

October 16, 2019

VIA ELECTRONIC FILING

Mr. Neil Cunningham
Director of Climate Change and Energy Branch
Department of Sustainable Development
1200-155 Carlton Street
Winnipeg MB R3C 3H8

RE: *North American Electric Reliability Corporation*

Dear Mr. Cunningham:

The North American Electric Reliability Corporation (“NERC”) hereby submits Notice of Filing of the North American Electric Reliability Corporation of its 2020 Business Plan and Budget and the 2020 Business Plan and Budget of the Relevant Regional Entity and of Proposed Assessments to Fund Budgets.

Please contact the undersigned if you have any questions concerning this filing.

Respectfully submitted,

/s/ Lauren Perotti

Lauren Perotti
*Senior Counsel for the North American Electric
Reliability Corporation*

Enclosure

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**BEFORE THE
PROVINCE OF MANITOBA**

**NORTH AMERICAN ELECTRIC)
RELIABILITY CORPORATION)**

**NOTICE OF FILING OF THE
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION OF
ITS 2020 BUSINESS PLAN AND BUDGET AND THE 2020 BUSINESS
PLAN AND BUDGET OF THE RELEVANT REGIONAL ENTITY
AND OF PROPOSED ASSESSMENTS TO FUND BUDGETS**

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ATTACHMENTS

Attachment 1: Summary tables showing NERC’s proposed 2020 budget; the proposed 2020 budget for statutory activities of each Regional Entity; and the 2020 Canadian ERO statutory assessments of NERC and the Regional Entities

Attachment 2: NERC Proposed 2020 Business Plan and Budget

Attachment 3: Midwest Reliability Organization Proposed 2020 Business Plan and Budget

Attachment 4: NERC Management’s Responses to Stakeholder Comments Submitted on Draft #1 and Draft #2 of NERC’s 2020 Business Plan and Budget

Attachment 5: Calculation of Adjustments to the AESO 2020 NERC Assessment, the IESO 2020 NERC Assessment, the New Brunswick 2020 NERC Assessment and the Québec 2020 NERC Assessment

Attachment 6: Metrics Comparing Regional Entity Operations Based on the 2020 Budgets

Attachment 7: Metrics on NERC and Regional Entity Administrative (Indirect) Costs Based on the 2019 and 2020 Budgets

I. INTRODUCTION

The North American Electric Reliability Corporation (NERC) hereby submits:

- (1) NERC's proposed Business Plan and Budget as the electric reliability organization (ERO), for the year ending December 31, 2020;
- (2) the proposed Business Plan and Budget for the year ending December 31, 2020, for the Midwest Reliability Organization (MRO); and
- (3) NERC's proposed allocation of the proposed ERO statutory assessment of NERC, the Regional Entities, and the Western Interconnection Regional Advisory Body (WIRAB) by country and among the Regional footprints, and the proposed assessments to the load-serving entities (LSE) within each Region to collect the allocated statutory funding requirements.

This filing includes the following attachments:

Attachment 1 is a set of summary tables showing (i) NERC's proposed 2020 budget by program, (ii) the proposed 2020 budget for statutory activities of each Regional Entity, and (iii) the aggregate ERO statutory assessment of NERC and the Regional Entities allocated to Canada, for which approval is requested.

Attachment 2 contains NERC's detailed 2020 Business Plan and Budget and the allocation of assessments by Region and LSE to recover the resulting statutory funding requirements for 2020 (as well as the assessments to recover the statutory funding requirements of the Regional Entities and WIRAB).

Attachment 3 contains the detailed 2020 Business Plan and Budget of , MRO.

Attachment 4 contains copies of NERC management's responses to stakeholder comments submitted on the posted Draft #1 and Draft #2 of NERC's 2020 Business Plan and Budget during the budget development process.

Attachment 5 contains the calculation of the adjustments to the Alberta Electric System Operator (AESO) 2020 NERC assessment, the Ontario Independent Electric System Operator (IESO) 2020 NERC assessment, the New Brunswick 2020 NERC assessment, and the Québec 2020 NERC assessment, for credits for certain NERC Compliance

Monitoring and Enforcement Program (CMEP) and Event Analysis and Situation Awareness Program costs.

Attachment 6 provides metrics, based on the 2020 budgets, comparing Regional Entity operations.

Attachment 7 contains metrics, based on the 2019 and 2020 budgets, on NERC and Regional Entity administrative (indirect) costs.

The Federal Energy Regulatory Commission's ("FERC") regulations require the ERO to file its proposed entire annual budget for statutory and non-statutory activities with the Commission at least 130 days before the beginning of the ERO's fiscal year. NERC's 2020 fiscal year will begin January 1, 2020. The FERC regulations also require that the filing contain the entire annual budget of each Regional Entity for statutory and non- statutory activities and include supporting materials, including the ERO's and each Regional Entity's complete business plan and organization chart, and explanation of the proposed collection of all dues, fees and charges and the proposed expenditure of funds collected. The relevant information for this authority is included in this filing.

II. NOTICES AND COMMUNICATIONS

Notices and communications concerning this filing may be addressed to:

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III. OVERVIEW OF PROPOSED BUDGETS AND FUNDING REQUIREMENTS

A. Development of the 2020 Business Plans and Budgets

NERC prepared its 2020 Business Plan and Budget, and worked with the Regional Entities in the development of their business plans and budgets, through a rigorous process that provided ample opportunity for review and input by the Finance and Audit Committee (FAC) of the NERC Board, and by stakeholders. Development of the annual business plans and budgets builds off of the *ERO Enterprise Long-Term Strategy*, approved by the NERC Board in November 2017, which discusses key challenges and strategic focus areas for the ERO Enterprise over the next five to seven years. (NERC uses the term “ERO Enterprise” to refer to NERC and the Regional Entities.) During the business plan and budget development process, successive versions of the 2020 NERC and Regional Entity business plans and budgets were discussed in public meetings and conference calls of the FAC and of the full NERC Board, with opportunities for stakeholders to provide comments. Throughout the development of its 2020 Business Plan and Budget, NERC management also held a number of meetings and conference calls with a Business Plan and Budget Input Group formed by the NERC Member

Representatives Committee (MRC).² The following chronology highlights important steps in the preparation of the NERC and Regional Entity 2020 Business Plans and Budgets and review of the WIRAB 2020 Business Plan and Budget.

- On October 9, 2018, a conference call was held with the MRC Business Plan and Budget Input Group to initiate discussions relating to development of the 2020 business plan and budget.
- In a November 6, 2018, meeting, the NERC FAC reviewed the proposed schedule for development of the 2020 business plans and budgets.
- On November 7-8, 2018, the ERO Finance Group, comprised of Finance representatives from NERC and each of the Regional Entities, met to review strategic goals and objectives for 2020 and discuss how they would be translated into the NERC and Regional Entity 2020 business plans and budgets.
- On November 13, 2018, January 17, 2019, March 6, 2019, and April 10, 2019, additional conference calls were held with the MRC Business Plan and Budget Input Group.
- On January 23, 2019, February 19, 2019, and March 20, 2019, the ERO Finance Group met by conference call to discuss progress and status in the development of the 2020 business plans and budgets.
- On April 24, 2019, the quarterly meeting with trade associations and the North American Generation and Transmission Forums, to which the MRC Business Plan and Budget Input Group was also invited, included a high-level overview of the NERC 2020 Business Plan and Budget.
- Also on April 24, 2019, the NERC FAC met in closed session to review assumptions for the 2020 NERC Business Plan and Budget.
- On April 25, 2019, the ERO Finance Group held another meeting by conference call.
- In late April and early May, 2019, the Regional Entities provided drafts of their 2020 business plans and budgets to NERC. NERC reviewed these drafts and provided feedback to the Regional Entities as needed prior to the submission of each Regional Entity's final business plan and budget to its Board or other governing body.
- Beginning in late April, 2019, and continuing into May, 2019, the Regional Entities posted drafts of their 2020 Business Plans and Budgets on their respective websites for various time periods for review and comment by their stakeholders, in accordance with each Regional Entity's public review process. (See §V.A below for further information

² The MRC Business Plan and Budget Input Group is a subgroup of MRC members who are tasked with providing input specifically on the business plans and budgets.

on the stakeholder review opportunities provided by each Regional Entity for its 2020 Business Plan and Budget.)

