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May 28, 2015

Edward A. Schwerdt
President & CEO
Northeast Power Coordinating Council, Inc.
1040 Avenue of the Americas, 10th Floor
New York, NY 10018

Dear Mr. Schwerdt:

Re: NPCC 2016 Business Plan and Budget[1]

The Independent Electricity System Operator (IESO) is pleased to provide comments and recommendations on Draft of the Northeast Power Coordinating Council, Inc. (NPCC) 2016 Business Plan and Budget. The Draft represents the NPCC Finance and Audit Committee's (FAC) endorsed "cost containment" scenario resulting in a proposed 2% budget and target average 2% assessment increase in 2016 and projects 2.3% budget increases in both 2017 and 2018.

In making these comments, the IESO recognizes that along with Electric Reliability Organization (ERO), NPCC is reaching a milestone of organizational maturity with the transformation to a risk-based enterprise and stability of industry supported standards. The IESO shares the view that the nature of the international, interconnected bulk power system is changing and is focused on meeting these challenges, some of which have manifested in Ontario already. At the same time, the IESO also operates in an environment of significant cost constraint and is keenly aware of stakeholder and regulator expectations for increased operating efficiency while maintaining and enhancing reliability through focus on key reliability risks and priorities; having to absorb additional NPCC costs directly leads to cuts to IESO programs and priorities.

Summary IESO Recommendations:

1. Review NPCC Personnel Expenses[2], programs and priorities
2. Review Office and Related Costs
3. Delay planned IT infrastructure investments and enhance reporting of benefits

[1] All comments herein are in reference to NPCC's Draft 2016 Business Plan and Budget submitted to NERC on May 15, 2015 and materials presented at the NERC Finance and Audit Committee teleconference on May 27, 2015

[2] Including salaries, payroll taxes, benefits, and retirement costs

1. Review NPCC Personnel Expenses[3], programs and priorities

NPCC is projecting average Personnel Expenses per FTE of about $251,000[4]; the next highest ERO entities are ReliabilityFirst and NERC at about $218,000 and $193,000 respectively. Given all Regional Entities have similar delegated authorities and shared responsibilities to achieve ERO strategic priorities, IESO requests NPCC management report back to stakeholders with rationale for the average Personnel Expenses rate for NPCC.

With NPCC reaching the organizational maturity milestone, it is an opportune time for NPCC management, in consultation with stakeholders and coordinated with NERC, to lead a review of priorities, supporting processes and cost drivers to identify opportunities for operating cost reductions while remaining focused on core objectives and delegated responsibilities. Personnel Expenses represent about 60% of NPCC expenses. IESO recognizes that NPCC FAC examined a "zero increase" scenario, but examining potentially tough scenarios are an indicator of a strong organization that is willing to challenge itself. IESO recommends NPCC management review the potential impact of changes to programs, priorities and business processes on NPCC meeting its strategic objectives under 5% and 10% FTE reduction scenarios.

2. Review Office and Related Costs

IESO recommends NPCC management examines risks and opportunities to move corporate offices from its current location. This would include looking at scenarios that consider access to major travel hubs, access to workforce talent pools, and options for the current lease such as re-assigning or early termination. Enduring cost saving opportunities from such a move could include reduced Office Rent, Office Costs and related costs such as Meetings, Travel, Consultants & Contracts and Professional Services, and Personnel Expenses. IESO recognizes there will be workforce risks to overcome depending on the new location, but with strong leadership, these risks would be temporary and mitigated through opportunities for enhanced talent recruitment, productivity, retention and succession planning.

3. Delay planned IT infrastructure investments and enhance reporting of benefits

IESO recognizes that the ERO is in the midst of a significant IT infrastructure investment program with shared tools across NERC and the Regional Entities ("ERO Enterprise IT Application Strategy"). However, there is little visibility to member entities of the costs/investment measured against achievement of projected benefits (efficiencies and realized savings relative to costs, risks managed, etc.). Starting in 2015, NERC and the Regional Entities propose to proceed with implementing a new Document Management System.

