

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

Final 2023 Business Plan and Budget Overview

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RELIABILITY | RESILIENCE | SECURITY



Ensures NERC has resources to address emerging reliability and security risks while leveraging key partners

- Energy availability
- Cyber security vulnerabilities

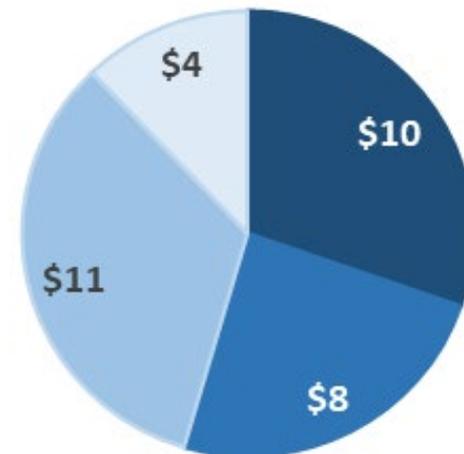
Retools NERC’s approach to mitigating risk

- More nimble stakeholder-owned standards setting process

Invests in NERC’s own infrastructure

- Reduce enterprise and cyber risks related to our own business activities and systems

2022–2025 Incremental Increase of \$33M



- Personnel Costs (existing FTEs)
- Personnel Costs (new FTEs)
- Technology costs (including financing)
- All Other

People and technology strategies

- Adding 34.8 FTEs over the next three years
- Increase in business technology spending

Meetings and travel

- Return to some in-person meetings, two annual in-person Board and RSTC meetings
- 2025 travel projection still slightly below pre-pandemic levels

Facilities and rent

- Lower annual rent expenses due to Atlanta office lease concessions
- 2025 projection includes expenses related to potential new Atlanta office space

Other

- Three-year increase of 33% for CRISP contract with PNNL (participant-funded)
- Significant market pressures on liability insurance

Capital financing and reserve releases to smooth assessments

- Technology capital borrowing of \$4.0M in 2023 and 2024; \$2.5M in 2025
- Reserve release of \$2.0M in 2023 and \$500k in 2025

Three-year business planning

- Late 2021 to early 2022 – NERC Board strategic planning sessions
 - Identify strategic areas of focus and initial resource evaluation and planning
- March 18 – MRC BP&B Input Group
- March 31 – Joint stakeholder meeting

Share three-year budget and assessment assumptions

- April 14 – Closed FAC
- April 27 – MEC Quarterly Update
- April 29 – MRC BP&B Input Group
- May 3 – Trades and Forums
- May 11 – Open FAC

Review NERC and Regional Entity draft 2023 BP&Bs

- May 25 to June 24 – Comment period on draft NERC 2023 BP&B
- June 1 – FAC webinar
- June 8 – FERC briefing

Review NERC proposed final 2023 BP&B

- July 7 – Closed FAC
- July 13 – MRC BP&B Input Group
- July 27 – Trades and Forums and MEC endorses E-ISAC 2023 budget

Approve NERC and Regional Entity final 2023 BP&Bs

- August 17 & 18 – Open FAC and Board

Budget – \$101.0M (\$12.2M or 13.7% increase from 2022)

- Primary drivers are costs related to People and Technology Strategies

Assessment – \$87.1M (\$8.7M or 11.1% increase from 2022)

- Assuming \$4.0M in capital software financing loan proceeds, which lowers assessment requirements
- Includes release of \$2.0M in reserve funds to offset assessments
 - \$1.0M from Operating Contingency Reserve (OCR)
 - \$1.0M from Assessment Stabilization Reserve (ASR)

FTEs – 236.9 (increase of 13.2 from 2022)

- Support for priority areas of focus

Personnel – \$58.0M (11.6% increase from 2022)

- Weighted average merit increase of 6.0%
 - Inflationary pressures and increased demand for cyber security and IT talent
- Increase of 13.2 FTEs
 - Expertise for CIP audits, probabilistic assessments, BPS planning cyber analysis
 - E-ISAC and CRISP enhancement and expansion
 - NERC support functions related to cyber security, cloud computing, internal controls, procurement, communications

Meetings and travel – \$3.1M (20.6% increase from 2022)

- Continuing efficiencies gained from virtual meeting formats
- Return to some in-person meetings and related travel
 - Assuming two in-person, two hybrid meetings for Board and RSTC
 - Less, but more expensive travel

Operating Expenses – \$36.1M (19.3% increase from 2022)

