

Agenda

Finance and Audit Committee

February 5, 2020 | 10:30-11:00 a.m. Pacific

(Please note the Schedule may be adjusted real-time should meetings conclude early and/or extend past their scheduled end time.)

westdrift Manhattan Beach, Autograph Collection

1400 Park View Avenue

Manhattan Beach, California 90266

Conference Room: Loftlight – Lobby Level

Introduction and Chair's Remarks

NERC Antitrust Compliance Guidelines and Public Announcement*

Agenda Items

1. **Minutes*— Approve**
 - a. October 31, 2019 Meeting
2. **2019 Year-End Unaudited Results of Operations*— Review and Recommend Board Acceptance**
 - a. NERC 2019 Unaudited Results
 - b. ERO Enterprise Combined 2019 Unaudited Results
 - c. Regional Entity Reports
3. **Annual Review of Committee Mandate*— Review**
4. **Other Business**
5. **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 Meeting

October 31, 2019 | 11:00 a.m.-12:00 p.m. Eastern

Conference Call

Call to Order

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 October 31, 2019, at 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
Janice B. Case
David Goulding
Colleen Sidford
Roy Thilly, *ex officio*

Board of Trustee Members

Kenneth W. DeFontes
Frederick W. Gorbet
George S. Hawkins
Suzanne Keenan
Robin E. Manning
Jan Schori

NERC Staff

Tina Buzzard, Associate Director
Sônia Mendonça, Vice President, Interim General Counsel, Corporate Secretary, and Director of Enforcement
Lauren Perotti, Senior Counsel
Janet Sena, Senior Vice President and Director of Policy and External Affairs
Andy Sharp, Vice President, Controller, and Interim Chief Financial Officer

Introductions and Chair’s Remarks

Mr. Clarke welcomed the participants to the meeting, stating the purpose of the meeting was to receive results through the third quarter of 2019. He reported on the October 21, 2019 closed session in which the Committee discussed the 2019 audit plan and held a discussion with NERC’s internal auditor, Grant Thornton.

NERC Antitrust Compliance Guidelines

Mr. Clarke directed the participants’ attention to the NERC Antitrust Compliance Guidelines included in the agenda, 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 minutes from the August 14, 2019 meeting were approved as presented to the Committee.

Third Quarter Calendar of FAC Responsibilities

Mr. Sharp reviewed the Third Quarter Unaudited Financial Statements for NERC and the ERO Enterprise, referencing the materials included in the advance agenda package. He noted that in the third quarter, NERC funding was 1 percent over budget and expenditures were 4.3 percent under budget. NERC projects to be slightly over budget for funding and expenditures by the end of 2019. Mr. Sharp also reviewed the projected year-end reserves for 2019. The Committee discussed reserves, overall budget, and risk.

Mr. Sharp reported that NERC and five Regional Entities were under budget in the third quarter; two Regional Entities, FRCC and SERC, were over budget due to costs associated with the FRCC RE transition. The combined ERO Enterprise was under budget for the third quarter and is projected to be approximately 0.2 percent over budget at year end. Mr. Sharp reviewed the combined 2019 ERO Enterprise operating reserves. He also 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.

2020 Business Plan and Budget Status

Mr. Sharp provided an update on the 2020 Business Plan and Budget. He reported that the Federal Energy Regulatory Commission approved the 2020 Business Plan and Budget and the 2020 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.

2021 Business Plan and Budget Schedule

Mr. Sharp reviewed the high-level schedule for the 2021 Enterprise Business Plan and Budget for the ERO Enterprise. He noted that the process resembles that of prior years and continues to call for extensive feedback from the Board and stakeholder groups.

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 Month Ending December 31, 2019

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Executive Summary

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

				Over
	<u>FUNDING</u>	Actual	Budget	(Under)
Revenues		\$ 78.8	\$ 78.5	\$ 0.3
Funding from Reserves				
Assessment Stabilization Reserve		0.6	0.6	-
TOTAL FUNDING		\$ 79.4	\$ 79.1	\$ 0.3
	<u>EXPENDITURES</u>			
Expenses (excluding Depreciation)		\$ 75.1	\$ 75.2	\$ (0.1)
Fixed Asset Additions		3.6	4.8	(1.2)
TOTAL EXPENDITURES		\$ 78.7	\$ 80.0	\$ (1.3)
RESERVE INCREASE (DECREASE)		\$ 0.7	\$ (0.9)	\$ 1.6

Funding

- Revenues
 - Slightly over budget mainly due to higher than budgeted workshop revenues and investment income, which is offset by lower third party revenues required to fund the CRISP program.

Expenditures

- Expenses (excluding depreciation)
 - Personnel expenses are over budget largely because of transition costs and search fees.
 - Meeting expenses are over budget primarily due to higher participation in workshops, which were substantially offset by higher than budgeted workshop revenues.
 - Contracts and Consultants expenses are under budget primarily due to lower than expected spending in the Reliability Assessment and System Analysis and CRISP departments.
 - Professional services expenses are lower than budget largely due to lower legal fees.
- Fixed Asset Additions
 - Under budget mainly because of lower spending to offset increased costs in other areas, as well some costs that were budgeted in fixed assets but for which the costs were charged to software licenses and support due to the type of license acquired.

Operating Reserve Increase (Decrease)

- Actual reserve increase from operations was higher than budget by \$1.6 million.

Detailed Operating Results

Variances by Revenue and Expense Category

Total NERC (including CRISP)

	YTD Actual	YTD Budget	YTD Over (Under)	% Over (Under)
TOTAL FUNDING	\$ 79,345,605	\$ 79,130,349	\$ 215,257	0.3%
EXPENDITURES				
Personnel	\$ 44,610,615	\$ 43,952,190	\$ 658,425	1.5%
Meetings, Travel, and Conference Calls	4,203,281	3,380,400	822,881	24.3%
Contracts and Consultants	13,694,112	15,043,318	(1,349,206)	(9.0%)
Rent and Facilities	3,312,254	3,335,058	(22,804)	(0.7%)
Office Costs, Professional, and Misc. *	9,241,842	9,346,517	(104,675)	(1.1%)
Other Non-Operating Expenses	2,717	214,171	(211,454)	(98.7%)
Fixed Asset Additions*	3,623,136	4,778,000	(1,154,864)	(24.2%)
TOTAL EXPENDITURES	\$ 78,687,957	\$ 80,049,655	\$ (1,361,698)	(1.7%)
RESERVE INCREASE (DECREASE)	\$ 657,649	\$ (919,306)	\$ 1,576,954	(171.5%)
FTEs	201.8	204.9	(3.1)	(1.5%)

* Excludes depreciation expense

Following is a brief summary of variances by category:

- Personnel Expense
 - Over budget primarily due to transition costs and search fees.
- Meeting, Travel, and Conference Call Expense
 - Meeting expenses are over budget primarily due to higher participation in workshops, which were substantially offset by higher than budgeted workshop revenues.
- Contracts and Consultants Expense
 - Under budget due to lower than expected spending primarily in the Reliability Assessment and System Analysis and CRISP departments. Also, amounts for Internal Audit projects that were originally budgeted in the Finance and Accounting department were charged to the Legal and Regulatory department, which nets to a \$26k over budget amount between those departments.

CONTRACTS and CONSULTANTS	YTD Actual	YTD Budget	YTD Over (Under)
Reliability Standards	\$ -	\$ 50,000	\$ (50,000)
Compliance Assurance	-	50,000	(50,000)
Compliance Analysis, Registration and Certification	-	-	-
Compliance Enforcement	56,263	161,000	(104,738)
Reliability Assessment and System Analysis	265,435	625,000	(359,565)
Situation Awareness	1,387,476	1,280,990	106,486
Event Analysis	-	-	-
Performance Analysis	677,854	653,565	24,289
E-ISAC	1,811,592	1,820,500	(8,908)
Training, Education, and Personnel Certification	498,683	497,000	1,683
General and Administrative and Executive	162,524	220,000	(57,477)
Legal and Regulatory	356,412	-	356,412
Policy and External Affairs	19,037	20,000	(963)
Information Technology	1,861,913	2,042,763	(180,850)
Human Resources and Administration	677,551	690,000	(12,449)
Finance and Accounting	93,498	475,000	(381,502)
TOTAL (excluding CRISP)	\$ 7,868,238	\$ 8,585,818	\$ (717,580)
CRISP	5,825,874	6,457,500	(631,626)
TOTAL (including CRISP)	\$ 13,694,112	\$ 15,043,318	\$ (1,349,206)

- Other Non-Operating Expenses
 - Under budget due to the anticipated refund of prior and current year excise taxes due to recent tax law changes.
- Fixed Asset Additions
 - Under budget mainly because of lower spending to offset increased costs in other areas, as well some costs that were budgeted in fixed assets but for which the costs were charged to software licenses and support due to the type of license acquired.

