

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

NERC Summary of Unaudited Results Second Quarter 2019

Andy Sharp, Interim CFO and Controller
Finance and Audit Committee Meeting
August 14, 2019

RELIABILITY | RESILIENCE | SECURITY



- Total funding – \$200k (0.6%) over budget
 - Higher investment income
- Total expenditures – \$2.2M (5.3%) under budget
 - Primarily due to the expected timing of expenditures versus budget
- Net impact was \$2.4M increase in reserves

- Funding – \$300k (0.3%) over budget
 - Higher investment income and offset by lower third-party revenues needed to fund CRISP
- Operating expenditures – \$700k (0.8%) over budget
 - Personnel expenses expected to be over budget due to transition costs and search fees
 - Contracts and consultants projected to be over budget due to FRCC transition work, SOCCED system enhancements, and E-ISAC support costs
 - Meeting expenses expected to be higher than budget, but partially offset by workshop fee funding
 - Fixed assets projected to be under budget

- Projected net results from operating activities – \$400k 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 – \$9.8M
 - Operating Contingency Reserve – \$5.1M
 - Assessment Stabilization Reserve – \$1.5M
 - Future Obligation Reserve – \$2.1M
 - System Operator Reserve – \$470k
 - CRISP Reserve – \$500k
- Total year-end reserves projected in 2019 budget – \$8.6M



Questions and Answers

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

ERO Enterprise Combined Summary of Unaudited Results Second Quarter 2019

Andy Sharp, Interim CFO and Controller
Finance and Audit Committee Meeting
August 14, 2019

RELIABILITY | RESILIENCE | SECURITY



- Total expenditures for the ERO Enterprise are under budget \$3.1M (3.1%)
 - Personnel expenses over budget \$64k (0.1%) – FRCC is \$1.5M over budget due to transition costs, which is offset by lower personnel spending in the remainder of the ERO Enterprise
 - Other categories under budget mainly due to timing of expenditures and lower spending:
 - Operating expenses – \$2.7M (-10.0%)
 - Fixed asset additions – \$701k (-25.1%)

- NERC and five Regional Entities under budget
 - **NERC** \$2.2M (-5.3%) – operating costs and fixed asset additions
 - **MRO** \$1.0M (-13.0%) – personnel, travel, and operating costs
 - **NPCC** \$352k (-4.6%) – personnel, meeting, and operating costs
 - **RF** \$475k (-4.0%) – personnel and operating costs and fixed asset additions
 - **Texas RE** \$524k (-8.0%) – personnel and operating costs
 - **WECC** \$428k (-3.2%) – personnel, travel, and operating costs, and fixed asset additions
- Two Regional Entities over budget
 - **FRCC** \$1.4M (41.6%) – personnel costs
 - **SERC** \$418k (4.7%) – personnel, meeting, travel, and operating costs, and fixed asset additions

- The ERO Enterprise expects to be over budget \$2.0M (1.0%) at year-end
 - NERC expects to be slightly over budget due to personnel costs, FRCC transition costs, and SOCCED system enhancements
 - FRCC projects to be under budget \$1.6M due to transition
 - SERC projects to be over budget \$5.1M due to FRCC transition
 - MRO projects to be under budget \$1.2M due to staff vacancies
 - RF, Texas RE, and WECC expect to be close to budget

- \$37.6M – Total reserves as of January 1, 2019
 - Started \$7.7M over combined budgets
- \$53.1M – Total reserves as of June 30, 2019
 - \$12.9M more than expected through Q2
- \$34.0M – Year-end projection for 2019
 - Ending \$8.4M more than budgeted



Questions and Answers

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

NERC 2020 Business Plan and Budget – Final Draft

Andy Sharp, Interim CFO and Controller
Finance and Audit Committee Meeting
August 14, 2019

RELIABILITY | RESILIENCE | SECURITY



- Expand risk-based focus in all Standards, Compliance Monitoring, and Enforcement programs
- Assess and catalyze steps to mitigate known and emerging risks to reliability
- Build a strong, E-ISAC-based security capability
- Strengthen engagement and collaboration across North America and the reliability ecosystem
- Capture effectiveness, efficiency, and continuous improvement opportunities

**Proposed revised focus areas, which will be discussed during the August 14 MRC meeting*

- **2018** – Added eight FTEs and increased investments in technology and portal enhancements
- **2019** – Adding nine FTEs for analytics and watch operations and two for corporate support; enhanced technology; GridEx “on-year”
- **2020** – Additional seven FTEs for analytics, watch operations, and engagement and three for corporate support; continued investments in technology; GridEx “off-year”
- **2021 and 2022** – Planning to add a total of 14 FTEs in E-ISAC and two for corporate support; continued investments in technology; continued GridEx support

