

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

North American Electric Reliability Corporation)
Corporation) **Docket No. FA11-21-000**

**COMPLIANCE FILING OF THE
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION**

I. INTRODUCTION

The North American Electric Reliability Corporation (“NERC”)¹ submits this compliance filing in accordance with the Federal Energy Regulatory Commission’s (“FERC” or “Commission”) January 16, 2013 Settlement Order in Docket No. FA11-21-000 (“Settlement Order”).² In the Settlement Order, the Commission approved a Settlement Agreement between the FERC Office of Enforcement (“OE”) and NERC relating to OE’s findings and recommendations in its 2012 performance audit of NERC. Specifically, Section II.7(b)(i) of the Settlement Agreement requires that:

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

Attached hereto is the variance report for the third quarter of 2023, in accordance with the Settlement Order. On November 7, 2023, the NERC Finance and Audit Committee reviewed and

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

² See N. Am. Elec. Reliability Corp., *Order Approving Settlement Agreement*, 142 FERC ¶ 61,042 (Jan. 16, 2013) [hereinafter Settlement Order].

³ *Id.* (emphasis added).

recommended that the NERC Board of Trustees (“Board”) accept the report. The NERC Board accepted the report on November 14, 2023.

II. NOTICES AND COMMUNICATIONS

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

Shamai Elstein
Associate General Counsel
North American Electric Reliability
Corporation
1401 H Street NW, Suite 410
Washington, DC 20005
202-603-3331
shamai.elstein@nerc.net

Andy Sharp
Vice President, Chief Financial Officer
North American Electric Reliability Corporation
3353 Peachtree Road NE, Suite 600 – North Tower
Atlanta, GA 30326
404-446-9732
andy.sharp@nerc.net

III. DISCUSSION OF SIGNIFICANT VARIANCES BETWEEN THE 2023 BUDGET AND 2023 THIRD QUARTER ACTUAL FINANCIAL RESULTS

In the attached variance report, NERC outlines the following:

- (a) a comparison of actual (unaudited) financial results through September 30, 2023 to NERC’s budgeted expenditures through September 30, 2023; and
- (b) additional discussion of significant variances by NERC department or program area and by major activity within departments and program areas. NERC treats “significant” variances as those that are \$500,000 or more.

A. 2023 Third Quarter Actual Financial Results vs. 2023 Budget Variances of \$500,000 or More by Revenue and Expense Category

Five revenue and expense categories had a budget variance \$500,000 or more as of September 30, 2023:

- Personnel expenses were \$1,138,934 (2.6%) under budget and are expected to be \$228,106 (0.4%) over budget at year-end. This category is under budget year-to-

date largely attributable to timing of expenses, lower medical insurance premiums, retirement plan costs, training expenses, and parking and transportation expenses due to a continued hybrid workforce strategy. Personnel expenses are projected to be slightly over budget at year-end primarily due to (1) market, promotion, and equity adjustments; (2) new hire and other projected compensation; and (3) higher employment agency search fees, partially offset by lower medical insurance premiums and retirement plan costs, lower than expected training expenses, and lower parking and transportation expenses.

- Contracts and Consultants expenses were \$2,215,517 (17.2%) under budget and are expected to be \$1,243,622 (7.3%) under budget at year-end. This category is under budget year-to-date due to timing of expenses and lower spending across many of the departments. This includes (1) deferred spending to help fund expenses related to the Interregional Transfer Capability Study (ITCS)⁴ that was mandated by Congress in June 2023, and (2) lower third-party contractor costs for CRISP, primarily due to lower liability insurance costs. Contracts and Consultants expenses are expected to be under budget at year-end, which is the net result of various departments being over or under budget, including the following: (1) Compliance Assurance and Compliance Enforcement are projected to be over budget due to the direct allocation of IT contractor costs that are supporting the Align system; (2) IT

⁴ NERC's plan to fund ITCS costs in 2023 consisted of the following (of which a portion will fund the contracts and consultant costs): (1) deferring hiring of four budgeted open positions in the Situation Awareness, BPS Security and Grid Transformation, Reliability Assessment and Technical Committees, and Reliability Standards departments until 2024 (approximately \$450k); (2) repurposing budgeted funds for contracts and consultants for certain other projects (approximately \$400k); and (3) expending up to \$700k from the Assessment Stabilization Reserve (ASR). Based on current projections, NERC does not believe that it will need to expend any of the \$700,000 from the ASR.

is projected to be under budget mainly due to the direct allocation of IT contractors to departments for work on program-specific systems; and (3) CRISP is projected to be under budget primarily because of lower third-party contractor costs for liability insurance.

