

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

2021 Business Plan and Budget – Draft 2 Overview

Andy Sharp, Vice President and Chief Financial Officer
July 2020

RELIABILITY | RESILIENCE | SECURITY



- Comments received from
 - US: Edison Electric Institute (EEI)
 - US: ISO RTO Council Standards Review Committee (SRC)
 - US: National Rural Electric Cooperative Association (NRECA)
 - Canada: Canadian Electricity Association (CEA)
 - Canada: Independent Electricity System Operator (IESO)
- The majority of the comments:
 - Supported the 2021 Business Plan and Budget (BP&B), especially the cost savings efforts and minimal budget and assessment increases
 - Emphasized financial pressures on industry from the effects of COVID-19
 - Encouraged continued budget stabilization efforts in future years

- EEI urged NERC to work with the Regional Entities to similarly maintain 2020 budget levels
- The ISO RTO Council SRC requested NERC to:
 - Explain NERC's plan for conducting in-person meetings in 2021
 - Clarify the decrease in Event Analysis program expenses
 - Expand BP&B charts to include additional historical data
- CEA requested NERC to:
 - Consider methods to provide relief to entities with the expected 2020 budget underrun funds
 - Examine ways to provide more cost certainty over a three-year horizon
 - Continue to engage with stakeholders on the E-ISAC value proposition
- **Response to comments posted on the NERC website**

- **Budget \$82.9M (\$226k or 0.3% increase over 2020)**
 - Includes Align tool delay costs funded by reserves (\$1.8M)
 - Budget without Align tool delay costs \$81.1M (1.9% decrease over 2020)
 - No increase in FTEs over 2020
- **Assessments \$72.0M (flat versus 2020)**
 - No use of Assessment Stabilization Reserve (ASR) funds
- **Assessments by country (based on 2019 NEL)**
 - US: \$65.0M (\$174k or 0.3% decrease over 2020)
 - Canada: \$6.7M (\$171k or 2.6% increase over 2020)
 - Mexico: \$225k (\$3k or 1.3% increase over 2020)

- 2021 budget and assessment assumptions consistent with Draft 1
 - Some cost adjustments within and among departments
 - Resulted in a slight increase of the budget from a 0.2% increase over 2020 in Draft 1 to a 0.3% increase over 2020 in Draft 2
 - No impact to 2021 assessment (remains flat, with no use of ASR)
- Inclusion of preliminary 2022 and 2023 projections
- Draft 2 posted on NERC website, with comments requested by **July 30, 2020**

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

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



Questions and Answers



Additional Information

- Guided by the *ERO Enterprise Long-Term Strategy*
- April 2020
 - 2021 budget assumptions shared with MRC BP&B Input Group, Trades & Forums, and Finance and Audit Committee (FAC) on April 23
- May 2020
 - First draft overview presented to FAC on May 13
 - First draft posted for comment on May 19
 - NERC and Regional Entity (RE) 2021 BP&B briefing with FERC on May 20
- June 2020
 - First FAC webinar to review 2021 NERC and RE BP&Bs on June 4
 - Comments due on first draft on June 26

- July 2020
 - Second draft assumptions shared with MRC BP&B Input Group, Trades & Forums, and FAC on July 9
 - Second draft posted for comment on July 16
 - Second FAC webinar to review NERC and RE 2021 BP&Bs on July 23
 - Comments due on second draft on July 30
- August 2020
 - Final draft posted on August 13
 - FAC and Board meetings to approve final NERC and RE 2021 BP&Bs on August 19 and 20
 - 2021 BP&Bs submitted to FERC for approval by August 25, with subsequent filings with Canadian authorities

