

SCENARIO 1
2019 Proposed Business Plan and Budget
2020 Transitional Reliability Coordinator

Peak Reliability



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Introduction

Peak's fundamental mission is to enhance and promote the reliability of the Bulk Electric System (BES). Today Peak meets its mission primarily through its mature and sophisticated reliability coordination services, system modeling capability, and innovative reliability services such as Hosted Advanced Applications (HAA). While the quality of Peak's services and capability are without equal among new or existing Reliability Coordinators (RC), the fact is that the emergence of markets in the West has driven funding entities to demand choice and quality reliability services at a competitive cost.

This year, Peak has developed its 2019 budget against a competitive backdrop in which other players plan to offer RC services and Funding Parties have not yet determined which entity they will choose after Dec. 31, 2019. Consequently, and in keeping with our mission to assure that the utmost level of reliability is maintained during this period of uncertainty, Peak has developed draft budgets that support two scenarios:

- **Scenario 1 – 2019 Status Quo and 2020 Transitional RC (TRC)**
 - 2019 funding will remain at the same level as 2018, 2017 and 2016 – \$44.6 million
 - The 2020 budget for the TRC is:
 - \$28.7 million as described in the [TRC](#) whitepaper and
 - \$1.3 million associated with self-funding Reliability Services
- **Scenario 2 – 2019 Wind Down and 2020 Wind Down Completion**
 - 2019 funding will reflect a wind down scenario where Peak will cease operations Dec. 31, 2019
 - The 2019 budget will include additional expense related to staff retention and contractual obligations required to transition RC responsibilities
 - The 2020 budget will reflect costs associated with Peak's closure

The budget and the descriptions associated with Scenario 1 are presented in this document.

Scenario 1 – Status Quo to Transitional Reliability Coordination

Peak's 2019 Budget amount of \$46.6 million is comprised of funding for the RC Function and Reliability Services. In 2019, there is no increase in the funding amount associated with the RC Function. RC Funding remains flat to 2016, 2017 and 2018 at \$44.6 million. In addition, Peak expects \$0.1 million of interest income and \$2.0 million of Reliability Services revenue in 2019. The 2019 total budget for RC Function is anticipated at \$45.5m, which is in line with the 2018 budget of 45.8 million. Following is the total 2019 Peak Budget for the Status Quo option for 2019.

Statement of Activities and Capital Expenditures 2019 Budget	Peak Total	Reliability Coordinator Function			Reliability Services
		RC Function Total	RC Operations	Corporate Services	
Funding					
Total Funding (A)	46,657,217	44,694,273	44,694,273	-	1,962,944
Expenses					
Personnel Expenses	33,789,269	33,050,467	27,124,114	5,926,353	738,802
Meeting Expenses	974,317	924,317	551,780	372,537	50,000
Operating Expenses	13,428,587	13,181,794	9,280,328	3,901,466	246,793
Total Direct Expenses	48,192,173	47,156,578	36,956,222	10,200,356	1,035,595
Indirect Expenses	-	(118,063)	10,082,293	(10,200,356)	118,063
Total Expenses (B)	48,192,173	47,038,515	47,038,515	-	1,153,658
Change in Assets	(1,534,956)	(2,344,242)	(2,344,242)	-	809,286
Inc(Dec) in Fixed Assets (C)	(1,564,626)	(1,524,833)	(1,524,833)	-	(39,793)
TOTAL BUDGET (B+C)	46,627,547	45,513,682	45,513,682	-	1,113,865
CHANGE IN WORKING CAPITAL (A-B-C)	\$ 29,670	\$ (819,409)	\$ (819,409)	\$ -	\$ 849,079
FTEs	174.0	171.0	147.0	24.0	3.0
HC	174.0	171.0	147.0	24.0	3.0

2020 Transitional Reliability Coordinator (TRC)

Peak is operating in a competitive environment in which other players plan to offer RC services and in which Funding Parties are yet to determine which entity they will choose after Dec. 31, 2019. Consequently, in 2020 Peak will offer NERC-certifiable and operationally sustainable reliability coordination service options at an extremely competitive price.

It is important to note, however, that cost and sustainability of the TRC is highly dependent on the scope of services selected from the components offered by Peak and the financial commitment of the Funding Parties. Peak believes it is in the interest of reliability for Peak's Funders, membership and industry stakeholders to fully support Peak and the funding of the TRC as it allows prospective market operators and RCs to mature their offers without compromising reliability.

