

# Agenda

## Finance and Audit Committee

August 19, 2020 | 2:30-3:30 p.m. Eastern

**Attendee Webex:** [Join Meeting](#)

**Call to Order**

**Introductions and Chair's Remarks**

**NERC Antitrust Compliance Guidelines**

### Agenda

- 1. Minutes\* – Approve**
  - a. July 23, 2020 Meeting
  - b. June 4, 2020 Meeting
  - c. May 13, 2020 Meeting
- 2. Third Quarter Calendar of FAC Responsibilities**
  - a. Second Quarter Statement of Activities\* – **Review and Recommend to Board of Trustees for Acceptance**
    - i. NERC Summary of Results as of June 30, 2020
    - ii. Total ERO Enterprise Summary of Results as of June 30, 2020
    - iii. Regional Entity Variance Reports as of June 30, 2020
  - b. NERC and Regional Entity Proposed 2021 Business Plans and Budgets and Associated Assessments\* – **Review and Recommend to Board of Trustees for Approval**
    - i. [NERC 2021 Business Plan and Budget](#)
    - ii. Combined ERO Enterprise 2021 Business Plans and Budgets
    - iii. [Regional Entity and WIRAB 2021 Business Plans and Budgets](#)
    - iv. [2021 Assessment Schedule](#)
- 3. Annual Renewal of Unsecured Line of Credit\* – Review and Recommend to Board of Trustees for Approval**
- 4. Other Business**
- 5. Adjournment**

\*Background materials included.

# Antitrust Compliance Guidelines

## I. General

It is NERC's policy and practice to obey the antitrust laws and to avoid all conduct that unreasonably restrains competition. This policy requires the avoidance of any conduct that violates, or that might appear to violate, the antitrust laws. Among other things, the antitrust laws forbid any agreement between or among competitors regarding prices, availability of service, product design, terms of sale, division of markets, allocation of customers or any other activity that unreasonably restrains competition.

It is the responsibility of every NERC participant and employee who may in any way affect NERC's compliance with the antitrust laws to carry out this commitment.

Antitrust laws are complex and subject to court interpretation that can vary over time and from one court to another. The purpose of these guidelines is to alert NERC participants and employees to potential antitrust problems and to set forth policies to be followed with respect to activities that may involve antitrust considerations. In some instances, the NERC policy contained in these guidelines is stricter than the applicable antitrust laws. Any NERC participant or employee who is uncertain about the legal ramifications of a particular course of conduct or who has doubts or concerns about whether NERC's antitrust compliance policy is implicated in any situation should consult NERC's General Counsel immediately.

## II. Prohibited Activities

Participants in NERC activities (including those of its committees and subgroups) should refrain from the following when acting in their capacity as participants in NERC activities (e.g., at NERC meetings, conference calls and in informal discussions):

- Discussions involving pricing information, especially margin (profit) and internal cost information and participants' expectations as to their future prices or internal costs.
- Discussions of a participant's marketing strategies.
- Discussions regarding how customers and geographical areas are to be divided among competitors.
- Discussions concerning the exclusion of competitors from markets.
- Discussions concerning boycotting or group refusals to deal with competitors, vendors or suppliers.

- Any other matters that do not clearly fall within these guidelines should be reviewed with NERC's General Counsel before being discussed.

### **III. Activities That Are Permitted**

From time to time decisions or actions of NERC (including those of its committees and subgroups) may have a negative impact on particular entities and thus in that sense adversely impact competition. Decisions and actions by NERC (including its committees and subgroups) should only be undertaken for the purpose of promoting and maintaining the reliability and adequacy of the bulk power system. If you do not have a legitimate purpose consistent with this objective for discussing a matter, please refrain from discussing the matter during NERC meetings and in other NERC-related communications.

You should also ensure that NERC procedures, including those set forth in NERC's Certificate of Incorporation, Bylaws, and Rules of Procedure are followed in conducting NERC business.

In addition, all discussions in NERC meetings and other NERC-related communications should be within the scope of the mandate for or assignment to the particular NERC committee or subgroup, as well as within the scope of the published agenda for the meeting.

No decisions should be made nor any actions taken in NERC activities for the purpose of giving an industry participant or group of participants a competitive advantage over other participants. In particular, decisions with respect to setting, revising, or assessing compliance with NERC reliability standards should not be influenced by anti-competitive motivations.

Subject to the foregoing restrictions, participants in NERC activities may discuss:

- Reliability matters relating to the bulk power system, including operation and planning matters such as establishing or revising reliability standards, special operating procedures, operating transfer capabilities, and plans for new facilities.
- Matters relating to the impact of reliability standards for the bulk power system on electricity markets, and the impact of electricity market operations on the reliability of the bulk power system.
- Proposed filings or other communications with state or federal regulatory authorities or other governmental entities.
- Matters relating to the internal governance, management and operation of NERC, such as nominations for vacant committee positions, budgeting and assessments, and employment matters; and procedural matters such as planning and scheduling meetings.

**DRAFT Minutes****Finance and Audit Committee  
Informational Session and Webinar**

July 23, 2020 | 1:00 - 3:00 p.m. Eastern

## Conference Call

**Introduction**

Mr. Roy Thilly, acting as Committee Chair, called to order a duly noticed informational session of the Finance and Audit Committee (the “Committee”) of the Board of Trustees (“Board”) of the North American Electric Reliability Corporation (“NERC” or the “Company”) on July 23, 2020, at approximately 1:00 p.m. Eastern, and a quorum was declared present. The agenda is attached as **Exhibit A**.

Present at the meeting were:

**Committee Members**

Robert G. Clarke, Chair<sup>1</sup>  
Suzanne Keenan  
Robin E. Manning  
Jim Piro  
Roy Thilly, *ex officio*

**Board of Trustees Members**

Kenneth W. DeFontes  
George S. Hawkins  
James B. Robb, President and Chief Executive Officer  
Jan Schori  
Colleen Sidford

**NERC Staff**

Tina Buzzard, Assistant Corporate Secretary  
Manny Cancel, Senior Vice President and Chief Executive Officer of the E-ISAC  
Kelly Hanson, Senior Vice President and Chief Administrative Officer  
Stan Hoptroff, Vice President, Business Technology  
Mark Lauby, Senior Vice President and Chief Engineer  
Sônia Mendonça, Senior Vice President, General Counsel, and Corporate Secretary  
Janet Sena, Senior Vice President, External Affairs  
Andy Sharp, Vice President and Chief Financial Officer

**Regional Representatives**

Carol Baskey, ReliabilityFirst  
Lisa Brohaugh, Western Interconnection Regional Advisory Body  
Lam Chung, Midwest Reliability Organization  
Judy Foppiano, Texas Reliability Entity, Inc.

<sup>1</sup> Mr. Clarke joined the meeting at approximately 1:45 p.m. due to technical difficulties. Mr. Thilly, acting as Committee Chair, called the meeting to order in Mr. Clarke’s absence.

Jessica Hala, Northeast Power Coordinating Council, Inc.  
George Krogstie, SERC Reliability Corporation  
Jillian Lessner, Western Electricity Coordinating Council

### **NERC Antitrust Compliance Guidelines**

Ms. Buzzard directed the participants' attention to the NERC Antitrust Compliance Guidelines included in the agenda, and indicated that all questions regarding antitrust compliance or related matters should be directed to Ms. Mendonça.

### **Chair's Remarks**

Mr. Thilly noted that he was performing the role of Acting Chair, as Mr. Clarke encountered technical difficulties joining the meeting.

### **2021 NERC Business Plan and Budget Overview**

Mr. Sharp presented an overview of the second draft of the 2021 Business Plan and Budget (BP&B), referencing the materials in the advance agenda package. He summarized industry's comments on the first draft of the BP&B, noting that responses to the comments are posted on NERC's website. Mr. Sharp noted that the second draft of the BP&B was consistent with the first draft, and that there were some cost adjustments within and among departments. He summarized the budget, including assessment increases, key assumptions, and future year projections.

### **Regional Entities' and WIRAB 2021 Draft Business Plans and Budgets**

The Regional Entities' and WIRAB's representatives provided an overview of their final 2021 business plans and budgets, referencing materials included in the advance agenda package.

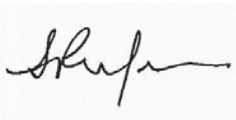
### **2021 ERO Enterprise Combined Budgets and Assessments Overview**

Mr. Sharp reviewed the combined ERO Enterprise budgets and assessments, referencing the material included in the advance agenda package, including the overall budget by program area and 2021 preliminary assessments by region.

### **Adjournment**

There being no further business, and upon motion duly made and seconded, the meeting was adjourned.

Submitted by,



Sônia Mendonça  
Corporate Secretary

**DRAFT Minutes****Finance and Audit Committee  
Informational Session and Webinar**

June 4, 2020 | 1:00 - 3:00 p.m. Eastern

## Conference Call

**Introduction**

Mr. Robert G. Clarke, Chair, called to order a duly noticed informational session of the Finance and Audit Committee (the “Committee”) of the Board of Trustees (“Board”) of the North American Electric Reliability Corporation (“NERC” or the “Company”) on June 4, 2020, at approximately 1:00 p.m. Eastern, and a quorum was declared present. The agenda is attached as **Exhibit A**.

Present at the meeting were:

**Committee Members**

Robert G. Clarke, Chair  
Suzanne Keenan  
Robin E. Manning  
Jim Piro  
Roy Thilly, *ex officio*

**Board of Trustee Members**

Kenneth W. DeFontes  
George S. Hawkins  
James B. Robb, President and Chief Executive Officer  
Jan Schori  
Colleen Sidford

**NERC Staff**

Tina Buzzard, Assistant Corporate Secretary  
Manny Cancel, Senior Vice President and Chief Executive Officer of the E-ISAC  
Mark Lauby, Senior Vice President and Chief Engineer  
Sônia Mendonça, Senior Vice President, General Counsel, and Corporate Secretary  
Janet Sena, Senior Vice President, External Affairs  
Andy Sharp, Vice President and Interim Chief Financial Officer

**Regional Representatives**

Carol Baskey, ReliabilityFirst  
Lisa Brohaugh, Western Interconnection Regional Advisory Body  
Lam Chung, Midwest Reliability Organization  
Judy Foppiano, Texas Reliability Entity, Inc.  
Jessica Hala, Northeast Power Coordinating Council, Inc.  
George Krogstie, SERC Reliability Corporation  
Jillian Lessner, Western Electricity Coordinating Council

**NERC Antitrust Compliance Guidelines**

Ms. Buzzard directed the participants' attention to the NERC Antitrust Compliance Guidelines included in the agenda, and indicated that all questions regarding antitrust compliance or related matters should be directed to Ms. Mendonça.

**Chair's Remarks**

Mr. Clarke welcomed those in attendance to the informational session. He highlighted the importance of continued investment in reliability amid COVID-19.

**2021 NERC Business Plan and Budget Overview**

Mr. Sharp presented the draft 2021 Business Plan and Budget, referencing the materials in the advance agenda package. He discussed the 2021 budget drivers, highlighting the goal of achieving little to no assessment increase in response to the impacts of COVID-19. Mr. Sharp reviewed the 2021 budget by program area, 2021 assessment details, and the projected reserve balances. He noted that NERC's preliminary 2022 and 2023 projections will be included in the next draft of the 2021 Business Plan and Budget.

**Regional Entities' and WIRAB 2021 Draft Business Plans and Budgets**

The Regional Entities' and WIRAB's representatives provided an overview of their draft 2021 business plans and budgets, referencing materials included in the advance agenda package.


**2021 ERO Enterprise Combined Budgets and Assessments Overview**

Mr. Sharp reviewed the combined ERO Enterprise combined budgets and assessments, referencing the material included in the advance agenda package. He reviewed the ERO Enterprise long-term strategy focus areas, the ERO Enterprise 2021 preliminary budget by program area, and preliminary assessments.

**Adjournment**

There being no further business, and upon motion duly made and seconded, the meeting was adjourned.

Submitted by,



Sônia Mendonça  
Corporate Secretary

## DRAFT Minutes

# Finance and Audit Committee Meeting

May 13, 2020 | 1:45 - 3:00 p.m. Eastern

Conference Call

### Introduction

Mr. Robert G. Clarke, Chair, called to order a duly noticed open meeting of the Finance and Audit Committee (the “Committee”) of the Board of Trustees (“Board”) of the North American Electric Reliability Corporation (“NERC” or the “Company”) on May 13, 2020, at approximately 1:45 p.m. Eastern, and a quorum was declared present. The agenda is attached as **Exhibit A**.

Present at the meeting were:

#### Committee Members

Robert G. Clarke, Chair  
Suzanne Keenan  
Robin E. Manning  
Jim Piro  
Roy Thilly, *ex officio*

#### Board of Trustee Members

Kenneth W. DeFontes  
George S. Hawkins  
James B. Robb, President and Chief Executive Officer  
Jan Schori  
Colleen Sidford

#### NERC Staff

Tina Buzzard, Assistant Corporate Secretary  
Howard Gugel, Vice President, Engineering and Standards  
Mark Lauby, Senior Vice President and Chief Engineer  
Sônia Mendonça, Senior Vice President, General Counsel, and Corporate Secretary  
Janet Sena, Senior Vice President, External Affairs  
Andy Sharp, Vice President and Interim Chief Financial Officer  
Mechelle Thomas, Vice President, Compliance

#### NERC Antitrust Compliance Guidelines

Ms. Buzzard directed the participants’ attention to the NERC Antitrust Compliance Guidelines included in the agenda, and indicated that all questions regarding antitrust compliance or related matters should be directed to Ms. Mendonça.

#### Chair’s Remarks

Mr. Clarke reported that the Committee met in closed session on April 23, 2020 to discuss funding the Align tool delay and the establishment of the ERO Enterprise Secure Evidence Locker (ERO SEL), and



the 2021 Business Plan and Budget. He also reported that the Committee met in closed session on May 12, 2020 with NERC's auditors to review audit matters.

### **Minutes**

Upon motion duly made and seconded, the minutes from the February 5, 2020 meeting were approved as presented to the Committee.

### **Second Quarter Calendar of FAC Responsibilities**

Mr. Sharp reported that the Committee reviewed the 2019 Audited Financial Statements in the May 12, 2020 closed session. Upon motion duly made and seconded, the Committee recommended the 2019 Audited Financial Statements for acceptance by the Board.

Mr. Sharp presented the First Quarter Unaudited Statement of Activities and variance reports for NERC and for the ERO Enterprise, referencing the materials included in the advance agenda package. He noted that NERC is on budget for funding, with total expenditures \$1.5 million under budget due to timing of expenditures. Mr. Sharp noted that NERC is projected to be under budget for funding and total expenditures, and with a projected \$3.3 million increase in operating reserves at year-end.

Mr. Sharp stated that the ERO Enterprise was under budget through the first quarter. He noted that the ERO Enterprise is projected to be under budget at year-end.

After discussion, and upon motion duly made and seconded, the Committee recommended the First Quarter Unaudited Statement of Activities for acceptance by the Board.

### **Investment and Funding Strategy for the ERO Secure Evidence Locker and Align Delay Cost**

Mr. Sharp presented on the investment and funding strategy for the ERO SEL and Align delay costs, referencing the materials included in the advance agenda package. He highlighted that NERC proposed to draw \$1.8 million from its operating contingency reserves in 2020 to fund a portion of the ERO SEL initial project investment estimated at \$3.8 million. Additionally, Mr. Sharp presented NERC's proposal to draw up to \$2 million from the operating contingency reserves to fund the Align tool project delay costs in 2021. After discussion, and upon motion duly made and seconded, the Committee recommended the investment and funding strategy for the ERO SEL and Align delay cost for approval by the Board.

### **Extension of Capital Financing Program**

Mr. Sharp presented on the proposed extension of NERC's capital financing program, referencing the materials in the advance agenda package. He emphasized the importance of establishing a new credit facility to facilitate financing for the purchase and installation of the ERO SEL; potential refinancing of existing capital leases; and possible funding of software development, enhancements, and equipment acquisitions in future years' business plans and budgets. Mr. Sharp noted that the lender pre-approved NERC for an \$8 million credit facility with up to a 60-month term. After discussion, and upon motion duly made and seconded, the Committee recommended the extension of NERC's capital financing program for approval by the Board.

### **2021 Business Plan and Budget**

Mr. Sharp presented the draft 2021 Business Plan and Budget, referencing the materials in the advance agenda package. He highlighted NERC's 2021 budget goal of achieving a minimal assessment increase in response to the potential economic impact on the industry of COVID-19. Mr. Sharp reviewed the 2021 budget major programs, including the ERO SEL, Align delay costs, and E-ISAC and CRISP. He reviewed the ERO Enterprise proposed budgets and assessments. Mr. Sharp then reviewed the schedule for the Business Plan and Budget posting, comments, and approval.

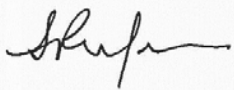
#### **Policy on Executive Management Expenses**

Mr. Sharp reviewed NERC's executive management expense policy, noting that there were no changes to the policy. The Committee discussed the frequency of executive management expense audits.

#### **Adjournment**

There being no further business, and upon motion duly made and seconded, the meeting was adjourned.

Submitted by,



Sônia Mendonça  
Corporate Secretary

# Summary of Unaudited Results For the Period Ending June 30, 2020

## Table of Contents

	<u>Page</u>
1. Executive Summary	
a. Projected Year-End Results	2
b. Year-to-Date Actual Results	4
2. Detailed Operating Results	
a. Variances by Revenue and Expense Category	5
b. Variances by Department	7
3. Supplemental Schedules	
a. Schedule 1 – Year-End Projected Reserves	8
b. Schedule 2 – IT Projects	9
c. Schedule 3 – E-ISAC & CRISP Summary of Activity	11

## Executive Summary

### Projected Year-End Results (\$ millions)

	<u>FUNDING</u>	<u>Projected</u>	<u>Budget</u>	<u>Over (Under)</u>
Revenues		\$ 80.7	\$ 82.0	\$ (1.3)
Funding from Reserves				
Assessment Stabilization Reserve		-	-	-
	<b>TOTAL FUNDING</b>	<b>\$ 80.7</b>	<b>\$ 82.0</b>	<b>\$ (1.3)</b>
<b>EXPENDITURES</b>				
Expenses (excluding Depreciation)		\$ 74.0	\$ 77.9	\$ (3.9)
Fixed Asset Additions		6.9	4.7	2.2
Net Financing Activity		(1.6)	0.1	(1.7)
	<b>TOTAL EXPENDITURES</b>	<b>\$ 79.3</b>	<b>\$ 82.7</b>	<b>\$ (3.4)</b>
	<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 1.4</b>	<b>\$ (0.7)</b>	<b>\$ 2.1</b>

### Funding

- Revenues
  - Expected to be under budget at year-end due to lower investment income (from lower interest rates) and third-party revenues for the CRISP program.

### Expenditures

- Expenses (excluding depreciation)
  - Personnel expenses are expected to be under budget due to the deferred hiring of 11 currently open positions until 2021 and certain E-ISAC positions budgeted as FTEs that are being filled with contract labor.
  - Meeting and Travel expenses are projected to be under budget because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
  - Contracts and Consultants expenses are expected to be near budget at year-end, with E-ISAC over budget from FTE positions being filled with contract labor, which is offset by lower third-party contractor costs for the CRISP program.

- Office Costs are projected to be over budget due to higher software license and maintenance costs and also support and maintenance costs on leased equipment that were budgeted as lease payments (in Net Financing Activity) but are more appropriately charged to Office Costs.
- Fixed Asset Additions
  - Projected to be over budget by year-end due to the unbudgeted costs for the Secure Evidence Locker project, which is partially offset by the deferral of hardware, software, and Atlanta renovation costs.
- Net Financing Activity
  - The 2020 budget anticipated that NERC would pay off more in principal than it would receive in loan proceeds, but because NERC is now expected to borrow funds for a portion of the unbudgeted Secure Evidence Locker project, NERC is projected to receive more in loan proceeds than it will pay off in principal.

#### **Operating Reserve Increase (Decrease)**

- Projected reserve increase from operating activity is \$1.4M versus a budgeted decrease of \$0.7M.

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

<u>FUNDING</u>	<u>Actual</u>	<u>Budget</u>	<u>Over (Under)</u>
Revenues	\$ 40.9	\$ 41.0	\$ (0.1)
Funding from Reserves			
Assessment Stabilization Reserve	-	-	-
<b>TOTAL FUNDING</b>	<b>\$ 40.9</b>	<b>\$ 41.0</b>	<b>\$ (0.1)</b>
<b>EXPENDITURES</b>			
Expenses (excluding Depreciation)	\$ 36.1	\$ 38.8	\$ (2.7)
Fixed Asset Additions	0.8	2.4	(1.6)
Net Financing Activity	0.3	0.1	0.2
<b>TOTAL EXPENDITURES</b>	<b>\$ 37.2</b>	<b>\$ 41.3</b>	<b>\$ (4.1)</b>
<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 3.7</b>	<b>\$ (0.3)</b>	<b>\$ 4.0</b>

**Funding**

- Revenues
  - Slightly under budget due to lower investment income (from lower interest rates).

**Expenditures**

- Expenses (excluding depreciation)
  - Personnel expenses are under budget primarily due to deferred hiring on open positions and certain E-ISAC positions that were budgeted as FTEs that are being filled with contract labor.
  - Meeting and Travel are below budget because of the cancellation of in-person meetings and lower employee travel due to the pandemic.
  - Contracts and Consultants and Software License and Maintenance expenses are under budget mainly attributable to the timing of expenditures versus the budget.
- Fixed Asset Additions
  - Under budget year-to-date (YTD) mainly due to the deferral of hardware, software, and Atlanta renovation costs.

**Operating Reserve Increase (Decrease)**

- Actual reserve increase from operations is higher than budget by \$4.0 million.

## Detailed Operating Results

### Variances by Revenue and Expense Category

#### Total NERC (including CRISP)

	YTD Actual	YTD Budget	YTD Over (Under)	% Over (Under)	Annual Projection	Annual Budget	Annual Over (Under)	% Over (Under)
<b>TOTAL FUNDING</b>	<b>\$ 40,893,732</b>	<b>\$ 41,003,475</b>	<b>\$ (109,743)</b>	<b>(0.3%)</b>	<b>\$ 80,668,654</b>	<b>\$ 82,006,951</b>	<b>\$ (1,338,297)</b>	<b>(1.6%)</b>
<b>EXPENDITURES</b>								
Personnel	\$ 22,837,714	\$ 23,299,080	\$ (461,366)	(2.0%)	\$ 44,879,320	\$ 46,598,160	\$ (1,718,841)	(3.7%)
Meetings and Travel	734,535	1,661,625	(927,090)	(55.8%)	941,924	3,323,250	(2,381,326)	(71.7%)
Consultants and Contracts	5,657,221	6,217,951	(560,730)	(9.0%)	12,408,829	12,435,902	(27,073)	(0.2%)
Office Rent	1,735,148	1,725,234	9,914	0.6%	3,470,468	3,450,468	20,000	0.6%
Office Costs, Professional, and Misc.*	5,170,024	5,848,362	(678,338)	(11.6%)	12,067,591	11,696,724	370,868	3.2%
Other Non-Operating	17,127	153,312	(136,185)	(88.8%)	107,544	306,623	(199,079)	(64.9%)
Fixed Asset Additions*	770,182	2,353,175	(1,582,993)	(67.3%)	6,896,343	4,706,349	2,189,993	46.5%
Net Financing Activity**	316,165	69,779	246,386	353.1%	(1,562,895)	139,558	(1,702,453)	(1219.9%)
<b>TOTAL EXPENDITURES</b>	<b>\$ 37,238,116</b>	<b>\$ 41,328,517</b>	<b>\$ (4,090,401)</b>	<b>(9.9%)</b>	<b>\$ 79,209,124</b>	<b>\$ 82,657,034</b>	<b>\$ (3,447,910)</b>	<b>(4.2%)</b>
<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 3,655,616</b>	<b>\$ (325,042)</b>	<b>\$ 3,980,658</b>	<b>(1224.7%)</b>	<b>\$ 1,459,530</b>	<b>\$ (650,083)</b>	<b>\$ 2,109,613</b>	<b>(324.5%)</b>
<b>FTEs</b>	<b>199.8</b>	<b>213.4</b>	<b>(13.6)</b>	<b>(6.4%)</b>	<b>199.9</b>	<b>213.4</b>	<b>(13.5)</b>	<b>(6.3%)</b>

\* Excludes depreciation expense

\*\* A positive amount indicates that NERC is paying off more principal than it is receiving in loan proceeds. A negative amount indicates that NERC is receiving more in loan proceeds than it is paying off principal.

Following is a brief summary of variances by category:

- Personnel expenses are under budget YTD and expected to be under budget at year-end largely because of deferred hiring of open positions until 2021 and also from open E-ISAC positions budgeted as FTEs that are being filled with contractor labor.
- Meetings and Travel expenses are under budget YTD and expected to be under budget at year-end from decreased in-person meetings and travel due to the pandemic.

- Contracts and Consultants expenses are under budget YTD mainly because of the timing of expenditures versus the budget. Expected to be on budget at year-end primarily as a result of contract labor being used in the E-ISAC in lieu of FTEs which is offset by lower CRISP program contract costs.

