



July 17, 2013

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Mr. Gerry Cauley, CEO
North American Electric Reliability Corporation
3353 Peachtree Road, NE Suite 600 North Tower
Atlanta, GA 30326

Dear Mr. Cauley,

In accordance with its responsibilities under Section 215(j) of the Federal Power Act, the Western Interconnection Regional Advisory Body (WIRAB) offers the attached advice on the proposed 2014 budgets for the Western Electricity Coordinating Council (WECC) and the Reliability Coordination Company (RCCo).

Sincerely,

John Savage, Chair

cc: NERC Finance and Audit Committee
Mark Maher, WECC CEO
John Stout, WECC Board Chair

name
date

Final paragraph

Sincerely,

A handwritten signature in black ink that reads "John F. Savage". The signature is written in a cursive, flowing style.

John Savage, Chairman
Western Interconnection Regional Advisory Body

cc: The Honorable Suedeen Kelly
The Honorable Phillip Moeller
The Honorable Marc Spitzer
The Honorable Jon Wellinghoff
John Moot, General Counsel
Joe McClelland, Director, Division of Reliability
Rick Sergel, CEO, North American Electric Reliability Council
Louise McCarren, CEO, Western Electricity Coordinating Council
Pam Inmann, Executive Director, Western Governors' Association

**WIRAB Advice to NERC on WECC's Draft 2014 Budgets for WECC and the
Reliability Coordination Company
July 17, 2013**

The Western Interconnection Regional Advisory Body (WIRAB) is charged, pursuant to Section 215(j) of the Federal Power Act, with providing advice to the Western Electricity Coordinating Council (WECC), the ERO (i.e., NERC), and FERC on the following: (1) whether proposed reliability standards are in the public interest, (2) whether the governance of WECC and NERC is in the public interest, and (3) whether the budgets of WECC and NERC are in the public interest. Pursuant to this authority, WIRAB appreciates the opportunity to advise NERC on the proposed 2014 budgets for both WECC and the newly formed Reliability Coordination Company (RCCo).

Background

At its December 2012 meeting, the WECC Board passed a resolution to officially pursue the bifurcation of WECC into two companies: (1) the Reliability Coordination Company (RCCo), charged with the Reliability Coordinator (RC) and Interchange Authority (IA) functions for the Western Interconnection; and (2) WECC, the Regional Entity, which would handle nearly all other functions presently performed by WECC.¹

At its January 2013 meeting, the WECC Board passed a resolution approving a seven-member independent board for the RCCo. At its February 2013 board meeting, it passed a resolution approving a nine-member independent board for WECC. Realizing the importance of establishing firm funding mechanisms for both organizations going forward, on March 12, 2013, WECC filed its Petition for Declaratory Order with FERC, requesting the ongoing use of Section 215 funding for the RCCo when the WECC organization officially bifurcates in January 2014 (pending a final WECC Board and membership vote at the June 2013 WECC Board meeting, which occurred, and the subsequent necessary approvals by NERC and FERC).

On April 11, 2013, WIRAB provided advice to FERC on WECC's petition, recommending that FERC grant WECC's petition and specifically, requesting FERC to find that Section 215 funding will be available for the RCCo and that WECC will not be precluded from undertaking compliance and enforcement actions once WECC is bifurcated. WIRAB explained in its advice that Section 215 funding is critical for providing adequate funding to the RCCo, which in turn, is critical for ensuring reliability in the Western Interconnection.

¹ WIRAB has been involved with these bifurcation discussions since September 2012, providing input not only directly to the WECC Board, but to the WECC Governance and Nominating Committee and its Member Advisory Work Group.

On June 20, 2013, FERC issued its Order on Petition for Declaratory Order (order), conditionally granting WECC's petition. In its order, FERC specifically defers to WIRAB's comments – "in reaching our determination, we give deference to the advice of WIRAB in its role as a regional advisory body" – and acknowledges WIRAB's authority under Section 215 to advise FERC regarding the governance and budgets of NERC and WECC. Furthermore, despite WECC's acknowledgement that it would not object to FERC's limiting of Section 215 funding, at least through a two-year transitional period for the RCCo (though the end of 2015), in its Order, FERC approved permanent Section 215 funding for the RCCo, as recommended by WIRAB.

On June 27, 2013, the WECC Board approved the bifurcation of the company into WECC and the RCCo. Going forward, each organization will be advised by WIRAB. Additionally, Member Advisory Committees (MACs), comprised of representatives from each of five member classes,² were established to provide membership input to each organization.

