

October 13, 2020

VIA ELECTRONIC FILING

Ms. Christine E. Long
Registrar & Board Secretary
Ontario Energy Board
27th Floor 2300 Yonge Street
Toronto, ON M4P 1E4

Re: *North American Electric Reliability Corporation*

Dear Ms. Long:

The North American Electric Reliability Corporation (“NERC”) hereby submits Notice of Filing of the North American Electric Reliability Corporation of its 2021 Business Plan and Budget and the 2021 Business Plan and Budget of the Relevant Regional Entity and of Proposed Assessments to Fund Budgets. NERC requests, to the extent necessary, a waiver of any applicable filing requirements with respect to this filing.

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

Sincerely,

/s/ Lauren Perotti

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

1325 G Street NW Suite 600
Washington, DC 20005
202-400-3000 | www.nerc.com

**ONTARIO ENERGY BOARD
OF THE PROVINCE OF ONTARIO**

**NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION**

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**NOTICE OF FILING OF THE
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION
OF ITS 2021 BUSINESS PLAN AND BUDGET AND
THE 2021 BUSINESS PLAN AND BUDGET OF THE RELEVANT REGIONAL
ENTITY AND OF PROPOSED ASSESSMENTS TO FUND BUDGETS**

James B. Robb
President and Chief Executive Officer
Andrew G. Sharp, Vice President and
Chief Financial Officer
North American Electric Reliability
Corporation
3353 Peachtree Road
Suite 600, North Tower
Atlanta, GA 30326
(404) 446-2560
(404) 446-9765 – facsimile

Sonia Mendonca
Senior Vice President, General Counsel,
and Corporate Secretary
North American Electric Reliability
Corporation
1325 G Street, N.W., Suite 600
Washington, D.C. 20005
(202) 400-3000
(202) 644-8099 – facsimile
sonia.mendonca@nerc.net

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ATTACHMENTS

Attachment 1: Summary tables showing NERC's proposed 2021 budget; the proposed 2021 budget for statutory activities of each Regional Entity; and the 2021 Canadian ERO statutory assessments of NERC and the Regional Entities

Attachment 2: NERC Proposed 2021 Business Plan and Budget

Attachment 3: Northeast Power Coordinating Council, Inc. Proposed 2021 Business Plan and Budget

Attachment 4: NERC Management's Responses to Stakeholder Comments Submitted on Draft #1 and Draft #2 of NERC's 2021 Business Plan and Budget

Attachment 5: Calculation of Adjustments to the AESO 2021 NERC Assessment, the IESO 2021 NERC Assessment, the New Brunswick 2021 NERC Assessment and the Québec 2021 NERC Assessment

Attachment 6: Memorandum for NERC Board of Trustees Describing NERC's Participation in Preparation of and Review of Regional Entity 2021 Business Plans and Budgets

Attachment 7: Metrics Comparing Regional Entity Operations Based on the 2021 Budgets

Attachment 8: Metrics on NERC and Regional Entity Administrative (Indirect) Costs Based on the 2020 and 2021 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, 2021;
- (2) the proposed Business Plan and Budget for the year ending December 31, 2021, for Northeast Power Coordinating Council, Inc. (NPCC); and
- (3) NERC's proposed allocation of the proposed ERO statutory assessment of NERC, the Regional Entities, and WIRAB by country and among the relevant Regional footprints, and the proposed assessments to the load-serving entities (LSEs) within each relevant 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 2021 budget by program, (ii) the proposed 2021 budget for statutory activities of each relevant Regional Entity, and (iii) the aggregate ERO statutory assessment of NERC and the Regional Entities allocated to the Canada.

Attachment 2 contains NERC's detailed 2021 Business Plan and Budget and the allocation of assessments by Region and LSE to recover the resulting statutory funding requirements for 2021 (as well as the assessments to recover the statutory funding requirements of the Regional Entities and WIRAB).

Attachment 3 contains the detailed 2021 Business Plan and Budget of NPCC.

Attachment 4 contains copies of NERC management's responses to stakeholder comments submitted on the posted Draft #1 and Draft #2 of NERC's 2021 Business Plan and Budget during the budget development process.

Attachment 5 contains the calculation of the adjustments to the Alberta Electric System Operator (AESO) 2021 NERC assessment, the Ontario Independent Electric System Operator (IESO) 2021 NERC assessment, the New Brunswick 2021 NERC assessment, and the Québec 2021 NERC assessment, for credits for certain NERC Compliance Monitoring and Enforcement Program (CMEP) and Situation Awareness Program costs.

Attachment 6 is a memorandum prepared for the NERC Board of Trustees describing NERC's participation in the preparation of and review of the Regional Entities' 2021 Business Plans and Budgets.

Attachment 7 provides metrics, based on the 2021 budgets, for Regional Entity operations.

Attachment 8 contains metrics, based on the 2020 and 2021 budgets, on NERC and Regional Entity administrative (indirect) costs.

The filing contains NERC's proposed entire annual budget for statutory and non-statutory activities. NERC's 2021 fiscal year will begin January 1, 2021. The filing also contains the entire annual budget of the Regional Entity for statutory and non-statutory activities and include supporting materials, including the ERO's and the 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.

II. NOTICES AND COMMUNICATIONS

Notices and communications concerning this filing may be addressed to:

James B. Robb
President and Chief Executive Officer
Andrew G. Sharp, Vice President and
Chief Financial Officer
North American Electric Reliability
Corporation
3353 Peachtree Road
Suite 600, North Tower
Atlanta, GA 30326
(404) 446-2560
(404) 446-9765 – facsimile

Sonia Mendonca
Senior Vice President, General Counsel and
Corporate Secretary
North American Electric Reliability Corporation
1325 G Street, N.W., Suite 600
Washington, D.C. 20005
(202) 400-3000
(202) 644-8099 – facsimile
sonia.mendonca@nerc.net

III. OVERVIEW OF PROPOSED BUDGETS AND FUNDING REQUIREMENTS

A. Development of the 2021 Business Plans and Budgets

NERC prepared its 2021 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 stakeholders. Development of the 2021 business plans and budgets built off of the revised *ERO Enterprise Long-Term Strategy*, approved by the NERC Board in

December 2019, which identifies five strategic focus areas for the ERO Enterprise.¹ As part of the business planning and budgeting process, NERC and the Regional Entities identify goals and activities to ensure alignment with the long-term strategy, and develop annual work plan priorities that summarize the critical goals and objectives for the year. These goals, activities and work plans are described in the NERC and Regional Entity business plans and budgets.

During the business plan and budget development process, successive versions of the 2021 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. NERC management also held a number of meetings and conference calls with the NERC Member Representatives Committee (MRC) Business Plan and Budget Input Group.² The following chronology highlights important steps in the preparation of the NERC and Regional Entity 2021 Business Plans and Budgets.

- On October 8, 2019, a conference call with the MRC Business Plan and Budget Input Group initiated discussions relating to development of the 2021 business plan and budget.
- On October 31, 2019, a conference call meeting of the NERC FAC included a review of the proposed schedule for development of the 2021 business plans and budgets.
- On November 5, 2019, the ERO Finance Group, comprised of Finance representatives from NERC and each of the Regional Entities, met to review strategic goals and objectives for 2021 and discuss how they would be translated into the NERC and Regional Entity 2021 business plans and budgets.
- On January 15, 2020, February 25, 2020, March 24, 2020, and April 16, 2020, the ERO Finance Group met by conference call to discuss progress and status in the development of the 2021 business plans and budgets.
- On January 16, 2020, March 12, 2020, and April 13, 2020, conference calls were held with the MRC Business Plan and Budget Input Group.

