

Introduction

Over the last decade, the risks to reliability and security increased in complexity and velocity. The rapid pace of change, the introduction of new technologies and the retirement of traditional resources, the challenges to resource adequacy, and more frequent and geographically widespread extreme weather events have intensified the need for a reliable, secure, and resilient bulk power system (BPS). These risks are further compounded by the increasing demand for and reliance on electricity, as well as the continued electrification of the economy. The 2025 Business Plan and Budget assumes that all these challenges will continue, as will the competition for talent and increasing costs to attract and retain a highly skilled, distributed workforce.

Given this rapidly evolving context, the 2025 draft budget was developed with these things in mind:

1. Recognizing the growing complexity and pace of change in the industry;
2. Ensuring WECC is adequately resourced to meet the increasing demands placed on the organization;
3. Maintaining working capital reserves at adequate levels; and
4. Considering inflationary and distributed workforce impacts on meetings and travel.

WECC's 2025 draft budget is developed based on operational needs and meeting the terms of our Delegation Agreement without presupposing the availability of penalties to offset assessments. This budget enables us to meet the growing demands placed on the organization that are being driven by the changing environment in which we operate.

The statutory budget is increasing approximately \$4.3 million (12.2%) from 2024 to 2025. The two major drivers of the proposed budget increase are seven full-time equivalent (FTE) additions and a \$1.5 million contribution to a transmission planning project being coordinated with the Western Power Pool and WestTEC. WECC proposes using Peak Reliability Donation reserves to partially fund the analytical work to support the transmission project. The budget increase with this project excluded is approximately \$2.8 million (7.9%).

The 2025 assessment increases to \$34.0 million (36.0%) due in part to the budget increase, but also because of a major decrease in penalties currently available to offset assessments for the 2025 budget year. In 2024, \$10.1 million in penalties were available to offset assessments, and in the 2025 budget there is \$4K. The 2025 year represents an unprecedented situation where the entire budget must be funded by assessments and reserves, unlike prior years where there were, in some instances, large penalties available to lower assessments.

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Statutory working capital reserves are anticipated to be approximately \$13.6 million by December 31, 2024, which is over the Reserve Policy ceiling (one to three months operating expenses) by approximately \$2.5 million. Per this draft of the 2025 Business Plan and Budget, management proposes using approximately \$2.5 million of working capital reserves and \$1.5 million of Peak Reliability Donation reserves to fund the 2025 budget.

WECC's non-statutory budget is increasing by approximately \$440,000 (13.5%) from 2024 to 2025. The increase is driven primarily by two additional FTEs needed due to the expansion of state programs and system activity and the indirect expense allocation from the statutory program areas. Non-statutory working capital reserves are anticipated to be \$6.5 million by December 31, 2024.

2026 and 2027 Budget and Assessment Forecasts

Budget

During the 2025 budget cycle, we continued to improve our planning process by creating a more robust framework for analyzing headcount and technology needs and for forecasting the two future years' budgets. Increasing the depth of analysis related to workforce and technology needs provides greater visibility into future budget needs and funding requirements. Additionally, budget managers were involved in developing the expense forecasts for 2026 and 2027, which improved the quality of the values.

Assessments

As a result of the work performed by the Section 4.9 Review Work Group in 2015, management committed to establish an approach to stabilize assessments over a prescribed period based on historical increases and forecasts of budgetary needs to limit fluctuations and increases in assessments for Load-serving Entities (LSE). This recommendation was intended to help LSEs plan for the annual assessment and to provide them with a degree of predictability. However, the stabilization strategy does not intend to artificially cap or constrain the WECC budget—only to provide more certainty to LSEs to guide their own budgeting efforts for future assessments.

The analysis was refreshed for the period 2025–2027. Several scenarios were developed and presented to the MAC Budget Subcommittee, including a sensitivity analysis to determine how different budget and assessment levels would impact assessments and reserves. Based on the proposed 2025 budget and the projected 2026 and 2027 budgets, the current recommendation forecasts an 8% assessment increase in 2026 and 2027. This will continue to be fine-tuned based on budget changes and feedback from stakeholders and the Finance and Audit Committee.



