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June 29, 2015

VIA ELECTRONIC FILING

Ms. Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: North American Electric Reliability Corporation
Docket No. RR15-10-000
Report of Comparisons of Budgeted to Actual Costs for 2014
for NERC and the Regional Entities – SUPPLEMENTAL FILING**

Dear Ms. Bose:

The North American Electric Reliability Corporation (NERC) hereby submits the “Supplemental Filing to North American Electric Reliability Corporation’s Report of Comparisons of Budgeted to Actual Costs for 2014 for NERC and the Regional Entities – Western Electricity Coordinating Council’s 2014 Audited Financial Statements and Revised Actual Cost-to-Budget Comparison Report.”

This filing consists of: (1) this transmittal letter, (2) the narrative text of the supplemental filing, which follows this transmittal letter, and (3) one attachment thereto identified as Attachment 9A, all of which are being submitted in a single pdf file.

Please contact the undersigned if you have any questions concerning this filing.

Respectfully submitted,

/s/ Owen E. MacBride
Owen E. MacBride

Attorney for North American Electric
Reliability Corporation

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Attachment 9A: Western Electricity Coordinating Council – 2014 Revised Actual Cost-to-Budget Comparison and Audited Financial Statements

I. INTRODUCTION

The North American Electric Reliability Corporation (“NERC”) respectfully submits this supplemental filing to its May 29, 2015 “Report of Comparisons of Budgeted to Actual Costs for 2014 for NERC and the Regional Entities” (“May 29 Filing”). Specifically, in this supplemental filing, NERC is submitting (1) the audited 2014 financial statements for the Western Electricity Coordinating Council, Inc. (“WECC”), and (2) a revised actual cost-to-budget comparison report for WECC for 2014. **Attachment 9A** to this supplemental filing contains the revised WECC 2014 actual cost-to-budget comparison report and WECC’s 2014 audited financial statements.

NERC stated in the May 29 Filing that at that time, WECC’s audited 2014 financial report was not yet available and would be filed with the Commission in a supplemental filing during the month of June 2015 (*see* May 29 Filing at 4-5). The May 29 Filing contained, as Attachment 9, a 2014 actual cost-to-budget comparison report for WECC based on its unaudited 2014 financial results. As explained below, changes in WECC’s audited 2014 financial results from the unaudited 2014 financial results available in May have necessitated minor revisions to WECC’s 2014 actual cost-to-budget comparison.

II. NOTICES AND COMMUNICATIONS

Notices and communications with respect to this filing may be addressed to:

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**III. WESTERN ELECTRICITY COORDINATING COUNCIL
2014 REVISED ACTUAL COST-TO-BUDGET COMPARISON
AND AUDITED FINANCIAL STATEMENTS**

WECC's revised 2014 actual cost-to-budget comparison report and audited 2014 financial statements are provided in **Attachment 9A** to this supplemental filing.

The only material differences between WECC's 2014 actual cost-to-budget comparison included in the May 29 Filing and the final actual cost-to-budget comparison in **Attachment 9A** are due to the recognition of \$2 million of civil penalty expense in 2014 actuals as a result of the Commission's May 26, 2015 order in Docket No. IN14-11-000 approving a Stipulation and Consent Agreement among the Commission, NERC and WECC concerning reliability standards violations arising out of the September 8, 2011 Arizona – Southern California outages.¹ In recognition of the civil penalty imposed in the May 26 Order, WECC, in accordance with requirements of Generally Accepted Accounting Principles, recorded \$2 million of civil penalty expense as unbudgeted Miscellaneous Expense in 2014 actual results.² Correspondingly, WECC recorded in Funding an additional \$2 million of Penalty Sanctions revenues previously reserved to offset the unbudgeted civil penalty expense.³ These accounting actions resulted in actual-to-budget variances of \$2 million in total company Funding – Penalty Sanctions and Miscellaneous

¹ *Western Electricity Coordinating Council, Order Approving Stipulation and Consent Agreement*. 151 FERC ¶61,175 (2015) (“May 26 Order”).

² The May 26 Order provides for a \$3 million monetary penalty to WECC; however, WECC previously recognized \$1 million of expense for this potential liability in 2013, as reported in its actual cost-to-budget comparison report and audited financial report for 2013 (*North American Electric Reliability Corporation's Report of Comparisons of Budgeted to Actual Costs for 2013 for NERC and the Regional Entities*, Attachment 9, filed May 30, 2014 in Docket No. 14-4-0000).

³ In NERC's 2015 Business Plan and Budget filing, an exception was requested pursuant to §1107.4 of the NERC Rules of Procedure to allow WECC to use \$3.4 million of Penalty sanction revenues received between July 1, 2013 and June 30, 2014, to offset penalties imposed on WECC's registered Reliability Coordinator and Interexchange Authority functions (rather than using these Penalty sanction revenues to offset 2015 assessments), with \$2 million of this amount reserved to offset estimated penalties to be recognized in 2014. See *Request of the North American Electric Reliability Corporation for Acceptance of its 2015 Business Plan and Budget and the 2015 Business Plans and Budgets of Regional Entities and for Approval of Proposed Assessments to Fund Budgets*, filed August 22, 2014 in Docket No. RR14-6-000, at 104-105, and Attachment 12 (WECC Proposed 2015 Business Plan and Budget) to that filing, at 52-53.

Expense. The unbudgeted \$2 million of Miscellaneous Expense and offsetting \$2 million of Penalty Sanctions revenues were recorded in the Situation Awareness and Infrastructure Security Program, since that was the program in which WECC's registered Reliability Coordinator and Interchange Authority functions were located at the time of the September 8, 2011 event.⁴

IV. CONCLUSION

The North American Electric Reliability Corporation respectfully requests that the Commission accept this supplemental filing and Attachment 9A, along with NERC's May 29 Filing in this docket, as compliant with the Commission's requirements for annual presentation of comparisons of actual-to-budgeted funding and costs for NERC and the Regional Entities for the year ended December 31, 2014.

Respectfully submitted,

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⁴ These registered functions were subsequently transferred to Peak Reliability.