¹ NERC uses the term “ERO Enterprise” to refer to NERC and the Regional Entities.

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 April 14, 2020, a meeting of the Member Executive Committee (MEC) of the Electricity Subsector Coordinating Council included an overview of the first draft of the 2021 budget for the Electricity Information Sharing and Analysis Center (E-ISAC).
- On April 23, 2020, the quarterly meeting with trade associations and forum groups (including 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 2021 Business Plan and Budget.
- Also on April 23, 2020, the NERC FAC met in closed session to review assumptions for the 2021 NERC Business Plan and Budget.
- In late April and early May, 2020, the Regional Entities provided drafts of their 2021 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, 2020, and continuing into May, 2020, the Regional Entities posted drafts of their 2021 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 on the stakeholder review opportunities provided by each Regional Entity for its 2021 Business Plan and Budget.)
- On May 13-14, 2020, during meetings of the MRC, NERC Board committees, and the NERC Board, the NERC FAC meeting included a preview of the NERC 2021 Business Plan and Budget and the ERO Enterprise combined 2021 budgets and assessments.
- On May 19, 2020, drafts of the NERC, Regional Entity, and WIRAB 2021 Business Plans and Budgets, and information on the ERO Enterprise combined 2021 budgets and assessments, were posted on the NERC website. Notice of the posting (and of all subsequent postings) was sent by e-mail to a broad distribution list of interested persons and entities. Comments were requested on the NERC 2021 Business Plan and Budget by June 26, 2020. Five sets of written stakeholder comments were received and were posted on the NERC website.³
- On May 20, 2020, the ERO Finance Group met.
- Also on May 20, 2020, representatives of NERC, each Regional Entity, and WIRAB met with Federal Energy Regulatory Commission ("FERC") Staff to discuss the 2021

³ Comments were submitted by the Canadian Electricity Association (CEA), Edison Electric Institute, the 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/2021NERCBusinessPlanandBudget.aspx>.

NERC management's responses to these comments are included in **Attachment 4**.

business plans and budgets and the ERO Enterprise combined 2021 budgets and assessments.

- On June 4, 2020, the NERC FAC held a conference call and webinar to review the drafts of the NERC, Regional Entity, and WIRAB 2021 business plans and budgets and the ERO Enterprise combined 2021 budgets and assessments.
- At various dates from late May to late June 2020, the Boards or other governing bodies of the Regional Entities and of WIRAB approved their respective proposed 2021 Business Plans and Budgets.
- On June 18, 2020, the ERO Finance Group held another meeting by conference call.
- On June 30, 2020, another conference call was held with the MRC Business Plan and Budget Input Group.
- On July 9, 2020, a closed meeting was held with the NERC FAC to review assumptions for Draft #2 of NERC's 2021 Business Plan and Budget.
- Also on July 9, 2020, 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 Draft #1 of NERC's 2021 Business Plan and Budget, as well as a preview of the Draft #2.
- On July 16, 2020, NERC posted on its website management's responses to the comments that were submitted on Draft #1 of the 2021 Business Plan and Budget. **Attachment 4** to this filing provides the text of the responses.
- Also on July 16, 2020, Draft #2 of the NERC 2021 Business Plan and Budget was posted on the NERC website. Any additional stakeholder comments on Draft #2 were requested by July 30, 2020. Three sets of stakeholder comments were submitted and were posted on the NERC website.⁴
- Also on July 16, 2020, the final versions of the Regional Entity and WIRAB 2021 Business Plans and Budgets were posted on the NERC website, along with the combined 2021 ERO budgets and assessments.
- On July 16, 2020, the ERO Finance Group held a meeting by conference call.
- On July 21, 2020, a conference call meeting of the MEC included a review of the final projected E-ISAC budget as shown in Draft #2 of the NERC 2021 Business Plan and Budget, which was endorsed by the MEC

⁴ Comments were submitted by CEA, NRECA, and Utility Services, Inc. The comments are posted at: <https://www.nerc.com/gov/bot/FINANCE/Pages/2021NERCBusinessPlanandBudget.aspx>. NERC management's responses to these comments are included in **Attachment 4**.

- On July 23, 2020, the FAC held a conference call and webinar to review Draft #2 of the NERC 2021 Business Plan and Budget, the final Regional Entity and WIRAB 2021 business plans and budgets, and the ERO Enterprise combined 2021 business plans and budgets.
- On July 31, 2020, a conference call was held with the MRC Business Plan and Budget Input Group.
- On August 13, 2020, NERC management's responses to the stakeholder comments on Draft #2 of the NERC 2021 Business Plan and Budget were posted on the NERC website. **Attachment 4** to this filing provides the text of the responses.
- Also on August 13, 2020, the final NERC, Regional Entity, and WIRAB 2021 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.
- At the August 19, 2020 open meeting of the FAC, NERC management presented the final version of the NERC 2021 Business Plan and Budget. The FAC recommended NERC Board approval of the 2021 business plans and budgets and associated statutory assessments for NERC, the Regional Entities and WIRAB.
- At its August 20, 2020 meeting, the NERC Board approved the 2021 business plans and budgets and statutory assessments for NERC, the Regional Entities and WIRAB.

The processes followed by NERC and the Regional Entities to develop the proposed 2021 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 multiple opportunities for stakeholder input and comment, including the MRC Business Plan and Budget Input Group, the full MRC, and trade associations and forums.

B. NERC's 2021 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
- 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 as specified in §215 of the United States Federal Power Act (“FPA”) and FERC’s regulations and orders. 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 in Section A and in Exhibit A of **Attachment 2**.

The initial sections of the 2021 Business Plan and Budget (**Attachment 2**), Preface and About NERC, provide an overview of NERC’s organization, governance, scope, responsibilities, and funding, including the ERO Enterprise model and strategic and operational planning.

The Introduction and Executive Summary provides an overview of NERC’s 2021 budget, funding, and staffing requirements, with comparisons to the 2020 budget, by the principal categories of funding and expenses and statutory program area. It describes NERC’s key business planning assumptions, including cost savings efforts, used to develop the 2021 budget. The cost savings efforts described are in response to the uncertain economic conditions resulting from the COVID-19 pandemic. These savings, which include no increase in full-time equivalent (FTE) staffing, lower Meeting & Travel expenses, and the narrowing or deferring of important, but less urgent project-based contract and system enhancement spending, help NERC achieve a flat assessment in 2021 compared to 2020, without the use of Assessment Stabilization Reserves

(ASR), thereby preserving funds in the ASR to mitigate future year assessment increases. The Introduction and Executive Summary also describes NERC's 2021 fixed assets budget and capital financing plans and the budgeted amounts and uses for each category of NERC's reserves. The table on page 11 shows the change in the 2021 budget from the 2020 budget for each statutory program area. The table on page 12 shows budgeted 2021 staffing and the change from the 2020 budget for each statutory program and Administrative programs. The table on page 14 is NERC's overall Statement of Activities and Fixed Asset Additions, showing information from the 2020 budget, the projection of 2020 year-end results, and the 2021 budget, and the variances between the 2020 projection and 2020 budget and the 2021 budget and 2020 budget, for the major line item categories for Funding, Expenses, Fixed Asset Additions, and Net Financing Activity. Finally, the Introduction and Executive Summary presents NERC's budget and assessment projections for 2022 and 2023 (pages 15-16).

