

2026 Business Plan & Budget Recommendations

MAC Budget Subcommittee

May 1, 2025

Summary of Recommendations

The MAC Budget Subcommittee (MBS) was asked to review the WECC 2026 Business Plan and Budget (BP&B) and to provide comments and recommendations on the 2026 BP&B to the Member Advisory Committee (MAC), the Finance and Audit Committee (FAC), and the WECC Board of Directors. The MBS worked with WECC's Chief Financial and Administrative Officer and Controller through several meetings to discuss the 2026 BP&B. The MBS believes that WECC staff thoroughly reviewed the 2026 BP&B to ensure that all expenditures are necessary to accomplish WECC's mission and adopted all reasonable cost-containment measures.

- The MBS recommends that the MAC support the proposed 2026 BP&B, which it finds represents a good balance of (1) the reasonable costs needed for WECC to accomplish its mission and (2) appropriate actions taken to minimize the proposed budget and the assessments charged to WECC members, including the use of working capital reserves.
- The MBS requests the MAC approve the MBS recommendation on the 2026 BP&B and forward that recommendation to WECC's Finance and Audit Committee for its consideration.

WECC will present the draft BP&B to members and stakeholders at meetings to be held May 5 and May 15. The MBS may revise this recommendation based on feedback received during and after those meetings and from advice received from the Western Interconnection Regional Advisory Body ("WIRAB"). Unless the MBS believes it necessary to modify its recommendation based on that input, this recommendation will be presented to the Board at the June 2025 Board meeting.

Background

In reviewing and making recommendations on WECC's 2026 proposed budget, the MBS is mindful of WECC's significant responsibility to maintain reliability for 90 million people living in the Western Interconnection (WI).¹ The challenges facing the WI are numerous and rapidly evolving: extreme natural events, large-scale generator retirements, new generator technologies that present technological and dispatchability challenges, increasing cybersecurity and physical threats, risks and opportunities of artificial intelligence, and demand increasing due to new extra-large loads and electrification. WECC plays a pivotal and unique role in addressing these challenges. It is within this context the MBS reviewed the Draft 2026 BP&B.

¹ 2023 peak demand was just under 170 GW. In 2023 there were 448 registered entities, 334 generation owners, 52 transmission operators, 156,000 miles of transmission, 37 balancing authorities, and four reliability coordinators. [2024 State of the Interconnection](#). There were 453 registered entities as of February 2022, 2025.

A. The 2026 Draft Budget²

1. Budget Increase from 2025 to 2026

WECC's proposed budget for 2026 is \$40.0 million, an increase of approximately \$800,000 (2.1%) from 2025 to 2026. WECC developed this budget based on its operational needs, including meeting the terms of its Delegation Agreement, without presupposing the availability of penalties to offset assessments.

The major drivers of the proposed net budget increase include the following:

- Three full-time equivalent statutory (FTE) additions:³
 - Two in Compliance Monitoring and Enforcement (CMEP)
 - One in Reliability Assessment and Performance Analysis (RAPA);
- A 3% increase in the merit adjustment pool and a 1% in the market adjustment pool; and
- A 4% decrease in consulting for the final phase of the transmission planning study being undertaken by the Western Power Pool (WPP) through its WestTEC effort.

The reconciliation between the 2025 and 2026 budget is provided in the table below:

