ 76,140	\$ (50,250)	-66.0%
Travel	73,200	318,204	(245,004)	-77.0%
<b>Total Meeting &amp; Travel Expenses</b>	<b>\$ 99,090</b>	<b>\$ 394,344</b>	<b>\$ (295,254)</b>	<b>-74.9%</b>
<b>Operating Expenses</b>				
Consultants & Contracts	\$ 593,586	\$ 489,704	\$ 103,882	21.2%
Rent & Improvements	881,236	888,786	(7,550)	-0.9%
Office Costs	704,624	676,070	28,554	4.2%
Professional Services	542,914	588,600	(45,686)	-7.8%
<b>Total Operating Expenses</b>	<b>\$ 2,722,361</b>	<b>\$ 2,643,160</b>	<b>\$ 79,201</b>	<b>3.0%</b>
<b>Total Expenses</b>	<b>\$ 13,470,726</b>	<b>\$ 13,781,126</b>	<b>\$ (310,400)</b>	<b>-2.3%</b>
<b>Change In Assets</b>	<b>\$ 597,855</b>	<b>\$ 313,001</b>	<b>\$ 284,854</b>	<b>91.0%</b>
<b>Fixed Asset Additions, excluding Right of Use Assets</b>	<b>\$ -</b>	<b>\$ 30,000</b>	<b>\$ (30,000)</b>	<b>-100.0%</b>
<b>TOTAL BUDGET</b>	<b>\$ 13,470,726</b>	<b>\$ 13,811,126</b>	<b>\$ (340,400)</b>	<b>-2.5%</b>
<b>Change in Working Capital (Total Revenue less Total Budget)</b>	<b>\$ 597,855</b>	<b>\$ 283,001</b>	<b>\$ 314,854</b>	<b>111.3%</b>
<b>FTE's</b>	<b>\$ 60</b>	<b>\$ 60</b>	<b>\$ 60</b>	
Beginning WC - 1/1/20	\$ 3,823,564	\$ 2,530,999	\$ 1,292,565	
Change to WC - 2020	597,855	283,001	314,854	
Working Capital 12/31/2020	<b>\$ 4,421,419</b>	<b>\$ 2,814,000</b>	<b>\$ 1,607,419</b>	



**Jillian Lessner**  
**Vice President and CFAO**  
**January 15, 2021**

Mr. Andy Sharp  
Vice President and Chief Financial Officer  
North American Electric Reliability Corporation  
3353 Peachtree Road, N.E. Suite 600, North Tower  
Atlanta, GA 30326

RE: WECC Q4 2020 Statutory Statement of Activities and Variance Report

Dear Andy,

Attached is WECC's fourth-quarter Statutory Statement of Activities (Unaudited) and Variance Report. WECC's 2020 year-end unaudited results are \$431,000 under budget, excluding the impact of the change in Generally Accepted Accounting Principles' (GAAP) treatment of the penalty revenue recognition. Explanations and drivers are noted below.

If you have any questions or need more information, please contact me.

Regards,

Jillian Lessner  
Vice President and Chief Financial and Administrative Officer

Enclosures

Cc: Melanie Frye, President and Chief Executive Officer  
WECC Finance and Audit Committee

*Year-to-date variances greater than \$10,000 and 10% are explained below. The explanations pertain to all statutory activities.*

## **Revenue**

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- Workshop Fees: \$423,000 under budget

Workshops & Miscellaneous are under budget primarily due to the cancellation of the March Reliability and Security Workshop due to COVID-19.

## **Expenses**

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- Employee Benefits: \$329,000 under budget

Employee Benefits are under budget due to the net of lower-than-anticipated health reimbursements, lower-than-anticipated use of budgeted training, higher-than-anticipated vacancy rates, and the variance between budgeted versus actual benefit enrollment levels and premiums. Additionally, certain relocation benefits for new employees budgeted in this area are now expensed under Salaries due to changes in tax legislation.

- Meetings & Conference Calls: \$611,000 under budget

Meetings & Conference Calls are under budget primarily due to the cancellation of meetings and workshops due to COVID-19.

- Travel: \$1,113,000 under budget

Travel is under budget primarily due to the cancellation of on-site audits and in-person meetings and training due to COVID-19.

- Consultants and Contracts: \$317,000 over budget

Consultants and Contracts are over budget due to the net of the elimination of RAPA consulting for a changing resource mix study and unbudgeted information technology (IT) consulting. The IT program area is restructuring its delivery of services to the organization to improve IT effectiveness, achievement of business goals, and WECC's overall security posture.

## Statutory Statement of Activities and Variance Explanations (January 15, 2021)

- Office Costs: \$206,000 over budget

Office Costs are over budget primarily due to the net of higher-than-anticipated purchases of equipment refreshes due to supply chain uncertainty, higher-than-anticipated cost of computer licenses, the delay in the implementation of Align and the resulting extension of webCDMS licensing fees, and meeting space tables and chairs budgeted to be replaced in January 2020 but instead replaced in 2019.

- Professional Services: \$377,000 over budget

Professional Services are over budget primarily due to legal fees related to unanticipated regulatory activities.

### Fixed Assets

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- Fixed Asset Additions: \$26,000 over budget

Fixed Asset Additions are over budget primarily due to the unbudgeted replacement of out-of-warranty network switches required for wireless access points.



