

Agenda

Finance and Audit Committee

August 17, 2022 | 10:30 a.m.-12:00 p.m. Pacific

Hyatt Regency Vancouver
655 Burrard St.
Vancouver, BC V6C 2R7, Canada

Conference Room: Regency C/D-3rd floor

Call to Order

Introductions and Chair's Remarks

NERC Antitrust Compliance Guidelines*

Agenda

1. Minutes* – Approve

- a. June 7, 2022 Informational Session and Webinar
- b. May 11, 2022 Meeting

2. Second Quarter Calendar of FAC Responsibilities

- a. Second Quarter Statement of Activities* – **Review and Recommend to Board of Trustees for Acceptance**
 - i. NERC Summary of Results as of June 30, 2022
 - ii. Total ERO Enterprise Summary of Results as of June 30, 2022
 - iii. Regional Entity Variance Reports as of June 30, 2022
- b. NERC and Regional Entity Proposed 2023 Business Plans and Budgets and Associated Assessments* – **Review and Recommend to Board of Trustees for Approval**
 - i. NERC 2023 Business Plan and Budget
 - ii. Regional Entity and WIRAB 2023 Business Plans and Budgets
 - iii. 2023 Assessment Schedule
 - iv. Additional Materials
 1. ERO Enterprise Combined 2023 Business Plans and Budgets
 2. NERC Review of Regional Budgets

3. Line of Credit Renewal* - Approve and Recommend to Board of Trustees for Approval

4. Other Matters and Adjournment

*Background materials included.

Antitrust Compliance Guidelines

I. General

It is NERC's policy and practice to obey the antitrust laws and to avoid all conduct that unreasonably restrains competition. This policy requires the avoidance of any conduct that violates, or that might appear to violate, the antitrust laws. Among other things, the antitrust laws forbid any agreement between or among competitors regarding prices, availability of service, product design, terms of sale, division of markets, allocation of customers or any other activity that unreasonably restrains competition.

It is the responsibility of every NERC participant and employee who may in any way affect NERC's compliance with the antitrust laws to carry out this commitment.

Antitrust laws are complex and subject to court interpretation that can vary over time and from one court to another. The purpose of these guidelines is to alert NERC participants and employees to potential antitrust problems and to set forth policies to be followed with respect to activities that may involve antitrust considerations. In some instances, the NERC policy contained in these guidelines is stricter than the applicable antitrust laws. Any NERC participant or employee who is uncertain about the legal ramifications of a particular course of conduct or who has doubts or concerns about whether NERC's antitrust compliance policy is implicated in any situation should consult NERC's General Counsel immediately.

II. Prohibited Activities

Participants in NERC activities (including those of its committees and subgroups) should refrain from the following when acting in their capacity as participants in NERC activities (e.g., at NERC meetings, conference calls and in informal discussions):

- Discussions involving pricing information, especially margin (profit) and internal cost information and participants' expectations as to their future prices or internal costs.
- Discussions of a participant's marketing strategies.
- Discussions regarding how customers and geographical areas are to be divided among competitors.
- Discussions concerning the exclusion of competitors from markets.
- Discussions concerning boycotting or group refusals to deal with competitors, vendors or suppliers.

- Any other matters that do not clearly fall within these guidelines should be reviewed with NERC's General Counsel before being discussed.

III. Activities That Are Permitted

From time to time decisions or actions of NERC (including those of its committees and subgroups) may have a negative impact on particular entities and thus in that sense adversely impact competition. Decisions and actions by NERC (including its committees and subgroups) should only be undertaken for the purpose of promoting and maintaining the reliability and adequacy of the bulk power system. If you do not have a legitimate purpose consistent with this objective for discussing a matter, please refrain from discussing the matter during NERC meetings and in other NERC-related communications.

You should also ensure that NERC procedures, including those set forth in NERC's Certificate of Incorporation, Bylaws, and Rules of Procedure are followed in conducting NERC business.

In addition, all discussions in NERC meetings and other NERC-related communications should be within the scope of the mandate for or assignment to the particular NERC committee or subgroup, as well as within the scope of the published agenda for the meeting.

No decisions should be made nor any actions taken in NERC activities for the purpose of giving an industry participant or group of participants a competitive advantage over other participants. In particular, decisions with respect to setting, revising, or assessing compliance with NERC reliability standards should not be influenced by anti-competitive motivations.

Subject to the foregoing restrictions, participants in NERC activities may discuss:

- Reliability matters relating to the bulk power system, including operation and planning matters such as establishing or revising reliability standards, special operating procedures, operating transfer capabilities, and plans for new facilities.
- Matters relating to the impact of reliability standards for the bulk power system on electricity markets, and the impact of electricity market operations on the reliability of the bulk power system.
- Proposed filings or other communications with state or federal regulatory authorities or other governmental entities.
- Matters relating to the internal governance, management and operation of NERC, such as nominations for vacant committee positions, budgeting and assessments, and employment matters; and procedural matters such as planning and scheduling meetings.

Draft Minutes

Finance and Audit Committee

June 1, 2022 | 2:00–3:30 p.m. Eastern

Agenda Item 1a

Virtual Meeting

Mr. Jim Piro, Chair, called to order a duly noticed informational session and webinar of the Finance and Audit Committee (“FAC” or the “Committee”) of the Board of Trustees (“Board”) of the North American Electric Reliability Corporation (“NERC” or the “Company”) on June 1, 2022, at 2:00 p.m. Eastern, and a quorum was declared present.

Present at the meeting were:

Committee Members

Jim Piro, Chair
Robert G. Clarke
George S. Hawkins
Susan N. Kelly
Colleen Sidford
Roy Thilly
Kenneth W. DeFontes, Jr., *ex officio*

Board of Trustees Members

Jane Allen
Suzanne Keenan
Robin E. Manning
James B. Robb

NERC Staff

Tina Buzzard, Assistant Corporate Secretary
Manny Cancel, Senior Vice President and Chief Executive Officer of the E-ISAC
Erika Chanzas, Manager of Business Planning
Howard Gugel, Vice President, Engineering and Standards
Kelly Hanson, Senior Vice President and Chief Administrative Officer
Stan Hoptruff, Vice President, Business Technology
Nina Johnston, Assistant General Counsel
Mark Lauby, Senior Vice President and Chief Engineer
Sônia Mendonça, Senior Vice President, General Counsel, and Corporate Secretary
Kristin Miller, Director, Internal Audit
Janet Sena, Senior Vice President, External Affairs
Andy Sharp, Vice President and Chief Financial Officer
Mechelle Thomas, Vice President, Compliance, Compliance Assurance

Regional Entity Staff

Carol Baskey, ReliabilityFirst
Irma Bernard, Texas Reliability Entity, Inc.
Lisa Brohaugh, Western Interconnection Regional Advisory Body
Lam Chung, Midwest Reliability Organization
Jessica Hala, Northeast Power Coordinating Council, Inc.
George Krogstie, SERC Reliability Corporation
Wynne Schweitzer, Western Electricity Coordinating Council

Introduction and Chair's Remarks

Mr. Piro welcomed the participants to the meeting and noted the importance of the increase of assessments as noted in the posted budget. He specifically noted the proposed budget increase of \$33 million from 2022 to 2025.

NERC Antitrust Compliance Guidelines

Mr. Piro directed the participants' attention to the NERC Antitrust Compliance Guidelines included in the agenda package, and indicated that all questions regarding antitrust compliance or related matters should be directed to Ms. Mendonça.

NERC 2023 Draft Business Plan and Budget

Mr. Sharp walked the Committee through the 2023 – 2025 vision and draft business plan and budget. He noted that the primary goal is to ensure that NERC has needed resources to address emerging reliability and security risks. This goal called for retooling the Company's approach to mitigating risk and investing in infrastructure.

Regional Entities' and WIRAB 2023 Draft Business Plans and Budgets

The Regional Entities' and WIRAB's representatives provided an overview of their draft 2023 business plans and budgets, referencing materials included in the advance agenda package.

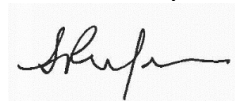
2023 ERO Enterprise Combined Budgets and Assessments Overview

Mr. Sharp reviewed the combined ERO Enterprise combined budgets and assessments, referencing the material included in the advance agenda package. He reviewed the ERO Enterprise long-term strategy focus areas, the changes in ERO Enterprise budgets and assessments by Regional Entity between 2022 and 2023, and a breakdown of the budget for 2023 by program area.

Closing Remarks and Adjournment

There being no further business, Mr. Piro adjourned the meeting.

Submitted by,



Sônia Mendonça
Corporate Secretary

DRAFT Minutes **FINANCE AND AUDIT Committee** **Closed Meeting**

May 11, 2022 | 8:45-9:45 a.m. Eastern
Conference Call

Call to Order

Mr. Jim Piro, Chair, called to order a duly noticed meeting of the Finance and Audit Committee (the “Committee”) of the Board of Trustees (“Board”) of the North American Electric Reliability Corporation (NERC) on May 11, 2022 at approximately 8:45 a.m. Eastern, and a quorum was declared present.

Present at the meeting were:

Committee Members

Jim Piro, Chair
Colleen Sidford
George S. Hawkins
Roy Thilly
Susan Kelly
Kenneth W. DeFontes, *ex officio*

Board Members

Jane Allen
Larry Irving
James B. Robb, NERC President and Chief Executive Officer
Robert G. Clarke
Robin E. Manning
Suzanne Keenan

NERC Staff

Andy Sharp, Vice President, Chief Financial Officer
Bryan Preston, Vice President, People & Culture
Erika Chanzas, Manager of Business Planning
Howard Gugel, Vice President, Engineering and Standards
Janet Sena, Senior Vice President, External Affairs
Justin Thaxton, Program Specialist, Legal and Regulatory
Kelly Hanson, Senior Vice President and Chief Administrative Officer
Kimberly Mielcarek, Vice President, Communications
Kristin Miller, Director, Internal Audit
Manny Cancel, Senior Vice President and Chief Executive Officer of the E-ISAC
Mark Lauby, Senior Vice President and Chief Engineer
Mechelle Thomas, Vice President, Compliance
Meg Leonard, Controller
Shamai Elstein, Assistant General Counsel
Sônia Mendonça, Senior Vice President, General Counsel, and Corporate Secretary
Stan Hoptroff, Vice President, Business Technology
Tina Buzzard, Assistant Corporate Secretary

NERC Antitrust Compliance Guidelines

Mr. Piro directed the participants' attention to the NERC Antitrust Compliance Guidelines and directed that any questions regarding antitrust compliance or other related matters be directed to Ms. Mendonça.

Introduction and Chair's Remarks

Mr. Piro outlined the agenda and provided a summary of the April 14, 2022 and May 10, 2022 closed meetings of the Committee.

Meeting Minutes

The draft minutes for the February 9, 2022 meeting of the Committee were approved as presented to the Committee at this meeting.

First Quarter Calendar of FAC Responsibilities

Ms. Leonard reviewed the first quarter calendar of Committee responsibilities, including (i) the 2021 Financial Statement Audit Results; (ii) the NERC Summary of Results as of March 31, 2022; and (iii) the Total ERO Enterprise Summary of Results as of March 31, 2022. Upon motion duly made and seconded, the Committee reviewed and recommended acceptance of 2021 Financial Statement Audit Results and the First Quarter Statement of Activities, inclusive of NERC and the Regional Entities, by the Board.

2023 Business Plan and Budget.

NERC management reviewed the 2023–2025 budget assumptions along with the 2023 budget and assessment and 2024 and 2025 projections that will be included in the draft NERC 2023 Business Plan and Budget (BP&B). Mr. Piro discussed the move to a three-year forecast for the BP&B to provide a better signal to stakeholders. He noted that the Board is very involved in that process and recognizes that it is a step change that will affect stakeholders, but that it is necessary to address the challenges ahead. Mr. DeFontes echoed Mr. Piro's remarks noting that NERC and industry are facing new risks that must be addressed. He stated that the resources reflected in the BP&B will allow NERC to get ahead of the new risks and changes to the Bulk Power System.

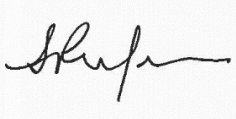
Mr. Robb, Ms. Hanson, and Mr. Sharp outlined NERC's 2023–2025 business plan, including the drivers and assumptions underlying the BP&B, the workforce planning process NERC used to assess its resource needs, and the impact on stakeholders. They reviewed the proposed technology and people strategies, and the associated 2023 budget, 2024 and 2025 projections, and funding/assessment requirements to be included in the draft 2023 BP&B.

Mr. Piro noted that the BP&P was developed in consultation with the Member Representatives Committee BP&B Input Group and that stakeholders will have an opportunity to comment on the BP&B moving forward. Mr. Sharp noted that the initial draft of the 2023 BP&B will be posted for an initial comment period on or about May 25, 2022.

Adjournment

There being no further business, the meeting was adjourned.

Submitted by,



Sônia Mendonça
Corporate Secretary

Second Quarter Statement of Activities

Action

Review and recommend Board of Trustees acceptance.

Background

NERC management will review the second quarter calendar of FAC responsibilities to include (i) NERC Summary of Results as of June 30, 2022; and (ii) Total ERO Enterprise Summary of Results as of June 30, 2022.

Summary of Unaudited Results For the Period Ending June 30, 2022

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Executive Summary

Projected Year-End Results (\$ millions)

<u>FUNDING</u>	<u>Projected</u>	<u>Budget</u>	<u>Over (Under)</u>
Revenues	\$ 89.4	\$ 88.3	\$ 1.1
Funding from Reserves			
Assessment Stabilization Reserve	-	-	-
TOTAL FUNDING	\$ 89.4	\$ 88.3	\$ 1.1
<u>EXPENDITURES</u>			
Expenses (excluding Depreciation)	\$ 87.5	\$ 85.1	\$ 2.4
Fixed Asset Additions	3.6	4.9	(1.3)
Net Financing Activity	(0.9)	(1.1)	0.2
TOTAL EXPENDITURES	\$ 90.2	\$ 88.9	\$ 1.3
RESERVE INCREASE (DECREASE)	\$ (0.8)	\$ (0.6)	\$ (0.2)

Funding is projected to be over budget mainly due to CRISP third-party funding being higher than budget largely because of new program participants that have joined in 2022 as well as program participants that are projected to join during the remainder of the year. Expenditures (excluding depreciation) are expected to be over budget primarily attributable to higher contractor, office, and professional services costs, partially offset by lower personnel, travel, meeting, and fixed asset additions costs. The result is a reserve decrease of \$200k more than budget. This activity is explained in more detail in the remainder of the report.

Year-to-Date Actual Results
(\$ millions)

<u>FUNDING</u>	<u>Actual</u>	<u>Budget</u>	<u>Over (Under)</u>
Revenues	\$ 44.3	\$ 44.7	\$ (0.4)
Funding from Reserves			
Assessment Stabilization Reserve	-	-	-
TOTAL FUNDING	\$ 44.3	\$ 44.7	\$ (0.4)
<u>EXPENDITURES</u>			
Expenses (excluding Depreciation)	\$ 39.9	\$ 43.1	\$ (3.2)
Fixed Asset Additions	0.6	2.5	(1.9)
Net Financing Activity	0.3	(0.6)	0.9
TOTAL EXPENDITURES	\$ 40.8	\$ 45.0	\$ (4.2)
RESERVE INCREASE (DECREASE)	\$ 3.5	\$ (0.3)	\$ 3.8

Funding is under budget mainly as a result of the timing differences between budgeted and actual assessment revenues. Expenses (excluding depreciation) during the year are under budget primarily because of the timing differences between budgeted and actual costs related to personnel, meeting, travel, contractor, and fixed asset additions, and is partially offset by higher net financing activity. The result is a reserve increase of \$3.8M higher than budget. This activity is explained in more detail in the remainder of the report.

Detailed Operating Results

Variances by Revenue and Expense Category

Total NERC (including CRISP)

	YTD Actual	YTD Budget	YTD Over (Under)	% Over (Under)	Annual Projection	Annual Budget	Annual Over (Under)	% Over (Under)
TOTAL FUNDING	\$ 44,330,178	\$ 44,701,408	\$ (371,230)	(0.8%)	\$ 89,448,488	\$ 88,268,926	\$ 1,179,562	1.3%
EXPENDITURES								
Personnel	\$ 25,848,400	\$ 26,608,005	\$ (759,605)	(2.9%)	\$ 51,760,573	\$ 51,966,435	\$ (205,862)	(0.4%)
Meetings and Travel	665,510	1,234,650	(569,140)	(46.1%)	2,271,434	2,608,050	(336,616)	(12.9%)
Contracts and Consultants	5,254,213	6,837,400	(1,583,187)	(23.2%)	16,017,599	13,674,800	2,342,799	17.1%
Office Rent	1,750,167	1,661,238	88,929	5.4%	3,282,925	3,243,277	39,648	1.2%
Office Costs, Professional, and Misc.*	6,390,264	6,670,986	(280,722)	(4.2%)	14,153,622	13,381,972	771,650	5.8%
Other Non-Operating	33,033	67,500	(34,467)	(51.1%)	117,202	135,000	(17,798)	(13.2%)
Fixed Asset Additions*	572,888	2,459,375	(1,886,487)	(76.7%)	3,558,702	4,918,750	(1,360,048)	(27.7%)
Net Financing Activity**	313,549	(550,000)	863,549	(157.0%)	(941,415)	(1,100,000)	158,585	(14.4%)
TOTAL EXPENDITURES	\$ 40,828,024	\$ 44,989,154	\$ (4,161,130)	(9.2%)	\$ 90,220,643	\$ 88,828,284	\$ 1,392,359	1.6%
RESERVE INCREASE (DECREASE)	\$ 3,502,154	\$ (287,746)	\$ 3,789,900	(1317.1%)	\$ (772,155)	\$ (559,358)	\$ (212,797)	38.0%
FTEs	215.4	223.7	(8.3)	(3.7%)	216.8	223.7	(6.9)	(3.1%)

* Excludes depreciation expense

** A positive amount indicates that NERC is paying off more principal than it is receiving in proceeds. A negative amount indicates that NERC is receiving more in proceeds than it is paying off principal.

Following is a brief description of variances by category, as illustrated in the table above:

- Funding is under budget mainly as a result of actual assessments being recorded evenly over the year, while budgeted assessments are higher in the beginning of the year because of certain activity being budgeted earlier in the year. Funding is projected to be over budget mainly due to CRISP third-party funding being higher than budget largely because of program participants that have joined the program in 2022 as well as participants that may join during the remainder of the year.
- Personnel expenses are under budget largely as a result of lower medical insurance premiums, relocation expense, parking and transportation benefits, and retirement costs. They are expected to be slightly under budget at year-end.
- Meetings and Travel expenses are under budget and expected to be under budget because of reduced in-person meetings and travel due to the pandemic.
- Contracts and Consultants expenses are under budget primarily due to the timing of costs versus the budget, with a large part of that due to the CRISP third party subcontractor costs. This category is expected to be over budget at year-end mainly as a result of, 1) costs from the CRISP third party subcontractor for new program participants (funded by revenues from the new participants), replacement of equipment for existing program participants (funded by revenues from those participants), costs for OT pilot projects (funded by the CRISP Special Projects Reserve), and cloud-based ISDs project costs (funded by CRISP Operating Reserves) and, 2) also the need for

two IT security contractors that were not budgeted (which will be partially funded by the deferral of FTEs in other departments).

CONTRACTS and CONSULTANTS	YTD	YTD	YTD	%	Annual	Annual	Annual	%
	Actual	Budget	Over (Under)	Over (Under)	Projection	Budget	Over (Under)	Over (Under)
Reliability Standards and Power Risk Issue Management	\$ 78,544	\$ 79,480	\$ (936)	(1.2%)	\$ 158,960	\$ 158,960	\$ -	0.0%
Compliance Assurance	18,974	152,500	(133,526)	(87.6%)	305,000	305,000	-	0.0%
Registration and Certification	22,080	20,000	2,080	10.4%	40,000	40,000	-	0.0%
Compliance Enforcement	1,200	124,500	(123,300)	(99.0%)	249,000	249,000	-	0.0%
BPS Security and Grid Transformation	76,046	-	76,046	0.0%	94,846	-	94,846	0.0%
Reliability Assessment and Technical Committees	75,000	105,000	(30,000)	(28.6%)	210,000	210,000	-	0.0%
Advanced System Analytics and Modeling & Power System Analysis	50,000	125,000	(75,000)	(60.0%)	250,000	250,000	-	0.0%
Performance Analysis	78,222	110,613	(32,391)	(29.3%)	273,727	221,227	52,500	23.7%
Situation Awareness	-	7,500	(7,500)	(100.0%)	15,000	15,000	-	0.0%
Event Analysis	44,372	59,079	(14,707)	(24.9%)	118,158	118,158	-	0.0%
E-ISAC	988,063	1,085,521	(97,457)	(9.0%)	2,207,642	2,171,041	36,601	1.7%
Training, Education and Personnel Certification	120,194	281,594	(161,400)	(57.3%)	605,703	563,188	42,515	7.5%
General and Administrative and Executive	73,706	50,000	23,706	47.4%	143,500	100,000	43,500	43.5%
Legal and Regulatory	41,435	155,000	(113,565)	(73.3%)	360,000	310,000	50,000	16.1%
External Affairs	-	10,000	(10,000)	(100.0%)	20,000	20,000	-	0.0%
Information Technology	901,159	866,703	34,456	4.0%	2,160,560	1,733,406	427,154	24.6%
Human Resources and Administration	135,396	435,000	(299,604)	(68.9%)	820,000	870,000	(50,000)	(5.7%)
Finance and Accounting	75,603	92,500	(16,897)	(18.3%)	185,000	185,000	-	0.0%
TOTAL (excluding CRISP)	\$ 2,779,994	\$ 3,759,990	\$ (979,996)	(26.1%)	\$ 8,217,096	\$ 7,519,980	\$ 697,116	9.3%
CRISP	2,474,219	3,077,410	(603,191)	(19.6%)	7,800,503	6,154,820	1,645,683	26.7%
TOTAL (including CRISP)	\$ 5,254,213	\$ 6,837,400	\$ (1,583,187)	(23.2%)	\$ 16,017,599	\$ 13,674,800	\$ 2,342,799	17.1%

- Professional Services expenses are expected to be over budget largely due to fees for an unbudgeted trustee search and increased costs for liability insurance.
- Fixed Asset Additions are under budget primarily as a result of timing of costs versus the budget for capital lease assets related to new equipment leases and also IT equipment and servers and also because of leasehold improvements and office furniture budgeted for a new Atlanta office that did not materialize. The category is projected to be under budget mainly because of the aforementioned leasehold improvements and office furniture and also due to lower than budgeted capital lease assets for new equipment leases.
- The Net Financing Activity budget, which is comprised of financing proceeds/borrowings and principal payments, anticipated borrowings for new equipment leases evenly throughout the year. Those borrowings did not occur during the first part of the year and will not occur until later in the year and also at a lower amount than budgeted. Accordingly, debt principal payments are lower than budgeted. The result is that net financing activity is over budget because of more principal payments than borrowings on new equipment leases during the first part of the year.
- Reserves are over budget by \$3.8M, primarily due to lower in-person meeting and travel costs due to the pandemic, as well as lower contracts and consultant costs and fixed asset additions due to timing of costs versus the budget.

