

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

2022 Business Plan and Budget Overview – Draft 2

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RELIABILITY | RESILIENCE | SECURITY



- **Budget – \$88.0M (\$5.1M or 6.2% increase from 2021)**
 - Down from 7.0% increase in Draft 1
 - Increase primarily driven by personnel costs, consultants and contracts, and software licenses and support
 - Partially offset by Compliance and Enforcement Program (CMEP) maturation
- **Assessment – \$78.4M (\$6.4M or 8.9% increase from 2021)**
 - Down from 9.9% increase in Draft 1
 - Excludes any use of reserves to offset assessments, subject to final Board of Trustees (Board) approval
 - Assumes no capital financing, other than IT equipment leases
- **FTEs – 223.7 (net increase of 10.3 from 2021)**
 - Support for key focus areas and strategies

- Comments received from (posted on NERC website):
 - US: Edison Electric Institute (EEI), American Public Power Association (APPA), and Large Public Power Council (LPPC)
 - US: ISO RTO Council Standards Review Committee (IRC SRC)
 - US: National Rural Electric Cooperative Association (NRECA)
 - US: Midcontinent Independent System Operator (MISO)
 - Canada: Canadian Electricity Association (CEA)
 - Canada: Independent Electricity System Operator (IESO)

- Overall, comments expressed:
 - Support for emphasis on addressing priority bulk power system (BPS) reliability and security
 - Concerns with increases in light of current fiscal realities facing industry
 - Requests for clarifications and recommendations for increasing efficiency
- Response to comments posted with Draft 2 on July 15
 - Acknowledges economic uncertainties facing the industry
 - Underscores the extraordinary costs to nearly 400 million North American citizens if measures are not taken in response to priority BPS risks
 - Provides responses to individual comments along with further clarifications where necessary
- Comments on Draft 2 BP&B due **July 28**

- 2022 budget and assessment lowered in Draft 2
- No proposed use of reserves or additional capital financing in Draft 2 to offset assessments
 - Avoids rebound effect on 2023 assessments and future year impact of higher debt service
 - Maintains adequate reserve levels to accommodate potential one-time costs for Atlanta office lease change decisions
- Breakdown of total \$78.4M assessment by country (based on 2020 NEL)
 - US: \$70.7M (\$5.7M or 8.8% increase over 2021)
 - Canada: \$7.4M (\$606k or 8.9% increase over 2021)
 - Mexico: \$263k (\$36k or 15.7% increase over 2021)

- FTEs remain the same as Draft 1 (net addition of 10.3 FTEs)
- Meetings and travel expenses consistent with Draft 1
- Some cost adjustments within and among departments
 - Personnel expense estimate slightly lower
 - DC office rent reduced, reflecting new lease assumptions
 - Lower contracts and consultants
- Budget and assessment neutral changes from Draft 1
 - Fixed asset purchases increasing by \$2.0M for new audio visual (A/V) equipment lease, offset by corresponding lease proceeds
 - Cybersecurity Risk Information Sharing Program (CRISP) to bill participants for \$300k additional reserve funds

- **2023 vs 2022**

- Budget increase of 5.1% (\$4.5M)
- Assessment increase of 5.5% (\$4.3M)

- **2024 vs 2023**

- Budget increase of 5.1% (\$4.7M)
- Assessment increase of 5.1% (\$4.2M)

- Projections are preliminary and not Board-endorsed or approved
- Assessments do not yet factor in any potential use of reserves

- Continued resource additions and system enhancements to address priority BPS reliability and security risks
 - Resource needs under further strategic review
 - System enhancements subject to scoping, requirements building, and business case development where applicable
- Salary and benefit increases consistent with 2022
- Gradual increase in meetings and travel expenses, still below pre-COVID levels
- DC office savings continue
- No changed assumption for Atlanta office lease while options are explored