Reconciliation of 2025 to 2026 Statutory Budget—Major Drivers

	2025 Budget	2026 Budget	Variance \$ Incr(Decr)	Variance % Incr(Decr)	Primary Drivers
Funding					
Assessments	\$ 33,016,000	\$ 35,657,280	\$ 2,641,280	8.0%	Increase in budget, \$2.5 million usage of working capital reserves
Penalties	4,400	41,745	37,345	848.8%	
Other Income	1,703,541	1,757,506	53,965	3.2%	
Total Funding	\$ 34,723,941	\$ 37,456,531	\$ 2,732,590	7.9%	
Expenses					
Personnel Expenses	\$ 31,121,337	\$ 32,652,261	\$ 1,530,924	4.9%	3 FTE, 4% merit/market adj pool, labor float adj, refined tax/benefit rates
Meeting Expenses	1,697,461	1,655,128	(42,333)	-2.5%	Reduced travel costs
Operating Expenses	7,502,719	7,153,710	(349,009)	-4.7%	Enforcement contract labor, reduction in WestTEC project consulting
Indirect Expenses	(1,146,873)	(1,437,341)	(290,468)	25.3%	Increase in non-statutory FTE and Corporate Services budget
Total Expenses	\$ 39,174,644	\$ 40,023,758	\$ 849,114	2.2%	
Fixed Assets	\$ 150,713	\$ 109,116	\$ (41,597)	-27.6%	
Total Budget	\$ 39,325,357	\$ 40,132,874	\$ 807,517	2.1%	
Change in Working Capital	\$ (4,601,416)	\$ (2,676,343)	\$ 1,925,073	-41.8%	
FTEs	175.00	178.00	3	1.7%	

¹ Depreciation excluded from these values

The draft 2026 budget is funded mostly by assessments except for a small amount of investment and workshop revenue and Peak Reliability donation reserves.

² The 2026 Draft Business Plan and Budget is available at <https://www.wecc.org/wecc-document/20846>.

³ WECC is also proposing three non-statutory FTE additions. WECC's non-statutory budget applies only to the administration of the Western Renewable Generation Information System (WREGIS), and WREGIS's costs are collected through user fees, not on an NEL basis.

2. Assessment Increase from 2025 to 2026

The proposed assessment increases by \$2.6 million (8.0%) to \$35.7 million in 2026 due to the increased budget and a lack of penalties collected to offset costs.

3. Capital Reserves

WECC anticipates statutory working capital reserves to be approximately \$9.9 million by December 31, 2025, which is at WECC's Board-approved reserve policy ceiling (i.e. three months of operating expenses). WECC staff have proposed using \$2.5 million of working capital reserves to fund the 2026 budget and mitigate potential increases in assessments. For the 2026 BP&B, WECC management also proposes using approximately \$200,000 of Peak Reliability donation reserves to fund the 2026 budget.

B. MBS Review Process

The MBS met with WECC staff seven times between March 5 and May 1 to discuss the 2026 BP&B. During these meetings and via email exchanges, the MBS asked many questions and made several requests of WECC staff for additional information. WECC's responses were timely, relevant, and helpful. The MBS also provided input to WECC staff on WECC's initial and subsequent drafts of the BP&B. The MBS also shared various drafts of its proposed recommendation with, and took feedback on those drafts from, WECC staff.

Comments/Discussion

After review and discussion, the MBS believes that the proposed 2025 statutory budget is 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."⁴ While acknowledging that the increase in the proposed 2026 budget and assessments are significant, the MBS believes WECC's costs remain reasonable, particularly on a per capita basis⁵ and considering WECC's role in maintaining the reliability of an energy delivery system critical to a well-functioning society. The MBS believes that WECC is managing costs appropriately and appreciates WECC's focus on cost containment.

The MBS believes that WECC staff have sufficiently explained and justified the proposed FTE increase as necessary to effectively and efficiently accomplish WECC's mission.⁶ The MBS understands that there is significant additional work associated with increasing numbers of inverter-based resource

⁴ December 11, 2024 WECC Long-Term Strategy. This document is available at <https://www.wecc.org/wecc-document/17611>.

⁵ \$40.6 million divided by 90 million people is less than 50 cents per person.

⁶ The five CMEP additions are the following: two Enforcement Engineers to help process and reduce the current enforcement caseload backlog and the anticipated incoming caseload from an increase in registered entities; one Registration Engineer to enhance registration processing efficiency in line with increased registration activities related to inverter-based resources; one Compliance Program Coordinator to support the workload from increased registrations and increased demands on CMEP; and one Risk Assessment Engineer to assist in oversight planning and analysis. One Generator Readiness Specialist will be added to RAPA to support a weather readiness program for generators in the Western Interconnection.

