NERC Summary of Unaudited Results Third Quarter 2019

Andy Sharp, Vice President, Controller and Interim CFO
Finance and Audit Committee Meeting
October 31, 2019
2019 Third Quarter YTD Results

- Total funding – $600k (1.0%) over budget
  - Higher workshop revenue and investment income
- Total expenditures – $2.6M (4.3%) under budget
  - Primarily due to the expected timing of expenditures versus budget
- Net impact was $3.2M increase in reserves
2019 Year-End Projections

• Funding – $200k (0.3%) over budget
  ▪ Higher workshop revenue and investment income, offset by lower third-party revenues needed to fund CRISP

• Operating expenditures – $400k (0.5%) over budget
  ▪ Personnel expenses expected to be over budget due to transition costs and search fees
  ▪ Meeting expenses expected to be higher than budget, largely offset by workshop fee funding
  ▪ Fixed assets projected to be under budget
2019 Year-End Projections

- Projected net results from operating activities – $200k unfavorable to budget
- Debt service will be $700k favorable to budget
- 2019 loan borrowing for ERO software projects expected to be lower than budget, due to favorable debt service
• Total projected reserve balances – $9.6M
  ▪ Operating Contingency Reserve – $4.7M
  ▪ Assessment Stabilization Reserve – $1.5M
  ▪ Future Obligation Reserve – $2.1M
  ▪ System Operator Reserve – $708k
  ▪ CRISP Reserve – $500k
• Total year-end reserves projected in 2019 budget – $8.6M
Questions and Answers
ERO Enterprise Combined
Summary of Unaudited Results
Third Quarter 2019

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• Total expenditures for the ERO Enterprise are under budget $4.3M (2.9%)
  ▪ Personnel expenses over budget $713k (0.7%)
    o NERC – $786k (2.4%) due to transition costs and search fees
    o FRCC – $1.5M (62.6%) due to FRCC RE transition costs
    o SERC – $1.2M (12.2%) due to FRCC RE transition costs
  ▪ Other categories under budget mainly due to timing of expenditures and lower spending:
    o Meeting and travel expenses – $438k (-5.7%)
    o Operating expenses – $4.0M (-9.9%)
    o Fixed asset additions – $1.1M (-26.1%)
• NERC and five Regional Entities under budget
  - **NERC** $2.6M (-4.3%) – operating costs and fixed asset additions
  - **MRO** $1.7M (-14.6%) – personnel, travel, and operating costs
  - **NPCC** $858k (-7.4%) – personnel, meeting, and operating costs
  - **RF** $475k (-4.0%) – personnel and operating costs
  - **Texas RE** $775k (-7.9%) – personnel, meeting, and operating costs
  - **WECC** $912k (-4.6%) – personnel, meeting, travel, and operating costs, and fixed asset additions

• Two Regional Entities over budget
  - **FRCC** $1.4M (41.6%) – personnel costs
  - **SERC** $1.8M (13.7%) – personnel, meeting, travel, and operating costs, and fixed asset additions
• The ERO Enterprise expects to be over budget $415k (0.2%) at year-end
  ▪ NERC projects to be over budget $402k
  ▪ SERC projects to be over budget $5.1M due to FRCC RE transition
  ▪ FRCC projects to be under budget $1.6M due to FRCC RE transition
  ▪ MRO projects to be under budget $1.3M due to staff vacancies
  ▪ NPCC projects to be under budget $714k
  ▪ RF projects to be under budget $677k
  ▪ WECC projects to be under budget $652k
  ▪ Texas RE projects to be under budget $193k
$37.6M – Total reserves as of January 1, 2019
  ▪ Started $7.7M over combined budgets
$49.7M – Total reserves as of September 30, 2019
  ▪ $16.9M more than expected through Q3
$34.9M – Year-end projection for 2019
  ▪ Ending $9.3M more than budgeted
Questions and Answers
2021 Business Plan & Budget Preparation Schedule

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The NERC and Regional Entity (RE) business plan and budget (BP&B) process takes several months and numerous stakeholders and groups are involved throughout:

- NERC Board of Trustees (Board) and Finance and Audit Committee (FAC)
- RE boards and finance committees
- ERO Finance Group (NERC and RE representatives)
- Other ERO working groups where relevant
- Members Representatives Committee (MRC)
- MRC BP&B Input Group
- Trade associations and forums
• April
  ▪ High-level NERC budget overview provided to MRC BP&B Input Group, trades and forums representatives, and NERC FAC
  ▪ Draft 1 of RE BP&Bs due to NERC
• May
  ▪ Preview of Draft 1 NERC and RE BP&Bs shared with NERC FAC
  ▪ Draft 1 NERC BP&B posted for comment
  ▪ NERC and RE BP&Bs reviewed with FERC
  ▪ FAC webinar to review Draft 1 NERC and RE BP&Bs
2021 BP&B High-Level Schedule

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

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