- The May 8, 2019, meeting of the NERC FAC include a preview of the NERC 2020 Business Plan and Budget and the combined ERO 2020 budgets and assessments.
- On May 17, 2019, drafts of the NERC, Regional Entity, and WIRAB 2020 Business Plans and Budgets, as well as information on the combined 2020 ERO budgets and assessments, were posted on the NERC website for stakeholder comment. Comments were requested by June 28, 2019. Notification of the posting (and of all subsequent postings) was sent by e-mail to a broad distribution list of interested persons and entities. Six sets of written stakeholder comments were received and were posted on the NERC website.³
- On May 21, 2019, the ERO Finance Group met.
- Also on May 21, 2019, representatives of NERC, each Regional Entity, and WIRAB met with FERC Staff to discuss the 2020 business plans and budgets and the combined ERO 2020 budgets and assessments.
- On May 30, 2019, the FAC held a conference call and webinar to review the drafts of the NERC, Regional Entity, and WIRAB 2020 business plans and budgets and the combined ERO Enterprise 2020 budgets and assessments.
- On June 17, 2019, the ERO Finance Group held another meeting by conference call.
- At various dates from late May to late June 2019, the Boards or other governing bodies of the Regional Entities and of WIRAB approved their respective proposed 2020 Business Plans and Budgets. The approved Regional Entity and WIRAB Business Plans and Budgets were submitted to NERC in late June and early July.
- On July 2, 2019, another conference call was held with the MRC Business Plan and Budget Input Group.
- On July 10, 2019, a closed meeting was held with the FAC to review assumptions for Draft #2 of NERC's 2020 Business Plan and Budget.
- On July 11, 2019, the quarterly meeting with trade associations and forums, to which the MRC Business Plan and Budget Input Group was also invited, included discussion of the stakeholder comments received on the posted draft of NERC's 2020 Business Plan and Budget, as well as a preview of the second draft.

³ Comments were submitted by: Bonneville Power Administration; Canadian Electricity Association; Edison Electric Institute; the Independent Electricity System Operator (IESO); the ISO RTO Council Standards Review Committee; and the National Rural Electric Cooperative Association (NRECA). The comments are posted at: <https://www.nerc.com/gov/bot/FINANCE/Pages/2020-NERC-Business-Plan-and-Budget.aspx>. NERC management's responses to these comments are included in **Attachment 4**.

- On July 11, 2019, NERC posted on its website management's responses to the comments that were submitted on Draft #1 of the 2020 Business Plan and Budget. **Attachment 4** to this filing provides the text of the responses.
- Also on July 11, 2019, the final versions of the Regional Entity and WIRAB 2020 Business Plans and Budgets were posted on the NERC website, along with the combined 2020 ERO budgets and assessments.
- On July 15, 2019, Draft #2 of the NERC 2020 Business Plan and Budget was posted on the NERC website. Any additional stakeholder comments on Draft #2 of the NERC 2020 Business Plan and Budget were requested by July 31, 2019. Two sets of stakeholder comments were submitted and were posted on the NERC website.⁴
- On July 16, 2019, the ERO Finance Group held a meeting by conference call.
- On July 18, 2019, the FAC held a conference call and webinar to review Draft #2 of the NERC 2020 Business Plan and Budget, the final Regional Entity and WIRAB business plans and budgets, and the combined ERO 2020 business plans and budgets.
- On August 2, 2019, a conference call was held with the MRC Business Plan and Budget Input Group.
- On August 7, 2019, NERC's responses to the stakeholder comments on Draft #2 of the NERC 2020 Business Plan and Budget were posted on the NERC website. **Attachment 4** to this filing provides the text of the responses.
- Also on August 7, 2019, the final NERC, Regional Entity, and WIRAB 2020 business plans and budgets and assessments, as proposed for NERC Board consideration, were posted on the NERC website for the upcoming MRC, FAC and NERC Board meetings.
- During the August 14, 2019 meeting of the MRC, an additional opportunity was provided to stakeholders for input and questions regarding the final 2020 business plans and budgets of NERC and the Regional Entities.
- At the August 14, 2019 open meeting of the FAC, NERC management presented the final version of the NERC 2020 Business Plan and Budget and proposed assessments and discussed responses to the comments received on Draft #2. The FAC recommended NERC Board approval of the 2020 business plans and budgets and associated statutory assessments for NERC, the Regional Entities and WIRAB.
- At its August 15, 2019 meeting, the NERC Board approved the 2020 business plans and budgets and the proposed 2020 statutory assessments for NERC, the Regional Entities and WIRAB.

⁴ Comments were submitted by IESO and NRECA on behalf of the Cooperative Sector. The comments are posted at: <https://www.nerc.com/gov/bot/FINANCE/Pages/2020-NERC-Business-Plan-and-Budget.aspx>. NERC management's responses to these comments are included in **Attachment 4**.

In summary, the processes followed by NERC and the Regional Entities to develop the proposed 2020 business plans and budgets were thorough, comprehensive, open and inclusive, involved significant input from NERC and Regional Entity management and staffs, as well as iterative review and comment by the FAC, and provided numerous opportunities for stakeholder input and comment, including in particular from the MRC Business Plan and Budget Input Group, the full MRC, and trade associations and forums.

B. NERC's 2020 Business Plan and Budget

1. Organization of NERC's Business Plan and Budget

NERC's Business Plan and Budget is organized based on its statutory program areas:

- Reliability Standards and Power Risk Issue Strategic Management
- Compliance Assurance, Organization Registration and Certification, and Compliance Enforcement
- Reliability Assessments and Performance Analysis (RAPA)
- Situation Awareness
- Event Analysis
- Electricity Information Sharing and Analysis Center (E-ISAC), including the Cyber Risk Information Sharing Program (CRISP)
- Personnel Certification and Continuing Education
- Training and Education

Each of these program areas carries out or supports implementation of one or more of the statutory activities of the ERO. NERC's statutory, or "direct," programs are supported by its Administrative Services, or "indirect," programs: General & Administrative, Legal and Regulatory, Information Technology (IT), Human Resources (HR) & Administration, and Finance and Accounting. The functions and activities of each statutory program and Administrative Services program are described in the sections on each program area in Section A and in Exhibit A of **Attachment 2**.

The initial sections of the 2020 Business Plan and Budget, **Attachment 2**, Preface and

About NERC, provide an overview of NERC's organization, governance, scope, responsibilities, and funding.

The Introduction and Executive Summary summarizes NERC's resource requirements for 2020 including total full-time equivalent employees (FTEs), statutory expenses, and required ERO funding assessments. It describes the ERO Enterprise's strategic and operational planning process, the principal reliability risks on which it is focused, and its ongoing focus on controlling costs and improving the effectiveness and efficiency of operations.

The Introduction and Executive Summary provides an overview of NERC's 2020 budget, funding, and staffing requirements, with comparisons to the 2019 budget, by the principal categories of funding and expenses and by statutory program area. It describes NERC's key business planning assumptions used in developing the 2020 budget. It also describes NERC's 2020 capital spending budget and the 2020 budgeted amounts for each category of NERC's reserves. The table on page 12 shows the change in the 2020 budget from the 2019 budget for each NERC statutory program area. The table on page 13 shows budgeted 2020 staffing and the change from the 2019 budget for each statutory program and the Administrative programs. The Introduction and Executive Summary then presents NERC's overall Statement of Activities and Fixed Asset Expenditures (page 15), showing information from the 2019 budget, the 2019 projection (NERC's projection of 2019 year-end results), and the 2020 budget, and the variances between the 2019 projection and 2019 budget and between the 2020 budget and 2019 budget, for the major line item categories for Funding, Expenses and Fixed Assets Additions. Finally, the Introduction and Executive Summary presents NERC's budget and assessment projections for 2021 and 2022 (pages 17-18).

Section A of **Attachment 2** is NERC's detailed 2020 Business Plan and Budget.

Section A provides program background and scope, descriptions of key efforts under way in the current year, the 2020 goals and deliverables, and explanations of increases or decreases in budgeted Personnel Expenses and Consultants & Contracts expense (and, where applicable, significant increases in other budget categories) for 2020 over the 2019 budget, for each statutory program and the Administrative Services functions. A table is provided at the start of the subsection on each statutory program or department, showing total FTEs, total direct expenses, total indirect expenses, other non-operating expenses, increase or decrease in Fixed Assets, and total budget for the statutory program or department for the 2020 budget, with the comparable data from the 2019 budget and the increase or decrease from the 2019 budget. For Administrative Services, this table shows, for each Administrative Services function and in total, the 2019 budget amount, 2020 budget amount, and change from the 2019 budget to the 2020 budget, as well as budgeted 2019 FTEs, budgeted 2020 FTEs, and change in FTEs from the 2019 budget to the 2020 budget. A detailed Statement of Activities and Fixed Asset Expenditures is provided for each statutory program or department, and for the Administrative Services functions in the aggregate. The Statements of Activities show funding and expenditure information from the 2019 budget, the 2019 projection and the 2020 budget, and the variances from the 2019 budget to the 2019 projection and from the 2019 budget to the 2020 budget.