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[3] Including salaries, payroll taxes, benefits, and retirement costs

[4] Excludes Criteria Services Division

The IESO requests NPCC, working with NERC, examine the business risks, costs and benefits, to extend the life of existing tools and processes and delay implementation of the new Document Management System (entirely, or certain lower priority modules). IESO also requests, before submitting the 2016 NPCC Business Plan and Budget to NPCC Board of Director's review and approval, provide member entities with NPCC's plan to report, on an ongoing basis, on NPCC's investment measured against achievement of the ERO Enterprise IT Application Strategy benefits as defined at the outset of the strategy.

Sincerely,

Michael Lyle
Vice-President
Planning, Law and Aboriginal Relations

cc: Kim Warren, Vice-President and Chief Operating Officer, IESO
Jennifer Budd Mattiello, Vice President and Chief Operating Officer, NPCC
Jessica Hala, Manager, Finance and Accounting, NPCC

NPCC, Inc.

NORTHEAST POWER COORDINATING COUNCIL, INC.
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June 1, 2015

Memo to: NPCC Finance and Audit Committee

From: NPCC Executive Team

Re: Background Regarding IESO Comments on the Proposed 2016 Business Plan and Budget

NPCC's President & CEO responded directly to commenters by thanking them individually via email. The IESO comments developed as a part of NPCC Board discussion can be thoughtfully considered at the upcoming NPCC Finance and Audit Committee.

While NPCC, on a Net Energy for Load basis, is approximately 45% U.S. and approximately 55% Canadian, due to the specifics of individual Compliance Monitoring and Enforcement Program specifics as outlined in numerous agreements, the Funding of NPCC's Regional Entity division is approximately 61% U.S. and approximately 39% Canadian. Specifically for Ontario, while the total NPCC assessment for 2016 increases by 2%, the IESO assessment increases by some 1.5%.

NPCC Responses to Summary IESO Recommendations

1. <u>IESO - Review NPCC Personnel Expenses, programs and priorities</u>

NPCC management reviews on an ongoing basis the potential impact of changes to programs, priorities and business processes in determining annual FTE count. The Draft #2 NPCC 2016 Business Plan and Budget is a result of that review and incorporates recommended revisions to the initial draft from the NPCC Finance and Audit Committee. NPCC last added an FTE in 2014 as a result of a New York State Department of Labor Audit which indicated that the functions being performed were of an employee nature not that of a contractor and required NPCC to make a contractor an employee. NPCC uses independent contractors to meet peaks in workload and backs off of that usage when able. Without such approach, NPCC would have a larger staff such as other REs.

The Average Personnel Expenses rate that the IESO has referenced includes base and incentive compensation, payroll taxes, benefits and retirement costs. NPCC has the fewest FTEs per registered entity of any of the Regional Entities.

With regard to NPCC base and incentive compensation, a committee of the NPCC Board of Directors, the Management Development and Compensation Committee (MDCC), is charged with oversight in terms of Total Remuneration for NPCC staff. Total Remuneration includes all aspects including salaries and benefits. The MDCC in its efforts of the past few years established a 50th percentile total compensation target for NPCC. By comparison, NERC's Corporate Governance and Human Resources Committee has established a 75th percentile total compensation target for the NERC staff.

The MDCC engaged the services of an independent compensation consultant in 2014 to provide a report on NPCC Total Remuneration. That report detailed that NPCC had fallen under the 50th percentile. Among its recommendations was for NPCC to increase its target at risk compensation by 5% for all bandwidths. The MDCC determined that a 3% adjustment in target for Bands 1-3 would be an appropriate recommendation to the Board and for Band 4 and Officers which were off target by a greater degree an increase of 5% was recommended and unanimously approved by the Board. These targets would be effective for 2015 performance and have been included in the 2016 Budget.