<b>CONTRACTS and CONSULTANTS</b>	<b>YTD Actual</b>	<b>YTD Budget</b>	<b>YTD Over (Under)</b>	<b>Annual Projection</b>	<b>Annual Budget</b>	<b>Annual Over (Under)</b>
Reliability Standards and Risk Issue Management	\$ 70,449	\$ 20,160	\$ 50,289	\$ 151,600	\$ 40,320	\$ 111,280
Compliance Assurance	-	25,000	(25,000)	50,000	50,000	(0)
Compliance Analysis, Registration, and Certification	20,800	20,160	640	39,800	40,320	(520)
Compliance Enforcement	-	-	-	9,000	-	9,000
Power System Analysis	-	31,500	(31,500)	-	63,000	(63,000)
Reliability Assessment and Technical Committees	20,800	182,660	(161,860)	133,400	365,320	(231,920)
Advanced System Analytics and Modeling	-	87,500	(87,500)	155,000	175,000	(20,000)
Performance Analysis	180,792	74,625	106,167	307,750	149,250	158,500
Situation Awareness	-	-	-	-	-	-
Event Analysis	40,885	5,000	35,885	93,200	10,000	83,200
E-ISAC	1,171,529	706,250	465,279	2,423,545	1,412,500	1,011,045
Training, Education and Personnel Certification	218,592	196,000	22,592	411,180	392,000	19,180
General and Administrative and Executive	(52,529)	-	(52,529)	(51,567)	-	(51,567)
Legal and Regulatory	30,580	150,000	(119,420)	192,850	300,000	(107,150)
Policy and External Affairs	41,140	10,000	31,140	111,800	20,000	91,800
Information Technology	801,243	902,846	(101,603)	1,582,250	1,805,692	(223,442)
Human Resources and Administration	380,486	380,000	486	856,160	760,000	96,160
Finance and Accounting	28,359	87,500	(59,142)	107,590	175,000	(67,410)
<b>TOTAL (excluding CRISP)</b>	<b>\$ 2,953,125</b>	<b>\$ 2,879,201</b>	<b>\$ 73,924</b>	<b>\$ 6,573,558</b>	<b>\$ 5,758,402</b>	<b>\$ 815,156</b>
CRISP	2,704,096	3,338,750	(634,655)	5,835,271	6,677,500	(842,229)
<b>TOTAL (including CRISP)</b>	<b>\$ 5,657,221</b>	<b>\$ 6,217,951</b>	<b>\$ (560,730)</b>	<b>\$ 12,408,829</b>	<b>\$ 12,435,902</b>	<b>\$ (27,073)</b>

- Office Cost expenses are under budget YTD mainly due to the timing of expenditures versus the budget. Projected to be over budget at year-end due to higher software license and maintenance costs and also maintenance costs on leased equipment that were budgeted as lease payments (in Net Financing Activity) but are more appropriately charged to Office Costs.
- Professional Services expenses are under budget YTD and projected to be under budget by year-end largely because of lower than budgeted outside counsel costs.
- Fixed Asset Additions are under budget YTD due to the deferral of some hardware and software projects and the Atlanta office and meeting space renovations. Projected to be over budget by year-end due to the unbudgeted costs for the Secure Evidence Locker project and is partially offset by the deferral of the hardware, software, and Atlanta renovation costs.
- Net Financing Activity budget anticipated that NERC would pay off more in principal than it would collect in loan proceeds, but because NERC is now expected to borrow for a portion of the unbudgeted Secure Evidence Locker project, NERC is projected to receive more in loan proceeds than it will pay off in principal.



## Variations by Department

DIRECT EXPENSES, FIXED ASSETS, AND FINANCING ACTIVITY	YTD Actual	YTD Budget	YTD Over (Under)	Annual Projection	Annual Budget	Annual Over (Under)
Reliability Standards and Risk Issue Management	\$ 1,842,796	\$ 1,959,156	\$ (116,360)	\$ 3,491,061	\$ 3,918,311	\$ (427,251)
Compliance Assurance	2,726,110	2,578,378	147,732	6,681,847	5,156,756	1,525,091
Compliance Analysis, Registration, and Certification	620,580	677,330	(56,750)	1,220,334	1,354,660	(134,327)
Compliance Enforcement	1,561,711	1,639,849	(78,138)	4,363,296	3,279,697	1,083,599
Power System Analysis	573,086	852,762	(279,676)	1,135,716	1,705,525	(569,808)
Reliability Assessment and Technical Committees	1,027,097	1,099,693	(72,596)	1,932,796	2,199,387	(266,591)
Advanced System Analytics and Modeling	592,973	696,321	(103,348)	1,459,076	1,392,641	66,434
Performance Analysis	901,870	1,027,980	(126,111)	1,719,588	2,055,961	(336,373)
Situation Awareness	1,231,864	1,471,095	(239,231)	2,544,335	2,942,190	(397,855)
Event Analysis	1,260,606	1,213,170	47,436	2,438,163	2,426,341	11,822
E-ISAC	5,719,735	6,185,456	(465,721)	11,885,781	12,370,912	(485,131)
Training, Education and Personnel Certification	785,792	799,758	(13,966)	1,482,142	1,599,516	(117,374)
General and Administrative and Executive	3,786,428	4,290,158	(503,729)	7,714,141	8,580,315	(866,175)
Legal and Regulatory	1,954,809	2,294,188	(339,379)	4,090,622	4,588,376	(497,754)
Policy and External Affairs	1,372,858	1,501,889	(129,031)	2,685,974	3,003,778	(317,805)
Information Technology	5,755,091	6,415,487	(660,397)	12,243,497	12,830,975	(587,478)
Human Resources and Administration	1,359,543	1,362,277	(2,734)	2,809,393	2,724,553	84,840
Finance and Accounting	1,010,333	1,211,619	(201,286)	2,317,382	2,423,239	(105,857)
<b>TOTAL (excluding CRISP)</b>	<b>\$ 34,083,282</b>	<b>\$ 37,276,567</b>	<b>\$ (3,193,285)</b>	<b>\$ 72,215,142</b>	<b>\$ 74,553,134</b>	<b>\$ (2,337,991)</b>
CRISP	3,154,833	4,051,950	(897,117)	6,993,981	8,103,900	(1,109,918)
<b>TOTAL DIRECT EXPENSES, FIXED ASSETS, AND FINANCING ACTIVITY</b>	<b>\$ 37,238,116</b>	<b>\$ 41,328,517</b>	<b>\$ (4,090,401)</b>	<b>\$ 79,209,124</b>	<b>\$ 82,657,034</b>	<b>\$ (3,447,910)</b>

Following is a brief summary of significant variances by department:

- Compliance Assurance – Expected to be over budget primarily because of higher than budgeted personnel expenses as well as unbudgeted hardware, software and maintenance costs for the Secure Evidence Locker. These costs are partially offset by loan proceeds for the Secure Evidence Locker and lower travel costs.
- Compliance Enforcement – Projected to be over budget primarily due to unbudgeted hardware, software and maintenance costs for the Secure Evidence Locker. These costs are partially offset by loan proceeds for the Secure Evidence Locker and lower personnel costs.
- Power System Analysis – Projected to be under budget largely because of lower personnel, travel costs, and consultant costs.
- General & Administrative and Executive – Under budget YTD and projected to be under budget mainly due to lower personnel, meeting, travel, excise tax expense, and Atlanta office renovation costs.
- Information Technology – Under budget YTD and projected to be under budget primarily in Contracts and Consultants and Fixed Assets.
- CRISP – Under budget YTD due to the timing of contractor and software license and maintenance costs. Expected to be under budget largely because of lower contractor costs.

## Supplemental Schedules

### Schedule 1 – Year-End Projected Reserves

Reserve Account	1/1/2020		Unbudgeted Funding/(Use)	Operating and Financing Activity Versus Budget <sup>(3)</sup>		12/31/2020
	Beginning Balance <sup>(1)</sup>	Budgeted Funding/(Use) <sup>(2)</sup>				Projected Ending Balance <sup>(4)</sup>
Operating Contingency	\$ 6,199,083	\$ (654,036)	\$ -	\$ 2,115,383	\$ 7,660,430	
Future Obligations	2,119,719	(485,958)	-	-	1,633,761	
Assessment Stabilization	2,521,000	-	-	-	2,521,000	
System Operator	777,274	-	-	(1,817)	775,457	
CRISP	500,000	-	-	-	500,000	
<b>Total Reserves</b>	<b>\$ 12,117,076</b>	<b>\$ (1,139,994)</b>	<b>\$ -</b>	<b>\$ 2,113,566</b>	<b>\$ 13,090,648</b>	

**NOTES:**

(1) 2020 beginning balances have been adjusted from the 12/31/2019 variance report balances as the result of a reconciliation to the final audited balance sheet.

(2) The 2020 Business Plan & Budget contained a budgeted use of Operating Contingency Reserves totaling \$654,036 to lower assessments. The Future Obligations Reserve decrease of \$485,958 is a budgeted use of deferred rent reserves to fund a portion of office lease costs.

(3) This column reflects the projected reserve impact of operating and financing activities versus budget. In 2020, NERC is expected to be under budget primarily due to the deferral of some open FTE positions to 2021, lower meeting and travel costs, lower software and hardware spending, reduction of the Atlanta meeting space renovation costs, and no debt service on ERO projects. The approved capital investment of \$3.8M for the ERO SEL project, net of \$2.0M in loan financing, is included in 2020 operating activity and represents a projected \$1.8M use of Operating Contingency reserves during the year.

(4) The Operating Contingency Reserve at year-end is higher than target but is being planned to be reduced by \$1.8 million in the 2021 Business Plan & Budget for Align project delay costs.

## Schedule 2 – IT Projects

<b>Projects in Progress</b>	<b>Project Budget <sup>(1)</sup></b>	<b>Actual Spend Year-to-Date</b>	<b>Expected Spend</b>	<b>Expected Over (Under) Budget</b>
Align (2017-2021)	\$ 7,203,000	\$ 4,126,267	\$ 7,284,524	\$ 81,524
Secure Evidence Locker	2,265,000	54,729	2,265,000	-
Microsoft Teams Pilot	98,000	49,000	98,000	-
End-Point Management	76,000	50,000	76,000	-
E-ISAC Data Center Move	52,000	-	52,000	-
<b>Actual</b>				
<b>Projects Completed in 2020</b>	<b>Project Budget <sup>(1)</sup></b>	<b>Actual Spend</b>	<b>Actual Over (Under) Budget</b>	
Microsoft Windows 10 Upgrade	\$ 169,890	\$ 146,176	\$ (23,714)	

### 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

### **Align**

(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).

### **Secure Evidence Locker**

(Started May 2020 / Planned Completion Dec 2020)

This is a key component of the NERC’s reimagined suite of Compliance Monitoring and Enforcement Program (CMEP) work and data management tools and will be implemented in conjunction with Align. It will be used for the collection and analysis of evidence provided by registered entities in connection with CMEP activities.

### **Microsoft Teams Pilot**

(Started Apr 2020 / Planned Completion Aug 2020)

This project will implement a basic Microsoft Teams environment that will allow for unified communication and collaboration platform that combines persistent workplace chat, video meetings, and file storage (including collaboration on files).

### **End-Point Management**

(Started May 2020 / Planned Completion Sep 2020)

This project will replace the current tool that is used as the application used for Windows security patching and updates.

### **E-ISAC Data Center Move**

(Started Jan 2020 / Planned Completion Oct 2020)

This project will move remaining E-ISAC internally hosted technology platforms from the current DC office location to a new data center.

### **Microsoft Windows 10 Upgrade**

(Started Dec 2019 / Completed Feb 2020)

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

### Schedule 3 – E-ISAC and CRISP Summary of Activity

#### TOTAL E-ISAC (including CRISP)

FUNDING	YTD Actual	Annual Projection	Annual Budget	Projected Over (Under)
Assessments	\$ 11,681,676	\$ 23,363,353	\$ 23,363,353	\$ -
Other Funding	3,972,636	6,904,944	7,956,784	(1,051,840)
<b>TOTAL FUNDING</b>	<b>\$ 15,654,312</b>	<b>\$ 30,268,297</b>	<b>\$ 31,320,137</b>	<b>\$ (1,051,840)</b>
<b>EXPENDITURES</b>				
Personnel Expense	\$ 4,330,124	\$ 8,476,967	\$ 9,825,628	\$ (1,348,661)
Meetings and Travel Expense	87,740	126,993	464,200	(337,207)
Operating Expenses (excluding Depreciation)	4,456,704	9,795,803	9,728,189	67,614
Fixed Asset Purchases (excluding Fixed Asset Allocation)	-	480,000	421,449	58,551
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	35,347	(35,347)
Total Direct Costs (excluding Depreciation and Allocations)	\$ 8,874,568	\$ 18,879,763	\$ 20,474,812	\$ (1,595,050)
Indirect Expense Allocation	4,027,516	8,453,846	10,119,683	(1,665,838)
Fixed Asset Allocation	-	118,764	439,831	(321,067)
Net Financing Activity Allocation	85,329	119,245	285,811	(166,566)
<b>TOTAL EXPENDITURES (excluding Depreciation, including Allocations)</b>	<b>\$ 12,987,414</b>	<b>\$ 27,571,617</b>	<b>\$ 31,320,137</b>	<b>\$ (3,748,521)</b>
<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 2,666,898</b>	<b>\$ 2,696,681</b>	<b>\$ -</b>	<b>\$ 2,696,681</b>

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

<b>CRISP</b>				
FUNDING	YTD Actual	Annual Projection	Annual Budget	Projected Over (Under)
Assessments	\$ 472,789	\$ 945,577	\$ 945,577	\$ -
Other Funding	3,923,481	6,824,172	7,850,577	(1,026,405)
<b>TOTAL FUNDING</b>	<b>\$ 4,396,269</b>	<b>\$ 7,769,750</b>	<b>\$ 8,796,155</b>	<b>\$ (1,026,405)</b>
<b>EXPENDITURES</b>				
Personnel Expense	\$ 342,691	\$ 643,743	\$ 627,736	\$ 16,008
Meetings and Travel Expense	16,744	18,457	49,200	(30,743)
Operating Expenses (excluding Depreciation)	2,795,397	6,149,281	7,289,465	(1,140,184)
Fixed Asset Purchases (excluding Fixed Asset Allocation)	-	182,500	137,500	45,000
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	-	-
Total Direct Costs (excluding Depreciation and Allocations)	\$ 3,154,833	\$ 6,993,981	\$ 8,103,900	\$ (1,109,918)
Indirect Expense Allocation	337,859	803,515	645,937	157,577
Fixed Asset Allocation	-	11,288	28,074	(16,786)
Net Financing Activity Allocation	7,158	11,334	18,243	(6,909)
<b>TOTAL EXPENDITURES (excluding Depreciation, including Allocations)</b>	<b>\$ 3,499,851</b>	<b>\$ 7,820,118</b>	<b>\$ 8,796,155</b>	<b>\$ (976,037)</b>
<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 896,419</b>	<b>\$ (50,368)</b>	<b>\$ -</b>	<b>\$ (50,368)</b>

<b>E-ISAC (excluding CRISP)</b>				
FUNDING	YTD Actual	Annual Projection	Annual Budget	Projected Over (Under)
Assessments	\$ 11,208,888	\$ 22,417,776	\$ 22,417,776	\$ -
Other Funding	49,155	80,772	106,207	(25,435)
<b>TOTAL FUNDING</b>	<b>\$ 11,258,043</b>	<b>\$ 22,498,548</b>	<b>\$ 22,523,983</b>	<b>\$ (25,435)</b>
<b>EXPENDITURES</b>				
Personnel Expense	\$ 3,987,433	\$ 7,833,224	\$ 9,197,892	\$ (1,364,668)
Meetings and Travel Expense	70,996	108,536	415,000	(306,464)
Operating Expenses (excluding Depreciation)	1,661,307	3,646,522	2,438,724	1,207,798
Fixed Asset Purchases (excluding Fixed Asset Allocation)	-	297,500	283,950	13,550
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	35,347	(35,347)
Total Direct Costs (excluding Depreciation and Allocations)	\$ 5,719,735	\$ 11,885,781	\$ 12,370,912	\$ (485,131)
Indirect Expense Allocation	3,689,657	7,650,331	9,473,746	(1,823,415)
Fixed Asset Allocation	-	107,476	411,757	(304,281)
Net Financing Activity Allocation	78,171	107,911	267,568	(159,657)
<b>TOTAL EXPENDITURES (excluding Depreciation, including Allocations)</b>	<b>\$ 9,487,563</b>	<b>\$ 19,751,499</b>	<b>\$ 22,523,983</b>	<b>\$ (2,772,484)</b>
<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 1,770,479</b>	<b>\$ 2,747,049</b>	<b>\$ -</b>	<b>\$ 2,747,049</b>

# NERC

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

# NERC Summary of Unaudited Results Second Quarter 2020

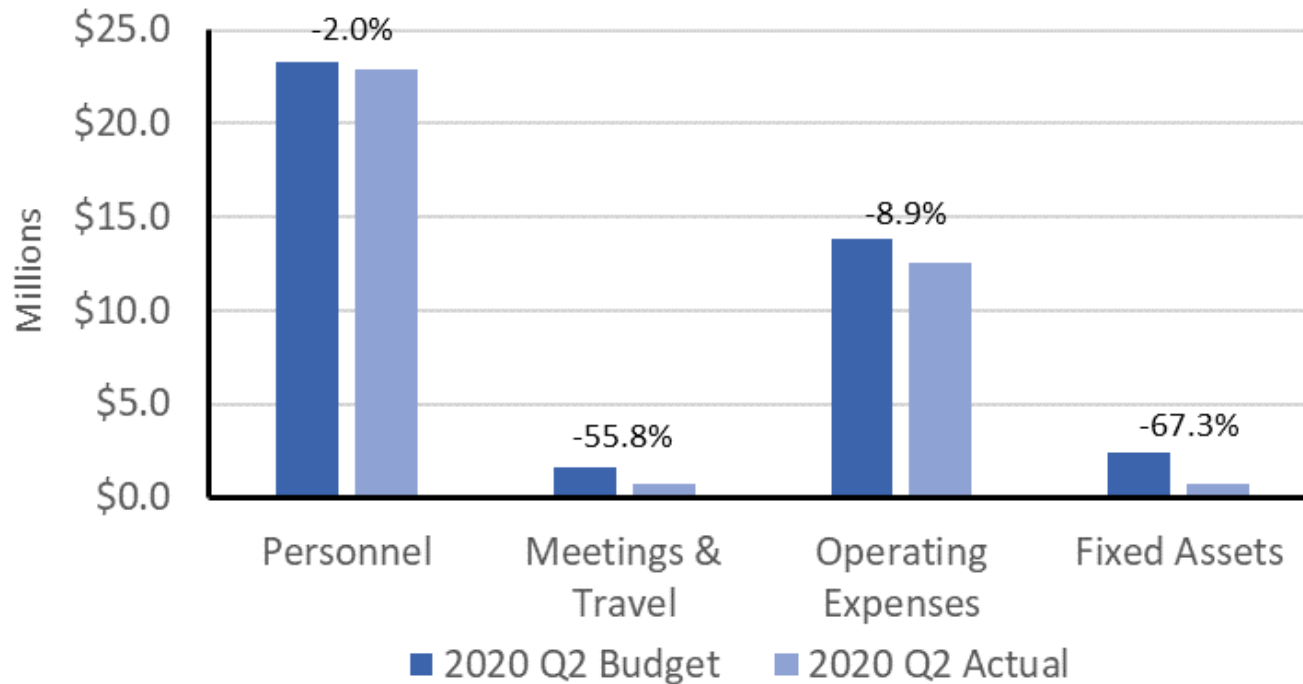
Andy Sharp, Vice President and Chief Financial Officer  
Finance and Audit Committee Meeting  
August 19, 2020

RELIABILITY | RESILIENCE | SECURITY

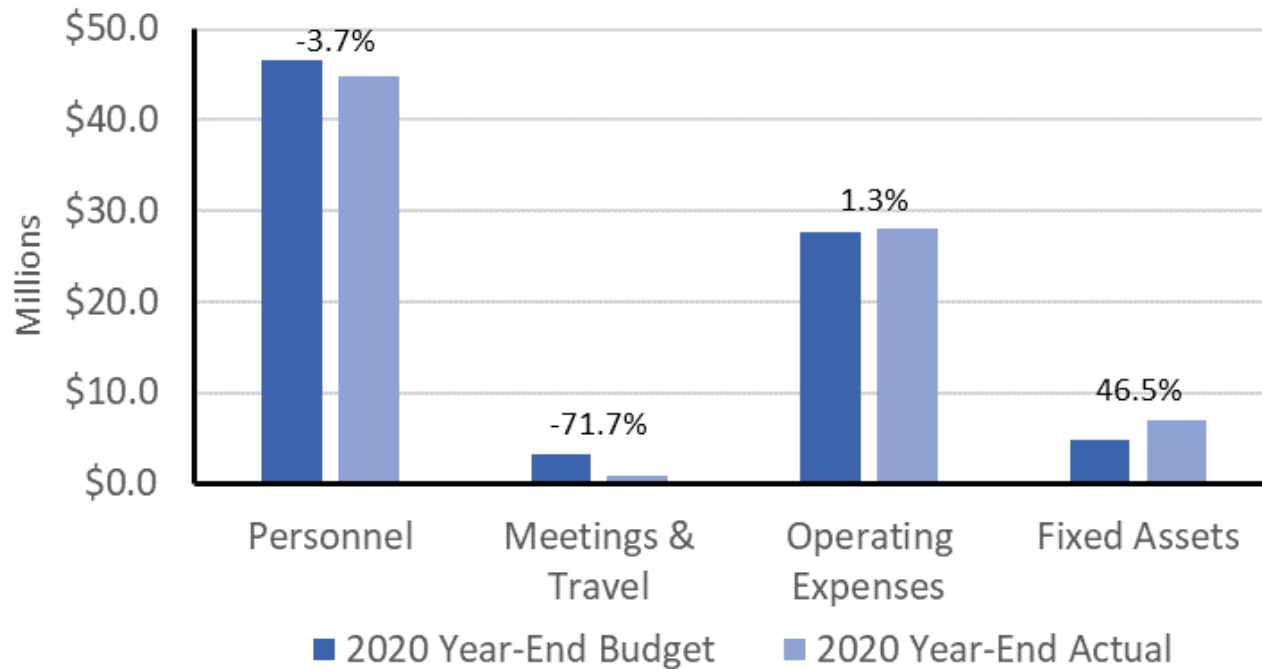


- Total funding – \$110k (0.3%) under budget
  - Lower investment income (from lower interest rates)
- Total expenditures – \$4.1M (9.9%) under budget
  - Timing of expenses vs. budget for contracts and consultants and software
  - Lower spending on meetings and travel due to the pandemic
  - Cost savings efforts, which help cash fund Align and a portion of the ERO Secure Evidence Locker (SEL) in 2020, reducing future year debt service
    - Deferred hiring of open positions
    - Deferred hardware, capital software, and office renovation costs
- Net impact was \$4.0M YTD increase in reserves



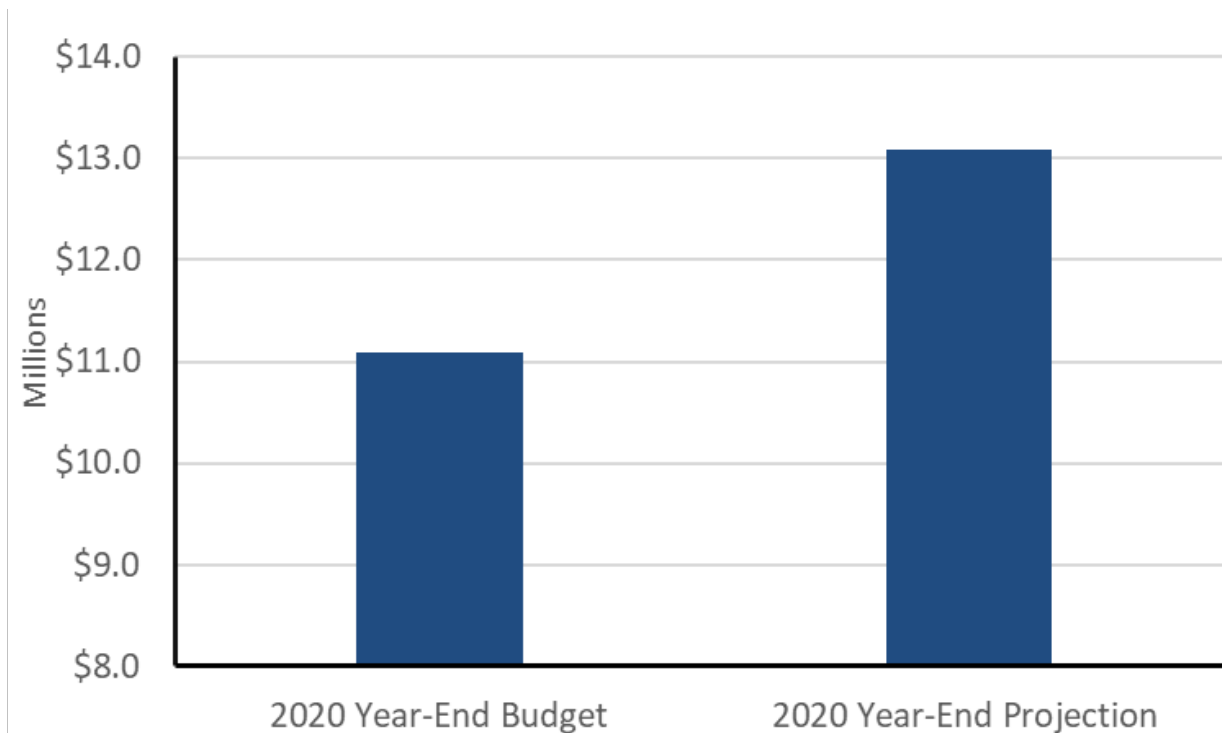


- Funding – \$1.3M (1.6%) under budget
  - Lower investment income and third-party revenues for CRISP
- Total expenditures – \$3.4M (4.2%) under budget
  - Deferred hiring and capital expenditures as part of cost savings efforts
  - Reduced meeting and travel expenses related to the pandemic
  - Offset by higher capital expenditures and software licenses and support for the ERO SEL (\$3.8M)
  - Loan borrowing (\$2.0M) approved for the ERO SEL