# Statutory Statement of Activities and Variance Explanations (January 15, 2021)



## Western Electricity Coordinating Council Statutory Statement of Activities From 1/1/2020 to 12/31/2020 (Unaudited)

(In Whole Dollars)

	2020 YTD Actual	2020 YTD Budget	2020 YTD Variance Over(Under)	%
<b>Funding</b>				
Assessments	25,282,000	25,282,000	-	0.0%
Penalty Sanctions <sup>1</sup>	2,745,000	2,745,000	-	0.0%
Workshops & Miscellaneous	34,011	457,250	(423,239)	-92.6%
Interest	217,358	200,000	17,358	8.7%
<b>Total Funding</b>	<b>28,278,369</b>	<b>28,684,250</b>	<b>(405,881)</b>	<b>-1.4%</b>
<b>Expenses</b>				
<b>Personnel Expenses</b>				
Salaries	16,750,521	16,475,075	275,446	1.7%
Payroll Taxes	1,133,239	1,074,352	58,887	5.5%
Employee Benefits	2,048,216	2,377,007	(328,791)	-13.8%
Savings & Retirement	1,403,423	1,431,482	(28,059)	-2.0%
<b>Total Personnel Expenses</b>	<b>21,335,399</b>	<b>21,357,916</b>	<b>(22,517)</b>	<b>-0.1%</b>
<b>Meeting Expenses</b>				
Meetings & Conference Calls	103,208	714,095	(610,887)	-85.5%
Travel	288,356	1,401,818	(1,113,462)	-79.4%
<b>Total Meeting Expenses</b>	<b>391,564</b>	<b>2,115,913</b>	<b>(1,724,349)</b>	<b>-81.5%</b>
<b>Operating Expenses, excluding Depreciation</b>				
Consultants and Contracts	1,354,859	1,038,160	316,699	30.5%
Rent & Improvements	1,235,690	1,248,251	(12,561)	-1.0%
Office Costs	1,763,127	1,557,312	205,815	13.2%
Professional Services	1,330,816	953,790	377,026	39.5%
Miscellaneous	-	-	-	
<b>Total Operating Expenses</b>	<b>5,684,492</b>	<b>4,797,513</b>	<b>886,979</b>	<b>18.5%</b>
<b>Total Direct Expenses</b>	<b>27,411,455</b>	<b>28,271,342</b>	<b>(859,887)</b>	<b>-3.0%</b>
<b>Indirect Expenses</b>	<b>(570,175)</b>	<b>(567,267)</b>	<b>(2,908)</b>	<b>0.5%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Expenses</b>	<b>26,841,280</b>	<b>27,704,075</b>	<b>(862,795)</b>	<b>-3.1%</b>
<b>Change in Net Assets</b>	<b>1,437,089</b>	<b>980,175</b>	<b>456,914</b>	<b>46.6%</b>
<b>Fixed Asset Additions, excluding Right of Use Assets</b>	<b>77,584</b>	<b>52,014</b>	<b>25,570</b>	<b>49.2%</b>
<b>Total Expenditures</b>	<b>26,918,864</b>	<b>27,756,089</b>	<b>(837,225)</b>	<b>-3.0%</b>
<b>Change in Working Capital (Total Funding less Total Budget)</b>	<b>1,359,505</b>	<b>928,161</b>	<b>431,344</b>	
FTEs	139.76	143.00	(3.24)	
Headcount	145.00	143.00	2.00	
Beginning WC - 1/1/20	7,339,148	7,752,113	(412,965)	
Change to WC - 2020 <sup>2</sup>	(203,495)	928,161	(1,131,656)	
GAAP Penalty Adj to WC <sup>2</sup>	1,563,000		1,563,000	
<b>Working Capital at 12/31/20</b>	<b>8,698,653</b>	<b>8,680,274</b>	<b>18,379</b>	

<sup>1</sup> Penalties released in the current year reflects the designated amount of funds released to offset U.S. assessments as approved by the WECC Board of Directors and FERC. Actual penalties invoiced in the current reporting year are shown on the Penalty Sanctions Variance Reconciliation table and will be reported as income on the audited financial statements in accordance with GAAP.

<sup>2</sup> The sum of these two amounts equals total change in working capital. See Penalty Sanctions Variance Reconciliation table for additional details on the GAAP penalty adjustment to working capital.



Statutory Statement of Activities and Variance Explanations (January 15, 2021)