With regard to the IESO's query regarding payroll taxes, these are mandated by the City of New York, the State of New York, the Social Security Administration and the U.S. Internal Revenue Service. Payroll taxes have been increasing yearly and limits on contribution levels have been eliminated in the case of Medicare. In the case of Social Security, tax rates as a percent of taxable earnings have increased due to tax cap annual increases. In the U.S. the employer pays half and the employee pays half of these taxes each. It would be illegal for NPCC or its employees to forego paying payroll taxes to the jurisdictions it must pay. Employees who live in other states (NPCC staff reside in CT, NJ, NY and PA) must estimate those state taxes and make payment accordingly to the state in which they reside.

In the area of benefit costs, under the Affordable Care Act (ACA) NPCC falls into the New York City small group category (50 or less, and next year, 100 or less employees constitutes a small group). As such, it cannot self-insure as some of its utility members do at less cost and better coverage. Additionally, NPCC's premiums are determined by all small groups within New York City, thus making inferior health insurance coverage costly. The legislated ACA has had detrimental effects on most small plans providing for much higher out of network deductibles and copayments. Virtually any staff member who has access to coverage from a prior utility employer, or a spouse's large company, waives NPCC health insurance as it does not provide the better insurance coverage or extensive access to health care providers. NPCC has investigated entering into a "lease-back" arrangement for its employees with a large personnel management company, such as ADP, to have better access and more affordable care, but such an agreement would make NPCC employees effectively contract employees of ADP and the administrative expenses of such a program made it cost prohibitive.

And lastly, in terms of examination of retirement costs, as the IESO has inquired, such costs will decline as NPCC de-risks and terminates its defined benefit pension plan. Plan termination is the result of government mandate in terms of failing cross-testing requirements. Once the plan terminates and assets are distributed as required by U.S. law, NPCC will bear no investment risk. Former defined benefit participants will go into a defined contribution 401(k) plan for which discretionary contributions are considered by the Board annually and has been the retiree savings vehicle for staff hired after 2007 when the Pension Plan was frozen to new entrants. There are more staff covered by the defined contribution than the defined benefit plan thus the cross-testing failure. NERC reduced its 10% contribution level of many years to 8% of total compensation these past two years. NPCC's discretionary contributions have been 8% of base compensation only, not total compensation, thus providing savings to the ISO/BAAs.

2. IESO - Review Office and Related Costs

NPCC has been located in NYC for nearly 50 years. Two years in advance of its last 15 year lease expiration, of May 2009, NPCC was directed by its Board to research, document and provide extensive information to the Board regarding alternate relocation possibilities. Among locations considered was waterfront Jersey City, NJ (not within the geographic footprint of NPCC but at the time somewhat less costly), Boston (more costly than NYC), Montreal (about the same level for rent since NPCC relocated within New York City from what would be considered A class space and an A location, to a B class office building and B location), Toronto (also about the same and for the reasons listed with Montreal), and Albany, NY (The Board felt that this location did not have access to major travel hubs). A non-binding questionnaire was provided to staff to get some insight into workforce mobility. For various reasons, more than 50% of staff would have required some type of severance wage package.

The Board of Directors unanimously voted for an intercity relocation of the NPCC offices, providing target rental rate guidance and authorized execution of a 15 year lease with an optional 5 year extension. The lease has rent escalations every 5 years built-in. NPCC has had real estate tax escalations that have been moderate compared to other REs and NERC in particular which experienced much higher increases to real estate taxes in Atlanta. There are 9 years remaining on NPCC's current office space lease without the optional additional 5 year extension.

3. IESO – Delay planned IT infrastructure investments and enhance reporting benefits

As the IESO has indicated, over a multi-year period, starting this year, NERC is investing millions with regard to IT infrastructure. NPCC included in its 2016 Business Plan and Budget $125,000 for a document management system that would leverage NERC's investment such that retention and destruction, information management and security would be enhanced. NERC has done several presentations to the Member Representatives Committee with regard to its large investment. NPCC would not make any investment until the ERO Enterprise IT infrastructure is in place to build upon. The benefits of centralized IT Tools Development are that the REs can use or build upon and not duplicate NERC's efforts.

