

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

Agenda Item 2bi

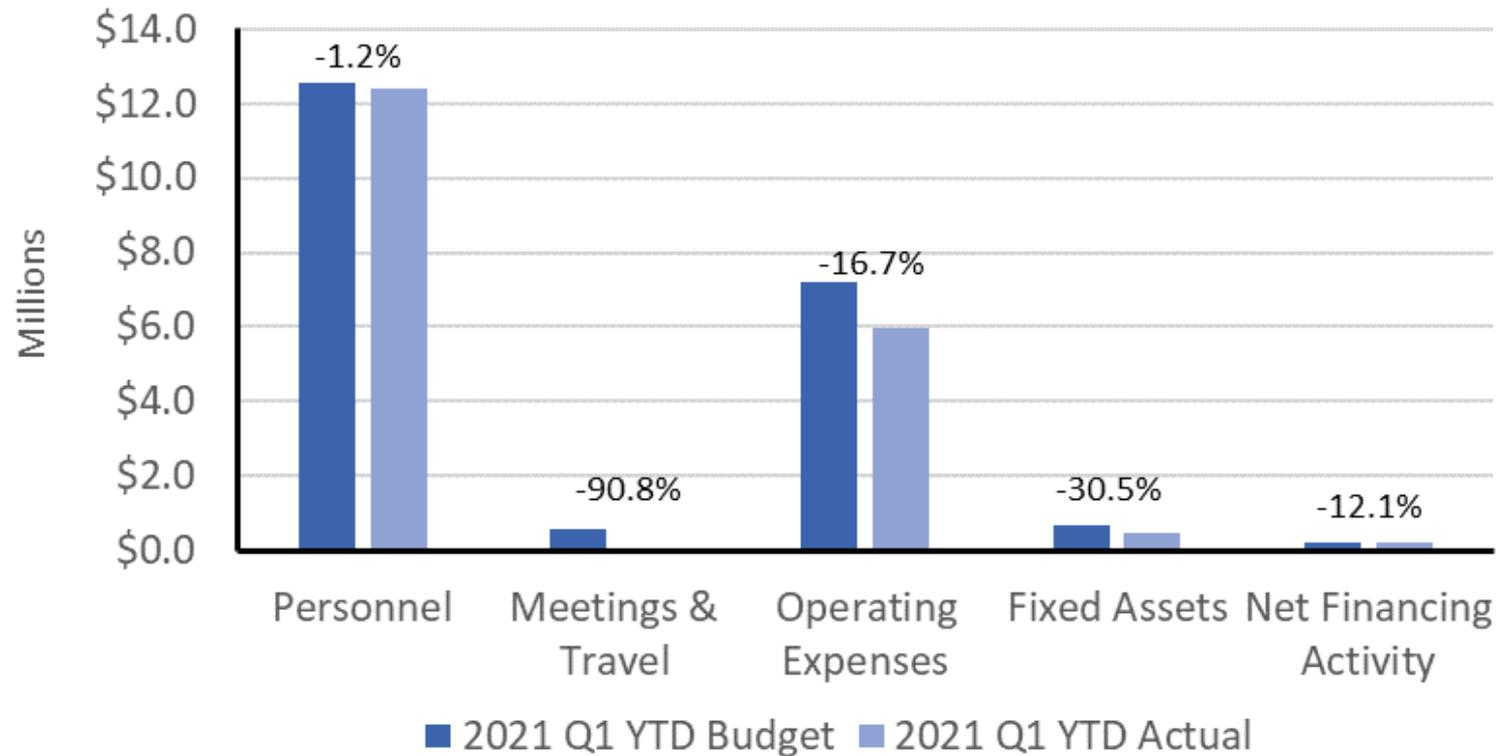
NERC Summary of Unaudited Results as of March 31, 2021

Andy Sharp, Vice President and Chief Financial Officer
Finance and Audit Committee Meeting
May 12, 2021