In the Statements of Activities for each program or department, Funding is shown from NERC Assessments and, if applicable to the particular program, from other anticipated sources, including fees from Services & Software, Interest & Investment income, Third-Party Funding,

System Operator Certification Testing Fees, and Miscellaneous Funding.⁶ Expenses are shown by the major categories (and sub-categories) of Personnel Expenses (Salaries, Payroll Taxes, Benefits, Retirement Costs); Meeting Expenses (Meetings, Travel, Conference Calls); Operating Expenses (Consultants & Contracts, Office Rent, Office Costs, Professional Services, Miscellaneous); and Other Non-Operating Expenses. In the Statements of Activities for the statutory programs, the Indirect Expenses allocated from the Administrative Services departments are also shown. The Statements of Activities show Fixed Assets Additions, Financing Activity (Borrowings less Principal Payments) and, finally, the Total Budget (Total Expenses plus Fixed Asset Additions) for each program.⁷

Section B of **Attachment 2** provides Supplemental Financial Information comprised of tables detailing the components of Funding and Expense categories and explanations of significant changes from the 2019 budget, including analysis of the Reserves balances, targets, and increase or decrease to assessments to meet Reserves targets (Table B-1), Penalties collected (Table B-2), Outside Funding (Table B-3), Personnel Expenses (Table B-4), Meetings Expenses (Table B-5), Rent (Table B-7), Office Costs (Table B-8), Professional Services (Table B-9), Miscellaneous Expenses (Table B-10), Other Non-Operating Expenses (Table B-11), and Fixed Assets Additions (Table B-12).⁸

⁶ Beginning in 2020, NERC is not showing budgeted revenues from Workshops and similar programs as a Funding source, but rather is applying these budgeted revenues to reduce the costs of these programs (*i.e.*, as an offset to Meetings expenses). The intent of this change is to present a total budget amount that is close to the amount of funding required from assessments.

⁷ Beginning with the 2020 business plans and budgets, NERC and the Regional Entities have eliminated the offsetting line items for Depreciation in Operating Expenses and Fixed Asset Activity in their Statements of Activities presentations.

⁸ Table B-6 in the ERO Business Plan and Budget template is reserved for Consultants & Contracts expenses, but NERC's Business Plan and Budget provides a more detailed breakdown of these expenses in Exhibit B. Additionally, Table B-13 in the template is reserved for 2021-2022 Budget Projections, but NERC has provided its 2021-2022 budget projections in the Introduction and Executive Summary.

Section C, Non-Statutory Activity, of **Attachment 2** is empty for NERC, as NERC has no non-statutory activities. In the business plans and budgets of those Regional Entities that have non-statutory activities, Section C includes information on their non-statutory activities.

Section D, Consolidated Statement of Activities by Program, of **Attachment 2**, shows 2020 budgeted line-item Funding sources, Expenses, and Fixed Asset Activity, in total and for each statutory program and Administrative Services function, as well as the direct and indirect expenses for each statutory program.

NERC's Business Plan and Budget includes the following Exhibits and Appendices:

Exhibit A – Application of NERC Section 215 Criteria, describes how the major activities included in the 2020 Business Plan and Budget for NERC's direct function programs and Administrative Services functions meet the NERC written criteria for eligibility for U.S. FPA §215 funding.

Exhibit B – Contractor and Consulting Costs, contains a detailed list of NERC's budgeted 2020 Consultants & Contracts expenses, by program area and by major activity or project, and shows the 2019 budget amounts for Consultants & Contracts expense and the change in the 2020 budget from the 2019 budget for each line item, where applicable.

Exhibit C – Capital Financing, describes proposed borrowing and repayment activity under NERC's capital financing program for certain capital expenditures. Exhibit C shows the proposed 2020 capital expenditure budget by major category, the 2019 budgeted capital expenditures, and the change from the 2019 to the 2020 capital budget. Exhibit C also shows projected 2019, budgeted 2020, and projected 2021 and 2022 year-end outstanding debt balances and annual payments for debt service, broken out by principal repayments and interest expense.

Exhibit D –Reserve Amounts, provides budgeted 2020 amounts for each category of Reserves pursuant to NERC's Working Capital and Operating Reserve Policy (WCOR Policy).¹⁰ (See §IV.B below for further discussion.)

¹⁰ The current WCOR Policy was filed on September 2, 2015.

Appendix 1 contains NERC's organization chart, as required by 18 C.F.R. §39.4(b).

Appendix 2 contains the calculation of the net energy for load (NEL)-based allocation factors for each LSE and designee and the allocation of the NERC, Regional Entity and WIRAB statutory assessments, by allocation method, to each LSE and designee for 2020. Development of the assessments presented in Appendix 2 is discussed in §III.D below.

The information in NERC's 2020 Business Plan and Budget demonstrates that the programs included in the 2020 Business Plan and Budget are necessary and appropriate to carry out NERC's responsibilities as the ERO and that the specific resource requirements budgeted meet the objectives for affordability, sustainability and efficiency and effectiveness of the ERO's expenditures. The discussion in the 2020 Business Plan and Budget demonstrates how the activities and expenditures included in the Business Plan and Budget lend themselves to accomplishment of NERC's statutory responsibilities and objectives as the ERO.

2. Summary of NERC's 2020 Budget and Funding Requirement

NERC is proposing an overall 2020 budget of \$83,417,476, an increase of 4.5% over the 2019 Budget. This comparison includes the 2019 and 2020 budgeted expenditures for CRISP (which is included in the budget for the E-ISAC). The proposed 2020 budget for the E-ISAC (CRISP plus non-CRISP costs) is \$31,284,791, which constitutes 37.5% of the total 2020 NERC budget. NERC's 2020 budget excluding E-ISAC of \$52,132,685 is 0.8% lower than its 2019 budget excluding E-ISAC.

NERC's proposed 2020 total Funding requirement is \$82,006,951, encompassing U.S., Canadian and Mexican activities, and is an increase of 3.9% over the 2019 total Funding requirement. The 2020 total Funding requirement reflects a decrease to assessments for funding of Reserves of \$650,083, as well as (due to NERC's capital financing plan) proceeds from

financing activities of \$1,338,000 and debt service of \$577,557 (*see* Table B-1 and Exhibit C in **Attachment 2**).

NERC's budgeted non-assessment sources of Funding for 2020 total \$9,995,577, comprised of the following sources and amounts:¹¹

- \$7,814,577 of Third-Party Funding for CRISP (a increase of \$328,224 from the CRISP Third-Party Funding provided in the 2019 budget);
- \$1,235,000 of fees charged to participants in the NERC System Operator Certification Program and Continuing Education Program for Testing Fees and Certificate Renewals (an increase of \$45,000 from the 2019 budget), plus \$500,000 of Continuing Education Fees (a decrease of \$100,000 from the 2019 budget) charged to continuing education providers to review their courses;
- \$60,000 of revenues from Services & Software (\$20,000 more than the amount budgeted in the 2019 budget); and
- \$386,000 in Interest & Investment Income (a \$201,000 increase over the amount in the 2019 budget).

Application of the non-assessment funding sources totaling \$9,995,577 to the total statutory Funding requirement of \$82,006,951 results in a net Funding requirement of \$72,011,373 to be funded by assessments, which is 4.5%, higher than the 2019 assessments.

As shown on page 13 of **Attachment 2**, the 2020 budget includes an overall increase of 8.46 FTEs in staffing from the 2019 budget, which reflects (i) an increase of 6.58 FTEs in the E-ISAC and (ii) an increase of 1.88 FTEs in the other statutory programs and administrative departments combined. Increases or decreases in budgeted FTEs for individual programs reflect reallocation of staffing from some program areas to others to match staffing with current workloads and resource requirements. The budgeted FTEs for each program area reflect an assumed average 6.0% vacancy rate, *i.e.*, an adjustment for factors such as personnel attrition,

¹¹ NERC did not collect any Penalties in the 12 months ended June 30, 2019, and does not propose to release any funds from the Assessment Stabilization Reserve as a 2020 funding source.

delays in hiring or start date delays.¹² Total budgeted staffing for the statutory programs is increased by 1.88 FTEs, and budgeted staffing for the administrative programs is increased by 6.58 FTEs, from the 2019 budget.

As compared to the 2019 budget, the 2020 budget reflects increases of 6.0% in Personnel Expenses, 4.3% in Meeting Expenses, and 2.9% in Operating Expenses. Budgeted 2020 Consultants & Contracts expense (included in Operating Expenses), are reduced by \$2,607,416 from the 2019 budget, while budgeted Office Costs are \$3,545,456 higher; these changes are largely due to a reclassification of certain Software License and Support costs from Consultants & Contracts to Office Costs. NERC is budgeting Fixed Asset Additions of \$4,706,349 for 2020 (comprised of \$3,271,349 for Computer & Software CapEx (ERO Application Development and NERC capitalized software), \$935,000 for Hardware (storage and servers) and Other Equipment CapEx, and \$500,000 for Leasehold Improvements in the Atlanta office), a decrease of \$71,651 from the 2019 budget.