## Penalty Sanctions Variance Reconciliation

Penalty Information				Business Plan & Budget** (Year to Offset Assessments)			Financial Statements*** (Year Recognized)			2020 Penalty Revenue Variance
Date Invoiced	Amount Invoiced	Date Payment Received	Amount Received	2020	2021	2022	2018	2019	2020	
6/4/2018	2,700,000	7/11/2018	2,700,000	2,700,000			2,700,000			Business Plan & Budget (A) 2,745,000
10/1/2018	45,000	10/16/2018	45,000	45,000			45,000			Financial Statements (B) 1,182,000
5/30/2019	32,000	7/9/2019	32,000		32,000			32,000		(Over)/Under <u>1,563,000</u>
7/26/2019	87,000	9/4/2019	87,000		87,000			87,000		
8/30/2019	74,000	10/14/2019	74,000		74,000			74,000		
9/27/2019	50,000	11/13/2019	50,000		50,000			50,000		
9/27/2019	59,000	11/13/2019	59,000		59,000			59,000		
11/29/2019	2,678,000	12/23/2019	2,678,000		2,678,000			2,678,000		
11/29/2019	2,180,000	8/27/2020	2,180,000			2,180,000		2,180,000		
1/29/2020	65,000	4/30/2020	65,000		65,000				65,000	
4/7/2020	153,000	5/29/2020	153,000		153,000				153,000	
4/7/2020	70,000	5/7/2020	70,000		70,000				70,000	
4/7/2020	231,000	5/29/2020	231,000		231,000				231,000	
7/2/2020	112,000	8/6/2020	112,000			112,000			112,000	
2020	551,000	*	551,000			551,000			551,000	
<b>Total</b>				<b>2,745,000</b>	<b>3,499,000</b>	<b>2,843,000</b>	<b>3,332,686</b>	<b>5,160,000</b>	<b>1,182,000</b>	
				(A)					(B)	

\* Penalty revenue has been recognized but payment has not been received. The penalty will offset assessments in a future budget year.

\*\* Penalties collected between July 1, 20X1 and June 30, 20X2 will offset assessments in budget year 20X3.

\*\*\* Penalties are recognized for financial reporting purposes when they are approved by FERC and invoiced.



## **Proposed Amendments to Committee Mandate**

### **Action**

Review the Finance and Audit Committee (FAC) mandate to include proposed revisions and recommend approval of those revisions to the Corporate Governance and Human Resources Committee.

Attachment 1: FAC Mandate Redline

Attachment 2: Policy on Internal Audit and Corporate Risk Management

### **Background**

NERC management is proposing several revisions to the FAC mandate to implement a new policy on Internal Audit and Corporate Risk Management.

NERC's approach to Enterprise Risk Management (ERM) follows the Three Lines of Defense Model which consists of the following:

- A first line of defense addressing activities undertaken by each program area relating to risk identification, assessment, mitigation, monitoring, and implementation of internal controls;
- A second line of defense addressing the development and implementation of a comprehensive corporate-wide risk assessment, updated at least annually, and the development and implementation of a corporate-wide compliance program; and,
- A third line of defense requiring an independent assessment of the adequacy of corporate-wide risk assessment results via audits, reviews, and assessments of the most significant controls, and other risk mitigation activities undertaken pursuant to the first and second lines of defense.

Historically, the second and third lines of defense have been the responsibility of the Internal Audit (IA) function. NERC proposes to transfer the second line of defense to a new role – the Corporate Risk Management, Compliance, and Ethics (CRM) lead to be filled in 2021. The proposed mandate changes to the EWRC which implement this change are provided in Agenda Item 2, Attachment 1.

For informational purposes only, Agenda Item 2, Attachment 2 includes the formal policy outlining the framework for this change. This policy was initially discussed with the EWRC and the FAC in October 2020. NERC will seek approval of this policy at the Corporate Governance and Human Resources Committee and Board meetings this quarter.

## **Overview of Mandate Changes**

Below is an overview of the proposed changes to the FAC mandate implementing the policy in Attachment 2.

### Committee Membership

- The FAC membership shall include the chair of NERC's EWRC. It is worth noting that the EWRC membership already includes the chair of the FAC.

### Purpose

- The FAC will assume oversight responsibility for audits, risk management and control processes performed by NERC IA.

### Authority and Responsibilities

- The FAC will oversee the development, review and ultimately approve the annual audit plan and three year audit plans.
- The FAC will also approve the internal audit charter as well as the internal audit budget and resource plan.
- Audits relating to matters for which the Board has a subject matter specific committee will be shared with that committee for monitoring of management corrective measures.
- The FAC Chair will provide input on the performance of the Director of IA's duties.
- The FAC shall conduct an annual executive session meeting with the corporation's Director of IA.

# Board of Trustees

## Finance and Audit Committee Mandate

Approved by the Board of Trustees: ~~August 10, 2017~~  
[MONTH] [DAY], 2021

### Committee Membership

The Board of Trustees Finance and Audit Committee (FAC or the Committee) of the North American Electric Reliability Corporation (NERC) shall be composed of not less than three and not more than six of the Independent members of the Board of Trustees (Board). In addition, the FAC membership shall include the Chair of NERC's Enterprise-wide Risk Committee (EWRC). The members of the FAC shall be appointed or reappointed by the Board at the regular meeting of the Board following each Annual Meeting of the Member Representatives Committee. Each member of the FAC shall continue to be a member thereof until a successor is appointed, unless a member resigns, is removed, or ceases to be a member of the Board of the corporation. When a vacancy occurs at any time in the membership of the FAC, it may be filled by the Board.

### Purpose

The purpose of the FAC is to assist the Board in fulfilling its oversight responsibilities for (i) NERC's audits and related governance, risk management and control processes performed by NERC Internal Audit;<sup>1</sup> (ii) financial results and reporting process; (iii) system of internal financial and accounting controls and financial audit process ~~and;~~ (iv) its oversight of the NERC, Regional Entities ~~and WIRAB,~~ and Western Interconnection Regional Advisory Board business plans and budgets, ~~as well as;~~ and (v) performing such other responsibilities as directed by the Board or this Mandate.

