

To Our Members and Stakeholders:

Since becoming CEO of WECC in 2014, I traveled throughout the Western Interconnection listening to and learning from Members and others in the Region that had a stake in WECC's reliability mission. It was a foundational year for me as our stakeholders helped shape my thinking about the priorities for WECC. Toward the end of 2014, we formulated a statement of strategic intent, rooted in our common purpose to assure the near- and long-term reliability of the Western Interconnection and with a focus on four specific goal topics: 1) Strengthening the Business, 2) Providing Valued and High-Quality Reliability Assessments and Services, 3) Bolstering WECC's Institutional Capabilities, and 4) Increasing External Engagement. These focus areas helped guide the work and initiatives we undertook in 2015.

If you were to ask some of our Members what WECC was focused on in 2015, they would probably suggest: the Bylaws Section 4.9 Review, the Environmental Protection Agency's Clean Power Plan, or the Revised Regional Delegation Agreement. In fact, these were some of the most visible of all WECC's work in 2015, and each will have lasting impacts on the future of WECC's business and/or on the reliability of the Western Interconnection. Yet, these topics were but a few from the dozens of other major activities and products our staff and Member Committees delivered in 2015. I believe our new approach to business planning that we will adopt in 2016 to align the work of our staff and Member

Committees will drive even more focus and intentionality in our collective work to assure a reliable Bulk Electric System in the Western Interconnection—something we can all be proud of.

In 2015, we bid farewell and bon voyage to Lee Beyer, Board Director and Vice Chair. Lee served on the WECC Board of Directors from 2004 to 2009 representing Membership Class 5, and then again beginning in 2012 as an independent director. Lee's service to WECC includes: Vice Chair of the WECC Board, Chair of the Compliance Committee, and a member of multiple Board committees. Throughout the bifurcation of 2013/2014, Lee was instrumental in WECC's successful transition to an independent governance structure. He provided invaluable counsel to me personally as we negotiated the settlement with the Federal Energy Regulatory Commission (FERC) and the North American Electric Reliability Corporation (NERC) surrounding WECC's Reliability Coordinator role in the September 8, 2011, Southwest Blackout. We will miss his leadership and wisdom.

Lee's retirement opened a seat on the Board that was filled by Ric Campbell, a previous WECC Board member. Ric serves on the Nominating Committee, Finance and Audit Committee and Compliance Hearing Body. The position of Vice Chair also became vacant and was filled by Director Kris Hafner. We welcome Ric back to the Board and congratulate Kris on her expanded leadership role.

2015 STRENGTHEN THE BUSINESS

RISK-BASED APPROACH TO COMPLIANCE MONITORING

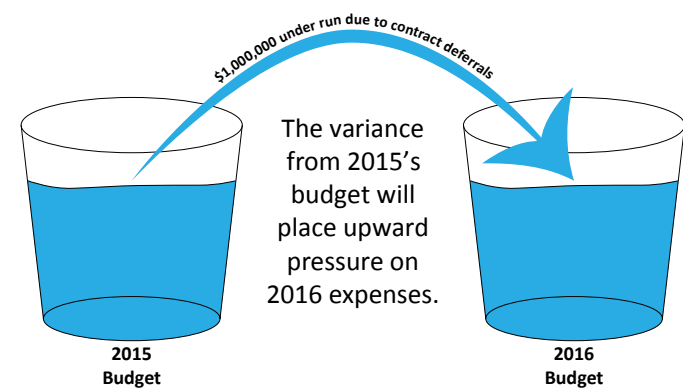
The Registered Entity Oversight team transitioned to the new FERC-approved risk-based approach to compliance monitoring, the result of a substantial rethink of how we provide oversight to our registered entities and assurance to our regulatory bodies of the reliability of the Bulk Electric System. The fundamental concept of this new approach is to take a tailored view of the reliability risks associated with the Western Interconnection by conducting an Inherent Risk Assessment (IRA) of each of our entities. The IRA considers all of the unique risk characteristics of the entity to help scope what oversight approach is appropriate. Key risk elements such as the entity's assets, systems, geographic footprint, interconnectivity, registered functions, compliance history, and overall unique entity composition are all considered. This has allowed us to move away from the old "one-size-fits-all" approach and to craft a customized oversight plan that is appropriate to the reliability risks an entity presents. On average, the number of requirements we are auditing has been substantially reduced. In some cases, we have even eliminated off-site audits for smaller entities, allowing us to expand the focus of our audits (in consultation with management) with other entities.