Budgeted CRISP expenditures for 2020 are decreased by 2.7% from the 2019 budget. The budgeted CRISP expenditures, totaling \$8,796,155, will be primarily funded (\$7,814,577 (88.8%)) by participating utilities. The remaining funding for CRISP will come from assessments and an allocation of NERC's Interest & Investment Income.

The following table shows NERC's 2019 and 2020 budgets for each of its statutory programs and, where applicable, departments within each program:

¹² Thus, for example, a budgeted increase of 0.94 FTE represents an increase of one full-time position adjusted by the 6% vacancy rate.

<u>Program</u>	<u>2019 Budget</u>	<u>2020 Budget</u>
Reliability Standards and Power Risk Issues Strategic Management	\$ 6,676,078	\$ 8,249,572
Compliance Assurance and Organization Registration and Certification	\$13,944,416	\$12,292,101
Compliance Enforcement	\$ 6,857,235	\$ 6,725,572
Reliability Assessments and Performance Analysis	\$13,232,197	\$13,122,303
Situation Awareness	\$ 4,296,209	\$ 4,256,006
Event Analysis	\$ 5,299,268	\$ 4,733,857
E-ISAC (including CRISP)	\$27,325,627	\$31,284,791
Personnel Certification and Continuing Education	\$ 1,043,763	\$ 1,738,288
Training and Education	<u>\$ 1,179,862</u>	<u>\$ 1,014,986</u>
	<u>\$79,854,655</u>	<u>\$83,417,476</u>

The 2020 budgeted amounts for statutory programs incorporate a budget for Administrative Services of \$32,766,236 (8.0% increase from the 2019 budget). Budgeted Administrative Services expenses and Fixed Assets Activity are allocated to statutory programs based on the ratio of FTEs budgeted for each statutory program to total FTEs budgeted for statutory programs.

C. Regional Entity Proposed 2020 Business Plans and Budgets - Overview

Consistent with FERC's regulations, this submission includes the entire annual budget for statutory and non-statutory activities for the relevant Regional Entity, with supporting materials, including the complete business plan and organization chart, explaining the proposed expenditure of funds collected in sufficient detail to justify the requested funding collection and budget expenditures. This submission also includes the line item budgets for the activities that are delegated or assigned to the Regional Entity.

NERC staff worked collaboratively with the Regional Entities in developing their 2020 business plan and budget submissions. Drafts and final proposed versions of the Regional Entities' proposed business plans and budgets were also reviewed by the NERC FAC.

The table below shows the 2020 budgets for statutory and (if applicable) non-statutory functions for all the Regional Entities. For all Regional Entities, the total budget amount for statutory functions includes total Expenses and Fixed Asset Additions. Because each Regional Entity has one or more other sources of income (including Penalties collected from registered entities), the requested assessment for each Regional Entity is less than its total budget for statutory activities. The fourth column of the table below shows the total (for all jurisdictions) assessment required for each Regional Entity, after taking into account other Funding sources. The assessment amounts reflect adjustments (which for some Regional Entities are reductions) to achieve the Regional Entity's target Working Capital Reserve at December 31, 2020, as determined by each Regional Entity's governing body.

Regional Entity	Total Budget for Statutory Functions	Budget for Non-Statutory Functions	Statutory Funding Assessment
MRO	\$17,540,969	-----	\$16,983,251 ¹⁴
NPCC	\$16,601,647	\$ 1,148,668	\$15,338,737 ¹⁵
ReliabilityFirst	\$23,650,862	-----	\$22,318,623
SERC	\$24,525,013	-----	\$22,459,123
Texas RE	\$13,831,126	\$ 1,191,965	\$13,344,128
WECC	\$27,756,089	\$ 1,831,535	\$25,282,000 ¹⁶

¹³ *Rules Concerning Certification of the Electric Reliability Organization; Procedures for the Establishment, Approval and Enforcement of Electric Reliability Standards*, Order No. 672, FERC Stats. & Regs. ¶ 31,204 (2006) (*Order No. 672*), at P 229.

¹⁴ MRO's statutory assessment of \$16,983,251 consists of \$15,302,710 allocated to the U.S. and \$1,680,541 allocated to Canadian provinces.

¹⁵ NPCC's statutory assessment of \$15,338,737 consists of \$9,575,689 allocated to the U.S. and \$5,763,048 allocated to Canadian provinces.

D. Allocation of Statutory Assessments

The total ERO statutory funding requirement for 2020 net of other NERC and Regional Entity income sources, to be funded by assessments is \$188,723,535, consisting of \$72,011,373 for funding of NERC's programs and \$116,712,162 for funding of Regional Entity statutory activities and the WIRAB. This is a 3.1% increase from the aggregate assessments for 2019.

NERC's proposed 2020 assessment amount of \$72,011,373 is allocated as follows: \$65,130,829 to the U.S., \$6,655,929 to Canadian provinces (in the aggregate), and \$224,615 to Mexico. Based on the aggregate NEL of Canada for 2018 on which the allocation of assessments is based, the proposed Canadian assessment for NERC represents approximately \$0.000013 per end-user kilowatt-hour.¹⁷

NERC proposes allocation of its 2020 assessment of \$72,011,373 to the Regional footprints as follows:

• MRO	\$ 7,890,975 ¹⁸	• SERC	\$21,074,975
• NPCC	\$ 8,717,470 ¹⁹	• Texas RE	\$ 6,054,901
• ReliabilityFirst	\$14,670,823	• WECC	\$13,602,228 ²⁰

Appendix 2 to **Attachment 2** shows the following information for each LSE or designee within the footprint of each Regional Entity and identified by country: (i) 2018 NEL data and the

¹⁶ WECC's statutory assessment of \$25,282,000 consists of \$21,700,691 allocated to the U.S., \$3,109,486 allocated to Canadian provinces and \$471,823 allocated to Mexico. The \$25,282,000 amount does not include the WIRAB assessment.

¹⁷ As in prior years, the allocation and calculation of assessments for the 2020 budgets is based on NEL data for the second preceding calendar year, 2018, the most current annual NEL data available as of August 2019.

¹⁸ The allocation to MRO consists of \$7,134,967 allocated to the U.S. and \$756,008 allocated to Canadian provinces.

¹⁹ The allocation to NPCC consists of \$4,557,588 allocated to the U.S. and \$4,159,882 allocated to Canadian provinces.

²⁰ The allocation to WECC consists of \$11,637,574 allocated to the U.S., \$1,740,039 allocated to Canadian provinces and \$224,615 allocated to Mexico.

the development of the NEL-based allocation factors used to allocate the NERC and Regional Entity statutory assessments (Appendix 2-A), and (ii) the allocation of the total ERO, NERC and Regional Entity statutory assessments (Appendices 2-B, 2-C and 2-D).

NERC has allocated its statutory assessment of \$72,011,373 to the LSEs within each Regional footprint primarily on the basis of NEL, with the following adjustment: In accordance with NERC's *Expanded Policy on Allocation of Certain Compliance and Enforcement Costs*, the NEL-based assessments for AESO, IESO, New Brunswick and Québec have been adjusted for certain CMEP, Event Analysis and Situation Awareness (specifically, the SAFNR system) costs, as shown on **Attachment 5**. These adjustments recognize that entities in Ontario, Alberta and New Brunswick expend resources to perform compliance and enforcement activities that otherwise would be performed by NERC or a Regional Entity, and that the compliance and enforcement resources NERC needs for Alberta and Québec are reduced due to the small number of entities subject to compliance and enforcement activities in those provinces. The adjustments also recognize that certain NERC activities related to the Event Analysis program and SAFNR either overlap with Canadian regulatory programs or are not used by these Canadian provinces, and therefore these provinces are not allocated a share of these costs. These credits, totaling \$1,341,279, are reflected in Appendix 2-C of **Attachment 2**. The total credit amount is reallocated to all other LSEs (Balancing Authorities) based on NEL. The resulting adjusted NEL-based allocations to the Regional footprints are shown in Appendix 2-C of **Attachment 2**.

