

Re: Management Response to 2022 Business Plan and Budget (BP&B) Draft 1 Comments

Date: July 15, 2021

The deadline for comments on the first draft of NERC's 2022 BP&B ended on June 18, 2021. Six comment submissions were received, which are posted on NERC's website. Generally speaking, comments acknowledged NERC's budgetary emphasis on addressing priority bulk power system (BPS) reliability and security risks while also expressing concerns with the 2022 budget and assessment increases in light of the current fiscal environment and realities facing the industry.

NERC remains sensitive to the economic uncertainties facing the sector as we navigate and eventually emerge from the COVID-19 pandemic but also underscores the extraordinary costs to nearly 400 million North American citizens if adequate and preventive measures are not taken in response to recent risks threatening BPS reliability and security. From supply chain compromise to several cyber breaches and cold and record heat weather-related events, there are immediate needs to continue to reliably and securely support the BPS. NERC and the Regional Entities, in our role as the Electric Reliability Organization (ERO), are accountable for assuring this mission, and continue to thoughtfully balance fiscal concerns with the very real evolution of BPS risk into different arenas. Below is a summary of the individual comments and NERC management's responses.

American Public Power Association (APPA), Edison Electric Institute (EEI), and Large Public Power Council (LPPC)

Joint comments submitted by APPA, EEI, and LPPC emphasized that NERC should (1) identify and measure savings projected from tools or process improvements, including Align and the ERO Secure Evidence Locker (SEL), and create metrics around investments to show their value in enhancing reliability; (2) ensure BP&B activities align with priorities established by the Reliability Issues Steering Committee (RISC), and defer or eliminate those that do not; and (3) leverage and share resources across the ERO Enterprise and consider shared purchasing. APPA, EEI, and LPPC also questioned the need for NERC to conduct real-time situation awareness, including situation awareness efforts related to natural gas, requested more detailed support for the proposed increase of full-time equivalents (FTEs) in the Reliability Standards and Electricity Information Sharing and Analysis Center (E-ISAC) areas, and expressed that meeting and travel costs should remain flat or be reduced.

NERC Management Response

NERC appreciates and has given due consideration to the comments submitted by APPA, EEI, and LPPC. NERC offers the following responses to the remarks and recommendations summarized above.

- NERC has an internal Information Technology (IT) investment review and scoring process, which measures and validates if a technology project achieved the value identified in the business case. This process will apply to the Align and ERO SEL projects. NERC would however note that, while the implementation of Align will replace the individual Compliance Monitoring and Enforcement Program (CMEP) applications across the ERO Enterprise and reduce the historical costs for these legacy systems, these modest cost savings were not the primary justification for the project. The benefit of both Align and the ERO SEL is the improvement

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in the consistency and quality of CMEP processes and data protection, which promotes both effectiveness and efficiency. In addition, the security features of the ERO SEL are requiring the Regional Entities to significantly modify their work practices in reviewing registered entity evidence, which is driving the upward pressure on the Regional Entity CMEP staff in the near term. Also, until Align is fully deployed, the Regional Entities are unable to retire their legacy systems. Finally, it should be noted that NERC's investment in Align and the ERO SEL also represents an untold savings over the "avoided cost" for each ERO organization to rebuild its own individual applications, which would inevitably have been incurred over time, especially with the heightened security requirements on registered entity evidence handling.

- NERC is exploring options for how to meaningfully measure the efficiencies gained and/or impact to enhancing reliability from its investments in resources and tools, and welcomes input from industry in developing these metrics.
- NERC's BP&B is guided by the *ERO Enterprise Long-Term Strategy*, which is aligned with BPS risks identified by the RISC and reviewed annually by ERO Enterprise leadership to confirm the continued harmonization with the RISC's work and the highest priorities for the ERO Enterprise.
- NERC and the Regional Entities continue to work on sharing and leveraging resources across the ERO Enterprise. The ERO Enterprise has collaboration groups focused on both the individual program areas and shared services, which are centers for knowledge and best practice sharing as well as identifying ERO-wide efficiencies, including training and joint purchasing opportunities. NERC has also been leading ERO-wide efforts to help improve cyber and data security. This includes the development and implementation of Align and the ERO SEL, a dedicated and focused resource to lead overall ERO security, and IT security audits for the ERO Enterprise. These efforts do not always result in a categorical financial return, particularly with respect to the inclusion of funding for ERO-wide initiatives in NERC's budget; rather, these efforts promote consistency and quality, replace funding for these strategies at the Regional Entities, and support the ERO Enterprise's strategic focus area of capturing effectiveness, efficiency, and continuous improvement opportunities.
- NERC is required to maintain real-time situation awareness under Section 1001 of the Rules of Procedure, and to provide leadership coordination, technical expertise, and assistance to the industry in responding to events as necessary. The 2022 budget also does not include consulting expenses for enhancing natural gas situation awareness; the language in question will be clarified in the second BP&B draft.
- In response to the comment related to what additional activities in Reliability Standards warrant an increase in FTEs, NERC notes that it is requesting to add one standards developer and one standards administrator due to increased activity related to (1) changes to operations and planning standards identified by the Reliability and Security Technical Committee (RSTC); (2) additional changes to critical infrastructure protection (CIP) standards necessitated by the escalating threat environment and recent supply chain compromises; and (3) the overall rapid transformation of the grid, especially in the areas of renewable resources and extreme events.