Potential Impact of Unpaid Mexico Assessments

Beginning in 2011, WECC contracted with the Comisión Federal de Electricidad (CFE) in Mexico to assist CFE with the development and implementation of reliability standards and a compliance monitoring program. Under this contract CFE, as an LSE, paid its percentage share of the Western Interconnection assessment. As a result of government reforms in the mid-2010s, CFE spun off its Balancing Authority (BA) function to Gerencia de Control Regional Baja California (GCRBC) in the Baja California operating region, and an external regulator, CRE, was formed to regulate Mexico's energy industry. The current government is not fully supportive of the reforms, and this has led to a delay in getting a new contract in place. WECC's last contract with CRE expired in 2020 and GCRBC, the new BA for the Baja California North region has not been able to pay its assessment since the expiration of that contract. The current past-due balance is composed of a small amount from 2021 through the 2024 assessment, totaling \$2.8 million. There are three parts to this amount: \$1.9 million owed to WECC, \$945K owed to NERC, and \$39K owed to WIRAB. While we remain cautiously optimistic that an agreement will be reached and some past-due amounts may be collected, as part of good accounting practices, we need to clear the past-due balance.

Absent a contractual agreement that also addresses past-due balances being finalized before the 2025 budget is filed at FERC, we are proposing to write off the WECC portion and use reserves to settle the amount owed. For the NERC and WIRAB past due amounts, the proposal is to reallocate those amounts across the LSEs in the West.

If the contract is not finalized before the 2025 Business Plan and Budget is filed with FERC, Mexico will be removed from the assessment schedule for 2025.



Reconciliation of 2024 to 2025 Statutory Budget—By Category

| | 2024 Budget | 2025 Budget | Variance \$ Incr(Decr) | Variance % Incr(Decr) | Primary Drivers |
|----------------------------------|----------------------|-----------------------|---------------------------|--------------------------|--|
| Funding | | | | | |
| Assessments | \$ 25,000,000 | \$ 34,000,000 | \$ 9,000,000 | 36.0% | Increase in budget, decrease in penalties |
| Penalties | 10,137,948 | 4,400 | (10,133,548) | -100.0% | Minimal penalties collected |
| Other Income | 1,075,250 | 1,703,541 | 628,291 | 58.4% | Higher interest rates, sublease income |
| Total Funding | \$ 36,213,198 | \$ 35,707,941 | \$ (505,257) | -1.4% | |
| Expenses | | | | | |
| Personnel Expenses | \$ 28,895,986 | \$ 31,514,167 | \$ 2,618,181 | 9.1% | 7 FTE, 3% merit/1% Equity pools, labor float adj, refined tax/benefit rates |
| Meeting Expenses | 1,353,934 | 1,697,461 | 343,527 | 25.4% | Additional Travel, Inflationary impacts, increases in FTE, and on-site requirements for oversight activities |
| Operating Expenses | 6,008,620 | 7,502,719 | 1,494,099 | 24.9% | Peak donation project with WPP |
| Indirect Expenses | (980,785) | (1,149,200) | (168,415) | 17.2% | |
| Total Expenses | \$ 35,277,755 | \$ 39,565,147 | \$ 4,287,392 | 12.2% | |
| Fixed Assets | \$ 127,040 | \$ 150,713 | \$ 23,673 | 18.6% | Server, storage, and data center upgrades |
| Total Budget | \$ 35,404,795 | \$ 39,715,860 | \$ 4,311,065 | 12.2% | |
| Change in Working Capital | \$ 808,403 | \$ (4,007,919) | \$ (4,816,322) | | |
| FTEs | 168.0 | 175.0 | 7.0 | 4.2% | |

