

Agenda

Finance and Audit Committee

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

Click to Join [Webinar](#)

Introduction and Chair's Remarks

NERC Antitrust Compliance Guidelines*

Agenda Items

1. **Minutes* – Approve**
 - a. February 5, 2020 Meeting
2. **Second Quarter Calendar of FAC Responsibilities**
 - a. 2019 Financial Statement Audit Results* – **Review and Recommend Board of Trustees Acceptance**
 - b. First Quarter Statement of Activities* – **Review and Recommend Board of Trustees Acceptance**
 - i. NERC Summary of Results as of March 31, 2020
 - ii. Total ERO Enterprise Summary of Results as of March 31, 2020
 - iii. Regional Entity Variance Reports as of March 31, 2020
3. **Investment and Funding Strategy for the ERO Secure Evidence Locker and Align Delay Cost * – Review and Recommend Board of Trustees Approval**
4. **Extension of Capital Financing Program* – Review and Recommend Board of Trustees Approval**
5. **2021 Business Plan and Budget* – Update**
6. **Policy on Executive Management Expenses* – Update**
7. **Other Business**
8. **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 Meeting**

February 5, 2020 | 10:30 - 11:00 a.m. Pacific

westdrift Manhattan Beach, Autograph Collection
1400 Park View Avenue
Manhattan Beach, California 90266

Introduction and Chair's Remarks

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 February 5, 2020, at approximately 10:00 a.m. Pacific, and a quorum was declared present. The agenda is attached as **Exhibit A**.

Present at the meeting were:

Committee Members

Robert G. Clarke, Chair
Janice B. Case
Colleen Sidford
Roy Thilly, *ex officio*

Board of Trustee Members

Kenneth W. DeFontes
Frederick W. Gorbet
George S. Hawkins
Suzanne Keenan
Robin E. Manning
James B. Robb, President and Chief Executive Officer
Jan Schori

NERC Staff

Tina Buzzard, Associate Director
Manny Cancel, Senior Vice President and Chief Executive Officer of the E-ISAC
Howard Gugel, Vice President, Engineering and Standards
Stan Hoptroff, Vice President, Business Technology
Ed Kichline, Senior Counsel and Director of Enforcement Oversight
Mark Lauby, Senior Vice President and Chief Engineer
Bill Lawrence, Vice President, ERO Enterprise Security Initiatives
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

Mr. Clarke 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.

Minutes

Upon motion duly made and seconded, the minutes from the October 31, 2019 meeting were approved as presented to the Committee.

2019 Year-End Unaudited Results of Operations

Mr. Sharp reviewed the 2019 Year-End Unaudited Results of Operations for NERC and the ERO Enterprise, referencing the materials included in the advance agenda package. He reported that NERC was over budget for total funding and under budget for expenditures, resulting in a \$1.6 million reserve increase. Mr. Sharp reported that the ERO Enterprise ended the year under budget by \$3.7 million. Mr. Clarke called attention to the Regional Entity financial reports included in the advance agenda package.

After discussion, and upon motion duly made and seconded, the Committee recommended the 2019 Year-End Unaudited Results of Operations for acceptance by the Board.


Annual Review of Committee Mandate

Ms. Mendonça noted that the Committee is required to review its mandate on an annual basis. Based on the Legal department's review, no changes are recommended. The Committee concurred with the approach.

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 March 31, 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		\$ 81.5	\$ 82.0	\$ (0.5)
Funding from Reserves				
Assessment Stabilization Reserve		-	-	-
	TOTAL FUNDING	\$ 81.5	\$ 82.0	\$ (0.5)
EXPENDITURES				
Expenses (excluding Depreciation)		\$ 74.6	\$ 77.9	\$ (3.3)
Fixed Asset Additions		3.0	4.7	(1.7)
Net Financing Activity		0.6	0.1	0.5
	TOTAL EXPENDITURES	\$ 78.2	\$ 82.7	\$ (4.5)
	RESERVE INCREASE (DECREASE)	\$ 3.3	\$ (0.7)	\$ 4.0

Funding

- Revenues
 - Expected to be slightly 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 are expected to be over budget primarily as a result of contract labor being used in the E-ISAC in lieu of FTEs which is partially offset by lower CRISP program contract costs.

- 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
 - Expected to be below budget by deferring some hardware and software projects and the Atlanta office and meeting space renovations.
- Net Financing Activity
 - Estimated to be over budget due to no expected loan proceeds for 2020 ERO project borrowing (expenditures will be cash funded from 2020 budget savings), which is partially offset by lower 2020 debt service on prior year ERO project borrowing that was avoided due to a favorable working capital position.

Operating Reserve Increase (Decrease)

- Projected reserve increase from operating activity is \$3.4M versus a budgeted decrease of \$0.7M.

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

			Over
<u>FUNDING</u>	Actual	Budget	(Under)
Revenues	\$ 20.5	\$ 20.5	\$ -
Funding from Reserves			
Assessment Stabilization Reserve	-	-	-
TOTAL FUNDING	\$ 20.5	\$ 20.5	\$ -
<u>EXPENDITURES</u>			
Expenses (excluding Depreciation)	\$ 18.6	\$ 19.5	\$ (0.9)
Fixed Asset Additions	0.3	1.2	(0.9)
Net Financing Activity	0.2	-	0.2
TOTAL EXPENDITURES	\$ 19.1	\$ 20.7	\$ (1.6)
RESERVE INCREASE (DECREASE)	\$ 1.4	\$ (0.2)	\$ 1.6

Funding

- Revenues
 - On budget year-to-date.

Expenditures

- Expenses (excluding depreciation)
 - Meeting expenses are under budget partially due to the timing of expenditures versus the budget as well as slightly less travel in late Q1 due to the pandemic.
 - Contracts and Consultants, Software License and Maintenance, and Legal expenses are under budget primarily because of the timing of expenditures versus the budget.
- Fixed Asset Additions
 - Under budget YTD mainly due to the timing of expenditures versus the budget.

Operating Reserve Increase (Decrease)

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

Detailed Operating Results

Variances by Revenue and Expense Category

Total NERC (including CRISP)

	YTD Actual	YTD Budget	YTD Over (Under)	% Over (Under)	Annual Projection	Annual Budget	Annual Over (Under)	% Over (Under)
TOTAL FUNDING	\$ 20,516,902	\$ 20,501,738	\$ 15,165	0.1%	\$ 81,540,606	\$ 82,006,951	\$ (466,345)	(0.6%)
EXPENDITURES								
Personnel	\$ 11,915,379	\$ 11,649,540	\$ 265,839	2.3%	\$ 44,314,412	\$ 46,598,160	\$ (2,283,749)	(4.9%)
Meetings and Travel	676,786	830,813	(154,026)	(18.5%)	1,295,135	3,323,250	(2,028,115)	(61.0%)
Consultants and Contracts	2,640,999	3,108,976	(467,977)	(15.1%)	12,919,527	12,435,902	483,625	3.9%
Office Rent	845,597	862,617	(17,020)	(2.0%)	3,450,468	3,450,468	-	0.0%
Office Costs, Professional, and Misc.*	2,568,426	2,924,181	(355,755)	(12.2%)	12,496,659	11,696,724	799,935	6.8%
Other Non-Operating	7,785	76,656	(68,871)	(89.8%)	130,800	306,623	(175,823)	(57.3%)
Fixed Asset Additions*	288,019	1,176,587	(888,568)	(75.5%)	3,026,349	4,706,349	(1,680,000)	(35.7%)
Net Financing Activity	185,671	34,889	150,781	432.2%	550,000	139,558	410,442	294.1%
TOTAL EXPENDITURES	\$ 19,128,663	\$ 20,664,258	\$ (1,535,596)	(7.4%)	\$ 78,183,349	\$ 82,657,034	\$ (4,473,684)	(5.4%)
RESERVE INCREASE (DECREASE)	\$ 1,388,240	\$ (162,521)	\$ 1,550,760	(954.2%)	\$ 3,357,257	\$ (650,083)	\$ 4,007,339	(616.4%)
FTEs	201.2	213.4	(12.1)	(5.7%)	195.1	213.4	(18.3)	(8.6%)

* Excludes depreciation expense

Following is a brief summary of variances by category:

- Personnel expenses are expected to be under budget at year-end largely because of the deferred hiring of 11 open positions until 2021 and also from open E-ISAC positions budgeted as FTEs that are being filled with contractor labor.
- Meeting 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 over budget at year-end primarily as a result of contract labor being used in the E-ISAC in lieu of FTEs which is partially offset by lower CRISP program contract costs.

CONTRACTS and CONSULTANTS	YTD Actual	YTD Budget	YTD Over (Under)	Annual Projection	Annual Budget	Annual Over (Under)
Reliability Standards and Risk Issue Management	\$ 9,600	\$ 10,080	\$ (480)	\$ 88,320	\$ 40,320	\$ 48,000
Compliance Assurance	-	12,500	(12,500)	0	50,000	(50,000)
Compliance Analysis, Registration, and Certification	9,600	10,080	(480)	40,320	40,320	-
Compliance Enforcement	-	-	-	9,000	-	9,000
Power System Analysis	-	15,750	(15,750)	63,000	63,000	-
Reliability Assessment and Technical Committees	9,600	91,330	(81,730)	365,320	365,320	-
Advanced System Analytics and Modeling	-	43,750	(43,750)	62,000	175,000	(113,000)
Performance Analysis	58,712	37,313	21,400	410,700	149,250	261,450
Situation Awareness	-	-	-	15,000	-	15,000
Event Analysis	-	2,500	(2,500)	93,000	10,000	83,000
E-ISAC	604,193	353,125	251,068	2,743,887	1,412,500	1,331,387
Training, Education and Personnel Certification	105,112	98,000	7,112	392,000	392,000	-
General and Administrative and Executive	-	-	-	-	-	-
Legal and Regulatory	19,401	75,000	(55,599)	193,000	300,000	(107,000)
Policy and External Affairs	-	5,000	(5,000)	20,000	20,000	-
Information Technology	327,229	451,423	(124,194)	1,421,935	1,805,692	(383,757)
Human Resources and Administration	229,222	190,000	39,222	771,160	760,000	11,160
Finance and Accounting	17,432	43,750	(26,318)	75,000	175,000	(100,000)
TOTAL (excluding CRISP)	\$ 1,390,101	\$ 1,439,601	\$ (49,500)	\$ 6,763,642	\$ 5,758,402	\$ 1,005,240
CRISP	1,250,898	1,669,375	(418,477)	6,155,885	6,677,500	(521,615)
TOTAL (including CRISP)	\$ 2,640,999	\$ 3,108,976	\$ (467,977)	\$ 12,919,527	\$ 12,435,902	\$ 483,625

- Office Costs Expense
 - 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.
- Fixed Asset Additions
 - Expected to be below budget by deferring some hardware and software projects and the Atlanta office and meeting space renovations.
- Net Financing Activity
 - Estimated to be over budget due to no expected loan proceeds for 2020 ERO project borrowing (expenditures will be cash funded from 2020 budget savings), which is partially offset by lower 2020 debt service on prior year ERO project borrowing that was avoided due to a favorable working capital position.

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	\$ 985,459	\$ 979,578	\$ 5,881	\$ 3,445,998	\$ 3,918,311	\$ (472,314)
Compliance Assurance	1,388,548	1,289,189	99,359	5,721,382	5,156,756	564,626
Compliance Analysis, Registration, and Certification	327,641	338,665	(11,024)	1,382,488	1,354,660	27,828
Compliance Enforcement	713,186	819,924	(106,739)	3,395,761	3,279,697	116,064
Power System Analysis	328,514	426,381	(97,867)	1,233,086	1,705,525	(472,438)
Reliability Assessment and Technical Committees	608,031	549,847	58,185	2,151,527	2,199,387	(47,860)
Advanced System Analytics and Modeling	320,593	348,160	(27,567)	1,240,983	1,392,641	(151,659)
Performance Analysis	399,515	513,990	(114,475)	1,857,199	2,055,961	(198,762)
Situation Awareness	619,721	735,547	(115,827)	2,519,900	2,942,190	(422,289)
Event Analysis	633,765	606,585	27,180	2,439,285	2,426,341	12,944
E-ISAC	2,992,265	3,092,728	(100,463)	11,989,469	12,370,912	(381,443)
Training, Education and Personnel Certification	426,315	399,879	26,436	1,520,903	1,599,516	(78,613)
General and Administrative and Executive	1,974,106	2,145,079	(170,973)	7,737,201	8,580,315	(843,114)
Legal and Regulatory	1,060,910	1,147,094	(86,184)	4,060,728	4,588,376	(527,648)
Policy and External Affairs	716,143	750,945	(34,802)	2,568,904	3,003,778	(434,874)
Information Technology	2,923,053	3,207,744	(284,691)	12,143,497	12,830,975	(687,478)
Human Resources and Administration	722,990	681,138	41,851	2,816,678	2,724,553	92,125
Finance and Accounting	500,936	605,810	(104,874)	2,308,058	2,423,239	(115,181)
TOTAL (excluding CRISP)	\$ 17,641,689	\$ 18,638,283	\$ (996,594)	\$ 70,533,047	\$ 74,553,134	\$ (4,020,086)
CRISP	1,486,973	2,025,975	(539,002)	7,650,302	8,103,900	(453,598)
TOTAL DIRECT EXPENSES, FIXED ASSETS, AND FINANCING ACTIVITY	\$ 19,128,663	\$ 20,664,258	\$ (1,535,596)	\$ 78,183,349	\$ 82,657,034	\$ (4,473,684)

Following is a brief summary of variations by department:

- Reliability Standards and Risk Issue Management – Projected to be under budget due to lower personnel expenses and meeting and travel costs.
- Compliance Assurance – Expected to be over budget due to personnel expense and partial year software license and maintenance costs for the SEL.
- Power System Analysis – Projected to be under budget largely because of lower personnel and travel costs.
- Situation Awareness – Expected to be under budget mainly attributable to lower software costs and the decision to defer the budgeted costs for video wall to a subsequent year.
- E-ISAC – Projected to be under budget largely as a result of lower meeting and travel costs.
- General & Administrative and Executive – Expected to be under budget mainly due to lower meeting, travel, interest expense, and excise tax expense.
- Legal & Regulatory – Projected to be under budget because of lower personnel, travel, consultant, and outside legal costs.
- Policy & External Affairs – Expected to be under budget because of lower personnel, travel, and outside legal/lobbying costs.
- Information Technology – Projected to be under budget in Contracts and Consultants and Fixed Assets.
- CRISP – Expected to be under budget largely because of lower third party contractor costs.

Supplemental Schedules

Schedule 1 – Year-End Projected Reserves

Reserve Account	1/1/2020		Operating and		12/31/2020	
	Beginning Balance ⁽¹⁾	Budgeted Funding/(Use) ⁽²⁾	Unbudgeted Funding/(Use) ⁽³⁾	Financing Activity Versus Budget ⁽⁴⁾	Projected Ending Balance ⁽⁵⁾	
Operating Contingency	\$ 6,199,083	\$ (654,036)	\$ (1,800,000)	\$ 3,968,522	\$ 7,713,569	
Future Obligations	2,119,719	(485,958)	-	-	1,633,761	
Assessment Stabilization	2,521,000	-	-	-	2,521,000	
System Operator	777,274	-	-	42,771	820,045	
CRISP	500,000	-	-	-	500,000	
Total Reserves	\$ 12,117,076	\$ (1,139,994)	\$ (1,800,000)	\$ 4,011,293	\$ 13,188,375	

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) Use of \$1.8 million for the assumed cash funding for a portion of the Secure Evidence Locker expected to be approved by the NERC Board of Trustees in May 2020.

(4) 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.

