

July 18, 2013

**RE: Comments Received on Draft #2 of NERC 2014 Business Plan and Budget**

Attached are the comments NERC has received regarding the second draft of the NERC 2014 Business Plan and Budget. As is customary, NERC management, the Finance and Audit Committee, and the NERC Board of Trustees will be reviewing these comments in connection with the preparation and review of NERC's final proposed 2014 Business Plan and Budget which will be posted on NERC's website as part of the August Finance and Audit Committee agenda materials. As is also customary, management will be preparing a response to these comments, including corrections or clarifications to any misstatements or misunderstandings contained in these comments, as part of the materials it provides to the Finance and Audit Committee and NERC Board in connection with the August meeting and includes in its filing with the Federal Energy Regulatory Commission in connection with the Commission's review and approval of NERC's 2014 Business Plan and Budget.

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On behalf of our member companies, the Edison Electric Institute (EEI) appreciates the opportunity to provide brief comments on the draft proposed NERC 2014 budget and business plan. EEI broadly supports NERC and the successful achievement of its critical mission to ensure bulk power system reliability. The following comments aim at helping focus NERC performance for success. These comments contain recommendations that we strongly believe will not impair NERC from successfully executing its core program mission.

NERC is now seven years into implementation of the Electric Reliability Organization. The NERC budget has increased at an average annual rate well in excess of ten percent over the past seven years. Regional budgets, driven primarily by startup of the compliance and enforcement program, have increased on a similar trend line. It is time for NERC budgets to be flat from year to year, or for increases consistent with the rate of inflation, absent extraordinary circumstances.

The NERC State of Reliability Report, approved by the Board of Trustees in May 2013, concludes that bulk power system reliability is adequate. EEI supports this critically important conclusion. Section 215 explicitly requires that the Electric Reliability Organization develop and enforce standards that result in an adequate level of reliability in this country, a very strong criterion that requires the prevention of widespread cascading outages, uncontrolled separation, and voltage instability. Moreover, the report describes no significant reliability gaps or problems that require new standards. All participants supported this conclusion at a technical conference at FERC on July 9, 2013.

The 2012 report of the FERC financial audit of NERC found that salaries and benefits of NERC personnel were at or above comparable electric industry compensation. The report found NERC benefits, particularly the 'profit sharing' program, to be especially generous. In addition, FERC recently approved budget criteria that limited Section 215 funding to those activities that are essential for ensuring bulk power system reliability.

In contrast, the electric industry has been seeking to aggressively cut non-essential NERC costs for several years. Many electric companies have frozen or cut salaries and benefits, reduced personnel levels, applied significant meeting and travel restrictions,

and eliminated various activities that do not support companies' core business objectives. The federal government has been on a pay freeze for three years. State and local governments also have cut staffing or frozen salaries and benefits.

EI has asked NERC to apply stronger budget discipline for several years and to focus its resources and priorities on successful execution of its core program areas. In response, last year NERC management stated that the 2014 budget would not increase over 2013.

EI strongly believes that no material changes in the past year have taken place to support a proposed 7.5% budget increase. We can find nothing in the budget proposal that identifies the reliability problems needing to be addressed, or the reliability solutions or benefits that would take place, as a result of this increase. At no time during the past year has NERC suggested that the 2014 budget would increase in comparison to 2013.

Therefore, EI proposes that NERC limit itself to a flat budget with an inflation adjustment, or a two percent increase in overall spending in 2014. How to achieve the outcome should be left up to NERC management. Here are some suggestions for management consideration:

**Capping overall salary increases to three percent.**

The overall salary line in the budget increases to \$26.4 million from \$24 million. NERC states that this is driven by the addition of senior level employees, and the addition of three new positions in 2014. Since development of the 2013 budget, EI understands that NERC has hired one new executive level position, a chief operating officer, and has ended a consulting contract with a former senior officer. While we are extremely reluctant to offer recommendations regarding personnel matters such as salaries and compensation, we urge NERC to reduce its apparent 7.5% salary increase proposal to something much more modest. We know of no company in the electric sector that proposes overall salary increases for 2014 of the size proposed by NERC. EI understands that the move to Atlanta would provide the benefit of a desirable location with a large labor pool. We see no cost or price indices that suggest increasing inflation that would drive this increase.

