

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

North American Electric Reliability Corporation)
)

Docket No. FA11-21-000

COMPLIANCE FILING OF THE NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

I. INTRODUCTION

The North American Electric Reliability Corporation (“NERC”)¹ submits this compliance filing in accordance with the Commission’s January 16, 2013 Order in Docket No. FA11-21-000.² In the January 16 Order, the Commission approved a Settlement Agreement between the Office of Enforcement (“Enforcement”) and NERC related to Enforcement’s findings and recommendations arising out of its 2012 performance audit of NERC. Specifically, Section II.7(b)(i) of the Settlement Agreement requires that:

Within forty-five days of the end of each quarter, beginning with the quarter ending March 31, 2013, NERC will file with the Commission the unaudited report of the NERC budget-to-actual spending variances during the preceding quarter. This report will include information regarding sources and uses of operating and working capital reserves and will match or exceed the level of detail of the quarterly budget-to-actual variance report of NERC expenditures attached to the agenda of NERC Board of Trustees Finance and Audit Committee’s October 2012 meeting.³

Attached hereto is the unaudited report of NERC’s budget-to-actual variance information for the fourth quarter of 2012, in accordance with the January 16 Order. This variance

¹ NERC was certified by FERC as the electric reliability organization (“ERO”) authorized by Section 215 of the Federal Power Act. FERC certified NERC as the ERO in its order issued July 20, 2006 in Docket No. RR06-1-000. *Order Certifying North American Electric Reliability Corporation as the Electric Reliability Organization and Ordering Compliance Filing*, 116 FERC ¶ 61,062 (2006) (“ERO Certification Order”).

² See *North American Electric Reliability Corporation, Order Approving Settlement Agreement*, 142 FERC ¶ 61,042 (2013) (“January 16 Order”).

³ *Id.*

information was posted on NERC's website January 30, 2020 and was reviewed at the February 5, 2020 open meeting of the NERC Finance and Audit Committee. The unaudited report was accepted by the NERC Board of Trustees at its meeting on February 6, 2020.

II. NOTICES AND COMMUNICATIONS

Notices and communications with respect to this filing may be addressed to the following:

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III. DISCUSSION OF SIGNIFICANT VARIANCES BETWEEN 2019 BUDGET AND ACTUAL 2019 RESULTS

The attached fourth quarter 2019 variance report compares actual (unaudited) financial results to NERC's budgeted expenditures as of December 31, 2019. NERC is providing additional discussion of significant variances between the unaudited year-end 2019 results and NERC's 2019 budgeted expenditures by NERC department or program area and by major activity within departments and program areas. This discussion focuses on variances of \$500,000 or more between the unaudited year-end 2019 results and the 2019 budget. NERC has focused on year-end variances in excess of budget of \$500,000 or more because Section 7(b)(ii) of the Settlement Agreement specifies that NERC will file for Commission review and approval proposals approved by the NERC Board of Trustees to expend \$500,000 or more from Operating Reserves designated for "unforeseen contingencies" (as defined in NERC's Working Capital and Operating Reserves Policy), *i.e.*, where any amount allocated from the unforeseen contingencies

account of Operating Reserves plus any amount redirected from previously budgeted funds is, in the aggregate, \$500,000 or more for any one specific project or major activity in a program area.

A. Variances of \$500,000 or more by Department or Program Area

In late 2018, NERC management went through an organizational assessment, including the alignment of various programs and staffing resources according to roles and responsibilities, and re-characterized several employees across multiple departments. In general, these employees maintained the same responsibilities and functional oversight, but were assigned different managers or departments. In some cases, similar roles were consolidated to align certain technical functions. The changes had no effect on total FTEs (full-time equivalents) for the company, and the net cost impact of these movements was not material to the 2019 budget. However, for financial presentation purposes as it relates to the original 2019 Business Plan & Budget, three of the six affected departments have year-end budget variances over or under \$500,000, primarily due to the change in alignment of staffing within and across these program areas: Compliance Assurance; Compliance Analysis, Registration and Certification; and Reliability Assessment and System Analysis. As of December 31, 2019, Compliance Assurance is over budget by \$929,876, Compliance Analysis, Registration and Certification is under budget by \$998,476, and Reliability Assessment and System Analysis is under budget by \$944,923. Other departments and program areas reflect over and under budget amounts as well resulting from this reorganization, but none were greater than \$500,000.

