

Minutes

Finance and Audit Committee Meeting

November 6, 2018 | 9:00-9:45 a.m. Eastern

Grand Hyatt Atlanta in Buckhead
3300 Peachtree Road NE
Atlanta, GA 30305

Call to Order and Chair's Remarks

Ms. Jan Schori, 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" or the "Company") on November 6, 2018, at 9:00 a.m. Eastern, and a quorum was declared present. The agenda is attached as **Exhibit A**.

Present at the meeting were:

Committee Members

Jan Schori, Chair
Robert G. Clarke
David Goulding
Suzanne Keenan
Roy Thilly

Board of Trustee Members

Janice B. Case
Kenneth W. DeFontes, Jr.
Frederick W. Gorbet
George S. Hawkins
Robin E. Manning
James B. Robb, President and Chief Executive Officer

NERC Staff

Charles A. Berardesco, Senior Vice President, General Counsel, and Corporate Secretary
Tina Buzzard, Associate Director
Scott Jones, Senior Vice President, Chief Financial and Administrative Officer, and Corporate Treasurer
Mark G. Lauby, Senior Vice President and Chief Reliability Officer
Janet Sena, Senior Vice President and Director of Policy and External Affairs
Andy Sharp, Controller
Michael Walker, Senior Vice President and E-ISAC Chief of Staff

Chair's Remarks

Ms. Schori welcomed the participants to the meeting.

NERC Antitrust Compliance Guidelines

Ms. Schori directed the participants' attention to the NERC Antitrust Compliance Guidelines included in the agenda, and indicated that all questions regarding antitrust compliance or related matters should be directed to Mr. Berardesco.

Minutes

Upon motion duly made and seconded, the minutes from the August 15, 2018 meeting were approved as presented to the Committee.

Fourth Quarter Calendar of FAC Responsibilities

Mr. Sharp reviewed the Third Quarter Unaudited Financial Statements for NERC and for the ERO Enterprise, referencing the materials included in the advance agenda package. He noted that in the third quarter, NERC funding was on budget and expenditures were under budget, largely due to the timing of expenditures versus budget. NERC projects to be on budget for funding and slightly over budget for expenditures by the end of 2018, largely due to costs associated with the SPP dissolution. Mr. Sharp also noted that projected operating reserve usage was higher than expected for 2018, but that borrowing costs were lower than expected. Mr. Sharp also reviewed the projected year-end reserves for 2018.

Mr. Sharp noted that seven Regional Entities were under budget in the third quarter; one region, MRO, was over budget due to costs associated with the SPP RE transition. The combined ERO Enterprise was under budget for the third quarter and is projected to be approximately 1.8 percent under budget at year end. Mr. Sharp reviewed the combined 2018 ERO Enterprise operating reserves.

After discussion, and upon motion duly made and seconded, the Committee recommended the Third Quarter Unaudited Financial Statements for acceptance by the Board.

2019 Business Plan and Budget Status

Mr. Sharp noted that the Federal Energy Regulatory Commission had approved the 2019 Business Plans and Budgets. Ms. Schori thanked the Committee and the MRC Business Plan and Budget Input Group for their work during the annual budget process.

Schedule for 2020 Business Plan and Budget

Mr. Sharp reviewed the tentative 2020 ERO Enterprise Business Plan and Budget Schedule, which had been included in the advance agenda package.

Overview of Internal Controls

Ms. Schori noted that the Committee requested a presentation on NERC's accounting and financial internal controls to better understand the practices NERC has in place and to aid the Committee in executing its financial oversight duties.

Mr. Sharp then provided a presentation on NERC's accounting and financial controls. He noted that NERC relies on several sources of guidance for implementing its internal control framework, including guidance from the Committee of Sponsoring Organizations of the Treadway Commission, internal and external auditors, Regional Entities and other companies, and through continuing education. He described the following elements of NERC's internal control environment:

- Tone at the top, including Committee oversight and management support of controls;
- Compliance oversight, including external auditors and internal audit and risk management;

- Corporate policies, including the code of conduct and internal financial policies;
- Accounting process documentation;
- Segregation of duties among accounting department staff;
- Accounting systems, including systems currently used by NERC and systems that will be used by NERC beginning in 2019; and
- Reporting and management oversight, including current monthly management reports.

Mr. Sharp reviewed key corporate policies, accounting process documents, the approach to segregation of duties, key business systems and reporting and management oversight. He provided an overview of upcoming activities, including an update of accounting process documents in connection with a new accounting system and a review of system and process environments by Internal Audit.

Following discussion, Ms. Schori requested that NERC staff provide an annual review of internal controls for the Committee, to include updates on policies that have changed in the prior year, issues that have been identified, and other matters of interest. Mr. Jones expressed his thanks to Mr. Walker, as the former CFO, and former Controller Susan Turpen, for their work in creating and implementing the original internal controls structure and process documentation.

Adjournment

There being no further business, and upon motion duly made and seconded, the meeting was adjourned.

Submitted by,



Charles A. Berardesco
Corporate Secretary

Agenda

Finance and Audit Committee

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3300 Peachtree Rd NE
Atlanta, GA 30305

Conference Room: Grand Ballroom – Lower Lobby Level

Call to Order and Chair's Remarks

NERC Antitrust Compliance Guidelines

Agenda

- 1. Minutes*— Approve**
 - a. August 15, 2018 Meeting
- 2. Fourth Quarter Calendar of FAC Responsibilities**
 - a. Third Quarter Statement of Activities*— **Review and Accept**
 - i. NERC Summary of Results as of September 30, 2018
 - ii. ERO Enterprise Combined Summary of Results as of September 30, 2018
 - iii. Regional Entity Variance Reports as of September 30, 2018
- 3. 2019 Business Plan and Budget Status — Update**
- 4. 2020 Business Plan and Budget Schedule*— Review**
- 5. Overview of Internal Controls*— Review**
- 6. Adjournment**

*Background materials included.