

# NERC, Regional Entity, and WIRAB 2021 Budgets and Assessments

## Overview and Total ERO Enterprise Analysis

The following includes an overview of the development of the proposed NERC, Regional Entity, and Western Interconnection Regional Advisory Body (WIRAB) 2021 Business Plan and Budgets (BP&Bs) and associated assessments, as well as an analysis of the total ERO Enterprise 2021 budget and assessments.<sup>1</sup>

### NERC 2021 BP&B

The first draft of the NERC 2021 BP&B proposed a 0.2% budget increase and a flat assessment compared to 2020. NERC focused on achieving this flat assessment in response to the economic impacts resulting from the COVID-19 pandemic, despite significant budget pressures, including (1) costs associated with Compliance Monitoring and Enforcement Program (CMEP) tools, including debt service and software and support expenses for the ERO Secure Evidence Locker (SEL) and continued Align tool development costs; (2) rising medical premiums; and (3) human resources and analytical system enhancements needed to address new and evolving risks to the Bulk Power System (BPS). The flat assessment was achieved by:

- Reducing 2021 debt service by cash funding 2020 Align development costs versus financing;
- Funding the 2021 Align costs (\$1.8M) fully through Operating Contingency Reserves (OCR);
- Deferring important, but less urgent work supporting evolving reliability and security risks, resulting in lower spending in certain areas. This included holding headcount flat in 2021, deferring a number of important system enhancements, and reprioritizing spending in the Electricity Information Sharing and Analysis Center (E-ISAC);
- Lowering meeting and travel costs due to anticipated continued pandemic conditions; and
- Absorbing ERO SEL debt service and software support costs as a result of cost savings efforts.

The first draft was posted for stakeholder comment May 19–June 26, 2020, and NERC provided an overview during a webinar hosted by the NERC Board of Trustees Finance and Audit Committee (FAC) on June 4, 2020. Comments were received from five entities. Notable comments included: (1) emphasis on economic pressures on industry due to COVID-19 and the need for continued budget stabilization in future years; (2) a request for NERC to work with the Regional Entities to also maintain 2020 budget and assessment levels; (3) clarification on NERC's plan for in-person meetings in 2021 and the Event Analysis program decrease; (4) to consider providing an additional year of historical data in the BP&B tables; and (5) to provide more cost certainty on a three-year horizon. These comments were addressed directly with trade association representatives and in a written response that was posted on July 16, 2020.

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<sup>1</sup> The ERO Enterprise consists of NERC and the Regional Entities. For the purpose of analysis of the total ERO Enterprise budgets and assessments in this document, WIRAB's budget or assessment is included unless otherwise stated.

The second draft of the NERC BP&B was posted for comment July 16–July 30, 2020, and NERC provided an overview during the July 23, 2020, FAC webinar. The overall budget increase over 2020 in the second draft was 0.3% versus 0.2% in the first draft due to minor cost adjustments, and the assessment remained flat with no proposed use of Assessment Stabilization Reserves (ASR). Comments on the second draft were received from three entities, which expressed support for the 2021 BP&B, continued to emphasize the need for budget stabilization for future years, and requested clarity on the work and tools of the Power Risk Issue Strategic Management (PRISM) group. These comments were addressed in a written response posted on August 13, 2020.

The final draft of the BP&B was posted on August 13, 2020, for FAC review and recommended approval during its August 19, 2020, meeting. The final budget and assessment increases remained the same as the second draft and the only changes were minor language updates and clarifications.

## Regional Entity and WIRAB 2021 BP&Bs

All Regional Entity and WIRAB BP&Bs 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 June 4 and July 23 FAC webinars noted above. NERC management reviewed the Regional Entity budgets and focused on the following areas:

- Adequacy of the resources and activities to perform delegated functions;
- Alignment of the Regional Entity's goals, objectives, and major activities with the *ERO Enterprise Long-Term Strategy* and the related focus areas;
- Efforts to improve efficiency and control costs; and
- Quality and completeness of the financial information presented, including:
  - Conformance with FERC budget reporting requirements and common presentation format;
  - Separation of statutory and non-statutory activities;
  - Supporting detail, including explanations for significant changes from the previous budget;
  - Reporting of working capital and operating reserve budgets and explanation of policies; and
  - Compliance with any budget or audit-related orders from FERC, if applicable.