- Office Costs, Professional, and Misc. expenses were \$1,650,833 (13.8%) under budget and are expected to be \$1,198,612 (7.5%) under budget at year-end. This category is under budget year-to-date largely due to lower outside counsel, software license and support, and liability insurance costs. These areas are projected to be under budget at year-end for the same reasons.
- Fixed Asset Additions were \$2,541,434 (54.4%) under budget and are expected to be \$648,696 (10.4%) under budget at year-end. This category is under budget year-to-date primarily because of timing of and lower capital software project expenditures. This area is projected to be under budget at year-end due to lower capital software expenditures, partly offset by higher than budgeted equipment purchases.
- Net Financing Activity was \$2,149,763 (97.8%) over budget and is expected to be \$2,661,081 (95.3%) over budget at year-end. The Net Financing Activity budget is comprised of financing proceeds/borrowings and principal payments. The budget included \$4.0M of loan borrowings for capital software projects, spread evenly throughout the year. The year-to-date variance is primarily because NERC did not borrow during the first two quarters. By year-end, NERC is projecting to borrow \$3.4M dollars less than budgeted due to the favorable projected expenditure budget variance and higher investment income, partly offset by higher lease financing

proceeds. Loan payments are lower than budgeted due to lower debt service from less borrowing.

B. 2023 Third Quarter Actual Results vs. 2023 Budget Variances of \$500,000 or More by Department or Program Area

Eight departments or program areas had a variance exceeding \$500,000 as of September 30, 2023, or are projected to have a variance exceeding \$500,000 at year-end.

- Reliability Standards and Power Risk Issues and Strategic Management was \$520,513 (14.5%) under budget and is expected to be \$535,591 (11.3%) under budget at year-end. This department is under budget year-to-date and projected to be under budget at year-end primarily because of the transfer of an open FTE position to the BPS Security and Grid Transformation department, as well as the deferral of one FTE position to 2024 to help fund the ITCS in 2023.
- BPS Security and Grid Transformation was \$250,934 (19.9%) over budget and is expected to be \$552,775 (33.1%) over budget at year-end. This department is projected to be over budget at year-end mainly because of the transfer of two open FTE positions to this department, one from Reliability Standards and Power Risk Issue Management and one from Advanced System Analytics and Modeling, and the addition of two positions related to the ITCS that are being funded by hiring deferrals in other departments.
- Reliability Assessment and Technical Committees was \$539,143 (27.0%) under budget and is expected to be \$222,223 (8.4%) under budget at year-end. This department is under budget year-to-date primarily attributable to not spending

contracts and consultants dollars that were identified to be repurposed for ITCS expenses, as well as the deferral of a technology project to 2024.

- Advanced System Analytics and Modeling was \$509,312 (24.7%) under budget and is expected to be \$489,948 (18.0%) under budget at year-end. This department was under budget year-to-date and is projected to be under budget mostly attributable to the transfer of an open FTE position to the BPS Security and Grid Transformation department, as well as not spending budgeted contractor costs that were identified to be repurposed for the ITCS.
- General and Administrative and Executive expenses were \$3,092,825 (79.3%) over budget and are expected to be \$4,105,504 (76.1%) over budget at year-end. This area is over budget year-to-date and projected to be over budget at year-end mainly attributable to Net Financing Activity. The Net Financing Activity budget is comprised of financing proceeds/borrowings and principal payments. The budget included \$4.0M of borrowings for technology projects, spread evenly throughout the year. No borrowings occurred in the first or second quarter and borrowings in the third quarter were applied to capital expenditures in the IT department. NERC is not projecting any further borrowing by year-end due to the favorable projected expenditure budget variance and higher investment income.
- Information Technology was \$3,187,393 (20.7%) under budget and is expected to be \$2,801,488 (13.7%) under budget at year-end. This department is under budget year-to-date primarily because of timing of costs versus the budget for software licenses and support, the direct allocation of contractor costs budgeted in IT but directly charged to other departments, and lower capital software expenditures,

partially offset by higher hardware and leased asset costs. Information Technology is projected to be under budget at year-end mainly attributable to the direct allocation of contractor costs budgeted in IT but directly charged to other departments, and lower capital software expenditures, partially offset by higher than budgeted hardware costs. Also, loan borrowing proceeds used to finance IT capital expenditures contributed to the under budget variance in IT, as the loan proceeds were budgeted in the General & Administrative department.

- Human Resources and Administration was \$617,264 (18.9%) under budget and is expected to be \$261,339 (6.0%) under budget at year-end. This department is under budget year-to-date and projected to under budget at year-end due to lower personnel, employee engagement, and capital software costs, partly offset by higher software licenses and support expenses.
- CRISP was \$1,119,326 (14.5%) under budget and is expected to be \$603,601 (5.9%) under budget at year-end. CRISP is under budget year-to-date primarily due to third-party contractor costs being lower than budget for liability insurance costs, as well as due to lower than budgeted other outside consultant costs and software license and support expenses. CRISP is expected to be under budget at year-end for the same reason, offset by higher meetings and travel expenses and equipment expenditures.