- CRISP contract with PNNL (completely participant funded)
- GridEx support (2023 is a GridEx year, 2022 is an off year)
- IT contractor and consultant expenses to support Technology Strategy
- Increased cost for liability insurance
- New software related to Technology Strategy and escalation for existing software
- Offset by lower rent expenses due to Atlanta office lease concessions

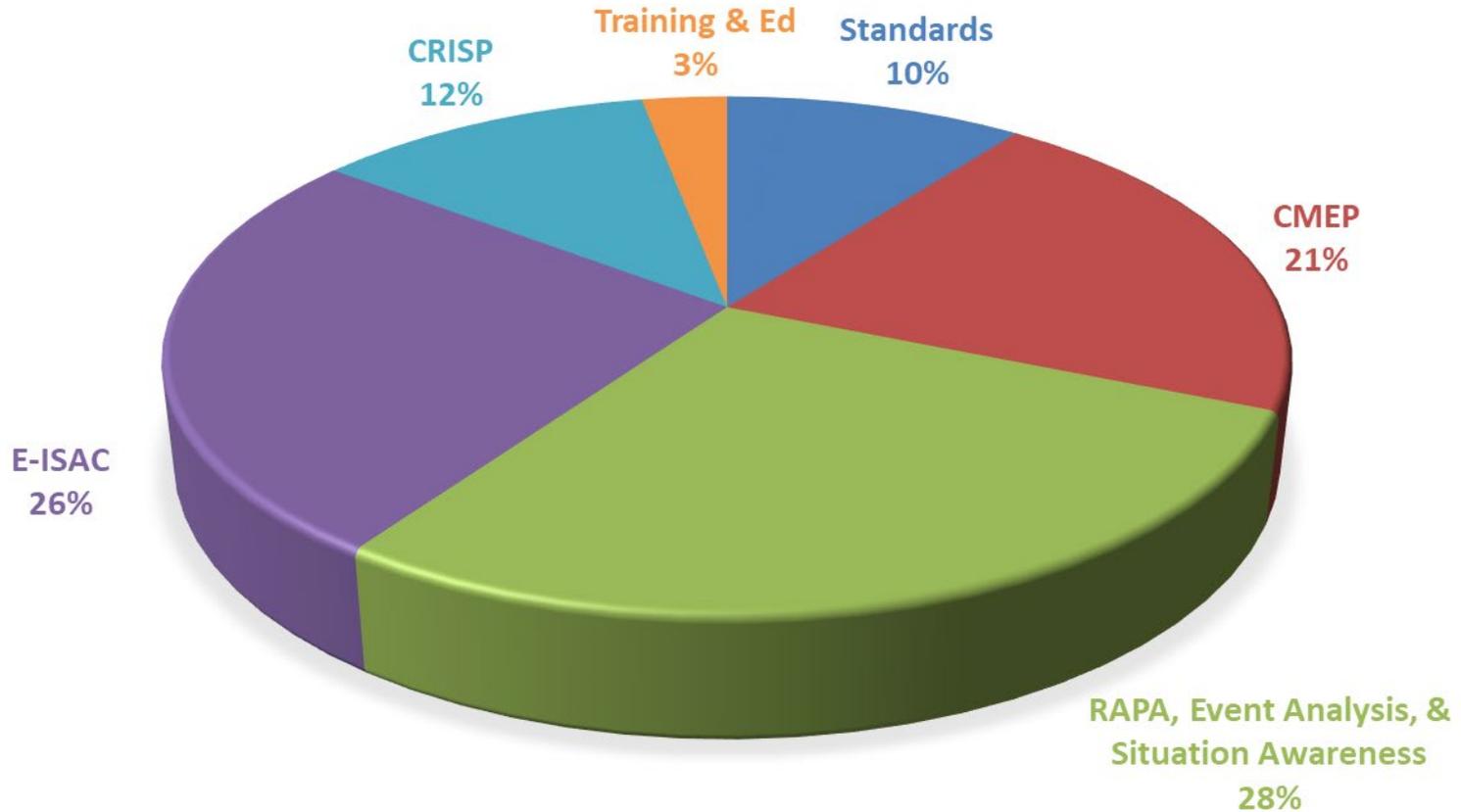
Fixed Assets – \$6.2M (26.5% increase from 2022)

