

7 July 2006

Mr. Joseph Conner
Chief Financial Officer
North American Electric Reliability Council
116-390 Village Boulevard
Princeton, NJ
08540-5731

Dear Joseph:

Re: Ontario IESO Comments on NERC's 2007 Business Plan and Budget – Draft II

This letter is in response to our review of NERC's budget document posted on June 8, 2006. The IESO participated in and supports the positions contained in the submission of the Canadian Electricity Association ("CEA"). The IESO's submission is intended to complement the CEA's document.

The IESO supports NERC's application as the ERO for North America and we extend our compliments to NERC on the clarity of the proposed plan. We raise the following issues for your consideration in preparation of NERC's 2007 business plan and budget.

Stakeholdering

The IESO appreciates the opportunity to comment on the draft NERC business plan and budget. We recommend that NERC business plans and budgets should be subject to a stakeholdering process beginning at the conceptual stage of the process. An effective stakeholder process will enable NERC to receive input on its proposed activities ensuring consistency with the industry's direction. Conversely, the stakeholdering of activities and funding requirements early in the process will afford the industry more flexibility to effectively plan our activities. As a final note, NERC must be mindful of the industry's available resources when developing this and future business plans.

Allocation of Costs

Section 1102.1 and 1102.4 of NERC's Rule of Procedures indicate that funding will be consistent with NEL while recognizing cost assignments for particular areas, entities, etc. In this regard, the IESO requests NERC review Ontario's funding assignment with respect to the compliance costs. We support NERC's increased role in compliance but we note that Ontario already has its own compliance program that will continue to operate with the arrival of the ERO. As such, the

IESO believes a significant portion of this cost increase should not be allocated to Ontario using a simple NEL approach.

Separation of Statutory Activities

Some of NERC's proposed activities go beyond the statutory requirements of EPAct 2005 which clearly state that the ERO shall:

- Develop and enforce reliability standards
- Conduct periodic assessment of reliability and adequacy of the bulk power system in North America

The activities noted below, while for the most part worthwhile, fall outside of the statutory requirements and should be identified as such to the regulators. The IESO understands that FERC is requesting that all related activities be included in NERC's budget submission; however, we request that funding for these non-statutory activities be clearly separated consistent with Section 1106.8 of NERC's Rules of Procedure.

The non-statutory activities are listed as follows:

- Personnel Certification program;
- Readiness Audits;
- System Operator Training programs;
- Evaluation of Situational Awareness;
- Event analysis and information exchange; and,
- Operational Coordination in the form of various ERO provided tools.

Situational Awareness and Infrastructure Security Program

The IESO notes that the description of the Situation Awareness activities in the business plan differs from the proposed Rules of Procedure. The business plan should include the phrase "through the use of reliability coordinators and available tools" in the second sentence of the second paragraph of the Situational Awareness and Infrastructure Security Program Section (See page 26).

We thank NERC for the opportunity to comment on the draft 2007 Business Plan and Budget. Please do not hesitate to contact me if you have any further questions.

Respectfully Submitted,

/s/ Kim Warren

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