

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

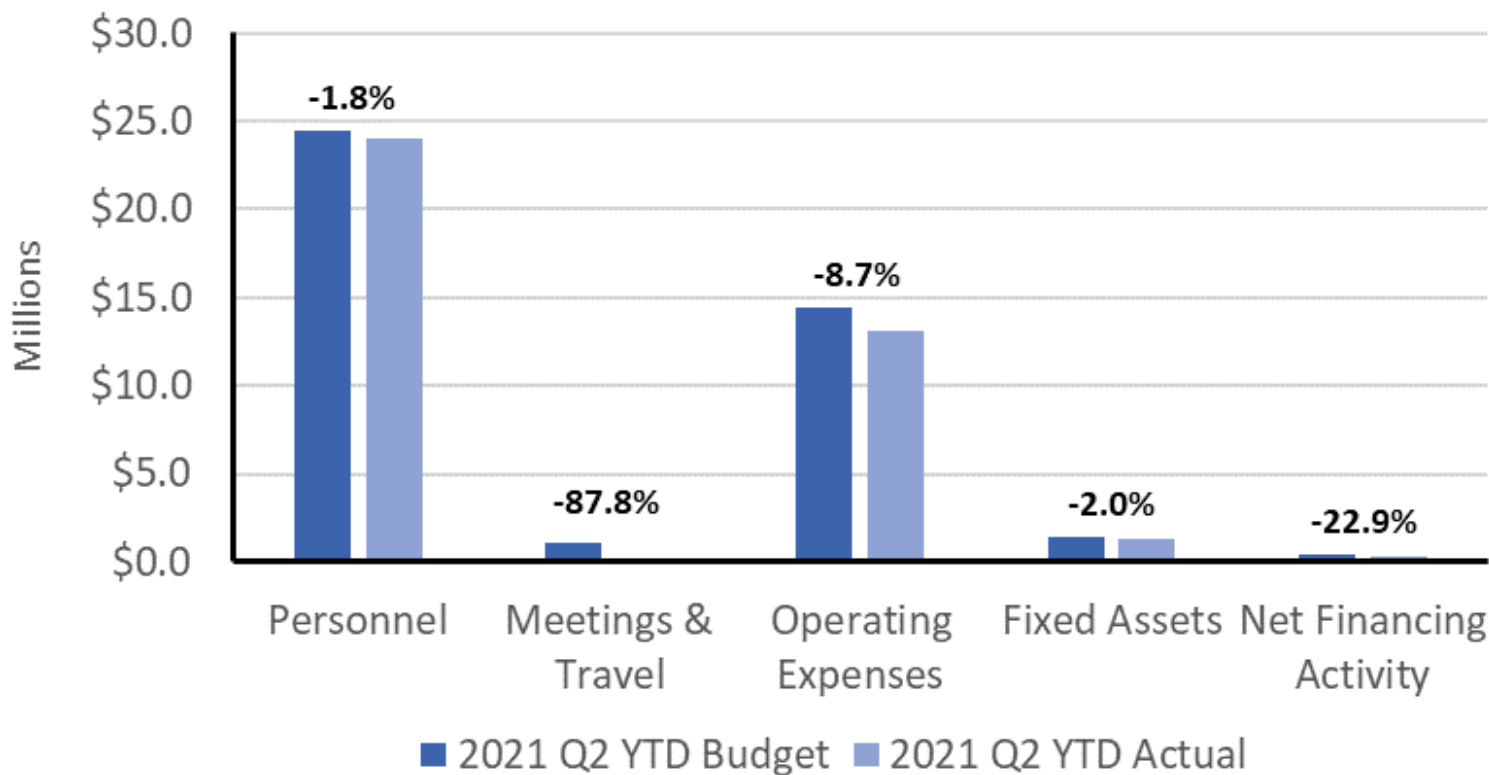
NERC Summary of Unaudited Results as of June 30, 2021

Andy Sharp, Vice President and Chief Financial Officer
Finance and Audit Committee Meeting
August 11, 2021

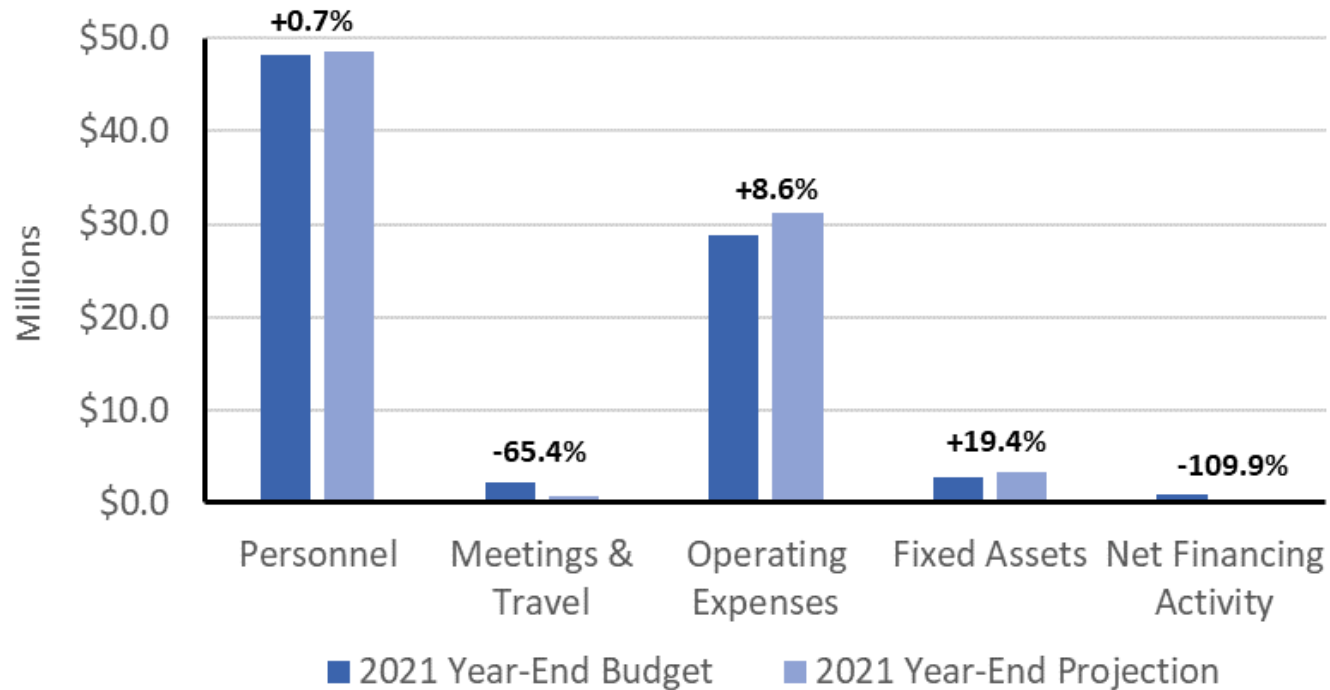
RELIABILITY | RESILIENCE | SECURITY



- Total funding – \$200k (0.3%) under budget
 - Investment income and SOCCED revenues are lower than budget
- Total expenditures – \$2.8M (6.7%) under budget
 - Lower spending on meetings, travel, and transportation due to the pandemic
 - Lower-than-budgeted medical insurance premiums
 - Timing of expenses versus budget
- Reserve increase \$2.7M over budget

