

NERC, Regional Entity, and WIRAB 2020 Budgets and Assessments

Overview and Total ERO Enterprise Analysis

The following includes an overview of the development of the proposed NERC, Regional Entity, and WIRAB 2020 Business Plan and Budgets (BP&Bs) and associated assessment schedule, as well as an analysis of the total ERO Enterprise 2020 budget and assessments.¹

NERC 2020 BP&B

The first draft of the NERC 2020 BP&B proposed a 3.8% budget increase and a 4.5% assessment increase over 2019. The key assumptions included (1) implementation of the third-year of the Electricity Information Sharing and Analysis Center (E-ISAC) long-term strategic plan, including the addition of seven full-time equivalents (FTEs) directly in the E-ISAC and three corporate support FTEs; (2) continued investment in technology solutions, including the final year of development of the Compliance Monitoring and Enforcement Program (CMEP) Technology Project (also known as the Align tool); and (3) market adjustments for salary and benefits costs and the reduction of three open positions outside of the E-ISAC.

The first draft was posted for stakeholder comment May 17–June 28, 2019, and NERC provided an overview during a webinar hosted by the NERC Board of Trustees Finance and Audit Committee (FAC) on May 30, 2019. Comments were received from various entities. Notable comments included: (1) concern with the E-ISAC increase with respect to duplication of effort in Canada; (2) clarification on salary and medical benefits increases; and (3) the expectation to see savings from ERO effectiveness and efficiency efforts. These comments were addressed directly with trade association representatives and in a [written response](#) that was posted on July 11, 2019.

The second draft of the NERC BP&B was posted for comment July 15–July 31, 2019, and NERC provided an overview during the July 18, 2019, FAC webinar. The overall budget increase over 2019 in the second draft was 4.5% versus 3.8% in the first draft due to the addition of \$500k for leasehold improvements. The assessment increase was unchanged since this additional \$500k was proposed to be funded by operating reserves. Comments on the second draft were received from two entities; both sets of comments were overall supportive of the second draft of the NERC 2020 BP&B, acknowledging the investment for the E-ISAC long-term strategic plan and its engagement and collaboration efforts with Canadian entities.

The final draft of the BP&B was posted on August 7, 2019, for FAC review and recommended approval during its August 14, 2019, meeting. The final budget and assessment increases remained the same as the second draft and the only material change was an update to the amount of budgeted working capital release based on finalization of CRISP third-party funding.

¹ The ERO Enterprise consists of NERC and the Regional Entities. For the purpose of analysis of the total ERO Enterprise budget, WIRAB's budget is included unless otherwise stated.

Regional Entity and WIRAB 2020 BP&Bs

All Regional Entity and WIRAB budgets went through a process for public input and were approved by each entity's board. The Regional Entities and WIRAB also provided overviews of their budgets during the May 30 and July 18 FAC webinars noted above. NERC management reviewed the Regional Entity budgets and focused on the following areas:

- Adequacy of resources and activities to perform delegated functions
- Alignment with ERO Enterprise mission and strategic focus areas
- Description of efforts to improve efficiency and control costs
- Quality and completeness of the financial information presented, including:
 - Conformance with FERC budget reporting requirements
 - Separation of statutory and non-statutory activities
 - Supporting detail for projections
 - Working capital and operating reserve budgets, projections, policies, and controls

No issues were noted that would prohibit NERC management from recommending the approval of each Regional Entity's budget. With the termination of FRCC Regional Delegation Agreement and the associated dissolution of the FRCC Regional Entity (RE) function,² there will be no 2020 FRCC RE budget, and an increase will be seen in the SERC 2020 budget due to the transfer of registered entities from the FRCC RE footprint to SERC.

2020 Assessment Schedule

The assessment schedule for all entities, including both NERC and Regional Entity assessments, is included with the August 14, 2019, FAC meeting agenda package for recommended approval and is posted on NERC's website.

