

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

NERC 2019 Business Plan and Budget – Final Draft Overview

Finance and Audit Committee Meeting
August 15, 2018

RELIABILITY | ACCOUNTABILITY



- Achieving and maintaining risk-based operations
- Being more effective and efficient
- Identifying and assessing emerging risks
- Promoting leading security practices, information sharing and analysis, and resilience
- Knowledge transfer and effective communications
- Strengthening engagement across North America

- **Goal 1:** Risk-responsive Reliability Standards
- **Goal 2:** Objective, risk-informed compliance monitoring, mitigation, enforcement, and entity registration
- **Goal 3:** Reduction of known reliability risks
- **Goal 4:** Identification and assessment of emerging reliability risks
- **Goal 5:** Identification and reduction of cyber and physical security risks
- **Goal 6:** Effective and efficient ERO Enterprise operations

- Heavy investment in E-ISAC
 - Second implementation year for E-ISAC long-term strategy
- Sizeable investment in technology and tools
 - Lays the foundation for effectiveness and efficiency for the ERO Enterprise
- Keeping costs low for NERC operations outside of E-ISAC
 - Majority of NERC's budget relates to personnel
 - Proposing to eliminate five positions from non-ISAC areas

- Initial discussions held at April Trades meeting on budget and assessment direction (originally 11–12% estimate)
- Received feedback from several stakeholder groups through MRC policy input for the May meetings encouraging NERC to reduce the non-ISAC portion of the budget
- In response, NERC reduced the non-ISAC budget by eliminating five open positions and making other reductions (primarily in meetings and travel)

- First draft posted for stakeholder comment May 18–June 29
- Comments received from various trade associations
 - US: Member Executive Committee (MEC)
 - US: National Rural Electric Cooperative Association (NRECA)
 - US: American Public Power Association (APPA)
 - US: Edison Electric Institute (EEI)
 - Canada: Canadian Electricity Association (CEA)
 - Canada: Independent Electricity System Operator (IESO)

- Overall budget comments:
 - Support technology/tools, E-ISAC strategy, and non-ISAC cost control efforts
 - Concern with trend of budget increases
- Request for further discussion/clarity:
 - Canadian usage of E-ISAC
 - Need for SAFNR upgrade
 - Additional costs for CMEP Technology Project
 - Future cost savings resulting from office space expansion
- Consider:
 - Engaging stakeholders in CMEP Technology Project and prioritizing security
 - Benchmarking medical and other benefits
 - Providing projected costs for additional years
 - Lowering assessments further with Assessment Stabilization Reserve funds

- Addressed during July Trades meeting and in written response
 - CMEP Technology Project
 - No increase in costs; previously planned Registration and Standards solutions have been accelerated to integrate with the CMEP tool
 - CCC engagement now underway
 - SAFNR upgrade
 - More precise wide-area view of system, recommended in GridEx report
 - Placeholder in budget, subject to business case development
 - TSC review and approval dependent on results of business case
 - Office expansion
 - Will provide meeting space for larger meetings that are currently held offsite
 - As the project moves forward, NERC will work to develop cost savings estimates

- Addressed during July Trades meeting and in written response
 - Assessment Stabilization Reserve
 - Recommended a release of \$550k to reduce assessment increase from 10.3% to 9.5%, matching budget increase
 - Medical and other benefits
 - Increase due to higher 2018 actual costs and 2019 increase over 2018 actuals
 - Canadian E-ISAC engagement
 - Ongoing discussions regarding improved integration and information sharing

- Second draft posted for comment July 13–July 31
 - Overall budget and assessment increase unchanged from first draft
- Comments received from two entities
 - APPA requested:
 - Further clarity on Canadian usage of E-ISAC
 - Consideration of delaying of SAFNR or other tools in light of budget increases
 - Bonneville Power Administration requested future information on:
 - The coordination of information sharing among the various cyber and physical security organizations
 - Cost savings resulting from office space expansion

