



Second Draft – NERC 2015 Business Plan and Budget

Comments of the Canadian Electricity Association

The Canadian Electricity Association (CEA) is pleased to provide comments on the second draft of NERC's 2015 Business Plan and Budget (Draft 2). CEA shared feedback on Draft 1¹ and appreciates the opportunity to offer additional input on a guiding NERC document of such importance. Similar to our submission on Draft 1, CEA offers these comments in the spirit of supporting the critical work performed under NERC's international standard-setting model.

I. Process

- CEA once again recognizes NERC management's efforts resulting in a generally-improved budget product and process over prior years. Enhancements to the budget preparation process are well-reflected in Draft 2, which provides stakeholders with a very readable and accessible budget document.
- As expressed in our comments on Draft 1, CEA is also pleased that NERC appears to be making efforts to mitigate ongoing budget increases.
- To further refine this effort, CEA recommends that, where NERC management makes trade-offs or conducts prioritization exercises to help mitigate the impact of new initiatives or requirements, NERC provide greater disclosure of the risks considered, the business impacts, and quantitative impacts of the options considered.

II. Assessment Increases

- Echoing our comments on Draft 1, CEA wishes to stress that the proposed ERO assessment increases set forth in the updated NERC and Regional Entity budgets reflect neither Canadian utility operating realities nor expectations of stakeholders, ratepayers, regulators and governmental authorities for utilities to exercise rigorous fiscal discipline and control costs.²
- Likewise, CEA is disappointed that – contrary to statements made in Draft 1 – Draft 2 does not include proposed 2015 NERC assessments for registered entities. Instead, it only identifies expected average assessment increases. It is CEA's understanding that

¹ See:

<http://www.nerc.com/gov/bot/FINANCE/2015nercbsnsp/bgt/CEA%20Comments%20on%20Draft%20NERC%202015%20Budget%20-%20FINAL.pdf>.

² CEA does acknowledge, however, that the estimated average NERC assessment increases for 2015 – both with or without supplemental CRISP expenses – are below the 8.9% increase projected for 2015 in the 2014 NERC budget.

NERC possesses the information needed to calculate entity assessments. For purposes of future budget cycles, CEA recommends that NERC publish projected entity assessments so they are available to entities and can assist in informing comments on the draft budget.

- CEA is encouraged that Draft 2 retains the statement of intent for NERC senior management to undertake an initiative to mitigate year-to-year swings in assessments. CEA understands that a proposed Long-Term Assessment Stabilization Initiative is set for discussion at the upcoming NERC Board Finance and Audit Committee meeting. CEA looks forward to further details on the initiative and to providing input.

III. Electricity Sector Information Sharing and Analysis Center (ES-ISAC)

Consistent with our comments on Draft 1 and previous CEA policy statements, CEA wishes to re-affirm our strong support for the ES-ISAC being housed within NERC and having a robust capability to share timely and actionable information to bulk-power system users, owners and operators on security threats and risks.

(i) Physical Separation

- CEA supports the initiative to physically segregate the ES-ISAC from the rest of NERC operations as being reflective of NERC's efforts to operationally segregate the function from NERC's compliance and enforcement functions.
- However, this move does not come without significant upfront and ongoing lease and personnel costs. CEA is disappointed that there does not appear to be greater effort to make trade-offs in other NERC program areas to mitigate these cost impacts.

(ii) Cybersecurity Risk Information Sharing Program (CRISP)

- CEA applauds NERC's responsiveness to concerns raised during the comment period on Draft 1 regarding the lack of information on the proposal for supplemental CRISP funding. The addendum on CRISP accompanying Draft 2 is quite helpful in terms of clarifying the key elements of CRISP, the proposed contract structure for the ES-ISAC, and what benefits are expected to accrue to NERC and the industry from the ES-ISAC's proposed role as CRISP program administrator.
- As set forth in Draft 2, the initial proposed funding model for ES-ISAC management of CRISP seems fair and reasonable. Having CRISP participants shoulder responsibility for the majority of program costs, with incremental ES-ISAC costs split 50/50 between NERC assessments and participating utilities, is an appropriate starting point. CEA agrees that this sharing formula may need to be refined based on experience and participation, and would support discussion to this effect as part of the 2016 budget cycle. Moreover, with the CRISP budget for the ES-ISAC appearing to assume a certain number of program participants, CEA believes that any funding shortfall risk related to subcontracting or other relevant costs should not be borne by NERC.

- Notwithstanding the above, CEA has the following cautions and concerns at present:

1. At this stage, the actual costs of ES-ISAC program management of CRISP going forward do not appear to be fully known. CEA is worried that the NERC Board is being asked to approve a significant expansion of a key program area (ES-ISAC) in the absence of fully informed, clear-cut projections of medium and long-term costs.

For example, in Draft 1, NERC estimated its assessment-recoverable costs of participation in CRISP at US\$200,000-\$300,000. In Draft 2, this estimate has shifted to just under US\$500,000. Furthermore, the budget projections for 2016 and 2017 in Draft 2 appear to specifically exclude CRISP costs. At the same time, a significant assumption underlying the 2016 and 2017 projections is “no increase in CRISP related expenditures.” Meanwhile, the CRISP addendum itself states that additional ES-ISAC personnel may be warranted to support CRISP in the long-term, particularly if significant portions of CRISP support are moved in-house at the ES-ISAC.³

While a certain degree of uncertainty around costs might be expected for an arrangement of this complexity, CEA is simply concerned that the proposed scale and scope of this new responsibility for the ES-ISAC may entail costs that are well-above what is currently projected in Draft 2. Mindful that NERC is charting out new territory, CEA nevertheless recommends that NERC develop projections of ongoing CRISP-related costs, and provide these in the final draft of the 2015 budget.

2. CEA observes from page 9 of the CRISP addendum accompanying Draft 2 that, inclusive of third-party CRISP funding, the ES-ISAC would be the top-funded department and program area at NERC in 2015, with US\$13.6 million in total expenses. (The next largest departmental budget is for the Reliability Standards Program, at US\$10.3 million).

This observation raises certain policy considerations that CEA will explore further in our policy input for the August 2014 NERC Board and MRC meetings. For purposes of the instant comments, however, CEA would note that this represents a major shift in NERC priorities, from the simple perspective that an organization’s top priorities receive a corresponding level of budget funding.

3. In step with #2, it seems clear that ES-ISAC management of CRISP is considered to be a worthwhile priority that will provide tangible benefits to reliability and to the industry’s broader cybersecurity posture. Indeed, all signs in Draft 2 point towards NERC viewing this new responsibility for the ES-ISAC as a “must have.”

³ See:

<http://www.nerc.com/gov/bot/FINANCE/2015nercbsnsplnbgt/NERC%202015%20BPB%20CRISP%20Background%20Material%20and%20Budget%20Impact%20Analysis.pdf>, page 6.

That said, as noted in our comments on Draft 1, it is unclear if elevation of CRISP management to “must have” status has been accompanied by any substantive deferral or reduction of expenses in other program areas. CEA would have expected that the prioritization of expanded ES-ISAC capabilities would have, by default, re-prioritized other NERC activities. However, this is not reflected in Draft 2.

As the 2015 budget is finalized, CEA respectfully recommends that NERC examine options for efficiencies or trade-offs to offset cost impacts associated with CRISP.

CEA appreciates this opportunity to provide comments on Draft 2 and looks forward to further discussion on the 2015 budget in conjunction with the upcoming NERC Board and MRC meetings in Vancouver.

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