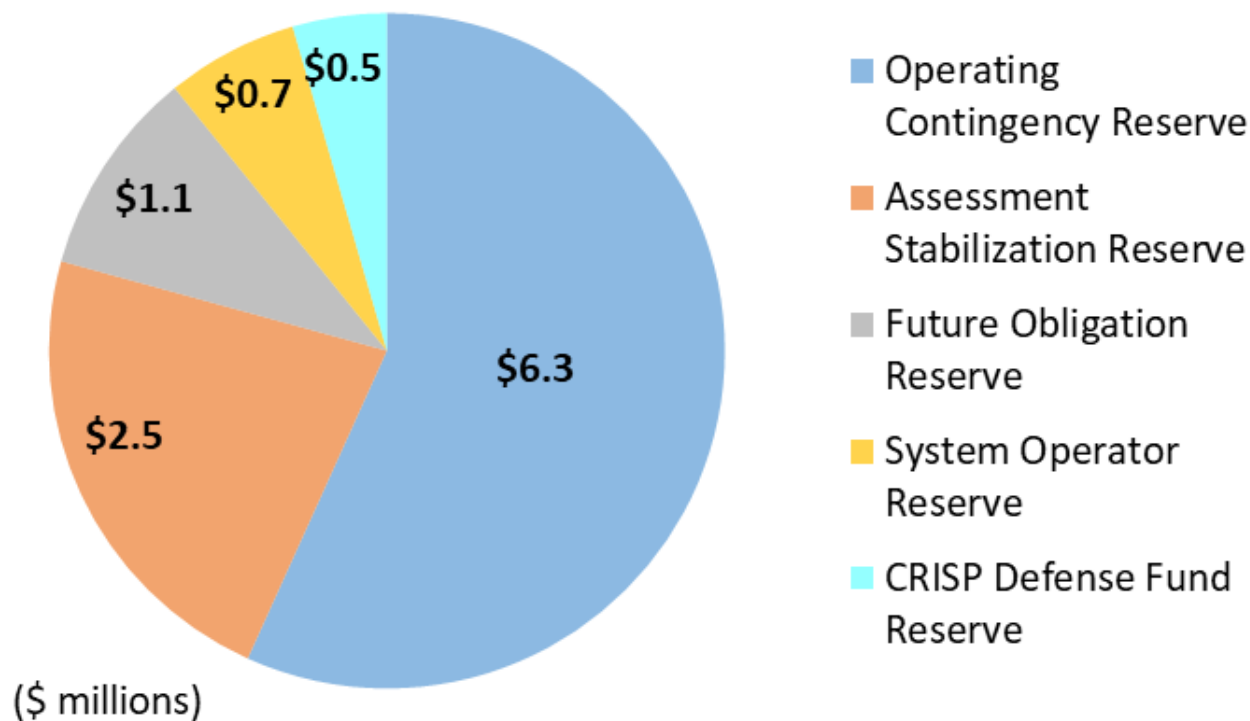


- Funding – \$300k (0.3%) under budget
 - Investment income and SOCCED revenues expected to be lower than budget
- Total expenditures – \$1.0M (1.2%) over budget
 - Primarily due to the CRISP operational technology pilot program costs that were budgeted for in 2020 but for which costs will be incurred in 2021
 - Funded with money collected from and reserved by CRISP participants in 2020



- Operating Contingency Reserve (OCR)
 - Began year with \$8.0M
 - Budgeted use of \$1.8M to fund 2021 Align project costs
 - Projected net increase of \$85k from operating and financing activity
 - Projected year-end balance \$6.3M
- Assessment Stabilization Reserve (ASR) – \$2.5M
 - No releases or additions

TOTAL RESERVES OF \$11.1M





Questions and Answers

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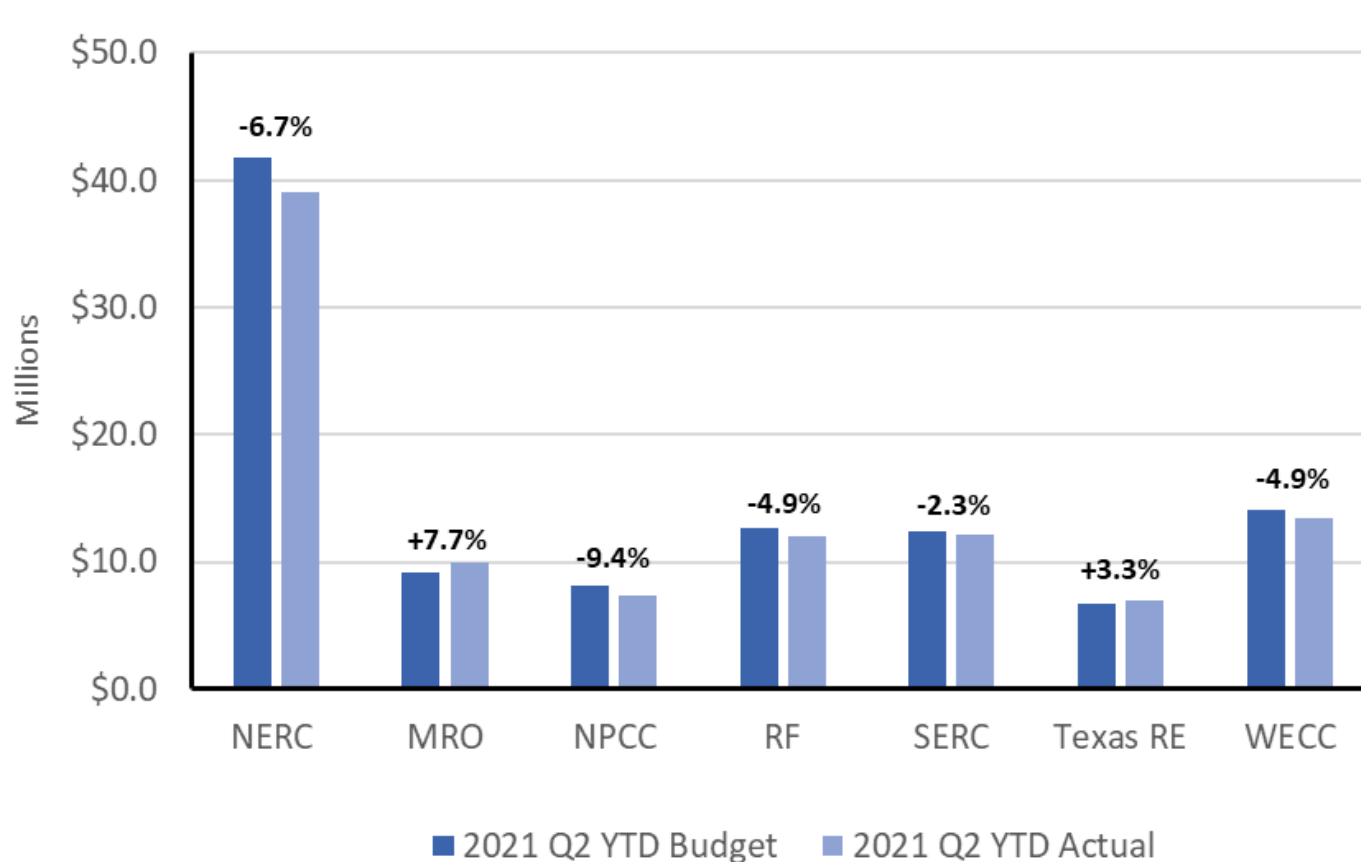
Total ERO Enterprise Summary of Unaudited Results as of June 30, 2021

Andy Sharp, Vice President and Chief Financial Officer
Finance and Audit Committee Meeting
August 11, 2021

