

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

North American Electric Reliability Corporation)
)

Docket No. FA11-21-000

COMPLIANCE FILING OF THE NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

I. INTRODUCTION

The North American Electric Reliability Corporation (“NERC”)¹ submits this compliance filing in accordance with the Commission’s January 16, 2013 Order in Docket No. FA11-21-000.² In the January 16 Order, the Commission approved a Settlement Agreement between the Office of Enforcement (“Enforcement”) and NERC related to Enforcement’s findings and recommendations arising out of its 2012 performance audit of NERC. Specifically, Section II.7(b)(i) of the Settlement Agreement requires that:

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

Attached hereto is the unaudited report of NERC’s budget-to-actual variance information for the fourth quarter of 2012, in accordance with the January 16 Order. This variance

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

² *See North American Electric Reliability Corporation, Order Approving Settlement Agreement*, 142 FERC ¶ 61,042 (2013) (“January 16 Order”).

³ *Id.*

information was posted on NERC's website January 30, 2019 and reviewed at the February 6, 2019 open meeting of the NERC Finance and Audit Committee. The unaudited report was accepted by the NERC Board of Trustees at its meeting on February 7, 2019.

II. NOTICES AND COMMUNICATIONS

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

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III. DISCUSSION OF SIGNIFICANT VARIANCES BETWEEN 2018 BUDGET AND ACTUAL PROJECTED 2018 RESULTS

The attached fourth quarter 2018 variance report compares actual (unaudited) financial results to NERC's budgeted expenditures as of December 31, 2018. NERC is providing additional discussion of significant variances between the actual (unaudited) year-end 2018 results and NERC's 2018 budgeted expenditures, by NERC department or program area and by major activity within departments and program areas. This discussion focuses on variances of \$500,000 or more between year-end 2018 results and the 2018 budget. NERC has focused on year-end variances in excess of budget of \$500,000 or more, because Section 7(b)(ii) of the Settlement Agreement specifies that NERC will file for Commission review and approval proposals approved by the NERC Board of Trustees to expend \$500,000 or more from Operating Reserves designated for "unforeseen contingencies" (as defined in NERC's Working Capital and

Operating Reserves Policy), *i.e.*, where any amount allocated from the unforeseen contingencies account of Operating Reserves plus any amount redirected from previously budgeted funds is, in the aggregate, \$500,000 or more for any one specific project or major activity in a program area.

A. Variance by Expense Category

Based on preliminary, unaudited results for the year ending December 31, 2018, NERC was \$2.0M (2.8%) under its expense and fixed asset budget, including costs related to the Cybersecurity Risk Information Sharing Program (“CRISP”). Fixed asset additions, excluding depreciation, were under budget \$1.3M (32.2%) primarily due to the IT department reducing fixed assets spending to accommodate higher spending in software and other costs as discussed on page 5 of the fourth quarter 2018 variance report. Contracts and Consultants were under budget \$1.2M (9.0%) due to lower costs from the CRISP program contractor and lower than expected spending in several departments. Excluding CRISP, Contracts and Consultants were under budget by \$608k.

B. Information Technology

Actual expenses plus net fixed assets were under budget \$614K, primarily due to lower fixed asset spending as described above and on page 5 of the fourth quarter 2018 variance report.

IV. CONCLUSION

NERC respectfully requests that the Commission accept this filing as compliant with Section II.7(b)(i) of the Settlement Agreement and the Commission’s January 16 Order in Docket No. FA11-21-000.

Respectfully submitted,

/s/ Meredith M. Jolivert

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Dated: February 13, 2019

CERTIFICATE OF SERVICE

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

Dated at Washington, D.C. this 13th day of February, 2019.

/s/ Meredith M. Jolivert

Meredith M. Jolivert
*Counsel for North American Electric
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ATTACHMENT

Summary of Unaudited Results For the Year Ending December 31, 2018

Table of Contents

	<u>Page</u>
I. Executive Summary	
▪ Year-to-Date Actual Results	2
II. Detailed Operating Results	
▪ Variances by Revenue and Expense Category	3
▪ Variances by Department / Program	5
III. Supplemental Schedules	
▪ Schedule 1 – Reserves	6
▪ Schedule 2 – IT Projects	7
▪ Schedule 3 – E-ISAC & CRISP	10