Section A of **Attachment 2** is NERC's detailed 2021 Business Plan and Budget. Section A provides program background and scope, descriptions of key efforts under way in the current year, 2021 goals and deliverables, explanations of changes in budgeted Personnel Expenses and Consultants & Contracts expense, and, where applicable, significant changes in other budget categories, for 2021 over the 2020 budget, for each statutory program and the Administrative Services functions. A Statement of Activities and Fixed Asset Additions is provided for each statutory program and for the Administrative Services functions in the aggregate, showing funding and expenditure information from the 2020 budget, 2020 projection and 2021 budget.

In the Statements of Activities for each program, Funding is shown from NERC

Assessments and, if applicable, from other sources.⁵ Expenses are shown by major categories and sub-categories of Personnel Expenses,⁶ Meeting & Travel Expense,⁷ Operating Expenses,⁸ and Other Non-Operating Expenses. In the Statements of Activities for the statutory programs, the Indirect Expenses allocated from the Administrative Services departments are shown.

The Statements of Activities show Fixed Asset Additions, Net Financing Activity (Borrowings less Principal Payments) and Total Budget (Total Expenses plus Fixed Asset Additions plus Net Financing Activity) for each program. The inclusion of Net Financing Activity in the 2021 Business Plan and Budget is a change in presentation from prior years, to better depict the impacts of capital financing activity (debt borrowing, lease-financed asset purchases, and principal payments) on the total budget and funding requirements (*see* discussion on page 6 of **Attachment 2**). For comparability of 2021 budget amounts to 2020, the 2020 budget information used in the Statements of Activities has been restated using the revised presentation format.

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 2020 budget, including analysis of the Reserves balances and increase or decrease to assessments to meet Reserves targets; Penalties collected; Outside Funding; Personnel Expenses; Meeting & Travel Expenses; Rent; Office Costs; Professional

⁵ Other sources include fees from Services & Software, Interest & Investment income, Third-Party Funding, System Operator Certification Testing, Certification Renewal, and Continuing Education Fees, and Miscellaneous Funding.

⁶ Salaries, Payroll Taxes, Benefits, Retirement Costs.

⁷ Meetings, Conference Calls and Travel expenses.

⁸ Consultants & Contracts, Office Rent, Office Costs, Professional Services, Miscellaneous.

Services; Miscellaneous Expenses; Other Non-Operating Expenses; and Fixed Asset Additions.⁹

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 provides information on their non-statutory activities.

Section D, Consolidated Statement of Activities by Program, of **Attachment 2**, shows 2021 budgeted line-item Funding sources, Expenses, Fixed Asset Additions, and Net Financing 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 FPA Section 215 Criteria, describes how the major activities included in the 2021 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 – Consultants and Contracts Costs, contains a detailed list of NERC's budgeted 2021 Consultants & Contracts expenses, by program area and by major activity or project, and shows the 2020 budget amounts for Consultants & Contracts expense and the change in the 2021 budget from the 2020 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 2021 capital expenditure budget by major category, the 2020 budgeted capital expenditures, and the change from the 2020 to the 2021 budget. Exhibit C also shows (i) projected 2020, budgeted 2021, and projected 2022 and 2023 year-end outstanding debt balances and (ii) annual payments for debt service, broken out by principal repayments and interest expense. (See §IV.C below for further discussion.)

Exhibit D –Reserve Amounts, provides budgeted 2021 amounts for each category of Reserves pursuant to NERC's Working Capital and Operating Reserve Policy (WCOR Policy). (See §IV.B below for further discussion.)

Appendix 1 contains NERC's organization chart.

⁹ 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 2022-2023 Budget Projections, but NERC has provided its 2022-2023 budget projections in the Introduction and Executive Summary.

Appendix 2 contains the calculation of the net energy for load (NEL)-based allocation factors for each LSE or designee and the allocation of the NERC, Regional Entity and WIRAB statutory assessments, by allocation method, to each LSE or designee for 2021. Development of the assessments presented in Appendix 2 is discussed in §III.D below.

The information in the 2021 Business Plan and Budget demonstrates that the programs included in it are necessary and appropriate to carry out NERC's responsibilities as the ERO and that the budgeted resources meet the objectives for affordability, sustainability, and efficiency and effectiveness of the ERO's expenditures. The discussion in the 2021 Business Plan and Budget demonstrates how the activities and expenditures it includes lend themselves to accomplishing NERC's statutory responsibilities and objectives as the ERO.

2. Summary of NERC's 2021 Budget and Funding Requirement

NERC is proposing an overall 2021 budget of \$82,883,239, an increase of 0.3% (\$226,205) over the 2020 Budget. NERC's proposed 2021 total Funding requirement is \$81,155,551, encompassing U.S., Canadian and Mexican activities, and is a decrease of 1.0% from the 2020 total Funding requirement. The budgeted non-assessment sources of Funding for 2021 total \$9,144,177, comprised of the following sources and amounts:¹⁰

- \$7,064,343 of Third-Party Funding for CRISP (decrease of \$750,234 from the Third-Party Funding in the 2020 budget);
- \$1,801,634 of Testing Fees (includes exam, certification renewal, and continuing education-related fees) charged to participants in the NERC System Operator Certification Program (increase of \$66,634 from the 2020 budget);
- \$60,000 of revenues from Services & Software (the same amount as budgeted in the 2020 budget); and
- \$218,200 in Interest & Investment Income (\$167,800 decrease from the 2020 budget).

Application of the non-assessment funding sources to the statutory Funding requirement results in a net Funding requirement of \$72,011,373 to be funded by assessments, which is the same

¹⁰ NERC does not propose to release any funds from its ASR as a 2021 funding source. *See* §IV.B below.

amount as the 2020 assessment (*i.e.*, 0% increase).

NERC's 2021 budget includes overall staffing of 213.38 FTEs, the same as the 2020 budget. The net result of flat FTE staffing compared to 2020 reflects the addition of two positions in IT related to cyber security and one in Compliance Assurance to support the ERO Secure Evidence Locker (SEL), offset by reductions of open positions in other areas. Budgeted staffing in the statutory programs is decreased by 2.82 FTEs from the 2020 budget (to 136.3 FTEs), while budgeted staffing in Administrative programs is increased by 2.82 FTEs (to 77.08 FTEs). Increases or decreases in budgeted FTEs for individual programs reflect, in a number of cases, reallocation of staffing from some program areas to others to match staffing with current workloads and resource requirements. The budgeted FTEs for each program reflect an assumed average 6.0% vacancy rate, *i.e.*, an adjustment for factors such as personnel attrition, delays in hiring or start date delays. (For example, an increase of 0.94 FTE represents an increase of one full-time position adjusted by the 6% vacancy rate.)

The 2021 budget reflects increases of 3.4% in Personnel Expenses and 4.3% in Operating Expenses, and a decrease of 33.7% in Meeting & Travel Expenses (including a \$900,000 decrease in budgeted Travel expense), from the 2021 budget. The decrease in Meeting & Travel Expenses is based on the assumption of continued pandemic conditions. Budgeted 2021 Consultants & Contracts expense (included in Operating Expenses) is increased by \$255,111 from the 2020 budget, while budgeted Office Costs are \$1,083,415 higher, due primarily to increased software license and support costs, including costs for enhanced security and for the ERO SEL. NERC is budgeting Fixed Asset Additions of \$2,751,500 for 2021 (\$2,091,500 for Computer & Software CapEx and \$660,000 for Equipment CapEx), a reduction of \$1,954,849 from the 2020 budget. NERC proposes to fund \$1.8 million of the Fixed Asset expenditures (for

completion of the Align tool) from its Operating Contingency Reserve,

Budgeted CRISP expenditures for 2021 are decreased by 6.8% from the 2020 budget. The budgeted CRISP expenditures, totaling \$8,196,207, will be primarily funded (\$7,064,343 (86.2%)) by participating utilities. The remaining funding will come from assessments and an allocation of NERC’s Interest & Investment Income.

