

SCENARIO 2
2019 & 2020 Proposed Business Plan and Budget
Wind Down

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 of \$30.0 million
 - \$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 2 are presented in this document.

Scenario 2 – Wind Down

Peak remains convinced it is the far superior choice to provide RC services to the Western Interconnection. However, at the time of writing this first draft of Peak's 2019 Business Plan and Budget, Peak's Funding Parties have not yet declared which organization they will chose to provide their RC services post 2019. Consequently, Peak management, in keeping with its fiduciary responsibilities to ensure that the potential dissolution of the organization is planned and properly accounted for, has developed a Wind Down plan. Peak's 2019 and 2020 Budget, Scenario 2, addresses the wind down of Peak, with the company ceasing operations on December 31, 2019.

The 2019 and 2020 Wind Down budget will include additional expense related to staff retention and contractual obligations required to transition RC responsibilities.

2019 & 2020 Business Plan and Budget – Wind Down

Peak's 2019 Wind Down includes RC funding at a higher level than the previous three budgets. This is mainly due to increased salary costs associated with retaining key staff through final operations in 2019. In addition, Peak expects \$2.0 million of Reliability Services revenue. The 2019 total budget for the RC Function is anticipated at \$53.4 million. Following is the total Peak Budget for the Wind Down 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)	57,762,901	55,799,957	55,799,957	-	1,962,944
Expenses					
Personnel Expenses	41,695,234	40,888,853	34,239,863	6,648,990	806,381
Meeting Expenses	965,317	915,317	551,780	363,537	50,000
Operating Expenses	13,332,275	13,085,482	9,277,703	3,807,779	246,793
Total Direct Expenses	55,992,826	54,889,652	44,069,346	10,820,306	1,103,174
Indirect Expenses	0	(128,863)	10,691,443	(10,820,306)	128,863
Total Expenses (B)	55,992,826	54,760,789	54,760,789	-	1,232,037
Change in Assets	1,770,075	1,039,167	1,039,167	-	730,906
Inc(Dec) in Fixed Assets (C)	(1,399,626)	(1,359,833)	(1,359,833)	-	(39,793)
TOTAL BUDGET (B+C)	54,593,200	53,400,956	53,400,956	-	1,192,244
CHANGE IN WORKING CAPITAL (A-B-C)	\$ 3,169,701	\$ 2,399,000	\$ 2,399,000	\$ -	\$ 770,700
FTEs	174.0	171.0	145.0	26.0	3.0
HC	174.0	171.0	145.0	26.0	3.0

Peak is expected to incur some costs in 2020 associated with the wind down and ultimate closure of the organization, such as payroll and tax preparation. While we have assumed these activities will be completed by remaining employees, they may be performed by outside consultants.

Following is the total budget for the wind down of Peak 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)	6,000,000	6,000,000	6,000,000	-	-
Expenses					
Personnel Expenses	1,719,930	1,666,827	599,366	1,067,461	53,103
Meeting Expenses	35,000	35,000	-	35,000	-
Operating Expenses	7,800,626	7,776,833	6,264,333	1,512,500	23,793
Total Direct Expenses	9,555,556	9,478,660	6,863,699	2,614,961	76,896
Indirect Expenses	-	(8,486)	2,606,475	(2,614,961)	8,486
Total Expenses (B)	9,555,556	9,470,174	9,470,174	-	85,382
Change in Assets	(3,555,556)	(3,470,174)	(3,470,174)	-	(85,382)
Inc(Dec) in Fixed Assets (C)	(3,288,126)	(3,264,333)	(3,264,333)	-	(23,793)
TOTAL BUDGET (B+C)	6,267,430	6,205,841	6,205,841	-	61,589
CHANGE IN WORKING CAPITAL (A-B-C)	\$ (267,430)	\$ (205,841)	\$ (205,841)	\$ -	\$ (61,589)
FTEs	3.8	3.5	1.5	2.0	0.3
HC	15.0	14.0	6.0	8.0	1.0

