

Proposed Amendment to NERC 2022 Business Plan and Budget

September 14, 2021

Overview

NERC's 2022 Business Plan and Budget (BP&B) was approved by the NERC Board of Trustees (Board) on August 12, 2021, and subsequently filed with FERC on August 24, 2021. NERC is proposing to amend the 2022 BP&B to include additional fixed asset expenditures in connection with an anticipated move to a new office location in Atlanta, Georgia. The decision to pursue an available early termination option in the lease for NERC's current office in Atlanta in connection with the possible move to a new office space was not reached until after NERC's 2022 BP&B had been finalized and posted for final review and approval by the Board. While the budget amendment reflects additional fixed asset expenditures for the new office space, the amendment does not reflect any increase in NERC's 2022 assessments.

Background

NERC's lease for its current office space in Atlanta provides an early termination option that may be exercised by October 31, 2021. NERC is considering exercising this early termination option in connection with a possible move to a new office space. Although lease terms are still being negotiated, NERC expects that the move to a new office space would result in significant cost savings that will be reflected in NERC's future budgets in the coming years.¹ Upon exercising the early lease termination option, NERC's current lease would terminate on October 31, 2022, and NERC would take occupancy of the new office space by no later than November 1, 2022. The termination of the current lease and execution of a new agreement would result in the following financial impacts:

- In 2021, NERC would need to expend \$1.9M from its Operating Contingency Reserve (OCR) to make the early termination payment required for the current office space lease,² and
- In 2022, NERC anticipates an expenditure of an estimated \$800k for construction build-out and furnishings, net of landlord tenant improvement allowances, at the new office space.

NERC 2022 Budget Amendment

NERC is proposing to amend the 2022 budget to include an additional \$800k in fixed asset expenditures for the build-out and furnishings referenced above, and to use primarily accumulated funds from its Future Obligation Reserve (FOR) that will no longer be needed in connection with the current office lease, as well as a lesser amount from the OCR, to pay for these costs. By using funds from the FOR and OCR to fund the additional fixed asset expenditures, the need to increase the 2022 assessments from the assessments proposed in the original budget is avoided.

¹ Additional information relating to the decision to move office spaces is discussed in the background materials available in the agenda packages for the public FAC and Board meetings to be held on September 28, 2021.

² NERC will seek FERC approval for this OCR expenditure in 2021 pursuant to the terms of NERC's *Working Capital and Operating Reserve Policy* and Paragraph 7(b)(ii) of the Settlement Order and Agreement in Docket No. FA11-21-000.

The tables provided at the end of this document show the impact of the additional expenditure on NERC's current 2022 budget. The additional \$800k is budgeted as a fixed asset expenditure in the Administrative Programs area, which is then allocated to the budgets of the statutory programs.³ As a result, each statutory program area's budget is increased accordingly, and the total budget is increased by \$800k. See Table 4 for the increase by program area.

Although the budget is increased by \$800k, the release of reserves to fund this cost is approximately \$773k. This difference is due to other funding NERC receives for the Cybersecurity Risk Information Sharing Program (CRISP) and System Operator Certification program, as follows:

- A significant portion of CRISP is funded by participants, which is shown as Third-Party Funding (CRISP) on Table 1. With the addition of the \$800k to the budget, Third-Party Funding is increased by approximately \$11k to fund the applicable portion of the additional fixed asset allocation to CRISP. See the "Funding (Other)" column of Table 4.
- The Personnel Certification and Continuing Education program is funded completely by revenue received for the System Operator Certification program (shown as Testing, Renewal, & Continuing Ed Fees on Table 1). This funding is budgeted based on expected revenue from these program fees rather than budgeted expenses. As such, the funding for the additional fixed asset allocation to the Personnel Certification and Continuing Education program appears as a change in working capital for this program, resulting in an additional use of approximately \$16k the System Operator Certification Reserve. See the "Working Capital Change" column of Table 4.

Due to the \$27k of funding from the sources above, the reserves needed to fund the \$800k are reduced by this amount to \$773k. Of the \$773k, NERC has budgeted to draw \$709k from the FOR (the balance of this reserve) and the remaining \$64k from the OCR. The ending balance of OCR in 2022 is projected to be 5.5% of the revised 2022 budget, within the policy target range of 3.5% to 7.0%. See Table 5.