Variances by Department

DIRECT EXPENSES and NET FIXED ASSETS	YTD		
	YTD Actual	YTD Budget	Over (Under)
Reliability Standards	\$ 3,547,529	\$ 3,419,581	\$ 127,948
Compliance Assurance	6,108,382	5,178,505	929,876
Compliance Analysis, Registration and Certification	1,883,328	2,881,804	(998,476)
Compliance Enforcement	3,313,867	3,861,690	(547,823)
Reliability Assessment and System Analysis	3,661,184	4,606,107	(944,923)
Situation Awareness	3,104,458	3,012,404	92,054
Event Analysis	2,754,180	2,771,658	(17,478)
Performance Analysis	3,315,040	2,873,967	441,072
E-ISAC	10,517,482	10,649,090	(131,608)
Training, Education, and Personnel Certification	1,479,464	1,367,755	111,709
General and Administrative and Executive	8,262,192	8,144,200	117,992
Legal and Regulatory	4,983,712	3,878,791	1,104,921
Policy and External Affairs	2,412,714	2,510,721	(98,007)
Information Technology	11,214,035	11,696,532	(482,497)
Human Resources	2,590,220	2,562,371	27,848
Finance and Accounting	2,546,483	2,553,747	(7,265)
TOTAL (excluding CRISP)	\$ 71,694,269	\$ 71,968,925	\$ (274,656)
CRISP	6,993,688	8,080,729	(1,087,041)
TOTAL EXPENSES and NET FIXED ASSETS	\$ 78,687,957	\$ 80,049,655	\$ (1,361,698)

In late 2018, NERC management went through an organizational assessment involving various program areas and re-characterized several employees across multiple departments. In most cases, these employees kept the same responsibilities and functional oversight, but were assigned new departments and/or consolidated with other similar roles to align certain technical functions. The changes had no effect on the total FTEs, and the net cost impact of these movements was immaterial. The following program areas were impacted by this review:

- Reliability Standards
- Compliance Assurance
- Compliance Analysis, Registration and Certification
- Reliability Assessment and System Analysis
- Event Analysis
- Performance Analysis

Following is a brief summary of variances by department:

- Legal and Regulatory – Over budget at year-end primarily due to transition costs and search fees, as well as Internal Audit expenditures that were budgeted in the Finance and Accounting department that were charged to the Legal and Regulatory department.
- Information Technology – Under budget, mainly due to lower fixed asset spending, which was partially offset by higher personnel costs due to a lower attrition rate, as well as CMEP and other costs that were funded by IT and charged to program areas.
- CRISP – Under budget largely because of lower personnel, software, and contractor costs.

Supplemental Schedules

Schedule 1 – Year-End Actual Reserves

Reserve Account	Beginning Balance ⁽¹⁾	Budgeted Funding	Budgeted Uses	Other Funding (Uses) ⁽²⁾	Net Financing Activity ⁽³⁾	Ending Balance
Operating Contingency	\$ 5,644,359	\$ 550,000	\$ (1,067,980)	\$ 1,027,127	\$ (394,688)	\$ 5,758,818
Future Obligations	2,535,333	-	(480,457)	64,843	-	2,119,719
Assessment Stabilization	2,071,000	-	(550,000)	1,000,000	-	2,521,000
System Operator	592,110	148,674	-	(172)	-	740,611
CRISP	500,000	-	-	-	-	500,000
Total Reserves	\$ 11,342,801	\$ 698,674	\$ (2,098,437)	\$ 2,091,798	\$ (394,688)	\$ 11,640,148

NOTES:

(1) Some 2019 beginning balances have been adjusted from the 12/31/2018 variance report balances as the result of a reconciliation to the final audited balance sheet.

(2) The column Other Funding (Uses) primarily reflects the net impact of normal operations. For example, under normal circumstances, if NERC was tracking well under budget in actual expenditures, this would reflect additional funds into the reserve account. It also reflects the increase or decrease in working capital during the period.

(3) Net financing activity in 2019 reflects principal debt repayments for borrowings originating in 2016. NERC did not make budgeted borrowings for 2017, 2018, and 2019 in light of a favorable working capital position. The savings from the 2019 borrowing decision will be realized in the years 2020 to 2022.

Schedule 2 – IT Projects

Projects in Progress	Project Budget ⁽¹⁾	Actual Spend	Expected Spend	Expected Over (Under) Budget
CMEP Technology Project (2017-2020)	\$ 5,403,000	\$ 3,485,314	\$ 5,484,524	\$ 81,524
Standards (2019-2020)	300,000	266,723	300,000	-
Windows 10 Upgrade	169,890	129,890	169,890	-

Projects Completed in 2019	Project Budget ⁽¹⁾	Actual Spend	Actual Over (Under) Budget
FRCC Dissolution	\$ 128,497	\$ 122,238	\$ (6,259)
Multifactor Authentication	27,660	7,173	(20,488)
Footprints Upgrade	84,753	60,600	(24,153)
E-ISAC - Customer Relationship Management (CRM)	237,800	285,229	47,429
Entity Registration - CORES (2018-2019)	1,200,000	1,252,919	52,919
Document Management - Records Center Reconfiguration	190,500	190,500	-
SAFNR V3	221,500	188,000	(33,500)

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

CMEP Technology Project

(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).

Standards

(Started Jan 2019 / Planned Completion Q4 2020)

In support of the CMEP Technology Project, this project involves the movement all of the Standards data from the old source system to the new one.

Microsoft Windows 10

(Started Dec 2019 / Planned Completion Feb 2020)

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

FRCC Dissolution

(Started Jan 2019 / Completed Jul 2019)

With FRCC dissolving, NERC assessed the changes required to applications that contained FRCC data and the reassignment/classification of such information. The inventory required the mapping utility, functionality, migration, and support efforts by both Region and entity. Activities included facilitated discussions with IT and business owners of impacted applications to capture and document high-level, as well as more detailed, requirements necessary to support the transition of registered entities from FRCC to SERC.

Multifactor Authentication

(Started Jan 2019 / Completed Jul 2019)

The purpose of this project was to implement a Multi-Factor Authentication solution to enhance the overall security of the NERC ERO suite of applications and to meet existing requirements for applications currently under development, primarily CORES and CMEP/Align projects. Multi-factor authorization provides enhanced security by requiring more than one method of user authentication (Mobile PIN code, etc.) in addition to the traditional user name/password authentication method.

Schedule 2 (continued) – IT Projects

Footprints Upgrade

(Started Mar 2019 / Completed Aug 2019)

The purpose of this project was to replace the current version of the NERC IT helpdesk ticketing system, Footprints v11, with the latest version available, Footprints v12. The Footprints application manages NERC internal IT support requests. The implemented version enables support of ERO applications (i.e. CORES, ALIGN, etc.) by distributed regional support teams.

E-ISAC – Customer Relationship Management (CRM)

(Started Jul 2019 / Completed Oct 2019)

The purpose of this project was to select and implement a Customer Relationship Management (CRM) tool to assist the E-ISAC team in growing its North American electricity owner/operator base from the current roughly 1,000 members to a progressively greater share of the roughly 5,000 total. The team will be able to do so through improved outreach, marketing, and overall engagement and tracking processes expected from use of the new tool. The plan is also to integrate with the E-ISAC Portal in the future.

Entity Registration - CORES

(Started Dec 2017 / Completed Nov 2019)

NERC undertook an effort to both standardize and modernize the Entity Registration process. The discovery phase of the Centralized Organization Registration Entity System (CORES) project included the capture of Region-specific needs, variations, and exceptions in the registration process. CORES is a centralized entity registration process, which requires the retirement of registration in CDMS, CITS, and CRATS. The Joint Registration Organization (JRO) portion of the project was combined with the CORES production release in 2019.

Document Management – Records Center Reconfiguration

(Started May 2019 / Completed Dec 2019)

The Records Retention project is in alignment with the original intent and business case for Document Management. One of the key items for addressing information management across all program areas was to have the ability to address retention and destruction of documents identified as NERC records. The objective of the project was to implement a solution to identify NERC records and their respective disposition rules in accordance with the NERC Records Retention and Destruction policy.

SAFNR V3

(Started May 2019 / Completed Dec 2019)

One of the primary functions of the ERO Enterprise is to maintain situational awareness of Bulk Power System conditions and provide accurate and timely information regarding threats that may adversely impact reliability. The objective of this project was to identify a new vendor and platform to replace the existing Situation Awareness for FERC, NERC, and the Regional Entities system, SAFNR V2. The new platform not only supports NERC's goal to reduce reliability risk by providing situation awareness of the Bulk Power System but also provides new features and architectural/infrastructure enhancements to increase productivity and availability.

Schedule 3 – E-ISAC and CRISP Summary of Activity

TOTAL E-ISAC (including CRISP)

FUNDING	Annual Actual	Annual Budget	Over (Under)
Assessments	\$ 19,627,897	\$ 19,627,897	\$ 0
Other Funding	7,641,896	7,767,730	(125,834)
TOTAL FUNDING	\$ 27,269,793	\$ 27,395,627	\$ (125,834)
EXPENDITURES			
Personnel Expense	\$ 7,551,161	\$ 8,180,123	\$ (628,962)
Meeting Expense	957,187	418,000	539,187
Operating Expenses (excluding Depreciation)	8,698,738	9,431,696	(732,958)
Other Non-Operating Expenses	10,467	-	10,467
Fixed Assets (excluding Depreciation and Fixed Asset Allocation)	293,615	700,000	(406,384)
Total Direct Costs (excluding Depreciation and Allocations)	\$ 17,511,169	\$ 18,729,819	\$ (1,218,650)
Indirect Expense Allocation	8,674,257	9,004,572	(330,314)
Fixed Asset Allocation	(368,481)	(338,764)	(29,717)
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 25,816,946	\$ 27,395,627	\$ (1,578,681)
RESERVE INCREASE (DECREASE)	\$ 1,452,847	\$ -	\$ 1,452,847

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

CRISP

FUNDING	Annual Actual	Annual Budget	Over (Under)
Assessments	\$ 1,526,388	\$ 1,526,388	\$ 0
Other Funding	6,994,273	7,517,319	(523,046)
TOTAL FUNDING	\$ 8,520,661	\$ 9,043,707	\$ (523,046)
EXPENDITURES			
Personnel Expense	\$ 729,670	\$ 965,793	\$ (236,123)
Meeting Expense	90,500	48,000	42,500
Operating Expenses (excluding Depreciation)	6,036,086	6,966,936	(930,850)
Other Non-Operating Expenses	10,467	-	10,467
Fixed Assets (excluding Depreciation and Fixed Asset Allocation)	126,964	100,000	26,964
Total Direct Costs (excluding Depreciation and Allocations)	\$ 6,993,688	\$ 8,080,729	\$ (1,087,041)
Indirect Expense Allocation	981,943	1,000,605	(18,662)
Fixed Asset Allocation	(41,713)	(37,628)	(4,085)
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 7,933,918	\$ 9,043,707	\$ (1,109,789)
RESERVE INCREASE (DECREASE)	\$ 586,743	\$ -	\$ 586,743

E-ISAC (excluding CRISP)