- Final draft posted on August 8
 - No financial changes from second draft
 - Minor wording updates and clarifications
 - No delay of CMEP Technology Project, project approved and underway
 - SAFNR placeholder remains in budget, still subject to business case review and normal approvals
- Budget-related comments received through MRC policy input for the August meetings
 - Comments from EEI and State and Municipal Transmission Dependent Utility Sectors (supported by APPA, TAPS, LPPC)
 - Encouraged continued stakeholder input during budget development (both)
 - Expressed support for E-ISAC long-term strategy (EEI)

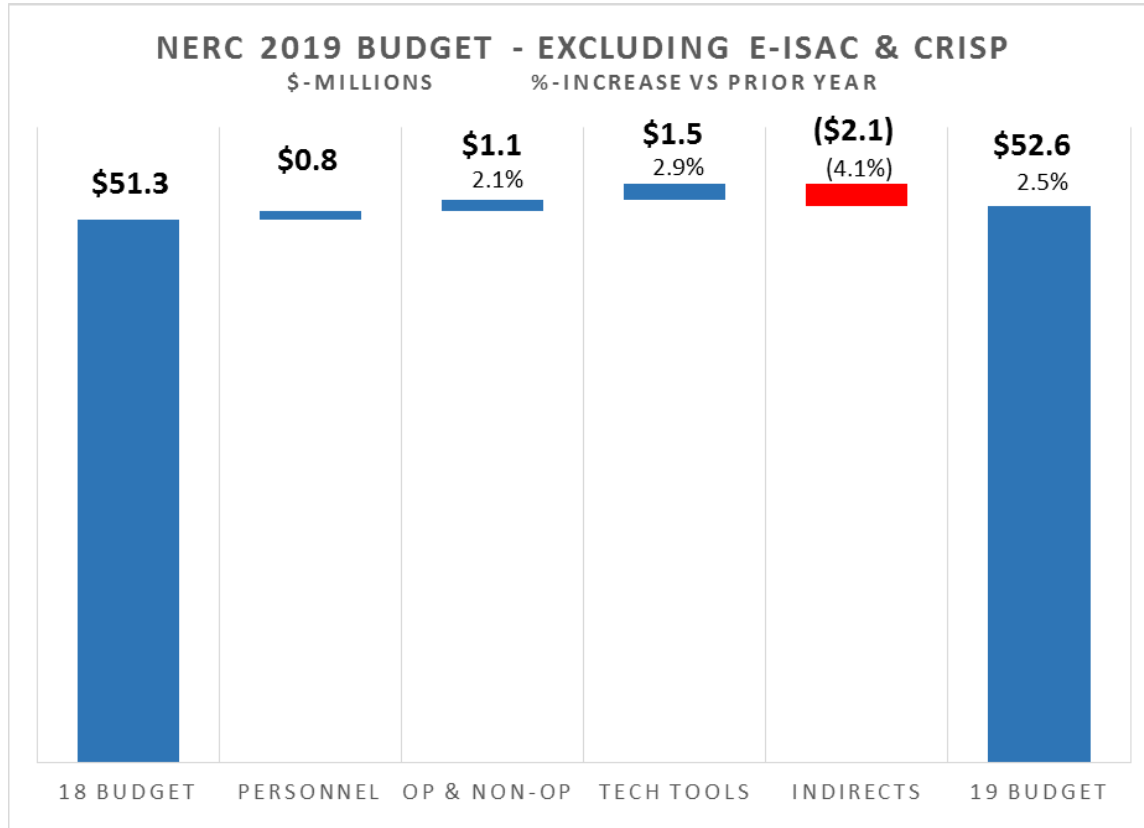
Budget

- 2018 total budget is \$73.1M
- 2019 final budget is \$80.0M
 - Prior year projection for 2019 was an increase of \$5.0M (6.7%)
 - **Final 2019 budget reflects increase of \$6.9M (9.5%)**