(5) 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

Projects in Progress	Project Budget ⁽¹⁾	Actual Spend	Expected Spend	Expected Over (Under) Budget
CMEP Technology Project (2017-2020)	\$ 5,403,000	\$ 3,768,355	\$ 5,484,524	\$ 81,524
E-ISAC Data Center Move	150,000	-	150,000	-
Projects Completed in 2020	Project Budget ⁽¹⁾	Actual Spend ⁽²⁾		
Microsoft Windows 10 Upgrade	\$ 169,890	\$ 129,830		

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.

(2) Still awaiting the final invoice, which should be in the \$30k-\$40k range.

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

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

Schedule 2 (continued) – IT Projects

CMEP Technology Project

(Started May 2017 / Planned Completion Q4 2021)

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

E-ISAC Data Center Move

(Started Jan 2020 / Planned Completion Jul 2020)

This project will move all remaining E-ISAC internally hosted technology platforms from the current DC office location to a NERC approved, standard, professional, recoverable, scalable 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	\$ 5,840,838	\$ 23,363,353	\$ 23,363,353	\$ -
Other Funding	1,997,799	7,570,835	7,956,784	(385,950)
TOTAL FUNDING	\$ 7,838,637	\$ 30,934,187	\$ 31,320,137	\$ (385,950)
EXPENDITURES				
Personnel Expense	\$ 2,274,922	\$ 8,339,280	\$ 9,825,628	\$ (1,486,348)
Meetings and Travel Expense	70,270	174,197	464,200	(290,003)
Operating Expenses (excluding Depreciation)	2,134,046	10,854,845	9,728,189	1,126,656
Fixed Assets (excluding Depreciation and Fixed Asset Allocation)	-	271,449	421,449	(150,000)
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	35,347	(35,347)
Total Direct Costs (excluding Depreciation and Allocations)	\$ 4,479,238	\$ 19,639,771	\$ 20,474,812	\$ (835,041)
Indirect Expense Allocation	2,145,130	8,290,166	10,119,683	(1,829,517)
Fixed Asset Allocation	-	142,419	439,831	(297,412)
Net Financing Activity Allocation	51,642	149,201	285,811	(136,610)
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 6,676,010	\$ 28,221,557	\$ 31,320,137	\$ (3,098,580)
RESERVE INCREASE (DECREASE)	\$ 1,162,627	\$ 2,712,631	\$ -	\$ 2,712,631

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

CRISP					
FUNDING	YTD Actual	Annual Projection	Annual Budget	Projected Over (Under)	
Assessments	\$ 236,394	\$ 945,577	\$ 945,577	\$ -	
Other Funding	1,967,199	7,425,552	7,850,577	(425,025)	
TOTAL FUNDING	\$ 2,203,593	\$ 8,371,130	\$ 8,796,155	\$ (425,025)	
EXPENDITURES					
Personnel Expense	\$ 184,771	\$ 694,721	\$ 627,736	\$ 66,986	
Meetings and Travel Expense	13,191	20,153	49,200	(29,047)	
Operating Expenses (excluding Depreciation)	1,289,011	6,835,428	7,289,465	(454,036)	
Fixed Assets (excluding Depreciation and Fixed Asset Allocation)	-	100,000	137,500	(37,500)	
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	-	-	
Total Direct Costs (excluding Depreciation and Allocations)	\$ 1,486,973	\$ 7,650,302	\$ 8,103,900	\$ (453,598)	
Indirect Expense Allocation	187,543	769,191	645,937	123,253	
Fixed Asset Allocation	-	13,214	28,074	(14,860)	
Net Financing Activity Allocation	4,515	13,843	18,243	(4,400)	
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 1,679,031	\$ 8,446,550	\$ 8,796,155	\$ (349,604)	
RESERVE INCREASE (DECREASE)	\$ 524,562	\$ (75,420)	\$ -	\$ (75,420)	

E-ISAC (excluding CRISP)					
FUNDING	YTD Actual	Annual Projection	Annual Budget	Projected Over (Under)	
Assessments	\$ 5,604,444	\$ 22,417,776	\$ 22,417,776	\$ -	
Other Funding	30,600	145,282	106,207	39,075	
TOTAL FUNDING	\$ 5,635,044	\$ 22,563,058	\$ 22,523,983	\$ 39,075	
EXPENDITURES					
Personnel Expense	\$ 2,090,151	\$ 7,644,559	\$ 9,197,892	\$ (1,553,333)	
Meetings and Travel Expense	57,078	154,044	415,000	(260,956)	
Operating Expenses (excluding Depreciation)	845,035	4,019,416	2,438,724	1,580,692	
Fixed Assets (excluding Depreciation and Fixed Asset Allocation)	-	171,450	283,950	(112,500)	
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	35,347	(35,347)	
Total Direct Costs (excluding Depreciation and Allocations)	\$ 2,992,265	\$ 11,989,469	\$ 12,370,912	\$ (381,443)	
Indirect Expense Allocation	1,957,587	7,520,975	9,473,746	(1,952,771)	
Fixed Asset Allocation	-	129,205	411,757	(282,552)	
Net Financing Activity Allocation	47,127	135,358	267,568	(132,210)	
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 4,996,980	\$ 19,775,007	\$ 22,523,983	\$ (2,748,976)	
RESERVE INCREASE (DECREASE)	\$ 638,065	\$ 2,788,051	\$ -	\$ 2,788,051	

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

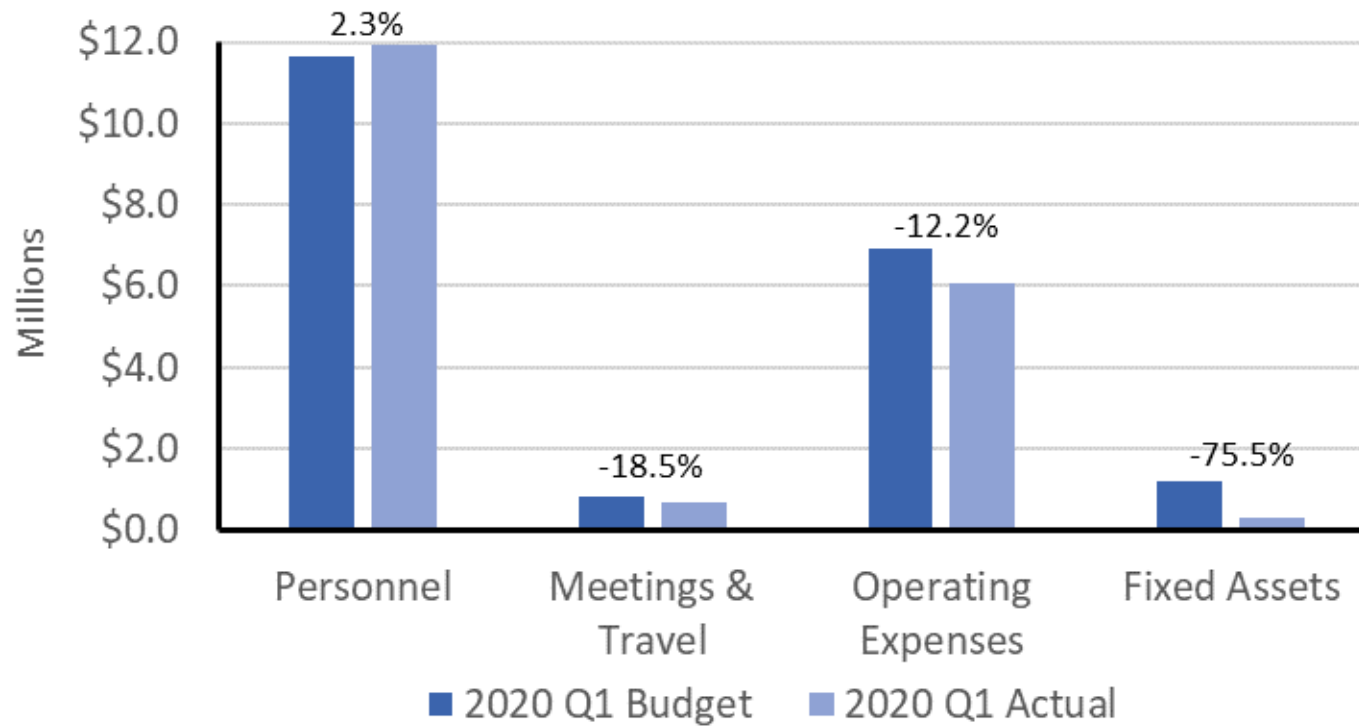
NERC Summary of Unaudited Results First Quarter 2020

Andy Sharp, Vice President, Controller and Interim CFO
Finance and Audit Committee Meeting
May 13, 2020

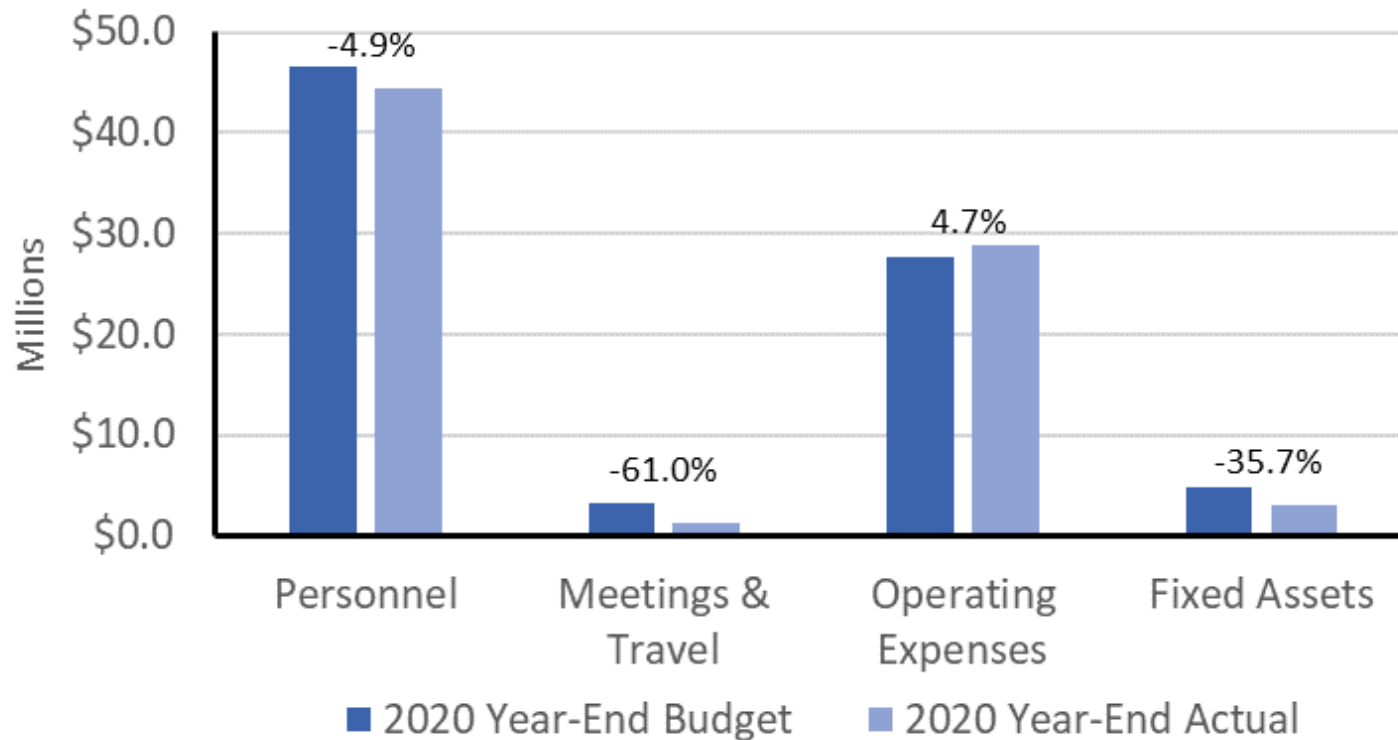
RELIABILITY | RESILIENCE | SECURITY



- Total funding – on budget
- Total expenditures – \$1.5M (7.4%) under budget
 - Primarily due to the expected timing of expenditures versus budget
- Net impact was \$1.6M increase in reserves

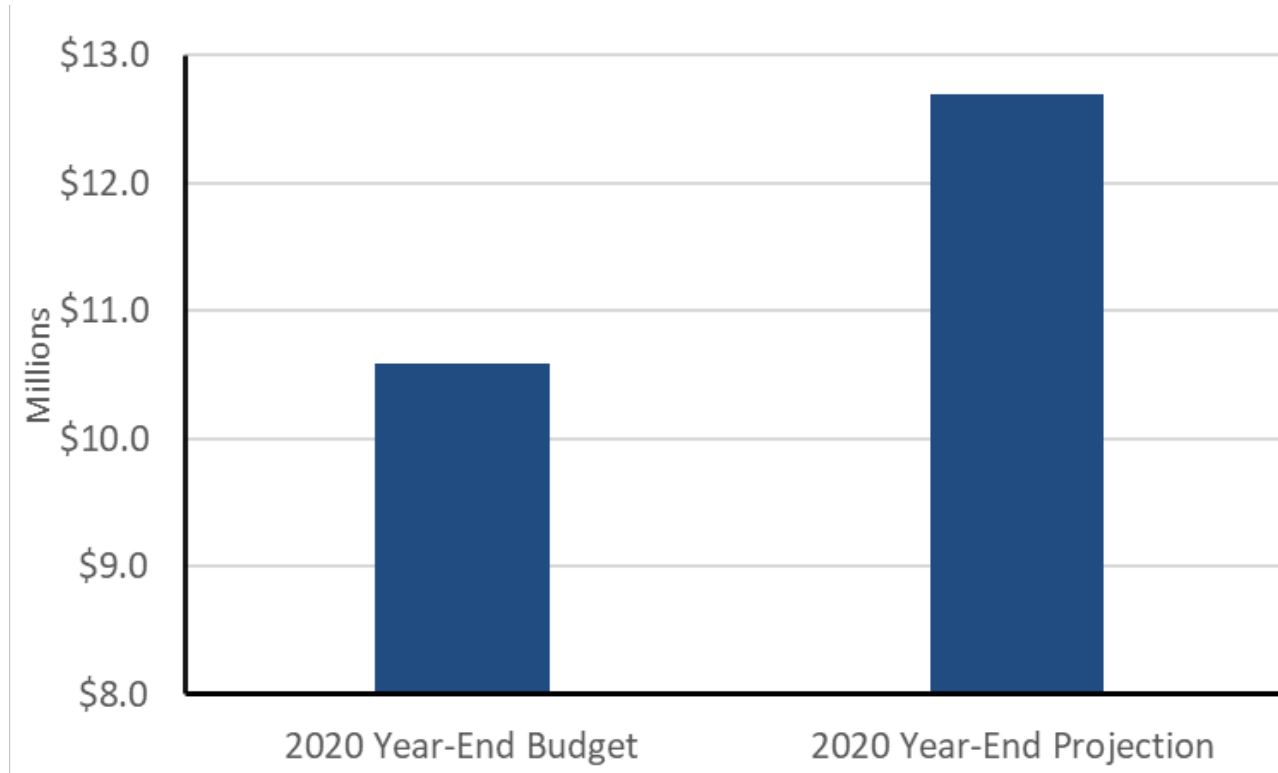


- Funding – \$500k (0.6%) under budget
 - Lower investment income and third-party revenues for CRISP
- Total expenditures – \$4.5M (5.4%) under budget
 - Lower personnel costs due to deferred hiring and open positions
 - Reduced meeting and travel expenses related to the pandemic
 - Lower fixed asset purchases for hardware, software and leasehold improvements