- **Third-year of E-ISAC Long-Term Strategic Plan**
 - Addition of seven FTEs in E-ISAC and three corporate support FTEs
 - New and enhanced technology for security data management and stakeholder engagement
 - Proposed budget on track with prior projections
- **Personnel**
 - Market adjustments for salary and benefit costs
 - Addition of two corporate FTEs (contractor conversions for critical roles)
 - Reduction of three open positions in other program areas
- **Technology and tools**
 - Final year of CMEP Technology Project (Align) development
 - Enhancements and maintenance of data management tools

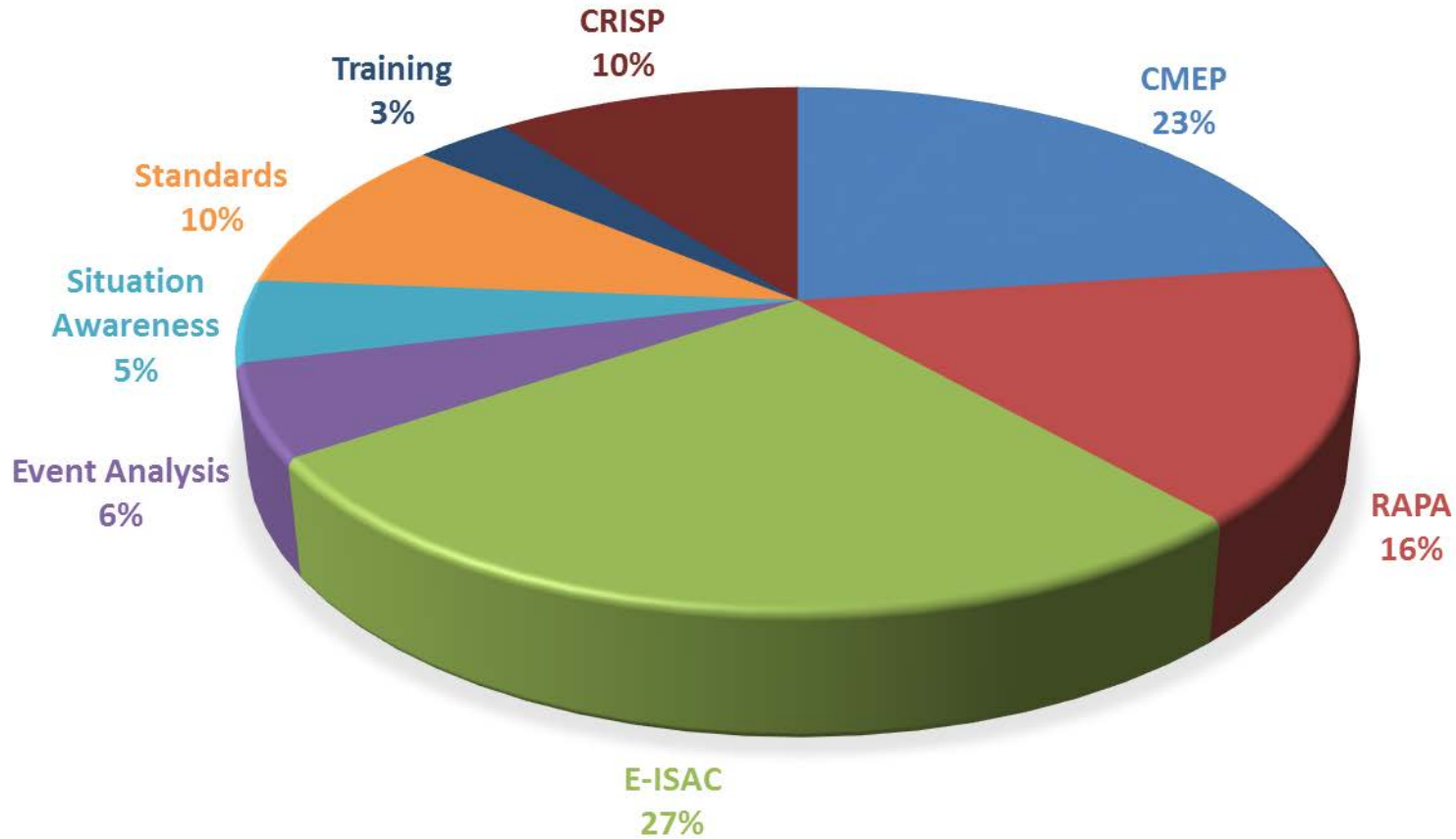
- Posted for stakeholder comment May 17–June 28
 - Budget increase of 3.8% over 2019
 - Assessment increase of 4.5%
- Comments received from six entities:
 - Support for continued investment in E-ISAC and budget stabilization efforts in the rest of NERC operations
 - Concern with E-ISAC increase and duplication of effort in Canada
 - Clarity requested on salary and medical benefits increases
 - Expectation to see savings from effectiveness and efficiency efforts
- Management response letter to Draft 1 comments posted on NERC website on July 11

