

## Agenda

# Finance and Audit Committee Open Meeting

August 16, 2023 | 3:15-4:15 p.m. Eastern

### **In-Person**

Westin Ottawa Hotel  
11 Colonel By Dr.  
Ottawa, ON K1N 9H4, Canada

**Conference Room:** Conf I/II

### **Virtual Attendees**

[Webinar Link](#)

### **Introduction and Chair's Remarks**

### **[NERC Antitrust Compliance Guidelines](#)**

### **Agenda Items**

1. **Minutes – Approve**
  - a. July 12, 2023 Open Meeting\*
2. **Second Quarter Statement of Activities\* – Review and Recommend to Board of Trustees for Acceptance**
  - i. NERC Second Quarter 2023 Unaudited Summary of Results
  - ii. NERC and Regional Entity Combined Second Quarter 2023 Unaudited Summary of Results
  - iii. Each Regional Entity Second Quarter 2023 Unaudited Summary of Results
3. **NERC, Regional Entity, and WIRAB Proposed 2024 Business Plans and Budgets and Associated Assessments\* – Review and Recommend to Board of Trustees for Approval**
4. **Other Matters and Adjournment**

\*Background materials included.

## **DRAFT** Minutes Finance and Audit Committee Open Meeting

July 12, 2023 | 3:00-3:45 p.m. Eastern

Virtual Meeting

### **Call to Order**

Ms. Colleen Sidford, 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) on July 12, 2023 at approximately 3:00 p.m. Eastern, and a quorum was declared present.

Present at the meeting were:

#### **Committee Members**

Colleen Sidford, Chair

Robert G. Clarke

George S. Hawkins

Jim Piro

Kristine Schmidt

Susan Kelly

Kenneth W. DeFontes, *ex officio*

#### **Board Members**

James B. Robb, NERC President and Chief Executive Officer

Jane Allen

Larry Irving

#### **NERC Staff**

Tina Buzzard, Assistant Corporate Secretary

Manny Cancel, Sr. Vice President and Chief Executive Officer of the E-ISAC

Erika Chanzas, Manager of Business Planning

Howard Gugel, Vice President, Compliance Assurance and Registration

Kelly Hanson, Senior Vice President and Chief Administrative Officer

Stan Hoptroff, Vice President, Business Technology

Fritz Hirst, Director, Legislative & Regulatory Affairs

Soo Jin Kim, Vice President, Engineering, Standards, and PRISM

Mark Lauby, Senior Vice President and Chief Engineer

Meg Leonard, Controller

Kimberly Mielcarek, Vice President, Communications

Kristin Miller, Director, Internal Audit

John Moura, Director, Reliability Assessment and Performance Analysis

Sônia Rocha, Senior Vice President, General Counsel, and Corporate Secretary

Andy Sharp, Vice President, Chief Financial Officer

Janet Sena, Senior Vice President, External Affairs

### **Introduction and Chair's Remarks**

Ms. Sidford welcomed everyone and reviewed the agenda. She stated that the purpose of the meeting is to learn about the interregional transfer capability study (ITCS) required by the U.S. Fiscal Responsibility Act of 2023, including NERC's role and approach, a summary of NERC's proposed project and resource plan, NERC's estimated costs and funding strategy for 2023, and the expected future benefits. She noted that as the ITCS was not anticipated in NERC's 2023 Business Plan & Budget, NERC management is requesting that the FAC, in accordance with the Working Capital and Operating Reserve policy, vote on approval of an unbudgeted use of reserves that exceeds \$500,000.

### **Interregional Transfer Capability Study and Reserve Use**

Mr. Robb and Mr. Lauby discussed a proposed phased approach for performing the ITCS and outlined the resource plan for the study, which reviews the need for internal, consultants, and Regional Entity resources. Mr. Sharp described the proposed 2023 funding strategy for the ITCS. Mr. Sharp stated that the funding strategy includes a proposed expenditure from the Assessment Stabilization Reserve (ASR) of up to \$700k in 2023, which required Committee and Federal Energy Regulatory Commission approvals.

Upon motion duly made and seconded, the Committee approved the expenditure of up to \$700k from the ASR in 2023 to help fund the ITCS.

### **Other Matters and Adjournment**

There being no further business, the meeting was adjourned.

Submitted by,



Sônia Mendonça  
Corporate Secretary

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

### **Action**

Review and recommend Board of Trustees acceptance.

### **Background**

NERC management will review the second quarter calendar of FAC responsibilities to include (i) NERC Second Quarter 2023 Unaudited Summary of Results; and (ii) NERC and Regional Entity Combined (ERO) Second Quarter 2023 Unaudited Summary of Results.

# Summary of Unaudited Results For the Period Ending June 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	\$ 100.3	\$ 98.8	\$ 1.5
Funding from Reserves			
Assessment Stabilization Reserve	1.0	1.0	-
<b>TOTAL FUNDING</b>	<b>\$ 101.3</b>	<b>\$ 99.8</b>	<b>\$ 1.5</b>
<b><u>EXPENDITURES</u></b>			
Expenses (excluding Depreciation)	\$ 96.9	\$ 97.6	\$ (0.7)
Fixed Asset Additions	6.0	6.2	(0.2)
Net Financing Activity	(2.5)	(2.8)	0.3
<b>TOTAL EXPENDITURES</b>	<b>\$ 100.4</b>	<b>\$ 101.0</b>	<b>\$ (0.6)</b>
<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 0.9</b>	<b>\$ (1.2)</b>	<b>\$ 2.1</b>

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 and professional services costs. The net result is a projected year-end reserve increase of \$2.1M 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	\$ 50.2	\$ 49.4	\$ 0.8
Funding from Reserves			
Assessment Stabilization Reserve	0.5	0.5	-
<b>TOTAL FUNDING</b>	<b>\$ 50.7</b>	<b>\$ 49.9</b>	<b>\$ 0.8</b>
<b><u>EXPENDITURES</u></b>			
Expenses (excluding Depreciation)	\$ 45.4	\$ 49.4	\$ (4.0)
Fixed Asset Additions	1.5	3.1	(1.6)
Net Financing Activity	0.3	(1.5)	1.8
<b>TOTAL EXPENDITURES</b>	<b>\$ 47.2</b>	<b>\$ 51.0</b>	<b>\$ (3.8)</b>
<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 3.5</b>	<b>\$ (1.1)</b>	<b>\$ 4.6</b>

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, and office costs, as well as fixed asset additions. This is partially offset by net financing activity. The net result is a reserve increase of \$4.6M 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)
<b>TOTAL FUNDING</b>	\$ 50,744,986	\$ 49,917,216	\$ 827,770	1.7%	\$ 101,342,129	\$ 99,822,126	\$ 1,520,003	1.5%
<b>EXPENDITURES</b>								
Personnel	28,796,520	29,707,935	(911,415)	(3.1%)	58,167,489	58,018,406	149,083	0.3%
Meetings and Travel	1,774,368	1,572,775	201,593	12.8%	3,192,721	3,145,550	47,171	1.5%
Contracts and Consultants	6,586,279	8,574,555	(1,988,276)	(23.2%)	17,087,503	17,149,110	(61,607)	(0.4%)
Office Rent	1,452,211	1,487,796	(35,585)	(2.4%)	2,937,266	3,022,266	(85,000)	(2.8%)
Office Costs, Professional, and Misc.*	6,704,816	7,988,502	(1,283,686)	(16.1%)	15,396,293	15,979,103	(582,810)	(3.6%)
Other Non-Operating	49,515	79,127	(29,612)	(37.4%)	219,841	254,254	(34,413)	(13.5%)
Fixed Asset Additions*	1,559,658	3,112,000	(1,552,342)	(49.9%)	5,968,655	6,224,000	(255,345)	(4.1%)
Net Financing Activity**	299,345	(1,545,538)	1,844,883	(119.4%)	(2,543,544)	(2,791,076)	247,532	(8.9%)
<b>TOTAL EXPENDITURES</b>	\$ 47,222,711	\$ 50,977,152	\$ (3,754,441)	(7.4%)	\$ 100,426,225	\$ 101,001,613	\$ (575,388)	(0.6%)
<b>RESERVE INCREASE (DECREASE)</b>	\$ 3,522,275	\$ (1,059,936)	\$ 4,582,211	(432.3%)	\$ 915,904	\$ (1,179,487)	\$ 2,095,391	(177.7%)
<b>FTEs</b>	<b>229.0</b>	<b>236.9</b>	<b>(7.8)</b>	<b>(3.3%)</b>	<b>229.7</b>	<b>236.9</b>	<b>(7.2)</b>	<b>(3.0%)</b>

\* 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.

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 lower medical insurance premiums and retirement plan costs, as well as lower parking and transportation expense due to a continued hybrid workforce strategy. Personnel expenses are projected to trend closer to 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 lower parking and transportation expense.
- Contracts and Consultants expenses are under budget year-to-date mainly as a result of the timing of costs versus the budget across many of the departments, as summarized in the table below. Other variances consist of (1) IT being under budget due to the higher direct allocation of Contracts and Consultants costs to other departments for technology system maintenance and support and (2) CRISP being under budget due to lower third-party contractor costs for liability insurance costs.

The category is expected to be near budget at year-end, with various departments being over and under budget, consisting primarily of the following: (1) Compliance Assurance and Compliance Enforcement are projected to be over budget due to additional support for the Align system, including direct allocation of IT contractor costs; (2) Reliability Assessment and Technical Committees is projected to be over budget because of expected contractor work needed for the



interregional transfer capability study (ITCS)<sup>1</sup>; (3) IT is projected to be under budget mainly attributable to contractors budgeted in IT but being allocated directly to other departments for work being performed in those departments; and (4) CRISP is projected to be under budget primarily as a result of lower third-party contractor costs for liability insurance.

CONTRACTS and CONSULTANTS	YTD Actual	YTD Budget	YTD Over (Under)	% Over (Under)	Annual Projection	Annual Budget	Annual Over (Under)	% Over (Under)
Reliability Standards and Power Risk Issue Management	\$ 47,869	\$ 101,369	\$ (53,501)	(52.8%)	\$ 202,739	\$ 202,739	\$ -	0.0%
Compliance Assurance	140,186	50,000	90,186	180.4%	490,534	100,000	390,534	390.5%
Registration and Certification	22,280	20,400	1,880	9.2%	40,800	40,800	-	0.0%
Compliance Enforcement	140,186	34,500	105,686	306.3%	560,264	69,000	491,264	712.0%
BPS Security and Grid Transformation	-	100,000	(100,000)	(100.0%)	100,000	200,000	(100,000)	(50.0%)
Reliability Assessment and Technical Committees	-	105,400	(105,400)	(100.0%)	913,000	210,800	702,200	333.1%
Advanced System Analytics and Modeling	-	102,500	(102,500)	(100.0%)	55,000	205,000	(150,000)	(73.2%)
Performance Analysis	62,548	130,427	(67,879)	(52.0%)	260,154	260,854	(700)	(0.3%)
Situation Awareness	63,685	11,500	52,185	453.8%	196,685	23,000	173,685	755.2%
Event Analysis	18,267	110,401	(92,134)	(83.5%)	190,802	220,802	(30,000)	(13.6%)
E-ISAC	1,425,965	1,413,917	12,048	0.9%	3,046,460	2,827,834	218,626	7.7%
Training, Education and Personnel Certification	236,326	248,875	(12,549)	(5.0%)	604,926	497,750	107,176	21.5%
General and Administrative and Executive	509	50,000	(49,491)	(99.0%)	-	100,000	(100,000)	(100.0%)
Legal and Regulatory	11,851	102,500	(90,649)	(88.4%)	205,000	205,000	-	0.0%
External Affairs	8,600	10,000	(1,400)	(14.0%)	140,000	20,000	120,000	600.0%
Information Technology	1,156,291	1,710,255	(553,964)	(32.4%)	2,449,087	3,420,510	(971,423)	(28.4%)
Human Resources and Administration	264,638	425,000	(160,362)	(37.7%)	743,961	850,000	(106,039)	(12.5%)
Finance and Accounting	28,252	175,000	(146,748)	(83.9%)	100,000	350,000	(250,000)	(71.4%)
<b>TOTAL (excluding CRISP)</b>	<b>\$ 3,627,453</b>	<b>\$ 4,902,044</b>	<b>\$ (1,274,592)</b>	<b>(26.0%)</b>	<b>\$ 10,299,412</b>	<b>\$ 9,804,089</b>	<b>\$ 495,323</b>	<b>5.1%</b>
CRISP	2,958,826	3,672,510	(713,684)	(19.4%)	6,788,091	7,345,021	(556,930)	(7.6%)
<b>TOTAL (including CRISP)</b>	<b>\$ 6,586,279</b>	<b>\$ 8,574,555</b>	<b>\$ (1,988,276)</b>	<b>(23.2%)</b>	<b>\$ 17,087,503</b>	<b>\$ 17,149,110</b>	<b>\$ (61,607)</b>	<b>(0.4%)</b>

- Office Costs, Professional Services, and Miscellaneous expenses are under budget year-to-date largely due to the timing of costs versus budget for outside counsel fees and software license and support costs, and lower liability insurance costs. They are projected to be under budget at year-end mostly as a result of slightly lower software license and support costs, as well as lower liability insurance costs.
- Fixed Asset Additions are under budget year-to-date primarily as a result of timing differences for some technology projects.
- The Net Financing Activity budget is comprised of financing proceeds/borrowings and principal payments. The budget included \$4.0M of loan borrowings for technology projects that is spread evenly throughout the year. No loan borrowings occurred in the first quarter, resulting in net financing activity that is over budget year-to-date.
- Reserves are over budget year-to-date by \$4.6M, primarily due to the reasons noted above for timing of costs versus the budget for contracts and consultants, software license and support costs, and fixed asset additions, while being partially offset by financing activity being over budget. Reserves are projected to be over budget by \$2.1M mainly due to higher investment income and lower office and professional services costs.

<sup>1</sup> NERC's current plan to fund ITCS costs in 2023 consists of the following (of which a portion will fund the contracts and consultant costs): (1) deferring the 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 NERC's Assessment Stabilization Reserve.

## Variations by Department

DIRECT EXPENSES, FIXED ASSETS, AND FINANCING ACTIVITY	YTD Actual	YTD Budget	YTD Over (Under)	% Over (Under)	Annual Projection	Annual Budget	Annual Over (Under)	% Over (Under)
Reliability Standards and Power Risk Issue Management	\$ 2,030,194	\$ 2,427,221	\$ (397,027)	(16.4%)	\$ 4,205,007	\$ 4,729,003	\$ (523,996)	(11.1%)
Compliance Assurance	3,007,781	3,201,827	(194,046)	(6.1%)	6,110,919	6,282,140	(171,220)	(2.7%)
Registration and Certification	584,016	665,287	(81,272)	(12.2%)	1,291,173	1,287,593	3,580	0.3%
Compliance Enforcement	1,870,110	1,931,606	(61,496)	(3.2%)	3,980,508	3,796,681	183,827	4.8%
BPS Security and Grid Transformation	971,282	847,903	123,379	14.6%	2,248,382	1,669,657	578,725	34.7%
Reliability Assessment and Technical Committees	984,785	1,343,623	(358,839)	(26.7%)	3,218,161	2,642,635	575,527	21.8%
Advanced System Analytics and Modeling	1,052,063	1,388,601	(336,538)	(24.2%)	2,243,748	2,718,009	(474,261)	(17.4%)
Performance Analysis	1,297,357	1,425,943	(128,586)	(9.0%)	2,140,283	2,827,859	(687,576)	(24.3%)
Situation Awareness	1,759,601	1,952,791	(193,189)	(9.9%)	4,056,213	3,870,002	186,211	4.8%
Event Analysis	995,424	1,137,041	(141,616)	(12.5%)	2,234,812	2,234,065	747	0.0%
E-ISAC	7,384,452	7,466,121	(81,668)	(1.1%)	14,696,315	14,690,846	5,468	0.0%
Training, Education and Personnel Certification	829,745	887,921	(58,176)	(6.6%)	1,868,516	1,746,788	121,728	7.0%
General and Administrative and Executive	4,642,235	2,496,834	2,145,401	85.9%	7,059,817	5,394,298	1,665,519	30.9%
Legal and Regulatory	2,513,466	2,830,607	(317,141)	(11.2%)	5,403,555	5,552,134	(148,579)	(2.7%)
External Affairs	1,777,020	1,866,257	(89,237)	(4.8%)	4,047,007	3,625,795	421,212	11.6%
Information Technology	8,230,614	10,308,899	(2,078,285)	(20.2%)	19,133,525	20,442,840	(1,309,315)	(6.4%)
Human Resources and Administration	1,801,287	2,192,421	(391,134)	(17.8%)	4,203,787	4,335,353	(131,567)	(3.0%)
Finance and Accounting	1,161,685	1,457,764	(296,079)	(20.3%)	2,883,311	2,880,682	2,629	0.1%
<b>TOTAL (excluding CRISP)</b>	<b>\$ 42,893,117</b>	<b>\$ 45,828,669</b>	<b>\$ (2,935,552)</b>	<b>(6.4%)</b>	<b>\$ 91,025,039</b>	<b>\$ 90,726,381</b>	<b>\$ 298,659</b>	<b>0.3%</b>
CRISP	4,329,594	5,148,483	(818,889)	(15.9%)	9,401,186	10,275,232	(874,047)	(8.5%)
<b>TOTAL DIRECT EXPENSES, FIXED ASSETS, AND FINANCING ACTIVITY</b>	<b>\$ 47,222,711</b>	<b>\$ 50,977,152</b>	<b>\$ (3,754,441)</b>	<b>(7.4%)</b>	<b>\$ 100,426,225</b>	<b>\$ 101,001,613</b>	<b>\$ (575,388)</b>	<b>(0.6%)</b>

Following is a brief description of significant variances by department, as illustrated 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.
- **BPS Security and Grid Transformation** – 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 also 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 have not yet been spent and will be used toward the ITCS, as well as the deferral of a technology project to 2024. Expected to be over budget at year-end due to contractors for the ITCS.
- **Advanced System Analytics and Modeling** – 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.
- **Performance Analysis** – Projected to be under budget at year-end primarily because of the potential funding of technology projects by loan proceeds that are budgeted in General & Administrative (G&A) but would be directly allocated to this department.
- **General & Administrative and Executive** – Over budget year-to-date 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 that is spread evenly throughout the year. No borrowings occurred in the first or second quarter and will be made later in the year. The result is that net financing activity is

over budget. It is projected to be over budget at year-end due to the current assumption that only \$2.6M the budgeted \$4.0M borrowing will be needed in the administrative departments, and an additional \$800,000 budgeted in G&A will be directly allocated to Performance Analysis.