NEL has also been used to allocate the Regional Entity assessments, with these exceptions: First, for NPCC, 20.54% of its Compliance Monitoring and Enforcement and Organization Registration and Certification (CORC) Program costs, representing CORC program fundamentals, has been allocated among the six Balancing Authority Areas (BAAs) in NPCC on

the basis of NEL; 60.87% of CORC costs has been allocated between the U.S. and Canadian BAAs in NPCC using a compliance audit-based methodology; and the remaining 18.59% of CORC costs has been allocated between the U.S. and Canadian BAAs using an enforcement activity-based methodology. As FERC previously directed,²¹ the NPCC CORC costs allocated to the U.S. using the compliance audit-based methodology and the enforcement activity-based methodology are re-allocated between the New England and New York BAAs based on NEL.²² Second, WECC's allocation of its assessment to the AESO for the Province of Alberta has been reduced by \$1,074,088, representing WECC CMEP costs that are duplicative of programs of the AESO.²³ The AESO credit amount was allocated to the remainder of the LSEs (Balancing Authorities) in the WECC Region on the basis of NEL.

After allocating the appropriate portions of the NERC, Regional Entity and WIRAB funding requirements to the U.S. and Mexico (taking into account the adjustments described above), the total ERO statutory assessment for 2020 allocable to Canadian LSEs is \$17,353,264 (a 5.1% increase from 2019), comprised of:

NERC Assessment:	\$ 6,655,929
Regional Entity Assessments:	\$10,697,335 (includes the WIRAB assessment) The funding requirement of each Regional Entity for statutory activities is allocated

100% to that Region. The funding requirement for the WIRAB is allocated 100% to the WECC Region. The following table shows the allocation to each Region of the total 2020 ERO

²¹ *North American Electric Reliability Corp.*, 128 FERC ¶ 61,025 (2009) (*July 16, 2009 Budget Compliance Order*).

²² The allocation of NPCC CORC Program costs is described in greater detail at pages 54-56 of the NPCC 2020 Business Plan and Budget.

²³ Appendix C of WECC's 2020 Business Plan and Budget shows the calculation of the adjustment to the WECC assessment to the AESO.

statutory assessment of \$17,353,264 for the Canadian activities of NERC, the Regional Entities, and WIRAB. The table also shows the statutory assessments per kWh based on the 2018 Canadian NEL of each Region.

Regional Entity	NERC Canadian	Regional Entity Canadian	Total Canadian	Assessment per kWh (2018 NEL)
MRO	\$ 756,008	\$ 1,680,541	\$	\$0.0000516
NPCC	\$ 4,159,882	\$ 5,763,048	\$ 9,922,930	\$0.0000296
WECC	\$ 1,740,039	\$ 3,109,487	\$	\$0.0000382
WIRAB	---	\$ 144,259	\$ 144,259	\$0.0000011
Total	\$ 6,655,929	\$ 10,697,335	\$17,353,264	\$0.0000340

NERC obtained from each Regional Entity a listing of the LSEs or their designees in the Region and a breakdown of the Region’s 2018 NEL by LSE or designee.²⁴ NERC used this information to allocate the total ERO statutory assessment allocated to each Region among the LSEs, their designees or the other entities to be billed the assessments within that Region.²⁵ The amount of the NERC and Regional Entity statutory assessments allocated to each LSE or designee or other entity to be billed in each Region is shown in Appendix 2-B of **Attachment 2**.²⁶

²⁴ For the NPCC Region, assessments are allocated on the basis of NEL in each BAA (New York, New England, Ontario, Québec, Nova Scotia and New Brunswick). The assessments for the NPCC Region will be billed to ISO New England and the New York ISO (and to similar entities in Ontario, Québec, New Brunswick and Nova Scotia), each of which will be responsible for billing and collecting assessments from LSEs within their respective footprints. For the Texas RE Region, assessments are allocated on the basis of NEL for the Electric Reliability Council of Texas (ERCOT), which acts as billing agent for the Texas RE Region; the assessments will be billed to ERCOT, which will bill and collect assessments from LSEs in ERCOT.

²⁵ Certain LSEs in MRO and WECC serve end users only in Canada or Mexico. These LSEs were not allocated any portion of the ERO funding requirement allocated to U.S. end users, but were allocated appropriate portions of the ERO funding requirement allocated to Canadian provinces or Mexico.

As provided for in Exhibit E to the delegation agreement with each Regional Entity, NERC will directly invoice the approved assessments to LSEs or designees, or to the other entities to be billed, in all Regions except WECC. WECC will invoice LSEs or Balancing Authorities or their designees within the WECC footprint, collect the assessments, and remit the funds collected for the NERC, WECC and WIRAB assessments to NERC.²⁷

IV. NERC BUSINESS PLAN AND BUDGET

A. 2020 NERC Business Plan and Budget by Program

The proposed 2020 staffing and expenditure budgets for the individual NERC departments and programs are described in the subsections below. However, several factors impact the budgets for all programs and departments.

First, in developing budgeted staffing and Personnel Expenses for 2020, all NERC programs applied a 6% vacancy rate reduction to FTEs. The vacancy rate adjustment reflects that actual staffing is typically less than budgeted staffing due to factors such as employees leaving NERC for other jobs and new positions being filled at a later date than assumed in preparing the budget. The vacancy rate adjustment is reviewed each year, based on historical attrition and the time needed to recruit and onboard new staff, and is adjusted if appropriate;

²⁶ As a matter of administrative convenience and efficiency, NERC will calculate and bill the assessments to certain entities, referred to as “designees,” based on NEL values that include the NEL for other LSEs served by the designee, or for which the designee is otherwise responsible for assessments. The lists of LSEs and designees for which assessments will be calculated and billed have been provided to NERC by the Regional Entities. NERC is not involved in developing the lists of LSEs or in arrangements between LSEs and designees pursuant to which a designee agrees to accept responsibility for an assessment that would otherwise be billed to the LSE and the LSE agrees to reimburse the designee for the assessment.

²⁷ For reasons of administrative convenience, billing and payment by LSEs of annual assessments less than \$100 will not be required.

however, the 6% adjustment is the same value used in the 2017, 2018, and 2019 NERC budgets.

Second, the Personnel Expense in the 2020 budget reflects (in addition to the FTE additions) a 3.0% increase over actual 2019 base salaries for merit adjustments, and, at the direction of the NERC Board, up to 0.5% for equity and market adjustments.

Third, budgeted Benefits Expense for all programs reflects anticipated market increases in medical and dental plan premiums from the 2019 budget, based on market data provided by NERC's benefits consultants. Executive and staff compensation and benefits are based on guidelines established by the NERC Corporate Governance and Human Resources Committee (CGHRC) and market compensation and benefits studies most recently completed in late 2017.

Fourth, budgeted staffing is increased for some of the statutory programs and decreased for other statutory programs, compared to the 2019 budget, reflecting a company-wide reorganization and realignment of personnel to match staffing with current program needs. The budgeted expenses (Indirect Expenses) and Fixed Assets Activity for the Administrative Services programs are allocated to the statutory direct programs based on the ratio of budgeted FTEs in each statutory program to total budgeted statutory program FTEs. Therefore, the changes in the numbers of FTEs budgeted for each statutory direct program for 2020 as compared to 2019 impact the allocation of the Administrative Services costs among the statutory direct programs.

1. Reliability Standards and Power Risk Issues Strategic Management

The major activities of the Reliability Standards and Power Risk Issues Strategic Management Program are described at pages 19-21 of **Attachment 2**. The total budget for this program for 2020 increased 23.6% from the 2019 budget, due primarily to an increase in staffing of 3.29 FTEs resulting from the company-wide reorganization and realignment of staffing among programs and departments to match current needs. The budget includes Consultants & Contracts expense of \$40,320 (a decrease of \$9,680 from the 2019 budget) for maintenance of and

enhancements to the Standards Balloting and Commenting System.

2. Compliance Assurance, Organization Registration and Certification, and Compliance Enforcement

a. Compliance Assurance and Organization Registration and Certification

The major activities of Compliance Assurance and Organization Registration and Certification are described at pages 23-27 of **Attachment 2**. The total budget for Compliance Assurance and Organization Registration and Certification for 2020 decreased 11.8% from the 2019 budget, due primarily to decreases in Personnel Expenses and Meeting Expenses. The budgeted staffing for 2020 is 21.62 FTEs, a decrease of 4.23 FTEs from the 2019 budget, reflecting the continued maturation of NERC's risk-based CMEP and ongoing efforts to match staffing with current needs. The decreased staffing is all in the Compliance Assurance function, with no staffing changes in Registration and Certification. The 2020 budget includes approximately \$0.9 million in Fixed Asset Additions for the final year of development of the Align tool, with these costs shared with the Compliance Enforcement group (*i.e.*, total budget of \$1.8 million), plus \$200,000 for enhancements to the Centralized Organization Registration ERO System (CORES).

b. Compliance Enforcement

The major activities of the Compliance Enforcement group are described at pages 29-30 of **Attachment 2**. The total budget for the Compliance Enforcement group for 2020 decreased 1.9% from the 2019 budget, due primarily to reduced Personnel Expenses. Budgeted staffing for Compliance Enforcement is 12.22 FTEs, a decrease of 0.94 FTE from the 2019 Budget, reflecting the overall effort to realign staffing among the departments to match current needs. The 2020 budget for Compliance Enforcement includes \$0.9 million of Fixed Asset additions for the last year of development of the Align tool; as noted above, the budgeted costs for the Align

tool are split between Compliance Assurance and Compliance Enforcement.

