

BY ELECTRONIC MAIL AND BY COURIER

Mr. Rick Sergel
President & CEO
North American Electric Reliability Corporation
116-390 Village Blvd.,
Princeton, NJ 08540

Independent Electricity
System Operator
655 Bay Street
Suite 410, PO Box 1
Toronto, Ontario M5G 2K4
t 416 506 2800
www.ieso.ca

Dear Mr. Sergel:

Introduction:

The IESO appreciates the opportunity to provide comments on NERC's 2009 Business Plan and Budget, Version 1.1 (April 2008). We acknowledge NERC's efforts to set out the comprehensive program backgrounds, objectives and goals in the business plan and appreciate NERC's efforts at the recent budget workshop to explain the budget in detail.

NPCC Allocation Approval Process in Ontario:

The IESO is responsible for payment of ERO related cost for the province of Ontario through fees paid by end use consumers. While the Ontario Energy Board does not directly participate in the approval of NERC fees, the IESO must present its revenue requirements, which includes the NERC assessments, to the Ontario Energy Board for approval in late 2008. The IESO will need to defend any proposed increases in NERC fees as part of these proceedings. Since the IESO must convey its comments to NERC well before our provincial regulator will have the opportunity to review any NERC fees, it is particularly important that we have confidence in the rationale for increases in each of the program areas.

General Comments:

The NERC Business Plan proposes an overall budget increase of 46% over last year. The IESO believes that increases of this magnitude are unsustainable and unacceptable without suitable justification, including an explicit discussion of the consequences of alternatives, to permit a substantive debate. This justification should incorporate the consequences and risks of limiting or reducing the proposed increases through the identification of a number of budget scenarios (status quo, 10% increase, etc.). As an example, during a recent Finance and Audit Committee (FAC) meeting,

NERC stated that overall increases reflect an increase in “core services” and the industry must recognize that increases were considered in other areas but rejected, even though more staff was needed to fully implement the program’s goals. If this is the case, NERC should identify the specific risk to the industry of not increasing in these other program areas. Similarly, justification of any new initiatives, including the full multi-year program costs, must be provided to permit an informed debate. This exercise would permit the industry to review the initiatives, and compare the risks and benefits of alternatives in all program areas, and trade-offs between them.

The IESO also notes that in the business plan, NERC has not specifically addressed how the plan meets its strategic goals or how it incorporates earlier recommendations from the Members Representative Committee (MRC). Rather, the business plan appears to be built upon a bottom up approach with each program identifying its individual budget requirements. We suggest that the high-level recommendations of the MRC should be addressed in this Plan.

Although the plan presents a list of 2009 goals and objectives along with a discussion of additional resources required to meet those objectives, the IESO is concerned that some suggestions in the business plan duplicate existing IESO functions as well as other operating entities’ functions in terms of reliability and compliance. In Ontario, the regulatory framework in place is one that makes compliance with standards and rules mandatory. The Ontario framework continues to function effectively in setting and monitoring compliance with standards – and is backed up by a sanctioning authority. Furthermore, the IESO is concerned that many of the proposed program increases in the Plan are being directed by FERC and as such respond to US circumstances which may not be relevant to Canadian jurisdictions.

NERC should also be concerned with the ripple down effect of their program increases. It seems likely, given the preliminary NPCC budget, that the substantial increases in most NERC program areas will directly affect the programs carried out by Regional Entities. As a result, the industry may also see unacceptable increases through their Regional Entity fees.

Lastly, the IESO notes that NERC’s methodology in the Plan is to compare 2008 projections and the 2009 budget. We suggest that comparisons should be based on budgets not projections in order to provide an accurate assessment of the changes from the previous year.

Program Specific Comments:

Reliability Standards Program Resources:

- The funding attributed to this program seems reasonable due to the large standards effort.
- As discussed at the recent budget workshop we are concerned with the aggressive schedule that has been proposed for standards development and the toll that that this will have on the industry participants and the quality of future reliability standards. We would therefore propose that the current schedule be re-examined.

Compliance Monitoring and Enforcement and Organization Registration and Certification Program Resources:

- NERC costs have increased alarmingly in this program area over the 2008 budget with the addition of seven staff. This seems excessive considering the majority of the activities are managed at the Regional Entity level.
- The IESO does not believe that any of these increases are required in order to address Compliance in Canadian jurisdictions given that the program's 2009 objectives attribute the majority of effort at sustaining the new compliance, and organization and registration activities in the United States.

Reliability Readiness Evaluation and Improvement Program Resources:

- The IESO does not have issues with the proposed changes - however we question the overall value of the program in its current form. Although we recognize the benefits of identifying industry best practices, it remains to be seen how the existing program's evaluations, based on post-Blackout recommendations, meet the industries needs. The IESO believes NERC should re-evaluate the program to examine less costly alternatives that truly permit best practices to be shared in a non-audit environment.

Training, Education, and Operator Certification Program Resources:

- The IESO acknowledges and accepts that the costs associated with reallocation of certain charges from General to Administrative to this Program results in the budget increase.

Reliability Assessment and Performance Analysis Program Resources:

- NERC costs have increased substantially in this area since 2006 and are driven by EPAct requirements in the United States.

- The IESO and other Canadian entities did not seek out additional Reliability Assessment reporting changes by NERC. These increases seem to be directed to support the ERO's mandate, through EPCRA 2005, to provide reliability assessments. The IESO is supportive of status quo efforts going back to 2006 funding levels, but we question increases beyond inflation in this program area.
- Similarly, the on-going support of TADS and GADs appears to be of limited value to the Ontario. In addition, the data collection represents some duplication for Canadian entities through current reporting to Canadian industry organizations. From IESO's perspective, the main purpose of this reporting appears to be to provide information to U.S. authorities.

Situation Analysis and Infrastructure Security Program Resources:

- The IESO cannot support the substantial increase in this program area, which is effectively double last year's budget including a doubling of the staff in this area.
- The IESO, like many others, does not support the addition of a situation awareness monitoring facility since we believe that NERC has not adequately assessed other options to meet what they understand to be FERC's monitoring requirements. The inclusion of a real time monitoring centre duplicates many of the roles and responsibilities of the Reliability Coordinators (RC). NERC should consider improving coordination between these entities during significant system events rather than setting up a 24x7 monitoring facility.
- The IESO is also concerned about the additional burden that will be placed on RC's if we are required to provide the requested information.
- We would recommend that NERC readdress the appropriateness of managing the North American SynchroPhasor Initiative (NASPI). It would seem that there are more appropriate industry players who could perform this work.
- In general, it appears to the IESO that the requirements in this program area are being driven by FERC requirements and as such should not be funded by Canadian entities.

General and Administrative:

- The IESO has no significant concerns in this area. We support NERC's decision not to charge Canadian entities for the FERC required self-assessment.

Conclusion:

The IESO, and Ontario consumers, are willing to support the necessary costs to support an effective international reliability structure, however, the level of proposed increase is unreasonable and warrants further review, and hopefully, substantial reduction. We look forward to continued discussions.

Regards,

Original Signed by Nicholas Ingman

Nicholas Ingman
Manager – Regulatory Affairs
Independent Electricity System Operator

16 May 2008