- Legal & Regulatory – Under budget year-to-date mainly due to lower personnel costs for two open FTE positions that will be filled later in the year, as well as timing of costs versus the budget for contracts and consultants.
- External Affairs – Projected to be over budget at year-end mainly attributable to higher than budgeted salary expense, as well as higher contracts and consultants expense for communications needs 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 partially offset by higher hardware cost. 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, partially offset higher than budgeted equipment.
- Human Resources – Under budget year-to-date primarily because of the timing of costs versus the budget for employment agency fees and contracts and consultant costs.
- Finance and Accounting – Under budget year-to-date largely due to timing of costs versus the budget for contracts and consultants costs 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. Expected to be under budget at year-end for the same reason, as well as due to lower than budgeted other outside consultant costs.

## Supplemental Schedules

### Schedule 1 – Year-End Projected Reserves

Reserve Account	1/1/2023		Operating and		12/31/2023
	Beginning Balance <sup>(1)</sup>	Budgeted Funding/(Use) <sup>(2)</sup>	Unbudgeted Funding/(Use) <sup>(3)</sup>	Financing Activity Versus Budget <sup>(4)</sup>	Ending Balance
NERC Operating Contingency	\$ 10,880,743	\$ (1,000,000)	\$ -	\$ 2,329,465	\$ 12,210,208
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)	-	(106,202)	678,594
CRISP Defense Fund	500,000	-	-	-	500,000
CRISP Operating	2,961,621	-	(450,000)	872,127	3,383,748
CRISP Equipment Reserve	-	-	450,000	-	450,000
<b>Total Reserves</b>	<b>\$ 20,856,504</b>	<b>\$ (1,895,647)</b>	<b>\$ 330,530</b>	<b>\$ 3,095,391</b>	<b>\$ 22,386,778</b>

**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 improvements for the Washington, DC office.

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

This column does not reflect the release of \$700k from the ASR to fund the inter-regional transfer capability study since the release has not been approved by FERC yet.

(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 \$1,109,939, with \$237,811 going into the NERC OCR for the portion of CRISP costs funded by assessments and \$872,127 going into the CRISP Operating Reserve for CRISP costs funded by the CRISP participants.

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

Projects in Progress <sup>(1)</sup>	Expected Spend	Actual Spend to Date	Over (Under) Budget
Align Enhancements	\$ 300,000	\$ 285,486	\$ (14,514)
GADS Conventional-Design Data	315,000	210,000	(105,000)

**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.

### 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	\$ 13,912,682	\$ 27,825,365	\$ 27,825,365	\$ -
Other Funding	5,463,193	10,749,729	10,200,776	548,953
<b>TOTAL FUNDING</b>	<b>\$ 19,375,875</b>	<b>\$ 38,575,094</b>	<b>\$ 38,026,141</b>	<b>\$ 548,953</b>
<b>EXPENDITURES</b>				
Personnel Expense	\$ 5,744,123	\$ 11,555,467	\$ 11,237,278	\$ 318,189
Meetings and Travel Expense	353,380	346,196	386,000	(39,804)
Operating Expenses (excluding Depreciation)	5,599,859	12,162,504	13,034,801	(872,297)
Other Non-Operating Expenses	20	-	-	-
Fixed Asset Purchases (excluding Fixed Asset Allocation)	16,665	33,333	308,000	(274,667)
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	-	-
Total Direct Costs (excluding Depreciation and Allocations)	\$ 11,714,047	\$ 24,097,500	\$ 24,966,079	\$ (868,578)
Indirect Expense Allocation	5,956,478	12,790,992	12,990,480	(199,489)
Fixed Asset Allocation	247,590	1,115,009	1,060,735	54,274
Net Financing Activity Allocation	29,053	(666,946)	(991,153)	324,207
<b>TOTAL EXPENDITURES (excluding Depreciation, including Allocations)</b>	<b>\$ 17,947,168</b>	<b>\$ 37,336,554</b>	<b>\$ 38,026,141</b>	<b>\$ (689,587)</b>
<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 1,428,707</b>	<b>\$ 1,238,540</b>	<b>\$ 0</b>	<b>\$ 1,238,539</b>

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

CRISP					
FUNDING	YTD Actual	Annual Projection	Annual Budget	Projected Over (Under)	
Assessments	\$ 1,146,968	\$ 2,293,937	\$ 2,293,937	\$ -	
Other Funding	5,042,529	9,808,235	9,613,803	194,432	
<b>TOTAL FUNDING</b>	<b>\$ 6,189,498</b>	<b>\$ 12,102,172</b>	<b>\$ 11,907,740</b>	<b>\$ 194,432</b>	
<u>EXPENDITURES</u>					
Personnel Expense	\$ 694,426	\$ 1,454,402	\$ 1,400,761	\$ 53,641	
Meetings and Travel Expense	214,197	242,699	81,000	161,699	
Operating Expenses (excluding Depreciation)	3,420,971	7,704,084	8,743,471	(1,039,387)	
Other Non-Operating Expenses	-	-	-	-	
Fixed Asset Purchases (excluding Fixed Asset Allocation)	-	-	50,000	(50,000)	
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	-	-	
Total Direct Costs (excluding Depreciation and Allocations)	\$ 4,329,594	\$ 9,401,186	\$ 10,275,232	\$ (874,047)	
Indirect Expense Allocation	689,796	1,537,201	1,623,810	(86,609)	
Fixed Asset Allocation	28,672	134,000	132,592	1,408	
Net Financing Activity Allocation	3,365	(80,153)	(123,894)	43,742	
<b>TOTAL EXPENDITURES (excluding Depreciation, including Allocations)</b>	<b>\$ 5,051,427</b>	<b>\$ 10,992,234</b>	<b>\$ 11,907,740</b>	<b>\$ (915,507)</b>	
<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 1,138,071</b>	<b>\$ 1,109,939</b>	<b>\$ 0</b>	<b>\$ 1,109,939</b>	

*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 \$190k and is included in the "Operating Expenses (excluding Depreciation)" amount above.*

E-ISAC (excluding CRISP)					
FUNDING	YTD Actual	Annual Projection	Annual Budget	Projected Over (Under)	
Assessments	\$ 12,765,714	\$ 25,531,428	\$ 25,531,428	\$ -	
Other Funding	420,664	941,494	586,973	354,521	
<b>TOTAL FUNDING</b>	<b>\$ 13,186,377</b>	<b>\$ 26,472,922</b>	<b>\$ 26,118,401</b>	<b>\$ 354,521</b>	
<u>EXPENDITURES</u>					
Personnel Expense	\$ 5,049,697	\$ 10,101,065	\$ 9,836,516	\$ 264,548	
Meetings and Travel Expense	139,183	103,497	305,000	(201,503)	
Operating Expenses (excluding Depreciation)	2,178,887	4,458,420	4,291,330	167,090	
Other Non-Operating Expenses	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)	\$ 7,384,452	\$ 14,696,315	\$ 14,690,846	\$ 5,468	
Indirect Expense Allocation	5,266,683	11,253,791	11,366,670	(112,879)	
Fixed Asset Allocation	218,917	981,009	928,143	52,865	
Net Financing Activity Allocation	25,689	(586,794)	(867,259)	280,465	
<b>TOTAL EXPENDITURES (excluding Depreciation, including Allocations)</b>	<b>\$ 12,895,741</b>	<b>\$ 26,344,321</b>	<b>\$ 26,118,401</b>	<b>\$ 225,920</b>	
<b>RESERVE INCREASE (DECREASE)</b>	<b>\$ 290,636</b>	<b>\$ 128,601</b>	<b>\$ 0</b>	<b>\$ 128,601</b>	

### 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	\$ 34,246,238	TDDXX	BlackRock Liquidity Fund FedFund Dollar	AAAm	4.74%
SOCED Account Sweep	1,541,417	TDDXX	BlackRock Liquidity Fund FedFund Dollar	AAAm	4.74%
CRISP Account Sweep	9,366,552	TDDXX	BlackRock Liquidity Fund FedFund Dollar	AAAm	4.74%
<u>Total Cash Sweep Accounts</u>	<u>\$ 45,154,207</u>				
<u>Investment Account</u>					
Reserve Funds	\$ 10,342,937	GRTXX	Federated Hermes Government Obligations Fund	AAAm	4.96%
<u>Total Investments</u>	<u>\$ 10,342,937</u>				



# NERC

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

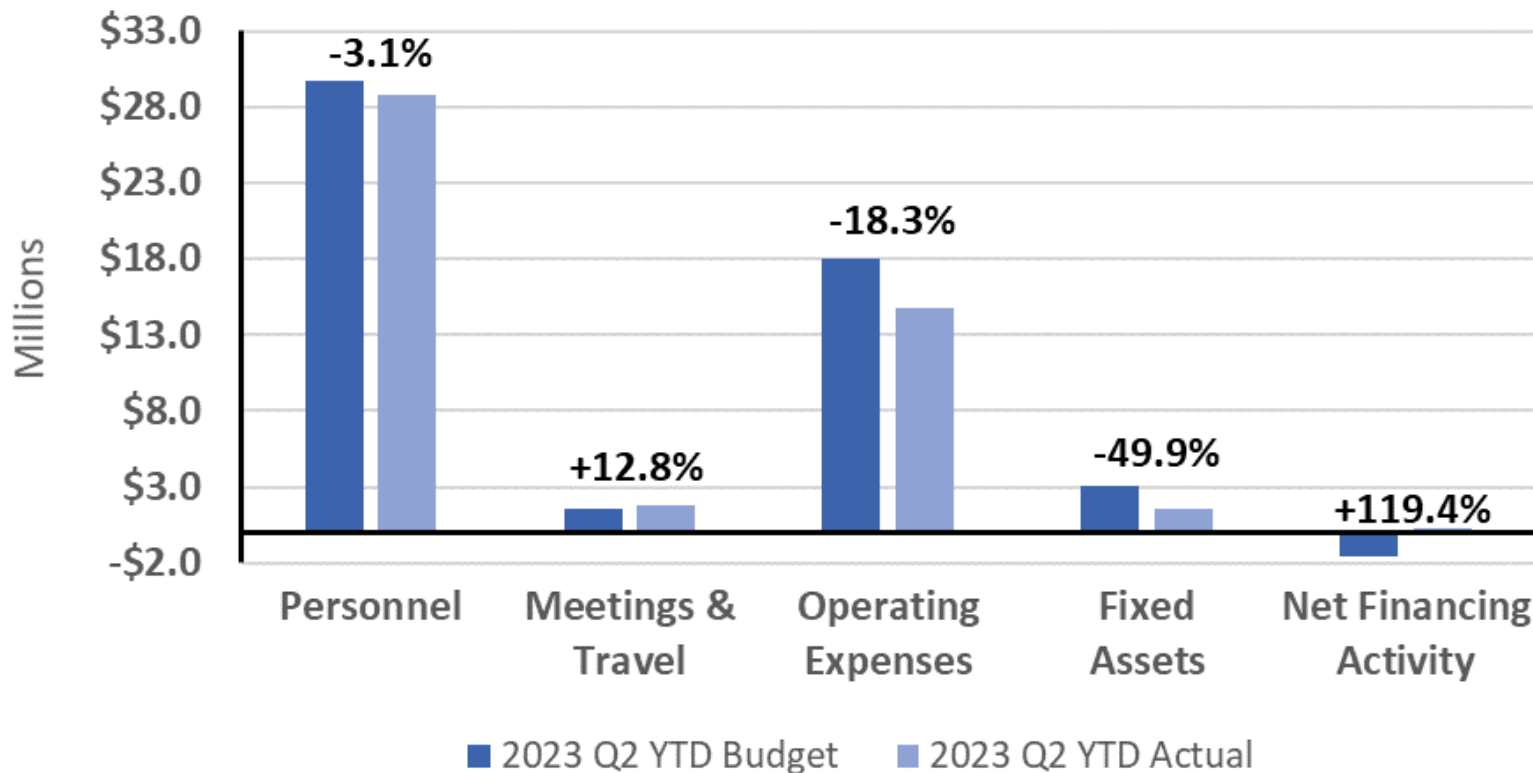
# NERC Summary of Unaudited Results as of June 30, 2023

Andy Sharp, Vice President and Chief Financial Officer  
Finance and Audit Committee Meeting  
August 16, 2023

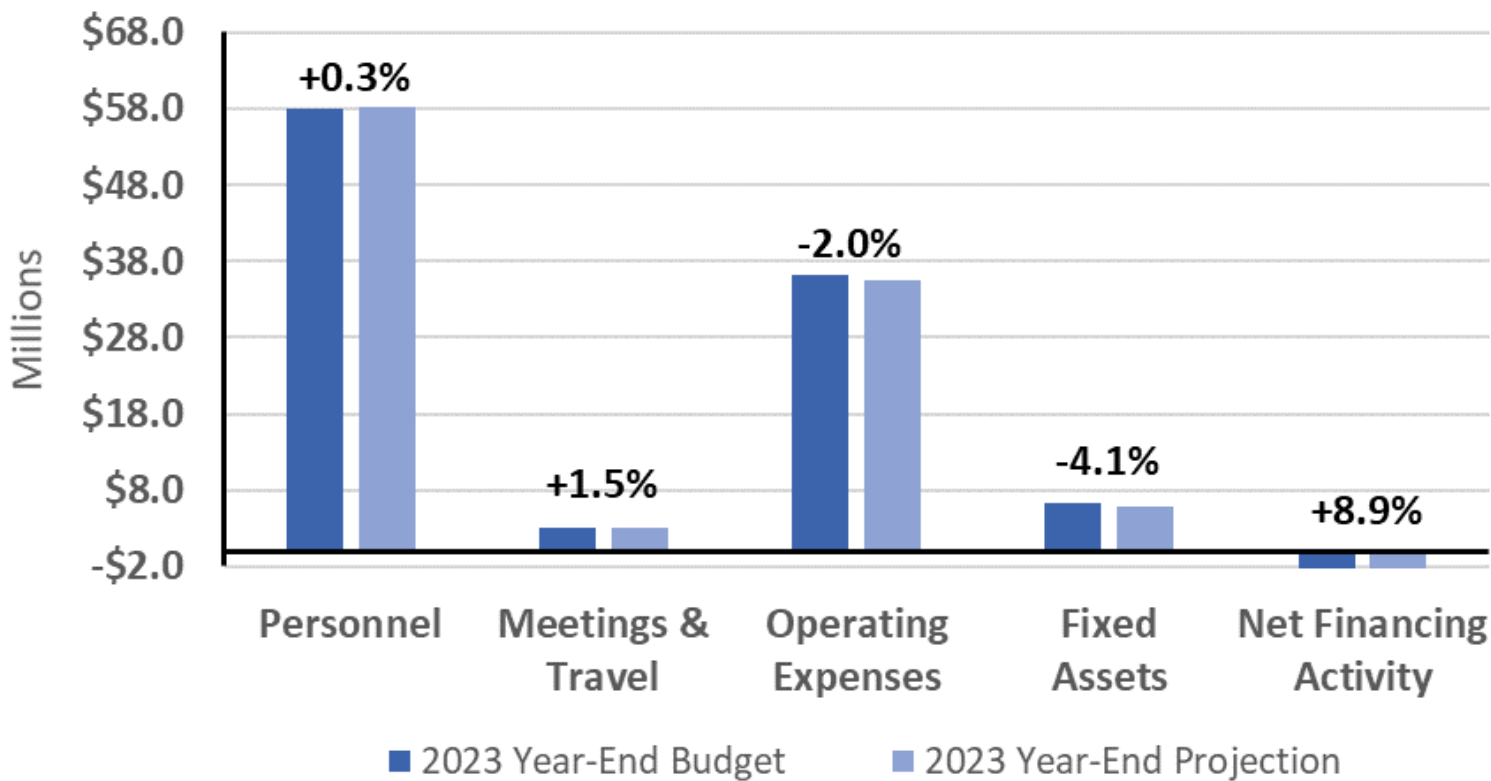
**RELIABILITY | RESILIENCE | SECURITY**



- Total funding – \$828k (1.7%) over budget
  - Higher investment income
- Total expenditures – \$3.8M (7.4%) under budget
  - Lower personnel, contracts and consultants, software, and fixed assets
  - Partially offset by higher net financing activity
- Reserve increase \$4.6M over budget

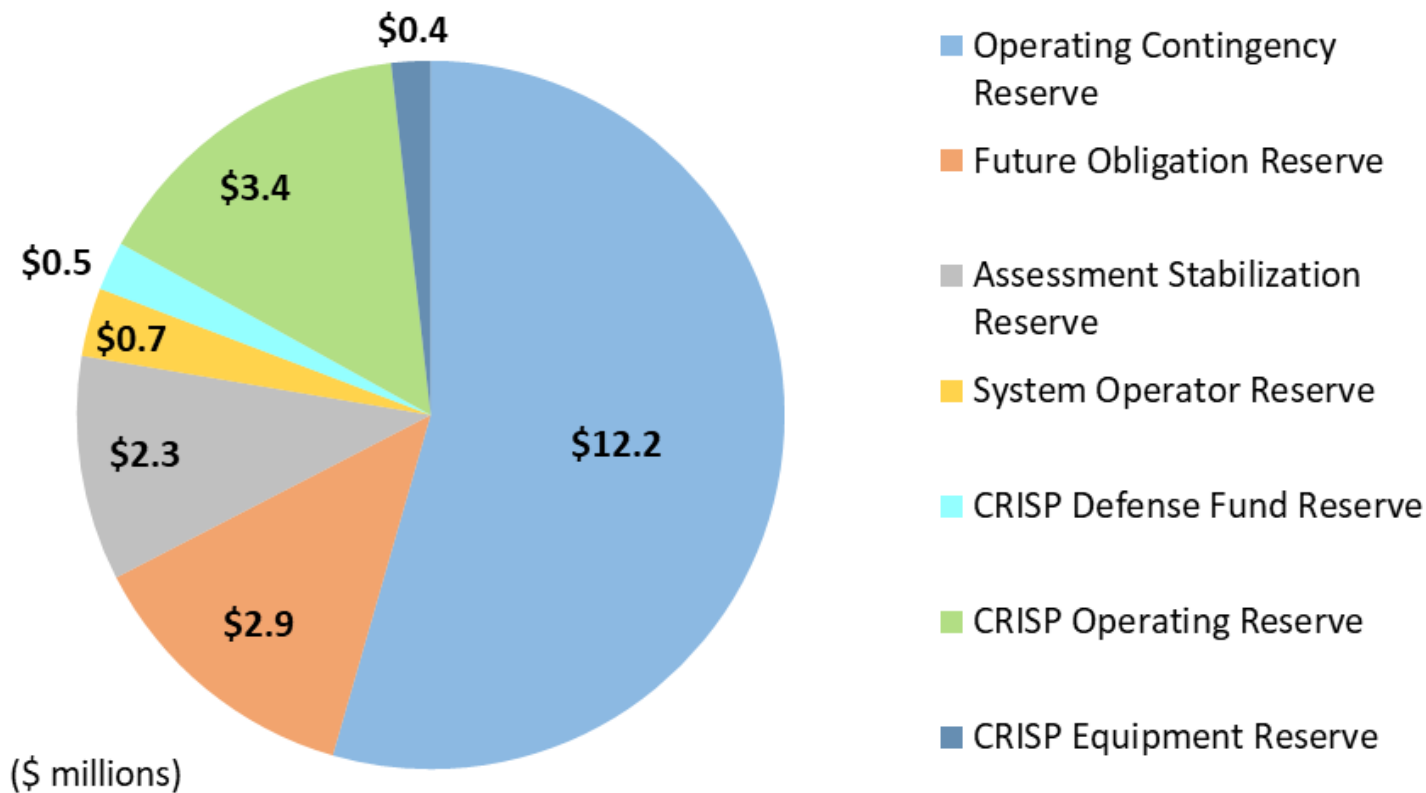


- Funding – \$1.5M (1.5%) over budget
  - Higher investment income
- Total expenditures – \$600k (0.6%) under budget
  - Lower software license/support and liability insurance costs
- Reserve increase \$2.1M over budget