² On February 27, 2019, NERC, jointly with FRCC and SERC, filed a petition with FERC for approvals needed to dissolve the FRCC RE, including FRCC transferring the FRCC registered entities to the jurisdiction of SERC. FERC issued an order granting the requested approvals on April 30, 2019. Registered entities transferred to SERC's jurisdiction on July 1, 2019, and, under the current schedule, FRCC will wind down its RE operations by August 31, 2019.

Total ERO Enterprise 2020 Budgets and Assessments

The proposed 2020 budget for the total ERO Enterprise, inclusive of expenses and fixed asset expenditures, is \$208.5M, which is an increase of \$8.3M (4.1%)³ over the 2019 budget.

Total Budget							
Entity		2019	% of Total ERO Budget	2020	% of Total ERO Budget	Change 2020 v 2019	% Change
		(\$000's)		(\$000's)		(\$000's)	
NERC	\$	79,855	39.9%	\$ 83,417	40.0%	\$ 3,563	4.5%
FRCC		6,696	3.3%	-	0.0%	(6,696)	(100.0%)
MRO		15,980	8.0%	17,541	8.4%	1,561	9.8%
NPCC		15,805	7.9%	16,602	8.0%	797	5.0%
RF		22,648	11.3%	23,651	11.3%	1,002	4.4%
SERC		18,145	9.1%	24,525	11.8%	6,380	35.2%
Texas RE		13,070	6.5%	13,831	6.6%	762	5.8%
WECC		26,951	13.5%	27,756	13.3%	806	3.0%
WIRAB		1,163	0.6%	1,255	0.6%	93	8.0%
	\$	200,312	100.0%	\$ 208,578	100.0%	\$ 8,266	4.1%

The following are the drivers for the budget increases for each entity:

- NERC (4.5%) – Increased personnel expenses and technology investments, particularly in support of the E-ISAC long-term strategy, including the addition of FTEs
- MRO (9.8%) – Additional personnel, meeting, and operating costs to support the expansion of the MRO footprint due to dissolution of SPP RE in 2018, including the addition of FTEs
- NPCC (5.0%)⁴ – Increased personnel costs, including the addition of FTEs
- RF (4.4%) – Increases in personnel expenses, including the addition of FTEs, as well as an increase in fixed asset additions for office modifications
- SERC (35.2%) – Higher costs overall associated with SERC’s expanded footprint resulting from the FRCC RE dissolution in 2019, including FTE increases
- Texas RE (5.8%) – Higher benefits costs for personnel, an increase in office rent, and additional meeting costs
- WECC (3.0%) – Increases in personnel and rent expenses
- WIRAB (8.0%) – Increases in personnel and office expenses

³ The total ERO Enterprise 2020 budget increase presented during the May 30, July 18, and August 7, 2019, FAC meetings was 3.9%. The 0.2% difference results from the exclusion of a one-time succession implementation cost NPCC excluded from its operating budget increase calculation as discussed on page 3 of NPCC’s 2020 BP&B. For the purpose of this analysis, this cost is included as part of NPCC’s total budget.

⁴ The inclusion of the cost discussed above raises NPCC’s budget increase to 5.0% versus the 2.2% presented during the FAC meetings.

Total ERO Enterprise 2020 assessments (combined assessments for NERC and the Regional Entities) are increasing approximately \$5.6M (3.1%).⁵ The average change for Load-Serving Entities in the United States, Canada, and Mexico is 2.8%, 5.1%, and 12.2%, respectively.