Compliance Enforcement was under budget by \$547,823 primarily due to lower personnel and contracts and consultants expenses. Legal and Regulatory is over budget by \$1,104,921 primarily due to transition costs and search fees as well as Internal Audit expenditures that were budgeted in the Finance and Accounting department and were charged to

the Legal and Regulatory department. CRISP is projected to be under budget by \$1,087,041 primarily due to lower personnel, software and contractor costs, which will be partially offset by lower third-party funding required from CRISP participants.

IV. CONCLUSION

NERC respectfully requests that the Commission accept this filing as compliant with Section II.7(b)(i) of the Settlement Agreement and the Commission's January 16 Order in Docket No. FA11-21-000.

Respectfully submitted,

/s/ Meredith M. Jolivert

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Dated: February 14, 2020

CERTIFICATE OF SERVICE

I hereby certify that I have served a copy of the foregoing document upon all parties listed on the official service list compiled by the Secretary in this proceeding.

Dated at Washington, D.C. this 14th day of February, 2020.

/s/ Meredith M. Jolivert

Meredith M. Jolivert
*Counsel for North American Electric
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ATTACHMENT

Summary of Unaudited Results For the Month Ending December 31, 2019

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Executive Summary

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

<u>FUNDING</u>	Actual	Budget	Over (Under)
Revenues	\$ 78.8	\$ 78.5	\$ 0.3
Funding from Reserves			
Assessment Stabilization Reserve	0.6	0.6	-
TOTAL FUNDING	\$ 79.4	\$ 79.1	\$ 0.3
<u>EXPENDITURES</u>			
Expenses (excluding Depreciation)	\$ 75.1	\$ 75.2	\$ (0.1)
Fixed Asset Additions	3.6	4.8	(1.2)
TOTAL EXPENDITURES	\$ 78.7	\$ 80.0	\$ (1.3)
RESERVE INCREASE (DECREASE)	\$ 0.7	\$ (0.9)	\$ 1.6

Funding

- Revenues
 - Slightly over budget mainly due to higher than budgeted workshop revenues and investment income, which is offset by lower third party revenues required to fund the CRISP program.

Expenditures

- Expenses (excluding depreciation)
 - Personnel expenses are over budget largely because of transition costs and search fees.
 - Meeting expenses are over budget primarily due to higher participation in workshops, which were substantially offset by higher than budgeted workshop revenues.
 - Contracts and Consultants expenses are under budget primarily due to lower than expected spending in the Reliability Assessment and System Analysis and CRISP departments.
 - Professional services expenses are lower than budget largely due to lower legal fees.
- Fixed Asset Additions
 - Under budget mainly because of lower spending to offset increased costs in other areas, as well some costs that were budgeted in fixed assets but for which the costs were charged to software licenses and support due to the type of license acquired.

Operating Reserve Increase (Decrease)

- Actual reserve increase from operations was higher than budget by \$1.6 million.

