

Agenda

Finance and Audit Committee

Open Meeting

February 15, 2023 | 8:00-8:45 a.m. Mountain
In-Person Meeting

JW Marriott Tucson
3800 W Starr Pass Blvd.
Tucson, AZ 85745

Conference Room: Tucson Salons E-F

Introduction and Chair's Remarks

NERC Antitrust Compliance Guidelines and Public Announcement*

Agenda Items

1. Minutes* — Approve

- a. November 7, 2022 Meeting

2. 2022 Year-End Unaudited Summary of Results* — Review and Recommend Board of Trustees Acceptance

- a. NERC 2022 Unaudited Year-End Report
- b. ERO Enterprise Combined 2022 Unaudited Year-End Report
- c. Regional Entity 2022 Unaudited Year-End Reports

3. Annual Review of Committee Mandate* — Review

4. Other Matters and Adjournment

*Background materials included.

NERC Antitrust Compliance Guidelines

I. General

It is NERC's policy and practice to obey the antitrust laws and to avoid all conduct that unreasonably restrains competition. This policy requires the avoidance of any conduct that violates, or that might appear to violate, the antitrust laws. Among other things, the antitrust laws forbid any agreement between or among competitors regarding prices, availability of service, product design, terms of sale, division of markets, allocation of customers or any other activity that unreasonably restrains competition.

It is the responsibility of every NERC participant and employee who may in any way affect NERC's compliance with the antitrust laws to carry out this commitment.

Antitrust laws are complex and subject to court interpretation that can vary over time and from one court to another. The purpose of these guidelines is to alert NERC participants and employees to potential antitrust problems and to set forth policies to be followed with respect to activities that may involve antitrust considerations. In some instances, the NERC policy contained in these guidelines is stricter than the applicable antitrust laws. Any NERC participant or employee who is uncertain about the legal ramifications of a particular course of conduct or who has doubts or concerns about whether NERC's antitrust compliance policy is implicated in any situation should consult NERC's General Counsel immediately.

II. Prohibited Activities

Participants in NERC activities (including those of its committees and subgroups) should refrain from the following when acting in their capacity as participants in NERC activities (e.g., at NERC meetings, conference calls and in informal discussions):

- Discussions involving pricing information, especially margin (profit) and internal cost information and participants' expectations as to their future prices or internal costs.
- Discussions of a participant's marketing strategies.
- Discussions regarding how customers and geographical areas are to be divided among competitors.
- Discussions concerning the exclusion of competitors from markets.
- Discussions concerning boycotting or group refusals to deal with competitors, vendors or suppliers.
- Any other matters that do not clearly fall within these guidelines should be reviewed with NERC's General Counsel before being discussed.

III. Activities That Are Permitted

From time to time decisions or actions of NERC (including those of its committees and subgroups) may have a negative impact on particular entities and thus in that sense adversely impact competition. Decisions and actions by NERC (including its committees and subgroups) should only be undertaken for the purpose of promoting and maintaining the reliability and adequacy of the bulk power system. If you do not have a

legitimate purpose consistent with this objective for discussing a matter, please refrain from discussing the matter during NERC meetings and in other NERC-related communications.

You should also ensure that NERC procedures, including those set forth in NERC's Certificate of Incorporation, Bylaws, and Rules of Procedure are followed in conducting NERC business.

In addition, all discussions in NERC meetings and other NERC-related communications should be within the scope of the mandate for or assignment to the particular NERC committee or subgroup, as well as within the scope of the published agenda for the meeting.

No decisions should be made nor any actions taken in NERC activities for the purpose of giving an industry participant or group of participants a competitive advantage over other participants. In particular, decisions with respect to setting, revising, or assessing compliance with NERC Reliability Standards should not be influenced by anti-competitive motivations.

Subject to the foregoing restrictions, participants in NERC activities may discuss:

- Reliability matters relating to the bulk power system, including operation and planning matters such as establishing or revising Reliability Standards, special operating procedures, operating transfer capabilities, and plans for new facilities.
- Matters relating to the impact of Reliability Standards for the bulk power system on electricity markets, and the impact of electricity market operations on the reliability of the bulk power system.
- Proposed filings or other communications with state or federal regulatory authorities or other governmental entities.
- Matters relating to the internal governance, management and operation of NERC, such as nominations for vacant committee positions, budgeting and assessments, and employment matters; and procedural matters such as planning and scheduling meetings.

DRAFT Minutes Finance and Audit Committee Open Meeting

November 7, 2022 | 11:15-12:00 p.m. Eastern
Virtual Meeting

Call to Order

Mr. Jim Piro, 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 November 7, 2022 at approximately 11:15 a.m. Eastern, and a quorum was declared present. He summarized the topics addressed during the November 1, 2022 closed Committee meeting and noted that the Committee held two executive sessions. The first was held with NERC’s independent auditor, RSM, and the second was held with the Director of Internal Audit.

Present at the meeting were:

Committee Members

Jim Piro, Chair
Robert G. Clarke
George S. Hawkins
Susan Kelly
Colleen Sidford
Roy Thilly
Kenneth W. DeFontes, *ex officio*

Board Members

Larry Irving
Suzanne Keenan
Robin E. Manning
Jim Robb

NERC Staff

Tina Buzzard, Assistant Corporate Secretary
Erika Chanzas, Manager of Business Planning
Howard Gugel, Vice President, Engineering and Standards
Kelly Hanson, Senior Vice President and Chief Administrative Officer
Stan Hoptroff, Vice President, Business Technology
Nina Johnston, Assistant General Counsel
Meg Leonard, Controller
Sônia Mendonça, Senior Vice President, General Counsel, and Corporate Secretary
Kristin Miller, Director, Internal Audit
Bryan Preston, Vice President, People and Culture

Andy Sharp, Vice President, Chief Financial Officer

Minutes

Upon motion duly made and seconded, the Committee approved the minutes of the August 17, 2022 open meeting.

Fourth Quarter Calendar of Committee Responsibilities

Ms. Leonard provided a summary of the third quarter statement of activities for NERC, for the quarter ending September 30, 2022. She noted that to date, total funding for NERC is on budget while total expenditures are under budget. Reserves are higher than budgeted. Ms. Leonard also provided a summary of results by category, touching on personnel, meetings and travel, operating expenses, fixed assets, and net financing activity. She also presented year-end projections for the budget. By year-end, total funding for NERC is expected to be over budget, mostly due to CRISP third-party funding, and total expenditures are expected to be on budget. Reserves are expected to increase by \$1.3 million above budget. Of the various categories of expenses, Ms. Leonard highlighted that operating expenses are expected to be over budget due to information technology security contractors, as well as costs associated with CRISP, including equipment replacement for existing participants, start-up costs for new CRISP members, and costs for CRISP technology projects. She did note, however, that these CRISP-related costs will be funded by CRISP participants or CRISP reserves. Ms. Leonard also provided a breakdown of the year-end projections of the various reserve categories.

She presented a similar overview for the ERO Enterprise, inclusive of the six Regional Entities. For the third quarter, the ERO Enterprise is \$11 million under budget. Ms. Leonard also presented results for the various categories of expenses and reserves. By year-end, the ERO Enterprise is expected to be \$2.2 million under budget. For reserves, only NERC and WECC are expected to have an increase in reserve balances by year-end.

Upon motion duly made and seconded, the Committee approved a recommendation to the full Board of Trustees to accept the third quarter statement of activities.

2023 Business Plan and Budget Status

Mr. Sharp discussed that NERC obtained timely approval of its budget and highlighted the areas in which the Federal Energy Regulatory Commission seeks additional information.

Proposed 2024 Business Plan and Budget Schedule

Mr. Sharp provided an overview of the planning for the 2024 business plan and budget cycle, which will focus on four strategic areas – energy, security, agility and sustainability. He discussed the process improvements in place to improve the agility of the budget process as well as the quality of stakeholder engagement.

Other Matters and Adjournment

There being no further business, the meeting was adjourned.

Submitted by,



Sônia Mendonça
Corporate Secretary

2022 Year-End Unaudited Summary of Results

Action

Review and recommend Board of Trustees acceptance.

Background

NERC management will review the 2022 year-end unaudited summary of results reports for NERC and the ERO Enterprise combined. The 2022 unaudited year-end reports for each of the Regional Entities are also enclosed for reference.

Summary of Unaudited Results For the Period Ending December 31, 2022

Table of Contents

	<u>Page</u>
1. Executive Summary	
a. Year-to-Date Actual Results	2
2. Detailed Operating Results	
a. Variances by Revenue and Expense Category	3
b. Variances by Department	5
3. Supplemental Schedules	
a. Schedule 1 – Year-End Actual Reserves	7
b. Schedule 2 – IT Projects	8
c. Schedule 3 – E-ISAC & CRISP Summary of Activity	10
d. Schedule 4 – Summary of Investments	12

Executive Summary

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

<u>FUNDING</u>	<u>Actual</u>	<u>Budget</u>	<u>Over (Under)</u>
Revenues	\$ 89.5	\$ 88.3	\$ 1.2
Funding from Reserves			
Assessment Stabilization Reserve	-	-	-
TOTAL FUNDING	\$ 89.5	\$ 88.3	\$ 1.2
<u>EXPENDITURES</u>			
Expenses (excluding Depreciation)	\$ 84.0	\$ 85.0	\$ (1.0)
Fixed Asset Additions	3.2	4.9	(1.7)
Net Financing Activity	(0.9)	(1.1)	0.2
TOTAL EXPENDITURES	\$ 86.3	\$ 88.8	\$ (2.5)
RESERVE INCREASE (DECREASE)	\$ 3.2	\$ (0.5)	\$ 3.7

Funding is over budget mainly due to higher CRISP third-party funding and investment income. Expenditures (excluding depreciation) are under budget primarily because of lower personnel, meetings, travel, and fixed asset additions costs slightly offset by higher liability insurance costs. The result is a reserve increase of \$3.7M more 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)
TOTAL FUNDING	\$ 89,509,247	\$ 88,268,926	\$ 1,240,321	1.4%
EXPENDITURES				
Personnel	51,334,813	51,966,435	(631,622)	(1.2%)
Meetings and Travel	1,735,182	2,608,050	(872,868)	(33.5%)
Contracts and Consultants	13,710,986	13,674,800	36,186	0.3%
Office Rent	3,213,521	3,243,277	(29,756)	(0.9%)
Office Costs, Professional, and Misc.*	13,822,857	13,381,972	440,885	3.3%
Other Non-Operating	169,753	135,000	34,753	25.7%
Fixed Asset Additions*	3,225,020	4,918,750	(1,693,730)	(34.4%)
Net Financing Activity**	(859,796)	(1,100,000)	240,204	(21.8%)
TOTAL EXPENDITURES	\$ 86,352,334	\$ 88,828,284	\$ (2,475,950)	(2.8%)
RESERVE INCREASE (DECREASE)	\$ 3,156,913	\$ (559,358)	\$ 3,716,270	(664.4%)
FTEs	218.3	223.7	(5.4)	(2.4%)

* 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 primarily due to CRISP third-party funding being higher than budget because of new program participants that joined in 2022, as well as existing participants who purchased equipment during the year. Additionally, investment income was higher than budget due to increased interest rates.
- Personnel expenses are under budget largely as a result of lower temporary office labor, training, retirement plan, and parking and transportation expense due to a continued remote workforce.
- Meetings and Travel expenses are under budget because of reduced in-person meetings and travel due to the pandemic.
- Contracts and Consultants expenses are at budget. IT is over budget primarily due to two IT security contractors that were not budgeted, and the CRISP department is over budget mainly because of new program participants that joined in 2022, as well as existing participants who purchased equipment during the year. These over budget amounts are partially offset by HR being

under budget as NERC strategically moved some training internal and also because they did not incur costs during the year associated with an anticipated technology implementation.