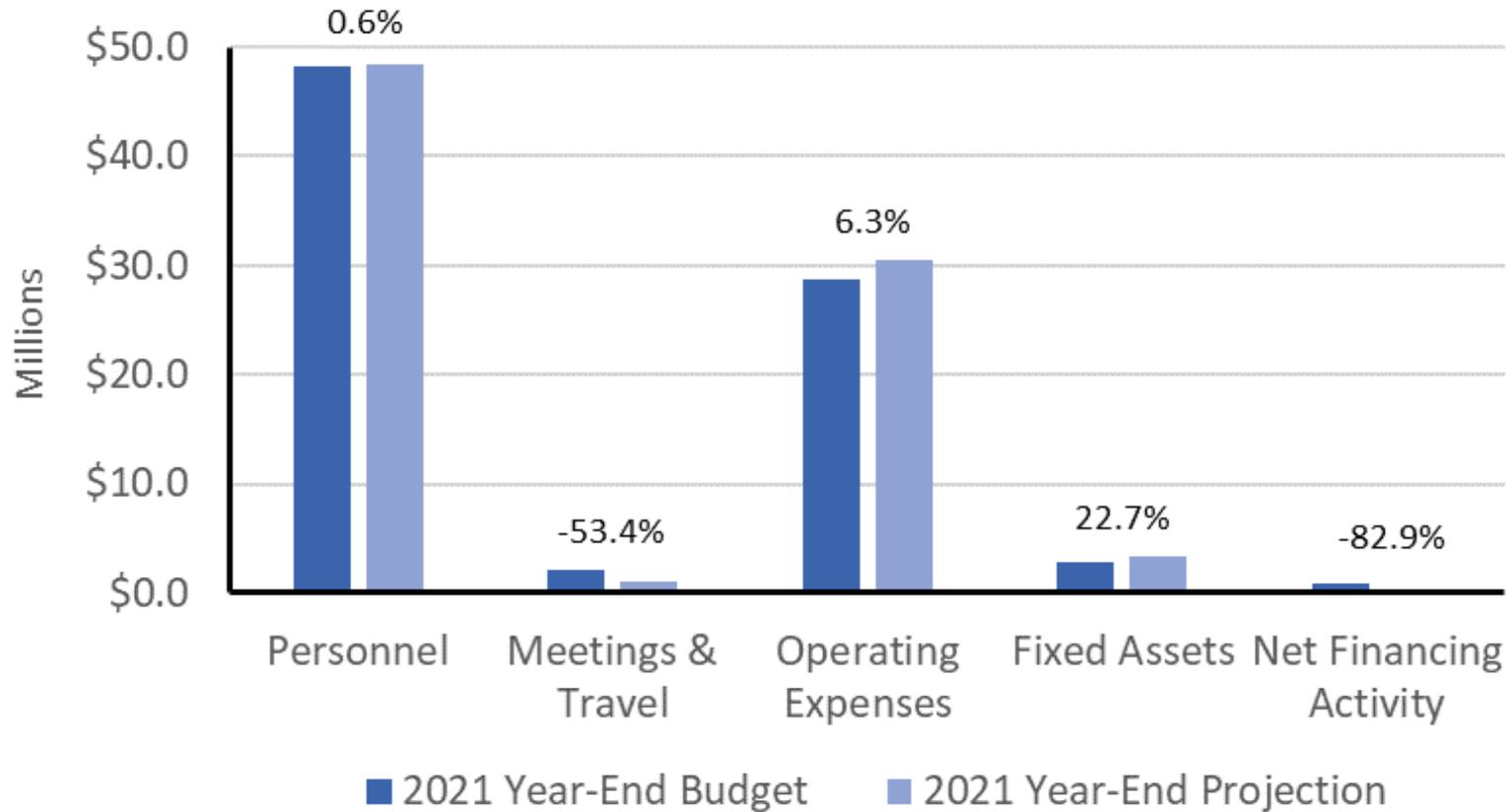
RELIABILITY | RESILIENCE | SECURITY



- Total funding – Close to budget
- Total expenditures – \$2.1M (9.9%) under budget
 - Lower spending on meetings and travel due to the pandemic
 - Timing of expenses versus budget
- Reserve increase \$2.0M over budget

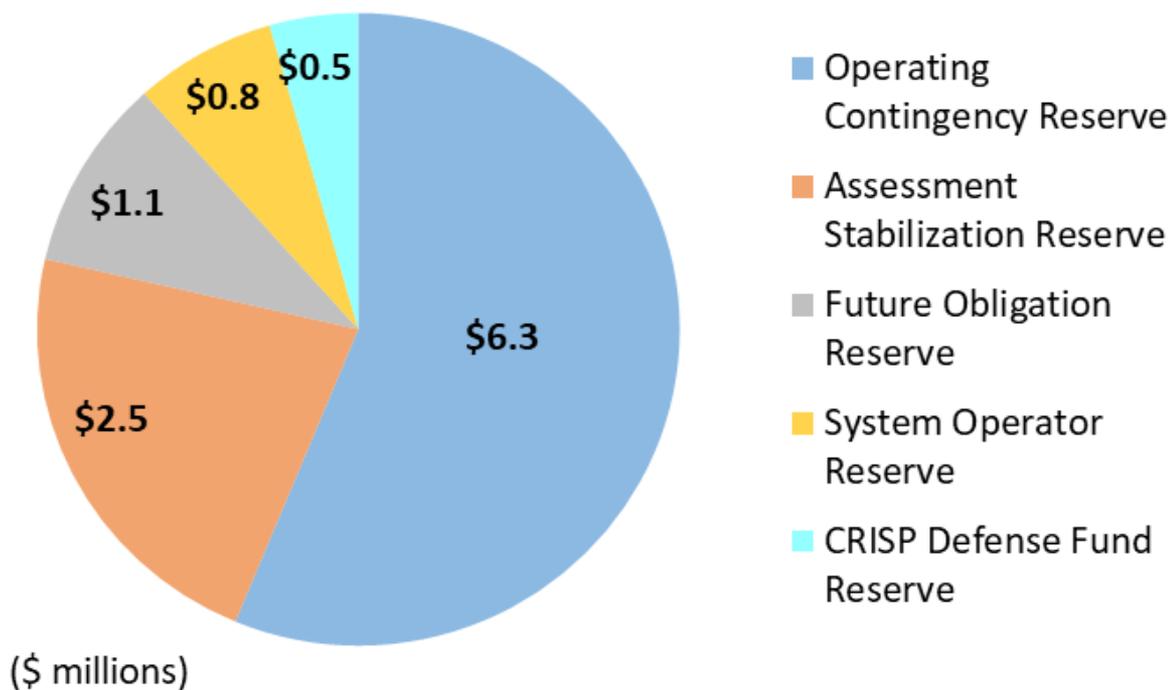


- Funding – \$382k (0.5%) under budget
 - Lower investment income and System Operator Certification testing and certificate renewal fees
- Total expenditures – \$844k (1.0%) over budget
 - Primarily due to the CRISP operational technology pilot program costs that were budgeted for in 2020 but for which costs will be incurred in 2021
 - Funded with money collected from and reserved by CRISP participants in 2020



- Operating Contingency Reserve (OCR)
 - Began year with \$8.0M
 - Budgeted use of \$1.8M to fund 2021 Align project costs
 - Projected net increase of \$112k from operating and financing activity
 - Projected year-end balance \$6.3M
- Assessment Stabilization Reserve (ASR) – \$2.5M
 - No releases or additions