Section A – Scenario 2 Reliability Coordination 2019 Business Plan and Budget – Wind Down 2020 Corporate Wind Down Completion

2019 RC Function Overview –RC Funding Increases to \$55.8 Million



2019 Overview of Funding – Increased Costs to Wind Down

The \$55.8 million funding proposal covers all proposed 2019 expenditures and funds working capital to 2.5 months of operating costs, or \$2.3 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 – Increased Expenses

Peak's proposed 2019 RC Function budget is \$53.4 million, a \$7.6 million (16.7 percent)

increase from its 2018 RC Function budget. The primary driver is an increase in labor costs, slightly offset by decreases in Operating expenses, travel and 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 \$2.3 million in 2019 as the anticipated favorable 2018 and 2019 financial results contribute to funding for the wind down of the organization. This proposal provides 2.5 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 13.

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 \$8.7 million primarily due to an increase in costs associated with employee retentions during the wind down period, as well as increases 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 \$0.7 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 \$0.2 million as the core and internal switch replacements occurred in 2018.

2018 Budget and 2019 and 2020 Wind Down Budgets

Statement of Activities, Fixed Assets Expenditures and Change in Working Capital 2018, 2019 & 2020 Wind Down Budgets

RELIABILITY COORDINATOR FUNCTION

	2018 Budget	2019 Wind-Down	Variance Over(Under)	2020 Wind-Down	Variance Over(Under)
Funding					
RC Function	\$ 44,594,316	\$ 55,700,000	\$ 11,105,684	\$ 6,000,000	\$ (38,594,316)
Federal Grants	-	-	-	-	-
Interest	98,000	99,957	1,957	-	(98,000)
Miscellaneous	-	-	-	-	-
Total Funding (A)	\$ 44,692,316	\$ 55,799,957	\$ 11,107,641	\$ 6,000,000	\$ (98,000)
Expenses					
Personnel Expenses					
Salaries	\$ 25,567,096	\$ 34,418,512	\$ 8,851,416	\$ 1,503,543	\$ (24,063,553)
Payroll Taxes	1,661,020	1,569,692	(91,328)	42,366	(1,618,654)
Benefits	2,728,837	2,899,441	170,604	77,387	(2,651,450)
Retirement Costs	2,239,005	2,001,209	(237,796)	43,530	(2,195,475)
Total Personnel Expenses	\$ 32,195,958	\$ 40,888,854	\$ 8,692,896	\$ 1,666,826	\$ (30,529,132)
Meeting Expenses					
Meetings	\$ 188,313	\$ 118,088	\$ (70,225)	\$ -	\$ (188,313)
Travel	884,779	754,635	(130,144)	35,000	(849,779)
Conference Calls	39,995	42,593	2,598	-	(39,995)
Total Meeting Expenses	\$ 1,113,087	\$ 915,316	\$ (197,771)	\$ 35,000	\$ (1,078,087)
Operating Expenses					
Consultants & Contracts	\$ 740,441	\$ 540,925	\$ (199,516)	\$ -	\$ (740,441)
Office Rent	1,632,579	1,682,752	50,173	330,000	(1,302,579)
Office Costs	6,780,829	6,480,761	(300,068)	3,452,500	(3,328,329)
Professional Services	1,371,300	1,116,711	(254,589)	730,000	(641,300)
Miscellaneous	-	-	-	-	-
Depreciation	3,250,000	3,264,333	14,333	3,264,333	14,333
Total Operating Expenses	\$ 13,775,149	\$ 13,085,482	\$ (689,667)	\$ 7,776,833	\$ (5,998,316)
Total Direct Expenses	\$ 47,084,194	\$ 54,889,652	\$ 7,805,458	\$ 9,478,659	\$ (37,605,535)
Indirect Expenses	\$ (124,081)	\$ (128,863)	\$ (4,782)	\$ (8,486)	\$ 115,595
Other Non-Operating Expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Total Expenses (B)	\$ 46,960,113	\$ 54,760,789	\$ 7,800,676	\$ 9,470,173	\$ (37,489,940)
Change in Assets	\$ (2,267,797)	\$ 1,039,168	\$ 3,306,965	\$ (3,470,173)	\$ 37,391,940
Fixed Assets					
Depreciation	\$ (3,250,000)	\$ (3,264,333)	\$ (14,333)	\$ (3,264,333)	\$ (14,333)
Computer & Software CapEx	649,606	714,500	64,894	-	(649,606)
Furniture & Fixtures CapEx	-	-	-	-	-
Equipment CapEx	1,398,000	1,190,000	(208,000)	-	(1,398,000)
Leasehold Improvements	-	-	-	-	-
Construction Work in Progress	-	-	-	-	-
Allocation of Fixed Assets	-	-	-	-	-
Incr(Dec) in Fixed Assets (C)	\$ (1,202,394)	\$ (1,359,833)	\$ (157,439)	\$ (3,264,333)	\$ (2,061,939)
TOTAL BUDGET (B+C)	45,757,719	53,400,956	7,643,237	6,205,840	(39,551,879)
TOTAL CHANGE IN WORKING CAPITAL (A-B-C)	\$ (1,065,403)	\$ 2,399,001	\$ 3,464,404	\$ (205,840)	\$ 39,453,879
FTEs	172.0	171.0	(1.0)	3.5	(168.5)
HC	172.0	171.0	(1.0)	14.0	(158.0)