	YTD Actual	YTD Budget	YTD Over (Under)	% Over (Under)
CONTRACTS and CONSULTANTS				
Reliability Standards and Power Risk Issue Management	\$ 155,499	\$ 158,960	\$ (3,461)	(2.2%)
Compliance Assurance	426,478	305,000	121,478	39.8%
Registration and Certification	48,280	40,000	8,280	20.7%
Compliance Enforcement	348,964	249,000	99,964	40.1%
BPS Security & Grid Transformation	94,846	-	94,846	0.0%
Reliability Assessment and Technical Committees	75,000	210,000	(135,000)	(64.3%)
Advanced System Analytics and Modeling & Power System Analysis	100,000	250,000	(150,000)	(60.0%)
Performance Analysis	203,079	221,227	(18,148)	(8.2%)
Situation Awareness	48,750	15,000	33,750	225.0%
Event Analysis	98,080	118,158	(20,078)	(17.0%)
E-ISAC	2,064,233	2,171,041	(106,808)	(4.9%)
Training, Education and Personnel Certification	423,125	563,188	(140,063)	(24.9%)
General and Administrative and Executive	147,821	100,000	47,821	47.8%
Legal and Regulatory	457,565	310,000	147,565	47.6%
External Affairs	1,250	20,000	(18,750)	(93.8%)
Information Technology	1,978,548	1,733,406	245,142	14.1%
Human Resources and Administration	433,230	870,000	(436,770)	(50.2%)
Finance and Accounting	144,762	185,000	(40,238)	(21.8%)
TOTAL (excluding CRISP)	\$ 7,249,511	\$ 7,519,980	\$ (270,469)	(3.6%)
CRISP	6,461,475	6,154,820	306,655	5.0%
TOTAL (including CRISP)	\$ 13,710,986	\$ 13,674,800	\$ 36,186	0.3%

- Office Costs, Professional Services, and Miscellaneous expenses are over budget largely due to increased costs for liability insurance and carrying costs on new DC office audio visual and network equipment, and are partially offset by lower outside legal counsel and software costs.
- Fixed Asset Additions are under budget primarily as a result of leasehold improvements, office furniture, and audio visual equipment budgeted for a new Atlanta office that did not materialize.
- Reserves are over budget by \$3.7M, primarily due to higher revenues, as noted above, and lower than budgeted costs related to personnel, meetings and travel, and fixed asset additions.

Variances by Department

DIRECT EXPENSES, FIXED ASSETS, AND FINANCING ACTIVITY	YTD	YTD	YTD
	Actual	Budget	Over (Under)
Reliability Standards and Power Risk Issue Management	\$ 4,414,032	\$ 4,321,038	\$ 92,994
Compliance Assurance	5,686,467	5,972,082	(285,615)
Registration and Certification	982,562	995,345	(12,783)
Compliance Enforcement	3,747,567	3,782,700	(35,132)
BPS Security & Grid Transformation	995,292	935,162	60,130
Reliability Assessment and Technical Committees	1,937,087	2,246,928	(309,842)
Advanced System Analytics and Modeling & Power System Analysis	1,994,333	2,633,697	(639,365)
Performance Analysis	1,869,840	2,146,112	(276,272)
Situation Awareness	3,139,884	3,129,990	9,894
Event Analysis	1,894,357	2,078,854	(184,497)
E-ISAC	12,306,470	13,281,050	(974,580)
Training, Education and Personnel Certification	1,524,324	1,635,993	(111,669)
General and Administrative and Executive	9,488,509	9,385,265	103,244
Legal and Regulatory	5,562,662	5,123,376	439,286
External Affairs	3,201,047	3,151,081	49,966
Information Technology	13,958,121	14,026,598	(68,478)
Human Resources and Administration	3,038,112	3,852,313	(814,201)
Finance and Accounting	2,162,972	2,186,385	(23,413)
TOTAL (excluding CRISP)	\$ 77,903,637	\$ 80,883,970	\$ (2,980,333)
CRISP	8,448,697	7,944,314	504,383
TOTAL DIRECT EXPENSES, FIXED ASSETS, AND FINANCING ACTIVITY	\$ 86,352,334	\$ 88,828,284	\$ (2,475,950)

Following is a brief description of significant variances by department, as illustrated in the table above:

- Compliance Assurance – Under budget mostly because of lower personnel expenses due to less FTEs and also lower travel and meeting expenses due to the pandemic, and is partially offset by higher costs for the Align project.
- Reliability Assessment and Technical Committees – Under budget mostly because of lower travel and meeting expenses due to the pandemic, as well as lower spend in contracts and consultants.
- Advanced System Analytics and Modeling & Power System Analysis – Under budget primarily due to lower personnel expenses due to less FTEs, lower travel and meeting expenses due to the pandemic, and lower than budgeted contractor and software costs.
- Performance Analysis – Under budget mainly because of underspend on GADs projects.
- E-ISAC – Under budget mostly because of lower personnel expenses due to less FTEs and lower travel and meeting expenses due to the pandemic and lower FTEs.
- Legal & Regulatory – Over budget mainly due to higher personnel costs because of lower attrition and transition costs, as well as contractor support for Internal Audit staff augmentation.
- Human Resources – Under budget primarily due to lower employment agency search fees, temporary office labor, and training program costs.

- CRISP – Over budget because of costs from the CRISP third party subcontractor for new program participants and replacement of equipment for existing program participants, and also for increased liability insurance costs.

Supplemental Schedules

Schedule 1 – Year-End Actual Reserves

Reserve Account	1/1/2022 Beginning Balance ⁽¹⁾	Budgeted Funding/(Use) ⁽²⁾	Unbudgeted Funding/(Use) ⁽³⁾	Operating and Financing Activity Versus Budget ⁽⁴⁾	12/31/2022 Ending Balance
NERC Operating Contingency	\$ 8,728,678	\$ (64,253)	\$ -	\$ 2,345,321	\$ 11,009,746
Future Obligations	1,381,843	(679,629)	1,591,649	-	2,293,863
Assessment Stabilization	2,521,000	-	735,000	-	3,256,000
System Operator	915,083	(86,212)	-	127,301	956,173
CRISP Defense Fund	512,821	-	50,000	-	562,821
CRISP Operating	1,596,902	300,000	445,316	534,755	2,876,973
CRISP Special Projects	445,316	-	(445,316)	-	-
Total Reserves	\$ 16,101,643	\$ (530,094)	\$ 2,376,649	\$ 3,007,377	\$ 20,955,576

NOTES:

(1) 2022 beginning balances have been adjusted from the 12/31/2021 variance report balances as the result of a reconciliation to the final audited balance sheet.

(2) The amended 2022 Business Plan & Budget (2022 BP&B) contained a budgeted use of NERC Operating Contingency Reserves (OCR) totaling \$64,253 and a budgeted use of \$708,893 of Future Obligation Reserves (FOR) to help fund costs of a potential new Atlanta office space. Those costs did not materialize in 2022 and the money will go back into the NERC OCR and FOR.

The 2022 BP&B included a use of System Operator Reserves derived from budgeted revenues being \$86,212 lower than budgeted expenses.

The 2022 BP&B also contained \$300,000 to build the balance in the CRISP Operating Reserve.

(3) The unbudgeted addition to the Future Obligation Reserve (FOR) of \$1,591,649 is the result of lease concessions received for the existing Atlanta office and the avoidance of reserves used for costs at a new Atlanta office that did not materialize.

An increase of \$735,000 in the Assessment Stabilization Reserve is due to the unbudgeted collection of penalties.

(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.

Reflected in the \$445,316 transfer from CRISP Special Projects Reserve to the CRISP Operating Reserve is \$269,663 of spend on special projects and \$175,653 remaining balance transferred into the CRISP Operating Reserve.

Schedule 2 – IT Projects (> \$250k)

Projects Completed in 2022	Project Budget ⁽¹⁾	Actual Spend
E-ISAC Portal Replacement (fixed contract) ⁽³⁾	\$ 259,680	\$ 259,680
CRISP Operational Technology Project ⁽³⁾	426,000	366,975
Align Enhancements/Release 4.0	300,000	371,553
Align Release 4.5 ⁽²⁾	-	379,437
Disaster Recovery	490,000	484,644

NOTES:

(1) The Project Budget noted above usually corresponds to the approved business case if required for each project and funds for each project are drawn from the available budget.

(2) The Align Release 4.5 project was not specifically identified in the 2022 BP&B, but is being funded by a portion of the 2022 budgeted Align and SEL enhancements and deferral of other software projects.

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

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

Schedule 2 (continued) – IT Projects

E-ISAC Portal Replacement

(Started Q3 2020 / Completed Q1 2022)

This project re-platformed the current portal and ticket/case system, which combined the functions and services into a single E-ISAC Sharing Platform (ESP) solution, allowing members, partners, and the E-ISAC staff to interact more effectively and efficiently.

CRISP Operational Technology Pilot

(Started Q4 2020 / Completed Q2 2022)

This project will promote E-ISAC analyst training and capabilities through guided-hunt participation and development of other cyber security threat intelligence best practices (such as generation of analytics and playbooks). The project is being funded through CRISP and benefit its participants, but will enrich the overall threat intelligence capabilities of the E-ISAC.

Align Enhancements/Release 4.0

(Started Q1 2022 / Completed Q2 2022)

This work included enhancements from Release 3 (audit and scheduling) as requested and approved by the Align Steering Committee. It also includes platform performance and optimization enhancements resulting from the December 2021 outage event.

Align Release 4.5

(Started Q1 2022 / Completed Q4 2022)

This project included required functionality for Inherent Risk Assessments (IRAs) and Compliance Oversight Planning (COPs).

Disaster Recovery

(Started Q1 2022 / Completed Q4 2022)

This project provided NERC with the capability to securely fail over and restore our network of our Tier 0 and Tier 1 mission critical applications in response to a malicious event or unplanned outage.

Schedule 3 – E-ISAC and CRISP Summary of Activity

TOTAL E-ISAC (including CRISP)

FUNDING	Annual Actual	Annual Budget	Over (Under)
Assessments	\$ 25,135,900	\$ 25,135,900	\$ 0
Other Funding	8,933,741	8,011,505	922,236
TOTAL FUNDING	\$ 34,069,641	\$ 33,147,405	\$ 922,236
EXPENDITURES			
Personnel Expense	\$ 9,714,595	\$ 10,430,408	\$ (715,814)
Meetings and Travel Expense	293,141	324,000	(30,859)
Operating Expenses (excluding Depreciation)	10,747,432	10,379,706	367,726
Other Non-Operating Expenses	-	-	-
Fixed Asset Purchases (excluding Fixed Asset Allocation)	-	91,250	(91,250)
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	-
Total Direct Costs (excluding Depreciation and Allocations)	\$ 20,755,167	\$ 21,225,364	\$ (470,197)
Indirect Expense Allocation	10,799,352	10,944,281	(144,929)
Fixed Asset Allocation	622,148	1,132,166	(510,018)
Net Financing Activity Allocation	(369,241)	(454,407)	85,166
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 31,807,427	\$ 32,847,405	\$ (1,039,978)
RESERVE INCREASE (DECREASE)	\$ 2,262,214	\$ 300,000	\$ 1,962,214

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

CRISP

FUNDING	Annual		Over (Under)
	Actual	Budget	
Assessments	\$ 1,355,903	\$ 1,355,903	\$ 0
Other Funding	8,768,177	7,929,423	838,754
TOTAL FUNDING	\$ 10,124,080	\$ 9,285,326	\$ 838,754
EXPENDITURES			
Personnel Expense	\$ 990,880	\$ 1,095,553	\$ (104,673)
Meetings and Travel Expense	103,821	34,000	69,821
Operating Expenses (excluding Depreciation)	7,353,996	6,814,761	539,235
Other Non-Operating Expenses	-	-	-
Fixed Asset Purchases (excluding Fixed Asset Allocation)	-	-	-
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	-
Total Direct Costs (excluding Depreciation and Allocations)	\$ 8,448,697	\$ 7,944,314	\$ 504,383
Indirect Expense Allocation	804,292	980,303	(176,011)
Fixed Asset Allocation	46,335	101,411	(55,076)
Net Financing Activity Allocation	(27,500)	(40,702)	13,203
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 9,271,825	\$ 8,985,326	\$ 286,499
RESERVE INCREASE (DECREASE)	\$ 852,256	\$ 300,000	\$ 552,256

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 are 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 \$260k and are included in the "Operating Expenses (excluding Depreciation)" amount above.