### Committee Authority and Responsibilities

To carry out its purpose, the FAC shall have the following authority and responsibilities:

#### Business Plan and Budgets

1. ~~Review~~The FAC shall review and make recommendations to the Board with respect to (i) the annual NERC and Regional Entities' and WIRAB business plan and budget preparation and approval, including associated assessments, (ii) any other special budget and assessments of the corporation or a Regional Entity, and (iii) such other matters as are deemed necessary and advisable by the FAC in connection with the preparation and approval thereof, in each case consistent with applicable requirements of the NERC Rules of Procedure (ROP) or any applicable laws, rules, regulations, or directives of governmental and regulatory authorities with that jurisdiction.
2. ~~Review~~The FAC shall review and make recommendations to the Board regarding the authorization for NERC management to enter into loan agreements, including, but not limited

<sup>1</sup> NERC's EWRC shall have primary responsibility overseeing the development and implementation of NERC's oversight that is performed in coordination with the Compliance and Certification Committee (CCC).

to, lines of credit.

3. ~~Provide~~The FAC shall provide oversight of NERC management's compliance with the corporation's working capital and operating reserve policy and make recommendations to the Board regarding expenditures or transfers of working capital and operating reserves which require Board authorization as set forth in such policy.

#### Audits, Financial Reports, and Reporting

1. ~~Oversee~~The FAC shall oversee NERC management's maintenance of the quality, credibility, and objectivity of the corporation's financial reports.
2. ~~Review~~The FAC shall oversee the development, review, and ultimately approve the annual and three year audit plans from the Director of Internal Audit (IA), consistent with the Standards for Internal Auditing and Board processes and procedures.
3. The FAC shall approve the internal audit charter.
4. The FAC shall approve the internal audit budget and resource plan.
5. The Director of IA will report administratively to NERC's General Counsel and functionally to the Chair of the FAC.
6. The Chair of the FAC shall provide input as to the performance of the Director of IA and be notified of any employment-related issues related to the Director of IA.
7. The Director of IA shall report on matters regarding governance, risk, and controls and audit activity, which may include, but is not limited to: (i) access to information, (ii) internal audit scope, (iii) objectivity and independence, (iv) perception or potential of impairment, (v) audit budget and resources, and, (vi) subject matter expertise.
8. To the extent that an audit relates to matters for which the Board has a subject matter specific committee (e.g., security, human resources), those audit results will be shared with such committee. Such committee will also monitor the implementation of any management corrective measures or program enhancements.
9. The FAC shall conduct an annual executive session meeting with the corporation's Director of IA, without management present, to discuss the corporation's strategic, financial and operational controls and performance of risk management and internal audit functions. The corporation's general counsel shall hold an annual executive session with the Board.
- 2-10. The FAC shall review the adequacy and integrity of the corporation's internal accounting ~~and,~~ financial and operational controls, which shall include (i) approving on an annual basis the design, implementation and timing of the internal and/or external reviews of such controls, (ii) the review of any internal audit or risk assessments / risk management reports relating to such controls and any mitigation plans or other responses by management relating to such assessments and reports, and (iii) the annual review of the organization, staffing and

resource requirements of the internal audit function as it relates to internal accounting and financial controls.

~~3-11.~~ Appoint The FAC shall appoint, receive reports from, and monitor the independent external auditor (independent auditor), which shall report to the FAC on behalf of the Board for purposes of the annual independent audit and such other matters that may be assigned to the independent auditor from time to time, and conduct reviews of the performance of such independent auditor.

~~4-12.~~ Review The FAC shall review and recommend for Board approval the corporation's audited annual financial statements. This review shall include:

- a. Discussing with NERC management and the auditor the adequacy and effectiveness of the internal accounting and financial controls, including the corporation's system for monitoring and managing business risk;
- b. Reviewing and discussing the audited financial statements of the corporation with management and the independent auditor, including their judgment about the accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements;
- c. Reviewing with NERC management, the auditor, and legal counsel the corporation's procedures to comply with applicable laws, regulations, and any significant litigation, claim, or other contingency, including tax assessments, that would have a material effect upon the financial position or operating results of the corporation, as well as the disclosure or impact on the results of any such matters in the annual financial statements;
- d. Discussing the results of the annual audit, any matters required to be communicated to the FAC by the auditor under generally accepted auditing standards, and any other matters that the independent auditor feels should be communicated to the FAC;
- e. Reviewing with the independent auditor any significant emerging accounting and reporting issues and their potential impact on the corporation's financial statements; and
- f. Meeting with the independent auditor, with and without management present, to discuss the annual audit.

~~g. Meeting with the corporation's head of risk management and internal audit, without management present, to discuss the corporation's internal accounting and financial controls. The corporation's general counsel~~ FAC shall hold an annual executive session with the Board.

~~5-13.~~ Review review and approve the independent auditor's estimated annual audit fees and expenses.

~~6-14.~~ Review The FAC shall review with NERC management all interim and unaudited financial statements prepared for external distribution, including reports summarizing any variances from the business plan and budget, and recommend acceptance of any such statements to the Board.