IV. CONCLUSION

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

Respectfully submitted,

/s/ Shamai Elstein

Shamai Elstein
Associate General Counsel
North American Electric Reliability Corporation
1401 H Street NW, Suite 410
Washington, DC 20005
202-603-3331
shamai.elstein@nerc.net

Counsel for North American Electric Reliability Corporation

Dated: November 14, 2023

CERTIFICATE OF SERVICE

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

Dated at Washington, D.C. this 14th day of November 2023.

/s/ Shamai Elstein

Shamai Elstein
*Counsel for North American Electric
Reliability Corporation*

ATTACHMENT

Summary of Unaudited Results For the Period Ending September 30, 2023

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Executive Summary

Projected Year-End Results (\$ millions)

<u>FUNDING</u>	<u>Projected</u>	<u>Budget</u>	<u>Over (Under)</u>
Revenues	\$ 100.5	\$ 98.8	\$ 1.7
Funding from Reserves			
Assessment Stabilization Reserve	1.0	1.0	-
TOTAL FUNDING	\$ 101.5	\$ 99.8	\$ 1.7
<u>EXPENDITURES</u>			
Expenses (excluding Depreciation)	\$ 95.4	\$ 97.6	\$ (2.2)
Fixed Asset Additions	5.6	6.2	(0.6)
Net Financing Activity	(0.1)	(2.8)	2.7
TOTAL EXPENDITURES	\$ 100.9	\$ 101.0	\$ (0.1)
RESERVE INCREASE (DECREASE)	\$ 0.6	\$ (1.2)	\$ 1.8

Funding is projected to be over budget mainly due to increased investment income due to higher interest rates. Expenses (excluding depreciation) are expected to be under budget primarily due to lower office, contractors and consultants, professional services, and fixed asset addition costs, offset by net financing activity. The net result is a projected year-end reserve increase of \$1.8M more than budget. This activity is explained in more detail in the remainder of the report.

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

<u>FUNDING</u>	<u>Actual</u>	<u>Budget</u>	<u>Over (Under)</u>
Revenues	\$ 75.5	\$ 74.1	\$ 1.4
Funding from Reserves			
Assessment Stabilization Reserve	0.8	0.8	-
TOTAL FUNDING	\$ 76.3	\$ 74.9	\$ 1.4
<u>EXPENDITURES</u>			
Expenses (excluding Depreciation)	\$ 68.7	\$ 73.6	\$ (4.9)
Fixed Asset Additions	2.1	4.7	(2.6)
Net Financing Activity	-	(2.2)	2.2
TOTAL EXPENDITURES	\$ 70.8	\$ 76.1	\$ (5.3)
RESERVE INCREASE (DECREASE)	\$ 5.5	\$ (1.2)	\$ 6.7

Funding is over budget primarily due to increased investment income due to higher interest rates. Expenses (excluding depreciation) are under budget primarily because of lower personnel, contracts and consultants, office, and professional services costs, as well as fixed asset additions. This is partially offset by net financing activity. The net result is a reserve increase of \$6.7M higher than budget. This activity is explained in more detail in the remainder of the report.

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	\$ 76,261,409	\$ 74,870,471	\$ 1,390,938	1.9%	\$ 101,517,833	\$ 99,822,126	\$ 1,695,707	1.7%
EXPENDITURES								
Personnel	42,821,001	43,959,935	(1,138,934)	(2.6%)	58,246,512	58,018,406	228,106	0.4%
Meetings and Travel	2,527,625	2,359,162	168,463	7.1%	3,443,163	3,145,550	297,613	9.5%
Contracts and Consultants	10,646,316	12,861,832	(2,215,517)	(17.2%)	15,905,488	17,149,110	(1,243,622)	(7.3%)
Office Rent	2,196,515	2,240,247	(43,732)	(2.0%)	2,937,766	3,022,266	(84,500)	(2.8%)
Office Costs, Professional, and Misc.*	10,332,961	11,983,794	(1,650,833)	(13.8%)	14,780,492	15,979,103	(1,198,612)	(7.5%)
Other Non-Operating	117,317	166,690	(49,374)	(29.6%)	176,148	254,254	(78,106)	(30.7%)
Fixed Asset Additions*	2,126,566	4,668,000	(2,541,434)	(54.4%)	5,575,304	6,224,000	(648,696)	(10.4%)
Net Financing Activity**	(48,544)	(2,198,307)	2,149,763	(97.8%)	(129,995)	(2,791,076)	2,661,081	(95.3%)
TOTAL EXPENDITURES	\$ 70,719,757	\$ 76,041,355	\$ (5,321,598)	(7.0%)	\$ 100,934,878	\$ 101,001,613	\$ (66,735)	(0.1%)
RESERVE INCREASE (DECREASE)	\$ 5,541,652	\$ (1,170,884)	\$ 6,712,536	(573.3%)	\$ 582,955	\$ (1,179,487)	\$ 1,762,442	(149.4%)
FTEs	230.7	236.9	(6.2)	(2.6%)	231.7	236.9	(5.2)	(2.2%)