ATTACHMENT 9A

REVISED 2014 ACTUAL COST-TO-BUDGET COMPARISON

AND

2014 AUDITED FINANCIAL REPORT

FOR

WESTERN ELECTRICITY COORDINATING COUNCIL

2014 Audited Statement of Activities and Variance Explanations

Western Electricity Coordinating Council



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Overview

Summary

The Western Electricity Coordinating Council's (WECC) audited change in statutory working capital for the year ended December 31, 2014 is under budget by \$212,000 with grant activity and \$321,000 under budget without grant activity. The major drivers of WECC's net 2014 underrun are related to:

- An underrun of approximately \$950,000 related to consulting expenses for the Regional Transmission Expansion Planning project grant due to the use of staff for projects as opposed to higher-priced consultants;
- An overrun of \$875,000 in Personnel Expenses related to labor float rate assumptions, an unbudgeted increase in WECC's defined-contribution percentage, and lower-than-budgeted enrollment in WECC's benefits plans;
- An underrun of \$350,000 related to delayed deliverables on RAS Modeling contracts;
- An underrun of \$392,000 in Travel Expenses primarily due to a \$321,000 decrease as a result of risk-based compliance monitoring, \$46,000 for budgeted travel within Technical Committees and Member Forums but expensed within RAPA as well as department-wide cost-saving efforts;
- An underrun of \$286,000 in benefits primarily due to less-than-anticipated enrollment in insurance programs by employees;
- An underrun of \$193,000 in Meeting Expenses mainly due to holding all Board of Directors meetings in the WECC meeting space;
- An overrun of approximately \$594,000 in Professional Services related to unanticipated legal fees and the restructuring of Board Director compensation.

This document provides a summary of significant overall variances (greater than \$10,000 and 10 percent). For significant Program Area line-item variances, see the detailed statements of activities for each Program Area.

WECC substantially completed all of its goals and key deliverables as contained in the 2014 Business Plan and Budget except for the implementation of the Base Case Coordination System (BCCS). The BCCS implementation extended into 2015 due to software vendor delays.

Allocation of Indirect Costs

Administrative Services costs are allocated to program activities based on a full-time equivalent (FTE) ratio that is consistent with North American Electric Reliability Corporation's (NERC) accounting methodology for allocation of overhead.

Federal Grants

In WECC's 2010 Amended Business Plan and Budget, WECC included revenue and associated costs related to three U.S. Department of Energy grants. FERC determined that the activities performed under the three grants received by WECC qualified as Section 215 activities.

One grant, the Regional Transmission Expansion Project (RTEP), remains in WECC's 2014 Business Plan and Budget. This grant ended in 2014.

The RTEP project, which encompasses all activities funded under this U.S. DOE grant, produces Interconnection-level transmission plans for the Western Interconnection.

RTEP is a natural expansion of the depth, breadth, and coordination of existing regional and subregional planning processes. The project plan accomplishes the following:

- Evaluates the long-term regional transmission capacity needs under a comprehensive set of load, resource, and policy scenarios.
- Incorporates the results of a comprehensive examination of reliability impacts, technology costs, and emissions conducted during the project.
- Provides guidance for decision-makers at all levels (project developers, siting authorities, utility regulators, etc.).
- Facilitates and accelerates the development of needed transmission infrastructure.

WECC uses a fund-accounting system to ensure that federal grant activities are segregated in accordance with federal cost-accounting standards.

Penalty Sanctions

As a result of the FERC Order pertaining to the September 8, 2011 Arizona – Southern California outages, WECC recognized \$2.0 million of penalty sanctions revenue early to offset the civil penalty expense. See Miscellaneous Expense. (Note: \$1.0 million was recognized in 2013.)

Non-Statutory

WECC has one non-statutory activity, the Western Renewable Energy Generation Information System (WREGIS). WECC uses a fund-accounting system that allows costs to be segregated between statutory and non-statutory activities to ensure that no statutory funding is used for non-statutory activities.

In 2014, WECC allocated indirect costs to its non-statutory activity based on FTEs. Indirect costs include the Board of Directors, General and Administrative, Legal, Information Technology, Human Resources, and Finance programs. These costs are allocated to WREGIS based on the ratio of total WREGIS FTEs to total operating program FTEs. The allocation is consistent with the FTE method of allocating overhead costs used by NERC and the other Regional Entities.

Reserves

In 2014, WECC budgeted \$2.4 million of working capital reserves to offset the large increase in assessments. WECC used \$2.2 million of working capital reserves to offset 2014 statutory assessments.