¹ Depreciation excluded from these values

Reconciliation of 2024 to 2025 Statutory Budget—Major Drivers

| | <u>in 000s</u> | |
|---|----------------|-----------------------|
| 2024 Approved Budget | 35,405 | |
| + 7 FTE, 3% merit pool, 1% equity pool, labor float adj., refinement of taxes/benefits | 2,618 | |
| + Transmission planning project in coordination with WPP and WestTEC | 1,500 | |
| - Changes in one-time IT consulting projects | (303) | |
| + Net increase in travel due to an increase in on-site oversight activities, an increase in FTE, inflationary impacts on travel costs, and a more distributed workforce | 313 | |
| + Escalation in software maintenance and licenses | 229 | |
| + Indirect expense allocation to WREGIS increases | (168) | |
| + Proposed increase in board compensation | 68 | |
| + Consulting for implementation of new HRIS | 50 | |
| + Other net changes | 4 | |
| 2025 DRAFT Budget | 39,716 | 12.2% increase |



Reconciliation of Draft #1 to Draft #2 Changes

| | <u>in 000s</u> |
|---|----------------|
| Draft #1 Total Statutory Budget | 39,760 |
| Reductions: | |
| - Refinement of travel assumptions across the company | (113) |
| - Refinement of benefits assumptions | (61) |
| - Meeting costs for Annual meeting due to location change to Salt Lake City | (51) |
| - Refinement of IT consulting and project feasibility | (12) |
| Additions: | |
| + webCDMS | 180 |
| + Change to overhead allocation due to changes in second draft | 12 |
| Draft #1 to #2 Change | (44) |
| Draft #2 Total Statutory Budget | 39,716 |

Proposed FTE Additions in 2025

In the 2025 budget, WECC is adding 7.0 statutory FTEs and 2.0 non-statutory FTEs (9.0 FTEs in total) due to increasing organizational needs and priorities driven by the environment in which WECC is operating.

Compliance Monitoring and Enforcement

WECC's net number of registered entities continues to increase year over year, especially with the anticipated influx of registrations of inverter-based resources, and the 2025 draft budget facilitates enhancements to monitor more fully across the spectrum of entities within the Western Interconnection. Audit emphasis is necessarily on higher risk entities—mostly for Reliability Coordinators, Balancing Authorities, and Transmission Operators—but the continued growth in the number of registered entities requires more personnel to ensure that WECC adequately and holistically conducts ongoing assessment and oversight of all registered entities.

Four new FTEs are added to the Compliance Monitoring and Enforcement Program (CMEP) and Organization Registration and Certification budget in 2025.

- One Enforcement Engineer will help develop and increase bench strength, reduce the open enforcement inventory backlog, and help with workload due to increases in the self-logging program.



- One Enforcement Attorney will help develop and increase bench strength, reduce the open enforcement inventory backlog, and help with workload due to increases in the self-logging program.
- One Compliance Program Coordinator will support workload associated with increased registrations and increased demands and expectations of the CMEP area.
- One Registration and Certification Manager will manage the registration and certification staff as a standalone team within the oversight planning group, reflective of the increasing workload in this area.

Reliability Assessment and Performance Analysis

In recent years, risks to the reliability of the BPS have increased in number and magnitude. The industry is experiencing unprecedented challenges such as accelerated resource retirements and additions, integration of new types of technology on the grid, and more frequent extreme natural events, thus creating an increasing need for high-quality models and interconnection-wide analyses. WECC will continue to work closely with industry stakeholders through technical committees, forums, and targeted outreach to implement needed modeling enhancements, perform system analysis, and deliver interconnection-wide assessments.

One FTE is added to the Reliability Assessment and Performance Analysis (RAPA) program area to respond to increasing needs for high-quality models and analytics due to changes in the resource mix. Enhanced models, specifically for understanding the behavior of inverter-based resources, will become increasingly important to ensure continued BPS reliability. One engineer is added to provide electromagnetic transient (EMT) expertise to WECC's modeling function.

One project coordinator is transferred from RAPA to General and Administrative to provide project management support and expertise to the broader organization.

