

July 17, 2017

Re: Management Response to Comments Received

The deadline for comments on the first draft of NERC's 2018 Business Plan and Budget (BP&B) ended on June 30, 2017. Comments were submitted by seven individuals and entities and covered a wide range of topics. Below is a summary of those comments and NERC management's response.

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 E-ISAC strategy. This long-term strategy was included in Exhibit F of the first draft of NERC's BP&B, but associated costs were not included in the budget and feedback was solicited. The MEC provided a resolution that urged NERC to move forward with a "sense of urgency" and offered support for the proposed 2018 additional costs associated with the strategy.

NERC management received additional informal feedback from other stakeholders in support of this strategy, and management has included the proposed 2018 additional costs in the latest draft of NERC's BP&B.

Bonneville Power Administration (BPA)

BPA offered support and comments on the five strategic goals of the ERO Enterprise discussed in the BP&B. The comments were generally supportive and BPA encouraged NERC to continue their communication and outreach. NERC management agrees, welcomes the support and assistance of BPA, and will continue efforts to include industry stakeholders in the strategic goal and operating plan process.

Mr. David Bardin

Mr. Bardin provided comments on the FERC order related to Geomagnetic Disturbances (GMD) and NERC's plans for the research. As noted in the first draft of the BP&B, FERC directed NERC to submit a research work plan describing how NERC will conduct research into the specific GMD-related topics identified in the order. On May 30, 2017, NERC filed its preliminary GMD research work plan. In this preliminary plan, NERC identified various tasks that would build upon existing research, but noted that much work remains to be done to develop an optimal project management framework for this GMD research. In light of this approach, NERC included only minimal costs for the GMD research in the first draft of the BP&B. Mr. Bardin requested

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

that NERC reconsider this approach and add additional funds to support a more comprehensive research plan. He provided some additional details related to his request.

Management appreciates the feedback, but continues our current approach to address these additional steps. NERC plans to conduct extensive outreach over the coming months with government agencies, academia, the Electric Power Research Institute, stakeholders, and others to identify opportunities for research synergies, develop an appropriate research management structure, and discuss ways to fund to the project, including seeking outside funding resources. As Mr. Bardin notes, FERC may also provide further guidance or direction with respect to the specific GMD research activities included in the plan. This could include adding, eliminating, or prioritizing specific project activities. Each of these considerations would inform the final project plan and ultimately the final estimate of the total and year-over-year costs that would be borne by NERC and therefore be reflected in NERC's budgets. Given the current uncertainties, management still plans to make the 2018 GMD-related budget decisions after exploring stakeholder co-funding options and FERC review of the GMD research plan.

ISO / RTO Council – Standards Review Committee (SRC)

The SRC comments were primarily related to NERC's Reliability Standards program area. In particular, the SRC urged NERC to reduce reliance on continual standards revisions and development, focus efforts on risk identification, and explore ways to collect and analyze data regarding the effectiveness of standards. The SRC provided additional specific feedback on various areas of the BP&B.

NERC management agrees that the initiative on steady state in standards development and the move to Risk-Based Compliance Monitoring have brought much needed clarity and efficiencies in the understanding and enforcement of standards. However, the ongoing risks of physical and cyber security, coupled with the reliability risks of distributed energy resources, demonstrate the need for continued resources in standards development. We agree that not all of the solutions may exist in a standard, and that the Standards Committee will continue to work closely with the technical committees to address these risks with a standard solution when other solutions are not feasible. NERC is also committed to ongoing reviews of the standards to eliminate requirements unnecessary for reliability, and look for potential cost savings in implementation.

National Rural Electric Cooperative Association (NRECA)

The NRECA provided three comments related to efficiency and cost control, use of assessment stabilization reserves, and clarity on personnel costs and reasonableness. NERC management added additional language to the BP&B document to address some of these comments.

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

The CEA and IESO, both Canadian entities, provided similar comments related to ongoing efficiency and cost control. Both organizations urged NERC to continually focus on maximizing efficiency and work to achieve budget increases that more closely align with utility and inflationary realities.

NERC management agrees that ongoing efficiency and cost control are an integral part of the ERO Enterprise long-term strategy. The 2018 BP&B is relatively stable, excluding the added costs associated with the E-ISAC

strategy. And the ERO Enterprise as a whole is experiencing some stability in recent years and looking into the next 2-3 years. We expect the efficiency goals and maturity of the ERO Enterprise will provide budgetary stability in the coming years. Improving the efficiency and effectiveness of the ERO Enterprise operations is one of the recommended focus areas included in NERC's draft long-term strategy which will be posted this week for stakeholder comment, and further reviewed at the August 2017 Members Representative Committee meeting.

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

Sincerely,

Scott Jones

Vice President of Finance
Treasurer