No issues were noted that would prohibit NERC management from recommending the approval of each Regional Entity's BP&B. NERC found that all Regional Entity BP&Bs cover activities eligible for funding, consistent with the regional delegation agreements as well as section 215 criteria, and all statutory areas for all Regional Entities have adequate resources to fulfill their delegated functions.

## 2021 Assessment Schedule

The assessment schedule for all entities, including both NERC and Regional Entity assessments, was posted on August 13, 2020, for FAC review and recommended approval during its August 19, 2020, meeting.

## Total ERO Enterprise 2021 Budgets and Assessments

The proposed 2021 budget for the total ERO Enterprise, inclusive of expenses and fixed asset expenditures, is \$212.4M, which is an increase of \$4.6M (2.2%) over the 2020 budget.

### Total Budget

Entity	2020		2021		Change	
	(\$000's)	% of Total ERO Budget	(\$000's)	% of Total ERO Budget	2021 v 2020 (\$000's)	% Change
NERC	\$ 82,657	39.8%	\$ 82,883	39.0%	\$ 226	0.3%
MRO	17,541	8.4%	18,412	8.7%	871	5.0%
NPCC	16,602	8.0%	16,441	7.7%	-161	-1.0%
RF	23,651	11.4%	24,785	11.7%	1,135	4.8%
SERC	24,525	11.8%	25,829	12.2%	1,304	5.3%
Texas RE	13,831	6.7%	14,212	6.7%	380	2.8%
WECC	27,756	13.4%	28,605	13.5%	849	3.1%
WIRAB	1,255	0.6%	1,205	0.6%	-50	-4.0%
<b>\$</b>	<b>207,818</b>	<b>100.0%</b>	<b>\$ 212,373</b>	<b>100.0%</b>	<b>\$ 4,555</b>	<b>2.2%</b>

The following are the primary drivers for the budget changes for each entity:

- NERC (0.3%) – Increases in personnel-related costs, ongoing ERO SEL support costs, and continued Align development costs funded by OCR (i.e., no impact to assessments)
- MRO (5.0%) – Increases in personnel-related costs, including additional FTEs, higher operating costs due to office expansion, and increased fixed asset expenditures to replace end-of-life assets
- NPCC (-1.0%) – Decrease in meeting, travel, and contract expenses, as well as reduced fixed asset expenditures due to a reconfiguration of office space
- RF (4.8%) – Increases in personnel-related costs, including additional FTEs
- SERC (5.3%) – Increases in personnel-related costs, including additional FTEs and decreased vacancy rate, as well as the addition of three independent directors
- Texas RE (2.8%) – Increases in personnel-related costs, including additional FTEs, and escalation in rent and utilities due to lease extension
- WECC (3.1%) – Increases in personnel-related costs, including additional FTEs, and increases in consulting expenses and office rent
- WIRAB (-4.0%) – Decrease in FTEs and reduced travel expenses

Total ERO Enterprise 2021 assessments (combined assessments for NERC and the Regional Entities, inclusive of WIRAB within the WECC assessment) are increasing approximately \$1.0M (0.5%) over 2020. The average change for Load-Serving Entities in the United States, Canada, and Mexico is 0.3%, 3.2%, and 2.4%, 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
MRO	41,375	0.2%	(137,258)	178,633	-	41,375
NPCC	(184,755)	(0.8%)	(548,765)	364,010	(184,153)	(602)
RF	205,735	0.6%	205,735	-	446,372	(240,637)
SERC	1,115,487	2.6%	1,115,487	-	1,054,763	60,724
Texas RE	141,937	0.7%	141,937	-	(728)	142,665
WECC	(285,526)	(0.7%)	(310,718)	7,769	17,423	(3,526)
<b>Total</b>	<b>\$ 1,034,254</b>		<b>\$ 466,419</b>	<b>\$ 550,412</b>	<b>\$ 17,423</b>	<b>\$ -</b>
<b>% Change</b>	<b>0.5%</b>		<b>0.3%</b>	<b>3.2%</b>	<b>2.4%</b>	<b>0.0%</b>