2014 Audited Statement of Activities – Statutory and Non-Statutory

| Western Electricity Coordinating Council | | | |
|---|----------------------|-----------------------|------------------------------|
| 2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital | | | |
| Statutory and Non-Statutory | | | |
| | 2014 Actual | 2014 Budget | 2014 Variance Over(Under) |
| Funding | | | |
| WECC Funding | | | |
| WECC Assessments | \$ 15,630,852 | \$ 15,630,852 | \$ - |
| Penalty Sanctions | 4,933,050 | 2,933,050 | 2,000,000 |
| Total ERO Funding | \$ 20,563,902 | \$ 18,563,902 | \$ 2,000,000 |
| Membership Fees | 3,022,447 | 1,896,000 | 1,126,447 |
| Grant Funding | 3,638,249 | 3,628,308 | 9,941 |
| Services & Software | - | - | - |
| Workshops | 951,969 | 965,729 | (13,760) |
| Interest | 108,429 | 69,000 | 39,429 |
| Miscellaneous | - | - | - |
| Total Funding | \$ 28,284,996 | \$ 25,122,939 | \$ 3,162,057 |
| Expenses | | | |
| Personnel Expenses | | | |
| Salaries | 13,085,114 | 12,446,955 | 638,159 |
| Payroll Taxes | 914,498 | 797,716 | 116,782 |
| Employee Benefits | 1,873,676 | 2,195,679 | (322,003) |
| Savings & Retirement | 1,133,172 | 797,716 | 335,456 |
| Total Personnel Expenses | \$ 17,006,460 | \$ 16,238,065 | \$ 768,395 |
| Meeting Expenses | | | |
| Meetings | 681,591 | 886,701 | (205,110) |
| Travel | 1,098,517 | 1,545,456 | (446,939) |
| Conference Calls | 71,230 | 114,222 | (42,992) |
| Total Meeting Expenses | \$ 1,851,338 | \$ 2,546,379 | \$ (695,041) |
| Operating Expenses | | | |
| Consultants & Contracts | 3,020,841 | 4,393,302 | (1,372,461) |
| Office Rent | 948,561 | 936,072 | 12,489 |
| Office Costs | 1,903,634 | 1,962,504 | (58,870) |
| Professional Services | 1,367,987 | 775,256 | 592,731 |
| Miscellaneous | 2,000,000 | - | 2,000,000 |
| Depreciation | 645,784 | 580,000 | 65,784 |
| Total Operating Expenses | \$ 9,886,807 | \$ 8,647,134 | \$ 1,239,673 |
| Total Direct Expenses | \$ 28,744,605 | \$ 27,431,578 | \$ 1,313,027 |
| Indirect Expenses | 0 | - | - |
| Other Non-Operating Expenses | \$ 31,207 | \$ - | \$ 31,207 |
| Total Expenses | 28,775,812 | 27,431,578 | 1,344,234 |
| Change in Assets | \$ (490,816) | \$ (2,308,640) | \$ 1,817,823 |
| Fixed Assets | | | |
| Depreciation | (645,784) | (580,000) | (65,784) |
| Computer & Software CapEx | 499,895 | 309,487 | 190,408 |
| Furniture & Fixtures CapEx | - | - | - |
| Equipment CapEx | 48,359 | 136,000 | (87,641) |
| Leasehold Improvements | 7,647 | - | 7,647 |
| Allocation of Fixed Assets | (0) | - | (0) |
| Incr(Dec) in Fixed Assets | \$ (89,883) | \$ (134,513) | \$ 44,630 |
| Total Budget | 28,685,929 | 27,297,065 | 1,388,864 |
| Change in Working Capital | \$ (400,933) | \$ (2,174,126) | \$ 1,773,193 |
| FTEs | 121.8 | 140.0 | (18.2) |
| Headcount | 127.0 | 140.0 | (13.0) |

2014 Audited Statement of Activities – Statutory

| Western Electricity Coordinating Council | | | | |
|---|-----------------------|-----------------------|------------------------------|---------------|
| 2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital | | | | |
| Statutory Summary | | | | |
| | 2014 Actual | 2014 Budget | 2014 Variance Over(Under) | % |
| Funding | | | | |
| WECC Funding | | | | |
| WECC Assessments | \$ 15,630,852 | 15,630,852 | \$ - | 0.0% |
| Penalty Sanctions | 4,933,050 | 2,933,050 | 2,000,000 | 68.2% |
| Total ERO Funding | \$ 20,563,902 | \$ 18,563,902 | \$ 2,000,000 | 10.8% |
| Membership Fees | - | - | - | |
| Grant Funding | 3,638,249 | 3,628,308 | 9,941 | 0.3% |
| Services & Software | - | - | - | |
| Workshops | 950,259 | 957,929 | (7,670) | -0.8% |
| Interest | 79,104 | 69,000 | 10,104 | 14.6% |
| Miscellaneous | - | - | - | |
| Total Funding | \$ 25,231,514 | \$ 23,219,138 | \$ 2,012,375 | 8.7% |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 12,804,260 | 12,096,225 | 708,035 | 5.9% |
| Payroll Taxes | 892,198 | 774,001 | 118,197 | 15.3% |
| Employee Benefits | 1,843,630 | 2,129,744 | (286,114) | -13.4% |
| Savings & Retirement | 1,108,576 | 774,001 | 334,575 | 43.2% |
| Total Personnel Expenses | \$ 16,648,664 | \$ 15,773,971 | \$ 874,693 | 5.5% |
| Meeting Expenses | | | | |
| Meetings | 680,153 | 873,476 | (193,323) | -22.1% |
| Travel | 1,092,099 | 1,484,456 | (392,357) | -26.4% |
| Conference Calls | 70,344 | 114,222 | (43,878) | -38.4% |
| Total Meeting Expenses | \$ 1,842,596 | \$ 2,472,154 | \$ (629,558) | -25.5% |
| Operating Expenses | | | | |
| Consultants & Contracts | 3,019,246 | 4,387,302 | (1,368,056) | -31.2% |
| Office Rent | 948,495 | 936,072 | 12,423 | 1.3% |
| Office Costs | 1,452,027 | 1,405,454 | 46,573 | 3.3% |
| Professional Services | 1,367,987 | 758,756 | 609,231 | 80.3% |
| Miscellaneous | 2,000,000 | - | 2,000,000 | |
| Depreciation | 645,784 | 580,000 | 65,784 | 11.3% |
| Total Operating Expenses | \$ 9,433,539 | \$ 8,067,584 | \$ 1,365,955 | 16.9% |
| Total Direct Expenses | \$ 27,924,799 | \$ 26,313,708 | \$ 1,611,090 | 6.1% |
| Indirect Expenses | (409,077) | (541,111) | 132,034 | -24.4% |
| Other Non-Operating Expenses | \$ 12,207 | \$ - | \$ 12,207 | |
| Total Expenses | 27,527,929 | 25,772,597 | 1,755,331 | 6.8% |
| Change in Assets | \$ (2,296,415) | \$ (2,553,459) | \$ 257,044 | -10.1% |
| Fixed Assets | | | | |
| Depreciation | (645,784) | (580,000) | (65,784) | 11.3% |
| Computer & Software CapEx | 499,895 | 309,487 | 190,408 | 61.5% |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | 48,359 | 136,000 | (87,641) | -64.4% |
| Leasehold Improvements | 7,647 | - | 7,647 | |
| Allocation of Fixed Assets | (0) | - | (0) | |
| Incr(Dec) in Fixed Assets | \$ (89,883) | \$ (134,513) | \$ 44,630 | -33.2% |
| Total Budget | 27,438,046 | 25,638,084 | 1,799,961 | 7.0% |
| Change in Working Capital | \$ (2,206,530) | \$ (2,418,946) | \$ 212,414 | -8.8% |
| FTEs | 117.8 | 135.0 | (17.2) | |
| Headcount | 123.0 | 135.0 | (12.0) | |

