

NERC Business Plan & Budget – Draft 1 Management Response to Comments Received

Action

Review

Background

The deadline for comments on the first draft of NERC's 2017 Business Plan and Budget ended on June 30. Comments were submitted by the Canadian Electricity Association (CEA), the Ontario Independent Electricity System Operator (IESO) and the Electricity Sector Coordinating Council Member Executive Committee (MEC).

CEA supports NERC's assessment stabilization efforts and would like to have some additional understanding of the effect on Canadian entities. CEA also requests that NERC ensure that its assessment allocation policy is closely aligned with the reliability frameworks across Canada and avoids assessment of costs related to U.S. only programs or initiatives. Similar to the IESO, CEA also is concerned with the pattern of annual budget increases and suggests that given NERC's maturity the increases (if any) should be lower and flatter. CEA would also like to see a clearer link between budgeted expenditures and the priorities and risks identified in the Strategic Plan and more information regarding the interrelationship between NERC's strategic planning process and budgeting processes. CEA also noted that it would be helpful if NERC provided some degree of prioritization to budget expenditures so it can better understand the risk of reductions in budgets or budget increases. CEA invites NERC to proactively engage the sector in the redesign of the Strategic Planning Framework to ensure clear linkage between priorities, risks and program spending. The IESO's comments primarily focused on the percentage increase in the 2017 budget and projected increases for 2018 and 2019. MEC's comments support the company's proposed investment in the E-ISAC portal. This proposed investment, together with additional supporting information, is included in NERC's second draft of its 2017 business plan and budget.

Response to CEA and IESO Comments

1. Assessment Stabilization Initiative and Allocation Policy

The strategy to align assessments and budget increases in the U.S. will take several years as NERC manages the use of its Assessment Stabilization Reserve to address the historic effect of the application of U.S. penalty funding to reduce U.S. assessments. This reserve is currently funded entirely by U.S. penalties and NERC management has recommended periodic release of these reserves to manage this alignment strategy. The actual annual contributions and releases from the Assessment Stabilization Reserve are reviewed and

approved each year in connection with the approval of NERC's annual business plan and budget. NERC management does not currently anticipate the use of U.S. penalty funding, either through or outside of the Assessment Stabilization Reserve, to reduce Canadian assessments. Should surplus funding become available due to unanticipated budget underruns in a given year, a determination will be made whether those funds should be contributed to the Assessment Stabilization Reserve for release in a future period or applied to reduce assessments in the following budget year. In either case, under current policies, these surplus funds would be allocated to reduce assessments for all load serving entities, including those in Canada.

In recognition of reliability frameworks existing in Canada, during each budget cycle, the evaluation of Canadian credits and assessment allocations takes place under the general guidance of the NERC Board's Expanded Policy on Allocation of Certain Compliance and Enforcement Costs to recognize compliance and enforcement programs which are conducted within the various Canadian Provinces. NERC also excludes from Canadian assessments the cost of certain situation software tools (e.g. SAFNR) which are only utilized by the U.S. The company will continue to monitor and evaluate assessment and cost allocation methodologies to ensure ongoing alignment with the reliability framework throughout North America, including Canada.

2. *Alignment with Strategic Plan, Risk Priorities*

As recently discussed at the July 13, 2016 MRC Informational Session, NERC has initiatives underway, including additional opportunities for stakeholder input, to further align the strategic plan, metrics and business plan and budget development processes. This will be a topic of further discussion during the August MRC and Board meetings.¹

NERC's business plan and budget and accompanying presentation materials include documentation regarding the alignment of resources, resource allocation and supporting activities with the Strategic Plan and RISC priorities, including the priorities and supporting activities which the company and each department will focus on during 2017. These activities reflect coordination with and input from the member managed NERC standing committee's including the planning, operating, RISC, compliance and certification, standards, critical infrastructure protection and personal certification governance committees. Management also plans to present additional material as part of the presentation of the consolidated ERO Enterprise budget presentation regarding the alignment of both NERC and Regional Entity resources to the both the Strategic Plan and RISC priorities.

¹ During the [May 2016 Member Representatives Committee \(MRC\) meeting](#), NERC presented a framework to further improve ERO Enterprise strategic planning. As part of its August 2016 policy input letter, NERC is also requesting policy input from the MRC regarding this framework and the ERO Enterprise Strategic Plan.

3. Budget Increases

NERC management acknowledges and understands the cost pressures on not only Canadian entities, but all stakeholders. However, it is also essential that NERC maintain adequate funding to provide the necessary resources to fulfill its statutory responsibilities and to support the goals and objectives set forth in the Strategic Plan, standing committee work plans and related activities to ensure Bulk Electric System reliability. A significant portion of NERC's budget and funding requirements is driven by personnel costs. Hiring, training, and retaining a highly skilled workforce, even in a steady state of operations, creates upward pressure on personnel costs and NERC's budget. NERC is very focused on efficient and effective resource management, carefully evaluating the backfilling of vacancies and resource allocation and other costs to ease this upward budget pressure. In order to support operational and efficiency objectives, NERC also needs to make necessary investments in ERO Enterprise software applications and tools, as further described in the Information Technology section of NERC's 2017 business plan and budget.