

Total ERO Enterprise 2019 Budgets and Assessments Analysis

The following includes an overview of the development of the proposed NERC, Regional Entity, and WIRAB 2019 Business Plan and Budgets (BP&Bs) and associated assessment schedule, as well as an analysis of the total ERO Enterprise 2019 budget and assessments¹.

NERC 2019 BP&B

The first draft of the NERC 2019 BP&B proposed a 9.5% budget increase and a 10.3% assessment increase over 2018. The focus areas included (1) heavy investment in the Electricity Information Sharing and Analysis Center (E-ISAC) in support of the implementation of the second year of the E-ISAC long-term strategy; (2) a sizeable investment in technology solutions, including the Compliance Monitoring and Enforcement Program (CMEP) Technology Project; and (3) efforts to keep costs low for remaining NERC operations, including the elimination of five open positions from non-ISAC areas.

The first draft was posted for stakeholder comment May 18–June 29, 2018, and NERC provided an overview during a webinar hosted by the NERC Board of Trustees Finance and Audit Committee (FAC) on May 30, 2018. Comments were received from various trade associations, which focused mostly on concerns over the trend of budget increases and requests for clarifications on investments in non-ISAC areas. These clarifications were addressed directly with trades representatives and in a [written response](#) that was posted on July 13, 2018.

The second draft of the BP&B was posted for comment July 13–July 31, 2018, and NERC provided an overview during the July 19, 2018 FAC webinar. Though the overall budget and assessment increase was unchanged, the second draft incorporated the proposed release of \$550k from the Assessment Stabilization Reserve (ASR) to result in a matching budget and assessment increase of 9.5%. Comments on the second draft were received from two entities; both sets of comments reasserted concerns and requested clarifications on increases in non-ISAC areas. These comments will be further addressed during the FAC meeting on August 15, 2018.

The final draft of the BP&B was posted on August 8, 2018 for FAC review and recommended approval during their August 15 meeting. There were no material changes from the second draft to the final.

¹ The ERO Enterprise consists of NERC and the Regional Entities. For the purpose of analysis of the total ERO Enterprise budget, WIRAB's budget is included.

Regional Entity and WIRAB 2019 BP&Bs

All Regional Entity and WIRAB budgets underwent a process for public input and were approved by each entity's Board. The Regional Entities also provided overviews of their budgets during the May 30 and July 19 FAC webinars noted above. NERC management reviewed each of these budgets and focused on the following areas:

- Adequacy of resources and activities to perform delegated functions
- Alignment of goals, objectives, and major activities to the [ERO Enterprise Operating Plan](#)
- Description of efforts to improve efficiency and control costs
- Quality and completeness of the financial information presented, including:
 - Conformance with FERC budget reporting requirements
 - Separation of statutory and non-statutory activities
 - Supporting detail for projections
 - Working capital and operating reserve budgets, projections, policies, and controls

No issues were noted that would prohibit NERC management from recommending the approval of each entity's budget. With the termination of SPP RE's Regional Delegation Agreement and the associated dissolution of the SPP RE function² by SPP, Inc., there will be no 2019 SPP RE budget, and increases will be seen in the MRO and SERC 2019 budgets due to the transfer of registered entities from the SPP RE footprint to these Regions.

2019 Assessment Schedule

The assessment schedule for all entities, including both NERC and Regional Entity assessments, is included with the August 15 FAC meeting agenda package for recommended approval and is posted on NERC's website.

² SPP RE ended all CMEP activities on June 29, 2018 and retained four employees for the transition period ending August 31, 2018.

Total ERO Enterprise 2019 Budget and Assessments

The proposed 2019 budget for the total ERO Enterprise, inclusive of expenses and fixed asset expenditures, is \$200.5M, which is an increase of \$2.8M (1.4%) over the 2018 budget. Budget increases for NPCC, RF, Texas RE, and WIRAB are driven primarily by increases in personnel expenses, including the addition of full time equivalents (FTEs) at NPCC and RF. The increases for MRO and SERC are also due to higher personnel expenses, as well as costs associated with their expanded footprints resulting from the SPP RE dissolution, including FTE increases. NERC’s 9.5% budget increase is due primarily to higher personnel expenses, investment in technology solutions, and a significant investment in the E-ISAC to support its long-term strategy, including the addition of FTEs.