- Operating Contingency Reserve (OCR)
  - Began year with \$10.9M
    - Budgeted use of \$1.0M
    - Projected increase from 2023 operating activity \$2.3M
    - Projected ending balance of \$12.2M
- Assessment Stabilization Reserve (ASR)
  - Began year with \$3.3M
    - Budgeted use of \$1.0M
    - Projected ending balance of \$2.3M
      - Request pending at FERC to use up to \$700k in ASR to fund incremental ITCS costs
      - ASR could be reduced to \$1.6M, depending on ITCS spending in 2023

## TOTAL RESERVES OF \$22.4M





# Questions and Answers



# NERC

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

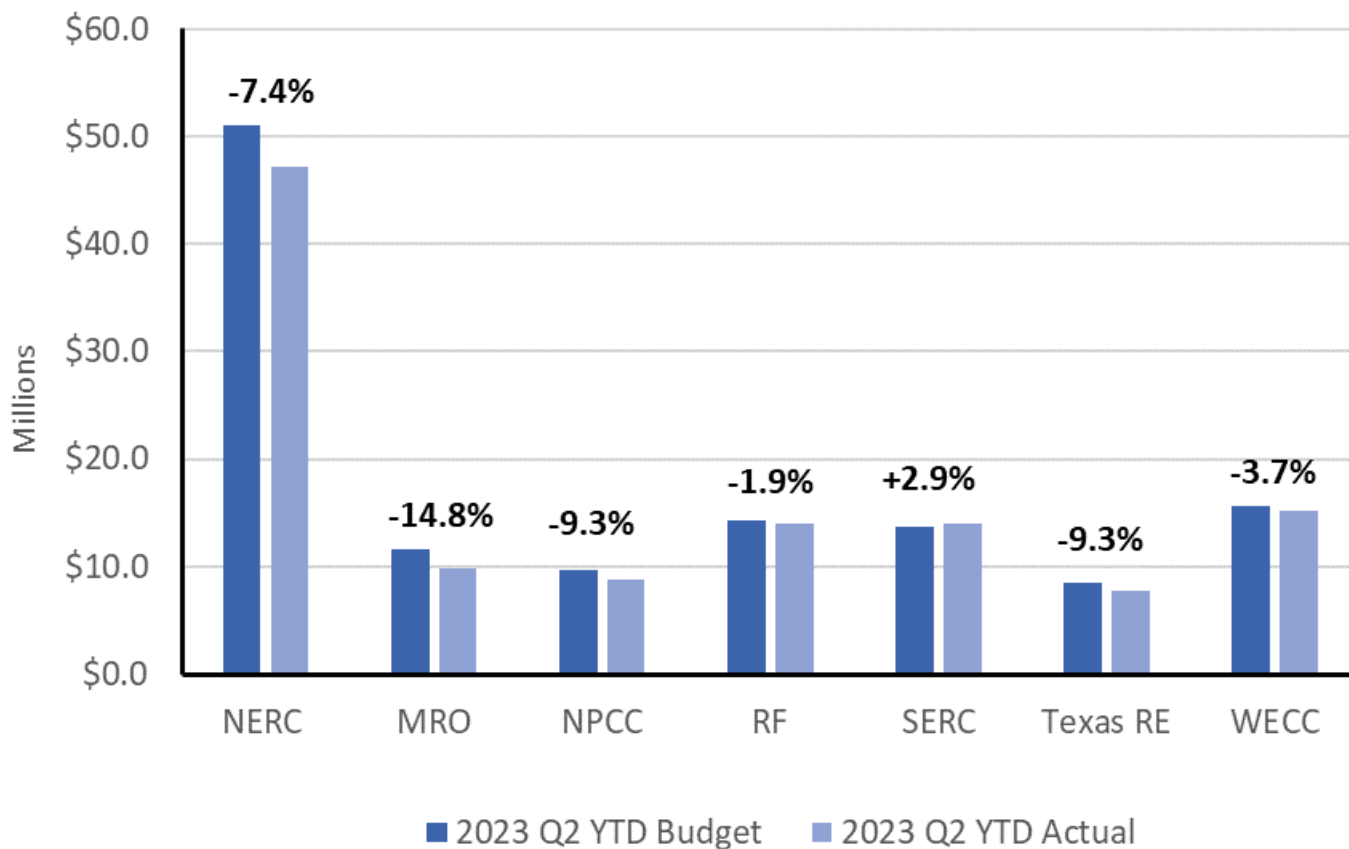
# Total ERO Enterprise Summary of Unaudited Results as of June 30, 2023

Andy Sharp, Vice President and Chief Financial Officer  
Finance and Audit Committee Meeting  
August 16, 2023

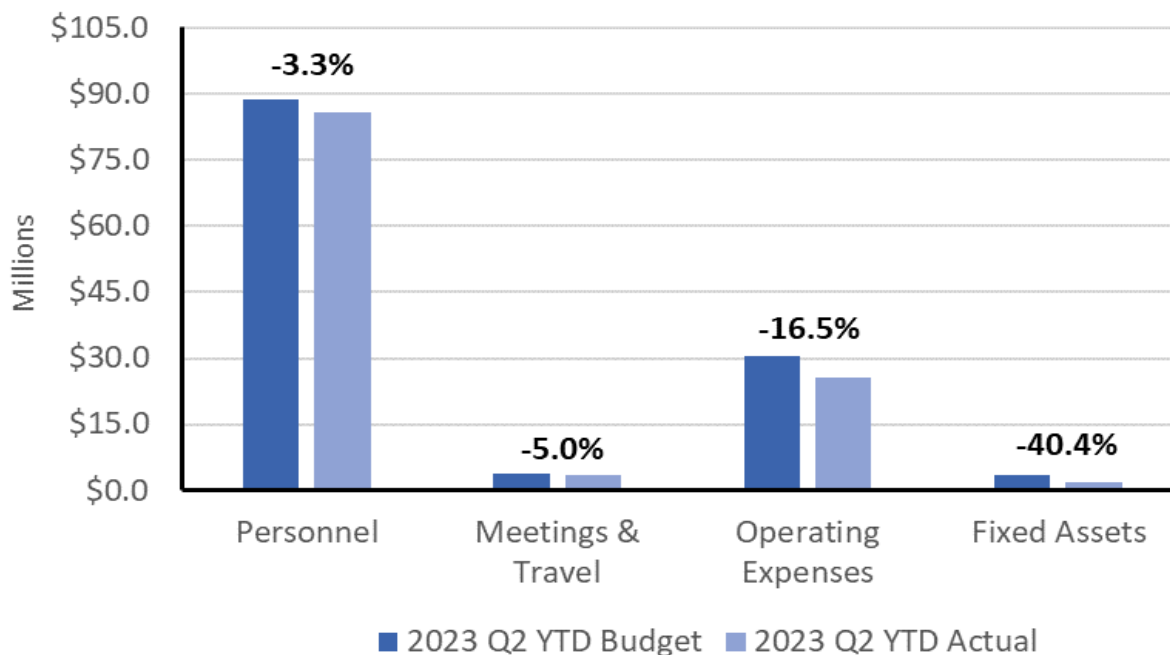
**RELIABILITY | RESILIENCE | SECURITY**



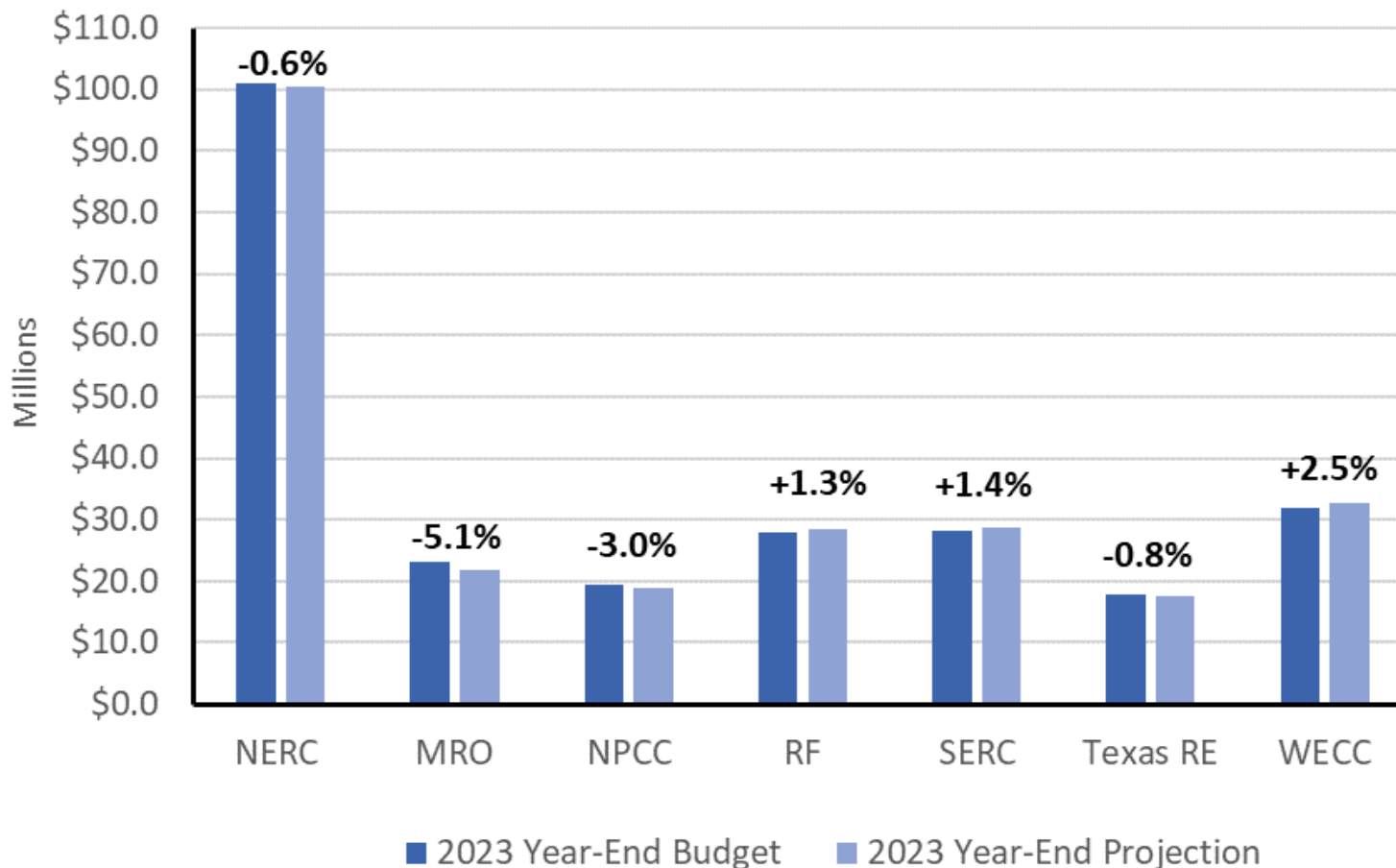
- Total expenditures for the ERO Enterprise were under budget \$7.6M (6.1%).



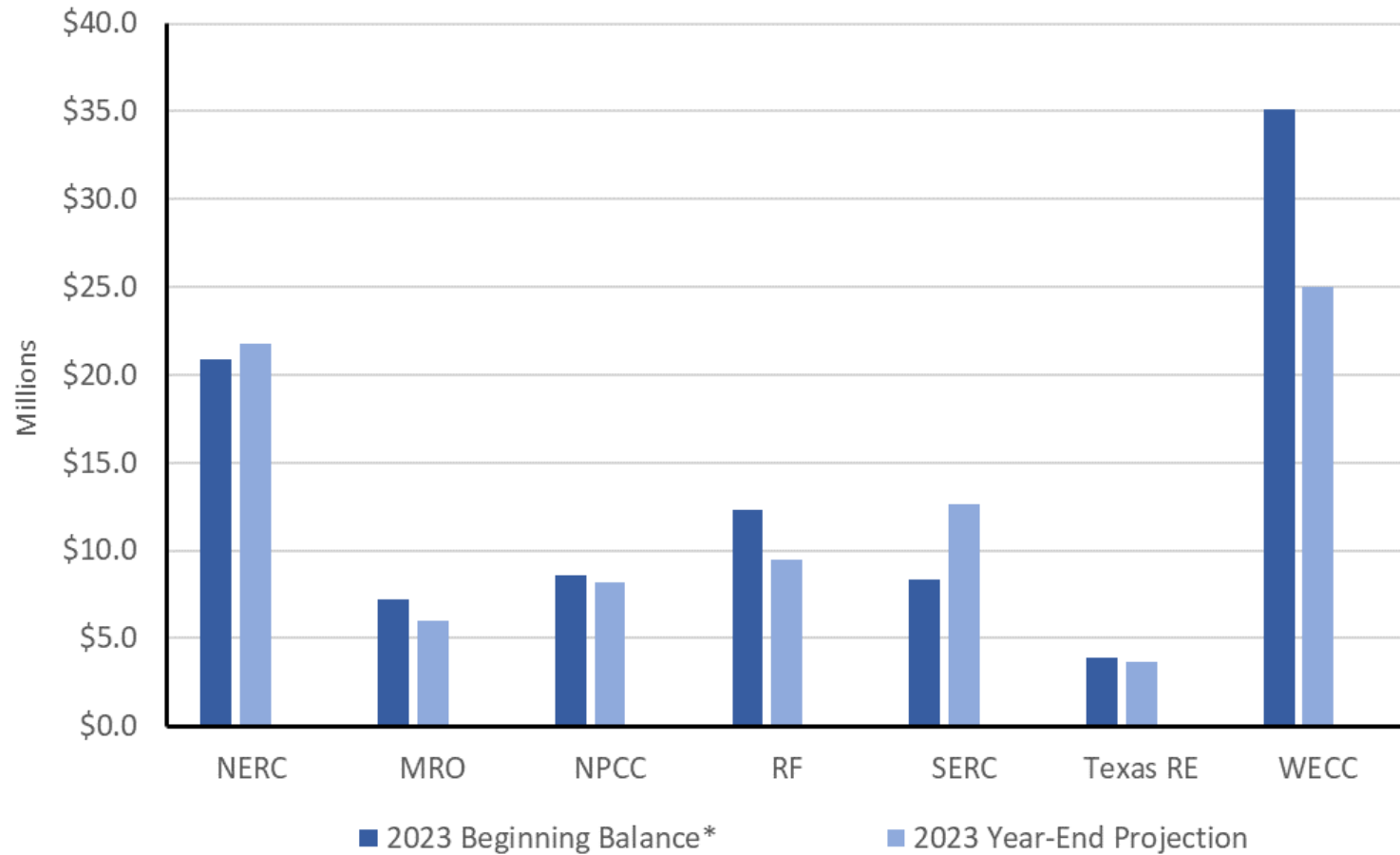
- Personnel – All entities were under budget except for RF and SERC.
- Meetings & Travel – All entities were under budget except for NERC and WECC.
- Operating Expenses – All entities were under budget except for SERC.
- Fixed Assets – NERC, MRO, RF, and Texas RE were at or under budget. NPCC, SERC, and WECC were over budget.



- The ERO Enterprise expects to be under budget \$920k (0.4%) at year-end.