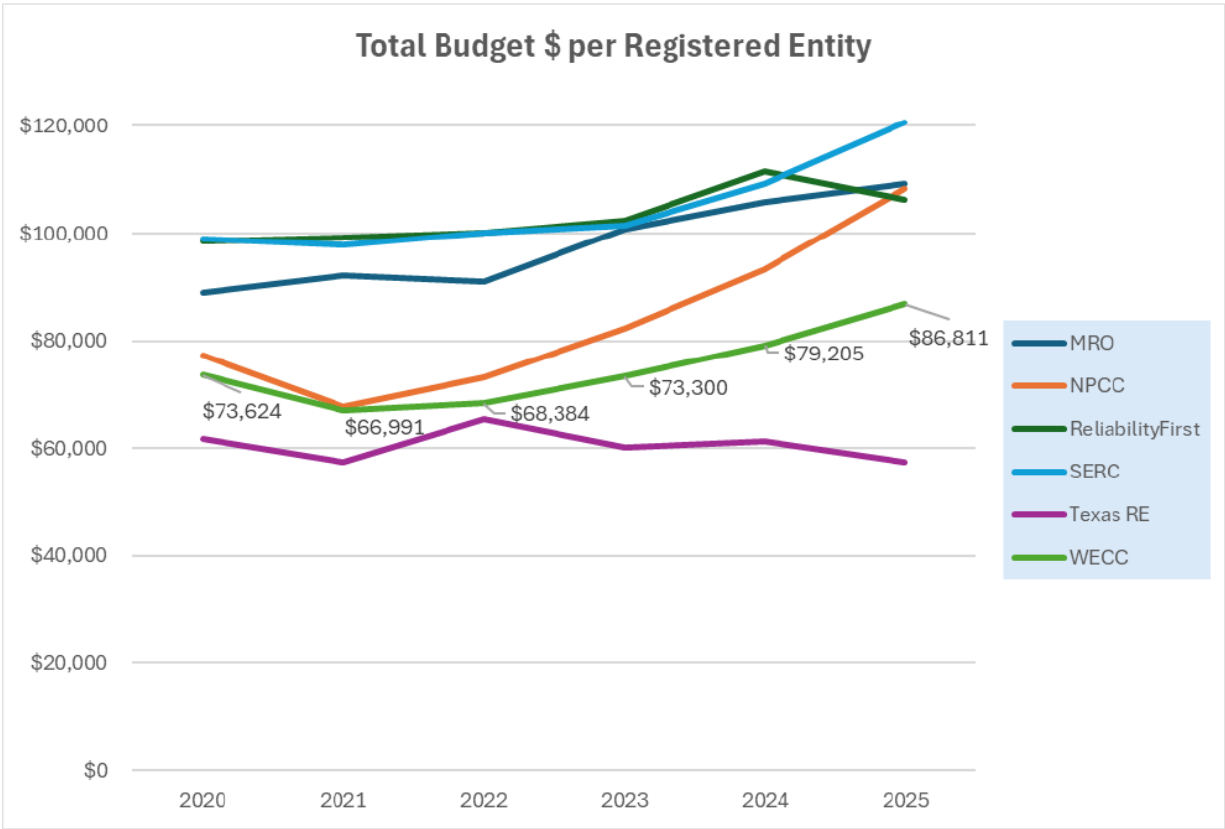
(IBR) registrations and higher registration turnover with such resources, which will require maintaining new FTE resources into the future. MBS also understands there is also significant work associated with self-reported violations as well as reducing the backlog of such violations.

A. WECC’s Budget Mitigation Efforts

WECC staff have made great efforts to consider and adopt opportunities to reduce the budget where doing so would not affect WECC’s ability to accomplish its mission (e.g., subleasing office space, reducing travel and meeting expenses, etc.). While these savings are small relative to the size of the budget, they reflect a mindset that is focused on reducing costs where possible.