Assessments

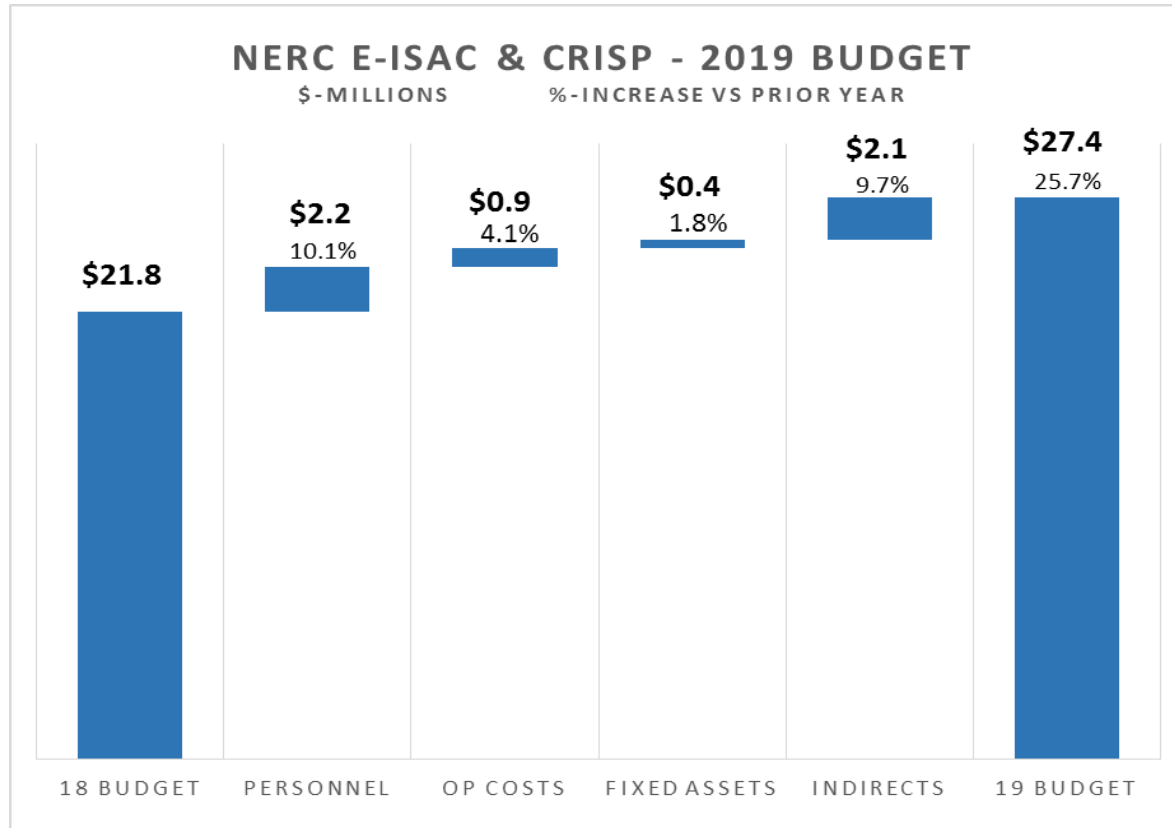
- 2018 assessment is \$62.9M
- 2019 final assessment is \$69.4M
 - Prior year projection for 2019 was an increase of \$5.6M (8.9%)
 - **Final 2019 assessment reflects an increase of \$6.5M (10.3%)**

- Budget is \$52.6M, up \$1.3M from \$51.3M (2.5%)