* Excludes depreciation expense

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

The following is a brief description of variances by category, as illustrated in the table above:

- Funding is over budget year-to-date mainly because of increased investment income due to higher interest rates and is projected to be over budget at year-end for the same reason.
- Personnel expenses are under budget year-to-date largely attributable to timing of expenses, lower medical insurance premiums, retirement plan costs, training expenses, and parking and transportation expenses due to a continued hybrid workforce strategy. Personnel expenses are projected to be slightly over budget at year-end primarily due to (1) market, promotion, and equity adjustments; (2) new hire and other projected compensation; and (3) higher employment agency search fees, partially offset by lower medical insurance premiums and retirement plan costs, lower than expected training expenses, and lower parking and transportation expenses.
- Contracts and Consultants expenses are under budget year-to-date due to timing of expenses and lower spending across many of the departments. This includes (1) deferred spending to help fund expenses related to the Interregional Transfer Capability Study (ITCS)¹ that was mandated by Congress in June 2023, and (2) lower third-party contractor costs for CRISP, primarily due to lower liability insurance costs.

¹ NERC's plan to fund ITCS costs in 2023 consisted of the following (of which a portion will fund the contracts and consultant costs): (1) deferring hiring of four budgeted open positions in the Situation Awareness, BPS Security and Grid Transformation, Reliability Assessment and Technical Committees, and Reliability Standards departments until 2024 (approximately \$450k); (2) repurposing budgeted funds for contracts and consultants for certain other projects (approximately \$400k); and (3) expending up to \$700k from the Assessment Stabilization Reserve (ASR). Based on current projections, NERC does not believe that it will need to expend any of the \$700,000 from the ASR.

Contracts and Consultants expenses are expected to be under budget at year-end, which is the net result of various departments being over or under budget, including the following: (1) Compliance Assurance and Compliance Enforcement are projected to be over budget due to the direct allocation of IT contractor costs that are supporting the Align system; (2) IT is projected to be under budget mainly due to the direct allocation of IT contractors to departments for work on program-specific systems; and (3) CRISP is projected to be under budget primarily because of lower third-party contractor costs for liability insurance. Contracts and Consultants activity by department is summarized in the table below.

CONTRACTS and CONSULTANTS	YTD	YTD	YTD	%	Annual Projection	Annual Budget	Annual Over (Under)	% Over (Under)
	Actual	Budget	Over (Under)	Over (Under)				
Reliability Standards and Power Risk Issue Manager	\$ 63,874	\$ 152,054	\$ (88,180)	(58.0%)	\$ 121,658	\$ 202,739	\$ (81,081)	(40.0%)
Compliance Assurance	216,192	75,000	141,192	188.3%	421,823	100,000	321,823	321.8%
Registration and Certification	45,255	30,600	14,655	47.9%	45,093	40,800	4,293	10.5%
Compliance Enforcement	216,192	51,750	164,442	317.8%	421,823	69,000	352,823	511.3%
BPS Security and Grid Transformation	3,555	150,000	(146,445)	(97.6%)	23,090	200,000	(176,910)	(88.5%)
Reliability Assessment and Technical Committees	1,936	158,100	(156,164)	(98.8%)	383,686	210,800	172,886	82.0%
Advanced System Analytics and Modeling	-	153,750	(153,750)	(100.0%)	97,293	205,000	(107,707)	(52.5%)
Performance Analysis	93,153	195,640	(102,488)	(52.4%)	132,226	260,854	(128,628)	(49.3%)
Situation Awareness	119,169	17,250	101,919	590.8%	196,685	23,000	173,685	755.2%
Event Analysis	22,593	165,601	(143,009)	(86.4%)	5,171	220,802	(215,631)	(97.7%)
E-ISAC	2,130,031	2,120,875	9,156	0.4%	3,036,784	2,827,834	208,950	7.4%
Training, Education and Personnel Certification	349,871	373,313	(23,442)	(6.3%)	557,651	497,750	59,901	12.0%
General and Administrative and Executive	509	75,000	(74,491)	(99.3%)	1,000	100,000	(99,000)	(99.0%)
Legal and Regulatory	17,772	153,750	(135,978)	(88.4%)	102,104	205,000	(102,896)	(50.2%)
External Affairs	29,763	15,000	14,762	98.4%	39,763	20,000	19,763	98.8%
Information Technology	2,274,344	2,565,383	(291,039)	(11.3%)	2,487,874	3,420,510	(932,636)	(27.3%)
Human Resources and Administration	412,157	637,500	(225,343)	(35.3%)	810,894	850,000	(39,106)	(4.6%)
Finance and Accounting	113,996	262,500	(148,504)	(56.6%)	281,990	350,000	(68,010)	(19.4%)
TOTAL (excluding CRISP)	\$ 6,110,360	\$ 7,353,067	\$ (1,242,707)	(16.9%)	\$ 9,166,608	\$ 9,804,089	\$ (637,481)	(6.5%)
CRISP	4,535,956	5,508,766	(972,810)	(17.7%)	6,738,880	7,345,021	(606,141)	(8.3%)
TOTAL (including CRISP)	\$ 10,646,316	\$ 12,861,832	\$ (2,215,517)	(17.2%)	\$ 15,905,488	\$ 17,149,110	\$ (1,243,622)	(7.3%)