Increase/(Decrease) in ERO Assessments by Region					Increase/(Decrease) in Regional Entity & WIRAB Assessments	Increase/(Decrease) in NERC Assessments
	TOTAL	US	Canada	Mexico	TOTAL	TOTAL
FRCC	\$ (9,522,255) (100.0%)	\$ (9,522,255)	\$ -	\$ -	\$ (5,827,925)	\$ (3,694,330)
MRO	1,690,521 7.3%	1,590,857	99,664	-	1,511,582	178,939
NPCC	900,046 3.9%	557,388	342,657	-	335,326	564,719
RF	1,894,294 5.4%	1,894,294	-	-	1,062,792	831,502
SERC	9,829,502 29.2%	9,829,502	-	-	5,086,908	4,742,594
Texas RE	451,691 2.4%	451,691	-	-	96,128	355,563
WECC	384,690 1.0%	(87,969)	395,110	77,549	236,300	148,390
Total	\$ 5,628,489 3.1%	\$ 4,713,508 2.8%	\$ 837,432 5.1%	\$ 77,549 12.2%	\$ 2,501,111 2.2%	\$ 3,127,378 4.5%
% Change	3.1%	2.8%	5.1%	12.2%	2.2%	4.5%

As detailed in the following table, four factors impact the change in assessments between 2019 and 2020: (1) the increase in penalties that offset assessments decreases assessments 4.6M; (2) the decrease of release of excess working capital and operating reserves increases assessments \$2.6M; (3) the increase in other funding decreases assessments \$659k; and (4) the increase in the total ERO Enterprise budget increases assessments \$8.3M. The net result is a \$5.6M (3.1%) increase in assessments.

	Assessments by Entity		Factors Impacting the Change in Assessments			
	2019 Budget	2020 Budget	Dec(Inc) in Penalties	Dec(Inc) in Release of Excess Reserves ¹	Dec(Inc) in Other Funding ²	Budget Inc(Dec)
	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
NERC	\$ 68,884	\$ 72,011	\$ 550	\$ (491)	\$ (494)	3,563
FRCC	5,828	-	-	776	92	(6,696)
MRO	15,472	16,983	(498)	449	-	1,561
NPCC	15,003	15,339	(120)	(287)	(56)	798
RF	21,256	22,319	60	1	-	1,002
SERC	17,372	22,459	(1,817)	587	(63)	6,380
Texas RE	13,248	13,344	(596)	(45)	(25)	762
WECC	25,282	25,282	(2,157)	1,465	(113)	806
WIRAB	750	986	-	144	-	93
	\$ 183,095	\$ 188,724	(4,579)	2,599	\$ (659)	8,267

¹For NERC, this includes proceeds from capital financing activities

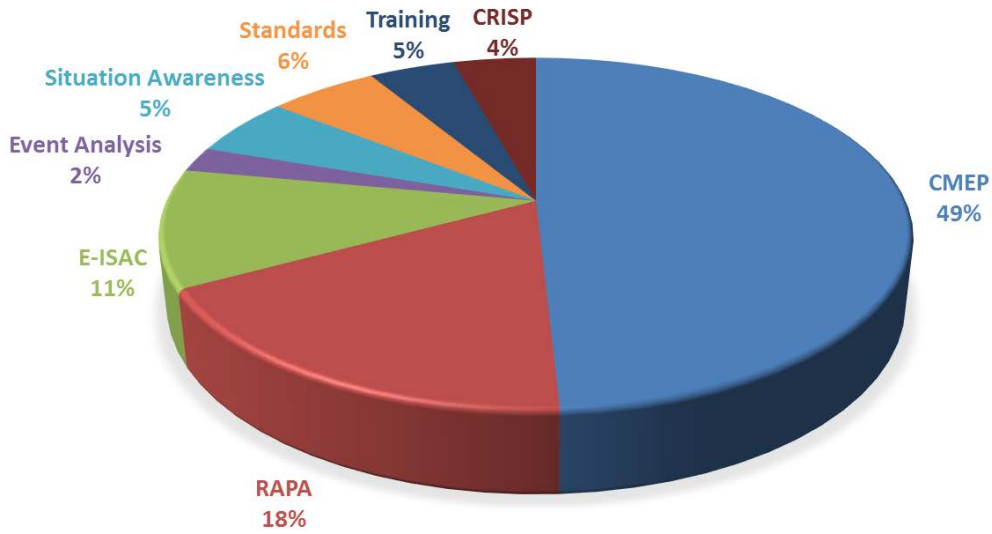
²For NERC, includes third-party funding for CRISP and system operator testing fees

⁵ The total ERO Enterprise 2020 assessment increase presented during the May 30, July 18, and August 7, 2019, FAC meetings was 2.9%, exclusive of WIRAB. The inclusion of WIRAB in this analysis results in the 0.2% difference.

