

Re: Management Response to Comments on the Draft NERC 2023 Business Plan and Budget

Date: August 10, 2022

The deadline for comments on the draft NERC 2023 Business Plan and Budget (BP&B) ended on June 24, 2022. Five comment submissions were received, which are posted on [NERC's website](#). We believe all the comments offered are constructive and we appreciate stakeholders' continuing support of the BP&B development approach we took this year. Overall, the comments expressed support for NERC's three-year planning effort, strategic areas of focus, needed resources, and stakeholder engagement. Major themes of the comments included the following:

- **Enhancing BP&B development process**
 - Provide measures and metrics that support budget assumptions and demonstrate effectiveness
 - Collaborate with stakeholders to guide cyber and technology strategic investments
- **Increasing transparency**
 - Continued Align and Secure Evidence Locker (SEL) investments
 - Funding and indirect expenses associated with the Electricity Information Sharing and Analysis Center (E-ISAC), and evaluation of the portion of assessments funding the Cyber Risk Information Sharing Program (CRISP)
 - Alignment between budget investments and reliability metrics
- **Considering mechanisms or efficiencies to reduce budget and assessment increases**
 - Use of contractors versus full-time equivalents (FTEs)
 - Leverage industry subject matter experts (SMEs)
 - Increase virtual meeting formats
 - Reduce duplication with other organizations
 - Reevaluate annual merit increases for staff
 - Reassess reserve levels and releasing more from reserves

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The majority of the comments focused on efficiencies in process, but no specific efforts were singularly identified for elimination or reduction. We believe we can address many of the comments on efficiency and transparency in how we execute NERC's activities and, while helpful, do not see those impacting the budget numbers in a significant manner. Much of what was identified in the comments had been addressed in the process over the past year. The planning process behind the 2023 BP&B was significantly elevated from prior years, with a more concerted focus on a three-year planning horizon and in-depth exercises across the organization for workforce planning and budget assumption development. The NERC Board of Trustees (Board) took a very active role in developing the strategic focus areas and reviewing the supporting budget assumptions and investment justifications. Further, the three-year plan invests in NERC's infrastructure; this includes resources and tools to mature NERC's internal assurance programs and support the development and tracking of the realized value from its investments.

That said, we greatly value the advisory role of the Member Representatives Committee (MRC) BP&B Input Group and appreciate the comments on the overall three-year plan. We heard a great deal of support for our outreach to stakeholders this year and will continue to work to increase the clarity in the BP&B document. Below are responses to the major themes outlined above.

BP&B Development Process

Given how far in advance the next year budget and future year projections are prepared, along with the rapid pace of change of reliability and security risks, NERC's BP&B provides the strategic focus areas and expected tools and resources needed to support them; next-level support for investments, business cases, etc. are then developed to meet current priorities within the established budget capacity. Regarding technology specifically, NERC has an IT investment review and scoring process that measures and validates if a technology project achieved the value identified in the business case.

Measuring NERC's productivity is a challenge given the nature of our work and role as an influence organization. We have benchmarked several of our overhead functions to support investment (notably, human resources and technology), and our overall Administrative Services spend is on the order of that of a small mid-size utility. Program area metrics have proved to be very elusive as many metrics we have considered end up creating perverse incentives.

We do recognize, however, as NERC evolves, so should its ability to support needed investments and measure whether they are producing desired results. In order to address this, NERC will continue to work with the MRC BP&B Input Group to reevaluate what is currently provided to stakeholders, and work with the trade associations to understand the metrics they use to track their progress and justify their own annual planning and budgeting. Although NERC is not a trade association, the companies are similar in budgeting and structure, so we might learn from this information.

Transparency

Regarding Align and the SEL specifically, the Align Steering Committee, which includes key stakeholders, provides input and prioritization on future investment for these systems. Additionally, the Security Advisory Group (SAG) will have a role in guiding cyber investments. NERC will also be reviewing more specifics on all

technology investments at the August 17, 2022, Board Technology and Security Committee (TSC) meeting and we would anticipate all conversations on improving transparency would be balanced with the need to keep security information related to stakeholders secure.

Regarding E-ISAC funding and indirect expenses, NERC provided further clarity on these components at the recent Member Executive Committee (MEC) meeting on July 27, 2022, and will also include further details in the proposed final draft of the 2023 BP&B:

- Indirect costs (i.e., the budgets of the administrative/corporate services areas) are allocated to all NERC statutory program areas the same way, which is based on the ratio of a statutory department's FTEs to total budgeted statutory FTEs. There are no specific indirect costs that E-ISAC or CRISP incur that other departments don't.
- Of the total E-ISAC budget, including CRISP, approximately 74% is funded by assessments and 25% is funded by CRISP participants for CRISP costs. Just under 1% of the budget is funded by "other funding." This includes interest income (\$23k), funding from the Downstream Natural Gas ISAC (\$60k), and anticipated revenue from a new Vendor Affiliate Program (\$200k). The Vendor Affiliate Program revenue was not reflected in the first draft of the BP&B but will be included in the final. The funding from the Downstream Natural Gas ISAC equates to approximately half an FTE, which covers the services the E-ISAC provides to the natural gas sector. We continue to carefully monitor our expenditures in this area and will adjust fees as required.
- With respect to CRISP funding specifically, as currently described in the BP&B, the CRISP budget includes two major categories of expense: (1) costs funded fully by CRISP participants and (2) operational and administrative program costs, which are funded 50% by participants and 50% by NERC assessments. NERC is open to ongoing evaluation of the amount of assessment funding for CRISP, noting that the entire electricity sector benefits from CRISP, not just CRISP participants. To that end we will re-evaluate appropriate levels of assessment based funding and overhead allocation to the CRISP program in 2023 for the 2024 BP&B cycle.