- Office Costs, Professional Services, and Miscellaneous expenses are under budget year-to-date largely due to lower outside counsel, software license and support, and liability insurance costs. These areas are projected to be under budget at year-end for the same reasons.
- Fixed Asset Additions are under budget year-to-date primarily because of timing of and lower capital software project expenditures. This area is projected to be under budget at year-end due to lower capital software expenditures, partly offset by higher than budgeted equipment purchases.
- The Net Financing Activity budget is comprised of financing proceeds/borrowings and principal payments. The budget included \$4.0M of loan borrowings for capital software projects, spread evenly throughout the year. The year-to-date variance is primarily because NERC did not borrow during the first two quarters. By year-end, NERC is projecting to borrow \$3.4M dollars less than budgeted due to the favorable projected expenditure budget variance and higher investment income, partly offset by higher lease financing proceeds. Loan payments are lower than budgeted due to lower debt service from less borrowing.
- Reserves are over budget year-to-date by \$6.7M, primarily due to the reasons noted above for timing of costs for personnel, contracts and consultants, software license and support, professional services, and fixed asset additions, partially offset by net financing activity. Reserves are projected to be over budget by \$1.7M mainly due to higher investment and lower office, contracts and consultants, and professional services costs, offset by net financing activity.

Variations by Department

DIRECT EXPENSES, FIXED ASSETS, AND FINANCING ACTIVITY	YTD	YTD	YTD	Over	Annual	Annual	Annual	Over
	Actual	Budget	Over (Under)	(Under)	Projection	Budget	Over (Under)	(Under)
Reliability Standards and Power Risk Issue Management	\$ 3,063,661	\$ 3,584,174	\$ (520,513)	(14.5%)	\$ 4,193,412	\$ 4,729,003	\$ (535,591)	(11.3%)
Compliance Assurance	4,388,278	4,752,287	(364,009)	(7.7%)	6,158,337	6,282,140	(123,803)	(2.0%)
Registration and Certification	953,631	977,357	(23,725)	(2.4%)	1,298,718	1,287,593	11,125	0.9%
Compliance Enforcement	2,767,507	2,868,367	(100,861)	(3.5%)	4,047,433	3,796,681	250,752	6.6%
BPS Security and Grid Transformation	1,513,858	1,262,925	250,934	19.9%	2,222,431	1,669,657	552,775	33.1%
Reliability Assessment and Technical Committees	1,455,967	1,995,110	(539,143)	(27.0%)	2,420,412	2,642,635	(222,223)	(8.4%)
Advanced System Analytics and Modeling	1,549,344	2,058,656	(509,312)	(24.7%)	2,228,061	2,718,009	(489,948)	(18.0%)
Performance Analysis	1,958,261	2,128,657	(170,396)	(8.0%)	2,780,899	2,827,859	(46,960)	(1.7%)
Situation Awareness	2,641,134	2,916,529	(275,395)	(9.4%)	4,061,352	3,870,002	191,349	4.9%
Event Analysis	1,486,400	1,690,038	(203,638)	(12.0%)	2,018,493	2,234,065	(215,573)	(9.6%)
E-ISAC	10,970,449	11,100,778	(130,329)	(1.2%)	14,926,787	14,690,846	235,941	1.6%
Training, Education and Personnel Certification	1,233,591	1,318,657	(85,066)	(6.5%)	1,786,468	1,746,788	39,680	2.3%
General and Administrative and Executive	6,994,438	3,901,613	3,092,825	79.3%	9,499,802	5,394,298	4,105,504	76.1%
Legal and Regulatory	3,811,247	4,194,674	(383,427)	(9.1%)	5,171,707	5,552,134	(380,427)	(6.9%)
External Affairs	2,708,637	2,749,381	(40,743)	(1.5%)	3,897,545	3,625,795	271,750	7.5%
Information Technology	12,202,396	15,389,789	(3,187,393)	(20.7%)	17,641,352	20,442,840	(2,801,488)	(13.7%)
Human Resources and Administration	2,649,330	3,266,594	(617,264)	(18.9%)	4,074,014	4,335,353	(261,339)	(6.0%)
Finance and Accounting	1,776,789	2,171,606	(394,817)	(18.2%)	2,836,022	2,880,682	(44,660)	(1.6%)
TOTAL (excluding CRISP)	\$ 64,124,918	\$ 68,327,190	\$ (4,202,272)	(6.2%)	\$ 91,263,246	\$ 90,726,381	\$ 536,866	0.6%
CRISP	6,594,839	7,714,164	(1,119,326)	(14.5%)	9,671,632	10,275,232	(603,601)	(5.9%)
TOTAL DIRECT EXPENSES, FIXED ASSETS, AND FINANCING ACTIVITY	\$ 70,719,757	\$ 76,041,355	\$ (5,321,598)	(7.0%)	\$100,934,878	\$101,001,613	\$ (66,735)	(0.1%)