Training and Outreach

WECC continues to improve its strategic engagement function to increase our understanding of and respond to the dynamic changes in the Western Interconnection. One FTE is added to Training and Outreach to focus on and keep up with policy issues as they develop to help WECC respond to policy drivers and connect with policymakers on impacts to reliability.

Corporate Services

Due to an ever-increasing cyber threat environment, one FTE is added in Information Technology to provide expertise in cloud security due to the growing number of cloud-based applications being deployed across the organization and the number of software service providers that are integrating artificial intelligence into their products.



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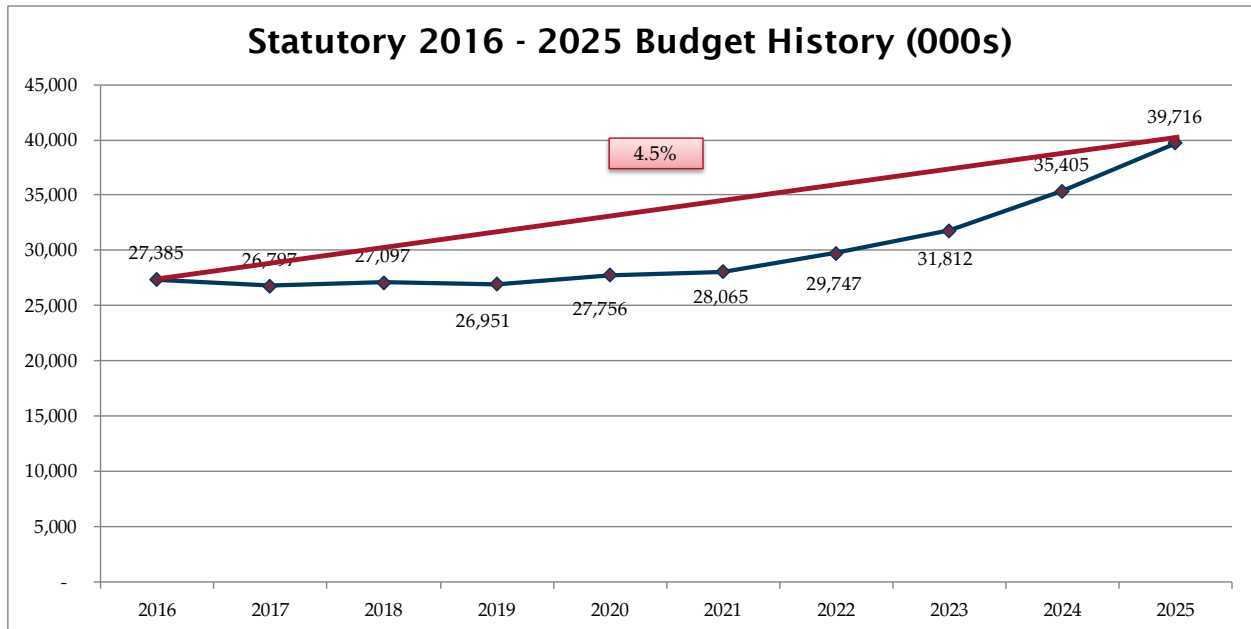
One project coordinator is transferred from RAPA to General and Administrative to provide project management support and expertise to the broader organization.