B. Comparing WECC to Other Regional Entities

The MBS sought information to evaluate the WECC’s proposed budget as benchmarked against other Regional Entities (REs). The MBS found that WECC compares favorably to other REs from an operations spend perspective. This favorable comparison is even clearer when considering the size of WECCs footprint and number of registered entities. Notably, WECC’s cost per registered entity is among the lowest among the REs (see graph below and Appendix).

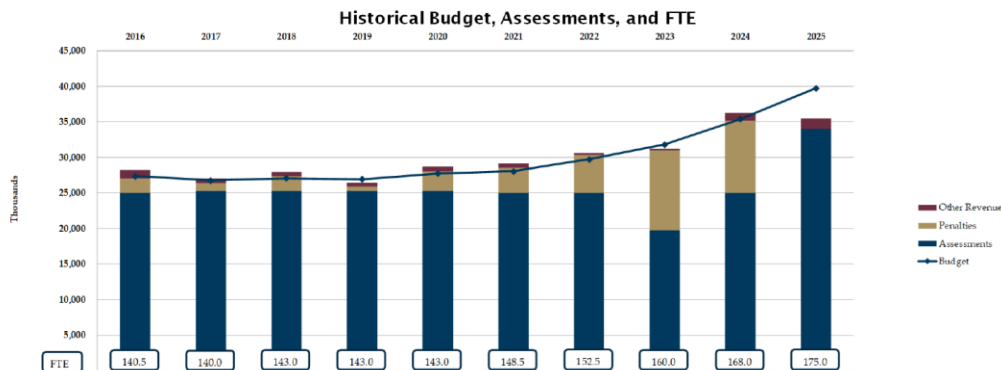


C. Assessments and Penalties

WECC's costs are allocated on an energy basis (net energy for load or NEL) to Class 1 and 2 members. These costs are then passed through to end-users (represented at WECC by Class 4). This cost allocation is intended to reflect cost-causation: load, which directly benefits from reliability, paying based on demand served via the grid. While end-users ultimately bear WECC's costs, Classes 1 and 2 are confronted with the immediate impact of assessments and may be subject to regulatory lag and limited in their ability to respond quickly to such increased costs. In evaluating the proposed budget and assessment increases, the MBS was mindful that WECC members of all classes are subject to extraordinary cost pressures.

The proposed increase in assessments for 2026 - 8.0% - reflects, in part, a paucity of compliance penalties to offset assessments. In 2023 and 2024 there were significant penalties that reduced assessments.⁷ In 2025 and 2026, penalties are historically low.

Historical Budget and Assessments



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The MBS believes that better understanding and being able to project the long-term trend on penalties would better indicate whether 2025 and 2026 are aberrations or whether they reflect a more structural ongoing change. WECC staff provided excellent information in understanding the current situation but projections about longer-term trends, if possible, could provide insight into how future budgets and assessments may look.

D. Assessment Issues

The MBS discussed two issues associated with stabilizing assessments from year to year: (1) using capital reserves to offset assessment increases for 2026 and (2) the possibility of re-allocating the costs of assessments (i.e. beyond Classes 1 and 2).

⁷ In 2023, WECC had \$11 million in penalties to offset assessments. In 2024, WECC had \$8 million in penalties to offset assessments.



1. Utilizing Reserves to Offset Assessments

In the past, most recently for the 2025 BP&B, WECC has used capital reserves to offset assessments.⁸ Because WECC anticipates that its reserves will reach the cap of its reserve policy limit by the end of 2025,⁹ the MBS evaluated options for using reserves again in 2026 to mitigate the assessment increase. The MBS believes that utilizing reserves to reduce increases in assessments while still maintaining a reasonable level of reserves can be appropriate, particularly considering unique circumstances and/or low penalty amounts. The MBS is also cautious of unduly drawing down reserves, recognizing that using reserves to mitigate assessment increases is, at best, a short-term approach that cannot be regularly relied upon, and acknowledge that MBS has, in the past, recommended increasing the reserve policy. We believe a long-term strategy should be developed to mitigate the need to tap reserves for low penalties in future years.