Variations by Department

DIRECT EXPENSES, FIXED ASSETS, AND FINANCING ACTIVITY	YTD	YTD	YTD	%	Annual	Annual	Annual	%
	Actual	Budget	Over (Under)	Over (Under)	Projection	Budget	Over (Under)	Over (Under)
Reliability Standards and Power Risk Issue Management	\$ 2,132,177	\$ 2,204,546	\$ (72,369)	(3.3%)	\$ 4,370,765	\$ 4,321,038	\$ 49,726	1.2%
Compliance Assurance	2,767,267	3,038,075	(270,808)	(8.9%)	5,862,509	5,972,082	(109,574)	(1.8%)
Registration and Certification	550,708	510,970	39,738	7.8%	1,063,393	995,345	68,047	6.8%
Compliance Enforcement	1,745,299	1,920,825	(175,526)	(9.1%)	3,701,113	3,782,700	(81,587)	(2.2%)
Power System Analysis	344,448	475,647	(131,198)	(27.6%)	849,953	935,162	(85,209)	(9.1%)
Reliability Assessment and Technical Committees	992,680	1,148,336	(155,655)	(13.6%)	2,167,971	2,246,928	(78,957)	(3.5%)
Advanced System Analytics and Modeling & Power System Analysis	996,460	1,344,760	(348,300)	(25.9%)	2,499,540	2,633,697	(134,158)	(5.1%)
Performance Analysis	943,410	1,084,496	(141,086)	(13.0%)	1,993,832	2,146,112	(152,279)	(7.1%)
Situation Awareness	1,539,402	1,565,719	(26,316)	(1.7%)	3,352,895	3,129,990	222,905	7.1%
Event Analysis	947,662	1,069,468	(121,807)	(11.4%)	2,043,420	2,078,854	(35,434)	(1.7%)
E-ISAC	6,139,840	6,752,170	(612,330)	(9.1%)	12,933,005	13,281,050	(348,044)	(2.6%)
Training, Education and Personnel Certification	638,277	823,133	(184,856)	(22.5%)	1,727,812	1,635,993	91,819	5.6%
General and Administrative and Executive	4,692,460	4,694,503	(2,043)	(0.0%)	9,095,442	9,385,265	(289,822)	(3.1%)
Legal and Regulatory	2,535,404	2,616,875	(81,471)	(3.1%)	5,368,664	5,123,376	245,288	4.8%
External Affairs	1,549,965	1,607,744	(57,779)	(3.6%)	3,177,078	3,151,081	25,997	0.8%
Information Technology	6,249,769	7,092,004	(842,235)	(11.9%)	14,246,197	14,026,598	219,599	1.6%
Human Resources and Administration	1,461,047	1,949,913	(488,866)	(25.1%)	3,707,619	3,852,313	(144,694)	(3.8%)
Finance and Accounting	1,083,227	1,110,132	(26,905)	(2.4%)	2,224,442	2,186,385	38,057	1.7%
TOTAL (excluding CRISP)	\$ 37,309,504	\$ 41,009,317	\$ (3,699,813)	(9.0%)	\$ 80,385,651	\$ 80,883,970	\$ (498,319)	(0.6%)
CRISP	3,518,519	3,979,837	(461,317)	(11.6%)	9,834,993	7,944,314	1,890,678	23.8%
TOTAL DIRECT EXPENSES, FIXED ASSETS, AND FINANCING ACTIVITY	\$ 40,828,024	\$ 44,989,154	\$ (4,161,130)	(9.2%)	\$ 90,220,643	\$ 88,828,284	\$ 1,392,359	1.6%

Following is a brief description of significant variances by department, as illustrated in the table above:

- Compliance Assurance – Under budget mostly because of lower personnel expenses due to less FTEs, lower travel and meeting expenses due to the pandemic and lower FTEs, and lower than budgeted contractor costs, which is partially offset by higher year-to-date fixed asset additions cost for the Align project.
- Advanced System Analytics and Modeling & Power System Analysis – Under budget primarily due to lower personnel expenses due to less FTEs, lower travel and meeting expenses due to the pandemic and lower FTEs, and lower than budgeted contractor costs.
- E-ISAC – Under budget mostly because of lower personnel expenses due to less FTEs, and lower travel and meeting expenses due to the pandemic and lower FTEs. Projected to be under for the same reasons.
- General & Administrative and Executive – Projected to be under budget primarily because of the leasehold improvements and office furniture budgeted for a new Atlanta office that did not materialize, and is partially offset by higher than budgeted personnel expenses due to lower attrition, as well as unbudgeted trustee search fees.
- Information Technology – Under budget primarily due to timing of costs versus the budget for software licenses and support, fixed asset additions, and financing activity and is projected to be over budget due to the need for two IT security contractors that were not budgeted (and will be funded by the deferral of FTEs in other departments).
- Human Resources – Under budget primarily due to timing of costs versus the budget for contractors.
- CRISP – Under budget largely as a result of timing of costs versus the budget for the third party subcontractor work and expected to be over budget because of costs from the CRISP third party

subcontractor for new program participants and replacement of equipment for existing program participants, and also for costs for the OT equipment needs discussed earlier that were carried over from 2021 and being funded by the CRISP Special Projects Reserve.

Supplemental Schedules

Schedule 1 – Year-End Projected Reserves

Reserve Account	1/1/2022		Operating and		12/31/2022
	Beginning Balance ⁽¹⁾	Budgeted Funding/(Use) ⁽²⁾	Unbudgeted Funding/(Use) ⁽³⁾	Financing Activity Versus Budget ⁽⁴⁾	Ending Balance
NERC Operating Contingency	\$ 8,728,678	\$ (64,253)	\$ -	\$ (208,939)	\$ 8,455,486
Future Obligations	1,381,843	(679,629)	882,756	708,893	2,293,863
Assessment Stabilization	2,521,000	-	-	-	2,521,000
System Operator	915,083	(86,212)	-	(137,273)	691,599
CRISP Defense Fund	512,821	-	50,000	-	562,821
CRISP Operating	1,596,902	300,000	-	(187,737)	1,709,165
CRISP Special Projects	445,316	-	-	(387,741)	57,575
Total Reserves	\$ 16,101,643	\$ (530,094)	\$ 932,756	\$ (212,797)	\$ 16,291,508

NOTES:

(1) 2022 beginning balances have been adjusted from the 12/31/2021 variance report balances as the result of a reconciliation to the final audited balance sheet.

(2) The amended 2022 Business Plan & Budget (2022 BP&B) contained a budgeted use of NERC Operating Contingency Reserves (OCR) totaling \$64,253 and a budgeted use of \$708,893 of Future Obligation Reserves (FOR) to help fund costs of a potential new Atlanta office space. Those costs will not materialize in 2022 and the money will go back into the NERC OCR and FOR.

The 2022 BP&B included a use of System Operator Reserves derived from budgeted revenues being \$86,212 lower than budgeted expenses.

The 2022 BP&B also contained \$300,000 to build the balance in the CRISP Operating Reserve.

(3) The unbudgeted addition to the FOR of \$882,756 is primarily the result of lease concessions at the current Atlanta office that will be applied to future rent expense.

(4) This column primarily reflects the net impact of normal operations. For example, under normal circumstances, if tracking well under budget in actual expenditures, this would reflect additional funds into the reserve account. It also reflects the increase or decrease in working capital during the period.

For the CRISP Special Projects Reserve, any amount remaining at the end of 2022 will be incorporated into the CRISP Operating Reserve.

Schedule 2 – IT Projects

Projects in Progress	Project Budget ⁽¹⁾	Actual Spend to Date	Expected Spend	Expected Over (Under) Budget
Align Release 4.5	\$ -	\$ 52,500	\$ 400,000	\$ 400,000
Disaster Recovery	490,000	92,141	440,000	(50,000)

Projects Completed in 2022	Project Budget	Actual Spend
E-ISAC Portal Replacement (fixed contract) ⁽²⁾	\$ 259,680	\$ 259,680
CRISP Operational Technology Project ⁽²⁾	426,000	366,975
Align Enhancements/Release 4.0	300,000	371,553

NOTES:

(1) The Project Budget noted above usually corresponds to the approved business case if required for each project and funds for each project are drawn from the available budget.

(2) The amounts noted above do not include internal labor or license/maintenance/support costs and reflect only external (consultant) costs of the projects.

** Some of these projects span multiple years, so the amounts above do not represent a single budget year expenditure.*

Schedule 2 (continued) – IT Projects

Align Release 4.5

(Started Q1 2022 / Estimated Completion Q4 2022)

This will include required functionality for Inherent Risk Assessments (IRAs) and Compliance Oversight Planning (COPs).

Disaster Recovery

(Started Q1 2022 / Estimated Completion Q4 2022)

This project will provide NERC with the capability to securely fail over and restore our network of our Tier 0 and Tier 1 mission critical applications in response to a malicious event or unplanned outage.

E-ISAC Portal Replacement

(Started Q3 2020 / Completed Q1 2022)

This project re-platformed the current portal and ticket/case system, which combined the functions and services into a single E-ISAC Sharing Platform (ESP) solution, allowing members, partners, and the E-ISAC staff to interact more effectively and efficiently.

CRISP Operational Technology Pilot

(Started Q4 2020 / Completed Q2 2022)

This project will promote E-ISAC analyst training and capabilities through guided-hunt participation and development of other cyber security threat intelligence best practices (such as generation of analytics and playbooks). The project is being funded through CRISP and benefit its participants, but will enrich the overall threat intelligence capabilities of the E-ISAC.

Align Enhancements/Release 4.0

(Started Q1 2022 / Completed Q2 2022)

This work included enhancements from Release 3 (audit and scheduling) as requested and approved by the Align Steering Committee. It also includes platform performance and optimization enhancements resulting from the December 2021 outage event.

Schedule 3 – E-ISAC and CRISP Summary of Activity

TOTAL E-ISAC (including CRISP)

FUNDING	YTD Actual	Annual Projection	Annual Budget	Projected Over (Under)
Assessments	\$ 12,567,950	\$ 25,135,900	\$ 25,135,900	\$ -
Other Funding	4,172,640	9,209,047	8,011,505	1,197,542
TOTAL FUNDING	\$ 16,740,590	\$ 34,344,947	\$ 33,147,405	\$ 1,197,542
EXPENDITURES				
Personnel Expense	\$ 4,934,471	\$ 9,961,307	\$ 10,430,408	\$ (469,101)
Meetings and Travel Expense	89,198	283,366	324,000	(40,634)
Operating Expenses (excluding Depreciation)	4,564,105	12,432,075	10,379,706	2,052,369
Other Non-Operating Expenses	-	-	-	-
Fixed Asset Purchases (excluding Fixed Asset Allocation)	70,586	91,250	91,250	-
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	-	-
Total Direct Costs (excluding Depreciation and Allocations)	\$ 9,658,360	\$ 22,767,998	\$ 21,225,364	\$ 1,542,634
Indirect Expense Allocation	5,134,162	11,124,484	10,944,281	180,203
Fixed Asset Allocation	-	658,253	1,132,166	(473,913)
Net Financing Activity Allocation	33,354	(400,719)	(454,407)	53,688
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 14,825,876	\$ 34,150,017	\$ 32,847,405	\$ 1,302,612
RESERVE INCREASE (DECREASE)	\$ 1,914,714	\$ 194,930	\$ 300,000	\$ (105,070)

Schedule 3 (continued) – E-ISAC and CRISP Summary of Activity

CRISP				
FUNDING	YTD Actual	Annual Projection	Annual Budget	Projected Over (Under)
Assessments	\$ 677,952	\$ 1,355,903	\$ 1,355,903	\$ -
Other Funding	4,139,063	9,140,471	7,929,423	1,211,048
TOTAL FUNDING	\$ 4,817,014	\$ 10,496,374	\$ 9,285,326	\$ 1,211,048
EXPENDITURES				
Personnel Expense	\$ 499,371	\$ 1,033,567	\$ 1,095,553	\$ (61,986)
Meetings and Travel Expense	37,656	53,139	34,000	19,139
Operating Expenses (excluding Depreciation)	2,910,907	8,748,287	6,814,761	1,933,526
Other Non-Operating Expenses	-	-	-	-
Fixed Asset Purchases (excluding Fixed Asset Allocation)	70,586	-	-	-
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	-	-
Total Direct Costs (excluding Depreciation and Allocations)	\$ 3,518,519	\$ 9,834,993	\$ 7,944,314	\$ 1,890,678
Indirect Expense Allocation	383,815	1,107,224	980,303	126,921
Fixed Asset Allocation	-	65,516	101,411	(35,894)
Net Financing Activity Allocation	2,493	(39,884)	(40,702)	819
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 3,904,828	\$ 10,967,849	\$ 8,985,326	\$ 1,982,523
RESERVE INCREASE (DECREASE)	\$ 912,187	\$ (471,475)	\$ 300,000	\$ (771,475)

Note - In its July 8, 2022 order in Docket No. RR21-9-001, the Commission held that expenditure of funds paid by new CRISP participants for costs associated with joining the program should be included in NERC's quarterly variance reports and annual true-up filings. Accordingly, NERC notes that year-to-date billings sent by NERC to new CRISP participants related to the program's third-party subcontractor total approximately \$330k. Year-to-date expenses sent by the third-party contractor to NERC for new CRISP participants totals approximately \$10k.

E-ISAC (excluding CRISP)				
FUNDING	YTD Actual	Annual Projection	Annual Budget	Projected Over (Under)
Assessments	\$ 11,889,998	\$ 23,779,997	\$ 23,779,997	\$ -
Other Funding	33,577	68,575	82,082	(13,506)
TOTAL FUNDING	\$ 11,923,575	\$ 23,848,572	\$ 23,862,079	\$ (13,506)
EXPENDITURES				
Personnel Expense	\$ 4,435,100	\$ 8,927,740	\$ 9,334,855	\$ (407,115)
Meetings and Travel Expense	51,543	230,227	290,000	(59,773)
Operating Expenses (excluding Depreciation)	1,653,198	3,683,789	3,564,945	118,844
Other Non-Operating Expenses	-	-	-	-
Fixed Asset Purchases (excluding Fixed Asset Allocation)	-	91,250	91,250	-
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	-	-
Total Direct Costs (excluding Depreciation and Allocations)	\$ 6,139,840	\$ 12,933,005	\$ 13,281,050	\$ (348,044)
Indirect Expense Allocation	4,750,348	10,017,260	9,963,978	53,283
Fixed Asset Allocation	-	592,737	1,030,756	(438,019)
Net Financing Activity Allocation	30,860	(360,835)	(413,705)	52,870
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 10,921,048	\$ 23,182,168	\$ 23,862,079	\$ (679,911)
RESERVE INCREASE (DECREASE)	\$ 1,002,527	\$ 666,404	\$ -	\$ 666,404

Schedule 4 – Summary of Investments

	Quarter-End Balance	Ticker Symbol	Fund Name	S&P Credit Rating	Average Annualized Yield
<u>Cash Sweep Accounts</u>					
Operating Account Sweep	\$ 28,370,151	TDDXX	BlackRock Liquidity Fund FedFund Dollar	AAAm	0.79%
SOCCEd Account Sweep	1,486,172	TDDXX	BlackRock Liquidity Fund FedFund Dollar	AAAm	0.79%
CRISP Account Sweep	7,676,897	TDDXX	BlackRock Liquidity Fund FedFund Dollar	AAAm	0.79%
<u>Total Cash Sweep Accounts</u>	<u>\$ 37,533,220</u>				
<u>Investment Account</u>					
Reserve Funds	\$ 8,479,894	GRTXX	Federated Hermes Government Obligations Fund	AAAm	1.39%
<u>Total Investments</u>	<u>\$ 8,479,894</u>				

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

Agenda Item 2ai

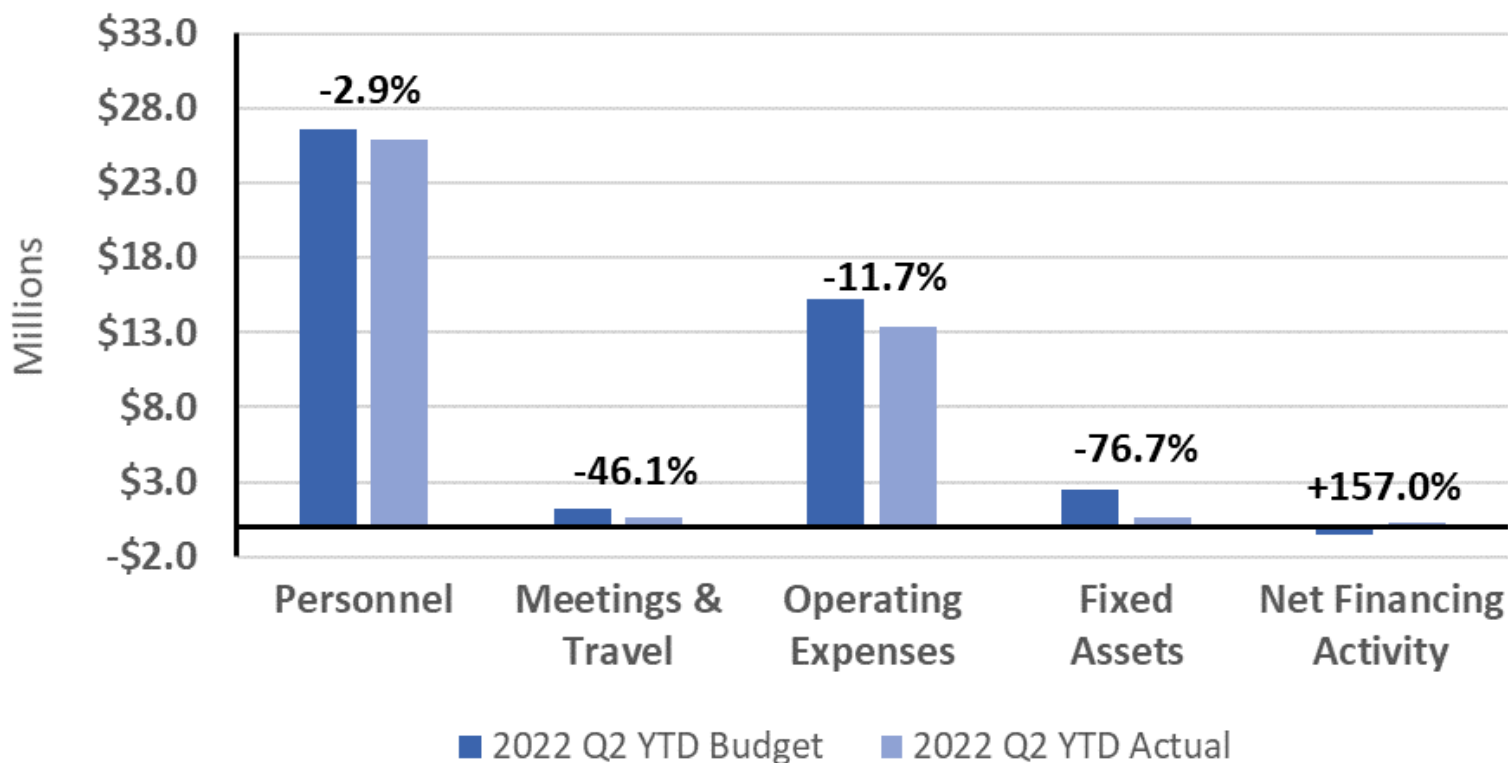
NERC Summary of Unaudited Results as of June 30, 2022

Andy Sharp, Vice President and Chief Financial Officer
Finance and Audit Committee Meeting
August 17, 2022

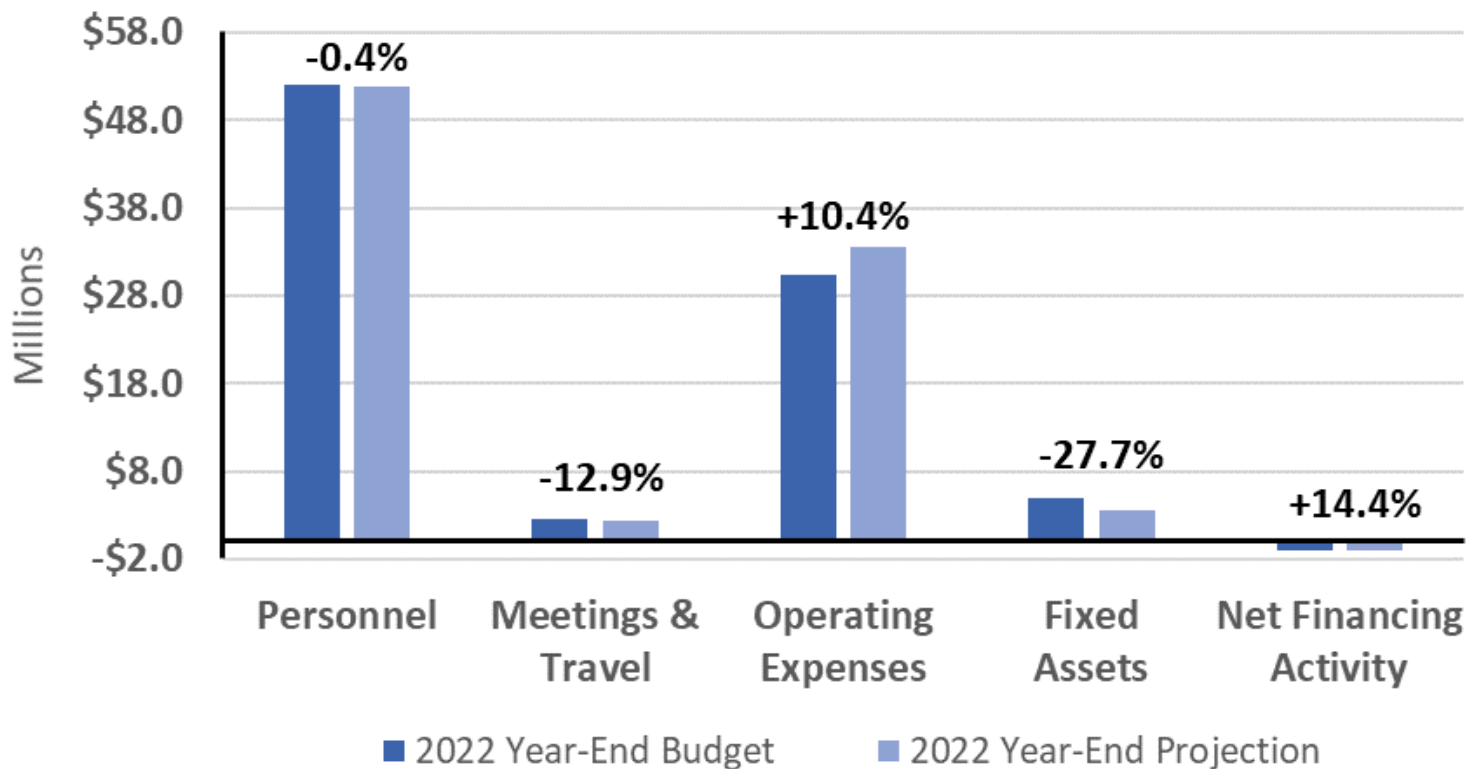
RELIABILITY | RESILIENCE | SECURITY



- Total funding – \$0.4M (0.8%) under budget
 - Timing of assessment revenues versus budget
- Total expenditures – \$4.2M (9.2%) under budget
 - Lower personnel, contracts and consultant costs
 - Decreased spending on meetings and travel due to the pandemic
 - Partially offset by higher net financing activity
- Reserve increase \$3.8M over budget