The following is a brief description of significant variances by department, as shown in the table above:

- **Reliability Standards and Power Risk Issue Management** – Under budget year-to-date and projected to be under budget at year-end primarily because of the transfer of an open FTE position to the BPS Security and Grid Transformation department, as well as the deferral of one FTE position to 2024 to help fund the ITCS in 2023.
- **Compliance Assurance** – Under budget year-to-date and projected to be under budget at year-end primarily due to the reduction of one open position and delayed hiring throughout the year, offset by an increase in contracts and consultants expenses due to the direct allocation of IT contractor costs that are supporting the Align system.
- **BPS Security and Grid Transformation** – Over budget year-to-date and expected to be over budget at year-end mainly because of the transfer of two open FTE positions to this department, one from Reliability Standards and Power Risk Issue Management and one from Advanced System Analytics and Modeling, and the addition of two positions related to the ITCS that are being funded by hiring deferrals in other departments.
- **Reliability Assessment and Technical Committees** – Under budget year-to-date primarily attributable to contracts and consultants dollars that will be used toward the ITCS, as well as the deferral of a technology project to 2024.
- **Advanced System Analytics and Modeling** – Under budget year-to-date and projected to be under budget mostly attributable to the transfer of an open FTE position to the BPS Security and Grid Transformation department, as well as lower than budgeted contractor costs that will be used toward the ITCS.
- **Situation Awareness** – Under budget year-to-date due to timing differences versus budget for a technology project.

- General & Administrative and Executive – Over budget year-to-date and projected to be over budget at year-end mainly attributable to Net Financing Activity. The Net Financing Activity budget is comprised of financing proceeds/borrowings and principal payments. The budget included \$4.0M of borrowings for technology projects, spread evenly throughout the year. No borrowings occurred in the first or second quarter and borrowings in the third quarter were applied to capital expenditures in the IT department. NERC is not projecting any further borrowing by year-end due to the favorable projected expenditure budget variance and higher investment income.
- Legal & Regulatory – Under budget year-to-date and projected to under budget at year-end due to timing of hiring open positions and lower contracts and consultants and outside legal costs.
- External Affairs – Projected to be over budget at year-end mainly attributable to higher than budgeted salary expense, including the addition of one position related to the ITCS.
- Information Technology – Under budget year-to-date primarily because of timing of costs versus the budget for software licenses and support, the direct allocation of contractor costs budgeted in IT but directly charged to other departments, and lower capital software expenditures, partially offset by higher hardware and leased asset costs. Projected to be under budget at year-end mainly attributable to the direct allocation of contractor costs budgeted in IT but directly charged to other departments, and lower capital software expenditures, partially offset higher than budgeted hardware costs. Also, loan borrowing proceeds used to finance IT capital expenditures contributed to the under budget variance in IT, as the loan proceeds were budgeted in the General & Administrative department.
- Human Resources – Under budget year-to-date and projected to under budget at year-end due to lower personnel, employee engagement, and capital software costs, partly offset by higher software licenses and support expenses.
- Finance and Accounting – Under budget year-to-date due to timing of costs versus the budget for contracts and consultants costs and capital software expenses related to system enhancements.
- CRISP – Under budget year-to-date primarily due to third-party contractor costs being lower than budget for liability insurance costs, as well as due to lower than budgeted other outside consultant costs and software license and support expenses. Expected to be under budget at year-end for the same reason, offset by higher meetings and travel expenses and equipment expenditures.