The following table shows NERC’s 2020 and 2021 budgets for its statutory programs:

| <u>Program</u> | <u>2020 Budget</u> | <u>2021 Budget</u> |
|--|---------------------------|---------------------------|
| Reliability Standards and Power Risk Issues Strategic Management | \$ 8,302,592 | \$ 7,856,641 |
| Compliance Assurance and Organization Registration and Certification | \$11,818,703 | \$13,686,302 |
| Compliance Enforcement | \$ 6,279,468 | \$ 7,327,875 |
| Reliability Assessments and Performance Analysis | \$13,122,303 | \$12,631,436 |
| Situation Awareness | \$ 4,326,699 | \$ 4,450,989 |
| Event Analysis | \$ 4,733,857 | \$ 4,287,213 |
| E-ISAC (including CRISP) | \$31,320,137 | \$29,821,738 |
| Personnel Certification and Continuing Education | \$ 1,738,288 | \$ 1,736,522 |
| Training and Education | <u>\$ 1,014,986</u> | <u>\$ 1,084,523</u> |
| | <u>\$82,657,034</u> | <u>\$82,883,239</u> |

The 2021 budgeted amounts for statutory programs incorporate a budget for Administrative Services of \$33,701,046 (1.3% decrease from the 2020 budget). Budgeted Administrative Services expenses, Fixed Asset Additions, and Net Financing 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 2021 Business Plans and Budgets - Overview

NERC staff worked collaboratively with the Regional Entities in developing their 2021 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 proposed 2021 budgets for statutory and (if applicable) non-statutory functions for each Regional Entity, and its total (for all jurisdictions) proposed assessment after taking into account other Funding sources and any adjustments to achieve the Regional Entity's target Reserves balance(s) at December 31, 2021.

| Regional Entity | Total Budget for Statutory Functions | Budget for Non-Statutory Functions | Statutory Funding Assessment |
|-------------------------|---|---|-------------------------------------|
| MRO | \$18,412,202 | ----- | \$16,983,251 ¹¹ |
| NPCC | \$16,440,648 | \$ 999,713 | \$15,154,584 ¹² |
| ReliabilityFirst | \$24,785,492 | ----- | \$22,764,995 |
| SERC | \$25,829,079 | ----- | \$23,513,886 |
| Texas RE | \$14,211,538 | \$ 1,332,358 | \$13,343,400 |
| WECC | \$28,605,029 | \$ 2,028,594 | \$25,000,000 ¹³ |

D. Allocation of Statutory Assessments

The total ERO statutory funding requirement for 2021 net of other NERC and Regional Entity income sources, to be funded by assessments, is \$189,757,789, consisting of \$72,011,373 for funding of NERC's programs and \$117,746,416 for funding of Regional Entity statutory activities and the WIRAB. This is a 0.5% increase from the aggregate assessments for 2020. NERC's proposed 2021 assessment is allocated as follows: \$64,957,145 to the U.S., \$6,826,738 to Canadian provinces, and \$227,490 to Mexico. Based on the aggregate NEL of Canada for 2019 on which the allocation of assessments is based, the proposed Canadian assessment for NERC represents approximately \$0.000013 per end-user kilowatt-hour.¹⁴

NERC proposes allocation of its 2021 assessment of \$72,011,373 to the Regional

¹¹ MRO's assessment is allocated \$15,188,786 to the U.S. and \$1,794,465 to Canadian provinces.

¹² NPCC's assessment is allocated \$9,145,744 to the U.S. and \$6,008,839 to Canadian provinces.

¹³ WECC's assessment is allocated \$21,383,368 to the U.S., \$3,130,473 to Canadian provinces, and \$486,159 to Mexico. The \$25,000,000 amount does not include the WIRAB assessment.

¹⁴ The allocation and calculation of assessments for the 2021 budgets is based on NEL data for the second preceding calendar year, 2019, the most current annual NEL data available as of August 2020.

footprints as follows:

| | | | |
|--------------------|----------------------------|------------|----------------------------|
| • MRO | \$ 7,932,350 ¹⁵ | • SERC | \$21,135,700 |
| • NPCC | \$ 8,716,868 ¹⁶ | • Texas RE | \$ 6,197,566 |
| • ReliabilityFirst | \$14,430,187 | • WECC | \$13,598,702 ¹⁷ |

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) 2019 NEL data and the development of the NEL-based allocation factors used to allocate the NERC and Regional Entity 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 to the LSEs within each Regional footprint primarily based on NEL, with the following adjustments: 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 and Situation Awareness 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 support and maintenance costs for the Situation Awareness for FERC, NERC, and the Regional Entities (SAFNR) tool either overlap with Canadian regulatory programs or are not used by these Canadian provinces, and therefore

¹⁵ For MRO, \$7,111,633 is allocated to the U.S. and \$820,717 is allocated to Canadian provinces.

¹⁶ For NPCC, \$4,438,768 is allocated to the U.S. and \$4,278,100 is allocated to Canadian provinces.

¹⁷ For WECC, \$11,643,292 is allocated to the U.S., \$1,727,921 is allocated to Canadian provinces, and \$227,490 is allocated to Mexico.

they are not allocated a share of these costs. In previous years, a credit was also applied for activities related to the Event Analysis program; that credit was gradually phased out starting with the 2017 assessment. As shown in **Attachment 5**, 2021 is the first year in which there is no credit and adjustment for the Event Analysis program. The credits, totaling \$1,448,789, are reflected in Appendix 2-C of **Attachment 2**. The total credit amount is reallocated to all other LSEs (Balancing Authorities or designees) 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, portions of NPCC's Compliance Monitoring and Enforcement and Organization Registration and Certification (CORC) Program costs have been allocated among the six U.S. and Canadian Balancing Authority Areas (BAAs) in NPCC using activity-based methodologies that reflect the nature and scope of the compliance functions and activities performed by NPCC in each Canadian province in its footprint. As FERC has directed,¹⁸ NPCC CORC costs allocated to the U.S. using these methodologies are then allocated between the New England and New York BAAs based on NEL.¹⁹ Second, WECC's allocation of its assessment to the AESO has been reduced by \$1,093,152 representing WECC CMEP costs that are duplicative of programs of the AESO.²⁰ The AESO credit amount was allocated to the remainder of the LSEs (Balancing Authorities or designees) in the WECC Region based on NEL.

After allocating the calculated portions of the NERC, Regional Entity and WIRAB funding requirements to Canadian provinces and Mexico (taking into account the adjustments to

¹⁸ *North American Electric Reliability Corp.*, 128 FERC ¶ 61,025 (2009) (*July 16, 2009 Budget Compliance Order*).

¹⁹ The allocation of NPCC CORC Program costs is further described in §V.B.2 below and in greater detail at pages 58-60 of NPCC's 2021 Business Plan and Budget, **Attachment 3**.