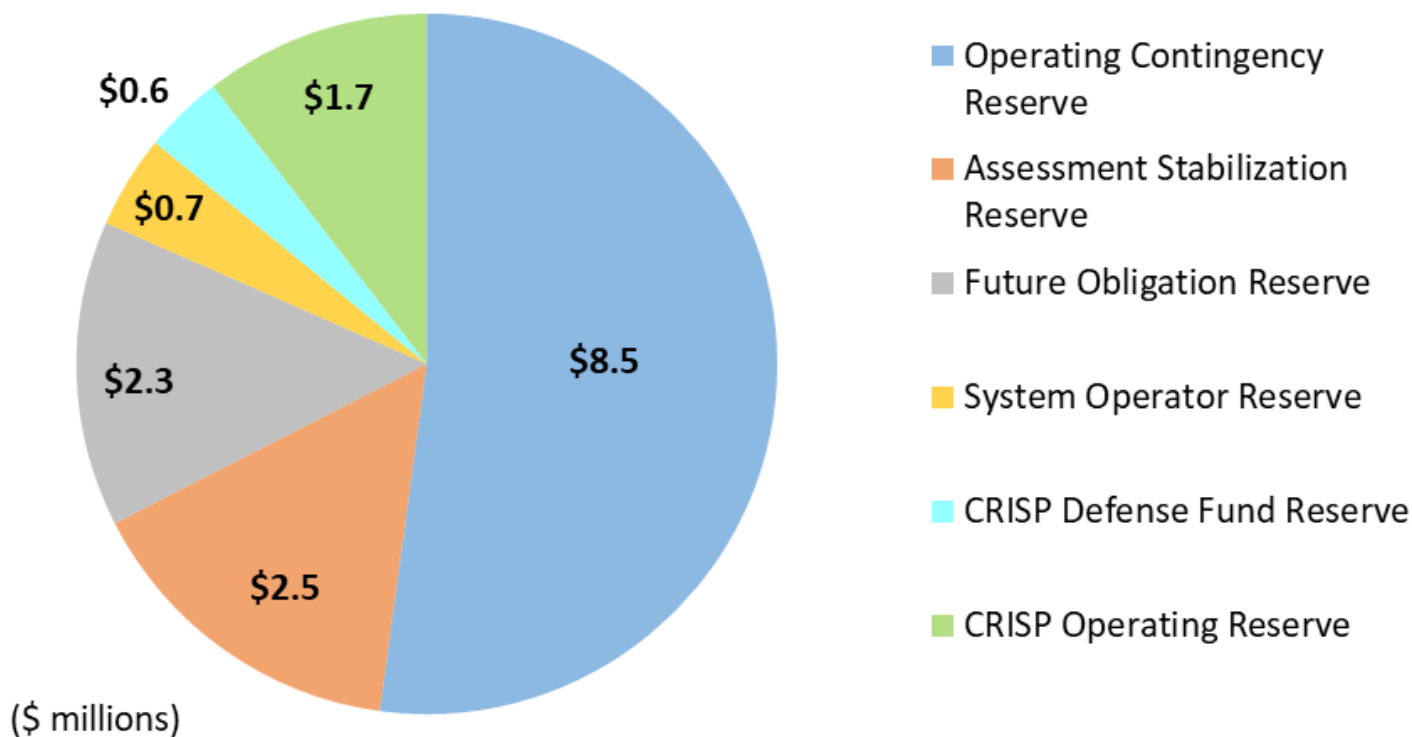


- Funding – \$1.1M (1.3%) over budget
 - CRISP third-party funding
- Total expenditures – \$1.3M (1.6%) over budget
 - Higher contractors and consultants and professional services expenses
 - Partially offset by lower personnel, meeting and travel expenses, and fixed asset additions
- Reserve decrease \$200k more than budget



- Operating Contingency Reserve (OCR)
 - Began year with \$8.7M
 - Budgeted use of \$65k to fund Atlanta leasehold improvements/equipment
 - Projected decrease from 2022 operating activity \$209k
 - Projected ending balance of \$8.5M
- Assessment Stabilization Reserve (ASR) – \$2.5M
 - No releases or additions

TOTAL RESERVES OF \$16.3M





Questions and Answers

Total ERO Enterprise (NERC and Regional) Summary of Unaudited Results

June 30, 2022

The ERO Enterprise was under budget \$7.8M (6.9%) for combined expense and fixed asset (capital) spending and net financing activity. The budget variances ranged from 10.8% under budget to 2.0% over budget. The year-end projection for the ERO Enterprise is to be under budget \$760k (0.3%).

Total Budget (Total Expenses plus Fixed Assets & Net Financing Activity)

Entity	2022 YTD		Over (Under)		2022 Year-End		Over (Under)	
	Actual	Budget	\$	%	Projected	Budgeted	\$	%
NERC	\$ 40,828,025	\$ 44,989,154	\$ (4,161,129)	(9.2%)	\$ 90,220,643	\$ 88,828,285	\$ 1,392,358	1.6%
MRO	9,460,344	10,017,181	(556,837)	(5.6%)	19,694,323	20,034,362	(340,039)	(1.7%)
NPCC	7,708,930	8,638,212	(929,282)	(10.8%)	16,712,501	17,465,133	(752,632)	(4.3%)
RF	12,597,262	13,448,241	(850,979)	(6.3%)	25,656,524	26,219,927	(563,403)	(2.1%)
SERC	13,131,092	12,868,729	262,363	2.0%	26,744,260	26,708,260	36,000	0.1%
Texas RE	7,560,690	8,161,727	(601,037)	(7.4%)	16,915,613	17,160,613	(245,000)	(1.4%)
WECC	13,657,766	14,627,601	(969,835)	(6.6%)	29,459,251	29,746,899	(287,648)	(1.0%)
	\$ 104,944,109	\$ 112,750,845	\$ (7,806,736)	(6.9%)	\$ 225,403,115	\$ 226,163,479	\$ (760,364)	(0.3%)

- NERC was under budget \$4.2M (9.2%) primarily because of timing differences between budgeted and actual costs related to personnel, meeting, travel, contractor, and fixed asset addition costs, and was partially offset by higher net financing activity. The company expects to be over budget \$1.4M (1.6%), which is predominately due to higher contractor and professional services costs, partially offset by lower personnel, travel, meeting, and fixed asset additions costs.
- MRO was under budget \$557k (5.6%), mainly as a result of lower meetings and travel expenses due to MRO's hybrid approach to meetings with fewer in-person attendees. Operating expenses are trending lower than budget currently due to timing of project starts, contract renewals, and the impact of a hybrid work environment on office costs. Fixed assets will be over budget due to an incomplete AV project from the prior year. The company expects to be under budget \$340k (1.7%) at year-end mainly as a result of the meeting and travel underspend.
- NPCC was under budget \$929k (10.8%) mainly as a result of lower meetings and travel expenses due to the pandemic and lower-than-budgeted personnel expenses. The company expects to be under budget \$753k (4.3%) at year-end.
- RF was under budget \$851k (6.3%) largely due to lower than budgeted salary costs, employee benefits (medical benefits and training), office costs, meetings, and travel, offset partially by higher than budgeted rent and computer hardware and software. Salaries and employee benefits (medical) were lower than budget mainly due to lower than budgeted staffing levels for the first half of the year. Meetings, travel, and employee benefits (training) were lower due to decreased activity due to the pandemic in the first quarter of the year. Office costs and contracts and

consultants were under budget, offset partially by computer hardware & software that were over budget, primarily due to timing of projects that differed from the budget. This variance was also partially offset by higher than budgeted rent due to an unbudgeted 5th floor expansion and lease extension. The company expects to be under budget \$563k (2.1%) at year-end.

- SERC was over budget \$262k (2.0%) largely due to timing of expenditures. The company expects to be over budget \$36k (0.1%) at year-end.
- Texas RE was under budget \$601k (7.4%) primarily due to vacancies in the Compliance department and travel not being fully engaged. This was offset by Consultants and Contracts being over budget due to a compensation study completed earlier in the year than anticipated. An external IT audit has been delayed also causing Professional services are under budget.
- WECC was under budget \$970k (6.6%) primarily due to the net of an underrun in meeting and travel expenses and timing differences in consulting. The company expects to be under budget \$288k (1.0%) at year-end.

Variations by Expense, Fixed Asset, and Net Financing Activity Categories

Personnel Expenses

For the ERO Enterprise, personnel expenses, consisting of salaries, payroll taxes, benefits, and retirement costs, were collectively under budget \$2.6M (3.2%), ranging from 9.4% under budget to 0.2% under budget. The ERO Enterprise was under budget in FTEs by 42.3 (5.6%). The year-end projection for ERO Enterprise personnel expenses is to be under budget \$1.9M (1.2%), with FTEs under budget 1.6%. Significant variances are explained below.

Entity	Personnel Expenses					FTEs*				
	2022 YTD	2022 YTD	Over (Under)		Projected	2022 YTD	2022 YTD	Over (Under)		Projected
	Actual	Budget	\$	%	Year-End Variance	Actual	Budget	\$	%	Year-End Variance
NERC	\$ 25,848,400	\$ 26,608,005	\$ (759,605)	(2.9%)	(0.4%)	215.4	223.7	(8.3)	(3.7%)	(3.1%)
MRO	7,595,207	7,638,491	(43,284)	(0.6%)	(0.1%)	69.0	71.0	(2.0)	(2.8%)	0.0%
NPCC	6,055,043	6,521,896	(466,852)	(7.2%)	(4.1%)	42.9	47.9	(5.0)	(10.4%)	(7.9%)
RF	11,020,975	11,524,158	(503,183)	(4.4%)	(2.8%)	86.5	88.6	(2.1)	(2.4%)	(1.3%)
SERC	10,586,874	10,603,567	(16,693)	(0.2%)	(0.6%)	96.0	104.0	(8.0)	(7.7%)	0.0%
Texas RE	5,647,657	6,235,453	(587,796)	(9.4%)	(1.3%)	58.0	66.0	(8.0)	(12.1%)	0.0%
WECC	11,313,606	11,542,420	(228,814)	(2.0%)	(1.0%)	143.6	152.5	(8.9)	(5.8%)	0.1%
	\$ 78,067,762	\$ 80,673,989	\$ (2,606,227)	(3.2%)	(1.2%)	711.4	753.7	(42.3)	(5.6%)	(1.6%)

* Represents equivalent full time positions from a budget and actual financial perspective and does not necessarily represent headcount.

- NERC was under budget \$760k (2.9%) largely as a result of lower medical insurance premiums, relocation expenses, parking and transportation costs, and retirement costs. The company expects to be slightly under budget at year end.

- MRO was under budget \$43k (0.6%) due to a combination of early turnovers, retirements, and timing of new hires. The company expects to be near to budget at year-end and fully staffed.
- NPCC was under budget \$467k (7.2%) mainly as a result of several open positions and lower-than-budgeted medical insurance premiums. The company expects to be under budget \$532k (4.1%) at year-end based on planned onboarding dates for new hires. Onboarding dates and projections will be adjusted throughout the year as open positions are filled.
- RF was under budget \$503k (4.4%) primarily due to personnel count that was below the approved staffing levels during the first half of the year. This variance was also impacted by underutilized budgeted training because of the cancellation of training activities due to the pandemic. The company expects to be fully staffed, but under budget by \$627k (2.8%) at year-end due to the lower than budgeted staffing levels in the first half of the year.
- SERC was under budget \$17k (0.2%) due to lower than budgeted insurance rate renewal and timing of relocation expenses. The full year impact is projected to be \$125k (0.6%) under budget due to anticipated lead time to fill open positions in conjunction with lower health insurance expenses.
- Texas RE was under budget \$588k (9.4%) predominately due to vacancies in the Compliance Department. Employee benefits are less than budget 23.0% due to health benefits not increasing as projected. The company expects to be fully staffed and within budget at year end.
- WECC was under budget \$229k (2.0%) primarily due to due to an unanticipated health insurance premium credit, budgeted benefits enrollment level assumptions compared to actual benefits enrollment levels, and lower-than-anticipated use of the Health Reimbursement Account (HRA). The company expects to be under budget \$239k (1.0%) at year-end due to the same reasons.

Meetings, Conference Calls, and Travel Expenses

For the ERO Enterprise, meetings, conference calls, and travel expenses were collectively under budget \$2.1M (58.8%). All entities were under budget because of decreased meeting and travel expenses due to the pandemic. The year-end projection for the ERO Enterprise is to be under budget \$1.9M (23.5%).

Meetings, Conference Calls, and Travel Expenses							
Entity	2022 Budget	Meetings & Conference Calls		2022 Actual	Over (Under)		Projected Year- End Variance to Budget
		Over (Under)	Travel Over (Under)		\$	%	
NERC	\$1,234,650	\$ (227,543)	\$ (341,597)	\$ 665,510	\$ (569,140)	(46.1%)	(12.9%)
MRO	380,274	(36,363)	(225,959)	117,951	(262,322)	(69.0%)	(46.5%)
NPCC	304,419	(97,513)	(179,629)	27,277	(277,142)	(91.0%)	(29.0%)
RF	431,745	(95,285)	(218,555)	117,905	(313,840)	(72.7%)	(32.0%)
SERC	622,361	(34,437)	(201,111)	386,813	(235,548)	(37.8%)	(18.1%)
Texas RE	140,149	(8,651)	(76,504)	54,994	(85,155)	(60.8%)	(18.0%)
WECC	544,147	(107,946)	(298,226)	137,975	(406,172)	(74.6%)	(29.4%)
	\$ 3,657,744	\$ (607,738)	\$ (1,541,581)	\$ 1,508,425	\$ (2,149,319)	(58.8%)	(23.5%)

Operating Expenses

For the ERO Enterprise, operating expenses, consisting of consultants and contracts expenses, office rent, office costs, professional services, and miscellaneous costs, were collectively under budget \$2.4M (9.0%). The year-end projection for the ERO Enterprise is to be over budget \$3.7M (6.9%). Significant variances are explained below.

Operating Expenses										
Entity	2022 Budget	Contracts & Consulting Expenses		Professional Services			2022 Actual	Over (Under)		Projected Year-End Variance to Budget
		Over (Under)	Office Rent Over (Under)	Office Costs Over (Under)	Over (Under)	Miscellaneous Over (Under)		\$	%	
NERC	\$ 15,169,624	\$ (1,583,187)	\$ 88,929	\$ (399,815)	\$ 148,392	\$ (29,299)	\$ 13,394,644	\$ (1,774,980)	(11.7%)	10.4%
MRO	1,935,917	(92,643)	(53,748)	(67,673)	(70,040)	-	1,651,813	(284,104)	(14.7%)	(5.3%)
NPCC	1,935,531	(221,537)	(49,064)	(110,044)	74,373	(22,062)	1,607,197	(328,334)	(17.0%)	(1.4%)
RF	1,422,338	(51,933)	67,481	(71,907)	3,840	289	1,370,108	(52,230)	(3.7%)	13.6%
SERC	1,642,802	173,767	(5,098)	71,730	(35,817)	-	1,847,384	204,582	12.5%	0.3%
Texas RE	1,466,125	52,555	(26,916)	240,684	(82,788)	-	1,649,660	183,535	12.5%	0.0%
WECC	2,818,973	(347,750)	4,351	(11,957)	34,318	-	2,497,935	(321,038)	(11.4%)	7.6%
	\$ 26,391,310	\$ (2,070,728)	\$ 25,935	\$ (348,982)	\$ 72,279	\$ (51,072)	\$ 24,018,741	\$ (2,372,568)	(9.0%)	6.9%

- NERC was under budget \$1.8M (11.7%) primarily due to timing of costs versus the budget in contracts and consultant expenses, with a large part due to the CRISP third party subcontractor costs. The company expects to be over budget \$3.1M (10.4%) at year-end, mainly as a result of, 1) costs from the CRISP third party subcontractor for new program participants, replacement of equipment for existing program participants, costs for OT pilot projects (funded by the CRISP Special Projects Reserve), and cloud-based ISDs project costs (funded by CRISP Operating Reserves), 2) the need for two IT security contractors that were not budgeted (which will be partially funded by the deferral of FTEs in other departments) and, 3) increased costs for liability insurance.
- MRO was under budget \$284k (14.7%), which is attributable to a combination of timing and reduced spending in consultants and contracts, office rent, and office costs as MRO realizes the impact of its hybrid work environment. The company expects to be 5% under budget at year-end.
- NPCC was under budget \$328k (17.0%) predominately due to the timing of contract expenses and lower than budgeted IT expenses. The company expects to be \$57k (1.4%) under budget at year-end.
- RF was under budget \$52k (3.7%) primarily due to the timing of IT projects that differed from budget, partially offset by increased rent and utilities related to an office expansion and extension. The company expects to be over budget \$387k (13.6%) at year end primarily due to unbudgeted IT and security enhancements, and the office expansion and extension mentioned above.
- SERC was over budget \$204k (12.5%) primarily because contractor and consulting expertise used to provide support in IT while filling open positions. The company expects to be slightly over budget \$10k at year-end due to planned deferrals on certain IT projects.
- Texas RE was over budget \$183k (12.5%). A compensation study completed earlier in the year and an unbudgeted IT Leadership Team Cross Function consultant is causing a 34.8% variance in

Consultants and Contracts. Professional services are less than budget 27.4% due to unused legal fees and an external IT audit that has been delayed.

- WECC was under budget \$321k (11.4%) primarily due to the net of timing of IT consulting and modeling enhancement consulting budgeted for in 2021 but completed in early 2022. The company expects to be over budget \$397k (7.6%) at year-end primarily due to the procurement of the PI Historian Database system (funded with Peak Reliability Donation funds), unbudgeted consulting for knowledge transfer efforts on protection and controls standards, and higher-than-anticipated insurance premiums.

Indirect Expense Allocation

NPCC and WECC allocate overhead expenses to their non-statutory functions. Through the second quarter, NPCC allocated \$38k (21.0%) less than budgeted and WECC allocated \$9k (2.5%) more than budgeted. At year-end, NPCC expects to allocate as budgeted and WECC expects to allocate \$86k (12.4%) more than budgeted.

Fixed Asset (Capital) Additions

For the ERO Enterprise, fixed asset (capital) additions were under budget \$1.4M (52.4%). The year-end projection for the ERO Enterprise is to be under budget \$695k (11.3%). Significant variances are explained below.

Entity	Fixed Asset Additions							
			Over (Under)				Over (Under)	
	2022 YTD Actual	2022 YTD Budget	\$	%	2022 Year-End Projected	2022 Year-End Budgeted	\$	%
NERC	\$ 572,889	\$ 2,459,375	\$ (1,886,486)	(76.7%)	\$ 3,558,702	\$ 4,918,750	\$ (1,360,048)	(27.7%)
MRO	95,373	62,500	32,873	52.6%	361,225	125,000	236,225	189.0%
NPCC	161,077	55,575	105,502	189.8%	161,077	111,150	49,927	44.9%
RF	88,274	70,000	18,274	26.1%	110,000	120,000	(10,000)	(8.3%)
SERC	310,021	-	310,021	0.0%	650,000	264,000	386,000	146.2%
Texas RE	-	-	-	0.0%	512,000	512,000	-	0.0%
WECC	64,557	69,594	(5,037)	(7.2%)	114,557	111,914	2,643	2.4%
	\$ 1,292,191	\$ 2,717,044	\$ (1,424,853)	(52.4%)	\$ 5,467,561	\$ 6,162,814	\$ (695,253)	(11.3%)

- NERC was under budget \$1.9M (76.7%) primarily as a result of timing of costs versus the budget for capital lease assets related to new equipment leases and also IT equipment and servers and also because of leasehold improvements and office furniture budgeted for a new Atlanta office that did not materialize. The company expects to be under budget \$1.4M (27.7%) at year-end, mainly because of the aforementioned leasehold improvements and office furniture and also due to lower than budgeted capital lease assets for new equipment leases.
- MRO was over budget \$33k (52.6), which is due to the completion of a prior year budgeted AV project that was impacted by supply chain issues. The company expects to be over budget \$236k (189%) at year end. Projected year-end underage from other budget areas should cover this over spend, however, working capital savings from the prior year is available to cover this cost should year-end actuals exceed projections.

- NPCC was over budget \$106k (189.8%) due to the timing of planned software development projects. The company expects to be \$50k (44.9%) over budget at year-end. Over budget fixed asset additions are offset by lower than budgeted IT operating expenses.
- RF was over budget \$18k (26.1%) due to the difference in timing of when projects were budgeted and when they are completed. The company expects to be \$10K (8.3%) under budget at year end.
- SERC was over budget \$310k due to the ongoing Member Portal project. The company expects to be over budget \$386k (146.21%) at year-end due to completion of the Member Portal Consolidation project.
- WECC was under budget \$5k (7.2%) primarily due to timing of IT refreshes. The company expects to be over budget \$3k (2.4%) at year-end.

Net Financing Activity

NERC is the only entity in the ERO Enterprise with financing activity, consisting of loan borrowing, lease financing, and principal debt service repayment for major ERO software projects, such as Align and the ERO Secure Evidence Locker (SEL), and leased audio visual and IT equipment.

Net financing activity is over budget by \$864k (157.0%), which means NERC made more principal payments than borrowings, due to timing differences on new equipment leases. The company is projected to be slightly over budget by \$159k (14.4%) at year-end.

Total ERO Enterprise Reserves

Prior to 2021, this report focused on the analysis and reporting of Working Capital and Operating Contingency Reserve based on information submitted on the Statement of Activities included in the Regional Entity Quarterly Variance Reports. However, since NERC and some of the Regional Entities have established additional reserve categories, including assessment stabilization reserves and future obligation reserves, reporting has been expanded to include the following three categories of reserves:

- **Working Capital and Operating Contingency Reserves (WCOCR)** – Includes excess working capital reserves and operating contingency reserves. These reserves typically have a policy target range.
- **Assessment Stabilization Reserves (ASR) and Unreleased Penalties** – Includes funds from penalties received but not yet released against assessments, and other surplus funds designated by the entity, to help reduce the volatility of future year assessments. Note that penalties received but not released are subject to timing of when they can be released to offset assessments as determined by the Rules of Procedure, with some exceptions provided with the proper request and filing of the entity's annual Business Plan and Budget as approved by FERC.
- **Other Reserves** – Includes funds set aside for a specific purpose and will offset future budgeted expense items.

2022 Total Reserve Summary

The ERO Enterprise began the year with \$77.3M in total reserves, including \$43.1M in WCOCR, \$25.5M in ASR and Unreleased Penalties, and \$8.7M in Other Reserves.

The ERO Enterprise projects to end the year with \$86.4M in total reserves, including \$42.0M in WCOCR, \$35.5M in ASR and Unreleased Penalties, and \$8.9M in Other Reserves. The projected WCOCR for the end of the year is 18.8% of the 2022 ERO Enterprise combined budget, or 2.3 months of operating expenses. The projected total reserves for the end of the year represents 38.8% of the 2022 ERO Enterprise combined budget, or 4.7 months of operating expenses.

