

Agenda

Finance and Audit Committee Meeting

February 9, 2022 | 11:00 a.m.–12:00 p.m. Eastern

Virtual Meeting

WebEx Link: [Join Meeting](#)

Introduction and Chair's Remarks

NERC Antitrust Compliance Guidelines and Public Announcement*

Agenda Items

1. **Minutes*— Approve**
 - a. November 3, 2021 Meeting
2. **2021 Year-End Unaudited Summary of Results*— Review and Recommend Board of Trustees Acceptance**
 - a. NERC 2021 Year-End Report
 - b. ERO Enterprise Combined 2021 Year-End Report
 - c. Regional Entity 2021 Year-End Reports
3. **Renewal of Capital Financing Program* — Review and Recommend Board of Trustees Approval**
4. **Proposed Amendment to Committee Mandate* — Approve and Recommend Corporate Governance and Human Resources Committee Approval**
5. **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

Agenda Item 1a

November 3, 2021 | 1:00–2:00 p.m. Eastern

Virtual Meeting

Mr. Robert G. Clarke, Chair, called to order a duly noticed open meeting 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 November 3, 2021, at 1:00 p.m. Eastern, and a quorum was declared present.

Present at the meeting were:

Committee Members

Robert G. Clarke, Chair
Larry Irving
Suzanne Keenan
Susan N. Kelly
Jim Piro
Colleen Sidford
Kenneth W. DeFontes, Jr., *ex officio*

Board of Trustees Members

Jane Allen
Robin E. Manning
James B. Robb, President and Chief Executive Officer
Roy Thilly

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 & Standards
Kelly Hanson, Senior Vice President and Chief Administrative Officer
Stan Hoptroff, Vice President, Business Technology
Nina Johnston, Assistant General Counsel
Mark Lauby, Senior Vice President and Chief Engineer
Meg Leonard, Controller
Sônia Mendonça, Senior Vice President, General Counsel, and Corporate Secretary
Kristin Miller, Director, Internal Audit
Bryan Preston, Vice President, People & Culture
Janet Sena, Senior Vice President, External Affairs
Andy Sharp, Vice President and Chief Financial Officer
Mechelle Thomas, Vice President, Compliance Assurance

Introduction and Chair’s Remarks

Mr. Clarke outlined the agenda and noted that three closed meetings occurred since the last open FAC meeting.

NERC Antitrust Compliance Guidelines

Mr. Clarke 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.

Minutes

Upon motion duly made and seconded, the Committee approved the September 28, 2021, and August 11, 2021, minutes as presented in the advance agenda package.

Amendment to Investment Policy

Mr. Sharp described proposed changes to the cash and reserve investment policy, noting that in addition to administrative changes, other changes to the policy would allow for investment in highly-rated corporate bonds or mortgage-backed securities within policy limits and would clarify that the average portfolio duration should not exceed 12 months. He received input on these changes from NERC's investment advisor. Upon motion duly made and seconded, the FAC accepted the changes to the policy and recommended approval of the policy to the Board.

Third Quarter Calendar of FAC Responsibilities

Ms. Leonard provided a summary of unaudited financial results as of September 30, 2021, noting that total funding for NERC is \$200,000 under budget due to lower interest rates leading to lower investment income and lower system operator certification program revenues. She reported that as of the end of the third quarter, there are also lower total expenditures due in part to decreased travel and meetings. When examined by category, Ms. Leonard noted that personnel, operating expenses, meetings, travel and net financing are under budget. Fixed assets are over budget due to Secure Evidence Locker costs carried over from fiscal year 2020, which will be funded from loan borrowing capacity that was also carried over from 2020. Operating Contingency Reserves are \$3.4 million over budget year to date.

For year-end, NERC projects that it will be \$400,000 (0.5%) under budget in funding and expected to be \$500,000 (0.6%) under budget in total expenditures. When examined by category, operating expenses and fixed assets are expected to be over budget while personnel, meetings, travel and net financing are expected to be under budget. Ms. Leonard projected a net increase of \$1.2 million in operating contingency reserves at year-end. There are no planned releases or additions to the assessment stabilization reserve in 2021. She also presented an overview of all NERC reserve funds, including System Operator Certification and CRISP reserves.

Ms. Leonard provided a summary of unaudited financial results for the ERO Enterprise as of September 30, 2021. The ERO Enterprise is under budget \$7.9 million (5.0%) year-to-date, which is generally driven by pandemic causes. By year-end, the ERO Enterprise is projected to be under budget by \$4.3 million (2.0%). She also reviewed beginning and projected reserve balances for the ERO.

Mr. Clarke referenced the Regional Entity variance reports included in the agenda package.

Upon motion duly made and seconded, the FAC reviewed and recommended acceptance of the Third Quarter Statement of Activities, inclusive of NERC and the Regional Entities by the Board.

2022 Business Plan and Budget Status

Mr. Sharp noted that FERC accepted the 2022 Business Plan and Budget (BP&B) on November 2, 2021. He noted that although the BP&B amendment was approved, NERC will not move forward with the proposed relocation of the Atlanta office due to not being able to reach mutually agreeable terms with the landlord. Instead, Mr. Sharp informed the FAC that some savings will be achieved at the existing Atlanta location through the remainder of the lease term.

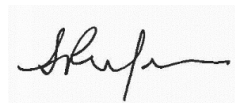
2023 Business Plan and Budget Schedule

Mr. Sharp noted that in 2022 NERC and the Regional Entities will be exploring ways to make the budget preparation more efficient. He provided an overview of NERC process enhancements for the 2023 BP&B schedule, which include multi-year planning and identifying significant budget drivers early in the process for the next three years. Mr. Sharp is proposing to discontinue the second draft of the BP&B and the webinar and second draft comment period. These enhancements will continue to be socialized with stakeholders. He also presented the summary proposed preparation schedule for the 2023 BP&B.

Other Matters and Adjournment

There being no further business before the Committee, the meeting was adjourned.

Submitted by,



Sônia Mendonça
Corporate Secretary

Summary of Unaudited Results For the Period Ending December 31, 2021

Table of Contents

	<u>Page</u>
1. Executive Summary	
a. Year-to-Date Actual Results	2
2. Detailed Operating Results	
a. Variances by Revenue and Expense Category	3
b. Variances by Department	6
3. Supplemental Schedules	
a. Schedule 1 – Year-End Actual Reserves	8
b. Schedule 2 – IT Projects	9
c. Schedule 3 – E-ISAC & CRISP Summary of Activity	11
d. Schedule 4 – Summary of Investments	13

Executive Summary

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

<u>FUNDING</u>	<u>Actual</u>	<u>Budget</u>	<u>Over (Under)</u>
Revenues	\$ 81.5	\$ 81.2	\$ 0.3
Funding from Reserves			
Assessment Stabilization Reserve	-	-	-
TOTAL FUNDING	\$ 81.5	\$ 81.2	\$ 0.3
<u>EXPENDITURES</u>			
Expenses (excluding Depreciation)	\$ 77.3	\$ 79.3	\$ (2.0)
Fixed Asset Additions	2.9	2.8	0.1
Net Financing Activity	(0.1)	0.8	(0.9)
TOTAL EXPENDITURES	\$ 80.1	\$ 82.9	\$ (2.8)
RESERVE INCREASE (DECREASE)	\$ 1.4	\$ (1.7)	\$ 3.1

Summary

Funding during 2021 is above budget mainly due to CRISP third-party funding being higher than budget as a result of unspent funds collected from the CRISP participants in 2021 being directed to a new CRISP Operating Reserve in 2021. This above budget funding is partially offset by lower than budgeted investment income. Expenditures (excluding depreciation) during the year are under budget primarily because of lower personnel, meeting, and travel expenses, as well as net financing activity, and are partially offset by higher office costs and professional services. The result is a reserve increase of \$3.1M higher than budget. This activity is explained in more detail in the remainder of this report.

Detailed Operating Results

Variances by Revenue and Expense Category

Total NERC (including CRISP)

			YTD	%
	YTD Actual	YTD Budget	Over (Under)	Over (Under)
TOTAL FUNDING	\$ 81,546,997	\$ 81,155,550	\$ 391,446	0.5%
EXPENDITURES				
Personnel	\$ 47,837,127	\$ 48,189,435	\$ (352,308)	(0.7%)
Meetings and Travel	279,894	2,201,748	(1,921,854)	(87.3%)
Consultants and Contracts	12,585,611	12,691,813	(106,202)	(0.8%)
Office Rent	3,555,401	3,603,442	(48,041)	(1.3%)
Office Costs, Professional, and Misc.*	12,935,758	12,471,039	464,719	3.7%
Other Non-Operating	128,104	129,661	(1,557)	(1.2%)
Fixed Asset Additions*	2,903,196	2,751,500	151,696	5.5%
Net Financing Activity**	(97,872)	844,601	(942,473)	(111.6%)
TOTAL EXPENDITURES	\$ 80,127,220	\$ 82,883,240	\$ (2,756,020)	(3.3%)
RESERVE INCREASE (DECREASE)	\$ 1,419,777	\$ (1,727,689)	\$ 3,147,466	(182.2%)
FTEs	208.8	213.4	(4.6)	(2.2%)

* 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:

- Revenues are over budget primarily due to CRISP third-party funding being higher than budget and is partially offset by lower than budgeted investment income due to lower interest rates.
- Personnel expenses are under budget mainly because of lower medical insurance premiums due to lower rates and fewer FTEs, lower parking and transportation benefits due to the pandemic, and lower relocation and training costs.
- Meetings and Travel expenses are under budget because of reduced in-person meetings and travel due to the pandemic.

- Contracts and Consultants expenses are slightly under budget because of CRISP third party pilot program contractor costs being lower than budget and are partially offset by higher internal audit and corporate risk management support, as well as IT cybersecurity contractor support needed due the rapidly changing security environment.