As detailed in the following table, four factors impact the change in assessments between 2020 and 2021: (1) the increase in penalties that offset assessments is decreasing assessments by \$4.1M; (2) the decrease of release of working capital and operating reserves is increasing assessments by \$995k; (3) the decrease in other funding is increasing assessments by \$856k; and (4) the increase in the total ERO Enterprise budget is increasing assessments by \$4.6M. The net result is a \$1.0M (0.5%) increase in assessments.

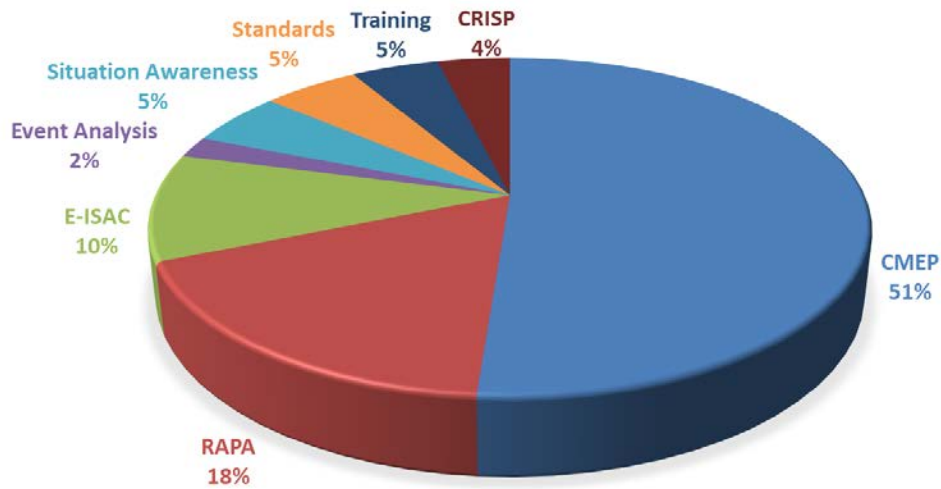
Assessments by Entity			Factors Impacting the Change in Assessments			
	2020 Budget	2021 Budget	Dec(Inc) in Penalties	Dec(Inc) in Release of Excess Reserves	Dec(Inc) in Other Funding <sup>1</sup>	Budget Inc(Dec)
	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
<b>NERC</b>	\$ 72,011	\$ 72,011	\$ -	\$ (1,078)	\$ 851	226
<b>MRO</b>	16,983	16,983	(218)	653	-	871
<b>NPCC</b>	15,339	15,155	(81)	58	(0)	(161)
<b>RF</b>	22,319	22,765	(4,272)	3,584	-	1,135
<b>SERC</b>	22,459	23,514	720	(989)	20	1,304
<b>Texas RE</b>	13,344	13,343	541	(882)	(40)	380
<b>WECC</b>	25,282	25,000	(754)	(404)	27	849
<b>WIRAB</b>	986	986	-	52	(2)	(50)
	<b>\$ 188,724</b>	<b>\$ 189,758</b>	<b>(4,065)</b>	<b>995</b>	<b>\$ 856</b>	<b>4,555</b>

<sup>1</sup>For NERC, includes third-party funding for CRISP and system operator fees