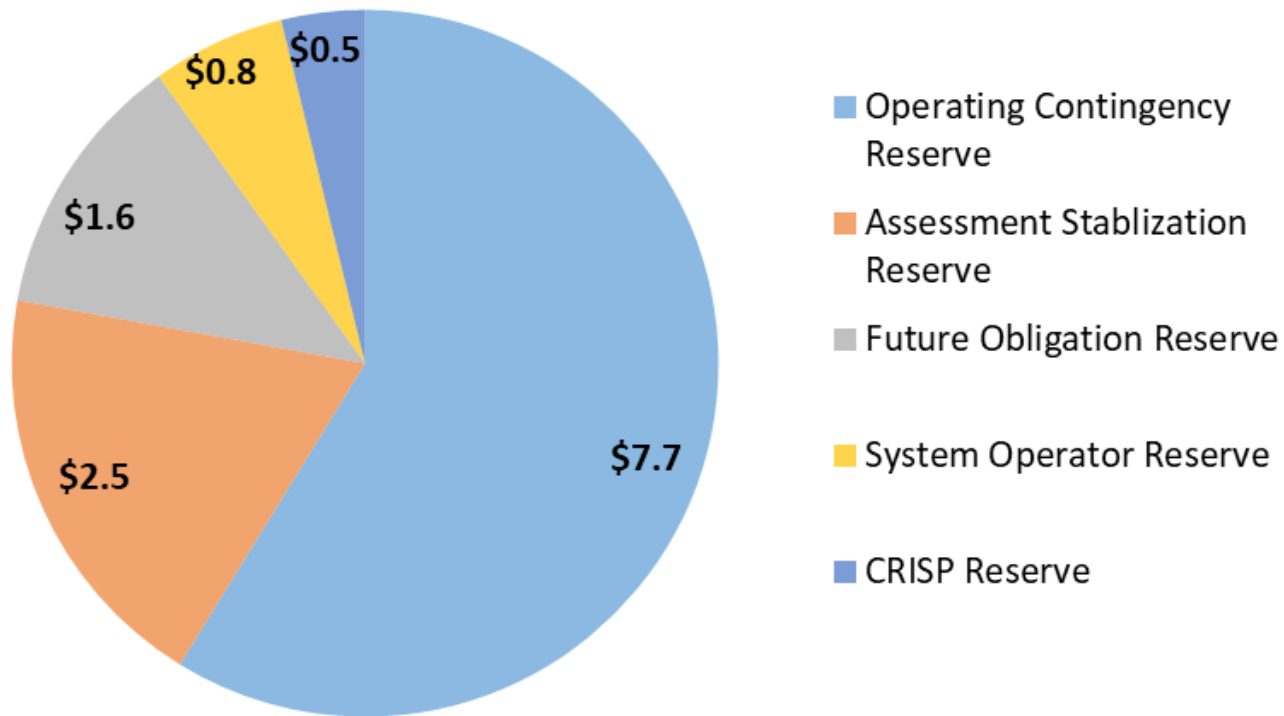


- Projected net results – \$3.3M increase in reserves provides for funding of:
 - \$1.8M of ERO Secure Evidence Locker in 2020 (assume financing for remaining investment of \$2.0M)
 - Subject to Board of Trustees and FERC approval
 - 2021 Align delay costs

2020 Projected Year-End Reserves



(\$ millions)





Questions and Answers

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

March 31, 2020

The ERO Enterprise was under budget \$3.8M (7.5%) for combined expense and fixed asset (capital) spending. The budget variances ranged from 18.2% to 1.6% under budget. The year-end projection for the ERO Enterprise is to be under budget by 2.7%.

Total Budget (Total Expenses plus Fixed Assets)

Entity	2020 YTD		Over (Under)		2020 Year-End		Over (Under)	
	Actual	Budget	\$	%	Projected	Budgeted	\$	%
NERC	\$ 19,128,663	\$ 20,664,259	\$ (1,535,596)	(7.4%)	\$ 78,183,349	\$ 82,657,033	\$ (4,473,684)	(5.4%)
MRO	3,831,322	4,385,243	(553,921)	(12.6%)	16,729,915	17,540,969	(811,054)	(4.6%)
NPCC	3,261,132	3,984,876	(723,744)	(18.2%)	16,287,649	16,601,649	(314,000)	(1.9%)
RF	5,771,825	6,121,562	(349,737)	(5.7%)	23,250,363	23,650,862	(400,499)	(1.7%)
SERC	5,656,669	6,041,021	(384,352)	(6.4%)	24,524,716	24,525,014	(298)	(0.0%)
Texas RE	3,338,528	3,393,076	(54,548)	(1.6%)	13,811,126	13,811,126	-	0.0%
WECC	6,549,862	6,775,433	(225,571)	(3.3%)	28,098,541	27,756,089	342,452	1.2%
	\$ 47,538,001	\$ 51,365,470	\$ (3,827,469)	(7.5%)	\$ 200,885,659	\$ 206,542,742	\$ (5,657,083)	(2.7%)

- NERC was under budget \$1.5M (7.4%) primarily due to timing of expenditures for meetings, contracts and consultants, and fixed assets, as well as reduced spending on travel due to impacts of COVID-19. The company expects to be under budget 4.5M (5.4%) 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. This includes deferral of some open positions to 2021, lower meeting and travel costs, and lower fixed asset expenditures.
- MRO was under budget \$554k (12.6%), which is attributable primarily to reduced spending in meetings, travel, and operating expenses due to impacts of COVID-19. The company expects to be under budget \$811k (4.6%) at year-end due to the same reason, offset by anticipated overages in personnel and unbudgeted costs associated with office expansion.
- NPCC was under budget \$724k (18.2%) 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 \$314k (1.9%) at year-end based on originally 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 \$350k (5.7%) largely due to lower-than-expected personnel, travel, operating expenses, and fixed asset purchases. The company expects to be under budget \$401k (1.7%) at year-end.

- SERC was under budget \$384k (6.4%) 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 at budget at year-end.
- Texas RE was under budget \$55k (1.6%) largely as a result of lower personnel, meeting, and travel costs. The company expects to be at budget at year-end.
- WECC was under budget \$226k (3.3%) predominately due to lower personnel, meeting, and travel costs. The company expects to be over budget \$342k (1.2%) at year-end.

Variations 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 \$781k (2.2%), ranging from 15.2% under budget to 2.3% over budget. The ERO Enterprise was under budget in FTEs by 39.6 (5.7%). The year-end projection for ERO Enterprise personnel expenses is to be under budget 1.3%, with FTEs under budget 2.2%. 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	\$ 11,915,379	\$ 11,649,540	\$ 265,839	2.3%	(4.9%)	201.2	213.4	(12.1)	(5.7%)	(8.6%)
MRO	3,086,381	3,120,673	(34,292)	(1.1%)	1.2%	57.0	63.0	(6.0)	(9.5%)	1.6%
NPCC	2,415,531	2,848,209	(432,678)	(15.2%)	(2.3%)	35.5	41.1	(5.6)	(13.5%)	(3.8%)
RF	5,126,655	5,254,734	(128,079)	(2.4%)	0.3%	79.1	79.4	(0.2)	(0.3%)	0.0%
SERC	4,729,242	4,682,452	46,790	1.0%	1.1%	98.0	98.0	-	0.0%	0.0%
Texas RE	2,602,052	2,681,233	(79,181)	(3.0%)	0.0%	59.0	60.0	(1.0)	(1.7%)	0.0%
WECC	4,713,149	5,132,196	(419,047)	(8.2%)	1.7%	128.3	143.0	(14.7)	(10.3%)	2.3%
	\$ 34,588,389	\$ 35,369,037	\$ (780,648)	(2.2%)	(1.3%)	658.2	697.8	(39.6)	(5.7%)	(2.2%)

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

- NPCC was under budget \$433k (15.2%) primarily due to open positions, which are actively being filled. NPCC expects to be under budget \$249k (2.3%) at year-end.
- WECC was under budget \$419k (8.2%) 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 over budget \$356k (1.7%) at year-end.

Travel, Meeting, and Conferencing Expenses

For the ERO Enterprise, travel, meeting, and conferencing expenses were collectively under budget \$987k (39.0%). The year-end projection for the ERO Enterprise is to be under budget 34.7%. Significant variances are explained below.

Meeting, Travel, and Conferencing Expenses

Entity	2020 Budget	Meetings & Conference		2020 Actual	Over (Under)		Projected Year- End Variance to Budget
		Calls	Travel		\$	%	
NERC	\$ 830,813	\$ 4,682	\$ (158,709)	\$ 676,786	\$ (154,027)	(18.5%)	(61.0%)
MRO	321,158	(35,877)	(211,800)	73,481	(247,677)	(77.1%)	(38.0%)
NPCC	220,530	(21,427)	(74,771)	124,332	(96,198)	(43.6%)	(5.2%)
RF	226,813	(4,314)	(86,337)	136,162	(90,651)	(40.0%)	(42.8%)
SERC	229,306	(62,922)	(44,758)	121,626	(107,680)	(47.0%)	(0.8%)
Texas RE	92,097	(10,080)	(10,655)	71,362	(20,735)	(22.5%)	0.0%
WECC	608,266	(211,173)	(59,231)	337,862	(270,404)	(44.5%)	(32.3%)
	\$ 2,528,983	\$ (341,111)	\$ (646,261)	\$ 1,541,611	\$ (987,372)	(39.0%)	(34.7%)

- NERC was under budget \$154k (18.5%) primarily due to decreased in-person meetings and related travel as a result of COVID-19. The company expects to be under budget \$2.0M (61.0%) at year-end for this same reason.
- MRO was under budget \$248k (77.1%) due to reduced travel and postponed or converted meetings as a result of COVID-19. The company expects to be under budget \$489k (38.0%) at year-end for this same reason.
- NPCC was under budget \$96k (43.6%) mainly from suspended travel and converted meetings as a result of COVID-19. The company currently expects to be under budget \$65k (5.2%) at year-end, but will be updating its projection in subsequent quarter reports as the impacts of COVID-19 are better known.
- RF was under budget \$91k (40.0%) primarily due to the reduction of travel activities as a result of COVID-19. The company expects to be under budget \$460k (42.8%) at year-end for this same reason.
- SERC was under budget \$108k (47.0%) primarily because of decreased travel and meetings due to COVID-19. The company currently expects to be near budget at year-end but is still assessing the impacts of COVID-19.
- Texas RE was under budget \$21k (22.5%) as a result of timing of expenses and suspended travel due to COVID-19. The company expects to be at budget at year-end.
- WECC was under budget \$270k (44.5%) primarily due to the cancellation of in-person meetings and reduced spending on travel because of COVID-19. The company expects to be under budget \$684k (32.3%) at year-end.

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 \$1.1M (9.3%). The year-end projection for the ERO Enterprise is to be over budget 1.4%. Significant variances are explained below.

Operating Expenses

Entity	2020						2020		Projected Year-End Variance to Budget
	Budget	Contracts & Consultants	Office Rent	Office Costs	Professional Services	Miscellaneous	Actual	Over (Under) \$ %	
NERC	\$ 6,895,774	\$ (467,977)	\$ (17,020)	\$(191,468)	\$(158,626)	\$ (5,660)	\$ 6,055,023	\$ (840,751) (12.2%)	4.7%
MRO	884,662	(194,122)	(10,380)	(74,196)	51,878	-	657,842	(226,820) (25.6%)	(30.2%)
NPCC	976,000	(240,942)	(31,899)	44,781	90,841	(7,240)	831,541	(144,459) (14.8%)	0.0%
RF	572,515	(58,661)	5,509	(22,732)	9,851	(707)	505,775	(66,740) (11.7%)	0.2%
SERC	929,263	(172,541)	8,925	70,827	(17,304)	-	819,170	(110,093) (11.8%)	(5.0%)
Texas RE	619,746	107,256	(6,161)	(18,329)	(37,398)	-	665,114	45,368 7.3%	0.0%
WECC	1,175,431	69,434	(4,071)	(11,947)	163,597	-	1,392,444	217,013 18.5%	14.1%
	\$ 12,053,391	\$ (957,553)	\$ (55,097)	\$ (203,064)	\$ 102,839	\$ (13,607)	\$ 10,926,909	\$ (1,126,482) (9.3%)	1.4%

- NERC was under budget \$840k (12.2%) mainly due timing of expenditures versus budget for contracts and consultants and office costs. The company expects to be over budget \$1.3M (4.7%) at year-end due to higher-than-budgeted costs for contracts and consultants and software license and maintenance, offset by lower spending in other areas.
- MRO was under budget \$227k (25.6%) primarily due to reduced spending in a majority of operating areas as a result of COVID-19, including lower onsite operations and postponed outside consulting. The company expects to be under budget \$1.1M (30.2%) at year-end due to this same reason.
- NPCC was under budget \$145k (14.8%) 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 at budget at year-end.
- RF was under budget \$67k (11.7%) primarily due to less than expected contract support for compliance monitoring and IT activities and the difference in how computer service and maintenance renewal costs are budgeted and recorded. The company expects to be close to budget at year end.
- SERC was under budget \$110k (11.8%) largely because of less-than-budgeted independent director search fees and Compliance User Group costs and timing of expenses. The company expects to be under budget \$200k (5.0%) at year-end.
- Texas RE was over budget \$45k (7.3%) predominately due to timing of executive coaching and search fees. The company expects to be at budget at year-end.
- WECC was over budget \$217k (18.5%) primarily due to unanticipated IT consulting costs and legal fees. The company expects to be over budget \$677k (14.1%) at year-end.

Indirect Expense Allocation

NPCC and WECC allocate overhead expenses to their non-statutory functions. Through the first quarter, NPCC allocated \$8k (7.7%) more than budgeted and WECC allocated \$4k (3.0%) more than budgeted. At year-end, NPCC expects to be at budget and WECC expects to allocate \$60k (210.6%) more than budgeted.

Fixed Asset (Capital) Additions

For the ERO Enterprise, fixed asset (capital) additions were under budget \$1.0M (64.9%). The year-end projection for the ERO Enterprise is to be under budget 17.3%. Significant variances are explained below.

Entity	2020 YTD		Over (Under)		2020 Year-End		Over (Under)	
	Actual	Budget	\$	%	Projected	End Budgeted	\$	%
NERC	\$ 288,019	\$ 1,176,587	\$ (888,568)	(75.5%)	\$ 3,026,349	\$ 4,706,349	\$ (1,680,000)	(35.7%)
MRO	13,618	58,750	(45,132)	(76.8%)	835,000	235,000	600,000	255.3%
NPCC	-	42,500	(42,500)	(100.0%)	170,000	170,000	-	0.0%
RF	3,233	67,500	(64,267)	(95.2%)	390,000	390,000	-	0.0%
SERC	(13,369)	200,000	(213,369)	(106.7%)	330,000	330,000	-	0.0%
Texas RE	-	-	-	0.0%	30,000	30,000	-	0.0%
WECC	251,148	-	251,148	0.0%	106,148	52,014	54,134	104.1%
	\$ 542,649	\$ 1,545,337	\$ (1,002,688)	(64.9%)	\$ 4,887,497	\$ 5,913,363	\$ (1,025,866)	(17.3%)

- NERC was under budget \$889k (75.5%) largely due timing of expenditures versus budget. The company expects to be under budget \$1.7M (35.7%) 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 \$45k (76.8%) due lower-than-expected spending on software. The company expects to be over budget \$600k (255.3%) at year-end due to an anticipated unbudgeted expansion of office space, offset by lower spending in other areas.
- NPCC was under budget \$43k (100%) due to the timing of scheduled website enhancements. The company expects to be at budget at year-end.
- RF was under budget \$64k (95.2%) due to timing of computer hardware and software and expenses. The company expects to be at budget at year-end.
- SERC was under budget \$213k (106.7%) because of deferred IT projects. The company expects to be at budget at year-end.
- WECC was over budget \$251k (100.0%) primarily due to unbudgeted office and meeting space improvements. The company expects to be over budget \$54k (104.1%) at year-end.