Detailed Operating Results

Variances by Revenue and Expense Category

Total NERC (including CRISP)

	YTD Actual	YTD Budget	YTD Over (Under)	% Over (Under)
TOTAL FUNDING	\$ 79,345,605	\$ 79,130,349	\$ 215,257	0.3%
EXPENDITURES				
Personnel	\$ 44,610,615	\$ 43,952,190	\$ 658,425	1.5%
Meetings, Travel, and Conference Calls	4,203,281	3,380,400	822,881	24.3%
Contracts and Consultants	13,694,112	15,043,318	(1,349,206)	(9.0%)
Rent and Facilities	3,312,254	3,335,058	(22,804)	(0.7%)
Office Costs, Professional, and Misc.*	9,241,842	9,346,517	(104,675)	(1.1%)
Other Non-Operating Expenses	2,717	214,171	(211,454)	(98.7%)
Fixed Asset Additions*	3,623,136	4,778,000	(1,154,864)	(24.2%)
TOTAL EXPENDITURES	\$ 78,687,957	\$ 80,049,655	\$ (1,361,698)	(1.7%)
RESERVE INCREASE (DECREASE)	\$ 657,649	\$ (919,306)	\$ 1,576,954	(171.5%)
FTEs	201.8	204.9	(3.1)	(1.5%)

* Excludes depreciation expense

Following is a brief summary of variances by category:

- Personnel Expense
 - Over budget primarily due to transition costs and search fees.
- Meeting, Travel, and Conference Call Expense
 - Meeting expenses are over budget primarily due to higher participation in workshops, which were substantially offset by higher than budgeted workshop revenues.
- Contracts and Consultants Expense
 - Under budget due to lower than expected spending primarily in the Reliability Assessment and System Analysis and CRISP departments. Also, amounts for Internal Audit projects that were originally budgeted in the Finance and Accounting department were charged to the Legal and Regulatory department, which nets to a \$26k over budget amount between those departments.

CONTRACTS and CONSULTANTS	YTD Actual	YTD Budget	YTD Over (Under)
Reliability Standards	\$ -	\$ 50,000	\$ (50,000)
Compliance Assurance	-	50,000	(50,000)
Compliance Analysis, Registration and Certification	-	-	-
Compliance Enforcement	56,263	161,000	(104,738)
Reliability Assessment and System Analysis	265,435	625,000	(359,565)
Situation Awareness	1,387,476	1,280,990	106,486
Event Analysis	-	-	-
Performance Analysis	677,854	653,565	24,289
E-ISAC	1,811,592	1,820,500	(8,908)
Training, Education, and Personnel Certification	498,683	497,000	1,683
General and Administrative and Executive	162,524	220,000	(57,477)
Legal and Regulatory	356,412	-	356,412
Policy and External Affairs	19,037	20,000	(963)
Information Technology	1,861,913	2,042,763	(180,850)
Human Resources and Administration	677,551	690,000	(12,449)
Finance and Accounting	93,498	475,000	(381,502)
TOTAL (excluding CRISP)	\$ 7,868,238	\$ 8,585,818	\$ (717,580)
CRISP	5,825,874	6,457,500	(631,626)
TOTAL (including CRISP)	\$ 13,694,112	\$ 15,043,318	\$ (1,349,206)

- Other Non-Operating Expenses
 - Under budget due to the anticipated refund of prior and current year excise taxes due to recent tax law changes.
- Fixed Asset Additions
 - Under budget mainly because of lower spending to offset increased costs in other areas, as well some costs that were budgeted in fixed assets but for which the costs were charged to software licenses and support due to the type of license acquired.

Variances by Department

DIRECT EXPENSES and NET FIXED ASSETS	YTD Actual	YTD Budget	YTD Over (Under)
Reliability Standards	\$ 3,547,529	\$ 3,419,581	\$ 127,948
Compliance Assurance	6,108,382	5,178,505	929,876
Compliance Analysis, Registration and Certification	1,883,328	2,881,804	(998,476)
Compliance Enforcement	3,313,867	3,861,690	(547,823)
Reliability Assessment and System Analysis	3,661,184	4,606,107	(944,923)
Situation Awareness	3,104,458	3,012,404	92,054
Event Analysis	2,754,180	2,771,658	(17,478)
Performance Analysis	3,315,040	2,873,967	441,072
E-ISAC	10,517,482	10,649,090	(131,608)
Training, Education, and Personnel Certification	1,479,464	1,367,755	111,709
General and Administrative and Executive	8,262,192	8,144,200	117,992
Legal and Regulatory	4,983,712	3,878,791	1,104,921
Policy and External Affairs	2,412,714	2,510,721	(98,007)
Information Technology	11,214,035	11,696,532	(482,497)
Human Resources	2,590,220	2,562,371	27,848
Finance and Accounting	2,546,483	2,553,747	(7,265)
TOTAL (excluding CRISP)	\$ 71,694,269	\$ 71,968,925	\$ (274,656)
CRISP	6,993,688	8,080,729	(1,087,041)
TOTAL EXPENSES and NET FIXED ASSETS	\$ 78,687,957	\$ 80,049,655	\$ (1,361,698)