Total Budget						
Entity	2018	% of Total ERO Budget	2019	% of Total ERO Budget	Change 2019 v 2018	% Change
NERC	\$ 73,135	37.0%	\$ 80,050	39.9%	\$ 6,914	9.5%
FRCC	7,514	3.8%	6,696	3.3%	-818	-10.9%
MRO	11,727	5.9%	15,980	8.0%	4,254	36.3%
NPCC	15,107	7.6%	15,805	7.9%	698	4.6%
RF	21,394	10.8%	22,648	11.3%	1,255	5.9%
SERC	17,183	8.7%	18,145	9.0%	962	5.6%
SPP RE	10,858	5.5%	0	0.0%	-10,858	-100.0%
Texas RE	12,657	6.4%	13,070	6.5%	413	3.3%
WECC	27,097	13.7%	26,951	13.4%	-147	-0.5%
WIRAB	1,068	0.5%	1,163	0.6%	95	8.9%
\$	197,740	100.0%	\$ 200,507	100.0%	\$ 2,767	1.4%

Total ERO Enterprise 2019 assessments (combined assessments for NERC and the Regional Entities) are increasing approximately \$4.1M (2.3%). The average change for LSEs in the United States, Canada, and Mexico is 2.4%, 1.5%, and -0.2%, respectively.

	Change in ERO Assessments by Region				Change in Regional Entity & WIRAB Assessments	Change in NERC Assessments
	TOTAL	US	Canada	Mexico	TOTAL	TOTAL
FRCC	\$ (491,530) (4.9%)	\$ (491,530)	\$ -	\$ -	\$ (832,593)	\$ 341,063
MRO	8,303,298 55.8%	8,444,641	(141,344)	-	4,741,563	3,561,735
NPCC	1,119,523 5.1%	741,711	377,812	-	661,624	457,900
RF	2,139,789 6.5%	2,139,789	-	-	1,108,124	1,031,665
SERC	1,854,805 5.8%	1,854,805	-	-	167,079	1,687,726
SPP RE	(12,985,288) (100.0%)	(12,985,288)	-	-	(9,727,265)	(3,258,023)
Texas RE	2,619,504 16.0%	2,619,504	-	-	1,976,014	643,490
WECC	1,520,446 4.1%	1,522,077	(505)	(1,126)	38,974	1,481,472
Total	\$ 4,080,547 2.3%	\$ 3,845,709 2.4%	\$ 235,964 1.5%	\$ (1,126) -0.2%	\$ (1,866,480) -1.6%	\$ 5,947,027 9.5%

As detailed in the following table, four factors impact the change in assessments: (1) the decrease in the amount of penalties that offset assessments results in an increase of \$4.7M; (2) the increase in the release of excess working capital and operating reserves decreases assessments \$3.2M; (3) the increase in other funding results in a decrease in assessments of \$97k; and (4) the increase in the total ERO Enterprise budget results in an increase of \$2.8M.

	Assessments by Entity		Factors Impacting the Change in Assessments			
	2018 Budget	2019 Budget	Dec(Inc) in Penalties	Dec(Inc) in Release of Excess Reserves ¹	Dec(Inc) in Other Funding ²	Budget Inc (Dec)
	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
NERC	\$ 62,937	\$ 68,884	\$ 50	\$ (765)	\$ (252)	6,914
FRCC	6,661	5,828	253	(267)	-	(818)
MRO	10,730	15,472	83	405	-	4,254
NPCC	14,342	15,003	75	(108)	(4)	698
RF	20,148	21,256	1,586	(1,732)	-	1,255
SERC	17,205	17,372	645	(1,541)	101	962
SPP RE	9,727	-	290	841	-	(10,858)
Texas RE	11,272	13,248	161	1,416	(13)	413
WECC	25,282	25,282	1,512	(1,436)	71	(147)
WIRAB	711	750	-	(56)	0	95
	\$ 179,014	\$ 183,095	4,654	(3,244)	\$ (97)	2,767