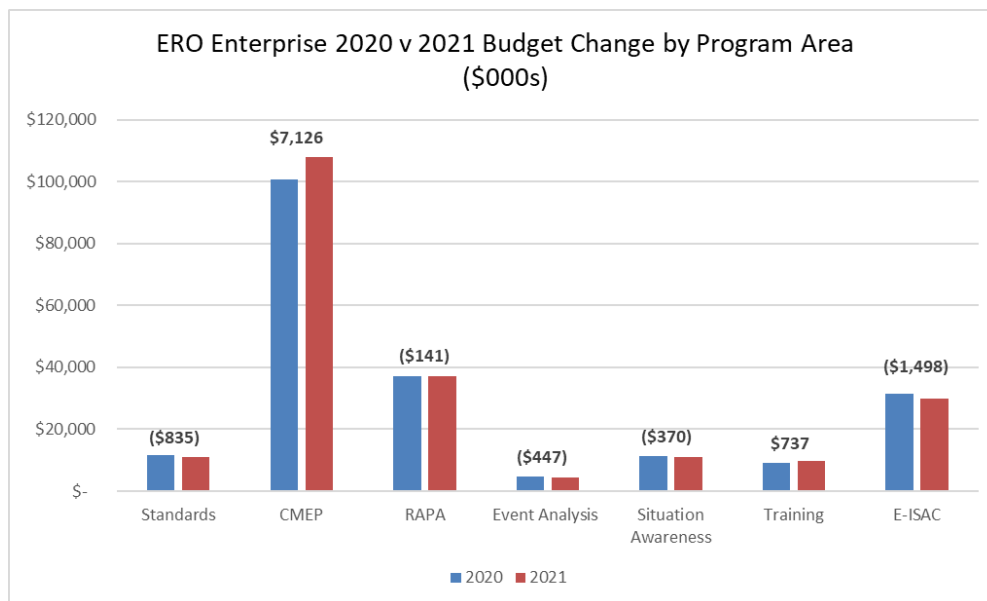
### Total ERO Enterprise 2021 Budget by Program

The total 2021 budget for the ERO Enterprise, exclusive of WIRAB, is \$211.2M, which is an increase of \$4.6M (2.2%) and reflects the allocation of resources and focus on the goals and activities of the ERO Enterprise.<sup>2</sup> 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 2021 Budget by Program Area



The following figure shows the increase/(decrease) from 2020 to 2021 for the ERO Enterprise budget by each statutory program area, inclusive of direct and indirect expenses and the fixed asset expenditures.