Impacts to Canadian Credits

As explained above, the amendment to the 2022 budget to include funding for additional fixed asset expenditures does not impact NERC's total 2022 assessment since the additional costs will be funded by reserves. However, the increase in budget for the individual statutory program areas as a result of the additional fixed asset allocation affects the calculation of credits for certain costs for Canadian entities.⁴ The impact is a corresponding increase to each credit calculation, totaling approximately \$14k, or 0.02% of the total assessments. Given that these credit increases are relatively nominal, and to maintain no changes to the 2022 assessment schedule previously approved by the Board, NERC proposes to add these credit adjustments resulting from this 2022 budget amendment during the Canadian credit calculation process for the 2023 BP&B and assessment.

Next Steps

NERC plans to seek Board approval on this amendment on September 28, 2021, and subsequently file with FERC. The use of funds contemplated is subject to the conclusion of ongoing lease negotiations.

³Fixed Asset expenditures for the Administrative Programs are allocated to the statutory programs based on the ratios of each statutory program's budgeted full-time equivalent (FTE) staffing to the total budgeted FTE staffing for the statutory programs.

⁴ Pursuant to NERC's Expanded Policy on Allocation of Certain Compliance and Enforcement Costs included in North American Electric Reliability Corp., Docket No. RR08-6-000, Attachment 16, (filed August 22, 2008)

Table 1: Statement of Activities

Statement of Activities and Fixed Asset Additions 2021 Budget & Projection, and 2022 Budget								
STATUTORY								
	2021 Budget	2021 Projection	Variance 2021 Projection v 2021 Budget Over(Under)	2022 Budget	Variance 2022 Budget v 2021 Budget Over(Under)	% Inc 2022 Over 2021	2022 Original Budget	Variance to Original Budget Over(Under)
Funding								
NERC Funding								
NERC Assessments	\$ 72,011,373	\$ 72,011,374	\$ -	\$ 78,387,280	\$ 6,375,907		\$ 78,387,280	\$ -
Penalties Released*	-	-	-	-	-		-	-
Total NERC Funding	\$ 72,011,373	\$ 72,011,374	\$ -	\$ 78,387,280	\$ 6,375,907	8.9%	\$ 78,387,280	\$ -
Third-Party Funding (CRISP)	\$ 7,064,343	\$ 7,095,260	\$ 30,917	\$ 7,928,423	\$ 864,080		\$ 7,917,385	\$ 11,038
Testing, Renewal, & Continuing Ed Fees	1,801,634	1,654,822	(146,812)	1,756,723	(44,911)		1,756,723	-
Services & Software	60,000	60,000	-	60,000	-		60,000	-
Miscellaneous	-	60,500	60,500	60,000	60,000		60,000	-
Interest & Investment Income	218,200	7,000	(211,200)	76,500	(141,700)		76,500	-
Total Funding (A)	\$ 81,155,551	\$ 80,888,956	\$ (266,594)	\$ 88,268,926	\$ 7,113,376	8.8%	\$ 88,257,888	\$ 11,038