CONTRACTS and CONSULTANTS	YTD Actual	YTD Budget	YTD Over (Under)	% Over (Under)
Reliability Standards and Power Risk Issue Management	\$ 239,798	\$ 114,552	\$ 125,246	109.3%
Compliance Assurance	175,295	50,000	125,295	250.6%
Registration and Certification	41,760	39,552	2,208	5.6%
Compliance Enforcement	38,070	69,000	(30,930)	(44.8%)
BPS Security and Grid Transformation	24,064	-	24,064	0.0%
Reliability Assessment and Technical Committees	130,680	59,552	71,128	119.4%
Advanced System Analytics and Modeling & Power System Analysis	114,750	165,000	(50,250)	(30.5%)
Performance Analysis	138,105	178,651	(40,546)	(22.7%)
Situation Awareness	-	15,000	(15,000)	(100.0%)
Event Analysis	86,445	115,590	(29,145)	(25.2%)
E-ISAC	2,334,751	2,399,918	(65,167)	(2.7%)
Training, Education and Personnel Certification	422,867	558,650	(135,783)	(24.3%)
General and Administrative and Executive	50,514	-	50,514	0.0%
Legal and Regulatory	501,450	210,000	291,450	138.8%
External Affairs	36,660	20,000	16,660	83.3%
Information Technology	1,966,270	1,635,625	330,645	20.2%
Human Resources and Administration	604,253	610,000	(5,747)	(0.9%)
Finance and Accounting	108,927	125,000	(16,073)	(12.9%)
TOTAL (excluding CRISP)	\$ 7,014,659	\$ 6,366,090	\$ 648,569	10.2%
CRISP	5,570,952	6,325,723	(754,771)	(11.9%)
TOTAL (including CRISP)	\$ 12,585,611	\$ 12,691,813	\$ (106,202)	(0.8%)

- Office cost expenses are over budget primarily because of higher software license and support costs, a portion of which is being funded with the CRISP Special Projects reserve.
- Professional Services expenses are over budget largely due to fees for an additional NERC trustee and increased costs for liability insurance.
- Fixed Asset Additions are slightly over budget primarily because of the timing of approximately \$636k in expenditures for the ERO SEL project that were approved to be spent and financed in 2020, but were incurred and financed instead in 2021. This is partially offset by lower than budgeted spending for IT equipment and servers.
- The Net Financing Activity budget, which is comprised of financing proceeds and principal payments, did not contemplate NERC receiving loan proceeds in 2021, but due to the timing of expenditures on the ERO SEL capital investment, NERC borrowed approximately \$683k in 2021 to fund costs of the project primarily carried over from 2020. Accordingly, debt principal payments in 2021 were lower than budgeted since the loan did not occur until later in the year. The total borrowing for the ERO SEL project in 2020 and 2021 was \$25k less than the \$2.0 million approved

by the NERC Board of Trustees in 2020 for the project initial investment, and the total capital costs incurred in 2020 and 2021 were slightly under the approved budget of \$3.8M.

- Reserves are higher than budget by \$3.1 million, primarily due to 1) reduced in-person meeting and travel costs due to the pandemic, 2) net financing activity due to loan proceeds received in 2021 and lower than budgeted loan principal payments, and 3) underspend in CRISP department contractor costs partially offset by overspend in other department contractor costs.

Variations by Department

DIRECT EXPENSES, FIXED ASSETS, AND FINANCING ACTIVITY	YTD Actual	YTD Budget	YTD Over (Under)	% Over (Under)
Reliability Standards and Power Risk Issue Management	\$ 3,882,316	\$ 3,627,620	\$ 254,695	7.0%
Compliance Assurance	5,912,049	6,508,460	(596,412)	(9.2%)
Registration and Certification	1,134,145	1,248,210	(114,066)	(9.1%)
Compliance Enforcement	3,935,544	4,244,467	(308,923)	(7.3%)
Power System Analysis	319,629	428,239	(108,610)	(25.4%)
Reliability Assessment and Technical Committees	1,910,046	1,957,274	(47,228)	(2.4%)
Advanced System Analytics and Modeling & Power System Analysis	2,054,593	2,503,640	(449,047)	(17.9%)
Performance Analysis	1,351,982	1,665,414	(313,432)	(18.8%)
Situation Awareness	2,704,974	2,790,692	(85,718)	(3.1%)
Event Analysis	1,793,161	2,389,731	(596,569)	(25.0%)
E-ISAC	12,136,866	12,698,677	(561,812)	(4.4%)
Training, Education and Personnel Certification	1,488,063	1,635,119	(147,056)	(9.0%)
General and Administrative and Executive	8,637,544	8,445,444	192,100	2.3%
Legal and Regulatory	5,116,464	4,631,911	484,553	10.5%
External Affairs	2,854,179	2,859,325	(5,146)	(0.2%)
Information Technology	12,851,193	12,936,602	(85,409)	(0.7%)
Human Resources and Administration	2,765,661	2,775,720	(10,059)	(0.4%)
Finance and Accounting	2,075,831	2,052,043	23,789	1.2%
TOTAL (excluding CRISP)	\$ 72,924,241	\$ 75,398,589	\$ (2,474,348)	(3.3%)
CRISP	7,202,980	7,484,651	(281,671)	(3.8%)
TOTAL DIRECT EXPENSES, FIXED ASSETS, AND FINANCING ACTIVITY	\$ 80,127,220	\$ 82,883,240	\$ (2,756,020)	(3.3%)

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

- Reliability Standards and Power Risk Issue Management – Over budget in personnel costs mainly due to the repurposing of one FTE from the Advanced System Analytics and Modeling & Power System Analysis department to this department, as well as higher than budgeted contractor costs, partially offset by lower meeting and travel expenses.
- Compliance Assurance – Under budget largely because of lower personnel costs due to lower FTEs, as well as lower meeting and travel expenses, partially offset by higher contractor costs.
- Compliance Enforcement – Under budget primarily attributable to lower personnel costs because of lower FTEs and also because of lower travel costs.
- Advanced System Analytics and Modeling & Power System Analysis – Under budget largely due to the repurposing of one FTE to the Reliability Standards and Risk Issue Management department and also because of lower travel and software license and support costs.
- Performance Analysis – Under budget mainly because of personnel expenses due to lower FTEs than budgeted and also because of lower travel expenses.
- Event Analysis – Under budget primarily attributable to lower personnel expenses due to the transfer of an open FTE position to Situation Awareness and also because of lower travel expenses.

- E-ISAC – Under budget mostly because of lower personnel expenses due to the allocation of part of an FTE to support administrative department projects, and lower travel and meeting expenses.
- Legal and Regulatory – Over budget primarily due to contract and consultants expense for internal audit staff augmentation and support for corporate risk management initiatives, outside counsel support for the Atlanta and DC office lease negotiations, and higher personnel expenses because of transition costs.
- CRISP – Under budget largely as a result of lower third party contractor and pilot contractor costs, partially offset by higher software license and liability insurance costs.

Supplemental Schedules

Schedule 1 – Year-End Actual Reserves

Reserve Account	1/1/2021		Unbudgeted Funding/(Use)	Operating and Financing Activity		12/31/2021	
	Beginning Balance ⁽¹⁾	Budgeted Funding/(Use) ⁽²⁾		Versus Budget ⁽³⁾	Ending Balance		
NERC Operating Contingency	\$ 7,982,913	\$ (1,800,000)	\$ -	\$ 2,551,666	\$	\$ 8,734,579	
Future Obligations	1,657,901	(551,600)	275,542	-		1,381,843	
Assessment Stabilization	2,521,000	-	-	-		2,521,000	
System Operator	996,220	-	-	(77,010)		919,210	
CRISP Defense Fund	500,000	-	-	-		500,000	
CRISP Operating ⁽⁴⁾	-	-	1,419,796	-		1,419,796	
CRISP Special Projects ⁽⁵⁾	1,049,549	-	(674,675)	-		374,874	
Total Reserves	\$ 14,707,584	\$ (2,351,600)	\$ 1,020,663	\$ 2,474,655	\$	\$ 15,851,303	

NOTES:

(1) 2021 beginning balances have been adjusted from the 12/31/2020 variance report balances as the result of a reconciliation to the final audited balance sheet.

(2) The 2021 Business Plan & Budget contained a budgeted use of Operating Contingency Reserves totaling \$1,800,000 to lower assessments for costs associated with the Compliance Monitoring and Enforcement Program Align project. The Future Obligations Reserve decrease of \$551,600 is a budgeted use of deferred rent reserves to fund a portion of office lease costs.

(3) 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.

(4) On November 17, 2021, an amendment to the CRISP contract was sent to the CRISP participants stipulating that any unspent funds collected from the CRISP participants will be directed to a new CRISP Operating Reserve category exclusively for CRISP use, starting with 2021 funds. The amendment has been signed by all CRISP participants. This treatment of excess current year funding received from CRISP participants above actual expenses being placed in reserve is a departure from prior practice, which was to return unspent money to the participants in the following budget year.

\$600k of the money that will fund the CRISP Operating Reserve was approved via the 2021 Business Plan & Budget to be spent in 2021, but due to other CRISP projects undertaken during the year, it was not spent, and the current plan is to spend it on a project in 2022 that was approved by the participants in 2021.

(5) The money remaining in the CRISP Special Projects Reserve at the end of 2021, which was specifically for operational technology pilot projects, is from approximately \$1.0M of funding collected in and unable to be spent in 2020 that was expected to be spent on the same projects in 2021. However, due to other CRISP priorities and supply chain demands, the remainder was unable to be spent in 2021 and is anticipated to be spent on the same projects in 2022.

Schedule 2 – IT Projects

Projects in Progress	Project Budget ⁽¹⁾	Actual Spend to Date	Expected Spend	Expected Over (Under) Budget
Align Initial Development through Release 3	\$ 7,203,000	\$ 7,249,618	\$ 7,249,618	\$ 46,618
E-ISAC Portal Replacement	259,680	259,680	259,680	-
CRISP Dragos Operational Technology Pilot	426,000	299,675	426,600	-

Projects Completed in 2021	Project Budget ⁽¹⁾	Actual Spend
Secure Evidence Locker	\$ 2,265,000	\$ 2,171,312
Mobile Device Management/Laptop Build	36,000	62,573
SAFNR Disaster Recovery	78,516	67,372

NOTES:

(1) The Project Budget noted above usually corresponds to the approved business case for each project and funds for each project are drawn from the available budget. In some projects, business cases may not be prepared, particularly when a project is smaller and/or may be in response to a FERC order.

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

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

Schedule 2 (continued) – IT Projects

Align Initial Development through Release 3

(Started Q2 2017 / Release 3 Completed Q4 2021)

This project will provide registered entities, Regional Entities, and NERC the ability manage the compliance and enforcement processes and data in a single ERO Enterprise system. Today, those processes and related data are managed across three separate systems that have to be synchronized (webCDMS, CITS, and CRATS). Release 4 to be completed in 2022.

CRISP Dragos Operational Technology Pilot

(Started Q4 2020 / Planned Completion Q1 2022)

The objective of this project is to measure the capabilities of the Dragos Platform to evaluate cyber security risks based upon data made available through CRISP. Additionally, the pilot 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 one-year pilot will be funded through CRISP and benefit its participants, but will enrich the overall threat intelligence capabilities of the E-ISAC.

E-ISAC Portal Replacement

(Started Q3 2020 / Planned Completion Q1 2022)

This project will re-platform the current portal and ticket/case system, which will combine 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.

