

WIRAB Advice on the Peak Reliability 2018 Proposed Budget and Draft Funding Amount

July 31, 2017

Introduction

The Western Interconnection Regional Advisory Body (“WIRAB”) appreciates the opportunity to comment on the proposed 2018 Draft Funding Amount (also referred to as the Business Plan and Budget) for Peak Reliability.

WIRAB was created by Western Governors under Section 215 of the Federal Power Act. WIRAB is authorized to advise the Federal Energy Regulatory Commission (“FERC”), the North American Electric Reliability Corporation (“NERC”), and the Western Electricity Coordinating Council (“WECC”) on whether reliability standards, budgets and fees, governance, compliance, assessments, strategic direction and other activities conducted pursuant to Section 215 are just, reasonable, not unduly discriminatory or preferential, and in the public interest.

WIRAB provides advice to the Peak Board of Directors pursuant with its responsibilities under section 215(j) of the Federal Power Act. Per the Peak Bylaws Section 3.14, the Peak Board gives “serious consideration” and will respond to WIRAB’s recommendations. FERC has given deference to WIRAB advice on the funding of Peak Reliability: “[D]eference to WIRAB is appropriate here because Peak Reliability funding implicates the following topics listed in FPA section 215(j) on which a Regional Advisory Body may give advice: ‘governance of an existing or proposed regional entity ... [and] whether fees proposed to be assessed within the region are just, reasonable, not unduly discriminatory or preferential, and in the public interest.’”¹

Overview

Peak Reliability’s proposed 2018 budget for the RC Function is \$45.8 million; a 2.9 percent increase from its 2017 RC Function budget. The primary drivers of the budget increase are primarily related to employee costs, which make up over 70 percent of Peak’s overall expenses. Personnel expenses increased by \$1.6 million primarily due to the final roll-in of Peak’s Short Term Incentive Plan, increased healthcare costs, and market pay adjustments. Peak is also decreasing funding for Consultants and Contracts, mainly due to the completion of the Peak Reliability Synchronphasor Program.

The amount of funding Peak is seeking from Funding Parties is \$44.6 million. This is a flat Funding Amount compared to the Funding Amounts for 2017 and 2016. This is 2.6 percent less than Peak’s total budget for 2018. Peak is able to propose this Funding Amount because it expects to run a slight surplus in 2017 and also plans to draw on operating reserves in 2018.²

¹ FERC Order on Rehearing, Docket No. EL13-52 et al., P. 46 (Dec. 6, 2013).

² In 2016, the Peak Board of Directors established a reserve-policy that targets carrying 2.0 months of expected operating costs as a working capital reserve. Although the shortfall in the 2018 budget is not significant (\$300,000 or 0.7 percent), the optics of not following the Board-approved policy favors the narrative that level assessments are an overriding concern of the organization. WIRAB supports continued implementation of the Board-approved reserve policy.

Recommendations

WIRAB makes the following recommendation regarding Peak Reliability's budget:

1. Peak Reliability should prioritize and fund the goals and objectives set out in its 2016-2020 Strategic Plan.

The primary criterion for judging any budget is whether it provides adequate funding to achieve the goals and objectives of the organization. Peak's response to the threat of competition in the Peak RC service territory appears to be to maintain a business-as-usual budget and a flat funding amount. Cost effectiveness is one measure of success, but so is innovation and improved reliability. Reliability coordination in the Western Interconnection is a complex feat. It is important to always be looking into the future to anticipate how the system will change and how that change will affect reliability. Any new RC service provider in the West has the burden of demonstrating that it can ensure equivalent interconnection-wide reliability at a lower overall cost to its customers.³ Another way for Peak to respond to competition in the provision of RC services is to continue to provide high-quality reliability services through effective implementation of Peak's Strategic Plan.

The Peak Board of Directors adopted Peak's 2016-2020 Strategic Plan in 2016, and 2018 should represent the pinnacle of the Strategic Plan's implementation. WIRAB is concerned that Peak's 2018 budget may not provide sufficient funding to implement all of Peak's strategic initiatives. WIRAB believes it is important for Peak to prioritize its goals and objectives when selecting the initiatives Peak will address in 2018. However, there is little to no narrative in the 2018 budget indicating how Peak plans to succeed in funding these initiatives. Therefore, it is unclear whether the 2018 Funding Amount sufficiently funds Peak's strategic priorities. WIRAB recommends that Peak conduct a systematic analysis to ensure key initiatives can be fully addressed given any budget constraints that may exist.

2. Peak Reliability should ensure its 2018 budget and funding amount is sufficient to support the transfer of reliability-focused committees and work groups from WECC to Peak.

In 2016, WECC completed an in-depth review of its committees, subcommittees, work groups, and task forces and is now considering proposals to transition work that more closely aligns with the RC function to Peak Reliability. For example, WECC's Operating Committee recommended that work conducted by WECC's Remedial Action Scheme Reliability Subcommittee ("RASRS"), Next-Day Study Work Group ("NDSWG") and Interchange Scheduling and Accounting Subcommittee ("ISAS") be transferred to Peak. Peak must be prepared to continue the high-quality work that WECC's committees and workgroups are currently performing in

³ WIRAB commissioned a report titled "A Framework for Considering Multiple Reliability Coordinators in the Western Interconnection." The report introduces a framework for reviewing and assessing the reliability and cost implications of transitioning from a single RC to multiple RCs in the Western Interconnection. The framework outlines the challenges that any RC provider would have to overcome in order to ensure equivalent reliability in the West—on an Interconnection-wide basis—while reducing costs to its customers. The WIRAB report is available at: <http://westernenergyboard.org/2017/06/a-framework-for-considering-multiple-reliability-coordinators-in-the-western-interconnection-gridsme-report-june-2017/>

collaboration with stakeholders. However, it is unclear if Peak's 2018 funding amount provides the additional funding necessary for Peak to successfully support the work of these groups. The Peak Board of Directors should ensure funding is available to adequately support the transfer of these committees and work groups from WECC to Peak.

3. Peak Reliability should ensure that the 2018 budget and funding amount is sufficient to fully implement Peak's Enhanced Curtailment Calculator ("ECC").

Peak's Enhanced Curtailment Calculator ("ECC") development project has completed two of the four planned phases, which include: Phase 1: Real-time situational awareness (complete); Phase 2: Qualified Path Management (complete); Phase 3: Future Hour Situational Awareness (Q2 2018); and Phase 4: Facility Management beyond Qualified Paths (Q4 2018). The ECC is a real-time, interconnection-wide reliability tool used to provide system operators with accurate information across a broad range of facilities. It allows for better management of seams between real-time markets, it more efficiently monitors System Operating Limits ("SOL"), and it provides a tool to conduct Real-time Assessments pursuant to new Reliability Standards. Key phases in the project are expected to continue throughout 2018 and are likely to require both technological improvements and policy discussions as well. The Peak Board of Directors should ensure funding is available to adequately address both the technological and political processes associated with full implementation of the ECC.