2023 Business Plan and Budget Overview

Andy Sharp, Vice President and Chief Financial Officer
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

Approximately 7 cents/year on average for a typical residential customer
2023–2025 Key Assumptions

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
2023 BP&B Development Process

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 22 – 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 – $100.8M ($12.0M or 13.5% increase from 2022)
- Primary drivers are costs related to People and Technology Strategies

Assessment – $87.3M ($8.9M or 11.4% 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 5.5–6.0%
  - 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 (19.3% 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
2023 Budget by Category

Operating Expenses – $35.7M (17.7% 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 – $6.6M (33.1% increase from 2022)

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

Net Financing Activity – ($2.8M) (157.3% 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

- **E-ISAC** 26%
- **RAPA, Event Analysis, & Situation Awareness** 28%
- **CMEP** 21%
- **Standards** 10%
- **Training & Ed** 3%
- **CRISP** 12%

*NERC*
• 2023 budget increase of 30.5%
• Primarily due to PNNL costs and insurance
• Majority of budget increase funded by CRISP participants
Assessment – $87.3M ($8.9M or 11.4% 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
Reserve Overview

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
Projected Reserve Balances

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 – $14.8M
- OCR – $7.8M (8.9%, slightly above target)
- ASR – $1.5M
- Future Obligation Reserve – $2.6M
- System Operator Certification Reserve – $699k
- 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 8.7% ($8.8M)
- Assessment increase of 11.2% ($9.8M)
- FTE increase of 11.3

2025 vs 2024

- Budget increase of 11.4% ($12.4M)
- Assessment increase of 11.2% ($10.9M)
- FTE increase of 10.3
Questions and Answers