²⁰ See Appendix C of WECC's 2021 Business Plan and Budget.

the allocations to Canadian provinces described above), the total ERO statutory assessment for 2021 allocable to Canadian LSEs is \$17,903,676 (a 3.2% increase from 2020), comprised of the NERC assessment of \$ 6,826,738 and the aggregate Regional Entity and WIRAB assessments of \$11,076,937.

The funding requirement of each Regional Entity for statutory activities is allocated 100% to that region. The WIRAB funding requirement is allocated 100% to the WECC Region. The table below shows the allocation to each relevant Region of the total 2021 ERO statutory assessment of \$17,903,676 for the Canadian statutory activities of NERC, the Regional Entities, and WIRAB.

| Regional Entity | NERC Canadian Assessment | Regional Entity Canadian Assessment | Total Canadian Assessment | Assessment per kWh (2019 NEL) |
|------------------------|---------------------------------|--|----------------------------------|--------------------------------------|
| MRO | \$820,717 | \$1,794,465 | \$2,615,182 | \$0.0000514 |
| NPCC | \$4,278,100 | \$6,008,840 | \$10,286,940 | \$0.0000298 |
| WECC | \$1,727,921 | \$3,130,470 | \$4,858,391 | \$00000389 |
| WIRAB | --- | \$143,163 | \$143,163 | \$0.0000011 |
| Total | \$6,826,738 | \$11,076,937 | \$17,903,676 | \$0.0000343 |

NERC obtained from each Regional Entity a listing of LSEs or their designees in the Region and a breakdown of the Region’s 2019 NEL by LSE or designee, and used this data to allocate the total ERO assessment allocated to each Region among LSEs, their designees or other entities to be billed the assessments within that Region.²¹ The amounts of the NERC and

²¹ 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), and will be billed to ISO New England and the New York ISO (and similar entities in Ontario, Québec, New Brunswick and Nova Scotia), which will be responsible for billing and collecting assessments from LSEs in their respective footprints.

Regional Entity 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**.²²

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.²³

IV. NERC BUSINESS PLAN AND BUDGET

A. 2021 NERC Business Plan and Budget by Program

The proposed 2021 staffing and expenditure budgets for the individual NERC departments and programs are described in the subsections below. Key overall budget assumptions, particularly those relating to the budgets for Personnel expenses, are discussed at pages 8-10 of **Attachment 2**. Budgeted staffing is increased for some statutory programs and decreased for others, compared to the 2020 budget, based on specific needs in certain programs and a company-wide realignment of personnel to match staffing with current program needs. Budgeted expenses (Indirect Expenses), Fixed Asset Additions, and Net Financing Activity for Administrative Services are allocated to statutory direct programs based on the ratio of budgeted FTEs in each statutory program to total budgeted statutory program FTEs; therefore, changes in

²² 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.

²³ For administrative convenience, billing and payment by LSEs of annual assessments less than \$100 will not be required.

the number of FTEs budgeted for each statutory direct program for 2021 as compared to 2020 impact the allocation of 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 17-19 of **Attachment 2**. The 2021 budget for this program is decreased 5.4% from the 2020 budget, due primarily to a decrease in staffing of 0.94 FTEs due to realignment of staff among programs to match current needs and reduced Meeting & Travel expenses. The budget includes Consultants & Contracts expense of \$114,552 (an increase of \$74,232 from the 2020 budget) for maintenance of the Standards Balloting System and other engineering and standards support.

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 22-26 of **Attachment 2**. The 2021 budget for this area is increased 15.8% (\$1,867,599) from the 2020 budget, due primarily to increases in Personnel Expenses, Office Costs, and Financing Activity, partially offset by decreased Meeting & Travel expenses. Budgeted staffing for 2021 is 23.50 FTEs, an increase of 1.88 FTEs, with one FTE being added to support the ERO SEL. The increase in budgeted Office Costs is primarily due to costs for software licensing, maintenance and support for the ERO SEL. Budgeted Consultants & Contracts expenses of \$89,552 are primarily for the annual review and certification that the ERO SEL is compliant with security standards, and maintenance and support of the BESnet application. The Fixed Asset budget of \$1,066,217 includes approximately \$900,000 to complete development of the Align tool. Align and ERO SEL-related expenditures are shared

evenly between Compliance Assurance and Compliance Enforcement. The total Fixed Asset expenditures of \$1.8 million for Align will be funded from the Operating Contingency Reserve.

b. Compliance Enforcement

The major activities of Compliance Enforcement are described at pages 29-30 of **Attachment 2**. The 2021 budget for Compliance Enforcement is increased 16.7% (\$1,048,407) from the 2020 budget, with the largest components of the increase being Office Costs (primarily costs for the ERO SEL) and Financing Activity. Budgeted staffing for Compliance Enforcement remains at 12.22 FTEs. The 2021 budget for Compliance Enforcement includes approximately \$900,000 to complete development of the Align tool. As noted above, the Align and ERO SEL-related expenditures are shared evenly with Compliance Assurance, and the total \$1.8 million expenditure for the Align tool will be funded from the Operating Contingency Reserve.

3. Reliability Assessments and Performance Analysis (RAPA)

The major activities of the RAPA Program are described at pages 33-38 of **Attachment 2**. The 2021 budget for RAPA is decreased 3.7% (\$490,867) from the 2020 budget, due primarily to decreased Meeting & Travel expense and Consultants & Contracts expense, partially offset by increased Office Costs for software licenses and support. Budgeted staffing for RAPA is increased by 1.88 FTEs from the 2020 budget, to 25.38 FTEs, reflecting the reallocation of staff among programs to meet current needs.

4. Situation Awareness

The major activities of Situation Awareness are described at pages 40-42 of **Attachment 2**. The 2021 budget for Situation Awareness is increased 2.9% (\$124,289) from the 2020 budget. Budgeted staffing for 2021 is increased by 0.94 FTE from the 2020 budget, to 6.58 FTEs. An increase in budgeted Meeting & Travel costs and decrease in budgeted Office Costs is due to reclassification of certain communications costs from Office Costs to Conference Calls.

Budgeted Fixed Asset Additions are reduced by \$200,508 from 2021 primarily due to the inclusion of upgrades to the situational awareness room in the Atlanta office in the 2020 budget that are not included in the 2021 budget.

5. Event Analysis

The major activities of Event Analysis are described at pages 44-45 of **Attachment 2**. The 2021 budget for Event Analysis is decreased 9.4% (\$446,644) from the 2020 budget, due primarily to reduced Personnel and Meeting & Travel expenses, partially offset by increased Consultants & Contracts expense. The increase in Consultants & Contracts is primarily due to reallocation of support and maintenance costs for the Event Analysis Management System from IT to Event Analysis. Budgeted staffing is reduced by 1.88 FTEs from the 2020 budget, to 7.52 FTEs, reflecting reallocation of administrative staff among programs to meet current needs.

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

The major activities of the E-ISAC are described at pages 48-51 of **Attachment 2**. In addition to operating the E-ISAC, this program performs the management role for CRISP, a public-private initiative that delivers cybersecurity risk information to E-ISAC member electricity asset owners and operators in the U.S., Canada and Mexico.