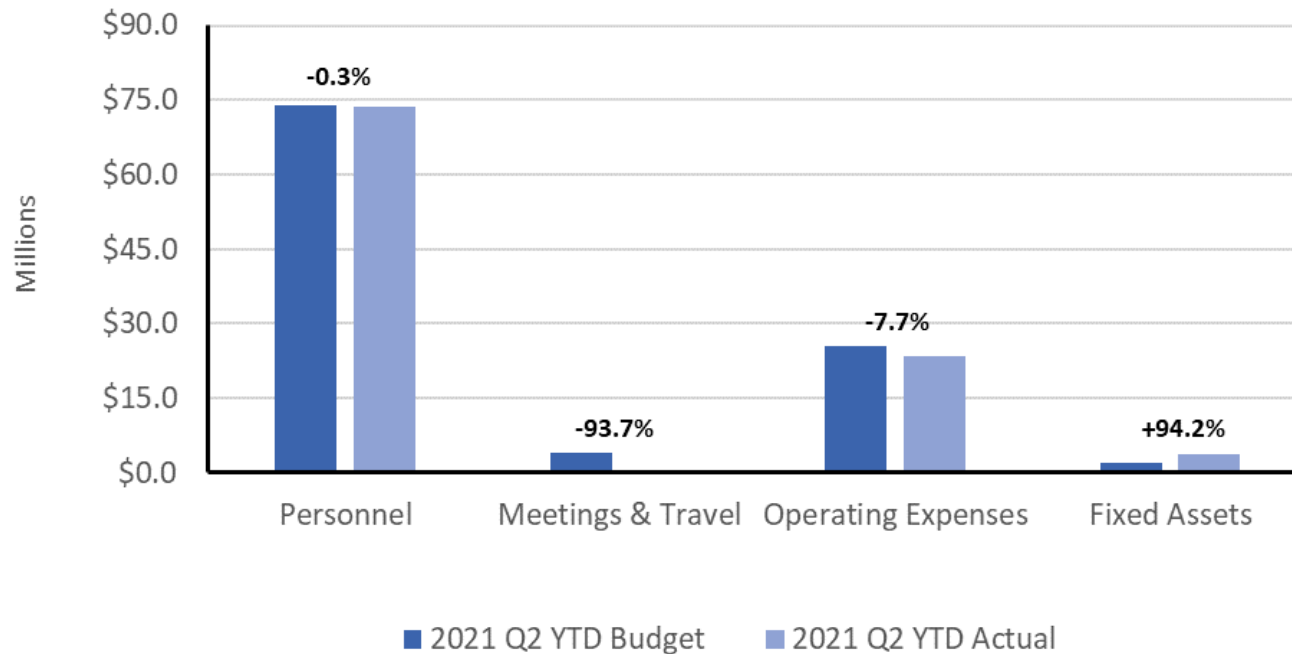
RELIABILITY | RESILIENCE | SECURITY



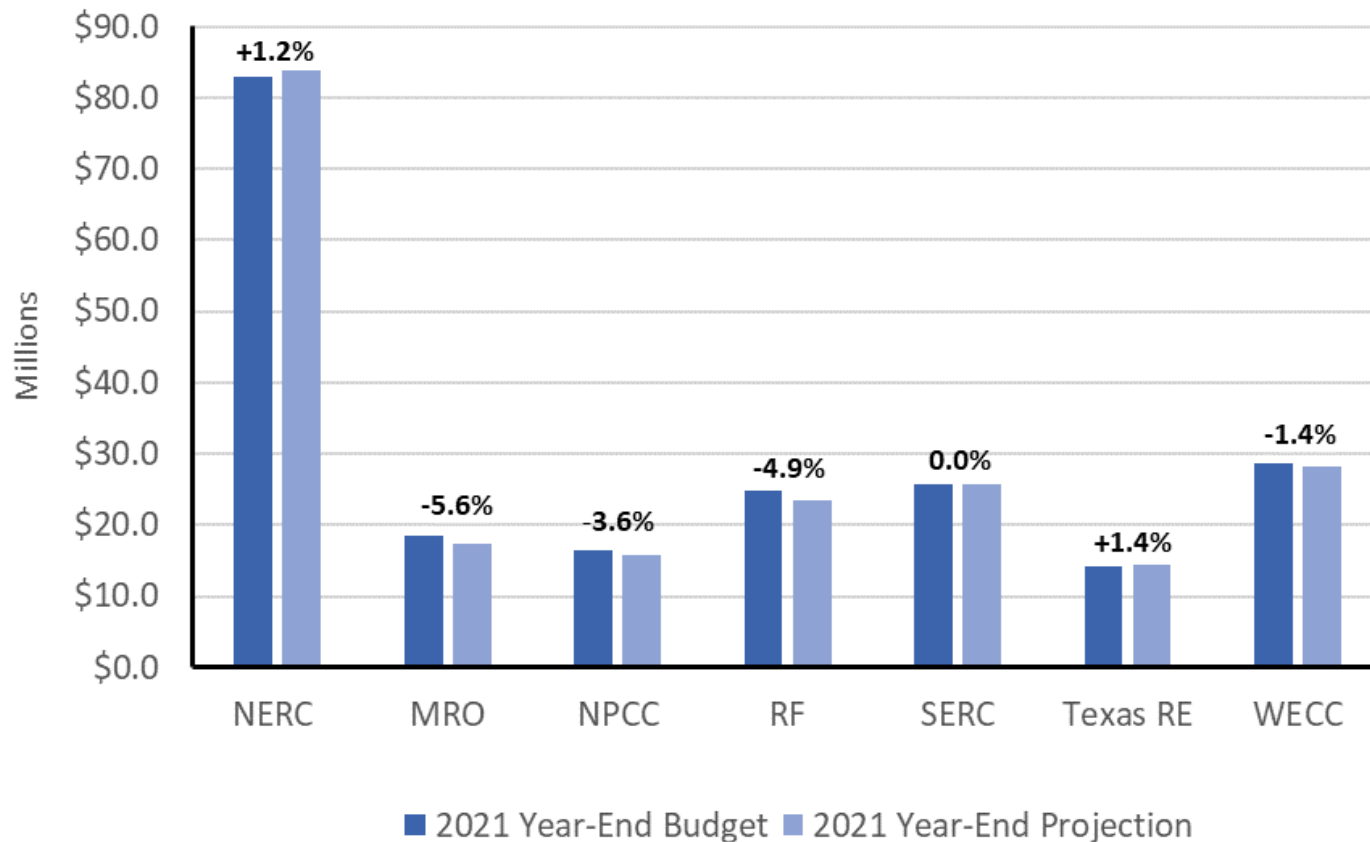
- Total expenditures for the ERO Enterprise were under budget \$4.2M (4.0%).

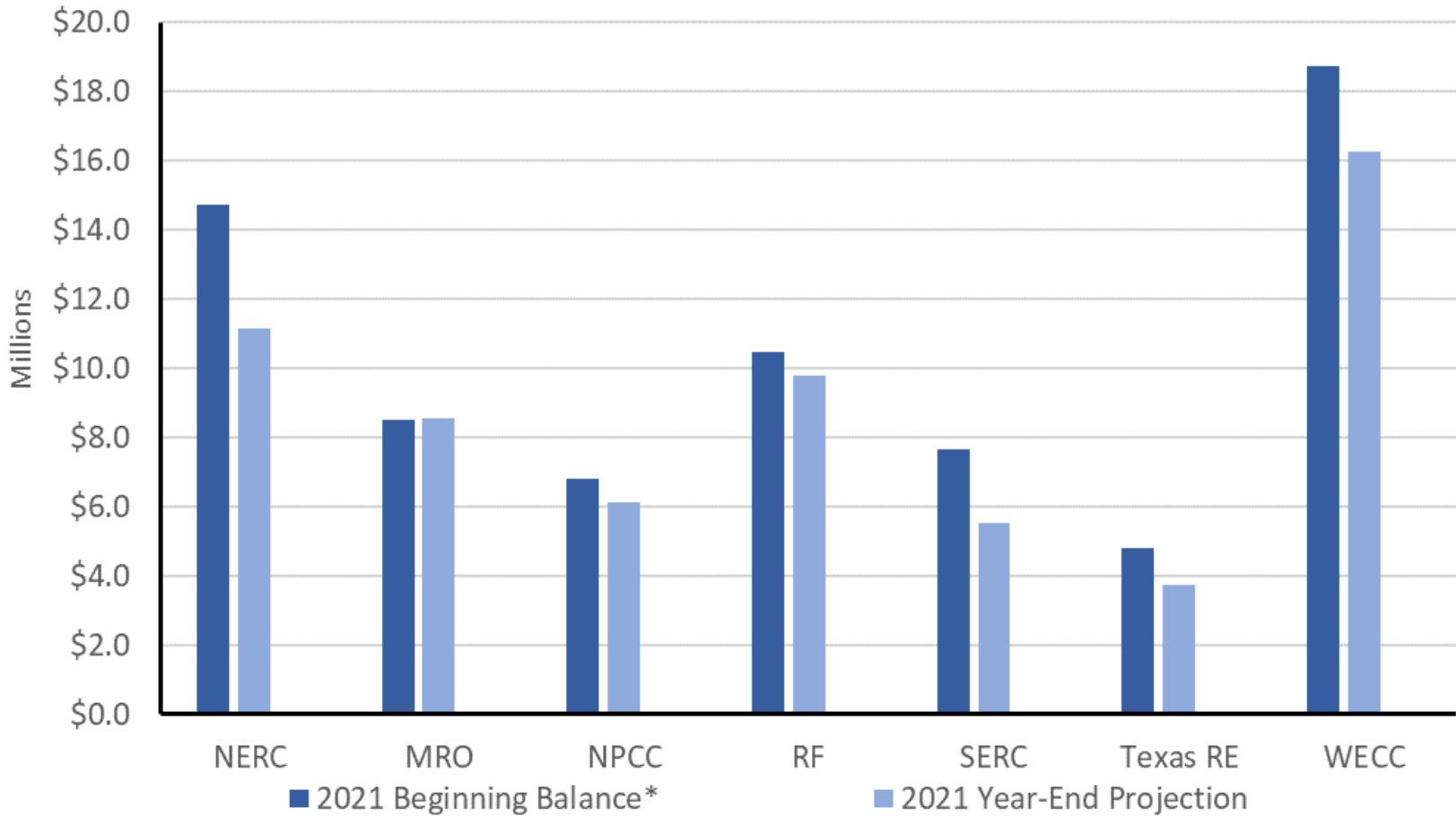


- Personnel – NERC, RF, & SERC were under budget. All other entities were over budget.
- Meetings and Travel – All entities were under budget except Texas RE, which was over budget.
- Operating Expenses – All entities were under budget except RF & Texas RE, which were over budget.
- Fixed Assets – NERC, NPCC, and RF were under budget. MRO, SERC, & WECC were over budget. Texas RE had no budgeted expenditures for Q2.



- The ERO Enterprise expects to be under budget \$2.2M (1.0%) at year-end.