Comments of Hydro-Québec TransÉnergie
on NPCC 2016 Business Plan and Budget

Hydro-Québec TransÉnergie (HQT) welcomes the opportunity to offer some comments to the NPCC 2016 Budget.

Overall, HQT recognizes the effort made by NPCC to control its costs. NPCC is one of the better managed region. Generally speaking a 2% increase would seem reasonable as it is in the range of the inflation growth. However, even if the increase may appear fair at 2% it is in addition to increases in previous years. Moreover the regulatory reality of most utilities is that regulators are not in the mood of granting even such increases in budgets. It is thus putting pressure on the budgets of stakeholders and may lead to budget cuts or staff being let go.

In addition, when this increase is combined with the expected 3.7% NERC's increase in assessment, it becomes large enough in the 5 to 6% range. Clearly this is not the regulatory and budgetary reality in which we live.

From 2014 to 2015, total expenses increased by $ 477K, which represents a variation of about 12%.

We acknowledge the decrease in the reserve. Looking at reserves from an ERO perspective, it appears there is a lot of reserve. We understand that these reserves may not be available to all regions of the ERO, but an evaluation of reserve optimization could be beneficial. We call this reserve sharing in the operating world!

One general comment is that we see the ERO keeping adding activities and requiring funding for IT projects but we never see program reviews and analysis of activities to find which ones the ERO could stop doing. We strongly suggest that such a review of programs, with a clear goal of finding which activities can be stopped, be initiated. Some programs have evolved overtime and are worth questioning. Activities, like lessons learned are performed both at the regional level and at NERC. Is such redundancy needed?

More specifically, we have comments on employee expenses, office costs, administrative services and IT projects. In the budget, we don't find the information that could explain why the FTE's remain stable but the salaries are up 5.9%. We would appreciate the detail on this increase. How does NPCC labor costs compare with other regions? We support IESO request which asks for an analysis of risks of 5% and 10% FTE reduction.

We also want to understand why the office costs increased by 10.5% and administrative services, increased by $ 311,882. Here also, all scenarios should be examined.

In terms of IT infrastructure projects, we understand these are often initiated by NERC but the cost/benefit analysis of each of this investment must be established and analyzed thoroughly. The possibility of not making the investment should also be considered. We will make such comments at NERC also.

We thank you for the opportunity to provide comments.

Sylvain Clermont
Nathalie Ruest
2015-05-28

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June 1, 2015

Memo to: NPCC Finance and Audit Committee

From: NPCC Executive Team

Re: Background Regarding Hydro-Québec TransÉnergie (HQT) Comments on the Proposed 2016 Business Plan and Budget

NPCC's President & CEO responded directly to commenters by thanking them individually via email. HQT comments developed as a part of NPCC Board discussion can be thoughtfully considered at the upcoming NPCC Finance and Audit Committee.

To reiterate, while NPCC, on a Net Energy for Load basis, is approximately 45% U.S. and approximately 55% Canadian, due to the specifics of individual Compliance Monitoring and Enforcement Program specifics as outlined in numerous agreements, the funding of NPCC's Regional Entity division is approximately 61% U.S. and approximately 39% Canadian. Specifically for Québec, while the total NPCC assessment for 2016 increases by 2%, due to an increase in their NEL relative to other NPCC Areas Hydro-Québec's assessment increases by some 2.1%.

NPCC Responses to HQT Recommendations

1. <u>HQT submitting comments to NPCC on the Regional Entity as well as NERC</u>

NPCC is pleased that its work and efforts with regard to controlling costs are acknowledged by HQT. NPCC does not believe that it can speak for the ERO and thus will only respond to the 2% inflationary increase proposed budget for 2016.

2. <u>HQT comments on reserve sharing within the ERO Enterprise</u>

NPCC's Operating Reserve requirement as outlined from the NPCC Finance and Audit Committee relevant policy is a range of between 8.3333% or one month and 25% or roughly three months operating expenses. The Working Capital requirement is targeted at 8.3333%, for combined total reserves ranging between 16.66% to 33.33% or two to four months operating expenses.