Additional Information

- Guided by the *ERO Enterprise Long-Term Strategy*
- April 2021
 - Preliminary budget and assessment shared with MRC Business Plan & Budget (BP&B) Input Group, Trades and Forums, and Finance and Audit Committee (FAC)
- May 2021
 - Draft 1 overview presented to FAC
 - Draft 1 posted for comment on May 25
 - NERC and Regional Entity (RE) 2022 BP&B briefing with FERC
- June 2021
 - First FAC webinar on June 3 to review 2022 NERC and RE BP&Bs
 - Comments on Draft 1 due June 18

- Late June/July 2021
 - Draft 2 updates shared with MRC BP&B Input Group, Trades and Forums, and FAC
 - **Draft 2 posted for comment on July 15**
 - Second FAC webinar on July 22 to review NERC and RE 2022 BP&Bs
 - **Comments on Draft 2 due July 28**
- August 2021
 - Final draft posted on August 5
 - FAC meeting on August 11 to recommend approval to Board of final NERC and RE 2022 BP&Bs
 - Board meeting on August 12 to approve 2022 BP&Bs
 - 2022 BP&Bs submitted to FERC for approval by August 25, with subsequent filings with Canadian authorities

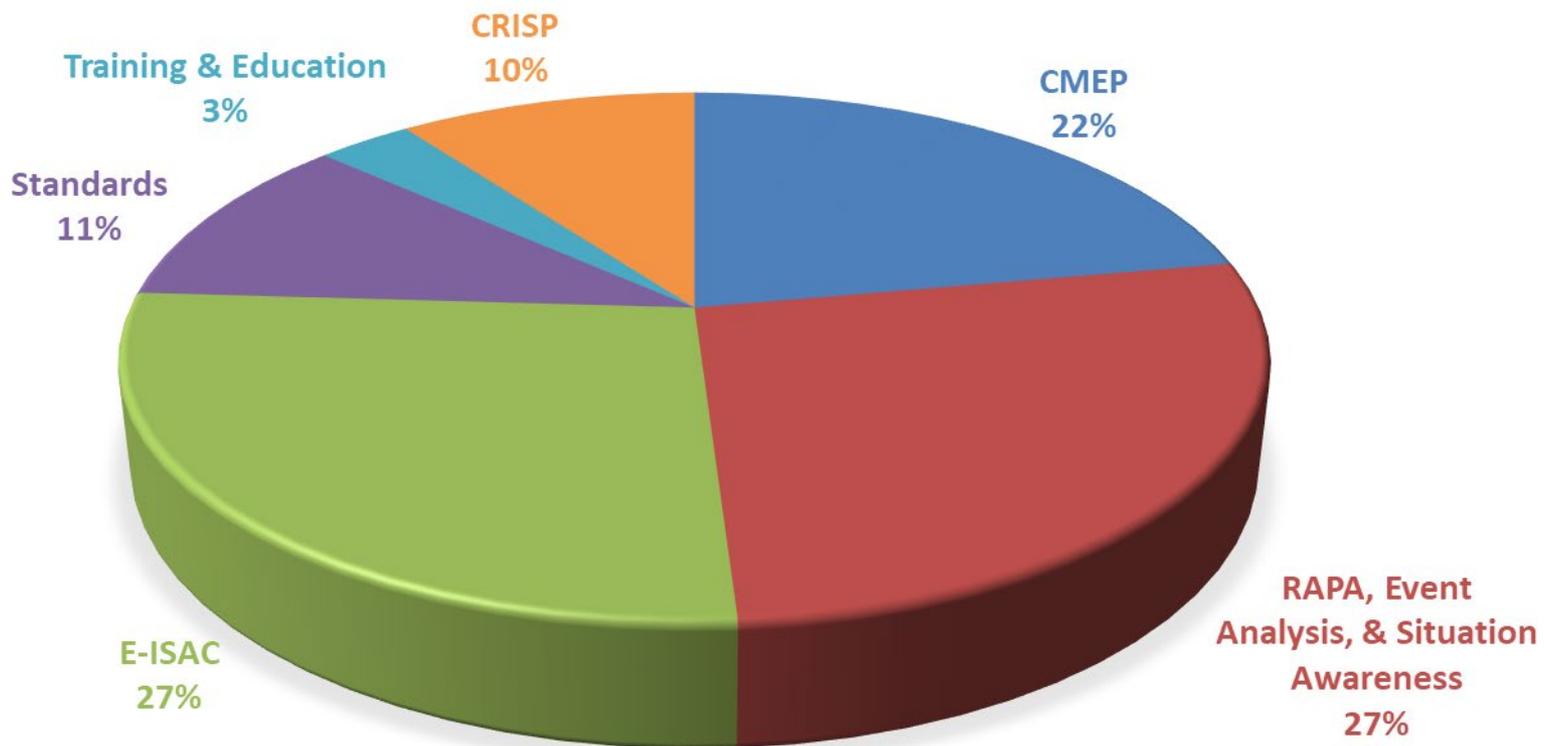
- Adequate resources to focus on BPS reliability and security risks
 - Cyber security and supply chain compromise
 - Energy and fuel assurance and weatherization
 - E-ISAC & CRISP (analytics, operational technology, physical security)
- NERC internal security and workforce development
 - Increase capabilities for cyber security and system administration
 - Recruiting and managing an evolving and flexible “post-pandemic” workforce
 - Supports ERO Enterprise value driver to attract, engage, and retain top talent
- Partial return to in-person meetings and related travel
- Internal Audit contract support
 - FERC-mandated audits of REs
 - ERO IT security audit