**Adjusted for audited results and all reserve categories*

\$ - millions

Entity	Beginning WCOCR ⁽¹⁾	Beginning ASR ⁽²⁾ & Unreleased Penalties	Beginning Other Reserves	1/1/2021 Beginning Total Reserves	Projected Ending WCOCR ⁽¹⁾	Projected Ending ASR ⁽²⁾ & Unreleased Penalties	Projected Ending Other Reserves	12/31/2021 Projected Ending Total Reserves	Total 2021 Budget	% of Reserves to 2021 Total Budget
NERC	\$ 8.1	\$ 2.5	\$ 4.1	\$ 14.7	\$ 6.3	\$ 2.5	\$ 2.3	\$ 11.1	\$ 82.9	13.4%
MRO	5.9	2.6	-	8.5	5.4	3.1	-	8.5	18.4	46.2%
NPCC	5.6	0.6	0.6	6.8	5.5	0.6	-	6.1	16.4	37.2%
RF	4.0	6.5	-	10.5	7.6	2.2	-	9.8	24.8	39.5%
SERC	2.9	4.8	-	7.7	2.1	3.4	-	5.5	25.8	21.3%
Texas RE	2.0	1.6	1.2	4.8	2.0	1.7	-	3.7	14.2	26.1%
WECC	8.6	6.3	3.8	18.7	9.1	3.4	3.8	16.3	28.6	57.0%
	\$ 37.1	\$ 24.9	\$ 9.7	\$ 71.7	\$ 38.0	\$ 16.9	\$ 6.1	\$ 61.0	\$ 211.1	28.9% ⁽³⁾

⁽¹⁾ WCOCR - Working Capital & Operating Contingency Reserve - Projected 12/31/21 WCOCR is 18.0% of annual 2021 budget, or 2.2 months of budgeted expenses

⁽²⁾ ASR - Assessment Stabilization Reserve

⁽³⁾ Projected 12/31/21 total reserve balance is 28.9% of annual 2021 budget, or 3.5 months of budgeted operating expenses



Questions and Answers

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2022 Business Plan and Budget Overview – Final Draft

Andy Sharp, Vice President and Chief Financial Officer
Finance and Audit Committee Meeting
August 11, 2021

RELIABILITY | RESILIENCE | SECURITY



- The 2022 Business Plan & Budget (BP&B) supports the ERO's needs to fulfill its mission to assure the effective and efficient reduction of risks to the reliability and security of the grid
 - Priority bulk power system (BPS) risk areas include:
 - Supply chain compromise and increasingly sophisticated cyber attacks
 - Extreme and widespread weather-related events
 - Energy and fuel assurance
 - Increased distributed generation
 - Extraordinary costs to nearly 400 million North American citizens if measures are not taken in response to BPS risks
 - Electricity increasingly essential to everyday life

- Proper resourcing for Reliability Standards
 - Critical Infrastructure Protection (CIP) standard revision considerations necessitated by escalating threats and compromises
 - Changes to operating and planning standards identified by the Reliability Security and Technical Committee
 - Increased activity in the areas of renewable resources and extreme events
- Increased analytics for priority reliability and security risks
 - Collection of generating availability data for solar and wind
 - BPS security, including incorporation of cyber security into system models
 - Risks related to energy and fuel assurance and weatherization

- Continued Electricity Information Sharing and Analysis Center (E-ISAC) long-term strategy implementation
 - Succession planning and adoption of organization constructs used by other ISACs
 - Strengthening cyber and physical security analysis and information sharing
 - Key support areas for industry priorities, such as operational technology, Department of Energy 100-Day Plan, and natural gas partnerships
- NERC support services
 - Creating an employee experience that meets the needs of an evolving workforce
 - Managing applications, infrastructure, and cyber threats increasing in sophistication
 - Support for FERC-mandated Regional Entity audits and ERO Enterprise IT security audit
- Partial return to in-person meetings and related travel
 - Balancing value of face-to-face interactions with virtual format efficiencies
 - Best assumption, still well below pre-pandemic levels

- Despite increasingly sophisticated threats to the BPS, NERC's:
 - Average annual budgeted FTE growth since 2013, including 2022, is 2.1%
 - Principally in E-ISAC and IT security areas, offset by maturity in NERC's core programs
 - Total staff, excluding E-ISAC & Cybersecurity Risk Information Sharing Program (CRISP), Reliability Assessment and Performance Analysis (RAPA), and IT, is less in 2022 than 2013
 - 2021 budget and assessment held artificially flat during uncertainty of the pandemic
 - Total 2022 budget, assessment, and FTEs remain lower than pre-pandemic projections for 2022 in 2020 BP&B
 - Two-year average (for 2021 and 2022) budget and assessment increase is 3.2% and 4.5%, respectively

- Align and ERO Secure Evidence Locker (SEL)
 - Promotes effectiveness and efficiency by improving Compliance Monitoring and Enforcement Program (CMEP) consistency, quality, and data security
 - Significant savings over “avoided cost” to rebuild individual applications
- NERC investments for ERO Enterprise cyber and data security
 - ERO SEL
 - Dedicated resource to lead overall ERO Enterprise security strategy
 - ERO Enterprise IT security audit
- ERO Enterprise collaboration groups
 - Knowledge and best practice sharing
 - Identification of efficiency opportunities, e.g., training and joint purchasing

- Budget – \$88.0M (\$5.1M or 6.2% increase from 2021)
 - Increase primarily driven by personnel costs, consultants and contracts, and software licenses and support
 - Partially offset by CMEP maturation
- Assessment – \$78.4M (\$6.4M or 8.9% increase from 2021)
 - Excludes any use of reserves to offset assessments, subject to final Board of Trustees (Board) approval
- FTEs – 223.7 (net increase of 10.3 or 4.8% from 2021)
 - Support for key focus areas and strategies

- Draft 1 posted for stakeholder comment May 25–June 18
 - Budget \$88.7M (7.0% increase); Assessment \$79.1M (9.9% increase)
 - Six comment submissions received
 - Support for emphasis on addressing priority BPS reliability and security risks
 - Concerns with increases in light of perceived fiscal pressures facing industry
 - Requests for clarifications and recommendations for increasing efficiency
 - Response to comments posted on NERC website
- Draft 2 posted for stakeholder comment July 15–28
 - Budget \$88.0M (6.2% increase); Assessment \$78.4M (8.9% increase)
 - Refinement of costs and Washington, D.C. office rent reduced
 - No comments received
- No change to Final Draft from Draft 2, except for minor wording adjustments and inclusion of the most recent 2021 budget projections

- **Assessment – \$78.4M (\$6.4M or 8.9% increase from 2021)**
 - Excludes any use of reserves to offset assessments
 - Avoids rebound effect on 2023 assessments
 - Maintains adequate reserve levels to accommodate potential one-time costs for Atlanta office lease change decisions
 - Recognizes Regional Entity reserve draws benefit aggregate LSE assessments
 - Assumes no capital financing, other than IT equipment and A/V leases
 - Few “one-time” expenses
 - Avoids future year debt service
- **Assessments by country (based on 2020 NEL)**
 - US: \$70.7M (\$5.7M or 8.8% increase over 2021)
 - Canada: \$7.4M (\$606k or 8.9% increase over 2021)
 - Mexico: \$263k (\$36k or 15.7% increase over 2021)

- Total projected reserves at end of **2021** – \$11.1M
 - Operating Contingency Reserve (OCR) – \$6.3M
 - 8.6% of budget (slightly above target range)
 - Assessment Stabilization Reserve (ASR) – \$2.5M
 - Other reserves – \$2.3M
- Total projected reserves at end of **2022** – \$11.4M
 - OCR – \$6.3M
 - 8.0% of budget (slightly above target range)
 - ASR – \$2.5M
 - Other reserves – \$2.6M

- 2023 vs 2022
 - Budget increase of 5.1% (\$4.5M)
 - Assessment increase of 5.5% (\$4.3M)
 - FTE increase of 4.2% (9.4 FTEs)
- 2024 vs 2023
 - Budget increase of 5.1% (\$4.7M)
 - Assessment increase of 5.1% (\$4.2M)
 - FTE increase of 3.6% (8.5 FTEs)
- Preliminary projections by management do not reflect Board endorsement or approval
- Assessments do not yet factor in any potential use of reserves

- Continued resource additions and system enhancements to address priority BPS reliability and security risks
 - Resource needs under ongoing strategic review
 - System enhancements subject to scoping, requirements building, and business case development where applicable
- Salary and benefit increases consistent with historical precedent; prospective inflationary pressures not reflected
- Gradual increase in meetings and travel expenses, still below pre-COVID levels
- D.C. office savings continue
- No changed assumption for Atlanta office lease incorporated yet while options are explored