RENEGOTIATED REGIONAL DELEGATION AGREEMENT

WECC's Regional Delegation Agreement (RDA) with NERC expires at the end of 2015. The RDA is one of our core constitutional documents that form the basis for WECC's activities and funding pursuant to the Federal Power Act. The renegotiated RDA maintains and reinforces WECC's delegated authorities and approved activities. FERC approved WECC's renegotiated RDA with NERC, effective January 1, 2016.

2015 BUDGET PERFORMANCE

As of the date of this Review, we project the 2015 Budget will be approximately \$1 million under spent. Our staff has worked hard to control costs, especially those associated with travel and meetings, which helped us offset a number of unbudgeted expenses that were incurred throughout the year. However, a significant under-run remains that is related to a series of contracts not executed in 2015 (principally for RAS modelling) but will be executed in 2016.



SEPTEMBER 8, 2011, FERC SETTLEMENT

WECC reached a settlement with FERC and NERC regarding the Arizona-Southern California outages that occurred on September 8, 2011. WECC's total civil penalty was \$16,000,000 to include \$3,000,000 paid to the United States Treasury and NERC, divided in equal amounts, and the remaining \$13,000,000 invested in reliability enhancement measures, the majority of which have been implemented. We are very pleased to have this issue behind us and also that we were able to negotiate a financial settlement that would not require any special assessment to our Members.

We continue to work on addressing the apparent gaps in Planning Coordination across the West. Over the past 18 months, WECC's Planning Coordination Committee (PCC) sponsored a task force to identify methodologies for addressing these gaps. Gary DeShazo from the California Independent System Operator and Lorissa Jones from Bonneville Power Administration, the task force chair and vice chair, respectively, reviewed the results of the work with the WECC Board in December. As our Board Chair, Gary Leidich, observed: WECC has a unique partnering structure where a large federal nonprofit power marketing administration, an independent grid operator and our staff (including our regulatory oversight function) work together to solve reliability challenges. It was a great testament to how WECC, its Members and others can work collaboratively toward a common goal of achieving optimal system reliability for the Western Interconnection. We should all be proud of that.

PROVIDE VALUED AND HIGH-QUALITY RELIABILITY ASSESSMENTS AND SERVICES ²⁰¹⁵

OPERATIONAL PRACTICES SURVEY

We conducted our fourth Operational Practices Survey in 2015. The survey was initially launched in 2012 to address some of the “non-standards-based” reliability issues identified in the joint NERC-FERC report on the Southwest Outage. A voluntary survey, it has attracted increasing participation each year and now covers approximately 80 percent of the Western Interconnection. It demonstrates how participating entities are changing reliability practices related to topics such as coordination with neighboring systems and adoption of real-time contingency analysis. Each year, the survey has shown more and more entities adopting better practices. Participating entities also get a confidential report card with entity-specific data and information. This report card provides them with an understanding of where they stand in terms of their operational practices when compared to the rest of the Western Interconnection and areas for improvement.

STATE OF THE INTERCONNECTION

This foundational report is a critical resource for developing other WECC work and helps identify areas that merit further attention. The 2015 report features new areas of analysis, including an added Compliance section that provides information on trends in entity registration and standards violations. In addition, for the first time WECC included information on the total number of special protection system operations. This information will allow WECC to build much-needed context around its protection systems misoperation rate, including how WECC compares to the rest of the continent. The 2015 report also includes information on actual generation in the Western Interconnection.

WECC-E3-WIEB-NREL WESTERN INTERCONNECTION FLEXIBILITY ASSESSMENT

WECC teamed with Energy + Environmental Economics (E3), the Western Interstate Energy Board (WIEB), and the National Renewable Energy Laboratory (NREL) to gain a deeper understanding of power system reliability and flexibility needs under a high renewable penetration scenario. The results of this flexibility assessment found that high penetrations of renewables can be accommodated in the Western Interconnection; however, during periods of low load, renewable generation will be frequently and routinely curtailed. The report highlights the value of expanded regional coordination and, as appropriate, increased: transfers between regions, deployment of energy storage to help manage periods of “over-generation” and aid with ramping, and ability of thermal generation to run at or below current minimum load conditions.