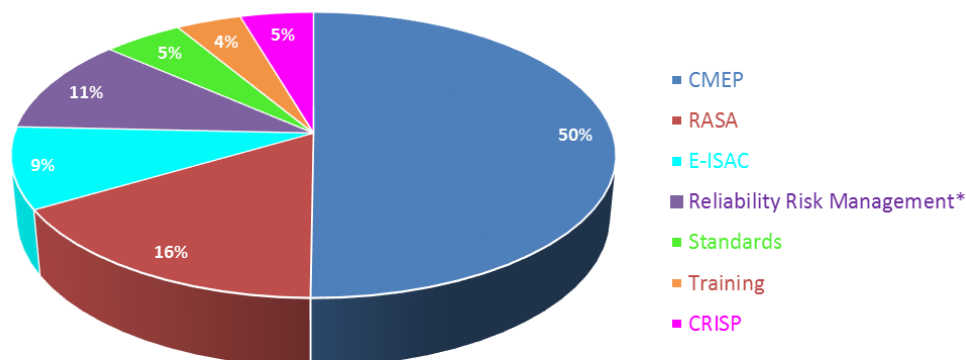
¹For NERC, this includes proceeds from capital financing activities

²For NERC, includes third-party funding for CRISP and system operator testing fees

Total ERO Enterprise 2019 Budget by Program

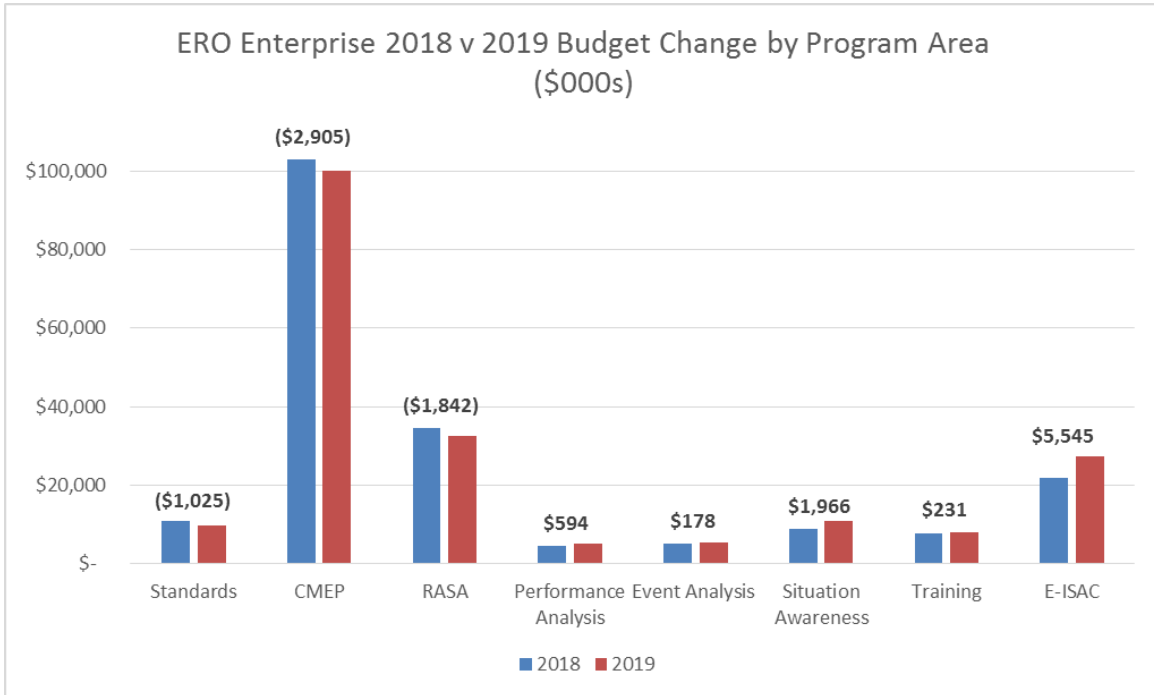
The total 2019 budget for the ERO Enterprise, exclusive of WIRAB, is \$199.3M, which is an increase of \$2.7M (1.4%) and reflects the ERO Enterprise's allocation of resources and focus on the goals and activities in the *ERO Enterprise Operating Plan*. The following figures and comments do not include WIRAB because of the unique nature of their oversight and advisory role in the WECC Region.