For the past 3 years, in recognition that NPCC would have to eventually terminate its pension plan as it got to a failure position according to U.S. legal requirements called cross-testing, the Board had agreed that it was prudent to work at the higher end of the ranges. The defined benefit pension plan is well funded on an ongoing plan basis, but on a termination basis, pension liabilities are significantly higher. NPCC's Board of Directors approved plan termination in late 2014 and NPCC applied to the IRS for a favorable determination in mid-December, 2014. NPCC's Pension Committee approved conversion of all of the Pension Trust to cash to eliminate market risk. The fund is currently paying out approximately $110,000 annually to retirees and there are minimal returns on investment.

To date the only correspondence from the IRS indicated that agency has the NPCC plan termination request and that the IRS will get back to NPCC by midyear. NPCC has been advised that future IRS correspondence could merely be about NPCC sending more information. NPCC anticipates an actuarially projected shortfall with a later 2015 IRS termination approval. Governmentally mandated distribution of plan assets comes with termination approval and the shortfall would be funded from existing reserves bringing them likely to the low end of the policy range. With a 2015 IRS ruling, no special assessments will be necessary. Should the IRS determination take more than a year and 2016 mortality rates come into play, liabilities would be expected to increase further. NPCC does have access to a $1 million line of credit should either reserves or working capital fall under the one month level.

NPCC cannot speak to the numerous reserve categories (currently 5 types) that NERC has included in its 2016 budget. NPCC is also aware that reserve sharing would not be allowed as the ERO Enterprise is not a single entity, but it consists of 9 individual corporations, each incorporated in different states and subject to individual state laws. Additionally, it is NPCC's expectation that reserves will be lower for NPCC to accomplish Board approved Pension Plan termination.

3. Event Analysis and Lessons Learned

HQT is correct that both NERC and the REs support a robust Event Analysis program. These coordinated activities are intentionally designed to be complementary and are not duplicative. NPCC does its events analysis work very close to the source and directly interacts with registered entities in the development of event reports and cause code determination that is then submitted to NERC for overall industry trending analysis. Additionally, NPCC and the registered entity develop suggested lessons learned for NERC review and consideration. Since the inception of the Events Analysis program, NPCC has reviewed some 359 events of varying levels of severity and has offered up some 45 lessons learned to NERC. Of those submitted, some 34 have been posted for industry information. The Events Analysis efforts are a critical foundational element to a risk-based approach to compliance in that they help keep the minor incidents from leading to more major events.

4. HQT Comments on employee expenses, office costs, administrative services and IT projects

With regard to NPCC base and incentive compensation, a committee of the NPCC Board of Directors, the Management Development and Compensation Committee (MDCC), is charged with oversight in terms of Total Remuneration for NPCC staff. Total Remuneration includes all aspects including salaries and benefits. The MDCC in its efforts of the past few years established a 50^{th} percentile total compensation target for NPCC. By comparison, NERC's Corporate Governance and Human Resources Committee has established a 75^{th} percentile total compensation target for the NERC staff.

The MDCC engaged the services of an independent compensation consultant in 2014 to provide a report on NPCC Total Remuneration. That report detailed that NPCC had fallen under the 50^{th} percentile. Among its recommendations was for NPCC to increase its target at risk compensation by 5% for all bandwidths. The MDCC determined that a 3% adjustment in target for Bands 1-3 would be an appropriate recommendation to the Board and for Band 4 and Officers which were off target by a greater degree an increase of 5% was recommended and unanimously approved by the Board. These targets would be effective for 2015 performance and have been included in the 2016 Budget.

The City of New York, the State of New York, the Social Security Administration and the U.S. Internal Revenue Service mandate payroll tax rates and limits. Payroll taxes have been increasing yearly and limits on contribution levels have been eliminated in the case of Medicare. In the case of Social Security tax rates as a percent of taxable earnings have increased due to tax cap annual increases. In the U.S. the employer pays half and the employee pays half of these taxes each. It would be illegal for NPCC or its employees to forego paying payroll taxes to the jurisdictions it must pay. Employees who live in other states (NPCC staff reside in CT, NJ, NY and PA) must estimate those state taxes and make payment quarterly accordingly to the state in which they reside.