~~7-15.~~ Review The FAC shall review the results of the company's annual savings and investment

plan audit and, if necessary, make recommendations to the Corporate Governance and Human Resources Committee and management in connection with any audit findings or recommendations.

#### Other Matters

1. ReviewThe FAC shall review the financial aspects of the corporation's Form 990 prior to it being filed with the Internal Revenue Service.
2. ReviewThe FAC shall review and recommend approval by the Board of an investment policy governing the investment of funds held by the corporation.
3. ReviewThe FAC shall review policies for the approval of NERC senior management expenses, including those of the CEO of the corporation.
4. WheneverThe FAC shall, whenever it may be appropriate to do so, retain and receive advice from experts, including independent legal counsel and independent public accountants, and conduct or authorize the conduct of investigations into any matters within the scope of the responsibility of the FAC as the FAC may consider appropriate.
5. PerformThe FAC shall perform such other functions as may be delegated from time to time by the Board.

#### **Committee Meetings**

The FAC shall meet at least quarterly by conference call or in person. Meetings may occur at the same place in conjunction with the regular Board meetings of the corporation, or as determined by the members of the FAC, using the same meeting procedures established for the Board. Meetings may be held in either open or closed session as set forth in the Bylaws of the corporation.

A majority of the Committee members shall constitute a quorum. Except where prescribed differently by law: (a) any action or decision of the FAC requires a vote of a majority of the Committee members then in attendance at any Committee meeting provided a quorum is present; and (b) participation may be telephonic or by Action without a Meeting. The Committee may hold special meetings as circumstances require. Minutes of each Committee meeting shall be maintained as part of the Committee's record.

#### **Governance**

The Board, or in the event of their failure to do so, the members of the FAC, shall appoint a ~~chair~~Chair from among their members. The FAC Chair shall be responsible for leadership of the Committee, including scheduling of meetings, setting agendas, presiding over Committee meetings, and making reports to the Board. A member(s) of the NERC staff shall assist the Chair and shall serve as the non-voting secretary.

#### **Review**

The FAC shall review this mandate annually and recommend to the Board Corporate Governance and Human Resources Committee any changes it considers advisable. Any changes must be approved by the full Board. The FAC shall complete a self-assessment annually to determine its effectiveness.

The FAC shall annually review the IA charter. The meeting minutes shall reflect if no changes to the charter result from the annual review.

## Board of Trustees

# Finance and Audit Committee Mandate

Approved by the Board of Trustees: [MONTH] [DAY],  
2021

### Committee Membership

The Board of Trustees Finance and Audit Committee (FAC or the Committee) of the North American Electric Reliability Corporation (NERC) shall be composed of not less than three and not more than six of the Independent members of the Board of Trustees (Board). In addition, the FAC membership shall include the Chair of NERC's Enterprise-wide Risk Committee (EWRC). The members of the FAC shall be appointed or reappointed by the Board at the regular meeting of the Board following each Annual Meeting of the Member Representatives Committee. Each member of the FAC shall continue to be a member thereof until a successor is appointed, unless a member resigns, is removed, or ceases to be a member of the Board of the corporation. When a vacancy occurs at any time in the membership of the FAC, it may be filled by the Board.

### Purpose

The purpose of the FAC is to assist the Board in fulfilling its oversight responsibilities for (i) NERC's audits and related governance, risk management and control processes performed by NERC Internal Audit;<sup>1</sup> (ii) financial results and reporting process; (iii) system of internal financial and accounting controls and financial audit process; (iv) its oversight of the NERC, Regional Entities, and Western Interconnection Regional Advisory Board business plans and budgets; and (v) performing such other responsibilities as directed by the Board or this Mandate.

### Committee Authority and Responsibilities

To carry out its purpose, the FAC shall have the following authority and responsibilities:

#### Business Plan and Budgets

1. The FAC shall review and make recommendations to the Board with respect to (i) the annual NERC and Regional Entities' and WIRAB business plan and budget preparation and approval, including associated assessments, (ii) any other special budget and assessments of the corporation or a Regional Entity, and (iii) such other matters as are deemed necessary and advisable by the FAC in connection with the preparation and approval thereof, in each case consistent with applicable requirements of the NERC Rules of Procedure (ROP) or any applicable laws, rules, regulations, or directives of governmental and regulatory authorities with that jurisdiction.
2. The FAC shall review and make recommendations to the Board regarding the authorization for NERC management to enter into loan agreements, including, but not limited to, lines of credit.

<sup>1</sup> NERC's EWRC shall have primary responsibility overseeing the development and implementation of NERC's oversight that is performed in coordination with the Compliance and Certification Committee (CCC).

3. The FAC shall provide oversight of NERC management's compliance with the corporation's working capital and operating reserve policy and make recommendations to the Board regarding expenditures or transfers of working capital and operating reserves which require Board authorization as set forth in such policy.