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 Increase

- Personnel Expenses increase by \$8.7 million primarily due an increase in the costs to retain the employees required to perform the Reliability Coordination Function, in addition to increases 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 \$0.2 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, 2019 & 2020 Wind Down Budgets

RELIABILITY COORDINATION OPERATIONS

	2018 Budget	2019 Wind Down	Variance Over(Under)	2020 Wind Down	Variance Over(Under)
Funding (A)	\$ 44,692,316	\$ 55,799,957	\$ 1,957	\$ 6,000,000	\$ (98,000)
Expenses					
Personnel Expenses	\$ 26,082,745	\$ 34,239,863	\$ 8,157,118	\$ 599,366	\$ (25,483,379)
Meeting Expenses	613,860	551,780	(62,080)	-	(613,860)
Operating Expenses	9,897,187	9,277,703	(619,484)	6,264,333	(3,632,854)
Total Direct Expenses	\$ 36,593,792	\$ 44,069,346	\$ 7,475,554	\$ 6,863,699	\$ (29,730,093)
Indirect Expenses	\$ 10,366,322	\$ 10,691,442	\$ 325,120	\$ 2,623,447	\$ (7,742,875)
Total Expenses (B)	\$ 46,960,114	\$ 54,760,788	\$ 7,800,675	\$ 9,487,146	\$ (37,472,968)
Change in Assets	\$ (2,267,798)	\$ 1,039,169	\$ (7,798,718)	\$ (3,487,146)	\$ 37,374,968
Incr(Dec) in Fixed Assets (C)	\$ (1,202,394)	\$ (1,359,833)	\$ (157,439)	\$ (3,264,333)	\$ (2,061,939)
TOTAL BUDGET (B+C)	45,757,720	53,400,955	7,643,236	6,222,813	(39,534,907)
CHANGE IN WORKING CAPITAL (A-B-C)	\$ (1,065,404)	\$ 2,399,002	\$ (7,641,279)	\$ (222,813)	\$ 39,436,907
FTEs	145.0	145.0	-	1.5	(143.5)
HC	145.0	145.0	-	6.0	(139.0)

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 higher than the 2018 budget. This increase is being driven by the anticipated costs of retaining employees throughout 2019 to effectively support the wind down.