The table below provides a summary of the reserve categories at the beginning of the year and projected year-end.

ERO Enterprise Total Reserve Balances - 2022 Projected

\$ - millions

Entity	Beginning WCOCR ⁽¹⁾	Beginning ASR ⁽²⁾ & Unreleased Penalties	Beginning Other Reserves	1/1/2022 Beginning Total Reserves	Projected Ending WCOCR ⁽¹⁾	Projected Ending ASR ⁽²⁾ & Unreleased Penalties	Projected Ending Other Reserves	12/31/2022 Projected Ending Total Reserves	Total 2022 Budget	% of Reserves to 2022 Total Budget
NERC	\$ 8.7	\$ 2.5	\$ 4.9	\$ 16.1	\$ 8.5	\$ 2.5	\$ 5.3	\$ 16.3	\$ 88.8	18.4%
MRO	5.2	3.2	-	8.4	4.1	2.7	-	6.8	18.3	37.2%
NPCC	7.0	0.5	-	7.5	6.2	0.5	-	6.7	17.5	38.3%
RF	7.7	5.3	-	13.0	8.5	3.8	-	12.3	26.9	45.7%
SERC	2.8	5.4	-	8.2	2.2	5.4	-	7.6	26.0	29.2%
Texas RE	2.0	1.9	-	3.9	1.3	0.7	-	2.0	15.6	12.8%
WECC	9.7	6.7	3.8	20.2	11.2	19.9	3.6	34.7	29.7	116.7%
	\$ 43.1	\$ 25.5	\$ 8.7	\$ 77.3	\$ 42.0	\$ 35.5	\$ 8.9	\$ 86.4	\$ 222.8	38.8%

⁽¹⁾ WCOCR - Working Capital & Operating Contingency Reserve - Projected 12/31/22 WCOCR is 18.8% of annual 2022 budget, or 2.3 months of budgeted expenses

⁽²⁾ ASR - Assessment Stabilization Reserve

⁽³⁾ Projected 12/31/22 total reserve balance is 38.8% of annual 2022 budget, or 4.7 months of budgeted operating expenses

The table below provides a summary of the projected year-end reserve balances compared to the budgeted year-end reserve balances. The projected total year-end reserve balance for the ERO Enterprise of \$86.4M is \$41.0M higher than the budgeted total year-end reserve balance of \$45.4M. A significant portion of the unbudgeted increase is due to penalty collections by the regions in 2022, with some of the remaining difference due to higher than budgeted reserve balances at the beginning of the year.

2022 ERO Enterprise Year-End Projected versus Budgeted Reserves

\$ - millions

Entity	Projected Ending WCOCR ⁽¹⁾	Projected Ending ASR ⁽²⁾ & Unreleased Penalties	Projected Ending Other Reserves	Projected Ending Total Reserves	Budgeted Ending WCOCR ⁽¹⁾	Budgeted Ending ASR ⁽²⁾ & Unreleased Penalties	Budgeted Ending Other Reserves	Budgeted Ending Total Reserves	Over/(Under) Ending WCOCR ⁽¹⁾	Over/(Under) Ending ASR ⁽²⁾ & Unreleased Penalties	Over/(Under) Ending Other Reserves	Over/(Under) Total Reserves
NERC	\$ 8.5	\$ 2.5	\$ 5.3	\$ 16.3	\$ 4.3	\$ 2.5	\$ 1.9	\$ 8.7	\$ 4.2	\$ -	\$ 3.4	\$ 7.6
MRO	4.1	2.7	-	6.8	4.4	0.9	-	5.3	(0.3)	1.8	-	1.5
NPCC	6.2	0.5	-	6.7	3.8	0.4	-	4.2	2.4	0.1	-	2.5
RF	8.5	3.8	-	12.3	7.7	-	-	7.7	0.8	3.8	-	4.6
SERC	2.2	5.4	-	7.6	1.6	2.2	-	3.8	0.6	3.2	-	3.8
Texas RE	1.3	0.7	-	2.0	1.3	1.3	-	2.6	-	(0.6)	-	(0.6)
WECC	11.2	19.9	3.6	34.7	9.7	-	3.4	13.1	1.5	19.9	0.2	21.6
	\$ 42.0	\$ 35.5	\$ 8.9	\$ 86.4	\$ 32.8	\$ 7.3	\$ 5.3	\$ 45.4	\$ 9.2	\$ 28.2	\$ 3.6	\$ 41.0

⁽¹⁾ WCOCR - Working Capital & Operating Contingency Reserve

⁽²⁾ ASR - Assessment Stabilization Reserve

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

Total ERO Enterprise Summary of Unaudited Results as of June 30, 2022

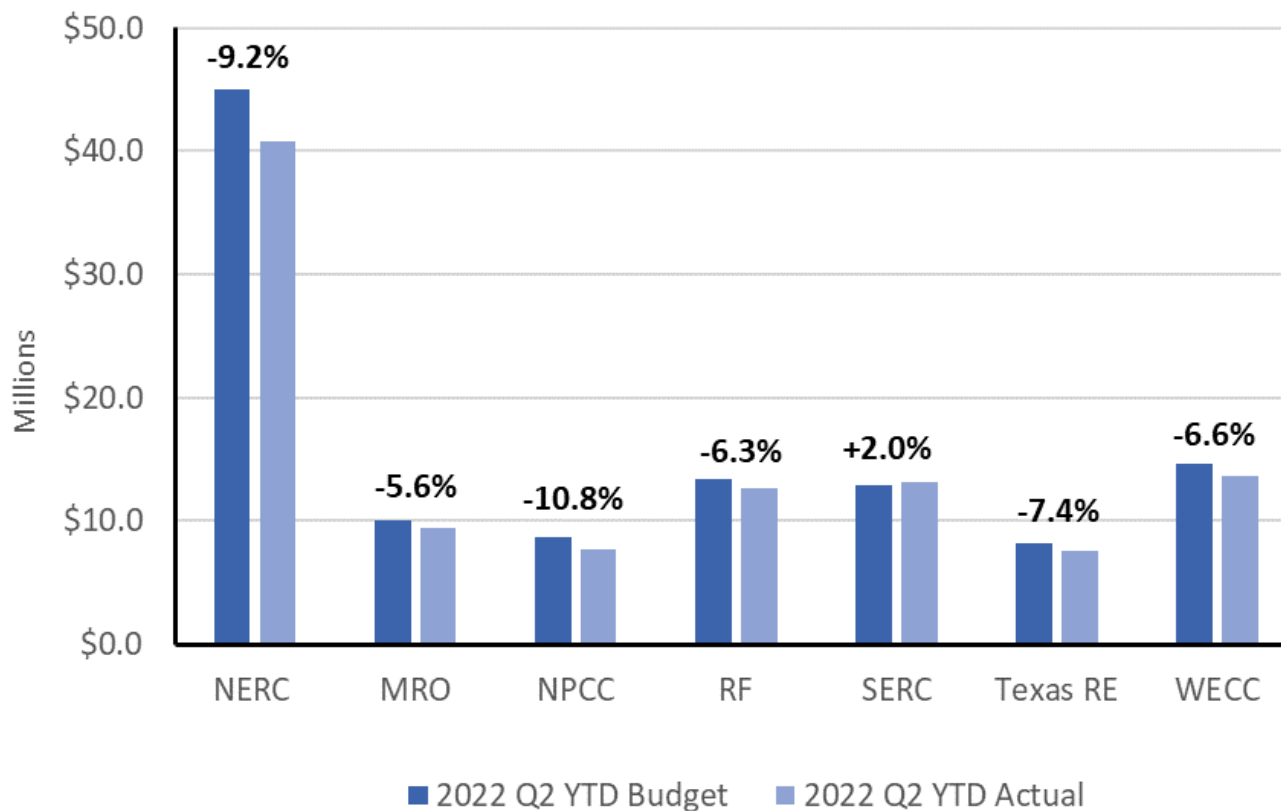
Agenda Item 2a

Andy Sharp, Vice President and Chief Financial Officer
Finance and Audit Committee Meeting
August 17, 2022

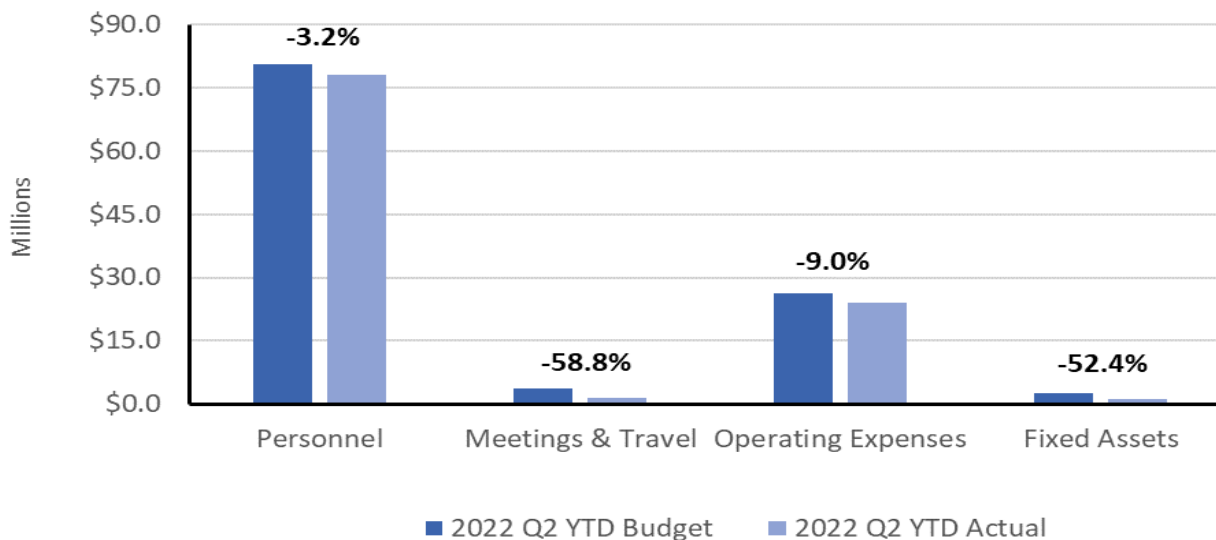
RELIABILITY | RESILIENCE | SECURITY



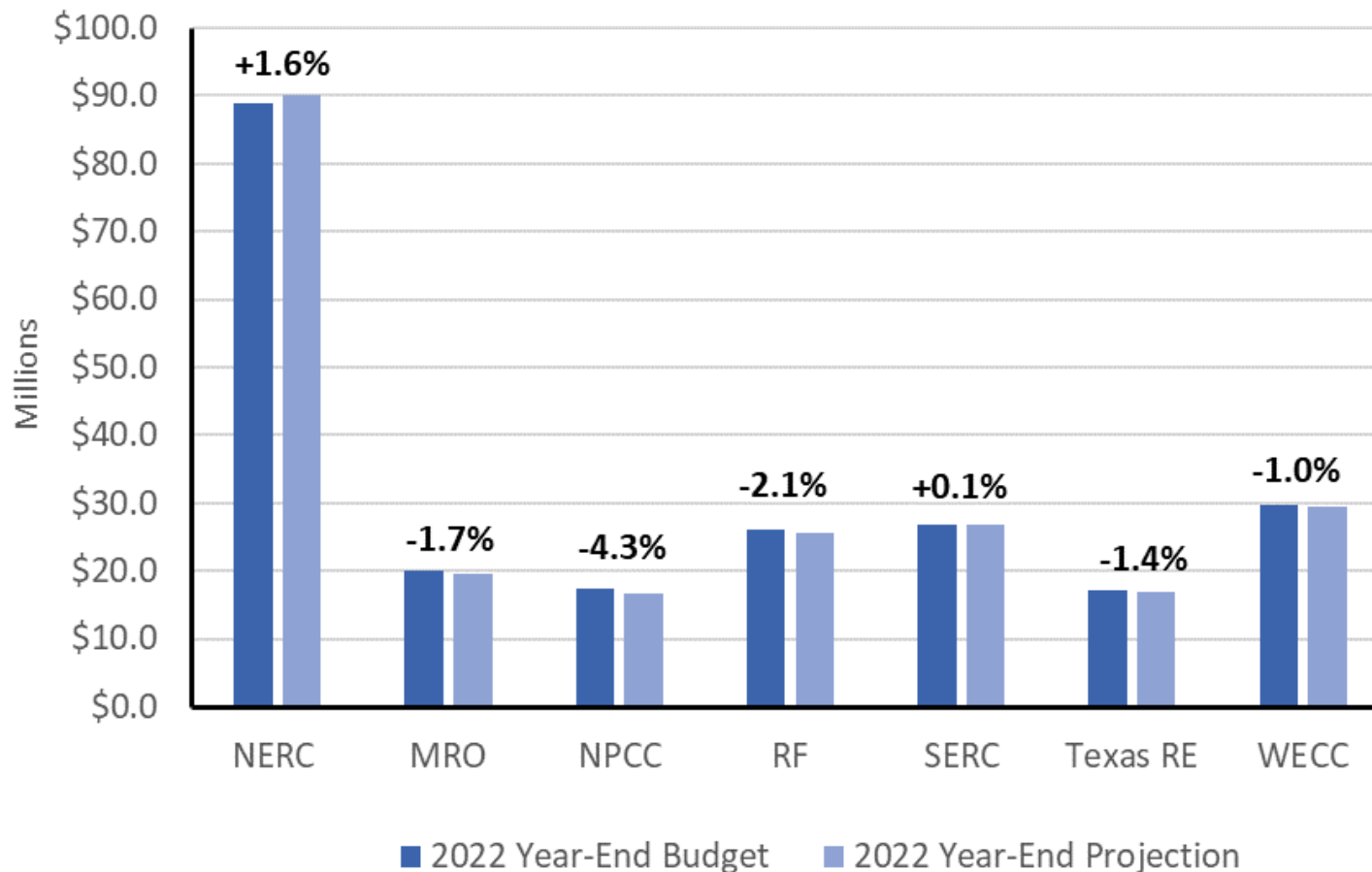
- Total expenditures for the ERO Enterprise were under budget \$7.8M (6.9%)

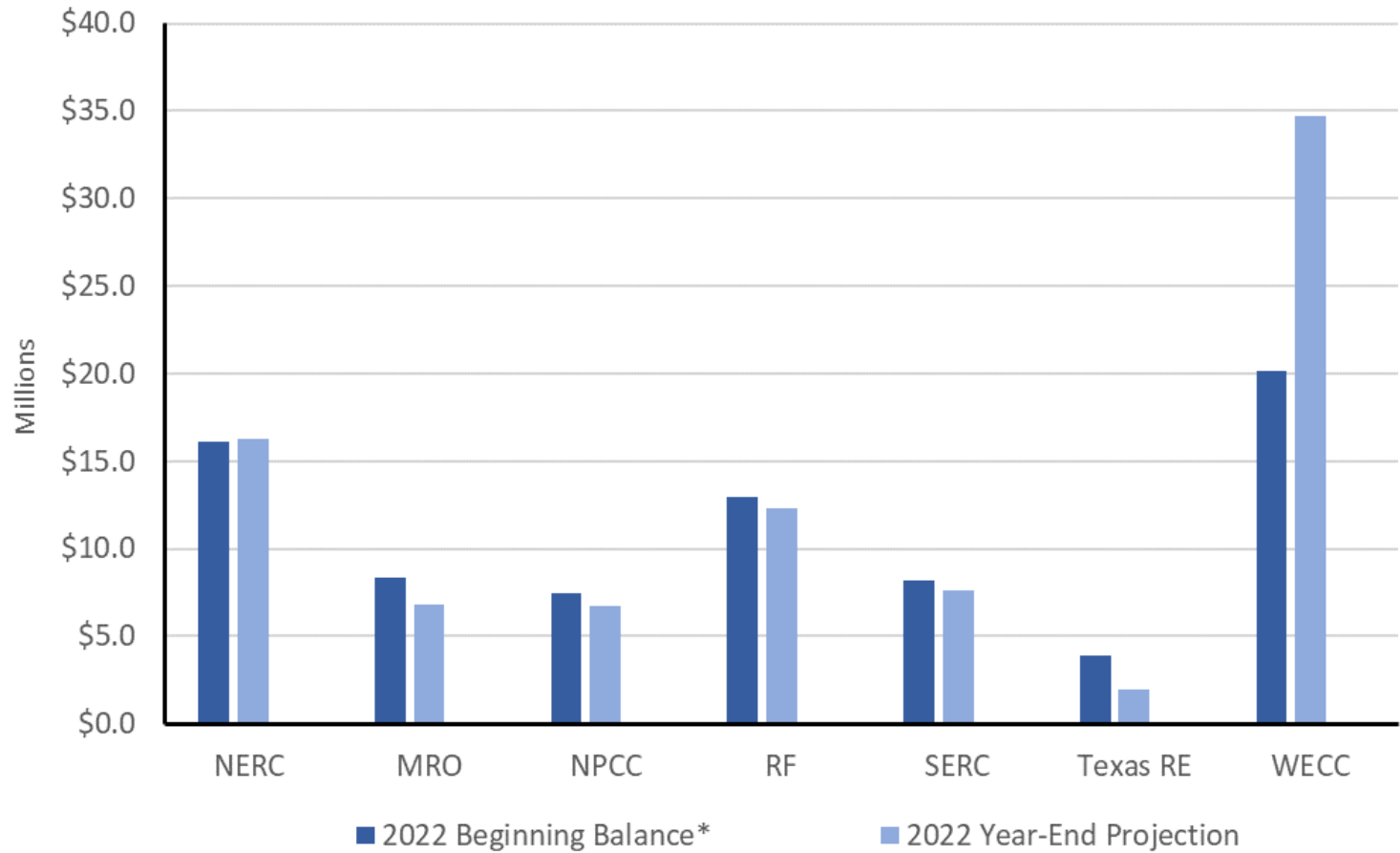


- Personnel – All entities were under budget
- Meetings & Travel – All entities were under budget
- Operating Expenses – All entities were under budget except SERC and Texas RE
- Fixed Assets – NERC and WECC were under budget. MRO, NPCC, RF, and SERC were over budget. Texas RE had no budgeted or actual expenditures through Q2



- The ERO Enterprise expects to be under budget \$760k (0.3%) at year-end





**Adjusted for audited results*

ERO Enterprise Total Reserve Balances - 2022 Projected

\$ - millions

Entity	Beginning WCOCR ⁽¹⁾	Beginning ASR ⁽²⁾ & Unreleased Penalties	Beginning Other Reserves	1/1/2022 Beginning Total Reserves	Projected Ending WCOCR ⁽¹⁾	Projected Ending ASR ⁽²⁾ & Unreleased Penalties	Projected Ending Other Reserves	12/31/2022 Projected Ending Total Reserves	Total 2022 Budget	% of Reserves to 2022 Total Budget
NERC	\$ 8.7	\$ 2.5	\$ 4.9	\$ 16.1	\$ 8.5	\$ 2.5	\$ 5.3	\$ 16.3	\$ 88.8	18.4%
MRO	5.2	3.2	-	8.4	4.1	2.7	-	6.8	18.3	37.2%
NPCC	7.0	0.5	-	7.5	6.2	0.5	-	6.7	17.5	38.3%
RF	7.7	5.3	-	13.0	8.5	3.8	-	12.3	26.9	45.7%
SERC	2.8	5.4	-	8.2	2.2	5.4	-	7.6	26.0	29.2%
Texas RE	2.0	1.9	-	3.9	1.3	0.7	-	2.0	15.6	12.8%
WECC	9.7	6.7	3.8	20.2	11.2	19.9	3.6	34.7	29.7	116.7%
	\$ 43.1	\$ 25.5	\$ 8.7	\$ 77.3	\$ 42.0	\$ 35.5	\$ 8.9	\$ 86.4	\$ 222.8	38.8%

⁽¹⁾ WCOCR - Working Capital & Operating Contingency Reserve - Projected 12/31/22 WCOCR is 18.8% of annual 2022 budget, or 2.3 months of budgeted expenses

⁽²⁾ ASR - Assessment Stabilization Reserve

⁽³⁾ Projected 12/31/22 total reserve balance is 38.8% of annual 2022 budget, or 4.7 months of budgeted operating expenses

2022 Projected Ending Reserves & Budgeted Ending Reserves

2022 ERO Enterprise Year-End Projected versus Budgeted Reserves

\$ - millions

Entity	Projected Ending WCOCR ⁽¹⁾	Projected Ending ASR ⁽²⁾ & Unreleased Penalties	Projected Ending Other Reserves	Projected Ending Total Reserves	Budgeted Ending WCOCR ⁽¹⁾	Budgeted Ending ASR ⁽²⁾ & Unreleased Penalties	Budgeted Ending Other Reserves	Budgeted Ending Total Reserves	Over/(Under) Ending WCOCR ⁽¹⁾	Over/(Under) Ending ASR ⁽²⁾ & Unreleased Penalties	Over/(Under) Ending Other Reserves	Over/(Under) Total Reserves
NERC	\$ 8.5	\$ 2.5	\$ 5.3	\$ 16.3	\$ 4.3	\$ 2.5	\$ 1.9	\$ 8.7	\$ 4.2	\$ -	\$ 3.4	\$ 7.6
MRO	4.1	2.7	-	6.8	4.4	0.9	-	5.3	(0.3)	1.8	-	1.5
NPCC	6.2	0.5	-	6.7	3.8	0.4	-	4.2	2.4	0.1	-	2.5
RF	8.5	3.8	-	12.3	7.7	-	-	7.7	0.8	3.8	-	4.6
SERC	2.2	5.4	-	7.6	1.6	2.2	-	3.8	0.6	3.2	-	3.8
Texas RE	1.3	0.7	-	2.0	1.3	1.3	-	2.6	-	(0.6)	-	(0.6)
WECC	11.2	19.9	3.6	34.7	9.7	-	3.4	13.1	1.5	19.9	0.2	21.6
	\$ 42.0	\$ 35.5	\$ 8.9	\$ 86.4	\$ 32.8	\$ 7.3	\$ 5.3	\$ 45.4	\$ 9.2	\$ 28.2	\$ 3.6	\$ 41.0

⁽¹⁾ WCOCR - Working Capital & Operating Contingency Reserve

⁽²⁾ ASR - Assessment Stabilization Reserve



Questions and Answers



Lam Chung, Corporate Treasurer

P: 651.256.5187

F: 651.855.1712

E: lam.chung@mro.net

July 20, 2022

Mr. Andy Sharp
North American Electric Reliability Corporation (NERC)

RE: Unaudited Midwest Reliability Organization (MRO) 2022 Second Quarter Statement of Activity –
Cash Flow through June 30, 2022

Dear Mr. Sharp:

MRO experienced variances greater than \$10,000 and 10 percent. Second quarter results indicate that MRO's budget is under spent by 5.6 percent.

Meeting Expenses (Variance of \$262,322 (69.0%) under budget)

Meetings and travel began to increase in the second quarter. MRO uses a hybrid approach to conduct meetings resulting in fewer in-person attendees.