The 2021 budget for the E-ISAC, including CRISP, is decreased by 4.8% (\$1,498,399) from the 2020 budget. The CRISP budget comprises 27.5% of the total E-ISAC budget. Budgeted staffing for the E-ISAC is decreased by 4.70 FTEs from the 2020 budget, to 39.48 FTEs, reflecting increased use of contract support versus budgeted FTEs as part of a planned transition of contractors to FTEs. Budgeted Consultants & Contracts expense of \$8,725,641 is increased by \$635,641 from the 2020 budget, due in part to the increased use of contractors rather than FTEs. Of the budgeted Consultants & Contracts expense, \$6,325,723 (72.5%) is for

CRISP, a decrease of \$351,777 from the 2020 budget. NERC anticipates continuing to subcontract to Pacific Northwest National Laboratory for the majority of the resources to operate and maintain CRISP. Budgeted Fixed Asset Additions are reduced by \$589,656 from the 2020 budget due in part to reclassification of certain costs to Consultants & Contracts.

Under the CRISP master services agreement, the E-ISAC budget for 2021 is supported by \$7,064,343 of Third-Party Funding (equal to 86.2% of the CRISP budget) provided by participating utilities to support NERC's participation and activities as program manager for CRISP. Third-Party Funding is deposited in a separate account. Any underrun in the CRISP budget which is allocated to and funded by CRISP participants is credited against future CRISP participant funding requirements.

7. Personnel Certification and Continuing Education

NERC has placed the System Operator Certification and Continuing Education Programs into the same department, so that all system operator certification and continuing education activities are in a single program overseen by the NERC Personnel Certification and Governance Committee. The major activities of the Personnel Certification and Continuing Education program are described at pages 56-58 of **Attachment 2**. The 2021 budget of \$1,736,522 is approximately the same as for 2020. Budgeted 2021 staffing for this program is 2.82 FTEs, the same as the 2020 budget.

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

operators to maintain certification.

8. Training and Education

The major activities of the Training and Education Program are described at pages 60-61 of **Attachment 2**. The 2021 budget for Training and Education is increased 6.9% (\$69,537) from the 2020 budget, due primarily to a \$60,000 increase in budgeted Consultants & Contracts expense due to reclassification of staff training expenses benefitting the ERO Enterprise from HR to Training and Education. Budgeted 2021 staffing of 1.88 FTEs for Training and Education is unchanged from the 2020 and 2019 budgets.

9. Administrative Services

The Administrative Services departments support the NERC statutory programs. Administrative Services comprises (i) General & Administrative (which includes the Chief Executive Officer, Chief Engineer, Chief Administrative Officer, and their staffs, External Affairs, 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 of Administrative Services are provided at pages 63-69 of **Attachment 2**.

The total amount budgeted for Administrative Services for 2021 (before provision for Working Capital and Operating Reserves) is decreased 1.3% (\$450,191) from the 2020 budget, due principally to decreases in budgeted Meeting & Travel expense, Consultants & Contracts, Professional Services, and Other Non-Operating Expenses, partially offset by increases in budgeted Personnel Expenses, Office Costs and Office Rent. Budgeted 2021 staffing for Administrative Services is increased by 2.82 FTEs from the 2020 budget, reflecting a reallocation of staffing to General & Administrative and Legal and Regulatory, increased staffing in IT (1.88 FTEs are added for IT to enhance the ERO Enterprise's cybersecurity posture), and a reallocation of staffing from Finance and Accounting. The increase in Office

Costs reflects increases in software license and support costs in the IT budget, primarily for enhanced security. Budgeted Other Non-Operating Expenses for Administrative Services are decreased by \$231,962 from the 2020 budget, with the primary reason being a decrease in Property and Other Tax Expense due to the recent repeal of certain federal and state excise taxes on not-for-profit entities.

The budgeted amount for Independent Trustee expenses for 2021 (included in General & Administrative) is decreased by \$124,436 (6.9%) from the 2020 budget, due primarily to reductions in budgeted expenses for Board meetings and Trustee travel. Budgeted Independent Trustee Fees, which are reduced by \$17,500 from the 2020 budget to align with the current structure and number of Trustees, reflect continued implementation of the 2018 recommendation by the NERC Corporate Governance and Human Resources Committee (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).²⁴ 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.²⁵ The consultant's study and 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 trustees (such as conflict of interest requirements) that limit the pool of candidates. In accordance with

²⁴ The table on page 65 of **Attachment 2** shows budgeted Board of Trustees expenses for 2021 and 2020.

²⁵ The independent compensation study, performed by the Willis Towers Watson consulting firm, was included as an Attachment to NERC's 2019 Business Plan and Budget filing.

Paragraph 12(a) of the Settlement Agreement for FERC's 2011 financial performance audit of NERC, which requires the NERC Board to review trustee compensation annually,²⁶ 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. At its May 8, 2019, and May 13, 2020, meetings, the CGHRC, as part of its annual review of trustee compensation, determined to continue implementation of this recommendation for the second and third years, respectively, of the plan.

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. The discussion at page 13 and Exhibit D, as well as Table B-1, in **Attachment 2** show and explain the amounts of Reserves proposed to be budgeted in each category for 2021. The amounts budgeted for 2021 for each Working Capital and Operating Reserve category (target balances at December 31, 2021) are as follows:

Working Capital: \$0

NERC maintains a \$4,000,000 line of credit with a major financial institution. Based on cash flow projections and the timing by which assessments are billed and paid, NERC does not project a need to access working capital in 2021 for monthly cash flow needs.

Future Obligation Reserve: \$1,082,161

The projected level for this reserve at December 31, 2020, is \$1,633,761; therefore, this reserve is being reduced by \$551,600 to reach the target balance at December 31, 2021.

Operating Contingency Reserve: \$5,801,582

The WCOR Policy specifies that except as otherwise approved by the NERC Board, the

²⁶ Annual review of trustee compensation is also required by the CGHRC's mandate and by NERC's Governance Guidelines.

budgeted Operating Contingency Reserve level is to be between 3.5% - 7.0% of NERC's total expenses and Fixed Asset 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, 2020, is \$7,601,582. NERC is proposing to draw \$1,800,000 from the Operating Contingency Reserve during 2021 to fund completion of the Align tool, thereby reducing the 2020 assessment by \$1,800,000, and resulting in an Operating Contingency Reserve balance of \$5,801,582 at December 21, 2021. The projected reserve is higher than the target (8.0%) to provide additional reserves during the uncertain economic conditions due to the pandemic, including allowing for funding for the deferred projects resulting from cost savings efforts, if needed.

System Operator Certification Program Reserve: \$920,866

The projected December 31, 2020 reserve balance of the System Operator Certification Program is \$848,554; therefore, an increase of \$72,312 is included to reach the target balance for the System Operator Certification Program Reserve at December 31, 2021.

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 (ASR): \$2,521,000

NERC collected \$1,000,000 in Penalties during the period July 1, 2019 – June 30, 2020. Because NERC is able to maintain its 2021 assessment at the same amount as 2020 without releasing funds from the ASR, NERC proposes to leave this Penalty amount in the ASR, and not release any funds from the ASR during 2021. In its 2021 Business Plan and Budget filing to FERC submitted on August 24, 2020, NERC requested that FERC, pursuant to §1107.4 of the NERC ROP, approve an exception to the requirement of ROP §1107.2 that Penalties collected during the 12 months ended the previous June 30 be used to reduce assessments in the following year, to allow NERC to retain the \$1,000,000 in Penalty collections in its ASR. This will result in a balance in the ASR at December 31, 2021, of \$2,521,000, which can be used to stabilize and reduce assessment increases in future years' budgets.

Total Budgeted Working Capital and Reserves at 12/31/2021: \$10,825,609.

