



Western Electricity Coordinating Council

March 24, 2006

ERO STRATEGIC GROUP
FINANCE AND AUDIT COMMITTEE

Subject: WECC Issues with the ERO
Application

The WECC staff has identified the following issues that need to be resolved. Your input is greatly appreciated.

Budget

What should the statutory budget include?

There are two views of how inclusive the statutory budget presented to the ERO and then to the FERC should be, a “minimalist” or an “all in” one. WECC has received several comments supporting the latter. The argument in support of an “all in” budget is that it ensures financial support for some key activities, including the Reliability Coordinators. The contrary argument is that it might increase ERO and FERC involvement.

How does the money flow?

NERC proposes that the money will flow as follows: The regional entity will send one bill (in WECC’s case to our Balancing Authorities). This bill will contain approximately four parts: The ERO statutory, ERO non statutory, WECC statutory, and WECC non statutory.

Upon the regional entities’ receipt of payment from the Balancing Authorities, the regional entity will electronically transfer the collected funds to NERC. Upon NERC’s receipt of the funds NERC will transfer the regional entity’s portion back to them. The frequency of electronic transfers has not been decided upon; however, NERC’s original thinking is once a week. Currently WECC bills the Balancing Authorities on a one time

annual basis and NERC bills WECC on a quarterly basis. NERC agrees to electronically transfer funds back to the regional entity either the same or next day.

Who is billed?

NERC is working with each regional entity to put in their Delegation Agreements who is going to be billed. WECC has communicated to NERC that our approach on billing is to bill the Balancing Authorities (Control Areas) based on the agreed upon method of Net Energy for Load (NEL). NERC will bill each regional entity for their statutory and non statutory costs.

What right of review does the ERO have over our budget?

The WECC draft Delegation Agreement reads:

The ERO shall review WECC's budget for adequacy in meeting requirements of its Delegated Authority and shall presume the budget is reasonable if the WECC's governing body has approved the budget for submission to the ERO.

The ERO application (Section 4.3) appears to require prior ERO Board approval:

The ERO shall review the regional budget submittals for adequacy, reasonableness, consistency, and transparency of process, with final approval of such regional budget submittals by the ERO board, prior to filing with the appropriate regulatory authorities.

This issue goes to the heart of WECC's governance because control of the budget is control of the organization. The ERO needs to be assured that WECC is asking for sufficient resources to carry out delegated functions, and a process for this needs to be included in the Delegation Agreement. A remand by the ERO of the WECC budget may be interpreted as undercutting the open, stakeholder process used in the creation of that budget.

Delegation Agreement – Funding

What costs should be included in the FERC-approved budget? Below are examples of costs that seem to fall into one of four categories: Items that are clearly statutory; items clearly not statutory, and items for which the costs could be split between the two budgetary buckets.

Costs to be included as statutory –

- Staff salaries, overheads, and travel for the following areas:
 - o Reliability Standard Development
 - o Compliance Enforcement (compliance audits, RMS program, compliance enforcement program, and disturbance or event reporting and investigation)
 - o Reliability Readiness Audits
 - o Organization Registration and Certification (certification of specific functional entities)
 - o Participation in ERO activities
 - o Training (NERC is presenting to FERC as statutory)
 - o Reliability Assessment and Performance Analysis (NERC is presenting to FERC as statutory)
 - o Situational Awareness and Infrastructure Security (NERC is presenting to FERC as statutory)
 - Hardware and software to support these functions
- Costs associated with regional advisory body
- Annual Audit as required by NERC

Costs to be excluded from the WECC ERO Budget –

- WREGIS
- NAESB dues
 - o Hardware and software costs to support these functions

Costs requiring a decision regarding the WECC ERO Budget –

- Reliability Centers (*Could fall under the above Situational Awareness and Infrastructure Security Area*)
- West wide system model (*Could fall under the above Situational Awareness and Infrastructure Security Area*)
- Western Interchange tool (*Could fall under the above Situational Awareness and Infrastructure Security Area*)
- Grid Alert (*Could fall under the Situational Awareness umbrella and/or Performance Analysis*)

- Disturbance monitoring equipment program and model validation activities (*Could fall under the Situational Awareness umbrella and/or Performance Analysis*)
- Transmission expansion planning such as the database, associated software, and staff salaries and overheads
- Loads and Resources Subcommittee (staff salaries, overheads, travel, software, and hardware)
- Adequacy Assessments and associated tools and staff salaries and overheads
- Vegetation management workshops, etc. (*Could fall under the above Training Area*)

Illustrative Common Costs that might be allocated to WECC and/or the ERO budgets –

- Non-Affiliated Directors, WECC Board, and WECC Board Committee support including staff salaries, overheads, and travel – (e.g. RPIC and other reliability specific items)
- Joint Guidance Committee and Standing Committee costs:
 - o There are 3 general areas
 1. costs to support the committee meetings
 2. costs for ongoing hardware and software authorized by the committee (Power flow and stability databank compilation, annual technical study program, model development, GE program, PTI training, WebSAS, EHV data pool, PDCI modeling, etc.)
 3. staff salaries and overheads for these committees
- Preparing WECC transmission maps
- WECC website support and other communications activities (newsletters, etc.)