TOTAL RESERVES OF \$11.2M





Questions and Answers

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Agenda Item 2bii

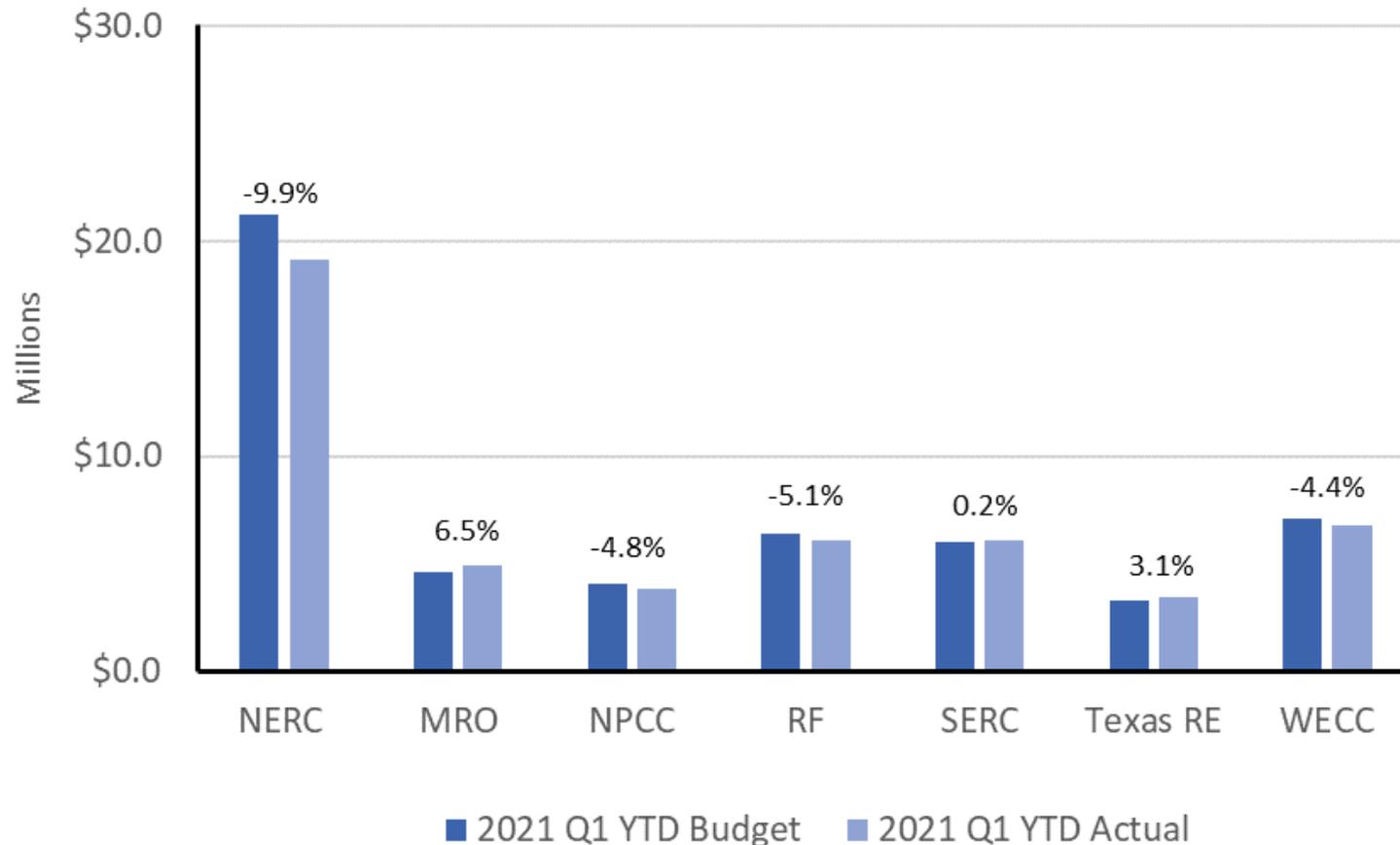
Total ERO Enterprise Summary of Unaudited Results as of March 31, 2021

Andy Sharp, Vice President and Chief Financial Officer
Finance and Audit Committee Meeting
May 12, 2021