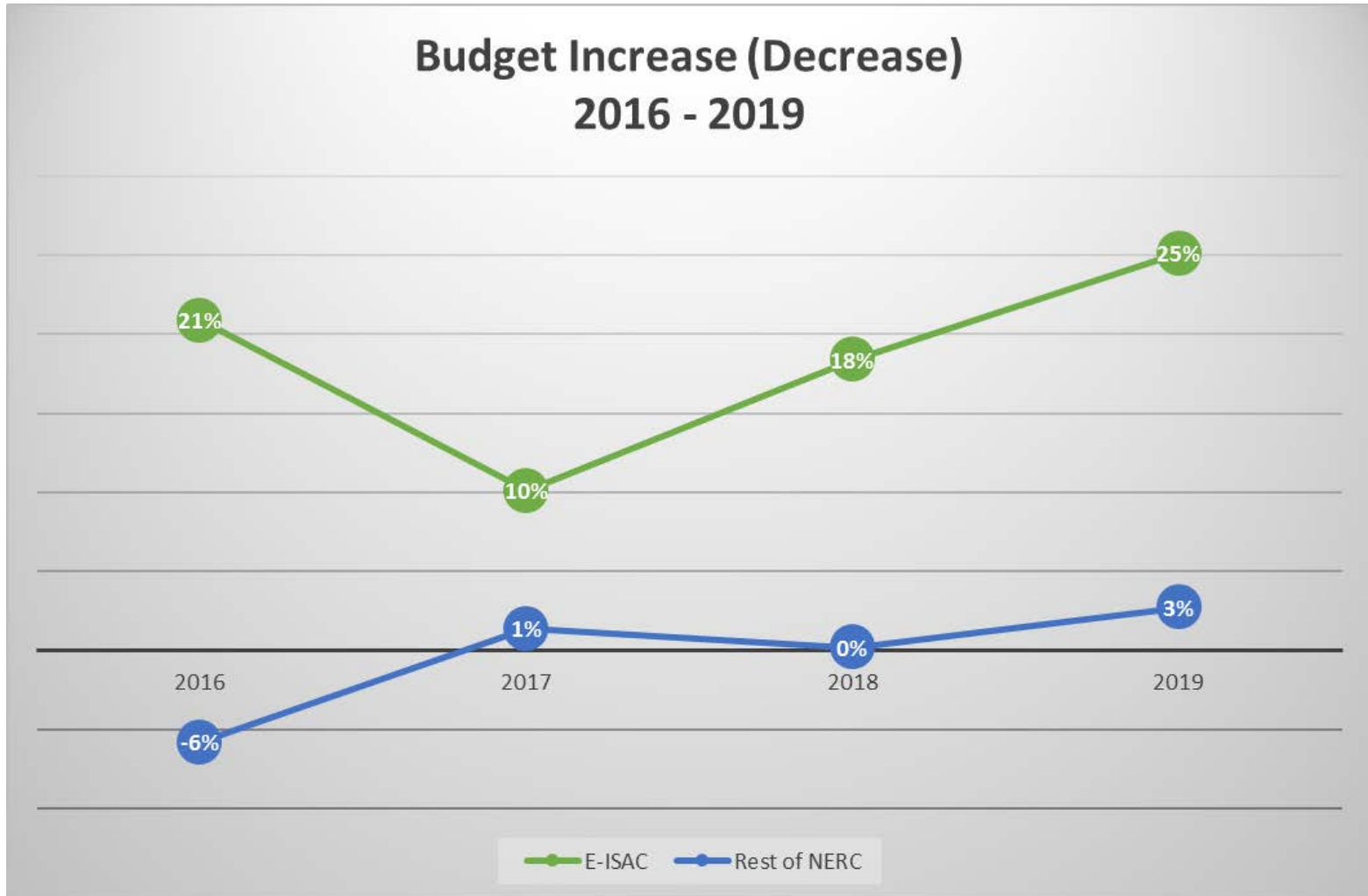


- Assessment is \$49.6M (additional funding from workshop and training fees)

- Budget is \$27.4M, up \$5.6M from \$21.8M (25.7%)
 - Second year of E-ISAC strategy accounts for \$3.5M of increase



- Assessment is \$19.8M (additional funding from CRISP)



- **Personnel**

- Decrease of five FTEs outside of E-ISAC
- 3.0% assumed salary increase
- Increase in medical benefit costs