# 2023 Projected Reserve Balances



*\*Adjusted for audited results*

# 2023 Actual Beginning Reserves & Projected Ending Reserves

\$ - millions

Entity	Actual Beginning				Projected Ending				Total 2023 Budget	% of Reserves to Total 2023 Budget <sup>(3)</sup>
	WCOCR <sup>(1)</sup>	ASR <sup>(2)</sup> & Unreleased Penalties	Other Reserves	1/1/2023 Total Reserves	WCOCR <sup>(1)</sup>	ASR <sup>(2)</sup> & Unreleased Penalties	Other Reserves	12/31/2023 Total Reserves		
NERC	\$ 10.9	\$ 3.3	\$ 6.7	\$ 20.9	\$ 12.2	\$ 2.3	\$ 7.9	\$ 22.4	\$ 101.0	22.2%
MRO	2.1	5.1	-	7.2	3.3	2.7	-	6.0	23.1	26.0%
NPCC	7.2	1.4	-	8.6	7.1	1.1	-	8.2	19.4	42.3%
RF	8.0	4.3	-	12.3	7.8	1.7	-	9.5	28.0	33.9%
SERC	2.5	5.8	-	8.3	1.9	10.7	-	12.6	28.2	44.7%
Texas RE	3.7	0.2	-	3.9	3.7	-	-	3.7	17.7	20.9%
WECC	11.4	20.3	3.5	35.2	11.4	10.1	3.5	25.0	31.8	78.6%
	<b>\$ 45.8</b>	<b>\$ 40.4</b>	<b>\$ 10.2</b>	<b>\$ 96.4</b>	<b>\$ 47.4</b>	<b>\$ 28.6</b>	<b>\$ 11.4</b>	<b>\$ 87.4</b>	<b>\$ 249.2</b>	<b>35.1%</b>

<sup>(1)</sup> WCOCR - Working Capital & Operating Contingency Reserve - Projected 12/31/23 WCOCR is 19.0% of annual 2023 budget, or 2.3 months of budgeted expenses

<sup>(2)</sup> ASR - Assessment Stabilization Reserve

<sup>(3)</sup> Projected 12/31/23 total reserve balance is 35.1% of annual 2023 budget, or 4.2 months of budgeted expenses

# 2023 Projected Ending Reserves vs Budgeted Ending Reserves

## ERO Enterprise Reserve Balances

\$ - millions

Entity	Projected Ending				Budgeted Ending				Over/(Under)			
	WCOCR <sup>(1)</sup>	ASR <sup>(2)</sup> & Unreleased Penalties	Other Reserves	12/31/2023 Total Reserves	WCOCR <sup>(1)</sup>	ASR <sup>(2)</sup> & Unreleased Penalties	Other Reserves	12/31/2023 Total Reserves	WCOCR <sup>(1)</sup>	ASR <sup>(2)</sup> & Unreleased Penalties	Other Reserves	12/31/2023 Total Reserves
<b>NERC</b>	\$ 12.2	\$ 2.3	\$ 7.9	\$ 22.4	\$ 7.8	\$ 1.5	\$ 5.3	\$ 14.6	\$ 4.4	\$ 0.8	\$ 2.6	\$ 7.8
<b>MRO</b>	3.3	2.7	-	6.0	3.8	0.1	-	3.9	(0.5)	2.6	-	2.1
<b>NPCC</b>	7.1	1.1	-	8.2	4.7	0.5	-	5.2	2.4	0.6	-	3.0
<b>RF</b>	7.8	1.7	-	9.5	10.6	-	-	10.6	(2.8)	1.7	-	(1.1)
<b>SERC</b>	1.9	10.7	-	12.6	1.7	4.1	-	5.8	0.2	6.6	-	6.8
<b>Texas RE</b>	3.7	-	-	3.7	3.7	(0.4)	-	3.3	-	0.4	-	0.4
<b>WECC</b>	11.4	10.1	3.5	25.0	10.2	8.7	2.8	21.7	1.2	1.4	0.7	3.3
	<b>\$ 47.4</b>	<b>\$ 28.6</b>	<b>\$ 11.4</b>	<b>\$ 87.4</b>	<b>\$ 42.5</b>	<b>\$ 14.5</b>	<b>\$ 8.1</b>	<b>\$ 65.1</b>	<b>\$ 4.9</b>	<b>\$ 14.1</b>	<b>\$ 3.3</b>	<b>\$ 22.3</b>

<sup>(1)</sup> WCOCR - Working Capital & Operating Contingency Reserve

<sup>(2)</sup> ASR - Assessment Stabilization Reserve



# Questions and Answers





*Lam Chung, Corporate Treasurer*

*P: 651.256.5187*

*F: 651.855.1712*

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

July 20, 2023

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

RE: Unaudited Midwest Reliability Organization (MRO) 2023 Second Quarter Statement of Activity –  
Cash Flow through June 30, 2023

Dear Mr. Sharp:

MRO experienced variances greater than \$10,000 and 10 percent. Second quarter results indicate that MRO's budget is under spent by 14.8 percent.

**Personnel Expenses (Variance of \$1,079,289 (12.1%) under budget)**

Personnel has experienced turnover and is currently under staffed.

**Meeting Expenses (Variance of \$225,013 (59.2%) under budget)**

Meetings and travel continue to be impacted by the hybrid approach of virtual and in-person meetings. Second quarter travel experienced less than budgeted travel costs as the virtual option was used more than expected.

**Operating Expenses (Variance of \$358,889 (17%) under budget)**

Consultants and contracts are under budget by 33 percent; however, this is partly a result of timing as contract renewals are staggered through the year with most occurring in the latter half of the year. Also, much of the cost to maintain onsite operations remains low through the second quarter as MRO realizes the impact of its hybrid work environment.

**Fixed Assets (Variance of \$43,377 (35%) under budget)**

Capital asset purchases are under budget partly as a result of timing as purchases are staggered through the year.

**Budget Outlook**

The 2023 budget projects expenses to be 5 percent under budget. The budget underspend is a culmination of lower than budgeted meeting, travel, and personnel costs.

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

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

Cc: Sara Patrick, MRO President and CEO

**Midwest Reliability Organization  
Statement of Activity  
6/30/2023  
PRELIMINARY (Unaudited)**

(In Whole Dollars)

	2023 YTD Actual	2023 YTD Budget	2023 YTD Variance	%	Projected 2023 End Of Year	2023 Budget	2023 Variance	%
<b>Funding</b>								
<b>ERO Funding</b>								
	ERO Assessments	\$ 10,253,638	\$ 10,253,638	-	\$ 20,507,276	\$ 20,507,276	-	
	Penalty Sanctions	166,174	166,174	-	332,347	332,347	-	
<b>A.</b>	<b>Total ERO Funding</b>	<b>\$ 10,419,813</b>	<b>\$ 10,419,812</b>	<b>\$ -</b>	<b>\$ 20,839,623</b>	<b>\$ 20,839,623</b>	<b>\$ -</b>	
<b>Expenses</b>								
<b>Personnel Expenses</b>								
	Salaries	\$ 5,886,496	\$ 6,647,142	(760,646)	\$ 12,629,570	\$ 13,294,284	(664,714)	
	Payroll Taxes	386,418	431,709	(45,291)	820,246	863,417	(43,171)	
	Benefits	662,033	712,591	(50,558)	1,353,922	1,425,181	(71,259)	
	Retirement Costs	915,844	1,138,639	(222,795)	2,163,414	2,277,278	(113,864)	
	<b>Total Personnel Expenses</b>	<b>\$ 7,850,791</b>	<b>\$ 8,930,080</b>	<b>\$ (1,079,289)</b>	<b>\$ 16,967,152</b>	<b>\$ 17,860,160</b>	<b>\$ (893,008)</b>	<b>-5.0%</b>
<b>Meeting Expenses</b>								
	Meetings & Conferences	\$ 37,839	\$ 89,439	(51,599)	\$ 172,505	\$ 178,877	(6,372)	
	Travel	117,421	290,835	(173,414)	407,169	581,670	(174,501)	
	<b>Total Meeting Expenses</b>	<b>\$ 155,261</b>	<b>\$ 380,274</b>	<b>\$ (225,013)</b>	<b>\$ 579,674</b>	<b>\$ 760,547</b>	<b>\$ (180,873)</b>	<b>-23.8%</b>
<b>Operating Expenses</b>								
	Consultants & Contracts	\$ 460,002	\$ 690,509	(230,507)	\$ 1,311,967	\$ 1,381,018	(69,051)	
	Office Rent	523,579	523,000	579	1,047,157	1,046,000	1,157	
	Office Costs	541,704	577,372	(35,668)	1,102,293	1,154,744	(52,451)	
	Professional Services	222,458	315,750	(93,292)	631,500	631,500	-	
	<b>Total Operating Expenses</b>	<b>\$ 1,747,742</b>	<b>\$ 2,106,631</b>	<b>\$ (358,889)</b>	<b>\$ 4,092,917</b>	<b>\$ 4,213,262</b>	<b>\$ (120,345)</b>	<b>-2.9%</b>
	<b>Total Direct Expenses</b>	<b>\$ 9,753,793</b>	<b>\$ 11,416,985</b>	<b>\$ (1,663,191)</b>	<b>\$ 21,639,743</b>	<b>\$ 22,833,969</b>	<b>\$ (1,194,226)</b>	<b>-5.2%</b>
<b>Indirect Expenses</b>								
<b>Other Non-Operating Expenses</b>								
		\$ -	\$ -	-	\$ -	\$ -	\$ -	
<b>B.</b>	<b>Total Expenses</b>	<b>\$ 9,753,793</b>	<b>\$ 11,416,985</b>	<b>\$ (1,663,191)</b>	<b>\$ 21,639,743</b>	<b>\$ 22,833,969</b>	<b>\$ (1,194,226)</b>	
	<b>Net Funding less Expenses (A-B)</b>	<b>\$ 666,019</b>	<b>\$ (997,173)</b>	<b>\$ 1,663,191</b>	<b>\$ (800,120)</b>	<b>\$ (1,994,346)</b>	<b>\$ 1,194,226</b>	
<b>C.</b>	<b>Fixed Asset Additions, excluding Right of Use Assets</b>	<b>\$ 80,873</b>	<b>\$ 124,250</b>	<b>\$ (43,377)</b>	<b>\$ 257,509</b>	<b>\$ 248,500</b>	<b>\$ 9,009</b>	<b>3.6%</b>
	<b>Total Budget (B + C)</b>	<b>\$ 9,834,666</b>	<b>\$ 11,541,235</b>	<b>\$ (1,706,568)</b>	<b>\$ 21,897,251</b>	<b>\$ 23,082,469</b>	<b>\$ (1,185,218)</b>	<b>-5.1%</b>
	<b>Change in Working Capital (A-B-C)</b>	<b>\$ 585,146</b>	<b>\$ (1,121,423)</b>	<b>\$ 1,706,568</b>	<b>\$ (1,057,628)</b>	<b>\$ (2,242,846)</b>	<b>\$ 1,185,218</b>	
	<b>Head Count</b>	74.00	78.00	(4.00)	78.00	78.00	-	
<b>Reserve Activity:</b>								
	Beginning Reserves - 1/1/23	\$ 7,186,361	\$ 6,449,079	\$ 737,282	\$ 7,186,361	6,449,079	\$ 737,282	
	Change to Working Capital	585,146	(1,121,423)	1,706,569	(1,057,628)	(2,242,846)	1,185,218	
	Penalties Received	-	-	-	226,200	-	226,200	
	Penalties Released	(166,174)	(166,174)	-	(332,347)	(332,347)	-	
	Other Reserve Activity	-	-	-	-	-	-	
	<b>Ending Reserves at 6/30/23 :</b>	<b>\$ 7,605,334</b>	<b>\$ 5,161,482</b>	<b>\$ 2,443,851</b>	<b>\$ 6,022,586</b>	<b>\$ 3,873,886</b>	<b>\$ 2,148,700</b>	



July 20, 2023

North American Electric Reliability Corporation  
3353 Peachtree Road NE  
Suite 600, North Tower  
Atlanta, GA 30326  
Attention: Andy Sharp, Vice President and Chief Financial Officer

Subject: NPCC Regional Entity Division Variance Comparison and  
Second Quarter 2023 Statement of Activities

Dear Andy:

The variance comparison for the period ended June 30, 2023 is included along with Northeast Power Coordinating Council, Inc.'s unaudited Second Quarter 2023 Statement of Activities.

Please do not hesitate to contact me via email at [jhala@npcc.org](mailto:jhala@npcc.org) or (646) 632-7071 should you have any comments or questions with regard to the materials provided.

Sincerely,

*Jessica Hala*

Jessica Hala  
Vice President, Finance and Treasurer

Enclosures

cc: Charles Dickerson – NPCC President & CEO  
ERO Finance Group



**NPCC Regional Entity Division  
Budget to Actual  
Variance Comparison as of June 30, 2023**

**TOTAL EXPENSES**

For the quarter ending June 30, 2023, the NPCC Regional Entity Division is \$901k or 9.3% under budget year to date. Based on planned activities, NPCC's current full year projection (FYP) is an under budget variance of \$580k or 3.0%. NPCC will continue to reprioritize resources as necessary to fulfill all of its responsibilities under its Regional Delegation Agreement, agreements and memorandums of understanding respecting Canadian Provinces, and the NPCC Bylaws.

**INCOME**

- **Penalty Sanctions** (Penalties released of \$300k were applied to reduce 2023 assessments to NPCC U.S. load serving entity designees.) Penalty sanctions remitted are included in NPCC's Assessment Stabilization Reserve (ASR) to be applied to future budget years to reduce assessments to NPCC U.S. load serving entity designees. Penalties are reported in NPCC's audited financial statements in accordance with GAAP.
- **Interest & Investment Income** (Actual income of \$112k year-to-date and \$291k over budget FYP) Interest & investment income is earned from the investment of excess operating cash in a 100% U.S. Treasury Securities money market fund. NPCC allocated \$112k as a portion of total interest income (95%) to the Regional Entity Division consistent with the ratio of Regional Entity (RE) to Criteria Services (CS) Division 2023 funding. A common system of accounts, with divisional separation, is used for both RE and CS revenue tracking and financial reporting.

**EXPENSES**

- **Personnel** (Variance of \$423k under budget year-to-date and \$150k under budget FYP) Several open positions during the first half of the year resulted in an under budget variance. NPCC is currently fully staffed. Three positions budgeted to start in 2024 will be advanced to the second half of 2023. The full year projection is based on current staffing level and planned advance hires.
- **Meetings** (Variance of \$143k under budget year-to-date and \$125k under budget FYP) Under budget variance is due to timing with a greater number of in-person meetings scheduled in the second half of the year. Some meetings will continue to be held in virtual or hybrid format to allow for remote participation and greater access.



- **Consultants & Contracts** (Variance of \$295k under budget year-to-date and \$15k under budget FYP) Under budget variance is due to timing. The full year projection continues to be as budgeted.
- **Rent & Improvements** (Variance of \$24k over budget year-to-date and \$364k under budget FYP) NPCC negotiated the early termination of the current office lease and executed a new lease for a smaller office space to accommodate the hybrid work environment while realizing long term cost savings. Lower rent commenced during the second quarter of 2023. Office rent cost savings in 2023 are partially offset by office relocation expenses, primarily in fixed assets.
- **Office Costs** (Variance of \$198k under budget year-to-date and \$120k under budget FYP) Under budget variance is due to several IT software contracts and license renewals negotiated lower than budgeted. A number of analog telephone lines were also discontinued resulting in cost savings.
- **Professional Services** (Variance of \$7k under budget year-to-date and \$40k under budget FYP) Under budget variance is due to lower than budgeted accounting fees and legal fees resulting from increasing in-house responsibilities. The underage is partially offset by higher than budgeted liability insurance premiums.
- **Fixed Assets** (Variance of \$128k over budget year-to-date and \$184k over budget FYP) Over budget variance is due to unbudgeted expenses associated with office relocation. The projected full year overage is associated with office relocation costs including equipment, leasehold improvements and furniture & fixtures. Over budget variance is offset by under budget rent & improvements.

*(Unaudited)  
Submitted July 20, 2023*



**Northeast Power Coordinating Council, Inc. - Regional Entity Division**  
**Statement of Activities, Fixed Assets and Change in Working Capital**  
**(Unaudited)**  
**For the Period Ended June 30, 2023**

	2023 YTD				2023		2023	
	2023 YTD Actual	2023 YTD Budget	Variance from Budget Over(Under)	%	2023 Projection	2023 Annual Budget	Variance from Budget Over(Under)	%
<b>Funding</b>								
Assessments	9,070,018	9,070,018	-		18,140,037	18,140,037	-	
Penalties Released*	300,000	300,000	-		300,000	300,000	-	
Testing	-	-	-		-	-	-	
Services & Software	-	-	-		-	-	-	
Workshop Fees	163	-	163		27,500	33,750	(6,250)	
Interest & Investment Income	111,863	9,544	102,319		310,000	19,089	290,911	
<b>Total Funding</b>	<b>9,482,044</b>	<b>9,379,562</b>	<b>102,482</b>	<b>1.1%</b>	<b>18,777,537</b>	<b>18,492,876</b>	<b>284,661</b>	<b>1.5%</b>
<b>Expenses</b>								
<b>Personnel Expenses</b>								
Salaries	4,944,953	5,205,970	(261,017)		10,318,939	10,411,939	(93,000)	
Payroll Taxes	410,396	483,393	(72,996)		683,662	690,562	(6,900)	
Employee Benefits	1,193,337	1,267,993	(74,656)		2,496,986	2,535,986	(39,000)	
Savings & Retirement	533,945	547,908	(13,962)		1,084,815	1,095,815	(11,000)	
<b>Total Personnel Expenses</b>	<b>7,082,632</b>	<b>7,505,263</b>	<b>(422,631)</b>	<b>-5.6%</b>	<b>14,584,402</b>	<b>14,734,302</b>	<b>(149,900)</b>	<b>-1.0%</b>
<b>Meeting Expenses</b>								
Meetings & Conference Calls	28,599	102,850	(74,251)		222,250	237,250	(15,000)	
Travel	188,009	257,040	(69,031)		532,600	642,600	(110,000)	
<b>Total Meeting Expenses</b>	<b>216,608</b>	<b>359,890</b>	<b>(143,282)</b>	<b>-39.8%</b>	<b>754,850</b>	<b>879,850</b>	<b>(125,000)</b>	<b>-14.2%</b>
<b>Operating Expenses, excluding Depreciation</b>								
Consultants & Contracts	159,857	454,500	(294,643)		894,000	909,000	(15,000)	
Rent & Improvements	478,942	454,750	24,192		546,000	909,500	(363,500)	
Office Costs	403,162	601,450	(198,288)		1,082,900	1,202,900	(120,000)	
Professional Services	427,880	435,000	(7,120)		990,000	1,030,000	(40,000)	
Miscellaneous	7,091	15,000	(7,909)		70,000	30,000	40,000	
<b>Total Operating Expenses</b>	<b>1,476,932</b>	<b>1,960,700</b>	<b>(483,768)</b>	<b>-24.7%</b>	<b>3,582,900</b>	<b>4,081,400</b>	<b>(498,500)</b>	<b>-12.2%</b>
Indirect Expense Allocation	(124,482)	(170,178)	45,696	-26.9%	(306,321)	(340,356)	34,036	-10.0%
Other Non-Operating Expenses	(25,282)	-	(25,282)	n/a	(25,282)	-	(25,282)	n/a
<b>Total Expenses</b>	<b>8,626,408</b>	<b>9,655,675</b>	<b>(1,029,267)</b>	<b>-10.7%</b>	<b>18,590,550</b>	<b>19,355,196</b>	<b>(764,646)</b>	<b>-4.0%</b>
<b>Change in Net Assets</b>	<b>855,636</b>	<b>(276,113)</b>	<b>1,131,748</b>	<b>-409.9%</b>	<b>186,987</b>	<b>(862,320)</b>	<b>1,049,307</b>	<b>-121.7%</b>
<b>Fixed Asset Additions, excluding Right of Use Assets</b>	<b>162,555</b>	<b>34,200</b>	<b>128,355</b>	<b>375.3%</b>	<b>252,555</b>	<b>68,400</b>	<b>184,155</b>	<b>269.2%</b>
<b>Net Financing Activity</b>	-	-	-	n/a	-	-	-	n/a
<b>Total Budget (Expenses plus Fixed Assets and Net Financing Activity)</b>	<b>8,788,963</b>	<b>9,689,875</b>	<b>(900,912)</b>	<b>-9.3%</b>	<b>18,843,105</b>	<b>19,423,596</b>	<b>(580,491)</b>	<b>-3.0%</b>
<b>Change in Working Capital (Total Funding less Total Budget)</b>	<b>693,081</b>	<b>(310,313)</b>	<b>1,003,393</b>	<b>-323.3%</b>	<b>(65,568)</b>	<b>(930,720)</b>	<b>865,152</b>	<b>-93.0%</b>
Equivalent Full Time Employees	50.67	53.25	(2.58)		55.13	55.25	(0.12)	
Headcount	58.00	59.00	(1.00)		62.00	59.00	3.00	
Beginning Total Reserves - 1/1/23	8,573,113	6,503,366	2,069,747		8,573,113	6,503,366	2,069,747	
Change to Working Capital	693,081	(310,313)	1,003,393		(65,568)	(930,720)	865,152	
Penalties Received (+)	-	-	-		-	-	-	
Penalties Released (-)	(300,000)	(300,000)	-		(300,000)	(300,000)	-	
Other Reserve Activity	-	-	-		-	-	-	
<b>Total Projected Reserves at 12/31/23</b>	<b>8,966,194</b>	<b>5,893,053</b>	<b>3,073,140</b>		<b>8,207,545</b>	<b>5,272,646</b>	<b>2,934,899</b>	
<b>Reserve Balance Summary</b>								
Working Capital & Operating Contingency Reserves	7,894,291	5,356,168	2,538,122		7,135,642	4,735,761	2,399,881	
Assessment Stabilization & Penalty Reserves	1,071,903	536,885	535,018		1,071,903	536,885	535,018	
Other Reserves	-	-	-		-	-	-	
<b>Total Projected Reserves at 12/31/23</b>	<b>8,966,194</b>	<b>5,893,053</b>	<b>3,073,140</b>		<b>8,207,545</b>	<b>5,272,646</b>	<b>2,934,899</b>	

\*Penalties Released reflect the designated amount of funds released to offset U.S. assessments. Actual penalties invoiced are reported in the audited financial statements as an increase in net assets in accordance with Generally Accepted Accounting Principles (GAAP).