#### Audits, Financial Reports, and Reporting

1. The FAC shall oversee NERC management's maintenance of the quality, credibility, and objectivity of the corporation's financial reports.
2. The FAC shall oversee the development, review, and ultimately approve the annual and three year audit plans from the Director of Internal Audit (IA), consistent with the Standards for Internal Auditing and Board processes and procedures.
3. The FAC shall approve the internal audit charter.
4. The FAC shall approve the internal audit budget and resource plan.
5. The Director of IA will report administratively to NERC's General Counsel and functionally to the Chair of the FAC.
6. The Chair of the FAC shall provide input as to the performance of the Director of IA and be notified of any employment-related issues related to the Director of IA.
7. The Director of IA shall report on matters regarding governance, risk, and controls and audit activity, which may include, but is not limited to: (i) access to information, (ii) internal audit scope, (iii) objectivity and independence, (iv) perception or potential of impairment, (v) audit budget and resources, and, (vi) subject matter expertise.
8. To the extent that an audit relates to matters for which the Board has a subject matter specific committee (e.g., security, human resources), those audit results will be shared with such committee. Such committee will also monitor the implementation of any management corrective measures or program enhancements.
9. The FAC shall conduct an annual executive session meeting with the corporation's Director of IA, without management present, to discuss the corporation's strategic, financial and operational controls and performance of risk management and internal audit functions. The corporation's general counsel shall hold an annual executive session with the Board.
10. The FAC shall review the adequacy and integrity of the corporation's internal accounting, financial and operational controls, which shall include (i) approving on an annual basis the design, implementation and timing of the internal and/or external reviews of such controls, (ii) the review of any internal audit or risk assessments / risk management reports relating to such controls and any mitigation plans or other responses by management relating to such assessments and reports, and (iii) the annual review of the organization, staffing and resource requirements of the internal audit function as it relates to internal accounting and financial controls.
11. The FAC shall appoint, receive reports from, and monitor the independent external auditor

(independent auditor), which shall report to the FAC on behalf of the Board for purposes of the annual independent audit and such other matters that may be assigned to the independent auditor from time to time, and conduct reviews of the performance of such independent auditor.

12. The FAC shall review and recommend for Board approval the corporation's audited annual financial statements. This review shall include:
  - a. Discussing with NERC management and the auditor the adequacy and effectiveness of the internal accounting and financial controls, including the corporation's system for monitoring and managing business risk;
  - b. Reviewing and discussing the audited financial statements of the corporation with management and the independent auditor, including their judgment about the accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements;
  - c. Reviewing with NERC management, the auditor, and legal counsel the corporation's procedures to comply with applicable laws, regulations, and any significant litigation, claim, or other contingency, including tax assessments, that would have a material effect upon the financial position or operating results of the corporation, as well as the disclosure or impact on the results of any such matters in the annual financial statements;
  - d. Discussing the results of the annual audit, any matters required to be communicated to the FAC by the auditor under generally accepted auditing standards, and any other matters that the independent auditor feels should be communicated to the FAC;
  - e. Reviewing with the independent auditor any significant emerging accounting and reporting issues and their potential impact on the corporation's financial statements; and
  - f. Meeting with the independent auditor, with and without management present, to discuss the annual audit.
13. The FAC shall review and approve the independent auditor's estimated annual audit fees and expenses.
14. The FAC shall review with NERC management all interim and unaudited financial statements prepared for external distribution, including reports summarizing any variances from the business plan and budget, and recommend acceptance of any such statements to the Board.
15. The FAC shall review the results of the company's annual savings and investment plan audit and, if necessary, make recommendations to the Corporate Governance and Human Resources Committee and management in connection with any audit findings or recommendations.

#### Other Matters

1. The FAC shall review the financial aspects of the corporation's Form 990 prior to it being filed with the Internal Revenue Service.
2. The FAC shall review and recommend approval by the Board of an investment policy governing the investment of funds held by the corporation.

3. The FAC shall review policies for the approval of NERC senior management expenses, including those of the CEO of the corporation.
4. The FAC shall, whenever it may be appropriate to do so, retain and receive advice from experts, including independent legal counsel and independent public accountants, and conduct or authorize the conduct of investigations into any matters within the scope of the responsibility of the FAC as the FAC may consider appropriate.
5. The FAC shall perform such other functions as may be delegated from time to time by the Board.

### **Committee Meetings**

The FAC shall meet at least quarterly by conference call or in person. Meetings may occur at the same place in conjunction with the regular Board meetings of the corporation, or as determined by the members of the FAC, using the same meeting procedures established for the Board. Meetings may be held in either open or closed session as set forth in the Bylaws of the corporation.

A majority of the Committee members shall constitute a quorum. Except where prescribed differently by law: (a) any action or decision of the FAC requires a vote of a majority of the Committee members then in attendance at any Committee meeting provided a quorum is present; and (b) participation may be telephonic or by Action without a Meeting. The Committee may hold special meetings as circumstances require. Minutes of each Committee meeting shall be maintained as part of the Committee's record.

### **Governance**

The Board, or in the event of their failure to do so, the members of the FAC, shall appoint a Chair from among their members. The FAC Chair shall be responsible for leadership of the Committee, including scheduling of meetings, setting agendas, presiding over Committee meetings, and making reports to the Board. A member(s) of the NERC staff shall assist the Chair and shall serve as the non-voting secretary.

### **Review**

The FAC shall review this mandate annually and recommend to the Board Corporate Governance and Human Resources Committee any changes it considers advisable. Any changes must be approved by the full Board. The FAC shall complete a self-assessment annually to determine its effectiveness.