Operating Expenses (Variance of \$284,104 (14.7%) under budget)

Consultants and contracts are under budget by 15.4 percent; however, this is primarily a result of timing as contracts renew late third quarter. Also, MRO's hybrid approach to office operations as staff works remotely and in-office reduces the cost to maintain onsite operations. Office costs are 14 percent under budget through the second quarter as MRO realizes the impact of its hybrid work environment.

Fixed Assets (Variance of \$32,873 (52.6%) over budget)

A budgeted AV project from the prior year was incomplete. Currently, budget under spend in other areas offset the over spend in fixed assets. Completion of that project is estimated to result in a 189 percent over spend in fixed assets for the year. Year-end underage from other budget areas should cover this over spend, however, working capital savings from the previous year are available to cover this cost should year-end actuals exceed projections.

Budget Outlook

The 2022 budget anticipates under budget performance of 1.7 percent mainly a result of under spent meeting and travel costs. Personnel costs are projected to be within 0.1% of budget. Timing of retirements, turnover, and new hires is the cause of the minor variance. Operating expenses projects a 5 percent under spend driven by consulting and contracts, office costs, and rent trending lower than budget while professional services is anticipated to be slightly over budget. Fixed Assets project over spend of 189 percent. Year-end underage from other budget areas should cover this over spend, however, working capital savings from the previous year are available to cover this cost should year-end actuals exceed projections.

If you have any questions regarding this report, please contact me. Thank you.



Lam Chung
Vice President and Engineer for Strategy, Innovation, and Finance

Cc: Sara Patrick, MRO President and CEO



**Midwest Reliability Organization
Statement of Activity
6/30/2022
PRELIMINARY (Unaudited)**

(In Whole Dollars)

	2022 YTD Actual	2022 YTD Budget	2022 YTD Variance	%	Projected 2022 End Of Year	2022 Budget	2022 Variance	%
Funding								
ERO Funding								
ERO Assessments	\$ 8,916,207	\$ 8,916,207	-		\$ 17,832,414	\$ 17,832,414	-	
Penalty Sanctions	229,125	229,125	-		458,250	458,250	-	
A. Total ERO Funding	\$ 9,145,333	\$ 9,145,332	\$ -		\$ 18,290,664	\$ 18,290,664	\$ -	
Expenses								
Personnel Expenses								
Salaries	\$ 5,722,803	\$ 5,708,281	14,522		\$ 11,452,845	\$ 11,416,561	36,284	
Payroll Taxes	354,321	372,083	(17,762)		765,467	744,166	21,301	
Benefits	622,984	596,998	25,986		1,140,766	1,193,996	(53,230)	
Retirement Costs	895,098	961,129	(66,031)		1,902,103	1,922,258	(20,155)	
Total Personnel Expenses	\$ 7,595,207	\$ 7,638,491	\$ (43,284)	-0.6%	\$ 15,261,181	\$ 15,276,981	\$ (15,800)	-0.1%
Meeting Expenses								
Meetings & Conference Calls	\$ 53,076	\$ 89,439	(36,363)		\$ 116,270	\$ 178,877	(62,607)	
Travel	64,876	290,835	(225,959)		290,835	581,670	(290,835)	
Total Meeting Expenses	\$ 117,951	\$ 380,274	\$ (262,322)	-69.0%	\$ 407,105	\$ 760,547	\$ (353,442)	-46.5%
Operating Expenses								
Consultants & Contracts	\$ 509,757	\$ 602,400	(92,643)		\$ 1,084,320	\$ 1,204,800	(120,480)	
Office Rent	512,302	566,050	(53,748)		1,084,963	1,132,100	(47,137)	
Office Costs	416,294	483,967	(67,673)		900,179	967,934	(67,755)	
Professional Services	213,460	283,500	(70,040)		595,350	567,000	28,350	
Total Operating Expenses	\$ 1,651,813	\$ 1,935,917	\$ (284,104)	-14.7%	\$ 3,664,812	\$ 3,871,834	\$ (207,022)	-5.3%
Total Direct Expenses	\$ 9,364,971	\$ 9,954,681	\$ (589,710)	-5.9%	\$ 19,333,098	\$ 19,909,362	\$ (576,264)	-2.9%
Indirect Expenses								
Other Non-Operating Expenses	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	
B. Total Expenses	\$ 9,364,971	\$ 9,954,681	\$ (589,710)		\$ 19,333,098	\$ 19,909,362	\$ (576,264)	
Net Funding less Expenses (A-B)	\$ (219,638)	\$ (809,349)	\$ 589,710		\$ (1,042,434)	\$ (1,618,698)	\$ 576,264	
C. Fixed Asset Additions, excluding Right of Use Assets	\$ 95,373	\$ 62,500	\$ 32,873	52.6%	\$ 361,225	\$ 125,000	\$ 236,225	189.0%
Total Budget (B + C)	\$ 9,460,344	\$ 10,017,181	\$ (556,837)	-5.6%	\$ 19,694,323	\$ 20,034,362	\$ (340,039)	-1.7%
Change in Working Capital (A-B-C)	\$ (315,011)	\$ (871,849)	\$ 556,837		\$ (1,403,659)	\$ (1,743,698)	\$ 340,039	
Head Count	69.00	71.00	(2.00)		71.00	71.00	-	
FTEs	66.33	71.00	(4.67)		71.00	71.00	-	
Reserve Activity:								
Beginning Reserves - 1/1/22	\$ 8,377,927	\$ 7,541,460	\$ 836,467		\$ 8,377,927	\$ 7,541,460	\$ 836,467	
Change to Working Capital	(315,011)	(871,849)	556,838		(1,403,659)	(1,743,698)	340,039	
Penalties Received	-	-	-		273,100	-	273,100	
Penalties Released	(229,125)	(229,125)	-		(458,250)	(458,250)	-	
Other Reserve Activity	-	-	-		-	-	-	
Ending Reserves at 6/30/22 :	\$ 7,833,791	\$ 6,440,486	\$ 1,393,305		\$ 6,789,118	\$ 5,339,512	\$ 1,449,606	
Reserve Summary	1/1/2022	Additions	Uses/Transfer	12/31/2022				
Working Capital & Operating Contingency	3,752,946	340,039	-	4,092,985				
Assessment Stabilization & Penalty Reserves	4,624,981	273,100	(2,201,948)	2,696,133				
Other Reserve Activity	-	-	-	-				
Total Reserves	8,377,927	613,139	(2,201,948)	6,789,118				



July 19, 2022

North American Electric Reliability Corporation
3353 Peachtree Road NE
Suite 600, North Tower
Atlanta, GA 30326
Attention: Mr. Andy Sharp

Subject: NPCC Regional Entity Division Variance Comparison and
Second Quarter 2022 Statement of Activities

Dear Andy:

The variance comparison for the period ended June 30, 2022 is included along with Northeast Power Coordinating Council, Inc.'s unaudited Second Quarter 2022 Statement of Activities.

Please do not hesitate to contact me via email at jhala@npcc.org or (646) 632-7071 should you have any comments or questions with regard to the materials provided.

Sincerely,

Jessica Hala

Jessica Hala
Vice President, Finance

Enclosures

cc: Mr. Charles Dickerson – NPCC President & CEO
Mr. Christopher Weir, CPA – NPCC Treasurer
ERO Finance Group



**NPCC Regional Entity Division
Budget to Actual
Variance Comparison as of June 30, 2022**

TOTAL EXPENSES

For the quarter ending June 30, 2022, the NPCC Regional Entity Division is \$929k or 10.8% under budget year to date. Based on planned activities, NPCC's current full year projection (FYP) is an under budget variance of \$753k or 4.3%. It is anticipated that projections will change throughout 2022 and will be updated in quarterly variance reports. NPCC will reprioritize resources as necessary to fulfill all of its responsibilities under its Regional Delegation Agreement, agreements and memorandums of understanding respecting Canadian Provinces, and the NPCC Bylaws.

INCOME

- **Penalty Sanctions** (Penalties released of \$201k were applied to reduce 2022 assessments to NPCC U.S. load serving entity designees.) Penalty sanctions remitted are included in NPCC's Assessment Stabilization Reserve (ASR) to be applied to future budget years to reduce assessments to NPCC U.S. load serving entity designees. Penalties are reported in NPCC's audited financial statements in accordance with GAAP.
- **Workshop Fees** (As budgeted year-to-date and \$11k under budget FYP)
NPCC will host one in-person workshop in the fall of 2022. The workshop will be offered in a hybrid format with in-person and virtual participation options available. Workshop fees are projected to be lower than budgeted due to some virtual participation. Fees are only charged for in-person attendance at workshops in order to offset the associated expenses. There are no fees collected for virtual attendance.
- **Interest & Investment Income** (Actual income of \$2k year-to-date and \$23k under budget FYP)
Interest & investment income is earned from the investment of excess operating cash in a 100% U.S. Treasury Securities money market fund. NPCC allocated \$2k as a portion of total interest income (94%) to the Regional Entity Division consistent with the ratio of Regional Entity (RE) to Criteria Services (CS) Division 2022 funding. A common system of accounts, with divisional separation, is used for both RE and CS revenue tracking and financial reporting.

EXPENSES

- **Personnel Expenses** (Variance of \$467k under budget year-to-date and \$532k under budget FYP)
NPCC is currently recruiting to retain qualified technical individuals to fill open positions. In the interim, current responsibilities of any open positions are being addressed through resource re-allocations among the existing workforce. The under budget full year projection is based on planned onboarding dates for new hires and lower than budgeted increases in medical insurance premiums.



- **Meeting Expenses** (Variance of \$277k under budget year-to-date and \$214k under budget FYP)
Under budget variance resulted from continued in-person meeting and travel limitations due to the COVID-19 pandemic. Meetings and travel expenses are projected to increase throughout the year as a result of a measured return to meeting in-person. Some meetings will continue to be held in virtual or hybrid format to allow for remote participation and greater access.
- **Consultants and Contracts** (Variance of \$222k under budget year-to-date and as budgeted FYP)
Under budget variance is due to timing. The full year projection continues to be as budgeted.
- **Office Costs** (Variance of \$110k under budget year-to-date and \$60k under budget FYP)
Under budget variance is due to several IT software contracts and license renewals negotiated lower than budgeted and due to timing. Under budget IT costs are offset by over budget increase in fixed assets related to software development projects.
- **Professional Services** (Variance of \$74k over budget year-to-date and \$50k over budget FYP)
Over budget variance is due to higher than budgeted audit fees related to additional work required to complete the 2021 audit, an unbudgeted actuarial valuation of a retiree benefit plan and higher than budgeted liability insurance premiums.
- **Fixed Assets** (Variance of \$106k over budget year to date and \$50k over budget FYP)
Year to date over budget variance is due to software development projects, which include website enhancements and the implementation of an enterprise risk management system. The overage is offset by lower than budgeted IT office costs.

(Unaudited)

Submitted July 19, 2022



Northeast Power Coordinating Council, Inc. - Regional Entity Division
Statement of Activities, Fixed Assets and Change in Working Capital
(Unaudited)

For the Period Ended June 30, 2022

	2022 YTD Actual	2022 YTD Budget	2022 YTD Actual Variance from Budget Over(Under)	%	2022 Projection	2022 Annual Budget	2022 Projection Variance from Budget Over(Under)	%
Funding								
Assessments	7,956,156	7,956,156	-		15,912,313	15,912,313	-	
Penalties Released*	201,132	201,132	-		201,132	201,132	-	
Testing	-	-	-		-	-	-	
Services & Software	-	-	-		-	-	-	
Workshop Fees	-	-	-		22,500	33,750	(11,250)	
Interest & Investment Income	1,708	14,233	(12,524)		6,000	28,465	(22,465)	
Total Funding	8,158,996	8,171,521	(12,524)	-0.2%	16,141,945	16,175,660	(33,715)	-0.2%
Expenses								
Personnel Expenses								
Salaries	4,267,932	4,536,204	(268,272)		8,825,235	9,072,408	(247,173)	
Payroll Taxes	349,856	347,620	2,235		592,019	595,815	(3,796)	
Employee Benefits	945,110	1,117,369	(172,259)		2,058,244	2,234,738	(176,494)	
Savings & Retirement	492,146	520,703	(28,557)		937,021	1,041,405	(104,384)	
Total Personnel Expenses	6,055,043	6,521,896	(466,852)	-7.2%	12,412,519	12,944,366	(531,847)	-4.1%
Meeting Expenses								
Meetings & Conference Calls	4,677	102,190	(97,513)		122,000	230,600	(108,600)	
Travel	22,600	202,229	(179,629)		400,460	505,572	(105,112)	
Total Meeting Expenses	27,277	304,419	(277,142)	-91.0%	522,460	736,172	(213,712)	-29.0%
Operating Expenses, excluding Depreciation								
Consultants & Contracts	198,288	419,825	(221,537)		839,650	839,650	-	
Rent & Improvements	404,006	453,071	(49,064)		884,141	906,141	(22,000)	
Office Costs	498,992	609,035	(110,044)		1,158,071	1,218,071	(60,000)	
Professional Services	502,473	428,100	74,373		1,067,000	1,017,000	50,000	
Miscellaneous	3,438	25,500	(22,062)		26,000	51,000	(25,000)	
Total Operating Expenses	1,607,197	1,935,531	(328,334)	-17.0%	3,974,862	4,031,862	(57,000)	-1.4%
Indirect Expense Allocation	(141,664)	(179,208)	37,544	-21.0%	(358,417)	(358,417)	-	0.0%
Other Non-Operating Expenses	-	-	-	n/a	-	-	-	n/a
Total Expenses	7,547,853	8,582,637	(1,034,784)	-12.1%	16,551,424	17,353,983	(802,559)	-4.6%
Change in Net Assets	611,143	(411,116)	1,022,260	-248.7%	(409,479)	(1,178,323)	768,844	-65.2%
Fixed Asset Additions, excluding Right of Use Assets	161,077	55,575	105,502	189.8%	161,077	111,150	49,927	44.9%
Net Financing Activity	-	-	-	n/a	-	-	-	n/a
Total Budget (Expenses plus Fixed Assets and Net Financing Activity)	7,708,930	8,638,212	(929,282)	-10.8%	16,712,501	17,465,133	(752,632)	-4.3%
Change in Working Capital (Total Funding less Total Budget)	450,066	(466,691)	916,758	-196.4%	(570,556)	(1,289,473)	718,917	-55.8%
Equivalent Full Time Employees	42.90	47.90	(5.00)		45.98	49.90	(3.92)	
Headcount	44.00	50.00	(6.00)		54.00	52.00	2.00	
Beginning Total Reserves - 1/1/22	7,452,044	6,179,595	1,272,449		7,452,044	6,179,595	1,272,449	
Change to Working Capital	450,066	(466,691)	916,758		(570,556)	(1,289,473)	718,917	
Penalties Received (+)	10,080	-	10,080		10,080	-	10,080	
Penalties Released (-)	(201,132)	(201,132)	-		(201,132)	(201,132)	-	
Other Reserve Activity	-	-	-		-	-	-	
Total Reserves at 12/31/22	7,711,058	5,511,772	2,199,287		6,690,436	4,688,990	2,001,446	
Reserve Balance Summary								
Working Capital & Operating Contingency Reserves	7,174,173	5,108,904	2,065,270		6,153,551	4,286,122	1,867,429	
Assessment Stabilization & Penalty Reserves	536,885	402,868	134,017		536,885	402,868	134,017	
Other Reserves	-	-	-		-	-	-	
Total Projected Reserve Balance at 12/31/22	7,711,058	5,511,772	2,199,287		6,690,436	4,688,990	2,001,446	

*Penalties Released reflect the designated amount of funds released to offset U.S. assessments. Actual penalties invoiced are reported in the audited financial statements as an increase in net assets in accordance with Generally Accepted Accounting Principles (GAAP).



Carol Baskey
Treasurer and Manager – Finance and Accounting
3 Summit Park Drive, Suite 600
Cleveland, OH 44131
Office: 216.503.0600
Carol.Baskey@rfirst.org

July 21, 2022

Mr. Andy Sharp
North American Electric Reliability Corporation
3353 Peachtree Road, N.E.
Suite 600, North Tower
Atlanta, Georgia 30326

ReliabilityFirst's 2022 2nd Quarter Statement of Activities Variance Report - Unaudited

Dear Mr. Andy Sharp:

As requested, the attached 2022 2nd Quarter Statement of Activities (unaudited) provides a comparison of budgeted and actual expenses relative to the 2022 ReliabilityFirst Corporation's Budget.

For more information, please contact me at 216.503.0600 or carol.baskey@rfirst.org.

Very truly yours,

RELIABILITYFIRST CORPORATION

Carol Baskey

Carol Baskey
Treasurer and Manager, Finance and Accounting

**RELIABILITY FIRST****ReliabilityFirst's 2022 2nd Quarter Statement of Activities Variance Report - Unaudited****Significant Variances**

For the quarter ending June 30, 2022 ReliabilityFirst Corporation is \$851K (6.3%) under budget. The major contributors to this variance are:

Budget Funding

- **Investment Income:** \$339K under budget for YTD
 - Investment Income is under budget due to a greater than anticipated decrease in value of the company's investment portfolio, primarily the result of unrealized losses.

Budget Expenses

- **Personnel Expenses**
 - **Salaries:** \$360K (4.4%) under budget for YTD
Salaries are under budget primarily as the result of personnel count that was below the approved staffing levels during the first half of the year.
 - **Employee Benefits:** \$75K (5.8%) under budget for YTD
Employee Benefits are under budget mainly due to variances in training and medical benefits. Training is under budget due to underutilized budgeted training, as a result of the cancellation of training activities due to the Covid 19 pandemic. Medical benefits are under budget due to personnel count that was below the approved staffing levels, along with employees selecting medical plans that differed from what was budgeted.
- **Meeting Expenses**
 - **Total Meeting Expenses:** \$314K (73%) under budget for YTD
Total meeting expenses are under budget due to the cancellation and reduction of meetings and travel activities as a result of the Covid 19 pandemic.
- **Operating Expenses**
 - **Contracts & Consultants:** \$52K (37%) under budget for YTD
Contracts and Consultants expense is under budget due to less than expected contract support primarily due to the timing of IT projects.
 - **Office Costs:** \$72K (12%) under budget for YTD.
Office costs are under budget primarily due to the difference in timing of laptop purchases and computer hardware and software projects compared to budget.
 - **Rent & Utilities:** \$67K (23%) over budget for YTD
Rent & Utilities were over budget primarily due to the 5th floor office expansion and lease extension.



RELIABILITY FIRST

- **Fixed Assets**

- **Computer Hardware & Software:** \$18K (26%) over budget for YTD
Computer Hardware & Software is over budget due to the difference in timing of when projects were budgeted and when they were completed.

FTE Count

- FTE Count is lower than budget primarily due to two positions that were unfilled as of the end of the period.

Reserves

- **Working Capital Reserve**

The Working Capital Reserve of \$6,743,577 will be utilized to satisfy projected cash flow for daily operations and to stabilize and minimize volatility in future years' assessments.

- **Operating Reserve**

The Operating Reserve of \$1,000,000 has been designated with the intention of providing for any unbudgeted and unexpected expenditures for the organization.

Year-End Projection

- **Expenses**

For the year-end projection ReliabilityFirst is \$563K (2.2%) under budget. The variances in Salaries are expected to be under for the remainder of the year due to several positions that were unfilled during the first half of the year. The variances in Employee Benefits, Meetings, and Travel are directly impacted by the Covid 19 pandemic, and these variances are expected to continue through the remainder of the year. Contracts & Consultants are expected to be over budget due to several unbudgeted security enhancements in the second half of the year. Rent and Utilities are expected to be over budget as the result of an unbudgeted office expansion and lease extension. Professional Services is projected to be over budget due to fees for an additional independent director approved by the board in May 2021. Office Costs and Computer Hardware & Software are predicted to be over budget due to a laptop replacement program impacting all employees in 2022, instead of half of the employees per budget.

- **FTE Count**

FTE count is projected to be slightly lower than budget due to the impact of several unfilled positions in the first half of the year.

- **Reserves**

Working Capital Reserve is projected to increase by \$0.6M and will be used to stabilize and minimize volatility in future years' assessments.



ReliabilityFirst Corporation
Statement of Activities, Fixed Assets and Change in Working Capital
(unaudited)
(in whole numbers)
From 01/01/2022 Through 06/30/2022

CONFIDENTIAL

2022 YTD Actual	2022 YTD Budget	YTD Variance Over/(Under)	% Variance		Total 2022 Projection	Total 2022 Budget	Total 2022 Projected Variance Over/(Under)	% Projected Variance
11,723,973	11,723,973	0	0.00%	Funding				
3,488,681	3,488,681	0	0.00%	Assessments	23,447,945	23,447,945	0	0.00%
(314,049)	25,000	(339,049)	-1356.20%	Penalties Released *	3,488,681	3,488,681	0	0.00%
2,100	0	2,100	0.00%	Investment Income	(289,049)	50,000	(339,049)	-678.10%
14,900,705	15,237,654	(336,949)	-2.21%	Miscellaneous Income	2,100	0	2,100	0.00%
				Total Funding	26,649,677	26,986,626	(336,949)	-1.25%
				Expenses				
				Personnel Expenses				
7,801,403	8,161,220	(359,817)	-4.41%	Salaries	15,848,949	16,274,245	(425,296)	-2.61%
579,902	622,368	(42,466)	-6.82%	Payroll Taxes	966,351	992,282	(25,931)	-2.61%
1,216,069	1,291,546	(75,477)	-5.84%	Employee Benefits	2,337,329	2,412,806	(75,477)	-3.13%
1,423,601	1,449,024	(25,423)	-1.75%	Savings & Retirement Costs	2,502,217	2,602,105	(99,888)	-3.84%
11,020,975	11,524,158	(503,183)	-4.37%	Total Personnel Expenses	21,654,846	22,281,438	(626,592)	-2.81%
				Meeting Expenses				
35,960	131,245	(95,285)	-72.60%	Meetings & Conference Calls	284,350	379,635	(95,285)	-25.10%
81,945	300,500	(218,555)	-72.73%	Travel	382,445	601,000	(218,555)	-36.37%
117,905	431,745	(313,840)	-72.69%	Total Meeting Expenses	666,795	980,635	(313,840)	-32.00%
				Operating Expenses				
86,817	138,750	(51,933)	-37.43%	Contracts & Consultants	564,941	448,874	116,067	25.86%
366,527	299,046	67,481	22.57%	Rent & Utilities	733,054	598,092	134,962	22.57%
510,722	582,629	(71,907)	-12.34%	Office Costs	1,210,388	1,110,388	100,000	9.01%
386,885	383,045	3,840	1.00%	Professional Services	667,765	631,765	36,000	5.70%
19,157	18,868	289	1.53%	Miscellaneous	48,735	48,735	0	0.00%
1,370,108	1,422,338	(52,230)	-3.67%	Total Operating Expenses	3,224,883	2,837,854	387,029	13.64%
0	0	0	0.00%	Non-Operating Expenses	0	0	0	0.00%
12,508,988	13,378,241	(869,253)	-6.50%	Total Expenses	25,546,524	26,099,927	(553,403)	-2.12%
2,391,717	1,859,413	532,304	28.63%	Net Change in Assets	1,103,153	886,699	216,454	24.41%
88,274	70,000	18,274	26.11%	Increase/(Decrease) in Fixed Assets	110,000	120,000	(10,000)	-8.33%
12,597,262	13,448,241	(850,979)	-6.33%	Total Budget	25,656,524	26,219,927	(563,403)	-2.15%
2,303,443	1,789,413	514,030	28.73%	(Expenses + Incr/(Decr) in Fixed Assets)	993,153	766,699	226,454	29.54%
86.46	88.60	(2.14)	-2.42%	Change in Working Capital				
91,767	(608,625)	700,392		(Total Funding less Total Budget)	993,153	766,699	226,454	29.54%
(146,231)	0	(146,231)		FTE Count	87.46	88.60	(1.14)	-1.29%
(54,464)	(608,625)	554,161		WC - 12/31/2021	91,767	(608,625)	700,392	
2,303,443	1,789,413	514,030		Less: Adjustment for future liabilities	(146,231)	0	(146,231)	
(79,157)	(79,157)	0		Available Working Capital	(54,464)	(608,625)	554,161	
2,169,822	1,101,631	1,068,191		Change to WC - 2022	993,153	766,699	226,454	
6,743,577	6,743,577	0		Other Adjustments to Reserves	(158,313)	(158,313)	0	
1,000,000	1,000,000	0		Total Working Capital	780,376	(239)	780,615	
9,913,399	8,845,208	1,068,191		Working Capital Reserve	6,743,577	6,743,577	0	
				Operating Reserve	1,000,000	1,000,000	0	
				Total Working Capital and Operating Reserve	8,523,953	7,743,338	780,615	

* Penalties Released reflect the designated amount of funds released to offset U.S. assessments. Actual penalties invoiced are reported in the audited financial statements as an increase in net assets in accordance with Generally Accepted Accounting Principles (GAAP).



