

Re: Management Response to Comments on the Draft NERC 2024 Business Plan and Budget

Date: August 9, 2023

The deadline for comments on the draft NERC 2024 Business Plan and Budget (BP&B) ended on June 23, 2023. Six comment submissions were received, which are posted on [NERC's website](#). All of the comments offered are constructive, and we appreciate stakeholders' continuing support of the BP&B development process. Though there was general concern with budget increases in the face of economic realities, overall the comments expressed support for NERC's continued three-year planning process and stakeholder engagement efforts. Major themes of the comments included the following:

- Using a risk-based approach for prioritizing and resourcing activities
- Considering mechanisms or efficiencies to reduce budget and assessment increases
 - Releasing more from reserves to offset assessments
 - Leveraging industry subject matter experts and reducing duplication with other organizations
 - Identifying a cost-effective solution for the Atlanta office
- Other organizational or program-area-specific questions/comments

Since the draft 2024 BP&B was posted and the comment period closed, Congress passed the Fiscal Responsibility Act of 2023, which included a mandate for NERC to conduct an interregional transfer capability study (ITCS) to be filed with FERC by December 2, 2024. This resulted in (1) reprioritizations of 2023 spending, and a request to FERC to release reserves to fund the net ITCS expenses in 2023, and (2) unanticipated changes to the proposed final 2024 BP&B from the draft.

For the resources needed for the ITCS, the final proposed 2024 budget has a net increase of \$2.6M over the draft, which includes (1) four additional full-time equivalents (FTEs) to support the study and build capability to include more in-depth transmission analytics into our future reliability assessments, and one FTE to support strategic communications, such as those related to the ITCS, and (2) other one-time costs for consultants, meetings, and technology. As further discussed below, the addition of these funds will not impact the 2024 assessment provided in the draft 2024 BP&B. Unrelated, there is an additional \$400k increase to the 2024 budget from the draft for a new System Operator Certification Database platform, which will be fully funded by the System Operator Certification program reserve and also have no impact on the 2024 assessment. These adjustments will be reviewed in detail with the NERC Board of Trustees (Board) Finance and Audit Committee (FAC) during the FAC's open meeting on August 16, 2023.

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After careful review of the comments with the FAC, and discussions with the Member Representatives Committee (MRC) BP&B Input Group, NERC is not proposing any changes to the 2024 BP&B beyond those described above; however, we did listen to stakeholder input with respect to prioritizing and leveraging reserves to fund ITCS expenses. These strategies will allow us to complete vital and needed work while holding assessments at the level we committed to for 2024 as part of our three-year plan that was established in the 2023 BP&B. This is further described below in response to the major comment themes.

Using a Risk-Based Approach for Prioritizing and Resourcing Activities

To accommodate the resources needed for the ITCS, we took a hard look at our priorities and determined what could be deferred, what resources could be reassigned, what resources we needed, and what would provide the most benefit to industry now and in the future. In 2023, NERC will not conduct a special assessment on new and evolving electricity market practices, but will partially address these issues in this year's Long-Term Reliability Assessment as well as in the ITCS. Also in 2023, we will defer hiring four open positions in the Reliability Assessment, Situation Awareness, Engineering and Security Integration, and Standards departments until 2024. This will result in some impacts to current projects but will keep 2023 personnel expense close to original budget. Also in 2023 and in 2024, we are repurposing funds earmarked for GMD/EMP research, emerging technology and cyber risk studies, and environmental regulatory analysis. We would like to emphasize that none of these efforts are being permanently omitted; rather, we had to rethink our priority timeline and are deferring this important work for now.

Mechanisms or Efficiencies to Reduce Budget and Assessment Increases

In addition to the reprioritization efforts noted above, NERC is proposing to release reserves to eliminate any impact to 2023 assessments and the 2024 assessment proposed in the draft 2024 BP&B. Pending FERC approval, NERC is planning to use up to \$700k from its Assessment Stabilization Reserve (ASR) to fund the net 2023 ITCS non-personnel costs. In 2024, NERC is proposing to use \$1.3M from the ASR to fund the net ITCS non-personnel costs, and \$1.3M from the Operating Contingency Reserve (OCR) to fully fund the incremental ITCS FTEs hired in 2023. Further, in acknowledgement that the ITCS mandate was issued by the U.S. government, the use of reserves in this manner results in the study being primarily funded by U.S. entities; the ASR is made up entirely of U.S. penalties, and funding from Canada and Mexico makes up only 12%, approximately, of the OCR release (~\$156k) toward permanent FTE resources for transmission transfer capabilities. NERC is also projecting to release additional funds from the ASR and OCR in 2025 to help manage the assessment impact from the ongoing costs related to the additional FTEs.