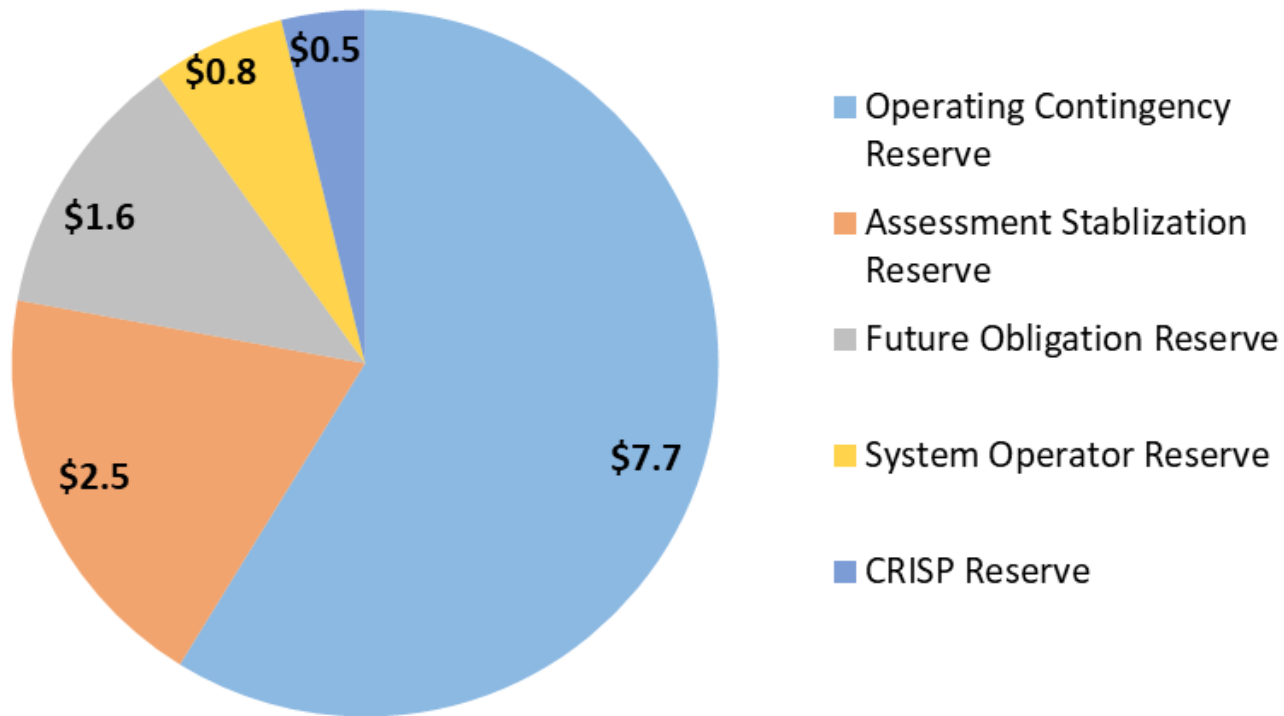


- Projected year-end net reserve increase of \$1.4M
  - Favorable increase of \$2.1M versus 2020 budget
  - Includes cash funding \$1.8M of 2020 Align project costs
  - Includes \$1.8M usage of Operating Contingency Reserves to fund portion of ERO SEL project
- Additional 2020 year-end reserves to fund \$1.8M in 2021 Align project costs

# 2020 Projected Year-End Reserves



(\$ millions)





# Questions and Answers

# ERO Enterprise (NERC and Regional Entities) Combined Summary of Unaudited Results

June 30, 2020

The ERO Enterprise was under budget \$8.8M (8.6%) for combined expense and fixed asset (capital) spending. The budget variances ranged from 13.8% to 2.4% under budget. The year-end projection for the ERO Enterprise is to be under budget by 3.8%.

Entity	2020 YTD		Over (Under)		2020 Year-End		Over (Under)	
	Actual	Budget	\$	%	Projected	Budgeted	\$	%
<b>NERC</b>	\$ 37,238,115	\$ 41,328,519	\$ (4,090,404)	(9.9%)	\$ 79,209,124	\$ 82,657,033	\$ (3,447,909)	(4.2%)
<b>MRO</b>	7,629,178	8,770,486	(1,141,308)	(13.0%)	17,294,863	17,540,969	(246,106)	(1.4%)
<b>NPCC</b>	6,924,757	8,034,147	(1,109,390)	(13.8%)	15,170,649	16,601,649	(1,431,000)	(8.6%)
<b>RF</b>	11,197,468	12,142,515	(945,047)	(7.8%)	22,818,119	23,650,862	(832,743)	(3.5%)
<b>SERC</b>	11,214,082	12,052,959	(838,877)	(7.0%)	23,801,953	24,525,014	(723,061)	(2.9%)
<b>Texas RE</b>	6,666,048	6,830,572	(164,524)	(2.4%)	13,448,713	13,811,126	(362,413)	(2.6%)
<b>WECC</b>	13,082,751	13,620,028	(537,277)	(3.9%)	26,889,229	27,756,089	(866,860)	(3.1%)
	<b>\$ 93,952,399</b>	<b>\$ 102,779,226</b>	<b>\$ (8,826,827)</b>	<b>(8.6%)</b>	<b>\$ 198,632,650</b>	<b>\$ 206,542,742</b>	<b>\$ (7,910,092)</b>	<b>(3.8%)</b>

- NERC was under budget \$4.1M (9.9%) primarily due to deferred hiring and fixed asset expenditures as part of cost savings efforts, lower meeting and travel expenses as a result of COVID-19 and timing of expenditures versus budget for certain operating costs. The company expects to be under budget \$3.4M (4.2%) at year-end as part of an effort to conserve spending to increase reserves to cash fund major projects and reduce future year debt service.
- MRO was under budget \$1.1M (13.0%), which is attributable primarily to reduced spending in meetings, travel, operating, and fixed asset expenditures due to impacts of COVID-19. The company expects to be under budget \$246k (1.4%) at year-end due to the same reason, offset by unbudgeted costs associated with an office expansion.
- NPCC was under budget \$1.1M (13.8%) mainly as a result of lower personnel costs and reduced spending on meetings, travel, and contracts and consultants due to impacts of COVID-19. The company expects to be under budget \$1.4M (8.6%) at year-end based on currently planned activities; this year-end projection is expected to change throughout 2020 due to impacts COVID-19, which will be reflected in each subsequent quarter's variance report.
- RF was under budget \$945k (7.8%) largely due to lower-than-expected personnel, meetings, travel, contracts and consultants, and fixed asset purchases. The company expects to be under budget \$833k (3.5%) at year-end.



- SERC was under budget \$839k (7.0%) primarily because of lower spending on meetings, travel, contracts and consultants, and fixed asset purchases due to either timing or impacts of COVID-19. The company expects to be under budget \$723k (2.9%) at year-end.
- Texas RE was under budget \$165k (2.4%) largely as a result of lower personnel, meeting, and travel costs. The company expects to be under budget \$362k (2.6%) at year-end.
- WECC was under budget \$537k (3.9%) predominately due to lower personnel, meeting, and travel costs, offset by higher-than-budgeted operating expenses and fixed asset expenditures. The company expects to be under budget \$867k (3.1%) at year-end.

## Variances by Expense and Fixed Asset Categories

### Personnel Expenses

For the ERO Enterprise, personnel expenses, consisting of salaries, payroll taxes, benefits, and retirement costs, were collectively under budget \$1.8M (2.6%), ranging from 8.3% under budget to near budget. The ERO Enterprise was under budget in FTEs by 37.1 (5.3%). The year-end projection for ERO Enterprise personnel expenses is to be under budget 1.4%, with FTEs under budget 1.6%. Significant variances are explained below.

Entity	Personnel Expenses					FTEs*				
	2020 YTD Actual	2020 YTD Budget	Over (Under) \$	Over (Under) %	Projected Year-End Variance	2020 YTD Actual	2020 YTD Budget	Over (Under) %	Over (Under) %	Projected Year-End Variance
NERC	\$ 22,837,714	\$ 23,299,081	\$ (461,367)	(2.0%)	(3.7%)	199.8	213.4	(13.6)	(6.4%)	(6.3%)
MRO	6,244,167	6,241,346	2,821	0.0%	0.8%	59.0	63.0	(4.0)	(6.3%)	1.0%
NPCC	5,050,505	5,510,612	(460,107)	(8.3%)	(1.3%)	36.4	41.1	(4.7)	(11.5%)	(7.3%)
RF	9,982,008	10,180,810	(198,802)	(2.0%)	0.7%	79.1	79.4	(0.2)	(0.3%)	0.0%
SERC	9,347,539	9,396,557	(49,018)	(0.5%)	0.6%	91.0	98.0	(7.0)	(7.1%)	0.0%
Texas RE	5,314,158	5,394,137	(79,979)	(1.5%)	(1.9%)	60.0	60.0	-	0.0%	0.0%
WECC	9,691,337	10,274,781	(583,444)	(5.7%)	(1.2%)	135.5	143.0	(7.5)	(5.3%)	3.1%
	<b>\$ 68,467,428</b>	<b>\$ 70,297,324</b>	<b>\$ (1,829,896)</b>	<b>(2.6%)</b>	<b>(1.4%)</b>	<b>660.7</b>	<b>697.8</b>	<b>(37.1)</b>	<b>(5.3%)</b>	<b>(1.6%)</b>

\* Represents equivalent full time positions from a budget and actual financial perspective and does not necessarily represent headcount.

- NERC was under budget \$461k (2.0%) predominately due to deferred hiring of open positions until 2021 and also from open E-ISAC positions budgeted as FTEs that are being filled with contractor labor. The company expects to be under budget \$1.7M (3.7%) at year-end for this same reason.
- NPCC was under budget \$460k (8.3%) primarily due to open positions, which have been filled. The company expects to be under budget \$140k (1.3%) at year-end.
- RF was under budget \$199k (2.0%) mainly because medical benefits were under budget as a result of employee medical benefit selections, as well as underutilized budgeted training. The company expects to be over budget \$142k (0.7%) at year-end due to a realignment of employees in the first quarter and the filling of vacant positions.

- WECC was under budget \$583k (5.7%) due to higher-than-anticipated vacancy rates and lower employee benefit costs, as well as less-than-anticipated health reimbursements. The company expects to be under budget \$262k (1.2%) at year-end.

### Travel, Meeting, and Conferencing Expenses

For the ERO Enterprise, travel, meeting, and conferencing expenses were collectively under budget \$3.5M (67.7%). The year-end projection for the ERO Enterprise is to be under budget 72.9%. All organizations were under budget and expect to be under budget at year-end due to the impacts of COVID-19, including suspended travel and cancelled, postponed, or converted meetings.

#### Meeting, Travel, and Conferencing Expenses

Entity	2020 Budget	Meetings & Conference		2020 Actual	Over (Under)		Projected Year- End Variance to Budget
		Calls	Travel		\$	%	
NERC	\$ 1,661,625	\$ (223,938)	\$ (703,152)	\$ 734,535	\$ (927,090)	(55.8%)	(71.7%)
MRO	642,316	(78,943)	(480,306)	83,067	(559,249)	(87.1%)	(87.1%)
NPCC	516,060	(138,976)	(236,785)	140,299	(375,761)	(72.8%)	(80.1%)
RF	509,626	(104,608)	(245,873)	159,145	(350,481)	(68.8%)	(75.0%)
SERC	605,152	(239,961)	(237,455)	127,736	(477,416)	(78.9%)	(74.1%)
Texas RE	186,568	(21,347)	(90,013)	75,208	(111,360)	(59.7%)	(49.9%)
WECC	1,080,842	(260,329)	(459,534)	360,979	(719,863)	(66.6%)	(64.7%)
	<b>\$ 5,202,189</b>	<b>\$ (1,068,102)</b>	<b>\$ (2,453,118)</b>	<b>\$ 1,680,969</b>	<b>\$ (3,521,220)</b>	<b>(67.7%)</b>	<b>(72.9%)</b>

### Operating Expenses

For the ERO Enterprise, operating expenses, consisting of consultants and contracts expenses, office rent, office costs, professional services, and miscellaneous costs, were collectively under budget \$1.5M (6.4%). The year-end projection for the ERO Enterprise is to be over budget 0.3%. Significant variances are explained below.

#### Operating Expenses

Entity	2020 Budget	Contracts & Consultants	Professional				2020 Actual	Over (Under)		Projected Year- End Variance to Budget
			Office Rent	Office Costs	Services	Miscellaneous		\$	%	
NERC	\$ 13,791,547	\$ (560,730)	\$ 9,914	\$(465,835)	\$(190,641)	\$(21,863)	\$ 12,562,392	\$ (1,229,155)	(8.9%)	1.3%
MRO	1,769,324	(362,213)	(20,581)	(188,159)	89,955	-	1,288,326	(480,998)	(27.2%)	(15.9%)
NPCC	2,127,200	(361,097)	3,440	49,173	81,637	(19,571)	1,880,782	(246,418)	(11.6%)	(6.4%)
RF	1,102,079	(135,901)	27,169	16,838	49,039	(6,142)	1,053,082	(48,997)	(4.4%)	(4.0%)
SERC	1,844,584	(247,869)	37,923	114,323	(29,457)	(1,180)	1,718,324	(126,260)	(6.8%)	0.0%
Texas RE	1,249,867	141,239	(18,140)	(22,209)	(74,075)	-	1,276,682	26,815	2.1%	1.3%
WECC	2,490,325	257,542	(10,661)	(29,763)	339,148	-	3,046,591	556,266	22.3%	15.0%
	<b>\$ 24,374,926</b>	<b>\$ (1,269,029)</b>	<b>\$ 29,064</b>	<b>\$(525,632)</b>	<b>\$ 265,606</b>	<b>\$ (48,756)</b>	<b>\$ 22,826,179</b>	<b>\$ (1,548,747)</b>	<b>(6.4%)</b>	<b>0.3%</b>

- NERC was under budget \$1.2M (8.9%) mainly due to timing of expenditures versus budget for contracts and consultants and office costs, and lower-than-expected spending on budgeted outside counsel costs. The company expects to be over budget \$367k (1.3%) at year-end due to higher-than-budgeted costs for software license and maintenance and also maintenance costs on leased equipment that were budgeted as lease payments but are more appropriately charged to Office Costs, offset by lower spending in other areas.

- MRO was under budget \$481k (27.2%) primarily due to reduced spending in a majority of operating areas as a result of COVID-19, including lower onsite operations, offset by higher outside legal expenses to evaluate and update MRO’s retirement plans. The company expects to be under budget \$564k (15.9%) at year-end for these same reasons.
- NPCC was under budget \$246k (11.6%) mainly because of timing of the use of contractors for compliance audits and other engagements that have been deferred due to COVID-19, offset by higher-than-budgeted expenses in professional services due to the timing of the independent financial audit. The company expects to be under budget \$295k (6.4%) at year-end.
- RF was under budget \$49k (4.4%) primarily due to the cancellation and postponement of planned contract support for most corporate activities as a result of COVID-19, offset by (1) higher-than budgeted rent and utility fees due to the true-up of prior year expenses, along with higher actual monthly expenses than budgeted, and (2) a higher-than-budgeted increase in independent director fees. The company expects to be under budget \$93k (4.0%) at year-end.
- SERC was under budget \$126k (6.8%) largely because of less-than-budgeted independent director search fees and Compliance User Group costs, and reclassification and timing of expenses. The company expects to be at budget at year-end.
- WECC was over budget \$556k (22.3%) primarily due to unanticipated IT consulting costs (net of the elimination of RAPA consulting expenses) and legal fees. The company expects to be over budget \$722k (15.0%) at year-end for this same reason.

### Indirect Expense Allocation

NPCC and WECC allocate overhead expenses to their non-statutory functions. Through the second quarter, NPCC allocated \$18k (9.0%) more than budgeted and WECC allocated \$8k (2.9%) less than budgeted. At year-end, NPCC expects to be at budget and WECC expects to allocate \$18k (3.1%) more than budgeted.

### Fixed Asset (Capital) Additions

For the ERO Enterprise, fixed asset (capital) additions were under budget \$2.1M (64.0%). The year-end projection for the ERO Enterprise is to be over budget 61.8%. Significant variances are explained below.

Entity	Fixed Asset Additions							
			Over (Under)				Over (Under)	
	2020 YTD Actual	2020 YTD Budget	\$	%	2020 Year-End Projected	2020 Year-End Budgeted	\$	%
NERC	\$ 770,182	\$ 2,353,175	\$ (1,582,993)	(67.3%)	\$ 6,896,343	\$ 4,706,349	\$ 2,189,994	46.5%
MRO	13,618	117,500	(103,882)	(88.4%)	1,567,300	235,000	1,332,300	566.9%
NPCC	76,379	85,000	(8,621)	(10.1%)	170,000	170,000	-	0.0%
RF	3,233	350,000	(346,767)	(99.1%)	314,000	390,000	(76,000)	(19.5%)
SERC	20,483	206,666	(186,183)	(90.1%)	480,000	330,000	150,000	45.5%
Texas RE	-	-	-	0.0%	30,000	30,000	-	0.0%
WECC	256,509	55,000	201,509	366.4%	111,509	52,014	59,495	114.4%
	<b>\$ 1,140,404</b>	<b>\$ 3,167,341</b>	<b>\$ (2,026,937)</b>	<b>(64.0%)</b>	<b>\$ 9,569,152</b>	<b>\$ 5,913,363</b>	<b>\$ 3,655,789</b>	<b>61.8%</b>

- NERC was under budget \$1.6M (67.3%) largely due to the deferral of some hardware and software projects and the Atlanta office and meeting space renovations. The company expects to be over budget \$2.2M (46.5%) at year-end due to the unbudgeted costs for the ERO Secure Evidence Locker (SEL), partially offset by the deferral of hardware, software, and Atlanta renovation costs. The unbudgeted investment for the ERO SEL was approved by FERC on June 22, 2020, and will be partially funded by operating reserves, with the remaining cost funded by financing.
- MRO was under budget \$104k (88.4%) due timing of expenses for software. The company expects to be over budget \$1.3M (566.9%) at year-end due to an unbudgeted expansion of office space, offset by lower spending in other areas.
- RF was under budget \$347k (99.1%) due to timing of expenses. The company expects to be under budget \$76k (19.5%) at year-end.
- SERC was under budget \$186k (90.1%) because of deferred IT projects. The company expects to be over budget \$150k at year-end due to an accelerated timeline for the member portal project.
- WECC was over budget \$202k (366.4%) primarily due to unbudgeted office and meeting space improvements. Most of the variance will be reimbursed through a negotiated tenant improvement allowance. The company expects to be over budget \$59k (114.4%) at year-end.

### Working Capital and Operating Reserves (excluding CRISP)

The ERO Enterprise began the 2020 year with approximately \$4.6M more in reserves than anticipated in the 2020 budget. This was primarily because of favorable budget variances from the 2019 year.

2020 Beginning Reserve Balances			
Entity	Actual	Budget	Over (Under)
NERC	\$ 11,617,076	\$ 9,454,106	\$ 2,162,970
MRO	4,769,485	4,934,448	(164,963)
NPCC	5,017,751	4,426,112	591,639
RF	4,191,175	3,700,836	490,339
SERC	1,855,528	1,201,725	653,803
Texas RE	3,823,564	2,530,999	1,292,565
WECC	7,339,148	7,752,113	(412,965)
	<b>\$ 38,613,727</b>	<b>\$ 34,000,339</b>	<b>\$ 4,613,388</b>

As shown in the table below, through the second quarter, the ERO Enterprise budgeted the addition of \$14.9M in reserves while actually generating \$23.6M. This resulted in the unanticipated addition of \$8.7M in total reserves through the second quarter.

**2020 Change in Reserve Balances**

Entity	YTD Actual	YTD Budget	Over (Under)
NERC	3,486,243	(568,021)	4,054,264
MRO	1,141,307	(1)	1,141,308
NPCC	881,699	(216,878)	1,098,577
RF	281,204	(769,613)	1,050,817
SERC	2,005,696	1,189,103	816,593
Texas RE	730,009	571,492	158,517
WECC	15,094,975	14,702,304	392,671
	<b>\$ 23,621,133</b>	<b>\$ 14,908,387</b>	<b>\$ 8,712,747</b>

The combined effect of higher balances at the beginning of the year and adding additional reserves through the second quarter of 2020 resulted in a combined year-to-date reserve balance of \$62.2M, which is \$13.3M more than was anticipated in the 2020 budget. During the remainder of 2020, the ERO Enterprise anticipates using some of these reserves for normal operations and expects the year-end balance to be \$40.9M, which is approximately \$6.7M over the 2020 budget amount of \$34.2M.

**2020 YTD and Projected Year-End Reserve Balances**

Entity	YTD Actual	YTD Budget	Over (Under)	Entity	Year-End Projected Balance	Year-End Budgeted Balance	Over (Under)
NERC	\$ 15,103,319	\$ 8,886,086	\$ 6,217,234	NERC	\$ 12,590,648	\$ 10,590,147	\$ 2,000,501
MRO	5,910,792	4,934,447	976,345	MRO	5,015,591	4,934,448	81,143
NPCC	5,899,450	4,209,234	1,690,216	NPCC	5,325,839	3,406,500	1,919,339
RF	4,472,379	2,931,223	1,541,156	RF	4,378,921	2,528,150	1,850,771
SERC	3,861,224	2,390,828	1,470,396	SERC	2,477,698	1,260,834	1,216,864
Texas RE	4,553,573	3,102,491	1,451,082	Texas RE	4,468,978	2,814,000	1,654,978
WECC	22,434,123	22,454,417	(20,294)	WECC	6,607,645	8,680,274	(2,072,629)
	<b>\$ 62,234,860</b>	<b>\$ 48,908,726</b>	<b>\$ 13,326,135</b>		<b>\$ 40,865,320</b>	<b>\$ 34,214,353</b>	<b>\$ 6,650,967</b>

As it approaches the 2021 budget year, the ERO Enterprise is expected to begin the year with \$3.9M less in reserves above what was planned in the combined budgets.