SERC RELIABILITY CORPORATION

July 14, 2022

Mr. Andy Sharp
North American Electric Corporation
3353 Peachtree Road, NE
Atlanta, GA 30326

RE: SERC 2022 Q2 Unaudited Financial Statement – Budget vs. Actual

Andy:

Following please find SERC's unaudited 2022 Q2 financial statement, reflecting actual to budgeted amounts with variance explanations.

If you have any questions, please let me know.

Thank you,

George Krogstie
Chief Financial Officer and Corporate Treasurer

cc: Jason Blake

SERC Reliability Corporation
Statement of Activities, Fixed Assets Expenditures, and Change in Working Capital

From 1/1/2022 Through 6/30/2022

	2022 YTD Actuals	2022 YTD Budget	Variance 2022 YTD Actual v 2022 YTD Budget		2022 Projection	2022 Budget	Variance 2022 Projection v 2022 Budget	
			Over(Under)	%			Over(Under)	%
Funding								
Statutory Funding								
SERC Assessments	\$ 12,399,466	\$ 12,399,467	\$ -		\$ 24,798,934	\$ 24,798,934	-	
Penalties Released*	\$ 600,000	600,000	-		1,200,000	1,200,000	-	
Total Statutory Funding	\$ 12,999,466	\$ 12,999,467	\$ -	0.00%	\$ 25,998,934	\$ 25,998,934	\$ -	0.00%
Workshops & Miscellaneous	44,820	83,000	(38,180)		166,000	166,000	-	
Interest	(35,237)	15,000	(50,237)		30,000	30,000	-	
Total Funding (A)	\$ 13,009,049	\$ 13,097,467	\$ (88,417)	-0.68%	\$ 26,194,934	\$ 26,194,934	\$ -	0.00%
Expenses								
Personnel Expenses								
Salaries	\$ 8,167,839	\$ 8,119,907	\$ 47,932		\$ 16,314,814	\$ 16,239,814	75,000	
Payroll Taxes	567,885	485,982	81,903		971,965	971,965	-	
Benefits	800,578	966,957	(166,379)		1,781,828	1,981,828	(200,000)	
Retirement Costs	1,050,572	1,030,721	19,851		2,061,442	2,061,442	-	
Total Personnel Expenses	\$ 10,586,874	\$ 10,603,567	\$ (16,693)	-0.16%	\$ 21,130,049	\$ 21,255,049	\$ (125,000)	-0.59%
Meeting Expenses								
Meetings & Conference Calls	\$ 153,116	\$ 187,553	\$ (34,437)		\$ 443,307	\$ 443,307	-	
Travel	233,697	434,808	(201,111)		620,340	855,340	(235,000)	
Total Meeting Expenses	\$ 386,813	\$ 622,361	\$ (235,548)	-37.85%	\$ 1,063,647	\$ 1,298,647	\$ (235,000)	-18.10%
Operating Expenses, excluding Depreciation								
Consultants & Contracts	\$ 610,292	\$ 436,525	\$ 173,767		\$ 1,367,944	\$ 1,377,944	(10,000)	
Office Rent	414,936	420,034	(5,098)		840,067	840,067	-	
Office Costs	600,161	528,431	71,730		1,191,193	1,171,193	20,000	
Professional Services	221,995	257,812	(35,817)		501,360	501,360	-	
Miscellaneous	-	-	-		-	-	-	
Total Operating Expenses	\$ 1,847,384	\$ 1,642,802	\$ 204,582	12.45%	\$ 3,900,564	\$ 3,890,564	\$ 10,000	0.26%
Total Direct Expenses	\$ 12,821,071	\$ 12,868,729	\$ (47,658)	-0.37%	\$ 26,094,260	\$ 26,444,260	\$ (350,000)	-1.32%
Indirect Expenses	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	
Other Non-Operating Expenses	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 12,821,071	\$ 12,868,729	\$ (47,658)	-0.37%	\$ 26,094,260	\$ 26,444,260	\$ (350,000)	-1.32%
Change in Assets	\$ 187,978	\$ 228,738	\$ (40,759)	-17.82%	\$ 100,674	\$ (249,326)	\$ 350,000	-140.38%
Fixed Asset Additions, excluding Right of Use Assets (C)	\$ 310,021	\$ -	\$ 310,021	0.00%	\$ 650,000	\$ 264,000	\$ 386,000	146.21%
TOTAL BUDGET (B+C)	\$ 13,131,092	\$ 12,868,729	\$ 262,363	2.04%	\$ 26,744,260	\$ 26,708,260	\$ 36,000	0.13%
TOTAL CHANGE IN WORKING CAPITAL (A-B-C)	\$ (122,043)	\$ 228,738	\$ (350,780)	-153.35%	\$ (549,326)	\$ (513,326)	\$ (36,000)	7.01%
FTE's	96.00	104.00	(8.00)		104.00	104.00	-	
Head Count	96.00	104.00	(8.00)		104.00	104.00	-	
Beginning Reserve at 1/1/2022	8,186,304	5,478,703	2,707,601		8,186,304	5,478,703	2,707,601	
Change to Working Capital	(122,043)	228,738	(350,781)		(549,326)	(513,326)	(36,000)	
Penalties Released (+)	1,183,000	-	1,183,000		1,183,000	-	1,183,000	
Penalties Released (-)	(600,000)	(600,000)	-		(1,200,000)	(1,200,000)	-	
Other Reserve Activity	-	-	-		-	-	-	
Ending Reserves at 12/31/2022	8,647,261	5,107,441	3,539,820		7,619,978	3,765,377	3,854,601	
Working Capital & Operating Contingency Reserves	2,655,923	2,342,441	313,482		2,228,640	1,600,377	628,263	
Assessment Stabilization & Penalty Reserves	5,991,338	3,065,000	2,926,338		5,391,338	2,165,000	3,226,338	
Other Reserves	-	-	-		-	-	-	
Total Reserves Balance	8,647,261	5,407,441	3,239,820		7,619,978	3,765,377	3,854,601	

* Penalties Released in the current year reflects the designated amount of funds released from the Assessment Stabilization Reserve (ASR) to offset U.S. assessments as approved by the SERC Board of Directors and FERC. Actual penalties invoiced in the current reporting year are shown as an increase in the ASR on the reserve summary table and will be reported as income on the audited financial statements in accordance with Generally Accepted Accounting Principles (GAAP).



Budget to Actual Comparison as of June 30, 2022 (Unaudited)

Overall Summary

- Spending \$262k over budget as timing of expenditures varies from budget
- Funding \$88k under budget attributable to loss on investments and lower than anticipated System Operator Conference workshop revenues.

Income

- **Funding (Actual - \$88k under budget)**
 - Investment income lower due to rising interest rates decreasing market value of existing bond holdings
 - Workshop revenue lower than budget due to decrease in workshop attendance

Expense

- **Personnel Expenses (Actual - \$17k under budget)**
 - Lower than expected health insurance renewal driving benefits under budget
 - Full year impact projected to be \$125k under budget due to anticipated lead time to fill open positions in conjunction with lower health insurance expenses
- **Meeting/Travel Expenses (Actual - \$236k under budget)**
 - Decreased meeting and travel associated with Q1 COVID-19 restrictions; full year projected to be \$235k under budget
- **Contracts/Consultants (Actual - \$174k over budget)**
 - Contractor expertise used to provide support in IT while filling open positions; full year projected to be \$10k under budget due to planned deferrals on certain IT projects
- **Office Rent (Actual - \$5k under budget)**
 - Common area maintenance expenses lower than expected
- **Office Costs (Actual – \$72k over budget)**
 - Software renewal costs higher than anticipated driving overage in Office Costs; full year projected to be \$20k over budget
- **Professional Services (Actual - \$39k under budget)**
 - Timing of actual legal fees varies from budget
- **Fixed Asset Purchases (Actual - \$310k over budget)**
 - Full year impact projected at \$386k over budget due to completion of Member Portal Consolidation project

July 12, 2022

Mr. Andy Sharp
North American Electric Reliability Corporation
3353 Peachtree Road NE, Suite 600, North Tower
Atlanta, GA 30326

RE: Texas Reliability Entity, Inc. 2nd Quarter 2022 Statement of Activities and Variance Report

Dear Andy,

Attached is the 2022 second quarter Statement of Activities (unaudited) and Variance Report for Texas RE with variance explanations.

Please contact me if you have questions or comments.

Thank you.

Judy Foppiano

Judy A. Foppiano, CPA
CFO & Director of Corporate Services
Texas Reliability Entity, Inc.
805 Los Cimas Parkway, Suite 200
Austin, Texas 78746
Judy.foppiano@texasre.org
512.583.4959

Budget to Actual Comparison as of June 30, 2022

Year-to-date variances greater than \$10,000 and 10% explained below.

FUNDING

- **Penalty Sanctions:** (Actual penalty income of \$558,750 remitted to Texas RE as of June 30, 2021 has reduced 2022 assessments.) All penalty sanctions remitted from July 1, 2021 through June 30, 2022 will be included in the Texas RE 2023 Business Plan and Budget and applied to reduce 2023 assessments.
- **Interest:** \$6,365 less than budget. Texas RE's banking account is the Business Banking U.S. End of Day Money Market Mutual Fund Sweep account. Interest rates are lower than anticipated at the time the 2022 budget was prepared. This account did not receive any interest or dividends until June 2022. The forecast has been adjusted accordingly.

EXPENSES

Total Budget as of June 30, 2022 is \$601,037 less than budget (7.4%).

- **Personnel Expenses:** \$587,796 less than budget (-9.4%).
 - Salaries and taxes are less than budget 6.6% and 12.5%, respectively, due to personnel vacancies.
 - Employee benefits are less than budget 23.0%. This variance is due to health benefits not increasing as projected when the 2022 budget was prepared. Benefits also include employee training that was not been used at the end of Q2. The forecast for Employee benefits has been adjusted to reflect reduced benefits cost.
 - Savings and Retirement is less than budget 12.1% due to vacancies. Taxes and savings and retirement are directly related to the FTE count.
 - Salaries, taxes and retirement forecast is not being adjusted. Some positions are being filled at salaries higher than budget which impacts all accounts in personnel expenses.
- **Meetings and Travel Expenses: \$85,155 less than 2022 budget (-60.8%).**
 - Meetings and Conference Calls are less than budget because meetings were still being held virtually in Q2.
 - Travel is less than budget even though some travel resumed mid second quarter.
 - In person meetings will begin in third quarter and travel is expected to increase. Forecast for both categories has been adjusted.

- **Total Operating Expenses: \$183,535 greater than 2022 budget (12.5%).**
 - A compensation study completed earlier in the year than planned and an unbudgeted IT Leadership Team Cross Function consultant is causing the 34.8% over budget variance in Consultants and Contracts. The forecast as been adjusted to reflect the additional consultant.
 - Office Cost is greater than budget 75.6% due to supplies, software, and office equipment and furniture for the new office space that do not meet the capitalization threshold. The variance is timing.
 - Professional services are less than budget 27.4% due to unused legal fees and an external IT audit that has been delayed. The forecast reflects the audit delay.

Other Non-Operating Expenses: \$111,621 less than budget (-34.9%).

- Cost to relocate the office that cannot be capitalized. The variance will level out by year end when the costs are finalized.

The forecast has been adjusted from the 2022 Business Plan and Budget where needed.

Texas Reliability Entity, Inc.
Statement of Activities and Fixed Assets
For period ended June 30, 2022
(Unaudited)

	2022 Actual	2022 Budget	YTD Actual Variance from Budget		2022 Forecast	2022 Annual Budget	Forecast Variance from Budget	
Funding								
ERO Funding								
Assessments	\$ 7,501,683	\$ 7,501,684	\$ -	0.0%	\$ 15,003,365	\$ 15,003,365	\$ -	\$ -
Penalties Released	558,750	558,750	-	0.0%	558,750	558,750	-	-
Interest Income	1,135	7,500	(6,365)	-84.9%	7,700	15,000	(7,300)	-48.7%
Total Funding	\$ 8,061,568	\$ 8,067,934	\$ (6,365)	-0.1%	\$ 15,569,815	\$ 15,577,115	\$ (7,300)	0.0%
Expenses								
Personnel Expenses								
Salaries	\$ 4,222,019	\$ 4,520,407	(298,388)	-6.6%	\$ 9,199,332	\$ 9,199,332	-	0.0%
Payroll Taxes	304,149	347,776	(43,627)	-12.5%	635,827	635,827	-	0.0%
Employee Benefits	564,270	733,120	(168,850)	-23.0%	1,476,720	1,641,720	(165,000)	-10.1%
Savings & Retirement	557,219	634,150	(76,931)	-12.1%	1,290,440	1,290,440	-	0.0%
Total Personnel Expenses	\$ 5,647,657	\$ 6,235,453	\$ (587,796)	-9.4%	\$ 12,602,319	\$ 12,767,319	\$ (165,000)	-1.3%
Meeting & Travel Expenses								
Meetings & Conference Calls	\$ 5,582	\$ 14,233	(8,651)	-60.8%	\$ 63,900	\$ 71,900	(8,000)	-11.1%
Travel	49,412	125,916	(76,504)	-60.8%	299,684	371,684	(72,000)	-19.4%
Total Meeting & Travel Expenses	\$ 54,994	\$ 140,149	\$ (85,155)	-60.8%	\$ 363,584	\$ 443,584	\$ (80,000)	-18.0%
Operating Expenses								
Consultants & Contracts	\$ 203,407	\$ 150,852	52,555	34.8%	\$ 401,700	\$ 351,700	50,000	14.2%
Rent & Improvements	668,192	695,108	(26,916)	-3.9%	1,459,545	1,459,545	-	0.0%
Office Costs	558,937	318,253	240,684	75.6%	698,840	698,840	-	0.0%
Professional Services	219,124	301,912	(82,788)	-27.4%	557,625	607,625	(50,000)	-8.2%
Total Operating Expenses	\$ 1,649,660	\$ 1,466,125	\$ 183,535	12.5%	\$ 3,117,710	\$ 3,117,710	\$ -	0.0%
Other Non-Operating Expenses	\$ 208,379	\$ 320,000	(111,621)	-34.9%	\$ 320,000	\$ 320,000	-	0.0%
Total Expenses	\$ 7,560,690	\$ 8,161,727	\$ (601,037)	-7.4%	\$ 16,403,613	\$ 16,648,613	\$ (245,000)	-1.5%
Change in Assets	\$ 500,878	\$ (93,793)	\$ 594,671	-634.0%	\$ (833,798)	\$ (1,071,498)	\$ 237,700	-22.2%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ -	\$ -	0.0%	\$ 512,000	\$ 512,000	\$ -	0.0%
Total Budget	\$ 7,560,690	\$ 8,161,727	\$ (601,037)	-7.4%	\$ 16,915,613	\$ 17,160,613	\$ (245,000)	-1.4%
Change in Working Capital (Total Revenue less Total Budget)	\$ 500,878	\$ (93,793)	\$ 594,671	-634.0%	\$ (1,345,798)	\$ (1,583,498)	\$ 237,700	-15.0%
FTE's	58	66	(8)		66	66	-	
Beginning WC - 1/1/22	\$ 3,885,000	\$ 3,885,000	\$ -		\$ 3,885,000	\$ 3,885,000	\$ -	
Change to WC - 2022	500,878	(93,793)	594,671		(1,345,798)	(1,583,498)	237,700	
Penalties Released	(558,750)	(558,750)	-		(558,750)	(558,750)	-	
Other Reserve Activity	-	-	-		-	-	-	
Working Capital 3/31/2022	\$ 3,827,128	\$ 3,232,457	\$ 594,671		\$ 1,980,452	\$ 1,742,752	\$ 237,700	
Working Capital & Operating Contingency					\$ 1,330,000	\$ 1,330,000		
Assessment Stabilization & Contingency Fund					650,452	412,752	237,700	
Other					-	-	-	
Total Reserves and Contingency					\$ 1,980,452	\$ 1,742,752	\$ 237,700	



Wynne Schweitzer
Manager, Finance and Accounting
July 20, 2022

Mr. Andy Sharp
Vice President and Chief Financial Officer
North American Electric Reliability Corporation
3353 Peachtree Road, N.E. Suite 600, North Tower
Atlanta, GA 30326

RE: WECC Q2 2022 Statutory Statement of Activities and Variance Report

Dear Andy,

Attached is WECC's second-quarter Statutory Statement of Activities (Unaudited) and Variance Report. WECC's 2022 unaudited year-to-date results are \$970,000 under budget, excluding the impact of the Generally Accepted Accounting Principles (GAAP) treatment of penalty revenue recognition. Explanations and drivers are noted below.

If you have questions or need more information, please do not hesitate to contact me.

Regards,

Wynne Schweitzer
Manager, Finance and Accounting

Enclosures

Cc: Melanie Frye, President and Chief Executive Officer
Jillian Lessner, Vice President and Chief Financial and Administrative Officer
WECC Finance and Audit Committee

Year-to-date variances greater than \$10,000 and 10% are explained below. The explanations pertain to all statutory activities.

Funding

- Interest: \$45,000 under budget

Interest is under budget due to higher-than-expected unrealized losses on short-term investments. These investments will be held to maturity to reduce the likelihood of realized losses. Interest is expected to be \$10,000 over budget at year-end.

Expenses

- Payroll Taxes: \$99,000 over budget

Payroll Taxes are over budget primarily due to higher-than-anticipated payroll taxes across the organization due to changes in state and local tax rates and timing of merit payments made in the first quarter. Payroll Taxes are expected to be \$14,000 over budget at year-end.

- Employee Benefits: \$285,000 under budget

Employee Benefits are under budget primarily due to an unanticipated health insurance premium credit issued by United Healthcare, budgeted benefits enrollment level assumptions compared to actual benefits enrollment levels, and lower-than-anticipated use of the Health Reimbursement Account (HRA). Employee Benefits are expected to be \$341,000 under budget at year-end.

- Meetings & Conference Calls: \$108,000 under budget

Meetings & Conference Calls are under budget primarily due to the cancellation of most in-person meetings and workshops due to COVID-19 through May and are anticipated to be \$82,000 under budget at year-end.

- Travel: \$298,000 under budget

Travel is under budget primarily due to the cancellation of most on-site audits and in-person meetings and training due to COVID-19 through May and is anticipated to be \$280,000 under budget at year-end.

Statutory Statement of Activities and Variance Explanations (July 20, 2022)

- Consultants & Contracts: \$348,000 under budget

Consultants & Contracts are under budget primarily due to the timing of information technology consulting budgeted for the first quarter and anticipated to be completed later in 2022. Consultants & Contracts are anticipated to be \$96,000 over budget at year-end.



Statutory Statement of Activities and Variance Explanations (July 20, 2022)



Western Electricity Coordinating Council Statutory Statement of Activities From 1/1/2022 to 6/30/2022 (Unaudited)

(In Whole Dollars)

	2022 YTD Actual	2022 YTD Budget	2022 YTD Variance Over(Under)	%	2022 Projection	2022 Annual Budget	2022 Projected Variance Over(Under)	%
Funding								
Assessments	25,000,000	25,000,000	-	0.0%	25,000,000	25,000,000	-	0.0%
Penalties Released ¹	5,298,000	5,298,000	-	0.0%	5,298,000	5,298,000	-	0.0%
Workshops & Miscellaneous	2,400	9,900	(7,500)	-75.8%	123,384	194,700	(71,316)	-36.6%
Interest	8,693	54,000	(45,307)	-83.9%	119,109	109,501	9,608	8.8%
Total Funding	30,309,093	30,361,900	(52,807)	-0.2%	30,540,493	30,602,201	(61,708)	-0.2%
Expenses								
Personnel Expenses								
Salaries	8,810,406	8,826,936	(16,530)	-0.2%	18,521,607	18,411,644	109,963	0.6%
Payroll Taxes	707,800	608,845	98,955	16.3%	1,231,823	1,217,683	14,140	1.2%
Employee Benefits	1,022,881	1,307,462	(284,581)	-21.8%	2,264,825	2,605,571	(340,746)	-13.1%
Retirement Costs	772,519	799,177	(26,658)	-3.3%	1,641,354	1,663,608	(22,254)	-1.3%
Total Personnel Expenses	11,313,606	11,542,420	(228,814)	-2.0%	23,659,609	23,898,506	(238,897)	-1.0%
Meeting Expenses								
Meetings & Conference Calls	27,536	135,482	(107,946)	-79.7%	375,946	458,044	(82,098)	-17.9%
Travel	110,439	408,665	(298,226)	-73.0%	492,315	772,654	(280,339)	-36.3%
Total Meeting Expenses	137,975	544,147	(406,172)	-74.6%	868,261	1,230,698	(362,437)	-29.4%
Operating Expenses, excluding Depreciation								
Consultants & Contracts	274,652	622,402	(347,750)	-55.9%	1,100,550	1,004,600	95,950	9.6%
Office Rent	661,165	656,814	4,351	0.7%	1,320,877	1,306,912	13,965	1.1%
Office Costs	986,800	998,757	(11,957)	-1.2%	2,051,225	1,844,335	206,890	11.2%
Professional Services	575,318	541,000	34,318	6.3%	1,125,173	1,045,000	80,173	7.7%
Miscellaneous	-	-	-	-	-	-	-	-
Total Operating Expenses	2,497,935	2,818,973	(321,038)	-11.4%	5,597,825	5,200,847	396,978	7.6%
Total Direct Expenses	13,949,516	14,905,540	(956,024)	-6.4%	30,125,695	30,330,051	(204,356)	-0.7%
Indirect Expenses	(356,307)	(347,533)	(8,774)	2.5%	(781,001)	(695,066)	(85,935)	12.4%
Other Non-Operating Expenses	-	-	-	-	-	-	-	-
Total Expenses	13,593,209	14,558,007	(964,798)	-6.6%	29,344,694	29,634,985	(290,291)	-1.0%
Change in Net Assets	16,715,884	15,803,893	911,991	5.8%	1,195,799	967,216	228,583	23.6%
Fixed Asset Additions, excluding Right of Use Assets	64,557	69,594	(5,037)	-7.2%	114,557	111,914	2,643	2.4%
Total Expenditures	13,657,766	14,627,601	(969,835)	-6.6%	29,459,251	29,746,899	(287,648)	-1.0%
Change in Working Capital (Total Funding less Total Budget)	16,651,327	15,734,299	917,028		1,081,242	855,302	225,940	
FTEs	143.58	152.50	(8.92)		152.58	152.50	0.08	
Headcount	139.00	152.00	(13.00)		158.00	152.00	6.00	
Working Capital at 1/1/2022	9,690,377	8,410,422	1,279,955		9,690,377	8,410,422	1,279,955	
Peak Reliability Donation Expenditures	233,360				233,360	400,000	(166,640)	
Non-Statutory Fund Change	178,203				178,203		178,203	
Change to WC - 2022	16,651,327	15,734,299	917,028		1,081,242	855,302	225,940	
Working Capital at 6/30/2022²	26,753,267	24,144,721	2,196,983		11,183,182	9,665,724	1,517,458	

¹ Penalties released in the current year reflects the designated amount of funds released to offset U.S. assessments as approved by the WECC Board of Directors and FERC. Actual penalties invoiced in the current reporting year will be reported as income on the audited financial statements in accordance with GAAP.