2014 Audited Statement of Activities – Statutory Without Federal Grants

| Western Electricity Coordinating Council | | | | |
|---|-----------------------|-----------------------|------------------------------|----------------|
| 2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital | | | | |
| Statutory Summary Without Grants | | | | |
| | 2014 Actual | 2014 Budget | 2014 Variance Over(Under) | % |
| Funding | | | | |
| WECC Funding | | | | |
| WECC Assessments | \$ 15,630,852 | 15,630,852 | \$ (0) | 0.0% |
| Penalty Sanctions | 4,933,050 | 2,933,050 | 2,000,000 | 68.2% |
| Total ERO Funding | \$ 20,563,902 | \$ 18,563,902 | \$ 2,000,000 | 10.8% |
| Membership Fees | - | - | - | |
| Grant Funding | - | - | - | |
| Services & Software | - | - | - | |
| Workshops | 950,259 | 957,929 | (7,670) | -0.8% |
| Interest | 79,104 | 69,000 | 10,104 | 14.6% |
| Miscellaneous | - | - | - | |
| Total Funding | \$ 21,593,265 | \$ 19,590,830 | \$ 2,002,434 | 10.2% |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 12,117,190 | 11,667,376 | 449,814 | 3.9% |
| Payroll Taxes | 843,625 | 746,634 | 96,991 | 13.0% |
| Employee Benefits | 1,774,309 | 2,068,607 | (294,298) | -14.2% |
| Savings & Retirement | 1,047,467 | 746,634 | 300,833 | 40.3% |
| Total Personnel Expenses | \$ 15,782,591 | \$ 15,229,251 | \$ 553,340 | 3.6% |
| Meeting Expenses | | | | |
| Meetings | 661,319 | 863,476 | (202,157) | -23.4% |
| Travel | 1,066,933 | 1,454,456 | (387,523) | -26.6% |
| Conference Calls | 60,849 | 108,222 | (47,373) | -43.8% |
| Total Meeting Expenses | \$ 1,789,101 | \$ 2,426,154 | \$ (637,053) | -26.3% |
| Operating Expenses | | | | |
| Consultants & Contracts | 1,121,777 | 1,587,302 | (465,525) | -29.3% |
| Office Rent | 948,495 | 936,072 | 12,423 | 1.3% |
| Office Costs | 1,227,038 | 1,341,354 | (114,316) | -8.5% |
| Professional Services | 1,364,738 | 758,756 | 605,982 | 79.9% |
| Miscellaneous | 2,000,000 | - | 2,000,000 | |
| Depreciation | 474,795 | 481,000 | (6,205) | -1.3% |
| Total Operating Expenses | \$ 7,136,843 | \$ 5,104,484 | \$ 2,032,359 | 39.8% |
| Total Direct Expenses | \$ 24,708,535 | \$ 22,759,888 | \$ 1,948,646 | 8.6% |
| Indirect Expenses | (409,077) | (541,111) | 132,034 | -24.4% |
| Other Non-Operating Expenses | \$ 12,207 | \$ - | \$ 12,207 | |
| Total Expenses | 24,311,665 | 22,218,777 | 2,092,887 | 9.4% |
| Change in Assets | \$ (2,718,400) | \$ (2,627,946) | \$ (90,454) | 3.4% |
| Fixed Assets | | | | |
| Depreciation | (474,795) | (481,000) | 6,205 | -1.3% |
| Computer & Software CapEx | (28,608) | 309,487 | (338,095) | -109.2% |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | 48,359 | 136,000 | (87,641) | -64.4% |
| Leasehold Improvements | 7,647 | - | 7,647 | |
| Allocation of Fixed Assets | (0) | - | (0) | |
| Incr(Dec) in Fixed Assets | \$ (447,397) | \$ (35,513) | \$ (411,884) | 1159.8% |
| Total Budget | 23,864,268 | 22,183,264 | 1,681,003 | 7.6% |
| Change in Working Capital | \$ (2,271,001) | \$ (2,592,433) | \$ 321,430 | -12.4% |
| FTEs | 117.8 | 135.0 | (17.2) | |
| Headcount | 123.0 | 135.0 | (12.0) | |

Significant Variance Explanations – Statutory Activities**Funding**

- Penalty Sanctions: \$2.0 million over budget
 - As a result of the FERC Order pertaining to the September 8, 2011 Arizona – Southern California outages, WECC recognized \$2.0 million of penalty sanctions revenue early to offset the civil penalty expense. See Miscellaneous Expense. (Note: \$1.0 million was recognized in 2013.)
- Interest Income: \$10,000 over budget
 - WECC earned higher-than-anticipated rates of return on cash balances.

Expenses

- Salaries: \$708,000 over budget
 - WECC's budgeted labor float rate assumptions were greater than actual vacancy rates.
- Payroll Taxes: \$118,000 over budget
 - WECC's budgeted labor float rate assumptions were greater than actual vacancy rates.
- Employee Benefits: \$286,000 under budget
 - Enrollment in benefit plans was lower than anticipated among existing employees.
 - Employee training needs were less than anticipated.
- Savings and Retirement: \$335,000 over budget
 - WECC's Board increased the defined-contribution percentage after the 2014 budget was approved.
 - WECC's budgeted labor float rate assumptions were greater than actual vacancy rates.
- Meetings: \$193,000 under budget
 - Staff increased use of webinars where feasible to minimize in-person meeting costs.
 - The June Annual Member and Board of Directors Meetings were held in the WECC meeting space and were originally budgeted to be held offsite.
- Travel: \$392,000 under budget
 - WECC staff attended fewer off-site meetings and increased meeting attendance via webinar where feasible.
 - WECC instituted company-wide cost-saving efforts to reduce expenses.
- Conference Calls: \$44,000 under budget
 - Conference call usage was less than expected.
- Consultants & Contracts: \$1.37 million under budget
 - Deliverables on a RAS modeling contract were delayed.
 - WECC used staff for some RTEP projects to minimize the cost of higher-priced consultants and maximize grant spending on other allowable costs.
 - Some smaller variances are related to classification issues between Operating Expenses and Fixed Assets.