Expenses								
Personnel Expenses								
Salaries	\$ 36,636,628	\$ 37,229,211	\$ 592,583	\$ 39,557,528	\$ 2,920,900		\$ 39,557,528	\$ -
Payroll Taxes	2,122,568	2,176,206	53,638	2,310,836	188,267		2,310,836	-
Benefits	5,703,799	5,360,249	(343,550)	6,038,487	334,688		6,038,487	-
Retirement Costs	3,726,439	3,769,288	42,849	4,059,585	333,146		4,059,585	-
Total Personnel Expenses	\$ 48,189,435	\$ 48,534,954	\$ 345,519	\$ 51,966,435	\$ 3,777,000	7.8%	\$ 51,966,435	\$ -
Meeting & Travel Expenses								
Meetings & Conference Calls	\$ 890,751	\$ 379,978	\$ (510,773)	\$ 1,132,550	\$ 241,799		\$ 1,132,550	\$ -
Travel	1,310,997	381,990	(929,007)	1,475,500	164,503		1,475,500	-
Total Meeting & Travel Expenses	\$ 2,201,748	\$ 761,968	\$ (1,439,780)	\$ 2,608,050	\$ 406,302	18.5%	\$ 2,608,050	\$ -
Operating Expenses, excluding Depreciation								
Consultants & Contracts	\$ 12,691,813	\$ 14,639,818	\$ 1,948,005	\$ 13,674,800	\$ 982,987		\$ 13,674,800	\$ -
Office Rent	3,603,442	3,603,442	-	3,243,277	(360,165)		3,243,277	-
Office Costs	10,185,789	10,483,815	298,026	10,749,222	563,433		10,749,222	-
Professional Services	2,185,100	2,398,563	213,463	2,488,100	303,000		2,488,100	-
Miscellaneous	100,150	105,086	4,936	144,650	44,500		144,650	-
Total Operating Expenses, excluding Depreciation	\$ 28,766,294	\$ 31,230,724	\$ 2,464,430	\$ 30,300,049	\$ 1,533,755	5.3%	\$ 30,300,049	\$ -
Total Direct Expenses	\$ 79,157,477	\$ 80,527,646	\$ 1,370,169	\$ 84,874,534	\$ 5,717,057	7.2%	\$ 84,874,534	\$ -
Indirect Expenses	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -
Other Non-Operating Expenses	\$ 129,661	\$ 181,048	\$ 51,387	\$ 135,000	\$ 5,339	4.1%	\$ 135,000	\$ -
Total Expenses (B)	\$ 79,287,138	\$ 80,708,694	\$ 1,421,557	\$ 85,009,534	\$ 5,722,396	7.2%	\$ 85,009,534	\$ -
Change in Net Assets (=A-B)	\$ 1,868,413	\$ 180,262	\$ (1,688,151)	\$ 3,259,392	\$ 1,390,979		\$ 3,248,354	\$ 11,039
Fixed Asset Additions, excluding Right of Use Assets (C)	\$ 2,751,500	\$ 3,286,328	\$ 534,828	\$ 4,918,750	\$ 2,167,250	78.8%	\$ 4,118,750	\$ 800,000
Financing Activity								
Loan or Financing Lease - Borrowing (-)	(100,000)	(887,476)	(787,476)	(2,100,000)	(2,000,000)		(2,100,000)	-
Loan or Financing Lease - Principal Payments (+)	944,601	803,957	(140,640)	1,000,000	55,399		1,000,000	-
Net Financing Activity (D)	\$ 844,601	\$ (83,519)	\$ (928,120)	\$ (1,100,000)	\$ (1,944,601)	-230.2%	\$ (1,100,000)	\$ -
Total Budget (=B+C+D)	\$ 82,883,239	\$ 83,911,503	\$ 1,028,265	\$ 88,828,284	\$ 5,945,045	7.2%	\$ 88,028,284	\$ 800,000
Change in Working Capital (=A-B-C-D)	\$ (1,727,688)	\$ (3,022,547)	\$ (1,294,859)	\$ (559,358)	\$ 1,168,330		\$ 229,604	\$ (788,961)
FTEs	213.38	208.95	(4.43)	223.72	10.34	4.8%	223.72	0.00