In late 2018, NERC management went through an organizational assessment involving various program areas and re-characterized several employees across multiple departments. In most cases, these employees kept the same responsibilities and functional oversight, but were assigned new departments and/or consolidated with other similar roles to align certain technical functions. The changes had no effect on the total FTEs, and the net cost impact of these movements was immaterial. The following program areas were impacted by this review:

- Reliability Standards
- Compliance Assurance
- Compliance Analysis, Registration and Certification
- Reliability Assessment and System Analysis
- Event Analysis
- Performance Analysis

Following is a brief summary of variances by department:

- Legal and Regulatory – Over budget at year-end primarily due to transition costs and search fees, as well as Internal Audit expenditures that were budgeted in the Finance and Accounting department that were charged to the Legal and Regulatory department.
- Information Technology – Under budget, mainly due to lower fixed asset spending, which was partially offset by higher personnel costs due to a lower attrition rate, as well as CMEP and other costs that were funded by IT and charged to program areas.
- CRISP – Under budget largely because of lower personnel, software, and contractor costs.

Supplemental Schedules

Schedule 1 – Year-End Actual Reserves

Reserve Account	Beginning Balance ⁽¹⁾	Budgeted Funding	Budgeted Uses	Other Funding (Uses) ⁽²⁾	Net Financing Activity ⁽³⁾	Ending Balance
Operating Contingency	\$ 5,644,359	\$ 550,000	\$ (1,067,980)	\$ 1,027,127	\$ (394,688)	\$ 5,758,818
Future Obligations	2,535,333	-	(480,457)	64,843	-	2,119,719
Assessment Stabilization	2,071,000	-	(550,000)	1,000,000	-	2,521,000
System Operator	592,110	148,674	-	(172)	-	740,611
CRISP	500,000	-	-	-	-	500,000
Total Reserves	\$ 11,342,801	\$ 698,674	\$ (2,098,437)	\$ 2,091,798	\$ (394,688)	\$ 11,640,148

NOTES:

(1) Some 2019 beginning balances have been adjusted from the 12/31/2018 variance report balances as the result of a reconciliation to the final audited balance sheet.

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

(3) Net financing activity in 2019 reflects principal debt repayments for borrowings originating in 2016. NERC did not make budgeted borrowings for 2017, 2018, and 2019 in light of a favorable working capital position. The savings from the 2019 borrowing decision will be realized in the years 2020 to 2022.

Schedule 2 – IT Projects

Projects in Progress	Project Budget ⁽¹⁾	Actual Spend	Expected Spend	Expected Over (Under) Budget
CMEP Technology Project (2017-2020)	\$ 5,403,000	\$ 3,485,314	\$ 5,484,524	\$ 81,524
Standards (2019-2020)	300,000	266,723	300,000	-
Windows 10 Upgrade	169,890	129,890	169,890	-

Projects Completed in 2019	Project Budget ⁽¹⁾	Actual Spend	Actual Over (Under) Budget
FRCC Dissolution	\$ 128,497	\$ 122,238	\$ (6,259)
Multifactor Authentication	27,660	7,173	(20,488)
Footprints Upgrade	84,753	60,600	(24,153)
E-ISAC - Customer Relationship Management (CRM)	237,800	285,229	47,429
Entity Registration - CORES (2018-2019)	1,200,000	1,252,919	52,919
Document Management - Records Center Reconfiguration	190,500	190,500	-
SAFNR V3	221,500	188,000	(33,500)