Supplemental Schedules

Schedule 1 – Year-End Projected Reserves

Reserve Account	1/1/2023		Operating and		12/31/2023
	Beginning Balance ⁽¹⁾	Budgeted Funding/(Use) ⁽²⁾	Unbudgeted Funding/(Use) ⁽³⁾	Financing Activity Versus Budget ⁽⁴⁾	Ending Balance
NERC Operating Contingency	\$ 10,880,743	\$ (1,000,000)	\$ -	\$ 1,924,319	\$ 11,805,062
Future Obligations	2,293,856	283,841	330,530	-	2,908,227
Assessment Stabilization	3,256,000	(1,000,000)	-	-	2,256,000
System Operator	964,284	(179,488)	-	38,924	823,720
CRISP Defense Fund	500,000	-	-	-	500,000
CRISP Operating	2,961,621	-	(450,000)	799,199	3,310,820
CRISP Equipment Reserve	-	-	450,000	-	450,000
Total Reserves	\$ 20,856,504	\$ (1,895,647)	\$ 330,530	\$ 2,762,442	\$ 22,053,829

NOTES:

(1) 2023 beginning balances have been adjusted from the 12/31/2022 variance report balances as the result of a reconciliation to the final audited balance sheet.

(2) The 2023 Business Plan & Budget (2023 BP&B) contained a budgeted use of NERC Operating Contingency Reserves (OCR) totaling \$1,000,000 and a budgeted use of \$1,000,000 of Assessment Stabilization Reserves (ASR) to help fund the budget increase for the first year of NERC's three-year strategic plan.

The 2023 BP&B included an estimated addition to the Future Obligations Reserve for lease incentives of \$283,841.

The 2023 BP&B included a use of System Operator Reserves derived from budgeted revenues being \$179,488 lower than budgeted expenses.

(3) Additional funding of the Future Obligations Reserve is the result of final landlord lease incentives and tenant improvement allowances for the Washington, DC office.

The CRISP participants agreed to transfer \$450k from the CRISP Operating Reserve to fund a CRISP Equipment Reserve.

In its August 10, 2023 order in Docket No. RR22-4-003, the Commission approved NERC to expend up to \$700,000 from the ASR to fund a portion of the 2023 expenses anticipated in connection with the interregional transfer capability study (ITCS) directed in section 322 of the Fiscal Responsibility Act of 2023. Based on current projections, NERC does not believe that it will need to expend any of the \$700,000 from the ASR.

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

The increase in reserves related to the CRISP department is \$802,229, with \$3,030 going into the NERC OCR for the portion of CRISP costs funded by assessments and \$799,199 going into the CRISP Operating Reserve for CRISP costs funded by the CRISP participants.

Schedule 2 – Technology Projects (> \$300k)

Projects in Progress ⁽¹⁾	Expected Spend	Actual Spend to Date	Over (Under) Budget
Align Enhancements	\$ 300,000	\$ 299,880	\$ (120)
GADS Conventional-Design Data	315,000	210,000	(105,000)
Identity Access Management	400,000	210,040	(189,960)
Data Loss Prevention - Phase 2	480,000	331,348	(148,652)

NOTES:

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



Align Enhancements

(Started Q1 2023 / Anticipated Completion Q4 2023)

To implement requested enhancements, complete the migration of Open and Closed Enforcement Actions from the regional legacy systems, and provide requested system changes to accommodate the Canadian Provinces that are planning on using Align and the ERO SEL.

GADS Conventional-Design Data

(Started Q1 2023 / Anticipated Completion Q4 2023)

To implement changes to the GADS Design Data that is part of the Board-approved Section 1600 Data Request.



Identity Access Management

(Started Q1 2023 / Anticipated Completion Q4 2023)

To combine with Identity Governance and Administration functionality to facilitate automated, scalable handling of account management and provisioning.



Data Loss Prevention – Phase 2

(Started Q1 2023 / Anticipated Completion Q4 2023)

To improve upon data loss prevention by implementing data classification and forcing the tagging on NERC laptops.

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	\$ 20,869,023	\$ 27,825,365	\$ 27,825,365	\$ -
Other Funding	8,316,225	10,854,863	10,200,776	654,087
TOTAL FUNDING	\$ 29,185,249	\$ 38,680,228	\$ 38,026,141	\$ 654,087
EXPENDITURES				
Personnel Expense	\$ 8,606,305	\$ 11,545,282	\$ 11,237,278	\$ 308,004
Meetings and Travel Expense	483,477	618,202	386,000	232,202
Operating Expenses (excluding Depreciation)	8,458,820	12,172,376	13,034,801	(862,425)
Other Non-Operating Expenses	20	20	-	20
Fixed Asset Purchases (excluding Fixed Asset Allocation)	16,665	262,539	308,000	(45,461)
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	-	-
Total Direct Costs (excluding Depreciation and Allocations)	\$ 17,565,287	\$ 24,598,419	\$ 24,966,079	\$ (367,660)
Indirect Expense Allocation	9,185,016	12,754,435	12,990,480	(236,045)
Fixed Asset Allocation	314,559	849,312	1,060,735	(211,423)
Net Financing Activity Allocation	(111,466)	(169,459)	(991,153)	821,694
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 26,953,396	\$ 38,032,707	\$ 38,026,141	\$ 6,566
RESERVE INCREASE (DECREASE)	\$ 2,231,853	\$ 647,521	\$ -	\$ 647,521