For the 2026 BP&B, we believe using a portion of reserve funds is appropriate given the size of the assessment increase and anticipated level of funds in the reserve by the end of 2025. In its discussions, the MBS considered using an amount of reserves up to the mid-point of the Board-approved reserves range as reasonable (i.e. no more than \$4.9 million). Ultimately, the amount of reserves used should balance reducing the assessment increase with the risk of unforeseen challenges.

WECC has proposed using \$2.5 million of working capital reserves to fund the 2026 budget and mitigate a potential increase in assessments. The MBS finds that this proposed use of reserves, which would still project to leave WECC with working capital reserves that are on the higher end of the reserve policy, is appropriate. Using this amount of reserves in 2026 to offset assessments would increase assessments by 8%.¹⁰ An 8% increase is consistent with the assessment stabilization analysis conducted by WECC for the 2025 budget cycle, which forecast that it would be appropriate to increase assessments 8% in both 2026 and 2027.¹¹

2. Assessment Cost Allocation

As past MBSs have done, the MBS discussed whether it continues to be appropriate to allocate WECC's costs solely to Classes 1 and 2, particularly given the proliferation of IBRs and increased costs associated with increased IBR compliance registrations. Both WECC staff and the MBS acknowledge the potential inequity associated with allocating RE costs solely to end

⁸ For the 2025 BP&B WECC collected \$4,000 in penalties and used \$4.6 million in reserves to offset assessments. For the 2023 BP&B, WECC used \$595,000 in reserves.

⁹ Statutory working capital reserves are anticipated to be approximately \$9.9 million by December 31, 2025, which is at the reserve policy ceiling (three months of operating expenses).

¹⁰ Reducing the 2026 assessments by \$3 million (to \$35,689,079) and dividing that value by the 2025 assessments (\$33,016,000) yields an 8.1% increase.

¹¹ Updated Assessment Stabilization Analysis (April 1, 2024).

users. There remains, however, a strong basis for allocating WECC's costs on an NEL basis. The Federal Power Act requires NERC to establish rules that equitably allocate the reasonable costs associated with NERC and Registered entities.¹² In 2006, FERC Order No. 672 found that allocating such costs based on NEL basis is a "...fair, reasonable and uncomplicated method that minimizes the possibility of "double-counting."¹³ FERC also found that "...[a]lternative funding apportionment methods suggested by a few commenters appear to garner limited support, can be more complex to implement, or raise the issue of double counting."¹⁴ The potential for end-users double-paying for costs came up in the MBS' discussion of the pros and cons of moving away from an NEL-based allocation. While FERC did not expressly rule out other cost allocation methods,¹⁵ to date no other allocation method has been proposed or found to be just and reasonable. Consequently, while the MBS discussed the issue of how WECC's costs are allocated, the MBS is not recommending any further action on this matter now, given (1) FERC finding the NEL-based allocation of costs to be just and reasonable and (2) concerns about double-counting.

IV. Recommendations

- The MBS recommends that the MAC support the proposed 2026 Business Plan and Budget, including the addition of six (three statutory and three non-statutory) FTEs.
- For the 2026 Business Plan and Budget, the MBS recommends the Board approve the use of \$2.5 million of reserves to reduce the increase in 2026 assessments to 8%.