Secure Evidence Locker

(Started Q2 2020 / Completed Q1 2021)

This is a key component of the NERC's reimagined suite of Compliance Monitoring and Enforcement Program (CMEP) work and data management tools and is being implemented in conjunction with Align. It will be used for the collection and analysis of evidence provided by registered entities in connection with CMEP activities.

Mobile Device Management/Laptop Build

(Started Q1 2021 / Completed Q2 2021)

This project provided NERC with the capability to secure mobile devices and send laptops to remote employees while having most of the build completed remotely, thereby reducing the time required to build the laptop in the office and then ship to employees.

SAFNR Disaster Recovery

(Started Q3 2020 / Completed Q3 2021)

This project involved the installation of a redundant instance of the SAFNR application in NERC's data warehouse to be activated in a disaster recovery situation should the primary site become physically unavailable.

Schedule 3 – E-ISAC and CRISP Summary of Activity

FUNDING	Annual Actual	Annual Budget	Over (Under)
Assessments	\$ 22,673,035	\$ 22,673,035	\$ 0
Other Funding	7,736,916	7,148,703	588,213
TOTAL FUNDING	\$ 30,409,951	\$ 29,821,738	\$ 588,213
<u>EXPENDITURES</u>			
Personnel Expense	\$ 9,337,275	\$ 9,463,819	\$ (126,544)
Meetings and Travel Expense	52,140	297,080	(244,940)
Operating Expenses (excluding Depreciation)	9,920,429	10,339,429	(419,000)
Other Non-Operating Expenses	-	-	-
Fixed Asset Purchases (excluding Fixed Asset Allocation)	30,000	83,000	(53,000)
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	-
Total Direct Costs (excluding Depreciation and Allocations)	\$ 19,339,845	\$ 20,183,328	\$ (843,483)
Indirect Expense Allocation	10,163,290	9,315,576	847,714
Fixed Asset Allocation	69,803	188,624	(118,821)
Net Financing Activity Allocation	115,767	134,209	(18,442)
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 29,688,705	\$ 29,821,738	\$ (133,033)
RESERVE INCREASE (DECREASE)	\$ 721,246	\$ 0	\$ 721,246

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

CRISP

FUNDING	Annual Actual	Annual Budget	Over (Under)
Assessments	\$ 1,095,863	\$ 1,095,863	\$ 0
Other Funding	7,675,197	7,100,343	574,854
TOTAL FUNDING	\$ 8,771,060	\$ 8,196,207	\$ 574,854
EXPENDITURES			
Personnel Expense	\$ 904,300	\$ 833,011	\$ 71,289
Meetings and Travel Expense	27,574	28,939	(1,365)
Operating Expenses (excluding Depreciation)	6,241,106	6,572,701	(331,595)
Other Non-Operating Expenses	-	-	-
Fixed Asset Purchases (excluding Fixed Asset Allocation)	30,000	50,000	(20,000)
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	-
Total Direct Costs (excluding Depreciation and Allocations)	\$ 7,202,980	\$ 7,484,651	\$ (281,671)
Indirect Expense Allocation	930,008	687,687	242,321
Fixed Asset Allocation	6,387	13,946	(7,559)
Net Financing Activity Allocation	10,593	9,923	671
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 8,149,968	\$ 8,196,207	\$ (46,238)
RESERVE INCREASE (DECREASE)	\$ 621,092	\$ (0)	\$ 621,092

E-ISAC (excluding CRISP)

FUNDING	Annual Actual	Annual Budget	Over (Under)
Assessments	\$ 21,577,172	\$ 21,577,172	\$ 0
Other Funding	61,719	48,360	13,359
TOTAL FUNDING	\$ 21,638,891	\$ 21,625,531	\$ 13,359
EXPENDITURES			
Personnel Expense	\$ 8,432,975	\$ 8,630,809	\$ (197,833)
Meetings and Travel Expense	24,567	268,141	(243,574)
Operating Expenses (excluding Depreciation)	3,679,324	3,766,728	(87,404)
Other Non-Operating Expenses	-	-	-
Fixed Asset Purchases (excluding Fixed Asset Allocation)	-	33,000	(33,000)
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	-
Total Direct Costs (excluding Depreciation and Allocations)	\$ 12,136,866	\$ 12,698,677	\$ (561,812)
Indirect Expense Allocation	9,233,282	8,627,890	605,393
Fixed Asset Allocation	63,415	174,678	(111,263)
Net Financing Activity Allocation	105,174	124,286	(19,113)
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 21,538,737	\$ 21,625,531	\$ (86,794)
RESERVE INCREASE (DECREASE)	\$ 100,154	\$ 0	\$ 100,154

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	\$ 22,716,643	TDDXX	BlackRock Liquidity Fund FedFund Dollar	AAAm	0.03%
SOCCEd Account Sweep	1,597,833	TDDXX	BlackRock Liquidity Fund FedFund Dollar	AAAm	0.03%
CRISP Account Sweep	4,604,020	TDDXX	BlackRock Liquidity Fund FedFund Dollar	AAAm	0.03%
<u>Total Cash Sweep Accounts</u>	<u>\$ 28,918,496</u>				
<u>Investment Account</u>					
Reserve Funds	\$ 8,471,776	GRTXX	Federated Hermes Government Obligations Fund	AAAm	0.03%
<u>Total Investments</u>	<u>\$ 8,471,776</u>				

Total ERO Enterprise (NERC and Regional Entities Combined)

Summary of Unaudited Results

December 31, 2021

The ERO Enterprise was under budget \$7.6M (3.6%) for combined expense and fixed asset (capital) spending and net financing activity. The budget variances ranged from 9.3% under budget to 0.3% over budget.

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

Entity	2021 YTD		2021 YTD		Over (Under)	
	Actual		Budget		\$	%
NERC	\$ 80,127,218	\$	82,883,238	\$	(2,756,020)	(3.3%)
MRO	17,509,135		18,412,202		(903,067)	(4.9%)
NPCC	14,913,199		16,440,649		(1,527,450)	(9.3%)
RF	23,868,018		24,785,492		(917,474)	(3.7%)
SERC	25,140,857		25,829,079		(688,222)	(2.7%)
Texas RE	14,258,456		14,211,538		46,918	0.3%
WECC	27,740,206		28,605,029		(864,823)	(3.0%)
	\$ 203,557,089	\$	211,167,226	\$	(7,610,138)	(3.6%)

- NERC was under budget \$2.8M (3.3%) primarily as a result of lower personnel, meeting, and travel expenses, as well as net financing activity, partially offset by higher office costs and professional services.
- MRO was under budget \$903k (4.9%) primarily due to continued effects of the pandemic on in-person meetings, travel, use of external consultants, professional services, and office costs. Reallocation of costs from these areas offset unbudgeted fixed asset and personnel costs.
- NPCC was under budget \$1.5M (9.3%) mainly as a result of lower meetings and travel expenses due to the pandemic and lower consultants and contracts expenses due to the discontinued use of contract auditors for compliance auditing activities (replaced by FTEs).
- RF was under budget \$917k (3.7%) largely because of reduced meeting, travel, and training activities due to the pandemic, and lower medical benefit costs. This was partially offset by unbudgeted fees for an additional independent director, fixed asset purchases related to an office expansion project, and costs associated with payroll system improvements.

- SERC was under budget \$688k (2.7%) largely due to ongoing impacts of the pandemic associated with in-person meetings and travel. Cost savings from these areas were reallocated to offset unplanned acceleration of multiple member portal projects.
- Texas RE was over budget \$47k (0.3%) largely as a result of absorbing costs previously allocated to its former non-statutory function as the Texas Reliability Monitor, executive coaching and consulting fees, and non-operating expense related to office relocation.
- WECC was under budget \$865k (3.0%) primarily due to the net of an underrun in meeting and travel expenses, an overrun in personnel expenses, and timing differences in consulting.

Variances 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 \$27k (0.0%), ranging from 1.7% under budget to 3.5% over budget. The ERO Enterprise was under budget in FTEs by 17.5 (2.4%). Significant variances are explained below.

Entity	Personnel Expenses				FTEs*			
	2021 YTD Actual	2021 YTD Budget	Over (Under)		2021 YTD Actual	2021 YTD Budget	Over (Under)	
			\$	%				%
NERC	\$ 47,837,126	\$ 48,189,434	\$ (352,308)	(0.7%)	208.8	213.4	(4.6)	(2.2%)
MRO	13,746,053	13,283,737	462,316	3.5%	65.5	66.0	(0.5)	(0.8%)
NPCC	11,459,138	11,398,962	60,176	0.5%	42.0	41.1	0.9	2.1%
RF	20,785,651	21,152,691	(367,040)	(1.7%)	82.1	84.4	(2.3)	(2.7%)
SERC	20,093,266	20,060,580	32,686	0.2%	96.0	100.0	(4.0)	(4.0%)
Texas RE	10,762,637	10,944,474	(181,837)	(1.7%)	59.0	63.0	(4.0)	(6.3%)
WECC	22,800,820	22,481,916	318,904	1.4%	145.6	148.5	(2.9)	(2.0%)
	\$ 147,484,692	\$ 147,511,794	\$ (27,102)	(0.0%)	698.9	716.3	(17.5)	(2.4%)

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

- NERC was under budget \$352k (0.7%) mainly due to lower medical insurance premiums due to lower rates and fewer FTEs, lower parking and transportation benefits due to the pandemic, and lower relocation and training costs.
- MRO was over budget \$462k (3.5%) due to a combination of early hires, promotions, wage adjustments, performance awards, correction of under-budgeted incentive bonus and the impact of these changes to salary based retirement costs.
- NPCC was over budget \$60k (0.5%) mainly as a result of a higher staffing level than budgeted (fully staffed versus budgeted 6% vacancy factor) offset by lower-than-budgeted insurance premiums.
- RF was under budget \$367k (1.7%) primarily due underutilized budgeted training as a result of the cancellation of training activities due to the pandemic, and lower medical benefits due to

personnel count that was below the approved staffing levels during the first part of the year, along with employees selecting medical plans that differed from what was budgeted.

- SERC was over budget \$33k (0.2%) due to improved hiring and retaining of talent resulting in lower than budgeted vacancies offset by lower than budgeted insurance rate renewal and timing of relocation expenses
- Texas RE was under budget \$182k (1.7%) predominately as a result of lower-than-budgeted health insurance increases and savings and retirement forfeitures being used to fund the account when available.
- WECC was over budget \$319k (1.4%) primarily due to a net of lower-than-anticipated vacancy rates and health reimbursements.

Meetings, Conference Calls, and Travel Expenses

For the ERO Enterprise, meetings, conference calls, and travel expenses were collectively under budget \$8.1M (92.9%). All entities were under budget because of decreased meeting and travel expenses due to the pandemic.

