NERC Summary of Unaudited Results as of September 30, 2020

Meg Leonard, Controller
Finance and Audit Committee Open Meeting
November 4, 2020
• Total funding – $229k (0.4%) under budget
  ▪ Lower investment income (from lower interest rates) and system operator revenue
• Total expenditures – $5.7M (9.2%) under budget
  ▪ Timing of expenses versus budget
  ▪ Lower than budgeted expenses for CRISP pilot program
  ▪ Lower spending on meetings and travel due to the pandemic
  ▪ Cost savings efforts, which help cash fund Align and a portion of the ERO Secure Evidence Locker (SEL) in 2020, reducing future year debt service
    o Deferred hiring of open positions
    o Deferred hardware, capital software, and office renovation costs
• Total reserves – $5.5M over budget
2020 Third Quarter YTD Results by Category

- Personnel: -3.0%
- Meetings & Travel: -68.6%
- Operating Expenses: -7.4%
- Fixed Assets: -45.6%

2020 Q3 YTD Budget vs 2020 Q3 YTD Actual
Funding – $1.0M (1.2%) under budget
  - Lower investment income and third-party revenues for CRISP

Total expenditures – $3.5M (4.2%) under budget
  - Deferred hiring and capital expenditures as part of cost savings efforts
  - Reduced meeting and travel expenses related to the pandemic
  - Offset by higher capital expenditures and software licenses and support for the ERO SEL
  - Loan borrowing ($2.0M) approved for the ERO SEL
2020 Year-End Projections by Category

- Personnel: -3.0%
- Meetings & Travel: -74.3%
- Operating Expenses: 1.1%
- Fixed Assets: 40.7%
• Projected year-end net reserve increase of $1.8M
  ▪ Favorable increase of $2.5M versus 2020 budget
  ▪ Includes cash funding $1.8M of 2020 Align project costs
  ▪ Includes $1.8M usage of Operating Contingency Reserves to fund portion of ERO SEL project
• Additional 2020 year-end reserves to fund $1.8M in 2021 Align project costs
2020 Projected Year-End Reserves

- **2020 Year-End Budget**: $11.0 million
- **2020 Year-End Projection**: $13.0 million

Millions

$8.0 \quad $9.0 \quad $10.0 \quad $11.0 \quad $12.0 \quad $13.0 \quad $14.0
2020 Projected Year-End Reserves Breakdown

- Operating Contingency Reserve: $7.9 million
- Assessment Stabilization Reserve: $1.6 million
- Future Obligation Reserve: $2.5 million
- System Operator Reserve: $0.9 million
- CRISP Reserve: $0.5 million

($ millions)
Combined ERO Enterprise
Summary of Unaudited Results as of September 30, 2020

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November 4, 2020
Total expenditures for the ERO Enterprise were under budget $12.0M (7.8%)
All entities were under budget in all categories, except:
- MRO was slightly over budget for Personnel
- SERC and Texas RE were slightly over budget in Operating Expenses
- NPCC was slightly over budget in Fixed Asset Additions
- WECC was over budget in Operating Expenses and Fixed Asset Additions
The ERO Enterprise expects to be under budget $8.9M (4.3%)
2020 Total ERO Reserves

- $38.6 – Total reserves as of January 1, 2020
  - Started $4.6M over combined budgets
- $57.6M – Total reserves as of September 30, 2020
  - $16.5M more than expected through Q3
- $44.0M – Year-end projection as of December 31, 2020
  - Ending $9.8M more than budgeted
The NERC and Regional Entity (RE) business plan and budget (BP&B) development process takes several months and numerous stakeholders and groups are involved throughout:

- NERC Board of Trustees (Board) and Finance and Audit Committee (FAC)
- RE boards and finance committees
- ERO Finance Group (NERC and RE representatives)
- Members Representatives Committee (MRC)
- MRC BP&B Input Group
- Trade associations and forums
• January–March 2021
  ▪ NERC updates MRC BP&B Input Group on budget development activities

• April 2021
  ▪ Initial NERC budget and assessment assumptions provided to MRC BP&B Input Group, trades and forums representatives, and FAC
  ▪ Draft 1 of RE BP&Bs due to NERC for review

• May 2021
  ▪ Draft 1 NERC and RE budgets and assessments presented to FAC
  ▪ Draft 1 NERC BP&B posted for comment
  ▪ Draft 1 NERC and current draft RE BP&Bs reviewed with FERC

• June 2021
  ▪ FAC webinar to review Draft 1 NERC and current draft RE BP&Bs
  ▪ Draft 1 NERC BP&B comments discussed with MRC BP&B Input Group
2022 BP&B High-Level Schedule

• July 2021
  ▪ Final, RE Board-approved BP&Bs and LSE/NEL data due to NERC
  ▪ Draft 1 NERC BP&B comments and preview of Draft 2 discussed with MRC BP&B Input Group, trades and forums representatives, and FAC
  ▪ Draft 2 NERC BP&B posted for comment
  ▪ FAC webinar to review Draft 2 NERC and Final RE BP&Bs

• August 2021
  ▪ Final NERC and RE BP&Bs and assessments posted
  ▪ Request for Board approval of NERC and RE BP&Bs and assessments
  ▪ FERC filing for approval of NERC and RE BP&Bs and assessments, with subsequent filings to Canadian provincial authorities