

Minutes

Finance and Audit Committee

August 9, 2017 | 8:30–9:45 a.m. Eastern

Westin Ottawa
11 Colonel By Drive
Ottawa, ON K1N 9H4, Canada

Ms. Jan Schori, Chair, called to order a duly noticed open meeting of the Finance and Audit Committee (the “Committee”) of the Board of Trustees (“Board”) of the North American Electric Reliability Corporation (“NERC”) on August 9, 2017, at 8:30 a.m. Eastern, and a quorum was declared present. The agenda is attached as **Exhibit A**.

Present at the meeting were:

Committee Members

Jan Schori, Chair
Janice B. Case
Robert G. Clarke
David Goulding
Roy Thilly

Board Members

Gerald W. Cauley, President and Chief Executive Officer
Kenneth W. DeFontes
Frederick W. Gorbet
George S. Hawkins

NERC Staff

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

NERC Antitrust Compliance Guidelines

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

Minutes

Upon motion duly made and seconded, the minutes from the May 10, 2017 and July 20, 2017 meetings were approved as presented to the Committee.

Chair's Remarks

Ms. Schori thanked Messrs. Clarke and Goulding for agreeing to become Committee members given the resignations of two Trustees.

CMEP Technology Program

Mr. Hoptroff provided an overview of the proposed CMEP Technology Program. He reviewed key goals and constraints and preliminary benefits (including real time access to information, improved analytics, and reduced application support costs). Mr. Hoptroff reviewed options considered by management, noting of the three, one was likely to be more costly than the recommended option. He noted that all of the Regional Entity chief executives support the project, which will be critical in enabling greater consistency across the ERO Enterprise. Mr. Hoptroff reviewed upcoming activity, including the issuance of an RFP, further analysis, and presentations to Board committees and the Board prior to commencement of the project. He reviewed the projected financials for the project, noting that benefits should exceed costs by 2021. Mr. Hoptroff reviewed the project management and risk mitigation approaches that will be undertaken by management.

Report on Second Quarter Unaudited Results

Mr. Jones presented the unaudited second quarter variance reports for NERC and for the combined ERO Enterprise, referencing the materials included in the advance agenda package. NERC is currently under budget, and Mr. Jones reviewed the major variances. Current projections are that NERC will be approximately 1.3 percent over budget year end, with personnel costs expected to be on or slightly over budget. Funding is expected to be over budget, due largely to CRISP revenue. Mr. Jones reviewed the various reserve levels, noting that operating reserves are expected to increase slightly in spite of expenditures in excess of the budget.

The combined ERO Enterprise is currently under budget, primarily due to timing and personnel costs. It is expected that the ERO Enterprise will be slightly under budget by year end. Mr. Jones reviewed reserve levels across the ERO Enterprise, noting that the variance between budget and actual is projected to decline through the year. He noted that management does not intend to propose any change to the current assessment process as it relates to reserve levels until the new FERC commissioners are seated.

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

NERC and Regional Entity Proposed 2018 Business Plans and Budgets and Associated Assessments

Ms. Schori provided comments regarding the draft business plan and budget, including CMEP tool expenses and E-ISAC investments. She stated a purpose of this meeting is to review the final draft and recommend Board approval, including the proposed use of the Assessment Stabilization Reserve.

Mr. Jones presented the proposed 2018 Business Plan and Budgets for NERC, the Regional Entities and WIRAB, referencing the detailed materials included in the advance agenda package. He noted the significant interactions with the Board and stakeholders leading up to this meeting. Mr. Jones reviewed the major areas of focus for the NERC Budget, and then reviewed the updates since the last draft, particularly the additional funding for the E-ISAC strategic plan, which takes the "base case" budget

increase of 2.5 to 5.1 percent. Mr. Jones also noted the corresponding assessment increase will be 5.1 percent, assuming a \$600,000 release from the Assessment Stabilization Reserve.

Mr. Jones reviewed the NERC budget by expenditure category, revenue category, program area and strategic goal. He reviewed the budgeted NERC reserves and proposed Canadian assessment levels. Mr. Jones provided an update on Mexico activities and the funding proposal management had made to the Mexican authorities, noting that no additional funding for Mexico is included in the draft budget. He also noted that there is no funding included for additional GMD research due to the preliminary status of discussion around the research and potential industry funding.