**2020 Ending Reserves vs 2021 Beginning Reserves**

Entity	2020	2021	Over (Under)
	Year-End Projected Balance	Beginning Budgeted Balance	
NERC	\$ 12,590,648	\$ 12,604,897	\$ (14,249)
MRO	5,015,591	4,572,271	443,320
NPCC	5,325,839	5,214,288	111,551
RF	4,378,921	3,818,989	559,932
SERC	2,477,698	6,257,698	(3,780,000)
Texas RE	4,468,978	4,087,192	381,786
WECC	6,607,645	8,184,307	(1,576,662)
	<b>\$ 40,865,320</b>	<b>\$ 44,739,642</b>	<b>\$ (3,874,322)</b>

# NERC

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

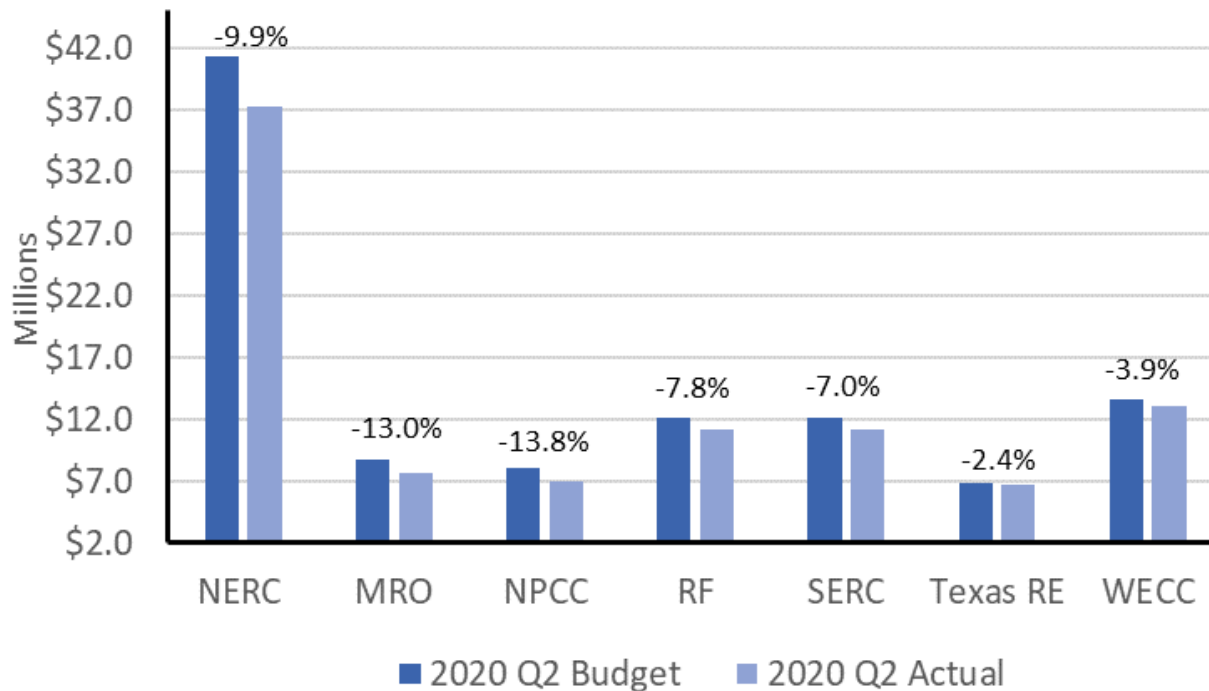
# ERO Enterprise Combined Summary of Unaudited Results Second Quarter 2020

Andy Sharp, Vice President and Chief Financial Officer  
Finance and Audit Committee Meeting  
August 19, 2020

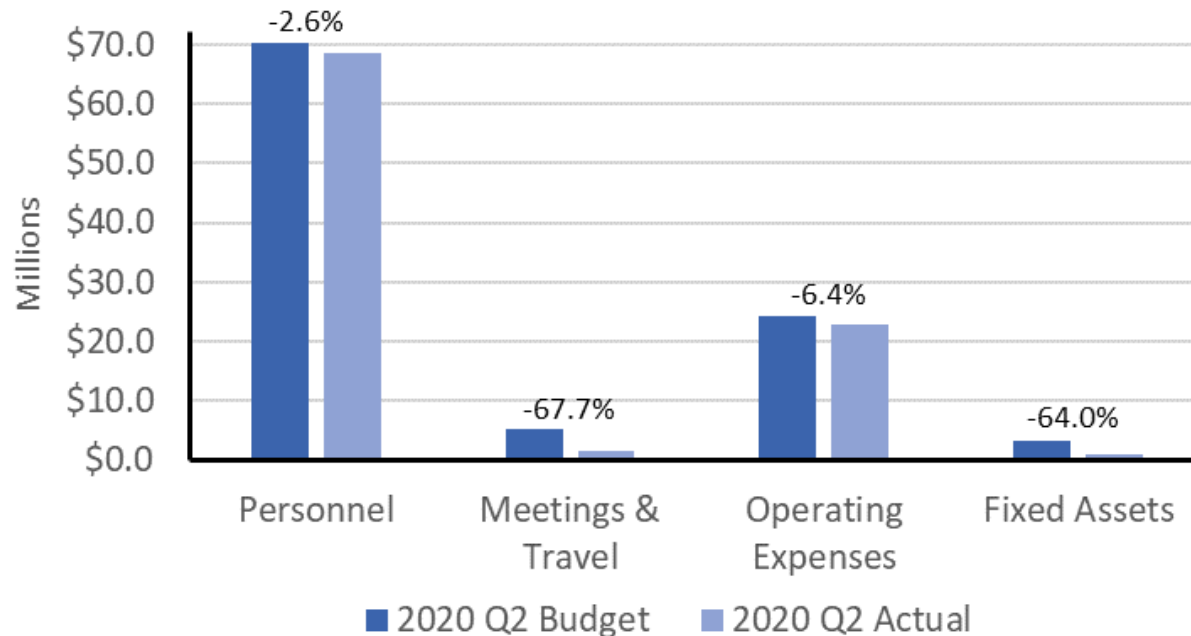
RELIABILITY | RESILIENCE | SECURITY



- Total expenditures for the ERO Enterprise were under budget \$8.8M (8.6%)

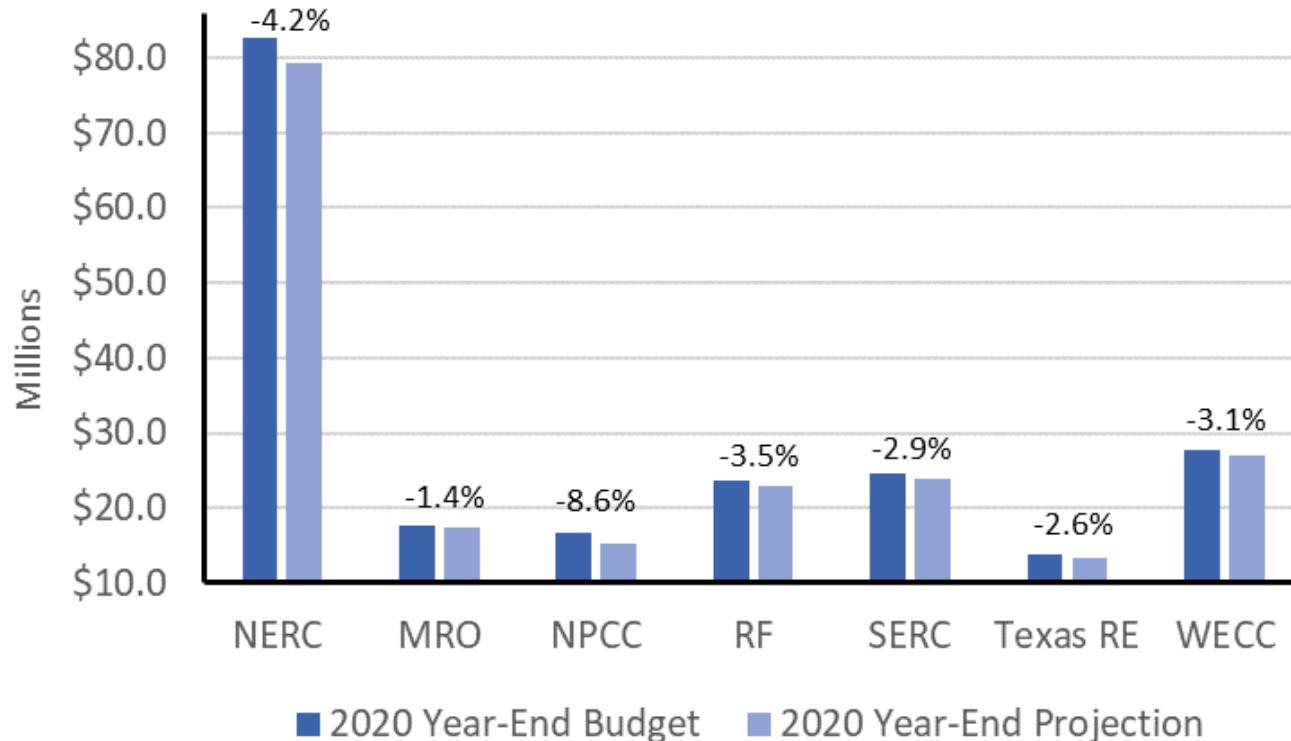


- All entities were under budget in all categories, except:
  - MRO was at budget for Personnel
  - WECC was over budget in Operating Expenses and Fixed Assets
  - Texas RE was slightly over budget in Operating Expenses



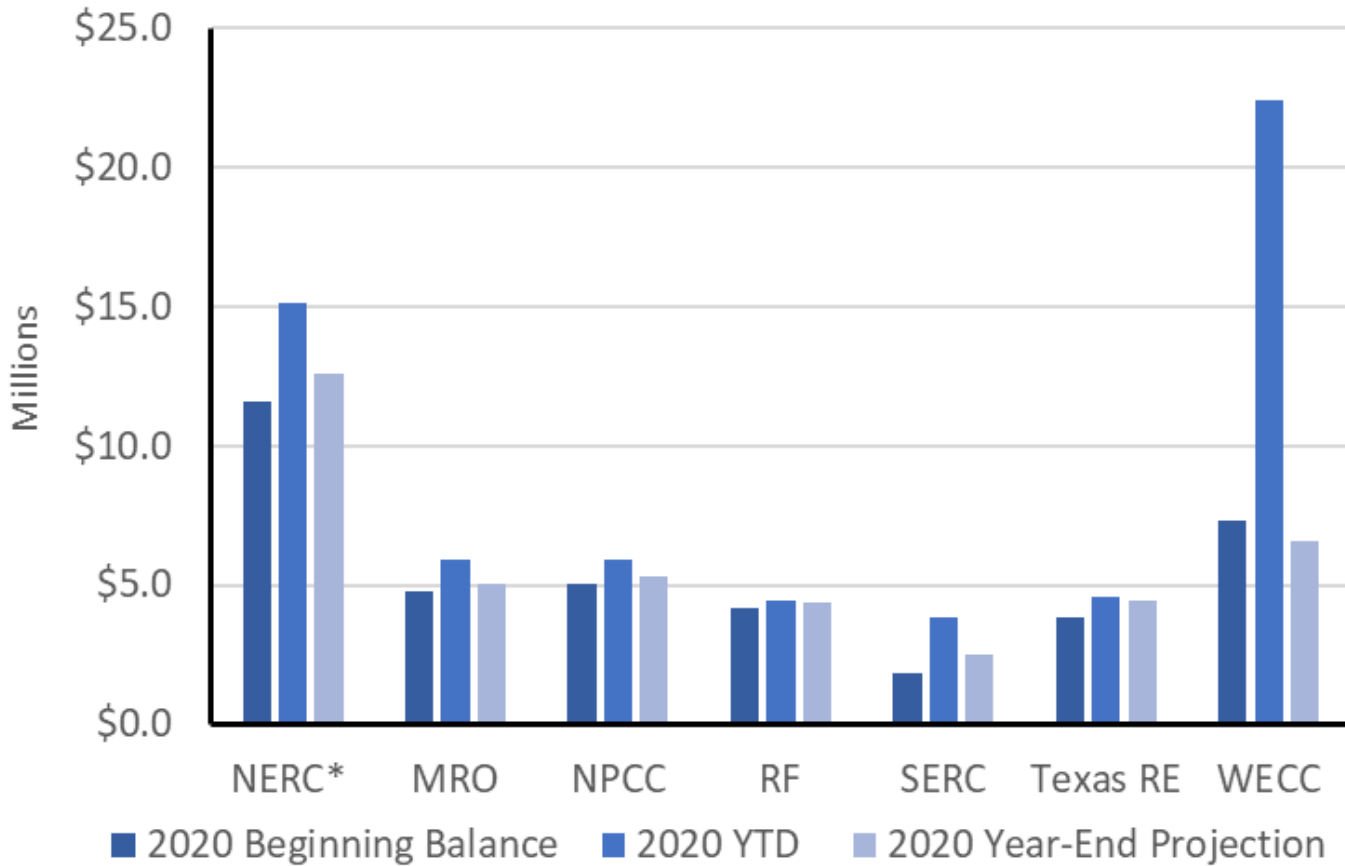


- The ERO Enterprise expects to be under budget \$7.9M (3.8%)



- \$38.6 – Total reserves as of January 1, 2020
  - Started \$4.6M over combined budgets
- \$62.2M – Total reserves as of June 30, 2020
  - \$13.3M more than expected through Q2
- \$40.9M – Year-end projection as of December 31, 2020
  - Ending \$6.7M more than budgeted

# 2020 Reserve Balances by Entity



\*Excludes CRISP



# Questions and Answers



*Lam Chung, Corporate Treasurer*

*P: 651.256.5187*

*F: 651.855.1712*

*E: [lam.chung@mro.net](mailto:lam.chung@mro.net)*

July 20, 2020

Mr. Andy Sharp  
North American Electric Reliability Corporation (NERC)

RE: Unaudited Midwest Reliability Organization (MRO) 2020 Second Quarter Statement of Activity –  
Cash Flow through June 30, 2020

Dear Mr. Sharp:

MRO experienced variances greater than \$10,000 and 10 percent. Second quarter results indicate that MRO's budget remains underspent by 13 percent.

COVID-19 continues to be the driving factor for the budget underage in a majority of the budget areas. Expectations for budget performance continues to evolve as MRO monitors its work progress and prepares for an appropriate work setting for its staff in a pandemic and post-pandemic environment.

**Meeting Expenses (Variance of \$559,249 (87.1%) under budget)**

Meetings have been converted to virtual means using WebEx technology through October. Reconvening in-person meetings and travel will be re-evaluated in late September and it will follow the direction of state and federal authorities.

**Operating Expenses (Variance of \$480,997 (27.2%) under budget)**

There is reduced spending in most of the operating areas. As staff continues to work through remote capability, much of the cost to maintain onsite operations was lower for the second quarter. Internal IT staff continue to maintain MRO's virtual environment.

Professional services are over budget due to the work being performed by outside legal on evaluating and updating MRO's retirement plans.

**Budget Outlook**

The 2020 budget anticipates that travel and in-person meetings will be postponed through the month of October. An office expansion has been approved that will result in unbudgeted expenditures during 2020. Anticipated underage in the named areas above will offset anticipated overage in personnel due to an unbudgeted FTE, and overage in building, facilities, and fixed assets because of the office expansion.

If you have any questions regarding this report, please contact me. Thank you.

Lam Chung  
Vice President and Engineer for Strategy, Innovation, and Finance

Cc: Sara Patrick, MRO President and CEO



**Midwest Reliability Organization  
Statement of Activity  
6/30/2020  
PRELIMINARY (Unaudited)**

(In Whole Dollars)

	2020 YTD Actual	2020 YTD Budget	2020 YTD Variance	%	Projected 2020 End Of Year	2020 Budget	2020 Variance	%
<b>Funding</b>								
<b>ERO Funding</b>								
ERO Assessments	\$ 8,491,626	\$ 8,491,626	-		\$ 16,983,251	\$16,983,251	-	
Penalty Sanctions	278,859	278,859	-		557,718	557,718	-	
<b>A. Total ERO Funding</b>	<b>\$ 8,770,486</b>	<b>\$ 8,770,485</b>	<b>\$ -</b>		<b>\$ 17,540,969</b>	<b>\$17,540,969</b>	<b>\$ -</b>	
<b>Personnel Expenses</b>								
Salaries	\$ 4,720,892	\$ 4,667,131	53,761		\$ 9,593,948	\$ 9,334,262	259,686	
Payroll Taxes	305,400	293,302	12,098		583,707	586,604	(2,897)	
Benefits	482,485	530,791	(48,306)		911,958	1,061,581	(149,623)	
Retirement Costs	735,390	750,122	(14,732)		1,497,319	1,500,244	(2,925)	
<b>Total Personnel Expenses</b>	<b>\$ 6,244,167</b>	<b>\$ 6,241,346</b>	<b>\$ 2,822</b>	<b>0.0%</b>	<b>\$ 12,586,931</b>	<b>\$12,482,691</b>	<b>\$ 104,240</b>	<b>0.8%</b>
<b>Meeting Expenses</b>								
Meetings	\$ 9,007	\$ 87,950	(78,943)		\$ 18,015	\$ 175,900	(157,885)	
Travel	74,060	554,366	(480,306)		\$ 148,119	1,108,732	(960,613)	
Conference Calls	-	-	-		-	-	-	
<b>Total Meeting Expenses</b>	<b>\$ 83,067</b>	<b>\$ 642,316</b>	<b>\$ (559,249)</b>	<b>-87.1%</b>	<b>\$ 166,134</b>	<b>\$ 1,284,632</b>	<b>\$ (1,118,498)</b>	<b>-87.1%</b>
<b>Operating Expenses</b>								
Consultants & Contracts	\$ 290,947	\$ 653,160	(362,212)		\$ 979,739	\$ 1,306,319	(326,580)	
Office Rent	366,419	387,000	(20,581)		\$ 732,838	774,000	(41,162)	
Office Costs	277,005	465,164	(188,159)		\$ 554,010	930,327	(376,318)	
Professional Services	353,955	264,000	89,955		\$ 707,910	528,000	179,910	
<b>Total Operating Expenses</b>	<b>\$ 1,288,326</b>	<b>\$ 1,769,323</b>	<b>\$ (480,997)</b>	<b>-27.2%</b>	<b>\$ 2,974,497</b>	<b>\$ 3,538,646</b>	<b>\$ (564,149)</b>	<b>-15.9%</b>
<b>Total Direct Expenses</b>	<b>\$ 7,615,561</b>	<b>\$ 8,652,985</b>	<b>\$ (1,037,424)</b>	<b>-12.0%</b>	<b>\$ 15,727,563</b>	<b>\$17,305,969</b>	<b>\$ (1,578,406)</b>	<b>-9.1%</b>
<b>Indirect Expenses</b>								
<b>Other Non-Operating Expenses</b>	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	
<b>B. Total Expenses</b>	<b>\$ 7,615,561</b>	<b>\$ 8,652,985</b>	<b>\$ (1,037,424)</b>		<b>\$ 15,727,563</b>	<b>\$17,305,969</b>	<b>\$ (1,578,406)</b>	
<b>Change in Assets</b>	<b>\$ 1,154,925</b>	<b>\$ 117,500</b>	<b>\$ 1,037,424</b>		<b>\$ 1,813,406</b>	<b>\$ 235,000</b>	<b>\$ 1,578,406</b>	
<b>Fixed Assets</b>								
Computer & Software CapEx	10,018	105,000	(94,982)		210,000	210,000	-	
Furniture & Fixtures CapEx	-	-	-		-	-	-	
Equipment CapEx	-	-	-		-	-	-	
Leasehold Improvements	3,600	12,500	(8,900)		1,357,300	25,000	1,332,300	
<b>C. Inc(Dec) in Fixed Assets</b>	<b>\$ 13,618</b>	<b>\$ 117,500</b>	<b>\$ (103,882)</b>	<b>-88.4%</b>	<b>\$ 1,567,300</b>	<b>\$ 235,000</b>	<b>\$ 1,332,300</b>	<b>566.9%</b>
<b>Total Budget (B + C)</b>	<b>\$ 7,629,179</b>	<b>\$ 8,770,485</b>	<b>\$ (1,141,305)</b>	<b>-13.0%</b>	<b>\$ 17,294,863</b>	<b>\$17,540,969</b>	<b>\$ (246,106)</b>	<b>-1.4%</b>
<b>Change in Working Capital (A-B-C)</b>	<b>\$ 1,141,306</b>	<b>\$ -</b>	<b>\$ 1,141,305</b>		<b>\$ 246,106</b>	<b>\$ -</b>	<b>\$ 246,106</b>	
<b>Head Count</b>	60.00	63.00	(3.00)		64.00	63.00	1.00	
<b>FTEs</b>	59.00	63.00	(4.00)		63.60	63.00	0.60	
Beginning WC-1/1/20	\$ 4,769,485	\$ 4,934,448	\$ (164,963)		\$ 4,769,485	\$ 4,934,448	(164,963)	
Change to WC-2020	1,141,306	-	1,141,306		246,106	-	246,106	
Working Capital at June 30, 2020	\$ 5,910,791	\$ 4,934,448	\$ 976,343		\$ 5,015,591	\$ 4,934,448	\$ 81,143	



NORTHEAST POWER COORDINATING COUNCIL, INC.  
1040 AVE OF THE AMERICAS. NEW YORK, NY 10018 (212) 840-1070 FAX (212) 302-2782

July 20, 2020

North American Electric Reliability Corporation  
3353 Peachtree Road NE  
Suite 600, North Tower  
Atlanta, GA 30326  
Attention: Mr. Andy Sharp

Subject: NPCC Regional Entity Division Variance Comparison and  
Second Quarter 2020 Statement of Activities

Dear Andy:

The variance comparison for the period ended June 30, 2020 is included along with Northeast Power Coordinating Council, Inc.'s unaudited Second Quarter 2020 Statement of Activities.

Please do not hesitate to contact me via email at [jhala@npcc.org](mailto:jhala@npcc.org) or via telephone at (212) 840-1070 should you have any comments or questions with regard to the materials provided.

Sincerely,

*Jessica Hala*

Jessica Hala  
Director, Finance and Accounting

Enclosures

cc: Mr. Christopher Weir, CPA – NPCC Treasurer  
Mr. Edward A. Schwerdt – NPCC President & CEO  
Ms. Jennifer Budd Mattiello – NPCC Senior Vice President & COO  
ERO Finance Group



NORTHEAST POWER COORDINATING COUNCIL, INC.  
1040 AVE OF THE AMERICAS, NEW YORK, NY 10018 (212) 840-1070 FAX (212) 302-2782

## **NPCC Regional Entity Division Budget to Actual Variance Comparison as of June 30, 2020**

### **TOTAL EXPENSES**

For the quarter ending June 30, 2020, the NPCC Regional Entity Division is \$1.1M or -13.81% under budget year to date. Based on currently planned activities, NPCC's current full year projection is an under budget variance of \$1.4M or -8.62%. The full impacts of the COVID-19 pandemic to the NPCC Region to some degree are currently unknown. It is anticipated that projections would further change throughout 2020 and would be reflected in each subsequent quarter's variance report. NPCC will reprioritize resources as necessary to fulfill all of its responsibilities under its Regional Delegation Agreement.

### **INCOME**

- **Penalty Sanctions** (Actual income of \$120k remitted to NPCC as of June 30, 2019 has been applied to reduce 2020 assessments to NPCC U.S. load serving entity designees.) Penalty sanctions remitted from July 1, 2019 through June 30, 2020 are included in NPCC's Assessment Stabilization Reserve to be applied to budget year 2021 and future budget years to reduce assessments to NPCC U.S. load serving entity designees. Penalties collected will be reported in NPCC's audited financial statements in accordance with GAAP.
- **Interest & Investment Income** (Actual income of \$17k year-to-date, \$36k under budget FYP)  
Interest & investment income earned from the investment of excess operating cash into a 100% U.S. Treasury Securities mutual fund. Full year projection was adjusted based on current and projected yields. NPCC allocated \$17k as a portion of total interest income (93%) to the Regional Entity Division consistent with the ratio of Regional Entity (RE) to Criteria Services (CS) Division 2020 funding. A common system of accounts, with divisional separation, is used for both RE and CS revenue tracking and financial reporting.

### **EXPENSES**

- **Personnel Expenses** (Variance of \$460k under budget year-to-date, and \$140k under budget FYP)
  - Several open positions during portions of the first half of the year resulted in lower than budgeted salaries and related benefits. Two individuals have accepted offers to begin employment in July and one at the end of August bringing NPCC to its full complement of staff. In response to the COVID-19 pandemic, NPCC successfully adjusted recruiting and hiring procedures, conducting teleconference, WebEx and video conference interviews with candidates and remotely onboarding.



- **Meetings and Conference Calls** (Variance of \$376k under budget year-to-date, and \$996k under budget FYP)
  - The current underage is primarily due to travel being suspended since early March due to the COVID-19 pandemic and shelter in place orders. NPCC's Spring Compliance and Standards Workshop was converted to a remote attendance webinar format. There was positive feedback received on the virtual format and the workshop was remotely attended by a greater than average number of participants. Other planned meetings and activities have been conducted successfully via webinar, video conferencing and teleconference. Full year projections will continue to be updated in subsequent quarters' variance reports.
  
- **Consultants and Contracts** (Variance of \$361k under budget year-to-date, and \$295k under budget FYP)
  - Year-to-date under budget variance is due to the timing of the use of independent contractors for virtual compliance audits and other contract engagements that have been deferred due to the suspension of access to registered entity physical sites related to the COVID-19 pandemic. It is anticipated that onsite compliance audits could resume to some degree in 2021. The full year projection will continue to be updated in subsequent reports as scheduling is adjusted.
  
- **Professional Services** (Variance of \$82k over budget year-to-date, and as budgeted FYP)
  - Year-to-date over budget variance is due to the timing of the independent audit of NPCC's financial statements for the prior year occurring during the first half of this year. The full year projection continues to be as budgeted.
  
- **Fixed Assets** (Variance of \$9k under budget year to date and as budgeted FYP)
  - Year to date under budget variance is primarily due to the timing of scheduled website enhancements that have been deferred several months. The full year projection continues to be as budgeted.