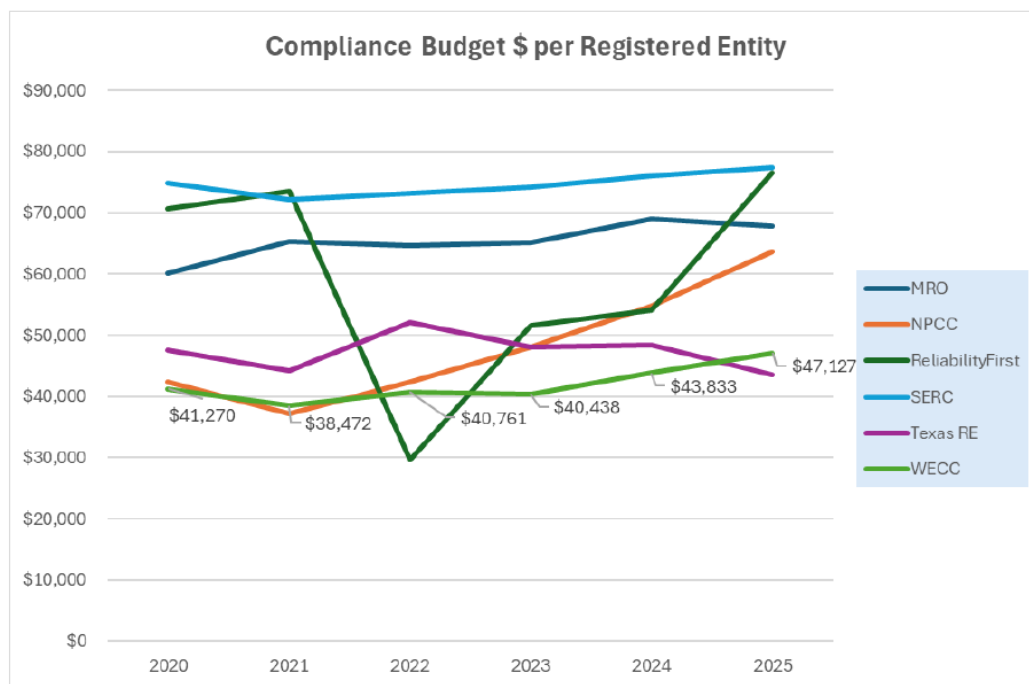
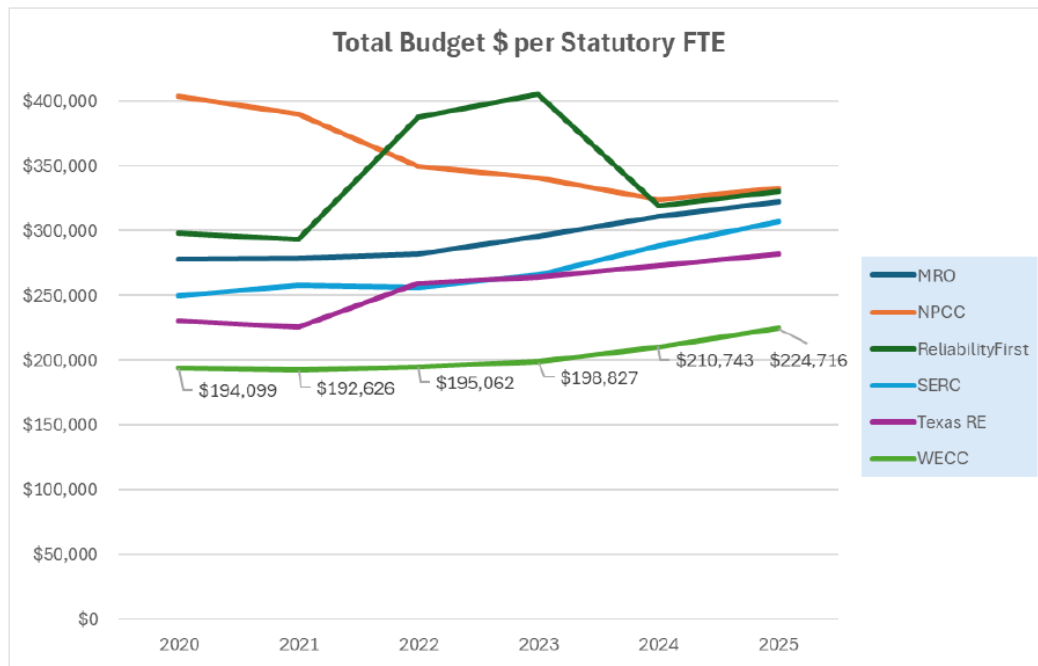
¹² Federal Power Act (16 USC 824o) Section 215 (c)(2)(B).

¹³ Order No. 672 at P. 35.

¹⁴ *Id.* at P 213.

¹⁵ *Id.*

Appendix (all charts provided by WECC Staff)



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