Leveraging industry expertise has always be a focus for NERC. For the ITCS, for example, NERC will rely heavily on Regional Entity and industry expertise. The proposed resourcing for the study includes (1) an advisory group of experts that have deep knowledge of transmission systems, interconnection studies, study processes, and NERC Reliability Standards; (2) a technical group of representatives from planning areas who will provide expertise and insights throughout the study; and (3) access to historical and planning data, system models, reports, and relevant information from Regional Entities and Transmission Operators. Outside of the ITCS, NERC strives not to duplicate the work of other entities but rather to collaborate and leverage others' efforts to support our own; examples include our collaboration with the North American Transmission Forum on facility ratings and with the Electric Power Research Institute on inverter modeling.

Regarding the NERC Atlanta office, the lease expires in October 2025, and the 2025 projection in the 2024 BP&B continues to include lease-financed and one-time out-of-pocket expenses in 2025 for a potential Atlanta office move, including the originally projected \$500k release from the OCR to offset the assessment impact of the one-time costs. While we are currently completing the workplace assessment to determine future needs, we anticipate a lower-cost solution that recognizes the value of in-person collaboration for both staff and stakeholders, balanced by our ability to work productively and effectively through remote work technologies.

Other Comments

Weighted Average Salary Increase

NERC competes for talent in the energy, high tech, cyber-security, and non-financial services sectors of the broader job market. In addition to the supply and demand for certain roles, inflation has played a factor in setting overall salary and cost of labor increases. We also conduct regular surveys to ensure compensation is market-based. Based on recently completed surveys and guidance from compensation advisors, for 2024 we are assuming a weighted average budgeted salary increase of 5.5%, which is consistent with the previous year's projection.

Allocation of Resources

NERC's allocation of resources across the program areas recognizes the rapidly changing environment surrounding reliability and security and reflects NERC's three-year plan and four strategic focus areas of Energy, Security, Agility, and Sustainability. When looking at the allocation of resources of NERC and the Regional Entities combined, 45% of the ERO Enterprise budget is allocated to the Compliance Monitoring and Enforcement Program (CMEP), reflecting the CMEP-focused work of the Regional Entities that NERC oversees. Further, all of NERC's programs and activities align with Section 215 criteria of the Federal Power Act (FPA). The final proposed 2024 BP&B includes *Exhibit A – Application of NERC Section 215 Criteria*, which summarizes the major activities NERC proposes to undertake in 2024 and the approved FPA Section 215 criteria applicable to such activities.

Other comments received on the 2024 BP&B not reflected above, including additional detail on certain technology projects, will be addressed with the organizations that submitted the comments directly.

We are all facing a moving target on priorities as the grid grows ever-more complex. Our role as the ERO is to shine the light on any challenges on the grid—now and for the future—which is what we've done consistently since our inception, from vegetation management, to the changing resource mix, extreme weather, inverter-based resources and, now, transmission. The recognition of growing reliability risk is part of the national energy conversation in way it hasn't been since 2003, and it is critical that the electricity ecosystem continue to come together to address significant challenges that are evolving rapidly. For our part, our focus remains on the thematic areas we identified last year: **Energy, Security, Agility, and Sustainability**. We understand that cost increases are never welcomed, regardless of the benefits they may provide, and we vow to continue being good stewards for the effective and efficient use of our resources.

NERC appreciates the comments received on the 2024 BP&B and greatly values the advisory role of the MRC BP&B Input Group and their guidance through the process. The proposed final 2024 BP&B will be posted in advance of the Board's August 16–17, 2023, meetings as part of the material for the August 16 FAC open meeting on the NERC website.

We thank our stakeholders for your continued participation in the NERC BP&B development process, and for your continuing support of the ERO's overall mission to assure the effective and efficient reduction of risks to the reliability and security of North American bulk power system.

Sincerely,



Andy Sharp
Vice President and Chief Financial Officer