

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

2021 Business Plan and Budget – Draft 1 Overview

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RELIABILITY | RESILIENCE | SECURITY



- **Budget \$81.1M (\$1.6M or 1.9% decrease over 2020)**
 - Excludes Align tool delay costs funded by reserves (\$1.8M)
 - Budget with Align tool delay costs is \$82.9M (0.2% increase over 2020)
- **Assessments \$72.0M (flat versus 2020)**
 - No use of Assessment Stabilization Reserve funds
- **No increase in FTEs over 2020**

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

- July 2020
 - Second draft assumptions shared with MRC BP&B Input Group, Trades & Forums, and FAC
 - Second draft posted for comment
 - Second FAC webinar to review NERC and RE 2021 BP&Bs
- August 2020
 - Final draft posted
 - FAC and Board meetings to approve final NERC and RE 2021 BP&Bs
 - 2021 BP&Bs submitted to FERC for approval, 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 of \$1.8M funded by reserves

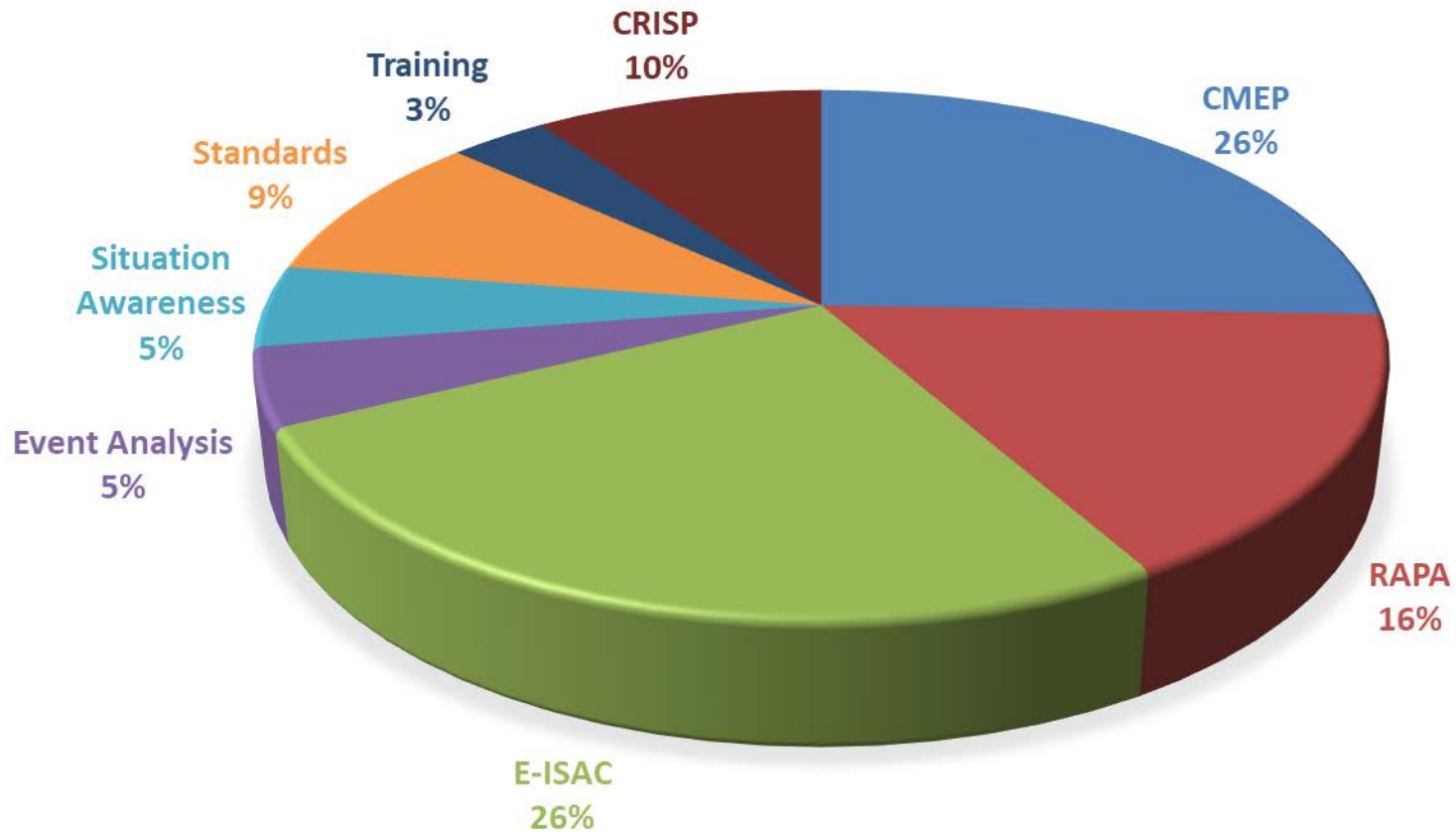
- **Lower spending in other areas**

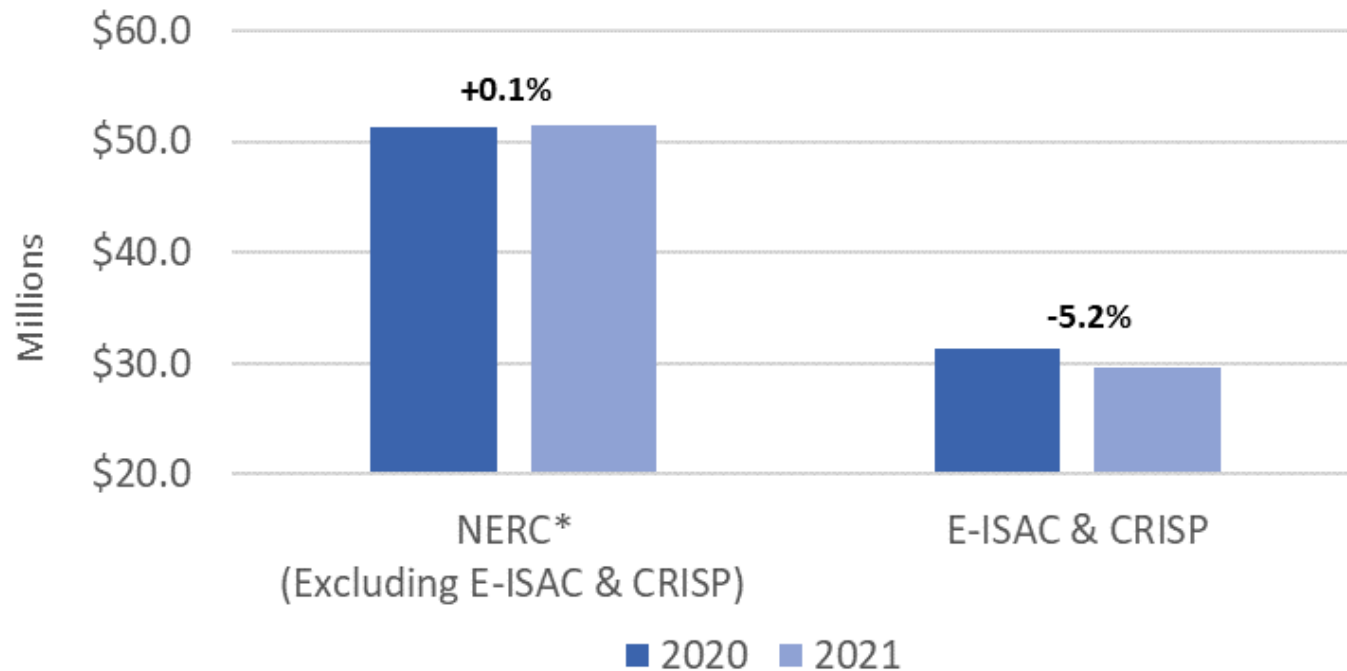
- No increase in FTEs
- E-ISAC and CRISP direct costs below prior projection
- Reduced 2021 debt service as a result of cash funding 2020 Align development costs versus budgeted financing
- Reductions in contracts and consultants and professional services
- Deferred non-critical system enhancements to 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 \$28.2M (2.2% 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 \$3.3M (29.5% decrease over 2020)**
 - Includes \$1.8M for Align delay costs, which will be fully funded from reserves (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





*Excludes 2021 Align delay costs

- **Assessments \$72.0M (flat versus 2020)**
 - Lower interest income and third-party CRISP revenue
 - Funding 2021 Align delay costs from Operating Contingency Reserve (OCR)
 - Assumes no Assessment Stabilization Reserve 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
- \$7.7M – Projected OCR balance as of 12/31/2020
 - 10.7% of target (higher than target to fund 2021 Align delay costs)
- \$5.9M – Projected OCR balance as of 12/31/2021
 - 8.1% of target (slightly higher than target to provide additional reserves during uncertain economic conditions to fund deferred projects if needed)

- NERC's 2022 and 2023 projections will be included in next draft of the 2021 BP&B



Questions and Answers