Carol Baskey  
Treasurer and Manager – Finance and Accounting  
3 Summit Park Drive, Suite 600  
Cleveland, OH 44131  
Office: 216.503.0600  
Carol.Baskey@rfirst.org

July 25, 2023

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

**ReliabilityFirst's 2023 2nd Quarter Year-to-Date Statement of Activities Variance Report - Unaudited**

Dear Mr. Andy Sharp:

As requested, the attached 2023 2nd Quarter Year-to-Date Statement of Activities (unaudited) provides a comparison of budgeted and actual expenses relative to the 2023 ReliabilityFirst Corporation's Budget.

For more information, please contact me at 216.503.0600 or carol.baskey@rfirst.org.

Very truly yours,

**RELIABILITYFIRST CORPORATION**

*Carol Baskey*

Carol Baskey  
Treasurer and Manager, Finance and Accounting

**RELIABILITY FIRST****ReliabilityFirst's 2023 2nd Quarter Year-to-Date Statement of Activities Variance Report - Unaudited****Total Expenses**

For the year-to-date period ending June 30, 2023 ReliabilityFirst Corporation is \$275K (1.9%) under budget. Major drivers of this variance are noted in the Detailed Expense Analysis section below.

**Total Funding**

- **Total Funding:** \$487K under budget for YTD
  - Penalties released were lower than budget because of larger than anticipated payouts to MRRE's, offset partially by higher than budgeted investment income.

**Detailed Expense Analysis**

- **Personnel Expenses**
  - **Salaries:** \$294K (3.5%) over budget for YTD  
Salaries are over budget primarily as the result of board approved salary adjustments that occurred in late 2022 and early 2023 that were not included in the budget.
  - **Employee Benefits:** \$275K (18.4%) under budget for YTD  
Employee Benefits are under budget mainly due to efforts to reduce training dollars to offset the board approved salary adjustments.
  - **Savings and Retirement Costs:** \$57K (3.8%) over budget for YTD  
Savings and Retirement Costs are over budget primarily due to the impact of the board approved salary adjustments noted above on ReliabilityFirst's contribution to employee savings.
- **Meeting Expenses**
  - **Total Meeting Expenses:** \$175K (40%) under budget for YTD  
Total meeting expenses are under budget primarily as the result of employees utilizing more virtual options than originally anticipated in the budget as well as an effort to keep travel to a minimum.
- **Operating Expenses**
  - **Contracts & Consultants:** \$97K (26.8%) under budget for YTD  
Contracts and Consultants expense is under budget due to less than expected contract support primarily due to lower than anticipated charges for a planned website redesign project, third party security assessment costs, and IT leadership membership costs (Gartner subscription) in the first half of the year. This was partially offset by higher than anticipated costs for Data Analytics contractor support.
  - **Rent & Utilities:** \$63K (18.4%) over budget for YTD.  
Rent & Utilities are over budget due to higher than anticipated electric utility costs.





## RELIABILITY FIRST

- **Office Costs:** \$71K (12.4%) under budget for YTD.  
Office costs are under budget primarily as the result of lower than anticipated computer service and maintenance, hardware, and software costs. Computer Service and Maintenance was primarily impacted by lower than anticipated threat intelligence tool costs in the Situational Awareness realm partially offset by higher than anticipated costs for an Adobe Acrobat subscription. Computer Hardware and Software was also under budget as the result of the decision to delay or eliminate some planned audio-visual enhancements.
- **Fixed Assets**
  - **Computer Hardware & Software:** \$60K (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 will be completed.

### FTE Count

- FTE Count is lower than budget primarily due to several openings as the result of retirements and attrition in the first half of the year, as well as some new 2023 positions that had not yet been filled during the first quarter.

### Reserves

- **Working Capital Reserve**  
The Working Capital Reserve of \$9,567,323 will be utilized to satisfy projected cash flow for daily operations and to stabilize and minimize volatility in future years' assessments.
- **Operating Reserve**  
The Operating Reserve of \$1,000,000 has been designated with the intention of providing for any unbudgeted and unexpected expenditures for the organization.

### Year-End Projection

- **Expenses**  
For the year-end projection ReliabilityFirst is expected to be \$377K (1.4%) over budget. The variances in Salaries, Payroll Taxes, and Savings & Retirement Costs are expected to be over budget for the remainder of the year as the result of the board approved salary adjustments noted in the Detailed Expense Analysis above, as well as unbudgeted costs for two early 2024 hires in the second half of the year. Employee Benefits are expected to be under budget as the result of initiatives to reduce training as well as the utilization of more virtual training options when available. The variances in Meetings and Travel are expected to lower than budget due to the efforts to utilize more virtual options and a conscious effort across the company to reduce travel, offset partially by more strategic in person meetings (state outreach, etc.). Contracts & Consultants are expected to be under budget due to the same reasons as noted in the Detailed Expense Analysis above. Rent and Utilities are expected to be over budget as the result of higher than budgeted electric utility charges. Office costs are expected to be under budget primarily as the result of lower than anticipated computer service and maintenance,

**RELIABILITY FIRST**

hardware, and software costs for the same reasons as noted in the Detailed Expense Analysis above. Professional Services and Miscellaneous Costs are expected to be at or near budget. Fixed assets are expected to be under budget due to lower than anticipated hardware and software upgrades.

- **FTE Count**

FTE count is projected to be slightly lower than budget primarily due to several openings related to retirements and attrition in the first half of the year, as well as some new 2023 positions that had not yet been filled during the first quarter, offset partially by two early 2024 hires in the second half of the year.

- **Reserves**

The Working Capital Reserve is projected to remain somewhat level throughout the year.



ReliabilityFirst Corporation  
Statement of Activities, Fixed Assets and Change in Working Capital  
(unaudited)  
(in whole numbers)  
From 01/01/2023 Through 06/30/2023

CONFIDENTIAL

2023 YTD Actual	2023 YTD Budget	YTD Variance Over/(Under)	% Variance		Total 2023 Projection	Total 2023 Budget	Total 2022 Projected Variance Over/(Under)	% Projected Variance
12,310,170	12,310,170	0	0.00%	<b>Funding</b>				
3,515,100	4,108,420	(593,320)	-14.44%	Assessments	24,620,339	24,620,339	0	0.00%
131,297	25,000	106,297	425.19%	Penalties Released *	3,515,100	4,108,420	(593,320)	-14.44%
0	0	0	0.00%	Investment Income	181,297	100,000	81,297	81.30%
15,956,567	16,443,590	(487,023)	-2.96%	Miscellaneous Income	0	0	0	0.00%
				<b>Total Funding</b>	<b>28,316,736</b>	<b>28,828,759</b>	<b>(512,023)</b>	<b>-1.78%</b>
				<b>Expenses</b>				
				<b>Personnel Expenses</b>				
8,775,604	8,481,108	294,496	3.47%	Salaries	17,537,672	16,913,744	623,928	3.69%
667,033	680,800	(13,767)	-2.02%	Payroll Taxes	1,149,017	1,052,888	96,129	9.13%
1,219,111	1,494,154	(275,043)	-18.41%	Employee Benefits	2,538,302	2,773,918	(235,616)	-8.49%
1,555,257	1,497,827	57,430	3.83%	Savings & Retirement Costs	2,858,138	2,706,562	151,576	5.60%
12,217,005	12,153,889	63,116	0.52%	<b>Total Personnel Expenses</b>	<b>24,083,129</b>	<b>23,447,112</b>	<b>636,017</b>	<b>2.71%</b>
				<b>Meeting Expenses</b>				
71,370	112,245	(40,875)	-36.42%	Meetings & Conference Calls	419,252	447,855	(28,603)	-6.39%
189,570	323,884	(134,314)	-41.47%	Travel	611,157	648,100	(36,943)	-5.70%
260,940	436,129	(175,189)	-40.17%	<b>Total Meeting Expenses</b>	<b>1,030,409</b>	<b>1,095,955</b>	<b>(65,546)</b>	<b>-5.98%</b>
				<b>Operating Expenses</b>				
265,745	363,185	(97,440)	-26.83%	Contracts & Consultants	647,645	837,549	(189,904)	-22.67%
404,085	341,292	62,793	18.40%	Rent & Utilities	824,438	682,584	141,854	20.78%
499,205	569,828	(70,623)	-12.39%	Office Costs	950,967	1,066,747	(115,780)	-10.85%
368,104	360,545	7,559	2.10%	Professional Services	684,705	685,915	(1,210)	-0.18%
13,566	18,329	(4,763)	-25.99%	Miscellaneous	45,102	49,559	(4,457)	-8.99%
1,550,705	1,653,179	(102,474)	-6.20%	<b>Total Operating Expenses</b>	<b>3,152,857</b>	<b>3,322,353</b>	<b>(169,497)</b>	<b>-5.10%</b>
0	0	0	0.00%	<b>Non-Operating Expenses</b>	0	0	0	0.00%
14,028,650	14,243,197	(214,547)	-1.51%	<b>Total Expenses</b>	<b>28,266,396</b>	<b>27,865,420</b>	<b>400,975</b>	<b>1.44%</b>
1,927,916	2,200,393	(272,476)	-12.38%	<b>Net Change in Assets</b>	<b>50,340</b>	<b>963,339</b>	<b>(912,998)</b>	<b>-94.77%</b>
0	60,000	(60,000)	-100.00%	<b>Increase/(Decrease) in Fixed Assets</b>	<b>86,000</b>	<b>110,000</b>	<b>(24,000)</b>	<b>-21.82%</b>
14,028,650	14,303,197	(274,547)	-1.92%	<b>Total Budget (Expenses + Incr/(Decr) in Fixed Assets)</b>	<b>28,352,396</b>	<b>27,975,420</b>	<b>376,975</b>	<b>1.35%</b>
1,927,916	2,140,393	(212,476)	-9.93%	<b>Change in Working Capital (Total Funding less Total Budget)</b>	<b>(35,660)</b>	<b>853,339</b>	<b>(888,998)</b>	<b>-104.18%</b>
89.59	91.00	(1.41)	-1.55%	<b>FTE Count</b>	<b>90.25</b>	<b>91.00</b>	<b>(0.75)</b>	<b>-0.82%</b>
(2,559,252)	(695,026)	(1,864,226)		WC - 12/31/2022	(2,559,252)	(695,026)	(1,864,226)	
(2,559,252)	(695,026)	(1,864,226)		Less: Adjustment for future liabilities	0	0	0	
1,927,916	2,140,393	(212,476)		Available Working Capital	(2,559,252)	(695,026)	(1,864,226)	
(79,157)	(79,157)	1		Change to WC - 2023	(35,660)	853,339	(888,999)	
(710,492)	1,366,210	(2,076,702)		Other Adjustments to Reserves	(158,313)	(158,313)	0	
9,567,323	9,567,323	0		<b>Total Working Capital</b>	<b>(2,753,225)</b>	<b>0</b>	<b>(2,753,225)</b>	
1,000,000	1,000,000	0		Working Capital Reserve	9,567,323	9,567,323	0	
<b>9,856,831</b>	<b>11,933,533</b>	<b>(2,076,702)</b>		Operating Reserve	1,000,000	1,000,000	0	
				<b>Total Working Capital and Operating Reserve</b>	<b>7,814,098</b>	<b>10,567,323</b>	<b>(2,753,225)</b>	

\* Penalties Released reflect the designated amount of funds released to offset U.S. assessments. Actual penalties invoiced are reported in the audited financial statements as an increase in net assets in accordance with Generally Accepted Accounting Principles (GAAP).



# SERC RELIABILITY CORPORATION

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July 18, 2023

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

RE: SERC 2023 Q2 Unaudited Financial Statement – Budget vs. Actual

Andy:

Following please find SERC's unaudited 2023 Q2 financial statement, reflecting actual to budgeted amounts with variance explanations.

If you have any questions, please let me know.

Thank you,

George Krogstie  
Chief Financial Officer and Corporate Treasurer

cc: Jason Blake

**SERC Reliability Corporation**  
**Statement of Activities, Fixed Assets Expenditures, and Change in Working Capital**

From 1/1/2023 Through 6/30/2023

	2023 YTD Actuals	2023 YTD Budget	Variance 2023 YTD Actual v 2023 YTD Budget		2023 Projection	2023 Budget	Variance 2023 Projection v 2023 Budget	
			Over(Under)	%			Over(Under)	%
<b>Funding</b>								
<b>Statutory Funding</b>								
SERC Assessments	\$ 13,096,439	\$ 13,096,439	\$ -		\$ 26,192,877	\$ 26,192,877	-	
Penalties Released*	\$ 645,669	645,669	-		1,291,337	1,291,337	-	
<b>Total Statutory Funding</b>	<b>\$ 13,742,108</b>	<b>\$ 13,742,107</b>	<b>\$ -</b>	<b>0.00%</b>	<b>\$ 27,484,214</b>	<b>\$ 27,484,214</b>	<b>\$ -</b>	<b>0.00%</b>
Workshops & Miscellaneous	63,966	83,000	(19,034)		151,966	166,000	(14,034)	
Interest	228,290	15,000	213,290		301,788	30,000	271,788	
<b>Total Funding (A)</b>	<b>\$ 14,034,364</b>	<b>\$ 13,840,107</b>	<b>\$ 194,256</b>	<b>1.40%</b>	<b>\$ 27,937,968</b>	<b>\$ 27,680,214</b>	<b>\$ 257,754</b>	<b>0.93%</b>
<b>Expenses</b>								
<b>Personnel Expenses</b>								
Salaries	\$ 8,981,853	\$ 8,702,573	\$ 279,280		\$ 17,983,381	\$ 17,445,769	537,612	
Payroll Taxes	648,890	520,748	128,142		1,170,520	1,042,996	127,524	
Benefits	849,194	1,031,334	(182,140)		1,996,778	2,256,982	(260,204)	
Retirement Costs	1,178,185	1,107,964	70,221		2,337,691	2,221,068	116,623	
<b>Total Personnel Expenses</b>	<b>\$ 11,658,122</b>	<b>\$ 11,362,619</b>	<b>\$ 295,503</b>	<b>2.60%</b>	<b>\$ 23,488,370</b>	<b>\$ 22,966,815</b>	<b>\$ 521,555</b>	<b>2.27%</b>
<b>Meeting Expenses</b>								
Meetings & Conference Calls	\$ 225,148	\$ 235,261	\$ (10,113)		\$ 429,719	\$ 448,836	(19,117)	
Travel	392,263	385,107	7,156		820,397	877,727	(57,330)	
<b>Total Meeting Expenses</b>	<b>\$ 617,411</b>	<b>\$ 620,368</b>	<b>\$ (2,957)</b>	<b>-0.48%</b>	<b>\$ 1,250,116</b>	<b>\$ 1,326,563</b>	<b>\$ (76,447)</b>	<b>-5.76%</b>
<b>Operating Expenses, excluding Depreciation</b>								
Consultants & Contracts	\$ 373,346	\$ 389,866	\$ (16,520)		\$ 890,760	\$ 1,094,411	(203,651)	
Office Rent	421,824	425,034	(3,210)		846,856	850,067	(3,211)	
Office Costs	648,572	557,550	91,022		1,427,316	1,407,889	19,427	
Professional Services	242,228	272,250	(30,022)		486,051	528,150	(42,099)	
Miscellaneous	-	-	-		-	-	-	
<b>Total Operating Expenses</b>	<b>\$ 1,685,970</b>	<b>\$ 1,644,700</b>	<b>\$ 41,271</b>	<b>2.51%</b>	<b>\$ 3,650,983</b>	<b>\$ 3,880,517</b>	<b>\$ (229,534)</b>	<b>-5.92%</b>
<b>Total Direct Expenses</b>	<b>\$ 13,961,503</b>	<b>\$ 13,627,686</b>	<b>\$ 333,817</b>	<b>2.45%</b>	<b>\$ 28,389,469</b>	<b>\$ 28,173,895</b>	<b>\$ 215,574</b>	<b>0.77%</b>
<b>Indirect Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Other Non-Operating Expenses</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Total Expenses (B)</b>	<b>\$ 13,961,503</b>	<b>\$ 13,627,686</b>	<b>\$ 333,817</b>	<b>2.45%</b>	<b>\$ 28,389,469</b>	<b>\$ 28,173,895</b>	<b>\$ 215,574</b>	<b>0.77%</b>
<b>Change in Assets</b>	<b>\$ 72,861</b>	<b>\$ 212,421</b>	<b>\$ (139,561)</b>	<b>-65.70%</b>	<b>\$ (451,501)</b>	<b>\$ (493,681)</b>	<b>\$ 42,180</b>	<b>-8.54%</b>
<b>Fixed Asset Additions, excluding Right of Use Assets (C)</b>	<b>\$ 57,303</b>	<b>\$ -</b>	<b>\$ 57,303</b>	<b>0.00%</b>	<b>\$ 214,303</b>	<b>\$ 42,000</b>	<b>\$ 172,303</b>	<b>410.25%</b>
<b>TOTAL BUDGET (B+C)</b>	<b>\$ 14,018,806</b>	<b>\$ 13,627,686</b>	<b>\$ 391,120</b>	<b>2.87%</b>	<b>\$ 28,603,772</b>	<b>\$ 28,215,895</b>	<b>\$ 387,877</b>	<b>1.37%</b>
<b>TOTAL CHANGE IN WORKING CAPITAL (A-B-C)</b>	<b>\$ 15,558</b>	<b>\$ 212,421</b>	<b>\$ (196,864)</b>	<b>-92.68%</b>	<b>\$ (665,804)</b>	<b>\$ (535,681)</b>	<b>\$ (130,123)</b>	<b>24.29%</b>
FTE's	102.00	106.00	(4.00)		106.00	106.00	-	
Head Count	102.00	106.00	(4.00)		106.00	106.00	-	
<b>Beginning Reserve at 1/1/2023</b>	<b>8,357,428</b>	<b>7,619,978</b>	<b>737,450</b>		<b>8,357,428</b>	<b>7,619,978</b>	<b>737,450</b>	
Change to Working Capital	15,558	212,421	(196,863)		(665,804)	(535,681)	(130,123)	
Penalties Received (+)	6,215,200	-	6,215,200		6,215,200	-	6,215,200	
Penalties Released (-)	(645,669)	(645,669)	-		(1,291,337)	(1,291,337)	-	
Other Reserve Activity	-	-	-		-	-	-	
<b>Ending Reserves at 12/31/2023</b>	<b>13,942,518</b>	<b>7,186,730</b>	<b>6,755,787</b>		<b>12,615,487</b>	<b>5,792,960</b>	<b>6,822,526</b>	
Working Capital & Operating Contingency Reserves	2,600,400	2,441,061	159,339		1,919,038	1,692,960	226,078	
Assessment Stabilization & Penalty Reserves	11,342,118	4,745,670	6,596,448		10,696,449	4,100,001	6,596,448	
Other Reserves	-	-	-		-	-	-	
<b>Total Reserves Balance</b>	<b>13,942,518</b>	<b>7,186,730</b>	<b>6,755,787</b>		<b>12,615,487</b>	<b>5,792,961</b>	<b>6,822,526</b>	

