



Minutes

Board of Directors • Finance and Audit Committee

March 10, 2023 • 9:00 am – 11:00 am (ET)

Teleconference

Closed Meeting

Call to Order – Chair Patrick Cass called to order a duly noticed open meeting of the Finance and Audit Committee (Committee) on March 10, 2023, at 9:00 am (ET). A quorum was present, consisting of the following members of the Committee: Chair Patrick Cass, Vice Chair Jennifer Sterling, Joanna Burkey, Scott Etnoyer, Nelson Peeler, and Joseph Trentacosta. A list of others present during the Committee meeting is set forth in Attachment A.

Appoint Secretary to Record Minutes – Chair Cass designated Chelsey Eppich, Managing Corporate Counsel, as the secretary to record the meeting minutes.

Antitrust Statement – Chair Cass advised those present of the need to adhere to ReliabilityFirst's (RF) Antitrust Compliance Guidelines.

2024 Budget Assumptions – Tim Gallagher, RF's President and CEO, provided opening remarks and shared the purpose of the call is to gather input and feedback on the 2024 Business Plan and Budget (BP&B) assumptions. He summarized relevant factors related to the budget assumptions, including increasing security needs, the use of overlap positions, comparisons and coordination with other Regions, and industry and economic trends. He highlighted RF's proactive activity in the areas of state outreach, tabletop exercises and cold weather visits.

Carol Baskey, RF's Treasurer and Manager of Finance & Accounting, provided additional background information, including the budget ranges for the other Regions, and unbudgeted activities. Then Ms. Baskey presented a timeline for the BP&B, and discussed the 2023 projections for the BP&B. She led a discussion on inflation and market adjustments and their impact on the BP&B, resulting a collective 3.5% increase in salary.

Ms. Baskey shared that fixed costs drive the budget numbers for both RF and the ERO, and for RF those fixed costs are primarily the lease and staff salary and benefits. The Committee discussed that even fixed costs can be changed if needed. Ms. Baskey noted the ongoing impact of inflation and travel and salary increases to remain competitive in the market. The Committee discussed their experiences with returning to in-person work, and using a hybrid approach for industry events where possible and in person events when appropriate. The Committee also discussed the Q4 Board Meeting in Washington, DC, and the lowered cost for the event due to AEP offering their facility for use. The Committee discussed the importance of continuing to explore facility options in the future to monitor costs.

**Finance and Audit Committee Minutes
March 10, 2023**

Ms. Baskey discussed additional factors impacting the BP&B, including the use of the Align tool, prioritizing security efforts, the workload impact from extreme weather events, and increased work with state policy makers and regulatory agencies. The Committee discussed the workload impact of Align from an ERO, Region and stakeholder perspective and the importance of having transparent and honest conversations regarding resources needed to implement the tool.

Ms. Baskey moved on to discuss the use and cost of contractors, which would decrease with the additional FTEs requested in the BP&B. She noted that the executives for each RF functional area will discuss the FTE's requested in their areas. Ms. Baskey stated that 9 FTEs have been requested, but one does not have a budget impact because it involves a current overlap position.

Niki Schaefer, RF's VP & General Counsel, led a discussion on the request for two CIP auditors and one O&P auditor in the Compliance Monitoring departments. She noted that the request is based almost entirely on efficiency losses resulting from the use of the Align tool and the Secure Evidence Locker (SEL), and she presented numbers to estimate the impact of the tools. She stated that while the time for engagements using Align and the SEL was 62% longer for engagements similar in size and scope, estimated process changes and gained efficiencies since then make it more realistic to estimate a 40% increase in time needed. Ms. Schaefer also presented projections regarding the impacts on the number of engagements conducted by adding all three requested FTEs vs. adding one or two of the requested FTEs. She noted that contractors were also considered and determined not to be a viable option.

