

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

2024 NERC Business Plan and Budget Overview

RELIABILITY | RESILIENCE | SECURITY



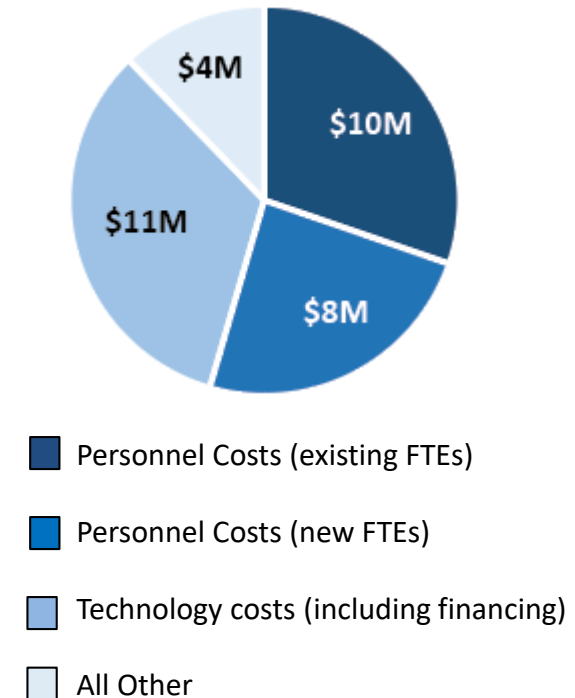
Energy: Tackle the challenge of grid transformation and climate change-driven, extreme weather

Security: Move the needle by focusing on supply chain, IT and OT system monitoring, cyber design, and evolution of CIP Standards

Agility: Tool the company to be more nimble in key areas, particularly standards development, internal operational processes

Sustainability: Invest in ERO systematic controls, strengthen succession planning, and ensure robust cyber security protections

2022–2025 Incremental Increase
\$33.8 million



Workforce and technology strategy investments

Meetings and travel

Facilities and rent

Interregional Transfer Capability Study (ITCS) – added to Final BP&B

Reserve release and loan and lease financing to smooth assessments

Pressures

Preliminary planning

- January–March 2023 – Confirm and adjust 2024 and 2025 assumptions from three-year plan; add 2026 preliminary assumptions

Share 2024–2026 budget and assessments

- Late April – Closed CGHRC, TSC, and FAC, MEC Quarterly Update
- May 1 – MRC BP&B Input Group
- May 4 – Trades and Forums

Review NERC and Regional Entity 2024 BP&Bs

- May 25 to June 23 – Comment period on draft NERC 2024 BP&B
- June 1 – FAC webinar
- June 7 – FERC briefing

Review NERC proposed final 2024 BP&B

- July 12 – Closed FAC
- July 20 – MEC endorses E-ISAC 2024 budget
- July 24 – MRC BP&B Input Group
- July 27 – Trades and Forums

Approve NERC and Regional Entity final 2024 BP&Bs

- August 16 & 17 – Open FAC and Board

Budget – \$113.6M (\$12.6M or 12.5% increase from 2023)

- Personnel – \$65.8M (\$7.8M or 13.4% increase)
- Meetings and Travel – \$3.5M (\$361k or 11.5% increase)
- Operating Expenses – \$41.8M (\$5.7M or 15.7% increase)
- Fixed Assets – \$4.6M (\$1.6M or 25.7% decrease)
- Net Financing Activity – (\$2.6M) (\$197k or 7.1% increase)

FTEs – 251.1 (increase of 14.3)

- Increase of 17 positions offset by reduction of 2 open positions
 - 5 positions related to ITCS (hired in 2023)

System Operator Certification and Continuing Education

- New database platform
- **Budget impact:** Increase of \$400k over draft
- **Reserve usage:** Fully funded by System Operator Certification Reserve
 - Approved by Personnel Governance and Certification Committee
- **Assessment impact:** No assessment impact over draft

ITCS

- Permanent personnel: Five FTEs (hired in 2023)
- Other one-time costs: Consultants, meetings, travel, technology
- **Budget impact:** Net increase of \$2.6M over draft
 - Total cost is \$3.0M, offset by \$400k of repurposed contractor & consultant funds
- **Reserve usage:** Personnel costs fully funded by \$1.3M from OCR; net one-time costs funded by \$1.3M from Assessment Stabilization Reserve (ASR)
 - Majority U.S.-funded
- **Assessment impact:** No assessment impact over draft