The TRC is comprised of three categories, more fully described below, to allow for more clarity and transparency with regards to core RC costs versus innovations and other services that enhance the reliability and efficiency of the Western Interconnection. These include:

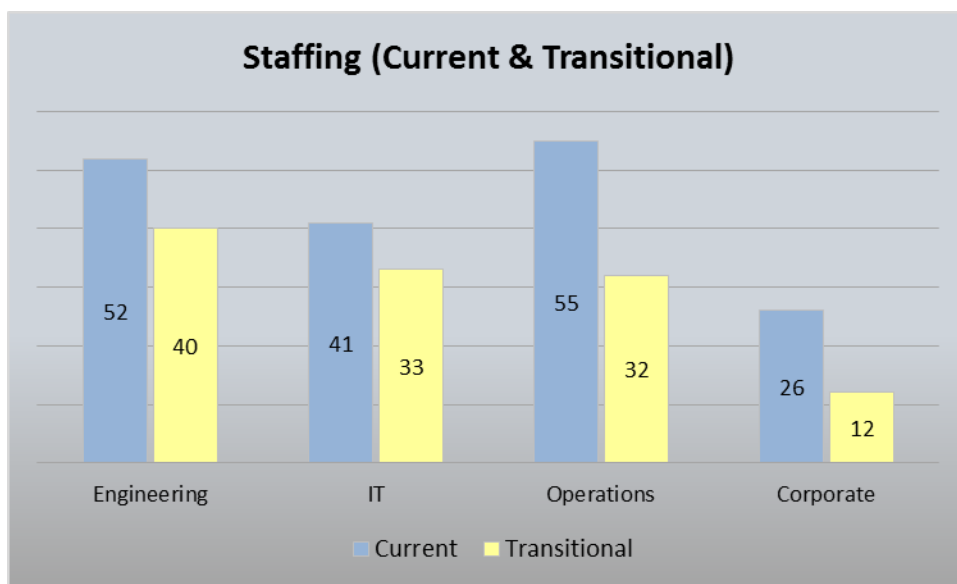
1. **Core Reliability Coordination Services (\$23.5 million)** – services that are critical for maintaining the reliability of the BES and ensure compliance with NERC Reliability Standards applicable to the RC Function.
2. **Optional Services (\$2.3 million)** – services that are optional and may be selected “a la cart” by Balancing Authorities (BA) and/or Transmission Operators (TOP).
3. **Interconnection Shared Services (\$2.9 million)** – services that provide value and enhance reliability for the entire Western Interconnection. These services will need to be agreed upon and funded by Peak and the other RCs in the Western Interconnection so that there are no “free riders” extracting the value of the services without paying their share. Examples of these services include the WECC Interchange Tool (WIT) and the Reliability Messaging Tool (RMT).
4. **Self-Funded Services (\$1.3 million)** – services such as Hosted Advanced Applications.

In addition to a detailed review of Peak's services, the TRC includes changes to RC governance and committees, and a service cost evaluation that provides transparency for the costs associated with each of the services.

Budgetary reductions will be achieved, in part through a reduction in staffing levels. To better reflect the needs of the TRC, the Peak Board of Directors will reduce to three from the current seven and there will be reductions in the executive management team. Reductions across Engineering, IT, Operations and Corporate functions will also occur subsequent to Q2 2019. These reductions will be achieved largely through the elimination of unfilled non-essential positions and through attrition. Peak's 2018 budgeted staffing level is 174 Full Time Employees (FTE) and there are currently 170¹

¹ At May 29, 2018

FTEs. Peak’s Q1 2020 TRC budgeted staffing level is 117 FTEs as shown in the following table.



The TRC at the reduced cost level will provide the same known, high-quality services Funders receive today. There will be no reduction in Peak’s core situational awareness tools nor the proven tools that are critical to reliable and coordinated

operations in the West such as the WECC Interchange Tool, Reliability Messaging Tool, the Enhanced Curtailment Calculator and Hosted Advanced Applications. The West-wide System Model, which has only improved with years of focus and refinement, will be preserved and updated for continued use by Peak and all BAs, TOPs and reliability entities in the West. Following is the total Peak Budget for the TRC option in 2020.