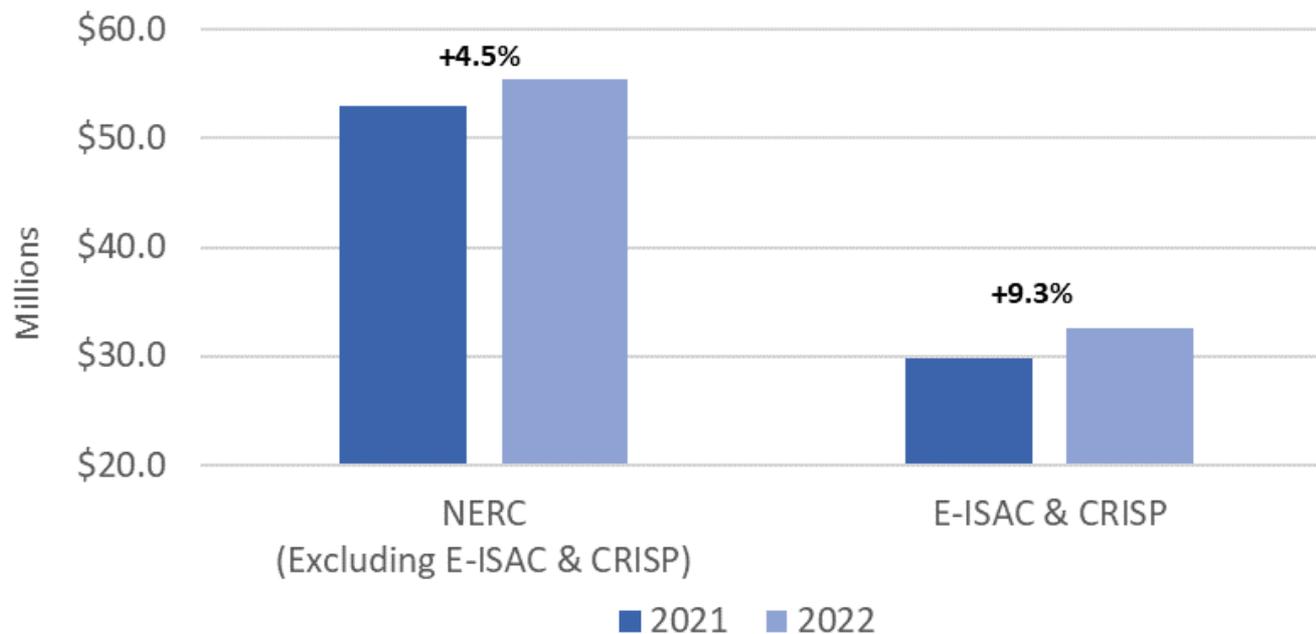
- 2021 budget and assessments held flat to provide industry relief during the uncertainty of the pandemic
- Average annual total budgeted FTE growth since 2013, including proposed 2022 FTEs, is 2.1%
- Total number of staff, excluding E-ISAC & CRISP, IT, and RAPA, is less in 2022 than in 2013
- Total budget, assessment, and FTEs are lower than pre-pandemic projections for 2022 in the 2020 BP&B
- NERC's two-year average budget increase (for 2021 and 2022) is 3.2% and the two-year average assessment increase is 4.5%