Working Capital and Operating Reserves (excluding CRISP)

The ERO Enterprise began the 2020 year with approximately \$5.9M 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	3,886,398	1,314,649	2,571,749
WECC	7,339,148	7,752,113	(412,965)
	\$ 38,676,561	\$ 32,783,989	\$ 5,892,572

Through the first quarter, the ERO Enterprise budgeted the addition of \$23.1M in reserves while actually generating \$24.5M. This resulted in the unanticipated addition of \$1.4M in total reserves through the first quarter.

2020 Change in Reserve Balances			
Entity	YTD Actual	YTD Budget	Over (Under)
NERC	1,173,467	(284,010)	1,457,477
MRO	553,921	-	553,921
NPCC	707,927	(16,242)	724,169
RF	61,851	(301,297)	363,148
SERC	1,955,492	1,506,260	449,232
Texas RE	721,325	662,957	58,368
WECC	19,320,849	21,485,479	(2,164,630)
	\$ 24,494,832	\$ 23,053,147	\$ 1,441,685

The combined effect of higher balances at the beginning of the year and adding additional reserves through the first quarter of 2020 resulted in a combined year-to-date reserve balance of \$63.2M, which is \$7.3M 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 \$37.9M, which is approximately \$4.9M over the 2020 budget amount of \$33.0M.

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	\$ 12,790,543	\$ 9,170,096	\$ 3,620,447	NERC	\$ 12,688,375	\$ 10,590,147	\$ 2,098,228
MRO	5,323,406	4,934,448	388,958	MRO	5,580,539	4,934,448	646,091
NPCC	5,725,678	4,409,870	1,315,808	NPCC	4,278,389	3,406,500	871,889
RF	4,253,026	3,399,539	853,487	RF	3,735,136	2,528,150	1,206,986
SERC	3,811,020	2,707,985	1,103,035	SERC	1,914,935	1,260,834	654,101
Texas RE	4,607,723	1,977,606	2,630,117	Texas RE	4,169,399	1,597,650	2,571,749
WECC	26,659,997	29,237,592	(2,577,595)	WECC	5,502,690	8,680,274	(3,177,584)
	\$ 63,171,393	\$ 55,837,136	\$ 7,334,257		\$ 37,869,463	\$ 32,998,003	\$ 4,871,460

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

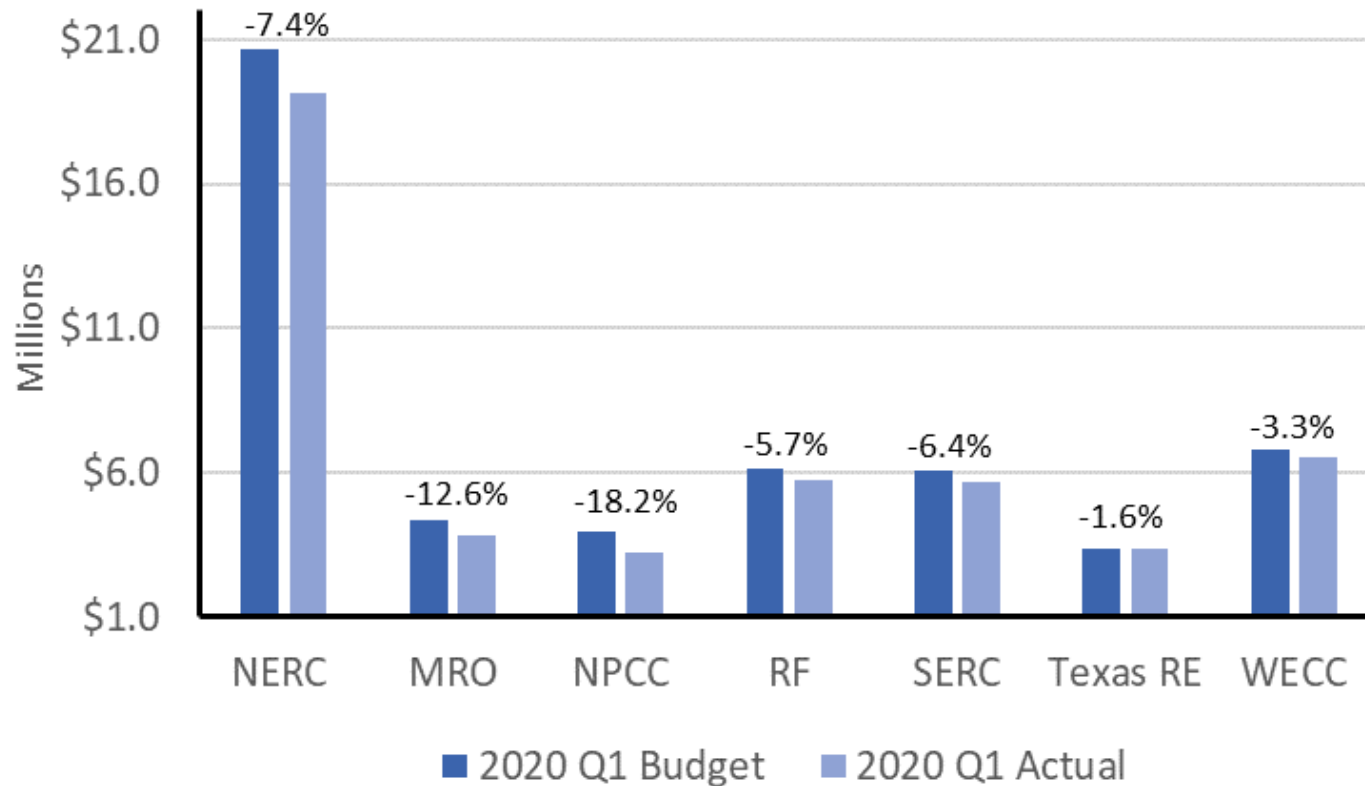
ERO Enterprise Combined Summary of Unaudited Results First Quarter 2020

Andy Sharp, Vice President, Controller and Interim CFO
Finance and Audit Committee Meeting
May 13, 2020

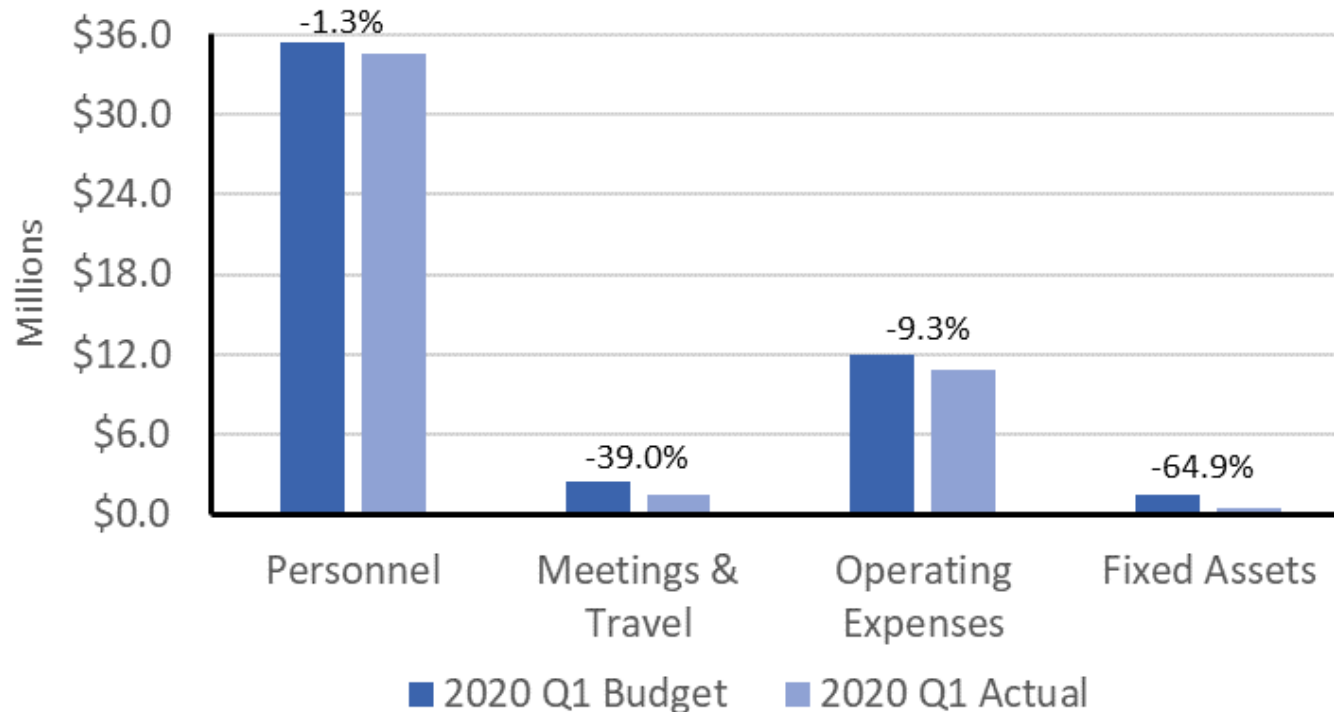
RELIABILITY | RESILIENCE | SECURITY



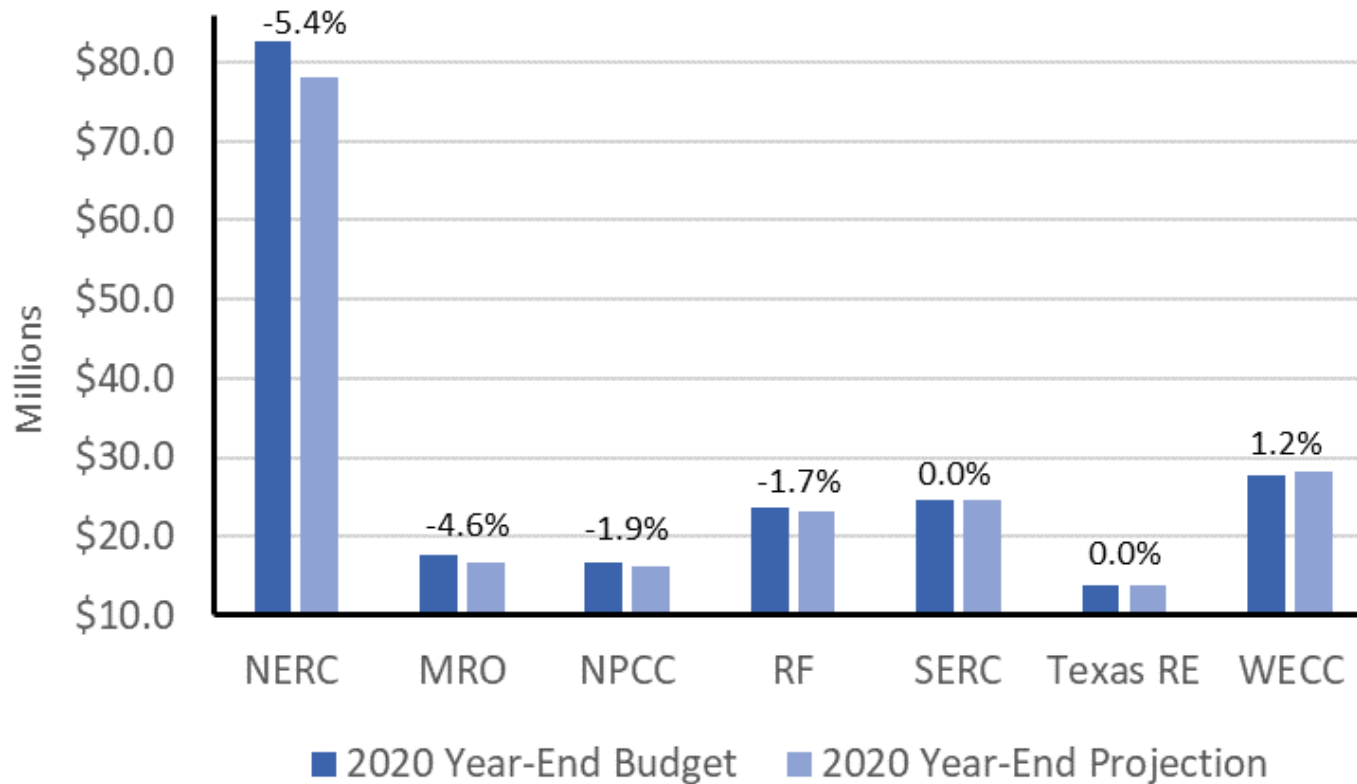
- Total expenditures for the ERO Enterprise were under budget \$3.8M (7.5%)



- NERC and SERC were slightly over budget in Personnel
- Texas RE and WECC were over budget in Operating Expenses
- WECC was over budget in Fixed Assets

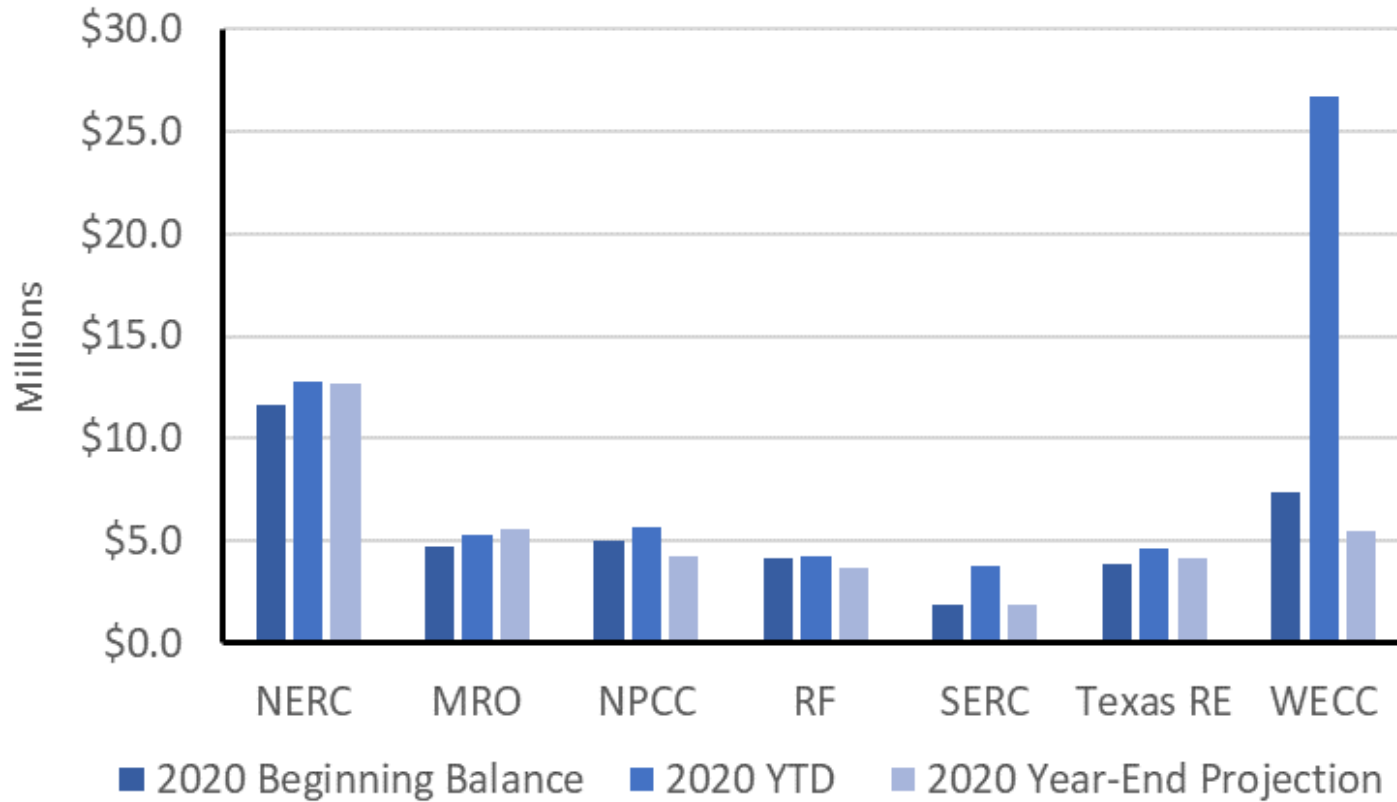


- The ERO Enterprise expects to be under budget \$5.7M (2.7%)



- \$38.7 – Total reserves as of January 1, 2020
 - Started \$5.9M over combined budgets
- \$63.2M – Total reserves as of March 31, 2020
 - \$7.3M more than expected through Q1
- \$37.9M – Year-end projection as of December 31, 2020
 - Ending \$4.9M more than budgeted

2020 Reserve Balances by Entity





Questions and Answers



Lam Chung, Corporate Treasurer

P: 651.256.5187

F: 651.855.1712

E: lam.chung@mro.net

April 20, 2020

Mr. Andy Sharp

North American Electric Reliability Corporation (NERC)

RE: Unaudited Midwest Reliability Organization (MRO) 2020 First Quarter Statement of Activity – Cash Flow through March 31, 2020

Dear Mr. Sharp:

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

Meeting Expenses (Variance of \$247,678 (77.1%) under budget)

Meeting costs were under budget primarily because of COVID-19. Under the guidance of both state and federal direction, most travel scheduled to occur in mid-March for MRO staff, its board and council members, and other member volunteers was canceled. Meetings were postponed or converted to virtual means using WebEx technology.