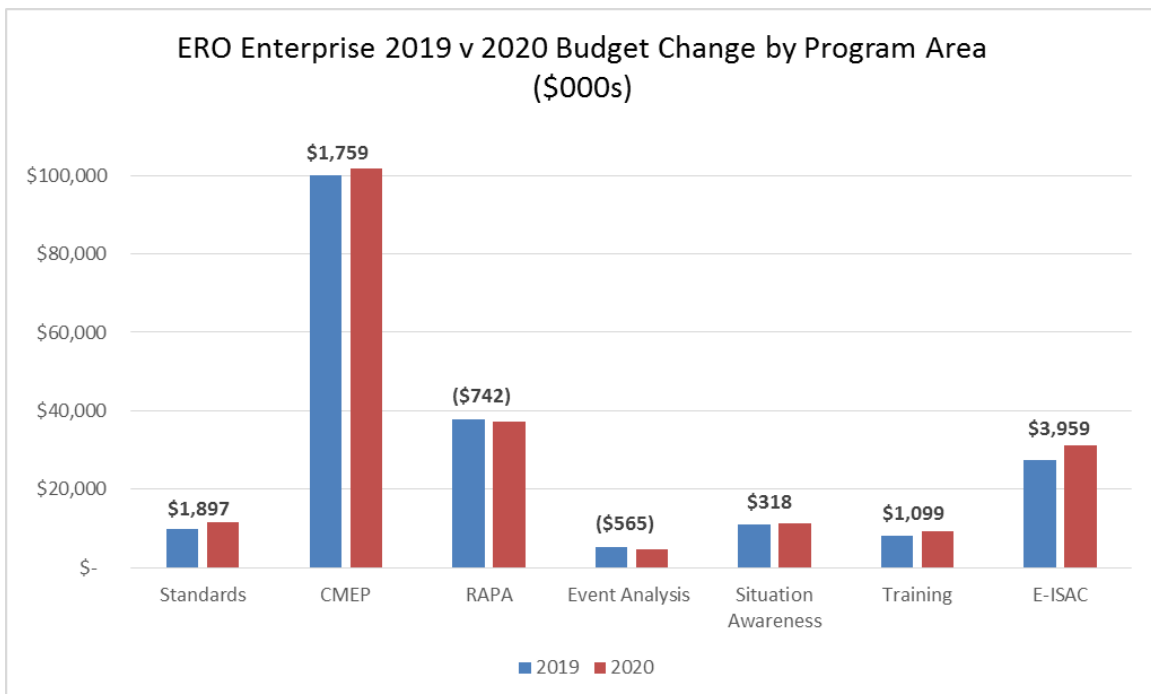
Total ERO Enterprise 2020 Budget by Program

The total 2020 budget for the ERO Enterprise, exclusive of WIRAB, is \$207.3M, which is an increase of \$8.2M (4.1%) and reflects the allocation of resources and focus on the goals and activities of the ERO Enterprise. The following figures and comments do not include WIRAB because of the unique nature of their oversight and advisory role in the WECC Region.