Executive Summary

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

<u>FUNDING</u>	<u>Actual</u>	<u>Budget</u>	<u>Over (Under)</u>
Revenues	\$ 72.1	\$ 72.4	\$ (0.3)
Funding from Reserves			
Assessment Stabilization Reserve	0.6	0.6	-
TOTAL FUNDING	\$ 72.7	\$ 73.0	\$ (0.3)
<u>EXPENDITURES</u>			
Expenses (excluding Depreciation)	\$ 68.5	\$ 69.2	\$ (0.7)
Fixed Asset Additions	2.6	3.9	(1.3)
TOTAL EXPENDITURES	\$ 71.1	\$ 73.1	\$ (2.0)
RESERVE INCREASE (DECREASE)	\$ 1.6	\$ (0.1)	\$ 1.7

FUNDING

- Revenues
 - Third-party funding was under budget due to lower CRISP revenues. CRISP billings were higher in 2018, but contractor expenses were under budget, resulting in a year-end true-up of CRISP revenue (adjustment to match revenue with expenses).
 - Testing and continuing education revenues were below budget due to lower activity.

EXPENDITURES

- Expenses (excluding depreciation)
 - Contracts and Consultants was under budget primarily due to lower contractor costs in the CRISP program.
- Fixed Asset Additions
 - Under budget due primarily to the IT department reducing fixed asset spending to accommodate higher spending in software and other costs.
- NERC was under budget in total by 2.8%. Excluding the impacts of CRISP, NERC was 1.2% under budget for the year.

OPERATING RESERVE INCREASE (INCREASE)

- Actual reserve increase from operations was higher than budget by \$1.7 million.

Detailed Operating Results

Total NERC (including CRISP)

Variances by Revenue and Expense Category

	YTD Actual	YTD Budget	YTD Over (Under)	% Over (Under)
TOTAL FUNDING	\$ 72,674,868	\$ 72,981,221	\$ (306,353)	(0.4%)
EXPENDITURES				
Personnel	\$ 41,326,984	\$ 40,969,105	\$ 357,879	0.9%
Meetings, Travel, and Conference Calls	3,659,871	3,395,100	264,771	7.8%
Contracts and Consultants	12,483,751	13,724,185	(1,240,434)	(9.0%)
Rent and Facilities	2,955,432	3,091,804	(136,372)	(4.4%)
Office Costs, Professional, and Misc.*	7,894,725	7,942,084	(47,359)	(0.6%)
Other Non-Operating Expenses	151,341	138,878	12,463	9.0%
Fixed Asset Additions*	2,625,596	3,874,000	(1,248,404)	(32.2%)
TOTAL EXPENDITURES	\$ 71,097,699	\$ 73,135,156	\$ (2,037,457)	(2.8%)
RESERVE INCREASE (DECREASE)	\$ 1,577,169	\$ (153,935)	\$ 1,731,104	(1124.6%)
FTEs	191.1	199.3	(8.2)	(4.1%)

* Excludes depreciation expense

Following is a brief summary of variances by major categories:

- Meeting, Travel, and Conference Call Expense
 - Meeting expenses were over budget due to higher attendance at workshops and conferences, which were substantially offset by increased revenues for these events.
- Contracts and Consultants Expense
 - Under budget due to lower costs from the CRISP program contractor and lower than expected spending in several departments. This was partially offset by unbudgeted costs for SPP RE transition work and a cyber-security supply chain risk study.
- Fixed Asset Additions (excluding depreciation)
 - Under budget due primarily to the IT department reducing fixed asset spending to accommodate higher spending in software and other costs.

<u>CONTRACTS and CONSULTANTS</u>	YTD		
	YTD Actual	YTD Budget	Over (Under)
Reliability Standards	\$ 100,000	\$ -	\$ 100,000
Compliance Assurance	43,750	50,000	(6,250)
Compliance Analysis, Registration and Certification	-	-	-
Compliance Enforcement	42,131	-	42,131
Reliability Assessment and System Analysis	192,500	525,000	(332,500)
Reliability Risk Management	1,821,797	1,867,525	(45,728)
E-ISAC	1,026,960	1,100,200	(73,240)
Training, Education, and Personnel Certification	448,740	598,900	(150,160)
General and Administrative and Executive	94,946	80,000	14,946
Legal and Regulatory	-	-	-
Policy and External Affairs	24,225	20,000	4,225
Information Technology	2,046,484	2,123,966	(77,482)
Human Resources	611,676	640,000	(28,324)
Finance and Accounting	370,502	427,000	(56,498)
TOTAL (excluding CRISP)	\$ 6,823,712	\$ 7,432,591	\$ (608,880)
CRISP	5,660,040	6,291,594	(631,554)
TOTAL (including CRISP)	\$ 12,483,751	\$ 13,724,185	\$ (1,240,434)

