

## **WIRAB Comments on the WECC 2018 Business Plan and Budget**

May 16, 2017

The Western Interconnection Regional Advisory Body (“WIRAB”) appreciates the opportunity to comment on the proposed 2018 Western Electricity Coordinating Council (“WECC”) Business Plan and Budget (“BP&B”). WIRAB was created by Western Governors under Section 215 of the Federal Power Act and is charged with advising the North American Electric Reliability Corporation (“NERC”) and the Federal Energy Regulatory Commission (“FERC”) on whether proposed Reliability Standards and the governance and budget of WECC and NERC are in the public interest.

**WIRAB has reviewed WECC’s 2018 Business Plan and Budget and finds the 2018 budget and assessment to be reasonable and in the public interest.** WECC’s proposed 2018 BP&B provides sufficient funding for the organization to fulfill its mission to assure the reliability of the Western Interconnection. WECC’s proposed statutory budget for 2018 is \$27.10 million. The proposed 2018 budget is \$300,000 (1.12 percent) more than WECC’s 2017 statutory budget. WECC’s proposed statutory assessment for 2018 remains equal to WECC’s 2017 assessment of \$25.28 million. The primary drivers behind the budget increase include funding of WECC’s Gas-Electric Interdependency study, additional funding for Geomagnetic Disturbance (“GMD”) modeling, personnel expenses including an increase of three (3) total full-time equivalents (“FTEs”) to aid in compliance risk analysis and project management, and increased travel requirements for compliance auditors associated with Critical Infrastructure Protection (“CIP”) standard requirements for onsite facility visits. Major contributors to reducing the projected budget increase include the completion of one-time projects like Remedial Action Scheme (“RAS”) Modeling, the elimination of costs associated with Base Case Coordination System (“BCCS”) alternatives, and improvements to the Board Director compensation structure.

WIRAB makes the following additional observations regarding WECC’s 2018 Business Plan and Budget:

- 1. The draft WECC 2018 Business Plan and Budget appropriately supports the strategic priorities and 2017-2020 operational plan approved and endorsed by the WECC Board at the December 2016 Board of Directors meeting, while maintaining reasonable costs for customers in the Western Interconnection.** As noted in WIRAB’s comments on the 2017 WECC BP&B, WIRAB believes it is important for WECC budgets to be driven by identified strategic priorities. WIRAB commends the WECC Board for approving a set of strategic priorities and endorsing a 2017-2020 Operational Plan in 2016.

WIRAB also commends WECC for developing a 2018 BP&B that will support WECC’s efforts toward successfully completing the 2018 Key Deliverables identified in WECC’s 2017-2020 Operational Plan. WECC’s 2018 BP&B identifies a narrow set of key deliverables—selected due to their strategic importance—that will receive funding under the proposed 2018 BP&B. One of the key deliverables calls for WECC to complete “a comprehensive assessment of the adequacy and risk profile of the natural gas infrastructure in the West, including natural gas storage capacity and other critical facilities that support the electric power sector’s evolving reliability needs.” The 2018 Business Plan and Budget will fund the work needed to complete the study by the end of calendar year 2018. Other key deliverables include enhancing WECC’s ability to proactively assess Essential Reliability Services in future scenarios, refining the comprehensive

risk assessment of the Western Interconnection, and working with stakeholder committees to assess and improve operational practices. Once again, WIRAB commends WECC for its efforts to identify a narrow set of key initiatives for 2018 and to develop a BP&B that supports WECC's work on these priority items.

Nonetheless, WIRAB notes that, going forward, a formal strategic planning process is necessary to better engage industry experts, WECC members, and other interested stakeholders in identifying WECC's strategic priorities; to better coordinate the efforts of the WECC staff and member committees; and to better define the scope of WECC's priority initiatives in order to ensure that WECC can effectively achieve its mission to assure the public of the reliability and security of the Western Interconnections' Bulk Electric System. WIRAB stands by its prior recommendation, and the WECC Board's directive, that WECC work to develop an open and transparent Strategic Planning Process to guide future efforts to identify WECC's strategic priorities and direction.

- 2. WECC should take steps to demonstrate the value of the Reliability Assessment Committee (“RAC”) and other WECC committees through regular tracking and reporting of committee work products and committee costs.** In December of 2014, the WECC Board of Directors established a WECC 4.9 Review Work Group to conduct an assessment of WECC's structure and governance and explore opportunities to streamline the efforts of various WECC committees. During this review process, the Planning Coordination Committee (“PCC”) and Transmission Expansion Planning Policy Committee (“TEPPC”) Review Task Force combined efforts to exam opportunities to improve the efficiency and effectiveness of these two committees as well as to improve their coordination and alignment with WECC's strategic priorities.<sup>1</sup> The Task Force recommended merging these two planning committees and consolidating their functions under a single RAC committee. Many believed the formation of the RAC would have the effect of reducing costs associated with supporting the functions of the PCC and TEPPC under two distinct committees. The 2018 BP&B indicates that the efficiencies achieved with the formation of the RAC will not necessarily result in reduced costs or staffing requirements. The formation of the RAC may achieve other efficiencies and provide members with more value by supporting the development of better work products. Still, any potential costs and efficiencies associated with the formation and operation of the RAC cannot be demonstrated because WECC has not taken steps to track costs associated with supporting WECC committees.