NOTES:

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

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

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

Schedule 2 (continued) – IT Projects

CMEP Technology Project

(Started May 2017 / Planned Completion Q4 2021)

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

Standards

(Started Jan 2019 / Planned Completion Q4 2020)

In support of the CMEP Technology Project, this project involves the movement all of the Standards data from the old source system to the new one.

Microsoft Windows 10

(Started Dec 2019 / Planned Completion Feb 2020)

This project involves the upgrade of all laptops and desktops from Windows 7 to Windows 10. This upgrade will provide a more secure environment. Microsoft stopped support of Windows 7 security patches in January 2020.

FRCC Dissolution

(Started Jan 2019 / Completed Jul 2019)

With FRCC dissolving, NERC assessed the changes required to applications that contained FRCC data and the reassignment/classification of such information. The inventory required the mapping utility, functionality, migration, and support efforts by both Region and entity. Activities included facilitated discussions with IT and business owners of impacted applications to capture and document high-level, as well as more detailed, requirements necessary to support the transition of registered entities from FRCC to SERC.

Multifactor Authentication

(Started Jan 2019 / Completed Jul 2019)

The purpose of this project was to implement a Multi-Factor Authentication solution to enhance the overall security of the NERC ERO suite of applications and to meet existing requirements for applications currently under development, primarily CORES and CMEP/Align projects. Multi-factor authorization provides enhanced security by requiring more than one method of user authentication (Mobile PIN code, etc.) in addition to the traditional user name/password authentication method.

Schedule 2 (continued) – IT Projects

Footprints Upgrade

(Started Mar 2019 / Completed Aug 2019)

The purpose of this project was to replace the current version of the NERC IT helpdesk ticketing system, Footprints v11, with the latest version available, Footprints v12. The Footprints application manages NERC internal IT support requests. The implemented version enables support of ERO applications (i.e. CORES, ALIGN, etc.) by distributed regional support teams.

E-ISAC – Customer Relationship Management (CRM)

(Started Jul 2019 / Completed Oct 2019)

The purpose of this project was to select and implement a Customer Relationship Management (CRM) tool to assist the E-ISAC team in growing its North American electricity owner/operator base from the current roughly 1,000 members to a progressively greater share of the roughly 5,000 total. The team will be able to do so through improved outreach, marketing, and overall engagement and tracking processes expected from use of the new tool. The plan is also to integrate with the E-ISAC Portal in the future.

Entity Registration - CORES

(Started Dec 2017 / Completed Nov 2019)

NERC undertook an effort to both standardize and modernize the Entity Registration process. The discovery phase of the Centralized Organization Registration Entity System (CORES) project included the capture of Region-specific needs, variations, and exceptions in the registration process. CORES is a centralized entity registration process, which requires the retirement of registration in CDMS, CITS, and CRATS. The Joint Registration Organization (JRO) portion of the project was combined with the CORES production release in 2019.

Document Management – Records Center Reconfiguration

(Started May 2019 / Completed Dec 2019)

The Records Retention project is in alignment with the original intent and business case for Document Management. One of the key items for addressing information management across all program areas was to have the ability to address retention and destruction of documents identified as NERC records. The objective of the project was to implement a solution to identify NERC records and their respective disposition rules in accordance with the NERC Records Retention and Destruction policy.

SAFNR V3

(Started May 2019 / Completed Dec 2019)

One of the primary functions of the ERO Enterprise is to maintain situational awareness of Bulk Power System conditions and provide accurate and timely information regarding threats that may adversely impact reliability. The objective of this project was to identify a new vendor and platform to replace the existing Situation Awareness for FERC, NERC, and the Regional Entities system, SAFNR V2. The new platform not only supports NERC's goal to reduce reliability risk by providing situation awareness of the Bulk Power System but also provides new features and architectural/infrastructure enhancements to increase productivity and availability.