In the area of benefit costs, under the Affordable Care Act (ACA) NPCC falls into the New York City small group category (50 or less and next year, 100 or less employees constitutes a small group). As such, it cannot self-insure as some of its utility members do at less cost and better coverage. Additionally, NPCC's premiums are determined by all small groups within New York City, thus making inferior health insurance coverage costly. The legislated ACA has had detrimental effects on most small plans providing for much higher out of network deductibles and copayments. Virtually any staff member who has access to coverage from a prior utility employer, or a spouse's large company, waives NPCC health insurance as it does not provide the better insurance coverage or extensive access to health care providers. NPCC has investigated entering into a "lease-back" arrangement for its employees with a large personnel management company, such as ADP to have better access and more affordable care, but such an agreement would make NPCC employees effectively contract employees of ADP and the administrative expenses of such a program made it cost prohibitive. NPCC has the fewest FTEs per registered entity.

And lastly, in terms of examination of retirement costs, such costs will decline as NPCC de-risks and terminates its defined benefit pension plan. Upon asset distribution, NPCC will bear no future investment risk and all risk will be for the individual. In terms of pension-like benefits, the former defined benefit participants will go into a defined contribution 401(k) plan for which discretionary contributions are considered by the Board annually and has been for all NPCC staff hired after February, 2007 when the Pension Plan was frozen to new entrants. NERC reduced its

10% contribution level of many years to 8% of total compensation these past two years. NPCC's discretionary contributions have been 8% of base compensation only, not total compensation like NERC and other organizations, thus providing savings to the ISO/BAAs.

5. HQT Comments on IT Infrastructure Projects

As HQT has indicated, over a multi-year period, starting in 2015, NERC is investing millions with regard to IT infrastructure. NPCC included in its 2016 Business Plan and Budget $125,000 for a document management system that would leverage NERC's investment such that retention and destruction, information management and security would be enhanced. NERC has done several presentations to the Member Representatives Committee with regard to its large investment. NPCC would not make any investment until the ERO Enterprise IT infrastructure is in place to build upon. The benefits of centralized IT Tools Development are that the REs can use or build upon and not duplicate NERC's efforts.

NPCC could eliminate or postpose its document management system implementation, thereby reducing the proposed total 2016 budget by $125,000.

Bonjour Michaël,
Thank you for your questions and comments on the Draft 2016 NPCC Business Plan and Budget. Your thorough review of NPCC's Draft 2016 Business Plan and Budget is appreciated. The proposed clarifications to the text of that document, numbered 1-13, will be incorporated into the Final 2016 NPCC Business Plan and Budget.

In response to the "Comments on the 2016 Business Plan and Budget" beginning with number 1, I would like to draw your attention to column E-1 of the cost allocation table on page 65 of the Draft 2016 NPCC Business Plan and Budget, "Adjustment to RE Division Cash Reserve Requirement." This amount needs to be included in the calculation in order to arrive at the "Total Assessment and Member Fees" in column M. The cost allocation table is intended to calculate the Total Assessment and Member Fees allocable to each Balancing Authority. If you would like to extract the CORC Program Expenses only, then 58% of the E-1 "Adjustment to RE Division Cash Reserve Requirement" must be applied to the CORC Expenses, on the basis that the CORC Program represents approximately 58% of the Total RE Division Budget. Please see calculation below where the adjustment to cash reserves is applied to both the 2015 and 2016 total CORC expenses resulting in a 0.4% increase, rather than a 4.2% increase.

