

Re: Management Response to 2021 Business Plan and Budget (BP&B) Draft 1 Comments

Date: July 16, 2020

The deadline for comments on the first draft of NERC's 2021 BP&B ended on June 26, 2020. Comments were submitted by five entities. Overall the comments were supportive of the 2021 BP&B, especially the cost savings efforts that helped yield a minimal budget increase and flat assessment versus 2020. Below is a summary of the comments and NERC management's responses as applicable.

Canadian Electricity Association (CEA)

CEA was appreciative of NERC's minimal budget increase and flat assessment for 2021 as compared to 2020. CEA recommended that NERC continue to pursue budget stabilization to ensure alignment with the regulatory and fiscal realities faced by electric utilities, especially in the context of uncertain economic conditions resulting from the COVID-19 pandemic. CEA also noted that NERC is tracking below budget for 2020, which will result in a much higher operating reserve than normally targeted, and asked NERC to consider methods to provide relief to entities rather than recovering the same revenue even though 2020 costs seem to be under the expected budget. CEA also encouraged NERC to continue examining ways to ensure budget stabilization in future years, and to provide more cost certainty over a three-year horizon to align with electric sector realities, where rates are not typically modified on a yearly basis. Finally, CEA commended NERC and the E-ISAC for the work done to refresh the E-ISAC strategic plan and stabilize the E-ISAC budget, and to continue (1) engaging with stakeholders to ensure the full value of the E-ISAC is realized and (2) leveraging capabilities already available from other agencies and partners.

NERC Management Response

NERC appreciates CEA's comments and support for its 2021 BP&B. NERC's goal for the 2021 BP&B was to achieve a flat assessment in response to the current economic impacts on the electric utility industry resulting from the pandemic. This was achieved despite significant budget pressures, including 2021 Align development costs, the addition of software and support costs associated with the ERO Secure Evidence Locker (SEL), additional recommended IT cyber security resources, and rising medical insurance premiums. NERC was able to absorb these costs while maintaining a minimal budget increase and flat assessment through a combination of (1) a short-term reduction in meeting and travel expenses due to expected continued pandemic conditions, (2) prioritizing and deferring important but less urgent personnel additions and data management tool enhancements to future years, and (3) using reserves to reduce assessments (i.e., the Operating Contingency Reserves (OCR) draw to fund the 2021 Align development costs).

As a result of holding the 2021 budget and assessment to 2020 levels, especially with respect to the use of reserves to flatten the assessment, NERC is anticipating a measured return to pre-COVID-19 planning assumptions to fund deferred resources and system enhancements that are necessary for the ERO Enterprise to continue to fulfill its mission in the long-term. However, we are sensitive to the need to manage the pace at which those resources are added and projects are completed, and during the 2022 and 2023 budget development cycles NERC commits to

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focusing on addressing the highest risks to reliability and security. At the same time, we will consider prevailing economic conditions, potential facility and workplace model changes resulting from lessons learned during the pandemic, and judicious use of OCR and Assessment Stabilization Reserves (ASR) to manage assessment increases. Finally, we will continue to assess our program areas and prioritize initiatives.

In response to the anticipated 2020 budget underrun CEA references that will contribute to higher-than-targeted OCR funds at the end of 2020, NERC notes that this underrun is being driven by a combination of lower meeting and travel costs due to the pandemic as well as deliberate costs savings efforts, including deferred personnel hires and system enhancements. This allows for (1) use of OCR to fund \$1.8M of the \$3.8M total capital investment for the ERO SEL in 2020; (2) cash funding of 2020 Align development costs versus financing, therefore reducing debt service for 2021 and future years; (3) use of OCR to fund the \$1.8M in Align development costs in 2021; and (4) as mentioned above, reserve funding to potentially offset rebounding assessments in future years.

Finally, NERC acknowledges CEA's comment regarding providing more cost certainty over a three-year horizon, and will collaborate with the Regional Entities on how to improve the year two and three budget forecasts.

Edison Electric Institute (EEI)

EEI acknowledged the continued financial pressure on the energy sector resulting from the effects of COVID-19 and recognized NERC's efforts to maintain a flat budget while also maintaining effective and efficient operations to assure bulk power system reliability and security. EEI urged NERC to work with the Regional Entities to balance reliability and security while maintaining current 2020 budget levels in the Regional Entity budgets for 2021. Finally, EEI encouraged NERC to continue looking for opportunities to prioritize activities that focus on the highest risks to security and reliability while deferring certain lower risk projects to efficiently manage resources.

NERC Management Response

NERC appreciates EEI's comments and support for its 2021 BP&B. As noted above in the response to CEA, NERC commits to focusing on addressing the highest risks to reliability and security while considering prevailing economic conditions, potential facility and workplace model changes resulting from lessons learned during the pandemic, and judicious use of OCR and ASR to manage assessment increases. Additionally, we will continue to assess our program areas and prioritize initiatives.