Meetings, Conference Calls, and Travel Expenses

Entity	2021 Budget	Meetings & Conference Calls		Travel		2021 Actual		Over (Under)	
		Over (Under)	Over (Under)	Over (Under)	Over (Under)	\$	%		
NERC	\$ 2,201,748	\$ (701,937)	\$ (1,219,917)	\$ 279,894	\$ (1,921,854)	(87.3%)			
MRO	963,267	(202,102)	(755,607)	5,558	(957,709)	(99.4%)			
NPCC	1,062,320	(319,889)	(721,037)	21,394	(1,040,926)	(98.0%)			
RF	980,635	(314,731)	(592,812)	73,092	(907,543)	(92.5%)			
SERC	1,400,940	(356,286)	(965,104)	79,550	(1,321,390)	(94.3%)			
Texas RE	407,085	30,212	(354,621)	82,676	(324,409)	(79.7%)			
WECC	1,732,077	(537,321)	(1,117,805)	76,951	(1,655,126)	(95.6%)			
\$	8,748,072	(2,402,054)	(5,726,903)	\$ 619,115	\$ (8,128,958)	(92.9%)			

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 \$610k (1.2%). Significant variances are explained below.

Operating Expenses

Entity	2021 Budget	Contracts & Consulting Expenses					2021 Actual		Over (Under)	
		Over (Under)	Office Rent Over (Under)	Office Costs Over (Under)	Professional Services Over (Under)	Miscellaneous Over (Under)	\$	%		
NERC	\$ 28,766,294	\$ (106,202)	\$ (48,041)	\$ 222,714	\$ 293,651	\$ (51,646)	\$ 29,076,770	\$ 310,476	1.1%	
MRO	3,915,198	(474,162)	(193,078)	(170,579)	(102,166)	-	2,975,213	(939,985)	(24.0%)	
NPCC	4,273,362	(468,879)	(114,138)	1,400	44,173	(36,253)	3,699,665	(573,697)	(13.4%)	
RF	2,434,666	(26,666)	(19,263)	124,191	211,008	(9,307)	2,714,629	279,963	11.5%	
SERC	4,167,559	(332,219)	(17,736)	173,926	(58,586)	-	3,932,944	(234,615)	(5.6%)	
Texas RE	2,809,979	132,214	77,810	117,748	(60,707)	-	3,077,044	267,065	9.5%	
WECC	4,979,945	(40,039)	(72,439)	240,975	152,471	-	5,260,913	280,968	5.6%	
\$	51,347,002	(1,315,953)	(386,885)	\$ 710,375	\$ 479,844	(97,206)	\$ 50,737,178	\$ (609,825)	(1.2%)	

- NERC was over budget \$310k (1.1%) primarily due to higher software license and support costs, a portion of which is being funded with the CRISP Special Projects reserve. Professional Services expenses are over budget largely due to fees for an additional NERC trustee and increased costs for liability insurance.
- MRO was under budget \$940k (24.0%) which is attributable primarily to reduced spending in consulting, contracts, professional services, and office costs as MRO continues to manage its systems and processes without the need for external support. Facility costs are also less than budgeted due to reduction in utilities and building maintenance costs.
- NPCC was under budget \$574k (13.4%) predominately due to replacing the use of independent contractors with FTEs for compliance auditing activities.
- RF was over budget \$280k (11.5%) primarily due to increased annual fees related to an additional board approved director, furniture purchases for an unbudgeted office expansion project, an unbudgeted search fee for an independent director, and accounting fees related to a payroll system upgrade, partially offset by less-than-budgeted contracts and consultants expense for compliance monitoring functions.
- SERC was under budget \$235k (5.6%) primarily because projects budgeted under contracts and consultants expenses were more appropriately charged to fixed assets while some projects were deferred. Professional fees were less than budget contributing to the variance.
- Texas RE was over budget \$267k (9.5%) largely as a result of (i) unbudgeted consulting fees for executive coaching and software training; (ii) higher utilities resulting from the winter storm; (iii) absorbing rent previously allocated to the Texas RE's non-statutory function as the Texas Reliability Monitor; and (iv) special cleaning and other needs related to the pandemic. This is partially offset by lower professional services costs. Texas RE also had \$336k unbudgeted consulting fees related to the office relocation, which is recorded as non-operating expenses.
- WECC was over budget \$281k (5.6%) primarily due to the net of higher-than-anticipated costs for computer licensing and unbudgeted enterprise security tools, unbudgeted legal fees related to unanticipated regulatory activities, and the timing of information technology consulting.

Indirect Expense Allocation

NPCC and WECC allocate overhead expenses to their non-statutory functions. At year-end, NPCC allocated \$35k (9.1%) less than budgeted and WECC allocated \$44k (6.5%) less than budgeted.

Fixed Asset (Capital) Additions

For the ERO Enterprise, fixed asset (capital) additions were over budget \$1.7M (46.0%). Significant variances are explained below.

Entity	Fixed Asset Additions		Over (Under)	
	2021 YTD Actual	2021 YTD Budget	\$	%
NERC	\$ 2,903,196	\$ 2,751,500	\$ 151,696	5.5%
MRO	782,311	250,000	532,311	212.9%
NPCC	85,893	94,000	(8,107)	(8.6%)
RF	294,646	217,500	77,146	35.5%
SERC	1,035,097	200,000	835,097	417.5%
Texas RE	-	50,000	(50,000)	(100.0%)
WECC	244,506	98,527	145,979	148.2%
	\$ 5,345,649	\$ 3,661,527	\$ 1,684,122	46.0%

- NERC was over budget \$151k (5.5%) primarily due to the timing of approximately \$636k in expenditures for the ERO Security Evidence Locker (SEL) project that were approved to be spent and financed in 2020 but were incurred and financed in 2021. This is partially offset by lower than budgeted spending for IT equipment and servers.
- MRO was over budget \$532k (212.9%), which is attributable primarily to costs incurred for an office expansion that was completed in the first quarter. The company received an allowance to cover the lessor's portion of the improvements and used working capital savings realized in 2020 to cover the remaining over spend in fixed assets.
- RF was over budget \$77k (35.5%) due to audio visual equipment costs related to an unbudgeted office expansion project.
- SERC was over budget \$835k (417.5%) as the timeline for consolidating multiple member portals was accelerated, driving variance over budget.
- WECC was over budget \$146k (148.2%) primarily due to unbudgeted improvements to the Salt Lake City office and meeting space. Most of the variance has been reimbursed by the landlord through a negotiated tenant improvement allowance.

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 SEL, and leased audio visual and IT equipment.

The Net Financing Activity budget did not contemplate NERC receiving loan proceeds in 2021, but due to the timing of expenditures on the ERO SEL capital investment, NERC borrowed approximately \$683k in 2021 to fund costs of the project primarily carried over from 2020. Accordingly, debt principal payments in 2021 were lower than budgeted since the loan did not occur until later in the year. The total borrowing for the ERO SEL project in 2020 and 2021 was \$25k less than the \$2.0 million approved by the NERC Board of Trustees for the project initial investment, and the total capital costs were slightly under the approved budget of \$3.8M.

Total ERO Enterprise Reserves

Total ERO Enterprise Summary of Unaudited Results (ERO Quarterly Variance Reports) prior to 2021 have 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.

2021 Total Reserve Summary

The ERO Enterprise began the year with \$71.7M in total reserves, including \$37.1M in WCOCR, \$24.9M in ASR and Unreleased Penalties, and \$9.7M in Other Reserves.

The ERO Enterprise ends the year with \$77.2M in total reserves, including \$42.8M in WCOCR, \$26.0M in ASR and Unreleased Penalties, and \$8.4M in Other Reserves. The WCOR for the end of the year is 20.3% of the 2021 ERO Enterprise combined budget, or 2.4 months of operating expenses. The total reserves for the end of the year represents 36.6% of the 2021 ERO Enterprise combined budget, or 4.4 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 - 2021 Year End Reserves

\$ - millions

Entity	Beginning WCOCR ⁽¹⁾	Beginning ASR ⁽²⁾ & Unreleased Penalties	Beginning Other Reserves	1/1/2021 Beginning Total Reserves	Year End WCOCR ⁽¹⁾	Year End ASR ⁽²⁾ & Unreleased Penalties	Year End Other Reserves	12/31/2021 Year End Total Reserves	Total 2021 Budget	% of Reserves to 2021 Total Budget
NERC	\$ 8.1	\$ 2.5	\$ 4.1	\$ 14.7	\$ 8.7	\$ 2.5	\$ 4.6	\$ 15.8	\$ 82.9	19.1%
MRO	5.9	2.6	-	8.5	5.3	3.2	-	8.5	18.4	46.2%
NPCC	5.6	0.6	0.6	6.8	6.5	1.0	-	7.5	16.4	45.7%
RF	4.0	6.5	-	10.5	7.8	5.3	-	13.1	24.8	52.8%
SERC	2.9	4.8	-	7.7	2.8	5.4	-	8.2	25.8	31.8%
Texas RE	2.0	1.6	1.2	4.8	2.0	1.9	-	3.9	14.2	27.5%
WECC	8.6	6.3	3.8	18.7	9.7	6.7	3.8	20.2	28.6	70.6%
	\$ 37.1	\$ 24.9	\$ 9.7	\$ 71.7	\$ 42.8	\$ 26.0	\$ 8.4	\$ 77.2	\$ 211.1	36.6% ⁽³⁾

⁽¹⁾ WCOCR - Working Capital & Operating Contingency Reserve - Year End 12/31/21 WCOCR is 20.3% of annual 2021 budget, or 2.4 months of budgeted expenses

⁽²⁾ ASR - Assessment Stabilization Reserve

⁽³⁾ Year End 12/31/21 total reserve balance is 36.6% of annual 2021 budget, or 4.4 months of budgeted operating expenses



**MIDWEST
RELIABILITY
ORGANIZATION**

380 St. Peter St, Suite 800
Saint Paul, MN 55102
www.MRO.net
651-855-1760

Lam Chung, Corporate Treasurer
P: 651.256.5187
F: 651.855.1712
E: lam.chung@mro.net

January 20, 2022

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

RE: Unaudited Midwest Reliability Organization (MRO) 2021 Fourth Quarter Statement of Activity –
Cash Flow through December 31, 2021

Dear Mr. Sharp:

MRO experienced variances greater than \$10,000 and 10 percent. Fourth quarter results indicate that MRO's budget remains underspent by 4.8 percent.

Meeting Expenses (Variance of \$957,709 (99.4%) under budget)

Meetings and travel have been severely impacted by COVID-19. MRO transitioned to 100 percent virtual means using WebEx technology through year-end. In-person meetings and travel will be re-evaluated in first quarter 2022.