- Professional Services: \$609,000 over budget
 - WECC incurred legal fees during 2014 related to unanticipated litigation.
 - Independent Board member compensation was restructured after the 2014 budget was approved.
- Indirect Expenses: \$132,000 under budget
 - The indirect allocation is driven by the headcount in the Western Regional Energy Information Generation System (WREGIS) Department where four of the five budgeted positions were filled in 2014.
- Miscellaneous Expense: \$2.0 million over budget
 - Recognition of civil penalty expense related to the Arizona-Southern California outages that occurred on September 8, 2011. (Note: \$1.0 million was recognized in 2013.)

Fixed Assets

- Computer and Software CapEx: \$190,000 over budget
 - Variance is related to classification issues between Operating Expenses and Fixed Assets.
- Equipment CapEx: \$88,000 under budget
 - Variance is related to classification issues between Operating Expenses and Fixed Assets.

Section A Statutory Programs

2014 Audited Statements of Activities and Variance Explanations

Reliability Standards Program

| Western Electricity Coordinating Council | | | | |
|---|-------------------|---------------------|------------------------------|----------------|
| 2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital | | | | |
| Reliability Standards | | | | |
| | 2014 Actual | 2014 Budget | 2014 Variance Over(Under) | % |
| Funding | | | | |
| WECC Funding | | | | |
| WECC Assessments | \$ 790,180 | \$ 790,180 | \$ - | 0.0% |
| Penalty Sanctions | 133,169 | 133,169 | - | 0.0% |
| Total ERO Funding | \$ 923,349 | \$ 923,349 | \$ - | 0.0% |
| Membership Fees | - | - | - | |
| Grant Funding | - | - | - | |
| Services & Software | - | - | - | |
| Workshops | - | - | - | |
| Interest | 2,984 | 3,133 | (149) | -4.8% |
| Miscellaneous | - | - | - | |
| Total Funding | \$ 926,333 | \$ 926,482 | \$ (149) | 0.0% |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 430,402 | 447,768 | (17,366) | -3.9% |
| Payroll Taxes | 29,986 | 30,138 | (152) | -0.5% |
| Employee Benefits | 29,960 | 48,499 | (18,539) | -38.2% |
| Savings & Retirement | 38,508 | 30,138 | 8,370 | 27.8% |
| Total Personnel Expenses | \$ 528,856 | \$ 556,544 | \$ (27,688) | -5.0% |
| Meeting Expenses | | | | |
| Meetings | - | 528 | (528) | -100.0% |
| Travel | 18,951 | 28,360 | (9,409) | -33.2% |
| Conference Calls | 2,441 | 4,188 | (1,747) | -41.7% |
| Total Meeting Expenses | \$ 21,392 | \$ 33,076 | \$ (11,684) | -35.3% |
| Operating Expenses | | | | |
| Consultants & Contracts | - | - | - | |
| Office Rent | - | - | - | |
| Office Costs | 5,895 | 8,120 | (2,225) | -27.4% |
| Professional Services | - | - | - | |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| Total Operating Expenses | \$ 5,895 | \$ 8,120 | \$ (2,225) | -27.4% |
| Total Direct Expenses | \$ 556,143 | \$ 597,740 | \$ (41,597) | -7.0% |
| Indirect Expenses | 345,562 | 432,890 | (87,328) | -20.2% |
| Other Non-Operating Expenses | \$ - | \$ - | \$ - | |
| Total Expenses | 901,705 | 1,030,630 | (128,925) | -12.5% |
| Change in Assets | \$ 24,628 | \$ (104,148) | \$ 128,776 | -123.6% |
| Fixed Assets | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| Allocation of Fixed Assets | (5,464) | (7,628) | 2,164 | -28.4% |
| Incr(Dec) in Fixed Assets | \$ (5,464) | \$ (7,628) | \$ 2,164 | -28.4% |
| Total Budget | 896,241 | 1,023,002 | (126,761) | -12.4% |
| Change in Working Capital | \$ 30,092 | \$ (96,520) | \$ 126,612 | -131.2% |
| FTEs | 3.0 | 4.0 | (1.0) | |
| Headcount | 3.0 | 4.0 | (1.0) | |

Significant Variance Explanations – Reliability Standards Program**Personnel Expenses**

- Personnel Expenses are \$28,000 under budget due to an unfilled position.

Meeting Expenses

- Not applicable.

Operating Expenses

- Not applicable.

Indirect Expenses

- Indirect Expenses are under budget by \$87,000 due to the unfilled position in Standards and the unfilled position in WREGIS. WECC's indirect allocation is based on actual FTEs in each Program Area.

Fixed Assets

- Not applicable.

Compliance Monitoring and Enforcement and Organization Registration and Certification Program