\* Penalties Released in the current year reflects the designated amount of funds released from the Assessment Stabilization Reserve (ASR) to offset U.S. assessments as approved by the SERC Board of Directors and FERC. Actual penalties invoiced in the current reporting year are shown as an increase in the ASR on the reserve summary table and will be reported as income on the audited financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

## Budget to Actual Comparison as of June 30, 2023 (Unaudited)

### Overall Summary

- The current year-to-date spending of \$391k over budget can be attributed to a combination of inflation-driven salary adjustments, a decrease in staffing vacancies, and a timing difference in office costs.
- The funding for unbudgeted salary adjustments is being sourced from increased investment income, with a year-to-date surplus of \$194k over the budget and a projected surplus of \$258k for the entire year. Additionally, reduced and/or deferred spending in other categories is contributing to the funding of these adjustments.
- The projected variance in Working Capital, amounting to \$130k, is attributed to the deferral of expenses related to the Member Portal Consolidation (MPC) from 2022 to 2023.
- Personnel expenses are expected to remain under pressure throughout 2023. The completion of the Member Portal Consolidation (MPC) project, with associated expenses amounting to \$130k, is a contributing factor to the projected full-year variance of \$388k over budget.

### Income

- **Funding (Actual - \$194k over budget)**
  - Higher interest rates are driving the YTD and projected favorable variances

### Expense

- **Personnel Expenses (Actual - \$296k over budget)**
  - Wage inflation and lower staff vacancy rates are driving YTD and projected variances (as planned, wage inflation overages will be offset by lower health insurance expense, increased investment income, and deferred travel and projects)
  - Favorable health insurance renewal driving benefits under budget
- **Meeting/Travel Expenses (Actual - \$3k under budget)**
  - Full year projected to be \$76k under budget due to deferred travel
- **Contracts/Consultants (Actual - \$17k under budget)**
  - Timing of projects varies from budget; full year projected to be \$204k under budget due to planned deferrals of certain IT projects
- **Office Rent (Actual - \$3k under budget)**
  - Common area maintenance expenses lower than expected
- **Office Costs (Actual – \$91k over budget)**
  - Timing of hardware and computer purchases and software renewal costs higher than anticipated driving overage in Office Costs



# SERC RELIABILITY CORPORATION

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- **Professional Services (Actual - \$30k under budget)**
  - Legal fees vary from budget as actual expenses are lower than historical norms
- **Fixed Asset Purchases (Actual - \$57k over budget)**
  - Hardware purchase planned for Q4 2022 was delayed due to supply chain issues.
  - Full year impact projected at \$172k over budget due to deferred completion of Member Portal Consolidation project from 2022 to 2023

July 14, 2023

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

RE: Texas Reliability Entity, Inc. 2nd Quarter 2023 Statement of Activities and Variance Report

Dear Andy,

Attached is the 2023 second quarter Statement of Activities (unaudited) and Variance Report for Texas RE with variance explanations.

Please contact me if you have questions or comments.

Thank you.

*Donna Bjornson*

Donna Bjornson, CPA  
Vice President and CFO  
**Texas Reliability Entity, Inc.**  
800 Metropolis Drive, Suite 300  
Austin, Texas 78744  
donna.bjornson@texasre.org  
512.583.4959



## Budget to Actual Comparison as of June 30, 2023

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

### FUNDING

- **Penalty Sanctions:** Actual penalty income of \$576,188 remitted to Texas RE as of June 30, 2022 has reduced 2023 assessments. All penalty sanctions remitted from July 1, 2022 through June 30, 2023 will be included in the Texas RE 2024 Business Plan and Budget and applied to reduce 2024 assessments.
- **Interest:** \$109,287 more than budget. Texas RE's banking account is the Business Banking U.S. End of Day Money Market Mutual Fund Sweep account. Interest rates are higher than anticipated at the time the 2023 budget was prepared.

### EXPENSES

**Total Budget as of June 30, 2023 is \$791,151 less than budget (-9.3%).**

- **Personnel Expenses: \$476,422 less than budget (-7.3%).**
  - Salaries and taxes are less than budget by \$180,699 (-3.8%) and 34,340 (-9.6%), respectively. Employee benefits are \$160,778 (-20.3%) less than budget. Savings and Retirement is less than budget by \$100,605 (-14.7%). The variances are primarily because of vacancies in the first and second quarters, health insurance not increasing as budgeted, and the use of forfeitures to fund retirement contributions.
- **Meetings and Travel Expenses: \$35,695 less than budget (-19.7%).**
  - Travel expenses are \$49,700 less than budget (-29.7%). Travel expenses have not yet increased to levels before COVID, as forecasted in the budget. We are expecting travel to continue to increase over the remainder of the year and will monitor this expense for future forecasting. Meetings and conference calls are more than budget by \$14,005, or 99.5%. The primary reason for this increase is a timing difference in a Workshop expense that was posted in June, but allocated to July in the budget.
- **Total Operating Expenses: \$279,034 less than budget (-16.1%).**
  - Rent and Improvements are \$277,143 less than budget (-30.2%). The 2023 budget was prepared before Texas RE moved into new offices and costs were estimated. As our run rate becomes established, future forecasts will be adjusted to reflect actual costs. Office Costs are \$49,814 over budget (14.2%), while Consultants and Contracts are \$26,456 (-19.9%) under budget. Part of these variances offset each other because \$46,000 allocated to IT Managed Services (Consultants & Contracts) in the budget, were allocated to Computer Software when paid, which is a more accurate allocation of those expenses.

**Texas Reliability Entity, Inc.**  
**Statement of Activities and Fixed Assets**  
 For period ended June 30, 2023 (Unaudited)

	2023 Actual	2023 Budget	YTD Actual Variance from Budget		2023 Forecast	2023 Annual Budget	Forecast Variance from Budget	
<b>Funding</b>								
ERO Funding								
Assessments	\$ 8,577,639	\$ 8,577,639	\$ -	-	\$ 17,155,278	\$ 17,155,278	\$ -	-
Penalties Released	576,188	576,188	-	-	576,188	576,188	-	-
Interest Income	110,287	1,000	109,287	10928.7%	220,000	2,000	218,000	10900.0%
<b>Total Funding</b>	<b>\$ 9,264,114</b>	<b>\$ 9,154,827</b>	<b>\$ 109,287</b>	<b>1.2%</b>	<b>\$ 17,951,466</b>	<b>\$ 17,733,466</b>	<b>\$ 218,000</b>	<b>1.2%</b>
<b>Expenses</b>								
<b>Personnel Expenses</b>								
Salaries	\$ 4,534,646	\$ 4,715,345	\$ (180,699)	-3.8%	\$ 9,528,203	\$ 9,528,203	\$ -	-
Payroll Taxes	324,827	359,167	(34,340)	-9.6%	658,636	658,636	-	-
Employee Benefits	630,713	791,491	(160,778)	-20.3%	1,456,373	1,606,373	(150,000)	-9.3%
Savings & Retirement	585,698	686,303	(100,605)	-14.7%	1,375,439	1,375,439	-	-
<b>Total Personnel Expenses</b>	<b>\$ 6,075,884</b>	<b>\$ 6,552,306</b>	<b>\$ (476,422)</b>	<b>-7.3%</b>	<b>\$ 13,018,651</b>	<b>\$ 13,168,651</b>	<b>\$ (150,000)</b>	<b>-1.1%</b>
<b>Meeting &amp; Travel Expenses</b>								
Meetings & Conference Calls	\$ 28,080	\$ 14,075	\$ 14,005	99.5%	\$ 56,900	\$ 56,900	\$ -	-
Travel	117,763	167,463	(49,700)	-29.7%	376,735	376,735	-	-
<b>Total Meeting &amp; Travel Expenses</b>	<b>\$ 145,843</b>	<b>\$ 181,538</b>	<b>\$ (35,695)</b>	<b>-19.7%</b>	<b>\$ 433,635</b>	<b>\$ 433,635</b>	<b>\$ -</b>	<b>-</b>
<b>Operating Expenses</b>								
Consultants & Contracts	\$ 106,329	\$ 132,785	\$ (26,456)	-19.9%	\$ 407,700	\$ 407,700	-	-
Rent & Improvements	639,416	916,559	(277,143)	-30.2%	2,211,708	2,211,708	-	-
Office Costs	401,697	351,883	49,814	14.2%	731,248	731,248	-	-
Professional Services	303,272	328,521	(25,249)	-7.7%	680,525	680,525	-	-
<b>Total Operating Expenses</b>	<b>\$ 1,450,714</b>	<b>\$ 1,729,748</b>	<b>\$ (279,034)</b>	<b>-16.1%</b>	<b>\$ 4,031,181</b>	<b>\$ 4,031,181</b>	<b>\$ -</b>	<b>-</b>
<b>Other Non-Operating Expenses</b>								
	\$ -	\$ -	\$ -	-	\$ -	\$ -	\$ -	-
<b>Total Expenses</b>	<b>\$ 7,672,441</b>	<b>\$ 8,463,592</b>	<b>\$ (791,151)</b>	<b>-9.3%</b>	<b>\$ 17,483,466</b>	<b>\$ 17,633,466</b>	<b>\$ (150,000)</b>	<b>-0.9%</b>
<b>Change in Assets</b>	<b>\$ 1,591,673</b>	<b>\$ 691,235</b>	<b>\$ 900,438</b>	<b>130.3%</b>	<b>\$ 468,000</b>	<b>\$ 100,000</b>	<b>\$ 368,000</b>	<b>368.0%</b>
<b>Fixed Asset Additions, excluding Right of Use Assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>	<b>\$ 100,000</b>	<b>\$ 100,000</b>	<b>\$ -</b>	<b>-</b>
<b>Total Budget</b>	<b>\$ 7,672,441</b>	<b>\$ 8,463,592</b>	<b>\$ (791,151)</b>	<b>-9.3%</b>	<b>\$ 17,583,466</b>	<b>\$ 17,733,466</b>	<b>\$ (150,000)</b>	<b>-0.8%</b>
<b>Change in Working Capital (Total Revenue less Total Budget)</b>	<b>\$ 1,591,673</b>	<b>\$ 691,235</b>	<b>\$ 900,438</b>	<b>130.3%</b>	<b>\$ 368,000</b>	<b>\$ -</b>	<b>\$ 368,000</b>	<b>0.0%</b>
FTE's	63	67	(4)		67	67	-	
Working Capital as of 1/1/23	\$ 3,874,468	\$ 3,874,468	\$ -		\$ 3,874,468	\$ 3,874,468	\$ -	
Change to WC - 2023	1,591,673	691,235	900,438		368,000	-	368,000	
Penalties Released	(576,188)	(576,188)	-		(576,188)	(576,188)	-	
Other Reserve Activity	-	-	-		-	-	-	
Working Capital 6/30/23	<b>\$ 4,889,953</b>	<b>\$ 3,989,515</b>	<b>\$ 900,438</b>		<b>\$ 3,666,280</b>	<b>\$ 3,298,280</b>	<b>\$ 368,000</b>	
Working Capital & Operating Contingency					\$ 2,000,000	\$ 2,000,000	\$ -	
Assessment Stabilization & Contingency Fund					223,093	-	223,093	
Other					1,443,187	-	1,443,187	
<b>Total Reserves and Contingency</b>					<b>\$ 3,666,280</b>	<b>\$ 2,000,000</b>	<b>\$ 1,666,280</b>	



**Jillian Lessner**  
**Chief Financial and Administrative Officer**  
**July 23, 2023**

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

RE: WECC Q2 2023 Statutory Statement of Activities and Variance Report

Dear Andy,

Attached is WECC's second-quarter Statutory Statement of Activities (Unaudited) and Variance Report. WECC's 2023 unaudited, net year-to-date results are \$1,360,000 under budget, excluding the impact of Generally Accepted Accounting Principles (GAAP) treatment of penalty revenue recognition. Explanations and drivers are noted below.

WECC's current anticipated expense overrun at year end is \$806,000, mostly due to a focus on recruiting and retention efforts. For the remainder of the year, the management team will focus on cost containment measures, where feasible, to minimize the year-end overrun.

If you have questions or need more information, please do not hesitate to contact me.

Regards,



Jillian Lessner  
Chief Financial and Administrative Officer

Enclosures

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



**Statutory Statement of Activities  
(Unaudited)**

**As of June 30, 2023**

**Variance Report**

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

## **Funding**

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- Interest: \$776,000 over budget

Interest is over budget due to higher-than-expected interest rates and investment income and is expected to be \$1.4 million over budget at year-end.

## **Expenses**

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- Employee Benefits: \$215,000 under budget

Employee Benefits are under budget primarily due to lower-than-anticipated insurance enrollment levels and Health Reimbursement Account (HRA) utilization and are expected to be \$402,000 under budget at year-end.

- Travel: \$180,000 over budget

Travel is over budget primarily due to inflationary impacts on airfare and hotel rates and higher-than-budgeted travel activity in the first two quarters and is anticipated to be \$193,000 over budget at year-end.

- Consultants & Contracts: \$551,000 under budget

Consultants & Contracts are under budget primarily due to the net of timing of actual information technology consulting expenses compared to budget and unbudgeted contract labor being used to augment staff skillsets. Consultants & Contracts are anticipated to be \$348,000 under budget at year-end.

## **Fixed Assets**

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- Fixed Assets: \$112,000 over budget

Fixed Assets are over budget primarily due to higher-than-budgeted server replacement costs and are anticipated to be \$89,000 over budget at year-end.

# Statutory Statement of Activities and Variance Explanations (July 21, 2023)



## Western Electricity Coordinating Council Statutory Statement of Activities From 1/1/2023 to 6/30/2023 (Unaudited)

(In Whole Dollars)

	2023 YTD Actual	2023 YTD Budget	2023 YTD Variance	%	2023 Projection	2023 Annual Budget	2023 Projected Variance	%
<b>Funding</b>								
Assessments	19,750,537	19,750,537	-	0.0%	19,750,537	19,750,537	-	0.0%
Penalties Released <sup>1</sup>	11,218,646	11,218,646	-	0.0%	11,218,646	11,218,646	-	0.0%
Workshops & Miscellaneous	2,100	2,100	-	0.0%	207,442	188,100	19,342	10.3%
Interest	805,792	30,000	775,792	2586.0%	1,506,450	60,000	1,446,450	2410.8%
<b>Total Funding</b>	<b>31,777,075</b>	<b>31,001,283</b>	<b>775,792</b>	<b>2.5%</b>	<b>32,683,075</b>	<b>31,217,283</b>	<b>1,465,792</b>	<b>4.7%</b>
<b>Expenses</b>								
<b>Personnel Expenses</b>								
Salaries	9,413,695	9,567,511	(153,816)	-1.6%	21,115,868	20,039,300	1,076,568	5.4%
Payroll Taxes	703,498	661,021	42,477	6.4%	1,332,336	1,322,041	10,295	0.8%
Employee Benefits	1,101,791	1,317,031	(215,240)	-16.3%	2,247,935	2,649,518	(401,583)	-15.2%
Retirement Costs	813,346	866,380	(53,034)	-6.1%	1,781,754	1,809,267	(27,513)	-1.5%
<b>Total Personnel Expenses</b>	<b>12,032,330</b>	<b>12,411,943</b>	<b>(379,613)</b>	<b>-3.1%</b>	<b>26,477,893</b>	<b>25,820,126</b>	<b>657,767</b>	<b>2.5%</b>
<b>Meeting Expenses</b>								
Meetings & Conference Calls	56,079	47,497	8,582	18.1%	429,454	386,181	43,273	11.2%
Travel	435,457	255,811	179,646	70.2%	753,725	561,108	192,617	34.3%
<b>Total Meeting Expenses</b>	<b>491,536</b>	<b>303,308</b>	<b>188,228</b>	<b>62.1%</b>	<b>1,183,179</b>	<b>947,289</b>	<b>235,890</b>	<b>24.9%</b>
<b>Operating Expenses, excluding Depreciation</b>								
Consultants & Contracts	466,268	1,017,300	(551,032)	-54.2%	906,368	1,254,100	(347,732)	-27.7%
Office Rent	662,494	660,358	2,136	0.3%	1,321,572	1,318,436	3,136	0.2%
Office Costs	1,098,288	1,143,463	(45,175)	-4.0%	2,189,597	2,173,501	16,096	0.7%
Professional Services	595,998	553,500	42,498	7.7%	1,162,498	1,087,000	75,498	6.9%
Miscellaneous	-	-	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>2,823,048</b>	<b>3,374,621</b>	<b>(551,573)</b>	<b>-16.3%</b>	<b>5,580,035</b>	<b>5,833,037</b>	<b>(253,002)</b>	<b>-4.3%</b>
<b>Total Direct Expenses</b>	<b>15,346,914</b>	<b>16,089,872</b>	<b>(742,958)</b>	<b>-4.6%</b>	<b>33,241,107</b>	<b>32,600,452</b>	<b>640,655</b>	<b>2.0%</b>
<b>Indirect Expenses</b>	<b>(374,511)</b>	<b>(421,519)</b>	<b>47,008</b>	<b>-11.2%</b>	<b>(766,801)</b>	<b>(843,037)</b>	<b>76,236</b>	<b>-9.0%</b>
<b>Other Non-Operating Expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Expenses</b>	<b>14,972,403</b>	<b>15,668,353</b>	<b>(695,950)</b>	<b>-4.4%</b>	<b>32,474,306</b>	<b>31,757,415</b>	<b>716,891</b>	<b>2.3%</b>
<b>Change in Net Assets</b>	<b>16,804,672</b>	<b>15,332,930</b>	<b>1,471,742</b>	<b>9.6%</b>	<b>208,769</b>	<b>(540,132)</b>	<b>748,901</b>	<b>-138.7%</b>
<b>Fixed Asset Additions, excluding Right of Use Assets</b>	<b>144,250</b>	<b>32,549</b>	<b>111,701</b>	<b>343.2%</b>	<b>144,250</b>	<b>54,868</b>	<b>89,382</b>	<b>162.9%</b>
<b>Total Expenditures</b>	<b>15,116,653</b>	<b>15,700,902</b>	<b>(584,249)</b>	<b>-3.7%</b>	<b>32,618,556</b>	<b>31,812,283</b>	<b>806,273</b>	<b>2.5%</b>
<b>Change in Working Capital (Total Funding less Total Budget)</b>	<b>16,660,422</b>	<b>15,300,381</b>	<b>1,360,041</b>		<b>64,519</b>	<b>(595,000)</b>	<b>659,519</b>	
FTEs	143.20	161.00	(17.80)		147.20	160.00	(12.80)	
Headcount	147.00	161.00	(14.00)		156.00	160.00	(4.00)	
Working Capital at 1/1/2023	11,368,371	10,210,376	1,157,995		11,368,371	10,210,376	1,157,995	
Peak Reliability Donation Expenditures	7,112	-	7,112		7,112	595,000	(587,888)	
Change to WC - 2023	16,660,422	15,300,381	1,360,041		64,519	(595,000)	659,519	
<b>Working Capital at 6/30/2023</b>	<b>28,035,905</b>	<b>25,510,757</b>	<b>2,518,036</b>		<b>11,440,002</b>	<b>10,210,376</b>	<b>1,229,626</b>	

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

<sup>2</sup> See Working Capital and Reserve Analysis table for additional details.