Statement of Activities and Capital Expenditures 2020 Budget	Peak Total	Reliability Coordinator Function			Reliability Services
		RC Function Total	RC Operations	Corporate Services	
Funding					
Total Funding (A)	32,645,540	26,120,000	26,120,000	-	6,525,540
Expenses					
Personnel Expenses	20,129,561	15,045,424	14,387,631	657,793	5,084,137
Meeting Expenses	662,826	335,460	310,584	24,876	327,366
Operating Expenses	11,083,093	7,519,971	6,095,067	1,424,904	3,563,122
Total Direct Expenses	31,875,480	22,900,855	20,793,282	2,107,573	8,974,625
Indirect Expenses	-	2,791,413	4,898,986	(2,107,573)	(2,791,413)
Total Expenses (B)	31,875,480	25,692,268	25,692,268	-	6,183,212
Change in Assets	770,060	427,732	427,732	-	342,328
Inc(Dec) in Fixed Assets (C)	(1,912,826)	(2,181,096)	(2,181,096)	-	268,270
TOTAL BUDGET (B+C)	29,962,654	23,511,172	23,511,172	-	6,451,482
CHANGE IN WORKING CAPITAL (A-B-C)	\$ 2,682,886	\$ 2,608,828	\$ 2,608,828	\$ -	\$ 74,058
FTEs	117.0	88.0	86.0	2.0	29.0
HC	117.0	88.0	86.0	2.0	29.0

Section A – Scenario 1 Reliability Coordination
2019 Business Plan and Budget – Status Quo
2020 Transitional RC

2019 RC Function Overview – No RC Funding Increase over 2018, 2017 and 2016



2019 Overview of Funding – A Slight Reduction in Reserves

The \$44.6 million funding proposal covers all proposed 2019 expenditures and funds working capital to 2.1 months of operating costs, or \$0.4 million higher than the current level in the Board-approved 2018 Business Plan and Budget (2018 budget) of just over two months of operating costs.

2019 Overview of Cost Impacts – Decreased Expenses

Peak's proposed 2019 RC Function budget is \$45.5 million, a \$0.2 million (0.5 percent)

decrease from its 2018 RC Function budget. The primary driver is an increase in labor costs, offset by a decrease in capital expenditures as the core switch replacements are completed in 2018 and not repeated.

Under management's proposal, working capital reserves increase \$0.4 million in 2019 as the anticipated favorable 2018 financial results allow 2019 costs to exceed the proposed total funding of \$44.6 million. This proposal provides 2.1 months of operating costs in working capital reserves; an increase from the current level in the Board-approved 2018 budget of two months of operating costs. For more information, please see the Working Capital Analysis on page 12.

Significant changes to the 2019 RC Function budget from the 2018 RC Function budget and other noteworthy items are as follows:

- Personnel Expenses increase by \$0.9 million primarily due to an increase in health care costs of 10 percent and an average 3.2 percent increase for changes to employees' market pay. Consistent with 2018, the assumptions for employee vacancies are group specific, with a majority of the RC Function group experiencing around a 5 percent employee vacancy rate, while most corporate groups continue to be fully staffed.
- Operating Expenses decrease by \$0.6 million primarily due to decreases in computer maintenance and licensing from favorable relicensing and a decrease in Board of Directors costs as the number of expected Board members remains below the previous seven.
- Fixed Assets decrease by \$0.3 million as the core and internal switch replacements occurred in 2018.

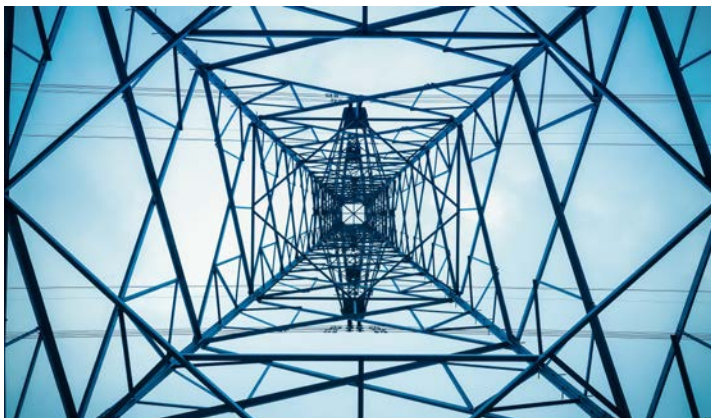
2018, 2019 Status Quo and 2020 Transitional RC Budgets

Statement of Activities, Fixed Assets Expenditures and Change in Working Capital 2018, 2019 Status Quo & 2020 Transitional RC Budgets

