

Date: July 13, 2018

RE: Management Response to Comments

The deadline for comments on the first draft of NERC's 2019 Business Plan and Budget (BP&B) ended on June 29, 2018. Comments were submitted by six entities and covered a range of topics. Below is a summary of those comments and NERC management's responses as applicable.

*E-ISAC Member Executive Committee (MEC)*¹

The MEC, comprised of the leadership of several large electric utilities across the country, provided a resolution in support of the proposed 2019 budget for the E-ISAC, agreeing to the aggressive approach to strategy and funding. The MEC also expressed appreciation for the focus of the overall NERC budget on making investments in tools and technology to increase efficiency.

American Public Power Association (APPA)

APPA expressed support for the 2019 E-ISAC budget and offered comments on the non-E-ISAC proposed 2019 budget increase. APPA requested additional clarity and explanation on the following: (1) the need for the upgrade to the situational awareness tool, SAFNR; (2) the associated savings from the SPP RE dissolution; (3) the additional costs for the CMEP Technology Project; and (4) the expected cost savings resulting from the office rent expense increase for facility expansion. APPA also encouraged NERC to consider benchmarking medical and other benefit expenses, and to use stakeholder engagement as much as possible for the CMEP Technology Project.

1. SAFNR Upgrade

SAFNR, a situation awareness system that was initiated in February 2010, is a critical tool for NERC situation awareness staff, as it provides valuable, near real-time information about the current operating conditions of the BPS from a wide-area view. The tool is also used during the E-ISAC's grid security exercises (GridEx) to provide E-ISAC and NERC situation awareness staff the ability to collaborate on a common relative operating picture. Though NERC funds SAFNR as the primary user, the tool is also used by and benefits Regional Entity and FERC staff. NERC continually coordinates and collaborates with these additional users to ensure the system is providing the necessary capabilities and not duplicative of other resources.

While the tool has been maintained and used successfully for more than eight years, the aging technology does not allow NERC staff to efficiently update the underlying power system information or real-time data feeds on risks to reliability. Re-platforming the tool will allow for a

¹ The MEC is a sub-group of the Electricity Subsector Coordinating Council (ESCC). For more information, please see the ESCC [website](#).

more a precise wide-area view of system conditions, and will also meet the GridEx IV recommendation to enhance the ability to provide reliable, timely, and accurate information regarding the state of grid reliability and security threats and events. Because the tool benefits both the situation awareness and E-ISAC teams, approximately one-third of the costs for the SAFNR upgrade are budgeted to the E-ISAC with the rest under the Situation Awareness program, which is subject to change as the benefits of the upgrade are realized. The upgrade to SAFNR will go through the same business case and approval process as other enterprise IT investments.

2. *Associated Savings from SPP RE Dissolution*

NERC does not expect any direct cost savings as a result of the dissolution, but anticipates that any savings realized by the ERO Enterprise will be felt primarily at the Regional Entity level by the registered entities in those Regions. During the budget approval process in 2019 and 2020, those Regions taking additional registered entities (MRO and SERC) will provide information on the impacts of the dissolution and related transition of entities and associated responsibilities.

3. *CMEP Technology Project*

There have been no additions to the existing scope and estimated costs for the CMEP Technology Project, and the current estimated annual operating costs are actually below the business case estimate based on recent contract negotiations. The additional costs in question are related to the Standards Database and Entity Registration IT projects. While these are separate projects that will go through their own business case and approval process, they complement the CMEP project and have been accelerated to more smoothly integrate them during development. These IT solutions have been part of the ERO Enterprise IT roadmap for several years.

NERC is currently engaging with stakeholders during the development of the new CMEP system, particularly through the Compliance and Certification Committee's (CCC's) Alignment Working Group, and NERC and the Regional Entities continue to look for new opportunities to engage stakeholders. NERC recognizes that the tool needs to provide greater transparency to registered entities on compliance monitoring and enforcement processes and enhance the consistency of the registered entity experience among the Regional Entities. Additionally, NERC is acutely aware of the importance of protecting registered entity data; in addition to the protection measures already in place, the CMEP solution will provide the opportunity for enhanced data security mechanisms, including multi-factor user authentication and additional data encryption, adopting federal standards to the greatest extent possible even though not required.