On June 28, 2013, the WECC Board approved proposed budgets for WECC and the RCCo. WECC provided the budgets to NERC on July 8, 2013. Both budgets will be reviewed by NERC's Finance and Audit Committee as part of its July 19, 2013 meeting. Both budgets, as well as the proposed 2014 budgets for all NERC Regional Entities, will be presented for final approval to the NERC Board of Trustees on August 15, 2013.

Pursuant to its authority under Section 215 of the Federal Power Act, WIRAB offers the following advice on the proposed 2014 budgets for both organizations. WIRAB's advice builds upon its August 23, 2012 advice to both WECC and NERC on the need for improved reliability practices in the Western Interconnection.³

WIRAB Advice

Proposed 2014 Budget for the RCCo

WIRAB recommends adoption of a revised 2014 budget for the RCCo that retains working capital at the December 31, 2013 level of \$7,841,029, rather than the proposed reduction to \$4,606,412.⁴ The higher level of reserves is needed to ensure that the RCCo can cover unexpected expenditures and take advantage of new opportunities to improve reliability that will likely arise in 2014.⁵

² The five member classes for both organizations are as follows: Class 1: Large Transmission Owners; Class 2: Small Transmission Owners; Class 3: Transmission Dependent Energy Service Providers; Class 4: End Users; and Class 5: Representatives of State and Provincial Governments.

³ WIRAB's advice was submitted on August 23, 2012, and is available here: <http://www.westgov.org/wirab/advice/2012/08-23-12advice.pdf>.

⁴ Draft 2014 Business Plan and Budget for the Reliability Coordination Company, p. 35, filed with NERC on July 8, 2013 (<http://www.nerc.com/gov/bot/FINANCE/Pages/2014RegionalEntityBusinessPlansandBudgets.aspx>).

⁵ WIRAB also notes that there is a significant proposed reduction in working capital for WECC (decreasing from \$9,483,983 at the beginning of 2014 to \$5,098,253 at the end of 2014).⁵ Despite this reduction, it may be

WIRAB believes the proposed reduction in working capital presents a significant risk that there will be insufficient reserves for the RCCo to meet unexpected but necessary expenditures and to take advantage of new opportunities to improve system reliability.

WIRAB believes that additional expenditures beyond what is budgeted could be warranted during the year. For example, WECC has had limited success in attracting top quality staff for the Reliability Centers (RCs). The RCs have also experienced very high turnover rates. One cause may be insufficient salaries for engineers and shift operators. These are shortcomings that were identified in the FERC/NERC joint inquiry into the September 8, 2011 Pacific Southwest outage, as well as the WECC Reliability Coordination Task Force.⁶

WIRAB believes that because the RCs serve as the last line of defense against cascading outages in the Western Interconnection, that they should be staffed with the most highly qualified personnel. Further, high quality staff is needed to analyze the ever increasing amounts of robust data stemming from advancements in technologies, including the flow of synchrophasor data, analytic tools, and potential advanced applications using synchrophasor data. Such high-performing staff needs to be paid accordingly.

To take another example, RCCo may need funds to pay for any penalties incurred as a result of violations of standards. Going forward, the RCCo will be liable for penalties for violation of NERC standards applicable to Reliability Coordinators and Interchange Authorities. The RCCo may also be liable for penalties from potential violations by the RC before bifurcation.

The RCCO also needs additional working capital to take advantage of new opportunities to improve the reliability of the system. For example:

- The RCCo could improve reliability by hosting, for Balancing Authorities (BAs) and Transmission Operators (TOPs), an interconnection-wide Network Model and more sophisticated analysis tools (e.g., State Estimator, Real-Time Contingency Analysis, and voltage stability analysis). While such tools are widely available, not all entities in the West take advantage of them. Inaccuracies in data on current system conditions and the failure to use analytic tools were cited as significant shortcomings by NERC and FERC in their joint inquiry into the September 8, 2011 Pacific Southwest outage. They were also cited as shortcomings in WECC's 2012 survey of industry practices. Central hosting

appropriate given the small risk of revenues not materializing as forecast, as well as the fact that most of the programs WECC will be administering are merely a continuation of current activities.