TRAINING AND EDUCATION

Three courses in the Operator Training Program—System Stability, Trans Op-Relay and Trans-Op Voltage Control—underwent improvements, including a refresh of the technical content and overall course organization. In late October, WECC hosted its annual Human Performance Workshop in Salt Lake City, Utah. Attendance increased from last year’s workshop and NERC maintains that it is a best-in-class event. Whether you are new to the electric power industry, are a seasoned professional, or hold a non-technical position related to the industry—you will find an opportunity that fits your needs.

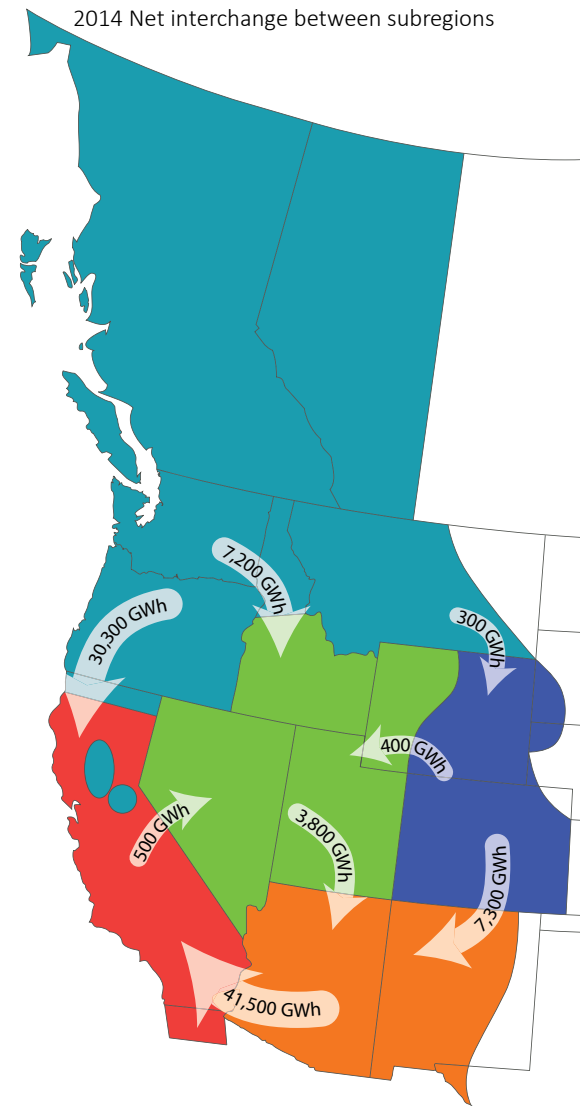
PROVIDE VALUED AND HIGH-QUALITY RELIABILITY ASSESSMENTS AND SERVICES 2015

CLEAN POWER PLAN

The EPA's Clean Power Plan has the potential to dramatically reshape the Bulk Electric System's resource mix over the next 15 years and raises a significant number of reliability concerns for the Western Interconnection. There is likely to be more renewable generation, more gas and less coal generation and a significant change to the way power flows across the Western Interconnection. This will change the Interconnection's risk profile creating challenges to the adequacy of resources and transmission as well as, ultimately, the stability of the high-voltage grid. The West is reliant on a coordinated Bulk Electric System as energy flows across state borders on transmission lines that span hundreds of miles.

In addition to submitting formal comments to the EPA in November 2014, we shared our views with FERC at its Western Regional Technical Conference in March 2015 and participated in a working session with the National Association of Regulatory Utility Commissioners' (NARUC) Environmental Committee. WECC is the only Regional Entity participating in such national events—a recognition of our unique capabilities and perspectives on Interconnection-wide reliability issues.

The EPA published its Final Rule in August and since then WECC has been actively discussing how we can be useful to the Western stakeholder community in helping assess the reliability considerations of the resultant implementation plans. We were fortunate to have four distinguished panelists—Joe Goffman (EPA), Travis Kavulla (NARUC/Montana PSC), Bill Ritter, Jr. (Center for the New Energy Economy), and John Savage (WIRAB/Oregon PUC)—present at the December Board meeting their views on how WECC can be instrumental in assuring reliability throughout the anticipated Bulk Electric System transformation.