E-ISAC (excluding CRISP)

FUNDING	Annual		Over (Under)
	Actual	Budget	
Assessments	\$ 23,779,997	\$ 23,779,997	\$ (0)
Other Funding	165,564	82,082	83,482
TOTAL FUNDING	\$ 23,945,561	\$ 23,862,079	\$ 83,482
EXPENDITURES			
Personnel Expense	\$ 8,723,714	\$ 9,334,855	\$ (611,141)
Meetings and Travel Expense	189,320	290,000	(100,680)
Operating Expenses (excluding Depreciation)	3,393,436	3,564,945	(171,509)
Other Non-Operating Expenses	-	-	-
Fixed Asset Purchases (excluding Fixed Asset Allocation)	-	91,250	(91,250)
Net Financing Activity (excluding Net Financing Activity Allocation)	-	-	-
Total Direct Costs (excluding Depreciation and Allocations)	\$ 12,306,470	\$ 13,281,050	\$ (974,580)
Indirect Expense Allocation	9,995,060	9,963,978	31,083
Fixed Asset Allocation	575,813	1,030,756	(454,943)
Net Financing Activity Allocation	(341,741)	(413,705)	71,964
TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 22,535,602	\$ 23,862,079	\$ (1,326,476)
RESERVE INCREASE (DECREASE)	\$ 1,409,959	\$ -	\$ 1,409,959

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	\$ 22,809,916	TDDXX	BlackRock Liquidity Fund FedFund Dollar	AAAm	3.59%
SOCED Account Sweep	1,326,125	TDDXX	BlackRock Liquidity Fund FedFund Dollar	AAAm	3.59%
CRISP Account Sweep	8,777,005	TDDXX	BlackRock Liquidity Fund FedFund Dollar	AAAm	3.59%
<u>Total Cash Sweep Accounts</u>	<u>\$ 32,913,046</u>				
<u>Investment Account</u>					
Reserve Funds	\$ 10,117,787	GRTXX	Federated Hermes Government Obligations Fund	AAAm	4.14%
<u>Total Investments</u>	<u>\$ 10,117,787</u>				

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

Agenda Item 2a
Attachment 1

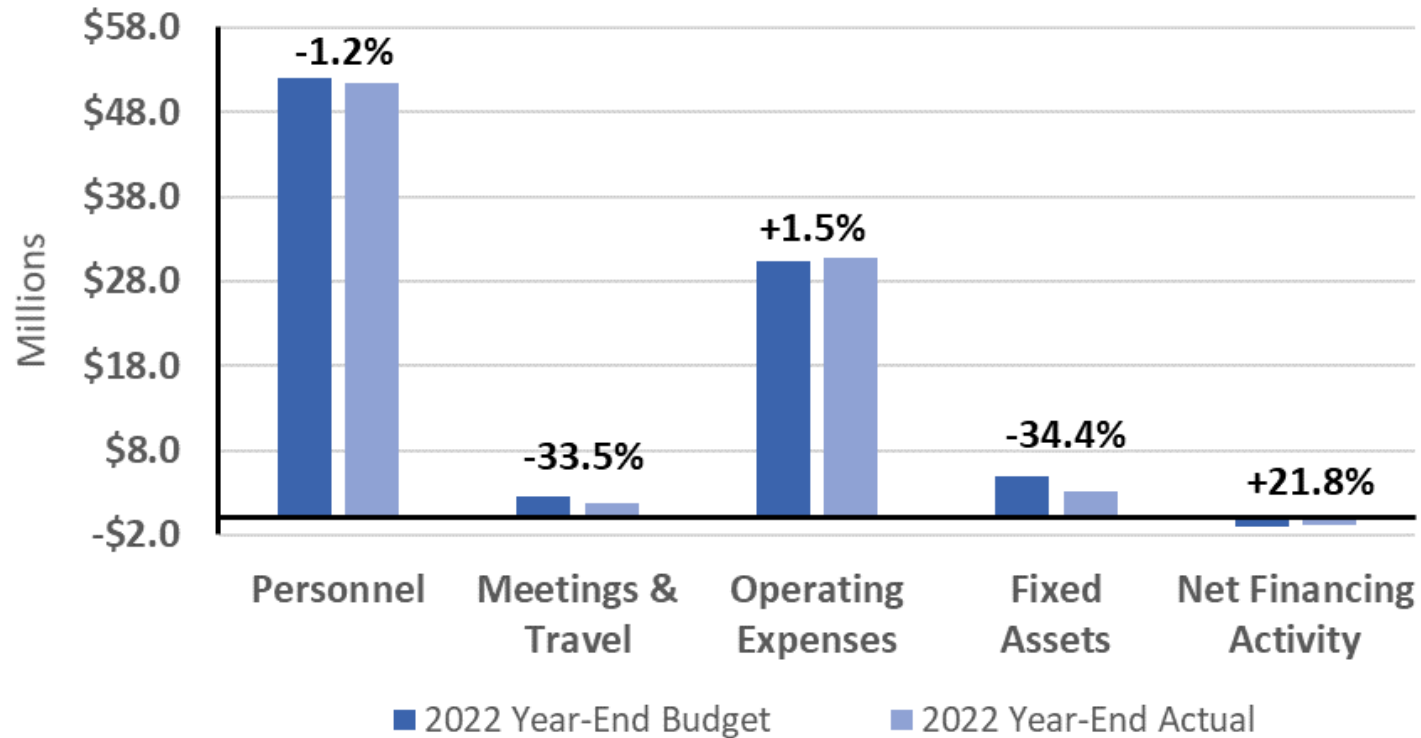
NERC Summary of Unaudited Results as of December 31, 2022

Andy Sharp, Vice President and Chief Financial Officer
Finance and Audit Committee Meeting
February 15, 2023

RELIABILITY | RESILIENCE | SECURITY

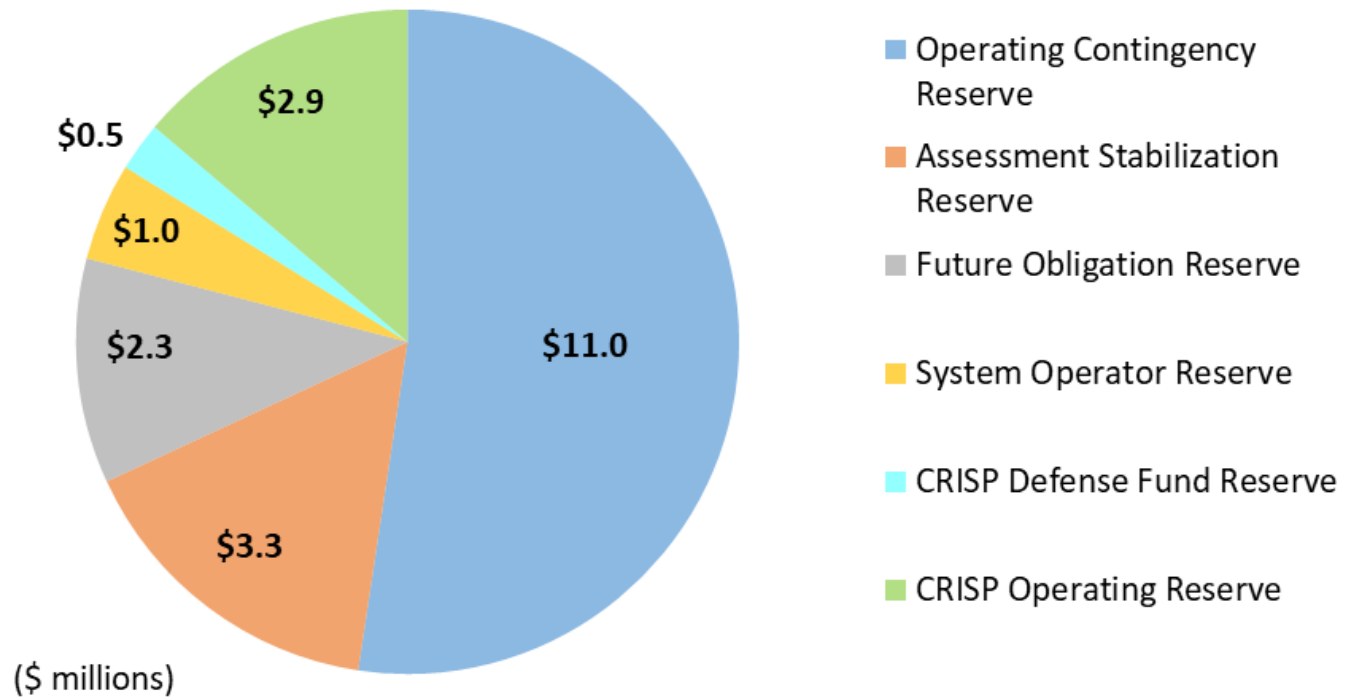


- Total funding – \$1.2M (1.4%) over budget
 - CRISP third party funding and higher investment income
- Total expenditures – \$2.5M (2.8%) under budget
 - Decreased spending on meetings and travel
 - Lower fixed asset additions on Atlanta office
 - Lower costs for training, search fees, temp labor, and parking/transportation costs
 - Partially offset by higher liability insurance expense and carrying costs on new DC office A/V and network equipment
- Reserve increase \$3.7M over budget



- Operating Contingency Reserve (OCR)
 - Began year with \$8.7M
 - Budgeted use of \$64k in 2022 to fund a portion of new Atlanta office
 - Actual net increase of \$2.3M from operating and financing activity
 - Ending balance of \$11.0M
- Assessment Stabilization Reserve (ASR) – \$3.3M
 - Penalty of \$735k received in 2022

TOTAL RESERVES OF \$21.0M



- Financial audit by RSM will begin in March
- Auditor's report and findings will be presented to the FAC in May

A stylized map of North America is centered on the page. The map is divided into three horizontal color bands: a light purple band at the top, a medium blue band in the middle, and a dark blue band at the bottom. The text "Questions and Answers" is overlaid on the middle band.

Questions and Answers

Total ERO Enterprise (NERC and Regional) Summary of Unaudited Results

December 31, 2022

The ERO Enterprise was under budget \$7.6M (3.4%) for combined expense and fixed asset (capital) spending and net financing activity. The budget variances ranged from 12.2% under budget to 0.5% under budget.

Total Budget (Total Expenses plus Fixed Assets & Net Financing Activity)

Entity	2022 YTD		Over (Under)	
	Actual	Budget	\$	%
NERC	\$ 86,352,336	\$ 88,828,285	\$ (2,475,949)	(2.8%)
MRO	19,668,768	20,034,362	(365,594)	(1.8%)
NPCC	15,393,635	17,465,133	(2,071,498)	(11.9%)
RF	26,094,903	26,219,927	(125,024)	(0.5%)
SERC	26,410,200	26,708,260	(298,060)	(1.1%)
Texas RE	15,064,367	17,160,613	(2,096,246)	(12.2%)
WECC	29,592,100	29,746,898	(154,798)	(0.5%)
	\$ 218,576,309	\$ 226,163,478	\$ (7,587,169)	(3.4%)

- NERC was under budget \$3.5M (2.8%) primarily because of lower personnel, meeting, and travel expenses, as well as lower fixed asset addition costs, and was partially offset by higher net financing activity and office costs.
- MRO was under budget \$366k (1.8%), mainly as a result of lower meeting and travel expenses due to MRO's hybrid approach to meetings with fewer in-person attendees, lower office costs as a result of the hybrid work environment, and other operating expenses trending lower than anticipated, offset by higher fixed asset expenditures due to an incomplete audio visual (AV) project from the prior year and an unbudgeted replacement of conference room carpet.
- NPCC was under budget \$2.1M (11.9%) mainly as a result of lower-than-budgeted personnel expenses and lower meetings and travel expenses due to the pandemic.
- RF was under budget \$125k (0.5%) mainly due to lower than budgeted travel, meetings, and training due to RF's new hybrid meeting approach and some impact early in the year from pandemic-related cancellations, coupled with lower employee benefit costs due to an FTE count that was under the anticipated staffing levels in the first half of the year. These items were partially offset by higher-than-expected salaries due to inflation-based increases in the last quarter, in addition to computer hardware and software, contracts and consultants, professional services, and rent and utility expenses.
- SERC was under budget \$298k (1.1%) largely due to the pandemic limiting in-person meetings and travel.

- Texas RE was under budget \$2.1M (12.2%) primarily due to FTE vacancies in the compliance department, travel not being fully engaged until Q3, and more meetings being attended virtually. This is offset by higher office costs for items for the new office space not meeting the capitalization threshold, and an outside audit not being conducted.
- WECC was under budget \$155k (0.5%) primarily due to the net of an underrun in personnel and travel expenses, overruns in computer software, maintenance, and licenses, and timing differences in consulting. Travel expenditures were impacted by the pandemic in the early part of the year and came in substantially under budget. Additionally, computer software, maintenance, and licenses was over budget due to unanticipated price increases, purchases of unbudgeted security products, and the unbudgeted purchase of PI Historian with Peak Reliability donation funds.

Variances by Expense, Fixed Asset, and Net Financing Activity Categories

Personnel Expenses

For the ERO Enterprise, personnel expenses, consisting of salaries, payroll taxes, benefits, and retirement costs, were collectively under budget \$3.3M (2.0%), ranging from 13.0% under budget to 0.5% over budget. The ERO Enterprise was under budget in FTEs by 26.5 (3.5%). Significant variances are explained below.

Entity	Actual	Budget	\$	%	Actual	Budget	\$	%
NERC	\$ 51,334,812	\$ 51,966,436	\$ (631,624)	(1.2%)	223.8	223.7	0.1	0.0%
MRO	15,350,365	15,276,981	73,384	0.5%	68.0	71.0	(3.0)	(4.2%)
NPCC	12,033,709	12,944,366	(910,657)	(7.0%)	44.1	47.9	(3.8)	(8.0%)
RF	22,129,048	22,281,438	(152,390)	(0.7%)	86.9	88.6	(1.7)	(1.9%)
SERC	21,361,434	21,255,049	106,385	0.5%	100.0	104.0	(4.0)	(3.8%)
Texas RE	11,108,537	12,767,318	(1,658,781)	(13.0%)	59.0	66.0	(7.0)	(10.6%)
WECC	23,800,279	23,898,504	(98,225)	(0.4%)	145.5	152.5	(7.0)	(4.6%)
	\$ 157,118,184	\$ 160,390,092	\$ (3,271,908)	(2.0%)	727.3	753.7	(26.5)	(3.5%)

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

- NERC was under budget \$631k (1.2%) largely as a result of lower temporary office labor, training, retirement plan, and parking and transportation expense due to a continued remote workforce.
- NPCC was under budget \$911k (7.0%) mainly as a result of several open positions throughout the year and lower-than-budgeted medical insurance premiums. NPCC onboarded 11 new employees and offboarded 6 employees during 2022 for a net increase of 5 employees: 2 less than budgeted.
- RF was under budget \$152k (0.7%) primarily due to personnel count that was below the approved staffing levels during the first half of the year and underutilized budgeted training due to more hybrid options. These variances were partially offset by board approved inflation-based salary adjustments in the last quarter of the year.