² See Working Capital and Reserve Analysis table for additional details.



Working Capital and Reserve Analysis

Working Capital and Reserve Analysis				
STATUTORY				
	Total	Working Capital Reserve	Unreleased Penalties	Peak Reliability Donation
Beginning Reserve, January 1, 2022	\$ 20,154,417	\$ 9,690,377	\$ 6,636,646	\$ 3,827,394
Plus: Total Funding	48,889,093	30,309,093	18,580,000	-
Penalties Release	(5,298,000)	-	(5,298,000)	-
Less: Expenditures	(13,657,766)	(13,424,406)	-	(233,360)
Plus: Non-Statutory Fund Adjustment	178,203	178,203	-	-
Reserve (Deficit), June 30, 2022	\$ 50,265,947	\$ 26,753,267	\$ 19,918,646	\$ 3,594,034

Note: Penalty sanction amounts received are considered deferred revenue and are not included in working capital amounts until approved by FERC.



Regional Entity and WIRAB Proposed 2023 Business Plans and Budgets

Action

Review and recommend the following for Board of Trustees approval:

[Final NERC 2023 Business Plan and Budget \(BP&B\)](#)

[Final Regional Entity and Western Interconnection Regional Advisory Body \(WIRAB\) 2023 BP&Bs 2023 Assessment Schedule](#)

Background

The draft NERC 2023 BP&B was posted for stakeholder review and comment on May 25, 2022, along with the Regional Entity and WIRAB proposed 2023 BP&Bs for reference.¹ On June 1, the Finance and Audit Committee (FAC) hosted a webinar during which NERC, Regional Entity, and WIRAB finance representatives reviewed highlights of their 2023 BP&Bs.

The comment period on the draft NERC 2023 BP&B ended on June 24. Five comment submissions were received. NERC management reviewed and discussed the comments with the Finance and Audit Committee (FAC) during its closed meeting on July 7, the Member Representatives Committee (MRC) BP&B Input Group on July 13, the Trades and Forums on July 27, and the Member Executive Committee (MEC) on July 27. The comments received and a response to comments from NERC management are posted on the [NERC website](#).

Summary

After careful review of the comments, NERC's proposed final 2023 BP&B includes clarifications to address some of the comments received and some minor adjustments among budget categories and departments based on known updates. The 2023 total budget and assessment (and 2024 and 2025 projections) remain close to what was proposed in the first draft. The MEC also endorsed the proposed final E-ISAC 2023 budget at its July 27, 2022, meeting.

During the August 17, 2022, FAC open meeting, NERC management will provide an overview of the final proposed NERC 2023 BP&B and ERO Enterprise combined 2023 budgets and assessments prior to requesting recommendation of approval to the Board of the following provided via the links above: (1) NERC's proposed final 2023 BP&B; (2) the Regional Entity and WIRAB final 2023 BP&Bs as approved by their respective boards; and (3) the proposed 2023 Assessment Schedule. A summary of NERC's review of the Regional Entity 2023 BP&Bs is also enclosed for reference.

Attachments

Attachment 1 – Memo on NERC Review of Regional Entity 2023 BP&Bs

¹ The Regional Entities and WIRAB post their BP&Bs for comment in accordance with each of their individual public review process and schedules.

To: NERC Board of Trustees

From: Andy Sharp

Re: NERC Review of Regional Entity 2023 Business Plans & Budgets (BP&Bs)

Date: June 30, 2022

NERC has reviewed the Regional Entity 2023 BP&Bs and believes each provides for adequate resources to meet its delegated functions. Additional details on the review process and outcomes are discussed below.

In accordance with 18 C.F.R. Section 39.4, Rules of Procedure Section 1104, and Exhibit E of the regional delegation agreements, NERC oversees that the Regional Entities are adequately funded to accomplish their delegated functions. For each annual BP&B cycle, the Regional Entities submit their BP&Bs to NERC according to a schedule established collaboratively by NERC and the Regional Entities, and NERC conducts reviews of each, focusing on the following:

- Adequacy of the resources and activities to perform delegated functions;
- Alignment of the Regional Entity's goals, objectives, and major activities to the *ERO Enterprise Long-Term Strategy* and the related focus areas;
- Efforts to improve efficiency and control costs;
- Quality and completeness of the financial information presented, including:
 - Conformance with FERC budget reporting requirements and common presentation format;
 - Separation of statutory and non-statutory activities;
 - Supporting detail, including explanations for significant changes from the previous budget;
 - Reporting of reserve budgets and explanation of policies; and
 - Compliance with any budget or audit-related orders from FERC, if applicable.

These reviews generally occur according to the following timeline and process for each BP&B cycle:

- End of April/early May – Regional Entities provide their Draft 1 BP&Bs to NERC
- May through early June – Managerial staff from each NERC statutory program area reviews its respective sections of each Regional Entity BP&B and completes a template/checklist to indicate alignment with the above noted areas of focus. NERC Finance staff reviews for conformance to reporting requirements and presentation format. NERC also coordinates reviews of the Regional Entity BP&Bs with the external counsel who prepares the annual BP&B filings to provide feedback regarding overall document integrity and adherence to FERC expectations and requirements.

3353 Peachtree Road NE
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Atlanta, GA 30326
404-446-2560 | www.nerc.com

- In accordance with the timeline for each Regional Entity board meeting to approve its final BP&B, NERC provides any necessary feedback to the Regional Entity on suggested revisions.
- Regional Entities address feedback and NERC confirms implementation of revisions.
- Mid-May through June – Regional Entities provide their NERC-reviewed BP&Bs to their boards for approval.
- Mid-June – Regional Entities submit their Net Energy for Load and Load-Serving Entity (LSE) data to NERC.
- Mid-June through July – NERC validates the data and calculates assessments for each LSE to be included with the submission of the final NERC and Regional Entity BP&Bs to the Board in August, followed by applicable regulatory filings.

The above process is in addition to regular touchpoints with the ERO Finance Group (comprised of NERC and Regional Entity financial representatives) to discuss and coordinate development of the BP&Bs, as well as ongoing discussions among the other ERO working groups and ERO Executive Committee.

In recent years, this review process has produced minimal feedback to the Regional Entities, as resources are generally found to be adequate with respect to Regional Entities fulfilling their delegated statutory functions. Any input has primarily been limited to suggestions on narrative language or, from the financial perspective, the implementation of recent Statement of Activity format changes. Any areas of improvement for the Regional Entities regarding activities, processes, and procedures are addressed through ongoing Regional Entity oversight and the collaborative work of the ERO Executive Committee and its working groups.

NERC recently completed reviews of the Regional Entity 2023 BP&Bs. The following is a summary of the review findings and outcomes:

- All Regional Entity budgets cover activities eligible for funding, consistent with the regional delegation agreements as well as section 215 criteria.
- All statutory areas for all Regional Entities have adequate resources to fulfill their delegated functions. The Enforcement area indicated they will continue to monitor Enforcement resources at NPCC and MRO due to those Regions' large inventory of unprocessed noncompliance coupled with FERC's recent denial of NERC's proposed streamlining enhancements for modifying reporting of minimal risk noncompliance.¹
- All Regional Entities conform to necessary budget reporting and format requirements.
- Other minor wording change suggestions.

Additionally, the ERO Finance Group continues to have ongoing discussions regarding reserve balances and policies, as well as opportunities for further alignment among the ERO Enterprise during annual BP&B preparation and efficiency and streamlining of the BP&B documents.

¹ North American Electric Reliability Corporation, Order Approving in Part and Denying in Part Revisions to North American Electric Reliability Corporation Rules of Procedure, 179 FERC ¶ 61,129 (2022).

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

Agenda Item 2bi

NERC 2023 Business Plan and Budget

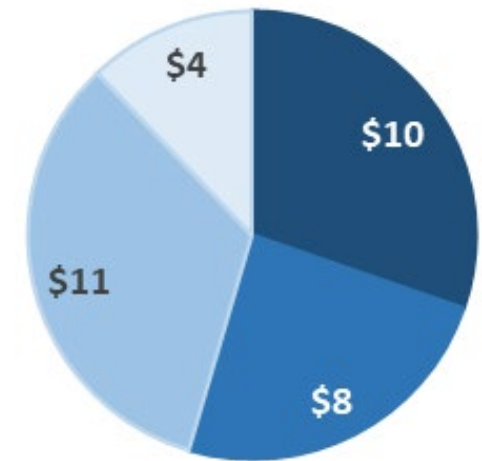
Andy Sharp, Vice President and Chief Financial Officer
Finance and Audit Committee Meeting
August 17, 2022

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
 - 2025 travel projection still slightly below pre-pandemic levels
- **Facilities and rent**
 - Lower annual rent expense due to Atlanta office lease concessions
 - 2025 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**

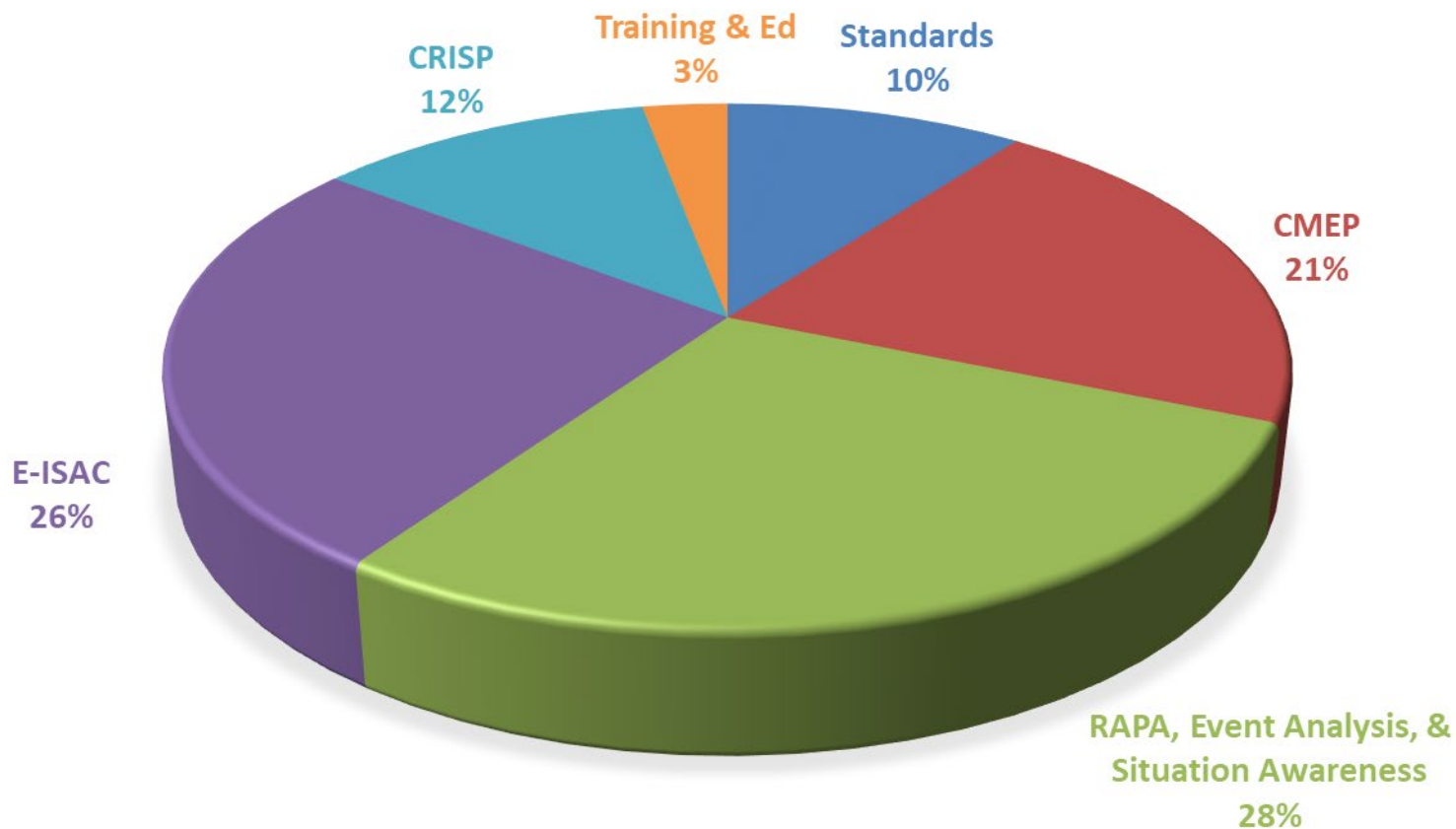
- April 14 – Closed FAC
- April 27 – MEC Quarterly Update
- April 29 – MRC BP&B Input Group
- May 3 – Trades and Forums
- May 11 – Open FAC

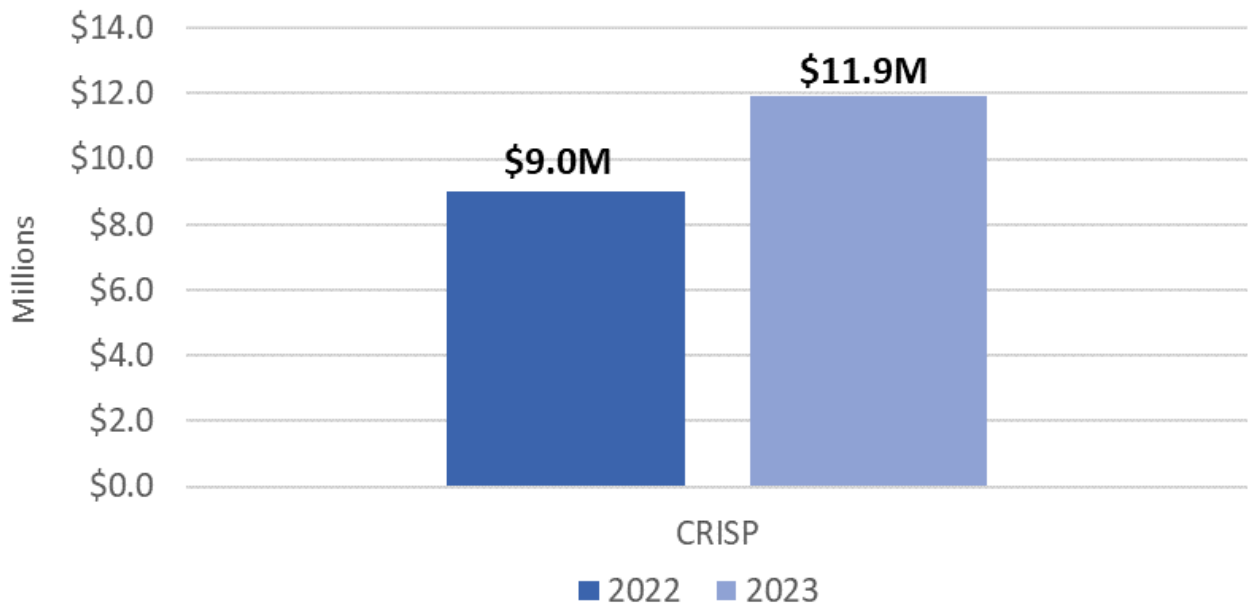
- **Review NERC and Regional Entity draft 2023 BP&Bs**
 - May 25 to June 24 – Comment period on draft NERC 2023 BP&B
 - June 1 – FAC webinar
 - June 8 – FERC briefing
- **Review NERC proposed final 2023 BP&B**
 - July 7 – Closed FAC
 - July 13 – MRC BP&B Input Group
 - July 27 – Trades and Forums and MEC endorses E-ISAC 2023 budget
- **Approve NERC and Regional Entity final 2023 BP&Bs**
 - August 17 & 18 – Open FAC and Board
 - By August 25 – File 2023 BP&Bs with FERC

- Five sets of comments received, major themes:
 - **Enhancing BP&B development process**
 - Metrics that support budget assumptions and demonstrate effectiveness
 - Stakeholder collaboration to guide cyber and technology strategic investments
 - **Increasing transparency around investments**
 - Continued Align and SEL investments
 - Funding and indirect expenses associated with E-ISAC and CRISP
 - Alignment between budget investments and reliability metrics
 - **Considering efficiencies to reduce budget and assessment increases**
 - Use of contractors versus FTEs and leverage industry SMEs
 - Reducing duplication with other organizations
 - Increasing virtual meeting formats
 - Reassess annual merit increases and reserve levels
- Comments and NERC response posted on the [NERC website](#)

- **Budget – \$101.0M (\$12.2M or 13.7% increase from 2022)**
 - Personnel – \$58.0M (11.6% increase)
 - Meetings and Travel – \$3.1M (20.6% increase)
 - Operating Expenses – \$36.1M (19.3% increase)
 - Fixed Assets – \$6.2M (26.5% increase)
 - Net Financing Activity – (\$2.8M) (153.7% increase)
- **Assessment – \$87.1M (\$8.7M or 11.1% increase)**
 - Assuming \$4.0M in capital software financing loan proceeds, which lowers assessment requirements
 - Includes release of \$2.0M in reserve funds to offset assessments
- **FTEs – 236.9 (increase of 13.2)**

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)**
 - 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)
- **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 from 2022
 - 9.8% of total NERC assessment
 - **Mexico – \$306k**
 - \$43k (16.4%) increase from 2022

- 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 costs in 2025 for potential Atlanta office move
 - Capital software financing in 2024 and 2025 and \$500k OCR release in 2025
- **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

NERC

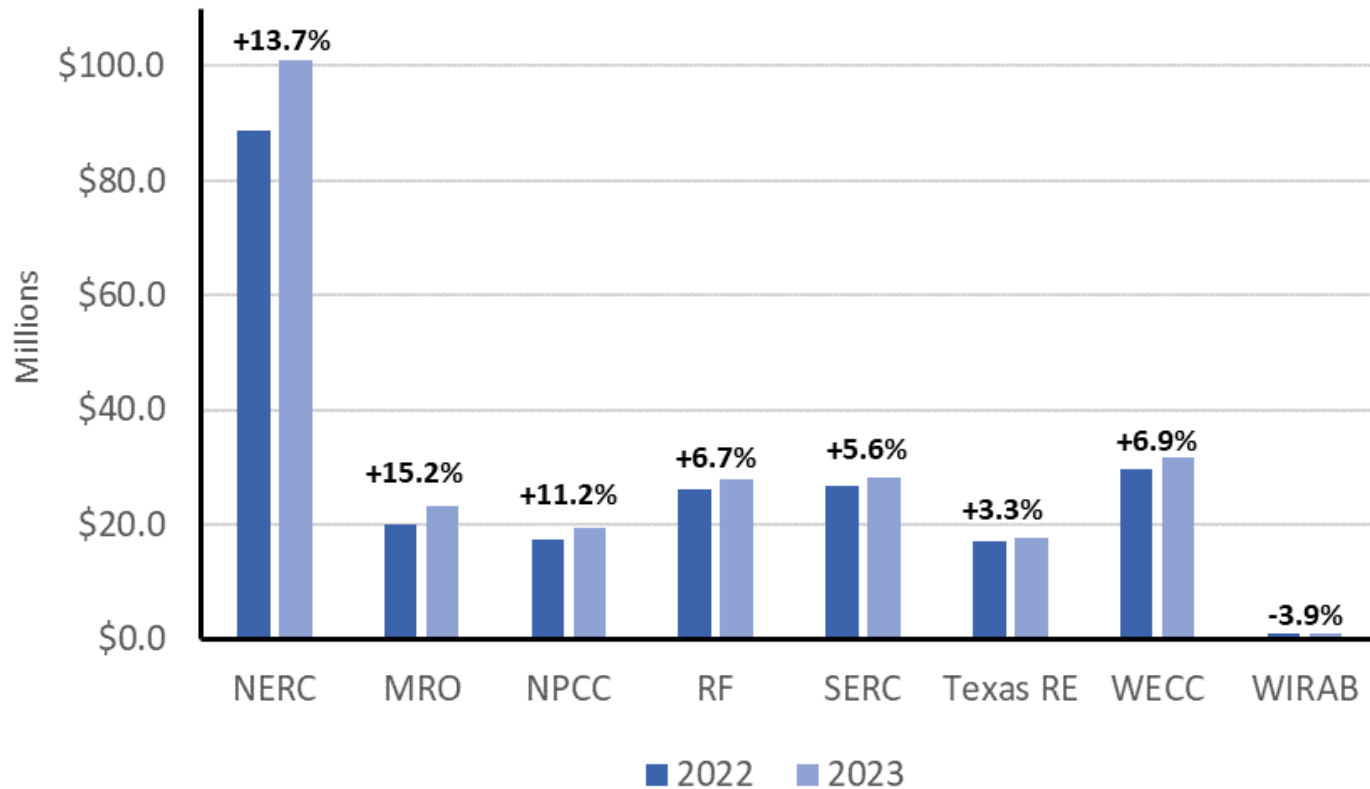
NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