*(Unaudited)*  
*Submitted July 20, 2020*



Northeast Power Coordinating Council, Inc. - Regional Entity Division  
 Statement of Activities, Fixed Assets and Change in Working Capital  
 (Unaudited)  
 For the Period Ended June 30, 2020

	2020 YTD Actual	2020 YTD Budget	2020 YTD Actual Variance from Budget Over(Under)	%	2020 Projection	2020 Annual Budget	2020 Projection Variance from Budget Over(Under)	%
<b>Funding</b>								
Assessments	7,669,369	7,669,369	-		15,338,737	15,338,737	-	
Penalties	120,000	120,000	-		120,000	120,000	-	
Testing	-	-	-		-	-	-	
Services & Software	-	-	-		-	-	-	
Workshop Fees	-	-	-		-	67,500	(67,500)	
Interest & Investment Income	17,087	27,900	(10,813)		20,000	55,800	(35,800)	
<b>Total Funding</b>	<b>7,806,455</b>	<b>7,817,269</b>	<b>(10,813)</b>	<b>-0.14%</b>	<b>15,478,737</b>	<b>15,582,037</b>	<b>(103,300)</b>	<b>-0.66%</b>
<b>Expenses</b>								
<b>Personnel Expenses</b>								
Salaries	3,601,310	3,852,131	(250,821)		7,661,762	7,704,262	(42,500)	
Payroll Taxes	220,958	253,564	(32,606)		480,520	495,520	(15,000)	
Employee Benefits	808,908	963,442	(154,534)		1,864,385	1,926,885	(62,500)	
Savings & Retirement	419,329	441,475	(22,146)		862,951	882,951	(20,000)	
<b>Total Personnel Expenses</b>	<b>5,050,506</b>	<b>5,510,612</b>	<b>(460,107)</b>	<b>-8.35%</b>	<b>10,869,618</b>	<b>11,009,618</b>	<b>(140,000)</b>	<b>-1.27%</b>
<b>Meeting Expenses</b>								
Meetings & Conference Calls	38,724	177,700	(138,976)		78,750	397,750	(319,000)	
Travel	101,575	338,360	(236,785)		168,900	845,900	(677,000)	
<b>Total Meeting Expenses</b>	<b>140,299</b>	<b>516,060</b>	<b>(375,761)</b>	<b>-72.81%</b>	<b>247,650</b>	<b>1,243,650</b>	<b>(996,000)</b>	<b>-80.09%</b>
<b>Operating Expenses, excluding Depreciation</b>								
Consultants & Contracts	569,763	930,860	(361,097)		1,776,150	2,071,150	(295,000)	
Rent & Improvements	419,790	416,350	3,440		832,700	832,700	-	
Office Costs	392,163	342,990	49,172		685,981	685,981	-	
Professional Services	493,137	411,500	81,637		947,000	947,000	-	
Miscellaneous	5,929	25,500	(19,571)		51,000	51,000	-	
<b>Total Operating Expenses</b>	<b>1,880,782</b>	<b>2,127,200</b>	<b>(246,418)</b>	<b>-11.58%</b>	<b>4,292,831</b>	<b>4,587,831</b>	<b>(295,000)</b>	<b>-6.43%</b>
Indirect Expense Allocation	(223,208)	(204,725)	(18,483)	9.03%	(409,450)	(409,450)	-	0.00%
Other Non-Operating Expenses	-	-	-	n/a	-	-	-	n/a
<b>Total Expenses</b>	<b>6,848,379</b>	<b>7,949,148</b>	<b>(1,100,769)</b>	<b>-13.85%</b>	<b>15,000,649</b>	<b>16,431,649</b>	<b>(1,431,000)</b>	<b>-8.71%</b>
<b>Change in Net Assets</b>	<b>958,077</b>	<b>(131,879)</b>	<b>1,089,956</b>	<b>-826.48%</b>	<b>478,088</b>	<b>(849,612)</b>	<b>1,327,700</b>	<b>-156.27%</b>
<b>Fixed Asset Additions, excluding Right of Use Assets</b>	<b>76,379</b>	<b>85,000</b>	<b>(8,621)</b>	<b>-10.14%</b>	<b>170,000</b>	<b>170,000</b>	<b>-</b>	<b>0.00%</b>
<b>Net Financing Activity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>n/a</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>n/a</b>
<b>Total Budget (Expenses plus Fixed Assets and Net Financing Activity)</b>	<b>6,924,758</b>	<b>8,034,148</b>	<b>(1,109,390)</b>	<b>-13.81%</b>	<b>15,170,649</b>	<b>16,601,649</b>	<b>(1,431,000)</b>	<b>-8.62%</b>
<b>Change in Working Capital (Total Funding less Total Budget)</b>	<b>881,698</b>	<b>(216,879)</b>	<b>1,098,577</b>	<b>-506.54%</b>	<b>308,088</b>	<b>(1,019,612)</b>	<b>1,327,700</b>	<b>-130.22%</b>
Equivalent Full Time Employees	36.36	41.09	(4.73)		38.11	41.09	(2.98)	
Headcount	39.00	43.00	(4.00)		42.00	43.00	(1.00)	
Beginning Total Reserves - 1/1/20	5,017,751	4,426,112	591,639		5,017,751	4,426,112	591,639	
Change to Reserves	881,698	(216,879)	1,098,577		308,088	(1,019,612)	1,327,700	
<b>Projected Total Reserves at 12/31/20</b>	<b>5,899,449</b>	<b>4,209,233</b>	<b>1,690,216</b>		<b>5,325,839</b>	<b>3,406,500</b>	<b>1,919,339</b>	



Jill S. Lewton  
Controller  
3 Summit Park Drive, Suite 600  
Cleveland, OH 44131  
Office: 216.503.0600  
Jill.lewton@rfirst.org

July 20, 2020

Mr. Andy Sharp  
North American Electric Reliability Corporation  
3353 Peachtree Road, N.E.  
Suite 600, North Tower  
Atlanta, Georgia 30326

**ReliabilityFirst's 2020 2nd Quarter Statement of Activities Variance Report - Unaudited**

Dear Mr. Andy Sharp:

As requested, the attached 2020 2nd Quarter Statement of Activities (unaudited) provides a comparison of budgeted and actual expenses relative to the 2020 ReliabilityFirst Corporation's Budget.

For more information, please contact me at 216.503.0600 or [jill.lewton@rfirst.org](mailto:jill.lewton@rfirst.org).

Very truly yours,

**RELIABILITYFIRST CORPORATION**

*Jill S. Lewton*

Jill S. Lewton  
Controller



**RELIABILITY FIRST**

## ReliabilityFirst's 2020 2nd Quarter Statement of Activities Variance Report - Unaudited

### Significant Variances

For the quarter ending June 30, 2020 ReliabilityFirst Corporation is \$945K (7.78%) under budget. The major contributors to this variance are:

### Budget Funding

- **Investment Income:** \$106K (423%) over budget for YTD
  - Investment Income is over budget due to greater than anticipated growth in value of the company's investment portfolio.

### Budget Expenses

- **Personnel Expenses**
  - **Employee Benefits:** \$299K (22%) under budget for YTD  
Employee Benefits are under budget mainly due to variances in medical benefits and training. Medical benefits are under budget due to personnel being below the approved staffing levels, along with employees selecting medical plans that differed from what was budgeted. The variance in Training is due to underutilized budgeted training.
- **Meeting Expenses**
  - **Meeting Expenses:** \$350K (69%) under budget for YTD  
Meeting Expenses are under budget due to the cancellation of meetings and travel as a result of the Covid 19 pandemic.
- **Operating Expenses**
  - **Contracts & Consultants:** \$136K (71%) under budget for YTD  
Contracts and Consultants expense is under budget due to the cancellation and postponement of planned contract support for most of the corporate activities, as a result of the Covid 19 pandemic.
  - **Rent & Utilities:** \$27K (10%) over budget for YTD  
Rent & Utilities are over budget due to the payments made for the true up of prior year operating expenses, along with higher actual monthly expenses than budgeted.
  - **Professional Services:** \$49K (21%) over budget for YTD  
Professional Services are over budget due to the increase in Independent Director Fees.



## RELIABILITY FIRST

- **Fixed Assets**

- **Fixed Assets:** \$347K (99%) under budget for YTD  
Fixed Assets are under budget due to the difference in timing of when projects were budgeted and when they would be completed.

### FTE Count

- FTE count is higher than the budget due to the usage of interns and the filling of three overlap positions, which are not accounted for in the budgeted FTE count.

### Reserves

- **Working Capital Reserve**

The Working Capital Reserve of \$1,528,149 will be utilized to satisfy projected cash flow for daily operations and to stabilize and minimize volatility in future years' assessments.

- **Operating Reserve**

The Operating Reserve of \$1,000,000 has been designated with the intention of providing for any unbudgeted and unexpected expenditures for the organization.

### Year-End Projection

- **Expenses**

- For the year-end projection ReliabilityFirst is \$833K (3.5%) under budget. The variances in Investment Income, Employee Benefits, Total Meeting Expenses, Contracts & Consultants, Rent & Utilities, and Professional Services are expected to continue through the remainder of the year. Total Personnel Expenses are expected to be over budget at year end, due to a realignment of employees that was announced during the first quarter, and the filling of the all vacant and overlap positions. Office Costs and Fixed Assets are currently projected to align with the budget due to the expectation to complete the budgeted IT projects and office modifications by year end.

- **FTE Count**

- FTE count is projected to be higher than budget due to the usage of interns, the filling of all overlap positions and two budgeted 2021 new positions, which are not accounted for in the budgeted FTE count.

- **Reserves**

- Working Capital Reserve is projected to increase by \$1.8M and will be used to stabilize and minimize volatility in future years' assessments .



ReliabilityFirst Corporation  
Statement of Activities, Fixed Assets and Change in Working Capital  
(unaudited)  
From 01/01/2020 Through 06/30/2020  
(in Whole Numbers)

2020 YTD Actual	2020 YTD Budget	YTD Variance Over/(Under)	% Variance		Total 2020 Projection	Total 2020 Budget	Total 2020 Projected Variance Over/(Under)	% Projected Variance
				<b>Funding</b>				
11,159,312	11,159,312	0	0.00%	Assessments	22,318,623	22,318,623	0	0.00%
267,627	267,627	0	0.00%	Penalty Sanctions	267,627	267,627	0	0.00%
130,770	25,000	105,770	423.08%	Investment Income	261,541	50,000	211,541	423.08%
0	0	0	0.00%	Miscellaneous Income	0	0	0	0.00%
<b>11,557,709</b>	<b>11,451,939</b>	<b>105,770</b>	<b>0.92%</b>	<b>Total Funding</b>	<b>22,847,791</b>	<b>22,636,250</b>	<b>211,541</b>	<b>0.93%</b>
				<b>Expenses</b>				
				<b>Personnel Expenses</b>				
7,128,694	7,023,170	105,524	1.50%	Salaries	14,772,361	14,189,599	582,762	4.11%
514,142	527,408	(13,266)	-2.52%	Payroll Taxes	870,775	846,790	23,985	2.83%
1,049,988	1,348,531	(298,543)	-22.14%	Employee Benefits	1,958,472	2,493,615	(535,143)	-21.46%
1,289,184	1,281,701	7,483	0.58%	Savings & Retirement Costs	2,409,378	2,338,753	70,625	3.02%
<b>9,982,009</b>	<b>10,180,810</b>	<b>(198,801)</b>	<b>-1.95%</b>	<b>Total Personnel Expenses</b>	<b>20,010,987</b>	<b>19,868,757</b>	<b>142,230</b>	<b>0.72%</b>
				<b>Meeting Expenses</b>				
56,160	160,768	(104,608)	-65.07%	Meetings & Conference Calls	116,160	377,140	(260,980)	-69.20%
102,985	348,858	(245,873)	-70.48%	Travel	152,985	697,916	(544,931)	-78.08%
<b>159,144</b>	<b>509,626</b>	<b>(350,482)</b>	<b>-68.77%</b>	<b>Total Meeting Expenses</b>	<b>269,144</b>	<b>1,075,056</b>	<b>(805,912)</b>	<b>-74.96%</b>
				<b>Operating Expenses</b>				
54,365	190,266	(135,901)	-71.43%	Contracts & Consultants	281,115	481,115	(200,000)	-41.57%
296,815	269,646	27,169	10.08%	Rent & Utilities	577,862	539,292	38,570	7.15%
408,653	391,815	16,838	4.30%	Office Costs	810,400	810,400	0	0.00%
281,111	232,072	49,039	21.13%	Professional Services	513,752	442,483	71,269	16.11%
12,138	18,280	(6,142)	-33.60%	Miscellaneous	40,859	43,759	(2,900)	-6.63%
<b>1,053,082</b>	<b>1,102,079</b>	<b>(48,997)</b>	<b>-4.45%</b>	<b>Total Operating Expenses</b>	<b>2,223,988</b>	<b>2,317,049</b>	<b>(93,061)</b>	<b>-4.02%</b>
0	0	0	0.00%	<b>Non-Operating Expenses</b>	0	0	0	0.00%
<b>11,194,235</b>	<b>11,792,515</b>	<b>(598,280)</b>	<b>-5.07%</b>	<b>Total Expenses</b>	<b>22,504,119</b>	<b>23,260,862</b>	<b>(756,743)</b>	<b>-3.25%</b>
<b>363,474</b>	<b>(340,577)</b>	<b>704,051</b>	<b>-206.72%</b>	<b>Net Change in Assets</b>	<b>343,672</b>	<b>(624,612)</b>	<b>968,284</b>	<b>-155.02%</b>
				<b>Fixed Assets</b>				
0	0	0	0.00%	Equipment	0	0	0	0.00%
0	100,000	(100,000)	-100.00%	Computer Hardware & Software	100,000	140,000	(40,000)	-28.57%
0	14,000	(14,000)	-100.00%	Furniture & Fixtures	14,000	14,000	0	0.00%
3,233	236,000	(232,767)	-98.63%	Leasehold Improvements	200,000	236,000	(36,000)	-15.25%
<b>3,233</b>	<b>350,000</b>	<b>(346,767)</b>	<b>-99.08%</b>	<b>Increase/(Decrease) in Fixed Assets</b>	<b>314,000</b>	<b>390,000</b>	<b>(76,000)</b>	<b>-19.49%</b>
11,197,468	12,142,515	(945,047)	-7.78%	<b>Total Budget (Expenses + Incr/(Decr) in Fixed Assets)</b>	22,818,119	23,650,862	(832,743)	-3.52%
<b>360,241</b>	<b>(690,577)</b>	<b>1,050,818</b>	<b>-152.17%</b>	<b>Change in Working Capital (Total Funding less Total Budget)</b>	<b>29,672</b>	<b>(1,014,612)</b>	<b>1,044,284</b>	<b>-102.92%</b>
80.28	79.35	0.93	1.17%	<b>FTE Count</b>	83.19	79.35	3.84	4.84%
2,465,448	1,172,687	1,292,761		WC - 12/31/2019	2,465,448	1,172,687	1,292,761	
(802,422)	0	(802,422)		Less: Adjustment for future liabilities	(802,422)	0	(802,422)	
<b>1,663,026</b>	<b>1,172,687</b>	<b>490,339</b>		Available Working Capital	1,663,026	1,172,687	490,339	
360,241	(690,577)	1,050,818		Change to WC - 2020	29,672	(1,014,612)	1,044,284	
(79,037)	(79,037)	0		Other Adjustments to Reserves	158,074	(158,074)	316,148	
<b>1,944,230</b>	<b>403,074</b>	<b>1,541,156</b>		<b>Total Working Capital</b>	<b>1,850,771</b>	<b>1</b>	<b>1,850,770</b>	
1,528,149	1,528,149	0		Working Capital Reserve	1,528,149	1,528,149	0	
1,000,000	1,000,000	0		Operating Reserve	1,000,000	1,000,000	0	
<b>4,472,379</b>	<b>2,931,223</b>	<b>1,541,156</b>		<b>Total Working Capital and Operating Reserve</b>	<b>4,378,920</b>	<b>2,528,150</b>	<b>1,850,770</b>	



July 15, 2020

Mr. Andy Sharp  
North American Electric Corporation  
3353 Peachtree Road, NE  
Atlanta, GA 30326

RE: SERC 2020 Q2 Unaudited Financial Statement – Budget vs. Actual

Andy:

Following please find SERC's unaudited 2020 Q2 financial statement, reflecting actual to budgeted amounts with variance explanations.

If you have any questions, please let me know.

Thank you,

A handwritten signature in black ink, appearing to read 'George Krogstie', is written over a light blue horizontal line.

George Krogstie  
Chief Financial Officer and Corporate Treasurer

cc: Jason Blake

**SERC Reliability Corporation**  
**YTD Report to Treasurer**  
**From 1/1/2020 Through 6/30/2020**

(In Whole Dollars)

	2020 Actual	2020 YTD Budget	2020 YTD Actual Variance Over/(Under)	%	2020 Projection	2020 Budget	2020 Actual Variance from Budget Over/(Under)	%
<b>Funding</b>								
ERO Funding	11,229,562	11,229,562	-		22,459,123	22,459,123	-	
Penalties Released	1,900,000	1,900,000	-		1,900,000	1,900,000	-	
Workshops & Misc.	8,215	82,500	(74,285)		5,000	165,000	(160,000)	
Interest	82,001	30,000	52,001		60,000	60,000	-	
<b>Total Funding</b>	<b>13,219,778</b>	<b>13,242,062</b>	<b>(22,284)</b>	<b>-0.17%</b>	<b>24,424,123</b>	<b>24,584,123</b>	<b>(160,000)</b>	<b>-0.65%</b>
<b>Expenses</b>								
<b>Personnel Expenses</b>								
Salaries	7,135,851	7,067,691	68,160		14,245,381	14,135,382	109,999	
Payroll Taxes	515,678	514,102	1,576		1,028,204	1,028,204	0	
Benefits	791,988	902,673	(110,685)		1,843,729	1,843,730	(1)	
Retirement Costs	904,022	912,091	(8,069)		1,824,182	1,824,181	1	
<b>Total Personnel Expenses</b>	<b>9,347,539</b>	<b>9,396,556</b>	<b>(49,017)</b>	<b>-0.52%</b>	<b>18,941,496</b>	<b>18,831,497</b>	<b>109,999</b>	<b>0.58%</b>
<b>Meeting Expenses</b>								
Meetings	11,532	248,445	(236,913)		134,089	499,624	(365,535)	
Travel	108,152	345,607	(237,455)		187,623	805,148	(617,525)	
Communications	8,052	11,100	(3,048)		22,200	22,200	-	
<b>Total Meeting Expenses</b>	<b>127,736</b>	<b>605,152</b>	<b>(477,416)</b>	<b>-78.89%</b>	<b>343,912</b>	<b>1,326,972</b>	<b>(983,060)</b>	<b>-74.08%</b>
<b>Operating Expenses</b>								
Contracts & Consultants	854,406	1,102,275	(247,869)		2,369,580	2,369,580	0	
Office Rent	432,561	394,638	37,923		789,276	789,276	-	
Office Costs	395,604	281,281	114,323		711,549	710,349	1,200	
Professional Services	35,733	65,190	(29,457)		166,140	166,140	-	
Miscellaneous/Contingency	20	1,200	(1,180)		-	1,200	(1,200)	
<b>Total Operating Expenses</b>	<b>1,718,324</b>	<b>1,844,584</b>	<b>(126,260)</b>	<b>-6.84%</b>	<b>4,036,545</b>	<b>4,036,545</b>	<b>0</b>	<b>0.00%</b>
<b>Other Non-Operating Expenses</b>								
	-	-	-		-	-	-	
<b>Total Expenses</b>	<b>11,193,599</b>	<b>11,846,292</b>	<b>(652,693)</b>	<b>-5.51%</b>	<b>23,321,953</b>	<b>24,195,013</b>	<b>(873,060)</b>	<b>-3.61%</b>
<b>Net Change in Assets</b>	<b>2,026,179</b>	<b>1,395,769</b>	<b>630,409</b>	<b>45.17%</b>	<b>1,102,170</b>	<b>389,110</b>	<b>713,060</b>	<b>183.25%</b>
<b>Fixed Assets</b>								
Computer & Software CapEx	774	206,666	(205,892)		480,000	330,000	150,000	
Furniture & Fixtures CapEx	10,341	-	10,341		-	-	-	
Equipment CapEx		-	-		-	-	-	
Leasehold Improvements	9,368	-	9,368		-	-	-	
<b>Increase(Decrease) in Fixed Assets</b>	<b>20,483</b>	<b>206,666</b>	<b>(186,183)</b>	<b>-90.09%</b>	<b>480,000</b>	<b>330,000</b>	<b>150,000</b>	<b>45.45%</b>
<b>Total Budget(Exp plus Incr/(Decr) in Fixed Assets</b>	<b>11,214,082</b>	<b>12,052,958</b>	<b>(838,876)</b>	<b>-6.96%</b>	<b>23,801,953</b>	<b>24,525,013</b>	<b>(723,060)</b>	<b>-2.95%</b>
<b>Change in Working Capital (Total Funding less Total Budget)</b>	<b>2,005,696</b>	<b>1,189,103</b>	<b>816,592</b>	<b>68.67%</b>	<b>622,170</b>	<b>59,110</b>	<b>563,060</b>	<b>952.56%</b>
<b>FTE's</b>	91.00	98.00	(7.00)		98.00	98.00	-	
<b>Head Count</b>	91.00	98.00	(7.00)		98.00	98.00	-	
Beginning WC Reserve at 1-1-2020	1,855,528	1,201,725	653,803		1,855,528	1,201,725	653,803	
Change to WC - 2020	2,005,696	1,189,103	816,592		622,170	59,110	563,060	
<b>Working Capital Reserve at 6/30/2020</b>	<b>3,861,224</b>	<b>2,390,828</b>	<b>1,470,395</b>		<b>2,477,698</b>	<b>1,260,835</b>	<b>1,216,863</b>	
<b>Assessment Stabilization Reserve:</b>								
Beginning AS Reserve at 1-1-2020	5,645,000				5,645,000			
Penalties Released	(1,900,000)				(1,900,000)			
Penalties Received	35,000				35,000			
<b>Assessment Stabilization Reserve 6-30-2020</b>	<b>3,780,000</b>				<b>3,780,000</b>			





## Budget to Actual Comparison as of June 30, 2020 (Unaudited)

### Overall Summary

- Spending \$839k under budget as timing of expenditures varies from budget
- Funding \$22k under budget attributable to cancellation of workshops
- Full year projected spending \$723k under budget attributable to COVID-19 impact

### Income

- **Funding (Actual - \$22k under budget)**
  - Investment income higher than budget due to increased market value offset by workshop revenue lower than budget due to cancellation of workshops
  - Full year projected to be \$160k under budget

### Expense

- **Personnel Expenses (Actual - \$49k under budget)**
  - Insurance renewal lower than budget. Full year impact projected to be \$110k over budget due to improved hiring and retaining of talent resulting in lower than budgeted vacancies
- **Meeting/Travel Expenses (Actual - \$477k under budget)**
  - Decreased meeting and travel associated with COVID-19 related postponements, full year impact projected to be \$983k under budget
- **Contracts/Consultants (Actual - \$248k under budget)**
  - Independent Director search fees and Compliance User Group expenses less than budgeted
  - Certain software costs budgeted in Contracts, but expensed in Office Costs
  - Timing of RAPA Dynamic Reduction Model expenses later than budgeted
- **Office Rent (Actual - \$38k over budget)**
  - Common area maintenance expenses higher than expected
- **Office Costs (Actual – \$114k over budget)**
  - Certain software costs budgeted in Contracts, but expensed in Office Costs
- **Professional Services (Actual - \$29k under budget)**
  - Timing of actual legal fees varies from budget
- **Fixed Asset Purchases (Actual - \$186k under budget)**
  - IT projects budgeted in Q1 have been deferred until later in the year
  - Full year impact projected at \$150k over budget due to accelerated timeline for Member Portal project

July 13, 2020

Mr. Andy Sharp  
Controller  
North American Electric Reliability Corporation  
3353 Peachtree Road NE, Suite 600, North Tower  
Atlanta, GA 30326

RE: Texas Reliability Entity, Inc. Second Quarter 2020 Statement of Activities and Variance Report

Dear Andy,

Attached is the 2020 second quarter Statutory Statement of Activities (unaudited) and Variance Report for Texas RE.

Year-to-date Texas RE is 2.4% under budget and explanations are noted below.

Please contact me if you have questions or comments.

Thank you.

*Judy Foppiano*

Judy A. Foppiano, CPA  
CFO & Director of Corporate Services  
**Texas Reliability Entity, Inc.**  
805 Los Cimas Parkway, Suite 200  
Austin, Texas 78746  
Judy.foppiano@texasre.org  
512.583.4959

## Budget to Actual Comparison as of June 30, 2020

Year-to-date variances greater than \$10,000 and 10% explained below.

### FUNDING

- **Penalty Sanctions:** Actual penalty income of \$710,000 remitted to Texas RE as of June 30, 2020 has reduced 2020 assessments. All penalty sanctions remitted from July 1, 2019 through June 30, 2020 will be included in the Texas RE 2021 Business Plan and Budget and applied to reduce 2021 assessments.
- **Interest:** \$6,007 is less than budget. Texas RE's banking account is the Business Banking U.S. End of Day Money Market Mutual Fund Sweep account. Interest rates are lower at the end of Q2 than anticipated at the time the 2020 budget was prepared.