	G-2 Total CORC Expenses	Page 28 CORC Budget % of RE Budget	E-1 Total Adjustment to RE Division Cash Reserve	Apply CORC % to adjustment to RE Division Cash Reserve	Net CORC Expenses	
2015	1,087,229	58%	(103,887)	(60,254)	1,026,975	
2016	1,132,825	58%	(175,009)	(101,505)	1,031,320	
				Variance	**4,345**	**0.4%**

With regard to 1.a.-c. please also refer to pages 26, 63 and 64 of the Draft 2016 NPCC Business Plan and Budget. For question 1.d., please refer to the NPCC 2014 and 2013 Actual vs Budget True Up posted on NPCC's website, which provides a line by line variance analysis for each program area.

Regarding comment 2, NPCC Directories are outside of the MOU and are voluntarily agreed to by Hydro-Québec TransÉnergie through its Full Membership in NPCC, as per the NPCC Bylaws. Activities related to NPCC Directories are paid for by Hydro-Québec TransÉnergie through the Criteria Services Division.

In answer to question 3, the development of Regional reliability standards can be followed through the Reliability Standards Committee (RSC) which has open membership.

As for comment 4, within the US, the BES definition establishes those registered entity assets that are subject to FERC approved, mandatory reliability standards. Within the US, the A-10 definition establishes those Full Member system assets for which NPCC's Regionally specific, more stringent criteria (directories) apply.

Please feel free to contact me with any additional questions that you may have.

Merci,
Jessica

Jessica Hala
Manager, Finance and Accounting
Northeast Power Coordinating Council, Inc.

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Hello Jessica,

You and Jennifer were suggested as contact persons for 2016 NPCC budget.

We reviewed the main activities of NPCC for the next year and the amounts allocated to Québec in the NPCC 2016 Business Plan and Budget version 2.

We submit the attached document with some suggestions and comments.

We draw your attention to the first comment regarding the budget. We would like to have a better understanding of the budget allocation to the Régie for 2016 and in the coming years.

Also, we would like to consult the documents cited in the budget (footnotes to page 65) which determine the allocation of costs to Québec. In particular, would it be possible to provide us the following:

1. *Allocation Methodologies for Certain NPCC Compliance Program Area Costs Assessed to Non-U.S. Entities*;
2. the "audit based methodology", which determines the allocation of Audit and Investigation expenses;
3. the "enforcement activity based methodology", which determines the allocation of Mitigation and Enforcement expenses?

Regards,

Michaël Godbout, ing., MBA, M.Eng
Spécialiste en régulation économique
Surveillance de la fiabilité des réseaux - Régie de l'énergie
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Bonjour Michaël,
As you indicated, NPCC shifted to a 6 year average for audit costs in 2015 in order to reduce volatility in assessments from year to year. Please note that while you reference the increase in CORC assessment to Quebec as being 25% in 2015, the assessment to Quebec decreased by 31% in 2014. NPCC instituted the 6 year average to address such swings.

Additionally, the activity based method used to calculate the CORC cost allocation reflects and gives credit for differences in compliance regimes between provinces and the US.

With regard to your request for a projected schedule within Quebec for the next 6 years please see below. Note that this schedule reflects the recently approved increase in the registry within Quebec. NPCC anticipates that the transition to a risk based focus will produce greater efficiencies for registered entities and NPCC staff which will result in the stabilization of CORC related costs. Due to the risked-based approach to Compliance monitoring and enforcement, NPCC compliance engagements will be "sized" based on a number of considerations. These include risk factors, entity risk-assessments and registered entity management practices related to the detection, assessment, mitigation, and reporting of noncompliance. A risk-based approach results in an efficient allocation of NPCC resources and encourages registered entities to enhance reliability and increase internal controls, including those focused on the self-identification of noncompliance.

Compliance Engagement 6 year Cycle

QUEBEC (assuming 25 entities)	
On-site Audit	2
Off-Site Audit	24
On-Site (CIP) Audit	2
Off-Site (CIP) Audit	24
Guided Self-Certification	90
On-site Spot Checks	6
Off-site Spot Checks	100
Inherent Risk Assessment *	25
Internal Control Evaluation *	2
TFE Review	92
Compliance Investigation	0
Entity Certification	0

*Implementation of risk based compliance monitoring and enforcement.

Please contact me with any additional questions that you may have.

Thanks,
Jessica