Questions and Answers

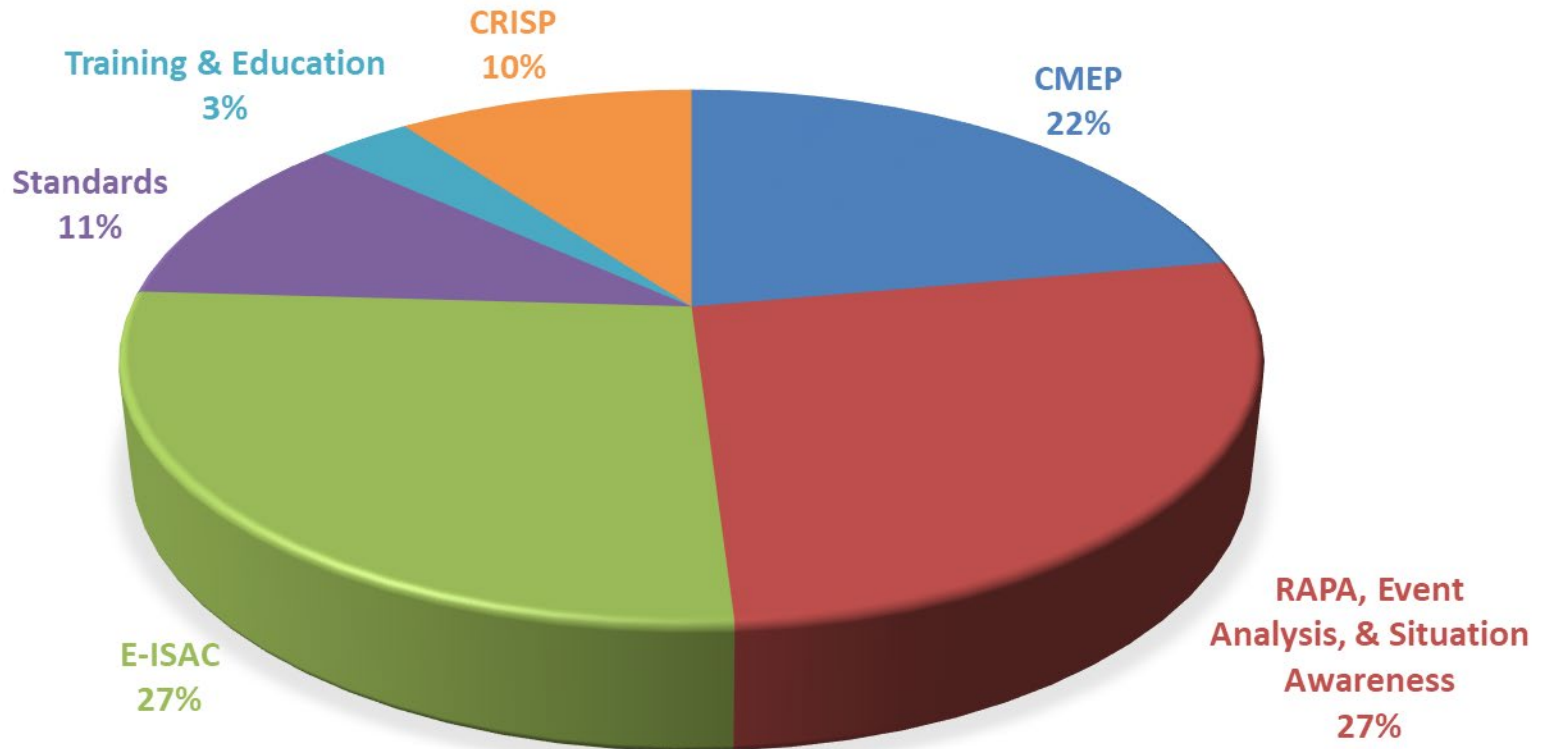
A stylized map of North America, including the United States, Canada, and Mexico. The map is rendered in shades of blue and grey. A horizontal band of a darker blue color runs across the middle of the map, partially obscuring it. The text 'Additional Information' is centered within this band.

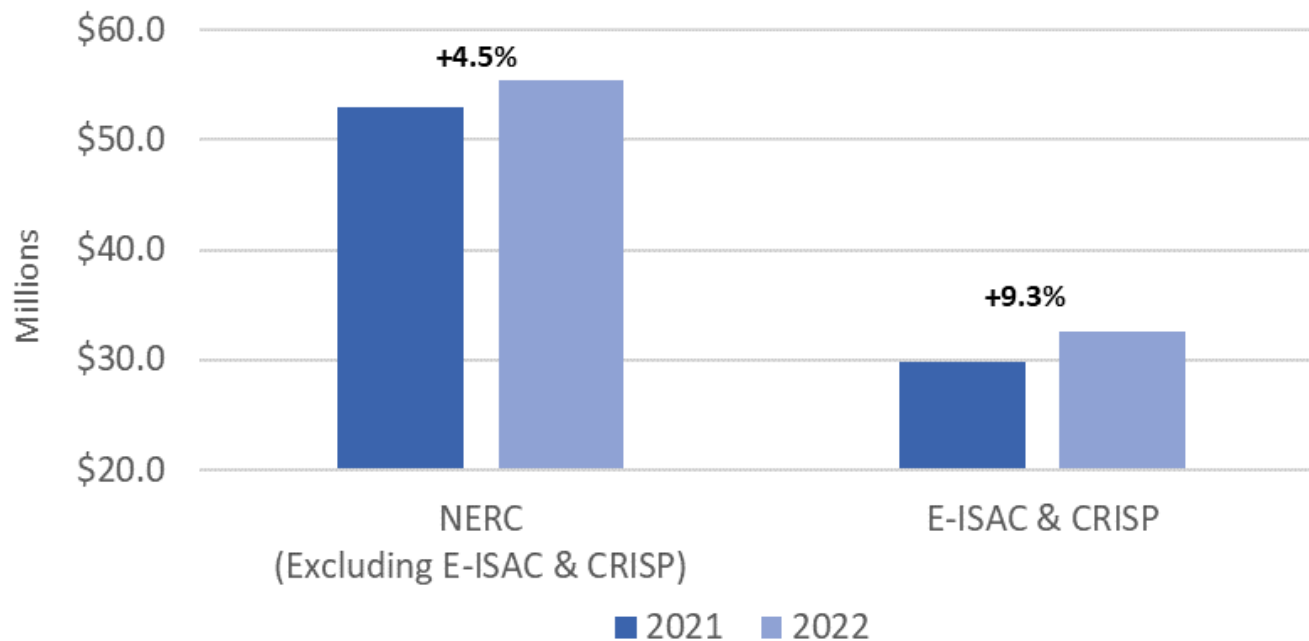
Additional Information

- Personnel \$52.0M (7.8% increase from 2021)
 - 3% salary increase (2.5% merit and 0.5% equity/market)
 - Medical insurance premium increase lower than previous years
 - Net increase of 10.3 FTEs (14 new positions, offset by 3 productivity gains)
 - Standards and analytics, E-ISAC & CRISP, IT security, and workforce strategy
- Meetings and travel \$2.6M (18.5% increase from 2021)
 - Assuming return to some in-person meetings and related travel
 - Continuing efficiencies gained from virtual meeting formats
- Operating Expenses \$30.3M (5.3% increase from 2021)
 - Return of consulting support deferred in 2021; increased audit support
 - Software licenses and support escalation and increased focus on security
 - D.C .office rent reduced, reflecting new lease assumptions
 - Assumes existing rent schedule for Atlanta office as options are explored

- Fixed Assets \$4.1M (49.7% increase from 2021)
 - \$2.0M for refresh of A/V lease, offset by lease proceeds (budget neutral)
 - Return to investment in data management tools
 - Planned IT equipment replacements
 - Excluding A/V lease purchase, fixed assets decreasing due to Align development completion
- Net Financing Activity (\$1.1M) (230.2% decrease from 2021)
 - Lease proceeds for laptops and A/V equipment
 - Lease principal payments for laptops and A/V equipment
 - Loan principal payments for ERO SEL

2022 Budget by Program Area





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ERO Enterprise Combined 2022 Budgets & Assessments