RELIABILITY COORDINATOR FUNCTION

Funding	2018 Budget	2019 Flat Budget	Variance Over(Under)	2020 TRC	Variance TRC vs Flat Budget Over(Under)
RC Function	\$ 44,594,316	\$ 44,594,316	\$ -	\$ 26,100,000	\$ (18,494,316)
Federal Grants	-	-	-	-	-
Interest	98,000	99,957	1,957	20,000	(78,000)
Miscellaneous	-	-	-	-	-
Total Funding (A)	\$ 44,692,316	\$ 44,694,273	\$ 1,957	\$ 26,120,000	\$ (78,000)
Expenses					
Personnel Expenses					
Salaries	\$ 25,567,096	\$ 26,028,717	\$ 461,621	\$ 12,497,993	\$ (13,069,103)
Payroll Taxes	1,661,020	1,686,265	25,245	858,090	(802,930)
Benefits	2,728,837	3,049,006	320,169	1,322,949	(1,405,888)
Retirement Costs	2,239,005	2,286,478	47,473	366,392	(1,872,613)
Total Personnel Expenses	\$ 32,195,958	\$ 33,050,466	\$ 854,508	\$ 15,045,424	\$ (17,150,534)
Meeting Expenses					
Meetings	\$ 188,313	\$ 118,088	\$ (70,225)	\$ 25,010	\$ (163,303)
Travel	884,779	763,635	(121,144)	296,871	(587,908)
Conference Calls	39,995	42,593	2,598	13,577	(26,418)
Total Meeting Expenses	\$ 1,113,087	\$ 924,316	\$ (188,771)	\$ 335,458	\$ (777,629)
Operating Expenses					
Consultants & Contracts	\$ 740,441	\$ 540,925	\$ (199,516)	\$ 291,999	\$ (448,442)
Office Rent	1,632,579	1,776,439	143,860	418,975	(1,213,604)
Office Costs	6,780,829	6,483,386	(297,443)	2,878,664	(3,902,165)
Professional Services	1,371,300	1,116,711	(254,589)	666,000	(705,300)
Miscellaneous	-	-	-	-	-
Depreciation	3,250,000	3,264,333	14,333	3,264,333	14,333
Total Operating Expenses	\$ 13,775,149	\$ 13,181,794	\$ (593,355)	\$ 7,519,971	\$ (6,255,178)
Total Direct Expenses	\$ 47,084,194	\$ 47,156,576	\$ 72,382	\$ 22,900,853	\$ (24,183,341)
Indirect Expenses	\$ (124,081)	\$ (118,063)	\$ 6,018	\$ 2,791,413	\$ 2,915,494
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses (B)	\$ 46,960,113	\$ 47,038,513	\$ 78,400	\$ 25,692,266	\$ (21,267,847)
Change in Assets	\$ (2,267,797)	\$ (2,344,240)	\$ (76,443)	\$ 427,734	\$ 21,189,847
Fixed Assets					
Depreciation	\$ (3,250,000)	\$ (3,264,333)	\$ (14,333)	\$ (3,264,333)	\$ (14,333)
Computer & Software CapEx	649,606	664,500	14,894	175,000	(474,606)
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	1,398,000	1,075,000	(323,000)	908,237	(489,763)
Leasehold Improvements	-	-	-	-	-
Construction Work in Progress	-	-	-	-	-
Allocation of Fixed Assets	-	-	-	-	-
Incr(Dec) in Fixed Assets (C)	\$ (1,202,394)	\$ (1,524,833)	\$ (322,439)	\$ (2,181,096)	\$ (978,702)
TOTAL BUDGET (B+C)	45,757,719	45,513,680	(244,039)	23,511,170	(22,246,549)
TOTAL CHANGE IN WORKING CAPITAL (A-B-C)	\$ (1,065,403)	\$ (819,407)	\$ 245,996	\$ 2,608,830	\$ 22,168,549
FTEs	172.0	171.0	(1.0)	88.0	(84.0)
HC	172.0	171.0	(1.0)	88.0	(84.0)

Reliability Coordination Operations



The Reliability Coordinator Function for Peak's RC Area is comprised of the Engineering, Operations, Information Technology and Compliance groups.

Primary Drivers for 2019 Budget Decrease

- Personnel Expenses increase by \$1.0 million primarily due an increase in health care cost of 10 percent and an average 3.2 percent increase for changes to employees' market pay.
- Operating Costs decrease by \$0.6 million primarily due to lower computer maintenance and licensing costs on favorable renewals.
- Fixed Assets decrease by \$0.3 million as the core switch and internal switch replacements were completed in 2018.

Reliability Coordination Operations

Funding sources and related expenses for Reliability Coordination Operations section are shown in the table below.