Variances by Department / Program

<u>DIRECT EXPENSES and NET FIXED ASSETS</u>	YTD Actual	YTD Budget	YTD Over (Under)
Reliability Standards	\$ 2,966,471	\$ 3,293,666	\$ (327,195)
Compliance Assurance	4,866,918	4,520,550	346,369
Compliance Analysis, Registration and Certification	2,561,118	2,748,762	(187,644)
Compliance Enforcement	4,311,995	3,894,123	417,872
Reliability Assessment and System Analysis	3,781,922	4,105,476	(323,554)
Reliability Risk Management	7,766,572	7,654,264	112,307
E-ISAC	7,180,329	7,357,222	(176,893)
Training, Education, and Personnel Certification	1,423,730	1,706,574	(282,844)
General and Administrative and Executive	7,750,004	7,874,321	(124,317)
Legal and Regulatory	2,969,870	2,914,377	55,494
Policy and External Affairs	2,483,605	2,221,826	261,779
Information Technology	10,652,295	11,266,626	(614,331)
Human Resources	1,487,049	1,704,459	(217,410)
Finance and Accounting	4,286,782	4,008,326	278,456
TOTAL (excluding CRISP)	\$ 64,488,660	\$ 65,270,572	\$ (781,912)
CRISP	6,609,039	7,864,584	(1,255,545)
TOTAL EXPENSES and NET FIXED ASSETS	\$ 71,097,699	\$ 73,135,156	\$ (2,037,457)

- Reliability Standards: Under budget primarily due to reduced personnel costs resulting from the reallocation of resources to other departments.
- Compliance Assurance: Over budget mainly because of additional personnel costs resulting from the reallocation of resources from other departments.
- Compliance Enforcement: Over budget largely due to higher personnel costs due to lower than budgeted attrition, CMEP licensing and hosting costs (funded from the IT department budget), and unbudgeted SPP RE transition costs.
- Reliability Assessment and System Analysis: Under budget primarily because of lower than budgeted spending in contracts and consultants.
- Information Technology: Under budget, mainly due to lower fixed asset spending, which was partially offset by higher personnel costs due to a lower attrition rate, as well as CMEP and other costs that were funded by IT and charged to program areas.
- CRISP: Under budget primarily due lower than budgeted costs from the program contractor, as well as lower than expected software and personnel expenses.

SUPPLEMENTAL SCHEDULE 1

Year-End Actual Reserves

Reserve Account	Beginning Balance ⁽¹⁾	Budgeted Funding	Budgeted Uses	Other Funding (Uses) ⁽²⁾	Net Financing Activity ⁽³⁾	Ending Balance
Operating Contingency	\$ 3,680,094	\$ 600,000	\$ (231,393)	\$ 1,922,784	\$ (717,274)	\$ 5,254,212
Future Obligations	3,015,787	-	(480,457)	-	-	\$ 2,535,330
Assessment Stabilization	2,671,000	-	(600,000)	-	-	\$ 2,071,000
System Operator	477,484	77,458	-	26,200	-	581,142
CRISP	500,000	-	-	-	-	500,000
Total Reserves	\$ 10,344,365	\$ 677,458	\$ (1,311,850)	\$ 1,948,984	\$ (717,274)	\$ 10,941,683

NOTES:

(1) Some 2018 beginning balances have been adjusted from the 12/31/2017 variance report balances as the result of a reconciliation to the final audited balance sheet.

(2) The column Other Funding (Uses) primarily reflects the net impact of normal operations. For example, under normal circumstances, if NERC was 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.

(3) Net financing activity in 2018 reflects principal debt repayments for borrowings originated in 2015 and 2016. NERC did not make the budgeted borrowings for 2017 and 2018 in light of a favorable working capital position. Not making the 2017 borrowing saved \$483K in working capital in 2018 and contributed to the higher operating contingency reserve. The savings from the 2018 borrowing decision will be realized in 2019.