3. Reliability Assessments and Performance Analysis (RAPA)

The major activities of the RAPA Program are described at pages 32-37 of **Attachment 2**. The total budget for RAPA for 2020 decreased 0.8% from the 2019 budget. The budgeted staffing for RAPA is reduced by 1.88 FTEs from the 2019 budget, to 23.50 FTEs, reflecting the reorganization and reallocation of staff among programs to meet current resource needs. Budgeted Consultants & Contracts expense for 2020 is reduced by \$525,995 from the 2019 budget, due primarily to reclassification of maintenance and enhancement costs for certain tools to Office Costs (which are increased by \$219,304 from the 2019 budget).

4. Situation Awareness

The major activities of the Situation Awareness Department are described at pages 39-41 of **Attachment 2**. The total budget for Situation Awareness decreased 0.9% from the 2019 budget. The budgeted staffing for Situation Awareness for 2020 is the same as in the 2017, 2018 and 2019 budgets, at 5.64 FTEs. Budgeted Consultants & Contracts expense for 2020 is reduced by \$1,280,990 from the 2019 budget, due primarily to reclassification of licenses and maintenance costs for certain tools to Office Costs (which increased by \$1,132,244 from the 2019 budget). The budgeted Fixed Asset additions for 2020 include \$250,000 for upgrades to the situational awareness room in the Atlanta office.

5. Event Analysis

The major activities of the Event Analysis Department are described at pages 43-44 of **Attachment 2**. The total budget for the Event Analysis Department decreased 10.7% from the 2019 budget, due primarily to reduced Personnel Expenses. The budgeted staffing for Event Analysis for 2020 is reduced by 1.88 FTE from the 2019 budget, to 9.40 FTEs.

6. Electricity Information Sharing and Analysis Center (E-ISAC)

The major activities of the E-ISAC are described at pages 46-51 of **Attachment 2**. In addition to operating the E-ISAC, this program performs the management role for CRISP, a public-private partnership whose purpose is to facilitate the sharing of cybersecurity risk with and among E-ISAC member electricity asset owners and operators in the U.S., Canada and Mexico, identify potential threats, and provide recommended mitigation steps.

The total budget for the E-ISAC is increased by 14.5% over the 2019 budget. This includes the budget for CRISP, which comprises 28.0% of the total E-ISAC budget. The budgeted staffing for the E-ISAC for 2020 is increased by 6.58 FTEs from the 2019 budget to increase watch operations, analytical, and engagement capabilities in support of the E-ISAC long-term strategy. The budgeted 2020 Consultants & Contracts expense for E-ISAC of \$8,090,000 is slightly reduced from the 2019 budget. Of this total, \$6,677,500 (82.5%) is budgeted for CRISP, which is an increase of 3.4% from the 2019 budget, largely driven by an increase in scope and funding for the outside auditor security review. NERC anticipates continuing to subcontract to Pacific Northwest National Laboratory for the majority of the resource requirements and associated costs to operate and maintain CRISP. In the non-CRISP portion of E-ISAC's Consultants & Contracts expenses, totaling \$1,412,500, there are decreases reflecting that the biennial GridEx cybersecurity exercise was held in 2019 and therefore will not be held in 2020, as well as decreases in other areas of Consulting & Contracts support. There is a \$559,493 increase in budgeted Office Costs primarily due to additional software licensing and support costs for tools and technology in support of the E-ISAC long-term strategy. Budgeted 2020 Fixed Asset Additions include \$350,000 for E-ISAC portal enhancements.

Under the CRISP master services agreement, the E-ISAC budget for 2020 is supported by

\$7,814,577 of Third-Party Funding provided by participating utilities and other entities to support NERC's participation and activities as program manager for CRISP. The Third-Party Funding is equal to 88.8% of the 2020 CRISP budget. Third-Party Funding for CRISP is deposited in a separate account. Any underrun in the CRISP budget which is allocated to and funded by CRISP participants will be applied as a credit against future CRISP participant funding requirements, pursuant to the terms of the CRISP agreements.

7. Personnel Certification and Continuing Education

NERC has placed the System Operator Certification Program and the Continuing Education Program into the same department, so that all system operator certification and related continuing education activities are now in a single program, overseen by the NERC Personnel Certification and Governance Committee. The Continuing Education Program for system operators was formerly part of the Training and Education department. The major activities of the Personnel Certification and Continuing Education (PCCE) Program are described at pages 53-54 of **Attachment 2**. The total 2020 budget for the PCCE is 66.5% higher than the 2019 budget, reflecting the movement of functions into this department. Budgeted 2020 staffing for the PCCE is 2.82 FTEs.

The PCCE Program will receive no funding from assessments. The System Operator Certification Program generates revenues from fees charged for system operator certification examinations, which are intended to recover the costs (including an allocation of indirect expenses) of the program, and for certification renewals. In addition, fees charged to continuing education providers offset costs associated with the review of courses taken by certified operators to maintain their certification.

8. Training and Education

The major activities of the Training and Education Program are described at pages 56-57

of **Attachment 2**. The 2020 total budget for Training and Education decreases 14.0% from the 2019 budget, reflecting the movement of system operator continuing education program activities to the PCCE Program. Budgeted 2020 staffing of 1.88 FTEs for Training and Education is unchanged from the 2019 budget. Budgeted 2020 Consultants & Contracts expense is reduced by \$225,000 from the 2019 budget, due to the movement of Continuing Education program expenses to the PCCE Program and reclassification of NERC staff technical training costs to HR & Administration.

9. Administrative Services

The Administrative Services departments support the NERC statutory programs. Administrative Services comprises the following functions: (i) General & Administrative (which includes the chief executive officer and chief reliability officer, Policy and External Affairs staff, Office Rent, and Board functions); (ii) Legal and Regulatory; (iii) Information Technology (IT); (iv) HR & Administration; and (v) Finance and Accounting. Descriptions of the responsibilities and functions included in Administrative Services are provided at pages 59-65 of **Attachment 2**.

The total amount budgeted for expenses in Administrative Services for 2020 (before provision for Working Capital and Operating Reserves) is increased 8.0% from the 2019 budget, due principally to increased Personnel Expense, Office Rent, and Office Costs. The total budgeted staffing for the Administrative Services departments for 2020 is increased by 6.58 FTEs from the 2019 budget, including increases of 2.82 FTEs in General & Administrative, 1.88 FTEs in Legal and Regulatory, 0.94 FTE in IT, and 0.94 FTE in Finance and Accounting. The increase in Office Costs reflects both increases in Software License and Support costs and a reclassification of these expenses from Consultants and Contracts (which in turn are reduced by \$387,071 from the 2019 budget). The reduction in Consultants and Contracts Expense also

includes the conversion of an IT contractor to a NERC employee. Budgeted Professional Services expense for Administrative Services decreased by \$171,000 from the 2019 budget, primarily due to a decrease in Board expenses (as described below) and a reclassification of some other Outside Services expenses to other categories.

The budgeted amount for Independent Trustee expenses for 2020 (included in General & Administrative) decreased slightly from the 2019 budget, reflecting a reduction in budgeted Trustee Search Fees partially offset by an increase in budgeted Trustee Travel expense. Budgeted Independent Trustee Fees reflect continued implementation of the previous (2018) recommendation by the CGHRC, approved by the Board, to increase annual trustee compensation by \$5,000 per trustee each year for the years 2019 through 2021 (*i.e.*, total increase of \$15,000 as of 2021). However, because there will be one less independent trustee on the Board in 2020 than in 2019, the total budgeted amount for Independent Trustee Fees has not been increased from the 2019 budget.²⁸ The decision to increase annual trustee compensation by \$5,000 per year in each of 2019, 2020 and 2021 resulted from NERC's 2018 annual review of trustee compensation and the periodic independent consultant study of trustee compensation completed in 2018, which recommended this increase.²⁹ The consultant's study and the CGHRC's analysis and recommendation to the Board took into account trends in trustee/director compensation; comparative market data; the NERC trustee workload (including those of the Chair, Vice Chair, and committee chairs); overall budget impact; and the need to continue to recruit qualified trustees, taking into account the constraints on NERC trustee candidates (such as conflict of interest requirements) that limit the pool of candidates. In accordance with Paragraph

²⁸ The table on page 61 of **Attachment 2** shows budgeted Board of Trustees expenses for 2020 and 2019.