Operating Expenses (Variance of \$226,820 (25.6%) under budget)

The impact of COVID-19 has reduced spending in a majority of the operating areas. As staff transitioned to home office sites and performing most work through remote capability, much of the cost to maintain onsite operations was lower for the month of March. Procuring outside consulting was postponed as internal staff worked to maintain MRO's transition to a virtual environment.

Professional services were over budget due to timing in the payment of retainers for MRO's independent directors. Costs in this area are expected to be on budget by year-end.

Budget Outlook

The 2020 budget projects an underage in meeting, travel, consulting and other operating costs because of COVID-19. It is expected that travel and in-person meetings will be postponed for the month of April and limited travel and meetings are anticipated in the month of May. There is an anticipated expansion of office space being considered which may 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
3/31/2020
PRELIMINARY (Unaudited)**

(In Whole Dollars)

	2020 YTD Actual	2020 YTD Budget	2020 YTD Variance	%	Projected 2020 End Of Year	2020 Budget	2020 Variance	%
Funding								
ERO Funding								
ERO Assessments	\$ 4,245,813	\$ 4,245,813	-		\$ 16,983,251	\$ 16,983,251	-	
Penalty Sanctions	139,430	139,430	-		557,718	557,718	-	
A. Total ERO Funding	\$ 4,385,243	\$ 4,385,242	\$ -		\$ 17,540,969	\$ 17,540,969	\$ -	
Personnel Expenses								
Salaries	\$ 2,326,377	\$ 2,333,566	(7,188)		\$ 9,536,004	\$ 9,334,262	201,742	
Payroll Taxes	157,984	146,651	11,333		581,251	586,604	(5,353)	
Benefits	237,415	265,395	(27,981)		979,855	1,061,581	(81,726)	
Retirement Costs	364,605	375,061	(10,456)		1,533,463	1,500,244	33,219	
Total Personnel Expenses	\$ 3,086,380	\$ 3,120,673	\$ (34,292)	-1.1%	\$ 12,630,574	\$ 12,482,691	\$ 147,883	1.2%
Meeting Expenses								
Meetings	\$ 8,098	\$ 43,975	(35,877)		\$ 107,041	\$ 175,900	(68,859)	
Travel	65,383	277,183	(211,800)		689,045	1,108,732	(419,687)	
Conference Calls	-	-	-		-	-	-	
Total Meeting Expenses	\$ 73,480	\$ 321,158	\$ (247,678)	-77.1%	\$ 796,086	\$ 1,284,632	\$ (488,546)	-38.0%
Operating Expenses								
Consultants & Contracts	\$ 132,458	\$ 326,580	(194,122)		\$ 529,832	\$ 1,306,319	(776,487)	
Office Rent	183,120	193,500	(10,380)		882,479	774,000	108,479	
Office Costs	158,386	232,582	(74,196)		633,545	930,327	(296,782)	
Professional Services	183,878	132,000	51,878		422,400	528,000	(105,600)	
Total Operating Expenses	\$ 657,842	\$ 884,662	\$ (226,820)	-25.6%	\$ 2,468,256	\$ 3,538,646	\$ (1,070,390)	-30.2%
Total Direct Expenses	\$ 3,817,703	\$ 4,326,492	\$ (508,789)	-11.8%	\$ 15,894,916	\$ 17,305,969	\$ (1,411,053)	-8.2%
Indirect Expenses								
Other Non-Operating Expenses	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	
B. Total Expenses	\$ 3,817,703	\$ 4,326,492	\$ (508,789)		\$ 15,894,916	\$ 17,305,969	\$ (1,411,053)	
Change in Assets	\$ 567,540	\$ 58,750	\$ 508,789		\$ 1,646,053	\$ 235,000	\$ 1,411,053.25	
Fixed Assets								
Computer & Software CapEx	10,018	52,500	(42,482)		210,000	210,000	-	
Furniture & Fixtures CapEx	-	-	-		-	-	-	
Equipment CapEx	-	-	-		-	-	-	
Leasehold Improvements	3,600	6,250	(2,650)		625,000	25,000	600,000	
C. Inc(Dec) in Fixed Assets	\$ 13,618	\$ 58,750	\$ (45,132)	-76.8%	\$ 835,000	\$ 235,000	\$ 600,000	255.3%
Total Budget (B + C)	\$ 3,831,321	\$ 4,385,242	\$ (553,921)	-12.6%	\$ 16,729,916	\$ 17,540,969	\$ (811,053)	-4.6%
Change in Working Capital (A-B-C)	\$ 553,922	\$ -	\$ 553,921		\$ 811,053	\$ -	\$ 811,053	
Head Count	57.00	63.00	(6.00)		64.00	63.00	1.00	
FTEs	57.00	63.00	(6.00)		64.00	63.00	1.00	
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	553,922	-	553,922		811,053	-	811,053	
Working Capital at March 31, 2020	\$ 5,323,407	\$ 4,934,448	\$ 388,959		\$ 5,580,538	\$ 4,934,448	\$ 646,090	



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

April 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
First Quarter 2020 Statement of Activities

Dear Andy:

The variance comparison for the period ended March 31, 2020 is included along with Northeast Power Coordinating Council, Inc.'s unaudited First Quarter 2020 Statement of Activities.

Please do not hesitate to contact me via email at 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 March 31, 2020

TOTAL EXPENSES

For the quarter ending March 31, 2020, the NPCC Regional Entity Division is \$724k or -18.16% under budget year to date. Based on its originally planned activities, NPCC's current full year projection is an under budget variance of \$314k or -1.89%. The full health and subsequent financial impacts of the COVID-19 pandemic to the NPCC Region are currently unknown. It is anticipated that projections would 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.) All penalty sanctions remitted from July 1, 2019 through June 30, 2020 will be included in the NPCC 2021 Business Plan and Budget and applied to reduce 2021 assessments to NPCC U.S. load serving entity designees.
- **Interest & Investment Income** (Actual income of \$14k year-to-date, as budgeted)
Interest & investment income earned from the investment of excess operating cash into a 100% U.S. Treasury Securities mutual fund. NPCC allocated \$14k 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 \$433k under budget year-to-date, and \$249k under budget FYP)
 - Open positions during the first quarter resulted in lower than budgeted salaries and related benefits. Three individuals joined NPCC during the first quarter. NPCC is recruiting heavily to retain qualified technical individuals to fill four remaining open positions requiring specific experience and knowledge. Two of the open positions were newly added in the 2020 budget development and approval process. In response to the COVID-19 pandemic, NPCC has adjusted recruiting and hiring procedures, conducting teleconference, WebEx and video conference interviews with candidates and successfully onboarded two recent hires remotely during March 2020. Current responsibilities are being addressed through resource re-allocations among existing workforce and independent contractors.

- **Meetings and Conference Calls** (Variance of \$96k under budget year-to-date, and \$65k 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. Other planned meetings have been conducted successfully via webinar and teleconference. Full year projections will be updated in subsequent quarters' variance reports.
- **Consultants and Contracts** (Variance of \$241k under budget year-to-date, and as budgeted FYP)
 - Year-to-date under budget variance is due to the timing of the use of independent contractors for 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. The full year projection continues to be as budgeted at this time and will be updated in subsequent reports as scheduling is adjusted.
- **Professional Services** (Variance of \$91k 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 quarter of this year. The full year projection continues to be as budgeted.
- **Fixed Assets** (Variance of \$43k 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 April 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 March 31, 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)	%
Funding								
Assessments	3,834,684	3,834,684	-		15,338,737	15,338,737	-	
Penalties	120,000	120,000	-		120,000	120,000	-	
Testing	-	-	-		-	-	-	
Services & Software	-	-	-		-	-	-	
Workshop Fees	-	-	-		33,750	67,500	(33,750)	
Interest & Investment Income	14,375	13,950	425		55,800	55,800	-	
Total Funding	3,969,059	3,968,634	425	0.01%	15,548,287	15,582,037	(33,750)	-0.22%
Expenses								
Personnel Expenses								
Salaries	1,717,436	1,926,066	(208,630)		7,544,262	7,704,262	(160,000)	
Payroll Taxes	109,769	219,684	(109,915)		478,520	495,520	(17,000)	
Employee Benefits	395,663	481,721	(86,059)		1,878,885	1,926,885	(48,000)	
Savings & Retirement	192,663	220,738	(28,074)		858,951	882,951	(24,000)	
Total Personnel Expenses	2,415,531	2,848,208	(432,678)	-15.19%	10,760,618	11,009,618	(249,000)	-2.26%
Meeting Expenses								
Meetings & Conference Calls	29,923	51,350	(21,427)		332,750	397,750	(65,000)	
Travel	94,409	169,180	(74,771)		845,900	845,900	-	
Total Meeting Expenses	124,331	220,530	(96,199)	-43.62%	1,178,650	1,243,650	(65,000)	-5.23%
Operating Expenses, excluding Depreciation								
Consultants & Contracts	154,738	395,680	(240,942)		2,071,150	2,071,150	-	
Rent & Improvements	173,926	205,825	(31,899)		832,700	832,700	-	
Office Costs	216,276	171,495	44,781		685,981	685,981	-	
Professional Services	281,091	190,250	90,841		947,000	947,000	-	
Miscellaneous	5,510	12,750	(7,240)		51,000	51,000	-	
Total Operating Expenses	831,541	976,000	(144,460)	-14.80%	4,587,831	4,587,831	-	0.00%
Indirect Expense Allocation	(110,272)	(102,363)	(7,909)	7.73%	(409,450)	(409,450)	-	0.00%
Other Non-Operating Expenses	-	-	-	n/a	-	-	-	n/a
Total Expenses	3,261,131	3,942,376	(681,245)	-17.28%	16,117,649	16,431,649	(314,000)	-1.91%
Change in Net Assets	707,929	26,259	681,670	2596.00%	(569,362)	(849,612)	280,250	-32.99%
Fixed Asset Additions, excluding Right of Use Assets	-	42,500	(42,500)	-100.00%	170,000	170,000	-	0.00%
Net Financing Activity	-	-	-	n/a	-	-	-	n/a
Total Budget (Expenses plus Fixed Assets and Net Financing Activity)	3,261,131	3,984,876	(723,745)	-18.16%	16,287,649	16,601,649	(314,000)	-1.89%
Change in Working Capital (Total Funding less Total Budget)	707,929	(16,241)	724,170	-4458.76%	(739,362)	(1,019,612)	280,250	-27.49%
Equivalent Full Time Employees	35.53	41.09	(5.56)		39.53	41.09	(1.56)	
Headcount	39.00	43.00	(4.00)		43.00	43.00	-	
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	707,929	(16,241)	724,170		(739,362)	(1,019,612)	280,250	
Projected Total Reserves at 12/31/20	5,725,680	4,409,871	1,315,809		4,278,389	3,406,500	871,889	



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

April 23, 2020

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

ReliabilityFirst's 2020 1st Quarter Statement of Activities Variance Report - Unaudited

Dear Mr. Andy Sharp:

As requested, the attached 2020 1st 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.

Very truly yours,

RELIABILITYFIRST CORPORATION

Jill S. Lewton

Jill S. Lewton
Controller



ReliabilityFirst's 2020 1st Quarter Statement of Activities Variance Report - Unaudited

Significant Variances

For the quarter ending March 31, 2020 ReliabilityFirst Corporation is \$350k (5.71%) under budget. The major contributors to this variance are:

Budget Funding

- **Investment Income:** \$13K (107%) over budget for YTD
 - Investment Income is over budget due to greater than anticipated growth in value of the company's investment portfolio during the first quarter.

Budget Expenses

- **Personnel Expenses**
 - **Employee Benefits:** \$68K (10%) 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**
 - **Travel:** \$86K (48%) under budget for YTD
Travel is under budget due to the cancellation and reduction of travel activities as a result of the Covid 19 pandemic.
- **Operating Expenses**
 - **Contracts & Consultants:** \$59K (72%) under budget for YTD
Contracts and Consultants expense is under budget due to less than expected contract support for compliance monitoring and IT activities during the first quarter.
 - **Office Costs:** \$23K (10%) under budget for YTD
Office Costs are under budget due to the difference in how computer service and maintenance renewal costs are budgeted and recorded.



- **Fixed Assets**

- **Computer Hardware & Software:** \$68K (100%) under budget for YTD
Computer Hardware & Software is under budget due to the difference in timing of when projects were budgeted and when they would be completed.

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

For the year-end projection ReliabilityFirst is \$401K (1.69%) under budget. The variances in Employee Benefits, Meetings, Travel, and Contracts & Consultants are directly impacted by the Covid 19 pandemic. And these variances are expected to continue through the remainder of the year. 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 vacant positions. Professional Services is projected to be over budget due to the increase in the Independent Director annual retainer fees and the additional participation of the directors on existing committees. Office Costs, Computer Hardware & Software, and Leasehold Improvements are currently projected to be equal to budget due to the expectation to complete the budgeted IT projects and office modifications throughout the remainder of the year.