Statement of Activities, Fixed Assets Expenditures and Change in Working Capital 2018 Budget, 2019 Status Quo Budget and 2020 Transitional RC Budget

RELIABILITY COORDINATION OPERATIONS

	2018 Budget	2019 Budget	Variance Over(Under)	2020 TRC	Variance Over(Under)
Funding (A)	\$ 44,692,316	\$ 44,694,273	\$ 1,957	\$ 26,120,000	\$ (78,000)
Expenses					
Personnel Expenses	\$ 26,082,745	\$ 27,124,114	\$ 1,041,369	\$ 14,387,631	\$ (11,695,114)
Meeting Expenses	613,860	551,780	(62,080)	310,584	(303,276)
Operating Expenses	9,897,187	9,280,328	(616,859)	6,095,067	(3,802,120)
Total Direct Expenses	\$ 36,593,792	\$ 36,956,222	\$ 362,430	\$ 20,793,282	\$ (15,800,510)
Indirect Expenses	\$ 10,366,322	\$ 10,082,293	\$ (284,029)	\$ 4,898,987	\$ (5,467,335)
Total Expenses (B)	\$ 46,960,114	\$ 47,038,515	\$ 78,401	\$ 25,692,269	\$ (21,267,845)
Change in Assets	\$ (2,267,798)	\$ (2,344,242)	\$ (76,444)	\$ 427,731	\$ 21,189,845
Incr(Dec) in Fixed Assets (C)	\$ (1,202,394)	\$ (1,524,833)	\$ (322,439)	\$ (2,181,096)	\$ (978,702)
TOTAL BUDGET (B+C)	45,757,720	45,513,682	(244,038)	23,511,173	(22,246,547)
CHANGE IN WORKING CAPITAL (A-B-C)	\$ (1,065,404)	\$ (819,409)	\$ 245,995	\$ 2,608,827	\$ 22,168,547
FTEs	145.0	147.0	2.0	86.0	(59.0)
HC	145.0	147.0	2.0	86.0	(59.0)

Corporate Services



Peak's Corporate Services function is comprised of the Board of Directors, General and Administrative, Legal, Corporate Information Technology, Human Resources, Corporate Communications, and Finance and Accounting. Corporate Services expenses are allocated to the Engineering, Operations and Information Technology and Compliance departments or to Reliability Services, as applicable.

Primary Driver for 2019 Budget Decrease

Peak's Corporate Services function costs in 2019 are expected to be \$0.3 million lower than the 2018 budget. This decrease is being driven by the elimination of unfilled positions.

Corporate Services

Funding sources and related expenses for the Corporate Services section of the 2019 Proposed Business Plan are shown in the table below.

Statement of Activities, Fixed Assets Expenditures and Change in Working Capital 2018 Budget, 2019 Status Quo Budget and 2020 Transitional RC Budget

CORPORATE SERVICES

	2018 Budget	2019 Budget	Variance Over(Under)	2020 TRC Budget	Variance Over(Under)
Funding (A)	\$ -	\$ -	\$ -	\$ -	\$ -
Expenses					
Personnel Expenses	\$ 6,113,213	\$ 5,926,354	\$ (186,859)	\$ 657,793	\$ (5,455,420)
Meeting Expenses	499,227	372,536	(126,691)	24,876	(474,351)
Operating Expenses	3,877,963	3,901,466	23,503	1,424,905	(2,453,058)
Total Direct Expenses	\$ 10,490,403	\$ 10,200,356	\$ (290,047)	\$ 2,107,574	\$ (8,382,829)
Indirect Expenses	\$ (10,490,403)	\$ (10,200,356)	\$ 290,047	\$ (2,107,574)	\$ 8,382,829
Total Expenses (B)	\$ -	\$ -	\$ -	\$ -	\$ -
Change in Assets	\$ -	\$ -	\$ -	\$ -	\$ -
Incr(Dec) in Fixed Assets (C)	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL BUDGET (B+C)	-	-	-	-	-
CHANGE IN WORKING CAPITAL (A-B-C)	\$ -	\$ -	\$ -	\$ -	\$ -
FTEs	27.0	24.0	(3.0)	2.0	(25.0)
HC	27.0	24.0	(3.0)	2.0	(25.0)