FUNDING	Annual Actual	Annual Budget	Over (Under)
Assessments	\$ 18,101,509	\$ 18,101,509	\$ 0
Other Funding	647,623	250,411	397,212
TOTAL FUNDING	\$ 18,749,132	\$ 18,351,920	\$ 397,212
EXPENDITURES			
Personnel Expense	\$ 6,821,491	\$ 7,214,330	\$ (392,839)
Meeting Expense	866,687	370,000	496,687
Operating Expenses (excluding Depreciation)	2,662,652	2,464,760	197,892
Other Non-Operating Expenses	-	-	-
Fixed Assets (excluding Depreciation and Fixed Asset Allocation)	166,652	600,000	(433,348)
Total Direct Costs (excluding Depreciation and Allocations)	\$ 10,517,482	\$ 10,649,090	\$ (131,608)
Indirect Expense Allocation	7,692,314	8,003,966	(311,652)
Fixed Asset Allocation	(326,768)	(301,136)	(25,632)
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 17,883,028	\$ 18,351,920	\$ (468,892)
RESERVE INCREASE (DECREASE)	\$ 866,104	\$ -	\$ 866,104

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

NERC Summary of Unaudited Results Fourth Quarter 2019

Andy Sharp, Vice President, Controller and Interim CFO
Finance and Audit Committee Meeting
February 5, 2020

RELIABILITY | RESILIENCE | SECURITY



- Total funding – \$300k (0.4%) over budget
 - Higher workshop revenue and investment income, offset by lower CRISP revenues
- Total expenditures – \$1.3M (1.7%) under budget
 - Primarily due to lower than budgeted contracts and consultants and legal costs, and lower fixed asset expenditures
- Net impact was \$1.6M increase in reserves
 - Debt service \$700k favorable to budget
 - No budgeted borrowings made in 2019 in light of favorable working capital position

- Total reserve balances – \$11.6M
 - Operating Contingency Reserve (OCR) – \$5.8M
 - Assessment Stabilization Reserve (ASR) – \$2.5M
 - Future Obligation Reserve – \$2.1M
 - System Operator Reserve – \$741k
 - CRISP Reserve – \$500k

- Operating Contingency Reserve – \$5.8M
 - Began year with \$5.6M
 - Increase of \$600k from net operating activity
 - Loan payments of \$400k
- Assessment Stabilization Reserve – \$2.5M
 - Began year with \$2.1M
 - Used \$550k for budgeted offset to assessments
 - Generated \$1.0M from penalty funds

- Financial audit by Grant Thornton will begin in March
- Auditor's report and findings will be presented to the FAC in May



Questions and Answers

ERO Enterprise (NERC and Regional Entities) Combined Summary of Unaudited Results

December 31, 2019

The ERO Enterprise was under budget \$3.7M (1.8%) for combined expense and fixed asset (capital) spending. The budget variances ranged from 29.6% under budget to 24.6% over budget.

Total Budget (Total Expenses plus the Increase (Decrease) in Fixed Assets)						
Entity	2019 YTD		2019 YTD		Over (Under)	
		Actual		Budget	\$	%
NERC	\$	78,687,958	\$	80,049,654	\$ (1,361,696)	(1.7%)
FRCC		4,716,108		6,695,786	(1,979,678)	(29.6%)
MRO		14,008,194		15,980,356	(1,972,162)	(12.3%)
NPCC		14,576,198		15,803,889	(1,227,691)	(7.8%)
RF		22,328,430		22,648,458	(320,028)	(1.4%)
SERC		22,615,045		18,144,948	4,470,097	24.6%
Texas RE		12,157,640		13,069,595	(911,955)	(7.0%)
WECC		26,572,157		26,950,566	(378,409)	(1.4%)
	\$	195,661,730	\$	199,343,252	\$ (3,681,522)	(1.8%)

- NERC was under budget \$1.4M (1.7%) primarily due to lower than budgeted contracts and consultants and professional services expenses, and lower spending for fixed assets additions.
- FRCC transferred its Regional Entity (RE) activities to SERC effective July 1, 2019, and completed the wind down of its RE business on August 31, 2019. At the end of 2019, FRCC was under budget \$2.0M (29.6%) due to changing operations associated with the dissolution of FRCC RE functions; however, FRCC RE funding was also under budget \$2.9M due the transfer of Q3 and Q4 assessments to SERC. This was offset by the receipt of a \$630k special assessment and the recognition of \$383k in penalty funds pursuant to the petition approving the RE dissolution.
- MRO was under budget \$2.0M (12.3%), which is attributable primarily to lower personnel, meeting, travel, and contracts and consultants costs.
- NPCC was under budget \$1.2M (7.8%) mainly as a result of lower personnel, meeting, and contracts and consultants expenses.
- RF was under budget \$320k (1.4%) largely due to lower personnel and computer expenses.
- SERC was over budget \$4.5M (24.6%) primarily because of expenses associated with the FRCC transition; however, SERC funding was over budget \$9.6M due to the receipt of \$2.9M in FRCC Q3 and Q4 assessments, as well as the recognition of \$6.5M in penalty funds.

- Texas RE was under budget \$912k (7.0%) largely as a result of lower personnel, contracts and consultants, office, professional services, and fixed asset costs.
- WECC was under budget \$378k (1.4%) predominately due to lower personnel and travel costs.

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 \$1.1M (0.8%), ranging from 20.4% under budget to 19.2% over budget. The ERO Enterprise was under budget in FTEs by 20.3 (3.0%).

Entity	Personnel Expenses				FTEs*			
	2019 YTD Actual	2019 YTD Budget	Over (Under) \$	%	2019 YTD Actual	2019 YTD Budget	Over (Under)	%
NERC	\$ 44,610,616	\$ 43,952,190	\$ 658,426	1.5%	201.8	204.9	(3.1)	(1.5%)
FRCC	3,828,314	4,810,289	(981,975)	(20.4%)	19.8	20.8	(1.0)	(4.7%)
MRO	10,487,618	11,569,669	(1,082,051)	(9.4%)	54.0	59.0	(5.0)	(8.5%)
NPCC	9,625,617	10,248,860	(623,243)	(6.1%)	35.3	38.9	(3.5)	(9.1%)
RF	18,772,774	19,068,222	(295,448)	(1.5%)	77.8	78.2	(0.4)	(0.5%)
SERC	16,122,351	13,526,323	2,596,028	19.2%	90.0	78.0	12.0	15.4%
Texas RE	9,717,075	10,302,791	(585,716)	(5.7%)	57.0	60.0	(3.0)	(5.0%)
WECC	19,760,924	20,516,231	(755,307)	(3.7%)	126.8	143.0	(16.2)	(11.3%)
	\$ 132,925,289	\$ 133,994,575	\$ (1,069,286)	(0.8%)	662.5	682.7	(20.3)	(3.0%)

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

- NERC was over budget \$658k (1.5%) largely because of transition costs and search fees.
- FRCC was under budget \$1.0M (20.4%) due to changing operations associated with the dissolution of RE functions. This is offset by retention agreements at amounts higher than budgeted.
- MRO was under budget \$1.1M (9.4%) mainly due to staff vacancies as it continues to work to become fully staffed in 2020.
- NPCC was under budget \$623k (6.1%) primarily due to open positions over varying periods throughout the year and positions that were filled through a combination of in-house promotions, resource re-allocations, and the retention of less seasoned successors with the expected net result of lower than budgeted salaries and related benefits.
- RF was under budget \$295k (1.5%) predominately due to a less than projected health insurance increase, lower training costs, and lower than budgeted savings and retirement costs.
- SERC was over budget \$2.6M (19.2%) primarily because of incremental FTEs to support additional registered entities transferred from FRCC RE.

- Texas RE was under budget \$586k (5.7%) as a result of staff vacancies and a less than projected health insurance increase.
- WECC was under budget \$755k (3.7%) due to higher than anticipated vacancy rates.

Travel, Meeting, and Conferencing Expenses

For the ERO Enterprise, travel, meeting, and conferencing expenses were collectively over budget \$155k (1.5%).

Meeting, Travel, and Conferencing Expenses

Entity	2019 Budget				2019 Actual		Over (Under)	
			Meeting	Travel	Conferencing		\$	%
NERC	\$	3,380,400	\$ 688,064	\$ 103,181	\$ 31,636	\$ 4,203,281	\$ 822,881	24.3%
FRCC		225,407	(9,543)	(102,431)	(4,588)	108,845	(116,562)	(51.7%)
MRO		1,051,164	(23,349)	(491,379)	-	536,436	(514,728)	(49.0%)
NPCC		1,252,650	(10,828)	(193,407)	(11,096)	1,037,319	(215,331)	(17.2%)
RF		1,045,000	73,692	(31,868)	(23,137)	1,063,687	18,687	1.8%
SERC		985,622	183,043	231,332	(4,850)	1,395,147	409,525	41.5%
Texas RE		389,570	5,042	(342)	(1,850)	392,420	2,850	0.7%
WECC		2,107,421	(60,917)	(194,566)	2,862	1,854,800	(252,621)	(12.0%)
	\$	10,437,234	\$ 845,204	\$ (679,480)	\$ (11,023)	\$ 10,591,935	\$ 154,701	1.5%

- NERC was over budget \$823k (24.3%) primarily due to higher participation in workshops, which were substantially offset by higher than budgeted workshop revenues.
- FRCC was under budget \$117k (51.7%) largely because of reduced staff travel as a result of the dissolution of RE functions.
- MRO was under budget \$515k (49.0%) due to fewer face-to-face working group meetings, an increase in MRO-hosted meetings, fewer than anticipated personnel traveling, fewer travel reimbursement requests from stakeholders, and more efficient use of technology.
- NPCC was under budget \$215k (17.2%) mainly from lower than budgeted travel expenses as a result of staff vacancies, as well as efforts to limit the number of attendees sent to off-site meetings and to hold more meetings onsite, at member facilities, or via webinar where effective.
- RF was over budget \$19k (1.8%) mainly due to increased costs for workshop and board meetings, which are largely offset by lower contract rates that were negotiated with a new conference call service provider.
- SERC was over budget \$410k (41.5%) primarily because of increased travel and meetings due to FRCC transition activities, and increased event expenses associated with higher attendance.
- Texas RE was close to budget.
- WECC was under budget \$253k (12.0%) primarily due to lower travel expenses as a result of sending fewer individuals to audits.