Statutory Statement of Activities and Variance Explanations (July 21, 2023)

Working Capital and Reserve Analysis

**Working Capital and Reserve Analysis**  
**STATUTORY**

	Total	Working Capital Reserve	Unreleased Penalties	Peak Reliability Donation
<b>Beginning Reserve, January 1, 2023</b>	\$ 35,140,129	\$ 11,368,371	\$ 20,306,594	3,465,164
Plus: Total Funding	32,827,075	31,777,075	1,050,000	-
Penalties Release	(11,218,646)	-	(11,218,646)	-
Less: Expenditures	(15,116,653)	(15,109,541)	-	(7,112)
Plus: Non-Statutory Fund Adjustment	-	-	-	-
<b>Ending Reserve, June 30, 2023</b>	<u>\$ 41,631,905</u>	<u>\$ 28,035,905</u>	<u>\$ 10,137,948</u>	<u>\$ 3,458,052</u>



## **NERC, Regional Entity, and WIRAB Proposed 2024 Business Plans and Budgets and Associated Assessments**

### **Action**

Review and recommend the following for Board of Trustees (Board) approval:

[Final NERC 2024 Business Plan and Budget \(BP&B\)](#)

[Final Regional Entity and Western Interconnection Regional Advisory Body \(WIRAB\) 2024 BP&Bs 2024 Assessment Schedule](#)

### **Background**

The draft NERC 2024 Business Plan and Budget (BP&B) was posted for stakeholder comment on May 25, 2023, along with the Regional Entity and WIRAB proposed 2024 BP&Bs for reference.<sup>1</sup> The draft NERC 2024 BP&B included budget and assessment increases for 2024, and projected for 2025, that were generally consistent with the projections included in the 2023 BP&B as part of NERC's 2023–2025 strategic plan. The 2024 BP&B also included preliminary budget and assessment projections for 2026. On June 1, the Finance and Audit Committee (FAC) hosted a webinar during which NERC, Regional Entity, and WIRAB representatives reviewed their 2024 BP&Bs.

On June 5, 2023, NERC was congressionally mandated to complete an interregional transfer capability study (ITCS) as part of the Fiscal Responsibility Act of 2023, with a delivery date to FERC on or before December 2, 2024.

The comment period on the draft NERC 2024 BP&B ended on June 23. Six comment submissions were received. The comments received and a response to comments from NERC management are posted on the [NERC website](#).

NERC management reviewed and discussed the comments received and the impacts of the ITCS on the proposed final 2024 BP&B with the FAC during its closed meeting on July 12, the Member Representatives Committee (MRC) BP&B Input Group on July 24, and Trades and Forums representatives on July 27. Additionally, the Member Executive Committee reviewed and endorsed the proposed final 2024 E-ISAC budget during its meeting on July 20.

### **Summary**

NERC's proposed final 2024 BP&B is updated from the draft 2024 BP&B as follows:

- **2024: Budget increase of \$400k for a new System Operator Certification and Continuing Education Database platform**
  - Approved by the Personnel Governance and Certification Committee
  - Funded by System Operator Certification Reserve

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<sup>1</sup> The Regional Entities and WIRAB post their BP&Bs for comment in accordance with each of their individual public review process and schedules.

- **No assessment impact vs. draft**
- **2024: Net budget increase of \$2.6M for ITCS resources**
  - Permanent personnel: Five FTEs (hired in 2023)
    - Fully funded by \$1.3M from the Operating Contingency Reserve (OCR)
      - Majority US-funded
  - Other one-time costs: Consultant, meetings, travel, and technology costs (offset by \$400k of repurposed contractor and consultant funds)
    - Net costs funded by \$1.3M from the Assessment Stabilization Reserve (ASR)
      - Completely U.S.-funded
  - **No assessment impact vs. draft**
- 2025 and 2026: Increase to projected 2025 and 2026 budget and assessments due to ongoing resources hired in 2023
  - Using remaining ASR and additional OCR to reduce assessment impact in 2025
  - One FTE removed from 2026 projection as a result of one technical resource being pulled forward into 2023
  - No projected reserve use in 2026

During the August 16, 2023, FAC open meeting, NERC will provide an overview of the final proposed NERC 2024 BP&B and ERO Enterprise combined 2024 budgets and assessments prior to requesting recommendation of approval to the Board of the following provided via the links above: (1) NERC's proposed final 2024 BP&B; (2) the Regional Entity and WIRAB final 2024 BP&Bs as approved by their respective boards; and (3) the proposed 2024 Assessment Schedule. A summary of NERC's review of the Regional Entity 2024 BP&Bs is also enclosed for reference.

### **Attachments**

Attachment 1 – Memo on NERC Review of Regional Entity 2024 BP&Bs



To: NERC Board of Trustees

From: Andy Sharp

Re: NERC Review of Regional Entity 2024 Business Plans & Budgets (BP&Bs)

Date: July 10, 2023

NERC has reviewed the Regional Entity 2024 BP&Bs and believes each provides for adequate resources to meet its delegated functions. Additional details on the review process and outcomes are discussed below.

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

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

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

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

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

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

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

NERC recently completed reviews of the Regional Entity 2024 BP&Bs. The following is a summary of the review findings and outcomes.

- All Regional Entity budgets cover activities eligible for funding, consistent with the regional delegation agreements as well as section 215 criteria.
- All statutory areas for all Regional Entities have adequate resources to fulfill their delegated functions.
- All Regional Entities conform to necessary budget reporting and format requirements.
- Other minor wording change suggestions.

Of note, these reviews were completed either prior to or during the early stages of the congressional mandate for NERC, in consultation with the Regional Entities, to conduct an interregional transfer capability study (ITCS) as part of the Fiscal Responsibility Act of 2023, which must be delivered to FERC on or before December 2, 2024. NERC intends to use the expertise of and work closely with the Regional Entities on the study, and any impacts to the Regional Entity budgets will be handled through each Region's budget approval process. Currently, only SERC has adjusted its 2024 budget in light of the ITCS, deciding to pull forward two FTEs projected to be added in future years in the Reliability Assessment and Performance Analysis area. In revising its 2024 budget, SERC cited areas of accelerated need for enhanced reliability assessments, models, and studies. NERC is supportive of this adjustment.

Additionally, the ERO Finance Group has worked to evaluate opportunities to improve the BP&B document and has subsequently developed a set of recommendations to streamline and improve the value of the BP&B, which have been reviewed by the ERO Executive Committee and shared with FERC staff. Pending further conversations with FERC, the goal is to implement these recommendations during the 2025 BP&B preparation cycle.

# NERC

NORTH AMERICAN ELECTRIC  
RELIABILITY CORPORATION

# Final 2024 Business Plan and Budget

Andy Sharp, Vice President and Chief Financial Officer  
Finance and Audit Committee Meeting  
August 16, 2023

**RELIABILITY | RESILIENCE | SECURITY**



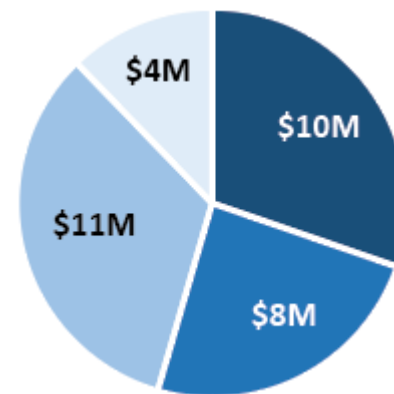
**Energy:** Tackle the challenge of grid transformation and climate change-driven, extreme weather

**Security:** Move the needle by focusing on supply chain, IT and OT system monitoring, cyber design, and evolution of CIP Standards

**Agility:** Tool the company to be more nimble in key areas, particularly standards development, internal operational processes

**Sustainability:** Invest in ERO systematic controls, strengthen succession planning, and ensure robust cyber security protections

2022–2025 Incremental Increase  
 \$33.8 million



- Personnel Costs (existing FTEs)
- Personnel Costs (new FTEs)
- Technology Costs (including financing)
- All Other

**Workforce and technology strategy investments**

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**Meetings and travel**

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**Facilities and rent**

---

**Interregional Transfer Capability Study (ITCS)**

---

**Reserve release and loan and lease financing to smooth assessments**

---

**Pressures**

# 2024 BP&B Development Timeline



## **2024 Budget – \$110.6M (\$9.6M or 9.5% increase from 2023)**

- Primary drivers are costs related to workforce and technology strategy investments in support of three-year (2023–2025) strategic plan
  - Increase of 9.6 FTEs from 2023

## **2024 Assessment – \$97.0M (\$9.9M or 11.4% increase from 2023)**

- Assumed \$4.2M in loan and lease financing proceeds, which lowers assessment requirements
- Did not include any release from reserves to offset assessments

## **Generally consistent with prior year projection**

- Budget slightly exceeded projection
- Assessment slightly below projection

## 2025 vs. 2024

- Budget increase of \$12.2M or 11.0%
  - FTE increase of 11.1
- Assessment increase of \$10.8M or 11.1%
  - Includes release of \$500k from Operating Contingency Reserve (OCR)
- Consistent with prior year projection

## Preliminary projection for 2026 vs 2025

- Budget increase of \$8.8M or 7.2%
  - FTE increase of 7.5
- Assessment increase of \$8.8M or 8.1%
- Increases in 2026 and beyond were projected in draft to be lower than 2023–2025 levels



## Six sets of comments received from May 25–June 23 comment period

- Bonneville Power Administration (BPA)
- Edison Electric Institute (EEI)
- Electricity Canada
- Ontario Independent Electricity System Operator (IESO)
- ISO RTO Council (IRC) Standards Review Committee (SRC)
- National Rural Electric Cooperative Association (NRECA)
  - On behalf of the Cooperative Sector

## General comment themes

- Support for NERC's three-year planning process and stakeholder engagement efforts
- General concern with budget increases in the face of economic realities
- Use a risk-based approach for prioritizing and resourcing activities
- Increase efficiencies by leveraging other industry forums and subject matter experts
- Increase use of reserves to offset assessments
- Recommend cost-effective solution for Atlanta office that balances value of in-person collaboration for stakeholders with cost
- Specific questions on certain technology projects

Comments and NERC response posted on the [NERC website](#)

## System Operator Certification and Continuing Education

- New database platform
- **Budget impact:** Increase of \$400k over draft
- **Reserve usage:** Fully funded by System Operator Certification Reserve
  - Approved by Personnel Governance and Certification Committee
- **Assessment impact:** No assessment impact over draft

## ITCS

- Permanent personnel: Five FTEs (hired in 2023)
- Other one-time costs: Consultants, meetings, travel, technology
- **Budget impact:** Net increase of \$2.6M over draft
  - Total cost is \$3.0M, offset by \$400k of repurposed contractor & consultant funds
- **Reserve usage:** Personnel costs fully funded by \$1.3M from OCR; net one-time costs funded by \$1.3M from Assessment Stabilization Reserve (ASR)
  - Majority U.S.-funded
- **Assessment impact:** No assessment impact over draft

## 2025: Ongoing costs for additional FTEs hired in 2023

- **Projected budget impact:** Increase of \$1.4M over draft
- **Projected reserve usage:** \$300k from ASR and \$500k from OCR
  - Draft included \$500k OCR release; total projected OCR release now \$1.0M
- **Projected assessment impact:** Increase of \$662k
  - Updated projected assessment increase over 2024 is 11.8% vs. 11.1% in draft

## 2026: Ongoing costs for additional FTEs hired in 2023

- **Projected budget impact:** Net increase of \$1.4M over draft
  - One technical resource removed from 2026; pulled forward into 2023
- **Projected reserve usage:** No projected reserve release
- **Projected assessment impact:** Increase of \$1.5M over draft
  - Updated projected assessment increase over 2025 is 8.9% vs. 8.1% in draft

## Currently no change to CRISP Pacific Northwest National Laboratory (PNNL) statement of work (SOW) estimates for 2024–2026

- Some uncertainty in this area due to ongoing contract negotiations
- PNNL SOW funded completely by CRISP participants
- **Budget impact:** No budget increase over draft
- **Assessment impact:** No assessment increase over draft

## Personnel adjustments based on current salaries, new hires, etc.

- **Budget impact:** Adjustments overall are close to net neutral
- **Assessment impact:** No assessment increase over draft

## **Budget – \$113.6M (\$12.6M or 12.5% increase from 2023)**

- Personnel – \$65.8M (\$7.8M or 13.4% increase)
- Meetings and Travel – \$3.5M (\$361k or 11.5% increase)
- Operating Expenses – \$41.8M (\$5.7M or 15.7% increase)
- Fixed Assets – \$4.6M (\$1.6M or 25.7% decrease)
- Net Financing Activity – (\$2.6M) (\$197k or 7.1% increase)

## **FTEs – 251.1 (increase of 14.3)**

- Increase of 17 positions offset by reduction of 2 open positions
  - 5 positions related to ITCS (hired in 2023)

## Assessment – \$97.0M (\$9.9M or 11.4% increase)

- Assuming \$4.2M in capital loan and lease financing proceeds, which lowers assessment requirements
- Includes release of \$2.6M in reserve funds to offset assessments
  - \$1.3M from OCR
  - \$1.3M from ASR

## Assessments by country (using 2022 NEL allocation)

- United States – \$87.2M
  - \$8.9M (11.4%) increase from 2023
  - 89.9% of total NERC assessment
- Canada – \$9.5M
  - \$939k (11.0%) increase from 2023
  - 9.8% of total NERC assessment
- Mexico – \$347k
  - \$41k (13.2%) increase from 2023
  - 0.4% of total NERC assessment

## Total projected reserves at end of 2024 – \$18.7M

- OCR – \$10.9M (11.1% of budget target)
- ASR – \$256k\*
- Future Obligation Reserve – \$3.1M
- System Operator Certification Reserve – \$74k
- CRISP reserves – \$4.3M

*\*Assuming FERC approval of a \$700k release from the ASR in 2023 to fund ITCS expenses*



## 2025 projection (year three of 2023–2025 plan) vs 2024

- Budget increase of \$10.6M or 9.3%
  - FTE increase of 10.9
- Assessment increase of \$11.5M or 11.8%
  - \$1.0M OCR release to offset assessments
    - Includes \$500k OCR to reduce impact from ITCS resources hired in 2023
  - \$300k ASR release to further reduce assessment impact
- Three-year plan increase (2025 vs 2022) now \$35.4M vs \$33.8M projected in 2023 BP&B
  - \$1.6M increase; \$1.4M (87.5%) due to adding transfer capabilities in 2023

## Preliminary assumption for 2026 vs 2025

- Budget increase of \$8.9M or 7.1%
- Assessment increase of 9.6M or 8.9%
- FTE increase of 7.5



# Questions and Answers

# NERC

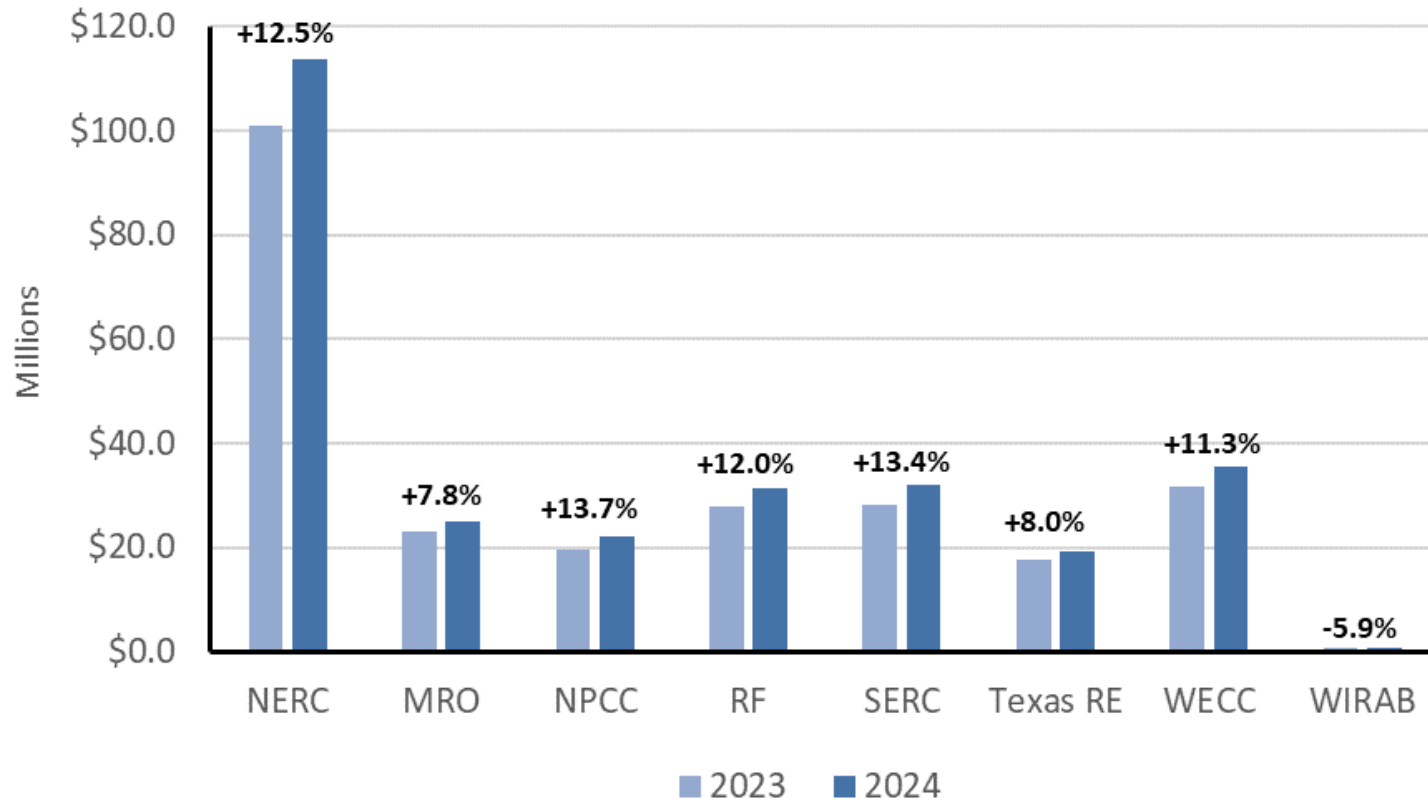
NORTH AMERICAN ELECTRIC  
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# ERO Enterprise Combined 2024 Budgets and Assessments