### **Reducing travel budget ten percent.**

NERC can and should reduce the numbers of NERC staff at its meetings. In addition, NERC can and should conduct its business meetings at facilities that support functions needed to support the meetings, and locate meetings in cities that offer reasonably priced air travel.

### **Reducing professional services budget five percent.**

The budget package does not describe the specific tasks performed under various consulting contracts, and EEI does not seek to micro-manage specific NERC contracts. That is the job of NERC management and the Board of Trustees. However, as a matter of first impression, a five percent reduction should not impair critical work that, if delayed or stopped, will increase system reliability risks. As new positions have been added, the need for consulting services should be offset.

### **Eliminate the proposed funding for research work associated with Gallet equations, GMD, and vegetation management issues on public lands.**

The GMD and vegetation management activities aim at responding to FERC directives. The EEI Vegetation Management Task Force, whose membership includes non-IOU entities, has volunteered to support all aspects of the work needed to comply with the Order No. 777 public lands issue, and therefore there is no need for a NERC budget item.

### **Cost Savings and Efficiency Gains Have Not Been Explicitly Identified**

NERC has insisted that “find fix track” (FFT) has resulted in significant efficiencies and cost savings. EEI also understands that the move to Atlanta would have yielded cost savings. The 2014 budget document does not take into account these savings.

EEI supports a broad NERC initiative to consolidate and upgrade its information technology (IT) infrastructure. It seems obvious that economies of scope and scale can be discovered in the management of a more consolidated system, instead of maintaining nine separate IT systems. EEI expects that this consolidation will result in future cost avoidance or reductions, lessen the need to add to or maintain staffing levels, or other benefits. Just as NERC does not show any cost savings or efficiency gains

in its budget documents with regard to FFT, the budget package does not describe the benefits of these significant IT expenditures in any meaningful detail.