ERO Enterprise 2019 Budget By Program Area

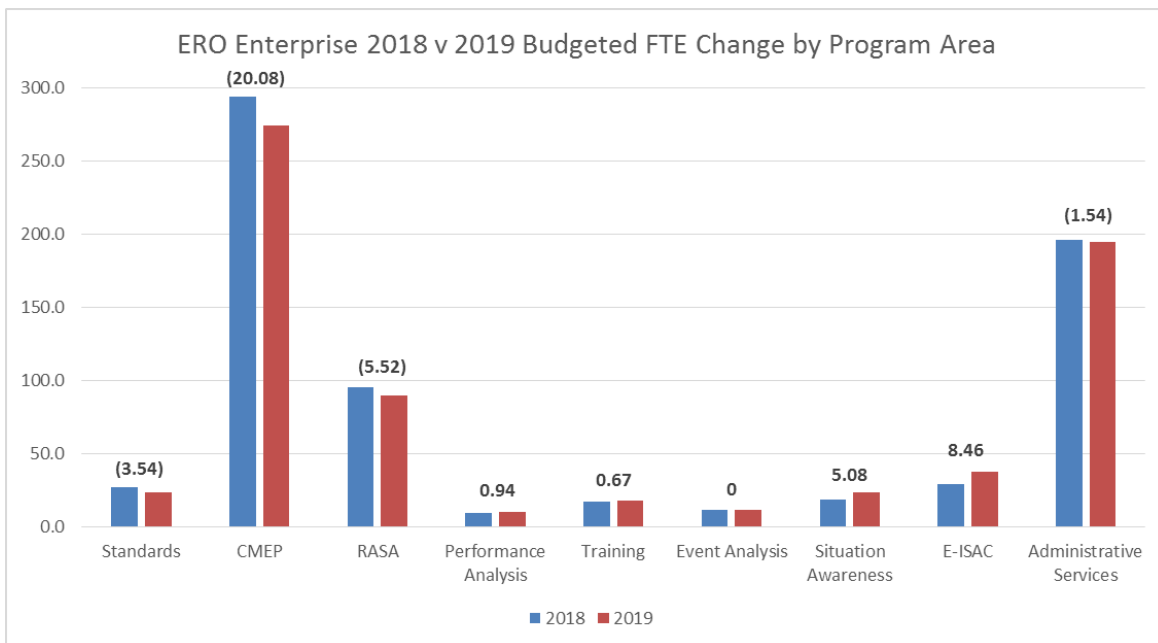


*For NERC Includes Performance Analysis, Event Analysis and Situation Awareness
For Regions includes Situation Awareness

The following figure shows the increase/(decrease) from 2018 to 2019 for the ERO Enterprise budget by each statutory program area, inclusive of direct and indirect expenses and the fixed asset expenditures.



The figure below shows the increase/(decrease) in the number of FTEs by statutory program area, as well as administrative services.



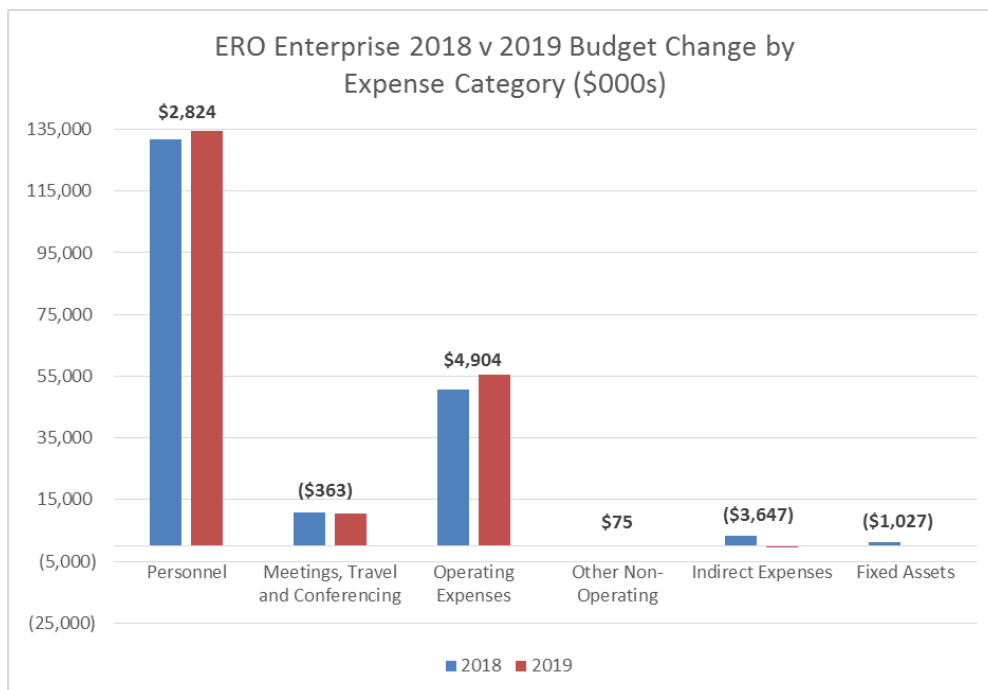
The major budget variances from 2018 to 2019 are in the following program areas: Standards, CMEP, Reliability Assessment and System Analysis (RASA)³, Situation Awareness, and E-ISAC.

