



Draft NERC 2015 Business Plan and Budget

Comments of the Canadian Electricity Association

The Canadian Electricity Association (CEA) appreciates this opportunity to provide comments on the first draft of NERC's 2015 Business Plan and Budget (Draft Budget).

As the authoritative voice of the electricity sector in Canada, CEA remains a champion of NERC's international standard-setting model. In step with CEA members' enduring support for this model, CEA offers these comments in the spirit of helping to ensure NERC's success.

As an initial matter, CEA is pleased that a foundational, guiding document like the Draft Budget appropriately reflects the international nature of NERC's mission and mandate. In addition, CEA applauds efforts to bump-up publication of the Draft Budget to an earlier date in the preparation process to afford stakeholders additional time for review and comment at the outset.

I. Summary of Key Points

1. CEA is pleased that the Draft Budget appears responsive to stakeholder concerns regarding the unsustainable trend in expense increases in past budgets. Nevertheless, CEA members are very concerned about once again facing an assessment increase of a substantial margin and are looking for greater stability in NERC assessments (particularly as demands for the industry to exercise rigorous fiscal discipline remain high among stakeholders, ratepayers, regulators and governmental authorities).
2. CEA may adjust the observations in these comments depending on the information presented in the second draft of the budget regarding 2016 and 2017 projections. The absence of these projections makes it difficult to assess whether NERC's proposed resource needs are isolated to 2015 or reflect a longer-term direction towards a steady state in NERC funding requirements.
3. CEA supports the incorporation of RISC's recommendations for high-priority reliability risk projects into the Draft Budget. However, demonstration of reprioritization of existing NERC initiatives to accommodate these projects, relative to priority level, would be appreciated.
4. CEA is interested in finding a constructive path forward for ensuring the capabilities of the ES-ISAC can be appropriately enhanced. However, there is limited information on the proposal for supplemental ES-ISAC funding, with respect to both its need and value. CEA recommends that NERC weigh the potential ES-ISAC expenses against the cost of other NERC initiatives to determine relative priority, and focus on establishing an enduring model that recognizes the wider beneficiaries of ES-ISAC services beyond NERC registrants.

II. Cost Control Efforts Reflected in Draft Budget

Stakeholders have expressed strenuous concerns in recent years regarding growth trends in NERC and ERO budgets that were unsustainable and not sensitive to the fiscal and regulatory realities facing BPS users, owners and operators. Likewise, as recently as comments submitted on the draft Five-Year ERO Performance Assessment, CEA has expressed concerns over the lack of assessment of the relative cost-effectiveness of these increases.¹

CEA therefore acknowledges and appreciates that the overall projected NERC budget increase of 1.6% for 2015 represents a significant departure from the average annual increases seen in recent NERC budgets and is below the average overall ERO projected increase of 2.2%.² The Draft Budget holds true to commitments established when the NERC Board approved the 2014 NERC Budget (e.g. no net increases in budgeted FTEs and further reductions in travel and meeting expenses), while surpassing other commitments (e.g. 3% across-the-board reduction in contractor and consulting expenses, in contrast with the <5% increase projected). As a result, the Draft Budget falls below the total increase for 2015 projected in 2014.

CEA commends NERC for preparing a Draft Budget which appears responsive to these concerns and to calls for budgets that reflect the economic realities of the sector as well as stakeholder expectations.

III. Assessment Increases

Notwithstanding the comments above in section II, CEA members are wary at once again facing a proposed NERC assessment increase of a substantial margin.

Granted, the projected average assessment increase of 5.5% is less than the 8.9% increase forecasted in the final 2014 NERC budget. In addition, CEA recognizes that the increase is attributable – in part – to such factors as fluctuations in reserves and working capital, capital financing, and U.S. penalty funds.

Nevertheless, in view of the consistent trend of rising assessments for Canadian entities since formation of the ERO, a 4.1% assessment increase forecasted for 2016 (as per the 2014 budget), and the intense demands from stakeholders, ratepayers, regulators and governmental authorities on utilities to exercise rigorous fiscal discipline, CEA members are looking for greater stability in assessments. Specifically, these ongoing increases strain existing resources of Canadian entities, thereby directly affecting their ability to voluntarily support NERC initiatives.

Moreover, this concern is compounded when one examines the broader ERO budget landscape for 2015 and the combined cost impacts of increased assessments both at NERC and the

¹ http://www.nerc.com/gov/fiveyrprfrmncedl/Five-Year%20Performance%20Assessment%20-%20March%203,%202014%20Posting%20and%20Comments/5YPA_Comments_3-21-14_CEA.pdf

² http://www.nerc.com/gov/bot/FINANCE/2015nercbnsplnbgf/Total%20Draft%201%202015%20ERO%20Enterprise%20Budget%20Analysis_6-12-14.pdf



Regional Entity level. Altogether, the Draft Budget estimates that average assessment increases for the whole ERO in 2015 are projected to equal 13.4%. As such, while the Draft Budget reflects greater success in containing operating expenses, numerous registered entities are nevertheless still facing significant increases in the total assessments levied by NERC and their applicable Regional Entity.

Assessment stability should be a hallmark for an organization that is maturing in its program experience and management expertise (recognizing that NERC's organizational maturation has been recognized – and fairly so – in recent forums like the June 2014 Technical Conference at FERC).

In this regard, CEA is pleased to note in the Draft Budget that NERC management will work with the Regions and the Board to develop additional policies to mitigate year-to-year swings in assessments across the ERO. CEA urges timely completion of this effort.