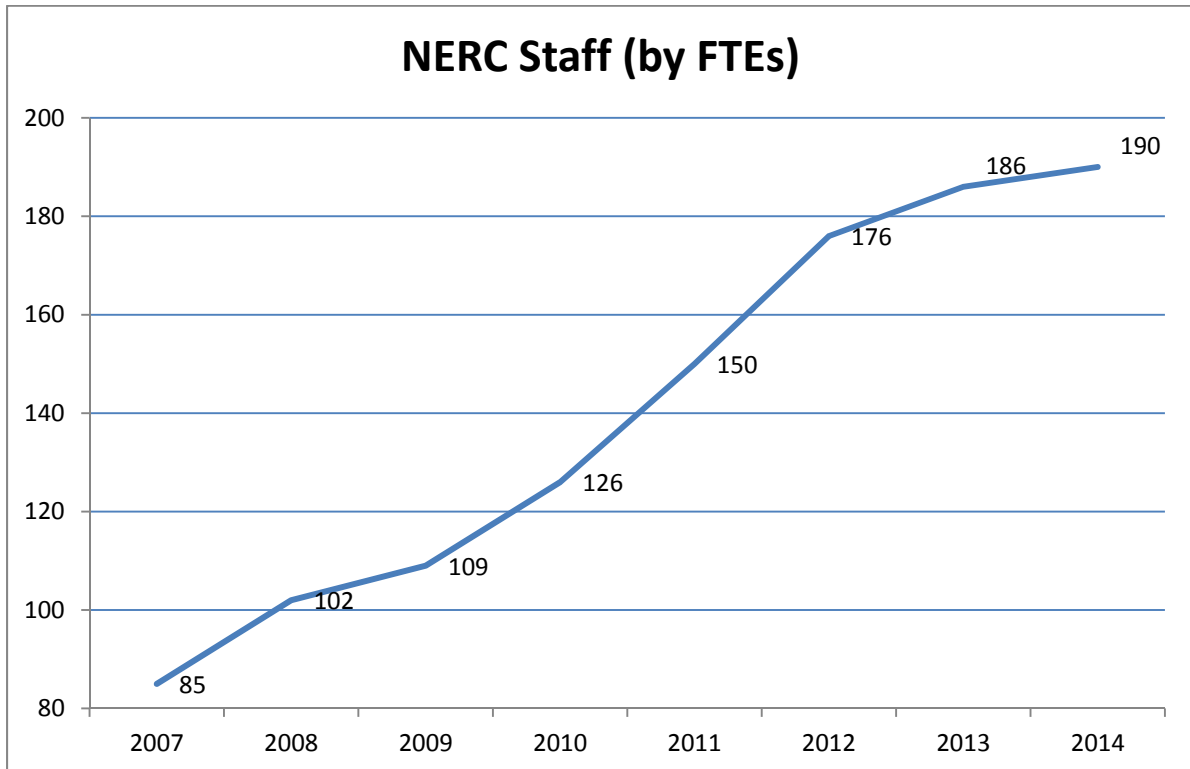
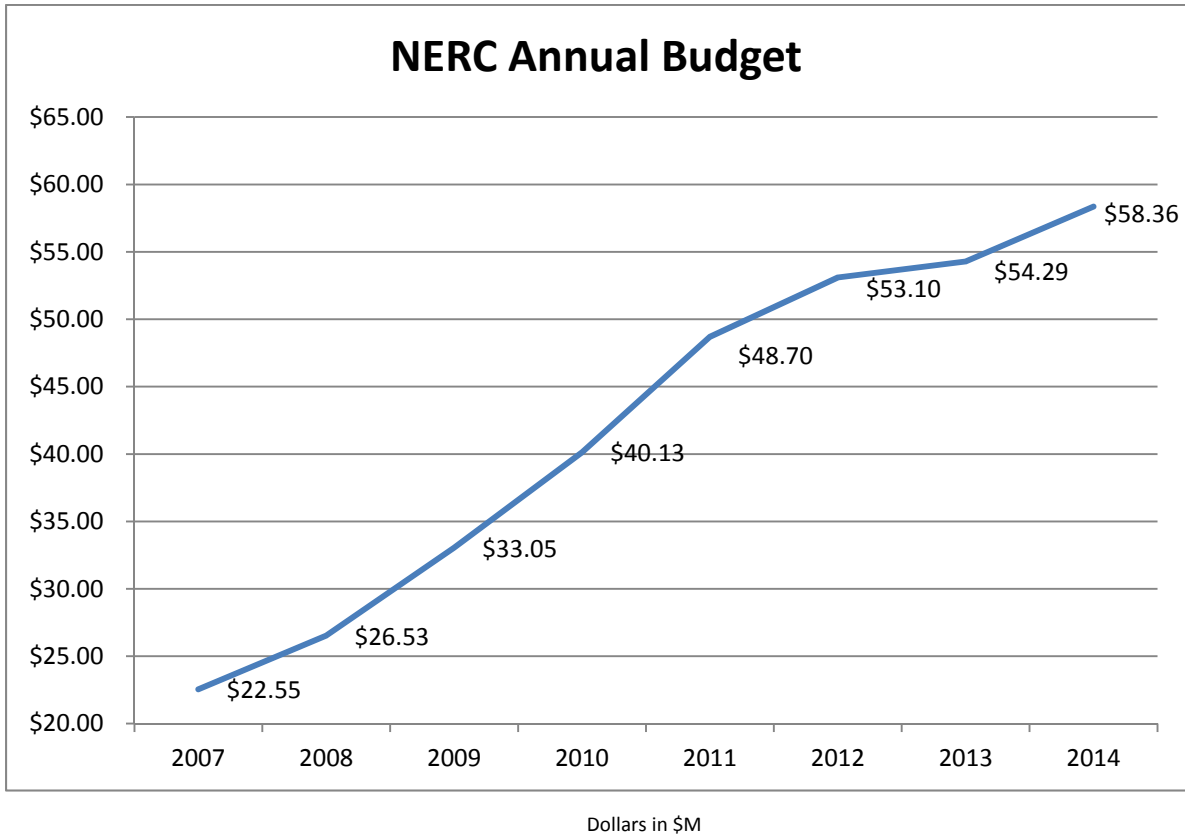
NERC also seeks to begin using debt and amortization of large expenditures. Apparently, this proposal is driven by several large information technology (IT) projects. EEI urges NERC to avoid the temptation to use debt as a business management tool. Instead, NERC should seek to manage its IT budget and projects over a longer time period, or use reserves to cover this expenditure. Debt is a slippery slope to be aggressively avoided.