*Penalties Released in the current year reflects the designated amount of funds released from the Assessment Stabilization Reserve to offset U.S. assessments as approved by the NERC Board and FERC. Actual penalties invoiced in the current reporting year are shown as an increase to the Assessment Stabilization Reserve on the reserve summary table and will be reported as income on the audited financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

Table 2: 2022 Budget by Program Area (as filed on August 24, 2021)

As Filed on August 24, 2021												
2022 NERC Business Plan and Budget by Program Area	Funding (Assessments)	Funding (Other)	Total Funding	Direct Expenses	Indirect Expenses*	Non-Op Expenses	Total Expenses	Fixed Assets*	Net Financing Activity*	Total Budget	Working Capital Change	
Reliability Standards and Power Risk Issue Strategic Management	\$ 9,420,030	\$ 10,895	\$ 9,430,925	\$ 4,321,038	\$ 4,916,148	\$ -	\$ 9,237,186	\$ 397,858	\$ (204,119)	\$ 9,430,925	\$ -	
Compliance Assurance and Organization Registration and Certification	12,552,038	11,933	12,563,971	6,492,428	5,384,352	27,500	11,904,280	695,750	(36,058)	12,563,971	-	
Compliance Enforcement	6,939,219	6,744	6,945,963	3,317,700	3,043,329	27,500	6,388,529	496,293	61,141	6,945,963	-	
RAPA	14,700,555	74,527	14,775,082	7,486,899	6,554,863	-	14,041,762	1,005,478	(272,158)	14,775,082	-	
Event Analysis	3,778,518	3,632	3,782,150	2,018,854	1,638,716	-	3,657,570	192,619	(68,040)	3,782,150	-	
Situation Awareness	5,072,463	4,150	5,076,614	3,022,490	1,872,818	-	4,895,308	259,065	(77,759)	5,076,614	-	
Personnel Certification	-	1,757,223	1,757,223	1,097,635	702,307	-	1,799,942	56,837	(29,160)	1,827,619	(70,396)	
Training and Education	1,023,976	1,038	1,025,014	538,358	468,205	-	1,006,562	37,891	(19,440)	1,025,014	-	
E-ISAC (non-CRISP)	23,555,615	82,082	23,637,696	13,189,800	9,963,978	-	23,153,777	897,624	(413,705)	23,637,696	-	
E-ISAC (CRISP)	1,344,865	7,918,385	9,263,250	7,944,314	980,303	-	8,924,618	79,335	(40,702)	8,963,250	300,000	
Administrative Programs	-	-	-	35,445,018	(35,525,018)	80,000	-	-	-	-	-	
Total	\$ 78,387,280	\$ 9,870,608	\$ 88,257,888	\$ 84,874,534	\$ -	\$ 135,000	\$ 85,009,534	\$ 4,118,750	\$ (1,100,000)	\$ 88,028,284	\$ 229,604	

*Includes allocation from Administrative Programs

Table 3: 2022 Budget by Program Area (as proposed amended)

As Amended												
2022 NERC Business Plan and Budget by Program Area	Funding (Assessments)	Funding (Other)	Total Funding	Direct Expenses	Indirect Expenses	Non-Op Expenses	Total Expenses	Fixed Assets**	Net Financing Activity	Total Budget	Working Capital Change	
Reliability Standards and Power Risk Issue Strategic Management	\$ 9,530,739	\$ 10,895	\$ 9,541,634	\$ 4,321,038	\$ 4,916,148	\$ -	\$ 9,237,186	\$ 508,567	\$ (204,119)	\$ 9,541,634	\$ -	
Compliance Assurance and Organization Registration and Certification	12,673,290	11,933	12,685,223	6,492,428	5,384,352	27,500	11,904,280	817,002	(36,058)	12,685,224	-	
Compliance Enforcement	7,007,753	6,744	7,014,497	3,317,700	3,043,329	27,500	6,388,529	564,827	61,141	7,014,497	-	
RAPA	14,848,167	74,527	14,922,693	7,486,899	6,554,863	-	14,041,762	1,153,089	(272,158)	14,922,693	-	
Event Analysis	3,815,421	3,632	3,819,053	2,018,854	1,638,716	-	3,657,570	229,522	(68,040)	3,819,053	-	
Situation Awareness	5,114,638	4,150	5,118,788	3,022,490	1,872,818	-	4,895,308	301,240	(77,759)	5,118,788	-	
Personnel Certification	-	1,757,223	1,757,223	1,097,635	702,307	-	1,799,942	72,652	(29,160)	1,843,435	(86,212)	
Training and Education	1,034,520	1,038	1,035,557	538,358	468,205	-	1,006,562	48,435	(19,440)	1,035,557	-	
E-ISAC (non-CRISP)	23,779,997	82,082	23,862,079	13,189,800	9,963,978	-	23,153,777	1,122,006	(413,705)	23,862,079	-	
E-ISAC (CRISP)	1,355,903	7,929,423	9,285,326	7,944,314	980,303	-	8,924,618	101,411	(40,702)	8,985,326	300,000	
Administrative Programs	(773,146)	-	(773,146)	35,445,018	(35,525,018)	80,000	-	-	-	-	(773,146)	
Total	\$ 78,387,280	\$ 9,881,646	\$ 88,268,926	\$ 84,874,534	\$ -	\$ 135,000	\$ 85,009,534	\$ 4,918,750	\$ (1,100,000)	\$ 88,828,284	\$ (559,358)	

**Includes \$800k for leasehold improvements and furniture in the Fixed Assets budget for Administrative Programs (allocated to the individual program areas).

