

**NOTE: The numbers in this recommendation may change slightly, in a non-material way, when WECC staff conducts its final review of the proposed Business Plan and Budget.**

## Executive Summary

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The MAC Budget Subcommittee (MBS) was asked to review the WECC 2025 Business Plan and Budget<sup>1</sup> and to provide comments and recommendations to the Member Advisory Committee (MAC), Finance and Audit Committee (FAC), and the WECC Board of Directors. The MBS worked with WECC's chief financial and administrative officer and its controller through several meetings to discuss the 2025 budget and potential cost containment levers. Additionally, WECC developed and evaluated several assessment stabilization scenarios for the MBS's consideration. The MBS supports the proposed 2025 Business Plan and Budget and provides comments and recommendations on elements of the 2025 budget and the assessment stabilization.

## Background

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The MBS appreciates the opportunity to review the draft 2025 Business Plan and Budget. WECC staff has been very helpful in assisting the MBS to understand both the elements within the 2025 budget driving the cost and assessment increases and the cost containments considered to potentially reduce the proposed increases.

## 2025 Budget

WECC's draft 2025 budget proposal is \$39.7 million, increasing approximately \$4.3 million (12.2%) from 2024 to 2025. The two major drivers of the proposed budget increase are the addition of seven full-time equivalents (FTE) and a \$1.5 million contribution to a transmission planning project being coordinated with the Western Power Pool and the Western Transmission Expansion Coalition (WestTEC). WECC proposes using Peak Reliability donation reserves to partially fund the analytical work to support the transmission planning project. The budget increase with this project excluded is approximately \$2.8 million (7.9%). Other drivers include increases in travel and meeting volumes and expenses.

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<sup>1</sup> Annually, WECC is required to prepare a Business Plan and Budget ([2025 Budget Overview](#)) in which it identifies its projected operating and capital costs as a Regional Entity. The annual assessment, which is allocated to all Balancing Authority Areas based upon Net Energy for Load (NEL), is the budget amount net of any collection of penalty dollars, use of Peak Reliability donation funds, and any use of or addition to working capital reserves.

## 2025 Business Plan and Budget Recommendations

The reconciliation between the 2024 budget and the 2025 budget proposal is provided in the tables below:

### Reconciliation of 2024 to 2025 Statutory Budget – By Category

	2024 Budget	2025 Budget	Variance \$ Incr(Decr)	Variance % Incr(Decr)	Primary Drivers
<b>Funding</b>					
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
<b>Total Funding</b>	<b>\$ 36,213,198</b>	<b>\$ 35,707,941</b>	<b>\$ (505,257)</b>	<b>-1.4%</b>	
<b>Expenses</b>					
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%	
<b>Total Expenses</b>	<b>\$ 35,277,755</b>	<b>\$ 39,565,147</b>	<b>\$ 4,287,392</b>	<b>12.2%</b>	
<b>Fixed Assets</b>	<b>\$ 127,040</b>	<b>\$ 150,713</b>	<b>\$ 23,673</b>	<b>18.6%</b>	Server, storage, and data center upgrades
<b>Total Budget</b>	<b>\$ 35,404,795</b>	<b>\$ 39,715,860</b>	<b>\$ 4,311,065</b>	<b>12.2%</b>	
<b>Change in Working Capital</b>	<b>\$ 808,403</b>	<b>\$ (4,007,919)</b>	<b>\$ (4,816,322)</b>		
<b>FTEs</b>	<b>168.0</b>	<b>175.0</b>	<b>7.0</b>	<b>4.2%</b>	

<sup>1</sup> Depreciation excluded from these values

### Reconciliation of 2024 to 2025 Statutory Budget – Major Drivers

	<u>in 000s</u>
<b>2024 Approved Budget</b>	<b>35,405</b>
+ 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
<b>2025 DRAFT Budget</b>	<b>39,716</b>
	<b>12.2% increase</b>



## 2025 Business Plan and Budget Recommendations

### 2025 Assessment

The proposed 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, only \$4,000 is available.

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.

Assessment stabilization scenarios for the years 2026 and 2027 were developed upon the MBS's request for discussion and consideration. Those scenarios included different assessment rate increases that would be held constant over the next three years (i.e., X% for the next three years) as well as a single increase in assessments in 2025 that would allow for holding assessments constant (i.e., no increases) for the next two years.

Based on the proposed 2025 budget and the projected 2026 and 2027 budgets, the current recommendation forecasts an 8% assessment increase in both 2026 and 2027.

### Unpaid Mexico Assessments

WECC staff described the current contractual situation with Mexico's LSE, which has resulted in unpaid Mexico assessments since 2021. 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.

As a result of not having a contractual agreement that addresses past-due balances being in place before the 2025 budget being filed at FERC, WECC management proposes to write off the WECC portion and use reserves to settle the amount owed but still unpaid. For the NERC and WIRAB past-due amounts, these entities have asked WECC to reallocate those amounts across the LSEs in the West. Specifically, WECC has been asked to consider the use of WECC reserves to cover NERC and WIRAB's past-due Mexico assessments to limit the impact of collecting these unpaid amounts from LSEs at the same time the WECC assessments are projected to increase significantly.