ERO Enterprise 2020 Budget by Program Area

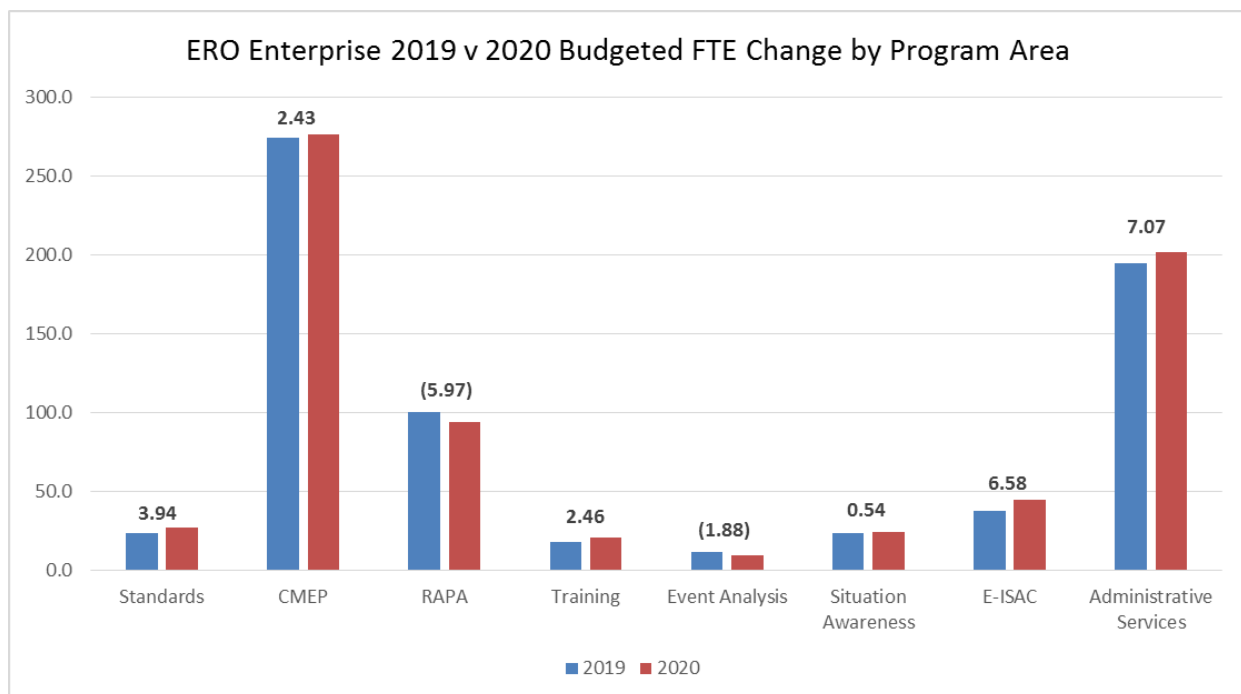


The following figure shows the increase/(decrease) from 2019 to 2020 for the ERO Enterprise budget by each statutory program area, inclusive of direct and indirect expenses and the fixed asset expenditures.



The major budget variances from 2019 to 2020 are in the following program areas: Standards, CMEP, Reliability Assessment and Performance Analysis (RAPA)⁶, Training, and E-ISAC. The increases in Standards, CMEP, and Training and the decrease in RAPA are primarily due to a changes in FTEs and associated indirect expenses, the majority of which are impacts from (1) the dissolution of FRCC RE and resulting increased footprint at SERC, and (2) department and position reorganizations at NERC. The increase to the E-ISAC budget is due to the implementation of the third year of the E-ISAC long-term strategy, which includes a significant increase in FTEs and associated indirect expenses, and support for enhancements to E-ISAC tools and operations.