| Total FTEs by Program Area | Budget 2024 | Direct FTEs 2025 Budget | Shared FTEs* 2025 Budget | Total FTEs 2025 Budget | Change from 2024 Budget |
|--|----------------|----------------------------|-----------------------------|---------------------------|----------------------------|
| STATUTORY | | | | | |
| Operational Programs | | | | | |
| Reliability Standards | 3.00 | 3.00 | - | 3.00 | - |
| Compliance Monitoring and Enforcement and Organization Registration and Certification | 73.00 | 77.00 | - | 77.00 | 4.00 |
| Reliability Assessment and Performance Analysis | 41.00 | 41.00 | - | 41.00 | - |
| Training and Outreach | 8.50 | 9.50 | - | 9.50 | 1.00 |
| Situation Awareness and Infrastructure Security | 2.00 | 2.00 | - | 2.00 | - |
| Total FTEs Operational Programs | 127.50 | 132.50 | - | 132.50 | 5.00 |
| Corporate Services | | | | | |
| Technical Committees and Member Forums | - | - | - | - | - |
| General and Administrative | 18.00 | 19.00 | - | 19.00 | 1.00 |
| Legal and Regulatory | 3.50 | 3.50 | - | 3.50 | - |
| Information Technology | 12.00 | 13.00 | - | 13.00 | 1.00 |
| Human Resources | 4.00 | 4.00 | - | 4.00 | - |
| Finance and Accounting | 3.00 | 3.00 | - | 3.00 | - |
| Total FTEs Corporate Services | 40.50 | 42.50 | - | 42.50 | 2.00 |
| Total FTEs | 168.00 | 175.00 | - | 175.00 | 7.00 |

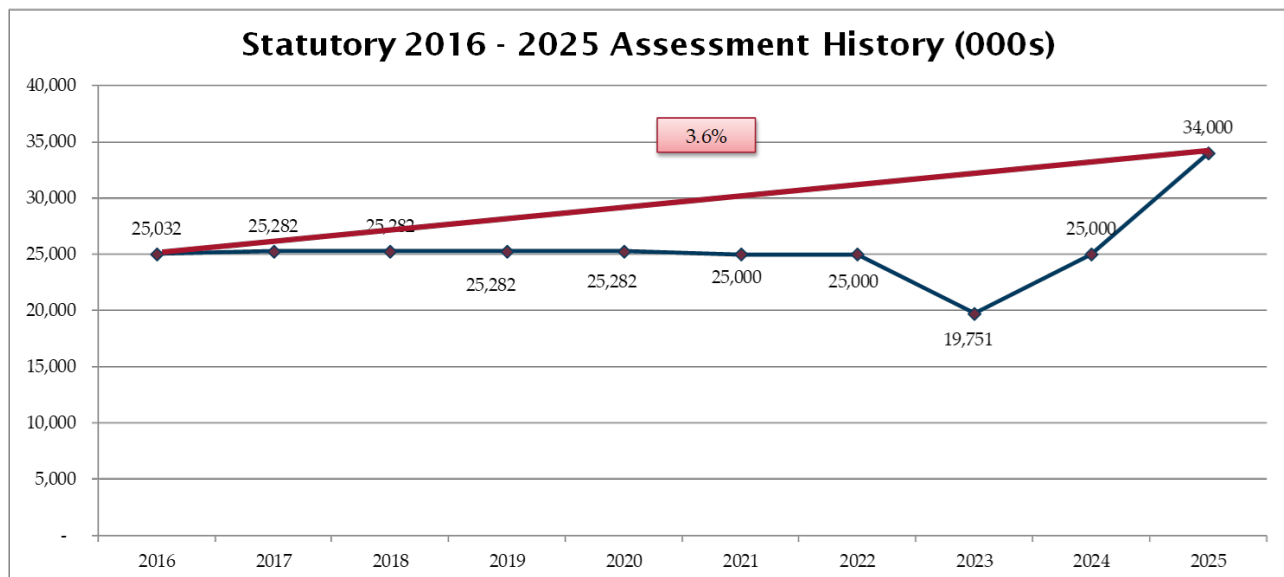
* A shared FTE is defined as an employee who performs both Statutory and Non-Statutory functions.



10-Year Budget and Assessments Trend



WECC's budget has increased more in the past couple of years than in the previous eight. Over the past decade, however, the average annual increase is 4.5%.



Prior to 2025, assessments were stable, with each of the last nine years being approximately \$25 million or less. When annualized over the past decade, the average assessment increase is 3.6%, which is



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slightly above Consumer Price Index (CPI) for that same period. The availability of penalties to offset assessments in that time frame created a scenario where assessments have not fully funded the annual budgets.