Operating Expenses (Variance of \$939,985 (24.0%) under budget)

There is reduced spending in Consultants and Contracts, Professional Services, and Office Costs due to COVID-19. Staff worked through remote capability and much of the cost to maintain onsite operations remained low. Need for outside consulting and services in main technical areas was also minimal as staff managed its work with greater use of virtual technology. Internal IT staff continue to maintain MRO's virtual environment, reducing the need for external IT support.

Fixed Assets (Variance of \$532,211 (212.9%) over budget)

Final construction costs were paid for an unbudgeted board-approved office expansion. Working capital savings from 2020 were used to pay for office expansion costs. Additionally, a tenant improvement allowance payment offset a portion of the construction costs expended. Supply chain challenges have disrupted the timing of a budgeted capital asset. It is anticipated that a portion of working capital savings realized in 2021 will be used to pay for this asset in 2022.

2021 Budget Summary

Personnel expenses were 3.7% over budget (variance of \$489,683) due to a combination of early hires, promotions, wage and incentive adjustments, and the impact of these changes to salary based retirement costs. The 2021 budget has seen minimal travel and in-person meetings as a result of the pandemic. Reallocation of costs in this area and in operating expenses offset the unbudgeted costs in personnel and fixed assets.



2022 Budget Outlook

At this time, we expect to meet the 2022 budget. There are external factors that may continue to present a challenge to the budget in the form of reduced travel and in-person meetings as a result of the ongoing pandemic, talent shortage constraints to recruitment, and supply-chain delays in procurement of supplies and equipment.

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
12/30/2021
PRELIMINARY (Unaudited)**

(In Whole Dollars)

	2021 YTD Actual	2021 YTD Budget	2021 YTD Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 16,983,251	\$ 16,983,251	-	
Penalty Sanctions	360,504	360,504	-	
A. Total ERO Funding	\$ 17,343,756	\$ 17,343,755	\$ -	
Expenses				
Personnel Expenses				
Salaries	\$ 10,352,688	\$ 10,059,263	293,425	
Payroll Taxes	703,454	631,892	71,562	
Benefits	998,647	1,064,374	(65,727)	
Retirement Costs	1,718,632	1,528,208	190,424	
Total Personnel Expenses	\$ 13,773,420	\$ 13,283,737	\$ 489,683	3.7%
Meeting Expenses				
Meetings & Conference Calls	\$ 2,798	\$ 204,900	(202,102)	
Travel	2,760	758,367	(755,607)	
Total Meeting Expenses	\$ 5,558	\$ 963,267	\$ (957,709)	-99.4%
Operating Expenses				
Consultants & Contracts	\$ 865,539	\$ 1,339,701	(474,162)	
Office Rent	975,622	1,168,700	(193,078)	
Office Costs	716,718	887,297	(170,579)	
Professional Services	417,334	519,500	(102,166)	
Total Operating Expenses	\$ 2,975,213	\$ 3,915,198	\$ (939,985)	-24.0%
Total Direct Expenses	\$ 16,754,191	\$ 18,162,202	\$ (1,408,011)	-7.8%
Indirect Expenses				
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
B. Total Expenses	\$ 16,754,191	\$ 18,162,202	\$ (1,408,011)	
Net Funding less Expenses (A-B)	\$ 589,565	\$ (818,447)	\$ 1,408,011	
C. Fixed Asset Additions, excluding Right of Use Assets	\$ 782,311	\$ 250,000	\$ 532,311	212.9%
Total Budget (B + C)	\$ 17,536,501	\$ 18,412,202	\$ (875,701)	-4.8%
Change in Working Capital (A-B-C)	\$ (192,745)	\$ (1,068,447)	\$ 875,701	
Head Count	65.00	66.00	(1.00)	
FTEs	65.50	66.00	(0.50)	

Reserve Activity:

Beginning Reserves - 1/1/21	\$ 8,504,677	\$ 6,811,768	\$ 1,692,909
Change to Working Capital	(192,745)	(1,068,447)	875,702
Penalties Received	517,078	-	517,078
Penalties Released	(360,504)	(360,504)	-
Other Reserve Activity	-	-	-
Ending Reserves at 12/31/21 :	\$ 8,468,506	\$ 5,382,817	\$ 3,085,689

Reserve Summary

	1/1/2021	Additions	Uses/Transfer	12/31/2021
Working Capital & Operating Contingency	5,904,677	875,701	(1,500,000)	5,280,377
Assessment Stabilization & Penalty Reserves	2,600,000	2,017,078	(1,428,951)	3,188,127
Other Reserve Activity	-	-	-	-
Total Reserves	8,504,677	2,892,779	(2,928,951)	8,468,504



NORTHEAST POWER COORDINATING COUNCIL, INC.
1040 AVE OF THE AMERICAS. NEW YORK, NY 10018 (212) 840-1070 FAX (212) 302-2782

January 20, 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
Fourth Quarter 2021 Statement of Activities

Dear Andy:

The variance comparison for the period ended December 31, 2021 is included along with Northeast Power Coordinating Council, Inc.'s unaudited Fourth Quarter 2021 Statement of Activities.

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

Sincerely,

Jessica Hala

Jessica Hala
Director, Finance and Accounting

Enclosures

cc: Mr. Charles Dickerson – NPCC President & CEO
Ms. Kristin McKeown – NPCC Senior Vice President, CAO & General Counsel
Mr. Christopher Weir, CPA – NPCC Treasurer
ERO Finance Group



NORTHEAST POWER COORDINATING COUNCIL, INC.
1040 AVE OF THE AMERICAS, NEW YORK, NY 10018 (212) 840-1070 FAX (212) 302-2782

NPCC Regional Entity Division Budget to Actual Variance Comparison as of December 31, 2021

TOTAL EXPENSES

For the year ending December 31, 2021, the NPCC Regional Entity Division is \$1.5M or 9.29% under budget, based on invoices received to date. This under-spend will be factored into NPCC's reserve requirements calculations to reduce future assessments. Meeting and travel expenses were significantly under budget as a result of in-person meetings and travel being suspended due to the COVID-19 pandemic. Consultants and contracts expenses were under budget as a result of NPCC replacing the use of independent contractor compliance auditors with full time employees (FTEs). Decreased consultants and contracts expenses were partially offset by increased personnel expenses. Despite several partial year open positions, NPCC successfully reprioritized 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 2021 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** (\$68k under budget at year end)
Under budget variance is a result of NPCC's 2021 Standards and Compliance Workshops being converted to virtual format to allow for remote participation due to continuing in-person meeting and travel limitations as a result of the COVID-19 pandemic. The virtual workshops have received positive feedback and high attendance. Fees are only charged for in-person workshops in order to offset the associated expenses. There are no fees collected for virtual workshop participation.
- **Interest & Investment Income** (\$54k under budget at year end)
Interest & investment income is earned from the investment of excess operating cash in a 100% U.S. Treasury Securities money market fund. NPCC allocated \$3k 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 2021 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 \$60k over budget at year end)
Two full time employees (FTEs) were onboarded during the fourth quarter. In response to the COVID-19 pandemic, NPCC adjusted recruiting and hiring procedures through the use of telephone and video conference interviews with candidates, and remote onboarding of newly hired personnel. Increased personnel expenses in the compliance program area were offset by decreased consultants and contracts expense. Benefits expenses were under budget as a result of lower than budgeted increases in medical insurance premiums and cost savings resulting from the consolidation of multiple insurance carriers.
- **Meeting Expenses** (Variance of \$1M under budget at year end)
Under budget variance resulted from continued in-person meeting and travel limitations due to the COVID-19 pandemic. NPCC's 2021 Standards and Compliance Workshops were converted to a virtual format to allow for remote participation. Other meetings were also conducted successfully via video conference and teleconference.
- **Consultants and Contracts** (Variance of \$469k under budget at year end)
Under budget variance is the result of NPCC replacing the use of independent contractor compliance auditors with FTEs. Decreased consultants and contracts expenses are partially offset by increased personnel expenses in the compliance program.
- **Rent and Improvements** (Variance of \$114k under budget at year end)
Maintenance, utilities and landlord operating expenses were lower than budgeted related to remote working due to the COVID-19 pandemic.

(Unaudited)
Submitted January 20, 2022



Northeast Power Coordinating Council, Inc. - Regional Entity Division
Statement of Activities, Fixed Assets and Change in Working Capital
(Unaudited)
For the Period Ended December 31, 2021

	2021 YTD Actual	2021 YTD Budget	2021 YTD Actual Variance from Budget Over(Under)	%
Funding				
Assessments	15,154,584	15,154,584	0.1200	
Penalties Released*	201,132	201,132	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	-	67,500	(67,500)	
Interest & Investment Income	2,613	56,264	(53,652)	
Total Funding	15,358,329	15,479,480	(121,151)	-0.78%
Expenses				
Personnel Expenses				
Salaries	8,268,278	7,982,119	286,159	
Payroll Taxes	555,264	485,768	69,496	
Employee Benefits	1,748,675	2,021,243	(272,568)	
Savings & Retirement	886,921	909,832	(22,912)	
Total Personnel Expenses	11,459,138	11,398,962	60,176	0.53%
Meeting Expenses				
Meetings & Conference Calls	14,511	334,400	(319,889)	
Travel	6,883	727,920	(721,037)	
Total Meeting Expenses	21,394	1,062,320	(1,040,926)	-97.99%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	1,040,922	1,509,800	(468,879)	
Rent & Improvements	756,003	870,141	(114,138)	
Office Costs	838,820	837,420	1,400	
Professional Services	1,049,173	1,005,000	44,173	
Miscellaneous	14,747	51,000	(36,253)	
Total Operating Expenses	3,699,665	4,273,362	(573,697)	-13.42%
Indirect Expense Allocation	(352,891)	(387,995)	35,104	-9.05%
Other Non-Operating Expenses	-	-	-	n/a
Total Expenses	14,827,306	16,346,649	(1,519,343)	-9.29%
Change in Net Assets	531,022	(867,169)	1,398,191	-161.24%
Fixed Asset Additions, excluding Right of Use Assets	85,893	94,000	(8,107)	-8.62%
Net Financing Activity	-	-	-	n/a
Total Budget (Expenses plus Fixed Assets and Net Financing Activity)	14,913,199	16,440,649	(1,527,450)	-9.29%
Change in Working Capital (Total Funding less Total Budget)	445,129	(961,169)	1,406,298	-146.31%
Equivalent Full Time Employees	41.95	41.09	0.86	
Headcount	44.40	43.00	1.40	
Beginning Total Reserves - 1/1/21	6,815,904	5,214,288	1,601,616	
Change to Working Capital	445,129	(961,169)	1,406,298	
Penalties Received (+)	460,000	-	-	
Penalties Released (-)	(201,132)	(201,132)	-	
Other Reserve Activity	-	-	-	
Total Reserves at 12/31/21	7,519,901	4,051,988	3,007,914	
Reserve Balance Summary				
Working Capital & Operating Contingency Reserves	6,491,965	3,649,120	2,842,845	
Assessment Stabilization & Penalty Reserves	1,027,937	402,868	625,069	
Other Reserves	-	-	-	
Total Projected Reserve Balance at 12/31/2021	7,519,901	4,051,988	3,467,914	