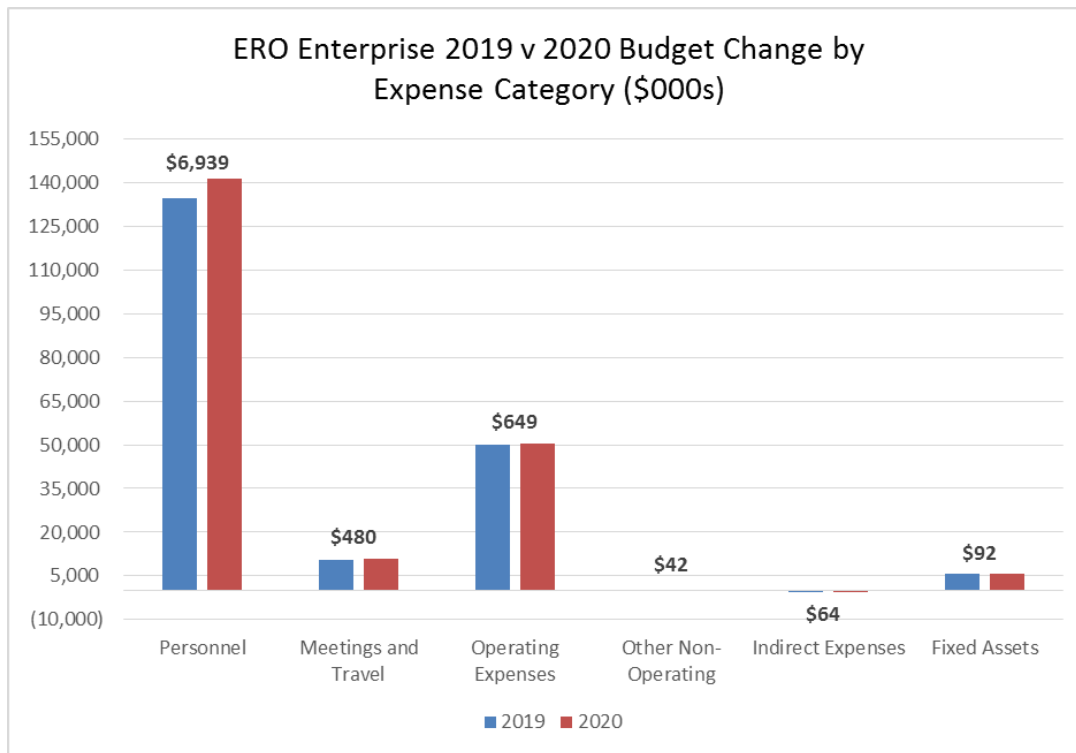
The figure below shows the increase/(decrease) in the number of FTEs by statutory program area, as well as administrative services.



Total ERO Enterprise 2020 Budget by Expense Category

The following figure shows the increase/(decrease) from 2019 to 2020 for the ERO Enterprise budget by expense category, inclusive of NERC, the Regional Entities, and WIRAB.

⁶ Several years ago, NERC separated the Event Analysis function. The Regional Entities, except for NPCC and RF, combine costs related to regional-specific reliability assessment work, costs to support NERC’s RAPA program, and costs related to Event Analysis in their RAPA programs. NPCC and RF include costs related to Event Analysis in their Situation Awareness program.



The major budget variance from 2019 to 2020 is in the personnel category. Total 2020 personnel expenses for the ERO Enterprise are increasing over 2019 due to average increases of 3% in salaries expense for existing staff and projected market increases in the cost of employee benefit plans, as well as the FTE increase at NERC in support of the third year of the E-ISAC long-term strategy.

As reflected in the figure above and below, the ERO Enterprise total fixed asset (capital) budget is increasing \$92k. This increase is driven primarily by increases in the RF budget for office modifications and SERC and Texas RE’s budgets for computer and software expenses.

Increase(Decrease) in Fixed Assets				
Entity	2020 Budget	2019 Budget	Change	% Change
NERC	\$ 4,706,349	\$4,778,000	\$ (71,651)	(1.5%)
FRCC	-	67,393	(67,393)	(100.0%)
MRO	235,000	245,000	(10,000)	(4.1%)
NPCC	170,000	170,000	-	-
RF	390,000	203,000	187,000	92.1%
SERC	330,000	220,000	110,000	50.0%
Texas RE	50,000	30,000	20,000	66.7%
WECC	52,014	128,065	(76,051)	(59.4%)
WIRAB	-	-	-	-
	5,933,363	5,841,458	91,905	1.57%

Total ERO Enterprise 2020 Working Capital and Operating Reserves

The 2020 ending Working Capital and Operating Reserve budget for the total ERO Enterprise is \$28.9M, based upon a projected beginning balance of \$34.1M and the planned reduction of \$5.1M. Funds in excess of projected starting working capital and operating reserve balances will be subject to applicable NERC and Regional Entity controls over the expenditure of such funds and will be taken into account in developing 2021 funding requirements.