The decreases in Standards, CMEP, and RASA are primarily due to a reduction in FTEs and associated indirect expenses resulting from a combination of (1) the net FTE impact of the dissolution of SPP RE and resulting increased footprints for MRO and SERC; (2) a change in FRCC’s method to capture attrition assumptions; (3) a reduction of open positions in Compliance Assurance at NERC; and (4) increased efficiencies in connection with the decrease in outstanding directives for Reliability Standards and maturation of the standards development process.

The increase in Situation Awareness, which also includes Infrastructure Security at the Regional Entities, is due to (1) RF’s reallocation of certain functions and resources to this area; (2) MRO’s increased focus on non-CMEP activities supporting Infrastructure Security; and (3) NERC’s planned upgrade to the situation awareness tool shared by NERC, FERC, and the Regional Entities. The increase to the E-ISAC budget is due to the aggressive implementation of the E-ISAC long-term strategy, which includes a significant increase in FTEs and associated indirect expenses, and support for enhancements to E-ISAC tools and operations.

Total ERO Enterprise 2019 Budget by Expense Category

The following figure shows the increase/(decrease) from 2018 to 2019 for the ERO Enterprise budget by expense category, inclusive of NERC, the Regional Entities, and WIRAB.



³ In 2016, NERC divided the Reliability Assessment and Performance Analysis (RAPA) program into two areas: RASA and Performance Analysis. Several years ago, NERC also separated the Event Analysis function. The Regional Entities, except for NPCC and RF, combine costs related to regional-specific reliability assessment work, costs to support NERC’s RASA program, and costs related to Event Analysis in their RAPA programs. NPCC and RF include costs related to Event Analysis in their Situation Awareness program. In the tables above, the Regional Entity budgets for RAPA are reflected under RASA.

The major budget variances from 2018 to 2019 are in the following expense categories: personnel, operating expenses, indirect expenses, and fixed asset expenditures.

Total 2019 personnel expenses for the ERO Enterprise are increasing over 2018 due to average increases of 3% in salaries expense for existing staff and projected market increases in the cost of employee benefit plans. Operating expenses are increasing primarily due to NERC’s investment in ERO Enterprise-wide technology solutions for CMEP, Entity Registration, Reliability Standards, and Situation Awareness, as well as support for implementation of the second year of the E-ISAC long-term strategy.

The decrease in indirect expenses is due to removal of the budgeted indirect expenses for SPP RE, which received an allocation of overhead from SPP, Inc.

As reflected in the figure above, the ERO Enterprise total fixed asset (capital) budget, including the reversal of depreciation, is decreasing \$1.0M. As shown in the following figure, the fixed asset budget for the total ERO Enterprise, excluding the reversal of depreciation⁴, is increasing \$787k (15.6%). This increase is driven primarily by NERC’s ERO Enterprise software project spending and leasehold improvements for the E-ISAC.

Increase(Decrease) in Fixed Assets - excluding Depreciation				
Entity	2019 Budget	2018 Budget	Change	% Change
NERC	\$ 4,778,000	\$3,874,000	\$ 904,000	23.3%
FRCC	67,393	127,337	(59,944)	-47.1%
MRO	245,000	286,170	(41,170)	-14.4%
NPCC	170,000	115,000	55,000	47.8%
RF	203,000	207,500	(4,500)	-2.2%
SERC	220,000	345,000	(125,000)	-36.2%
SPP RE	-	-	-	
TRE	30,000	30,000	-	0.0%
WECC	128,065	69,301	58,764	84.8%
WIRAB	-	-	-	
	\$ 5,841,458	\$5,054,308	\$ 787,150	15.6%

⁴ Depreciation is reversed from fixed assets to eliminate the funding requirement that would otherwise be created due to the inclusion of depreciation expense in operating expenses.