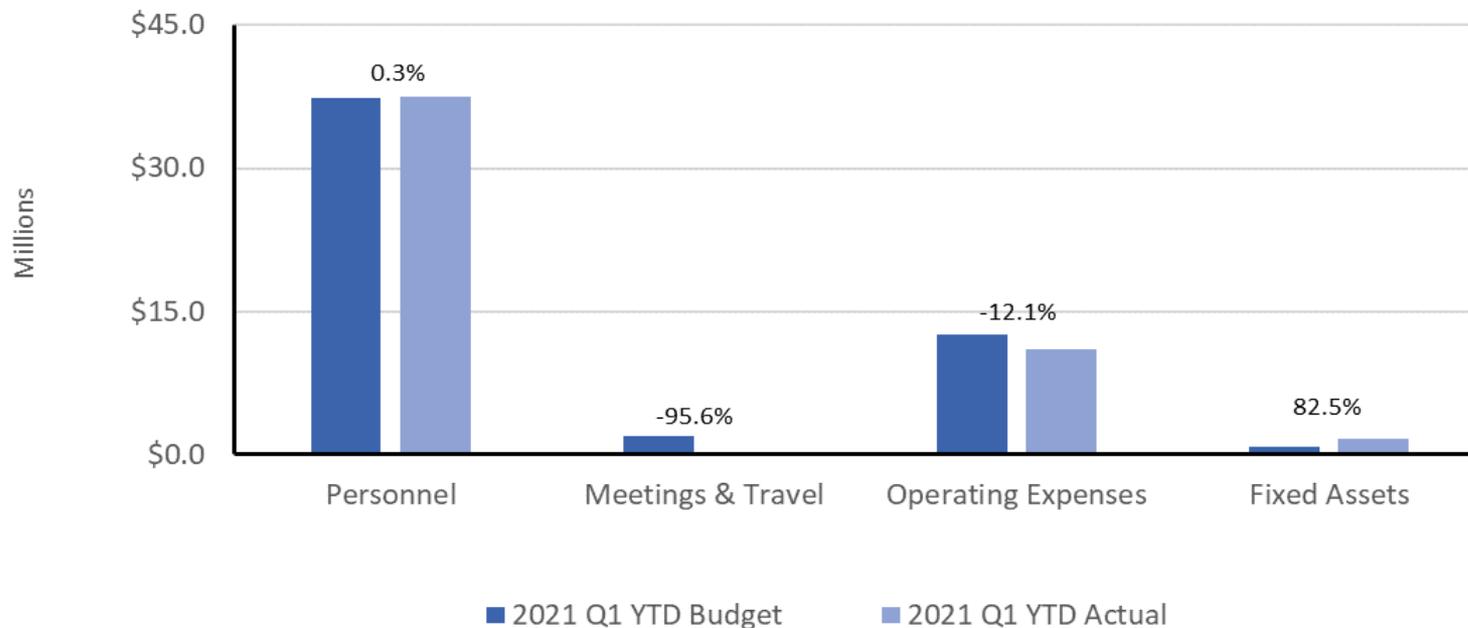
RELIABILITY | RESILIENCE | SECURITY



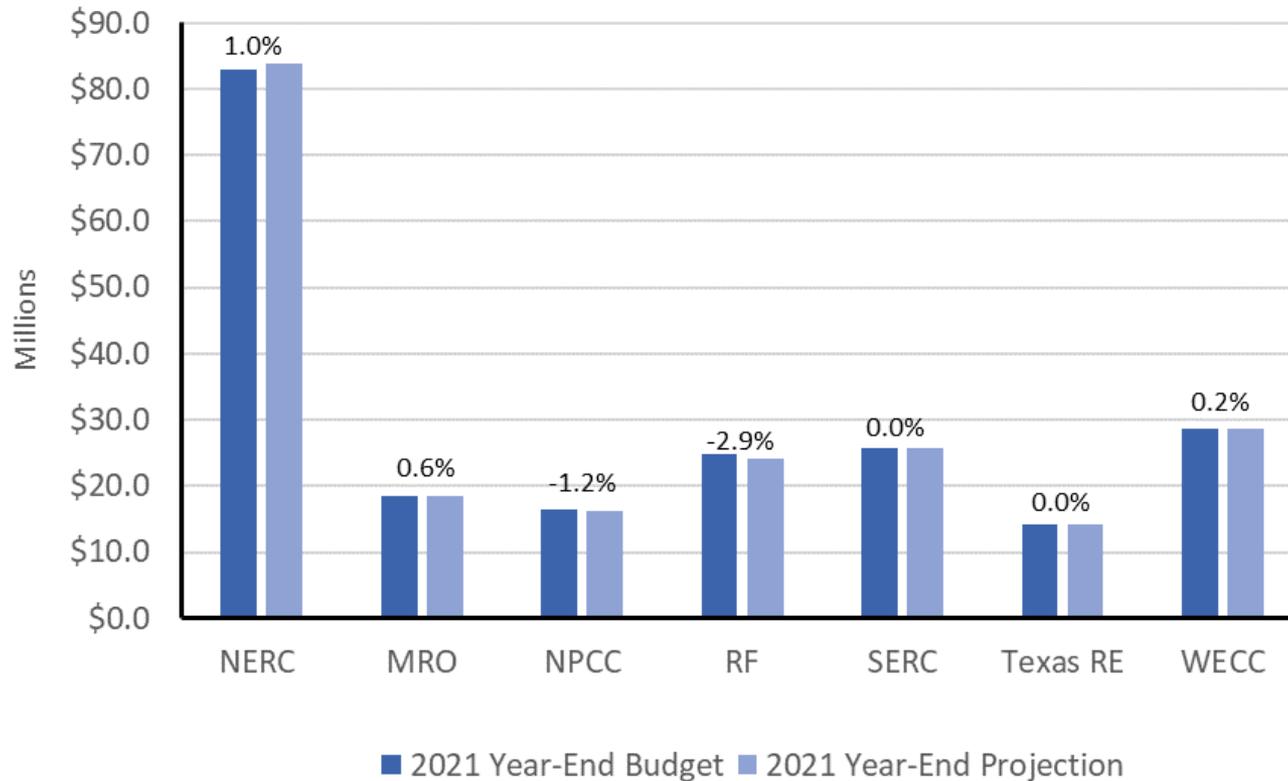
- Total expenditures for the ERO Enterprise were under budget \$2.5M (4.8%)

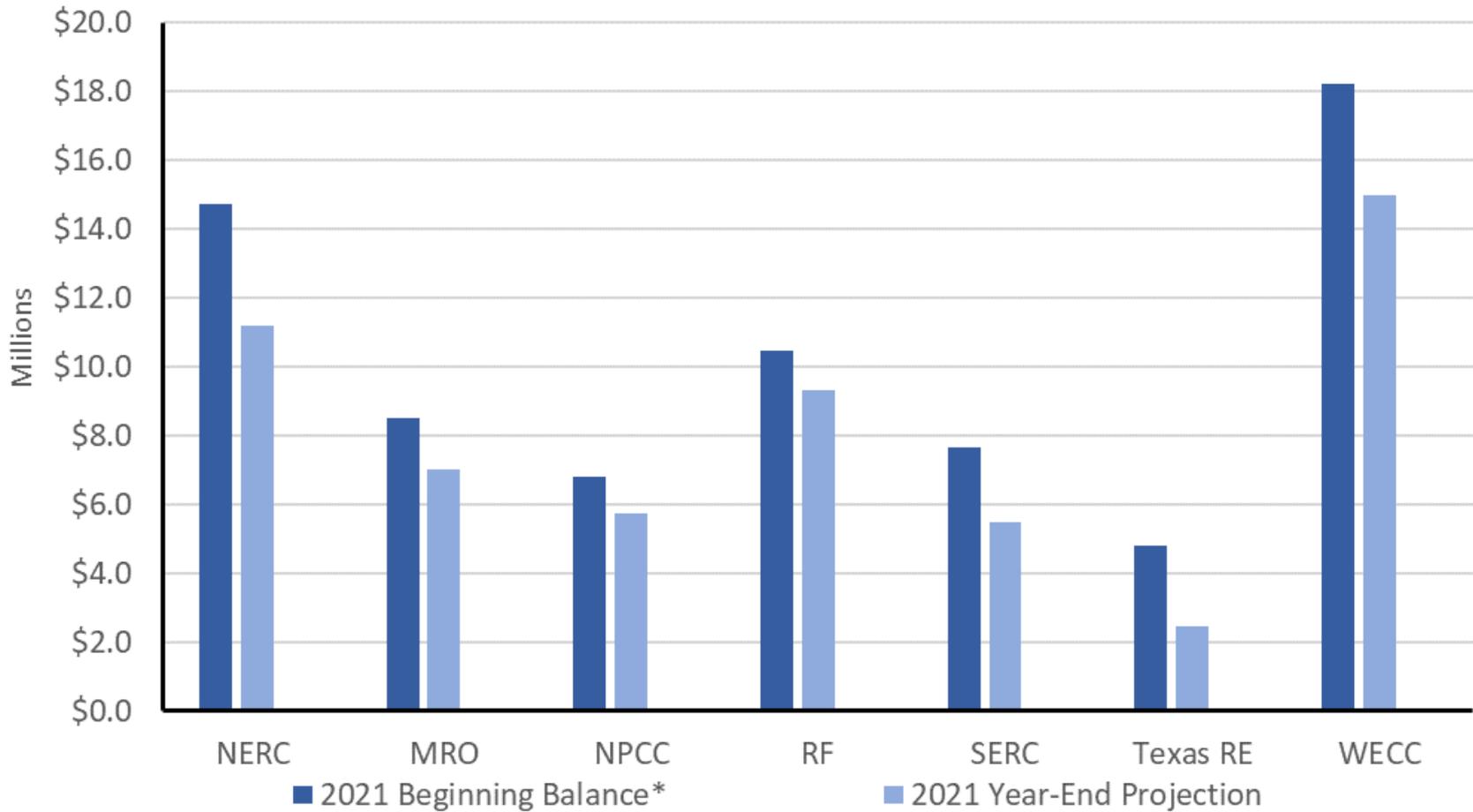


- Personnel – NERC and NPCC were under budget. All other entities were over budget.
- Meetings & Travel – All entities were under budget except for Texas RE, which was over budget.
- Operating Expenses – NERC, MRO, RF, and WECC were under budget. NPCC, SERC, and Texas RE were over budget.
- Fixed Assets – NERC, NPCC, and RF were under budget. MRO, SERC, and WECC were over budget. Texas RE had no budgeted expenditures for Q1.



