

Re: Second Draft of NERC 2021 Business Plan and Budget (BP&B) Posted for Stakeholder Review and Comment

Date: July 16, 2020

On May 19, 2020, NERC posted the first drafts of the 2021 BP&Bs for NERC, the Regional Entities, and the Western Interconnection Regional Advisory Body (WIRAB). The NERC Board of Trustees Finance and Audit Committee (FAC) held a webinar on June 4, 2020, to review these budgets, and written comments on NERC's BP&B were requested by June 26, 2020. NERC received comments from five entities, which are posted on NERC's website. The comments were overall supportive of the BP&B and requested certain clarifications. These clarifications have been provided in a management response letter, which is also posted on NERC's website.

After careful review of the comments and discussions with the FAC and trade organization representatives, the second draft of NERC's 2021 BP&B continues to focus on achieving a flat assessment in 2021 in response to economic impacts resulting from the pandemic. This is despite significant budget pressures, including the ERO Secure Evidence Locker (SEL), continued Align tool development costs, and significant new risks to Bulk Power System (BPS) reliability that continue to evolve, including fuel assurance and single points of failure in the natural gas pipeline system, expansion of inverter-based and distributed resources, and cyber threats. The flat assessment is achieved by:

- Reducing 2021 debt service by cash funding 2020 Align development costs versus financing;
- Funding 2021 Align costs fully through reserves;
- Deferring important, but less urgent work supporting evolving reliability and security risks, resulting in lower spending in certain areas. We have held budgeted headcount flat in 2021, deferred a number of important system enhancements, reprioritized spending in the E-ISAC, and captured a unique opportunity to lower meeting and travel costs due to anticipated continued pandemic conditions; and
- Absorbing ERO SEL debt service and software support costs as a result of cost savings efforts.

Importantly, we achieved the flat assessment without drawing on the Assessment Stabilization Reserve (ASR) to preserve that funding source for future budget years when 2021 deferrals will need to be pursued.

Other than minor cost adjustments within and among departments that resulted in a slight increase of the budget from a 0.2% to a 0.3% increase versus 2020, there are no material changes affecting the overall 2021 budget from the first draft to the second draft, and the 2021 assessment remains flat to 2020.

The second draft of the 2021 BP&B also includes preliminary projections for 2022 and 2023, which reflect a measured return to pre-COVID-19 planning assumptions. While NERC was able to reduce certain human resource and technology investments in the 2020 and 2021 periods, this represents a deferral of short-term cost impacts but not an elimination of these strategies. It is anticipated that NERC will continue to make substantial investments in

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technology on behalf of the entire ERO Enterprise, including the Align tool and ERO SEL. Since the bulk of NERC's budget consists of people and technology, continued investments in human resources and software tools are necessary to support NERC's strategic goals and mission.

Additionally, steps have been taken and are being contemplated to reduce costs in certain budget areas for 2022 and 2023. As a result, and while adding new capabilities such as the ERO SEL and increased cyber security investments, NERC's current 2022 budget projection of \$87.0M (5.0% increase over 2021) is **\$3.8M less** than the 2022 budget projection of \$90.8M included in the 2020 BP&B (including debt service and financing activity). The current 2022 assessment projection of \$77.8M (8.0% increase over 2021) is **\$2.8M less** than the 2022 assessment projection of \$80.6M included in the 2020 BP&B. In 2023, the budget projection is \$91.4M (5.0% increase over 2022) and the assessment projection is \$82.1M (5.5% increase over 2022). As with all future year projections, these numbers are preliminary and the assessment projections do not consider the use of ASR or OCR funds to help mitigate assessment increases, a decision which would be made during the 2022 and 2023 BP&B processes.

We are, however, quite sensitive to the economic uncertainties facing the sector as we navigate and eventually emerge from the COVID-19 pandemic. As most companies, NERC is beginning a process to evaluate its own workforce, facilities, and external engagement model, and contemplates expanded use of technology to reduce meeting and travel costs and potentially real estate costs. We commit to thoughtfully balancing fiscal concerns with the very real evolution of BPS risk into different arenas, and will ensure that our budgets for 2022 and 2023 reflect activities that focus on the highest risks to reliability and security. We also commit to judicious use of reserves to manage assessment increases. Finally, we will continue to assess our program areas and prioritize initiatives.

NERC has posted the second draft of its 2021 BP&B for comment on NERC's website along with the current 2021 BP&Bs for each Regional Entity and WIRAB. Please join us for a webinar hosted by the FAC on Thursday, July 23, 2020, from 1:00–3:00 p.m. Eastern where we will review these BP&Bs.

Comments are requested on the second draft of NERC's 2021 BP&B by **July 30, 2020**, and should be directed to the attention of Erika Chanzas at erika.chanzas@nerc.net. We look forward to your feedback during this important step in the development of the ERO Enterprise's 2021 BP&Bs.

Sincerely,



Andy Sharp
Vice President and Chief Financial Officer