Total ERO Enterprise 2019 Working Capital and Operating Reserves

The 2019 ending Working Capital and Operating Reserve budget for the total ERO Enterprise is \$27.1M, based upon a projected beginning balance of \$31.6M and the planned reduction of \$4.5M. The projected beginning balance for 2019 is currently \$2.1M less than the projected 2018 year-end balances included in the 2018 second quarter combined ERO Enterprise variance report.

Working Capital and Operating Reserves - 2019 Business Plan and Budget					
Entity	Projected 2019 Beginning Balance	2019 Adjustment	Projected 2019 Ending Balance	Stated Policy	
NERC	\$ 8,953,020	\$ (381,783)	\$ 8,571,237	As detailed in Exhibit D of NERC's 2019 Budget	
FRCC	1,629,719	(575,385)	\$ 1,054,334	One (1) month of the total annual budget	
MRO	1,762,886	(449,432)	\$ 1,313,454	30-day cash reserve	
NPCC	4,453,571	(732,980)	\$ 3,720,591	Range of 8.33% to 25.00% of Budget	
RF	4,318,238	(1,173,486)	\$ 3,144,752	10% or a minimum \$1M in operating reserves, plus additional working capital to manage cash flow and stabilize assessments	
SERC	2,328,184	(528,184)	\$ 1,800,000	Up to 10% of budgeted annual costs	
Texas RE	1,314,649	307,850	\$ 1,622,499	Operating reserve of approximately \$2M, or as adjusted by the Board	
WECC	5,838,401	(536,380)	\$ 5,302,021	Working Capital Reserve balance equal to one to three months of Personnel, Meeting and Operating Expenses. Additional reserves for assessment stabilization	
WIRAB	1,012,100	(412,100)	\$ 600,000	Starting in 2021, maintain a reserve equal to 20% of budgeted expenses. Working capital reserves in 2019 and 2020 are intended to stabilize assessments during the transition.	
	\$ 31,610,768	\$ (4,481,880)	\$ 27,128,888		

Funds in excess of projected starting working capital and operating reserve balances will be subject to applicable NERC and Regional Entity controls over the expenditure of such funds and will be taken into account in developing 2020 funding requirements.

Consolidated ERO
Statement of Activities, Fixed Assets and Change in Working Capital
2019 Budget v 2018 Budget

	2019 Budget	2018 Budget	\$ Change	% Change
Funding				
ERO Funding				
ERO Assessments	\$ 183,095,046	\$ 179,014,498	\$ 4,080,549	
Penalty Sanctions	1,721,603	6,376,000	(4,654,397)	
Total ERO Funding	\$ 184,816,649	\$ 185,390,498	\$ (573,849)	-0.3%
Third Party Funding	\$ 7,486,353	\$ 7,324,253	162,101	
Testing Fees	1,790,000	1,790,000	-	
Services & Software	40,000	50,000	(10,000)	
Workshops	905,050	1,057,075	(152,025)	
Interest	371,600	223,650	147,950	
Miscellaneous	34,500	86,000	(51,500)	
Total Funding (A)	\$ 195,444,153	\$ 195,921,476	\$ (477,323)	-0.2%
Expenses				
Personnel Expenses				
Salaries	\$ 100,797,893	\$ 99,418,702	\$ 1,379,192	
Payroll Taxes	6,353,410	6,392,761	(39,350)	
Benefits	14,903,733	13,914,648	989,084	
Retirement Costs	12,376,045	11,880,852	495,193	
Total Personnel Expenses	\$ 134,431,081	\$ 131,606,963	\$ 2,824,119	2.1%
Meeting Expenses				
Meetings	\$ 3,004,379	\$ 3,114,913	\$ (110,534)	
Travel	7,267,636	7,499,442	(231,806)	
Conference Calls	350,219	370,664	(20,445)	
Total Meeting Expenses	\$ 10,622,234	\$ 10,985,019	\$ (362,785)	-3.3%
Operating Expenses				
Consultants & Contracts	\$ 23,341,553	\$ 22,412,100	\$ 929,453	
Office Rent	8,451,584	8,044,183	407,401	
Office Costs	11,743,004	10,294,211	1,448,793	
Professional Services	6,188,513	5,928,017	260,496	
Miscellaneous	179,886	135,746	44,140	
Depreciation	5,581,167	3,767,189	1,813,979	
Total Operating Expenses	\$ 55,485,708	\$ 50,581,445	\$ 4,904,263	9.7%
Total Direct Expenses	\$ 200,539,023	\$ 193,173,426	\$ 7,365,597	3.8%
Indirect Expenses	\$ (506,527)	\$ 3,140,821	\$ (3,647,348)	-116.1%
Other Non-Operating Expenses	\$ 214,171	\$ 138,878	\$ 75,293	54.2%
Total Expenses (B)	\$ 200,246,667	\$ 196,453,125	\$ 3,793,542	1.9%
Change in Assets	\$ (4,802,514)	\$ (531,650)	\$ (4,214,874)	792.8%
Fixed Assets				
Depreciation	(5,581,167)	(3,767,189)	(1,813,979)	
Computer & Software CapEx	4,405,393	3,710,007	695,386	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	995,000	1,187,000	(192,000)	
Leasehold Improvements	435,000	150,000	285,000	
Allocation of Fixed Assets	6,065	7,301	(1,236)	
Inc(Dec) in Fixed Assets (C)	\$ 260,291	\$ 1,287,119	\$ (1,026,829)	-79.8%
TOTAL BUDGET (=B + C)	\$ 200,506,958	\$ 197,740,245	\$ 2,766,713	1.4%
CHANGE IN WORKING CAPITAL (=A-B-C)	\$ (5,062,805)	\$ (1,818,769)	\$ (3,244,036)	178.4%
FTEs	687.7	703.8	(16.0)	-2.3%