- SERC was over budget \$106k (0.5%) salaries over budget due to a combination of wage inflation and performance driven incentives, partially offset by favorable health insurance expense.
- Texas RE was under budget \$1.7M (13.0%) predominately due to vacancies in the Compliance department, and employee benefits were lower than budgeted due to health benefits not increasing as projected.
- WECC was under budget \$98k (0.4%) primarily due to the net of unbudgeted retention initiatives due to the tight labor market, an unanticipated health insurance premium rebate, budgeted benefits enrollment level assumptions compared to actual, and lower-than-anticipated use of the Health Reimbursement Account (HRA).

Meetings, Conference Calls, and Travel Expenses

For the ERO Enterprise, meetings, conference calls, and travel expenses were collectively under budget \$3.3M (41.0%). All entities were under budget because of decreased meeting and travel expenses due to the pandemic.

Meetings, Conference Calls, and Travel Expenses						
Entity	2022 Budget	Meetings & Conference Calls		2022 Actual	Over (Under)	
		Over (Under)	Travel Over (Under)		\$	%
NERC	\$ 2,608,050	\$ (511,846)	\$ (361,022)	\$ 1,735,182	\$ (872,868)	(33.5%)
MRO	760,547	(63,829)	(384,838)	311,881	(448,666)	(59.0%)
NPCC	736,172	(135,133)	(323,003)	278,036	(458,136)	(62.2%)
RF	980,635	(219,975)	(288,833)	471,827	(508,808)	(51.9%)
SERC	1,299,647	(146,379)	(257,800)	895,468	(404,179)	(31.1%)
Texas RE	443,585	(13,142)	(213,060)	217,383	(226,202)	(51.0%)
WECC	1,230,698	(60,958)	(326,296)	843,444	(387,254)	(31.5%)
	\$ 8,059,334	\$ (1,151,261)	\$ (2,154,852)	\$ 4,753,221	\$ (3,306,113)	(41.0%)

Operating Expenses

For the ERO Enterprise, operating expenses, consisting of contracts and consultants expenses, office rent, office costs, professional services, and miscellaneous costs, were collectively under budget \$190k (0.4%). Significant variances are explained below.

Operating Expenses									
Entity	2022 Budget	Contracts & Consulting Expenses		Professional Services		Miscellaneous Over (Under)	2022 Actual	Over (Under)	
		Over (Under)	Office Rent Over (Under)	Office Costs Over (Under)	Over (Under)			\$	%
NERC	\$ 30,300,049	\$ 36,186	\$ (29,756)	\$ 188,950	\$ 309,466	\$ (57,531)	\$ 30,747,364	\$ 447,315	1.5%
MRO	3,871,834	(65,857)	(81,719)	(181,315)	(125,179)	-	3,417,764	(454,070)	(11.7%)
NPCC	4,031,862	(433,643)	5,612	(280,075)	(72,100)	(35,905)	3,215,752	(816,110)	(20.2%)
RF	2,837,854	190,855	123,918	151,532	90,892	718	3,395,769	557,915	19.7%
SERC	3,889,564	(246,629)	(9,062)	185,022	(59,488)	-	3,759,407	(130,157)	(3.3%)
Texas RE	3,117,710	58,691	(439,549)	334,068	(113,992)	-	2,956,928	(160,782)	(5.2%)
WECC	5,200,848	54,869	6,315	176,736	128,148	-	5,566,916	366,068	7.0%
	\$ 53,249,721	\$ (405,528)	\$ (424,241)	\$ 574,918	\$ 157,748	\$ (92,718)	\$ 53,059,900	\$ (189,821)	(0.4%)

- NERC was over budget \$447k (1.5%) primarily due to two IT security contractors that were not budgeted, and the CRISP department is over budget mainly because of new program participants that joined in 2022, as well as existing participants who purchased equipment during the year. These over budget amounts are partially offset by HR being under budget because of lower than expected training program costs. Office Costs, Professional Services, and Miscellaneous expenses are over budget largely due to increased costs for liability insurance and carrying costs on new DC office audio visual and network equipment, and are partially offset by lower outside legal counsel and software costs.
- MRO was under budget \$454k (11.7%), which is attributable to reduced spending in contracts consultants, office rent, and office costs as MRO realizes the impact of its hybrid work environment.
- NPCC was under budget \$816k (20.2%) predominately due to lower than budgeted RAPA contract expenses and IT expenses. Under budget IT costs were partially offset by an over budget increase in fixed assets related to equipment purchases and software development projects previously planned for 2023 being advanced into 2022.
- RF was over budget \$558k (19.7%) primarily due to unbudgeted contractor and consultant data analytics support, unbudgeted software security enhancements, unbudgeted laptop replacements to address possible supply chain issues, increased rent and utilities related to an office expansion and extension, and additional professional services costs for an independent director approved by the Board in May 2021 not included in the budget.
- SERC was under budget \$130k (3.3%) primarily because of certain deferred IT projects and RAPA studies and unused legal fees, offset by higher than anticipated costs for critical security software.
- Texas RE was under budget \$161k (5.2%) due to utilities and maintenance for the office space being less than anticipated. A new lease started in April 2022 causing the straight line rent expense to be reduced. This was offset by increased contracts and consultants expenses related to a an unbudgeted IT Leadership Team Cross Function consultant, unused legal fees, and an external IT audit that did not occur.
- WECC was over budget \$366k (7.0%) primarily due to the net of timing of IT consulting and modeling enhancement consulting budgeted for in 2021 but completed in early 2022, the procurement of the PI Historian Database system (funded by the Peak Reliability Donation), unbudgeted legal fees related to unanticipated regulatory activities, unbudgeted consulting for knowledge transfer efforts on protection and controls standards, and higher-than-anticipated renewal rates of insurance policies.

Indirect Expense Allocation

NPCC and WECC allocate overhead expenses to their non-statutory functions. At year end, NPCC allocated \$78k (21.8%) less than budgeted and WECC allocated \$15k (2.1%) more than budgeted.

Fixed Asset (Capital) Additions

For the ERO Enterprise, fixed asset (capital) additions were under budget \$1.1M (18.6%). Significant variances are explained below.

Entity	2022	Computer &	Furniture and	Equipment	Leasehold	Capital Lease	Allocation of	2022	Over (Under)	
	YTD Budget	Software CapEx	Fixtures CapEx	CapEx	Improvements	Assets	Fixed Assets	YTD Actual	\$	%
NERC	\$ 4,918,750	\$ 1,148,550	\$ -	\$ 604,807	\$ -	\$ 1,471,664	\$ -	\$ 3,225,021	\$ (1,693,729)	(34.4%)
MRO	125,000	543,835	-	-	-	-	44,923	588,758	463,758	371.0%
NPCC	111,150	162,325	-	-	-	-	-	162,325	51,175	46.0%
RF	120,000	8,224	5,448	213,690	(129,103)	-	-	98,259	(21,741)	(18.1%)
SERC	264,000	173,022	-	220,869	-	-	-	393,891	129,891	49.2%
Texas RE	512,000	-	400,000	54,336	-	-	-	454,336	(57,664)	(11.3%)
WECC	111,914	17,906	-	73,545	-	-	-	91,451	(20,463)	(18.3%)
	\$ 6,162,814	\$ 2,053,862	\$ 405,448	\$ 1,167,247	\$ (129,103)	\$ 1,471,664	\$ 44,923	\$ 5,014,041	\$ (1,148,773)	(18.6%)

- NERC was under budget \$1.7M (34.4%) primarily as a result of leasehold improvements, office furniture, and audio visual equipment budgeted for a new Atlanta office that did not materialize.
- MRO was over budget \$464k (371.0%), which is due to the completion of a prior year budgeted AV project that was impacted by supply chain issues. Supply chain issues also necessitated procurement of budgeted IT network equipment scheduled for January 2023. Also, replacement of conference room carpet was unbudgeted. Year-end underage from other budget areas should cover this over spend, however, working capital savings from the prior year is available to cover this cost should year-end actuals exceed projections.
- NPCC was over budget \$51k (46.0%) related to equipment purchases and software development projects previously planned for 2023 being advanced into 2022. Over budget fixed asset additions were offset by lower than budgeted IT operating expenses.
- RF was under budget \$22K (18.1%) primarily due to lower than anticipated computer software costs.
- SERC was over budget \$130k (109%) due to continued work towards completion of Member Portal Consolidation project.
- Texas RE was under budget \$58k (11.3%) due to savings in the furniture, fixtures, and equipment for the new office space.
- WECC was under budget \$20k (18.3%) primarily due to the timing of server refreshes.

Net Financing Activity

NERC is the only entity in the ERO Enterprise with financing activity, consisting of loan borrowing, lease financing, and principal debt service repayment for major ERO software projects, such as Align and the ERO Secure Evidence Locker (SEL), and leased AV and IT equipment.

Net financing activity is over budget by \$240k (21.8%), which means NERC made more principal payments than borrowings.

Total ERO Enterprise Reserves

ERO reporting of reserves includes the following three categories:

- **Working Capital and Operating Contingency Reserves (WCOCR)** – Includes excess working capital reserves and operating contingency reserves. These reserves typically have a policy target range.
- **Assessment Stabilization Reserves (ASR) and Unreleased Penalties** – Includes funds from penalties received but not yet released against assessments, and other surplus funds designated by the entity, to help reduce the volatility of future year assessments. Note that penalties received but not released are subject to timing of when they can be released to offset assessments as determined by the Rules of Procedure, with some exceptions provided with the proper request and filing of the entity’s annual Business Plan and Budget as approved by FERC.
- **Other Reserves** – Includes funds set aside for a specific purpose and will offset future budgeted expense items.

2022 Total Reserve Summary

The ERO Enterprise began the year with \$77.3M in total reserves, including \$43.1M in WCOCR, \$25.5M in ASR and Unreleased Penalties, and \$8.7M in Other Reserves.

The ERO Enterprise ended the year with \$96.5M in total reserves, including \$46.8M in WCOCR, \$39.4M in ASR and Unreleased Penalties, and \$10.3M in Other Reserves. The WCOCR for the end of the year is 21.0% of the 2022 ERO Enterprise combined budget, or 2.5 months of operating expenses. The total reserves for the end of the year represents 43.3% of the 2022 ERO Enterprise combined budget, or 5.2 months of operating expenses.

ERO Enterprise Total Reserve Balances - 2022 Year End Reserves

\$ - millions

Entity	Beginning WCOCR ⁽¹⁾	Beginning ASR ⁽²⁾ & Unreleased Penalties	Beginning Other Reserves	1/1/2022 Beginning Total Reserves	Year End WCOCR ⁽¹⁾	Year End ASR ⁽²⁾ & Unreleased Penalties	Year End Other Reserves	12/31/2022 Year End Total Reserves	Total 2022 Budget	% of Reserves to 2022 Total Budget
NERC	\$ 8.7	\$ 2.5	\$ 4.9	\$ 16.1	\$ 11.0	\$ 3.3	\$ 6.7	\$ 21.0	\$ 88.8	23.6%
MRO	5.2	3.2	-	8.4	4.1	2.8	-	6.9	18.3	37.7%
NPCC	7.0	0.5	-	7.5	7.5	1.1	-	8.6	17.5	49.1%
RF	7.7	5.3	-	13.0	8.0	4.3	-	12.3	26.9	45.7%
SERC	2.8	5.4	-	8.2	2.6	5.8	-	8.4	26.0	32.3%
Texas RE	2.0	1.9	-	3.9	2.0	1.9	-	3.9	15.6	25.0%
WECC	9.7	6.7	3.8	20.2	11.6	20.2	3.6	35.4	29.7	119.0%
	\$ 43.1	\$ 25.5	\$ 8.7	\$ 77.3	\$ 46.8	\$ 39.4	\$ 10.3	\$ 96.5	\$ 222.8	43.3%

⁽¹⁾ WCOCR - Working Capital & Operating Contingency Reserve - Year End 12/31/22 WCOCR is 21.0% of annual 2022 budget, or 2.5 months of budgeted expenses

⁽²⁾ ASR - Assessment Stabilization Reserve

⁽³⁾ Year End 12/31/22 total reserve balance is 43.3% of annual 2022 budget, or 5.2 months of budgeted operating expenses

The table below provides a summary of the actual to budgeted year-end reserve balances for the ERO Enterprise. Total actual year-end reserves are \$96.5M, which is \$51.1M higher than budgeted. A significant portion of the unbudgeted reserve increase is from penalty collections in 2022 and higher than budgeted reserve balances at the beginning of the year. Also, NERC reserve balances are higher due to unbudgeted lease concessions received on the current Atlanta office space, higher CRISP reserves, and the avoidance of Operating Contingency and Future Obligation reserve usage for a potential move to a new Atlanta office location that did not materialize.