Schedule 3 – E-ISAC and CRISP Summary of Activity

TOTAL E-ISAC (including CRISP)

FUNDING	Annual Actual	Annual Budget	Over (Under)
Assessments	\$ 19,627,897	\$ 19,627,897	\$ 0
Other Funding	7,641,896	7,767,730	(125,834)
TOTAL FUNDING	\$ 27,269,793	\$ 27,395,627	\$ (125,834)
EXPENDITURES			
Personnel Expense	\$ 7,551,161	\$ 8,180,123	\$ (628,962)
Meeting Expense	957,187	418,000	539,187
Operating Expenses (excluding Depreciation)	8,698,738	9,431,696	(732,958)
Other Non-Operating Expenses	10,467	-	10,467
Fixed Assets (excluding Depreciation and Fixed Asset Allocation)	293,615	700,000	(406,384)
Total Direct Costs (excluding Depreciation and Allocations)	\$ 17,511,169	\$ 18,729,819	\$ (1,218,650)
Indirect Expense Allocation	8,674,257	9,004,572	(330,314)
Fixed Asset Allocation	(368,481)	(338,764)	(29,717)
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 25,816,946	\$ 27,395,627	\$ (1,578,681)
RESERVE INCREASE (DECREASE)	\$ 1,452,847	\$ -	\$ 1,452,847

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

CRISP

FUNDING	Annual Actual	Annual Budget	Over (Under)
Assessments	\$ 1,526,388	\$ 1,526,388	\$ 0
Other Funding	6,994,273	7,517,319	(523,046)
TOTAL FUNDING	\$ 8,520,661	\$ 9,043,707	\$ (523,046)
EXPENDITURES			
Personnel Expense	\$ 729,670	\$ 965,793	\$ (236,123)
Meeting Expense	90,500	48,000	42,500
Operating Expenses (excluding Depreciation)	6,036,086	6,966,936	(930,850)
Other Non-Operating Expenses	10,467	-	10,467
Fixed Assets (excluding Depreciation and Fixed Asset Allocation)	126,964	100,000	26,964
Total Direct Costs (excluding Depreciation and Allocations)	\$ 6,993,688	\$ 8,080,729	\$ (1,087,041)
Indirect Expense Allocation	981,943	1,000,605	(18,662)
Fixed Asset Allocation	(41,713)	(37,628)	(4,085)
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 7,933,918	\$ 9,043,707	\$ (1,109,789)
RESERVE INCREASE (DECREASE)	\$ 586,743	\$ -	\$ 586,743

E-ISAC (excluding CRISP)

FUNDING	Annual Actual	Annual Budget	Over (Under)
Assessments	\$ 18,101,509	\$ 18,101,509	\$ 0
Other Funding	647,623	250,411	397,212
TOTAL FUNDING	\$ 18,749,132	\$ 18,351,920	\$ 397,212
EXPENDITURES			
Personnel Expense	\$ 6,821,491	\$ 7,214,330	\$ (392,839)
Meeting Expense	866,687	370,000	496,687
Operating Expenses (excluding Depreciation)	2,662,652	2,464,760	197,892
Other Non-Operating Expenses	-	-	-
Fixed Assets (excluding Depreciation and Fixed Asset Allocation)	166,652	600,000	(433,348)
Total Direct Costs (excluding Depreciation and Allocations)	\$ 10,517,482	\$ 10,649,090	\$ (131,608)
Indirect Expense Allocation	7,692,314	8,003,966	(311,652)
Fixed Asset Allocation	(326,768)	(301,136)	(25,632)
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 17,883,028	\$ 18,351,920	\$ (468,892)
RESERVE INCREASE (DECREASE)	\$ 866,104	\$ -	\$ 866,104