With respect to the Regional Entity 2021 budgets, NERC notes that it has ongoing touchpoints with the Regional Entities during budget development, in which the organizations share information on budget pressures, cost savings efforts, best practices, and opportunities to leverage costs across the ERO Enterprise. Our review of their BP&Bs focuses on the sufficiency of resources for the Regional Entities to meet their delegated accountabilities and the appropriateness of expenditures to qualify for statutory funding. However, each Regional Entity's situation is unique and we do rely on the Regional Entity boards to determine the appropriate funding, and also note that all Regional Entities have robust stakeholder engagement processes surrounding their own budgets. Additionally, while the budget and assessment increases for 2021 vary across the ERO Enterprise entities, the weighted average assessment increase for NERC and the Regional Entities combined in 2021 is 0.6%. NERC will continue to explore enhanced collaboration opportunities with the Regional Entities for future budget cycles.

Independent Electricity System Operator (IESO)

The IESO expressed appreciation for NERC's minimal budget increase and flat assessment for 2021 as compared to 2020, particularly in the context of cost implications resulting from the current pandemic situation. The IESO also expressed support for the methodology for establishing assessments that acknowledges the capabilities and

expertise of each entity, including the IESO's role in cyber security in Ontario. The IESO encouraged NERC to seek budget stabilization as priority when developing preliminary projections for 2022 and 2023.

NERC Management Response

NERC appreciates IESO's comments and support for its 2021 BP&B. As noted above in the response to CEA, as a result of holding the 2021 budget and assessment to 2020 levels, especially with respect to the use of reserves to flatten the assessment, NERC is anticipating a measured return to pre-COVID-19 planning assumptions in future years to fund deferred resources and system enhancements that are necessary for the ERO to continue to fulfill its reliability and security mission in the long-term. During the 2022 and 2023 budget development cycles, NERC commits to focusing on addressing the highest risks to reliability and security while considering prevailing economic conditions, potential facility and workplace model changes resulting from lessons learned during the pandemic, and judicious use of OCR and ASR to manage assessment increases. Additionally, we will continue to assess our program areas and prioritize initiatives.

ISO RTO Council Standards Review Committee (SRC)

The ISO RTO Council SRC expressed support for NERC's efforts to minimize cost increases in the 2021 BP&B and keep its assessment flat in response to the uncertain economic conditions resulting from the COVID-19 pandemic. The ISO RTO Council SRC also requested the following: (1) a better understanding of NERC's plans for conducting in-person meetings in 2021; (2) clarification regarding the appearance of reduced funding in the Event Analysis program; and (3) that NERC expand all of the charts provided in the BP&B to include at least one additional year of historical data so that trends can more easily be identified.

NERC Management Response

NERC appreciates the ISO RTO Council SRC's comments and support for its 2021 BP&B and offers the following responses to the requested information:

1. NERC's 2021 BP&B assumes some continued pandemic conditions with respect to in-person meetings and travel, which is reflected as a \$1.1M (33.7%) decrease in the Draft 1 2021 budget versus the 2020 budget. While this does not represent a change with respect to NERC's model for meetings and overall stakeholder engagement, it does factor in the expectation that NERC will be leveraging technology to conduct virtual meetings to a greater extent due to assumed travel restrictions, at least for the first portion of 2021. Specific decisions on in-person meetings in 2021 will be evaluated as pandemic conditions are known closer to the scheduled meeting dates.
2. The \$785k (16.6%) decrease in the Event Analysis program in the Draft 1 2021 budget is primarily related to a shift in personnel charged to that department at the leadership and administrative levels to a different department (with a resulting decrease in corresponding indirect cost allocations); however, the core resources and program investments remain the same, reflecting NERC's continued commitment to the importance of this area. The Draft 2 budget will show a reallocation of budget funds back into the Event Analysis department as a result of evaluating the organization administrative structure and financial reporting, and to allow for a more consistent budget comparison to prior periods.
3. The format for the tables provided in the BP&B are mutually agreed upon by NERC, the Regional Entities, and FERC. NERC can explore the value of adding an additional year of historical information with the Regional Entities for future BP&B cycles. In the meantime, NERC would be happy to provide any specific historical information for programs or cost categories upon request.

National Rural Electric Cooperative Association (NRECA)

NRECA expressed appreciation for the attention to cost savings steps and use of reserve contingency funds and provided overall support for the draft 2021 BP&B.

We appreciate the comments received and stakeholders' continuing support of NERC's mission. NERC encourages stakeholders' continued participation in the BP&B process during its development of the 2021 budget.

Sincerely,



Andy Sharp
Vice President and Chief Financial Officer