2022 ERO Enterprise Year-End Actual versus Budgeted Reserves

\$ - millions

Entity	Actual			Actual Ending Total Reserves	Budgeted			Over/(Under) Ending WCOCR ⁽¹⁾	Over/(Under)			Over/(Under) Total Reserves
	Actual Ending WCOCR ⁽¹⁾	Ending ASR ⁽²⁾ & Unreleased Penalties	Actual Ending Other Reserves		Budgeted Ending WCOCR ⁽¹⁾	Ending ASR ⁽²⁾ & Unreleased Penalties	Budgeted Ending Other Reserves		Budgeted Ending Total Reserves	Ending ASR ⁽²⁾ & Unreleased Penalties	Ending Other Reserves	
NERC	\$ 11.0	\$ 3.3	\$ 6.7	\$ 21.0	\$ 4.3	\$ 2.5	\$ 1.9	\$ 8.7	\$ 6.7	\$ 0.8	\$ 4.8	\$ 12.3
MRO	4.1	2.8	-	6.9	4.4	0.9	-	5.3	(0.3)	1.9	-	1.6
NPCC	7.5	1.1	-	8.6	3.8	0.4	-	4.2	3.7	0.7	-	4.4
RF	8.0	4.3	-	12.3	7.7	-	-	7.7	0.3	4.3	-	4.6
SERC	2.6	5.8	-	8.4	1.6	2.2	-	3.8	1.0	3.6	-	4.6
Texas RE	2.0	1.9	-	3.9	1.3	1.3	-	2.6	0.7	0.6	-	1.3
WECC	11.6	20.2	3.6	35.4	9.7	-	3.4	13.1	1.9	20.2	0.2	22.3
	\$ 46.8	\$ 39.4	\$ 10.3	\$ 96.5	\$ 32.8	\$ 7.3	\$ 5.3	\$ 45.4	\$ 14.0	\$ 32.1	\$ 5.0	\$ 51.1

⁽¹⁾ WCOCR - Working Capital & Operating Contingency Reserve

⁽²⁾ ASR - Assessment Stabilization Reserve

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

Agenda Item 2b
Attachment 1

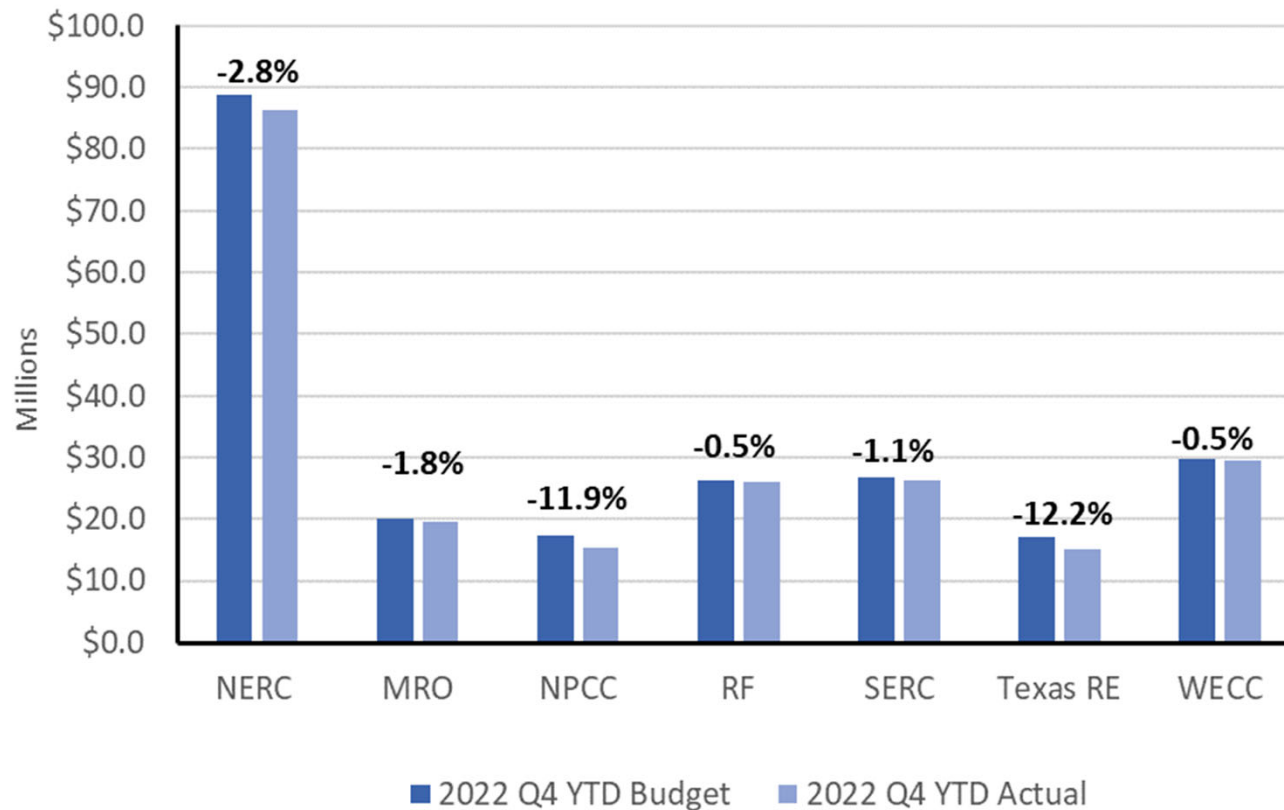
Total ERO Enterprise Summary of Unaudited Results as of December 31, 2022

Andy Sharp, Vice President and Chief Financial Officer
Finance and Audit Committee Meeting
February 15, 2023

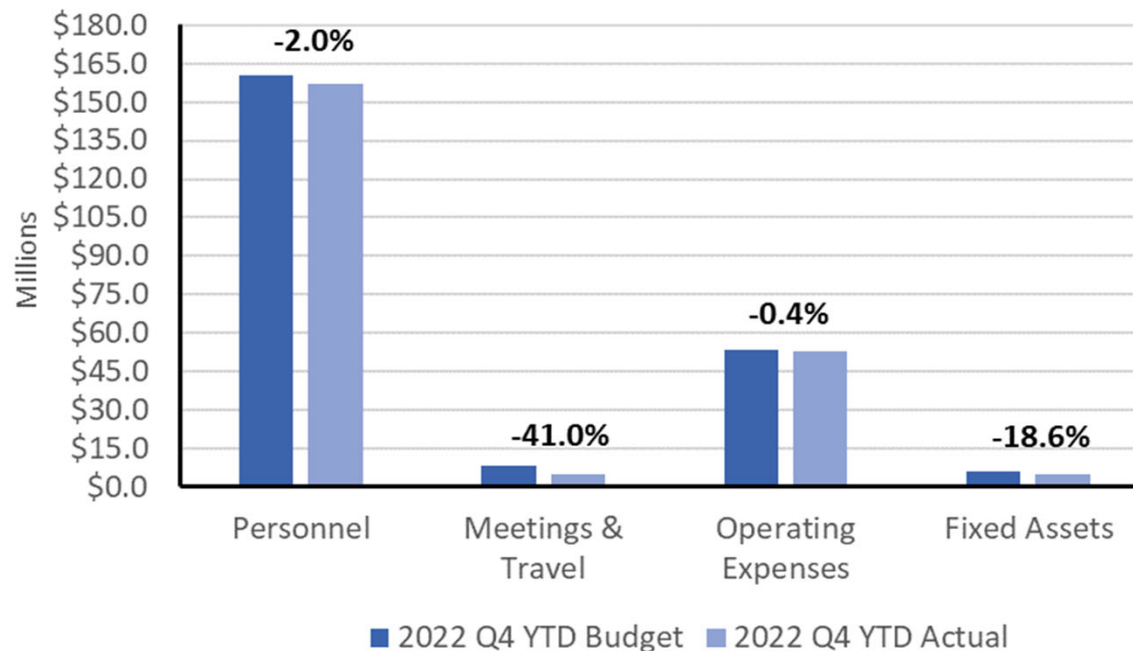
RELIABILITY | RESILIENCE | SECURITY

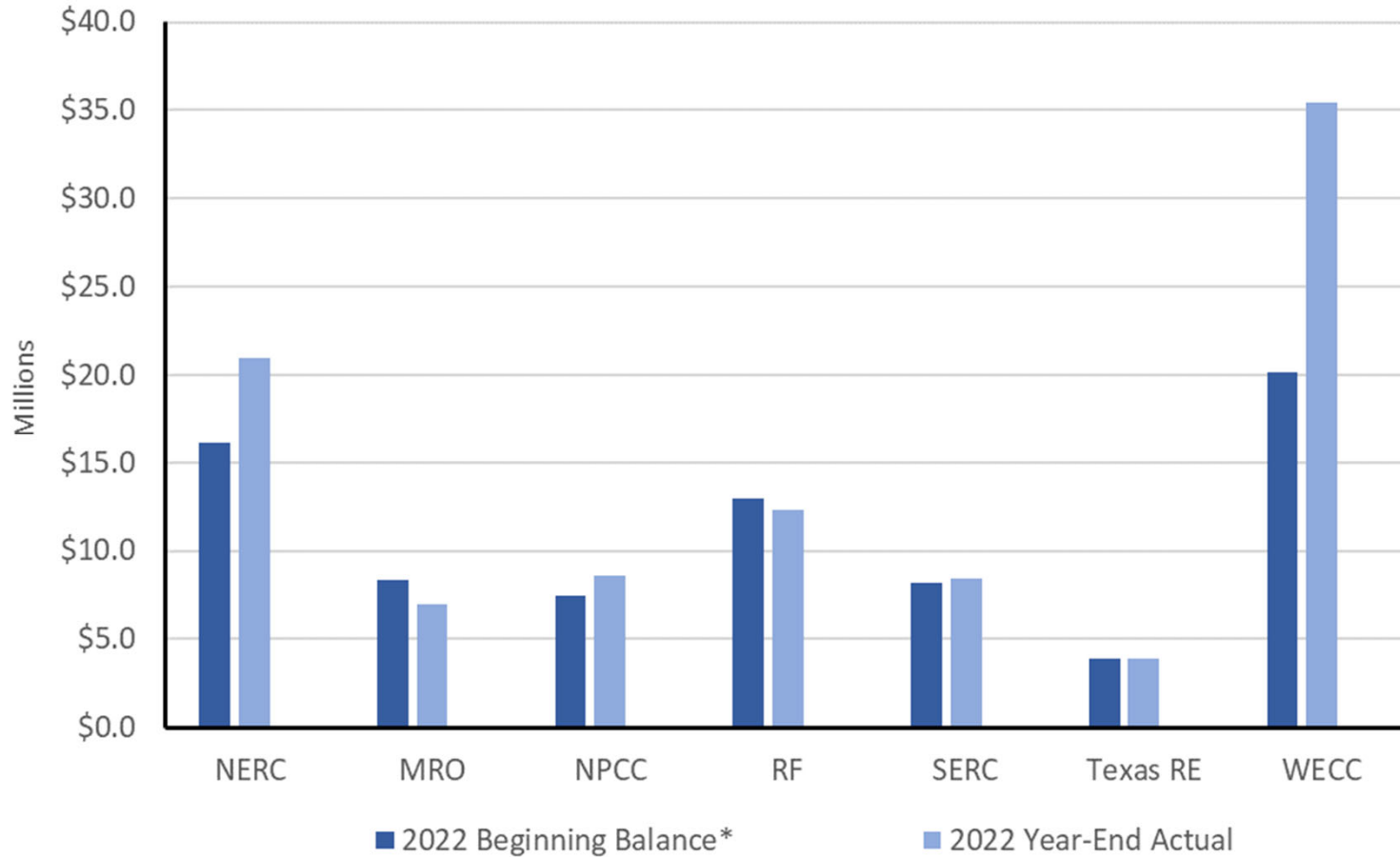


- Total expenditures for the ERO Enterprise were under budget \$7.6M (3.4%)