- The ERO Enterprise expects to be near budget at year-end.





**Adjusted for audited results and all reserve categories*

ERO Enterprise Total Reserve Balances - 2021 Projected

\$ -
millions

Entity	Beginning WCOCR ⁽¹⁾	Beginning ASR ⁽²⁾ & Unreleased Penalties	Beginning Other Reserves	1/1/2021 Beginning Total Reserves	Projected Ending WCOCR ⁽¹⁾	Projected Ending ASR ⁽²⁾ & Unreleased Penalties	Projected Ending Other Reserves	12/31/2021 Projected Ending Total Reserves	Total 2021 Budget	% of Reserves to 2021 Total Budget
NERC	\$ 8.1	\$ 2.5	\$ 4.1	\$ 14.7	\$ 6.3	\$ 2.5	\$ 2.4	\$ 11.2	\$ 82.9	13.5%
MRO	5.9	2.6	-	8.5	4.3	2.7	-	7.0	18.4	38.0%
NPCC	5.6	0.6	0.6	6.8	5.1	0.6	-	5.7	16.4	34.8%
RF	4.0	6.4	-	10.4	7.1	2.2	-	9.3	24.8	37.5%
SERC	2.9	4.8	-	7.7	2.1	3.4	-	5.5	25.8	21.3%
Texas RE	2.0	1.6	1.2	4.8	2.0	0.5	-	2.5	14.2	17.6%
WECC	8.6	5.8	3.8	18.2	8.3	2.9	3.8	15.0	28.6	52.4%
	\$ 37.1	\$ 24.3	\$ 9.7	\$ 71.1	\$ 35.2	\$ 14.8	\$ 6.2	\$ 56.2	\$ 211.1	26.6%

⁽¹⁾ WCOCR - Working Capital & Operating Contingency Reserve - Projected 12/31/21 WCOCR is 16.7% of annual 2021 budget, or 2.0 months of budgeted expenses

⁽²⁾ ASR - Assessment Stabilization Reserve

⁽³⁾ Projected 12/31/21 total reserve balance is 26.6% of annual 2021 budget, or 3.2 months of budgeted operating expenses



Questions and Answers

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2022 Business Plan & Budget – Draft 1 Overview

Andy Sharp, Vice President and Chief Financial Officer
Finance and Audit Committee Meeting
May 12, 2021

RELIABILITY | RESILIENCE | SECURITY

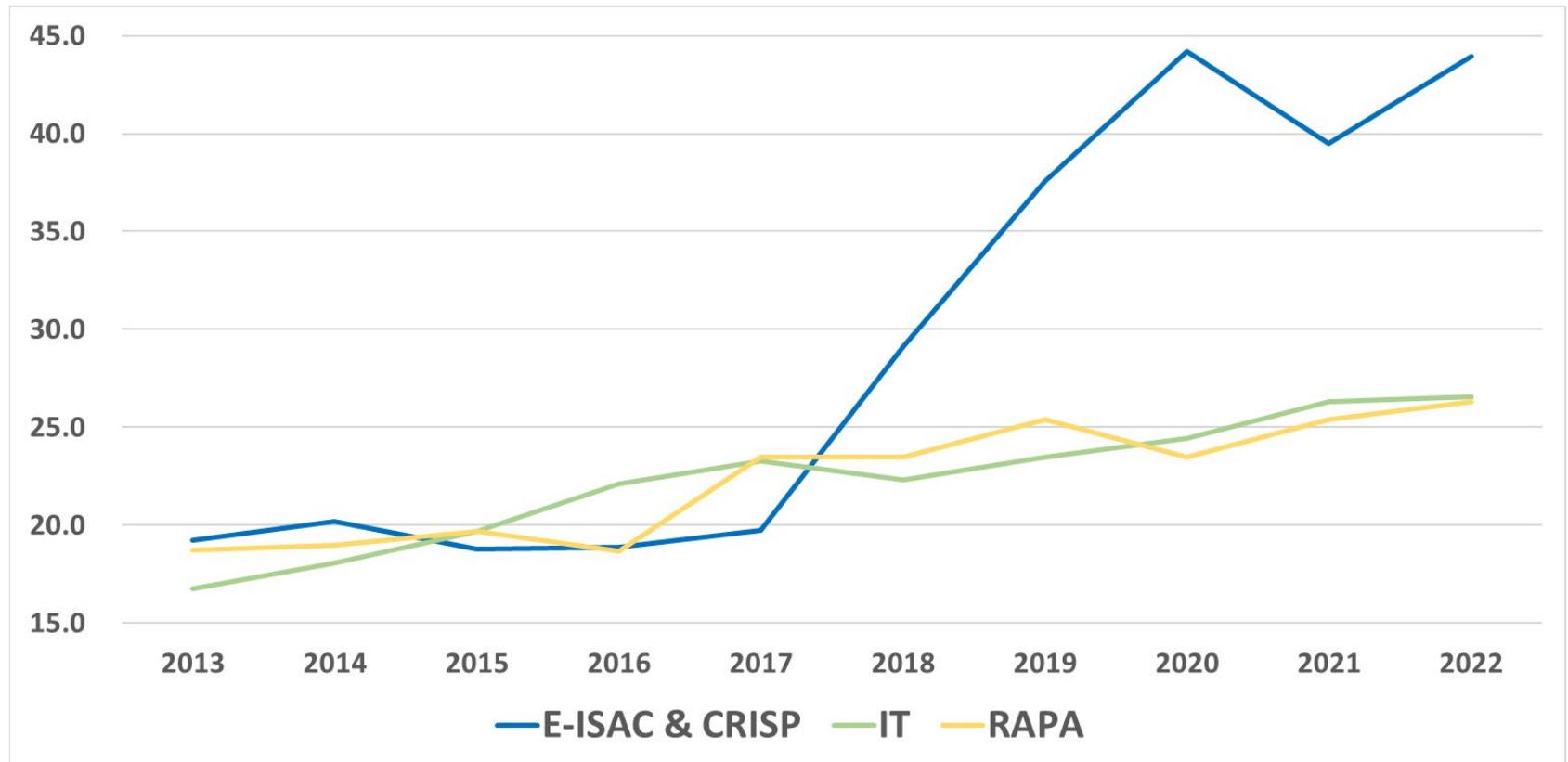


- The following long-term focus areas guide NERC and Regional Entity Business Plan and Budget (BP&B) development:
 - Expand risk-based focus in Standards and the Compliance Monitoring and Enforcement Program (CMEP)
 - Assess and catalyze steps to mitigate known and emerging risks to reliability and security
 - Build a strong, Electricity Information Sharing and Analysis Center (E-ISAC)-based security capability
 - Strengthen engagement across the reliability and security ecosystem in North America
 - Capture effectiveness, efficiency, and continuous improvement opportunities