*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

January 20, 2022

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

ReliabilityFirst's 2021 4th Quarter Statement of Activities Variance Report - Unaudited

Dear Mr. Andy Sharp:

As requested, the attached 2021 4th Quarter Statement of Activities (unaudited) provides a comparison of budgeted and actual expenses relative to the 2021 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 2021 4th Quarter Statement of Activities Variance Report - Unaudited

Significant Variances

For the year-to-date period ending December 31, 2021 ReliabilityFirst Corporation was \$917K (3.7%) under budget. The major contributors to this variance were:

Budget Funding

- **Investment Income:** \$153K (306%) under budget for YTD
 - Investment Income was 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**
 - **Employee Benefits:** \$313K (13%) under budget for YTD
Employee Benefits were under budget primarily due to variances in training and medical benefits. Training was under budget due to underutilized budgeted training, as a result of the cancellation of training activities due to the Covid 19 pandemic. Medical benefits were under budget due to personnel count that was below the approved staffing levels during the year, along with employees selecting medical plans that differed from what was budgeted.
- **Meeting Expenses**
 - **Total Meeting Expenses:** \$908K (93%) under budget for YTD
Total meeting expenses were under budget due to the cancellation and reduction of meetings and travel activities as a result of the Covid 19 pandemic.
- **Operating Expenses**
 - **Office Costs:** \$124K (13%) over budget for YTD
Office costs were over budget primarily due to furniture purchases related to an unbudgeted office expansion.
 - **Professional Services:** \$211K (44%) over budget for YTD.
Professional Services were over budget primarily due to a search fee to replace an Independent Board Member, annual fees related to an additional board approved director in May, and an increase in accounting fees to implement payroll system improvements.



RELIABILITY FIRST

- **Fixed Assets**

- **Computer Hardware & Software:** \$77K (35%) over budget for YTD
Computer Hardware & Software were over budget primarily due to audio visual equipment purchases related to an unbudgeted office expansion.

FTE Count

- FTE Count was lower than budget primarily due to three budgeted 2021 positions that were mostly unfilled during the year. Two of these positions were filled mid-year and one remained open at year-end. In addition, there were several existing open and unfilled positions primarily during the last half of the year.

Reserves

- **Working Capital Reserve**

The Working Capital Reserve of \$5,230,418 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.



ReliabilityFirst Corporation
Statement of Activities, Fixed Assets and Change in Working Capital
(unaudited)
From 01/01/2020 Through 12/31/2020
(in Whole Numbers)

CONFIDENTIAL

	2020 YTD Actual	2020 YTD Budget	YTD Variance Over/(Under)	% Variance
Funding				
Assessments	22,764,995	22,764,995	0	0.00%
Penalties Released *	4,540,000	4,540,000	0	0.00%
Investment Income	(103,090)	50,000	(153,090)	-306.18%
Miscellaneous Income	3,956	0	3,956	0.00%
Total Funding	27,205,861	27,354,995	(149,134)	-0.55%
Expenses				
Personnel Expenses				
Salaries	15,303,506	15,372,329	(68,823)	-0.45%
Payroll Taxes	955,575	934,645	20,930	2.24%
Employee Benefits	2,039,279	2,351,930	(312,651)	-13.29%
Savings & Retirement Costs	2,487,291	2,493,787	(6,496)	-0.26%
Total Personnel Expenses	20,785,651	21,152,691	(367,040)	-1.74%
Meeting Expenses				
Meetings & Conference Calls	64,904	379,635	(314,731)	-82.90%
Travel	8,188	601,000	(592,812)	-98.64%
Total Meeting Expenses	73,092	980,635	(907,543)	-92.55%
Operating Expenses				
Contracts & Consultants	297,912	324,578	(26,666)	-8.22%
Rent & Utilities	608,829	628,092	(19,263)	-3.07%
Office Costs	1,080,967	956,776	124,191	12.98%
Professional Services	692,343	481,335	211,008	43.84%
Miscellaneous	34,578	43,885	(9,307)	-21.21%
Total Operating Expenses	2,714,629	2,434,666	279,963	11.50%
Non-Operating Expenses	0	0	0	0.00%
Total Expenses	23,573,372	24,567,992	(994,620)	-4.05%
Net Change in Assets	3,632,489	2,787,003	845,486	30.34%
Increase/(Decrease) in Fixed Assets	294,646	217,500	77,146	35.47%
Total Budget (Expenses + Incr/(Decr) in Fixed Assets)	23,868,018	24,785,492	(917,474)	-3.70%
Change in Working Capital (Total Funding less Total Budget)	3,337,843	2,569,503	768,340	29.90%
FTE Count	82.06	84.35	(2.29)	-2.71%
WC - 12/31/2020	(1,727,667)	(2,411,429)	683,762	
Less: Adjustment for future liabilities	(506,627)	0	(506,627)	
Available Working Capital	(2,234,294)	(2,411,429)	177,135	
Change to WC - 2021	3,337,843	2,569,503	768,340	
Other Adjustments to Reserves	(134,479)	(158,074)	23,595	
Total Working Capital	969,070	0	969,070	
Working Capital Reserve	5,230,418	5,230,418	0	
Operating Reserve	1,000,000	1,000,000	0	
Total Working Capital and Operating Reserve	7,199,488	6,230,418	969,070	

* 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



January 19, 2022

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

RE: SERC 2021 Q4 Unaudited Financial Statement – Budget vs. Actual

Andy:

Following please find SERC's unaudited 2021 Q4 financial statement, reflecting actual to budgeted amounts with variance explanations.

If you have any questions, please let me know.

Thank you,

A handwritten signature in black ink, appearing to read 'George Krogstie', is written over a light blue horizontal line.

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 1/1/2021 Through 12/31/2021

	2021 YTD Actual	2021 Budget	Variance 2021 Projection v 2021 Budget Over(Under)	%
Funding				
Statutory Funding				
SERC Assessments	\$ 23,513,886	\$ 23,513,886	-	
Penalties Released*	1,180,000	1,180,000	-	
Total Statutory Funding	\$ 24,693,886	\$ 24,693,886	\$ -	0.00%
Membership Fees	\$ -	\$ -	-	
Services & Software	-	-	-	
Workshops & Miscellaneous	131,445	175,000	(43,555)	
Interest	2,242	30,000	(27,758)	
Total Funding (A)	\$ 24,827,573	\$ 24,898,886	\$ (71,313)	-0.29%
Expenses				
Personnel Expenses				
Salaries	\$ 15,657,515	\$ 15,157,961	499,554	
Payroll Taxes	988,166	1,057,723	(69,557)	
Benefits	1,454,602	1,920,038	(465,436)	
Retirement Costs	1,992,983	1,924,857	68,126	
Total Personnel Expenses	\$ 20,093,266	\$ 20,060,580	\$ 32,686	0.16%
Meeting Expenses				
Meetings & Conference Calls	\$ 59,022	\$ 415,308	(356,286)	
Travel	20,528	985,632	(965,104)	
Total Meeting Expenses	\$ 79,550	\$ 1,400,940	\$ (1,321,390)	-94.32%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	\$ 1,431,917	\$ 1,764,136	(332,219)	
Office Rent	805,464	823,200	(17,736)	
Office Costs	1,242,749	1,068,823	173,926	
Professional Services	452,814	511,400	(58,586)	
Miscellaneous	-	-	-	
Total Operating Expenses	\$ 3,932,944	\$ 4,167,559	\$ (234,615)	-5.63%
Total Direct Expenses	\$ 24,105,760	\$ 25,629,079	\$ (1,523,319)	-5.94%
Indirect Expenses	\$ -	\$ -	\$ -	
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 24,105,760	\$ 25,629,079	\$ (1,523,319)	-5.94%
Change in Assets	\$ 721,813	\$ (730,193)	\$ 1,452,006	-198.85%
Fixed Asset Additions, excluding Right of Use Assets (C)	\$ 1,035,097	\$ 200,000	\$ 835,097	417.55%
TOTAL BUDGET (B+C)	\$ 25,140,857	\$ 25,829,079	\$ (688,222)	-2.66%
TOTAL CHANGE IN WORKING CAPITAL (A-B-C)	\$ (313,284)	\$ (930,193)	\$ 616,909	-66.32%
FTE's	96.00	100.00	(4.00)	
Head Count	96.00	100.00	(4.00)	
Beginning Reserve at 1/1/2021	7,676,396	6,257,698	1,418,698	
Change to Working Capital	(313,284)	(930,193)	616,909	
Penalties Received (+)	2,043,338	-	2,043,338	
Penalties Released (-)	(1,180,000)	(1,180,000)	-	
Other Reserve Activity	-	-	-	
Ending Reserves at 12/31/2021	8,226,450	4,147,505	4,078,945	
Working Capital & Operating Contingency Reserves	2,818,112	1,547,505	1,270,607	
Assessment Stabilization & Penalty Reserves	5,408,338	2,600,000	2,808,338	
Other Reserves	-	-	-	
Total Reserves Balance	8,226,450	4,147,505	4,078,945	

* 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 December 31, 2021 (Unaudited)

Overall Summary

- Spending \$688k under budget due to pandemic limiting in-person meetings and travel
- Funding \$71k under budget

Income

- **Funding (Actual - \$71k under budget)**
 - Workshop revenue lower than budget due to planned in-person workshops conducted remotely at no charge due to COVID-19 travel restrictions
 - Investment income lower due to continued low interest rates

Expense

- **Personnel Expenses (Actual - \$33k over budget)**
 - Full year impact over budget due to improved hiring and retaining of talent resulting in lower than budgeted vacancies offset by lower than budgeted insurance rate renewal and timing of relocation expenses
- **Meeting/Travel Expenses (Actual - \$1.321M under budget)**
 - Decreased meeting and travel driven by COVID-19 restrictions
- **Contracts/Consultants (Actual - \$332k under budget)**
 - Certain software costs budgeted in Contracts but expensed in Office Costs drove majority of variance, in addition to projects that were deferred in 2021
- **Office Rent (Actual - \$18k under budget)**
 - Common area maintenance expenses lower than expected
- **Office Costs (Actual – \$174k over budget)**
 - Certain software costs budgeted in Contracts, but expensed in Office Costs
- **Professional Services (Actual - \$59k under budget)**
 - Legal fees were less than anticipated in budget
- **Fixed Asset Purchases (Actual - \$835k over budget)**
 - Timeline for consolidating multiple member portals was accelerated, driving variance over budget



January 19, 2021

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

RE: Texas Reliability Entity, Inc. 4th Quarter 2021 Statement of Activities and Variance Report

Dear Andy,

Attached is the 2021 fourth 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 December 31, 2021

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

FUNDING

- **Penalty Sanctions:** (Actual penalty income of \$169,195 remitted to Texas RE as of June 30, 2020 has reduced 2021 assessments.) All penalty sanctions remitted from July 1, 2020 through June 30, 2021 will be included in the Texas RE 2022 Business Plan and Budget and applied to reduce 2022 assessments.
- **Interest:** \$79,325 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 2021 budget was prepared.