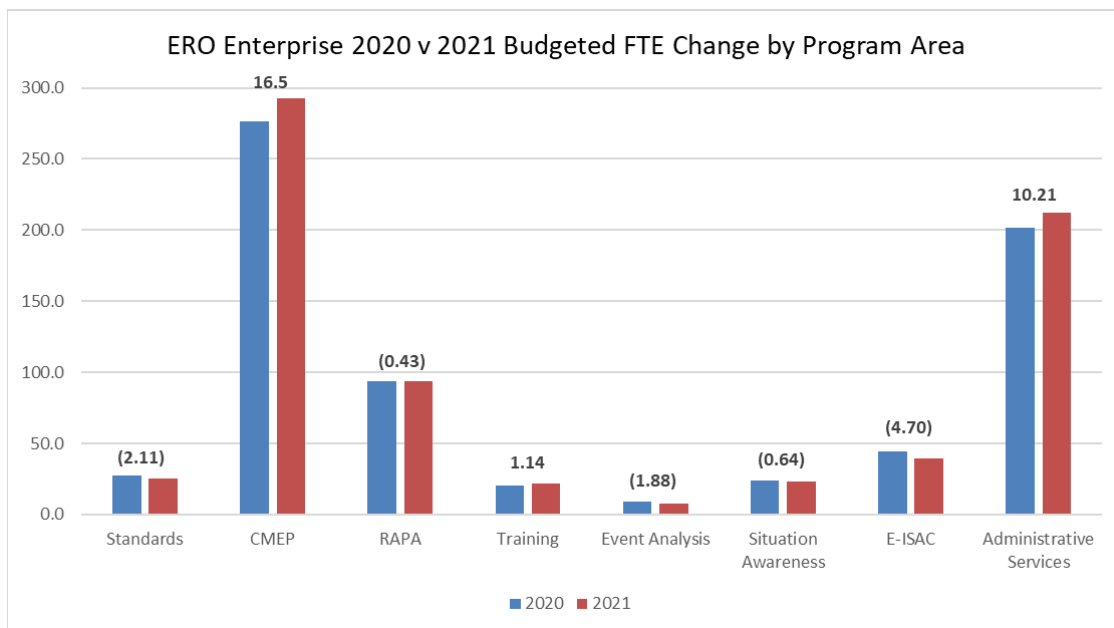


<sup>2</sup> Several years ago, NERC separated the Event Analysis function. NPCC and RF include Event Analysis costs in their Situation Awareness program. The remaining Regional Entities include Event Analysis in their Reliability Assessment and Performance Analysis (RAPA) programs.

The major budget variances from 2020 to 2021 are in the following program areas: Standards, CMEP, Training, and E-ISAC.

The increases in CMEP and Training and the decreases in Standards and E-ISAC are primarily due to changes in FTEs or other personnel expenses, and associated indirect expenses. All entities are adding or reallocating FTEs to the CMEP area due to increased compliance assurance and monitoring activities, particularly related to cyber security. The increase in the CMEP area is also due to the inclusion of continued capital costs for the development of Align in NERC’s 2021 budget. SERC is adding FTEs in Training and personnel costs in Training are increasing at RF due to an increased focus on training and outreach. FTEs in Standards are decreasing at NERC, MRO, NPCC, and SERC as a result of stabilization of work in that program. E-ISAC FTEs are decreasing due to a reevaluation of its long-term strategy and planned use of contract support versus budgeted FTEs.

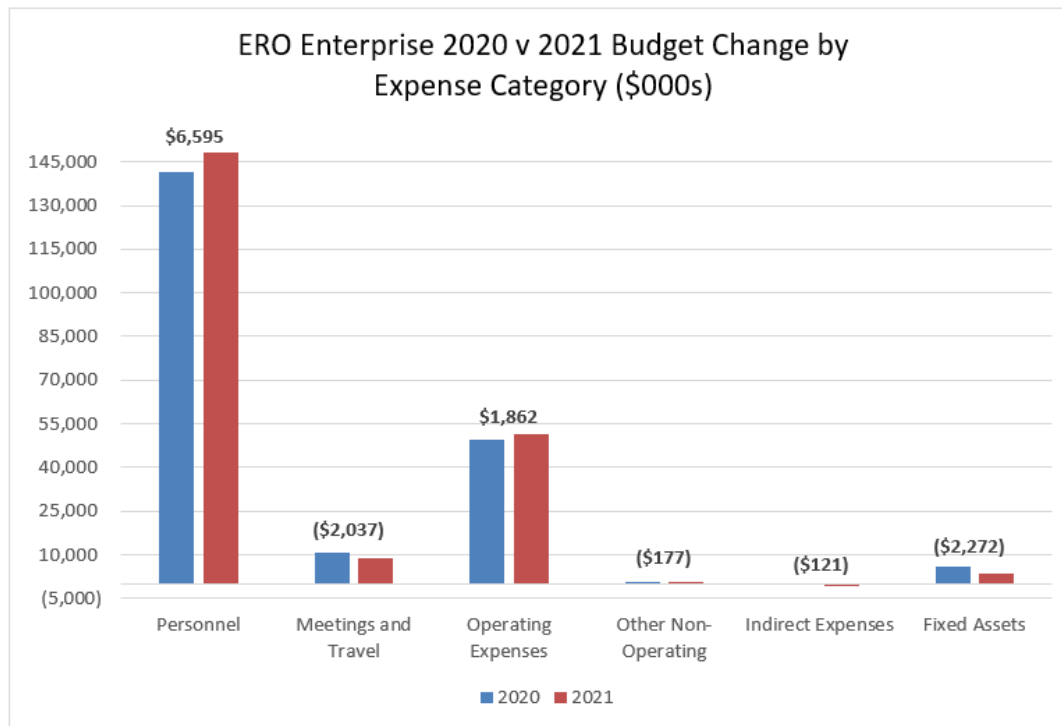
The figure below shows the increase/(decrease) in the number of FTEs by statutory program area, as well as administrative services.