- **CMEP tool**

- Planned increase in 2019
- Will offset future Regional Entity CMEP licenses and operating costs
- Current estimated annual operating costs are below the business case estimate based on recent contract negotiations

- **Entity Registration and Standards tools**

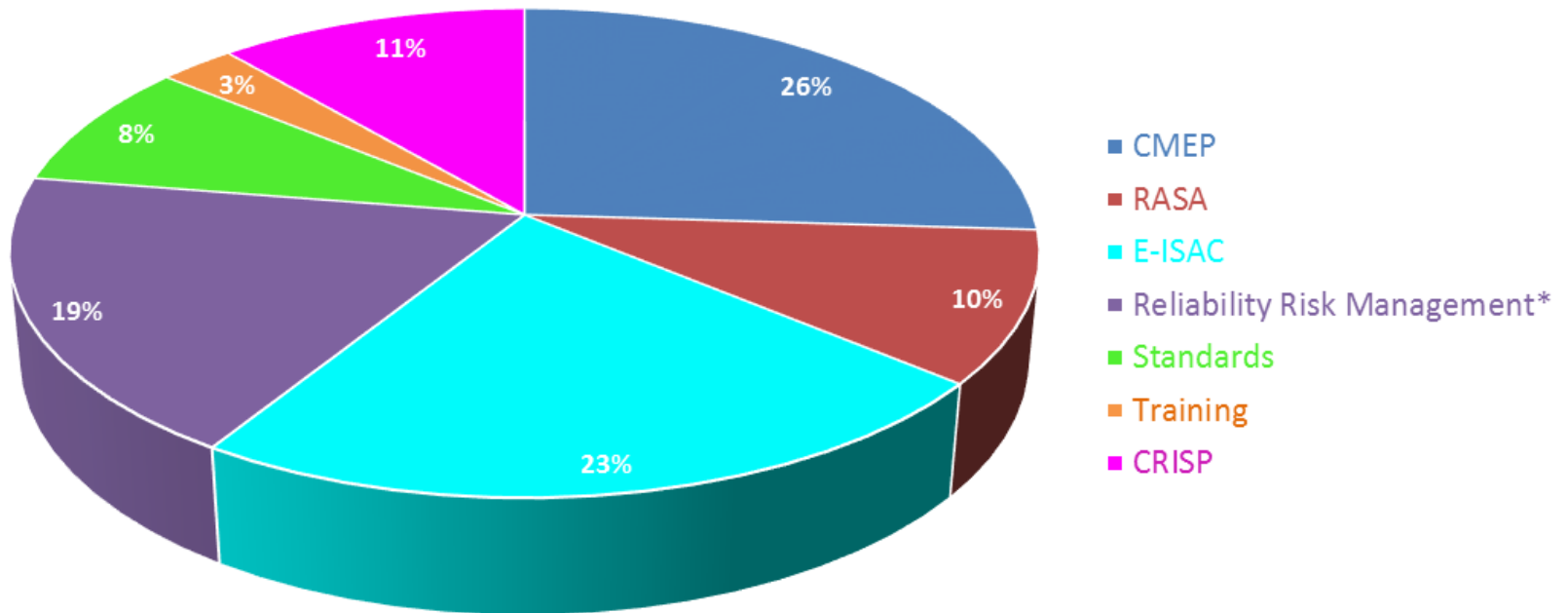
- Investment in planned solutions that have been accelerated to 2019 to complement and integrate with the CMEP tool

- **Situational Awareness tool (SAFNR)**

- Critical resource for NERC that provides a wide-area view to system conditions and supports GridEx
- Upgraded capabilities will provide better integration with E-ISAC and improve GridEx monitoring
- Funded by NERC as the primary user, also benefits FERC and Regions
- Dated technology limits the ability to update underlying power system information or real-time data feeds
- Project is subject to business case approval and RFP process
 - \$600k for upgrade is a placeholder
 - Approximately one-third budgeted to E-ISAC, may shift as benefits are realized