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 \$3.6M (6.5%).

Operating Expenses										
Entity	2019 Budget	Contracts & Consultants	Office Rent	Office Costs	Professional Services	Miscellaneous	Depreciation	2019 Actual	Over (Under)	
									\$	%
NERC	\$ 31,170,915	\$ (1,349,206)	\$ (22,804)	\$ 204,679	\$ (314,235)	\$ 4,881	\$ (508,438)	\$ 29,185,792	\$ (1,985,123)	(6.4%)
FRCC	1,673,431	(661,538)	(60,375)	(58,579)	(33,255)	-	(29,558)	830,126	(843,305)	(50.4%)
MRO	3,740,523	(275,085)	7,343	(292,205)	199,614	-	(123,575)	3,256,615	(483,908)	(12.9%)
NPCC	4,803,197	(293,378)	(4,849)	(9,856)	(1,898)	(11,373)	(36,646)	4,445,197	(358,000)	(7.5%)
RF	2,791,139	(51,017)	36,572	51,039	(832)	235	(27,903)	2,799,233	8,094	0.3%
SERC	3,413,003	(354,500)	(44,298)	299,126	39,698	(23,000)	-	3,330,029	(82,974)	(2.4%)
Texas RE	2,347,234	(57,437)	(107,119)	(46,515)	(88,018)	-	-	2,048,145	(299,089)	(12.7%)
WECC	4,970,303	101,650	25,434	261,081	72,227	-	8,371	5,439,066	468,763	9.4%
	\$ 54,909,745	\$ (2,940,511)	\$ (170,096)	\$ 408,770	\$ (126,699)	\$ (29,257)	\$ (717,749)	\$ 51,334,203	\$ (3,575,542)	(6.5%)

- NERC was under budget \$2.0M (6.4%) mainly due to lower than expected spending primarily in the Reliability Assessment and System Analysis and CRISP areas, and lower legal expenses.
- FRCC was under budget \$843k (50.4%) largely because of contract auditor and software costs that were not incurred as a result of the dissolution of RE functions.
- MRO was under budget \$484k (12.9%) primarily due to a lower than anticipated need to utilize consultants for CMEP work and IT network support and maintenance, lower than budgeted employee training costs because of fewer FTEs, and the realization of savings from negotiating lower prices on supplies and maintenance fees.
- NPCC was under budget \$358k (7.5%) mainly because of a reduction in the use of independent contractors for compliance audits, some of which were deferred to 2020 at the request of a registered entity. In addition, the Reliability Assessment and Performance Analysis and Situation Awareness and Infrastructure Security program areas utilized less consultant support than projected.
- RF was close to budget.
- SERC was under budget \$83k (2.4%) mainly because of lower, reclassified, and deferred contracts and consultants costs, as well as a refund in office rent due to a true-up of prior year operating costs. This was largely offset by increased spending in office costs for additional staff related to the FRCC RE transition.
- Texas RE was under budget \$299k (12.7%) predominately due to lower than anticipated contracts and consultant, professional services, utility, internet, and software maintenance expenses.
- WECC was over budget \$469k (9.4%) primarily due to unbudgeted purchases of furniture, fixtures, and equipment for upgrades to meeting space, increased cloud-based software licensing, and improvements to disaster recovery processes.

Indirect Expense Allocation

NPCC and WECC allocate overhead expenses to their non-statutory functions. At the end of 2019, NPCC allocated \$7k (1.8%) less than budgeted and WECC allocated \$8k (1.5%) less than budgeted.

Fixed Asset (Capital) Additions

For the ERO Enterprise, fixed asset (capital) additions (excluding the reversal of depreciation expense) were over budget \$317k (5.4%).

Fixed Asset Additions (Excludes Depreciation)

Entity	2019	Computer &	Furniture and	Equipment	Leasehold	Allocation of	2019	Over (Under)	
	Budget	Software CapEx	Fixtures CapEx	CapEx	Improvements	Fixed Assets	Actual	\$	%
NERC	\$ 4,778,000	\$ (486,950)	\$ -	\$ (511,426)	\$ (156,488)	\$ -	\$ 3,623,136	\$ (1,154,864)	(24.2%)
FRCC	67,394	(40,000)	-	(27,394)	-	-	-	(67,394)	(100.0%)
MRO	245,000	(46,759)	-	27,000	4,709	-	229,950	(15,050)	(6.1%)
NPCC	170,000	(114,586)	-	54,178	-	-	109,592	(60,408)	(35.5%)
RF	203,000	(101,109)	-	1,595	20,250	-	123,736	(79,264)	(39.0%)
SERC	220,000	20,500	339,903	122,712	1,064,403	-	1,767,518	1,547,518	703.4%
Texas RE	30,000	(30,000)	-	-	-	-	-	(30,000)	(100.0%)
WECC	128,065	(5,000)	-	159,839	28,126	(6,065)	304,965	176,900	138.1%
	\$ 5,841,459	\$ (803,904)	\$ 339,903	\$ (173,496)	\$ 961,000	\$ (6,065)	\$ 6,158,897	\$ 317,438	5.4%

- NERC was under budget \$1.2M (24.2%) largely due to lower spending to offset increased costs in other areas, as well as some costs that were budgeted in fixed assets but for which the costs were charged to software licenses and support due to the type of license acquired.
- FRCC was under budget \$67k (100%) because there was no spending on compliance software enhancements and computer equipment as a result of the dissolution of RE functions.
- MRO was under budget \$15k (6.1%) mainly due to lower computer and software spending.
- NPCC was under budget \$60k (35.5%) primarily due to timing of scheduled software development projects, which include website enhancements and the continued refinement of document management software and processes.
- RF was under budget \$79k (39.0%) due to the reevaluation and rescheduling of budgeted computer hardware and software upgrades.
- SERC was over budget \$1.5M (703.4%) because of leasehold improvements for new office space due to the impact of the FRCC RE transition and upgrades to document retention systems.
- Texas RE was under budget \$30k (100%) due to no spending for fixed asset additions.
- WECC was over budget \$177k (138.1%) primarily due to unbudgeted audio-visual and office space improvements.

Working Capital and Operating Reserves (excluding CRISP)

The ERO Enterprise began the 2019 year with approximately \$7.7M more in reserves than anticipated in the 2019 budget. This was primarily because of favorable budget variances from the 2018 year.

2019 Beginning Reserve Balances			
Entity	Actual	Budget	Over (Under)
NERC	\$ 10,842,801	\$ 8,453,020	\$ 2,389,781
FRCC	461,305	1,333,844	(872,539)
MRO	4,730,716	1,818,473	2,912,243
NPCC	4,969,944	4,453,571	516,373
RF	4,874,324	4,318,238	556,086
SERC	2,945,995	2,328,184	617,811
Texas RE	2,223,149	1,314,649	908,500
WECC	6,537,757	5,838,401	699,356
	\$ 37,585,991	\$ 29,858,380	\$ 7,727,611

For the end of 2019, the ERO Enterprise budgeted the reduction of \$4.3M in reserves while actually generating \$11.8M. This resulted in the unanticipated addition of \$16.1M in total reserves.

2019 Change in Reserve Balances			
Entity	Actual	Budget	Over (Under)
NERC	\$ 297,347	\$ (381,783)	\$ 679,130
FRCC	(461,305)	(775,862)	314,557
MRO	1,522,731	(449,431)	1,972,162
NPCC	581,444	(732,978)	1,314,422
RF	(690,447)	(1,173,486)	483,039
SERC	4,555,953	(528,183)	5,084,136
Texas RE	1,292,414	307,854	984,560
WECC	4,702,307	(536,380)	5,238,687
	\$ 11,800,444	\$ (4,270,249)	\$ 16,070,693

The combined effect of higher balances at the beginning of the year and adding additional reserves during 2019 resulted in a combined year-to-date reserve balance of \$49.4M, which is \$23.8M more than was anticipated in the 2019 budget.

2019 Year-End Reserve Balances			
Entity	Actual	Budget	Over (Under)
NERC	\$ 11,140,148	\$ 8,071,237	\$ 3,068,911
FRCC	-	557,982	(557,982)
MRO	6,253,447	1,369,042	4,884,405
NPCC	5,551,388	3,720,593	1,830,795
RF	4,183,877	3,144,752	1,039,125
SERC	7,501,948	1,800,001	5,701,947
Texas RE	3,515,563	1,622,503	1,893,060
WECC	11,240,064	5,302,021	5,938,043
	\$ 49,386,435	\$ 25,588,131	\$ 23,798,304

The ERO Enterprise began the 2020 budget year with \$16.4M in additional reserves above what was planned in the combined budgets.