## Comments and Recommendations

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### Commentary

The MBS, through its scrutiny, determined the proposed 2025 statutory budget to be in alignment with WECC's mission "to effectively and efficiently mitigate risks to the reliability and security of the Western Interconnection's bulk power system." While the proposed increases to the 2025 budget and assessments are significant, the MBS believes it is important to put those increases—and, just as importantly, WECC's role and mission—in the proper economic context. Through its analysis, reporting, and standards activities, WECC plays a pivotal and unique role in maintaining the reliability of the Western Interconnection, which provides electric service to 88 million people across eleven states and two provinces.<sup>2</sup> WECC's proposed \$39.7 million 2025 budget, spread over that population, amounts to just over 49¢ per person for that year. While WECC's 2025 budget similarly could be parsed out over other allocators, including annual electric rates and bills, those results would lead to a similar conclusion: the value that WECC brings to ensuring the reliable delivery of a commodity critical to modern life and societal well-being more than offsets its costs, which, when viewed in isolation, may appear significant, but when viewed within the overall economic and societal context, are more than reasonable. The MBS believes that WECC staff carefully and thoroughly reviewed the 2025 Business Plan and Budget to ensure that all expenditures were necessary to accomplish WECC's mission and adopted all reasonable cost-containment measures that were available.

### Staffing Increase

To ensure that WECC's mission is achieved, staffing levels and skill requirements were assessed, then thoughtfully managed using vacancies before recommending an increase in headcount.

In the 2025 budget, WECC is adding seven statutory FTEs due to increasing organizational needs and priorities in the following program areas:

- Four new FTEs in Compliance Monitoring and Enforcement due to the continued growth in registered entities requiring the FTE increase to support the ongoing assessment and oversight of all registered entities;
- One new FTE in the Reliability Assessment and Performance Analysis program area to respond to the increasing needs for high-quality system models and advanced power system analytics due to the transition to inverter-based resources;

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<sup>2</sup> The population estimate is taken from WECC's 2024 State of the Interconnection report, available at <https://feature.wecc.org/soti/index.html>.

## 2025 Business Plan and Budget Recommendations

- One new FTE in Training and Outreach to improve strategic engagement function to focus on and keep up with policy issues, helping WECC to respond to and connect with policymakers; and
- One new FTE in Information Technology to provide expertise in the cybersecurity of WECC's IT systems.

With these changes, the total number of statutory FTEs for WECC increases from 168 FTEs in 2024 to 175 FTEs in 2025. The MBS finds the staffing increase of seven FTEs to be reasonable when considering the justifications within each program area.

### Budget Cost Containment

WECC staff presented to the MBS the initial draft budget, providing the opportunity to scrutinize the budget line items and to discuss what cost containment levers existed to potentially reduce the proposed 2025 budget. Following the initial discussions, WECC staff reevaluated the drivers for the budget increase and realized some reductions in meeting and travel expenses and consultant costs. These reductions offset the increase due to webCDMS. The table below provides the breakdown of the adjustments between the first draft budget and the proposed 2025 budget.

### Reconciliation of Draft #1 to Draft #2 Changes

	<u>in 000s</u>
<b>Draft #1 Total Statutory Budget</b>	<b>39,760</b>
<b>Reductions:</b>	
- 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)
<b>Additions:</b>	
+ webCDMS	180
+ Change to overhead allocation due to changes in second draft	12
<b>Draft #1 to #2 Change</b>	<b>(44)</b>
<b>Draft #2 Total Statutory Budget</b>	<b>39,716</b>



## 2025 Business Plan and Budget Recommendations

### Recommendations

- The MBS recommends the MAC:
  - Support the 2025 Business Plan and Budget, including the proposed additional seven statutory FTEs, the proposed \$9 million (36%) increase in assessments for 2025 and the 8% increase in 2026 and 2027, and proposed disposition of the unpaid Mexico assessments; and
  - Recommend the WECC Board of Directors approve the 2025 Business Plan and Budget.
- Pursuant to the Delegation Agreement between NERC and WECC, assessments to fund the costs of WECC's delegated functions and related activities are allocated among all load-serving entities (LSE) within its geographic boundaries based on each LSE's annual Net Energy for Load (NEL). Given the significant increase in the number of registered entities related to the growing number of inverter-based resources (IBR) in the West, the MBS recommends that WECC staff explore with NERC how registered entities are allocated the annual assessments. This increase in registered entities results in WECC budget increases due to the need for more personnel for ongoing compliance assessment and oversight and for performing more complex reliability assessments.
- The MBS recommends supporting the \$2.2 million of the Peak Reliability donation for the WestTEC transmission planning project, \$1.5 million of which is for 2025:
  - 2024 \$500K
  - 2025 \$1.5M
  - 2026 \$200K

The Western Power Pool (WPP) is pursuing a grant from the Department of Energy (DOE) to fund part of the WestTEC transmission planning project. If WPP is awarded that grant, WECC will coordinate with WPP to reduce, if possible, the amount from the Peak donation provided. Unused Peak donations, which have no expiration date, could be used to fund work on WECC risk priorities such as additional study work.