Working Capital and Operating Reserves - 2020 Business Plan and Budget

Entity	Projected 2020 Beginning Balance	2020 Adjustment	Projected 2020 Ending Balance	Stated Policy
NERC	\$ 9,954,106	\$ (1,136,041)	\$ 8,818,065	Operating Contingency Reserve shall be between 3.5% and 7% of the company's total expense and fixed asset budget minus the sum of the System Operator Certification and CRISP budgets, each of which have separate reserves.
MRO	4,934,448	(1,999,441)	\$ 2,935,007	30-day cash reserve
NPCC	4,426,112	(1,019,611)	\$ 3,406,501	Range of 8.33% to 25.00% of Budget
RF	3,700,836	(1,172,687)	\$ 2,528,149	10% or a minimum \$1M in operating reserves, plus additional working capital to manage cash flow and stabilize assessments
SERC	1,142,615	59,111	\$ 1,201,726	Up to 10% of budgeted annual costs
Texas RE	2,530,999	(530,999)	\$ 2,000,000	Operating reserve of approximately \$2M, or as adjusted by the Board
WECC	6,823,951	928,162	\$ 7,752,113	Working Capital Reserve balance equal to one to three months of Personnel, Meeting and Operating Expenses. Additional reserves for assessment stabilization.
WIRAB	545,700	(268,300)	\$ 277,400	Starting in 2021, maintain a reserve equal to 20% of budgeted expenses. Working capital reserves in 2020 are intended to stabilize assessments during the transition.
	\$ 34,058,767	\$ (5,139,806)	\$ 28,918,961	

**Consolidated ERO Statement of Activities, Fixed Assets, and Change in Working Capital
2020 Budget v 2019 Budget**

	2020 Budget	2019 Budget	\$ Change	% Change
Funding				
ERO Funding				
ERO Assessments	\$ 188,723,535	\$ 183,095,046	\$ 5,628,489	
Penalty Sanctions	6,300,345	1,721,603	4,578,742	
Total ERO Funding	\$ 195,023,880	\$ 184,816,649	\$ 10,207,231	5.5%
Third Party Funding	\$ 7,814,577	\$ 7,486,353	328,224	
Testing Fees	1,735,000	1,790,000	(55,000)	
Services & Software	60,000	40,000	20,000	
Workshops	660,332	710,050	(49,718)	
Interest	792,400	371,600	420,800	
Miscellaneous	29,418	34,500	(5,082)	
Total Funding (A)	\$ 206,115,607	\$ 195,249,153	\$ 10,866,454	5.6%
Expenses				
Personnel Expenses				
Salaries	\$ 105,420,779	\$ 100,797,893	\$ 4,622,886	
Payroll Taxes	6,655,990	6,353,410	302,580	
Benefits	16,640,770	14,903,733	1,737,037	
Retirement Costs	12,653,014	12,376,045	276,969	
Total Personnel Expenses	\$ 141,370,553	\$ 134,431,081	\$ 6,939,472	5.2%
Meeting Expenses				
Meetings	\$ 3,431,199	\$ 3,158,598	\$ 272,601	
Travel	7,475,422	7,267,636	207,786	
Total Meeting Expenses	\$ 10,906,621	\$ 10,426,234	\$ 480,387	4.6%
Operating Expenses				
Consultants & Contracts	\$ 20,291,930	\$ 23,341,553	\$ (3,049,623)	
Office Rent	\$ 8,537,773	\$ 8,451,584	\$ 86,189	
Office Costs	\$ 15,409,013	\$ 11,743,004	\$ 3,666,009	
Professional Services	\$ 6,137,613	\$ 6,188,513	\$ (50,900)	
Miscellaneous	\$ 177,509	\$ 179,886	\$ (2,377)	
Total Operating Expenses	\$ 50,553,838	\$ 49,904,540	\$ 649,298	1.3%
Total Direct Expenses	\$ 202,831,012	\$ 194,761,856	\$ 8,069,156	4.1%
Indirect Expenses	\$ (442,617)	\$ (506,527)	\$ 63,910	-12.6%
Other Non-Operating Expenses	\$ 256,623	\$ 214,171	\$ 42,452	19.8%
Total Expenses (B)	\$ 202,645,018	\$ 194,469,500	\$ 8,175,518	4.2%
Change in Net Assets (=A-B)	\$ 3,470,589	\$ 779,653	\$ (2,596,442)	-333.0%
Fixed Asset Additions, excluding Right of Use Assets (C)	\$ 5,933,363	\$ 5,841,458	\$ 91,905	1.6%
TOTAL BUDGET (=B + C)	\$ 208,578,381	\$ 200,310,958	\$ 8,267,423	4.1%
CHANGE IN WORKING CAPITAL (=A-B-C)	\$ (2,462,774)	\$ (5,061,805)	\$ 2,599,031	-51.3%
FTEs	702.8	687.7	15.1	2.2%