The FAC shall annually review the IA charter. The meeting minutes shall reflect if no changes to the charter result from the annual review.

## **POLICY ON INTERNAL AUDIT AND CORPORATE RISK MANAGEMENT**

NERC's approach to enterprise risk management (ERM) follows the typical Three Lines of Defense Model in which the first line of defense consists of activities undertaken by each program area relating to risk identification, assessment, mitigation, monitoring, and implementation of internal controls. The second line of defense consists of the development and implementation of a comprehensive corporate-wide risk assessment, updated at least annually, as well as the development and implementation of a corporate-wide compliance program. Finally, the third line of defense consists of the independent assessment of the adequacy of the results of the corporate-wide risk assessment, as well as testing, via audit, of the most significant controls and other risk mitigation activities undertaken pursuant to the first and second lines. This internal framework is supplemented by the activities of NERC's independent external auditors as well as oversight by Applicable Governmental Authorities.

The key NERC staff implementing this framework are:

- NERC's Director of Internal Audit (IA), a position reporting functionally to the chair of the Board's Finance and Audit Committee (FAC) and administratively to NERC's General Counsel
- NERC's Director-level Corporate Risk Management, Compliance, and Ethics (CRM) role (to be filled in 2021), the primary staff liaison to the Board's Enterprise Wide Risk Committee (EWRC) and a position reporting to NERC's Chief Compliance Officer (who also reports to the General Counsel)

Both positions have access to the full Board through periodic executive sessions, held at least annually (see respective EWRC and FAC mandates for additional information). Given the importance of close coordination across the continuum of risk management activities, the NERC FAC chair will sit on the EWRC and the EWRC chair will sit on the FAC. The NERC Board's oversight of these activities, which occurs primarily through the FAC and EWRC, is described in more detail below.

### **Corporate Risk Management, Compliance, and Ethics**

The Director<sup>1</sup> of CRM is responsible for leading the ERM process, which will focus on corporate risk rather than Bulk Power System risk. As discussed below, for efficiency, it is expected that the Director of IA will participate in the process and share in the risk information developed through the process, while maintaining the ability to independently assess NERC's financial, operational, legal, regulatory and compliance risks (i.e., non-Bulk Power System risks).

NERC's current ERM process is conducted annually, based on the Committee of Sponsoring Organization of the Treadway Commission (COSO) framework. The process considers the ERO Enterprise-wide strategic plans and goals and determines the applicability of other input such as the RISC report, Long Term Reliability Assessment, and the annual Compliance Monitoring and Enforcement Program (CMEP) report. Risk is also identified via interviews or surveys with the following parties:

- Program managers and directors
- Senior executives
- NERC trustees
- Compliance and Certification Committee (CCC) Chair and Co-Chair
- ERO Enterprise Executive Committee Co-Chair

Through these interviews, as well as results of prior risk management activities (including results of prior audits) the Director of CRM also identifies fraud and compliance risks.

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<sup>1</sup> Although this will be a director-level position, the title is not yet determined. This policy uses "director" for simplicity.

Identified risks are assessed based on likelihood and impact and existing controls are considered. Residual risks are identified and form the basis for the Corporate Risk Management plan as well as the Audit Plan, discussed below.

The Director of CRM will work to continue to enhance the ERM process by considering the following:

- Identifying and assessing emerging risks
- Incorporating the concepts of risk tolerance, risk appetite and velocity
- Supporting ownership of risk assessment at the program area level
- Providing clarity as to how the company's risk management efforts drive company performance and business strategy
- Considering more frequent updates to risk register, as needed
- Automating processes
- Benchmarking NERC's process against industry best practices

The results of the ERM process are reviewed with NERC management and the EWRC annually, or as requested by the EWRC, and serve as a roadmap for the Director of CRM in developing the company's compliance and ethics framework.

Management will articulate the residual risks, the risk response strategy, and assess management's preparedness to mitigate risks based on established criteria. Management will report on its risk mitigation activities and preparedness to the EWRC meeting or relevant subject matter committee, as appropriate.

### **Internal Audit**

As part of the approved audit plan, Internal Audit will perform procedures to assess the effectiveness of the design and operational effectiveness of management's internal controls and risk mitigation activities identified during the ERM process.

The Director of IA is responsible for establishing a risk-based audit plan to determine the priorities of the internal audit activity, consistent with the organization's goals. In addition, the Director of IA is responsible for ensuring the internal audit activities are based on a documented risk assessment, undertaken at least annually and for independently evaluating the results of the ERM process described above. As noted, it is expected that the Director of IA will participate in the process and share in the risk information developed through the process, while maintaining the ability to independently assess NERC's financial, operational, legal, regulatory and compliance risks (i.e., non-Bulk Power System risks). These responsibilities demonstrate independence and objectivity and are in compliance with Standards for Internal Auditing.

The Director of IA reports to the chair of the FAC functionally and to the General Counsel administratively. The chair of the FAC will provide input as to the performance of the Director of IA and be notified of any employment-related issues.

The Director of IA will proactively communicate matters regarding governance, risk and controls (GRC) and audit activity to the chair of the FAC, which may include, and is not limited to: access to information, internal audit scope, objectivity and independence, perception or potential of impairment, audit budget, resources and subject matter expertise

The Director of IA will present an annual audit plan to the FAC for approval consistent with the Standards for Internal Auditing and BOT processes and procedures. The Director of IA will involve external auditors, the CCC and FERC staff, as appropriate, in its audits.