2015 BOLSTER WECC'S INSTITUTIONAL CAPABILITIES

SECTION 4.9 REVIEW

Going into 2015, we knew the Section 4.9 Review of WECC's structure and governance, as required by the WECC Bylaws to occur at least every five years, was going to be a massive undertaking. Kris Hafner was appointed by the Board to lead the Section 4.9 Review Work Group (Work Group) to scope and execute the review. Other Work Group members included: Shelley Longmuir and Joe McArthur (Board Directors), Robert Kondziolka (MAC Chair), Gary Tarplee (MAC Representative), Maury Galbraith (WIRAB Executive Director), and Steve Goodwill (WECC General Counsel).

The Work Group identified 23 issues and, based on Member and stakeholder feedback, focused on three issues considered most urgent and important: 1) Relationships between the MAC, WECC members and staff; 2) Committee role, scope and structure; and 3) WECC's cost to members. The Work Group engaged Directors, members of the Standing Committees, the MAC, and WECC staff to create work teams to further investigate these three topics.

Through a highly participative and transparent process that included 13 meetings, a summit, two town hall webinars, and four public comment periods; the work group provided a "Section 4.9 Review Work Group Report to the WECC Board of Directors" at the Board's December 2015 meeting. The Board approved the report that included, among other recommendations—a new multi-year planning construct to improve transparency and integration of all WECC activities and a reformed Joint Guidance Committee (JGC).

WECC OUTSTANDING CONTRIBUTOR OF THE YEAR AWARD

Pouyan Pourbeik of the Electric Power Research Institute has been a significant contributor to the work completed to develop simulation models for renewables and has been a member of WECC's Renewable Energy Modeling Task Force for the past five years.

WECC COMMITTEE LEADERSHIP CHANGES

Because we can never thank these individuals enough, we say "Thank you for your service!" And to those who have stepped into these positions with eager hearts and a common agenda—reliability for the West—we say, "Welcome!"

Thank you for your service	Position	Welcome
Bob Easton Western Area Power Administration	Planning Coordination Committee, Chair	Brian Keel Salt River Project
Scott Kinney Avista Corp	Operating Committee, Chair	Darren Buck Western Area Power Administration
JJ Jamieson Gridforce Energy Management	Market Interface Committee, Chair	Kathy Anderson Idaho Power
Maude Grantham-Richards Tri-State	Member Advisory Committee, Class 1 Representative	Bob Easton Western Area Power Administration
Scott Waples Avista Corp		Gregg Lemler Pacific Gas & Electric
Travis Kavulla Montana PSC	Member Advisory Committee, Class 5 Representative	Kristine Raper Idaho PUC