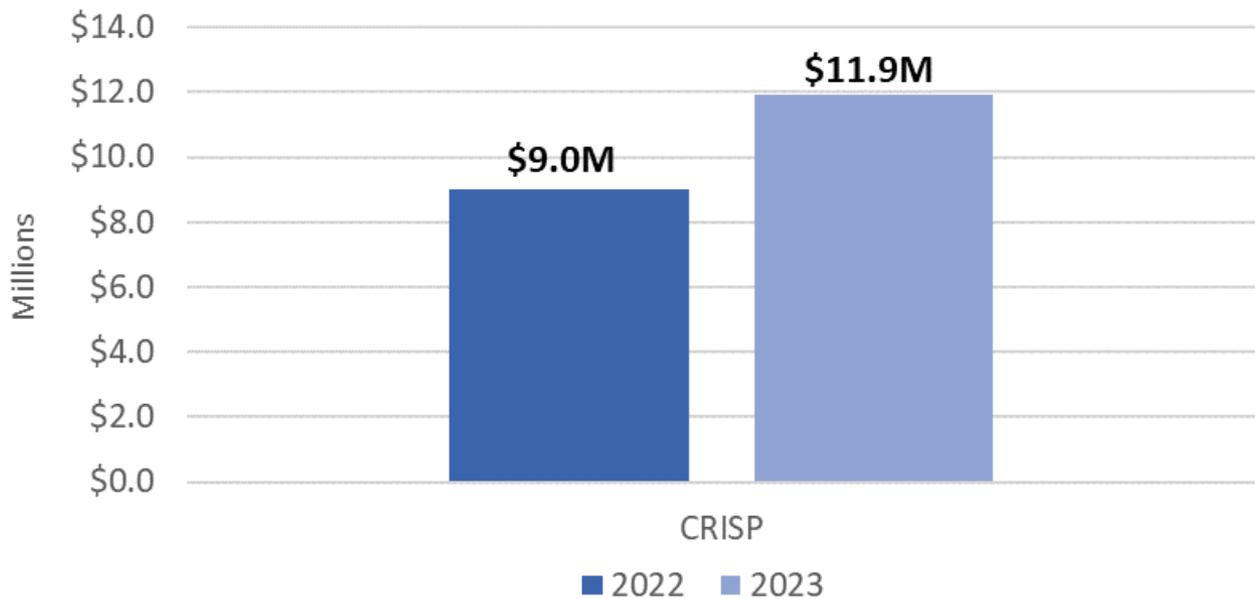
- Capital software projects related to the Technology Strategy
- IT equipment replacements and lease-financed laptops

Net Financing Activity – (\$2.8M) (153.7% increase from 2022)

- Loan proceeds for capital software projects (\$4.0M)
- Loan principal payments for ERO Secure Evidence Locker
- Lease proceeds for laptop refresh
- Lease principal payments for laptops and audio/visual equipment

2023 Budget by Program Area





- 2023 budget increase of 32.5%
- Primarily due to PNNL costs and insurance
- Majority of budget increase funded by CRISP participants

Assessment – \$87.1M (\$8.7M or 11.1% increase from 2022)

- Assuming capital software financing of \$4.0M (reflected in budget under Net Financing Activity), which reduces assessment increase
- Includes release of \$2.0M in reserve funds to offset assessments
 - \$1.0M from OCR
 - \$1.0M from ASR

2023 assessments by country (using 2021 NEL allocation)

- United States – \$78.2M
 - \$7.5M (10.6%) increase from 2022
 - 89.8% of total NERC assessment
- Canada – \$8.6M
 - \$1.1M (15.1%) increase
 - 9.8% of total NERC assessment
- Mexico – \$306k
 - \$43k (16.4%) increase

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 U.S. 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 (e.g., deferred rent)
- 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 2022 – \$16.5M

- OCR – \$8.8M (11.2%, above target)
- ASR – \$2.5M
- Future Obligation Reserve – \$2.3M
- System Operator Certification Reserve – \$742k
- CRISP reserves – \$2.2M

Total projected reserves at end of 2023 – \$14.6M

- OCR – \$7.8M (8.9%, slightly above target)
- ASR – \$1.5M
- Future Obligation Reserve – \$2.6M
- System Operator Certification Reserve – \$563k
- CRISP reserves – \$2.2M

Key assumptions for 2024 and 2025 increase projections

- People and Technology Strategies
- Lease-financed and one-time out-of-pocket expenses in 2025 for potential Atlanta office move
- Capital software financing in 2024 and 2025 and \$500k OCR release in 2025 to offset assessments

2024 vs 2023

- Budget increase of 9.0% (\$9.1M)
- Assessment increase of 11.6% (\$10.1M)
- FTE increase of 11.3

2025 vs 2024

- Budget increase of 11.3% (\$12.4M)
- Assessment increase of 11.1% (\$10.8M)
- FTE increase of 10.3



Questions and Answers