4. *Office Rent Increase*

The cost increase for office rent is due to the NERC Atlanta office expansion from two-and-half floors to three. The intent is to reconfigure one of the floors to be used almost entirely for meeting space, providing a larger footprint to accommodate additional meetings now being held off-site. The expected cost savings complement current ERO Enterprise initiatives to improve efficiency and effectiveness of the standing committees and overall stakeholder engagement. As both the meeting space is developed (likely later in 2018) and discussions continue on the strategy for standing committee engagement, NERC will work toward a more precise estimate of cost savings.

5. *Medical and Other Benefits*

NERC does benchmark benefit costs with industry and similar organizations and works actively with a broker to keep costs reasonable to stay competitive for talent acquisition and retention, and increases to medical benefits have been below market for several years. However, the past two years have shown increases closer to market, including the 2018 premiums that were slightly higher than originally budgeted. The increase in medical benefit costs in 2019 (compared to the 2018 budget) is partly because that budgeted number for 2018 was lower than the final negotiated amount, combined with an additional increase between the actual 2018 premiums and anticipated 2019 premiums. NERC continues to negotiate these premiums and will have final amounts for 2019 at the end of 2018.

Canadian Electricity Association (CEA) and Independent Electricity System Operator (IESO)

The CEA and IESO, both Canadian entities, provided similar comments with respect to concern with the trend of NERC budget increases. Both organizations urged NERC to focus on maximizing efficiency and work to achieve budget increases that more closely align with economic realities and stakeholder expectations. Additionally, both organizations expressed concern with the E-ISAC budget increase in light of the Canadian entity engagement with the E-ISAC.

Overall NERC budget projections for 2020 and 2021 will be included in the second draft the NERC budget, with the expectation that those years will show a budget increase much lower than 2019. NERC believes the investments being made in ERO Enterprise technology and tools, such as the CMEP technology solution, along with initiatives in support of the *ERO Enterprise Long-Term Strategy* to improve efficiency and effectiveness of stakeholder engagement, the standing committees, and overall ERO operations, will result in efficiency gains that will be reflected in future budget cycles. NERC recognizes the Canadian entities' concern with the E-ISAC budget increases and is currently engaged with these entities to discuss and address their concerns.

Edison Electric Institute (EEI)

EEI expressed support for NERC's investment in the E-ISAC. EEI also requested consideration of the following with regard to the rest of the NERC budget: (1) develop a business case for the SAFNR upgrade and coordinate with DOE, FERC, and others to leverage existing capabilities; (2) engage stakeholders in the CMEP Technology project and prioritize CMEP information security; (3) continue benchmarking medical benefit expenses with industry and similar organizations; and (4) provide additional clarity on the expected meeting cost savings that will occur with the planned facility expansion.

See responses to APPA above.

National Rural Electric Cooperative Association (NRECA)

NRECA indicated support for the increased investment in E-ISAC and appreciation for NERC's effort to control non-E-ISAC costs. NRECA encouraged NERC to focus on long-term leveling of the budget, and requested NERC to (1) provide E-ISAC projected costs for additional years and (2) consider using additional funds from the Assessment Stabilization Reserve to reduce 2019 assessments.

As mentioned above in the response to CEA and IESO comments above, overall NERC budget projections for 2020 and 2021 will be included in the second draft the NERC budget, and the expectation is that those years will show a budget increase much lower than 2019. The second draft of the budget will also include projections for the E-ISAC strategy.

While the amount of funds released from the Assessment Stabilization Reserve (ASR) to reduce assessments is a Board of Trustees decision, the current NERC strategy and recommendation for the 2019 budget is to align assessments and budgets increases; therefore, at a minimum, ASR funds will buy down the proposed 10.3% assessment increase to match the proposed budget increase of 9.5%.

We appreciate the comments received and encourage your continued participation in the BP&B process.

Sincerely,



Scott Jones

Senior Vice President and Chief Financial and Administrative Officer