BOLSTER WECC'S INSTITUTIONAL CAPABILITIES ²⁰¹⁵

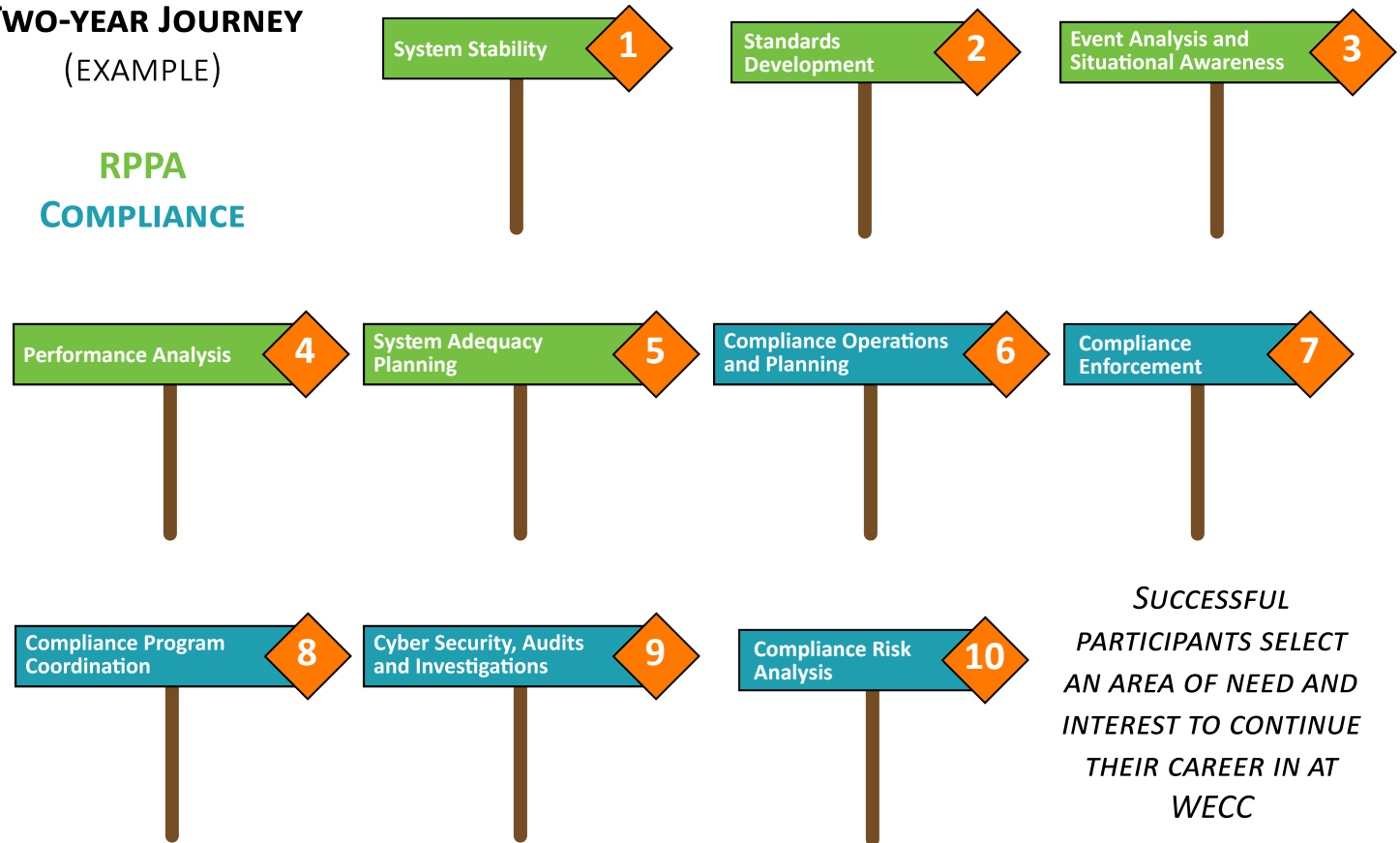
ENGINEER TRAINING PROGRAM

In early 2015, WECC's Human Resources team set out to find newly graduated engineers for the program. By July, WECC hired two engineers to begin a two-year journey through 10 distinct areas of the Compliance Monitoring and Enforcement Program (CMEP) and the Reliability Planning and Performance Analysis (RPPA) Department. In December, another new engineer joined the program. The engineers are all learning first-hand as they perform under the guidance of various leaders throughout the company. While in the program, the engineers will engage in real and meaningful work.