Total ERO Enterprise 2021 and 2022 Preliminary Projections

The 2021 budget for the total ERO Enterprise is projected to increase approximately \$6.4M (3.1%) over the 2020 budget. NERC and the Regional Entities are projecting the 2022 total budget to increase approximately \$7.9M (3.7%) over the 2021 budget. Total FTEs are projected to increase in 2021 by 7.52 (1.1%) over 2020 and by 9.52 (1.3%) in 2022 over 2021. For NERC, the increases in FTEs are primarily related to the implementation of the final two years of the E-ISAC long-term strategy. NERC and Regional Entity management will continue to review and refine these projections as part of the 2021 business plan and budget cycle with the continued objective of maximizing the effectiveness and efficiency of overall enterprise operations and mitigating significant budget increases where possible.

Total Budget								
Entity	2020 Budget	2021 Projection	Change 2021 v 2020	% Change	2022 Projection	Change 2022 v 2021	% Change	
NERC	\$ 83,417	\$ 85,760	\$ 2,342	2.8%	\$ 89,156	\$ 3,397	4.0%	
MRO	17,541	18,067	526	3.0%	18,609	542	3.0%	
NPCC	16,157	16,986	829	5.1%	17,461	475	2.8%	
RF	23,651	24,553	903	3.8%	25,797	1,243	5.1%	
SERC	24,525	25,002	477	1.9%	25,673	671	2.7%	
Texas RE	13,831	14,541	710	5.1%	15,305	764	5.3%	
WECC	27,756	28,302	546	2.0%	29,076	774	2.7%	
WIRAB	1,255	1,300	45	3.6%	1,346	47	3.6%	
	\$ 208,134	\$ 214,512	\$ 6,378	3.1%	\$ 222,424	\$ 7,913	3.7%	

Total FTEs								
Entity	2020 Budget	2021 Projection	Change 2021 v 2020	% Change	2022 Projection	Change 2022 v 2021	% Change	
NERC	213.38	220.90	7.52	3.5%	228.42	7.52	3.4%	
MRO	63.00	63.00	-	-	63.00	-	-	
NPCC	41.09	41.09	-	-	41.09	-	-	
RF	79.35	79.35	-	-	81.35	2.00	2.5%	
SERC	98.00	98.00	-	-	98.00	-	-	
Texas RE	60.00	60.00	-	-	60.00	-	-	
WECC	143.00	143.00	-	-	143.00	-	-	
WIRAB	5.00	5.00	-	-	5.00	-	-	
	702.82	710.34	7.52	1.1%	719.86	9.52	1.3%	