Total ERO Enterprise 2020 and 2021 Preliminary Projections

The 2020 budget for the total ERO Enterprise is projected to increase approximately \$6.7M (3.3%) over the 2019 budget. NERC and the Regional Entities are projecting the 2021 total budget to increase approximately \$6.0M (2.9%) over the 2020 budget. Total FTEs are projected to increase in 2020 by 6.58 (1.0%) over 2019 and by 10.46 (1.5%) in 2021 over 2020. For NERC, the increases in FTEs are primarily related to the E-ISAC long-term strategy. NERC and Regional Entity management will continue to review and refine these projections as part of the 2020 business plan and budget cycle with the continued objective of maximizing the efficiency and effectiveness of overall enterprise operations and mitigating significant budget increases where possible.

Total Budget								
Entity	2019 Budget	2020 Projection	Change 2020 v 2019	% Change	2021 Projection	Change 2021 v 2020	% Change	
NERC	\$ 80,050	\$ 82,590	\$ 2,540	3.2%	\$ 85,515	\$ 2,926	3.5%	
FRCC	6,696	6,559	(137)	-2.0%	6,397	(162)	-2.5%	
MRO	15,980	16,460	479	3.0%	16,954	494	3.0%	
NPCC	15,805	16,116	311	2.0%	16,462	346	2.1%	
RF	22,648	23,916	1,268	5.6%	25,002	1,085	4.5%	
SERC	18,145	18,946	801	4.4%	19,531	585	3.1%	
Texas RE	13,070	13,592	523	4.0%	14,136	544	4.0%	
WECC	26,951	27,849	898	3.3%	28,033	184	0.7%	
WIRAB	1,163	1,195	32	2.7%	1,228	33	2.8%	
	\$ 200,507	\$ 207,223	\$ 6,716	3.3%	\$ 213,258	\$ 6,035	2.9%	

Total FTEs								
Entity	2019	2020	Change 2020 v 2019	% Change	2021	Change 2021 v 2020	% Change	
NERC	204.92	211.50	6.58	3.2%	219.96	8.46	4.0%	
FRCC	20.75	20.75	-	0.0%	20.75	-	0.0%	
MRO	59.00	59.00	-	0.0%	59.00	-	0.0%	
NPCC	38.86	38.86	-	0.0%	38.86	-	0.0%	
RF	78.20	78.20	-	0.0%	80.20	2.00	2.6%	
SERC	78.00	78.00	-	0.0%	78.00	-	0.0%	
TRE	60.00	60.00	-	0.0%	60.00	-	0.0%	
WECC	143.00	143.00	-	0.0%	143.00	-	0.0%	
WIRAB	5.00	5.00	-	0.0%	5.00	-	0.0%	
	687.73	694.31	6.58	1.0%	704.77	10.46	1.5%	