SUPPLEMENTAL SCHEDULE 2

IT Projects

Projects in Progress	Project Budget ⁽¹⁾	Actual Spend	Expected Spend	Expected Over (Under) Budget
CMEP Technology Project (2017-2020)	\$ 5,103,000	\$ 1,678,935	\$ 5,103,000	\$ -
Entity Registration - CORES (2018-2019)	1,200,000	575,897	1,200,000	-

Projects Completed in 2018	Project Budget ⁽¹⁾	Actual Spend	Actual Over (Under) Budget
NERC.com Phase 2	\$ 300,000	\$ 281,530	\$ (18,471)
E-ISAC Document Management	215,000	215,000	-
SPP RE Transition	-	460,983	460,983
CFR Enhancements	122,700	122,700	-
E-ISAC Portal Enhancements	743,475	667,524	(75,951)

NOTES:

(1) The Project Budget noted above usually corresponds to the approved business case for each project and funds for each project are drawn from the available budget. In some projects, business cases may not be prepared, particularly when a project is smaller and/or may be in response to a FERC order.

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

** The amounts noted above do not include internal labor and reflect only external (consultant) costs of the projects.*

SUPPLEMENTAL SCHEDULE 2

(continued)

CMEP Technology Project

(Started May 2017 / Planned Completion Dec 2020)

This project will provide registered entities, Regional Entities, and NERC the ability manage the compliance and enforcement processes and data in a single ERO Enterprise system. Today, those processes and related data are managed across three separate systems that have to be synchronized (webCDMS, CITS, and CRATS).

Entity Registration - CORES

(Started Dec 2017 / Planned Completion Dec 2019)

NERC is undertaking an effort to both standardize and modernize the Entity Registration process. The discovery phase of the Centralized Organization Registration Entity System (CORES) project includes the capture of Region-specific needs, variations, and exceptions in the registration process. CORES will be a centralized entity registration process, which will require the retirement of registration in CDMS, CITS, and CRATS. The Joint Registration Organization (JRO) portion of the project will be combined with the CORES production release in 2019.

NERC.com Phase 2

(Started May 2017 / Completed Feb 2018)

In response to feedback from stakeholders, this project was a first step to improve the usability and search capability of the public NERC.com website. The project also enhanced the stability of the NERC.com platform with a technology upgrade from SharePoint 2010 to SharePoint 2016 in Azure.

E-ISAC Document Management

(Started Apr 2018 / Completed Oct 2018)

NERC launched the Document Management Program to provide a secure and efficient method of creating, collaborating, storing, and disseminating the vast amount of information produced at NERC. The E-ISAC was the final business unit to be implemented.

SPP RE Transition

(Started Mar 2018 / Completed Nov 2018)

Due to the SPP RE dissolution, NERC assessed the changes required to applications that contained SPP RE data and the reassignment/classification of such information. The inventory required the mapping utility, functionality, migration, and support efforts by both Region and entity. Activities included facilitated discussions with IT and business owners of impacted applications to capture and document high-level, as well as more detailed, requirements necessary to support the transition of registered entities from SPP RE to MRO and SERC.

CFR Enhancements

(Started Sep 2018 / Completed Dec 2018)

This project is an enhancement to the Coordinated Functional Requirement (CFR) functionality, which is going to update the standard requirements that appear in the system, as well as performance improvement.

E-ISAC Portal Enhancements

(Started Jan 2018 / Completed Dec 2018)

As requested by and prioritized by the Member Executive Committee (MEC), certain enhancements were made to the E-ISAC portal during 2018 related to areas such as email notifications, user communities, and STIX-TAXII.

SUPPLEMENTAL SCHEDULE 3E-ISAC and CRISP
Summary of Activity**TOTAL E-ISAC (including CRISP)**

	<u>FUNDING</u>	YTD Actual	Annual Budget	Over (Under)
Assessments		\$ 14,297,524	\$ 14,297,524	\$ -
Other Funding		7,131,561	7,553,073	(421,512)
	TOTAL FUNDING	\$ 21,429,086	\$ 21,850,597	\$ (421,512)
	<u>EXPENDITURES</u>			
Personnel Expense		\$ 5,603,291	\$ 6,004,182	\$ (400,891)
Meeting Expense		825,893	418,000	407,893
Operating Expenses (excluding Depreciation)		7,339,251	8,549,624	(1,210,373)
Fixed Assets (excluding Depreciation and Fixed Asset Allocation)		20,932	250,000	(229,068)
Total Direct Costs (excluding Depreciation and Allocations)		\$ 13,789,368	\$ 15,221,806	\$ (1,432,438)
Indirect Expense Allocation		6,308,060	6,519,415	(211,355)
Fixed Asset Allocation		(360,308)	109,377	(469,684)
	TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 19,737,120	\$ 21,850,597	\$ (2,113,477)
	RESERVE INCREASE (DECREASE)	\$ 1,691,966	\$ -	\$ 1,691,966