WECC should take steps to ensure that WECC committees are providing value to the organization by tracking and reporting committee work products. WECC should also invest in the resources needed to track WECC committee costs. The WECC Board and WECC members have recently articulated an interest in establishing a baseline and tracking costs associated with WECC committee efforts. Tracking committee costs will require a commitment of additional WECC staff and financial resources. WECC should implement the procedures necessary to monitor committee costs and should include projected costs associated with this effort in the 2018 BP&B.

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<sup>1</sup> WECC, Joint PCC-TEPPC Review Task Force (JPTRTF) – Report and Recommendations, December 6, 2016

- 3. The WECC Board of Directors should consider fully adopting an Assessment Stabilization Initiative Policy that ensures both predictable year-over-year assessments and sufficient funding for WECC's expected expenditures.** Based on a recommendation from the Board approved Section 4.9 Review, and with input from the WECC Member Advisory Committee ("MAC"), WECC outlined a new Assessment Stabilization Initiative ("ASI") Policy in its 2017 BP&B process. The purpose of the ASI was to provide load serving entities ("LSEs") with predictable year-over-year assessments. This initiative is not a Board-adopted policy, but simply a budgetary guideline that can significantly impact the financial well-being of the organization. Last year, in implementing the ASI, WECC concluded that a one (1) percent year-over-year assessment increase over the following three budget cycles would continue to sufficiently maintain WECC's necessary reserve levels and adequately fund WECC's expected expenditures.

In commenting on WECC's 2017 BP&B, WIRAB noted its concern that the ASI may artificially cap WECC's budget. WIRAB questioned the analysis that led WECC to set the assessment stabilization factor at one (1) percent considering that WECC's personnel expenses account for approximately seventy-five (75) percent of the overall budget and—with an expected three (3) percent merit increase in personnel expenses—the expected increase in WECC's overall budget would be 2.25 percent per year.

WECC's draft 2018 BP&B indicates that WECC's budget is expected to increase by only 1.12 percent in 2018. WECC achieves this limited budget increase by significantly reducing its funding for consulting contracts and one time projects. WIRAB questions whether cutting funding for consulting contracts, one time projects, or other budget items—in order to cap assessment increases at (or below) one (1) percent—is sustainable over the long-term. High-priority reliability projects like the Natural Gas–Electric Interdependency study will likely always be necessary in order for WECC to meet its strategic priorities and to remain relevant in the changing electric industry.

WECC's financial position this year may allow the organization to keep 2018 assessments equal to the 2017 assessments and maintaining this assessment level may be praised by LSEs this year. However, this is out of line with WECC's commitment to increase assessments by one (1) percent for budget years 2017-2019 in order to "fund work needed to accomplish [WECC's] objectives while also providing for reasonable and stabilized reserve levels that may be needed for unforeseen expenditures and future assessment stabilization periods." Setting this precedent may subject WECC to criticism in the future if WECC needs to significantly raise or lower assessments to sufficiently rebuild WECC's necessary reserve levels, to adequately fund WECC's expected expenditures, or to address growing reserves due to an increase in annual penalty collections. WECC's budgetary requirements will vary from year-to-year, but WECC should strive to keep assessments relatively stable over time, and still maintain sufficient flexibility to set assessments at a level that reflects the organization's financial needs and supports WECC in its mission to assure the reliability of the Western Interconnection in future years.

To ensure both predictable year-over-year assessments and sufficient funding for WECC's expected expenditures, the WECC Board of Directors should consider fully adopting an Assessment Stabilization Initiative Policy that supports a more flexible range of possible

assessment stabilization factors and creates a process for reevaluating these factors each year. The WECC Board should establish an ASI Policy with the expectation that WECC will strive to work within a range of possible assessment stabilization factors (e.g., within a range from negative one (-1) percent to two (2) percent) and will annually reassess the target assessment stabilization factor based on budgetary expectations for the next three years.

- 4. WECC should expand the timeline for developing WECC's future Business Plans & Budgets to provide the WECC Member Advisory Committee, WIRAB, and other interested stakeholders with sufficient time to provide the Board of Directors with thoughtful and informed comments.** WIRAB appreciates the WECC Finance and Audit Committee's ("FAC's") willingness and efforts to engage the MAC and WIRAB in its review and development of the WECC 2018 BP&B. However, the short comment period following WECC's posting of the first draft of the BP&B is not sufficient to allow interested stakeholders sufficient time to develop and submit thoughtful and informed comments to the WECC Board of Directors. The first draft of WECC's 2018 BP&B was posted on May 1, 2017. The comment due date—initially set for May 12, 2017—now May 16, 2017, provides stakeholders with a total of eleven (11) working days to review and comment on the proposed BP&B.

Engagement with WIRAB, WECC MAC representatives, WECC's membership, and other interested stakeholders is important to informing the WECC Board's actions and decisions. This process requires time. WIRAB's membership is comprised of member representatives—including public utility commissioners and energy office directors—from all states and international provinces that have load within the Western Interconnection. Prior to submitting comments to WECC, the WIRAB staff reviews issues and documents posted for public comment, prepares draft comments, and engages with the WIRAB membership by coordinating informational webinars. After WIRAB members have a sufficient opportunity to consider and ask questions about the draft comments, the WIRAB staff makes any revisions necessary to ensure that final comments reflect the membership's regional perspective. Developing and submitting informed comments to assist the WECC Board in its decision-making process requires time and deliberation. Therefore, WIRAB recommends that, going forward, WECC expand the WECC BP&B review timeline to support the MAC, WIRAB, and other interested stakeholders in their efforts to review and advise the WECC Board on this important matter.