Ms. Schaefer then discussed the request for an additional attorney in the Enforcement Department. She noted the drivers for this request, including growing noncompliance inventory, inefficiencies in the SEL, and other additional time constraints. She shared that despite the overall ERO Enterprise decrease in noncompliances, RF has had an increase in noncompliances with large uptick in 2022. RF has both the highest level of noncompliance processing and the highest noncompliance inventory (932 on the books compared to the next closest Regions with 500-600). She shared that the majority of these noncompliances are likely minimal risk, but they are still time consuming to process because of the need to study prior noncompliances and answer additional questions from NERC and FERC. Ms. Schaefer stated that much of the volume comes from large entities with more complex issues, and noted that future expanded entity registrations (e.g., Inverter Based Resources) could create even more volume. Additionally, RF continues to see more noncompliances from smaller entities and individual registrations owned by larger holding companies, which can also be complicated.

Mr. Craig then discussed the request for a database warehouse developer in the Data Analytics Department. He discussed the formation of the Data Analytics Department, the increasing internal and external data sources, and the increased customer demand for the group's services. He also explained the current contractor spending that could be rolled into the cost for an FTE, and the risk that the current contractor in this role could leave and the efficiency loss that could occur with rotating contractors. Mr. Craig highlighted the goal to be more predictive on reliability risks, and Mr. Gallagher added that this risk has been deferred in the past and is not unique to RF. The committee discussed the meaning of efficiency and Mr. Craig shared a recent example of the time savings having recent metrics available to save on administrative work. The

Finance and Audit Committee Minutes
March 10, 2023

Committee agreed to have a follow-up discussion on this topic to better understand this FTE request and discuss additional details.

Ms. Holder and Ms. Baskey discussed the request for an additional FTE in the External Affairs Department, and discussed how there is an overlap position in this Department that would be converted into a full time position, without an impact on the BP&P (overlap positions are for critical roles where the employee has mentioned retirement but without a firm date, to ensure knowledge transfer for critical roles without waiting for the next budget cycle). Ms. Holder discussed the increase in state outreach work in accordance with the RF Strategic Plan, including working with state public utility commissions and state legislatures. She shared that this activity is expected to continue growing. There was discussion on the use of overlap positions, and RF's plans to measure the efficiency of state outreach efforts going forward.

Ms. Holder discussed the request for one additional FTE in the IT Department. The purpose of this request is to improve programs and business processes across the organization. She noted that the existing IT team has a heavy workload, and a new FTE would help leverage new technologies to help automate manual tasks. Mr. Noel echoed this need for the IT person, noting that of the three FTEs requested in the support area, he believes this additional IT FTE is needed right now due to the backlog and need to do things faster.

Mr. Noel then discussed the request for two additional FTEs in the Security Department. He discussed the quick wins and progress of the Security Department so far, and the pivot to look at external activities such as the successful Ohio Tabletop. He noted the first request is to backfill a position to perform this external facing work, and the second request is for a position to systematically ensure effective internal controls processes.

The Committee discussed the priority of the different FTE requests, and Mr. Gallagher discussed the importance of the CMEP core work and security. The Committee expressed concern with the requested 10% increase in staffing, and agreed to revisit the staffing requests at a future meeting, as well as the Enterprise Risk Management meeting topic. Finally, Ms. Baskey discussed the \$1,000,000 Operating Reserve for 2024. She noted that it is intended for uncertain or unbudgeted expenditures, and it does not increase the BP&B. Upon a motion duly made and seconded, the Committee approved the \$1,000,000 Operating Reserve for 2024.

The discussion of Topic 5, Enterprise Risk Management was tabled to a later meeting.

Adjourn – Upon a motion duly made and seconded, Chair Cass adjourned the meeting at 10:54 am (ET).

As approved on this 26th day of April, 2023 by the
Finance and Audit Committee,



Niki Schaefer
*Vice President General Counsel & Corporate
Secretary*

Attachment A

Others Present During the Finance and Audit Committee Meeting

Carol Baskey • ReliabilityFirst
Jeff Craigo • ReliabilityFirst
BethAnn Dowdell • ReliabilityFirst
Diane Holder • ReliabilityFirst
Tim Gallagher • ReliabilityFirst
Marcus Noel • ReliabilityFirst
Niki Schaefer • ReliabilityFirst
Jody Tortora • ReliabilityFirst