²⁹ A copy of the independent consultant compensation study, performed by the Willis Towers Watson consulting firm (*Board of Trustee Remuneration Review*, July 2018) was included as an Attachment to NERC's 2019 Business Plan and Budget filing.

12(a) of the Settlement Agreement for FERC's 2011 financial performance audit of NERC, which requires the NERC Board to review trustee compensation on an annual basis, the CGHRC, at meetings in June and July 2018, reviewed and discussed the independent consultant's study of trustee compensation, and at its August 15, 2018 meeting, recommended that the Board approve the proposed increase in annual trustee compensation, which the Board in turn approved at its August 16, 2018 meeting.³⁰ At its May 8, 2019, meeting, the CGHRC determined to continue implementation of this recommendation as part of its annual review of trustee compensation.

B. Working Capital and Reserves

NERC's WCOR Policy provides for the categories of Working Capital and Reserves maintained by NERC: Working Capital, Future Obligations Reserve, Operating Contingency Reserve, System Operator Certification Program Reserve, CRISP Reserve, and Assessment Stabilization Reserve. Table B-1 and Exhibit D in **Attachment 2** show and explain the amounts of Reserves proposed to be budgeted in each category, and reflected in the setting of NERC's assessments, for 2020. The amounts budgeted for 2020 for each Working Capital and Operating Reserve category (target balances at December 31, 2020) are as follows:

Working Capital: \$0

NERC maintains a \$4,000,000 line of credit with a major financial institution, and based on its cash flow projections and the timing by which the NERC assessments are billed and paid, does not anticipate a need to access working capital in 2020 to meet monthly cash flow needs.

Future Obligation Reserve: \$1,633,761

The target level for the Future Obligations Reserve at December 31, 2019, as presented in NERC's 2019 Business Plan and Budget, was \$2,039,114; therefore, the target level for this reserve is being reduced by \$405,353 at December 31, 2020. The projected amount in this reserve at December 31, 2019 is \$2,119,719.

³⁰ Annual review of trustee compensation is also required by the CGHRC's mandate and by NERC's Governance Guidelines.

Operating Contingency Reserve: \$4,721,776

The WCOR Policy specifies that except as otherwise approved by the NERC Board, the budgeted Operating Contingency Reserve level is to be between 3.5% - 7.0% of NERC's total expenses and Fixed Assets budget excluding the budgets for the System Operator Certification Program and CRISP, which have their own reserves. The projected balance in this reserve at December 31, 2019, is \$5,375,812. NERC is proposing to reduce the 2020 assessment by reducing the Operating Contingency Reserve by \$654,036, resulting in a target amount for this Reserve at December 31, 2020 of \$4,721,776.

System Operator Certification Program Reserve: \$441,528

The projected December 31, 2019 reserve balance of the System Operator Certification Program is \$437,575; therefore, a small increase of \$3,953 is included to reach the target balance for the System Operator Certification Program Reserve at December 31, 2020.

CRISP: \$500,000

The CRISP Operating Reserve is used solely for certain contingencies in connection with CRISP. The target level is equal to the original CRISP reserve, established in 2015, which was funded by the participating utilities in CRISP.

Assessment Stabilization Reserve: \$1,521,000

NERC collected no Penalties during the period July 1, 2018 – June 30, 2019. After the application of \$550,000 from the Assessment Stabilization Reserve in 2019 to reduce assessments (as described in the 2019 Business Plan and Budget), the balance in this Reserve is \$1,521,000. NERC is not proposing to release any funds from the Assessment Stabilization Reserve to reduce the 2020 assessments; therefore, the balance of \$1,521,000 in this Reserve will be available for use to offset and stabilize assessments in future years' budgets.

Total Desired Working Capital and Reserves at 12/31/2020: \$8,818,065.

Based on the beginning Working Capital and Reserves balances at January 1, 2019 of \$11,342,801, the projected funding and expenditures for 2019, the budgeted funding and expenditures for 2020, the impacts of the capital financing program for 2020 (*see* §IV.C below) and the desired Working Capital and Reserves balances at December 31, 2020, Table B-1 on page 67 of **Attachment 2** shows the calculation of the resulting adjustment (decrease) of \$650,083 to NERC's 2020 statutory assessment. To the extent NERC's actual year-end 2019 Working Capital and Reserves balances are higher than the projected amounts shown on Table B-1, the excess funds will be included in the Operating Contingency Reserve, System Operator Certification Program Reserve, or CRISP Reserve, as applicable, and subject to the limitations

and authorities regarding their use as set forth in the WCOR Policy.

C. Capital Expenditures Financing

As originally described in NERC's 2014 Business Plan and Budget, NERC is financing certain capital expenditures, in particular development of major software applications that benefit the entire ERO Enterprise, over multi-year periods through a capital financing program. NERC initiated the capital financing program in January 2014, establishing a \$7,500,000 non-revolving credit facility; and closed a similar non-revolving credit facility in November 2016 totaling \$5,000,000, to finance certain capital expenditures made from January 2017 to December 2019. Annual borrowings under the credit facilities are limited to the amounts authorized by the NERC Board and the applicable governmental authorities in each year's Business Plan and Budget. Borrowings are amortized over a three-year period and can be prepaid without penalty.

The outstanding debt balance at December 31, 2019 is projected to be \$1,666,890. For 2020, NERC's proposed capital expenditures budget is \$4,706,349, of which NERC is proposing to finance approximately \$2,007,000. The capital expenditure categories and amounts in the 2020 budget are listed in Table B-12 and Exhibit C of **Attachment 2**. The tables included in Exhibit C show the projected year-end outstanding debt balances and annual payments for debt service for 2019, 2020, 2021 and 2022 under the capital financing program, including the annual principal repayment and annual interest expense. The interest rate under the credit facilities is floating at LIBOR plus 275 basis points; NERC projects the average interest rate during 2020 will be 6.5%. The actual interest expense (based on actual interest rates) will be reflected in the quarterly budget-to-actual variance reports that NERC posts on its website, reviews in open session with the NERC FAC and files with FERC. Any savings in actual interest expense compared to the budgeted expense will be captured and reported as a contribution to

NERC's Operating Reserves, the expenditures from which are subject to the terms of NERC's WCOR Policy.

V. REGIONAL ENTITY BUSINESS PLANS AND BUDGETS

A. Development of the Regional Entity Business Plans and Budgets

NERC management and staff worked collaboratively with the Regional Entities on the development of the Regional Entities' 2020 Business Plans and Budgets. Drafts of each Regional Entity's 2020 Business Plan and Budget were submitted to NERC for posting on the NERC website on May 17, 2019 for stakeholder comment. NERC also reviewed and provided feedback on these drafts. The draft Regional Entity Business Plans and Budgets were also the subject of presentations and discussion at meetings of the NERC FAC.

Additionally, each Regional Entity posted one or more drafts of its 2020 Business Plan and Budget on its own website for comment by its stakeholders, and/or provided other opportunities for stakeholder input, as follows:

MRO: MRO posted its draft 2020 Business Plan and Budget for comments on May 1, 2019. MRO's 2020 Business Plan and Budget was presented in multiple meetings of the MRO Board and its stakeholders. There were no written or oral challenges to the 2020 Business Plan and Budget. On June 20, 2019, MRO's Board of Directors approved a resolution that approved the 2020 reserves and 2020 budget; and affirmed that the budget is sufficient to complete MRO's delegated responsibilities.

NPCC: A preliminary 2020 total NPCC Expense Budget was first presented to NPCC's Finance and Audit Committee (NPCC FAC) for review and discussion on February 21, 2019. Draft #1 of the NPCC 2020 Business Plan and Budget was presented to NPCC's FAC on April 23, 2019, and to its Board of Directors Board of Directors on May 1, 2019. NPCC posted Draft #1 on its website for stakeholder review and comment on May 1, with a request for comments by May 31. Draft #1 was presented to the NPCC Reliability Coordinating Committee for comment following this posting. NPCC did not receive any formal comments from either the posting or various presentations to the stakeholders on its proposed 2020 Business Plan and Budget. The NPCC FAC unanimously endorsed the "Draft for Approval" as presented and on June 26, 2019, the "Draft for Approval" was presented to the NPCC Board, and was unanimously approved.

ReliabilityFirst: On April 24, 2019, the ReliabilityFirst Board of Directors approved the first draft of its 2020 Business Plan and Budget, after which it was posted to the

ReliabilityFirst website for a 30-day industry review and comment period. ReliabilityFirst did not receive any comments. The final 2020 Business Plan and Budget was approved by the ReliabilityFirst Board on May 23, 2019.

