



Draft NERC 2016 Business Plan and Budget

Comments of the Canadian Electricity Association

I. Introduction

The Canadian Electricity Association (CEA) appreciates this opportunity to provide comments on the first draft of NERC's 2016 Business Plan and Budget (Draft Budget).

As the authoritative voice of the electricity sector in Canada, CEA remains a champion of NERC's international standard-setting model. In step with CEA members' enduring support for this model, CEA offers these comments in the spirit of helping to ensure NERC's success.

II. Comments

1. Risk-Based Strategy – Clarity in Lasting Benefits & Efficiencies

CEA strongly agrees with the prevailing, robust consensus that NERC continues to make significant strides in maturing as an international standards-setting and electric reliability body. This consensus continues to be expressed – and rightly so – in such forums as the quarterly Member Representatives Committee (MRC) and Board meetings, and FERC Technical Conferences. Likewise, in less than one month, CEA understands that the annual gathering of energy ministers in Canada is set to endorse a report finding that the development, adoption, and enforcement of reliability standards has reached the level of maturity envisioned at the time of publication of the U.S.-Canada task force report on the August 2003 blackout.

In the last few years, a fundamental component of the journey towards further maturation has been NERC's implementation of risk-based approaches across its core programs. The shift towards a risk-based paradigm is no longer a hypothetical, with 2015 serving as a milestone year for several critical "firsts" – e.g. execution of the first round of registration reforms; the first experience with implementation of risk-based compliance monitoring; and the first taste of standards development under "steady-state." CEA remains staunchly supportive of NERC's broader risk-based strategy and its goal of better focusing resources on core reliability priorities.

In step with the above, CEA expected a Draft Budget that would seek to paint a clear picture of the lasting benefits and efficiencies which will be accrued under the transformation to risk-based programs. In this respect, though, the Draft Budget seems like a missed opportunity.

To be sure, the introduction of the Draft Budget prominently identifies risk-based strategies as key priorities for 2016 and beyond. Nevertheless, with the appetite thus whetted for signs of efficiencies and savings to come, on the whole the Draft leaves stakeholders hungry for details.

And in the few instances in which hints are offered, there appears to be merely a shuffling of resources. For example, the transition of standards to steady-state has apparently enabled the reallocation of program personnel to support additional compliance assurance, reliability risk assessment, security, and administrative services. In addition, FTEs are projected to remain flat through 2018. Under the Draft Budget, the signal therefore appears to be that risk-based approaches will not translate into appreciable budgetary savings at NERC on the near horizon.

Overall, against the backdrop of widespread recognition of NERC's ever-strengthening maturation and the threshold into the risk-based frontier having been irreversibly crossed in 2015, CEA members were hoping for signs in the 2016 budget which would point towards NERC positioning itself to achieve enduring efficiencies and savings. CEA believes the Draft Budget leaves much to be desired in this regard and, accordingly, would urge budgetary reductions to be incorporated into the next draft.

2. Proposed Budget & Assessment Increases

CEA notes that the proposed budget increase of 3.2% for 2016 is almost double that which was projected in the 2015 budget. CEA believes that at this stage in NERC's history – with its major start-up and growth phases firmly situated in the rear-view mirror – annual budget increases (if any) should be in a lower or flatter range than the proposed one. While efforts to stabilize assessments are certainly welcome, CEA views stabilized budgets as an even greater imperative.

The proposed budget increase strikes CEA as being out-of-sync with fiscal and regulatory realities facing electric utilities in Canada. Ratepayers, regulators and governmental authorities continue to harbour rigorous expectations for fiscal discipline on the part of the utility industry (and not simply because economic conditions remain sluggish and forecasts cloudy). In step with the above comments in section #1, CEA wishes to see more clear and compelling signs from NERC that it is sharing in the belt-tightening exercises which are standard practice for utilities under present fiscal and regulatory constraints.

Regarding assessments, CEA acknowledges the language in the Draft Budget signalling efforts to contain assessment increases, including the specific language in the executive summary reflecting a focus on refining compliance and enforcement credits for Canadian entities. CEA members support this focus and carry high expectations that the projections for minimal assessment increases set forth in the executive summary will ultimately be realized.

However, it is challenging to offer more detailed comments on projected assessment increases, given the range of possible percentages identified for Canadian entities. Moreover, it is unclear to CEA members what the basis is for estimating that compliance and enforcement credits for Canadian entities are set to increase, and what engagement is occurring in pursuit of this outcome. As such, CEA will reserve any specific comments on assessment increases for later stages in the budget review process.

3. Electricity Sector Information Sharing and Analysis Center (ES-ISAC)

CEA agrees that the mismatch in timing between the current NERC budget cycle and the ESCC strategic review effort may result in the need to consider an amendment to the 2016 NERC budget at a later date. CEA would anticipate that any such amendment process would be open, with ample opportunity for stakeholder comment.

With respect to the ESCC's strategic review of the ES-ISAC, CEA understands that the findings and recommendations are expected to be made public in short order (i.e. in advance of the August 2015 MRC and Board meetings). Initial internal discussions indicate that CEA members will support the proposed direction of the ESCC's report. In terms of any recommendations emerging from the review which may have an upward impact on NERC's budget, CEA would call for NERC to first seek to identify potential efficiencies within existing ES-ISAC and NERC budgets as a way of fulfilling any such incremental resource needs. Similarly, CEA encourages early action on any recommendations to dial-back ES-ISAC activities which stakeholders have identified as yielding little or no value to improving industry's security posture.

CEA has historically been of the view that funding for the ES-ISAC should be executed through normal NERC funding mechanisms. In light of the ESCC's strategic review, CEA acknowledges that the time is ripe for a coordinated review amongst applicable governmental authorities, NERC, and industry on the appropriate funding and governance model for the ES-ISAC's non-CRISP activities going forward.

4. Budget Performance & Format

The 2016 budget reflects a further standardization of NERC's budget format. CEA supports the existing approach and corresponding level of detail.

Potential enhancements that CEA would welcome include more trending of NERC program area results over previous years, and evaluations of budget aspects such as forecast accuracy and validity of assumptions. A clearer understanding of NERC's record of success in fulfilling its budgetary goals and business planning assumptions could serve as a valuable tool for evaluating organizational performance.

CEA appreciates this opportunity to provide comments and looks forward to remaining engaged in the 2016 budget consultation and refinement process.

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