2025: Ongoing costs for additional FTEs hired in 2023

- **Projected budget impact:** Increase of \$1.4M over draft
- **Projected reserve usage:** \$300k from ASR and \$500k from OCR
 - Draft included \$500k OCR release; total projected OCR release now \$1.0M
- **Projected assessment impact:** Increase of \$662k
 - Updated projected assessment increase over 2024 is 11.8% vs. 11.1% in draft

2026: Ongoing costs for additional FTEs hired in 2023

- **Projected budget impact:** Net increase of \$1.4M over draft
 - One technical resource removed from 2026; pulled forward into 2023
- **Projected reserve usage:** No projected reserve release
- **Projected assessment impact:** Increase of \$1.5M over draft
 - Updated projected assessment increase over 2025 is 8.9% vs. 8.1% in draft

Currently no change to CRISP Pacific Northwest National Laboratory (PNNL) statement of work (SOW) estimates for 2024–2026

- Some uncertainty in this area due to ongoing contract negotiations
- PNNL SOW funded completely by CRISP participants
- **Budget impact:** No budget increase over draft
- **Assessment impact:** No assessment increase over draft

Personnel adjustments based on current salaries, new hires, etc.

- **Budget impact:** Adjustments overall are close to net neutral
- **Assessment impact:** No assessment increase over draft

Personnel – \$65.8M (13.4% increase from 2023)

- Weighted average merit increase of 5.5%
- Inflationary pressures and increased demand for technical talent
- Increase of 14.3 FTEs
 - Addition of 17 positions, offset by the reduction of 2 open positions
 - Expertise for standards development, enforcement, situation awareness, event analysis
 - E-ISAC and CRISP enhancement and expansion
 - ITCS resources
 - Support functions related to cloud computing, system administration, communications
 - Reduction of one open position and combination of two positions into one as part of ongoing resource efficiency and optimization efforts

Meetings & Travel – \$3.5M (11.4% increase from 2023)

- Continuing efficiencies gained from virtual meeting formats
- Costs and demand increasing
- 2024 marks return to pre-pandemic budget levels

Operating Expenses – \$41.8M (15.7% increase from 2023)

- CRISP contract with PNNL (completely participant funded)
- Additional contractor, consultant, and software costs to support technology strategy
- ITCS consulting costs added to final budget
- Reclassification of some capital software costs to contractors and consultants
- Escalation for existing software license and support expenses
- Offset by lower insurance and other office and miscellaneous costs

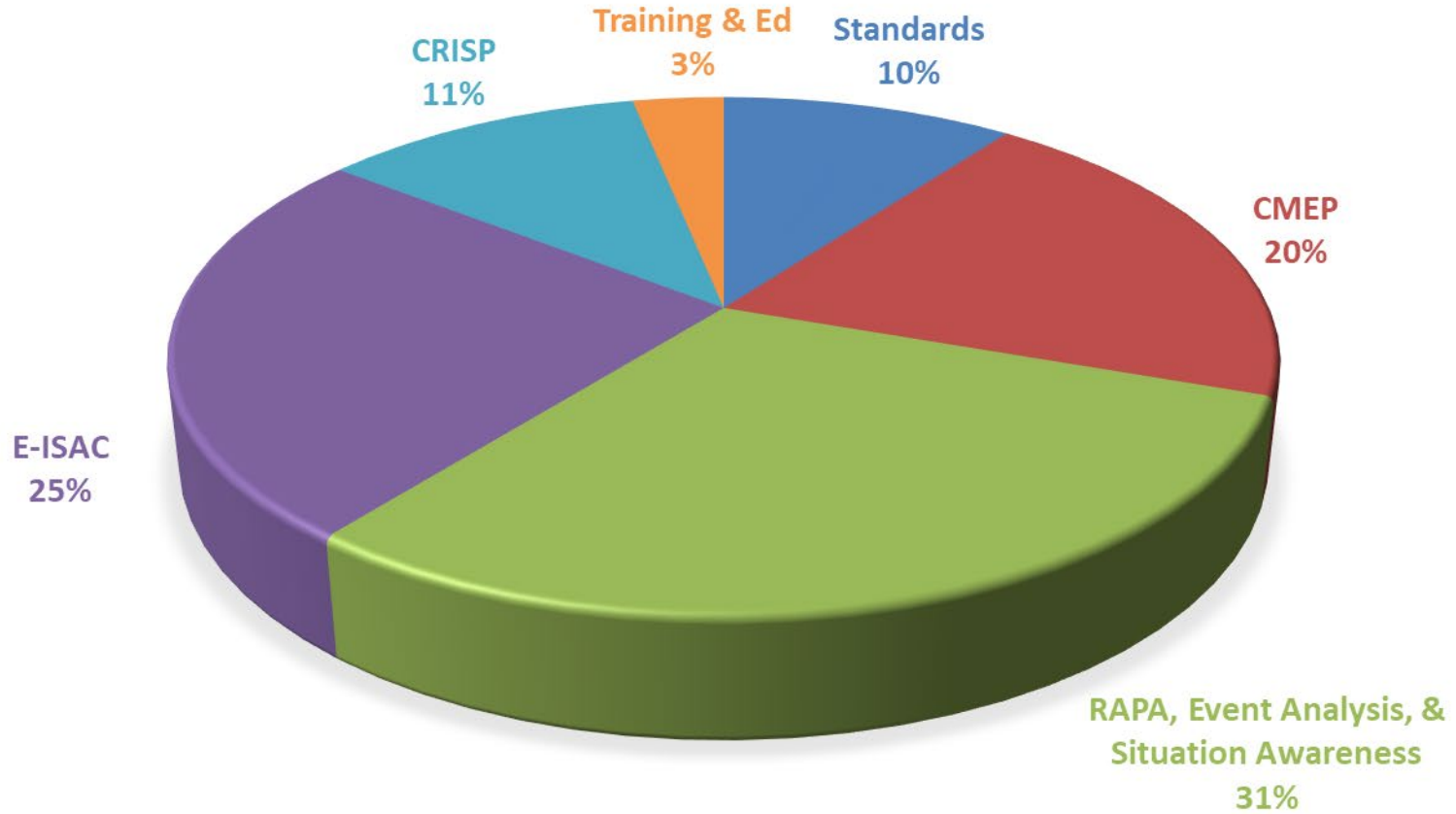
Fixed Assets – \$4.6M (25.7% decrease from 2023)