SERC: On April 18, 2019, a draft of SERC's 2020 Business Plan and Budget was presented to SERC's Finance and Audit Committee. On April 24, 2019, the draft 2020 Business Plan and Budget was presented to, and approved by, SERC's Board of Directors. The draft budget was then posted on the SERC public website for a 30-day comment period beginning May 1, 2019. No comments were received from registered entities. The final 2020 Business Plan and Budget was approved for submittal to NERC by the Board Executive Committee at its June 26, 2019 meeting.

Texas RE: Texas RE's 2020 Business Plan and Budget was presented in multiple meetings of the Texas RE Board and Member Representatives Committee. The draft 2020 Business Plan and Budget was posted for a two week comment period before being presented to the Texas RE Board of Directors for final approval. There were no written or oral challenges to the 2020 Business Plan and Budget. The Board of Directors approved Texas RE's 2020 Business Plan and Budget on May 15, 2019.

WECC: WECC's draft 2020 Business Plan and Budget was posted on its website on April 29, 2019, for a fifteen business day comment period. The WECC Board of Directors and WECC stakeholders were notified of the posting. One set of comments was received from stakeholders on the draft 2020 Business Plan and Budget. WECC's Board approved WECC's 2020 Business Plan and Budget on June 19, 2019.

NERC's review of the draft Regional Entity business plans and budgets focused on:

1. Adequacy of the resources and activities to perform delegated functions;
2. Alignment of the Regional Entity's goals, objectives and major activities to the *ERO Enterprise Long-Term Strategy* and the related goals, objectives and priorities;
3. Efforts to improve efficiency and control costs;
4. Quality and completeness of the financial information presented, including:
 - a. Conformance with FERC budget reporting requirements and with the common presentation format,
 - b. Separation of statutory and non-statutory activities,
 - c. Supporting detail, including explanations for significant changes from the entity's 2019 budget,
 - d. Working capital and operating reserve budgets, policies and controls, and
 - e. Compliance with any budget or audit related orders from FERC, if

applicable.

Through the processes described above and in §III.A, NERC has been able to satisfy itself that each Regional Entity's 2020 Business Plan and Budget provides necessary and adequate resources to carry out the Regional Entity's delegated functions in 2020.³¹

The Regional Entities submitted their final 2020 Business Plans and Budgets, as approved by their respective governing bodies, to NERC in May and June 2019. These Business Plans and Budgets were submitted to the NERC FAC and Board, were reviewed at the FAC's meetings held on July 18 and August 14, 2019, and were approved by the Board for submission to the applicable governmental authorities at the Board's August 15, 2019 meeting.

The Regional Entity Business Plans and Budgets follow a similar format and organization to that used for the NERC Business Plan and Budget, as described in §III.B.1 above.

In developing their 2020 Business Plans and Budgets and proposed assessment amounts to LSEs, the Regional Entities have taken into account the need to maintain appropriate amounts of working capital and operating reserves. Table B-1 in Section B of each Regional Entity's 2020 Business Plan and Budget shows the calculation of the increase or decrease to the Regional Entity's requested 2020 assessment to achieve the Regional Entity's desired Reserves balance at December 31, 2020. The basis for each entity's target Reserves balance for 2020 is stated on its Table B-1 or explained in the text of its 2020 Business Plan and Budget.

B. Summary of Relevant Regional Entity Business Plan and Budget

1. MRO

Attachment 3 is MRO's proposed 2020 Business Plan and Budget. MRO's total

³¹ In reviewing the Regional Entity Business Plans and Budgets, NERC afforded the proposed Regional Entity Business Plans and Budgets no presumption of reasonableness due to having been approved by the Regional Entities' governing bodies.

statutory budget for 2020 is \$17,540,969, an increase of \$1,560,615 (9.8%) from its 2019 budget, and reflects the costs resulting from transfer of registered entities from the Southwest Power Pool Regional Entity (SPP RE) to MRO during 2018 as the result of the SPP RE dissolution. MRO's proposed assessment for 2020 of \$16,983,251 is \$1,511,582 (9.8%) higher than its 2019 assessment, reflecting (i) the increased budget; (ii) release of \$557,718 from MRO's Assessment Stabilization Reserve (MRO ASR), as described below, which is an increase of \$498,465 from the amount of Penalty collections applied to reduce assessments in MRO's 2019 budget; and (iii) no additional adjustment to assessments for Working Capital Reserve, as compared to a reduction to its assessments of \$449,432 for Working Capital Reserve in its 2019 budget. MRO calculates that its proposed 2020 budget is \$3,200,000 less than the combined 2018 budgets of MRO and SPP RE prior to the SPP RE dissolution and transfer of registered entities to MRO.

MRO is budgeting increased staffing for 2020 of 1.36 FTEs in its statutory programs and 2.64 FTEs in its administrative programs, for an overall increase of 4.00 FTEs. Total budgeted 2020 staffing of 63 FTEs is 14 FTEs fewer than the aggregate staffing in the 2018 budgets of MRO and SPP RE. The largest budget increase for MRO's statutory programs is \$1,084,136 (10.1%) for the Compliance Enforcement and Organization Registration program. The 2020 budget for Administrative Services is \$5,940,557, an increase of \$927,765 from the 2019 budget.

As indicated above, MRO proposes to establish the MRO ASR (i) into which Penalty collections received in the 12 months ending the previous June 30 would be deposited, and (ii) from which would be released funds to reduce year-to-year fluctuations in the amount of assessments needed to fund operations. MRO proposes to deposit the Penalties collected during the 12 months ended June 30, 2019, totaling \$712,417, into the MRO ASR, and to release \$557,718 from the MRO ASR to reduce the 2020 assessment (leaving a balance of \$154,699 in

the MRO ASR to be used in future periods). Pursuant to §1107.4 of the NERC ROP, NERC and MRO requested in its 2020 Budget Filing to FERC that FERC approve an exception to the requirement of §1107.2 that all Penalties collected during the 12 months ended the previous June 30 be used to reduce MRO's assessments in the following year, in order to allow MRO to implement the proposed ASR transactions. MRO proposes no other adjustments to its 2020 assessments to reach its target operating reserve of \$1,441,723 at December 31, 2020.

MRO plans no non-statutory activities in 2020 and therefore has no 2020 budget for non-statutory activities.

VI. METRICS RELATED TO NERC AND REGIONAL ENTITY BUDGETS

Consistent with NERC's February 25, 2015 *Notice of Filing of the North American Electric Reliability Corporation of Revisions to Certain "Metrics" Filing Components for its Annual Business Plan and Budget Filings and its Annual Actual Cost-to- Budget True-Up Filings*, NERC is providing the metrics information listed below in **Attachment 6** and **Attachment 7** to this filing.

Attachment 6 provides the following information relating to the Regional Entities' operations based on their 2020 Business Plans and Budgets:

1. Numbers of registered entities
2. Numbers of registered functions
3. Total NEL (GWh)
4. NEL (GWh) per registered entity
5. Total ERO Funding (sum of assessments plus Penalty sanctions collections)
6. ERO Funding per registered entity
7. ERO Funding per registered function
8. Total Budget (sum of Total Expenses plus Capital Expenditures)
9. Total Budget per registered entity
10. Total Budget per registered function
11. Total Statutory FTEs (FTEs are based on working 2,080 hours per year)
12. Registered entities per Statutory FTE
13. Registered functions per Statutory FTE
14. Total Compliance Budget (sum of Direct Expenses, Indirect Expenses allocated to the Compliance Program, and Capital Expenditures)
15. Compliance budget per registered entity
16. Compliance budget per registered function
17. Total Compliance FTEs
18. Registered entities per Compliance FTE
19. Registered functions per Compliance FTE

In addition, **Attachment 6** provides the following metrics and graphics based on the Regional Entities' 2020 Business Plans and Budgets:

20. Compliance Budget per Number of Registered Functions and per Number of Registered Entities
21. Number of Registered Functions per Registered Entity
22. Compliance Program Budget as a Function of Number of Registered Entities and Number of Registered Functions
23. Number of Registered Entities per Compliance Program FTE and Number of Registered Functions per Compliance Program FTE
24. Comparisons of Number of Registered Entities per Compliance program FTE and Number of Registered Functions per Compliance Program FTE for the current year (2019) and the budget year (2020)

Attachment 7 provides the following metrics on the budgeted Administrative Services costs of NERC and each Regional Entity, based on their budgets for 2019 and 2020:

1. Statutory Indirect (Administrative) Budget as a Percentage of Total Statutory Budget, for 2019 and 2020
2. Ratio of Statutory Direct Budget to Statutory Indirect Budget, for 2019 and 2020
3. Statutory Indirect FTEs as a Percentage of Total Statutory FTEs, for 2019 and 2020
4. Number of Direct Statutory FTEs per Indirect FTE, for 2019 and 2020

Respectfully submitted,

/s/ Sonia Mendonca

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ATTACHMENTS 1 — 7