SUPPLEMENTAL SCHEDULE 3

(continued)

CRISP

	<u>FUNDING</u>	<u>YTD</u>	<u>Annual</u>	<u>Over (Under)</u>
		<u>Actual</u>	<u>Budget</u>	
Assessments		\$ 1,371,768	\$ 1,371,768	\$ -
Other Funding		6,601,419	7,348,144	(746,725)
	TOTAL FUNDING	\$ 7,973,187	\$ 8,719,912	\$ (746,725)
<u>EXPENDITURES</u>				
Personnel Expense		\$ 734,800	\$ 944,070	\$ (209,270)
Meeting Expense		82,114	48,000	34,114
Operating Expenses (excluding Depreciation)		5,792,126	6,772,514	(980,389)
Fixed Assets (excluding Depreciation and Fixed Asset Allocation)		-	100,000	(100,000)
Total Direct Costs (excluding Depreciation and Allocations)		\$ 6,609,039	\$ 7,864,584	\$ (1,255,545)
Indirect Expense Allocation		913,279	841,215	72,065
Fixed Asset Allocation		(52,165)	14,113	(66,278)
	TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 7,470,153	\$ 8,719,912	\$ (1,249,759)
	RESERVE INCREASE (DECREASE)	\$ 503,034	\$ -	\$ 503,034

E-ISAC (excluding CRISP)

	<u>FUNDING</u>	<u>YTD</u>	<u>Annual</u>	<u>Over (Under)</u>
		<u>Actual</u>	<u>Budget</u>	
Assessments		\$ 12,925,757	\$ 12,925,757	\$ -
Other Funding		530,142	204,929	325,213
	TOTAL FUNDING	\$ 13,455,899	\$ 13,130,686	\$ 325,213
<u>EXPENDITURES</u>				
Personnel Expense		\$ 4,868,492	\$ 5,060,112	\$ (191,621)
Meeting Expense		743,779	370,000	373,779
Operating Expenses (excluding Depreciation)		1,547,126	1,777,110	(229,984)
Fixed Assets (excluding Depreciation and Fixed Asset Allocation)		20,932	150,000	(129,068)
Total Direct Costs (excluding Depreciation and Allocations)		\$ 7,180,329	\$ 7,357,222	\$ (176,893)
Indirect Expense Allocation		5,394,781	5,678,200	(283,419)
Fixed Asset Allocation		(308,143)	95,263	(403,406)
	TOTAL EXPENDITURES (excluding Depreciation, including Allocations)	\$ 12,266,967	\$ 13,130,686	\$ (863,719)
	RESERVE INCREASE (DECREASE)	\$ 1,188,932	\$ -	\$ 1,188,932

NERC

NORTH AMERICAN ELECTRIC
RELIABILITY CORPORATION

NERC Summary of Unaudited Results for 2018

Scott Jones, Senior Vice President, Chief Financial and Administrative Officer
Finance and Audit Committee Meeting
February 6, 2019

RELIABILITY | ACCOUNTABILITY



- Total funding is slightly under budget
 - CRISP revenue, after true-ups, is lower than budget. CRISP program contractor costs were under budget, contributing to an adjustment to CRISP revenue.
- Total expenditures were \$2.0M (2.8%) under budget
 - Lower-than-expected spending for contracts and consultants
 - Less-than-budgeted costs from PNNL for CRISP
 - Excluding CRISP, NERC's total expenses were under budget 1.2%
- Net impact was \$1.6M increase in operating reserves
 - Loan principal payments were \$483k less than budgeted, contributing to larger reserve increase

- Total reserves balance is \$11.0M
 - Operating Contingency Reserve (OCR) – \$5.3M
 - Assessment Stabilization Reserve (ASR) – \$2.1M
 - Future Obligation Reserve – \$2.5M
 - System Operator Reserve – \$581k
 - CRISP Reserve – \$500k

- Operating Contingency Reserve (\$5.3M)
 - Began year with \$3.7M
 - Budgeted \$600k transfer from ASR
 - Budgeted use of \$231k
 - Generated \$1.9M from under budget spending in operations
 - Used \$717k for loan principal payments
- Assessment Stabilization Reserve (\$2.1M)
 - Began year with \$2.7M
 - Used \$600k for budgeted offset to assessments

- Financial audit by Grant Thornton will begin in March
- Auditor's report and findings will be presented to FAC in May
- Adjustments between budget presentation and accounting guidance for audit, primarily for leases and capitalized labor on IT projects (no effect on operating reserves)



Questions and Answers