Reliability metrics, such as those in the State of Reliability report, are part of the feedback loop to the business planning process. Metrics such as these inform the bulk power system risk environment, (e.g., extreme weather, grid transformation, and cyber and supply chain risks), which then informs NERC's priorities, followed by resource planning.

Mechanisms or Efficiencies to Reduce Budget and Assessment Increases

NERC's 2023–2025 budget and projections include both contractor and FTE support as part of its "build, borrow, buy" workforce planning strategy, and the composition of these resources is under ongoing review as NERC responds to evolving priorities. NERC, including the E-ISAC, also currently leverage dozens of industry SMEs to offset FTE needs, while also remaining sensitive to the level of demand we place on industry, particularly on scarce/high demand resources.

NERC also agrees with the suggestion to leverage the efficiency of virtual meeting formats as much as possible, while recognizing the desirability to return to some in-person meetings as pandemic conditions

and guidance evolve. As noted in the 2023 BP&B, the 2023 budget assumes alternating in-person and virtual or hybrid formats for NERC's major quarterly meetings of the Board and MRC and the Reliability and Security Technical Committee (RSTC). We anticipate fine tuning meeting approaches in future years as we learn more about the best ways to cost effectively engage.

Reduction of any duplication of effort has always be a focus for NERC and the Regional Entities. The Regional Entities' delegated functions in the assessment and analysis areas center on the Regional Entities providing data to NERC to support its statutory functions. We see little to no duplication of effort between NERC and the Regional Entities except for some Compliance Monitoring and Enforcement Program (CMEP) oversight work mandated by FERC and reinforced in their recent order. We understand that the roles of the Regional Entities and NERC in producing reliability assessments may be unclear to some. We are reviewing the reliability assessment development process across the ERO Enterprise and commit to providing more transparency about this increasingly impactful program area. That said, NERC reviews Regional Entity budgets with an eye toward ensuring resource sufficiency to meet their delegated functions and alignment of their budget requests with our Section 215 criteria. Concerns about Regional Entity activities beyond NERC's oversight focus would be best addressed through each Regional Entity BP&B stakeholder review process.

Similarly, certain assessments and analyses produced by the Forums could be viewed as duplicative to NERC's statutory responsibilities and, again, best addressed through their own budgeting and planning processes. As a matter of course, we have no intention or desire to duplicate the work of others but rather to collaborate and leverage other entities' efforts to support our work; recent collaboration with the North American Transmission Forum (NATF) on facility ratings and with the Electric Power Research Institute (EPRI) on inverter modeling are two examples.

As discussed in the 2023 BP&B, over the next three years NERC is assuming a weighted average increase in merit adjustments of 5.5 to 6.0%. For the general workforce population, NERC is assuming a 4.0% increase, with higher increases for cyber and IT resources, resulting in the 5.5-6.0% average assumption. This is due to market indicators of upward pressure for the resources in these spaces, which NERC is weighted more heavily toward, particularly for the E-ISAC. NERC is performing a more detailed compensation study in 2022 to inform future year budgets.

While NERC's total reserves are projected to be \$14.8M at the end of 2023 (in the draft 2023 BP&B), the reserve categories from which NERC can draw to reduce assessments are from the Operating Contingency Reserve (OCR) and Assessment Stabilization Reserve (ASR), as the other reserve categories are earmarked for specific programs or purposes. For 2023, NERC is proposing to release \$1.0M from the OCR and \$1.0M from the ASR to offset assessments. This will bring the projected balances at the end of 2023 for these reserve categories to \$7.8M and \$1.5M, respectively. For the OCR, this is slightly above the current target maximum range, but represents less than one month of operating expenses. As such, NERC believes it is prudent to maintain the current reserve release proposal to provide both assessment relief and maintain adequate reserve levels.

Other Comments

Other comments received on the 2023 BP&B not reflected above may be addressed with NERC program area owners directly as necessary.

After careful review of the comments with the Board Finance and Audit Committee (FAC), NERC anticipates that the proposed final draft 2023 BP&B will not materially differ from the first draft. The final draft will include some minor adjustments among budget categories and departments based on known updates, but the 2023 total budget and assessment (and 2024 and 2025 projections) will remain close to what was proposed in the first draft. The proposed final draft 2023 BP&B will be posted in advance of the Board's August 17–18, 2022, meetings as part of the material for the August 17 FAC open meeting on the NERC website.

We appreciate the comments received and stakeholders' continuing support of NERC's mission.

Sincerely,



Andy Sharp
Vice President and Chief Financial Officer