EEI also notes that NERC has executed a memorandum of understanding (MOU) with the North American Transmission Forum (NATF). To the extent the MOU will reduce potential gaps and overlaps, improve coordination between the two organizations, and identify programs and activities that can move to NATF, this is another strong step in the right direction. As one example, the NERC human performance activity should take place under NATF. This collaboration should further support a decrease in consulting services and staffing additions.

In closing, EEI reiterates its strong support for NERC and its success. However, after more than doubling its budget over the past seven years, it is time for NERC to exercise much stronger budget discipline than revealed in the 2014 budget documents. The proposed increase is simply unjustified by our understanding of the issues, goals and objectives, and challenges ahead. If we misunderstand or lack factual insights, we are open to a more detailed discussion with NERC management.

July 15, 2013

# NERC Budget & FTE Trends





Electric Power Supply Association  
Advocating the **power** of competition

The Electric Power Supply Association (EPSA) appreciates the opportunity to provide comments on the draft proposed NERC 2014 budget and business plan. Competitive suppliers generally believe that others more impacted by the NERC budget can best comment on specifics associated with the budget. However, EPSA does believe that the priorities and associated efficiencies for the ERO as a whole are important and deserve the attention of all stakeholders. The NERC 2014 Budget shows significant spending for a number of “priorities” and in doing so makes too many issues priorities. Therefore, herein EPSA provides input on the 2014 NERC budget with the intent of assisting NERC in this process.

EPSA supports the EEI budget comments posted on July 18, 2013 that point out the current adequate reliability and balance that against NERC’s budget increasing at an average annual rate of 10 percent since the incept of the ERO. This rate of increase has occurred during a period when other businesses have been exercising belt-tightening due to economic conditions experienced in North America during the past 7 years. The EEI comments suggest areas where expenditures can be limited that make sense to EPSA.

Reliable provision of supply is how EPSA members remain going concerns. Despite that reliability is the glue that holds together their business survival no EPSA member has been able to support 10 percent annual increases. Consequently, EPSA has shares EEI’s concerns expressed in their comments. NERC spending on the oversight of reliability is increasing at a rate that exceeds that for registered entities ability to spend to continue as ongoing concerns. EPSA believes this is a mismatch that should prompt the ERO to examine the EEI recommendations and give serious consideration on the ERO’s spending.

Sincerely,

/s/

Jack Cashin

Director, Regulatory Affairs

Electric Power Supply Association

May 1, 2012

SENT BY EMAIL

July 15, 2013

Mr. Michael Walker  
Senior Vice President and Chief Financial and  
Administrative Officer  
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Dear Mr. Walker:

**Re: Second Draft of the NERC's 2014 Business Plan and Budget**

### **Comment opportunities**

The Independent Electricity System Operator (IESO) is pleased to provide comments on Draft 2 of the NERC 2014 Business Plan and Budget, a document that builds on the materials provided in Draft 1 and continues to ensure there are clear documented linkages between ERO's statutory and regulatory obligations, scope of responsibilities, delegated authorities, and the NERC Strategic Plan. As a Canadian-registered entity, the IESO commends NERC in its ongoing efforts to build on and improve dialogue with Canadian-registered entities and the recognition of the international nature of the interconnected grid within Draft 2 of the 2014 Business Plan and Budget.

### **Projected Increases and Volatility**

Draft 2 projects an average assessment increase of 6.7% in 2014 for Canadian entities (we note, however, that the average assessment increase for Canadian entities is identified as 8.6% on page 15 of Draft 2). Draft 2 also projects average assessment increases of 9.74% and 1.5% in 2015 and 2016 respectively (this applies to all registered entities, reflecting the loss of penalty funds in 2014).