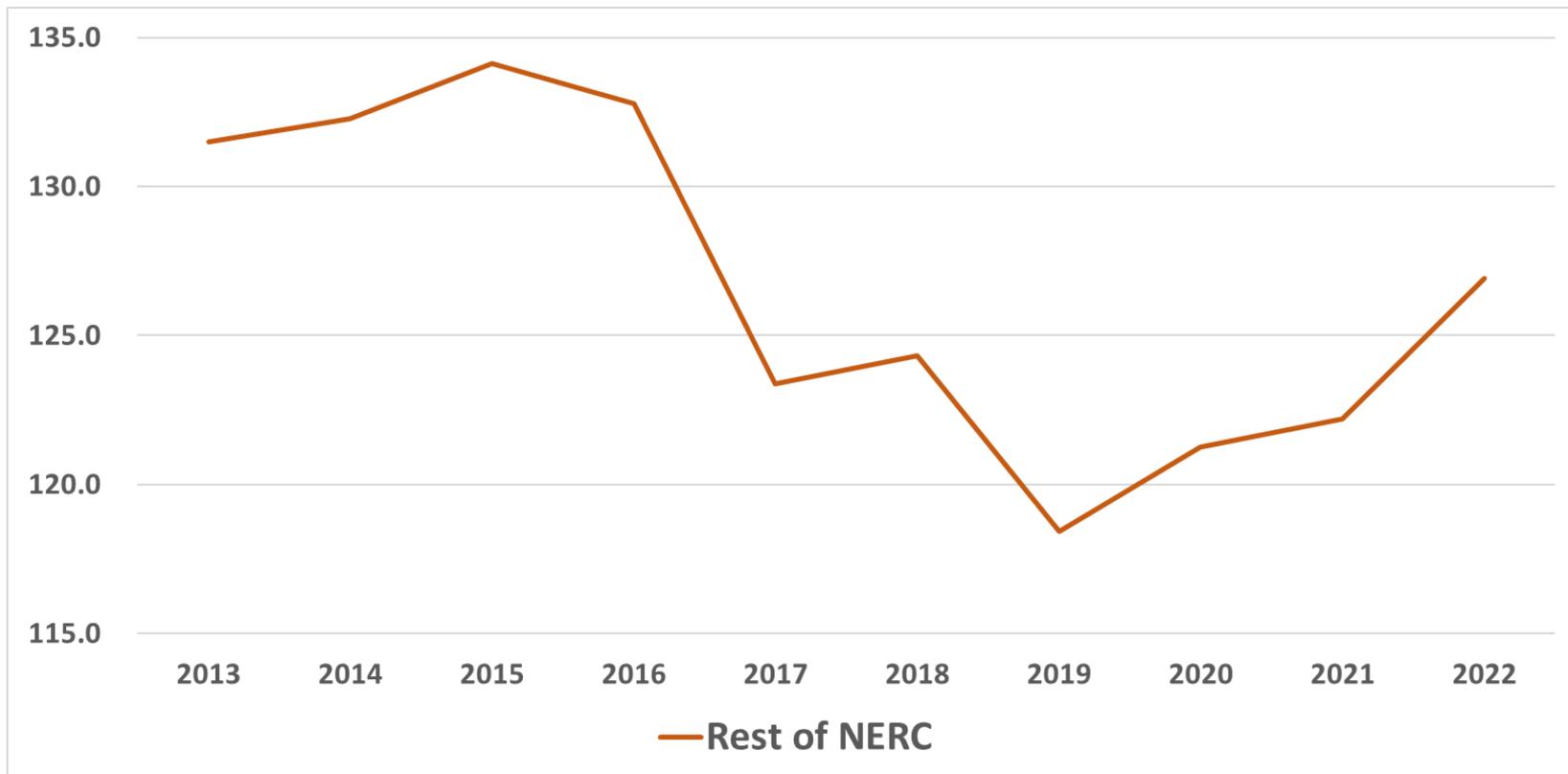
- **2021 Budget – \$82.9M (0.3% increase vs 2020)**
 - No net increase in full-time equivalents (FTEs)
 - Reduced meetings and travel costs
 - Lowered consultants and contracts and professional services expenses
 - Deferred non-critical data management system enhancements
- **2021 Assessment – \$72.0M (flat with 2020)**
 - Funded \$1.8M of Align delay costs with Operating Contingency Reserves (OCR)
- Flat budget and assessment represented a deferral of many items, not an elimination

- Ensure adequate resources to focus on priority risks to bulk power system (BPS) reliability and security
 - Cyber security and supply chain compromise
 - Threats are not gradually increasing, but a “step change”
 - Impacts NERC Information Technology (IT) funding as well as E-ISAC, Standards, and BPS Security & Grid Transformation departments
 - Energy and fuel assurance and weatherization concerns materializing (California and Texas/Middle South)
 - Generating Availability Data System (GADS) collection of Wind and Solar
 - Energy reliability assessment
- Strategic workforce development
- Total budget, assessment, and FTEs lower than pre-COVID projection

- Average annual total NERC budgeted FTE growth since 2013 is 2.1%
 - FTE growth focused on E-ISAC & Cybersecurity Risk Information Sharing Program (CRISP), IT, and Reliability Assessment & Performance Analysis (RAPA)



- Reallocation of FTEs due to maturation of program areas (Standards, CMEP) reduced rest of NERC



- **2022 Budget – \$88.7M, increase of \$5.9M (7.0%) vs 2021**
 - Primarily driven by personnel costs, consultants and contracts, and software licenses and support
 - Partially offset by CMEP maturation and real estate expense
- **2022 Assessment – \$79.1M, increase of \$7.1M (9.9%) vs 2021**
 - Excludes any use of OCR or Assessment Stabilization Reserves (ASR)
 - Assumes no financing of capital software projects or equipment, other than laptop leases

- **Personnel**

- Net increase of 10.3 FTEs in the following areas
 - Standards & Engineering/Analysis (four additions)
 - BPS security, energy and fuel assurance, and weatherization
 - E-ISAC and CRISP (five additions)
 - Support for IT cyber security and workforce development (two net additions)
- Salary increase and attrition rate consistent with 2021 BP&B
 - 3% salary increase (2.5% merit and 0.5% equity/market)
 - 6% attrition rate
- Medical insurance premium increase of 7%, lower than previous years