### EXPENSES

**Total Budget as of June 30, 2020 is \$164,524 less than budget (-2.4%).**

- **Personnel Expenses:** \$79,980 less than budget (-1.5%).
  - This variance is due to health insurance not increasing as projected. The benefit was budgeted to increase 14% but actual costs stayed consistent with prior year.
- **Meetings and Travel Expenses:** \$111,361 less than 2020 budget (-59.7%).
  - Meetings cost is \$19,499 (-94.2%) less than budget. A workshop and all meetings were held remotely beginning in March because of the COVID-19 pandemic.
  - Travel is \$90,013 (-57.3%) less than expected. All travel was suspended beginning in March due to the COVID-19 pandemic.
- **Total Operating Expenses: \$26,816 greater than 2020 budget (2.1%).**
  - Costs for executive coaching and search fees are budgeted later in the year plus the total cost will more than budgeted causing Consultants and Contracts to be over budget. The forecast has been adjusted to reflect actual cost.
  - Due to negotiations with vendors for internet expense and software maintenance, office expense is 6.6% less than budget. Some normal office supplies have been substituted with special pandemic supplies.
  - IT managed services are less than budget due to negotiations with vendors after this budget was prepared. Legal fees budgeted were not expended causing the variance in Professional Services.

These forecast has been adjusted to reflect anticipated cost in certain categories.

**Texas Reliability Entity, Inc.**  
**Statement of Activities and Fixed Assets**  
**For period ended June 30, 2020**  
**(Unaudited)**

Revenue	2020		YTD Actual		2020	2020 Annual	Forecast	
	Actual	Budget	Budget	Variance from Budget			Forecast	Budget
<b>Revenue</b>								
ERO Funding								
Assessments	\$ 6,672,064	\$ 6,672,064	\$ -		\$ 13,344,127	\$ 13,344,127	\$ -	
Penalties Released	710,000	710,000	-		710,000	710,000	-	
Interest & Membership Dues	13,993	20,000	(6,007)		40,000	40,000	-	
<b>Total Revenue</b>	<b>\$ 7,396,057</b>	<b>\$ 7,402,064</b>	<b>\$ (6,007)</b>	<b>-0.1%</b>	<b>\$ 14,094,127</b>	<b>\$ 14,094,127</b>	<b>\$ -</b>	<b>0.0%</b>
<b>Expenses</b>								
<b>Personnel Expenses</b>								
Salaries	\$ 3,896,441	\$ 3,785,400	\$ 111,041	2.9%	\$ 7,641,282	\$ 7,641,282	\$ -	
Payroll Taxes	298,915	295,716	3,199	1.1%	527,533	527,533	-	
Employee Benefits	559,759	780,785	(221,026)	-28.3%	1,300,000	1,501,005	(201,005)	
Savings & Retirement	559,043	532,236	26,807	5.0%	1,073,802	1,073,802	-	
<b>Total Personnel Expenses</b>	<b>\$ 5,314,157</b>	<b>\$ 5,394,137</b>	<b>\$ (79,980)</b>	<b>-1.5%</b>	<b>\$ 10,542,617</b>	<b>\$ 10,743,622</b>	<b>\$ (201,005)</b>	<b>-1.9%</b>
<b>Meeting &amp; Travel Expenses</b>								
Meetings	\$ 1,201	\$ 20,700	\$ (19,499)	-94.2%	\$ 15,000	\$ 58,500	\$ (43,500)	
Travel	67,019	157,032	(90,013)	-57.3%	165,000	318,204	(153,204)	
Conference Expenses	6,988	8,836	(1,848)	-20.9%	17,640	17,640	-	
<b>Total Meeting &amp; Travel Expenses</b>	<b>\$ 75,207</b>	<b>\$ 186,568</b>	<b>\$ (111,361)</b>	<b>-59.7%</b>	<b>\$ 197,640</b>	<b>\$ 394,344</b>	<b>\$ (196,704)</b>	<b>-49.9%</b>
<b>Operating Expenses</b>								
Consultants & Contracts	\$ 344,995	\$ 203,756	\$ 141,239	69.3%	\$ 525,000	\$ 489,704	\$ 35,296	
Rent & Improvements	394,684	412,824	(18,140)	-4.4%	888,786	888,786	-	
Office Costs	311,868	334,077	(22,209)	-6.6%	676,070	676,070	-	
Professional Services	225,135	299,210	(74,075)	-24.8%	588,600	588,600	-	
<b>Total Operating Expenses</b>	<b>1,276,683</b>	<b>1,249,867</b>	<b>26,816</b>	<b>2.1%</b>	<b>2,678,456</b>	<b>2,643,160</b>	<b>35,296</b>	<b>1.3%</b>
<b>Total Expenses</b>	<b>\$ 6,666,048</b>	<b>\$ 6,830,572</b>	<b>\$ (164,524)</b>	<b>-2.4%</b>	<b>\$ 13,418,713</b>	<b>\$ 13,781,126</b>	<b>\$ (362,413)</b>	<b>-2.6%</b>
Change in Assets	\$ 730,009	\$ 571,492	\$ 158,517	27.7%	\$ 675,413	\$ 313,000	\$ 362,413	115.8%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ -	\$ -	0.0%	\$ 30,000	\$ 30,000	\$ -	0.0%
<b>TOTAL BUDGET</b>	<b>\$ 6,666,048</b>	<b>\$ 6,830,572</b>	<b>\$ (164,524)</b>	<b>-2.4%</b>	<b>\$ 13,448,713</b>	<b>\$ 13,811,126</b>	<b>\$ (362,413)</b>	<b>-2.6%</b>
<b>Change in Working Capital (Total Revenue less Total Budget)</b>	<b>\$ 730,009</b>	<b>\$ 571,492</b>	<b>\$ 158,517</b>	<b>27.7%</b>	<b>\$ 645,414</b>	<b>\$ 283,001</b>	<b>\$ 362,413</b>	<b>128.1%</b>
FTE's	60	60			60	60		
Beginning WC - 1/1/20	\$ 3,823,564	\$ 2,530,999	\$ 1,292,565		\$ 3,823,564	\$ 2,530,999	\$ 1,292,565	
Change to WC - 2020	730,009	571,492	158,517		645,414	283,001	362,413	
Working Capital 6/30/2020	\$ 4,553,573	\$ 3,102,491	\$ 1,451,082		\$ 4,468,978	\$ 2,814,000	\$ 1,654,978	



**Jillian Lessner**  
**Vice President and CFAO**  
**July 20, 2020**

Mr. Andy Sharp  
Vice President and Chief Financial Officer  
North American Electric Reliability Corporation  
3353 Peachtree Road, N.E. Suite 600, North Tower  
Atlanta, GA 30326

RE: WECC Q2 2020 Statutory Statement of Activities and Variance Report

Dear Andy,

Attached is WECC's second-quarter Statutory Statement of Activities (Unaudited) and Variance Report. WECC's 2020 year-to-date unaudited results are \$393,000 under budget, excluding the impact of the change in Generally Accepted Accounting Principles' (GAAP) treatment of penalty revenue recognition. Explanations and drivers are noted below.

If you have any questions or need more information, please contact me.

Regards,

Jillian Lessner  
Vice President and Chief Financial and Administrative Officer

Enclosures

Cc: Melanie Frye, President and Chief Executive Officer  
WECC Finance and Audit Committee

*Year-to-date variances greater than \$10,000 and 10% are explained below. The explanations pertain to all statutory activities.*

## Revenue

---

- Workshops & Miscellaneous: \$165,000 under budget

Workshops & Miscellaneous are under budget primarily due to the cancellation of the March Reliability and Security Workshop, due to COVID-19, and unexpected unrealized losses on short-term investments. Workshops & Miscellaneous are expected to be \$411,000 under budget at year-end.

- Interest: \$21,000 over budget

Interest is over budget due to higher-than-expected yields on short-term investments and is expected to be under budget by \$1,000 at year-end.

## Expenses

---

- Employee Benefits: \$220,000 under budget

Employee Benefits are under budget due to higher-than-anticipated vacancy rates and the variance in budgeted versus actual enrollment levels and benefit premiums. Certain relocation benefits for new employees budgeted in this area are now taxable and expensed under Salaries. Additionally, health reimbursements are less-than-anticipated.

- Meetings & Conference Calls: \$260,000 under budget

Meetings & Conference Calls are under budget primarily due to the cancellation of meetings and workshops due to COVID-19. Meetings & Conference Calls are expected to be \$374,000 under budget at year-end.

- Travel: \$460,000 under budget

Travel is under budget primarily due to the cancellation of on-site audits and in-person meetings and training due to COVID-19 and is expected to be \$995,000 under budget at year-end.

## Statutory Statement of Activities and Variance Explanations (July 20, 2020)

- Consultants and Contracts: \$258,000 over budget

Consultants and Contracts are over budget due to the net of the elimination of RAPA consulting for a changing resource mix study and unbudgeted information technology (IT) consulting. The IT program area is restructuring how it delivers services to the organization to improve IT effectiveness, achievement of business goals, and WECC's overall security posture. Consultants and Contracts are expected to be over budget by \$310,000 at year-end.

- Professional Services: \$339,000 over budget

Professional Services are over budget primarily due to legal fees related to unanticipated regulatory activities and are expected to be over budget by \$356,000 at year-end.

### Fixed Assets

---

- Fixed Asset Additions: \$202,000 over budget

Fixed Asset Additions are over budget due to unbudgeted improvements to the Salt Lake City office and meeting space. Most of the variance is temporary and will be reimbursed through a negotiated tenant improvement allowance in 2020.



# Statutory Statement of Activities and Variance Explanations (July 20, 2020)



## Western Electricity Coordinating Council Statutory Statement of Activities From 1/1/2020 to 6/30/2020 (Unaudited)

(In Whole Dollars)

	2020 YTD Actual	2020 YTD Budget	2020 YTD Variance Over(Under)	%	2020 Projection	2020 Annual Budget	2020 Projected Variance Over(Under)	%
<b>Funding</b>								
Assessments	25,282,000	25,282,000	-	0.0%	25,282,000	25,282,000	-	0.0%
Penalty Sanctions <sup>1</sup>	2,745,000	2,745,000	-	0.0%	2,745,000	2,745,000	-	0.0%
Workshops & Miscellaneous	36,108	201,250	(165,142)	-82.1%	46,108	457,250	(411,142)	-89.9%
Interest	114,618	94,082	20,536	21.8%	198,618	200,000	(1,382)	-0.7%
<b>Total Funding</b>	<b>28,177,727</b>	<b>28,322,332</b>	<b>(144,606)</b>	<b>-0.5%</b>	<b>28,271,727</b>	<b>28,684,250</b>	<b>(412,523)</b>	<b>-1.4%</b>
<b>Expenses</b>								
<b>Personnel Expenses</b>								
Salaries	7,525,198	7,823,146	(297,948)	-3.8%	16,295,394	16,475,075	(179,681)	-1.1%
Payroll Taxes	542,872	585,340	(42,468)	-7.3%	1,086,325	1,074,352	11,973	1.1%
Employee Benefits	966,203	1,186,246	(220,042)	-18.5%	2,296,271	2,377,007	(80,736)	-3.4%
Savings & Retirement	657,064	680,049	(22,985)	-3.4%	1,418,005	1,431,482	(13,477)	-0.9%
<b>Total Personnel Expenses</b>	<b>9,691,337</b>	<b>10,274,780</b>	<b>(583,442)</b>	<b>-5.7%</b>	<b>21,095,995</b>	<b>21,357,916</b>	<b>(261,921)</b>	<b>-1.2%</b>
<b>Meeting Expenses</b>								
Meetings & Conference Calls	84,675	345,004	(260,329)	-75.5%	340,337	714,095	(373,758)	-52.3%
Travel	276,304	735,838	(459,534)	-62.5%	407,199	1,401,818	(994,619)	-71.0%
<b>Total Meeting Expenses</b>	<b>360,978</b>	<b>1,080,842</b>	<b>(719,864)</b>	<b>-66.6%</b>	<b>747,535</b>	<b>2,115,913</b>	<b>(1,368,378)</b>	<b>-64.7%</b>
<b>Operating Expenses, excluding Depreciation</b>								
Consultants and Contracts	826,042	568,500	257,542	45.3%	1,347,938	1,038,160	309,778	29.8%
Rent & Improvements	552,854	563,515	(10,661)	-1.9%	1,238,004	1,248,251	(10,247)	-0.8%
Office Costs	836,477	866,240	(29,762)	-3.4%	1,623,466	1,557,312	66,154	4.2%
Professional Services	831,218	492,070	339,148	68.9%	1,309,686	953,790	355,896	37.3%
Miscellaneous	-	-	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>3,046,591</b>	<b>2,490,325</b>	<b>556,266</b>	<b>22.3%</b>	<b>5,519,094</b>	<b>4,797,513</b>	<b>721,581</b>	<b>15.0%</b>
<b>Total Direct Expenses</b>	<b>13,098,907</b>	<b>13,845,947</b>	<b>(747,040)</b>	<b>-5.4%</b>	<b>27,362,624</b>	<b>28,271,342</b>	<b>(908,718)</b>	<b>-3.2%</b>
<b>Indirect Expenses</b>	<b>(272,665)</b>	<b>(280,920)</b>	<b>8,255</b>	<b>-2.9%</b>	<b>(584,905)</b>	<b>(567,267)</b>	<b>(17,638)</b>	<b>3.1%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Expenses</b>	<b>12,826,242</b>	<b>13,565,025</b>	<b>(738,784)</b>	<b>-5.4%</b>	<b>26,777,718</b>	<b>27,704,075</b>	<b>(926,357)</b>	<b>-3.3%</b>
<b>Change in Net Assets</b>	<b>15,351,485</b>	<b>14,757,307</b>	<b>594,178</b>	<b>4.0%</b>	<b>1,494,008</b>	<b>980,175</b>	<b>513,833</b>	<b>52.4%</b>
<b>Fixed Asset Additions, excluding Right of Use Assets</b>	<b>256,509</b>	<b>55,000</b>	<b>201,509</b>	<b>366.4%</b>	<b>111,509</b>	<b>52,014</b>	<b>59,495</b>	<b>114.4%</b>
<b>Total Expenditures</b>	<b>13,082,750</b>	<b>13,620,025</b>	<b>(537,275)</b>	<b>-3.9%</b>	<b>26,889,227</b>	<b>27,756,089</b>	<b>(866,862)</b>	<b>-3.1%</b>
<b>Change in Working Capital (Total Funding less Total Budget)</b>	<b>15,094,976</b>	<b>14,702,307</b>	<b>392,669</b>		<b>1,382,501</b>	<b>928,161</b>	<b>454,340</b>	
FTEs	135.49	143.00	(7.51)		147.49	143.00	4.49	
Headcount	139.00	143.00	(4.00)		148.00	143.00	5.00	
Beginning WC - 1/1/20	7,339,148	7,752,113	(412,965)		7,339,148	7,752,113	(412,965)	
Change to WC - 2020 <sup>2</sup>	12,980,976	14,702,307	(1,721,331)		(731,499)	928,161	(1,659,660)	
GAAP Penalty Adj to WC <sup>2</sup>	2,114,000		2,114,000		2,114,000		(2,114,000)	
<b>Working Capital at 6/30/20</b>	<b>22,434,124</b>	<b>22,454,420</b>	<b>(20,296)</b>		<b>8,721,648</b>	<b>8,680,274</b>	<b>41,374</b>	

<sup>1</sup> Penalties released in the current year reflects the designated amount of funds released to offset U.S. assessments as approved by the WECC Board of Directors and FERC. Actual penalties invoiced in the current reporting year are shown on the Penalty Sanctions Variance Reconciliation table and will be reported as income on the audited financial statements in accordance with GAAP.

<sup>2</sup> The sum of these two amounts equals total change in working capital. See Penalty Sanctions Variance Reconciliation table for additional details on the GAAP penalty adjustment to working capital.





## Statutory Statement of Activities and Variance Explanations (July 20, 2020)

### Penalty Sanctions Variance Reconciliation

Penalty Information				Business Plan & Budget** (Year to Offset Assessments)			Financial Statements*** (Year Recognized)			2020 Penalty Revenue Variance
Date Invoiced	Amount Invoiced	Date Payment Received	Amount Received	2020	2021	Future Budget Year	2018	2019	2020	
6/4/2018	2,700,000	7/11/2018	2,700,000	2,700,000			2,700,000			Business Plan & Budget (A) 2,745,000
10/1/2018	45,000	10/16/2018	45,000	45,000			45,000			Financial Statements (B) 631,000
5/30/2019	32,000	7/9/2019	32,000		32,000			32,000		(Over)/Under <u>2,114,000</u>
7/26/2019	87,000	9/4/2019	87,000		87,000			87,000		
8/30/2019	74,000	10/14/2019	74,000		74,000			74,000		
9/27/2019	50,000	11/13/2019	50,000		50,000			50,000		
9/27/2019	59,000	11/13/2019	59,000		59,000			59,000		
11/29/2019	2,678,000	12/23/2019	2,678,000		2,678,000			2,678,000		
2019	2,180,000	*	-			2,180,000		2,180,000		
2020	631,000	*	519,000			631,000			631,000	
<b>Total</b>				<u>2,745,000</u>	<u>2,980,000</u>	<u>2,811,000</u>	<u>3,332,686</u>	<u>5,160,000</u>	<u>631,000</u>	
				(A)					(B)	

\* Penalty revenue has been recognized but payment has not been received. The penalty will offset assessments in a future budget year.

\*\* Penalties collected between July 1, 20X1 and June 30, 20X2 will offset assessments in budget year 20X3.

\*\*\* Penalties are recognized for financial reporting purposes when they are approved by FERC and invoiced.



# NERC

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

# 2021 Business Plan and Budget – Final Draft

Andy Sharp, Vice President and Chief Financial Officer  
Finance and Audit Committee Meeting  
August 19, 2020

RELIABILITY | RESILIENCE | SECURITY



- Goal to achieve little to no assessment increase in response to pandemic impacts despite significant budget pressures from:
  - ERO Secure Evidence Locker (SEL)
  - Align delay
  - IT security resources
  - Medical premiums
  - Investment in data management tools to support advanced analytics

- **ERO SEL & Align delay costs**

- ERO SEL debt service (\$430k) and software support costs (\$570k)
- Align delay costs (\$1.8M) funded by Operating Contingency Reserves (OCR)

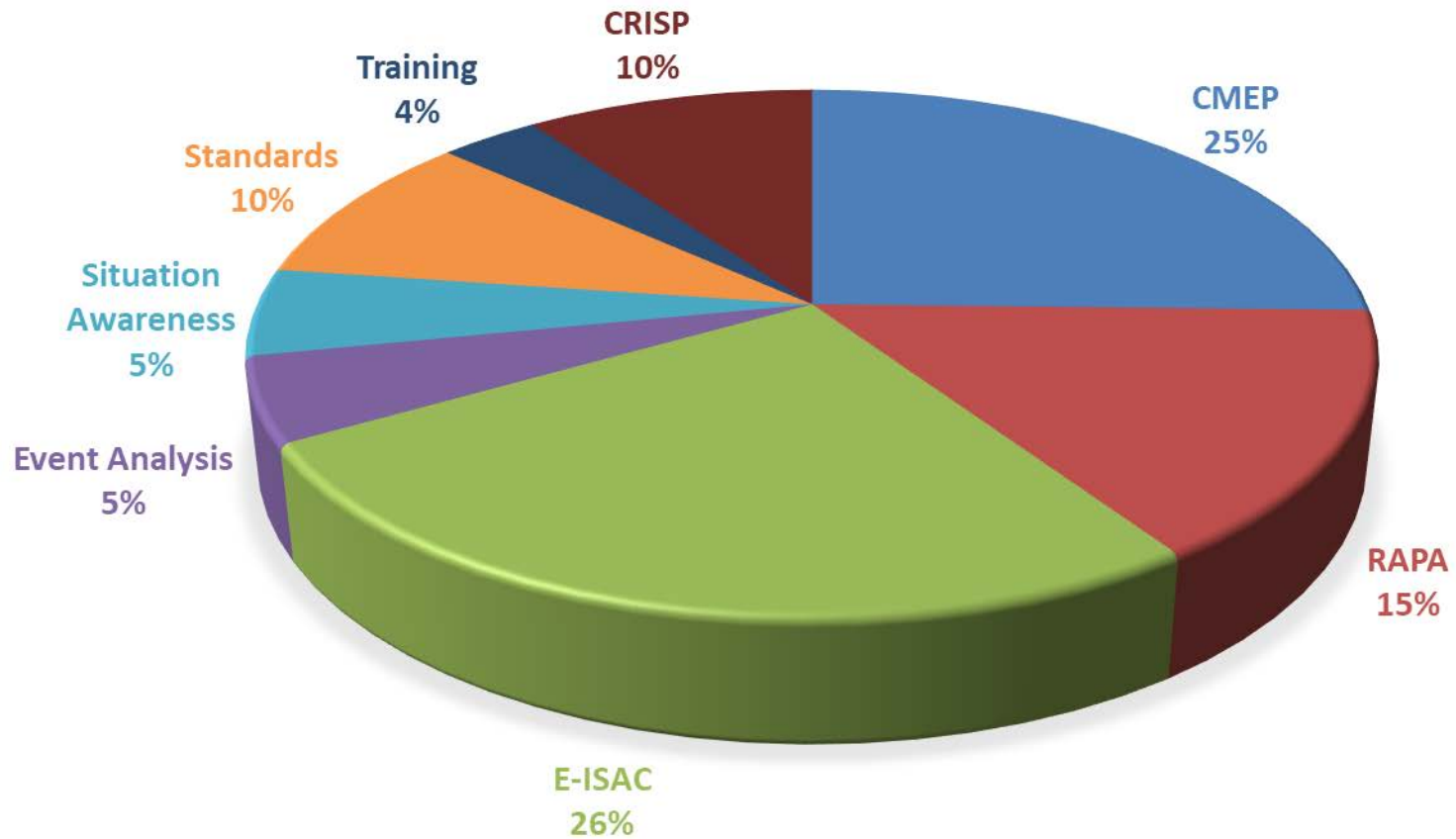
- **Lower spending in other areas**

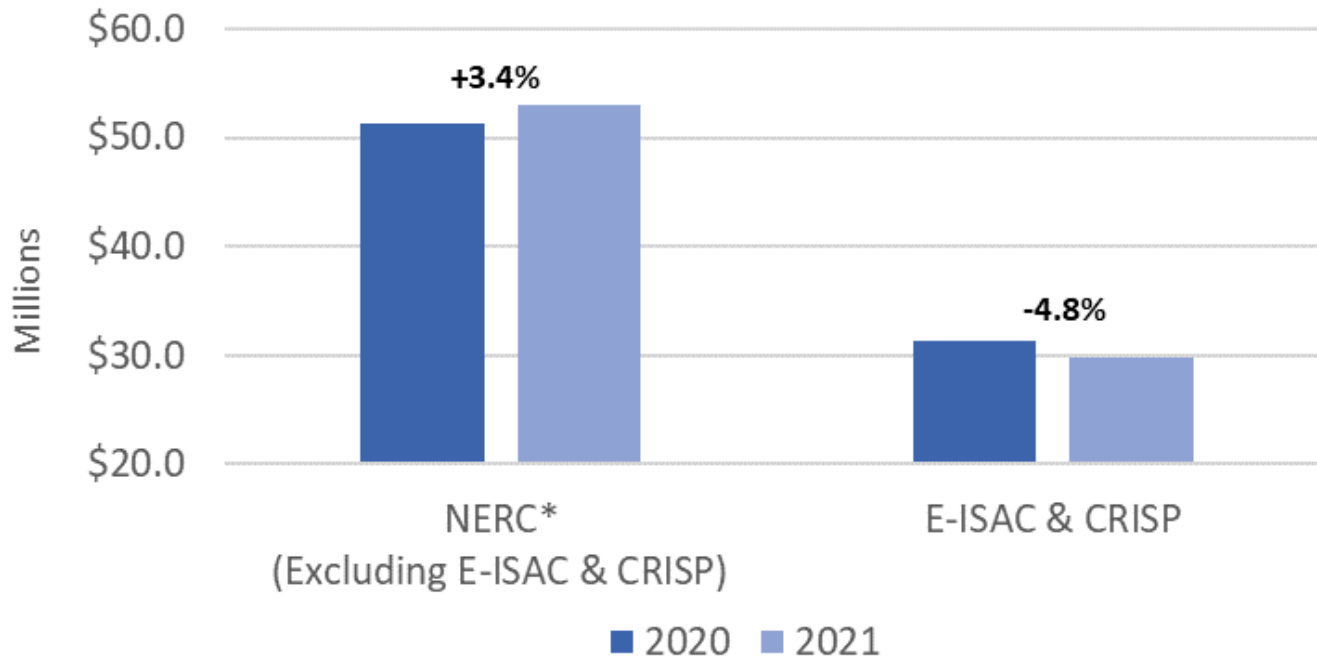
- No increase in FTEs
- E-ISAC and CRISP direct costs below prior projection
- Reduced 2021 debt service as a result of cash funding 2020 Align development costs versus budgeted financing
- Reductions in contracts and consultants and professional services
- Deferred non-critical system enhancements to future years
- Reduced meetings and travel assuming continued pandemic conditions

- Draft 1 posted for stakeholder comment May 19–June 26
  - Budget \$82.9M (0.2% increase over 2020); Assessment \$72.0M (flat)
  - Comments received from five entities
    - Support for cost savings efforts; emphasis on future budget stabilization
    - Work with Regions to also hold to 2020 budget and assessment levels
    - Request for clarity on Event Analysis budget and in-person meeting plans
    - Consider providing additional historical data and future year cost certainty
- Draft 2 posted for stakeholder comment July 16–30
  - Minimal budget adjustments and no assessment impact
  - Comments received from three entities
    - Support for 2021 budget; continued emphasis on future budget stabilization
    - Request for clarity on work of Power Risk Issue Strategic Management group
- Response to comments posted on NERC website