Based on the beginning Working Capital and Reserves balances at January 1, 2020, the projected funding, expenditures, and net financing activity for 2020, the budgeted funding, expenditures, and net financing activity for 2021, and the target Working Capital and Reserves balances at December 31, 2021, Table B-1 (page 71) in **Attachment 2** shows the calculation of the resulting adjustment (decrease) of \$1,727,688 to NERC's 2021 assessment. To the extent the actual year-end 2020 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 by establishing a non-revolving credit facility, and closed a similar non-revolving facility in November 2016 to finance capital expenditures from January 2017 to December 2019. NERC has secured an \$8.0 million non-revolving credit facility, approved by the Board in May 2020 and closed in July 2020, to fund software application development projects and hardware equipment that benefit the ERO Enterprise. It will be available to finance capital expenditures made from July 2020 to December 2021. Annual borrowings under the facility are limited to the amounts authorized by the NERC Board and FERC in each year's Business Plan and Budget. As described in NERC's June 8, 2020 Petition filed with FERC for approval to expend up to \$3.8 million to fund the development of the ERO SEL, NERC plans to use this facility to finance \$2.0 million of ERO SEL costs in late 2020. The credit facility provides for a floating interest rate; a 3.0% interest rate is projected for the ERO SEL borrowing. The loan will be amortized over five years and can be prepaid without penalty.

NERC's projected outstanding debt balance at December 31, 2020 is \$2.0 million, from the 2020 borrowing for ERO-SEL costs. As shown in Table B-12 and Exhibit C of **Attachment 2**, the 2021 capital budget is \$2,751,500, a decrease of \$1,954,849 from the 2020 budget. NERC is not planning to use the credit facility to fund 2021 capital projects. The tables in

Exhibit C show projected year-end outstanding debt balances and annual payments for debt service (principal repayment and interest) for 2020, 2021 and 2022. As noted above, the credit facility provides for a floating interest rate. The actual interest expense 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 budgeted expense will be captured and reported as a contribution to Operating Reserves, 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 development of their 2021 Business Plans and Budgets. Drafts of each Regional Entity's Business Plan and Budget were posted on the NERC website on May 19, 2020. NERC also reviewed and provided feedback on these drafts. The draft Business Plans and Budgets were also the subject of presentations and discussion at meetings of the NERC FAC. **Attachment 6** is a memorandum prepared for the NERC Board describing NERC's participation in preparation of and review of the Regional Entity Business Plans and Budgets.

Additionally, each Regional Entity posted one or more drafts of its 2021 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 2021 Business Plan and Budget for comments on May 8, 2020. MRO's 2021 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 2021 Business Plan and Budget. On June 25, 2020, MRO's Board of Directors approved a resolution that approved the 2021 reserves and 2021 budget, and affirmed that the budget is sufficient to complete MRO's delegated responsibilities.

NPCC: A preliminary 2021 total NPCC Expense Budget was first presented to NPCC's Finance and Audit Committee (NPCC FAC) for review and discussion on February 19,

2020. Draft #1 of the NPCC 2021 Business Plan and Budget was presented to the NPCC FAC on April 21, 2020, and to its Board of Directors on May 6, 2020. NPCC posted Draft #1 on its website for stakeholder review and comment on May 6, with a request for comments by May 29. 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 2021 Business Plan and Budget. The NPCC FAC unanimously endorsed the “Draft for Approval” as presented, and on June 24, 2020, the “Draft for Approval” was presented to the NPCC Board, and was unanimously approved.

ReliabilityFirst: On April 28, 2020, the ReliabilityFirst Board of Directors approved the first draft of its 2021 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 2021 Business Plan and Budget was approved by the ReliabilityFirst Board on June 4, 2020.

SERC: On April 21, 2020, a draft of SERC’s 2021 Business Plan and Budget was presented to, and endorsed by, SERC’s Finance and Audit Committee. On April 23, 2020, the draft 2021 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, 2020. One set of comments was received from a stakeholder during the comment period. The final 2021 Business Plan and Budget was approved for submittal to NERC by the Board Executive Committee at its June 24, 2020 meeting.

Texas RE: Texas RE’s 2021 Business Plan and Budget was presented in multiple meetings of the Texas RE Board and Member Representatives Committee. The draft 2021 Business Plan and Budget was posted for a 7-day comment period before being presented to the Texas RE Board of Directors for final approval. There were no written or oral challenges to the 2021 Business Plan and Budget. The Board of Directors approved Texas RE’s 2021 Business Plan and Budget on May 27, 2020.

WECC: WECC’s draft 2021 Business Plan and Budget was posted on its website on April 27, 2020, for a fifteen business day comment period. The WECC Board of Directors and WECC stakeholders were notified of the posting. Two sets of comments were received from stakeholders during the comment period. Additionally, one set of comments was received from the WECC Member Advisory Committee Budget Subcommittee. WECC’s Board approved WECC’s 2021 Business Plan and Budget on June 17, 2020.

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 related focus areas;
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 ERO Enterprise common presentation format,
- b. Separation of statutory and non-statutory activities,
- c. Supporting detail, including explanations for significant changes from the entity's 2020 budget,
- d. Working capital and operating reserve budgets, policies and controls, and
- e. Compliance with any budget or audit related orders from FERC.

Through the processes described above and in §III.A, NERC determined that each Regional Entity 2021 Business Plan and Budget provides necessary and adequate resources to carry out the Regional Entity's delegated functions in 2021.²⁷

The Regional Entities submitted their final 2021 Business Plans and Budgets, as approved by their respective governing bodies, to NERC in June and July 2020. These Business Plans and Budgets were submitted to the NERC FAC and Board, were reviewed at the FAC's meetings held on July 23 and August 19, 2020, and were approved by the Board for submission to the applicable governmental authorities at the Board's August 20, 2020 meeting.

As described in their respective Business Plans and Budgets, the Regional Entities focused on maintaining their 2021 assessments at or below the 2020 levels, in light of current economic difficulties confronting LSEs. The increase in the aggregate 2021 assessments for the six Regional Entities and WIRAB over their 2020 budgeted assessments is 0.5%.

In developing their 2021 Business Plans and Budgets and proposed assessments, the Regional Entities also took into account the need to maintain appropriate working capital and operating reserves. Table B-1 in each Regional Entity's 2021 Business Plan and Budget shows the calculation of the increase or decrease to its 2021 assessment to achieve the Regional Entity's target Reserves balance at December 31, 2021. The basis for each Regional Entity's target

²⁷ In reviewing the Regional Entity Business Plans and Budgets, NERC afforded the Regional Entity Business Plans and Budgets no presumption of reasonableness due to having been approved by the Regional Entities' governing bodies.

Reserves balance is stated on its Table B-1 or elsewhere in its Business Plan and Budget.

B. Summaries of the Relevant Regional Entity Business Plan and Budget

1. NPCC – Attachment 3

NPCC's statutory budget for 2021 is \$16,440,648, a decrease of \$160,999 (1.0%) from its 2020 budget. The budget includes \$477,520 of non-recurring succession planning costs that will be funded from NPCC's Business Continuity Reserve.²⁸ NPCC's 2021 assessment is \$15,154,584, a decrease of \$184,153 (1.2%) from its 2020 budget. The decrease in assessments is the result of (i) the decreased budget; (ii) application of \$201,132 of Penalty collections from the NPCC Assessment Stabilization Reserve (ASR, discussed further below) to reduce assessments, an increase of \$81,132 in Penalty collections used to reduce the assessment from the amount in the 2020 budget; (iii) a small increase in budgeted Interest & Investment Income compared to the 2020 budget; and (iv) a reduction in reserves of \$961,169 versus a reduction of \$1,019,611 in the 2020 budget (*i.e.*, the adjustment to assessments for reserves reduces the 2021 assessment by \$58,442 less than in the 2020 budget).