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

- **ERO SEL & Align delay costs**

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

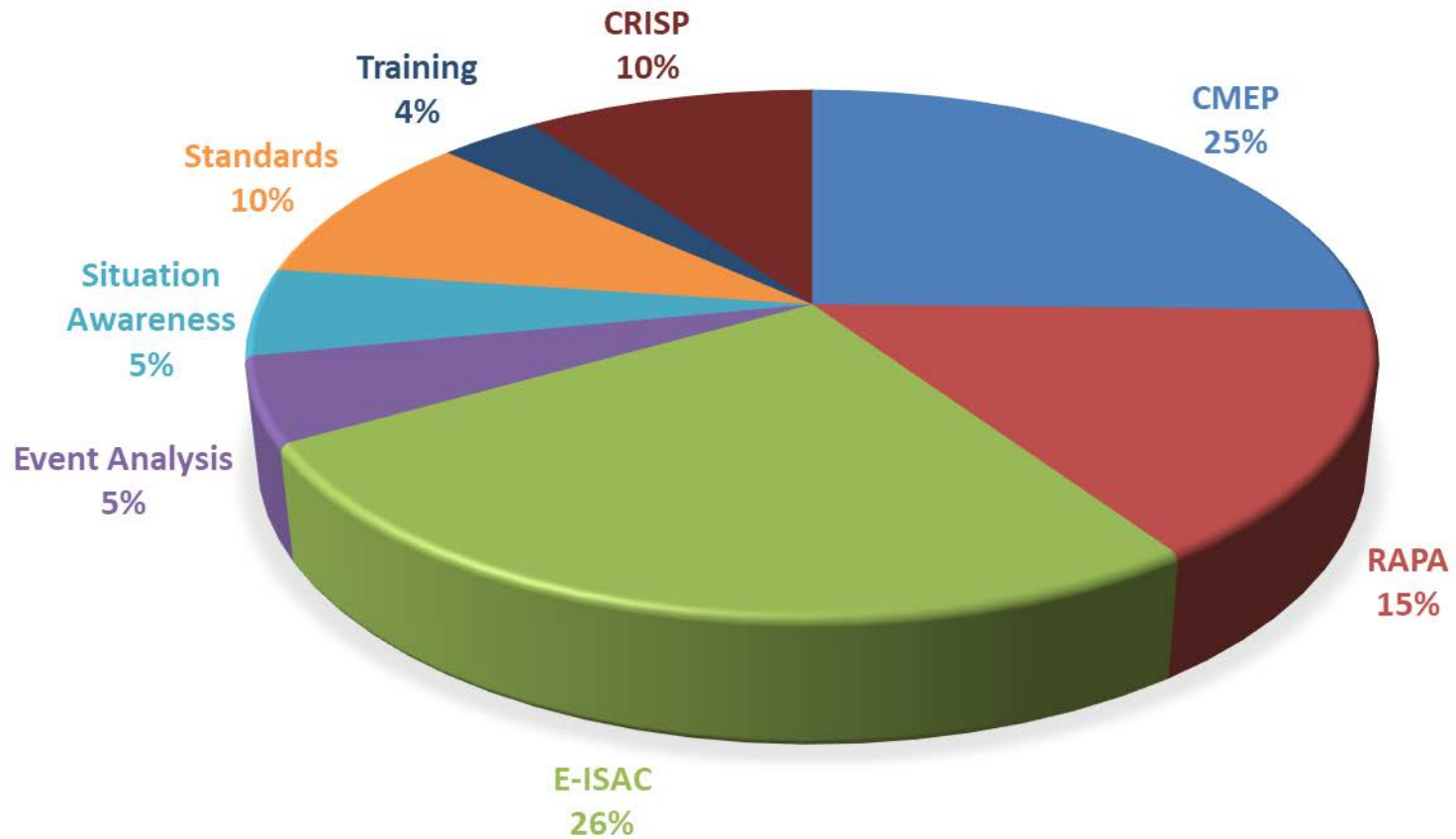
- **Lower spending in other areas**

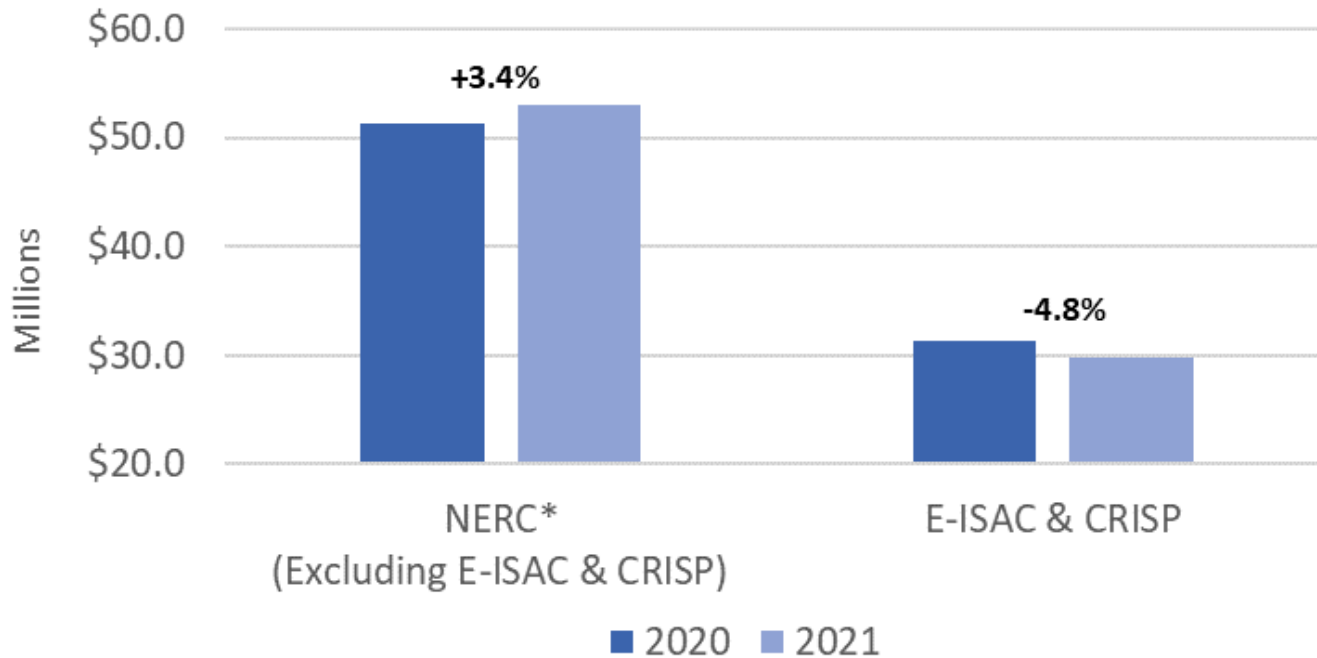
- No increase in FTEs
- E-ISAC and CRISP direct costs below prior projection
- Reduced 2021 debt service as a result of cash funding 2020 Align development costs versus budgeted financing
- Reductions in contracts and consultants and professional services
- Deferred non-critical system enhancements to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

- **Personnel \$48.2M (3.4% increase over 2020)**
 - Adding FTEs for cyber security and SEL, offset by lower FTEs in other areas
 - Placeholder salary increase of 3.0%
 - Medical insurance premium increase
- **Meetings and travel \$2.2M (33.7% decrease over 2020)**
 - Assuming fewer in-person meetings
 - Travel expense reduced versus 2020 budget
- **Operating Expenses \$28.7M (4.3% increase over 2020)**
 - Increased use of contractors in E-ISAC versus FTEs
 - Lower spending on other contracts and consultants and professional services for non-critical projects
 - Increased software support expenses, including ERO SEL

- **Fixed Assets \$2.7M (41.5% decrease over 2020)**
 - Includes \$1.8M for Align delay costs, which will be fully funded from OCR (no assessment impact)
 - Decreased spending on capital software in other areas by reducing scope or deferring non-urgent enhancements
 - No planned spending for office modifications
- **Net Financing Activity \$845k (505.2% increase over 2020)**
 - Loan activity
 - No borrowing budgeted in 2021
 - Loan payments for 2020 borrowing for ERO SEL
 - Financing lease activity
 - Lease proceeds for new IT equipment
 - Lease payments for existing IT equipment

2021 Budget by Program Area





*Includes 2021 Align delay costs funded by reserves

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

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