The IESO faces many of the same pressures facing NERC as it works to meet its own obligations and to execute its strategic plan and priorities (i.e.: operating costs such as personnel cost inflation and capital costs such as IT and related infrastructure investment and renewal). However, the IESO does not operate in an environment where 6-10% annual increases would be accepted by our stakeholders, and as such, trade-offs must be made to mitigate the impact of



cost inflation on our rate base, while still meeting our obligations and achieving strategic priorities. The IESO strongly encourages NERC to aggressively seek out and implement opportunities to minimize costs, whether that is through difficult operating decisions and/or through elimination or deferral of low- to medium-priority initiatives.

One such area in particular, the IESO supports NERC's efforts to minimize the projected costs of the 3-year enterprise IT application and infrastructure plan ("Enterprise IT Plan" or EIP), and noted the reduction in projected costs between drafts 1 and 2. The IESO also supports NERC's efforts to examine prudent financing options that will help mitigate assessment impact of EIP investments over a term that better reflects useful life without placing undue financial burden or introducing risk to ERO. The IESO recognizes that EIP is a significant strategic investment affecting NERC operations, as well as impacting regional entity tools and processes. Although drafts 1 and 2, combined with the June 21, 2013 conference call and webinar, provided qualitative strategic benefits to the EIP strategy and investment, there was little clear disclosure of the quantitative analysis to support these qualitative benefits. Without adequate quantitative analysis available to stakeholders, registered entities are unable to adequately assess the merits and prudence of the investment relative to the strategic benefits (for example, estimated return on investments) and the IESO encourages disclosure of these benefits.

### **Recommendations for 2015 Business Plan and Budget Process**

The IESO commends NERC in its ongoing efforts to improve the efficiency and effectiveness of its business planning and budgeting processes, while ensuring registered entities are engaged to help improve decision making transparency. In light of these ongoing efforts, the IESO offers the following to consider for future business planning and budgeting cycles:

- Draft 1 of the 2014 Budget and Business Plan lacked sufficient granularity and the changes in presentation and format from Draft 1 to Draft 2 made thorough analysis difficult. This impedes registered entities from providing useful and relevant comments during the budget development process – comments necessary to meet NERC's objectives for an efficient, effective and transparent budgeting process
- For example, although identifying incremental funding needs in Draft 1 was useful for calling out these needs and speaks to NERC's efforts to ensure transparent decision making, the presentation and format of the overall document made identifying combined projected operating and capital expense changes difficult to assess for reasonability and prudence. Draft 2 reflected an improvement to the overall combined projected expenses, but the reader was required to derive relevant incremental funding requirements to conduct a complete analysis
- The IESO recommends that:
  - NERC adopt a standard Business Plan outline or format, applied consistently from early draft(s) to final versions to allow for efficient comparison from year to year and between versions;

- NERC provide clear identification of changes (budgeted and forecasted amounts, assumptions, objectives, operating and capital projects, etc.) from draft to draft, along with rationale and impact on meeting ERO Objectives;
- NERC provide a full 3-year plan earlier in the process, including changes from prior year forecasts, where possible; and
- Since working capital and operating reserves can form a significant component of registered entity assessments, NERC provide draft working capital and operating reserves in Draft 1 to allow for a more complete view of the assessment impact on registered entities.

Yours truly,

*Original signed by Tam Wagner for*

David Barrett  
Senior Regulatory Analyst  
Independent Electricity System Operator

July 15, 2013

## Second Draft of the NERC 2013 Business Plan and Budget:

### Comments from Mike Yealland

I am pleased to submit the following comments on NERC's Second Draft of its 2014 Business Plan and Budget (2014 Budget).

I commend NERC staff for the quality of the business plan and budget, and have only minor comments, on the working capital and operating reserve.

#### **Correction: Table B-1**

In Table B-1, page 101, found at , the line "Desired Working Capital and Operating Reserve – 12/31/13", should have "12/31/13" changed to "12/31/14".