Reserve Balance

Working Capital Reserve Analysis 2018-2019	
RELIABILITY COORDINATOR FUNCTION	
Beginning Working Capital Reserve, December 31, 2017	\$ 9,589,068
Plus: 2018 Funding (from RC Function)	44,594,318
2018 Grant Revenue	0
2018 Interest Income & Other	99,957
Less: 2018 Projected expenses & capital expenditures	(45,453,100)
Projected Working Capital Reserve, December 31, 2018	8,830,243
2019 Peak Management Proposed Flat Assessment	44,594,316
2019 Grant Revenue	0
2019 Interest Income & Other	99,957
2019 Expenses and Capital Expenditures	(45,513,682)
Proposed Working Capital Reserve change from 2019 activity	(819,409)
Proposed Working Capital Reserve, December 31, 2019	¹ \$ 8,010,834
Proposed use of/(contribution to) working capital	(425,220)
Working Capital Reserve at two month level, December 31, 2019	\$ 7,585,614

1 – Proposed Working Capital Reserve of 2.1 months of operating expenses – Peak Board approval required

Peak's proposed funding request is unchanged from 2016, 2017 and 2018 as described earlier. Included in the funding request is a \$0.4 million increase to the working capital balance. The proposed working capital reserve level of 2.1 months is higher than the current level in the Board-approved 2018 budget of two months of operating costs.

Section B – Scenario 1 Reliability Services
2019 Business Plan and Budget – Status Quo
2020 Transitional RC

2019 Reliability Services Proposed Business Plan and Budget

Reliability Services Activities

Reliability Services activities are comprised of activities not included in the Reliability Coordinator Function and are designed to support their own costs. These services are provided to counterparties under bi-lateral contract agreements and leverage Peak's unique position to provide services to promote Western Interconnection reliability performance excellence. Some of the services, such as Hosted Advanced Applications, are currently being provided and others are in various stages of development.

Primary Drivers for 2019 Budget Decrease

- Fixed Assets decrease by \$0.2 million due to the IT hardware and software refresh of the Reliability Services environments completing in 2018 and not repeating in 2019.

Reliability Services Activity

Funding sources and related expenses for the Reliability Services Activity section of the 2019 Business Plan are shown in the table below.

Statement of Activities, Fixed Assets Expenditures and Change in Working Capital 2018 Budget, 2019 Status Quo Budget and 2020 Transitional RC Budget

RELIABILITY SERVICES

	2018 Budget	2019 Budget	Variance Over(Under)	2020 TRC	Variance Over(Under)
Funding (A)	\$ 1,980,000	\$ 1,962,944	\$ (17,056)	\$ 6,525,540	\$ 4,545,540
Expenses					
Personnel Expenses	\$ 705,634	\$ 738,802	\$ 33,168	\$ 5,084,137	\$ 4,378,503
Meeting Expenses	26,751	50,000	23,249	327,366	300,615
Operating Expenses	309,420	246,793	(62,627)	3,563,122	3,253,702
Total Direct Expenses	\$ 1,041,805	\$ 1,035,595	\$ (6,210)	\$ 8,974,625	\$ 7,932,820
Indirect Expenses	\$ 124,081	\$ 118,063	\$ (6,018)	\$ (2,791,413)	\$ (2,915,494)
Total Expenses (B)	\$ 1,165,886	\$ 1,153,658	\$ (12,228)	\$ 6,183,212	\$ 5,017,326
Change in Assets	\$ 814,114	\$ 809,286	\$ (4,828)	\$ 342,328	\$ (471,786)
Incr(Dec) in Fixed Assets (C)	\$ 203,776	\$ (39,793)	\$ (243,569)	\$ 268,270	\$ 64,494
TOTAL BUDGET (B+C)	1,369,662	1,113,865	(255,797)	6,451,482	5,081,820
CHANGE IN WORKING CAPITAL (A-B-C)	\$ 610,338	\$ 849,079	\$ 238,741	\$ 74,058	\$ (536,280)
FTEs	3.0	3.0	-	29.0	26.0
HC	3.0	3.0	-	29.0	26.0

Reserve Balance

Working Capital Reserve Analysis 2018-2019	
RELIABILITY SERVICES	
Beginning Working Capital Reserve, December 31, 2017	\$ 3,436,651
2018 Reliability Services Funding	1,962,944
2018 Expenses and Capital Expenditures	(981,572)
Projected Working Capital Reserve, December 31, 2018	4,418,023
2019 Budgeted activity	
2019 Reliability Services Funding	1,962,944
2019 Expenses and Capital Expenditures	(1,113,865)
Proposed Working Capital Reserve Increase from 2019 activity	849,079
Proposed Working Capital Reserve, December 31, 2019	\$ 5,267,102