RELIABILITY | RESILIENCE | SECURITY



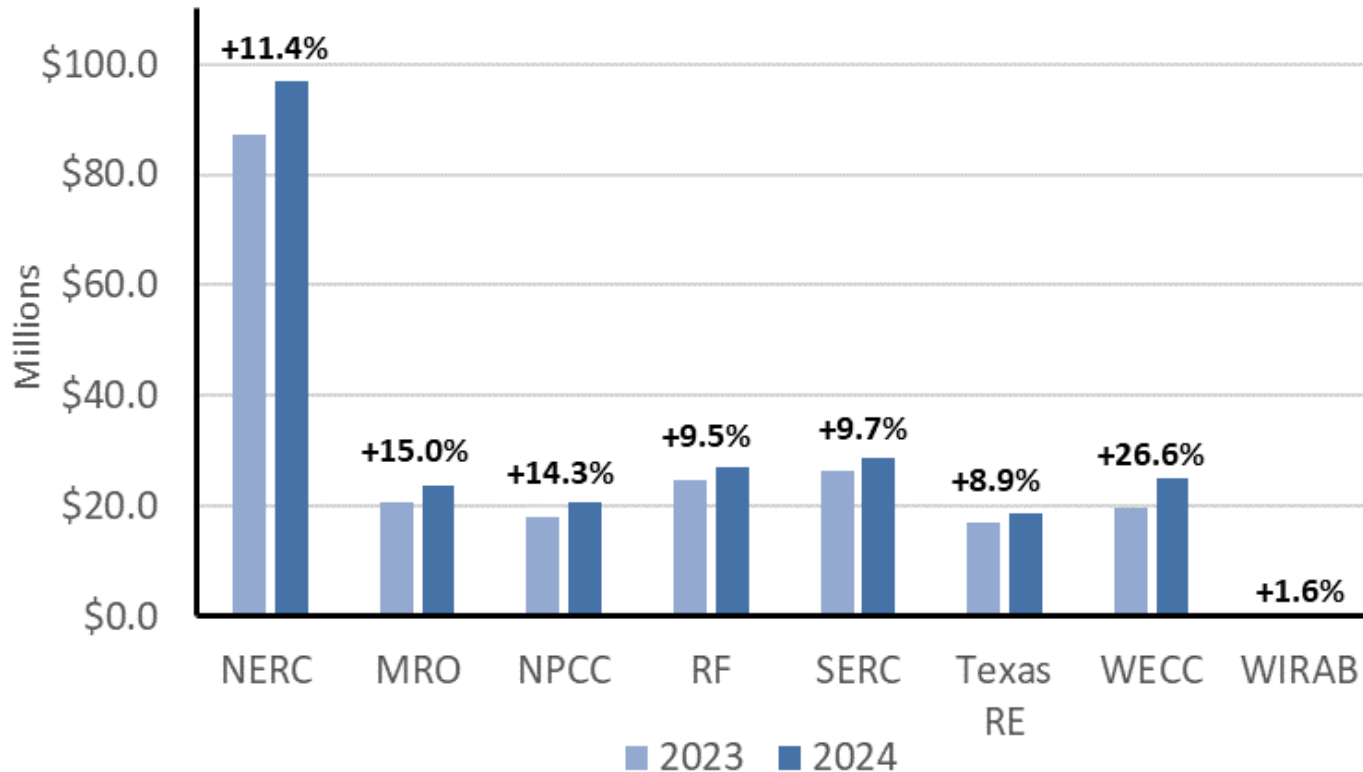
Total ERO Enterprise 2024 budget – \$279.3M (\$29.2M or 11.7% increase vs 2023)



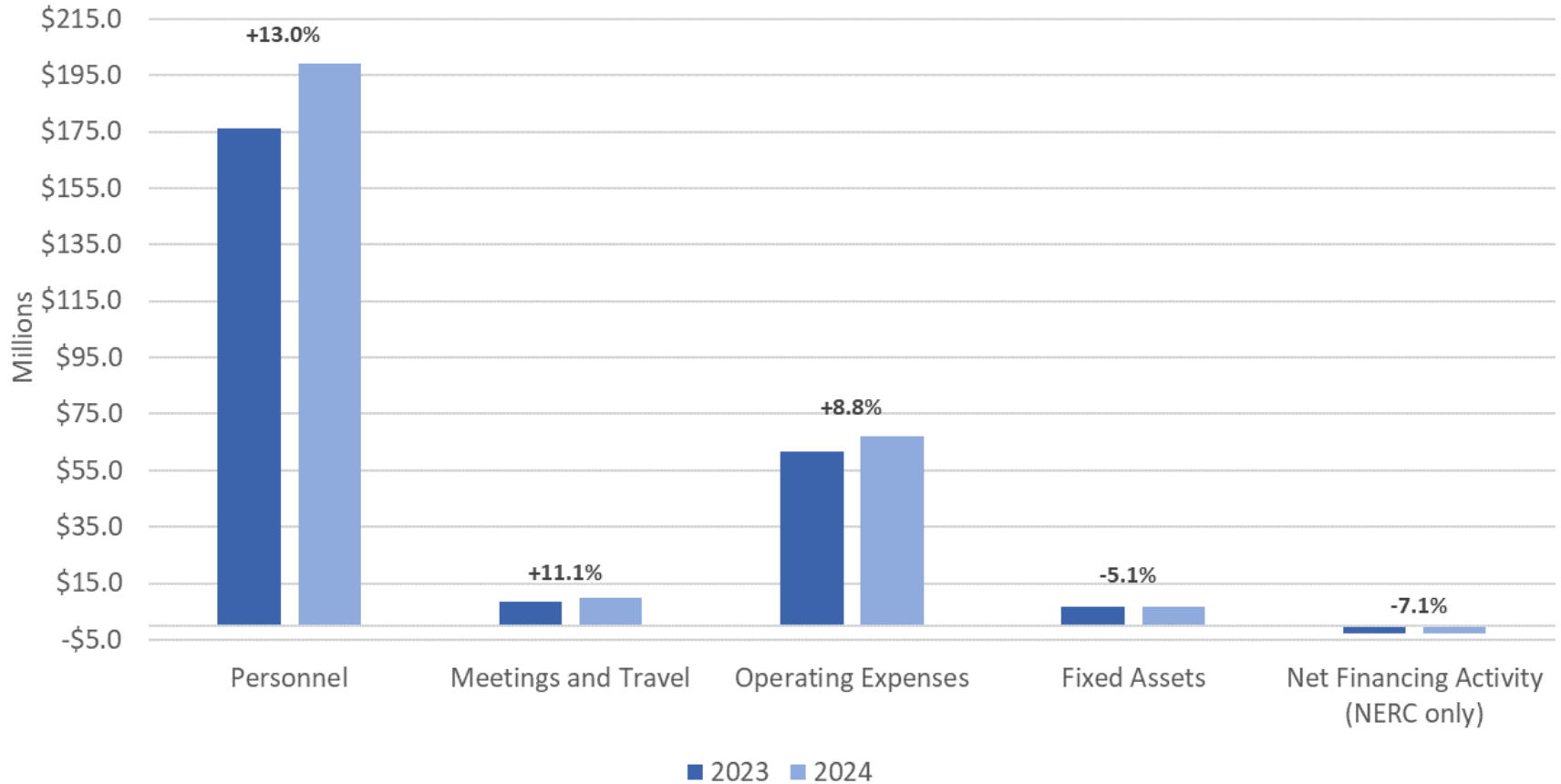
*"ERO Enterprise" includes WIRAB unless otherwise noted*

Total ERO Enterprise 2024 assessment – \$241.4M (\$27.3M or 12.7% increase vs 2023)

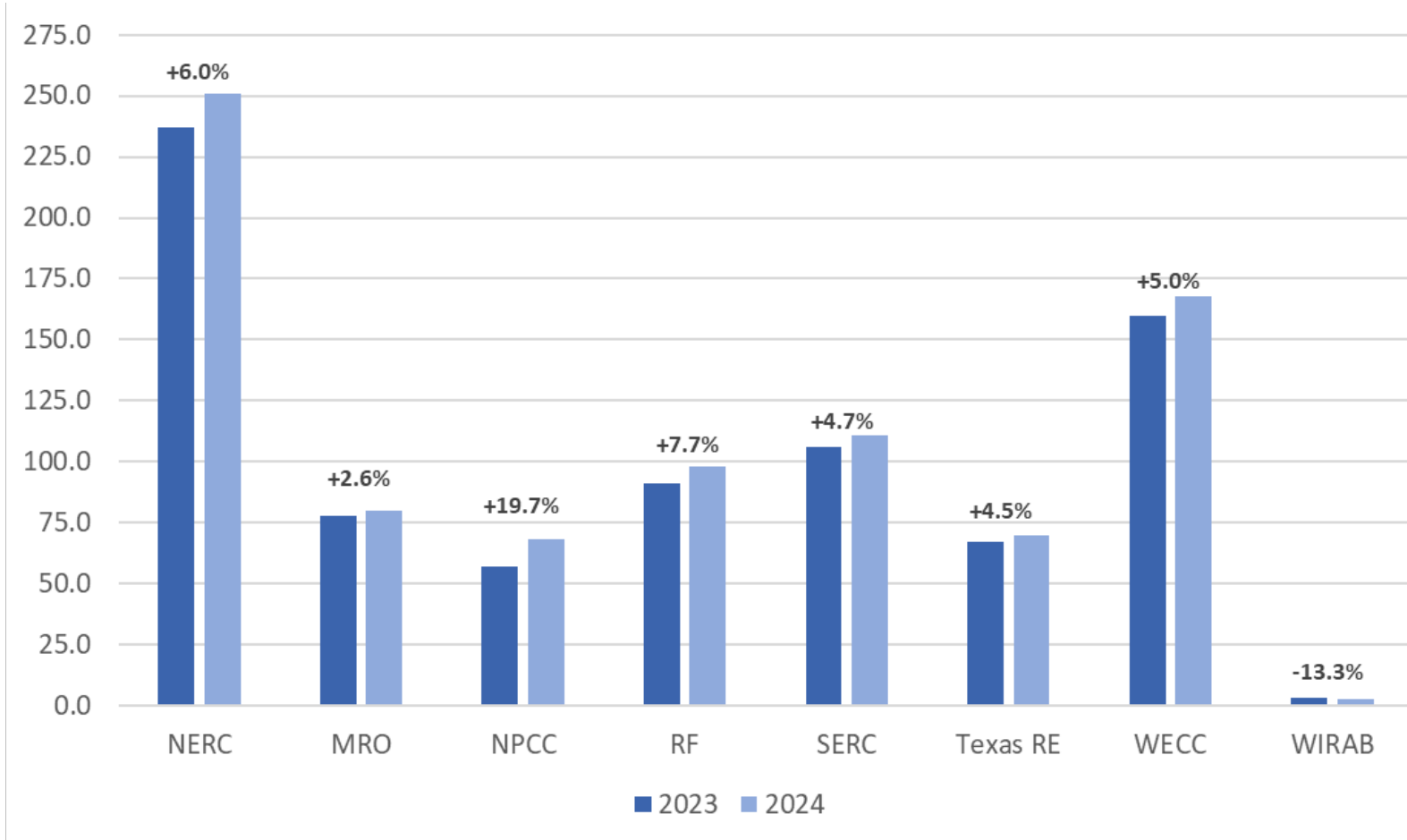
Approximately \$23M in penalties/reserves released to reduce assessments

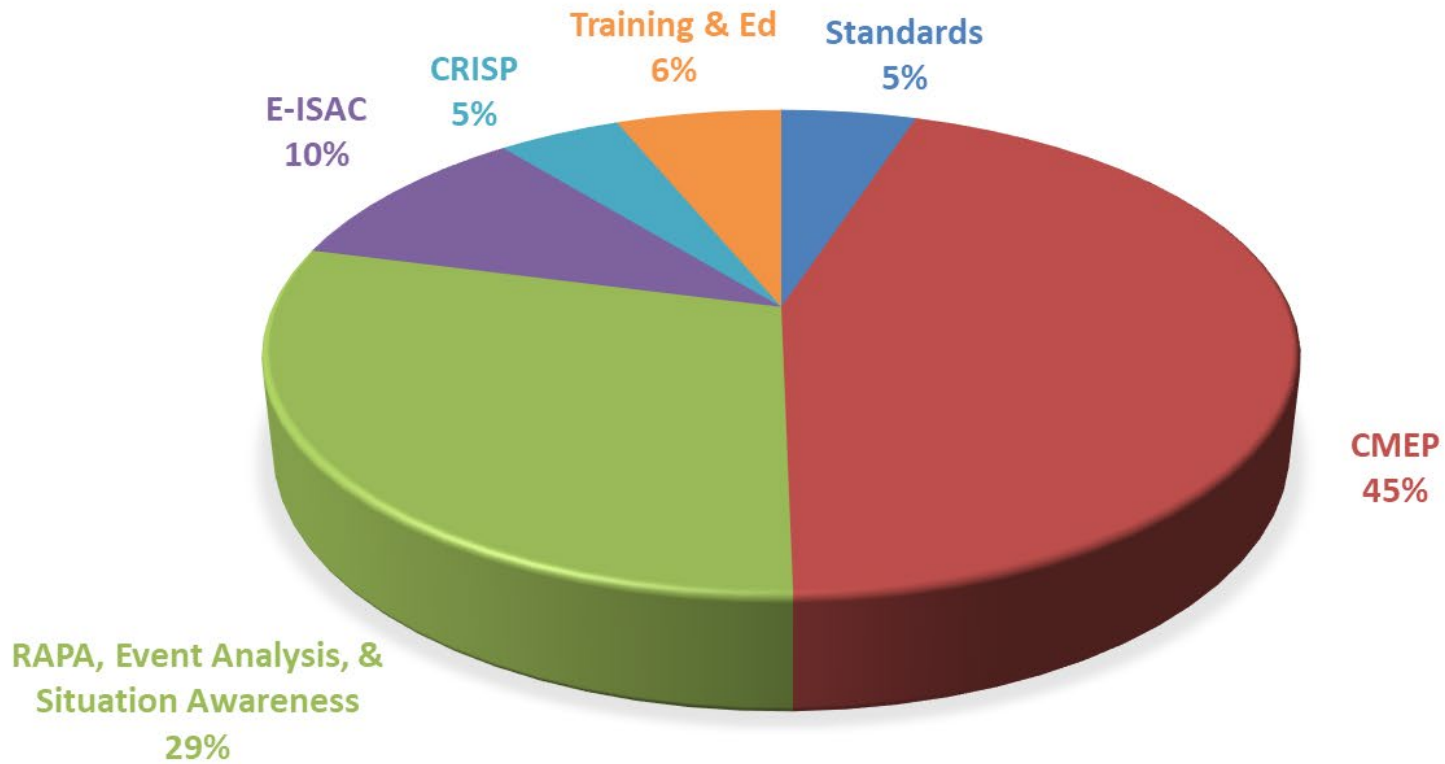


# ERO Enterprise 2024 v 2023 Budget by Expense Category



Total ERO Enterprise 2024 budgeted FTEs – 848.8 (50.1 or 6.3% increase vs 2023)





*\*Excludes WIRAB*





# Questions and Answers

## **Line of Credit and Capital Financing Program Renewal**

### **Action**

Update

### **Background**

Since 2007, NERC has maintained a line of credit with a lender for emergency working capital needs or unforeseen contingencies. NERC annually obtains renewal of this line of credit and the latest agreement was approved by the NERC Board of Trustees (Board) in August 2022 and it expires on September 30, 2023.

The Board has authorized management to proceed to take such actions as are necessary to execute this line of credit renewal documentation on an annual basis so long as the material terms of the renewal remain substantially the same. NERC management committed to provide an update to the Finance and Audit Committee on annual renewals and will also request Board approval for the renewal if the terms and conditions materially change.

In 2013, NERC established a capital financing program to fund the development and acquisition of significant 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 to five years), in order to mitigate the impact on single year assessments. The program 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 (i) standards balloting; (ii) the Bulk Electric System exception processing and analysis; (iii) reliability assessment data gathering and analysis; (iv) event analysis and data management; (v) enterprise data gathering and reporting; and most recently (vi) the ERO Secure Evidence Locker (SEL).

In February 2022, the Board approved the extension of the Capital Financing Program to facilitate software and equipment financing up to \$5 million with up to a 60 month term, and this facility expires on September 30, 2023. The Board also authorized management to take such actions as are necessary to finalize and execute the Capital Financing Program documentation on an annual basis so long as the material terms of the renewal remain substantially the same. NERC management committed to provide an update to the Finance and Audit Committee on annual renewals and will also request Board approval for the renewal if the terms and conditions materially change.

NERC management received communication from the bank that the terms and conditions for both the line of credit and Capital Financing Program will be substantially the same as our current agreements, therefore no approval is needed by the Board of Trustees or the Finance and Audit Committee. NERC Management will take necessary actions to renew both of these credit facilities, for a minimum period of twelve months.