2019 Ending Reserves vs 2020 Beginning Reserves			
Entity	2019 Year-End Actual Balance	2020 Beginning Budgeted Balance	Over (Under)
NERC	\$ 11,140,148	\$ 9,454,106	\$ 1,686,042
FRCC	-	-	-
MRO	6,253,447	4,934,448	1,318,999
NPCC	5,551,388	4,426,112	1,125,276
RF	4,183,877	3,700,836	483,041
SERC	7,501,948	1,142,615	6,359,333
Texas RE	3,515,563	2,530,999	984,564
WECC	11,240,064	6,823,951	4,416,113
	\$ 49,386,435	\$ 33,013,067	\$ 16,373,368

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

ERO Enterprise Combined Summary of Unaudited Results 2019

Andy Sharp, Vice President, Controller and Interim CFO
Finance and Audit Committee Meeting
February 5, 2020

RELIABILITY | RESILIENCE | SECURITY



- Total expenditures were under budget \$3.7M (1.8%)
 - Personnel expenses under budget \$1.1M (0.8%)
 - Predominately due to staff vacancies and lower benefits costs
 - Meetings and travel expenses over budget \$155k (0.7%)
 - Primarily due to higher than budgeted meeting and workshop expenses, largely offset by higher than budgeted workshop revenue
 - Operating expenses under budget \$3.6M (6.5%)
 - Mainly due to lower than expected contract and consultant expenses
 - Fixed asset additions over budget \$317k (5.4%)
 - Largely due to enhancements for SERC as a result of the impact of the FRCC RE transition

- NERC and six Regional Entities under budget
 - **NERC** \$1.4M (-1.7%) – operating costs and fixed asset additions
 - **FRCC** \$2.0M (-29.6%) – all expenses categories and fixed asset additions
 - **MRO** \$2.0M (-12.3%) – personnel, meeting, travel, and operating costs
 - **NPCC** \$1.2M (-7.8%) – personnel, meeting, and operating costs
 - **RF** \$320k (-1.4%) – personnel costs and fixed asset additions
 - **Texas RE** \$912k (-7.0%) – personnel and operating costs and fixed asset additions
 - **WECC** \$378k (-1.4%) – personnel and travel costs
- One Regional Entity over budget
 - **SERC** \$4.5M (24.6%) – personnel, meeting, and travel costs, and fixed asset additions

- \$37.6M – Total reserves as of January 1, 2019
 - Started \$7.7M over combined budgets
- \$49.4M – Total reserves as of December 31, 2019
 - \$23.8M more than expected
 - \$11.5M from penalty revenue recognized above budget



Questions and Answers



FLORIDA RELIABILITY COORDINATING COUNCIL, INC.
3000 BAYPORT DRIVE, SUITE 600
TAMPA, FLORIDA 33607-8410
PHONE 813.289.5644 • FAX 813.289.5646
WWW.FRCC.COM

**FRCC Regional Entity Division
Unaudited Budget to Actual
Variance Comparison as of December 31, 2019**

Summary

For the twelve months ended December 30, 2019, FRCC is \$2.0M under budget.

Total Funding – Unfavorable Variance \$1.7M

- ERO assessments were unfavorable to budget due to \$2.9M budgeted assessments for the second half of 2019. The RE was transitioned to SERC on July 1, 2019. This unfavourable variance was offset by \$630K FERC approved special assessment charged to LSEs and a \$233k advance from NERC to cover RE transition wind down costs.
- Penalty income was \$383K favorable to budget due to the recognition of penalty monies received pursuant to the petition approving the RE dissolution.

Total Expenses – Favorable Variance \$1.9M

The overriding favorable variances in the expenses were due to the transition of the FRCC RE to SERC on July 1, 2019.

- **Personnel Expenses (Actual - \$1.0M under budget)**
 - The 2019 budget was approved prior to the FRCC board's decision to dissolve the RE and therefore included twelve months of expense. The favorable variance consists of budgeted retirement expenses that will not be incurred, unbudgeted collection of an insurance claim and educational expenses budgeted higher than actual. The favorable variance is offset by retention agreements at amounts higher than budgeted related to the RE dissolution.
- **Meeting Expenses (Actual - \$117K under budget)**
 - The favorable variance is due to minimal staff travel for reliability assessment activities and reduced travel for compliance monitoring and enforcement activities along with the impact of the RE transition.
- **Operating Expenses (Actual - \$843K under budget)**
 - The favorable variance is primarily due to the following:
 - Consultants and Contracts
 - Contract auditor costs budgeted but not incurred (\$135K)
 - SERC CEA costs less than budgeted (\$46K)
 - Eastern Interconnection Reliability Assessment Group (ERAG) fees less than budgeted (\$13K)
 - Software
 - Guidance software costs not incurred (\$15K)
 - CRISP budgeted but not implemented (\$13K)
 - The 2019 budget was approved prior to the FRCC board's decision to dissolve the RE and therefore included twelve months of expense. Actual expenses were incurred for six months.

Total Fixed Asset Expense – Favorable Variance \$38K

- The favorable variance is due to the freeze on fixed asset purchases due to the RE transition.

Quarterly Statement of Activities - Total Actual To Total Budget
Total Statutory Only
December 31, 2019

(In Whole Dollars)

	2019 YTD Actual	2019 YTD Budget	2019 YTD Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 3,776,828	\$ 5,827,924	\$ (2,051,096)	
Penalty Sanctions	383,000	-	383,000	
Total ERO Funding	4,159,828	5,827,924	(1,668,096)	-28.6%
Membership Dues	-	-	-	
Testing Fees	-	-	-	
Services & Software	-	-	-	
Workshops	91,285	92,000	(715)	
Interest	3,690	-	3,690	
Special Assessment	-	-	-	
Miscellaneous	-	-	-	
Non Cash Postretirement	-	-	-	
Total Funding	4,254,803	5,919,924	(1,665,121)	-28.1%
Expenses				
Personnel Expenses				
Salaries	3,414,827	3,595,017	(180,190)	
Payroll Taxes	87,503	221,843	(134,340)	
Benefits	127,136	523,400	(396,264)	
Retirement Costs	198,848	470,029	(271,181)	
Total Personnel Expenses	3,828,314	4,810,289	(981,975)	-20.4%
Meeting Expenses				
Meetings	59,283	68,826	(9,543)	
Travel	43,832	146,263	(102,431)	
Conference Calls	5,730	10,318	(4,588)	
Total Meeting Expenses	108,845	225,407	(116,562)	-51.7%
Operating Expenses				
Consultants & Contracts	214,304	875,842	(661,538)	
Office Rent	505,546	565,921	(60,375)	
Office Costs	48,281	106,860	(58,579)	
Professional Services	10,818	44,073	(33,255)	
Penalty	-	-	-	
Depreciation	51,177	80,735	(29,558)	
Total Operating Expenses	830,126	1,673,431	(843,305)	-50.4%
Total Indirect Expenses	-	-	-	0.0%
Other Non-Operating Expenses	-	-	-	
Total Expenses	4,767,285	6,709,127	(1,941,842)	-28.9%
Change in Assets/Additions (Use) of Reserves	(512,482)	(789,203)	276,721	-35.1%
Fixed Asset Expenditures				
Depreciation	(51,177)	(80,735)	29,558	
Software CapEx	-	40,000	(40,000)	
Furniture & Fixtures CapEx	-	-	-	
Equipment & Computers CapEx	-	27,394	(27,394)	
Leasehold Improvements	-	-	-	
Increase/(Decrease) in Fixed Assets	(51,177)	(13,341)	(37,836)	283.6%
Total Budget	4,716,108	6,695,786	(1,979,678)	-29.6%
CHANGE IN WORKING CAPITAL	\$ (461,305)	\$ (775,862)	\$ 314,557	-40.5%
FTEs at 6/30/19	19.77	20.75	(0.98)	
Beginning Working Capital 1/1/2019	\$ 461,305	\$ 1,333,844	\$ (872,539)	
Change in Working Capital	(461,305)	(775,862)	314,557	
Working Capital at 12/31/2019	\$ -	\$ 557,982	\$ (557,982)	



Lam Chung, Corporate Treasurer

P: 651.256.5187

F: 651.855.1712

E: lam.chung@mro.net

January 21, 2020

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

RE: Unaudited Midwest Reliability Organization (MRO) 2019 Fourth Quarter Statement of Activity –
Cash Flow through December 31, 2019

Dear Mr. Sharp:

MRO experienced variances greater than \$10,000 and 10 percent. Fourth quarter results indicate that MRO's budget is underspent by 12.3 percent.

Meeting Expenses (Variance of \$514,728 (49.0%) under budget)

Meeting costs were under budget due to: (1) fewer face-to-face working group meetings, and (2) an increase in MRO hosted meetings. Travel expenses were under budget due to: (1) fewer than anticipated personnel traveling, (2) fewer travel reimbursement requests from stakeholder volunteers, and (3) efficient use of technology (i.e. WebEx). Additionally, MRO continues to maximize the use of its expanded conference space and its online capability to reduce the need for travel by staff and members.

Operating Expenses (Variance of \$483,908 (12.9%) under budget)

Consultants and contracts are under budget due to a lower than anticipated need to utilize consultants for CMEP work and IT network support and maintenance, which was performed by internal staff. Office costs were under budget due to lower than budgeted employee training costs because of fewer FTEs than budgeted, and the realization of savings from negotiating lower prices on supplies and maintenance fees.

Professional services were over budget. External professional services are difficult to budget because these costs typically incur in response to specific situations that develop during the year. Under budget expenses in office costs and consultants and contracts were offset by over budget expenses in professional services.

Budget Outlook

The 2019 budget reflects an underage in personnel costs, as we are not fully staffed at 59 FTEs. Delays in staffing and staff turnover both contributed to a year-end variance of \$1,082,051 or 9.4 percent underage in personnel expenses. MRO is actively recruiting to fill current vacancies and anticipates that it will reach its projected 63 FTEs in 2020. The increase in personnel will cause accommodation issues for MRO's facility; the addition of staff will absorb the remaining seating capacity in MRO's office. Expansion of office space is being explored within the current building and may result in unbudgeted expenditures during 2020.