- **Meetings & Travel**

- Assuming return to some in-person meetings and increased travel
- Continuing efficiencies gained from virtual meeting formats

- **Operating Expenses**

- Consultants and Contracts
 - Audit support for ERO IT security, Align post-implementation, & FERC-mandated Regional Entity audits
 - Return of support deferred in 2021
 - Emerging technology, environmental regulatory, & electromagnetic pulse (EMP) analysis
 - ERO applications and infrastructure

- **Operating Expenses**

- Office Costs

- Software licenses and support escalation and increased focus on security

- Office Rent

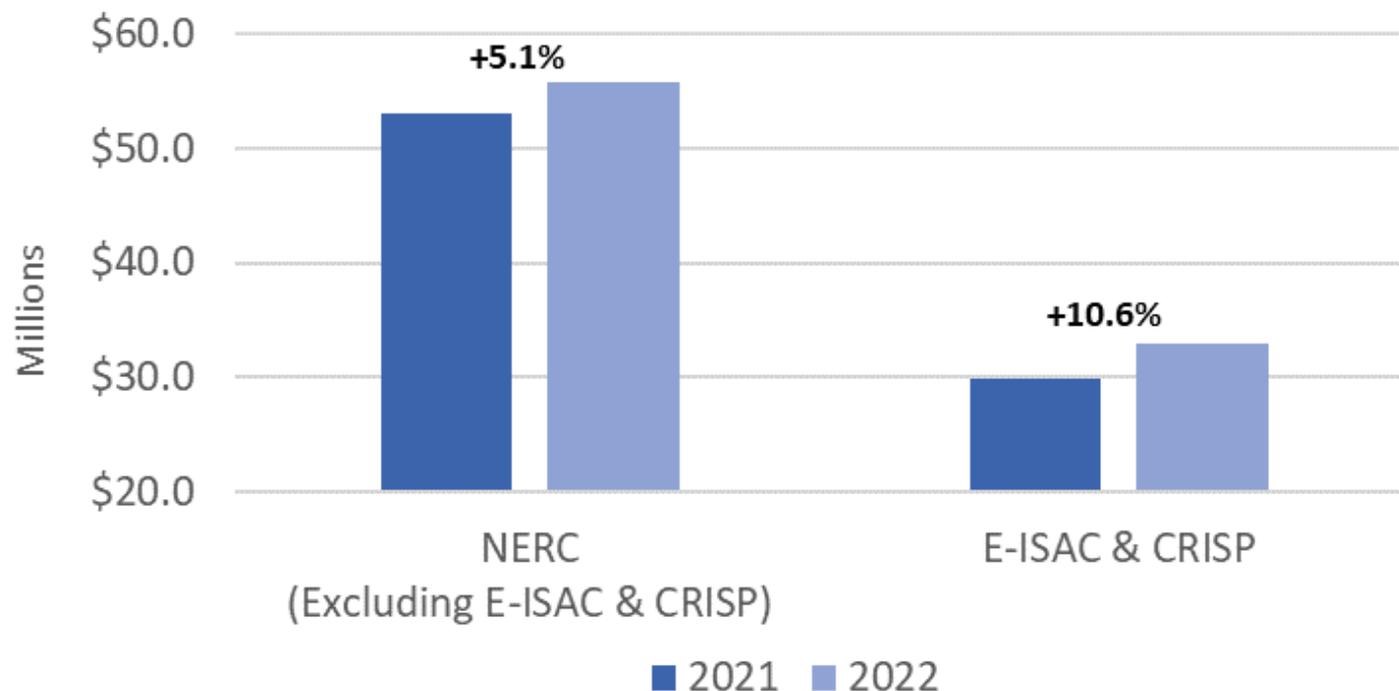
- First budget draft assumes existing rent schedule for Atlanta and DC locations, reflecting that DC rate will not exceed 2021 budgeted rent expense in 2022
- Atlanta and DC facility lease decisions, including space requirements and cost estimates, to be updated in second budget draft

- **Fixed Asset Additions**

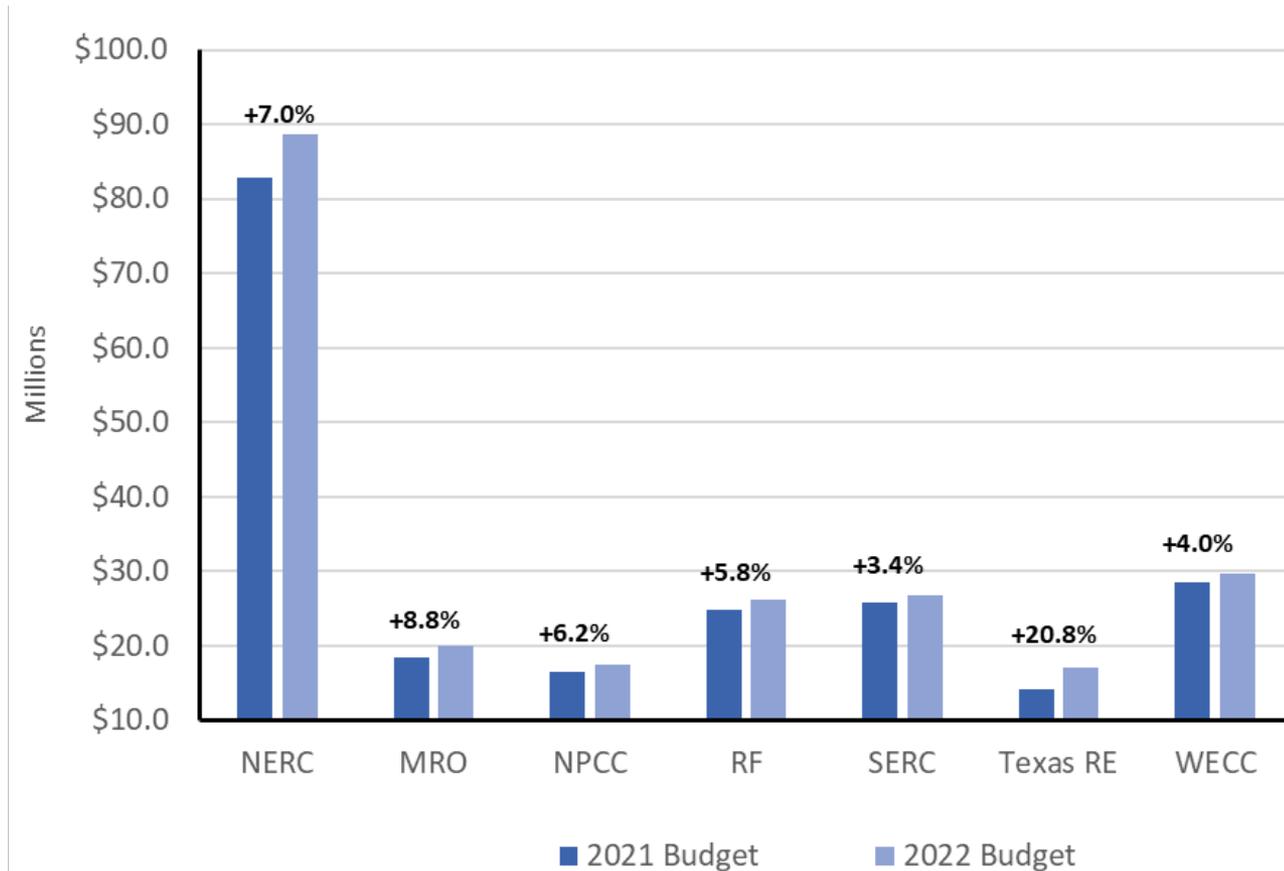
- Decreasing due to Align development completion
- Return to investment in data management tools
- Planned IT equipment replacements