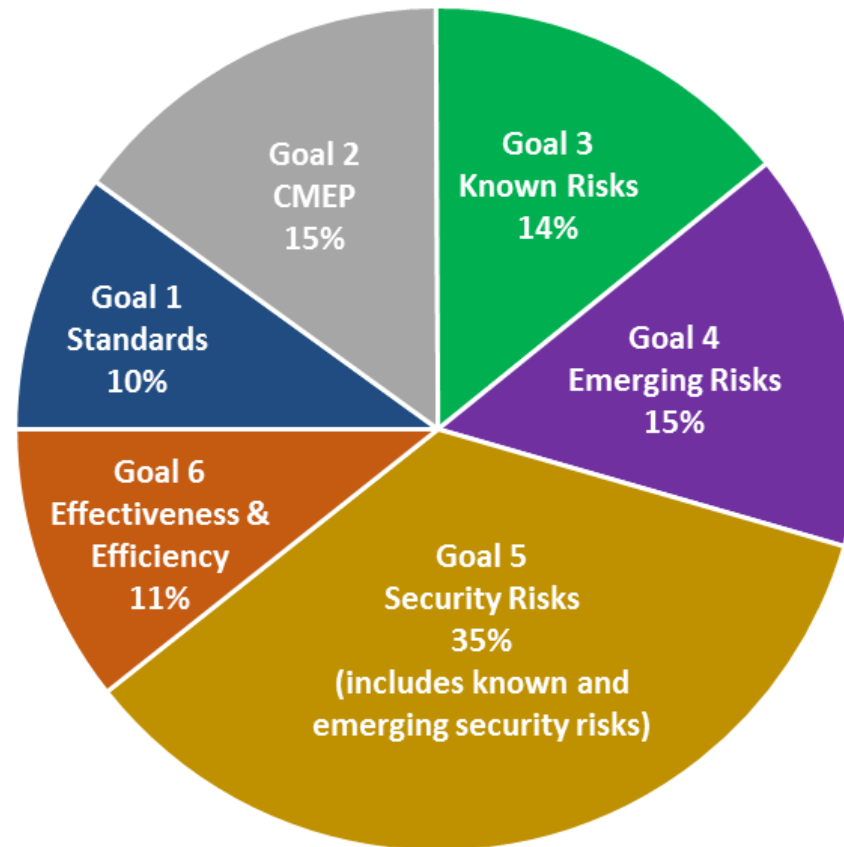
- **Second year of E-ISAC long-term strategy**
 - 11 new FTEs, primarily to support analytics
 - Original 2019 strategy called for 8 FTEs
 - E-ISAC proposes an additional 3
 - Includes FTEs/costs for support
 - Additional enhancements to new user portal
 - Additional GridEx support
 - Lease/facilities to support growth
 - Shared funding for SAFNR

NERC 2019 Budget By Program Area



*Includes Performance Analysis, Event Analysis, and Situation Awareness

NERC Resource Allocation to Operating Plan Goals



- Total assessments for NERC are \$69.4M
 - 10.3% increase over 2018
 - Impacted by capital financing program and other funding (e.g., CRISP, workshop fees)
- Assessment Stabilization Reserve
 - Recommended release of \$550k results in matching budget and assessment increase of **9.5%**

- Total NERC assessment increase – **9.5%**
 - US average increase – **9.7%**
 - Net of \$550k Assessment Stabilization Reserve release
 - Canada average increase – **7.4%**
 - Includes compliance credits and true-ups
 - Mexico average increase – **11.8%**
 - Driven up further by NEL growth

- 2019 – 9.5% budget and assessment increase
- 2020 – 3.2% budget increase, 6.5% assessment increase*
- 2021 – 3.5% budget increase, 5.4% assessment increase*

**Does not include proposed release of Assessment Stabilization Reserve funds*



Questions and Answers