- **Personnel \$52.0M (7.8% increase from 2021)**
 - 3% salary increase (2.5% merit and 0.5% equity/market)
 - Medical insurance premium increase lower than previous years
 - Net increase of 10.3 FTEs (14 new positions, offset by 3 productivity gains)
 - Standards and analytics, E-ISAC & CRISP, IT security, and workforce strategy
- **Meetings and travel \$2.6M (18.5% increase from 2021)**
 - Assuming return to some in-person meetings and related travel
 - Continuing efficiencies gained from virtual meeting formats
- **Operating Expenses \$30.3M (5.3% increase from 2021)**
 - Return of consulting support deferred in 2021; increased audit support
 - Software licenses and support escalation and increased focus on security
 - DC office rent reduced, reflecting pro forma new lease assumptions
 - Assumes existing rent schedule for Atlanta office will options are explored

- **Fixed Assets \$4.1M (49.7% increase from 2021)**
 - \$2.0M for new A/V lease, offset by lease proceeds (budget neutral)
 - Return to investment in data management tools
 - Planned IT equipment replacements
 - Excluding A/V lease purchase, fixed assets decreasing due to Align development completion
- **Net Financing Activity (\$1.1M) (230.2% decrease from 2021)**
 - Lease proceeds for laptops and A/V equipment
 - Lease principal payments for laptops and A/V equipment
 - Loan principal payments for ERO Secure Evidence Locker

Draft 2 2022 Budget by Program Area





- **Assessment – \$78.4M (\$6.3M or 8.9% increase from 2021)**
 - Excludes any use of reserves to offset assessments
 - Avoids rebound effect on 2023 assessments
 - Maintains adequate reserve levels to accommodate potential one-time costs for Atlanta office lease change decisions
 - Assumes no capital financing, other than IT equipment leases
 - Avoids future year debt service
- **Assessments by country (based on 2020 NEL)**
 - US: \$70.7M (\$5.7M or 8.8% increase over 2021)
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- **Operating Contingency Reserve (OCR)**
 - Working capital funds and additional funds for unanticipated contingencies
 - Target between 3.5% and 7.0% of total budget minus System Operator Certification and CRISP budgets
- **Assessment Stabilization Reserve (ASR)**
 - To date, funded entirely by previously received penalties
 - Used to reduce U.S. assessments, subject to Board and FERC approval
- **Other reserves**
 - Future Obligation Reserve – Funding received to satisfy future obligations under lease, credit, loan, or other agreements
 - System Operator Certification Reserve – Surplus funding from operator certification fees, used solely for operator certification needs
 - CRISP Reserve – Funds dedicated to CRISP, funded by CRISP participants

- Total projected reserves at end of **2021** – \$11.2M
 - OCR – \$6.3M
 - 8.6% of total budgeted operating and fixed asset cost (slightly above target range)
 - ASR – \$2.5M
 - Other reserves – \$2.4M
- Total projected reserves at end of **2022** – \$11.5M
 - OCR – \$6.3M
 - 8.1% of total budgeted operating and fixed asset cost (slightly above target range)
 - ASR – \$2.5M
 - Other reserves – \$2.7M



Questions and Answers