ReliabilityFirst Corporation
Statement of Activities, Fixed Assets and Change in Working Capital
(unaudited)
From 01/01/2020 Through 03/31/2020
(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
5,579,656	5,579,656	0	0.00%	Funding				
267,627	267,627	0	0.00%	Assessments	22,318,623	22,318,623	0	0.00%
25,911	12,500	13,411	107.29%	Penalty Sanctions	267,627	267,627	0	0.00%
0	0	0	0.00%	Investment Income	50,000	50,000	0	0.00%
5,873,194	5,859,783	13,411	0.23%	Miscellaneous Income	0	0	0	0.00%
				Total Funding	22,636,250	22,636,250	0	0.00%
				Expenses				
				Personnel Expenses				
3,483,213	3,505,955	(22,742)	-0.65%	Salaries	14,550,727	14,189,599	361,128	2.55%
270,796	280,756	(9,960)	-3.55%	Payroll Taxes	878,924	846,790	32,134	3.79%
632,626	700,873	(68,247)	-9.74%	Employee Benefits	2,131,486	2,493,615	(362,129)	-14.52%
740,020	767,150	(27,130)	-3.54%	Savings & Retirement Costs	2,362,013	2,338,753	23,260	0.99%
5,126,655	5,254,734	(128,079)	-2.44%	Total Personnel Expenses	19,923,150	19,868,757	54,393	0.27%
				Meeting Expenses				
42,820	47,134	(4,314)	-9.15%	Meetings & Conference Calls	301,279	377,140	(75,861)	-20.11%
93,342	179,679	(86,337)	-48.05%	Travel	313,342	697,916	(384,574)	-55.10%
136,162	226,813	(90,651)	-39.97%	Total Meeting Expenses	614,621	1,075,056	(460,435)	-42.83%
				Operating Expenses				
23,222	81,883	(58,661)	-71.64%	Contracts & Consultants	381,115	481,115	(100,000)	-20.79%
140,332	134,823	5,509	4.09%	Rent & Utilities	575,312	539,292	36,020	6.68%
199,846	222,578	(22,732)	-10.21%	Office Costs	810,400	810,400	0	0.00%
135,242	125,391	9,851	7.86%	Professional Services	512,006	442,483	69,523	15.71%
7,133	7,840	(707)	-9.01%	Miscellaneous	43,759	43,759	0	0.00%
505,775	572,515	(66,740)	-11.66%	Total Operating Expenses	2,322,591	2,317,049	5,542	0.24%
0	0	0	0.00%	Non-Operating Expenses	0	0	0	0.00%
5,768,592	6,054,062	(285,470)	-4.72%	Total Expenses	22,860,362	23,260,862	(400,500)	-1.72%
104,602	(194,279)	298,881	-153.84%	Net Change in Assets	(224,112)	(624,612)	400,500	-64.12%
				Fixed Assets				
0	0	0	0.00%	Equipment	0	0	0	0.00%
0	67,500	(67,500)	-100.00%	Computer Hardware & Software	140,000	140,000	0	0.00%
0	0	0	0.00%	Furniture & Fixtures	14,000	14,000	0	0.00%
3,233	0	3,233	0.00%	Leasehold Improvements	236,000	236,000	0	0.00%
3,233	67,500	(64,267)	-95.21%	Increase/(Decrease) in Fixed Assets	390,000	390,000	0	0.00%
5,771,825	6,121,562	(349,737)	-5.71%	Total Budget	23,250,362	23,650,862	(400,500)	-1.69%
				(Expenses + Incr/(Decr) in Fixed Assets)				
101,369	(261,779)	363,148	-138.72%	Change in Working Capital	(614,112)	(1,014,612)	400,500	-39.47%
				(Total Funding less Total Budget)				
79.12	79.35	(0.23)	-0.29%	FTE	79.35	79.35	0.00	0.00%
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)	
1,663,026	1,172,687	490,339		Available Working Capital	1,663,026	1,172,687	490,339	
101,369	(261,779)	363,148		Change to WC - 2020	(614,112)	(1,014,612)	400,500	
(39,518)	(39,518)	0		Other Adjustments to Reserves	158,074	(158,074)	316,148	
1,724,876	871,389	853,487		Total Working Capital	1,206,987	1	1,206,986	
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	
4,253,025	3,399,538	853,487		Total Working Capital and Operating Reserve	3,735,136	2,528,150	1,206,986	



Evaluation | Analysis | Assistance | Operating Experience

April 20, 2020

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

RE: SERC 2020 Q1 Unaudited Financial Statement – Budget vs. Actual

Andy:

Following please find SERC's unaudited 2020 Q1 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 in a cursive style.

George Krogstie
Chief Financial Officer and Corporate Treasurer

cc: Jason Blake

SERC Reliability Corporation
YTD Report to Treasurer
From 1/1/2020 Through 3/31/2020

(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)	%
Funding								
ERO Funding	5,614,781	5,614,781	0		22,459,123	22,459,123	-	
Penalties Released	1,900,000	1,900,000	-		1,900,000	1,900,000	-	
Workshops & Misc.	8,215	17,500	(9,285)		165,000	165,000	-	
Interest	89,165	15,000	74,165		60,000	60,000	-	
Total Funding	7,612,161	7,547,281	64,880	0.86%	24,584,123	24,584,123	-	0.00%
Expenses								
Personnel Expenses								
Salaries	3,552,055	3,533,845	18,210		14,270,084	14,135,382	134,702	
Payroll Taxes	268,542	257,051	11,491		1,028,204	1,028,204	0	
Benefits	455,241	435,511	19,730		1,918,729	1,843,730	74,999	
Retirement Costs	453,404	456,045	(2,641)		1,824,182	1,824,181	1	
Total Personnel Expenses	4,729,242	4,682,453	46,789	1.00%	19,041,199	18,831,497	209,702	1.11%
Meeting Expenses								
Meetings	11,532	72,930	(61,398)		489,624	499,624	(10,000)	
Travel	106,068	150,826	(44,758)		805,148	805,148	0	
Communications	4,026	5,550	(1,524)		22,200	22,200	-	
Total Meeting Expenses	121,626	229,306	(107,680)	-46.96%	1,316,972	1,326,972	(10,000)	-0.75%
Operating Expenses								
Contracts & Consultants	381,654	554,195	(172,541)		1,874,580	2,369,580	(495,000)	
Office Rent	206,244	197,319	8,925		789,276	789,276	-	
Office Costs	215,346	144,519	70,827		1,006,549	710,349	296,200	
Professional Services	15,926	33,230	(17,304)		166,140	166,140	-	
Miscellaneous/Contingency	-	-	-		-	1,200	(1,200)	
Total Operating Expenses	819,170	929,262	(110,092)	-11.85%	3,836,545	4,036,545	(200,000)	-4.95%
Other Non-Operating Expenses	-	-	-	-	-	-	-	-
Total Expenses	5,670,038	5,841,022	(170,984)	-2.93%	24,194,716	24,195,013	(297)	0.00%
Net Change in Assets	1,942,123	1,706,259	235,864	13.82%	389,407	389,110	297	0.08%
Fixed Assets								
Computer & Software CapEx	774	200,000	(199,226)		330,000	330,000	-	
Furniture & Fixtures CapEx	5,743	-	5,743		-	-	-	
Equipment CapEx	-	-	-		-	-	-	
Leasehold Improvements	(19,886)	-	(19,886)		-	-	-	
Increase(Decrease) in Fixed Assets	(13,369)	200,000	(213,369)	-106.68%	330,000	330,000	-	0.00%
Total Budget(Exp plus Incr/(Decr) in Fixed Assets	5,656,669	6,041,022	(384,353)	-6.36%	24,524,716	24,525,013	(297)	0.00%
Change in Working Capital (Total Funding less Total Budget)	1,955,492	1,506,259	449,233	29.82%	59,407	59,110	297	0.50%
FTE's	98.00	98.00	-		98.00	98.00	-	
Head Count	98.00	98.00	-		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	1,955,492	1,506,259	449,233		59,407	59,110	297	
Working Capital Reserve at 3/31/2020	3,811,020	2,707,984	1,103,036		1,914,935	1,260,835	654,100	
Assessment Stabilization Reserve:								
Beginning AS Reserve at 1-1-2020	5,645,000				5,645,000			
Penalties Released	(1,900,000)				(1,900,000)			
Penalties Received	0				0			
Assessment Stabilization Reserve 3-31-2020	3,745,000				3,745,000			



Budget to Actual Comparison as of March 31, 2020 (Unaudited)

Overall Summary

- Spending \$384k under budget as timing of expenditures varies from budget
- Funding \$65k over budget attributable to recognition of investment income
- Full year projected spending on target with budget (COVID-19 impact being assessed)

Income

- **Funding (Actual - \$65k over budget)**
 - Investment income higher than budget due to increased market value in Q1

Expense

- **Personnel Expenses (Actual - \$47k over budget)**
 - Improved hiring and retaining of talent resulting in lower than budgeted vacancies, driving overall personnel expenses over budget
- **Meeting/Travel Expenses (Actual - \$108k under budget)**
 - Decreased meeting and travel associated with COVID-19 related postponements. Full year impact being assessed
- **Contracts/Consultants (Actual - \$173k under budget)**
 - Independent Director search fees and Compliance User Group expenses less than budgeted (impact to Q1 and full year)
 - Certain software costs budgeted in Contracts, but expensed in Office Costs, impacting both Q1 and full year projections
 - Timing of RAPA Dynamic Reduction Model expenses later than budgeted
- **Office Rent (Actual - \$9k over budget)**
 - Common area maintenance expenses higher than expected
- **Office Costs (Actual - \$71k over budget)**
 - Certain software costs budgeted in Contracts, but expensed in Office Costs, impacting both Q1 and full year projections
- **Professional Services (Actual - \$17k under budget)**
 - Timing of actual legal fees varies from budget
- **Fixed Asset Purchases (Actual - \$213k under budget)**
 - IT projects budgeted in Q1 have been deferred until later in the year

April 8, 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. First Quarter 2020 Statement of Activities and Variance Report

Dear Andy,

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

Year-to-date Texas RE is 1.6% under budget.

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 March 31, 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, 2019 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:** \$3,820 is greater than budget. Texas RE's banking account is the Business Banking U.S. End of Day Money Market Mutual Fund Sweep account. This account type allows for higher interest and dividend collections than budgeted.

EXPENSES

Total Budget as of March 31, 2020 is \$54,547 less than budget (-1.6%).

- **Personnel Expenses:** \$79,181 less than budget (-1.6%).
 - 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:** \$20,735 less than 2020 budget (-22.5%).
 - Meetings cost is \$10,010 (-91.0%) less than budget due to a workshop being budgeted in March. The actual workshop occurred in April.
 - Travel is \$10,655 (-13.9%) less than expected because travel was suspended in March due to the virus pandemic.
- **Total Operating Expenses: \$45,368 greater than 2020 budget (7.3%).**
 - Costs for executive coaching and search fees charged in Q1 are budgeted later in the year causing Consultants and Contracts to be over budget for Q1.
 - Due to negotiations with vendors for internet expense and software maintenance, office expense is 11.2% less than budget.
 - IT managed services and Internet charges are less than budget due to negotiations with vendors after this budget was prepared. Legal fees budgeted for Q1 were not expended causing the variance in Professional Services.

These variances are timing issues and expected to level out as the year progresses.

Texas Reliability Entity, Inc.
Statement of Activities and Fixed Assets
For period ended March 31, 2020
(Unaudited)

	2020 Actual	2020 Budget	YTD Actual Variance from Budget		2020 Forecast	2020 Annual Budget	Forecast Variance from Budget	
Revenue								
ERO Funding								
Assessments	\$ 3,336,033	\$ 3,336,033	\$ -	0.0%	\$ 13,344,127	\$ 13,344,127	\$ -	0.0%
Penalty Sanctions	710,000	710,000	-	0.0%	710,000	710,000	-	0.0%
Interest & Membership Dues	13,820	10,000	3,820	38.2%	40,000	40,000	-	0.0%
Total Revenue	\$ 4,059,853	\$ 4,056,033	\$ 3,820	0.1%	\$ 14,094,127	\$ 14,094,127	\$ -	0.0%
Expenses								
Personnel Expenses								
Salaries	\$ 1,843,716	\$ 1,856,711	\$ (12,995)	-0.7%	\$ 7,641,282	\$ 7,641,282	\$ -	0.0%
Payroll Taxes	159,882	157,214	2,668	1.7%	527,533	527,533	-	0.0%
Employee Benefits	321,221	405,855	(84,634)	-20.9%	1,501,005	1,501,005	-	0.0%
Savings & Retirement	277,233	261,453	15,780	6.0%	1,073,802	1,073,802	-	0.0%
Total Personnel Expenses	\$ 2,602,052	\$ 2,681,233	\$ (79,181)	-3.0%	\$ 10,743,622	\$ 10,743,622	\$ -	0.0%
Meeting & Travel Expenses								
Meetings	\$ 990	\$ 11,000	\$ (10,010)	-91.0%	\$ 58,500	\$ 58,500	\$ -	0.0%
Travel	66,024	76,679	(10,655)	-13.9%	318,204	318,204	-	0.0%
Conference Expenses	4,348	4,418	(70)	-1.6%	17,640	17,640	-	0.0%
Total Meeting & Travel Expenses	\$ 71,362	\$ 92,097	\$ (20,735)	-22.5%	\$ 394,344	\$ 394,344	\$ -	0.0%
Operating Expenses								
Consultants & Contracts	\$ 208,134	\$ 100,878	\$ 107,256	106.3%	\$ 489,704	\$ 489,704	\$ -	0.0%
Rent & Improvements	200,251	206,412	(6,161)	-3.0%	888,786	888,786	-	0.0%
Office Costs	145,372	163,701	(18,329)	-11.2%	676,070	676,070	-	0.0%
Professional Services	111,357	148,755	(37,398)	-25.1%	588,600	588,600	-	0.0%
Total Operating Expenses	665,114	619,746	45,368	7.3%	2,643,160	2,643,160	-	0.0%
Total Expenses	\$ 3,338,529	\$ 3,393,076	\$ (54,547)	-1.6%	\$ 13,781,126	\$ 13,781,126	\$ -	0.0%
Change in Assets	\$ 721,324	\$ 662,957	\$ 58,367	8.8%	\$ 313,000	\$ 313,000	\$ -	0.0%
Fixed Asset Additions, excluding Right of Use Assets	\$ -	\$ -	\$ -	0.0%	\$ 30,000	\$ 30,000	\$ -	0.0%
TOTAL BUDGET	\$ 3,338,529	\$ 3,393,076	\$ (54,547)	-1.6%	\$ 13,811,126	\$ 13,811,126	\$ -	0.0%
Change in Working Capital (Total Revenue less Total Budget)	\$ 721,324	\$ 662,957	\$ 58,367	8.8%	\$ 283,001	\$ 283,001	\$ -	0.0%
FTE's	59	60			60	60		
Beginning WC - 1/1/20	\$ 3,886,398	\$ 1,314,649	\$ 2,571,749		\$ 3,886,398	\$ 1,314,649	\$ 2,571,749	
Change to WC - 2020	721,324	662,957	58,367		283,001	283,001	-	
Working Capital 3/31/2020	<u>\$ 4,607,722</u>	<u>\$ 1,977,606</u>	<u>\$ 2,630,116</u>		<u>\$ 4,169,399</u>	<u>\$ 1,597,650</u>	<u>\$ 2,571,749</u>	



Jillian Lessner
Vice President and CFO
April 20, 2020

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

RE: WECC Q1 2020 Statutory Statement of Activities and Variance Report

Dear Andy,

Attached is WECC's first-quarter Statutory Statement of Activities (Unaudited) and Variance Report. WECC's 2020 year-to-date unaudited results are \$2,165,000 under budget. The main driver of the underrun relates to a change in Generally Accepted Accounting Principles regarding the timing of penalty revenue recognition. \$2,226,000 of the underrun relates to this accounting change and the remaining \$61,000 overrun relates to WECC operations for the year.

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

- Penalty Sanctions: \$2,226,000 under budget

Penalty Sanctions are under budget due to a change in Generally Accepted Accounting Principles for revenue recognition timing. For purposes of financial reporting, WECC now recognizes penalties when approved by the Federal Energy Regulatory Commission, rather than in the year in which the penalties offset assessments. The underrun is the net of \$2,745,000 in penalties recognized in 2018, but used to offset assessments in the 2020 Business Plan and Budget, and \$519,000 in penalties recognized in 2020 to be used to offset assessments in the 2021 Business Plan and Budget. A reconciliation of penalties can be found on page 5.

- Workshops & Miscellaneous: \$203,000 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 \$280,000 under budget at year-end.

- Interest: \$38,000 over budget

Interest is over budget due to higher-than-expected yields on short-term investments and is expected to be over budget by \$84,000 at year-end.

Expenses

- Employee Benefits: \$130,000 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.