#### **Rationale Needed: Reserve Component for Personnel Certification and Operator Training**

Table B-1 shows the proposed Personnel Certification and Operator Training component of the reserve to be \$741,267. Because no rationale is provided for this level, its appropriateness cannot be determined.

It is therefore suggested that rationale be provided. Factors that may be relevant include:

- For the 2013 Budget \$347,000 of the reserve was to be used to fund 2013 upgrades to reduce fees in 2013 [see <http://www.nerc.com/FilingsOrders/us/NERC%20Filings%20to%20FERC%20DL/NERC2013BudgetFiling8-24-12.pdf> at page 70]. None of the reserve was used to reduce fees in 2013.
- Testing fees in 2013 and proposed for 2014 are \$1.68M and \$1.62M. It isn't apparent whether the change reflects volume or price changes.

I repeat the comment submitted by the IESO last year respecting the 2013 Budget [see <http://www.nerc.com/gov/bot/FINANCE/2013%20NERC%20Business%20Plan%20and%20Budget%20DL/IESO%20Submission%20re%20NERC%202013%20Business%20Plan%20and%20Budget%20FINAL%202012%2006%2029.pdf> ] to the effect that resources that can reasonably be anticipated are best included directly in proposed program costs, rather than indirectly via a reserve.

Submitted by

Mike Yealland

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## Michael Walker

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**From:** Gianneschi, Tom A. [Tom.Gianneschi@alcoa.com]  
**Sent:** Friday, July 19, 2013 4:08 PM  
**To:** Michael Walker  
**Subject:** NERC 2014 Budget Proposal - Large Consumer Comments

Good afternoon Michael,

As a voting member of the MRC representing Large Consumers I want to voice our strong support for the EEI budget comments dated July 15, 2013. While NERC deserves recognition for its budget control in the current year the proposed 2014 increase overwhelms the temporary relief that effort provided to consumers. Large Consumers are fully in support of the EEI suggestion for a flat budget. We agree that given the current adequate state of reliability no increase beyond perhaps only inflation is justified. The members of the Large Consumers sector face the same economic constraints and hardships that EEI members face. In fact, we suggest it is because large consumers face an ongoing battle for economic survival that EEI members have been put in the position of economic restraint they find themselves.

After 7 years its time for NERC to demonstrate how it will economically manage itself as the permanent ERO. For instance:

\* The budget process is largely reactive and doesn't appear to have an overall goal. The budget document is built around what NERC will do to address each of its major constituencies and FERC directives but it is without any boundaries and as such is biased towards unending increases. This condition has to be returned to a state of control where the consumers paying for the activities set the threshold for how much additional reliability they are willing to pay for.

\* The Summary Table on Page 18 of the Draft indicates capex is roughly 80% of the proposed increase. Once a multiyear project is begun there is little chance of stopping or changing course and too often the reasons for which projects were initially approved become compromised or completely lost in the end. Capex is a long term commitment to funding that entails substantially more risk than day to day op-ex activities. This budget lacks the discipline of showing the payback for these proposed investments and offers no economic justification for the requested amounts. If an event requiring emergency attention and funding were to occur it would be an additional call on the registered entities for funding on top of the locked in capex requirements. We don't agree presenting capex in the same format as opex is recognition of the additional risk associated with these types of expenditures.

\* Recognition of the cost of NERC activities across the system as a whole is completely absent. Everything NERC does results in activity at the Regions which in turn adds activity to the Registered Entities. We are really contemplating not only the NERC budget increase but a system wide increase many times the NERC request.

Large Consumers are pleased to let NERC management produce a budget proposal that they feel is the best blend of responses to the demands placed on the organization but only within the flat budget limits suggested by EEI.

In closing, we want to commend the outreach and transparency efforts in this year's budget process. The difference between the current communication effort and past years is a significant and welcome improvement. The changes NERC is undergoing are not easy but it must take the next step in financial management to further advance into a truly responsive reliability organization.

Thank you for the opportunity to comment.

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