- Includes capital software and IT equipment in support of technology strategy
- Reclassification of some capital software costs to contractors and consultants

Net Financing Activity – (\$2.6M) (7.1% increase from 2023)

- Loan proceeds for capital software projects (\$2.4M)
- Lease financing proceeds for IT equipment (\$1.8M)
- Loan principal payments for ERO SEL and 2023 capital software borrowing
- Lease financing principal payments for laptops and IT equipment

2024 Budget by Program Area



Assessment – \$97.0M (\$9.9M or 11.4% increase from 2023)

- Assuming loan and lease financing of \$4.2M (reflected in budget under Net Financing Activity), which reduces assessment increase
- Includes release of \$2.6M in reserve funds to offset assessments (related to the incremental ITCS costs)
 - \$1.3M from OCR
 - \$1.3M from ASR

Assessments by country (using 2022 NEL allocation)

- United States – \$87.2M
 - \$8.9M (11.4%) increase from 2023 (89.9% of total NERC assessment)
- Canada – \$9.5M
 - \$939k (11.0%) increase from 2023 (9.8% of total NERC assessment)
- Mexico – \$347k
 - \$41k (13.2%) increase from 2023 (0.4% of total NERC assessment)

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 and continuing education fees, used solely for operator certification program needs
- CRISP Reserve – Funds dedicated to CRISP, funded by CRISP participants

Total projected reserves at end of 2023 – \$22.4M

- OCR – \$12.2M (14.0% of budget target)
- ASR – \$2.3M
 - Request pending at FERC to use up to \$700k in ASR to fund 2023 ITCS costs
 - ASR could be reduced to \$1.6M, depending on ITCS spending in 2023
- Future Obligation Reserve – \$2.9M
- System Operator Certification Reserve – \$756k
- CRISP reserves – \$3.7M

Total projected reserves at end of 2024 – \$18.7M

- OCR – \$10.9M (11.1% of budget target)
- ASR – \$256k*
- Future Obligation Reserve – \$3.1M
- System Operator Certification Reserve – \$74k
- CRISP reserves – \$4.3M

**Assuming FERC approval of a \$700k release from the ASR in 2023 to fund ITCS expenses*

2025 projection (year three of 2023–2025 plan) vs 2024

- Budget increase of \$10.6M or 9.3%
 - FTE increase of 10.9
- Assessment increase of \$11.5M or 11.8%
 - \$1.0M OCR release to offset assessments
 - Includes \$500k OCR to reduce impact from ITCS resources hired in 2023
 - \$300k ASR release to further reduce assessment impact
- Three-year plan increase (2025 vs 2022) now \$35.4M vs \$33.8M projected in 2023 BP&B
 - \$1.6M increase; \$1.4M (87.5%) due to adding transfer capabilities in 2023

Preliminary assumption for 2026 vs 2025

- Budget increase of \$8.9M or 7.1%
- Assessment increase of 9.6M or 8.9%
- FTE increase of 7.5



Questions and Answers