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, 2019 & 2020 Wind Down Budgets CORPORATE SERVICES

	2018 Budget	2019 Wind Down	Variance Over(Under)	2020 Wind Down	Variance Over(Under)
Funding (A)	\$ -	\$ -	\$ -	\$ -	\$ -
Expenses					
Personnel Expenses	\$ 6,113,213	\$ 6,648,990	\$ 535,777	\$ 1,067,461	\$ (5,045,752)
Meeting Expenses	499,227	363,536	(135,691)	35,000	(464,227)
Operating Expenses	3,877,963	3,807,779	(70,184)	1,512,500	(2,365,463)
Total Direct Expenses	\$ 10,490,403	\$ 10,820,305	\$ 329,902	\$ 2,614,961	\$ (7,875,442)
Indirect Expenses	\$ (10,490,403)	\$ (10,820,305)	\$ (329,902)	\$ (2,614,961)	\$ 7,875,442
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	26.0	(1.0)	2.0	(25.0)
HC	27.0	26.0	(1.0)	8.0	(19.0)

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	55,700,000
2019 Grant Revenue	0
2019 Interest Income & Other	99,957
2019 Expenses and Capital Expenditures	(53,400,956)
Proposed Working Capital Reserve change from 2019 activity	2,399,001
Proposed Working Capital Reserve, December 31, 2019	¹ \$ 11,229,244
Proposed use of/(contribution to) working capital	(2,329,084)
Working Capital Reserve at two month level, December 31, 2019	\$ 8,900,159

1 – Proposed Working Capital Reserve of 2.5 months of operating expenses – Peak Board approval required

Peak's proposed funding request is increased from 2016, 2017 and 2018 as described earlier. Included in the funding request is a \$2.3 million increase to the working capital balance. The proposed working capital reserve level of 2.5 months is higher than the current level in the Board-approved 2018 budget of two months of operating costs.

Section B – Scenario 2 Reliability Services
2019 Business Plan and Budget – Wind Down
2020 Corporate Wind Down Completion

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, 2019 & 2020 Wind Down Budgets					
RELIABILITY SERVICES					
	2018 Budget	2019 Wind Down	Variance 2018 Projection v 2018 Budget Over(Under)	2020 Wind Down	Variance 2018 Budget v 2019 Budget Over(Under)
Funding (A)	\$ 1,980,000	\$ 1,962,944	\$ (17,056)	\$ -	\$ (1,980,000)
Expenses					
Personnel Expenses	\$ 705,634	\$ 806,381	\$ 100,747	\$ 53,103	\$ (652,531)
Meeting Expenses	26,751	50,000	23,249	-	(26,751)
Operating Expenses	309,420	246,793	(62,627)	23,793	(285,627)
Total Direct Expenses	\$ 1,041,805	\$ 1,103,174	\$ 61,369	\$ 76,896	\$ (964,909)
Indirect Expenses	\$ 124,081	\$ 118,063	\$ (6,018)	\$ 118,063	\$ (6,018)
Total Expenses (B)	\$ 1,165,886	\$ 1,221,237	\$ 55,351	\$ 194,959	\$ (970,927)
Change in Assets	\$ 814,114	\$ 741,707	\$ (72,407)	\$ (194,959)	\$ (1,009,073)
Incr(Dec) in Fixed Assets (C)	\$ 203,776	\$ (39,793)	\$ (243,569)	\$ (23,793)	\$ (227,569)
TOTAL BUDGET (B+C)	1,369,662	1,181,444	(188,218)	171,166	(1,198,496)
CHANGE IN WORKING CAPITAL (A-B-C)	\$ 610,338	\$ 781,500	\$ 171,162	\$ (171,166)	\$ (781,504)
FTEs	3.0	3.0	-	0.3	(2.7)
HC	3.0	3.0	-	1.0	(2.0)

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	(1,181,444)
Proposed Working Capital Reserve Increase from 2019 activity	781,500
Proposed Working Capital Reserve, December 31, 2019	\$ 5,199,523