In addition to the explanation of FTE changes above, NERC, MRO, RF, and WECC are all increasing FTEs in the Administrative Services area primarily due to additional IT/cyber-related security resources as a result of recommendations from an ERO Enterprise-wide third-party security assessment. The decrease in FTEs in Event Analysis is related to a shift in personnel charged to that department at NERC at the administrative level.

### Total ERO Enterprise 2021 Budget by Expense Category

The following figure shows the increase/(decrease) from 2020 to 2021 for the ERO Enterprise budget by expense category, inclusive of NERC, the Regional Entities, and WIRAB.



The major budget variances from 2020 to 2021 are in the personnel, meetings and travel, operating expenses, and fixed assets categories. Total 2021 personnel expenses for the ERO Enterprise are increasing over 2020 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 increases discussed above. Meetings and travel expenses are decreasing primarily due to anticipated travel and in-person meeting restrictions as a result of continued pandemic conditions. The increase in operating expenses is mainly attributable to an increase in costs for NERC in this category, predominately as a result of an increase in software licenses and support, particularly for the ERO SEL and overall enhanced cyber security.

As reflected in the figure below, the decrease in fixed assets is primarily driven by reduced spending in this area for NERC, RF, and SERC. Though NERC’s budget includes continued capital costs for the development of Align, fixed asset expenditures at NERC are decreasing in 2021 due to (1) no expected leasehold improvements in 2021 and (2) reduced capital software spending in other areas as a result of cost savings efforts discussed at the beginning of this document. The decrease for RF is also mainly related to no expected leasehold improvements in 2021. The decrease for SERC is due to a reclassification of these costs to non-capital expenses. The increase in fixed asset costs at WECC is related to planned 2021 equipment refreshes.

**Increase(Decrease) in Fixed Assets**

Entity	2021 Budget	2020 Budget	Change	% Change
NERC	\$ 2,751,500	\$4,706,349	\$ (1,954,849)	(41.5%)
MRO	250,000	235,000	15,000	6.4%
NPCC	94,000	170,000	(76,000)	(0.45)
RF	217,500	390,000	(172,500)	(44.2%)
SERC	200,000	330,000	(130,000)	(39.4%)
Texas RE	50,000	50,000	-	0.0%
WECC	98,527	52,014	46,513	89.4%
WIRAB	-	-	-	-
	<b>3,661,527</b>	<b>5,933,363</b>	<b>(2,271,836)</b>	<b>-38.3%</b>

**Total ERO Enterprise 2021 Reserves**

Total reserves across the ERO Enterprise include working capital, operating, assessment stabilization, and other types of reserves depending on the organization's reserve structure and policies. The 2021 ending total reserve budget for the ERO Enterprise is \$39.6M, based upon a projected beginning balance of \$46.0M and the planned reduction of \$6.4M. Funds in excess of projected starting reserve balances will be subject to applicable NERC and Regional Entity controls and will be taken into account in developing 2022 funding requirements.