- Posted for stakeholder comment July 15–31
 - Budget increase of 4.5% (added \$500k for leasehold improvements)
 - Assessment increase remained at 4.5% (additional \$500k funded by reserves)
 - Added two FTEs (contractor conversions for critical roles)
- Comments received from two entities:
 - Support for overall budget, with understanding that E-ISAC increases will continue through 2022
 - Support from IESO regarding NERC and IESO pilot collaboration agreement for cyber security information sharing
- Management response letter to Draft 2 comments posted on NERC website on August 7

- **Budget \$83.4M, 4.5% increase over 2019**
- **Assessment \$72.0M, 4.5% increase**
 - Impacted by capital financing program, debt service and other funding (e.g. CRISP revenues)
 - Release of \$650k of working capital
 - No use of Assessment Stabilization Reserve
- **Final draft posted on August 7**
 - No change to budget or assessments
 - Minor wording updates and clarifications

- United States – \$65.1M
 - Increase of \$2.7M (4.3%) over 2019
 - Cost per NEL: \$0.016 per MWh
- Canada – \$6.7M
 - Increase of \$450k (7.3%)
 - Includes compliance credits and true-ups
 - Cost per NEL: \$0.013 per MWh
- Mexico – \$225k
 - Increase of \$13k (6.0%)
 - Cost per NEL: \$0.016 per MWh

2020 Budget by Program Area



- **2021**

- Budget – 2.8% increase over 2020
- Assessment – 5.6% increase over 2020

- **2022**

- Budget – 4.0% increase over 2021
- Assessment – 5.9% increase over 2021

- E-ISAC budget increases represent the vast majority of projected increases in the total NERC budget
- Assessment increase does not yet include any proposed release from Assessment Stabilization Reserve



Questions and Answers

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

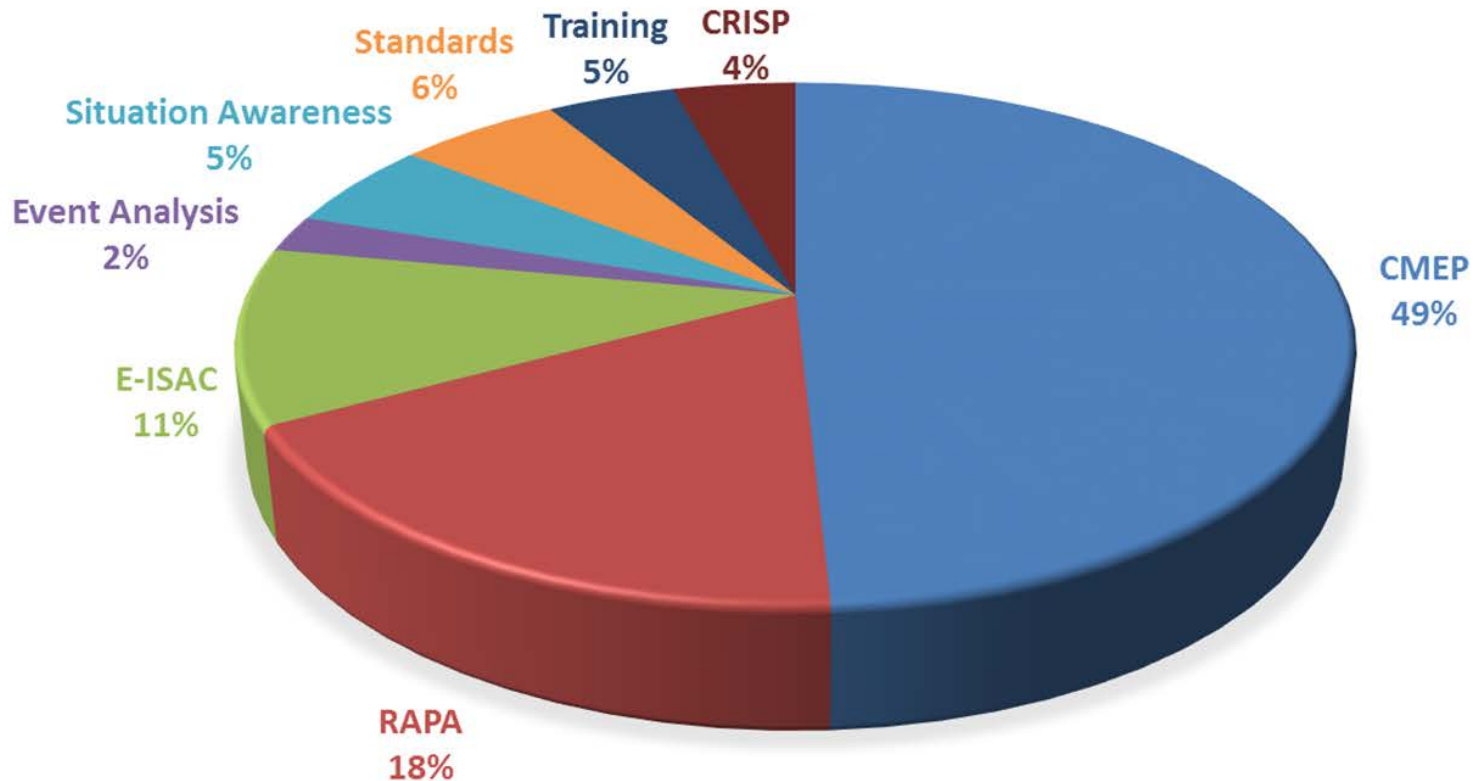
ERO Enterprise Combined 2020 Budgets & Assessments