EXPENSES

Total Budget as of December 31, 2021 is \$46,918 greater than budget (0.3%).

- **Personnel Expenses:** \$181,837 less than budget (-1.7%).
 - Salaries and taxes are over budget 2.8% and 2.1%, respectively, due to promotions and market adjustments after the budget was prepared. Employee benefits are less than budget 21.9% because health insurance was budgeted to increase 14% but actual costs stayed consistent with prior year. The additional savings is due to employee vacancy. Savings and Retirement are less than budget due to forfeitures being used to fund the account when available.
- **Meetings and Travel Expenses:** \$324,409 less than 2021 budget (-79.7%).
 - Meetings and Conference calls are over budget due to a workshop and GridSecCon occurring that was not in the 2021 budget. GridSecCon was in the prior year budget. Due to the Covid-19 pandemic the conference was moved to 2021.
 - Anticipated travel did not occur due to the Covid-19 pandemic.
- **Total Operating Expenses: \$267,065 greater than 2021 budget (9.5%).**
 - Costs for executive coaching, search fees for Vice President & COO position, and consulting fees for accounting software not included in the Consultants and Contracts budget are causing the 29.9% budget over-run.
 - Utilities cost and common area maintenance are higher due to the winter storm. Rent expense is greater since Texas RE is having to absorb rent that was previously allocated to the Reliability Monitor.

- Office Costs are 17.1% higher than anticipated because of special cleaning and needs related to the pandemic and absorbing costs previously allocated to TRM. Software and Software maintenance, which falls under office cost, is higher than budget due to absorbing the cost previously allocated to the Reliability Monitor.
- Professional services are less than budget due to cost savings on penetration testing and unused legal fees for outside counsel.

Other Non-Operating Expenses is for office relocation that cannot be capitalized. These costs are in the budget for 2022.

Texas Reliability Entity, Inc.
Statement of Activities and Fixed Assets
For period ended December 31, 2021
(Unaudited)

	2021 Actual	2021 Budget	Budget Variance	% Budget Variance
ERO Funding				
Assessments	\$ 13,343,400	\$ 13,343,400	-	0.0%
Penalty Sanctions	169,195	169,195	-	0.0%
Interest Revenue	675	80,000	(79,325)	-99.2%
Total Revenue	\$ 13,513,270	\$ 13,592,595	\$ (79,325)	-0.6%
Expenses				
Personnel Expenses				
Salaries	\$ 8,103,540	\$ 7,886,558	216,982	2.8%
Payroll Taxes	549,126	537,917	11,209	2.1%
Employee Benefits	1,103,236	1,412,700	(309,464)	-21.9%
Savings & Retirement	1,006,735	1,107,299	(100,564)	-9.1%
Total Personnel Expenses	\$ 10,762,637	\$ 10,944,474	\$ (181,837)	-1.7%
Meeting & Travel Expenses				
Meetings & Conference Calls	\$ 65,612	\$ 35,400	30,212	85.3%
Travel	17,064	371,685	(354,621)	-95.4%
Total Meeting & Travel Expenses	\$ 82,676	\$ 407,085	\$ (324,409)	-79.7%
Operating Expenses				
Consultants & Contracts	\$ 574,618	\$ 442,404	132,214	29.9%
Rent & Improvements	1,143,810	1,066,000	77,810	7.3%
Office Costs	804,488	686,740	117,748	17.1%
Professional Services	554,128	614,835	(60,707)	-9.9%
Total Operating Expenses	\$ 3,077,044	\$ 2,809,979	\$ 267,065	9.5%
Other Non-Operating Expenses	\$ 336,099	\$ -	336,099	100.0%
Total Expenses	\$ 14,258,456	\$ 14,161,538	\$ 96,918	0.7%
Change in Assets	\$ (745,186)	\$ (568,943)	\$ (176,243)	31.0%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ 50,000	(50,000)	-100.0%
Total Budget	\$ 14,258,456	\$ 14,211,538	\$ 46,918	0.3%
Change in Working Capital (Total Revenue less Total Budget)	\$ (745,186)	\$ (618,943)	\$ (126,243)	20.4%
FTE's	59	63		
Beginning Reserves - 1/1/21	\$ 4,800,000	\$ 4,800,000	\$ -	
Change to WC - 2021	(745,186)	(618,943)	(126,243)	
Penalties Released	(169,195)	(169,195)	-	
Other Reserve Activity	-	-	-	
Total Reserves - 12/31/2021	\$ 3,885,619	\$ 4,011,862	\$ (126,243)	



Wynne Schweitzer
Manager, Finance and Accounting
January 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 Q4 2021 Statutory Statement of Activities and Variance Report

Dear Andy,

Attached is WECC's fourth-quarter Statutory Statement of Activities (Unaudited) and Variance Report. WECC's 2021 unaudited year-end results are \$865,000 under budget, excluding the impact of the change in 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

- Workshops & Miscellaneous: \$419,000 under budget

Workshops & Miscellaneous are under budget primarily due to the cancellation of the in-person March and October Reliability and Security Workshops due to the COVID-19 pandemic and its conversion to a free online format.

- Interest: \$188,000 under budget

Interest is under budget due to lower-than-expected yields on short-term investments.

Expenses

- Meetings & Conference Calls: \$537,000 under budget

Meetings & Conference Calls are under budget primarily due to the cancellation of in-person meetings and workshops due to COVID-19.

- Travel: \$1,118,000 under budget

Travel is under budget primarily due to the cancellation of on-site audits and in-person meetings and training due to COVID-19.

- Office Costs: \$241,000 over budget

Office Costs are over budget primarily due to the higher-than-anticipated cost of computer licenses and maintenance due to increases in subscription-based services and unbudgeted enterprise security tools.

- Professional Services: \$152,000 over budget

Professional Services are over budget primarily due to legal fees related to unanticipated regulatory activities and higher-than-budgeted Board retainer fees. Retainer fees were overbudgeted in the 2020 Business Plan and Budget (BP&B) and subsequently adjusted in the 2021 BP&B to correct the two-year cumulative budget.

Fixed Assets

- Fixed Asset Additions: \$146,000 over budget

Fixed Asset Additions are over budget due to unbudgeted improvements to the Salt Lake City office and meeting space. All improvements have been reimbursed by the landlord through a negotiated tenant improvement allowance in 2021, which per GAAP is amortized over the remaining life of the lease.



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



Western Electricity Coordinating Council Statutory Statement of Activities From 1/1/2021 to 12/31/2021 (Unaudited)

(In Whole Dollars)

	2021 YTD Actual	2021 YTD Budget	2021 YTD Variance Over(Under)	%
Funding				
Assessments	25,000,000	25,000,000	-	0.0%
Penalties Released ¹	3,499,000	3,499,000	-	0.0%
Workshops & Miscellaneous	10,821	430,000	(419,179)	-97.5%
Interest	12,326	200,000	(187,674)	-93.8%
Total Funding	28,522,147	29,129,000	(606,853)	-2.1%
Expenses				
Personnel Expenses				
Salaries	17,760,447	17,447,448	312,999	1.8%
Payroll Taxes	1,238,997	1,144,116	94,881	8.3%
Employee Benefits	2,235,752	2,390,953	(155,201)	-6.5%
Savings & Retirement	1,565,624	1,499,399	66,225	4.4%
Total Personnel Expenses	22,800,820	22,481,916	318,904	1.4%
Meeting Expenses				
Meetings & Conference Calls	47,869	585,190	(537,321)	-91.8%
Travel	29,082	1,146,887	(1,117,805)	-97.5%
Total Meeting Expenses	76,951	1,732,077	(1,655,126)	-95.6%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	948,461	988,500	(40,039)	-4.1%
Rent & Improvements	1,299,907	1,372,346	(72,439)	-5.3%
Office Costs	1,904,274	1,663,299	240,975	14.5%
Professional Services	1,108,271	955,800	152,471	16.0%
Miscellaneous	-	-	-	
Total Operating Expenses	5,260,913	4,979,945	280,968	5.6%
Total Direct Expenses	28,138,684	29,193,938	(1,055,254)	-3.6%
Indirect Expenses	(642,984)	(687,436)	44,452	-6.5%
Other Non-Operating Expenses	-	-	-	
Total Expenses	27,495,700	28,506,502	(1,010,802)	-3.5%
Change in Net Assets	1,026,447	622,498	403,949	64.9%
Fixed Asset Additions, excluding Right of Use Assets	244,506	98,527	145,979	148.2%
Total Expenditures	27,740,206	28,605,029	(864,823)	-3.0%
Change in Working Capital (Total Funding less Total Budget)	781,941	523,971	257,970	
FTEs	145.59	148.50	(2.91)	
Headcount	149.00	148.00	1.00	
Working Capital at 1/1/2021	8,549,906	8,184,307	365,599	
Year-end Adjustments	26,613			
Non-Statutory Fund Change	331,917			
Change to WC - 2021	781,941	523,971	257,970	
Working Capital at 12/31/2021²	9,690,377	8,708,278	623,569	

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, 2021	\$ 18,719,300	\$ 8,549,906	\$ 6,342,000	\$ 3,827,394
Plus: Total Funding	32,315,793	28,522,147	3,793,646	-
Penalties Release	(3,499,000)	-	(3,499,000)	-
Plus: 2020 Year-End Adjustments	26,613	26,613	-	-
Less: Expenditures	(27,740,206)	(27,740,206)	-	-
Plus: Non-Statutory Fund Adjustment	331,917	331,917	-	-
Reserve (Deficit), December 31, 2021	\$ 20,154,417	\$ 9,690,377	\$ 6,636,646	\$ 3,827,394



Renewal of Capital Financing Program

Action

Review and recommend Board of Trustees (Board) 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. A new line of credit was approved by the Board in May, 2021.