Table 4: 2022 Budget Net Change by Program Area (as filed versus amended)

Net Change (As Filed vs. Amended)												
2022 NERC Business Plan and Budget by Program Area	Funding (Assessments)	Funding (Other)	Total Funding	Direct Expenses	Indirect Expenses	Non-Op Expenses	Total Expenses	Fixed Assets	Net Financing Activity	Total Budget	Working Capital Change	
Reliability Standards and Power Risk Issue Strategic Management	\$ 110,708	\$ -	\$ 110,708	\$ -	\$ -	\$ -	\$ -	\$ 110,708	\$ -	\$ 110,708	\$ -	
Compliance Assurance and Organization Registration and Certification	121,252	-	121,252	-	-	-	-	121,252	-	121,252	-	
Compliance Enforcement	68,534	-	68,534	-	-	-	-	68,534	-	68,534	-	
RAPA	147,611	-	147,611	-	-	-	-	147,611	-	147,611	-	
Event Analysis	36,903	-	36,903	-	-	-	-	36,903	-	36,903	-	
Situation Awareness	42,175	-	42,175	-	-	-	-	42,175	-	42,175	-	
Personnel Certification	-	-	-	-	-	-	-	15,815	-	15,815	(15,815)	
Training and Education	10,544	-	10,544	-	-	-	-	10,544	-	10,544	-	
E-ISAC (non-CRISP)	224,382	-	224,382	-	-	-	-	224,382	-	224,382	-	
E-ISAC (CRISP)	11,038	11,038	22,076	-	-	-	-	22,076	-	22,076	-	
Administrative Programs	(773,146)	-	(773,146)	-	-	-	-	-	-	-	(773,146)	
Total	\$ -	\$ 11,038	\$ 11,038	\$ -	\$ -	\$ -	\$ -	\$ 800,000	\$ -	\$ 800,000	\$ (788,961)	

Table 5: Amended Total Reserve Analysis

Total Reserves Analysis						
Statutory						
	Total Reserves	Future Obligation Reserve¹	Operating Contingency Reserve²	System Operator Certification Reserve	CRISP Reserves³	Assessment Stabilization Reserve
Beginning Reserves - 1/1/2021	\$ 14,707,583	\$ 1,657,901	\$ 7,982,913	\$ 996,220	\$ 1,549,549	\$ 2,521,000
Generation or (Use) of reserves from 2021 projections						
Projected 2021 operating results, including debt service and financing	\$ (3,134,957)	\$ -	\$ (1,827,118)	\$ (258,290)	\$ (1,049,549)	\$ -
From 2021 approved addition/(use) of reserves	(2,351,600)	(551,600)	(1,800,000)	-	-	-
Other addition/(use) of reserves	-	-	-	-	-	-
Projected Reserves - 12/31/21	\$ 9,221,026	\$ 1,106,301	\$ 4,355,795	\$ 737,930	\$ 500,000	\$ 2,521,000
Required Working Capital and Operating Reserves - 12/31/22	\$ 8,690,932	\$ 426,672	\$ 4,291,542	\$ 651,718	\$ 800,000	\$ 2,521,000
Adjustment in funding to achieve required reserve balance	(530,094)	(679,629)	(64,253)	(86,212)	300,000	-
Less: Assessment Stabilization Reserve Release - Penalties	-	-	-	-	-	-
Total Adjustments to Reserves	\$ (530,094)	\$ (679,629)	\$ (64,253)	\$ (86,212)	\$ 300,000	\$ -
Assessment Reconciliation						
2022 Expenses, Capital Expenditures & Net Financing	\$ 88,828,284					
Less: Assessment Stabilization Reserve Release - Penalties	-					
Adjustment in funding to achieve required reserve balance	(559,358)					
Less: Other Funding Sources	(9,881,646)					
2022 NERC Assessment	\$ 78,387,280					

¹The Future Obligations Reserve offsets future, non-current liabilities.

²Except as otherwise approved by the Board, after review by the FAC, the amount of the Operating Contingency Reserve shall be between three and one half (3.5%) percent and seven (7%) percent 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.

³The CRISP Reserve is used solely for certain contingencies in connection with CRISP. The reserve level of \$500,000 at December 31, 2021 is equal to the original CRISP reserve, established in 2015, funded by the participating utilities. Subject to approval of the CRISP participants, NERC proposes to increase the reserve by \$300,000 in 2022, funded by the participants, to provide additional operating reserve for CRISP.