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

CRISP

FUNDING	YTD	Annual	Annual	Projected
	Actual	Projection	Budget	Over (Under)
Assessments	\$ 1,720,453	\$ 2,293,937	\$ 2,293,937	\$ -
Other Funding	7,643,638	9,922,878	9,613,803	309,074
TOTAL FUNDING	\$ 9,364,091	\$ 12,216,815	\$ 11,907,740	\$ 309,074
EXPENDITURES				
Personnel Expense	\$ 1,116,364	\$ 1,495,760	\$ 1,400,761	\$ 94,998
Meetings and Travel Expense	252,218	266,708	81,000	185,708
Operating Expenses (excluding Depreciation)	5,226,256	7,679,958	8,743,471	(1,063,513)
Other Non-Operating Expenses	-	-	-	-
Fixed Asset Purchases (excluding Fixed Asset Allocation)	-	229,206	50,000	179,206
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	-	-
Total Direct Costs (excluding Depreciation and Allocations)	\$ 6,594,839	\$ 9,671,632	\$ 10,275,232	\$ (603,601)
Indirect Expense Allocation	1,195,407	1,654,750	1,623,810	30,940
Fixed Asset Allocation	40,939	110,189	132,592	(22,403)
Net Financing Activity Allocation	(14,507)	(21,986)	(123,894)	101,909
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 7,816,678	\$ 11,414,585	\$ 11,907,740	\$ (493,155)
RESERVE INCREASE (DECREASE)	\$ 1,547,413	\$ 802,229	\$ -	\$ 802,229

Note - In its July 8, 2022 order in Docket No. RR21-9-001, the Commission held that expenditure of funds paid by new CRISP participants for costs associated with joining the program should be included in NERC's quarterly variance reports and annual true-up filings. Accordingly, NERC notes that year-to-date billings sent by NERC to new CRISP participants related to the program's third-party subcontractor total approximately \$440k and is included in the "Other Funding" amount above. Year-to-date expenses sent by the third-party contractor to NERC for new CRISP participants total approximately \$360k and is included in the "Operating Expenses (excluding Depreciation)" amount above.

E-ISAC (excluding CRISP)

FUNDING	YTD	Annual	Annual	Projected
	Actual	Projection	Budget	Over (Under)
Assessments	\$ 19,148,571	\$ 25,531,428	\$ 25,531,428	\$ -
Other Funding	672,587	931,985	586,973	345,012
TOTAL FUNDING	\$ 19,821,158	\$ 26,463,413	\$ 26,118,401	\$ 345,012
EXPENDITURES				
Personnel Expense	\$ 7,489,941	\$ 10,049,522	\$ 9,836,516	\$ 213,005
Meetings and Travel Expense	231,259	351,494	305,000	46,494
Operating Expenses (excluding Depreciation)	3,232,564	4,492,418	4,291,330	201,088
Other Non-Operating Expenses	20	20	-	20
Fixed Asset Purchases (excluding Fixed Asset Allocation)	16,665	33,333	258,000	(224,667)
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	-	-
Total Direct Costs (excluding Depreciation and Allocations)	\$ 10,970,449	\$ 14,926,787	\$ 14,690,846	\$ 235,941
Indirect Expense Allocation	7,989,609	11,099,685	11,366,670	(266,986)
Fixed Asset Allocation	273,620	739,123	928,143	(189,020)
Net Financing Activity Allocation	(96,959)	(147,474)	(867,259)	719,785
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 19,136,718	\$ 26,618,121	\$ 26,118,401	\$ 499,720
RESERVE INCREASE (DECREASE)	\$ 684,440	\$ (154,708)	\$ -	\$ (154,708)

Schedule 4 – Summary of Investments

	Quarter-End Balance	Ticker Symbol	Fund Name	S&P Credit Rating	Average Annualized Yield
<u>Cash Sweep Accounts</u>					
Operating Account Sweep	\$ 28,378,057	TDDXX	BlackRock Liquidity Fund FedFund Dollar	AAAm	4.97%
SOCCEd Account Sweep	1,848,013	TDDXX	BlackRock Liquidity Fund FedFund Dollar	AAAm	4.97%
CRISP Account Sweep	10,476,918	TDDXX	BlackRock Liquidity Fund FedFund Dollar	AAAm	4.97%
<u>Total Cash Sweep Accounts</u>	<u>\$ 40,702,988</u>				
<u>Investment Account</u>					
Reserve Funds	\$ 10,475,171	GRTXX	Federated Hermes Government Obligations Fund	AAAm	5.24%
<u>Total Investments</u>	<u>\$ 10,475,171</u>				