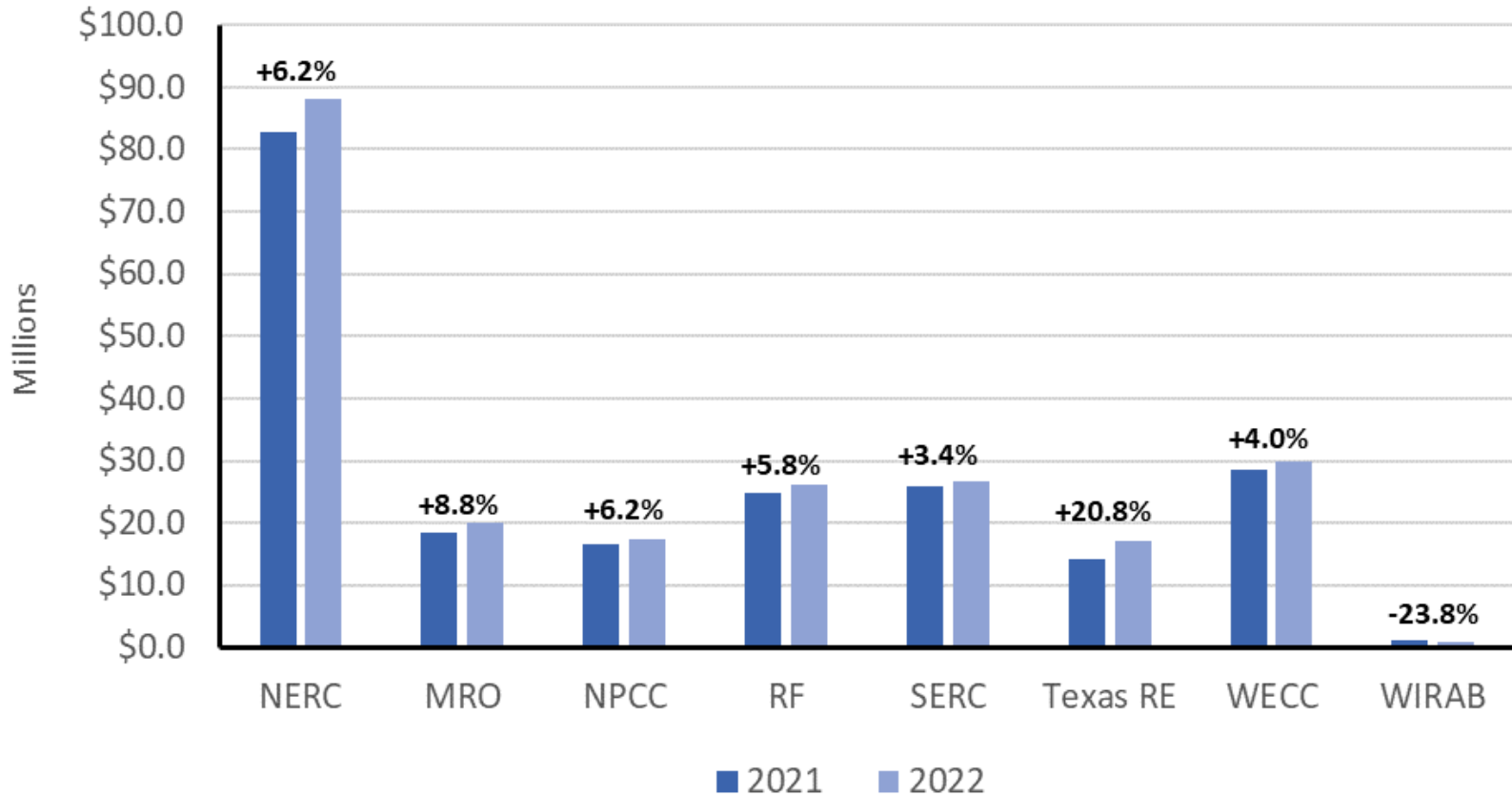
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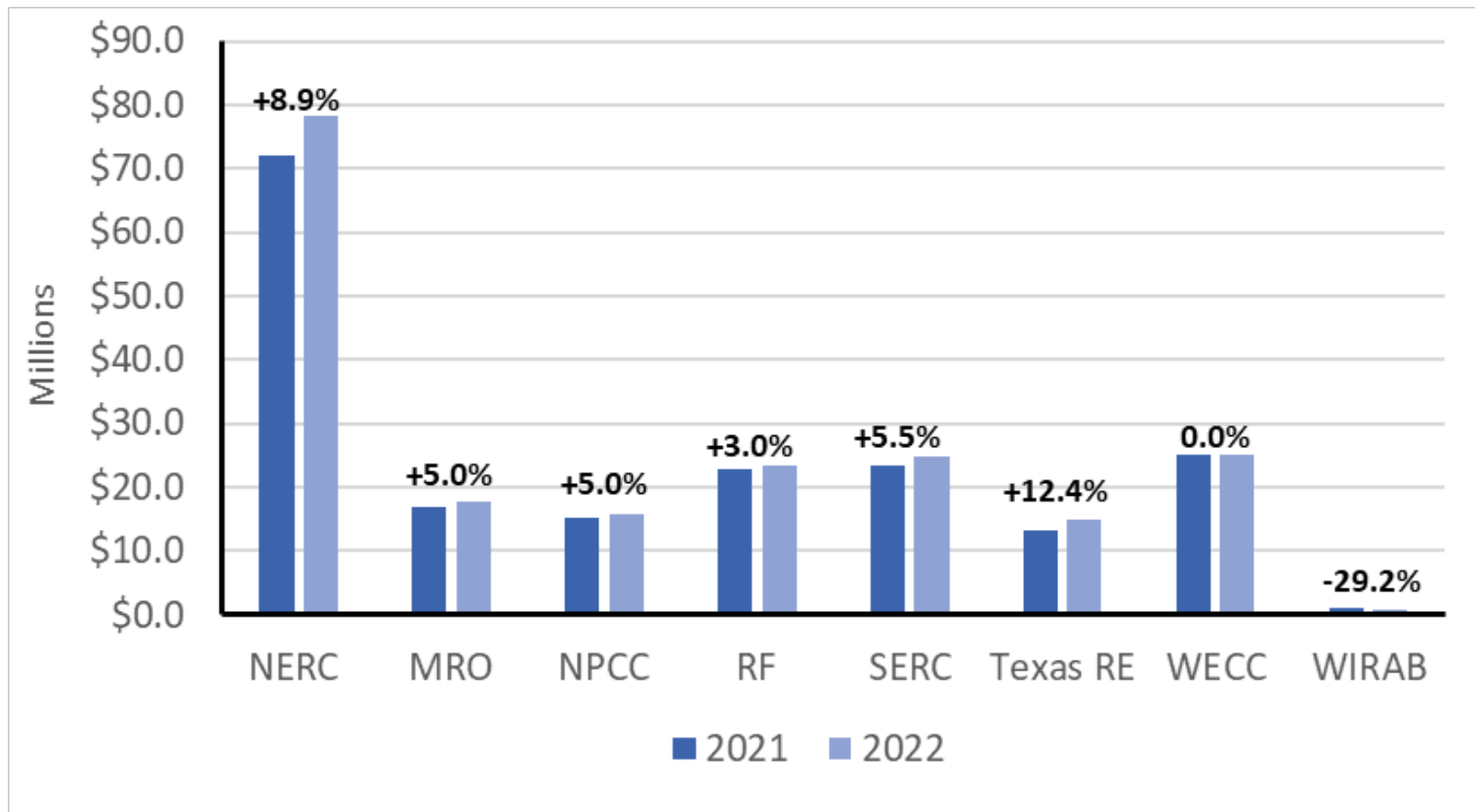
- Expand risk-based focus in Standards, Compliance Monitoring, and Enforcement
- Assess and catalyze steps to mitigate known and emerging risks to reliability and security
- Build a strong, E-ISAC-based security capability
- Strengthen engagement across the reliability and security ecosystem in North America
- Capture effectiveness, efficiency, and continuous improvement opportunities

- Total ERO Enterprise 2022 budget – \$226.3M (\$13.9M or 6.5% increase vs 2021)

