



June 23, 2023

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Dear: Ms. Chanzas,

Re: Draft NERC 2024 Business Plan and Budget

The Ontario Independent Electricity System Operator (IESO) appreciates the opportunity to provide feedback on the draft of the North American Electric Reliability Corporation's (NERC) 2024 Business Plan and Budget.

The draft NERC Budget for 2024 is \$110.6 million (a \$9.6 million or 9.5% increase from 2023). Assessments are expected to be \$97.0 million (a \$9.9 million or 11.4% increase from 2023). NERC notes that while the 2024 budget is increasing by approximately \$0.5 million over the estimate made in 2023, that assessments are expected to decrease from the 2023 forecast due to higher than forecast investment income (assessments were previously expected to be \$97.2 million). As such, NERC is not recommending to use any portion of reserves to offset assessments, as has been done in past budgets.

NERC's 2024 Business Plan & Budget aims to accomplish three main goals: ensure sufficient resources to address two emerging risks to bulk power system reliability (energy availability risks from the changing resource mix/extreme weather and heightened cyber and physical security risks), retool and enhance the reliability standard making process, and invest in NERC's own infrastructure to reduce its cyber related risks.

With regard to addressing reliability issues related to energy availability and extreme weather, and cyber security risks, these are areas where the IESO supports NERC's focus, including making investments to accomplish these goals. The IESO is similarly making increased investments in these areas which have had upward pressure on budgets necessary to maintain reliability of the bulk power system.

While the IESO supports NERC's activities that maintain reliability and identify and address emerging risks, the IESO continues to encourage NERC to find business efficiencies to ensure

any budget and assessment increases are targeted towards these enterprise priorities and cost increases for regulated entities and their customers are mitigated to the extent possible. With the annual increases contemplated by NERC and the Northeast Power Coordinating Council (a \$2.6 million or 13.7% budget increase over 2023), the IESO is cognizant that itself and other regulated entities will need to seek cost recovery for these increases through the regulatory process. Demonstrating need for, and prioritization of, investments is important during this process, as is striving to achieve cost efficiency wherever possible. To that end, the IESO recommends NERC:

- Reconsider the recommendation to not use any portion of reserves to reduce assessments:
 - While the IESO understands that higher than forecast investment income is reducing the previous forecast of assessments for 2024, assessments are still forecast to increase 11.4% over 2023. Further, it is the IESO's understanding that given the particularities of the assessment/credit determination methodology for Canadian vs US entities, that assessments for Canadian entities are likely to increase by more than 11.4%.
 - Current reserve levels are over target based on the total annual budget amounts. For example, the operating contingency reserve is projected to be \$13.1 million at the end of 2023 relative to a \$110.6 million budget for 2024, making the forecast reserve roughly 11% of the total annual budget (and 15.1% above NERC's own target for this reserve).

Any portion of reserves that could be used to reduce assessments would be helpful in reducing budget impacts on regulated entities and pass through cost impacts on customers.

- Continue to engage early and often with Canadian regulatory bodies and governments to communicate the NERC budget and assessment increases and explain the important work NERC is doing to address North American bulk power system reliability issues. This engagement is helpful to ensure the bodies that review and approve regulated entities' budgets understand the rationale for, and extent of, increases to pass-through NERC costs.

The IESO also wishes to express support for the comments submitted by the ISO/RTO Council which affirm the necessity of NERC's investments to maintain bulk power system reliability, but continue to recommend a strong focus on prioritization of work informed by member entities. The IESO also wishes to support comments submitted by Electricity Canada which also urge NERC to continue briefing Canadian regulators on budgets and projections to ensure the driving motivators of cost increases are recognized and well understood.

Finally, the IESO strongly reiterates its support for the continuing use of a methodology for establishing assessments that acknowledges the capabilities, expertise and mandate of each entity. In particular, the IESO notes the role that many Canadian entities play in compliance and enforcement as well as the IESO's unique role in ensuring cybersecurity in Ontario.

Yours truly,

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Michael Lyle

Vice-President, Legal Resources & Corporate Governance, General Counsel and Chief Reliability
Compliance Officer

cc: Lesley Gallinger, President & CEO, IESO
Robby Sohi, Vice President, Markets and Reliability and Chief Operating Officer, IESO
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