Also, NERC would like to clarify that the E-ISAC is not adding dedicated resources to support the downstream natural gas sector. Rather, the intent was to cite the E-ISAC's work related to coordination with the sector and the Downstream Natural Gas ISAC as one of many initiatives in support of the E-ISAC's long-term strategy that contribute to the overall need for additional resources. Clarifications related to FTE additions in Reliability Standards and E-ISAC will be addressed in the second draft of the BP&B.

- The 2022 budget for meeting and travel expenses has been increased from the 2021 budget, which assumed continued pandemic conditions for a portion of the year. However, the proposed 2022 budget amount remains 22% below the pre-pandemic 2020 budget amounts. Future in-person meetings will be guided by committee and stakeholder engagement requirements, and web meeting technologies will continue to be utilized when possible.

Canadian Electricity Association (CEA)

CEA recognized that the majority of increases in the NERC 2022 budget are aimed at addressing the highly challenging and evolving reliability and security environment. CEA encouraged NERC to examine (1) how its program structure can be more adaptable to effectively address challenges as they evolve and (2) the efficiency and value of program investments, and to provide better evidence that investments are providing tangible results and corresponding value. With respect to the E-ISAC, CEA recognized the increases in the context of the recent major security disruptions and evolutions. CEA encouraged NERC to continue engaging with stakeholders to ensure the full value of the E-ISAC is realized and to leverage capabilities available from other agencies and partners.

NERC Management Response

NERC appreciates CEA's comments and support for the 2022 BP&B's focus on priority BPS risks. With respect to CEA's constructive comments related to program and investment examination and a "continuous questioning and improvement culture," NERC offers the following responses, which are similarly noted in its responses to APPA, EEI, and LPPC above:

- Current practices NERC has in place to examine the results of its program investments include an internal IT investment review and scoring process, which measures and validates if a technology project achieved the value identified in the business case.
- NERC is exploring options for how to meaningfully measure the efficiencies gained and/or impact to enhancing reliability from its investments in resources and tools, and welcomes input from industry in developing these metrics.
- NERC's BP&B is guided by the *ERO Enterprise Long-Term Strategy*, which includes a strategic focus area to continuously capture effectiveness, efficiency, and continuous improvement opportunities. NERC does this in collaboration with stakeholders, and agrees that its ongoing touchpoints with the Member Representatives Committee (MRC) BP&B Input Group is a valuable mechanism for industry participation and feedback on these opportunities.
- Over time NERC is capturing program maturity benefits and efficiencies, as highlighted by the two FTE positions that are being redeploying from the Compliance Assurance area that are no longer needed.

Regarding the comments related to E-ISAC, NERC appreciates and remains strongly committed to continued engagement with stakeholders on furthering the value proposition of the E-ISAC in Canada while respecting and leveraging the similar work and capabilities from Canadian agencies.

Independent Electricity System Operator (IESO)

IESO expressed support for NERC's reliability and security activities, CEA's comments, the established assessment credit policy for certain Canadian entities, and IESO's partnership with the E-ISAC. IESO strongly encouraged NERC to reduce the budget and assessment increases shown in the first draft, recommending that NERC pursue reductions in office lease costs, reassess in-person meeting assumptions, and expand the use of capital financing and make use of available reserves to fund one-time expenses.