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

- Meetings & Conference Calls: \$211,000 under budget

Meetings & Conference Calls are under budget primarily due to the cancellation of the March Reliability and Security Workshop and lower-than-anticipated cost of technical committee meetings. Meetings & Conference Calls are expected to be \$261,000 under budget at year-end.

- Travel: \$59,000 under budget

Travel is under budget primarily due to the cancellation of in-person meetings and training due to COVID-19 and is expected to be \$424,000 under budget at year-end.

- Consultants and Contracts: \$69,000 over budget

Consultants and Contracts are over budget due to the net of the elimination of RAPA consulting for a study of the changing resource mix and unbudgeted information technology consulting. Consultants and Contracts are expected to be over budget by \$191,000 at year-end.

- Professional Services: \$164,000 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 \$273,000 at year-end.

Fixed Assets

- Fixed Asset Additions: \$251,000 over budget

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



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



Western Electricity Coordinating Council Statutory Statement of Activities From 1/1/2020 to 3/31/2020 (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)	%
Funding								
Assessments	25,282,000	25,282,000	-	0.0%	25,282,000	25,282,000	-	0.0%
Penalty Sanctions	519,000	2,745,000	(2,226,000)	-81.1%	519,000	2,745,000	(2,226,000)	-81.1%
Workshops & Miscellaneous	(12,575)	190,000	(202,575)	-106.6%	177,425	457,250	(279,825)	-61.2%
Interest	82,286	43,912	38,374	87.4%	283,658	200,000	83,658	41.8%
Total Funding	25,870,711	28,260,912	(2,390,201)	-8.5%	26,262,083	28,684,250	(2,422,167)	-8.4%
Expenses								
Personnel Expenses								
Salaries	3,668,697	3,911,847	(243,150)	-6.2%	16,688,941	16,475,075	213,866	1.3%
Payroll Taxes	272,014	300,197	(28,183)	-9.4%	1,089,816	1,074,352	15,464	1.4%
Employee Benefits	450,666	580,127	(129,461)	-22.3%	2,443,679	2,377,007	66,672	2.8%
Savings & Retirement	321,772	340,025	(18,253)	-5.4%	1,491,380	1,431,482	59,898	4.2%
Total Personnel Expenses	4,713,149	5,132,196	(419,047)	-8.2%	21,713,815	21,357,916	355,899	1.7%
Meeting Expenses								
Meetings & Conference Calls	75,553	286,726	(211,173)	-73.6%	453,425	714,095	(260,670)	-36.5%
Travel	262,309	321,540	(59,231)	-18.4%	978,208	1,401,818	(423,610)	-30.2%
Total Meeting Expenses	337,862	608,266	(270,404)	-44.5%	1,431,633	2,115,913	(684,280)	-32.3%
Operating Expenses, excluding Depreciation								
Consultants and Contracts	281,350	211,916	69,434	32.8%	1,228,850	1,038,160	190,690	18.4%
Rent & Improvements	247,513	251,584	(4,071)	-1.6%	1,247,873	1,248,251	(378)	0.0%
Office Costs	469,599	481,546	(11,947)	-2.5%	1,770,799	1,557,312	213,487	13.7%
Professional Services	393,982	230,385	163,597	71.0%	1,227,032	953,790	273,242	28.6%
Miscellaneous	-	-	-	-	-	-	-	-
Total Operating Expenses	1,392,444	1,175,431	217,013	18.5%	5,474,555	4,797,513	677,042	14.1%
Total Direct Expenses	6,443,456	6,915,893	(472,438)	-6.8%	28,620,003	28,271,342	348,661	1.2%
Indirect Expenses	(144,741)	(140,460)	(4,281)	3.0%	(627,610)	(567,267)	(60,343)	10.6%
Other Non-Operating Expenses	-	-	-	-	-	-	-	-
Total Expenses	6,298,715	6,775,432	(476,718)	-7.0%	27,992,393	27,704,075	288,318	1.0%
Change in Net Assets	19,571,997	21,485,480	(1,913,483)	-8.9%	(1,730,309)	980,175	(2,710,484)	-276.5%
Fixed Asset Additions, excluding Right of Use Assets	251,148	-	251,148	100.0%	106,148	52,014	54,134	104.1%
Total Expenditures	6,549,863	6,775,432	(225,570)	-3.3%	28,098,541	27,756,089	342,452	1.2%
(Total Funding less Total Budget)	19,320,849	21,485,480	(2,164,631)		(1,836,456)	928,161	(2,764,617)	
FTEs	128.30	143.00	(14.70)		146.30	143.00	3.30	
Headcount	130.00	143.00	(13.00)		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	19,320,849	21,485,480	(2,164,631)		(1,836,456)	928,161	(2,764,617)	
Working Capital at 3/31/20	26,659,996	29,237,593	(2,577,597)		5,502,691	8,680,274	(3,177,583)	



Statutory Statement of Activities and Variance Explanations (April 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) 519,000
5/30/2019	32,000	7/9/2019	32,000		32,000			32,000		(Over)/Under <u>2,226,000</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	519,000	*	-			519,000			519,000	
Total				<u>2,745,000</u>	<u>2,980,000</u>	<u>2,699,000</u>	<u>3,332,686</u>	<u>5,160,000</u>	<u>519,000</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.



Investment and Funding Strategy for the ERO Enterprise Secure Evidence Locker and Align Delay Costs

Action

Review and recommend approval to the NERC Board of Trustees (Board) of the proposed investment and funding strategy for the ERO Enterprise Secure Evidence Locker (ERO SEL) and Align Delay Costs.

Background

In 2014, the ERO Enterprise initiated a series of strategic efforts with the goal of improving and standardizing processes across the ERO Enterprise for the compliance monitoring and enforcement program (CMEP). As the ERO Enterprise continues to mature its risk-based approach for the CMEP, the need to develop a more comprehensive system to manage and analyze information is necessary.

Currently, each Regional Entity and NERC execute the CMEP supported by various homegrown systems and evidence collection practices.¹ As a result, registered entity experience differs across the country and multi-regional registered entities have been highly frustrated by the range in Regional Entity practices.

To address these issues, the ERO Enterprise developed the Align tool and the ERO SEL. These tools provide a platform to enable harmonization of Regional Entity practices driving to a common registered entity experience.

The ERO SEL, hosted at NERC, is designed to facilitate the secure submission, review, and retention of evidence generated in connection with CMEP activities. The ERO SEL is a stand-alone system that will have no integration or network connection with the Align tool to increase security of both tools. Critical data protection is a significant concern for our industry. Developing and implementing the ERO SEL will harmonize the evidence collection processes across the ERO Enterprise and establish the “gold standard” for security in this area.

NERC’s proposed funding for the initial ERO SEL investment in fiscal year 2020 will consist of both a draw on operating contingency reserves and loan financing. For future years, loan debt service and recurring license, support, maintenance and certification costs will be funded by assessments.

¹ These systems are unified by one of two “backbone” systems. One system provided by OATI is used by four Regional Entities and a second custom built system is used by two other Regional Entities, supplemented by auditor developed spreadsheets and word documents for data collection and organization. Regional work products are then “synced” with a NERC-owned system for oversight and reporting purposes. Furthermore, evidence is collected and managed in differing ways with tools that have different security postures. Registration systems exist outside of the CMEP, as does the Reliability Standards repository. These two systems are therefore individualized for each Regional Entity.

NERC sought policy input from its Member Representatives Committee on the funding strategy for associated costs with both the Align tool and the ERO SEL. NERC also sought review and recommendation for approval from the Technology and Security Committee.

Proposed Financing of the ERO SEL and Align Delay Costs

The total initial investment to establish the ERO SEL is estimated to be \$3.8 million, with annual full-year software, support, maintenance, and certification expense of approximately \$770,000 starting in 2021 with inflationary increases for future years. The ERO SEL was not part of the initial design of the ERO Enterprise's CMEP standardization efforts. As a result, costs and related funding for the ERO SEL project were not included in the 2020 Federal Energy Regulatory Commission (FERC)-approved business plan and budget.

To fund the initial ERO SEL project costs in 2020, NERC proposes to draw \$1.8 million from the operating contingency reserves and to finance the remaining \$2.0 million through debt financing under a new credit facility. NERC is seeking the necessary authorization to establish a new capital financing program under a separate item during this meeting.

Available operating contingency reserves are also recommended to be utilized in 2021 to provide funding for anticipated Align project delay costs (the delays result from a combination of the time needed to develop the ERO SEL project as well as potential supply chain issues related to the coronavirus pandemic). Align project delay costs were not previously anticipated or included in the original 2021 budget and assessment projections. Utilizing operating contingency reserves to complete the Align project in 2021 will help minimize the impact on stakeholder assessments in the 2021 business plan and budget.

Use of Operating Contingency Reserves for 2020 and 2021

Use of Operating Contingency Reserves in 2020

NERC proposes 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.

Use of Operating Contingency Reserves in 2021

In 2021, NERC proposes to use draw up to \$2.0 million from operating contingency reserves to fund the Align tool project delay costs. This will minimize the impact of these costs on 2021 assessments.

Next Steps

If the Board approves the proposed investment and funding strategy for the ERO SEL and Align delay costs, per the recommendation of this Committee, NERC will seek FERC approval of the proposal outlined herein. NERC expects to make a filing with FERC by June 2020.

Extension of Capital Financing Program

Action

Review and recommend Board of Trustees approval.

Background

In 2013, NERC established a capital financing facility to fund the development and acquisition of significant Electric Reliability Organization (ERO) software applications and information technology hardware, and spread the acquisition costs and related funding for debt service required from assessments over a multi-year period (normally three years), in order to mitigate the impact on single year assessments. Stakeholders supported and the Board approved the financing facility. The facility has been used in previous years to fund the development of a number of software applications and hardware supporting NERC and Regional Entity operations, including standards balloting, the Bulk Electric System exception processing and analysis, reliability assessment data gathering and analysis, event analysis and data management, and enterprise data gathering and reporting. This credit facility was renewed in 2016 and expired on December 31, 2019. Due to strong working capital positions in the last few years, no loan balances were outstanding on this facility as of December 31, 2019.

A new credit facility needs to be established to facilitate financing for the purchase and installation of the ERO Secure Evidence Locker, potential refinancing of existing capital leases, and possible funding for software development, enhancements, and equipment acquisitions in future year business plans and budgets.

Extension of Capital Financing Program – New Credit Facility

The lender has pre-approved NERC for an \$8 million credit facility with up to a 60 month term.

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.

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

2021 Business Plan and Budget – Draft 1 Overview

Andy Sharp, Vice President, Interim Chief Financial Officer
Finance and Audit Committee Meeting
May 13, 2020

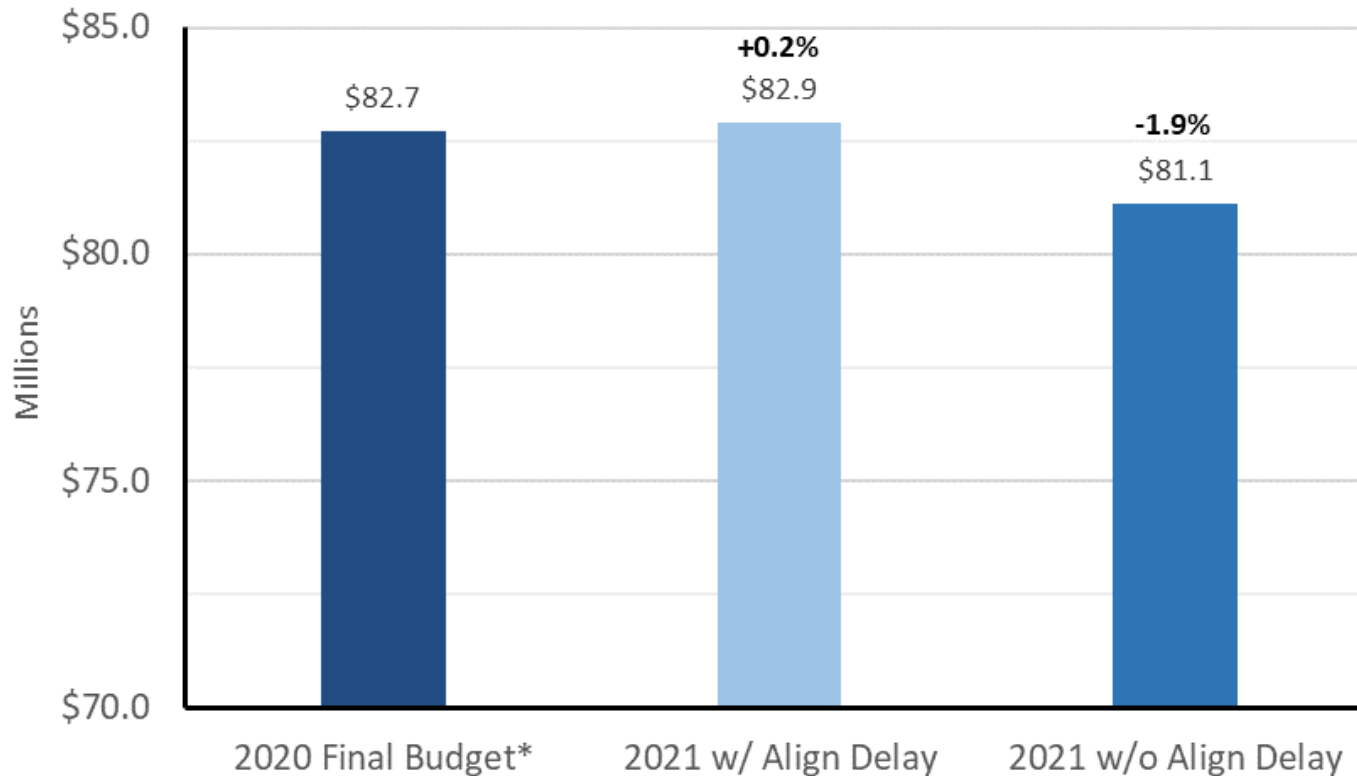
RELIABILITY | RESILIENCE | SECURITY



- 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

- Achieve minimal assessment increase in response to pandemic impacts despite significant budget pressures from
 - ERO Security Evidence Locker (SEL)
 - Align delay
 - IT security resources
 - Medical premiums
 - Investment in data management tools to support advanced analytics

- **Budget \$81.1M (\$1.6M or 1.9% decrease over 2020)**
 - Excludes Align tool delay costs funded by reserves (\$1.8M)



*Restated according to new budget reporting format, which includes financing activity