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
From 1/1/2019 to 12/31/2019
PRELIMINARY (Unaudited)**

(In Whole Dollars)

		2019 YTD Actual	2019 YTD Budget	2019 YTD Variance	%
Funding					
ERO Funding					
	ERO Assessments	\$ 15,471,670	\$ 15,471,670	-	
	Penalty Sanctions	59,255	59,255	-	
A. Total ERO Funding		\$ 15,530,926	\$ 15,530,925	\$ -	
Personnel Expenses					
	Salaries	\$ 7,677,408	\$ 8,386,512	(709,104)	
	Payroll Taxes	539,083	539,357	(274)	
	Benefits	835,914	928,884	(92,970)	
	Retirement Costs	1,435,213	1,714,916	(279,703)	
Total Personnel Expenses		\$ 10,487,618	\$ 11,569,669	\$ (1,082,051)	-9.4%
Meeting Expenses					
	Meetings	\$ 122,501	145,850	(23,349)	
	Travel	413,935	905,314	(491,379)	
	Conference Calls	-	-	-	
Total Meeting Expenses		\$ 536,436	\$ 1,051,164	\$ (514,728)	-49.0%
Operating Expenses					
	Consultants & Contracts	\$ 824,925	\$ 1,100,010	(275,085)	
	Office Rent	750,843	743,500	7,343	
	Office Costs	565,808	858,013	(292,205)	
	Professional Services	612,614	413,000	199,614	
	Miscellaneous	-	-	-	
	Depreciation	502,425	626,000	(123,575)	
Total Operating Expenses		\$ 3,256,615	\$ 3,740,523	\$ (483,908)	-12.9%
	Total Direct Expenses	\$ 14,280,669	\$ 16,361,356	\$ (2,080,687)	-12.7%
Indirect Expenses					
Other Non-Operating Expenses		\$ -	\$ -	\$ -	
B. Total Expenses		\$ 14,280,669	\$ 16,361,356	\$ (2,080,687)	
Change in Assets		\$ 1,250,257	\$ (830,431)	\$ 2,080,687	
Fixed Assets					
	Depreciation	(502,425)	(626,000)	123,575	
	Computer & Software CapEx	198,241	245,000	(46,759)	
	Furniture & Fixtures CapEx	-	-	-	
	Equipment CapEx	27,000	-	27,000	
	Leasehold Improvements	4,709	-	4,709	
C. Inc(Dec) in Fixed Assets		\$ (272,475)	\$ (381,000)	\$ 108,525	-28.5%
Total Budget (B + C)		\$ 14,008,194	\$ 15,980,356	\$ (1,972,162)	-12.3%
Change in Working Capital (A-B-C)		\$ 1,522,732	\$ (449,431)	\$ 1,972,162	
Head Count		55.00	59.00	(4.00)	
FTEs		54.00	59.00	(5.00)	

Beginning WC-1/1/19	\$ 4,730,716	\$ 1,818,473	\$ 2,912,243
Change to WC-2019	1,522,732	(449,431)	1,972,163
Working Capital at December 31, 2019	\$ 6,253,448	\$ 1,369,042	\$ 4,884,406



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

January 21, 2020

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 2019 Statement of Activities

Dear Andy:

The variance comparison for the period ended December 31, 2019 is included along with Northeast Power Coordinating Council, Inc.'s unaudited Fourth Quarter 2019 Statement of Activities.

Please do not hesitate to contact me via email at 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, 2019

TOTAL EXPENSES

For the year ended December 31, 2019, the NPCC Regional Entity Division is \$1.2 million or -7.8% under budget, based on invoices received to date. Areas that are under budget are primarily staffing related and include Personnel Expenses, Meeting Expenses and Consultants & Contracts. NPCC is actively recruiting to fill several open positions. Despite not being fully staffed at varying durations throughout 2019, NPCC, due to its dedicated staff, who performed additional activities over and above, in terms of time and effort, successfully reprioritized resources during 2019 to fulfill all of its responsibilities under its Regional Delegation Agreement and MOUs. Continuing volunteerism and engagement of subject matter experts from within the NPCC membership also contributed greatly to NPCC's partnering and achieving its reliability objectives during 2019.

INCOME

- **Penalty Sanctions** No penalty sanctions were remitted from July 1, 2017 through June 30, 2018. All penalty sanctions remitted from July 1, 2018 through June 30, 2019 were included in the NPCC 2020 Business Plan and Budget and applied to reduce 2020 assessments to NPCC U.S. load serving entity designees. Penalty Sanctions received from July 1, 2019 through June 30, 2020 will be applied to reduce 2021 assessments to NPCC U.S. load serving entity designees.
- **Interest & Investment Income** (Actual income of \$79k, not included in budget)
NPCC accounts for but has not budgeted for interest income as returns in recent years have been low. The transfer of excess operating cash into a 100% U.S. treasury securities mutual fund during 2019 has resulted in higher returns. Accordingly, NPCC budgeted for investment income in 2020.
 - NPCC allocated \$79k as a portion of total interest & investment income (93%) to the Regional Entity Division consistent with the ratio of Regional Entity (RE) to Criteria Services (CS) Division 2019 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 \$623k under budget at year end)
 - Multiple positions were open over varying periods throughout the year and resulted in lower than budgeted personnel expenses. NPCC is recruiting heavily to fill 2019 and 2020 open positions. Certain 2019 vacancies were filled through in-house promotions, resource re-allocations and the retention of less seasoned successors, with the net result of lower than budgeted salaries and related benefits.

- **Meeting Expenses** (Variance of \$215k under budget at year end)
 - Staff vacancies resulted in lower than budgeted travel expenses for the year. Additionally, efforts to limit the number of attendees sent to off-site meetings, and to hold more meetings onsite, at member facilities or via webinar where effective, and will continue. As part of an ongoing organizational refresh, NPCC is exposing more of its staff to targeted experiences to gain greater industry insight.
- **Consultants & Contracts** (Variance of \$293k under budget at year end)
 - Under budget variance is primarily due to a reduction in the use of independent contractors for compliance audits, some of which were deferred into 2020 at the request of a registered entity. In addition, the Reliability Assessment and Performance Analysis and Situation Awareness and Infrastructure Security program areas utilized less consultant support than projected.
- **Fixed Assets** (Variance of \$24k under budget at year end)
 - Under budget variance is due to the timing of scheduled software development projects, which include website enhancements and the continued refinement of document management software and processes. Equipment capital expenditure includes hardware related to CRISP implementation.

(Unaudited)
Submitted January 21, 2020



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, 2019

	2019 YTD Actual	2019 YTD Budget	2019 YTD Actual Variance from Budget Over(Under)	%
Funding				
Assessments	15,003,411	15,003,411	-	
Penalties	-	-	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	74,790	67,500	7,290	
Interest & Investment Income	79,441	-	79,441	
Miscellaneous	-	-	-	
Total Funding	15,157,642	15,070,911	86,731	0.58%
Expenses				
Personnel Expenses				
Salaries	6,877,769	7,332,280	(454,512)	
Payroll Taxes	448,829	449,993	(1,164)	
Employee Benefits	1,556,356	1,613,078	(56,722)	
Savings & Retirement	742,663	853,510	(110,848)	
Total Personnel Expenses	9,625,617	10,248,862	(623,246)	-6.08%
Meeting Expenses				
Meetings	359,922	370,750	(10,828)	
Travel	652,493	845,900	(193,407)	
Conference Calls	24,904	36,000	(11,096)	
Total Meeting Expenses	1,037,319	1,252,650	(215,331)	-17.19%
Operating Expenses				
Consultants & Contracts	1,728,772	2,022,150	(293,377)	
Rent & Improvements	815,851	820,700	(4,849)	
Office Costs	666,491	676,347	(9,856)	
Professional Services	976,102	978,000	(1,898)	
Miscellaneous	39,627	51,000	(11,373)	
Depreciation	218,354	255,000	(36,646)	
Total Operating Expenses	4,445,197	4,803,197	(357,999)	-7.45%
Indirect Expense Allocation	(423,173)	(415,818)	(7,354)	1.77%
Other Non-Operating Expenses	-	-	-	n/a
Total Expenses	14,684,960	15,888,891	(1,203,931)	-7.58%
Net Change in Assets	472,682	(817,980)	1,290,662	-157.79%
Fixed Assets				
Depreciation	(218,354)	(255,000)	36,646	
Computer & Software CapEx	55,414	170,000	(114,586)	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	54,178	-	54,178	
Leasehold Improvements	-	-	-	
Incr(Dec) in Fixed Assets	(108,762)	(85,000)	(23,762)	27.96%
Total Budget (Expenses plus Incr(Dec) in Fixed Assets)	14,576,197	15,803,891	(1,227,693)	-7.77%
Budget)	581,445	(732,980)	1,314,424	-179.33%
Equivalent Full Time Employees	35.24	38.86	(3.63)	
Headcount	36.00	41.00	(5.00)	

Beginning Total Reserves - 1/1/19	4,969,944	4,453,571	516,373
Change to Reserves - YTD 2019	581,445	(732,980)	1,314,424
Projected Total Reserves at 12/31/19	5,551,389	3,720,591	1,830,797



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

January 21, 2020

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

ReliabilityFirst's 2019 4th Quarter Statement of Activities Variance Report - Unaudited

Dear Mr. Andy Sharp:

As requested, the attached 2019 4th Quarter Statement of Activities (unaudited) provides a comparison of budgeted and actual expenses relative to the 2019 ReliabilityFirst Corporation's Budget.

For more information, please contact me at 216.503.0600 or jill.lewton@rfirst.org.

Very truly yours,

RELIABILITYFIRST CORPORATION

Jill S. Lewton

Jill S. Lewton
Controller



ReliabilityFirst's 2019 4th Quarter Statement of Activities Variance Report - Unaudited

Significant Variances

For the year ending December 31, 2019 ReliabilityFirst Corporation is \$320k (1.41%) under budget. The major contributors to this variance are:

Budget Funding

- **Investment Income:** \$160K (321%) over budget for YTD
 - Investment Income is over budget due to greater than anticipated growth in value of the company's investment portfolio.

Budget Expenses

- **Personnel Expenses**
 - **Employee Benefits:** \$252K (11%) under budget for YTD
Employee Benefits are under budget due to negotiating a 0% increase in medical premiums, which is much less than the budgeted 15% increase, and underutilized budgeted training.
 - **Savings & Retirement Costs:** \$102K (5%) under budget for YTD
Savings & Retirement Costs are under budget due to the difference in how the budgeted and actual amounts are calculated and recorded, along with the unpaid retirement contributions for those employees who did not meet the plan requirements.
- **Meeting Expenses**
 - **Meetings:** \$74K (23%) over budget for YTD
Meetings are primarily over budget due to the increased costs associated with the semiannual Reliability and CIP workshops and the quarterly board of director meetings.
 - **Conference Calls:** \$23K (44%) under budget for YTD
Conference Calls are primarily under budget due to the lower contract rates that were negotiated in 2018 with a new conference call service provider.
- **Operating Expenses**
 - **Contracts & Consultants:** \$51K (10%) under budget for YTD
Contracts and Consultants expense is under budget due to amount budgeted to support the advanced customization of the corporate internal and external websites which was not utilized, along with spending less than budgeted for a security assessment.