NPCC's 2021 budget reflects a staffing increase of 1.02 FTE from its 2020 budget, comprised of a 1.37 FTE increase in statutory direct programs (primarily its CMEP) and a 0.35 FTE decrease in Administrative programs. Budgeted staffing is 42.11 FTEs, comprised of 32.23 FTEs for statutory programs and 9.88 FTEs for Administrative programs. Budgeted 2021 Administrative Services expenditures are \$6,415,012, an increase of 1.7%.²⁹

²⁸ The NPCC Board established the Business Continuity Reserve in 2017 to be drawn upon, with Board approval, for President & CEO succession-related activities associated with retirement and other suddenly changing staffing requirements which could result from coincident multiple staff retirements. The original Business Continuity Reserve was \$1,000,000, allocated between the Regional Entity (\$940,000) and Criteria Service (\$60,000) Divisions.

²⁹ NPCC budgets Office Rent, Office Costs, Professional Services, and Miscellaneous Operating Expense as Indirect Expenses, rather than in the statutory program budgets, and allocates them to the statutory programs on the basis of the proportion of direct statutory FTEs in each program.

NPCC has created an ASR for the purpose of receiving Penalty collections and releasing funds from the ASR as appropriate to stabilize year-to-year fluctuations in assessments. NPCC collected \$604,000 in Penalties during the 12 months ended June 30, 2020. NPCC proposes to place the \$604,000 in Penalty collections into the ASR and use \$201,132 of the funds in the ASR to reduce its 2021 assessment. In its 2021 Business Plan and Budget filing to FERC submitted on August 24, 2020, NERC and NPCC requested that FERC, pursuant to §1107.4 of the NERC ROP, approve an exception to the requirement of ROP §1107.2 that Penalties collected during the 12 months ended the previous June 30 be used to reduce assessments in the following year, to allow NPCC to implement the proposed ASR transactions.

NPCC's target Reserves balance at December 31, 2021 is \$4,051,988, comprised of \$2,261,181 for Operating Reserve, \$1,369,999 for Working Capital, \$17,940 for Business Continuity Reserve, and \$402,868 for the ASR. The Operating Reserve target is 13.75% of 2021 budgeted expenditures and is within its Board-approved range of 8.33% to 25.00% of budgeted expenditures.³⁰ The Working Capital target is 8.33% of budgeted expenditures. The Business Continuity Reserve will be largely expended for non-recurring costs in 2021. NPCC's projected aggregate Reserves balance at December 31, 2020 is \$5,214,288 (Operating Reserve - \$2,731,413; Working Capital - \$1,383,415; Business Continuity - \$495,460; ASR - \$604,000); thus, NPCC's 2021 assessment is reduced by an aggregate \$1,162,301 (including \$201,132 released from the ASR) to reach its desired Reserves at December 31, 2021.³¹

For purposes of determining the assessments to recover NPCC's statutory funding requirement, compliance program costs are allocated among the Independent System

³⁰ 8.33% approximates 30 days, and 25% approximates 90 days, of budgeted expenditures.

³¹ The reductions for the other reserves categories, totaling \$961,169, are: (i) release of \$477,520 from the Business Continuity Reserve; (ii) reduction to assessments of \$13,416 to achieve the target Working Capital Reserve; and (iii) reduction to assessments of \$470,233 to achieve the target Operating Reserve.

Operators/Balancing Authority Areas (BAAs) within NPCC in the U.S. (New York and New England), Ontario, Québec, New Brunswick and Nova Scotia. Beginning with the 2021 budget, NPCC's allocation methodology for Regional Entity compliance program costs has been enhanced to better stabilize assessments from year to year. Specifically, beginning with the 2021 budget year, and for future budgets, NPCC will apply a rolling seven-year compliance cost average to total compliance program expenses for the current budget year to allocate compliance program costs among U.S. and Canadian BAAs. As described at pages 58-60 of NPCC's 2021 Business Plan and Budget, to develop this seven-year average, for each of the seven years, costs attributed to CORC Fundamentals are allocated between the BAAs in the U.S. and Canada on a NEL basis. Audits and Investigations-related costs are allocated between U.S. and Canadian BAAs, and among the Canadian provinces, using an audit-based methodology which incorporates relative costs based on categories of compliance audits which are reflective of their size and complexity as well as the different compliance models used in NPCC due to its international nature. Mitigation and Enforcement-related costs are allocated between U.S. and Canadian BAAs and among the Canadian provinces using an enforcement activity-based methodology that uses historical data on each BAA's percentage of violations, mitigation plans and settlement agreements. The resulting seven-year average allocation percentage of total combined compliance costs attributable to each BAA is then applied to total compliance program expenses for the current budget year to allocate current budget year costs among the U.S. and Canadian BAAs. The portions of the costs allocated to the New York and New England BAAs are allocated between those BAAs on the basis of NEL (as required by PP 40-41 of the *July 16, 2009 Budget Compliance Order*). Within the Canadian portion of NPCC, the costs attributable to compliance functions performed by NPCC on behalf of provincial governments or regulatory

authorities are allocated consistent with the specific Memorandum of Understanding or Agreement that has been entered into for each province. Appropriate adjustments to the costs to be allocated are made for Penalty payments received by NPCC from U.S. registered entities (used solely to offset costs charged to U.S. BAAs). In addition, any NPCC sub-regional reliability assessment costs that will be incurred in response to U.S.-only regulatory initiatives will be considered for allocation to U.S.-only BAAs, consistent with §1102 of the NERC ROP. The discussion and table on pages 58-60 of NPCC's Business Plan and Budget explains these assessment methodologies and shows the development of the 2021 assessments by BAA within NPCC to recover NPCC's statutory funding requirement.

NPCC's total non-statutory (Criteria Services Division) budget for 2021 is \$999,713 and its non-statutory Funding Requirement for 2021 is \$675,491.

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 7** and **Attachment 8** to this filing.

Attachment 7 provides the following information relating to the Regional Entities' operations based on their 2021 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 increase/decrease in Fixed Assets)
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 7** provides the following metrics and graphics based on the Regional Entities' 2021 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 (2020) and the budget year (2021)

Attachment 8 provides the following metrics on the budgeted Administrative Services costs of NERC and each Regional Entity, based on their budgets for 2020 and 2021:

1. Statutory Indirect (Administrative) Budget as a Percentage of Total Statutory Budget, for 2020 and 2021
2. Ratio of Statutory Direct Budget to Statutory Indirect Budget, for 2020 and 2021

3. Statutory Indirect FTEs as a Percentage of Total Statutory FTEs, for 2020 and 2021
4. Number of Direct Statutory FTEs per Indirect FTE, for 2020 and 2021

Respectfully submitted,

James B. Robb
President and Chief Executive Officer
Andrew G. Sharp, Vice President and
Chief Financial Officer
North American Electric Reliability
Corporation
3353 Peachtree Road
Suite 600, North Tower
Atlanta, GA 30326
(404) 446-2560
(404) 446-9765 – facsimile

/s/ Sonia Mendonca
Sonia Mendonca
Senior Vice President, General Counsel, and
Corporate Secretary
North American Electric Reliability Corporation
1325 G Street, N.W., Suite 600
Washington, D.C. 20005
(202) 400-3000
(202) 644-8099 – facsimile
sonia.mendonca@nerc.net

ATTACHMENTS 1 - 8