



June 24, 2021

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Dear: Ms. Chanzas,

Re: First Draft of NERC 2023 Business Plan and Budget

The Ontario Independent Electricity System Operator (IESO) appreciates the opportunity to provide feedback on the draft of the North American Electric Reliability Corporation's (NERC) 2023 Business Plan and Budget.

The first draft of the NERC Budget for 2023 is \$100.8 million (a \$12.0 million or 13.5% increase from 2022). Assessments are expected to be \$87.3 million (an \$8.9 million or 11.4% increase from 2022). NERC notes that the assessments estimate currently assumes \$4.0 million in capital software financing loan proceeds, and the release of \$2.0 million in reserve funds to offset assessments.

NERC's Business Plan & Budget lays out annual budget and assessment increases in 2023, 2024 and 2025 in order to: address emerging reliability risks to the bulk power system (energy availability and cyber security), retool NERC's approach to risk mitigation, and reduce NERC's own cyber security risks. With regard to addressing reliability and cyber security risks, these are areas where the IESO supports NERC's enhanced focus, including making necessary investments to help ensure the bulk power system remains reliable and secure in the face of a changing resource mix, more extreme weather, and heightened cyber security threats.

While the IESO supports NERC's activities that maintain reliability and identify and assess emerging risks, the IESO continues to encourage NERC to find business efficiencies to ensure any budget and assessment increases are targeted towards the enterprise priorities and cost increases for customers are mitigated to the extent possible. With the annual increases contemplated by NERC and the Northeast Power Coordinating Council (NPCC), the IESO is cognizant that itself and other regulated entities will need to seek cost recovery for these increases through the regulatory process. Demonstrating need for, and prioritization of,

investments is important during this process, as is striving to achieve cost efficiency wherever possible. To that end, the IESO recommends NERC:

- Assess the extent to which the current reserve levels are appropriate based on the total annual budget and the risk of uncertainties that could cause NERC to use funds from the reserves. For example, total reserves are currently projected to be \$14.8 million in 2023 relative to a \$100.8 million budget, making the forecast reserve roughly 14% of the total annual budget. If current and forecast reserve levels are in excess of the costs of expected risks, NERC should consider using additional reserve amounts to smooth the increase in assessments over the business planning period.
- Assess go-forward assumptions for appropriate annual merit increases for staff (currently estimated at 5.5-6%). Regulated entities like the IESO are required to demonstrate the prudence of investments, including compensation, and to work towards bringing total compensation in-line with regulated metrics.

The IESO also wishes to express support for the comments submitted by the ISO/RTO Council which affirm the necessity of NERC's investments to maintain bulk power system reliability, and for comments made by Electricity Canada which encourage NERC to engage closely with Canadian regulators to ensure the rationale for new priority investments are well understood and supported.

Finally, the IESO strongly reiterates its support for the continuing use of a methodology for establishing assessments that acknowledges the capabilities, expertise and mandate of each entity. In particular, the IESO notes the role that many Canadian entities play in compliance and enforcement as well as the IESO's unique role in ensuring cybersecurity in Ontario.

Yours truly,

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Michael Lyle

Vice-President, Legal Resources & Corporate Governance, General Counsel and Chief Reliability Compliance Officer

cc: Lesley Gallinger, President & CEO, IESO