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





**Adjusted for audited results*

ERO Enterprise Total Reserve Balances - 2022 Year End Reserves

\$ - millions

Entity	Beginning WCOCR ⁽¹⁾	Beginning ASR ⁽²⁾ & Unreleased Penalties	Beginning Other Reserves	1/1/2022 Beginning Total Reserves	Year End WCOCR ⁽¹⁾	Year End ASR ⁽²⁾ & Unreleased Penalties	Year End Other Reserves	12/31/2022 Year End Total Reserves	Total 2022 Budget	% of Reserves to 2022 Total Budget
NERC	\$ 8.7	\$ 2.5	\$ 4.9	\$ 16.1	\$ 11.0	\$ 3.3	\$ 6.7	\$ 21.0	\$ 88.8	23.6%
MRO	5.2	3.2	-	8.4	4.1	2.8	-	6.9	18.3	37.7%
NPCC	7.0	0.5	-	7.5	7.5	1.1	-	8.6	17.5	49.1%
RF	7.7	5.3	-	13.0	8.0	4.3	-	12.3	26.9	45.7%
SERC	2.8	5.4	-	8.2	2.6	5.8	-	8.4	26.0	32.3%
Texas RE	2.0	1.9	-	3.9	2.0	1.9	-	3.9	15.6	25.0%
WECC	9.7	6.7	3.8	20.2	11.6	20.2	3.6	35.4	29.7	119.0%
	\$ 43.1	\$ 25.5	\$ 8.7	\$ 77.3	\$ 46.8	\$ 39.4	\$ 10.3	\$ 96.5	\$ 222.8	43.3%

⁽¹⁾ WCOCR - Working Capital & Operating Contingency Reserve - Year End 12/31/22 WCOCR is 21.0% of annual 2022 budget, or 2.5 months of budgeted expenses

⁽²⁾ ASR - Assessment Stabilization Reserve

⁽³⁾ Year End 12/31/22 total reserve balance is 43.3% of annual 2022 budget, or 5.2 months of budgeted operating expenses

2022 ERO Enterprise Year-End Actual versus Budgeted Reserves

\$ - millions

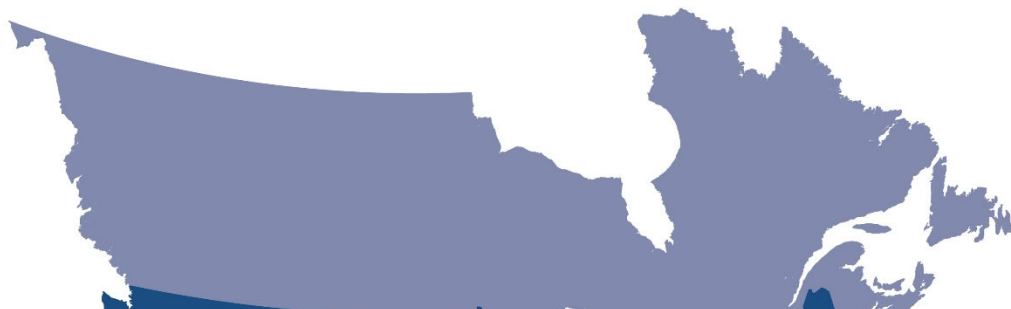
Entity	Actual Ending Total Reserves	Budgeted Ending Total Reserves	Over/(Under) Ending WCOCR ⁽¹⁾	Over/(Under) Ending ASR ⁽²⁾ & Unreleased Penalties	Over/(Under) Ending Other Reserves	Over/(Under) Total Reserves
NERC	\$ 21.0	\$ 8.7	\$ 6.7	\$ 0.8	\$ 4.8	\$ 12.3
MRO	6.9	5.3	(0.3)	1.9	-	1.6
NPCC	8.6	4.2	3.7	0.7	-	4.4
RF	12.3	7.7	0.3	4.3	-	4.6
SERC	8.4	3.8	1.0	3.6	-	4.6
Texas RE	3.9	2.6	0.7	0.6	-	1.3
WECC	35.4	13.1	1.9	20.2	0.2	22.3
	\$ 96.5	\$ 45.4	\$ 14.0	\$ 32.1	\$ 5.0	\$ 51.1

⁽¹⁾ WCOCR - Working Capital & Operating Contingency Reserve

⁽²⁾ ASR - Assessment Stabilization Reserve

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION



Questions and Answers





Lam Chung, Corporate Treasurer

P: 651.256.5187

F: 651.855.1712

E: lam.chung@mro.net

January 20, 2023

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

RE: Unaudited Midwest Reliability Organization (MRO) 2022 Fourth Quarter Statement of Activity –
Cash Flow through December 31, 2022

Dear Mr. Sharp:

MRO experienced variances greater than \$10,000 and 10 percent. Fourth quarter results indicate that MRO's budget remains underspent by 1.8 percent.

Meeting Expenses (Variance of \$448,666 (59.0%) under budget)

There was increased meetings and travel in 2022 but costs trended lower than budget due to the hybrid approach of conducting meetings, which resulted in fewer in-person attendees.

Operating Expenses (Variance of \$454,070 (11.4%) under budget)

Spending in consulting, contracts, office costs, and professional services increased during the last quarter but costs were lower than budgeted for the year. Costs for consultants were less than anticipated. MRO used external support less than anticipated as it continues to manage its systems and processes with internal staff.

Fixed Assets (Variance of \$463,758 (371.0%) over budget)

A budgeted AV project from the prior year was completed in the current year. The purchase of IT network equipment budgeted for 2023 was advanced to 2022 in order to circumvent supply chain challenges. An unbudgeted carpet replacement was completed at year-end.

2022 Budget Summary and 2023 Budget Outlook

Personnel expenses were 0.5% over budget due to a combination of turnover, retirements, retention pay, and mid-year promotions and leaving MRO not fully staffed at year-end. Reallocation of costs in meeting and operating expenses offset the unbudgeted costs in personnel and fixed assets. At this time, we expect to meet the 2023 budget. There are external factors that may continue to present some uncertainty to the budget in the form of hybrid meetings, potential turnover and hiring costs, and supply-chain delays in procurement of supplies and equipment.

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
12/31/2022
PRELIMINARY (Unaudited)**

(In Whole Dollars)

	2022 YTD Actual	2022 YTD Budget	2022 YTD Variance	%
Funding				
ERO Funding				
ERO Assessments	\$ 17,832,414	\$ 17,832,414	-	
Penalty Sanctions	458,250	458,250	-	
A. Total ERO Funding	\$ 18,290,665	\$ 18,290,664	\$ -	
Expenses				
Personnel Expenses				
Salaries	\$ 11,671,159	\$ 11,416,561	254,598	
Payroll Taxes	688,459	744,166	(55,707)	
Benefits	1,188,645	1,193,996	(5,351)	
Retirement Costs	1,802,103	1,922,258	(120,155)	
Total Personnel Expenses	\$ 15,350,365	\$ 15,276,981	\$ 73,384	0.5%
Meeting Expenses				
Meetings & Conference Calls	\$ 115,048	\$ 178,877	(63,829)	
Travel	196,832	581,670	(384,838)	
Total Meeting Expenses	\$ 311,881	\$ 760,547	\$ (448,666)	-59.0%
Operating Expenses				
Consultants & Contracts	\$ 1,138,943	\$ 1,204,800	(65,857)	
Office Rent	1,050,381	1,132,100	(81,719)	
Office Costs	786,619	967,934	(181,315)	
Professional Services	441,821	567,000	(125,179)	
Total Operating Expenses	\$ 3,417,764	\$ 3,871,834	\$ (454,070)	-11.7%
Total Direct Expenses	\$ 19,080,010	\$ 19,909,362	\$ (829,352)	-4.2%
Indirect Expenses				
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
B. Total Expenses	\$ 19,080,010	\$ 19,909,362	\$ (829,352)	
Net Funding less Expenses (A-B)	\$ (789,346)	\$ (1,618,698)	\$ 829,352	
C. Fixed Asset Additions, excluding Right of Use Assets				
Computer & Software CapEx	543,835	125,000	418,835	
Furniture & Fixtures CapEx	-	-	-	
Equipment CapEx	-	-	-	
Leasehold Improvements	44,923	-	44,923	
Total Budget (B + C)	\$ 19,668,768	\$ 20,034,362	\$ (365,594)	-1.8%
Change in Working Capital (A-B-C)	\$ (1,378,104)	\$ (1,743,698)	\$ 365,594	
Head Count	68.00	71.00	(3.00)	
FTEs	68.00	71.00	(3.00)	

Reserve Activity:

Beginning Reserves - 1/1/22	\$ 8,377,927	\$ 7,541,460	\$ 836,467
Change to Working Capital	(1,378,104)	(1,743,698)	365,594
Penalties Received	392,126	-	392,126
Penalties Released	(458,250)	(458,250)	-
Other Reserve Activity	-	-	-
Ending Reserves at 12/31/22 :	\$ 6,933,699	\$ 5,339,512	\$ 1,594,187

Reserve Summary

	1/1/2022	Additions	Uses/Transfer	12/31/2022
Working Capital & Operating Contingency	3,752,946	365,594	-	4,118,540
Assessment Stabilization & Penalty Reserves	4,624,981	392,126	(2,201,948)	2,815,159
Other Reserve Activity	-	-	-	-
Total Reserves	8,377,927	757,720	(2,201,948)	6,933,699



January 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
Fourth Quarter 2022 Statement of Activities

Dear Andy:

The variance comparison for the period ended December 31, 2022 is included along with Northeast Power Coordinating Council, Inc.'s unaudited Fourth Quarter 2022 Statement of Activities.

Please do not hesitate to contact me via email at 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 December 31, 2022**

TOTAL EXPENSES

For the year ending December 31, 2022, the NPCC Regional Entity Division is \$2.1M or 11.9% under budget, based on invoices received to date. This under spend will be added to NPCC's working capital and operating reserves and be utilized to reduce future assessments to fund operations. Meetings and travel expenses were significantly under budget as a result of in-person meetings and travel being suspended through mid-year due to the COVID-19 pandemic. Despite several partial year open positions, resulting in lower than budgeted personnel expenses, NPCC successfully reprioritized 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 \$201k were applied to reduce 2022 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.
- **Workshop Fees** (Variance of \$14k under budget at year end)
NPCC hosted one in-person workshop in the fall of 2022. The workshop was offered in a hybrid format with in-person and virtual participation options available. Workshop fees are lower than budgeted due to some virtual participation. Fees are only charged for in-person attendance at workshops in order to offset the associated expenses. There are no fees collected for virtual attendance.
- **Interest & Investment Income** (Actual income of \$60k at year end)
Interest & investment income is earned from the investment of excess operating cash in a 100% U.S. Treasury Securities money market fund. NPCC allocated \$60k as a portion of total interest income (94%) to the Regional Entity Division consistent with the ratio of Regional Entity (RE) to Criteria Services (CS) Division 2022 funding. A common system of accounts, with divisional separation, is used for both RE and CS revenue tracking and financial reporting.



EXPENSES

- **Personnel Expenses** (Variance of \$911k under budget at year end)
NPCC onboarded 11 new employees and offboarded 6 employees during 2022 for a net increase of 5 employees: 2 less than budgeted. NPCC is currently recruiting to retain qualified technical individuals to fill open positions. In the interim, current responsibilities of any open positions are being addressed through resource re-allocations among the existing workforce. Lower than budgeted increases in medical insurance premiums also contributed to the under budget variance at year end.
- **Meeting Expenses** (Variance of \$458k under budget at year end)
Under budget variance resulted from continued in-person meeting and travel limitations through mid-year due to the COVID-19 pandemic. Meetings and travel expenses increased in the second half of the year as a result of a measured return to meeting in-person. Some meetings will continue to be held in virtual or hybrid format to allow for remote participation and greater access.
- **Consultants and Contracts** (Variance of \$434k under budget at year end)
Under budget variance resulted from less reliability assessments and studies required in 2022 than planned for when the budget was completed in 2021.
- **Rent and Improvements** (Variance of \$6k over budget at year end)
Lower than budgeted landlord operating costs are offset by one-time costs associated with the early termination of the current office lease, which would otherwise terminate in June 2024. NPCC executed a new lease for a smaller office space to accommodate the hybrid work environment while realizing long term occupancy cost savings beginning in 2023.
- **Office Costs** (Variance of \$280k under budget at year end)
Under budget variance is due to several IT software contracts and license renewals negotiated lower than budgeted. Under budget IT costs are partially offset by over budget increase in fixed assets related to equipment purchases and software development projects previously planned for 2023 being advanced into 2022.
- **Professional Services** (Variance of \$72k under budget at year end)
Under budget variance is due to lower than budgeted legal fees resulting from less use of outside counsel. The underage is partially offset by higher than budgeted audit fees related to additional work required to complete the 2021 audit and higher than budgeted liability insurance premiums.
- **Fixed Assets** (Variance of \$51k over budget at year end)
Over budget variance is due to equipment purchases and software development projects, which include website enhancements and the implementation of an enterprise risk management system. The overage is offset by lower than budgeted IT office costs.