⁶ Generally, the Reliability Coordinating Task Force (RCTF) recommended increased staffing in critical areas, the satisfaction of regulatory compliance requirements, and the reduction of reliability vulnerabilities. Specifically, the RCTF recommended the addition of 64.1 FTEs in 2014 in order to increase personnel in the areas of real-time operations, operations support, and compliance support and training; as well as the improved use of, and training with, tools necessary to support the RC function. Michelle Mizuomori, et al., "Western Interconnection Reliability," presentation at June 14, 2013 WIRAB meeting, slide 18 (<http://www.westgov.org/wirab/meetings/sprg2013/briefing/present/06-14-13reliability.pdf>).

of analytic tools, by the RCCo, would encourage all BAs and TOPs to use currently available tools. Central hosting of tools and a common Network Model would also enable a rigorous program of quality assurance, to continually verify the accuracy of data provided to a Network Model that is available to all BAs and TOPs.

- Synchrophasor data is beginning to flow to RCs from the \$108 million of federal government and industry funds invested in the deployment of synchrophasor technology in the West. This high resolution, real-time data is, for the first time, showing heretofore unforeseen oscillations in the Western Interconnection. As additional Phasor Measurement Units (PMUs) become operational, there are likely to be additional discoveries of potential anomalies that could threaten system reliability. The RCCo needs adequate resources to fund the investigation of these anomalies.
- Synchrophasor data may also lead to changes in current practices that will improve reliability, including the development of dynamic path ratings and the use of nomograms.⁷ The RCCo needs sufficient resources to pursue such promising advances in 2014.

We recognize that the RCCo could request a mid-year budget adjustment as new needs arise, but we believe this is unworkable for several reasons⁸ and recommend that reserves be increased at the start of the budget period.

Proposed 2014 Budget for WECC

WIRAB recommends the adoption of the proposed 2014 budget for WECC. However, we believe that event analyses may be underfunded and will monitor that activity over the year.

The proposed 2014 budget reduces staffing for situational awareness and infrastructure security (SAIS) from 85 FTE to 0.5 FTE in recognition of transfer of the Reliability Center function to the RCCo. The 0.5 FTE is to “review and respond to incidents and events that impact the reliability of the BES, and to respond to information requests from NERC, FERC and internal WECC Management. The goal of the SAIS Program Area is to maintain real-time awareness about the conditions of the interconnected BES in the Western Interconnection and to respond to events by providing coordination, assistance and communication with the WECC Reliability Coordinator (RC), Stakeholders, WECC Management and the NERC SAIS personnel...The [WECC Event Analysis] includes assigning a cause code for the event to determine root cause(s) and contributing factors, identification and development of appropriate recommendations and mitigation measures. In addition, the process supports the creation of

⁷ NERC has recommended that WECC review the concept of Path Ratings and nomograms for real-time operations. September 13, 2102 letter from NERC President and CEO Gerry Cauley to WECC President and CEO Mark Maher.

⁸ Mid-year changes in assessments require approval by the RCCo Board, the NERC Board and FERC. Additionally, companies which remit the assessment funds to NERC typically budget for such assessments annually. Mid-year adjustments will create budgeting challenges within companies.

Lessons Learned to ensure a high level of reliability within the BES while minimizing the possibility of major significant events and prevent recurrence of similar type events.”⁹

WECC also proposed that staffing for Technical Committees and Member Forums be increased. “One additional position was added to the 2014 budget to enhance analytical resources to identify reliability trends and vulnerabilities based on system data and event analysis.”

WIRAB is concerned about the adequacy of staffing levels:

(a) Given the 142 NERC reportable disturbances in the Western Interconnection last year (more than one-half of all reportable events in North America¹⁰);

(b) Given WECC’s new procedures for event reporting, analysis, making recommendations and conveying lessons learned¹¹;

(c) Given WECC’s commitment to improve event analysis in a bifurcated organization;

(d) Given the objective of expanding WECC’s State of the Interconnection report to identify reliability trends and vulnerabilities based on system data and event analysis; and

(e) Given the need to evaluate “near misses” as well as events.

WIRAB will be monitoring whether the proposed staffing in 2014 enables WECC to execute the tasks it has enumerated.

Conclusion

The Western Interconnection Regional Advisory Body respectfully requests that the North American Electric Reliability Corporation: (1) accept WIRAB’s submittal of this advice; (2) give substantial deference to the comments and recommendations contained in this advice; (3) approve a revised 2014 budget for the RCCo, pursuant to WIRAB’s advice contained herein; and (4) approve the proposed 2014 budget for WECC.

⁹ WECC 2014 Business Plan and Budget, p. 33

¹⁰ NERC Compliance Monitoring and Enforcement Program, 2012 Annual Report, p. 26 (April 2013).

¹¹ See WECC [Event Reporting and Analysis Process](#).