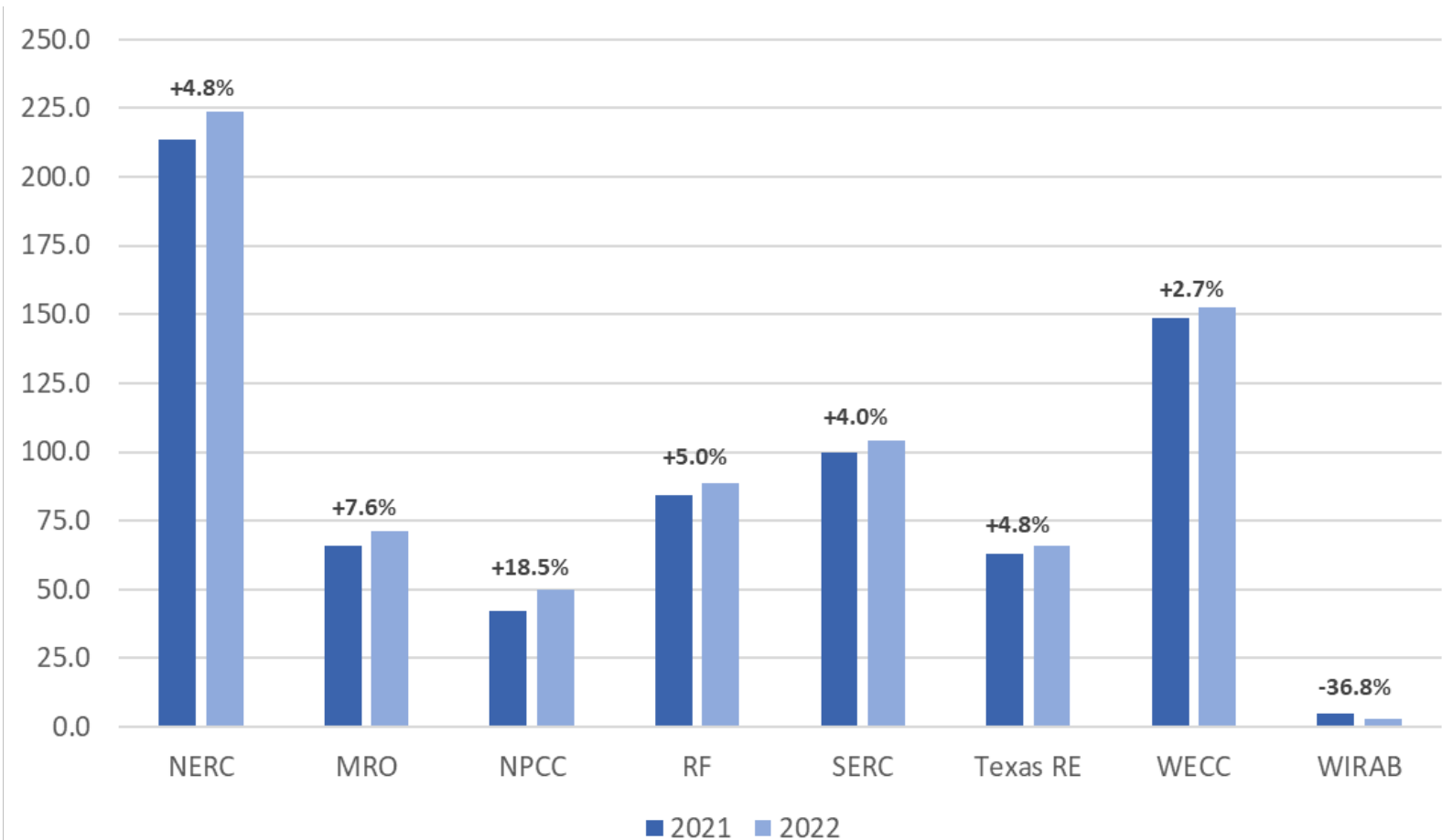


**"ERO Enterprise" includes WIRAB unless otherwise noted*

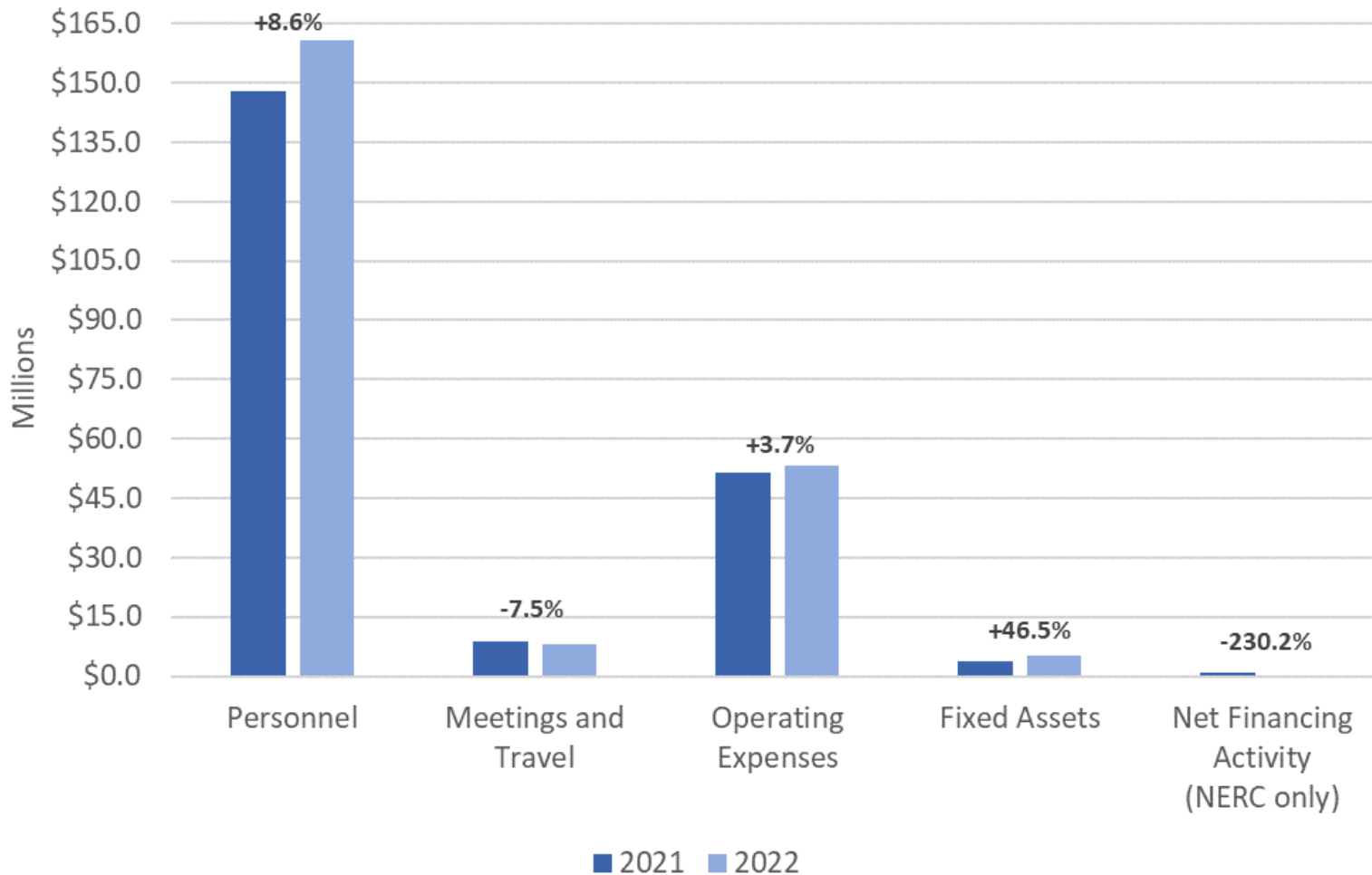
- Total ERO Enterprise 2022 assessment – \$201.1M (\$11.3M or 6.0% increase vs 2021)
- Approximately \$15M in penalties/reserves released to reduce assessments



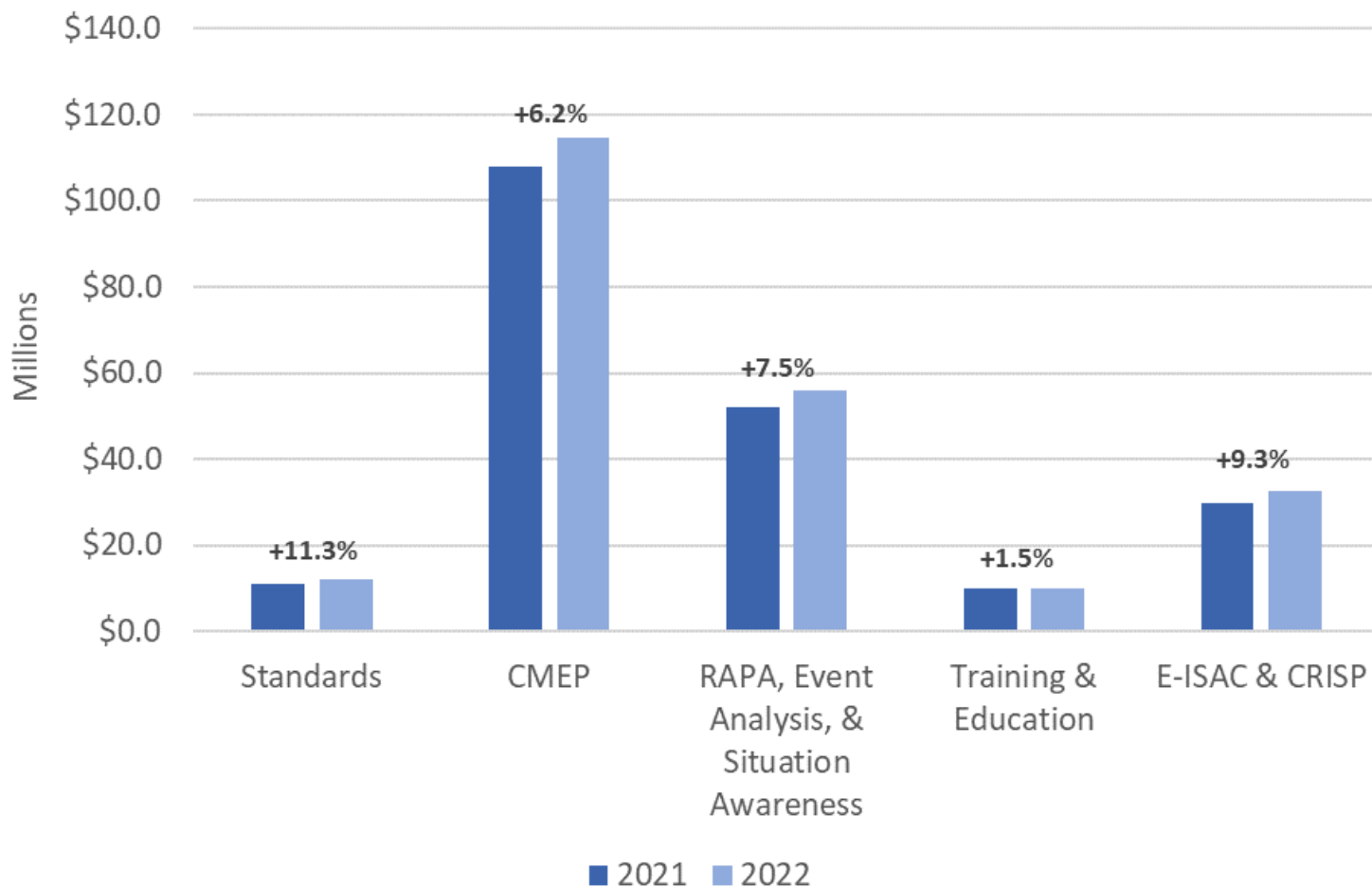
- Total 2022 budgeted FTEs – 722.1 (36.6 or 5.1% increase vs 2021)