| Western Electricity Coordinating Council | | | | |
|---|----------------------|-----------------------|------------------------------|---------------|
| 2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital | | | | |
| Compliance Monitoring and Enforcement and Organization Registration and Certification | | | | |
| | 2014 Actual | 2014 Budget | 2014 Variance Over(Under) | % |
| Funding | | | | |
| WECC Funding | | | | |
| WECC Assessments | \$ 10,955,928 | \$ 10,955,928 | \$ - | 0.0% |
| Penalty Sanctions | 1,930,952 | 1,930,952 | - | 0.0% |
| Total ERO Funding | \$ 12,886,880 | \$ 12,886,880 | \$ - | 0.0% |
| Membership Fees | - | - | - | |
| Grant Funding | - | - | - | |
| Services & Software | - | - | - | |
| Workshops | 563,879 | 438,125 | 125,754 | 28.7% |
| Interest | 48,534 | 45,426 | 3,108 | 6.8% |
| Miscellaneous | - | - | - | |
| Total Funding | \$ 13,499,293 | \$ 13,370,431 | \$ 128,862 | 1.0% |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 4,972,400 | 4,769,767 | 202,633 | 4.2% |
| Payroll Taxes | 375,142 | 322,315 | 52,827 | 16.4% |
| Employee Benefits | 631,996 | 795,563 | (163,567) | -20.6% |
| Savings & Retirement | 424,499 | 322,315 | 102,184 | 31.7% |
| Total Personnel Expenses | \$ 6,404,037 | \$ 6,209,960 | \$ 194,077 | 3.1% |
| Meeting Expenses | | | | |
| Meetings | 471,531 | 462,503 | 9,028 | 2.0% |
| Travel | 645,021 | 966,340 | (321,319) | -33.3% |
| Conference Calls | 19,915 | 41,780 | (21,865) | -52.3% |
| Total Meeting Expenses | \$ 1,136,467 | \$ 1,470,623 | \$ (334,156) | -22.7% |
| Operating Expenses | | | | |
| Consultants & Contracts | 595,631 | 424,800 | 170,831 | 40.2% |
| Office Rent | 1,407 | - | 1,407 | |
| Office Costs | 360,102 | 450,670 | (90,568) | -20.1% |
| Professional Services | 5,245 | - | 5,245 | |
| Miscellaneous | - | - | - | |
| Depreciation | 25,186 | 36,000 | (10,814) | -30.0% |
| Total Operating Expenses | \$ 987,571 | \$ 911,470 | \$ 76,101 | 8.3% |
| Total Direct Expenses | \$ 8,528,075 | \$ 8,592,053 | \$ (63,978) | -0.7% |
| Indirect Expenses | 5,620,295 | 6,276,897 | (656,602) | -10.5% |
| Other Non-Operating Expenses | \$ 3,319 | \$ - | \$ 3,319 | |
| Total Expenses | 14,151,689 | 14,868,950 | (717,261) | -4.8% |
| Change in Assets | \$ (652,396) | \$ (1,498,519) | \$ 846,123 | -56.5% |
| Fixed Assets | | | | |
| Depreciation | (25,186) | (36,000) | 10,814 | -30.0% |
| Computer & Software CapEx | - | 10,000 | (10,000) | -100.0% |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | 31,000 | (31,000) | -100.0% |
| Leasehold Improvements | - | - | - | |
| Allocation of Fixed Assets | (88,862) | (110,602) | 21,740 | -19.7% |
| Incr(Dec) in Fixed Assets | \$ (114,048) | \$ (105,602) | \$ (8,446) | 8.0% |
| Total Budget | 14,037,641 | 14,763,348 | (725,707) | -4.9% |
| Change in Working Capital | \$ (538,348) | \$ (1,392,917) | \$ 854,569 | -61.4% |
| FTEs | 48.6 | 58.0 | (9.4) | |
| Headcount | 51.0 | 58.0 | (7.0) | |

Significant Variance Explanations – Compliance Monitoring and Enforcement**Funding**

- Workshop revenue is over budget by \$126,000 due to higher-than-anticipated registration for WECC workshops.

Personnel Expenses

- Salaries are over budget by \$203,000 due to WECC's budgeted labor float rate assumptions compared with actual vacancy rates and incentives that were budgeted in General and Administrative.
- Payroll Taxes are \$53,000 over budget due to WECC's budgeted labor float rate assumptions compared with actual vacancy rates.
- Employee Benefits are \$164,000 under budget due to lower-than-anticipated plan enrollment among existing employees and under-utilization of training.
- Savings and Retirement are \$102,000 over budget due to an unanticipated increase in the defined-contribution percentage and WECC's labor float assumptions.

Meeting Expenses

- Travel Expenses are \$321,000 under budget due to travel reductions as a result of risk-based compliance monitoring, department-wide cost-saving efforts, and budget-classification issues related to consultant travel expenditures.
- Conference Calls are \$22,000 under budget due less-than-anticipated usage.

Operating Expenses

- Consultants and Contracts are \$171,000 over budget due to the budget for the compliance WebCDMS tool originally being classified in General and Administrative. Since WebCDMS is exclusively used by Compliance, the costs were expended in Compliance.
- Office Costs are \$91,000 under budget primarily due to lower-than-anticipated computer license, maintenance, and equipment expenditures.

Indirect Expenses

- Indirect Expenses are under budget by \$657,000 due to the unfilled position in Standards. WECC's indirect allocation is based on actual FTEs in each Program Area.

Fixed Assets

- Computer and Software CapEx are under budget by \$10,000 due to budgeted software modules for WECC's existing systems that were not purchased in 2014.
- Equipment CapEx are under budget by \$31,000 due to budgeted multimedia equipment for remote training that was not purchased in 2014.