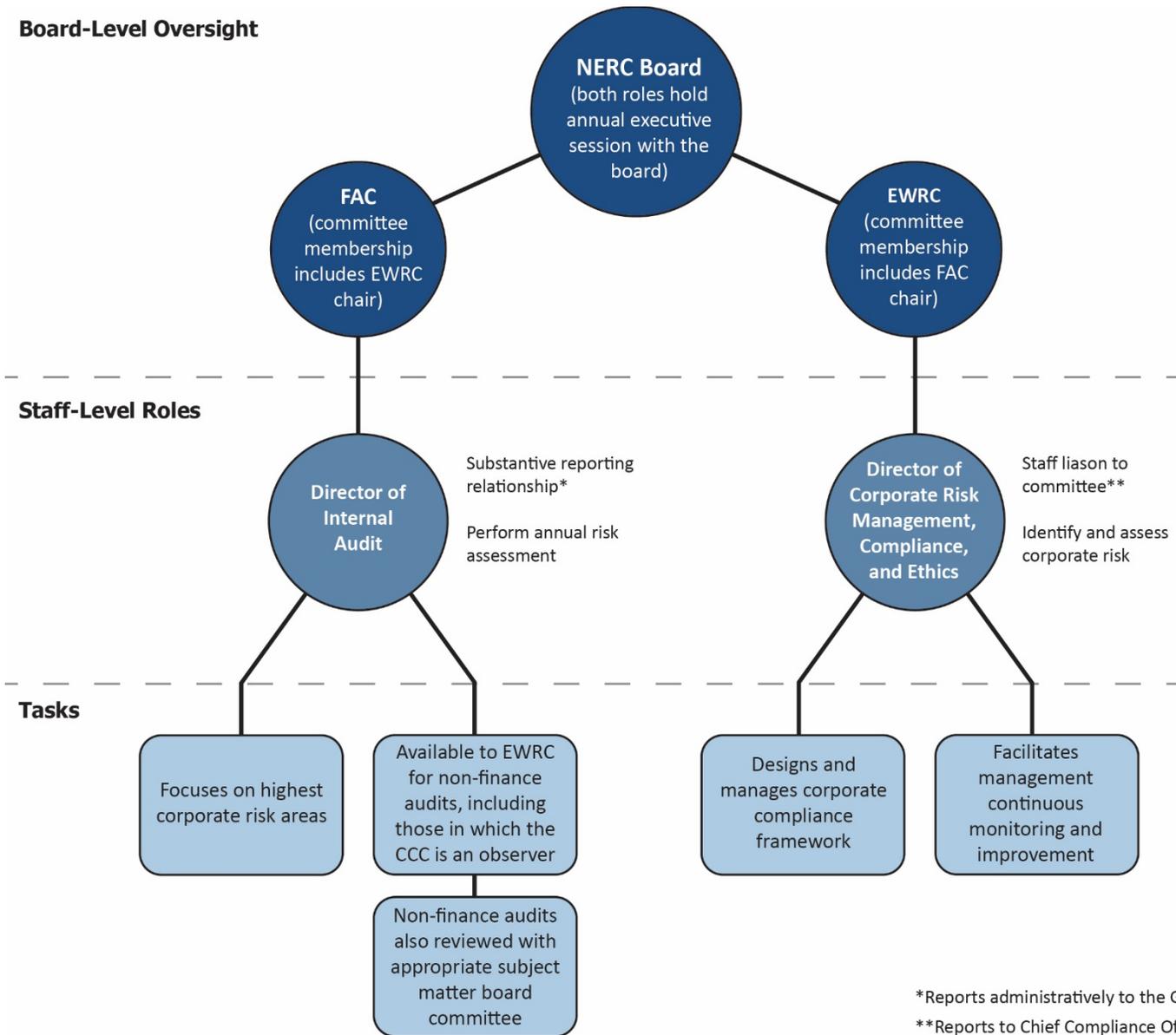
The FAC will be responsible for overseeing the implementation of the audit plan including as it relates to progress on audit execution and overall risk mitigation. To the extent that the audit relates to matters for which the Board has a subject matter specific committee (e.g., security, human resources) audit results will be shared with such committees and such committees may monitor the implementation of any corrective measures or program enhancements.

While the Director of IA will present the results of all audits to the FAC, the EWRC will have primary oversight responsibility for audit activities conducted by the Director of IA that address the CMEP, Organization Registration and Certification Program (ORCP) and Reliability Standards programs, including NERC's oversight of the Regional Entities in these areas, in coordination with the CCC. On occasion, as part of its oversight of corporate risk mitigation, the EWRC may request that the Director of IA conduct an audit relating to a particular area of risk, in which case the results of the audit will also be presented to the EWRC (any such audit will be noted in the audit plan overseen broadly by the FAC). The EWRC Chair will coordinate with the FAC Chair with respect to such requests.

### **Revision History**

Version 1 - Approved by the NERC Board of Trustees on February [ ], 2021

## Board-Level Oversight



\*Reports administratively to the GC

\*\*Reports to Chief Compliance Officer