ERO Enterprise 2022 v 2021 Budget by Expense Category

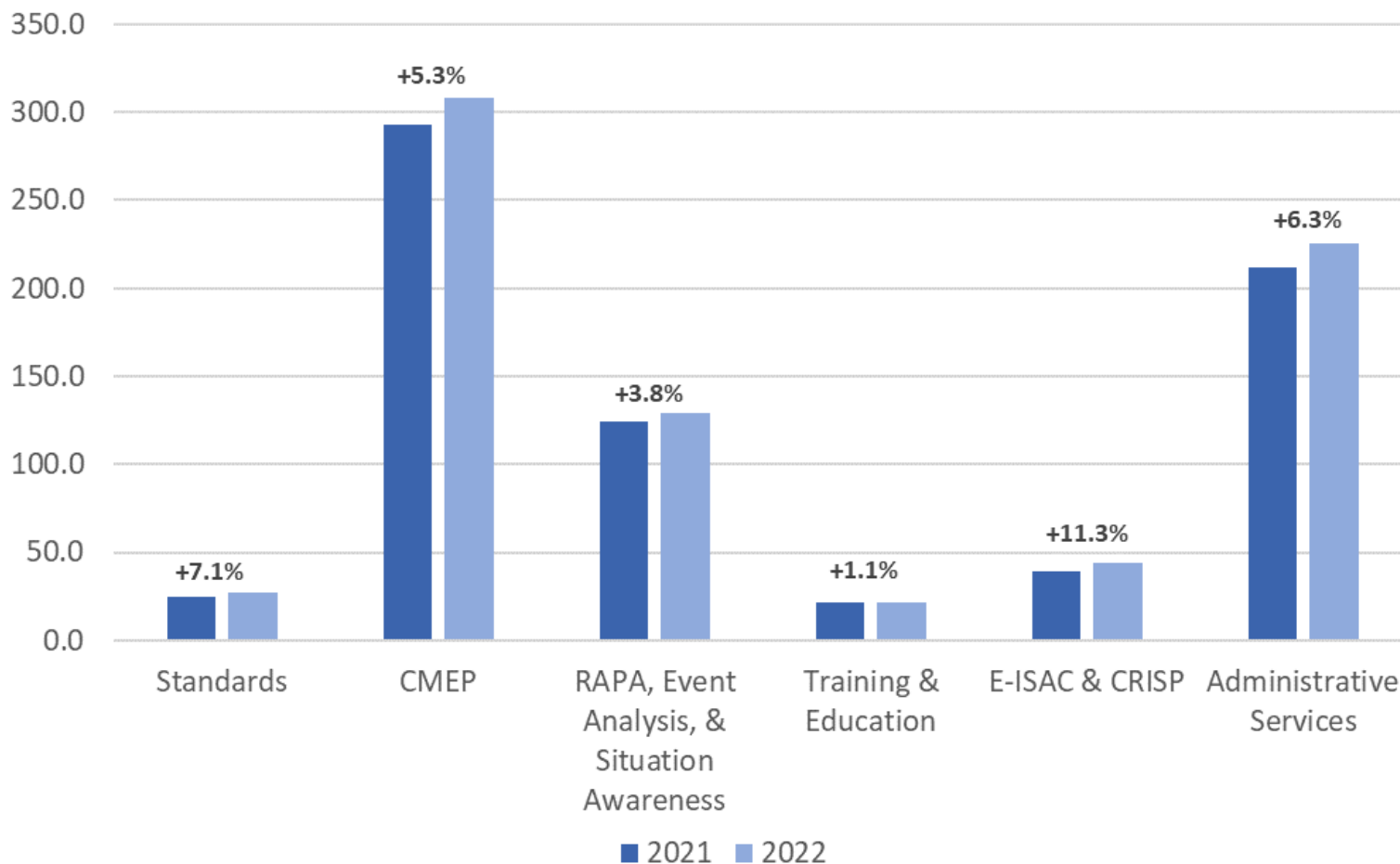


ERO Enterprise 2022 v 2021 Budget by Program Area

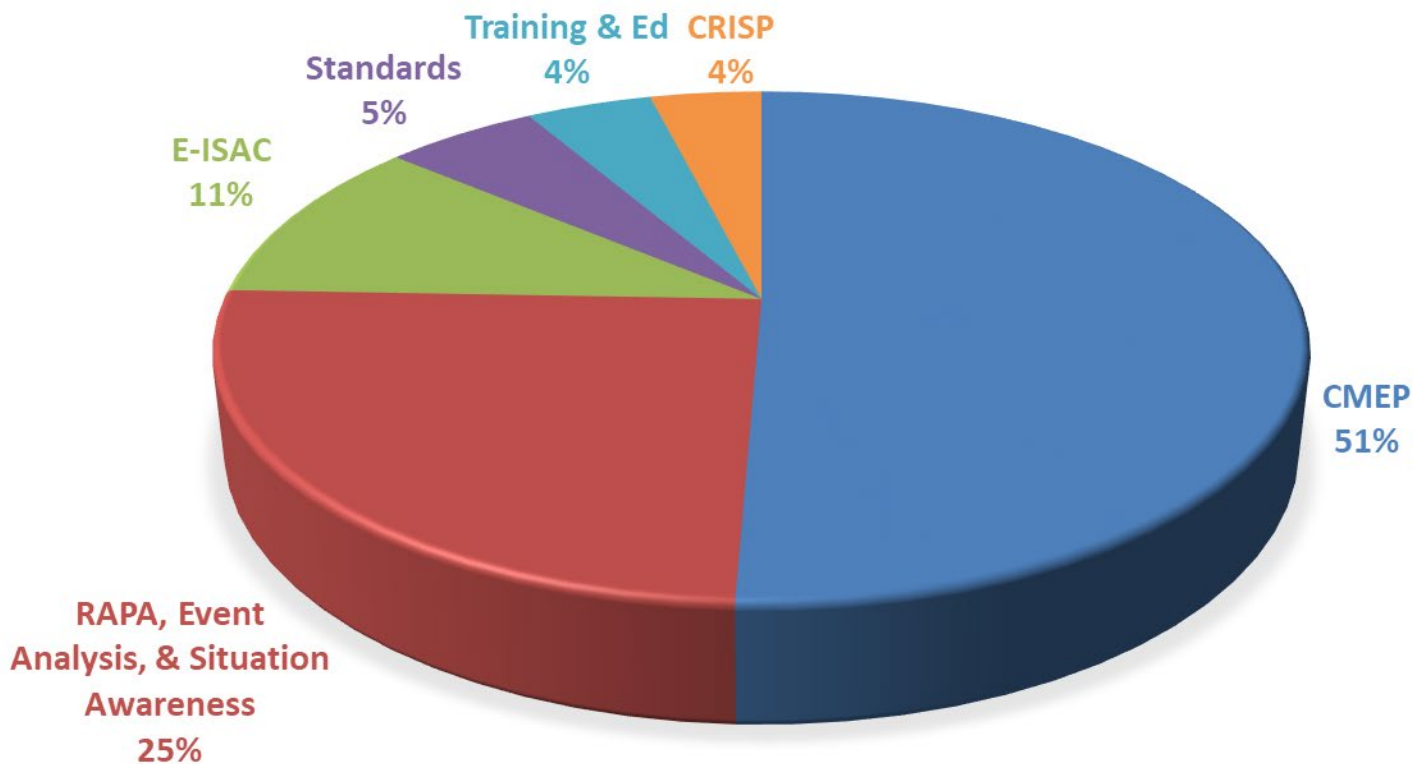


*Excludes WIRAB

ERO Enterprise 2022 v 2021 Budgeted FTEs by Program Area



*Excludes WIRAB



**Excludes WIRAB*



Questions and Answers