- **Fixed Assets**

- **Computer Hardware & Software:** \$101K (56%) under budget for YTD
Computer Hardware & Software is under budget due to the reevaluation and rescheduling of budgeted upgrades.
- **Leasehold Improvements:** \$20K (88%) over budget for YTD
Leasehold Improvements is over budget due to the unbudgeted modifications made to the reception area to address identified security issues and to prepare for future office expansion.

Reserves

- **Working Capital Reserve**

The Working Capital Reserve of \$2,144,752 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 01/01/2019 Through 12/31/2019
(in Whole Numbers)

	2019 YTD Actual	2019 YTD Budget	YTD Variance Over/(Under)	% Variance
Funding				
Assessments	21,255,831	21,255,831	0	0.00%
Penalty Sanctions	327,215	327,215	0	0.00%
Investment Income	210,398	50,000	160,398	320.80%
Miscellaneous Income	2,613	0	2,613	0.00%
Total Funding	21,796,057	21,633,046	163,011	0.75%
Expenses				
Personnel Expenses				
Salaries	13,717,521	13,701,386	16,135	0.12%
Payroll Taxes	848,908	807,085	41,823	5.18%
Employee Benefits	2,055,367	2,307,002	(251,635)	-10.91%
Savings & Retirement Costs	2,150,978	2,252,749	(101,771)	-4.52%
Total Personnel Expenses	18,772,774	19,068,222	(295,448)	-1.55%
Meeting Expenses				
Meetings	387,892	314,200	73,692	23.45%
Travel	646,732	678,600	(31,868)	-4.70%
Conference Calls	29,063	52,200	(23,137)	-44.32%
Total Meeting Expenses	1,063,687	1,045,000	18,687	1.79%
Operating Expenses				
Contracts & Consultants	477,595	528,612	(51,017)	-9.65%
Rent & Utilities	557,658	521,086	36,572	7.02%
Office Costs	866,169	815,130	51,039	6.26%
Professional Services	422,690	423,522	(832)	-0.20%
Miscellaneous	44,121	43,886	235	0.54%
Depreciation	431,000	458,903	(27,903)	-6.08%
Total Operating Expenses	2,799,233	2,791,139	8,094	0.29%
Non-Operating Expenses	0	0	0	0.00%
Total Expenses	22,635,694	22,904,361	(268,667)	-1.17%
Net Change in Assets	(839,637)	(1,271,315)	431,678	-33.96%
Fixed Assets				
Depreciation	(431,000)	(458,903)	27,903	-6.08%
Equipment	1,595	0	1,595	0.00%
Computer Hardware & Software	78,891	180,000	(101,109)	-56.17%
Furniture & Fixtures	0	0	0	0.00%
Leasehold Improvements	43,250	23,000	20,250	88.04%
Increase/(Decrease) in Fixed Assets	(307,264)	(255,903)	(51,361)	20.07%
Total Budget (Expenses + Incr/(Decr) in Fixed Assets)	22,328,430	22,648,458	(320,028)	-1.41%
Change in Working Capital (Total Funding less Total Budget)	(532,374)	(1,015,412)	483,038	-47.57%
FTE	77.84	78.20	(0.36)	-0.46%
WC - 12/31/2018	2,613,256	1,173,486	1,439,770	
Less: Adjustment for future liabilities	(883,684)	0	(883,684)	
Available Working Capital	1,729,572	1,173,486	556,086	
Change to WC - 2019	(532,374)	(1,015,412)	483,038	
Other Adjustments to Reserves	(158,073)	(158,073)	0	
Total Working Capital	1,039,125	1	1,039,124	
Working Capital Reserve	2,144,752	2,144,752	0	
Operating Reserve	1,000,000	1,000,000	0	
Total Working Capital and Operating Reserve	4,183,877	3,144,753	1,039,124	



Evaluation | Analysis | Assistance | Operating Experience

January 16, 2020

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

RE: SERC 2019 Q4 Unaudited Financial Statement – Budget vs. Actual

Andy:

Following please find SERC's unaudited 2019 Q4 financial statement, reflecting actual to budgeted amounts with variance explanations.

If you have any questions, please let me know.

Thank you,

A handwritten signature in black ink, appearing to read 'George Krogstie', is written over a light blue circular stamp.

George Krogstie
Chief Financial Officer and Corporate Treasurer

cc: Jason Blake

SERC Reliability Corporation
YTD Report to Treasurer
From 1/1/2019 Through 12/31/2019

(In Whole Dollars)

	2019 Actual	2019 Budget	Actual Variance from Budget Over(Under)	%
Funding				
ERO Funding	17,372,216	17,372,215	1	
Penalties	6,619,919	83,000	6,536,919	
Workshops & Misc.	3,106,688	160,550	2,946,138	
Interest	72,176	1,000	71,176	
Total Funding	27,170,999	17,616,765	9,554,234	54.23%
Expenses				
Personnel Expenses				
Salaries	12,445,750	10,276,729	2,169,021	
Payroll Taxes	826,615	746,769	79,846	
Benefits	1,426,426	1,172,398	254,028	
Retirement Costs	1,423,560	1,330,427	93,133	
Total Personnel Expenses	16,122,351	13,526,323	2,596,028	19.19%
Meeting Expenses				
Meetings	489,743	306,700	183,043	
Travel	880,254	648,922	231,332	
Communications	25,150	30,000	(4,850)	
Total Meeting Expenses	1,395,147	985,622	409,525	41.55%
Operating Expenses				
Contracts & Consultants	1,623,981	1,978,481	(354,500)	
Office Rent	740,898	785,196	(44,298)	
Office Costs	835,112	535,986	299,126	
Professional Services	150,038	110,340	39,698	
Miscellaneous/Contingency	(20,000)	3,000	(23,000)	
Total Operating Expenses	3,330,029	3,413,003	(82,974)	-2.43%
Other Non-Operating Expenses	-	-	-	-
Total Expenses	20,847,527	17,924,948	2,922,579	16.30%
Net Change in Assets	6,323,472	(308,183)	6,631,655	-2151.86%
Fixed Assets				
Computer & Software CapEx	240,500	220,000	20,500	
Furniture & Fixtures CapEx	339,903	-	339,903	
Equipment CapEx	122,712	-	122,712	
Leasehold Improvements	1,064,403	-	1,064,403	
Increase(Decrease) in Fixed Assets	1,767,518	220,000	1,547,518	703.42%
Total Budget(Exp plus Incr/(Decr) in Fixed Assets	22,615,045	18,144,948	4,470,097	24.64%
Change in Working Capital (Total Funding less Total Budget)	4,555,954	(528,183)	5,084,137	-962.57%
FTE's	90.00	78.00	12.00	
Head Count	90.00	78.00	12.00	
Beginning WC Reserve at 1-1-2019	2,945,995	2,328,184	617,811	
Change to WC - 2019	4,555,954	(528,183)	5,084,137	
Working Capital Reserve at 12/31/2019	7,501,949	1,800,001	5,701,948	



Budget to Actual Comparison as of December 31, 2019 (Unaudited)

Overall Summary

- Spending \$4.5M over budget associated with FRCC transition expenses
- Funding \$9.6M over budget attributable to recognition of \$6.5M in penalty funds, and \$2.9M in Q3 – Q4 FRCC assessments

Income

- **Revenue (Actual - \$9.6M over budget)**
 - Unbudgeted recognition of penalty revenues (\$6.5M) and FRCC Q3 – Q4 assessments (\$2.9M)
 - Interest income due to implementation of cash investment strategy (\$71K)

Expense

- **Personnel Expenses (Actual - \$2.6M over budget)**
 - Expenses reflect onboarding of incremental FTEs to administer program services for registered entities transferred from FRCC
- **Meeting/Travel Expenses (Actual - \$410K over budget)**
 - Increased travel and meetings due to FRCC integration and program activities, and increased event expenses associated with higher attendance
- **Contracts/Consultants (Actual - \$355K under budget)**
 - Compliance User Group (CUG) expenses \$122K under budget
 - Certain software related purchases budgeted in Contracts, expensed in Office Costs \$100K
 - RAPA projects deferred to future year – NERC Special Study \$100K, and Dynamic Reduction Model \$63K
- **Office Rent (Actual - \$44K under budget)**
 - True up of prior year operating costs resulted in a refund from landlord
- **Office Costs (Actual – \$299K over budget)**
 - Software expenses of \$100K were budgeted in contracts.
 - Technology and other office costs for additional staff related to FRCC transition of \$200K
- **Professional Services (Actual - \$40K over budget)**
 - Legal fees associated with employment matters and review of SERC bylaws driving budget variance
- **Fixed Asset Purchases (Actual - \$1.5M over budget)**
 - Unbudgeted FRCC transition related expenses, including buildout of office space to accommodate additional staff, and upgrades to current document retention systems

January 15, 2020

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

Dear Andy,

Attached is the 2019 Fourth Quarter Statutory Statement of Activities (unaudited) and Fixed Assets Variance Report for Texas RE.

For year ending 2019, Texas RE is 7.0% under budget.
Variance explanations are 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, 2019

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

FUNDING

- **Penalty Sanctions:** (Actual penalty income of \$114,449 remitted to Texas RE as of June 30, 2018 has reduced 2019 assessments.) All penalty sanctions remitted from July 1, 2018 through June 30, 2019 will be included in the Texas RE 2020 Business Plan and Budget and applied to reduce 2020 assessments.
- **Interest:** \$72,605 greater than budget. Texas RE's banking account is the Business Banking U.S. End of Day Money Market Mutual Fund Sweep account. This account type allows for higher interest and dividend collections than budgeted.

EXPENSES

Total Budget as of December 31, 2019 is \$911,953 less than budget (-7.0%).