NERC Management Response

NERC appreciates IESO's comments and support, and directs IESO to NERC's responses to CEA's comments above. NERC has also given due consideration to IESO's recommendations to lower the 7.0% budget and 9.9% assessment increase shown in the first draft of the 2022 BP&B. After careful review, the second draft of NERC's BP&B includes the same meeting and travel expense assumptions as the first draft (see NERC's response to APPA, EEI, and LPPC related to this subject above). The second draft also does not reflect the use of reserves or additional capital financing in order to avoid (1) the rebound effect on 2023 assessments if reserves are used in 2022 (due to the relatively low amount of "one-time" costs in the budget) and (2) the impact of debt service on future year budget increases. However, NERC is pleased to report that the budget and assessment increases have been lowered in the second draft of its 2022 BP&B to a 6.2% budget and 8.9% assessment increase as a result of additional refining of expenses and revised assumptions for DC office lease costs. NERC is continuing to explore lease options for its Atlanta office facility, and believes it would be prudent to maintain adequate reserve levels to accommodate potential one-time costs associated with any Atlanta office lease change decisions.

Independent System Operator (ISO) Regional Transmission Organization (RTO) Council (IRC) Standards Review Committee (SRC)

The IRC SRC expressed strong support for NERC's 2022 budgetary emphasis on priority BPS risks and encouraged that, since a large portion of NERC's 2022 budget increase is in the E-ISAC, NERC publish the metrics provided in the *E-ISAC Long-Term Strategic Plan* at least annually.

NERC Management Response

NERC very much appreciates the IRC SRC's comments and support for its 2022 BP&B. The E-ISAC metrics are currently shared and reviewed with the Electricity Subsector Coordinating Council (ESCC) Member Executive Committee. The E-ISAC will consider opportunities for metric information sharing with a broader audience while maintaining security of sensitive information.

Midcontinent Independent System Operator (MISO)

MISO supported the comments filed by the IRC SRC.

NERC Management Response

NERC appreciates MISO's support for its 2022 BP&B and refers MISO to the responses provided for IRC SRC above.

National Rural Electric Cooperative Association (NRECA) on behalf of the Cooperative Sector

NRECA expressed support for the transparent ERO budget process. Comments on the 2022 BP&B encouraged NERC and/or the ERO Enterprise to (1) ensure E-ISAC metrics are evaluated and modified as needed to demonstrate the value of information sharing to E-ISAC members, and to consider how FTE increases for E-ISAC and the Cybersecurity Information Sharing Program (CRISP) might offset per-member cost reductions realized due to expansion of the program; (2) provide better justification for ERO FTE increases to support the CMEP and standards development efforts; and (3) consider evaluating a more consistent approach to operating reserves and their use across the ERO.

NERC Management Response

NERC appreciates the comments provided by NRECA. With respect to remarks related to the E-ISAC, NERC agrees with ongoing examination of the E-ISAC metrics to ensure they best demonstrate the E-ISAC's value, and recently created a performance management group to ensure, among other things, that the E-ISAC's metrics support the improvement of the quality, timeliness, and value of information sharing, data management, and analysis. NERC

also understands the concern regarding how FTE increases in the E-ISAC and CRISP areas could be offsetting CRISP per-member cost reductions that result from members being added to the program; however, NERC believes that any offset would be nominal given that the cost of these FTE increases is spread across all North American load-serving entities.

With respect to FTE increases in the CMEP and Reliability Standards areas, NERC first notes that it is reducing FTEs in 2022 in its compliance and enforcement programs as a result of the maturation of the program and NERC's need for resources in other areas to align with current strategic priorities. While there is increased work at the Regional Entities as a function of Align and (primarily) ERO SEL implementation and related process changes, the CMEP-related FTE adds at the Regional Entities in 2022 are (1) in some cases, budget neutral with respect to contractor conversions or repurposing of positions from other areas of the company and (2) mainly a result of increasing complexity related to the amount and nature of new standards and violations, as well as initiatives to expand risk and internal controls analysis programs. In response to the comment related to what additional activities in Reliability Standards warrant an increase in FTEs, NERC notes that it is requesting to add one standards developer and one standards administrator due to increased activity related to (1) changes to operations and planning standards identified by RSTC; (2) additional changes to CIP standards necessitated by the escalating threat environment and recent supply chain compromises; and (3) the overall rapid transformation of the grid.

Finally, NERC supports NRECA's comment on working toward a more consistent approach to operating reserves and their use across the ERO Enterprise organizations. NERC has been working with the finance leaders at the Regional Entities to standardize reporting of reserve categories and also provides feedback on their annual reserve usage and reserve levels. Similar to FTE resource planning and budgeting, the Regional Entity boards and executive teams determine their reserve policies and timing of reserve releases. However, this is an area where NERC and the Regional Entities will continue to explore areas for consistency where possible.

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 2022 budget.

Sincerely,

Andrew G Sharp

Andy Sharp
Vice President and Chief Financial Officer