*(Unaudited)
Submitted January 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 December 31, 2022

	2022 YTD Actual	2022 YTD Budget	2022 YTD Actual Variance from Budget Over(Under)	%
Funding				
Assessments	15,912,312	15,912,312	-	
Penalties Released*	201,132	201,132	-	
Testing	-	-	-	
Services & Software	-	-	-	
Workshop Fees	20,250	33,750	(13,500)	
Interest & Investment Income	59,503	28,465	31,037	
Total Funding	16,193,197	16,175,659	17,537	0.1%
Expenses				
Personnel Expenses				
Salaries	8,637,360	9,072,408	(435,047)	
Payroll Taxes	611,494	595,815	15,679	
Employee Benefits	1,941,420	2,234,738	(293,317)	
Savings & Retirement	843,434	1,041,405	(197,971)	
Total Personnel Expenses	12,033,709	12,944,366	(910,657)	-7.0%
Meeting Expenses				
Meetings & Conference Calls	95,467	230,600	(135,133)	
Travel	182,569	505,572	(323,003)	
Total Meeting Expenses	278,036	736,172	(458,136)	-62.2%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	406,007	839,650	(433,643)	
Rent & Improvements	911,753	906,141	5,612	
Office Costs	937,996	1,218,071	(280,075)	
Professional Services	944,900	1,017,000	(72,100)	
Miscellaneous	15,095	51,000	(35,905)	
Total Operating Expenses	3,215,752	4,031,862	(816,110)	-20.2%
Indirect Expense Allocation	(280,259)	(358,417)	78,158	-21.8%
Other Non-Operating Expenses	(15,928)	-	(15,928)	n/a
Total Expenses	15,231,310	17,353,983	(2,122,673)	-12.2%
Change in Net Assets	961,887	(1,178,324)	2,140,211	-181.6%
Fixed Asset Additions, excluding Right of Use Assets	162,325	111,150	51,175	46.0%
Net Financing Activity	-	-	-	n/a
Total Budget (Expenses plus Fixed Assets and Net Financing Activity)	15,393,635	17,465,133	(2,071,498)	-11.9%
Change in Working Capital (Total Funding less Total Budget)	799,562	(1,289,474)	2,089,036	-162.0%
Equivalent Full Time Employees	44.07	47.90	(3.83)	
Headcount	50.00	52.00	(2.00)	
Beginning Total Reserves - 1/1/22	7,452,044	6,179,595	1,272,449	
Change to Working Capital	799,562	(1,289,474)	2,089,036	
Penalties Received (+)	545,098	-	545,098	
Penalties Released (-)	(201,132)	(201,132)	-	
Other Reserve Activity	-	-	-	
Total Reserves at 12/31/22	8,595,572	4,688,989	3,906,583	
Reserve Balance Summary				
Working Capital & Operating Contingency Reserves	7,523,669	4,286,121	3,237,548	
Assessment Stabilization & Penalty Reserves	1,071,903	402,868	669,035	
Other Reserves	-	-	-	
Total Projected Reserve Balance at 12/31/22	8,595,572	4,688,989	3,906,583	

*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

January 23, 2022

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

ReliabilityFirst's 2022 4th Quarter Statement of Activities Variance Report - Unaudited

Dear Mr. Andy Sharp:

As requested, the attached 2022 4th Quarter Statement of Activities (unaudited) provides a comparison of budgeted and actual expenses relative to the 2022 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 2022 4th Quarter Statement of Activities Variance Report - Unaudited

Significant Variances

For the quarter ending December 31, 2022 ReliabilityFirst Corporation was \$125K (0.5%) under budget. The major contributors to this variance were:

Budget Funding

- **Investment Income:** \$415K under budget for YTD
 - Investment Income was under budget due to a greater than anticipated decrease in value of the company's investment portfolio, primarily the result of unrealized losses.

Budget Expenses

- **Personnel Expenses**
 - **Salaries:** \$101K (0.6%) over budget for YTD
Salaries were over budget primarily as the result of board approved inflation related salary adjustments that occurred in the fourth quarter, offset partially by personnel count that was below the approved staffing levels during the first half of the year.
 - **Employee Benefits:** \$177K (7.3%) under budget for YTD
Employee Benefits were under budget mainly due to variances in training and medical benefits. Training was under budget primarily as the result of employees utilizing more virtual training options than were anticipated in the budget, in addition to lower than budgeted personnel count in the first half of the year. Medical benefits were under budget due to personnel count that was below the approved staffing levels in the first half of the year, along with employees selecting medical plans that differed from what was budgeted.
 - **Savings and Retirement Costs:**
Savings and Retirement Costs were \$81K (3.1%) under budget primarily due to a lower than budgeted personnel count in the first half of the year and differences in employee's actual deferral percentages compared to budgeted deferrals.
- **Meeting Expenses**
 - **Total Meeting Expenses:** \$509K (51.9%) under budget for YTD
Total meeting expenses were under budget primarily due to a post COVID hybrid approach which includes lower than budgeted in person attendance to various activities and events that impact both travel and meetings, as well as some lingering cancellations due to COVID during the first half of the year.
- **Operating Expenses**
 - **Contracts & Consultants:** \$191K (42.5%) over budget for YTD



RELIABILITY FIRST

Contracts and Consultants expense was over budget primarily due to greater than anticipated data analytics support and placement fees for an open VP position.

- **Rent & Utilities:** \$124K (20.7%) over budget for YTD
Rent & Utilities were over budget primarily due to the 5th floor office expansion and lease extension.
- **Office Costs:** \$152K (13.7%) over budget for YTD.
Office Costs and Computer Hardware & Software were over budget primarily due to a laptop replacement program impacting all employees in 2022, instead of half of the employees per budget to address possible supply chain delays, in addition to unbudgeted security software upgrades.
- **Professional Services:** \$91K (14.4%) over budget for YTD
Professional Services was over budget due to fees for an additional independent director approved by the board in May 2021 not included in the budget.

Fixed Assets

- **Computer Hardware & Software:** \$22K (18.1%) under budget for YTD
Computer Hardware & Software was under budget due to lower than anticipated computer software costs.

FTE Count

- FTE Count was lower than budget primarily due to several positions that were unfilled during the first half of the year.

Reserves

- **Working Capital Reserve**
The Working Capital Reserve of \$6,743,577 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.



ReliabilityFirst Corporation
Statement of Activities, Fixed Assets and Change in Working Capital
(unaudited)
From 01/01/2022 Through 12/31/2022
(in Whole Numbers)

CONFIDENTIAL

	2022 YTD Actual	2022 YTD Budget	YTD Variance Over/(Under)	% Variance
Funding				
Assessments	23,447,945	23,447,945	0	0.00%
Penalties Released *	3,488,681	3,488,681	0	0.00%
Investment Income	(365,300)	50,000	(415,300)	-830.60%
Miscellaneous Income	3,473	0	3,473	0.00%
Total Funding	26,574,799	26,986,626	(411,827)	-1.53%
Expenses				
Personnel Expenses				
Salaries	16,375,082	16,274,245	100,837	0.62%
Payroll Taxes	996,927	992,282	4,645	0.47%
Employee Benefits	2,236,166	2,412,806	(176,640)	-7.32%
Savings & Retirement Costs	2,520,873	2,602,105	(81,232)	-3.12%
Total Personnel Expenses	22,129,048	22,281,438	(152,390)	-0.68%
Meeting Expenses				
Meetings & Conference Calls	159,660	379,635	(219,975)	-57.94%
Travel	312,167	601,000	(288,833)	-48.06%
Total Meeting Expenses	471,827	980,635	(508,808)	-51.89%
Operating Expenses				
Contracts & Consultants	639,729	448,874	190,855	42.52%
Rent & Utilities	722,010	598,092	123,918	20.72%
Office Costs	1,261,920	1,110,388	151,532	13.65%
Professional Services	722,657	631,765	90,892	14.39%
Miscellaneous	49,453	48,735	718	1.47%
Total Operating Expenses	3,395,769	2,837,854	557,915	19.66%
Non-Operating Expenses	0	0	0	0.00%
Total Expenses	25,996,644	26,099,927	(103,283)	-0.40%
Net Change in Assets	578,155	886,699	(308,544)	-34.80%
Increase/(Decrease) in Fixed Assets	98,259	120,000	(21,741)	-18.12%
Total Budget (Expenses + Incr/(Decr) in Fixed Assets)	26,094,903	26,219,927	(125,024)	-0.48%
Change in Working Capital (Total Funding less Total Budget)	479,896	766,699	(286,803)	-37.41%
FTE Count	86.88	88.60	(1.72)	-1.94%
WC - 12/31/2021	91,767	(608,625)	700,392	
Less: Adjustment for future liabilities	(146,231)	0	(146,231)	
Available Working Capital	(54,464)	(608,625)	554,161	
Change to WC - 2022	479,896	766,699	(286,803)	
Other Adjustments to Reserves	(158,074)	(158,074)	0	
Total Working Capital	267,358	0	267,358	
Working Capital Reserve	6,743,577	6,743,577	0	
Operating Reserve	1,000,000	1,000,000	0	
Total Working Capital and Operating Reserve	8,010,935	7,743,577	267,358	

* 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



SERC RELIABILITY CORPORATION

January 19, 2023

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

RE: SERC 2022 Q4 Unaudited Financial Statement – Budget vs. Actual

Andy:

Following please find SERC's unaudited 2022 Q4 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 1/1/2022 Through 12/31/2022

	2022 YTD Actuals	2022 YTD Budget	Variance 2022 YTD Actual v 2022 YTD Budget Over(Under)	%
Funding				
Statutory Funding				
SERC Assessments	\$ 24,798,934	\$ 24,798,934	\$ -	
Penalties Released*	\$ 1,200,000	1,200,000	-	
Total Statutory Funding	\$ 25,998,934	\$ 25,998,934	\$ -	0.00%
Workshops & Miscellaneous	159,283	166,000	(6,717)	
Interest	52,426	30,000	22,426	
Total Funding (A)	\$ 26,210,643	\$ 26,194,934	\$ 15,709	0.06%
Expenses				
Personnel Expenses				
Salaries	\$ 16,554,829	\$ 16,239,814	\$ 315,015	
Payroll Taxes	1,031,673	971,965	59,708	
Benefits	1,697,213	1,981,828	(284,615)	
Retirement Costs	2,077,719	2,061,442	16,277	
Total Personnel Expenses	\$ 21,361,434	\$ 21,255,049	\$ 106,385	0.50%
Meeting Expenses				
Meetings & Conference Calls	\$ 296,928	\$ 443,307	\$ (146,379)	
Travel	598,540	856,340	(257,800)	
Total Meeting Expenses	\$ 895,468	\$ 1,299,647	\$ (404,179)	-31.10%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	\$ 1,130,315	\$ 1,376,944	\$ (246,629)	
Office Rent	831,005	840,067	(9,062)	
Office Costs	1,356,215	1,171,193	185,022	
Professional Services	441,872	501,360	(59,488)	
Miscellaneous	-	-	-	
Total Operating Expenses	\$ 3,759,407	\$ 3,889,564	\$ (130,157)	-3.35%
Total Direct Expenses	\$ 26,016,309	\$ 26,444,260	\$ (427,951)	-1.62%
Indirect Expenses	\$ -	\$ -	\$ -	
Other Non-Operating Expenses	\$ -	\$ -	\$ -	
Total Expenses (B)	\$ 26,016,309	\$ 26,444,260	\$ (427,951)	-1.62%
Change in Assets	\$ 194,334	\$ (249,326)	\$ 443,660	-177.94%
Fixed Asset Additions, excluding Right of Use Assets (C)	\$ 393,891	\$ 264,000	\$ 129,891	49.20%
TOTAL BUDGET (B+C)	\$ 26,410,200	\$ 26,708,260	\$ (298,060)	-1.12%
TOTAL CHANGE IN WORKING CAPITAL (A-B-C)	\$ (199,557)	\$ (513,326)	\$ 313,769	-61.12%
FTE's	100.00	104.00	(4.00)	
Head Count	100.00	104.00	(4.00)	
Beginning Reserve at 1/1/2022	8,186,304	5,478,703	2,707,601	
Change to Working Capital	(199,557)	(513,326)	313,769	
Penalties Received (+)	1,624,248	-	1,624,248	
Penalties Released (-)	(1,200,000)	(1,200,000)	-	
Other Reserve Activity	-	-	-	
Ending Reserves at 12/31/2022	8,410,995	3,765,377	4,645,618	
Working Capital & Operating Contingency Reserves	2,578,409	1,600,377	978,032	
Assessment Stabilization & Penalty Reserves	5,832,586	2,165,000	3,667,586	
Other Reserves	-	-	-	
Total Reserves Balance	8,410,995	3,765,377	4,645,618	

* 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 December 31, 2022 (Unaudited)

Overall Summary

- Spending \$298k under budget due to pandemic limiting in-person meetings and travel
- Funding \$16k over budget attributable to gain on investments

Income

- **Funding (Actual - \$16k over budget)**
 - Investment income exceeded budget due to impact of higher interest rates

Expense

- **Personnel Expenses (Actual - \$106k over budget)**
 - Salaries over budget due to a combination of wage inflation and performance driven incentives, partially offset by favorable health insurance expense
- **Meeting/Travel Expenses (Actual - \$404k under budget)**
 - Decreased meeting and travel associated with pandemic travel restrictions and fewer in-person meetings
- **Contracts/Consultants (Actual - \$247k under budget)**
 - Certain IT projects and RAPA studies were deferred, resulting in a favorable budget variance
- **Office Rent (Actual - \$9k under budget)**
 - Common area maintenance expenses lower than expected
- **Office Costs (Actual – \$185k over budget)**
 - Software costs over budget due to higher than anticipated costs for critical security software and some expenses budgeted under consultants and contractors but more appropriately expensed to software
- **Professional Services (Actual - \$59k under budget)**
 - Overall legal needs less than historical norms driving expenses under budget
- **Fixed Asset Purchases (Actual - \$130k over budget)**
 - Over budget due to continued work towards completion of Member Portal Consolidation project

January 19, 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. 4th Quarter 2022 Statement of Activities and Variance Report

Dear Andy,

Attached is the 2022 fourth 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.