- **Personnel Expenses: \$585,715 less than budget (-5.7%).**
 - Variance due to vacancies in CMEP department for salaries, payroll taxes, and retirement plans.
 - Health insurance did not increase as projected.
- **Meetings and Travel Expenses: \$2,850 greater than 2019 budget (.7%).**
 - Texas RE held the first annual meeting that included lunch, a speaker, the stakeholders and registered entities causing the 25.5% unfavorable variance in Meeting Expense.
- **Total Operating Expenses excluding Depreciation: \$299,089 less than budget (-12.7%).**
 - The cost for compensation studies is less than budget due to using the same vendor for all studies. Coupled with cost savings in contract renewals for IT managed services the variance in Consultants and Contracts is 14.4% less than budget.
 - The utility true up was less than anticipated leaving a 15.5% variance in Rent & Improvements.
 - Due to negotiations with vendors for internet expense and software maintenance, office expense is 6.6% less than budget.
 - Unused legal fees and lower costs for penetration testing cause Professional Services to be 15.9% less than budget.
- **Fixed Asset Additions were not purchased in 2019 leaving the \$30,000 budget unused.**

Texas Reliability Entity, Inc.
Statement of Activities and Fixed Assets
For period ended December 31, 2019
(Unaudited)

	2019 Actual	2019 Budget	YTD Actual Variance from Budget	%
Revenue				
ERO Funding				
Assessments	\$ 13,248,000	\$ 13,248,000	\$ -	0.0%
Penalty Sanctions	114,449	114,449	-	0.0%
Interest & Membership Dues	87,605	15,000	72,605	484.0%
Total Revenue	\$ 13,450,054	\$ 13,377,449	\$ 72,605	0.5%
Expenses				
Personnel Expenses				
Salaries	\$ 7,149,347	\$ 7,394,175	\$ (244,828)	-3.3%
Payroll Taxes	489,336	506,087	(16,751)	-3.3%
Employee Benefits	1,109,848	1,383,051	(273,203)	-19.8%
Savings & Retirement	968,544	1,019,478	(50,934)	-5.0%
Total Personnel Expenses	\$ 9,717,076	\$ 10,302,791	\$ (585,715)	-5.7%
Meeting & Travel Expenses				
Meetings	\$ 24,842	\$ 19,800	\$ 5,042	25.5%
Travel	349,428	349,770	(342)	-0.1%
Conference Expenses	18,150	20,000	(1,850)	-9.3%
Total Meeting & Travel Expenses	\$ 392,420	\$ 389,570	\$ 2,850	0.7%
Operating Expenses				
Consultants & Contracts	\$ 342,813	\$ 400,250	\$ (57,437)	-14.4%
Rent & Improvements	585,095	692,214	(107,119)	-15.5%
Office Costs	654,555	701,070	(46,515)	-6.6%
Professional Services	465,682	553,700	(88,018)	-15.9%
Total Operating Expenses	\$ 2,048,145	\$ 2,347,234	\$ (299,089)	-12.7%
Total Expenses	\$ 12,157,642	\$ 13,039,595	\$ (881,953)	-6.8%
Change in Assets	\$ 1,292,413	\$ 337,854	\$ 954,559	282.5%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ 30,000	\$ (30,000)	-100.0%
TOTAL BUDGET	\$ 12,157,642	\$ 13,069,595	\$ (911,953)	-7.0%
Change in Working Capital (Total Revenue less Total Budget)	\$ 1,292,413	\$ 307,854	\$ 984,559	319.8%
FTE's	57	60		
Beginning WC - 1/1/19	\$ 2,223,149	\$ 1,314,649	\$ 908,500	
Change to WC - 2019	1,292,413	307,854	984,559	
Working Capital 12/31/2019	\$ 3,515,562	\$ 1,622,503	\$ 1,893,059	



Jillian Lessner
Vice President and Chief Financial and
Administrative Officer
January 21, 2020

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

RE: WECC Q4 2019 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 2019 year-end unaudited results are \$5,239,000 under budget. The main driver of the underrun relates to a change in Generally Accepted Accounting Principles regarding the timing of penalty revenue recognition. \$4,572,000 of the underrun relates to this accounting change and the remaining \$667,000 relates to WECC operations for the year.

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 percent are explained below. The explanations pertain to all statutory activities.

Revenue

- Penalties: \$4,572,000 over budget

Penalties are over budget due to a change in Generally Accepted Accounting Principles for revenue recognition timing. For purposes of financial reporting, WECC now recognizes penalties when approved by the Federal Energy Regulatory Commission, rather than in the year in which the penalties offset assessments.

- Workshop Fees: \$93,000 over budget

Workshop Fees are over budget due to higher-than-expected attendance at the April and October Reliability and Security Workshops.

- Interest Income: \$184,000 over budget

Interest is over budget due to higher-than-expected yields on short-term investments.

- Miscellaneous Income: \$11,000 over budget

Miscellaneous is over budget due to higher-than-expected unrealized gains on short-term investments and equipment recycling proceeds.

Expenses

- Travel: \$195,000 under budget

Travel is under budget primarily due to less-than-anticipated CEMP-related travel, due to sending fewer individuals to each audit.

- Office Costs: \$261,000 over budget

Office Costs are over budget due to unbudgeted purchases of furniture, fixtures, and equipment for upgrades to the Salt Lake City meeting space, increased cloud-based software licensing, and improvements to disaster recovery processes.

Fixed Assets

- Equipment CapEx: \$160,000 over budget

Equipment CapEx is over budget due to unbudgeted audio-visual improvements to the Salt Lake City meeting space.

- Leasehold Improvements: \$28,000 over budget

Leasehold Improvements are over budget due to unbudgeted improvements to the Salt Lake City office space.

Statutory Statement of Activities and Variance Explanations (January 21, 2020)



(In Whole Dollars)

Western Electricity Coordinating Council Statutory Statement of Activities From 1/1/2019 to 12/31/2019 (Unaudited)

	2019 YTD Actual	2019 YTD Budget	2019 YTD Variance Over (Under)	%
Funding				
Assessments	25,282,000	25,282,000	-	0.0%
Penalties	5,160,000	587,686	4,572,314	778.0%
Federal Grants	-	-	-	-
Testing	-	-	-	-
Services & Software	-	-	-	-
Workshop Fees	517,562	424,500	93,062	21.9%
Interest	303,725	120,000	183,725	153.1%
Miscellaneous	11,177	-	11,177	100.0%
Total Funding	31,274,464	26,414,186	4,860,278	18.4%
Expenses				
Personnel Expenses				
Salaries	15,429,695	15,865,019	(435,324)	-2.7%
Payroll Taxes	1,003,655	1,037,394	(33,740)	-3.3%
Employee Benefits	2,077,997	2,302,709	(224,712)	-9.8%
Savings & Retirement	1,249,577	1,311,108	(61,531)	-4.7%
Total Personnel Expenses	19,760,924	20,516,231	(755,307)	-3.7%
Meeting Expenses				
Meetings	580,036	640,953	(60,917)	-9.5%
Travel	1,214,302	1,408,868	(194,566)	-13.8%
Conference Calls	60,462	57,600	2,862	5.0%
Total Meeting Expenses	1,854,800	2,107,421	(252,621)	-12.0%
Operating Expenses				
Consultants and Contracts	1,394,540	1,292,890	101,650	7.9%
Rent & Improvements	998,343	972,909	25,434	2.6%
Office Costs	1,818,760	1,557,679	261,081	16.8%
Professional Services	980,507	908,280	72,227	8.0%
Miscellaneous	-	-	-	-
Depreciation	246,916	238,545	8,371	3.5%
Total Operating Expenses	5,439,066	4,970,303	468,763	9.4%
Direct Expenses	27,054,790	27,593,955	(539,165)	-2.0%
Indirect Expenses	(541,089)	(532,909)	(8,180)	1.5%
Other Non-Operating Expenses	407	-	407	100.0%
Total Expenses	26,514,108	27,061,046	(546,938)	-2.0%
Net Change in Assets	4,760,356	(646,860)	5,407,216	-835.9%
Fixed Assets				
Depreciation	(246,916)	(238,545)	(8,371)	3.5%
Computer & Software CapEx	-	5,000	(5,000)	-100.0%
Furniture & Fixtures CapEx	-	-	-	-
Equipment CapEx	264,839	105,000	159,839	152.2%
Leasehold Improvements	40,126	12,000	28,126	234.4%
Allocation of Fixed Assets	-	6,065	(6,065)	-100.0%
Incr(Dec) in Fixed Assets	58,048	(110,480)	168,528	-152.5%
Total Expenditures	26,572,156	26,950,566	(378,410)	-1.4%
Change in Working Capital (Total Funding less Total Budget)	4,702,308	(536,380)	5,238,688	
FTEs	126.77	143.00	(16.23)	
Headcount	129.00	143.00	(14.00)	
Beginning WC - 1/1/2019	6,537,757	5,838,401	699,356	
Change to WC - 2019	4,702,308	(536,380)	5,238,688	
Working Capital at 12/31/2019	11,240,065	5,302,021	5,938,044	



Annual Review of Committee Mandate

Action

Review

Background

As part of the annual review of all Board committee mandates, the NERC Legal Department has reviewed the current [Finance and Audit Committee \(FAC\) mandate](#) and is not recommending any revisions at this time.

Board of Trustees

Finance and Audit Committee Mandate

Approved by the Board of Trustees: August 10, 2017

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). 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 NERC's financial results and reporting process, system of internal financial and accounting controls and financial audit process and its oversight of the NERC, Regional Entities and WIRAB business plans and budgets, as well as 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 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 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.
3. 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.

Financial Reports and Reporting

1. Oversee NERC management's maintenance of the quality, credibility, and objectivity of the corporation's financial reports.
2. Review the adequacy and integrity of the corporation's internal accounting and financial 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 management reports relating to such controls and any mitigation plans or other responses by management relating to such 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. 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. 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 shall hold an annual executive session with the Board.

5. Review and approve the independent auditor's estimated annual audit fees and expenses.
6. 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. 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. Review the financial aspects of the corporation's Form 990 prior to it being filed with the Internal Revenue Service.
2. Review and recommend approval by the Board of an investment policy governing the investment of funds held by the corporation.
3. Review policies for the approval of NERC senior management expenses, including those of the CEO of the corporation.
4. 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. 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.