- **Net Financing Activity**

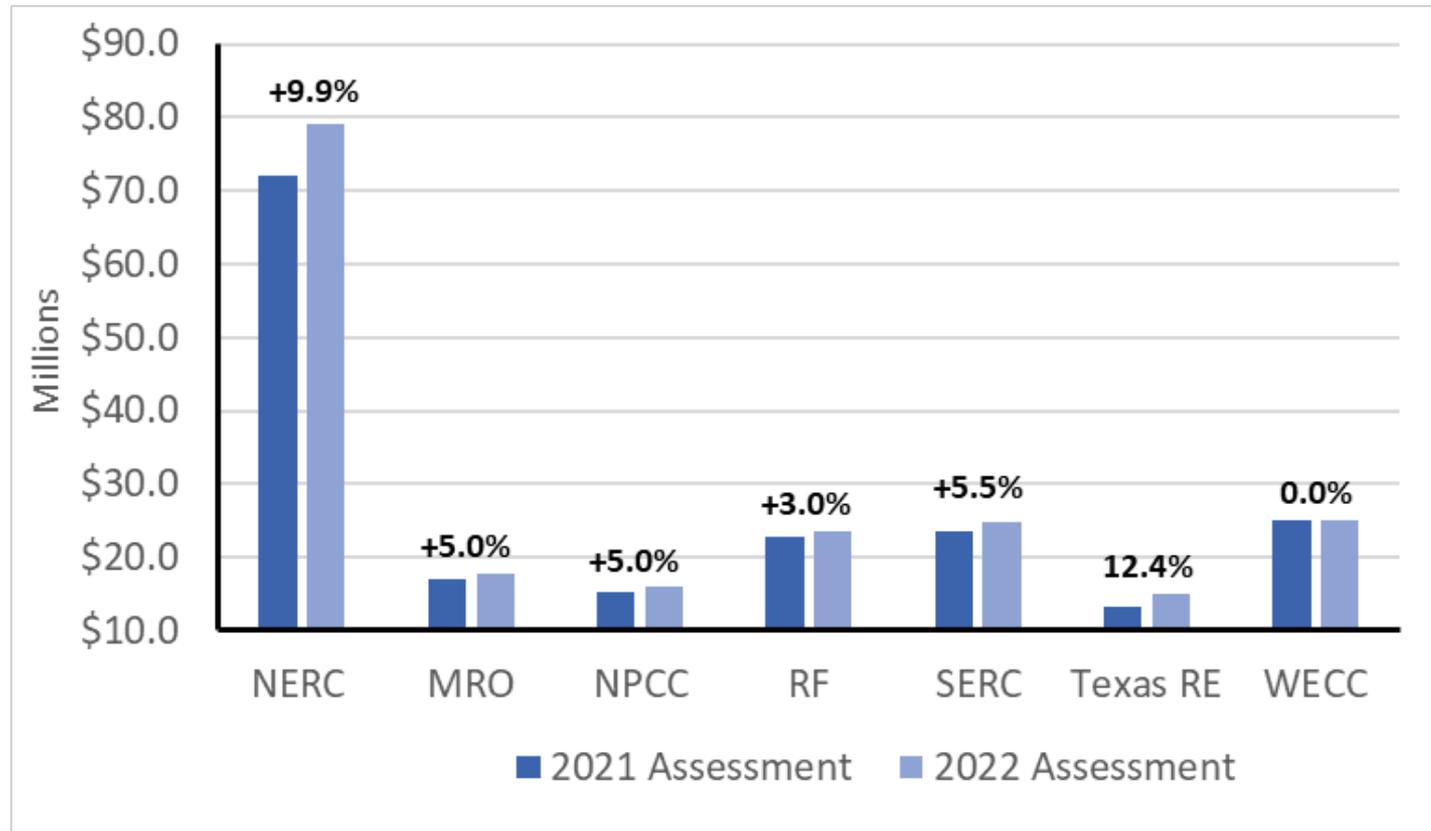
- Lease proceeds for laptops
- Lease principal payments for laptops and audio visual equipment
- Loan principal payments for ERO Secure Evidence Locker



- Total ERO Enterprise Budget \$226.0M (\$14.9M or 7.0% increase vs 2021)



- Total ERO Enterprise Assessment \$201.1M (\$12.4M or 6.5% increase vs 2021)



- May 24 (approximately) – Post first drafts of NERC and Regional Entity 2022 BP&Bs
- May 26 – NERC and Regional Entity 2022 BP&B briefing with FERC
- June 3 – FAC webinar to review NERC and Regional Entity 2022 BP&Bs
- June 18 – Comments due on first draft of NERC 2022 BP&B
- June 30 – MRC BP&B Input Group call
- July 6 – Quarterly Trades and Forums call
- July 7 – Closed FAC call

- July 15 – Post second draft of NERC and final Regional Entity 2022 BP&Bs
- July 22 – FAC webinar to review NERC and Regional Entity 2022 BP&Bs
- July 30 – MRC BP&B Input Group call
- August 11 – FAC meeting to recommend approval of final 2022 BP&Bs
- August 12 – Board meeting to approve final 2022 BP&Bs
- August 25 – Submit 2022 BP&Bs to FERC for approval, with subsequent filings with Canadian authorities



Questions and Answers