Reliability Assessment and Performance Analysis Program

| Western Electricity Coordinating Council | | | | |
|---|-----------------------|---------------------|------------------------------|----------------|
| 2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital | | | | |
| Reliability Assessment and Performance Analysis | | | | |
| | 2014 Actual | 2014 Budget | 2014 Variance Over(Under) | % |
| Funding | | | | |
| WECC Funding | | | | |
| WECC Assessments | \$ 3,767,309 | \$ 3,767,309 | \$ - | 0.0% |
| Penalty Sanctions | 785,698 | 785,698 | - | 0.0% |
| Total ERO Funding | \$ 4,553,007 | \$ 4,553,007 | \$ - | 0.0% |
| Membership Fees | - | - | - | |
| Grant Funding | 3,638,249 | 3,628,308 | 9,941 | 0.3% |
| Services & Software | - | - | - | |
| Workshops | - | - | - | |
| Interest | 25,859 | 18,484 | 7,375 | 39.9% |
| Miscellaneous | - | - | - | |
| Total Funding | \$ 8,217,115 | \$ 8,199,799 | \$ 17,316 | 0.2% |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 2,943,923 | 2,014,830 | 929,093 | 46.1% |
| Payroll Taxes | 213,472 | 134,116 | 79,356 | 59.2% |
| Employee Benefits | 312,572 | 296,187 | 16,385 | 5.5% |
| Savings & Retirement | 283,761 | 134,116 | 149,645 | 111.6% |
| Total Personnel Expenses | \$ 3,753,728 | \$ 2,579,250 | \$ 1,174,478 | 45.5% |
| Meeting Expenses | | | | |
| Meetings | 72,517 | 65,065 | 7,452 | 11.5% |
| Travel | 158,447 | 148,800 | 9,647 | 6.5% |
| Conference Calls | 28,106 | 30,750 | (2,644) | -8.6% |
| Total Meeting Expenses | \$ 259,070 | \$ 244,615 | \$ 14,455 | 5.9% |
| Operating Expenses | | | | |
| Consultants & Contracts | 2,107,336 | 3,368,000 | (1,260,664) | -37.4% |
| Office Rent | 540 | - | 540 | |
| Office Costs | 282,621 | 113,650 | 168,971 | 148.7% |
| Professional Services | 3,249 | - | 3,249 | |
| Miscellaneous | - | - | - | |
| Depreciation | 318,058 | 211,000 | 107,058 | 50.7% |
| Total Operating Expenses | \$ 2,711,804 | \$ 3,692,650 | \$ (980,846) | -26.6% |
| Total Direct Expenses | \$ 6,724,602 | \$ 6,516,515 | \$ 208,087 | 3.2% |
| Indirect Expenses | 2,994,486 | 2,554,048 | 440,438 | 17.2% |
| Other Non-Operating Expenses | \$ - | \$ - | \$ - | |
| Total Expenses | 9,719,088 | 9,070,563 | 648,525 | 7.1% |
| Change in Assets | \$ (1,501,973) | \$ (870,764) | \$ (631,209) | 72.5% |
| Fixed Assets | | | | |
| Depreciation | (318,058) | (211,000) | (107,058) | 50.7% |
| Computer & Software CapEx | 398,193 | 239,487 | 158,706 | 66.3% |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| Allocation of Fixed Assets | (47,345) | (45,003) | (2,342) | 5.2% |
| Incr(Dec) in Fixed Assets | \$ 32,790 | \$ (16,516) | \$ 49,306 | -298.5% |
| Total Budget | 9,751,878 | 9,054,047 | 697,832 | 7.7% |
| Change in Working Capital | \$ (1,534,763) | \$ (854,248) | \$ (680,515) | 79.7% |
| FTEs | 25.9 | 23.6 | 2.3 | |
| Headcount | 28.0 | 23.0 | 5.0 | |

Significant Variance Explanations – Reliability Assessment and Performance Analysis

Personnel Expenses

- Salaries are \$929,000 over budget due to a net increase of 4.4 FTEs (7 positions), budgeted labor float rate assumptions compared with actual vacancy rates, and incentives that were budgeted in General and Administrative. Additionally, nine positions were transferred to RAPA from Technical Committees and Member Forums, RAPA transferred one position to General and Administrative, General and Administrative transferred one executive position to RAPA to more closely align staff with work performed, and one position to Situation Awareness and Infrastructure Security. Positions were moved in 2014 to more appropriately align staff with work performed.
- Payroll Taxes are \$79,000 over budget due to the net increase in FTEs and WECC's labor float assumptions.
- Savings and Retirement are \$150,000 over budget due to an unbudgeted increase in the defined-contribution percentage, the net increase in FTEs and WECC's labor float assumptions.

Meeting Expenses

- Not applicable.

Operating Expenses

- Consultants and Contracts are \$1.26 million under budget due to several factors:
 - RAS modeling contracts were under budget by \$350,000 due to delays in vendor deliverables;
 - \$169,000 was budgeted for data modeling software maintenance fees but was actually expensed as office costs;
 - RTEP consultants were under budget by \$1.07 million due to usage of staff on some RTEP projects to minimize the cost of higher-priced consultants in order to maximize grant spending on other allowable costs and classification issues between consulting and license fees and fixed assets;
 - Consulting dollars budgeted in Technical Committees and Forums were expensed in RAPA. The budget was \$212,000 and actual expenditures on this project were \$74,000; and
 - Office Costs are \$169,000 over budget primarily due to data modeling software maintenance fees that were originally budgeted in Consultants and Contracts but expensed as Office Costs.

Indirect Expenses

- Indirect Expenses are over budget by \$440,000 due to the increase in FTEs in RAPA. WECC's indirect allocation is based on actual FTEs in each Program Area.

Fixed Assets

- Computer and Software CapEx are over budget by \$159,000 primarily due to budget classification issues between consulting and fixed assets for the RTEP grant.

Training, Education, and Operator Certification Program

| Western Electricity Coordinating Council | | | | |
|---|-------------------|--------------------|------------------------------|---------------|
| 2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital | | | | |
| Training and Education | | | | |
| | 2014 Actual | 2014 Budget | 2014 Variance Over(Under) | % |
| Funding | | | | |
| WECC Funding | | | | |
| WECC Assessments | \$ 36,290 | \$ 36,290 | \$ - | 0.0% |
| Penalty Sanctions | 66,585 | 66,585 | - | 0.0% |
| Total ERO Funding | \$ 102,875 | \$ 102,875 | \$ - | 0.0% |
| Membership Fees | - | - | - | |
| Grant Funding | - | - | - | |
| Services & Software | - | - | - | |
| Workshops | 386,380 | 519,804 | (133,424) | -25.7% |
| Interest | 848 | 1,566 | (718) | -45.8% |
| Miscellaneous | - | - | - | |
| Total Funding | \$ 490,103 | \$ 624,245 | \$ (134,142) | -21.5% |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 83,916 | 146,942 | (63,026) | -42.9% |
| Payroll Taxes | 6,956 | 10,136 | (3,180) | -31.4% |
| Employee Benefits | 2,433 | 22,654 | (20,221) | -89.3% |
| Savings & Retirement | 8,358 | 10,136 | (1,778) | -17.5% |
| Total Personnel Expenses | \$ 101,663 | \$ 189,868 | \$ (88,205) | -46.5% |
| Meeting Expenses | | | | |
| Meetings | 49,477 | 56,040 | (6,563) | -11.7% |
| Travel | 5,597 | 7,836 | (2,239) | -28.6% |
| Conference Calls | 319 | 804 | (485) | -60.3% |
| Total Meeting Expenses | \$ 55,393 | \$ 64,680 | \$ (9,287) | -14.4% |
| Operating Expenses | | | | |
| Consultants & Contracts | 104,931 | 106,502 | (1,571) | -1.5% |
| Office Rent | 45,427 | 47,472 | (2,045) | -4.3% |
| Office Costs | 84,727 | 87,740 | (3,013) | -3.4% |
| Professional Services | - | - | - | |
| Miscellaneous | - | - | - | |
| Depreciation | - | - | - | |
| Total Operating Expenses | \$ 235,085 | \$ 241,714 | \$ (6,629) | -2.7% |
| Total Direct Expenses | \$ 392,141 | \$ 496,262 | \$ (104,121) | -21.0% |
| Indirect Expenses | 98,237 | 196,829 | (98,592) | -50.1% |
| Other Non-Operating Expenses | \$ 3,650 | \$ - | \$ 3,650 | |
| Total Expenses | 494,028 | 693,091 | (199,064) | -28.7% |
| Change in Assets | \$ (3,924) | \$ (68,846) | \$ 64,922 | -94.3% |
| Fixed Assets | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| Allocation of Fixed Assets | (1,553) | (3,814) | 2,261 | -59.3% |
| Incr(Dec) in Fixed Assets | \$ (1,553) | \$ (3,814) | \$ 2,261 | -59.3% |
| Total Budget (Expenses plus Inc(Dec) in Fixed Assets) | 492,475 | 689,277 | (196,803) | -28.6% |
| Change in Working Capital (Total Funding less Total Budget) | \$ (2,371) | \$ (65,032) | \$ 62,661 | -96.4% |
| FTEs | 0.9 | 2.0 | (1.2) | |
| Headcount | 1.0 | 2.0 | (1.0) | |