**Total Reserves - 2021 Business Plan and Budget**

Entity	Projected 2021 Beginning Balance	2021 Adjustment	Projected 2021 Ending Balance	Stated Policy / Reserve Structure
NERC	\$ 13,104,897	\$ (2,279,288)	\$ 10,825,609	Operating Contingency Reserve between 3.5% and 7.0% 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. Future Obligation Reserve includes funding that has been received to satisfy future obligations under lease, credit, loan, or other agreements. Assessment Stabilization Reserve is funded by penalties to stabilize/reduce U.S. assessments in future years.
MRO	4,572,271	(2,942,283)	\$ 1,629,988	30-day cash Operating Reserve. Remaining Working Capital and penalties are combined in a Assessment Stabilization Reserve for future budget stabilization; significant, short-term operating or capital spending needs; or unforeseen challenges that materially influence the ability meet delegated functions.
NPCC	5,214,288	(1,162,301)	\$ 4,051,987	Working Capital of 8.33% (30 days) of the annual budget. Operating Reserves range between 8.33% and 25.00% (90 days) to provide stability for annual assessments. Assessment Stabilization Reserve enables penalty monies to be released in future budget year. Business Continuity Reserve established for succession-related activities.
RF	3,818,989	2,411,429	\$ 6,230,418	10% of annual budgeted expenses or a minimum \$1M in Operating Reserves, plus additional Working Capital to manage cash flow and stabilize assessments
SERC	6,257,698	(2,110,191)	\$ 4,147,507	Working Capital Reserve allows for up to 10% of budgeted annual costs. Assessment Stabilization Reserve holds penalties to be used to offset assessments in future years.
Texas RE	4,087,192	(618,943)	\$ 3,468,249	Working Capital and Operating Reserve of approximately \$2M, or as adjusted by the Texas RE board. Assessment Stabilization Reserve holds penalties to offset assessments in future years.
WECC	8,184,307	523,971	\$ 8,708,278	Working Capital Reserve balance equal to one to three months of Personnel, Meeting, and Operating Expenses. Additional reserves used for future year assessment stabilization.
WIRAB	786,900	(216,200)	\$ 570,700	Working Capital Reserves are intended to stabilize future budget year assessments.
	<b>\$ 46,026,542</b>	<b>\$ (6,393,806)</b>	<b>\$ 39,632,736</b>	



### Total ERO Enterprise 2022 and 2023 Preliminary Projections

NERC and the Regional Entities are projecting the 2022 total budget to increase approximately \$7.7M (3.6%) over the 2021 budget. The 2023 total budget is projected to increase \$8.2M (3.7%) over the 2022 budget. Total FTEs are projected to increase in 2022 by 7.01 (1.0%) over 2021 and by 6.58 (0.9%) in 2023 over 2022. For NERC, the increases in FTEs are primarily a result of deferring FTE additions in 2021 due to cost savings efforts. NERC and Regional Entity management will continue to review and refine these projections as part of the 2022 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	2021 Budget	2022 Projection	Change 2022 v 2021	% Change	2023 Projection	Change 2023 v 2022	% Change	
NERC	\$ 82,883	\$ 87,024	\$ 4,141	5.0%	\$ 91,380	\$ 4,355	5.0%	
MRO	18,412	19,040	628	3.4%	19,615	575	3.0%	
NPCC	16,441	16,704	264	1.6%	17,187	483	2.9%	
RF	24,785	25,685	899	3.6%	26,658	973	3.8%	
SERC	25,829	26,410	581	2.2%	26,778	368	1.4%	
Texas RE	14,212	14,937	725	5.1%	15,717	780	5.2%	
WECC	28,605	29,050	445	1.6%	29,662	612	2.1%	
WIRAB	1,205	1,250	44	3.7%	1,294	45	3.6%	
	<b>\$ 212,373</b>	<b>\$ 220,100</b>	<b>\$ 7,727</b>	<b>3.6%</b>	<b>\$ 228,291</b>	<b>\$ 8,191</b>	<b>3.7%</b>	

Total FTEs								
Entity	2021 Budget	2022 Projection	Change 2022 v 2021	% Change	2023 Projection	Change 2023 v 2022	% Change	
NERC	213.38	217.14	3.76	1.8%	223.72	6.58	3.0%	
MRO	66.00	69.00	3.00	4.5%	69.00	-	0.0%	
NPCC	42.11	42.11	-	0.0%	42.11	-	0.0%	
RF	84.35	84.35	-	0.0%	84.35	-	0.0%	
SERC	100.00	100.00	-	0.0%	100.00	-	0.0%	
Texas RE	63.00	63.00	-	0.0%	63.00	-	0.0%	
WECC	148.50	148.50	-	0.0%	148.50	-	0.0%	
WIRAB	4.75	5.00	0.25	5.3%	5.00	-	0.0%	
	<b>722.09</b>	<b>729.10</b>	<b>7.01</b>	<b>1.0%</b>	<b>735.68</b>	<b>6.58</b>	<b>0.9%</b>	