- **Budget \$82.9M (\$226k or 0.3% increase over 2020)**
  - Includes Align tool delay costs funded by OCR (\$1.8M)
  - Budget without Align tool delay costs \$81.1M (1.9% decrease over 2020)
- **Assessments \$72.0M (flat versus 2020)**
  - No use of Assessment Stabilization Reserve (ASR) funds
- No changes from Draft 2 other than minor language updates and clarifications

# 2021 Budget by Program Area





\*Includes 2021 Align delay costs funded by reserves



- Total NERC Assessment: \$72.0M
  - **United States: \$65.0M**
    - Decrease of \$174k (0.3%) over 2020
    - Cost per NEL: \$0.016 per MWh
  - **Canada: \$6.7M**
    - Increase of \$171k (2.6%) over 2020
    - Includes compliance credits and true-ups
    - Cost per NEL: \$0.013 per MWh
  - **Mexico: \$225k**
    - Increase of \$3k (1.3%) over 2020
    - Cost per NEL: \$0.016 per MWh

- NERC working capital and operating reserve policy
  - OCR target between 3.5% and 7.0% of the company's total expense and fixed asset budget minus the sum of System Operator Certification and CRISP budgets
- \$7.6M – Projected OCR balance as of 12/31/2020
  - 10.5% of target (higher than target to fund 2021 Align costs)
- \$5.8M – Projected OCR balance as of 12/31/2021
  - 8.0% of target (higher than target to provide additional reserves during uncertain economic conditions to fund deferred projects if needed)

- 2022
  - Budget \$87.0M (5.0% increase over 2021)
  - Assessment \$77.8M (8.0% increase over 2021)
- 2023
  - Budget \$91.4M (5.0% increase over 2022)
  - Assessment \$82.1M (5.5% increase over 2022)

- Budget and assessment increases due to:
  - Holding 2021 budget and assessment to 2020 levels, including use of reserves to help flatten assessment; and
  - Funding for deferred resources and system enhancements that are necessary for the ERO to continue to fulfill its mission in the long-term
- Current 2022 budget and assessment projections compare favorably to the 2022 budget and assessment projections included in the 2020 BP&B
- Assessments do not yet include any potential use of ASR or OCR



# Questions and Answers

# NERC

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

# ERO Enterprise Combined 2021 Budgets & Assessments

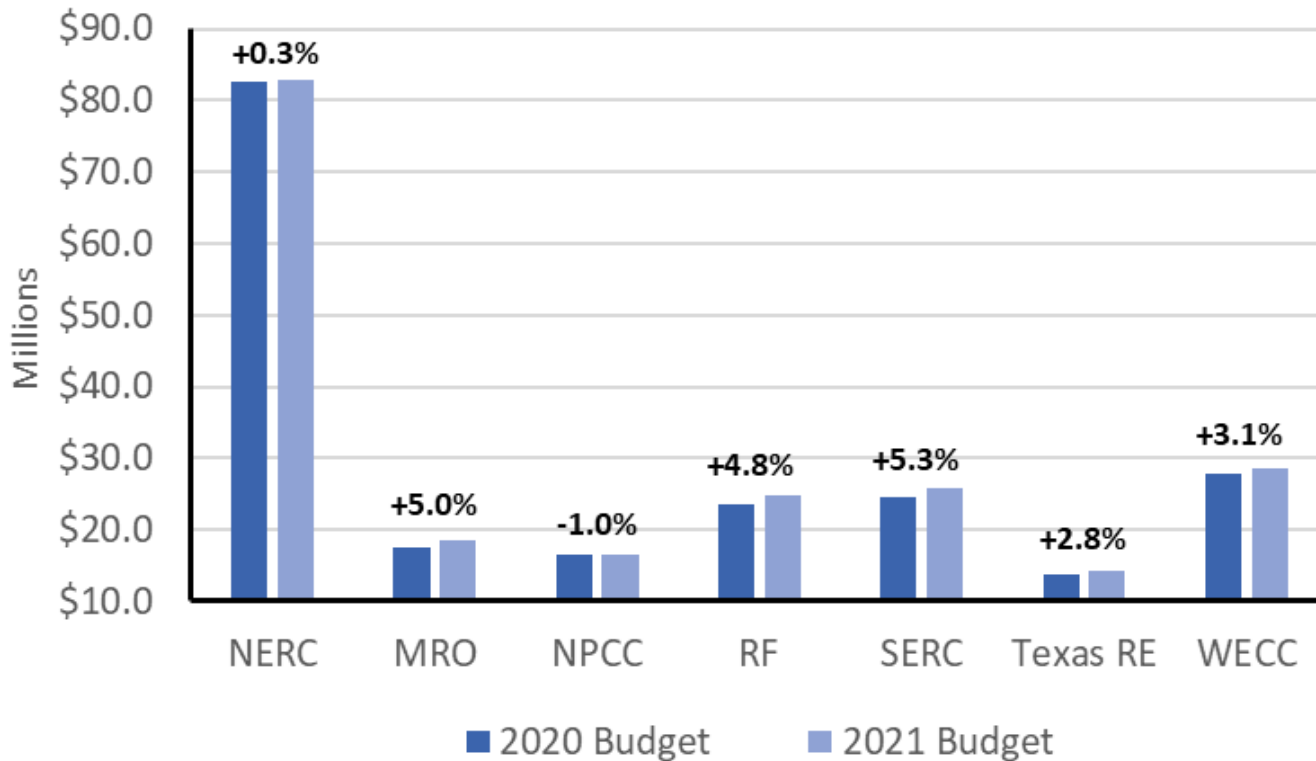
Andy Sharp, Vice President and Chief Financial Officer  
Finance and Audit Committee Meeting  
August 19, 2020

RELIABILITY | RESILIENCE | SECURITY



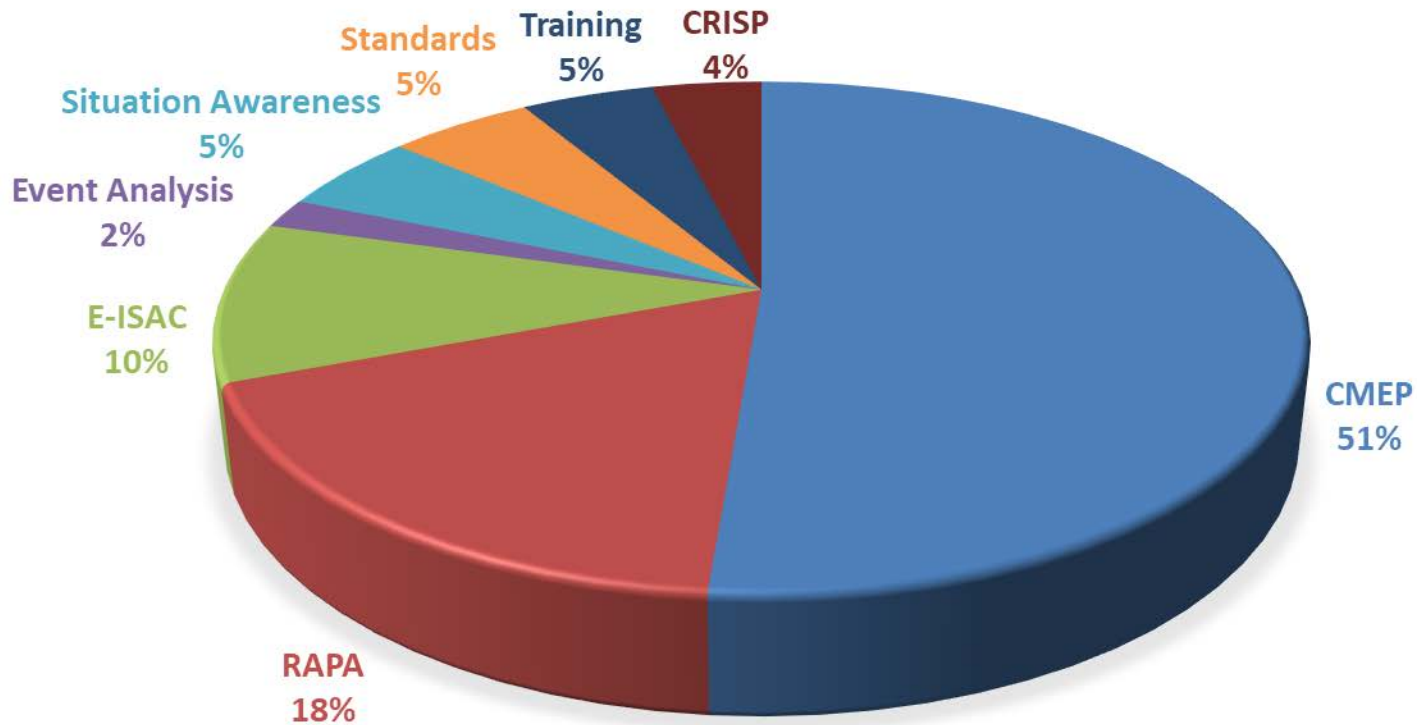
- Expand risk-based focus in Standards, Compliance Monitoring, and Enforcement
- Assess and catalyze steps to mitigate known and emerging risks to reliability and security
- Build a strong, E-ISAC-based security capability
- Strengthen engagement across the reliability and security ecosystem in North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

- **Total ERO Enterprise Budget \$211.2M (\$4.6M or 2.2% increase over 2020)**  
*NERC's budget includes the \$1.8M in NERC's budget for Align delay costs that will be funded by reserves (i.e., no impact to assessments)*

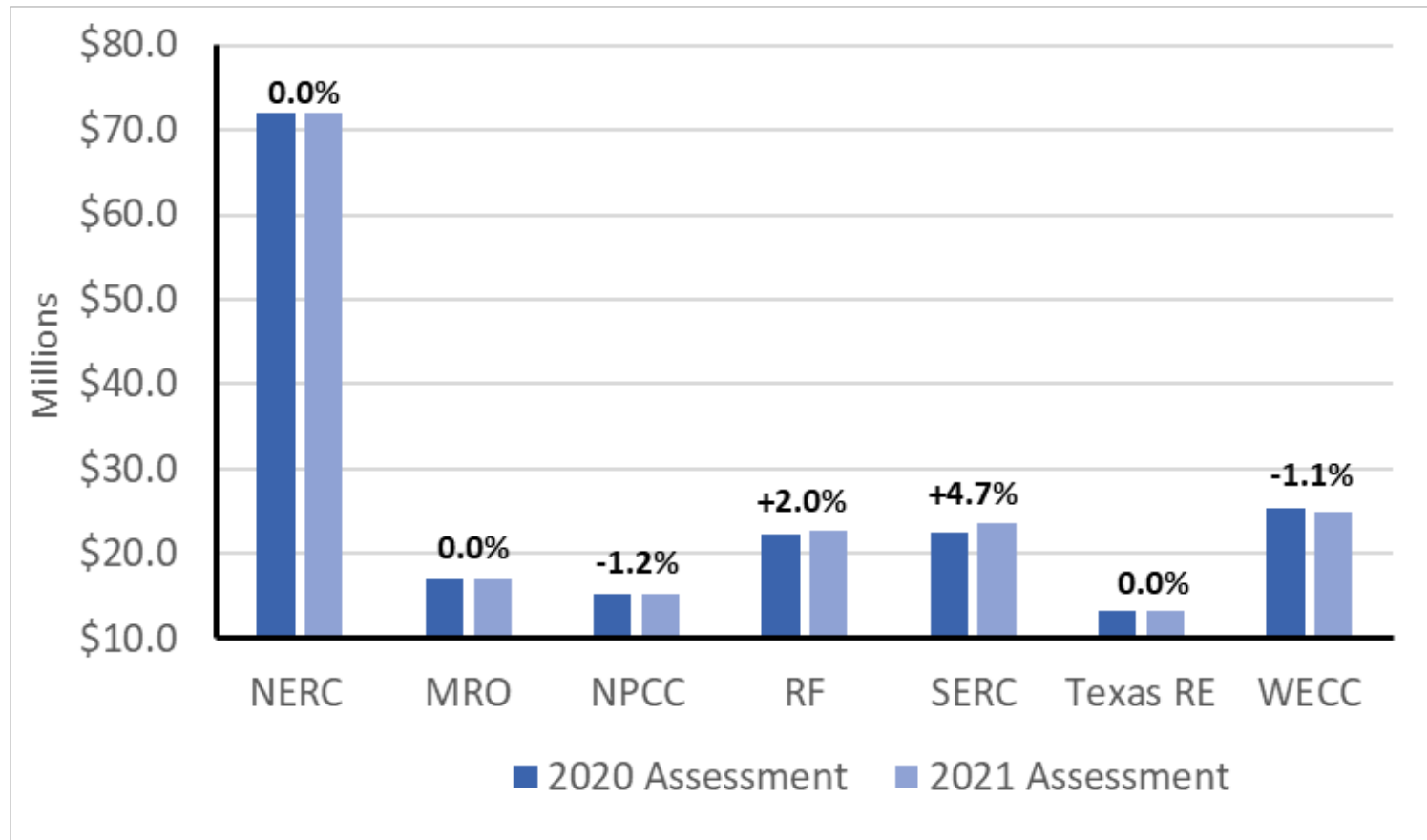


Excludes WIRAB



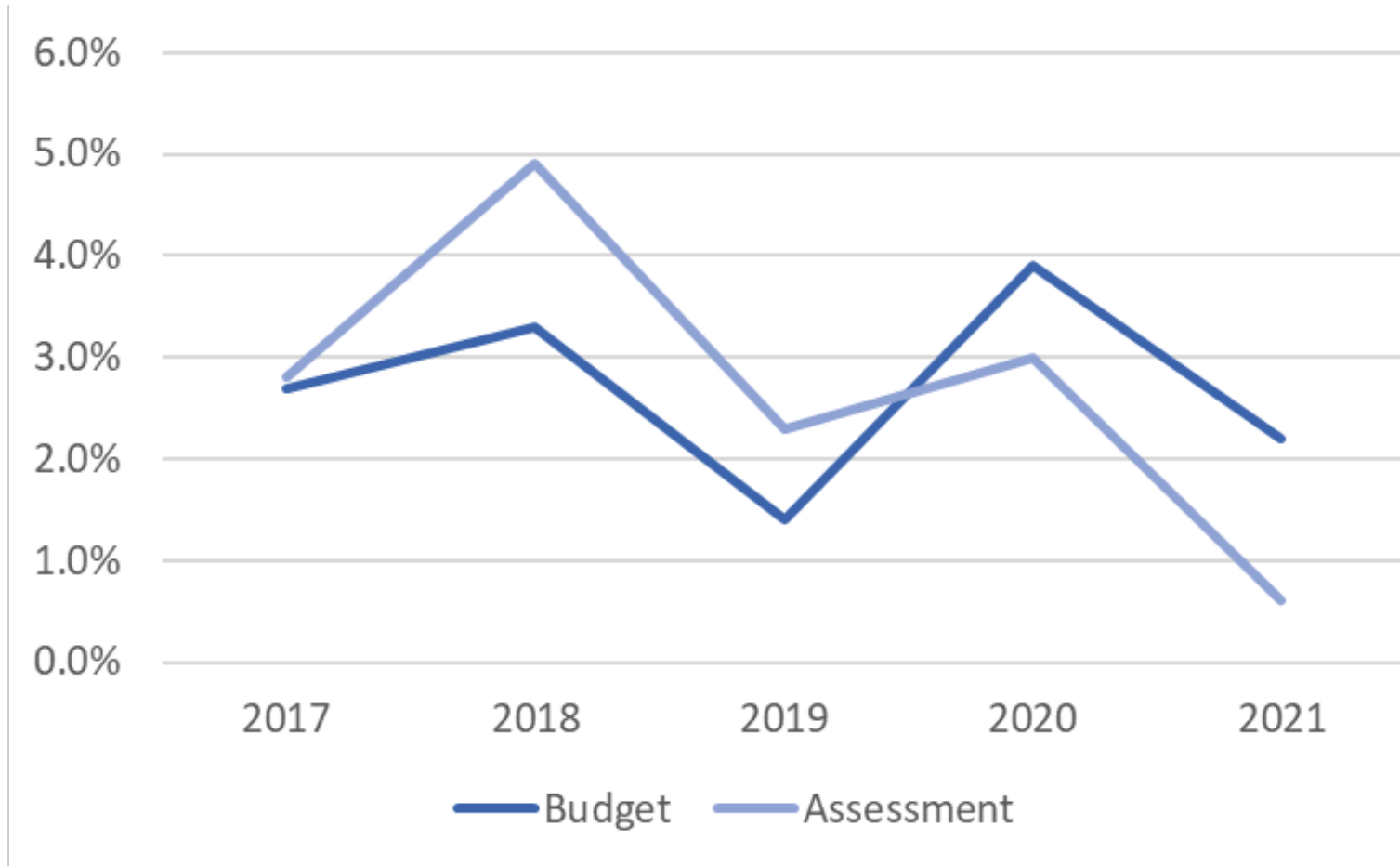


- Total ERO Enterprise Assessment \$188.8M (\$1.0M or 0.6% increase over 2020)



*Excludes WIRAB*

# ERO Enterprise Weighted Average Budget and Assessment Increases



*Excludes WIRAB*



# Questions and Answers

# NERC, Regional Entity, and WIRAB 2021 Budgets and Assessments

## Overview and Total ERO Enterprise Analysis

The following includes an overview of the development of the proposed NERC, Regional Entity, and Western Interconnection Regional Advisory Body (WIRAB) 2021 Business Plan and Budgets (BP&Bs) and associated assessments, as well as an analysis of the total ERO Enterprise 2021 budget and assessments.<sup>1</sup>

### NERC 2021 BP&B

The first draft of the NERC 2021 BP&B proposed a 0.2% budget increase and a flat assessment compared to 2020. NERC focused on achieving this flat assessment in response to the economic impacts resulting from the COVID-19 pandemic, despite significant budget pressures, including (1) costs associated with Compliance Monitoring and Enforcement Program (CMEP) tools, including debt service and software and support expenses for the ERO Secure Evidence Locker (SEL) and continued Align tool development costs; (2) rising medical premiums; and (3) human resources and analytical system enhancements needed to address new and evolving risks to the Bulk Power System (BPS). The flat assessment was achieved by:

- Reducing 2021 debt service by cash funding 2020 Align development costs versus financing;
- Funding the 2021 Align costs (\$1.8M) fully through Operating Contingency Reserves (OCR);
- Deferring important, but less urgent work supporting evolving reliability and security risks, resulting in lower spending in certain areas. This included holding headcount flat in 2021, deferring a number of important system enhancements, and reprioritizing spending in the Electricity Information Sharing and Analysis Center (E-ISAC);
- Lowering meeting and travel costs due to anticipated continued pandemic conditions; and
- Absorbing ERO SEL debt service and software support costs as a result of cost savings efforts.

The first draft was posted for stakeholder comment May 19–June 26, 2020, and NERC provided an overview during a webinar hosted by the NERC Board of Trustees Finance and Audit Committee (FAC) on June 4, 2020. Comments were received from five entities. Notable comments included: (1) emphasis on economic pressures on industry due to COVID-19 and the need for continued budget stabilization in future years; (2) a request for NERC to work with the Regional Entities to also maintain 2020 budget and assessment levels; (3) clarification on NERC's plan for in-person meetings in 2021 and the Event Analysis program decrease; (4) to consider providing an additional year of historical data in the BP&B tables; and (5) to provide more cost certainty on a three-year horizon. These comments were addressed directly with trade association representatives and in a written response that was posted on July 16, 2020.

---

<sup>1</sup> The ERO Enterprise consists of NERC and the Regional Entities. For the purpose of analysis of the total ERO Enterprise budgets and assessments in this document, WIRAB's budget or assessment is included unless otherwise stated.

The second draft of the NERC BP&B was posted for comment July 16–July 30, 2020, and NERC provided an overview during the July 23, 2020, FAC webinar. The overall budget increase over 2020 in the second draft was 0.3% versus 0.2% in the first draft due to minor cost adjustments, and the assessment remained flat with no proposed use of Assessment Stabilization Reserves (ASR). Comments on the second draft were received from three entities, which expressed support for the 2021 BP&B, continued to emphasize the need for budget stabilization for future years, and requested clarity on the work and tools of the Power Risk Issue Strategic Management (PRISM) group. These comments were addressed in a written response posted on August 13, 2020.

The final draft of the BP&B was posted on August 13, 2020, for FAC review and recommended approval during its August 19, 2020, meeting. The final budget and assessment increases remained the same as the second draft and the only changes were minor language updates and clarifications.

## Regional Entity and WIRAB 2021 BP&Bs

All Regional Entity and WIRAB BP&Bs went through a process for public input and were approved by each entity's board. The Regional Entities and WIRAB also provided overviews of their budgets during the June 4 and July 23 FAC webinars noted above. NERC management reviewed the Regional Entity budgets and focused on the following areas:

- Adequacy of the resources and activities to perform delegated functions;
- Alignment of the Regional Entity's goals, objectives, and major activities with the *ERO Enterprise Long-Term Strategy* and the related focus areas;
- Efforts to improve efficiency and control costs; and
- Quality and completeness of the financial information presented, including:
  - Conformance with FERC budget reporting requirements and common presentation format;
  - Separation of statutory and non-statutory activities;
  - Supporting detail, including explanations for significant changes from the previous budget;
  - Reporting of working capital and operating reserve budgets and explanation of policies; and
  - Compliance with any budget or audit-related orders from FERC, if applicable.

No issues were noted that would prohibit NERC management from recommending the approval of each Regional Entity's BP&B. NERC found that all Regional Entity BP&Bs cover activities eligible for funding, consistent with the regional delegation agreements as well as section 215 criteria, and all statutory areas for all Regional Entities have adequate resources to fulfill their delegated functions.

## 2021 Assessment Schedule

The assessment schedule for all entities, including both NERC and Regional Entity assessments, was posted on August 13, 2020, for FAC review and recommended approval during its August 19, 2020, meeting.

## Total ERO Enterprise 2021 Budgets and Assessments

The proposed 2021 budget for the total ERO Enterprise, inclusive of expenses and fixed asset expenditures, is \$212.4M, which is an increase of \$4.6M (2.2%) over the 2020 budget.

### Total Budget

Entity	2020		2021		Change	
	(\$000's)	% of Total ERO Budget	(\$000's)	% of Total ERO Budget	2021 v 2020 (\$000's)	% Change
NERC	\$ 82,657	39.8%	\$ 82,883	39.0%	\$ 226	0.3%
MRO	17,541	8.4%	18,412	8.7%	871	5.0%
NPCC	16,602	8.0%	16,441	7.7%	-161	-1.0%
RF	23,651	11.4%	24,785	11.7%	1,135	4.8%
SERC	24,525	11.8%	25,829	12.2%	1,304	5.3%
Texas RE	13,831	6.7%	14,212	6.7%	380	2.8%
WECC	27,756	13.4%	28,605	13.5%	849	3.1%
WIRAB	1,255	0.6%	1,205	0.6%	-50	-4.0%
<b>\$</b>	<b>207,818</b>	<b>100.0%</b>	<b>\$ 212,373</b>	<b>100.0%</b>	<b>\$ 4,555</b>	<b>2.2%</b>

The following are the primary drivers for the budget changes for each entity:

- NERC (0.3%) – Increases in personnel-related costs, ongoing ERO SEL support costs, and continued Align development costs funded by OCR (i.e., no impact to assessments)
- MRO (5.0%) – Increases in personnel-related costs, including additional FTEs, higher operating costs due to office expansion, and increased fixed asset expenditures to replace end-of-life assets
- NPCC (-1.0%) – Decrease in meeting, travel, and contract expenses, as well as reduced fixed asset expenditures due to a reconfiguration of office space
- RF (4.8%) – Increases in personnel-related costs, including additional FTEs
- SERC (5.3%) – Increases in personnel-related costs, including additional FTEs and decreased vacancy rate, as well as the addition of three independent directors
- Texas RE (2.8%) – Increases in personnel-related costs, including additional FTEs, and escalation in rent and utilities due to lease extension
- WECC (3.1%) – Increases in personnel-related costs, including additional FTEs, and increases in consulting expenses and office rent
- WIRAB (-4.0%) – Decrease in FTEs and reduced travel expenses

Total ERO Enterprise 2021 assessments (combined assessments for NERC and the Regional Entities, inclusive of WIRAB within the WECC assessment) are increasing approximately \$1.0M (0.5%) over 2020. The average change for Load-Serving Entities in the United States, Canada, and Mexico is 0.3%, 3.2%, and 2.4%, respectively.