Mr. Sachs noted that there had been some commentary from the individuals on the E-ISAC Member Executive Committee (the “MEC”) suggesting accelerating funding in support of the strategic plan. Management’s recommendation is to maintain funding at the level proposed in the draft budget and reassess for future years. At Ms. Schori’s request, Mr. James Fama provided comments in support of the budget proposal for the E-ISAC on behalf of the MEC; he indicated the MEC is generally supportive of accelerated funding to support growth of the E-ISAC as outlined in the strategic plan. Mr. Thilly noted that accelerating funding for the E-ISAC will by necessity increase the NERC budget.

In commentary on the budget presentation, Mr. Murray Doehler of CAMPUT suggested providing more information to regulators, particularly on the E-ISAC, to encourage increased participation. Mr. John Twitty, chair of the MRC, thanked NERC staff for effectively working with stakeholders on the budget development process. Mr. Ed Schwerdt, CEO of NPCC, noted NPCC’s policy input on the need to consider the reallocation of resources in lieu of budget increases.

Mr. Jones then reviewed the combined ERO Enterprise budgets (noting the individual Regional Entity budgets had been reviewed during the Committee’s recent webinar and approved by their respective boards), and then provided a three-year budget forecast, noting the very preliminary nature of the 2019 budget increase and management’s intention to reduce that increase. He reviewed assessment levels by region and including NERC, and reviewed the combined budgets by program areas. Ms. Schori noted the MRC policy input urging enhanced NERC oversight of Regional Entity budgets.

Upon motion duly made and seconded, the Committee recommended the 2018 NERC Business Plan and Budget and the business plan and budgets for each of the Regional Entities and WIRAB, including the related assessments and contributions to and distributions from the Assessment Stabilization Reserve, for Board approval.

Proposed Amendments to Committee Mandate

Mr. Berardesco presented the proposed amendments to the Committee mandate, which had been included in the advance agenda package, noting that the amendments were designed to clarify the roles of the Committee and the Enterprise-wide Risk Committee in the review of internal financial controls. Ms. Schori noted the Committee would be working with the company’s internal audit group to prioritize financially focused internal audits and to develop a multi-year audit plan. After discussion and upon motion duly made and seconded, the Committee recommended the proposed Mandate amendments to the Corporate Governance and Human Resources Committee.

Adjournment

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

Submitted by,

A handwritten signature in black ink, appearing to read 'Charles A. Berardesco'.

Charles A. Berardesco
Corporate Secretary

Agenda

Finance and Audit Committee

August 9, 2017 | 8:30-9:45 a.m. Eastern

Westin Ottawa
11 Colonel By Drive
Ottawa, ON K1N 9H4, Canada

Conference Room: Confederation II/III – 4th Floor

Call to Order

Introductions and Chair's Remarks

NERC Antitrust Compliance Guidelines

Agenda

1. Minutes* – Approve

- a. July 20, 2017 Meeting
- b. May 10, 2017 Meeting

2. CMEP Technology Program* – Update

3. Third Quarter Calendar of FAC Responsibilities

- a. Second Quarter Unaudited Financial Statements* – **Review and Recommend to Board of Trustees for Acceptance**
 - i. NERC Summary of Results as of June 30, 2017
 - ii. Combined ERO Enterprise Summary of Results as of June 30, 2017
 - iii. Regional Entity Variance Reports as of June 30, 2017
- b. NERC and Regional Entity Proposed 2018 Business Plans and Budgets and Associated Assessments* – **Review and Recommend to Board of Trustees for Approval**
 - i. NERC 2018 Business Plan and Budget
 - ii. Combined ERO Enterprise 2018 Business Plans and Budgets
 - iii. Regional Entity and WIRAB 2018 Business Plans and Budgets
 - iv. 2018 Assessment Schedule

4. Finance and Audit Committee Mandate Revisions — Approve and Recommend to the Corporate Governance and Human Resources Committee for Approval

5. Other Business

6. Adjournment

*Background materials included.