2022 Business Plan and Budget Overview – Final Draft

Andy Sharp, Vice President and Chief Financial Officer
Finance and Audit Committee Meeting
August 11, 2021
• The 2022 Business Plan & Budget (BP&B) supports the ERO’s needs to fulfill its mission to assure the effective and efficient reduction of risks to the reliability and security of the grid
  
  ▪ Priority bulk power system (BPS) risk areas include:
    ▪ Supply chain compromise and increasingly sophisticated cyber attacks
    ▪ Extreme and widespread weather-related events
    ▪ Energy and fuel assurance
    ▪ Increased distributed generation
  
  ▪ Extraordinary costs to nearly 400 million North American citizens if measures are not taken in response to BPS risks
    ▪ Electricity increasingly essential to everyday life
2022 Budget Priorities

• Proper resourcing for Reliability Standards
  ▪ Critical Infrastructure Protection (CIP) standard revision considerations necessitated by escalating threats and compromises
  ▪ Changes to operating and planning standards identified by the Reliability Security and Technical Committee
  ▪ Increased activity in the areas of renewable resources and extreme events

• Increased analytics for priority reliability and security risks
  ▪ Collection of generating availability data for solar and wind
  ▪ BPS security, including incorporation of cyber security into system models
  ▪ Risks related to energy and fuel assurance and weatherization
• Continued Electricity Information Sharing and Analysis Center (E-ISAC) long-term strategy implementation
  ▪ Succession planning and adoption of organization constructs used by other ISACs
  ▪ Strengthening cyber and physical security analysis and information sharing
  ▪ Key support areas for industry priorities, such as operational technology, Department of Energy 100-Day Plan, and natural gas partnerships

• NERC support services
  ▪ Creating an employee experience that meets the needs of an evolving workforce
  ▪ Managing applications, infrastructure, and cyber threats increasing in sophistication
  ▪ Support for FERC-mandated Regional Entity audits and ERO Enterprise IT security audit

• Partial return to in-person meetings and related travel
  ▪ Balancing value of face-to-face interactions with virtual format efficiencies
  ▪ Best assumption, still well below pre-pandemic levels
• Despite increasingly sophisticated threats to the BPS, NERC’s:

  ▪ Average annual budgeted FTE growth since 2013, including 2022, is 2.1%
    ○ Principally in E-ISAC and IT security areas, offset by maturity in NERC’s core programs

  ▪ Total staff, excluding E-ISAC & Cybersecurity Risk Information Sharing Program (CRISP), Reliability Assessment and Performance Analysis (RAPA), and IT, is less in 2022 than 2013

  ▪ 2021 budget and assessment held artificially flat during uncertainty of the pandemic

  ▪ Total 2022 budget, assessment, and FTEs remain lower than pre-pandemic projections for 2022 in 2020 BP&B

  ▪ Two-year average (for 2021 and 2022) budget and assessment increase is 3.2% and 4.5%, respectively
• Align and ERO Secure Evidence Locker (SEL)
  ▪ Promotes effectiveness and efficiency by improving Compliance Monitoring and Enforcement Program (CMEP) consistency, quality, and data security
  ▪ Significant savings over “avoided cost” to rebuild individual applications
• NERC investments for ERO Enterprise cyber and data security
  ▪ ERO SEL
  ▪ Dedicated resource to lead overall ERO Enterprise security strategy
  ▪ ERO Enterprise IT security audit
• ERO Enterprise collaboration groups
  ▪ Knowledge and best practice sharing
  ▪ Identification of efficiency opportunities, e.g., training and joint purchasing
• Budget – $88.0M ($5.1M or 6.2% increase from 2021)
  ▪ Increase primarily driven by personnel costs, consultants and contracts, and software licenses and support
  ▪ Partially offset by CMEP maturation
• Assessment – $78.4M ($6.4M or 8.9% increase from 2021)
  ▪ Excludes any use of reserves to offset assessments, subject to final Board of Trustees (Board) approval
• FTEs – 223.7 (net increase of 10.3 or 4.8% from 2021)
  ▪ Support for key focus areas and strategies
• Draft 1 posted for stakeholder comment May 25–June 18
  ▪ Budget $88.7M (7.0% increase); Assessment $79.1M (9.9% increase)
  ▪ Six comment submissions received
    o Support for emphasis on addressing priority BPS reliability and security risks
    o Concerns with increases in light of perceived fiscal pressures facing industry
    o Requests for clarifications and recommendations for increasing efficiency
  ▪ Response to comments posted on NERC website
• Draft 2 posted for stakeholder comment July 15–28
  ▪ Budget $88.0M (6.2% increase); Assessment $78.4M (8.9% increase)
  ▪ Refinement of costs and Washington, D.C. office rent reduced
  ▪ No comments received
• No change to Final Draft from Draft 2, except for minor wording adjustments and inclusion of the most recent 2021 budget projections
2022 Assessment Details

• Assessment – $78.4M ($6.4M or 8.9% increase from 2021)
  ▪ Excludes any use of reserves to offset assessments
    o Avoids rebound effect on 2023 assessments
    o Maintains adequate reserve levels to accommodate potential one-time costs for Atlanta office lease change decisions
    o Recognizes Regional Entity reserve draws benefit aggregate LSE assessments
  ▪ Assumes no capital financing, other than IT equipment and A/V leases
    o Few “one-time” expenses
    o Avoids future year debt service

• Assessments 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)
• Total projected reserves at end of **2021** – $11.1M
  - Operating Contingency Reserve (OCR) – $6.3M
    - 8.6% of budget (slightly above target range)
  - Assessment Stabilization Reserve (ASR) – $2.5M
  - Other reserves – $2.3M

• Total projected reserves at end of **2022** – $11.4M
  - OCR – $6.3M
    - 8.0% of budget (slightly above target range)
  - ASR – $2.5M
  - Other reserves – $2.6M
• 2023 vs 2022
  ▪ Budget increase of 5.1% ($4.5M)
  ▪ Assessment increase of 5.5% ($4.3M)
  ▪ FTE increase of 4.2% (9.4 FTEs)

• 2024 vs 2023
  ▪ Budget increase of 5.1% ($4.7M)
  ▪ Assessment increase of 5.1% ($4.2M)
  ▪ FTE increase of 3.6% (8.5 FTEs)

• Preliminary projections by management do not reflect Board endorsement or approval
• 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 ongoing strategic review
  ▪ System enhancements subject to scoping, requirements building, and business case development where applicable

• Salary and benefit increases consistent with historical precedent; prospective inflationary pressures not reflected

• Gradual increase in meetings and travel expenses, still below pre-COVID levels

• D.C. office savings continue

• No changed assumption for Atlanta office lease incorporated yet while options are explored
Questions and Answers
Additional Information
2022 Budget by Category

- **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
  - D.C. office rent reduced, reflecting new lease assumptions
  - Assumes existing rent schedule for Atlanta office as options are explored
2022 Budget by Category

• Fixed Assets $4.1M (49.7% increase from 2021)
  ▪ $2.0M for refresh of 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 SEL
2022 Budget by Program Area

- E-ISAC: 27%
- RAPA, Event Analysis, & Situation Awareness: 27%
- CMEP: 22%
- Standards: 11%
- Training & Education: 3%
- CRISP: 10%

RELIABILITY | RESILIENCE | SECURITY
NERC and E-ISAC Breakdown

2022 Budget

NERC (Excluding E-ISAC & CRISP)

- 2021: $50.0 million
- 2022: $53.0 million (+4.5%)

E-ISAC & CRISP

- 2021: $30.0 million
- 2022: $32.5 million (+9.3%)