In 2013, NERC established a capital financing program to fund the development and acquisition of significant Electric Reliability Organization (ERO) software applications and information technology hardware, and spread the acquisition costs and related funding for debt service required from assessments over a multi-year period (normally three years), in order to mitigate the impact on single year assessments. Stakeholders supported and the Board approved the financing program. The program has been used in previous years to fund the development of a number of software applications and hardware supporting NERC and Regional Entity operations including (i) standards balloting; (ii) the Bulk Electric System exception processing and analysis; (iii) reliability assessment data gathering and analysis; (iv) event analysis and data management; (v) enterprise data gathering and reporting; and most recently (vi) the ERO Secure Evidence Locker (SEL).

In May 2021, the Board approved the extension of the Capital Financing Program to facilitate financing for the purchase and installation of the ERO SEL, potential refinancing of existing capital leases, and possible funding for software development, enhancements, and equipment acquisitions in future year business plans and budgets for up to \$8 million on a 60-month term. NERC utilized \$1.97 million of the facility to fund a portion of the ERO SEL investment, as approved by the Board.

NERC management is seeking to continue the Capital Financing Program with a reduced credit facility of \$5 million with up to a 60-month term. The lower facility amount is deemed adequate given that the SEL initial project investment has been completed and other anticipated and approved capital projects at this time are below the renewal amount. This Capital Financing Program will provide a potential financing option for updates to NERC's information technology and audio visual infrastructure, as approved in the 2022 Business Plan and Budget.

NERC management requests that the Committee review and recommend Board approval authorizing management to proceed to take such actions as are necessary to finalize and execute the Capital Financing Program documentation, consistent with the parameters of a term sheet provided by the lender. NERC management also requests that the Committee recommend Board approval authorizing management to take such actions as are necessary to finalize and execute the Capital Financing Program documentation on an annual basis so long as the material terms of the renewal remain substantially the same. NERC management will

update the Committee annually on the Capital Financing Program seeking recommendations for Board approval for those renewals where the terms and conditions materially change.

Proposed Amendment to Committee Mandate

Action

Approve and recommend Corporate Governance and Human Resources Committee approval.

Overview

NERC management proposes a revision to the Finance and Audit Committee Mandate section on “Audits, Financial Reports, and Reporting.” Specifically, management proposes to eliminate the requirement to create both annual and three-year audit plans. Instead, the Director of Internal Audit will develop an annual audit plan which includes a near-term, comprehensive projection of risk and associated audit activities. This update reflects an adoption of a periodic risk assessment process that occurs throughout the year and is more agile and reflective of internal and external factors that impact the organization’s internal control environment.

Board of Trustees

Finance and Audit Committee Mandate

Approved by the Board of Trustees: [MONTH] [DAY],
2021-2022

Committee Membership

The Board of Trustees Finance and Audit Committee (FAC or the Committee) of the North American Electric Reliability Corporation (NERC) shall be composed of not less than three and not more than six of the Independent members of the Board of Trustees (Board). In addition, the FAC membership shall include the Chair of NERC's Enterprise-wide Risk Committee (EWRC). The members of the FAC shall be appointed or reappointed by the Board at the regular meeting of the Board following each Annual Meeting of the Member Representatives Committee. Each member of the FAC shall continue to be a member thereof until a successor is appointed, unless a member resigns, is removed, or ceases to be a member of the Board of the corporation. When a vacancy occurs at any time in the membership of the FAC, it may be filled by the Board.

Purpose

The purpose of the FAC is to assist the Board in fulfilling its oversight responsibilities for (i) NERC's audits and related governance, risk management and control processes performed by NERC Internal Audit;¹ (ii) financial results and reporting process; (iii) system of internal financial and accounting controls and financial audit process; (iv) its oversight of the NERC, Regional Entities, and Western Interconnection Regional Advisory Board business plans and budgets; and (v) performing such other responsibilities as directed by the Board or this Mandate.

Committee Authority and Responsibilities

To carry out its purpose, the FAC shall have the following authority and responsibilities:

Business Plan and Budgets

1. The FAC shall review and make recommendations to the Board with respect to (i) the annual NERC and Regional Entities' and WIRAB business plan and budget preparation and approval, including associated assessments, (ii) any other special budget and assessments of the corporation or a Regional Entity, and (iii) such other matters as are deemed necessary and advisable by the FAC in connection with the preparation and approval thereof, in each case consistent with applicable requirements of the NERC Rules of Procedure (ROP) or any applicable laws, rules, regulations, or directives of governmental and regulatory authorities with that jurisdiction.
2. The FAC shall review and make recommendations to the Board regarding the authorization for NERC management to enter into loan agreements, including, but not limited to, lines of credit.

¹ NERC's EWRC shall have primary responsibility overseeing the development and implementation of NERC's oversight that is performed in coordination with the Compliance and Certification Committee (CCC).

3. The FAC shall provide oversight of NERC management's compliance with the corporation's working capital and operating reserve policy and make recommendations to the Board regarding expenditures or transfers of working capital and operating reserves which require Board authorization as set forth in such policy.

Audits, Financial Reports, and Reporting

1. The FAC shall oversee NERC management's maintenance of the quality, credibility, and objectivity of the corporation's financial reports.
2. The FAC shall oversee the development, review, and ultimately approve the annual ~~and three year~~ audit plans from the Director of Internal Audit (IA), consistent with the Standards for Internal Auditing and Board processes and procedures.
3. The FAC shall approve the internal audit charter.
4. The FAC shall approve the internal audit budget and resource plan.
5. The Director of IA will report administratively to NERC's General Counsel and functionally to the Chair of the FAC.
6. The Chair of the FAC shall provide input as to the performance of the Director of IA and be notified of any employment-related issues related to the Director of IA.
7. The Director of IA shall report on matters regarding governance, risk, and controls and audit activity, which may include, but is not limited to: (i) access to information, (ii) internal audit scope, (iii) objectivity and independence, (iv) perception or potential of impairment, (v) audit budget and resources, and, (vi) subject matter expertise.
8. To the extent that an audit relates to matters for which the Board has a subject matter specific committee (e.g., security, human resources), those audit results will be shared with such committee. Such committee will also monitor the implementation of any management corrective measures or program enhancements.
9. The FAC shall conduct an annual executive session meeting with the corporation's Director of IA, without management present, to discuss the corporation's strategic, financial and operational controls and performance of risk management and internal audit functions. The corporation's general counsel shall hold an annual executive session with the Board.
10. The FAC shall review the adequacy and integrity of the corporation's internal accounting, financial and operational controls, which shall include (i) approving on an annual basis the design, implementation and timing of the internal and/or external reviews of such controls, (ii) the review of any internal audit or risk assessments / risk management reports relating to such controls and any mitigation plans or other responses by management relating to such assessments and reports, and (iii) the annual review of the organization, staffing and resource requirements of the internal audit function as it relates to internal accounting and financial controls.
11. The FAC shall appoint, receive reports from, and monitor the independent external auditor

(independent auditor), which shall report to the FAC on behalf of the Board for purposes of the annual independent audit and such other matters that may be assigned to the independent auditor from time to time, and conduct reviews of the performance of such independent auditor.

12. The FAC shall review and recommend for Board approval the corporation's audited annual financial statements. This review shall include:
 - a. Discussing with NERC management and the auditor the adequacy and effectiveness of the internal accounting and financial controls, including the corporation's system for monitoring and managing business risk;
 - b. Reviewing and discussing the audited financial statements of the corporation with management and the independent auditor, including their judgment about the accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements;
 - c. Reviewing with NERC management, the auditor, and legal counsel the corporation's procedures to comply with applicable laws, regulations, and any significant litigation, claim, or other contingency, including tax assessments, that would have a material effect upon the financial position or operating results of the corporation, as well as the disclosure or impact on the results of any such matters in the annual financial statements;
 - d. Discussing the results of the annual audit, any matters required to be communicated to the FAC by the auditor under generally accepted auditing standards, and any other matters that the independent auditor feels should be communicated to the FAC;
 - e. Reviewing with the independent auditor any significant emerging accounting and reporting issues and their potential impact on the corporation's financial statements; and
 - f. Meeting with the independent auditor, with and without management present, to discuss the annual audit.
13. The FAC shall review and approve the independent auditor's estimated annual audit fees and expenses.
14. The FAC shall review with NERC management all interim and unaudited financial statements prepared for external distribution, including reports summarizing any variances from the business plan and budget, and recommend acceptance of any such statements to the Board.
15. The FAC shall review the results of the company's annual savings and investment plan audit and, if necessary, make recommendations to the Corporate Governance and Human Resources Committee and management in connection with any audit findings or recommendations.

Other Matters

1. The FAC shall review the financial aspects of the corporation's Form 990 prior to it being filed with the Internal Revenue Service.
2. The FAC shall review and recommend approval by the Board of an investment policy governing the investment of funds held by the corporation.

3. The FAC shall review policies for the approval of NERC senior management expenses, including those of the CEO of the corporation.
4. The FAC shall, whenever it may be appropriate to do so, retain and receive advice from experts, including independent legal counsel and independent public accountants, and conduct or authorize the conduct of investigations into any matters within the scope of the responsibility of the FAC as the FAC may consider appropriate.
5. The FAC shall perform such other functions as may be delegated from time to time by the Board.

Committee Meetings

The FAC shall meet at least quarterly by conference call or in person. Meetings may occur at the same place in conjunction with the regular Board meetings of the corporation, or as determined by the members of the FAC, using the same meeting procedures established for the Board. Meetings may be held in either open or closed session as set forth in the Bylaws of the corporation.

A majority of the Committee members shall constitute a quorum. Except where prescribed differently by law: (a) any action or decision of the FAC requires a vote of a majority of the Committee members then in attendance at any Committee meeting provided a quorum is present; and (b) participation may be telephonic or by Action without a Meeting. The Committee may hold special meetings as circumstances require. Minutes of each Committee meeting shall be maintained as part of the Committee's record.

Governance

The Board, or in the event of their failure to do so, the members of the FAC, shall appoint a Chair from among their members. The FAC Chair shall be responsible for leadership of the Committee, including scheduling of meetings, setting agendas, presiding over Committee meetings, and making reports to the Board. A member(s) of the NERC staff shall assist the Chair and shall serve as the non-voting secretary.

Review

The FAC shall review this mandate annually and recommend to the Board Corporate Governance and Human Resources Committee any changes it considers advisable. Any changes must be approved by the full Board. The FAC shall complete a self-assessment annually to determine its effectiveness.

The FAC shall annually review the IA charter. The meeting minutes shall reflect if no changes to the charter result from the annual review.