- **ERO SEL**

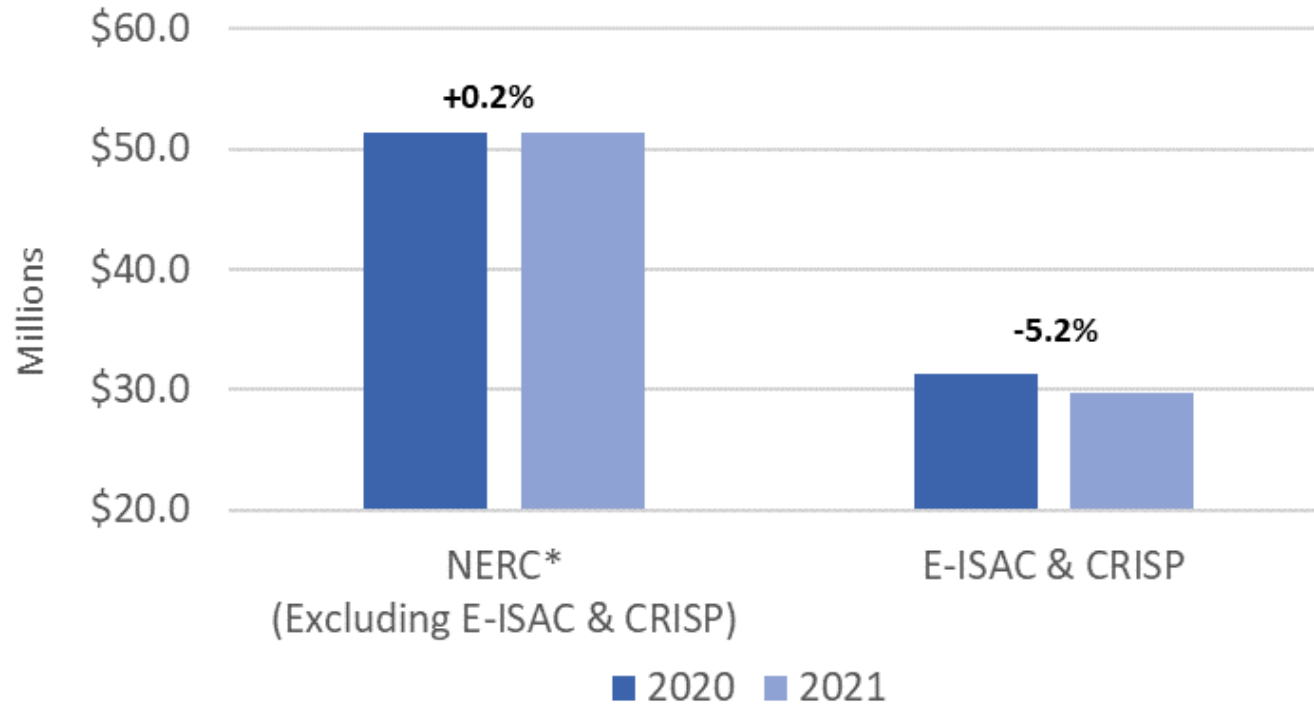
- Costs absorbed into 2021 budget
 - Debt service (\$430k)
 - Software support, maintenance, and certification costs (\$570k)

- **Align delay costs**

- \$1.8M funded by Operating Contingency Reserves (OCR)
- No impact to 2021 assessments

- **E-ISAC & CRISP**

- Direct costs below prior projection
- CRISP decrease primarily due to PNNL costs (no assessment impact)



*Excludes 2021 Align delay costs

- **Personnel**

- No increase in FTEs versus 2020
 - Adding FTEs for cyber security and SEL, offset by lower FTEs in other areas
- Placeholder salary increase of 3.0%
- Medical insurance premium increase

- **Meetings and travel**

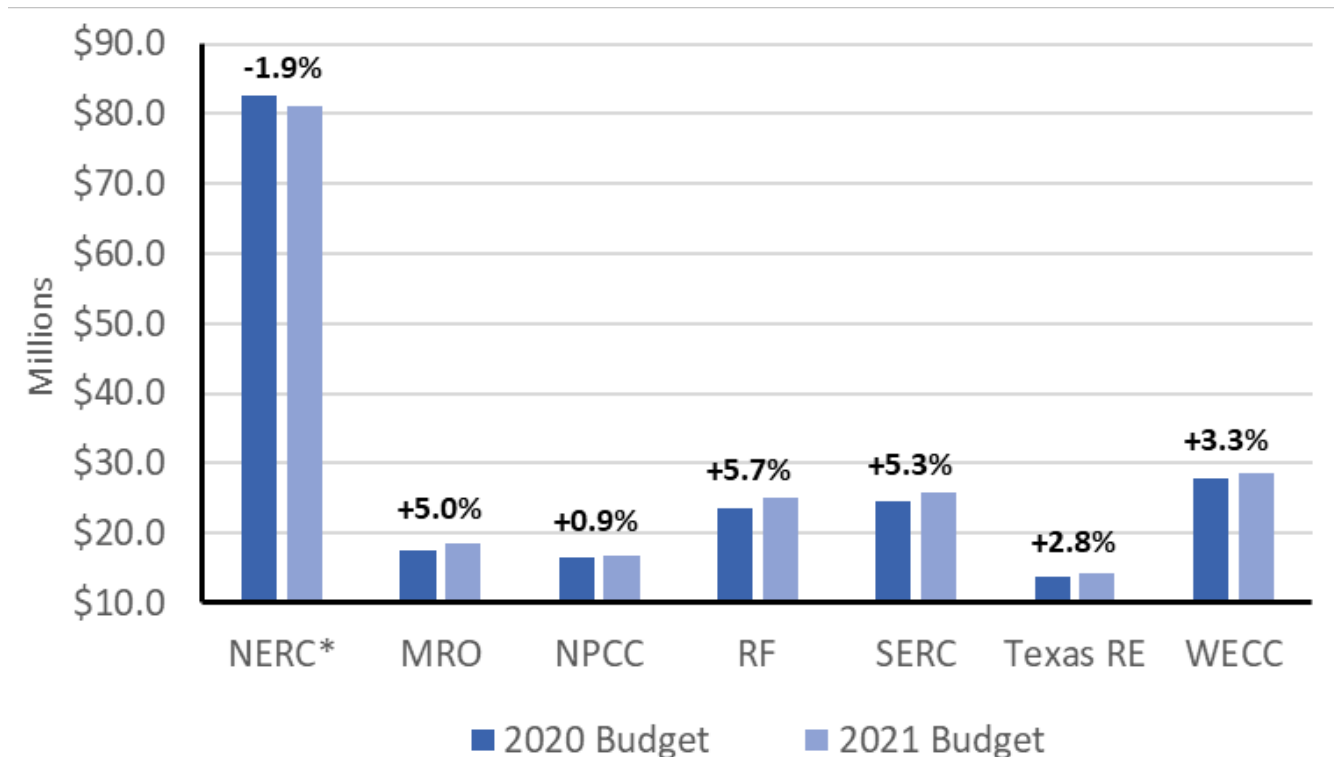
- Assuming fewer in-person meetings
- Travel expense reduced versus 2020 budget

- **Other**

- Reductions in contracts and consultants and professional services
- Deferred system enhancements to future years

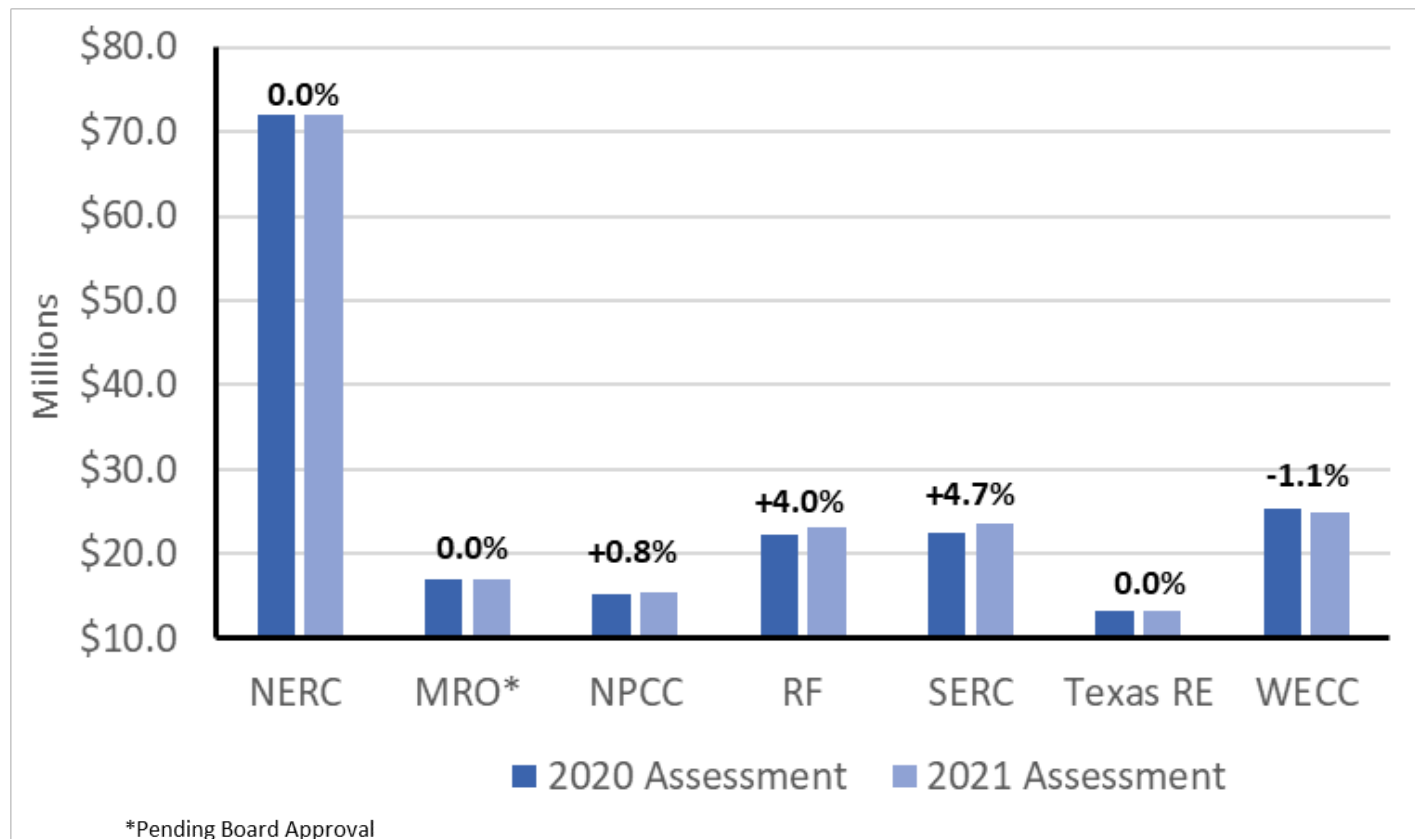
- **Assessments \$72.0M (flat versus 2020)**
 - Lower interest income and third-party CRISP revenue
 - Funding 2021 Align delay costs from OCR
 - Assumes no Assessment Stabilization Reserve usage in 2021

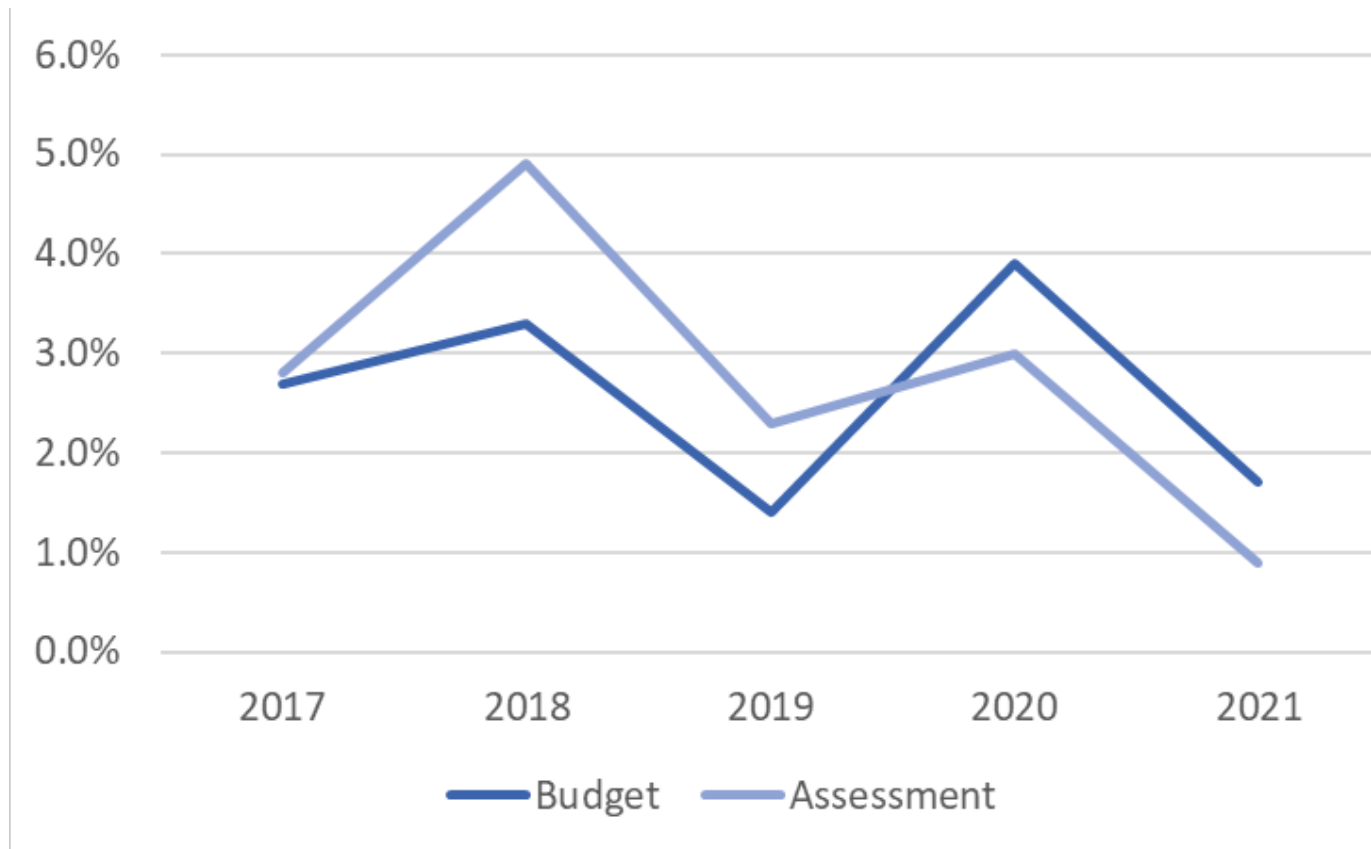
- **Total ERO Enterprise Budget \$209.5M (\$3.4M or 1.7% increase over 2020)**



*Excludes 2021 Align delay costs

- **Total ERO Enterprise Assessment \$189.5M (\$1.8M or 0.9% increase over 2020)**





- May 15 (approx) – Post first drafts of NERC and RE 2020 BP&Bs
- May 20 – NERC and RE 2020 BP&B briefing with FERC
- June 4 – FAC webinar to review first drafts
- June 26 – Comments due on first draft of NERC 2020 BP&B
- June 30 – MRC BP&B Input Group call
- July 9 – Quarterly Trades and Forums meeting, closed FAC call
- July 14 – Post final drafts of NERC and RE 2020 BP&Bs
- July 23 – FAC webinar to review final drafts
- July 28 – Comments due on final draft of NERC 2020 BP&B
- July 31 – MRC BP&B Input Group call

- August 19 – FAC meeting to recommend approval of final BP&Bs
- August 20 – Board meeting to approve final BP&Bs
- August 25 – Submit BP&Bs to FERC for approval, with subsequent filings with Canadian authorities



Questions and Answers

Policy on Executive Management Expenses

Action

Review

Background

The Finance and Audit Committee (FAC) mandate requires that the FAC review the procedures applicable to the approval of senior management expenses. The following is a summary of these procedures.

Prior to reimbursement, all management expenses are reviewed for consistency with the business expense reimbursement policies approved by the Corporate Governance and Human Resources Committee and set forth in the Employee Handbook. As a general principle, all managers are responsible for reviewing and approving the expenses of their direct reports. The president and chief executive officer's expenses are approved by the FAC chair, after a review by the company's accounting department for consistency with the company's expense reimbursement policies. The president and chief executive officer approves the expenses of the senior vice presidents and his other direct reports. The senior vice presidents, directors, and managers approve the expenses of their direct reports.

In addition to the reviews set forth above, the accounting department also reviews all expense reports for accuracy and routinely conducts spot checks of receipts. Rules are also built into the company's expense report review and approval system to flag expenses, or identify missing documentation, that may be inconsistent with company guidelines. Compliance with expense reporting and approval procedures are also subject to review and audit by NERC's Internal Audit Department.