Judy Foppiano

Judy A. Foppiano, CPA
CFO & Director of Corporate Services
Texas Reliability Entity, Inc.
805 Los Cimas Parkway, Suite 200
Austin, Texas 78746
Judy.foppiano@texasre.org
512.583.4959

Budget to Actual Comparison as of December 31, 2022

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

FUNDING

- **Penalty Sanctions:** (Actual penalty income of \$558,750 remitted to Texas RE as of June 30, 2021 has reduced 2022 assessments.) All penalty sanctions remitted from July 1, 2021 through June 30, 2022 will be included in the Texas RE 2023 Business Plan and Budget and applied to reduce 2023 assessments.
- **Interest:** \$35,470 greater than budget. Texas RE's banking account is the Business Banking U.S. End of Day Money Market Mutual Fund Sweep account. This account did not receive any interest or dividends until June 2022; the account started receiving interest in Q3.

EXPENSES

Total Budget as of December 31, 2022 is \$2,096,246 less than budget (-12.2%).

- **Personnel Expenses: \$1,658,781 less than budget (-13.0%).**
 - Salaries and taxes are less than budget 8.6% and 14.3%, respectively, due to personnel vacancies in the CMEP department.
 - Employee benefits are less than budget 34.9%. This variance is due to health benefits not increasing as projected when the 2022 budget was prepared. Benefits also include employee training not used.
 - Savings and Retirement is less than budget 15.1% due to vacancies. Taxes and savings and retirement are directly related to the FTE count and vacancies.
- **Meetings and Travel Expenses: \$226,202 less than 2022 budget (-51.0%).**
 - Meetings and Conference Calls are less than budget 18.3% due to holding the annual meeting with stakeholders and directors on site rather than off site. In person meetings resumed in Q3, but still resulted in a budget under-run.
 - Travel is less than budget 57.3%. Travel resumed second quarter but many meetings were still attended remotely.
- **Total Operating Expenses: \$160,782 less than 2022 budget (-5.2%).**
 - An unbudgeted IT Leadership Team Cross Function consultant is causing the 16.7% variance in Consultants and Contracts.
 - Rent and Improvements are less than budget 30.1%. Utilities and maintenance in the office space have been less than anticipated. A new lease started April

2022 and straight line expense was less than anticipated under the new lease standard.

- Office Cost is greater than budget 47.8% due to supplies, software, and office equipment and furniture for the new office space that do not meet the capitalization threshold. Challenges in the supply chain drove much of the cost to be higher than anticipated when the budget was prepared.
- Professional services are less than budget 18.8% due to unused legal fees and an external IT audit that did not occur.

Other Non-Operating Expenses: \$7,183 greater than budget (2.2%).

- Cost to relocate the office that cannot be capitalized including physical move.

Fixed Asset Additions, excluding Right of Use Assets: \$57,664 less than budget (-11.3%)

- Furniture and fixtures and equipment for the office space was less than anticipated.

Texas Reliability Entity, Inc.
Statement of Activities and Fixed Assets
For period ended December 31, 2022
(Unaudited)

	2022 Actual	2022 Budget	Budget Variance	% Budget Variance
Funding				
ERO Funding				
Assessments	\$ 15,003,365	\$ 15,003,365	\$ -	0.0%
Penalties Released	558,750	558,750	-	0.0%
Interest Income	50,470	15,000	35,470	236.5%
Total Funding	\$ 15,612,585	\$ 15,577,115	\$ 35,470	0.2%
Expenses				
Personnel Expenses				
Salaries	\$ 8,409,469	\$ 9,199,331	(789,862)	-8.6%
Payroll Taxes	544,954	635,827	(90,873)	-14.3%
Employee Benefits	1,068,867	1,641,720	(572,853)	-34.9%
Savings & Retirement	1,085,247	1,290,440	(205,193)	-15.9%
Total Personnel Expenses	\$ 11,108,537	\$ 12,767,318	\$ (1,658,781)	-13.0%
Meeting & Travel Expenses				
Meetings & Conference Calls	\$ 58,758	\$ 71,900	(13,142)	-18.3%
Travel	158,625	371,685	(213,060)	-57.3%
Total Meeting & Travel Expenses	\$ 217,383	\$ 443,585	\$ (226,202)	-51.0%
Operating Expenses				
Consultants & Contracts	\$ 410,391	\$ 351,700	58,691	16.7%
Rent & Improvements	1,019,996	1,459,545	(439,549)	-30.1%
Office Costs	1,032,908	698,840	334,068	47.8%
Professional Services	493,633	607,625	(113,992)	-18.8%
Total Operating Expenses	\$ 2,956,928	\$ 3,117,710	\$ (160,782)	-5.2%
Other Non-Operating Expenses	\$ 327,183	\$ 320,000	7,183	2.2%
Total Expenses	\$ 14,610,031	\$ 16,648,613	\$ (2,038,582)	-12.2%
Change in Assets	\$ 1,002,554	\$ (1,071,498)	\$ 2,074,052	-193.6%
Fixed Asset Additions, excluding Right of Use Assets	\$ 454,336	\$ 512,000	(57,664)	-11.3%
Total Budget	\$ 15,064,367	\$ 17,160,613	\$ (2,096,246)	-12.2%
Change in Working Capital (Total Revenue less Total Budget)	\$ 548,218	\$ (1,583,498)	\$ 2,131,716	-134.6%
FTE's	59	66	(7)	
Beginning WC - 1/1/22	\$ 3,885,000	\$ 3,885,000	\$ -	
Change to WC - 2022	548,218	(1,583,498)	2,131,716	
Penalties Released	(558,750)	(558,750)	-	
Other Reserve Activity	-	-	-	
Working Capital 12/31/2022	\$ 3,874,468	\$ 1,742,752	\$ 2,131,716	



Jillian Lessner
Chief Financial and Administrative Officer
January 23, 2023

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

RE: WECC Q4 2022 Statutory Statement of Activities and Variance Report

Dear Andy,

Attached is WECC's fourth-quarter Statutory Statement of Activities (Unaudited) and Variance Report. WECC's 2022 unaudited year-to-date results are \$155,000 under budget, excluding the impact of the Generally Accepted Accounting Principles (GAAP) treatment of penalty revenue recognition. Explanations and drivers are noted below.

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

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

Funding

- Workshops & Miscellaneous: \$50,000 over budget

Workshops & Miscellaneous funding is over budget primarily due to higher-than-anticipated workshop revenue for the October Reliability and Security Workshop.

- Interest: \$415,000 over budget

Interest is over budget due to higher-than-expected rates of return on short-term investments.

Expenses

- Salaries: \$236,000 over budget

Salaries are over budget primarily due to the net of several unbudgeted positions, retention initiatives implemented in the fourth quarter, and higher-than-expected vacancy rates.

- Payroll Taxes: \$180,000 over budget

Payroll Taxes are over budget primarily due to unanticipated increases in state and local tax rates and the overrun in Salaries.

- Employee Benefits: \$483,000 under budget

Employee Benefits are under budget primarily due to an unanticipated health insurance premium rebate issued by United Healthcare, budgeted benefits enrollment level assumptions compared to actual, and lower-than-anticipated use of the Health Reimbursement Account (HRA).

- Meetings & Conference Calls: \$61,000 under budget

Meetings & Conference Calls are under budget primarily due to the cancellation of most in-person meetings and workshops through May due to COVID-19.

- Travel: \$326,000 under budget

Travel is under budget primarily due to the cancellation of most on-site audits and in-person meetings and training through May due to COVID-19.

Statutory Statement of Activities and Variance Explanations—December 31, 2022

- Professional Services: \$128,000 over budget

Professional Services are over budget primarily due to unbudgeted legal fees related to unanticipated regulatory activities and the higher-than-anticipated renewal rates of insurance policies.

- Fixed Assets: \$20,000 under budget

Fixed Assets are under budget due to the timing of actual equipment refresh compared to budget.



Statutory Statement of Activities and Variance Explanations—December 31, 2022



Western Electricity Coordinating Council Statutory Statement of Activities From 1/1/2022 to 12/31/2022 (Unaudited)

(In Whole Dollars)

	2022 YTD Actual	2022 YTD Budget	2022 YTD Variance	%
Funding				
Assessments	25,000,000	25,000,000	-	0.0%
Penalties Released ¹	5,298,000	5,298,000	-	0.0%
Workshops & Miscellaneous	244,900	194,700	50,200	25.8%
Interest	524,457	109,500	414,957	379.0%
Total Funding	31,067,357	30,602,200	465,157	1.5%
Expenses				
Personnel Expenses				
Salaries	18,647,473	18,411,644	235,829	1.3%
Payroll Taxes	1,397,279	1,217,683	179,596	14.7%
Employee Benefits	2,122,147	2,605,571	(483,424)	-18.6%
Retirement Costs	1,633,380	1,663,606	(30,226)	-1.8%
Total Personnel Expenses	23,800,279	23,898,504	(98,225)	-0.4%
Meeting Expenses				
Meetings & Conference Calls	397,086	458,044	(60,958)	-13.3%
Travel	446,358	772,654	(326,296)	-42.2%
Total Meeting Expenses	843,444	1,230,698	(387,254)	-31.5%
Operating Expenses, excluding Depreciation				
Consultants & Contracts	1,059,469	1,004,600	54,869	5.5%
Office Rent	1,313,227	1,306,912	6,315	0.5%
Office Costs	2,021,072	1,844,336	176,736	9.6%
Professional Services	1,173,148	1,045,000	128,148	12.3%
Miscellaneous	-	-	-	
Total Operating Expenses	5,566,916	5,200,848	366,068	7.0%
Total Direct Expenses	30,210,639	30,330,050	(119,411)	-0.4%
Indirect Expenses	(709,990)	(695,066)	(14,924)	2.1%
Other Non-Operating Expenses	-	-	-	
Total Expenses	29,500,649	29,634,984	(134,335)	-0.5%
Change in Net Assets	1,566,708	967,216	599,492	62.0%
Fixed Asset Additions, excluding Right of Use Assets	91,451	111,914	(20,463)	-18.3%
Total Expenditures	29,592,100	29,746,898	(154,798)	-0.5%
Change in Working Capital (Total Funding less Total Budget)	1,475,257	855,302	619,955	
FTEs	145.54	152.50	(6.96)	
Headcount	148.00	152.00	(4.00)	
Working Capital at 1/1/2022	9,690,377	8,410,422	1,279,955	
Peak Reliability Donation Expenditures	245,860			
Non-Statutory Fund Change	178,203			
Change to WC - 2022	1,475,257	855,302	619,955	
Working Capital at 12/31/2022²	11,589,697	9,265,724	1,899,910	

¹ 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.

² See Working Capital and Reserve Analysis table for additional details.



Working Capital and Reserve Analysis

Working Capital and Reserve Analysis				
STATUTORY				
	Total	Working Capital Reserve	Unreleased Penalties	Peak Reliability Donation
Beginning Reserve, January 1, 2022	\$ 20,154,417	\$ 9,690,377	\$ 6,636,646	\$ 3,827,394
Plus: Total Funding	49,973,357	31,067,357	18,906,000	-
Penalties Release	(5,298,000)	-	(5,298,000)	-
Less: Expenditures	(29,592,100)	(29,346,240)	-	(245,860)
Plus: Non-Statutory Fund Adjustme	178,203	178,203	-	-
Reserve, December 31, 2022	\$ 35,415,877	\$ 11,589,697	\$ 20,244,646	\$ 3,581,534

Note: Penalty sanction amounts received are considered deferred revenue and are not included in working capital amounts until approved by FERC.



Annual Review of Committee Mandate

Action

Review

Background

As part of the annual review of all Board of Trustees Committee mandates, the NERC Legal Department has reviewed the current Finance and Audit Committee mandate and is not recommending any revisions at this time.