IV. Other Observations on Draft Budget Expenses

- CEA members continue to view standards development and compliance as NERC's paramount responsibilities. CEA is therefore encouraged that Reliability Standards and Compliance and Registration remain the two departments with the highest allocation of resources. This level of funding is proportional to the fundamental importance of these activities for reliability.³
- CEA notes that the Draft Budget incorporates the Reliability Issues Steering Committee's (RISC) recommendations for high-priority reliability risk projects and that, in general, the findings of the RISC feature much more prominently than they did in the 2014 NERC Budget. This is encouraging and consistent with stakeholders' understanding during the formation of the RISC that NERC budgets would integrate the committee's priorities. That said, prudent business planning requires making trade-offs between high-priority projects and others of lesser priority. Accordingly, it is reasonable to expect that the Draft Budget would have demonstrated some reprioritization of existing NERC initiatives to accommodate this slate of new projects, relative to priority level.
- Based on the information provided, CEA is unclear as to why the proposed allocation for Reliability Assessments and Performance Analysis (RAPA) is immune from the across-the-board reductions in contract and consulting expenses. As further discussed below, CEA suggests that this serves as an example of where NERC should make a judgment call as to where funding should be prioritized to offer greatest value to reliability.

³ At the same time, CEA is mindful of the ongoing pressures exerted by various governmental agencies, regulators, and stakeholders to expand NERC's body of international reliability standards. CEA believes that preparation of NERC's annual business plan and budget is a timely occasion to bear in mind that other solutions besides reliability standards can be better-suited to addressing reliability risks in a cost-effective manner (including where such risks are most pronounced at a regional level), thereby minimizing overall cost impacts to the ERO.



- CEA appreciates the inclusion of statements confirming where NERC activities are either on hold or are being phased out. These include descriptions of a few RAPA initiatives that “will not be pursued in 2015” (page 60) as well as the cessation of NERC sponsorship of the North American Synchrophasor Initiative (page 68). The inclusion of such language – identifying not only areas of importance but activities that can be deferred – reflects a maturation in NERC’s prioritization process. CEA would encourage the inclusion of additional such statements in the Draft Budget, wherever possible, to further clarify which NERC activities are core priorities and which are lesser ones.

V. ES-ISAC Funding

CEA continues to believe that operation of the Electricity Sector Information Sharing and Analysis Center (ES-ISAC) is an appropriate NERC function and that the ES-ISAC should have a robust capability to share timely and actionable information on security threats and risks.

CEA is mindful that there is a growing consensus amongst U.S. industry and government (signaled in such forums as the Electricity Subsector Coordinating Council) that the ES-ISAC should serve as the chief platform for the exchange of threat information relevant to the sector. CEA is supportive of this aspiration and is interested in finding a constructive path forward for ensuring the capabilities of the ES-ISAC can be appropriately enhanced.

However, there are two primary obstacles to CEA lending its full support to the proposal for alternative voluntary funding for the ES-ISAC.

First, as noted in CEA’s May 2014 policy input to the Board, NERC has presented limited information to date on the proposed CRISP implementation and funding mechanism and has not offered specific answers to a host of outstanding questions with respect to the potential deployment of CRISP. For example:

- What are the specific expected benefits from the expanded capabilities of CRISP, incremental to existing ES-ISAC functions? What exactly will be the difference between CRISP-derived information shared by the ES-ISAC and information transmitted directly to CRISP participants? How will ES-ISAC capabilities change after CRISP installation?
- Could the proposed model raise questions and concerns around the fair allocation of costs for ES-ISAC funding, especially as ES-ISAC activities are designated as falling under NERC’s statutory functions, but are open to entities that are not NERC registrants?
- What is NERC’s preferred source of supplemental funding? Based on the descriptions offered thus far in the May 2014 solicitation of stakeholder policy input and the Draft Budget, it is unclear if NERC intends to draw upon reserves, to solicit funding from a handful of industry volunteers or to pursue some other option altogether for this purpose.
- Has there been and/or does there need to be consideration of the ES-ISAC’s Canadian users prior to the ES-ISAC’s deployment and utilization of CRISP?



Second, while the Draft Budget represents an effort to contain existing costs, CEA believes that opportunities remain for greater efficiencies and more effective prioritization (as noted above in section IV). If NERC believes that potential additional costs for ES-ISAC activity (in terms of CRISP deployment and physical separation of the ES-ISAC) is a priority worth pursuing and will provide tangible benefits to reliability, then CEA would prefer to see NERC weigh the proposed increase against other expenses and make the difficult judgment call as to which take precedence and which can be deferred. This is especially important to note, in view of the fact that the proposed combined supplemental ES-ISAC costs would elevate the overall 2015 NERC budget increase to 2.7%.

VI. Multi-Year Projections

CEA acknowledges that projections for 2016 and 2017 will be included in the next iteration of the proposed 2015 budget. While CEA appreciates that additional time may be required to refine those projections, the absence of this preliminary information prevents the formation of a fully informed, holistic view of NERC's anticipated near-term budget outlook or to comment specifically on the appropriateness of NERC management's efforts to correct the trend in expense and assessment increases. As a result, CEA may adjust the observations set forth in these initial comments depending on the information presented in the second draft of the budget regarding 2016 and 2017 projections.

With respect to the 2016 and 2017 projections, CEA also looks forward to reviewing NERC's estimates of efficiencies and savings to be gained through implementation of RAI, and the projected outcome of efforts by NERC and the Board to work with the Regions to implement measures to mitigate year-to-year swings in assessments across the ERO.

VII. Other

- There is a typo on page 4, under "International Relations." Standards are approved in Alberta in accordance with the Transmission Regulation (not Transportation Regulation).
- CEA appreciates NERC's efforts to adopt a standard budget format, in response to stakeholder requests. The similar formats between the 2014 NERC budget and the Draft Budget facilitated comparison between the two.

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