Andy Sharp, Interim CFO and Controller
Finance and Audit Committee
August 14, 2019

RELIABILITY | RESILIENCE | SECURITY



	<u>Budgets Change</u>					
	%	%	%	%	\$ (millions)	%
	Change 15 vs 16	Change 16 vs 17	Change 17 vs 18	Change 18 vs 19	Change 19 vs 20	Change 19 vs 20
NERC	0.8%	3.6%	5.1%	9.5%	\$ 3.6	4.5%
FRCC	1.4%	-1.2%	4.7%	-10.9%	\$ (6.7)	-
MRO	9.9%	-1.1%	4.5%	36.3%	\$ 1.6	9.8%
NPCC	2.0%	0.5%	-0.3%	4.6%	\$ 0.4	2.2%
RF	3.2%	2.8%	7.5%	5.9%	\$ 1.0	4.4%
SERC	-0.8%	10.2%	-1.7%	5.6%	\$ 6.4	35.2%
SPP RE	-14.5%	7.6%	-0.7%	-	\$ -	-
Texas RE	-1.7%	3.3%	4.0%	3.3%	\$ 0.8	5.8%
WECC	4.1%	-2.1%	1.1%	-0.5%	\$ 0.8	3.0%
Weighted Average Increase	0.9%	2.7%	3.3%	1.4%		3.9%
Excluding E-ISAC	-1.3%	2.5%	1.7%	-1.6%		2.2%
5-year Annual Average Growth Rate:	2.4%					
Excluding E-ISAC	0.7%					



	<u>Assessments Change</u>				\$ (millions) Change 19 vs 20	% Change 19 vs 20
	% Change 15 vs 16	% Change 16 vs 17	% Change 17 vs 18	% Change 18 vs 19		
	NERC	3.2%	4.9%	5.1%		
FRCC	9.3%	-7.0%	8.1%	-12.5%	\$ (5.8)	-
MRO	15.5%	-3.6%	2.2%	44.2%	\$ 1.5	9.8%
NPCC	2.0%	-0.7%	0.6%	4.6%	\$ 0.3	2.2%
RF	3.5%	1.0%	3.0%	5.5%	\$ 1.1	5.0%
SERC	0.0%	14.4%	9.5%	1.0%	\$ 5.1	29.3%
SPP RE	-10.9%	5.4%	7.0%	-	\$ -	-
Texas RE	-8.5%	0.4%	17.5%	17.5%	\$ 0.1	0.7%
WECC	0.0%	1.0%	0.0%	0.0%	\$ -	0.0%
Weighted Average Increase	1.7%	2.8%	4.9%	2.3%		2.9%

<u>Total ERO Assessments by Region Change</u>				
	% Change 17 vs 18	% Change 18 vs 19	\$ (millions) Change 19 vs 20*	% Change 19 vs 20*
FRCC	7.0%	-4.9%	\$ -	-
MRO	3.6%	55.8%	\$ 1.7	7.3%
NPCC	2.6%	5.1%	\$ 0.9	3.9%
RF	3.9%	6.5%	\$ 1.9	5.4%
SERC	7.3%	5.8%	\$ 9.8	29.2%
SPP RE	6.7%	-	\$ -	-
Texas RE	13.9%	16.0%	\$ 0.5	2.4%
WECC	1.1%	4.0%	\$ 0.1	0.4%
Weighted Average Increase	4.9%	2.3%		2.9%

**NERC assessments are allocated to each Regional Entity using NEL data. For purposes of this table, NERC 2020 assessments are allocated using 2018 data.*



Questions and Answers