Increase/(Decrease) in ERO Assessments by Region					Increase/(Decrease) in Regional Entity & WIRAB Assessments	Increase/(Decrease) in NERC Assessments
	TOTAL	US	Canada	Mexico	TOTAL	TOTAL
MRO	41,375	0.2%	(137,258)	178,633	-	41,375
NPCC	(184,755)	(0.8%)	(548,765)	364,010	(184,153)	(602)
RF	205,735	0.6%	205,735	-	446,372	(240,637)
SERC	1,115,487	2.6%	1,115,487	-	1,054,763	60,724
Texas RE	141,937	0.7%	141,937	-	(728)	142,665
WECC	(285,526)	(0.7%)	(310,718)	7,769	17,423	(3,526)
<b>Total</b>	<b>\$ 1,034,254</b>		<b>\$ 466,419</b>	<b>\$ 550,412</b>	<b>\$ 17,423</b>	<b>\$ -</b>
<b>% Change</b>	<b>0.5%</b>		<b>0.3%</b>	<b>3.2%</b>	<b>2.4%</b>	<b>0.0%</b>

As detailed in the following table, four factors impact the change in assessments between 2020 and 2021: (1) the increase in penalties that offset assessments is decreasing assessments by \$4.7M; (2) the decrease of release of working capital and operating reserves is increasing assessments by \$342k; (3) the decrease in other funding is increasing assessments by \$856k; and (4) the increase in the total ERO Enterprise budget is increasing assessments by \$4.6M. The net result is a \$1.0M (0.5%) increase in assessments.

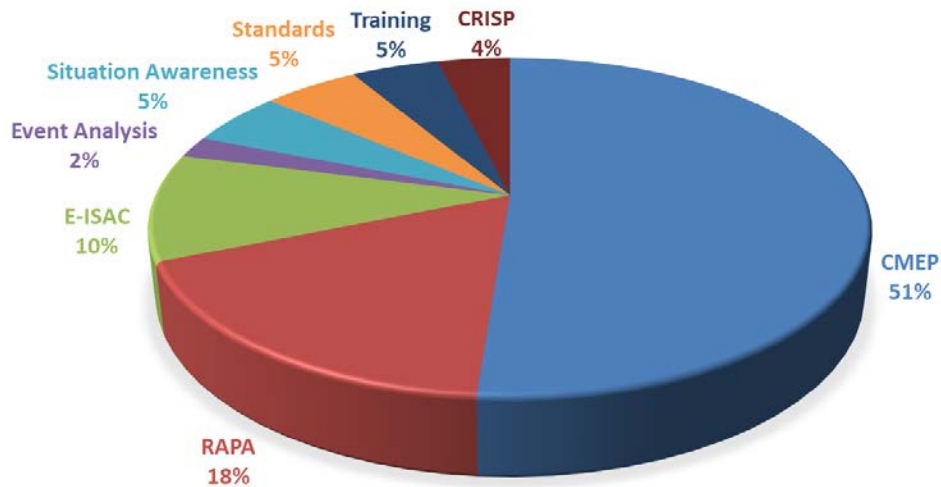
Assessments by Entity			Factors Impacting the Change in Assessments			
	2020 Budget	2021 Budget	Dec(Inc) in Penalties	Dec(Inc) in Release of Excess Reserves	Dec(Inc) in Other Funding <sup>1</sup>	Budget Inc(Dec)
	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
<b>NERC</b>	\$ 72,011	\$ 72,011	\$ -	\$ (1,078)	\$ 851	226
<b>MRO</b>	16,983	16,983	(871)	-	-	871
<b>NPCC</b>	15,339	15,155	(81)	58	-	(161)
<b>RF</b>	22,319	22,765	(4,272)	3,584	-	1,135
<b>SERC</b>	22,459	23,514	720	(989)	20	1,304
<b>Texas RE</b>	13,344	13,343	541	(882)	(40)	380
<b>WECC</b>	25,282	25,000	(754)	(404)	27	849
<b>WIRAB</b>	986	986	-	52	(2)	(50)
	<b>\$ 188,724</b>	<b>\$ 189,758</b>	<b>(4,718)</b>	<b>342</b>	<b>\$ 856</b>	<b>4,555</b>



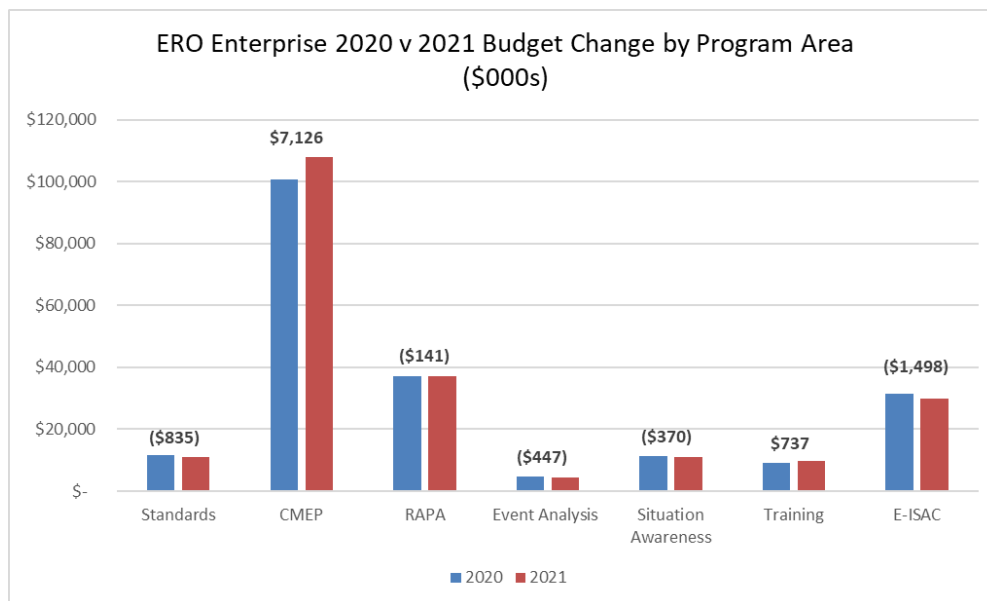
### Total ERO Enterprise 2021 Budget by Program

The total 2021 budget for the ERO Enterprise, exclusive of WIRAB, is \$211.2M, which is an increase of \$4.6M (2.2%) and reflects the allocation of resources and focus on the goals and activities of the ERO Enterprise.<sup>2</sup> 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 2021 Budget by Program Area



The following figure shows the increase/(decrease) from 2020 to 2021 for the ERO Enterprise budget by each statutory program area, inclusive of direct and indirect expenses and the fixed asset expenditures.

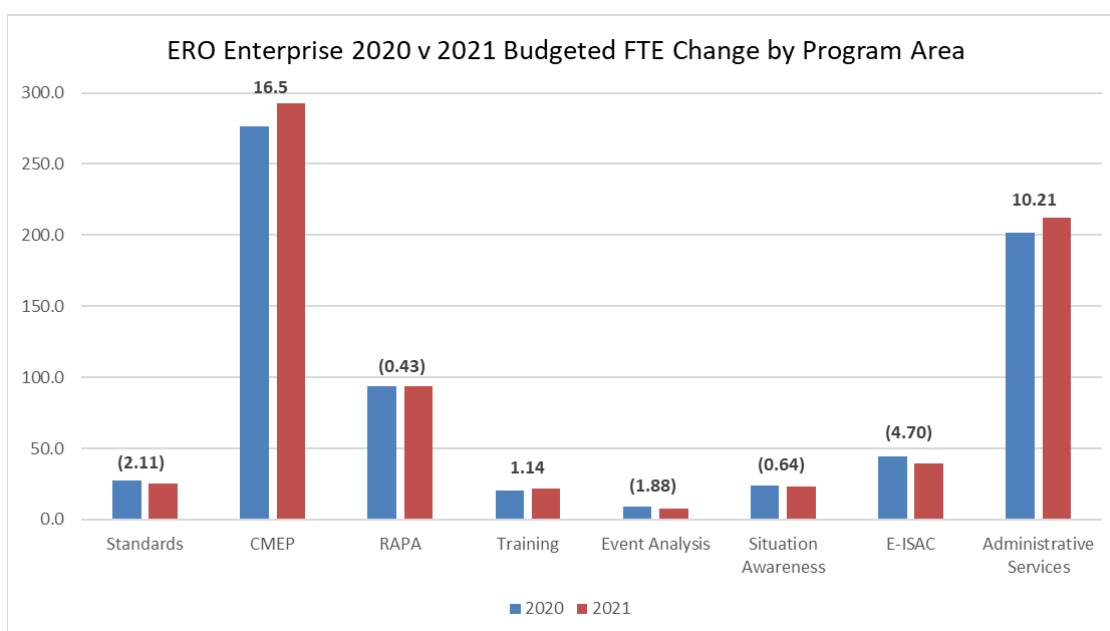


<sup>2</sup> Several years ago, NERC separated the Event Analysis function. NPCC and RF include Event Analysis costs in their Situation Awareness program. The remaining Regional Entities include Event Analysis in their Reliability Assessment and Performance Analysis (RAPA) programs.

The major budget variances from 2020 to 2021 are in the following program areas: Standards, CMEP, Training, and E-ISAC.

The increases in CMEP and Training and the decreases in Standards and E-ISAC are primarily due to changes in FTEs or other personnel expenses, and associated indirect expenses. All entities are adding or reallocating FTEs to the CMEP area due to increased compliance assurance and monitoring activities, particularly related to cyber security. The increase in the CMEP area is also due to the inclusion of continued capital costs for the development of Align in NERC’s 2021 budget. SERC is adding FTEs in Training and personnel costs in Training are increasing at RF due to an increased focus on training and outreach. FTEs in Standards are decreasing at NERC, MRO, NPCC, and SERC as a result of stabilization of work in that program. E-ISAC FTEs are decreasing due to a reevaluation of its long-term strategy and planned use of contract support versus budgeted FTEs.

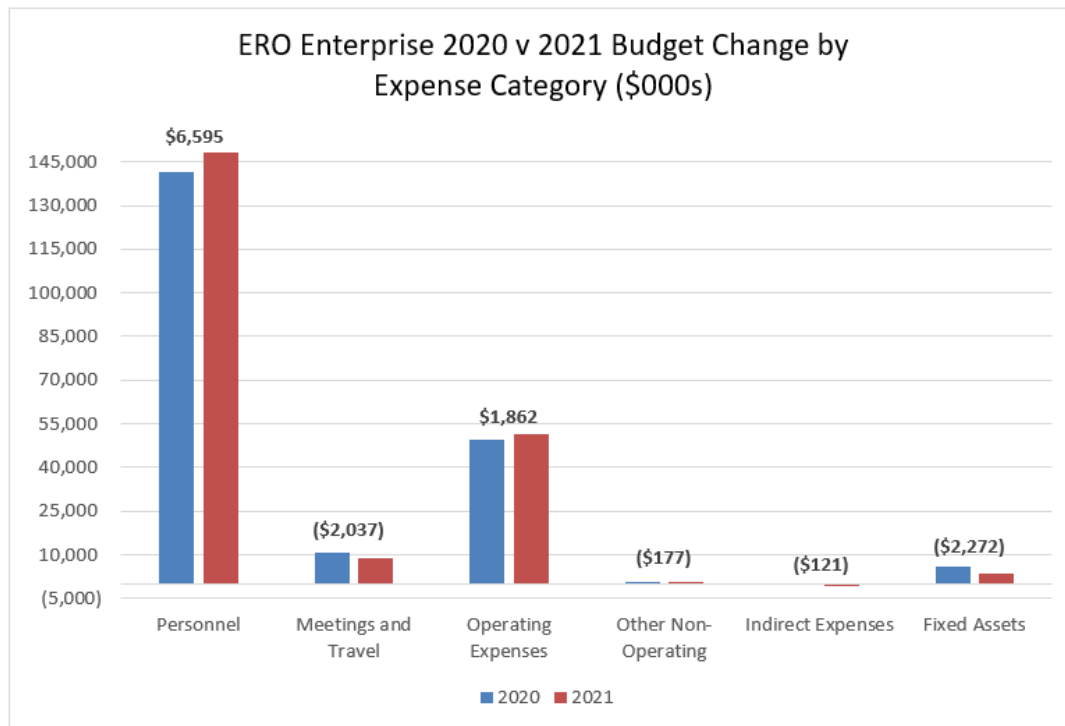
The figure below shows the increase/(decrease) in the number of FTEs by statutory program area, as well as administrative services.



In addition to the explanation of FTE changes above, NERC, MRO, RF, and WECC are all increasing FTEs in the Administrative Services area primarily due to additional IT/cyber-related security resources as a result of recommendations from an ERO Enterprise-wide third-party security assessment. The decrease in FTEs in Event Analysis is related to a shift in personnel charged to that department at NERC at the administrative level.

### Total ERO Enterprise 2021 Budget by Expense Category

The following figure shows the increase/(decrease) from 2020 to 2021 for the ERO Enterprise budget by expense category, inclusive of NERC, the Regional Entities, and WIRAB.



The major budget variances from 2020 to 2021 are in the personnel, meetings and travel, operating expenses, and fixed assets categories. Total 2021 personnel expenses for the ERO Enterprise are increasing over 2020 due to average increases of 3% in salaries expense for existing staff and projected market increases in the cost of employee benefit plans, as well as the FTE increases discussed above. Meetings and travel expenses are decreasing primarily due to anticipated travel and in-person meeting restrictions as a result of continued pandemic conditions. The increase in operating expenses is mainly attributable to an increase in costs for NERC in this category, predominately as a result of an increase in software licenses and support, particularly for the ERO SEL and overall enhanced cyber security.

As reflected in the figure below, the decrease in fixed assets is primarily driven by reduced spending in this area for NERC, RF, and SERC. Though NERC’s budget includes continued capital costs for the development of Align, fixed asset expenditures at NERC are decreasing in 2021 due to (1) no expected leasehold improvements in 2021 and (2) reduced capital software spending in other areas as a result of cost savings efforts discussed at the beginning of this document. The decrease for RF is also mainly related to no expected leasehold improvements in 2021. The decrease for SERC is due to a reclassification of these costs to non-capital expenses. The increase in fixed asset costs at WECC is related to planned 2021 equipment refreshes.

**Increase(Decrease) in Fixed Assets**

Entity	2021 Budget	2020 Budget	Change	% Change
NERC	\$ 2,751,500	\$4,706,349	\$ (1,954,849)	(41.5%)
MRO	250,000	235,000	15,000	6.4%
NPCC	94,000	170,000	(76,000)	(0.45)
RF	217,500	390,000	(172,500)	(44.2%)
SERC	200,000	330,000	(130,000)	(39.4%)
Texas RE	50,000	50,000	-	0.0%
WECC	98,527	52,014	46,513	89.4%
WIRAB	-	-	-	-
	<b>3,661,527</b>	<b>5,933,363</b>	<b>(2,271,836)</b>	<b>-38.3%</b>

**Total ERO Enterprise 2021 Reserves**

Total reserves across the ERO Enterprise include working capital, operating, assessment stabilization, and other types of reserves depending on the organization's reserve structure and policies. The 2021 ending total reserve budget for the ERO Enterprise is \$39.6M, based upon a projected beginning balance of \$46.0M and the planned reduction of \$6.4M. Funds in excess of projected starting reserve balances will be subject to applicable NERC and Regional Entity controls and will be taken into account in developing 2022 funding requirements.

**Total Reserves - 2021 Business Plan and Budget**

Entity	Projected 2021 Beginning Balance	2021 Adjustment	Projected 2021 Ending Balance	Stated Policy / Reserve Structure
NERC	\$ 13,104,897	\$ (2,279,288)	\$ 10,825,609	Operating Contingency Reserve between 3.5% and 7.0% of the company's total expense and fixed asset budget minus the sum of the System Operator Certification and CRISP budgets, each of which have separate reserves. Future Obligation Reserve includes funding that has been received to satisfy future obligations under lease, credit, loan, or other agreements. Assessment Stabilization Reserve is funded by penalties to stabilize/reduce U.S. assessments in future years.
MRO	4,572,271	(2,942,283)	\$ 1,629,988	30-day cash Operating Reserve. Remaining Working Capital and penalties are combined in a Assessment Stabilization Reserve for future budget stabilization; significant, short-term operating or capital spending needs; or unforeseen challenges that materially influence the ability meet delegated functions.
NPCC	5,214,288	(1,162,301)	\$ 4,051,987	Working Capital of 8.33% (30 days) of the annual budget. Operating Reserves range between 8.33% and 25.00% (90 days) to provide stability for annual assessments. Assessment Stabilization Reserve enables penalty monies to be released in future budget year. Business Continuity Reserve established for succession-related activities.
RF	3,818,989	2,411,429	\$ 6,230,418	10% of annual budgeted expenses or a minimum \$1M in Operating Reserves, plus additional Working Capital to manage cash flow and stabilize assessments
SERC	6,257,698	(2,110,191)	\$ 4,147,507	Working Capital Reserve allows for up to 10% of budgeted annual costs. Assessment Stabilization Reserve holds penalties to be used to offset assessments in future years.
Texas RE	4,087,192	(618,943)	\$ 3,468,249	Working Capital and Operating Reserve of approximately \$2M, or as adjusted by the Texas RE board. Assessment Stabilization Reserve holds penalties to offset assessments in future years.
WECC	8,184,307	523,971	\$ 8,708,278	Working Capital Reserve balance equal to one to three months of Personnel, Meeting, and Operating Expenses. Additional reserves used for future year assessment stabilization.
WIRAB	786,900	(216,200)	\$ 570,700	Working Capital Reserves are intended to stabilize future budget year assessments.
	<b>\$ 46,026,542</b>	<b>\$ (6,393,806)</b>	<b>\$ 39,632,736</b>	

### Total ERO Enterprise 2022 and 2023 Preliminary Projections

NERC and the Regional Entities are projecting the 2022 total budget to increase approximately \$7.7M (3.6%) over the 2021 budget. The 2023 total budget is projected to increase \$8.2M (3.7%) over the 2022 budget. Total FTEs are projected to increase in 2022 by 7.01 (1.0%) over 2021 and by 6.58 (0.9%) in 2023 over 2022. For NERC, the increases in FTEs are primarily a result of deferring FTE additions in 2021 due to cost savings efforts. NERC and Regional Entity management will continue to review and refine these projections as part of the 2022 business plan and budget cycle with the continued objective of maximizing the effectiveness and efficiency of overall enterprise operations and mitigating significant budget increases where possible.

Total Budget								
Entity	2021 Budget	2022 Projection	Change 2022 v 2021	% Change	2023 Projection	Change 2023 v 2022	% Change	
NERC	\$ 82,883	\$ 87,024	\$ 4,141	5.0%	\$ 91,380	\$ 4,355	5.0%	
MRO	18,412	19,040	628	3.4%	19,615	575	3.0%	
NPCC	16,441	16,704	264	1.6%	17,187	483	2.9%	
RF	24,785	25,685	899	3.6%	26,658	973	3.8%	
SERC	25,829	26,410	581	2.2%	26,778	368	1.4%	
Texas RE	14,212	14,937	725	5.1%	15,717	780	5.2%	
WECC	28,605	29,050	445	1.6%	29,662	612	2.1%	
WIRAB	1,205	1,250	44	3.7%	1,294	45	3.6%	
	<b>\$ 212,373</b>	<b>\$ 220,100</b>	<b>\$ 7,727</b>	<b>3.6%</b>	<b>\$ 228,291</b>	<b>\$ 8,191</b>	<b>3.7%</b>	

Total FTEs								
Entity	2021 Budget	2022 Projection	Change 2022 v 2021	% Change	2023 Projection	Change 2023 v 2022	% Change	
NERC	213.38	217.14	3.76	1.8%	223.72	6.58	3.0%	
MRO	66.00	69.00	3.00	4.5%	69.00	-	0.0%	
NPCC	42.11	42.11	-	0.0%	42.11	-	0.0%	
RF	84.35	84.35	-	0.0%	84.35	-	0.0%	
SERC	100.00	100.00	-	0.0%	100.00	-	0.0%	
Texas RE	63.00	63.00	-	0.0%	63.00	-	0.0%	
WECC	148.50	148.50	-	0.0%	148.50	-	0.0%	
WIRAB	4.75	5.00	0.25	5.3%	5.00	-	0.0%	
	<b>722.09</b>	<b>729.10</b>	<b>7.01</b>	<b>1.0%</b>	<b>735.68</b>	<b>6.58</b>	<b>0.9%</b>	

To: NERC Board of Trustees

From: Andy Sharp

Re: Review Process for Regional Entity 2021 Business Plans & Budgets (BP&Bs)

Date: June 12, 2020

NERC has reviewed the Regional Entity 2021 BP&Bs and believes each provides for adequate resources to meet its delegated functions. Additional details on the review process and outcomes are discussed below.

In accordance with 18 C.F.R. Section 39.4, Rules of Procedure Section 1104, and Exhibit E of the regional delegation agreements, NERC oversees that the Regional Entities are adequately funded to accomplish their delegated functions. For each annual BP&B cycle, the Regional Entities submit their BP&Bs to NERC according to a schedule established collaboratively by NERC and the Regional Entities, and NERC conducts reviews of each, focusing on the following:

- Adequacy of the resources and activities to perform delegated functions;
- Alignment of the Regional Entity's goals, objectives, and major activities to the *ERO Enterprise Long-Term Strategy* and the related focus areas;
- Efforts to improve efficiency and control costs;
- Quality and completeness of the financial information presented, including:
  - Conformance with FERC budget reporting requirements and common presentation format;
  - Separation of statutory and non-statutory activities;
  - Supporting detail, including explanations for significant changes from the previous budget;
  - Reporting of working capital and operating reserve budgets and explanation of policies; and
  - Compliance with any budget or audit-related orders from FERC, if applicable.

These reviews generally occur according to the following timeline and process for each BP&B cycle:

- End of April/early May – Regional Entities provide their Draft 1 BP&Bs to NERC
- May through early June – Managerial staff from each NERC statutory program area reviews its respective sections of each Regional Entity BP&B and completes a template/checklist to indicate alignment with the above noted areas of focus. NERC Finance staff reviews for conformance to reporting requirements and presentation format. NERC also coordinates reviews of the Regional Entity BP&Bs with the external counsel that prepares the annual BP&B filings to provide feedback regarding overall document integrity and adherence to FERC expectations and requirements.

3353 Peachtree Road NE  
Suite 600, North Tower  
Atlanta, GA 30326  
404-446-2560 | [www.nerc.com](http://www.nerc.com)

- In accordance with the timeline for each Regional Entity board meeting to approve its final BP&B, NERC provides any necessary feedback to the Regional Entity on suggested revisions.
- Regional Entities address feedback and NERC confirms implementation of revisions.
- Mid-May through June – Regional Entities provide their NERC-reviewed BP&Bs to their boards for approval.
- Mid-June – Regional Entities submit their Net Energy for Load (NEL) and Load-Serving Entity (LSE) data to NERC.
- Mid-June through July – NERC validates the data and calculates assessments for each LSE to be included with the submission of the final NERC and Regional Entity BP&Bs to the Board in August, followed by applicable regulatory filings.

The above process is in addition to regular touchpoints with the ERO Finance Group (comprised of NERC and Regional Entity financial representatives) to discuss and coordinate development of the BP&Bs, as well as ongoing discussions among the other ERO working groups and ERO Executive Committee.

In recent years, this review process has produced minimal feedback to the Regional Entities, as resources are generally found to be adequate with respect to Regional Entities fulfilling their delegated statutory functions. Any input has primarily been limited to suggestions on narrative language or, from the financial perspective, the implementation of recent Statement of Activity format changes. Any areas of improvement for the Regional Entities regarding activities, processes, and procedures are addressed through ongoing Regional Entity oversight and the collaborative work of the ERO Executive Committee and its working groups.

NERC recently completed reviews of the Regional Entity 2021 BP&Bs. The following is a summary of the review findings and outcomes:

- All Regional Entity budgets cover activities eligible for funding, consistent with the regional delegation agreements as well as section 215 criteria.
- All statutory areas for all Regional Entities have adequate resources, including both FTEs and contracting resources, to fulfill their delegated functions. Texas RE and RF were requested to clarify the drivers for their compliance-related FTE increases, which was adequately addressed by both Regional Entities.
- All Regional Entities generally conform to necessary budget reporting and format requirements. Feedback was provided to RF, NPCC, and WECC to add a recently implemented change to the Statement of Activities, which is the inclusion of a footnote that explains the penalty release line item with respect to the change in Generally Accepted Accounting Principles (GAAP) regarding revenue recognition. This was adequately addressed by the three Regional Entities.
- Other minor wording change suggestions.

Additionally, the ERO Finance Group has had ongoing discussions over the last several months regarding reserve balances and policies. The group is continuing to work toward better alignment of reserve category definitions and overall presentation to provide further clarity on reserve balances and penalty funds received, and use of these funds to offset future assessments.

## **Annual Renewal of Unsecured Line of Credit**

### **Action**

Review and recommend Board of Trustees approval.

### **Background**

Since 2007, NERC has maintained an unsecured line of credit with a lender for emergency working capital needs or unforeseen contingencies. This line of credit is renewed annually and the currently effective line of credit expires on August 29, 2020.

### **Renegotiated Unsecured Line of Credit**

The lender has pre-approved NERC for a new unsecured line of credit (\$4 million) with a maturity date of June 20, 2021. The lender requires re-execution of a new agreement to update to their latest internal compliance language. Otherwise, the terms of this unsecured line remain substantially the same as the currently effective line of credit.

NERC management requests that this committee recommend that the Board authorize management to proceed to take such actions as are necessary to finalize and execute the credit facility documentation, consistent with the parameters of the confidential term sheet provided by the lender and distributed to the committee.