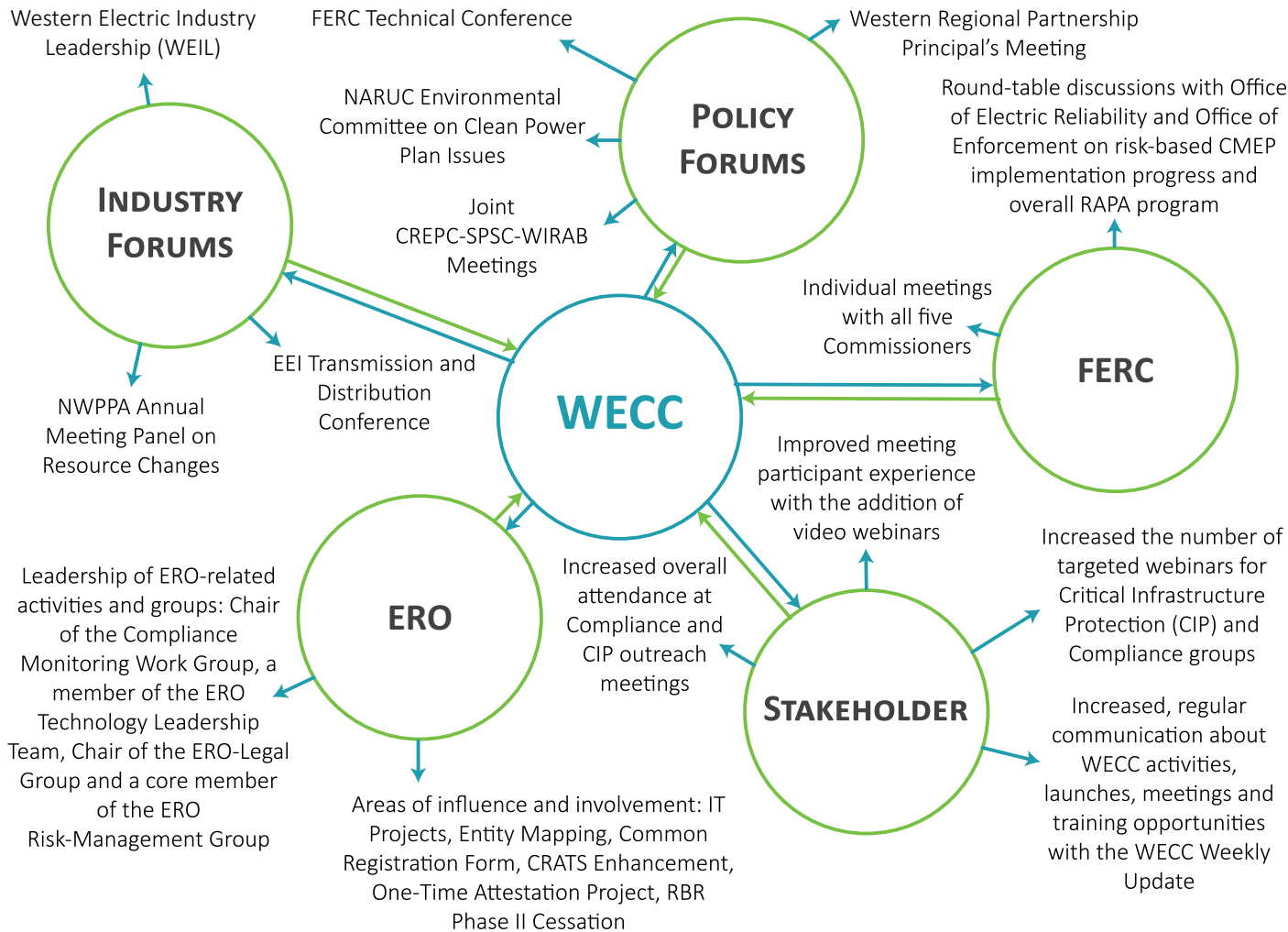
Each engineer's progress is monitored to ensure the successful completion of the program. At the end of two years, successful engineers will be placed in a role based on need and interest. Currently, WECC expects to hire two to three new engineers each year to participate in the program.

TWO-YEAR JOURNEY (EXAMPLE)

RPPA COMPLIANCE



2015 INCREASE EXTERNAL ENGAGEMENT



Throughout the year we engaged with key policy makers and opinion leaders, and provided them with updates on WECC's activities, products and initiatives. But, it was critical that we also listened.

We learned about diverse perspectives of those within the Western Interconnection and the other Regions. All had similar characteristics, heading toward the same reliability goal, but taking different paths to get there.

It is important these perspectives are shared as they help us better understand the needs of our stakeholder community and the expectations of others.

MOVING THE STRATEGY FORWARD ²⁰¹⁵

2015 focused on a number of very foundational issues that required a significant amount of reflection, planning, strategizing and debate. As we move into 2016, while we will always continue to respond strategically and thoughtfully to changes in our environment, we will be focusing much of our attention in translating those ideas and strategies into concrete actions, processes and disciplines. Among our priorities will be to:

- Scale up our approach to the risk-based CMEP and build replicable, stable processes for conducting the needed risk assessments.
- Deliver the many reliability assessments and services our Members and stakeholders have come to expect and value.
- Implement the recommendations from the Section 4.9 Review Work Group Report with a special focus on leveraging the new Joint Guidance Committee structure to help develop a multi-year operating planning process and review all of our committees to ensure we have efficient and effective structures in place.
- Develop an overall regulatory philosophy to guide how we use our delegated authority toward the maximum benefit of reliability across the Western Interconnection.
- Provide our Members and stakeholders with opportunities to engage with each other and with WECC staff through carefully planned meetings, training and other events. I am particularly excited about an event we will host this spring—the first-ever WECC-hosted Western Reliability Summit. We will provide you with more details soon.

- Continue to ensure we are focused on the right issues and that we are getting the right information into the hands of key decision makers that share our reliability mission.

So, let us move forward into 2016 with the frame of mind that together we will do what it takes to collectively ensure the reliability of the Bulk Electric System in the Western Interconnection. I thank you all for your counsel over the past two years and your continued participation in our efforts. I wish you all a wonderful winter holiday season and look forward to seeing many of you in the New Year.

Jim Robb
Chief Executive Officer