ERO Enterprise Combined 2023 Budgets & Assessments

RELIABILITY | RESILIENCE | SECURITY

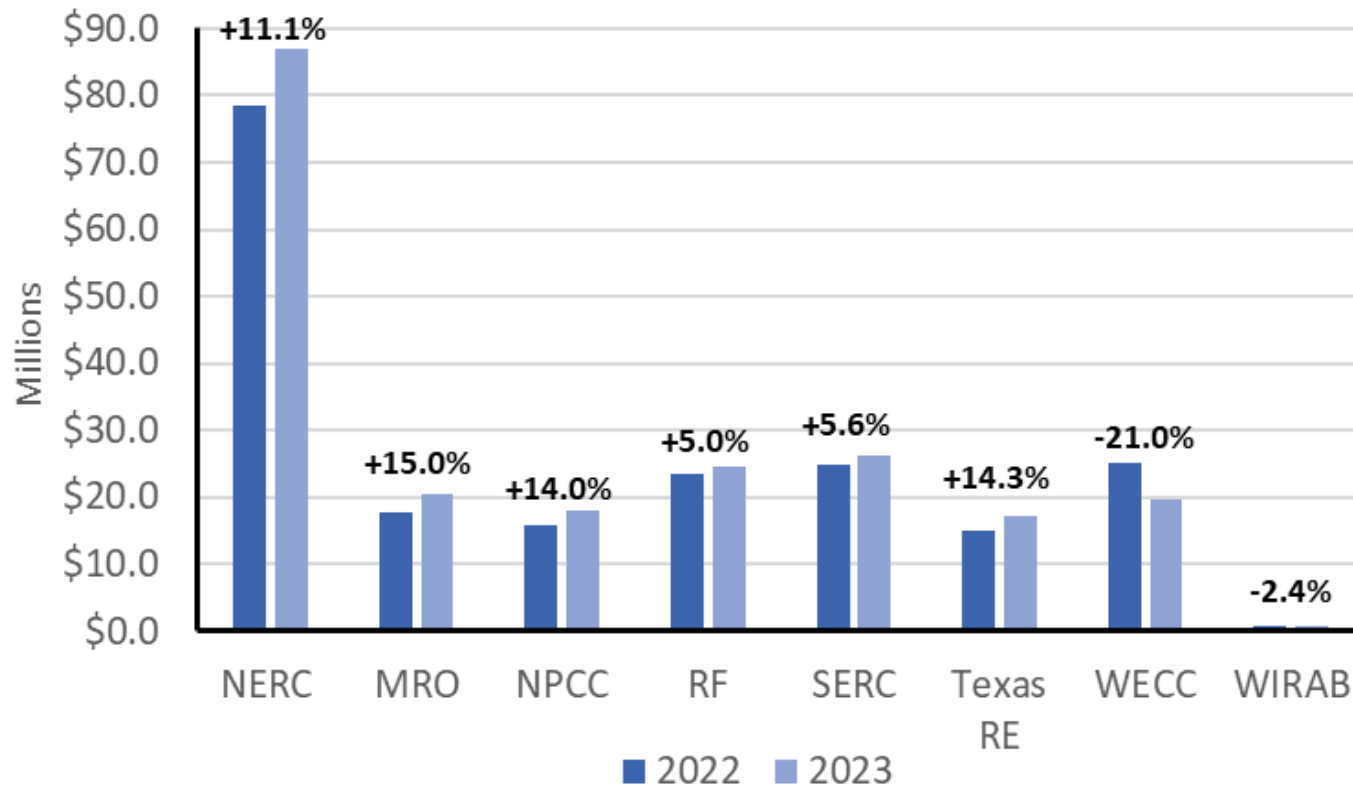


Total ERO Enterprise 2023 budget – \$250.1M (\$23.1M or 10.1% increase vs 2022)

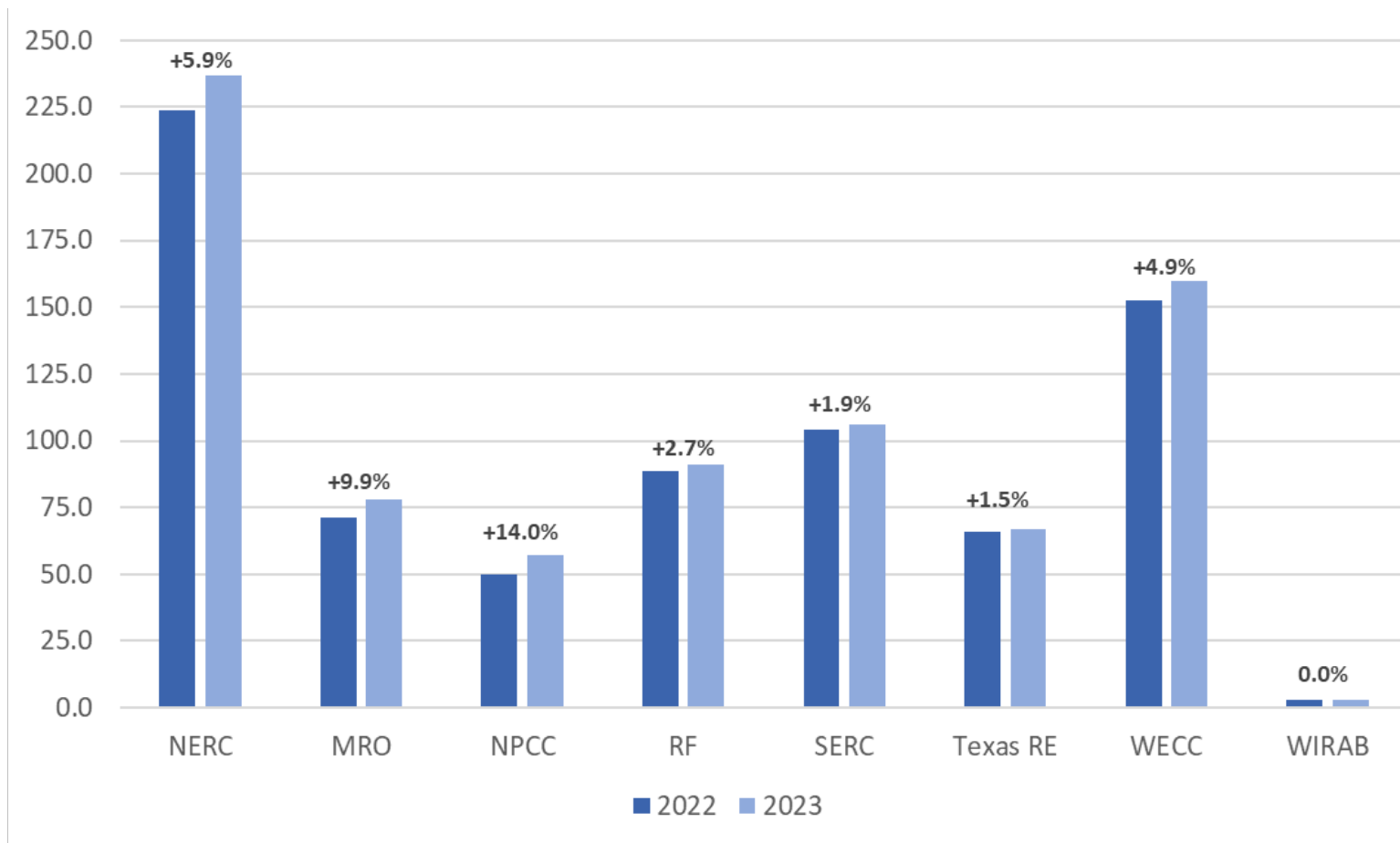


**"ERO Enterprise" includes WIRAB unless otherwise noted*

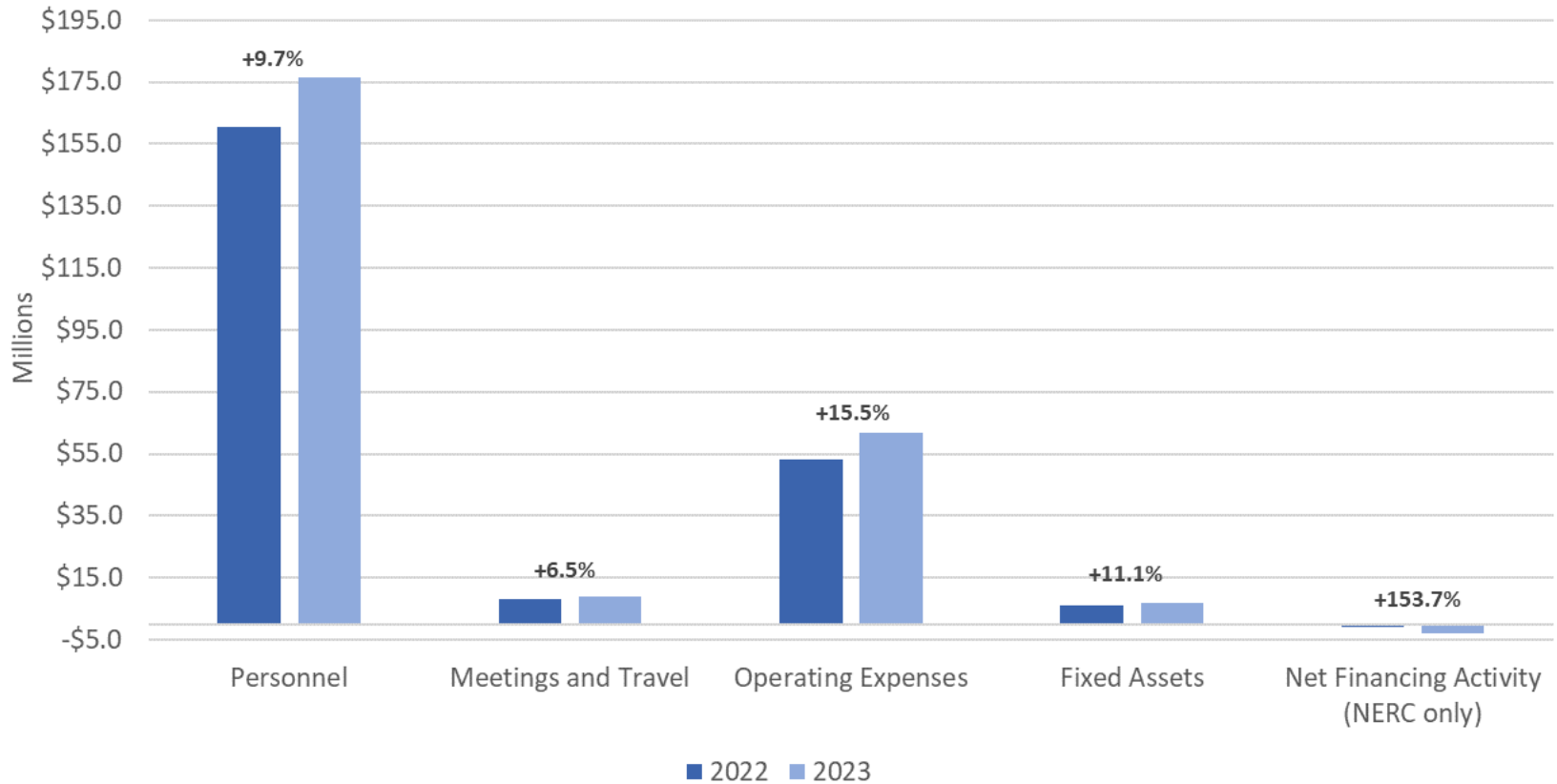
Total ERO Enterprise 2023 assessment – \$214.1M (\$13.0M or 6.5% increase vs 2022)
Approximately \$21M in penalties/reserves released to reduce assessments



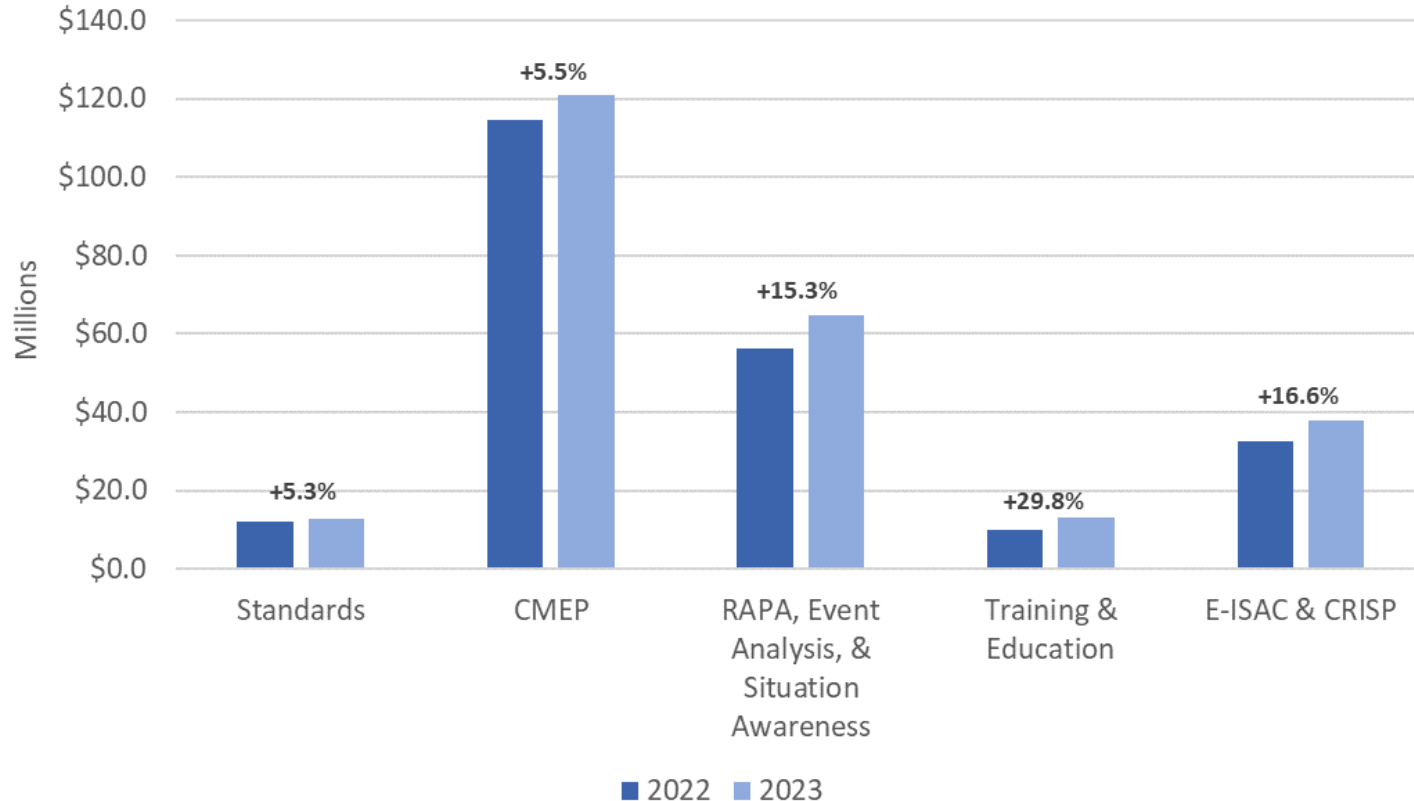
Total ERO Enterprise 2023 budgeted FTEs – 798.8 (40.1 or 5.3% increase vs 2022)



ERO Enterprise 2023 v 2022 Budget by Expense Category

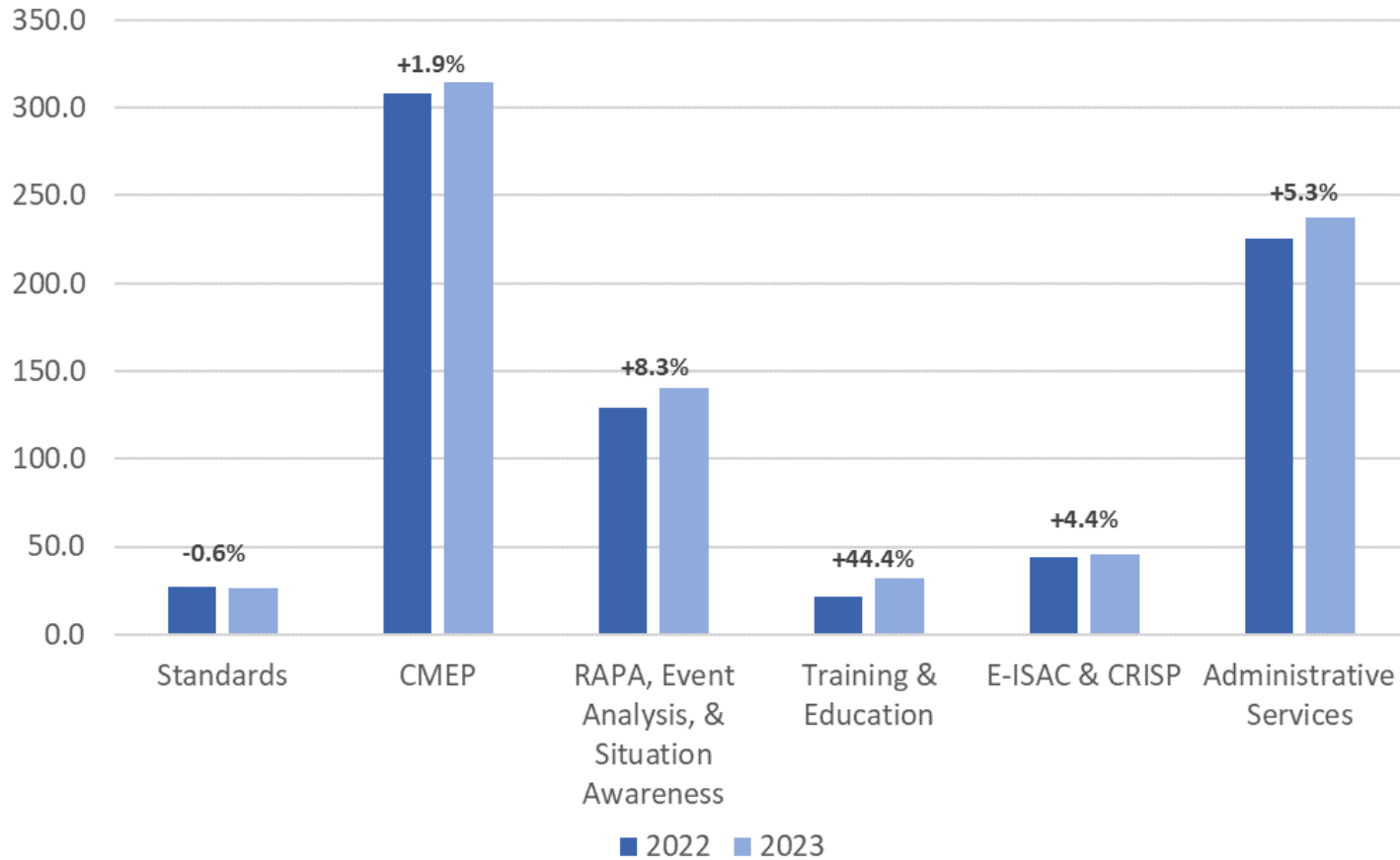


ERO Enterprise 2023 v 2022 Budget by Program Area

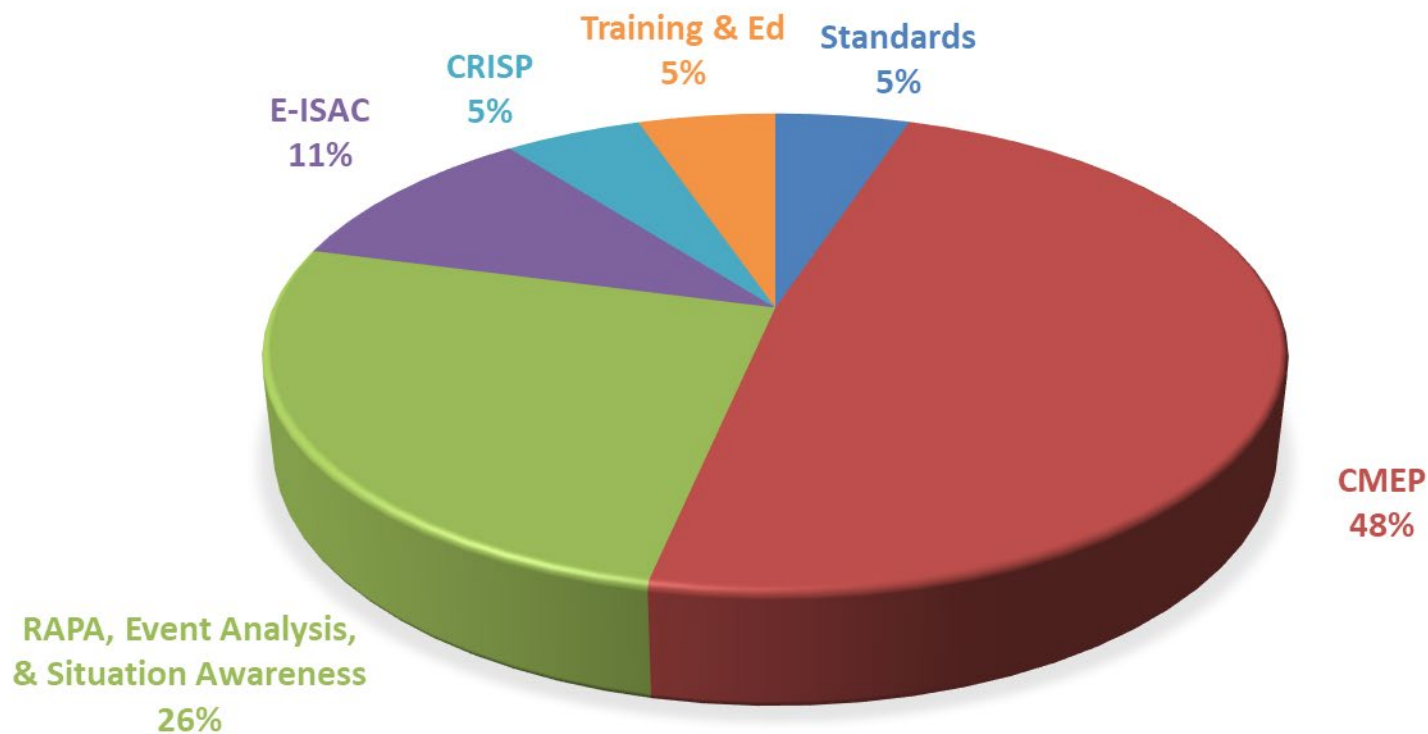


**Excludes WIRAB*

ERO Enterprise 2023 v 2022 Budgeted FTEs by Program Area



*Excludes WIRAB



**Excludes WIRAB*



Questions and Answers

Line of Credit Renewal

Action

Approve and recommend to Board of Trustees for approval.

Background

Since 2007, NERC has maintained a line of credit with a lender for emergency working capital needs or unforeseen contingencies. NERC annually obtains renewal of this line of credit and the latest agreement was approved by the NERC Board of Trustees (Board) in May 2021 and it expires on September 30, 2022.

In May 2021, the Board authorized management to proceed to take such actions as are necessary to execute this line of credit renewal documentation on an annual basis so long as the material terms of the renewal remain substantially the same. NERC management committed to provide an update to the Committee on annual renewals and will also request Board approval for the renewal if the terms and conditions materially change.

The interest rate index for this line of credit is being updated for the next renewal period to be based on the Secure Overnight Financing Rate (SOFR). All of the other terms and conditions, including the Commitment/Closing Fee of \$5,000, will remain substantially the same.

Due to the change in the interest rate index, which is considered a change to the material terms of the agreement, NERC management requests the Committee approve and recommend to the Board for approval this line of credit renewal as well as Board authorization for NERC management to take necessary actions to renew this credit facility for a minimum period of twelve months.