Significant Variance Explanations – Training and Education**Funding**

- Workshop Revenue is under budget by \$133,000 due to lower-than-anticipated enrollment in WECC training classes.

Personnel Expenses

- Salaries are under budget by \$63,000 due to 1.0 vacant position.
- Employee Benefits are \$20,000 under budget due to 1.0 vacant position.

Meeting Expenses

- Not applicable.

Operating Expenses

- Not applicable.

Indirect Expenses

- Indirect Expenses are under budget by \$99,000 due to 1.0 vacant position. WECC's indirect allocation is based on actual FTEs in each Program Area.

Fixed Assets

- Not applicable.

Situation Awareness and Infrastructure Security Program

| Western Electricity Coordinating Council | | | | |
|---|---------------------|--------------------|------------------------------|----------------|
| 2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital | | | | |
| Situation Awareness and Infrastructure Security | | | | |
| | 2014 Actual | 2014 Budget | 2014 Variance Over(Under) | % |
| Funding | | | | |
| WECC Funding | | | | |
| WECC Assessments | \$ 81,145 | \$ 81,145 | \$ - | 0.0% |
| Penalty Sanctions | 2,016,646 | 16,646 | 2,000,000 | 12014.9% |
| Total ERO Funding | \$ 2,097,791 | \$ 97,791 | \$ 2,000,000 | 2045.2% |
| Membership Fees | - | - | - | |
| Grant Funding | - | - | - | |
| Services & Software | - | - | - | |
| Workshops | - | - | - | |
| Interest | 878 | 391 | 487 | 124.6% |
| Miscellaneous | - | - | - | |
| Total Funding | \$ 2,098,669 | \$ 98,182 | \$ 2,000,487 | 2037.5% |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 130,656 | 47,976 | 82,680 | 172.3% |
| Payroll Taxes | 9,568 | 3,228 | 6,340 | 196.4% |
| Employee Benefits | 12,686 | 5,724 | 6,962 | 121.6% |
| Savings & Retirement | 12,980 | 3,228 | 9,752 | 302.1% |
| Total Personnel Expenses | \$ 165,890 | \$ 60,156 | \$ 105,734 | 175.8% |
| Meeting Expenses | | | | |
| Meetings | - | - | - | |
| Travel | - | - | - | |
| Conference Calls | - | - | - | |
| Total Meeting Expenses | \$ - | \$ - | \$ - | |
| Operating Expenses | | | | |
| Consultants & Contracts | - | - | - | |
| Office Rent | - | - | - | |
| Office Costs | - | - | - | |
| Professional Services | - | - | - | |
| Miscellaneous | 2,000,000 | - | 2,000,000 | |
| Depreciation | - | - | - | |
| Total Operating Expenses | \$ 2,000,000 | \$ - | \$ 2,000,000 | |
| Total Direct Expenses | \$ 2,165,890 | \$ 60,156 | \$ 2,105,734 | 3500.5% |
| Indirect Expenses | 91,587 | 49,207 | 42,380 | 86.1% |
| Other Non-Operating Expenses | \$ - | \$ - | \$ - | |
| Total Expenses | 2,257,477 | 109,363 | 2,148,114 | 1964.2% |
| Change in Assets | \$ (158,807) | \$ (11,181) | \$ (147,626) | 1320.3% |
| Fixed Assets | | | | |
| Depreciation | - | - | - | |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| Allocation of Fixed Assets | (1,608) | (953) | (655) | 68.7% |
| Incr(Dec) in Fixed Assets | \$ (1,608) | \$ (953) | \$ (655) | 68.7% |
| Total Budget | 2,255,869 | 108,410 | 2,147,459 | 1980.9% |
| Change in Working Capital | \$ (157,199) | \$ (10,228) | \$ (146,971) | 1437.0% |
| FTEs | 0.9 | 0.5 | 0.4 | |
| Headcount | 1.0 | - | 1.0 | |

Significant Variance Explanations – Situation Awareness and Infrastructure Security**Funding**

- Penalty sanctions revenue is over budget by \$2.0 million. As a result of the FERC Order pertaining to the September 8, 2011 Arizona – Southern California outages, WECC recognized penalty sanctions revenue early to offset the civil penalty expense. See Miscellaneous Expense. (Note: \$1.0 million was recognized in 2013.)

Personnel Expenses

- Personnel Expenses are over budget by \$106,000 due to the incremental 0.6 FTE allocation, which more accurately reflects actual time spent on Situation Awareness and Infrastructure Security activities.

Meeting Expenses

- Not applicable.

Operating Expenses

- Not applicable.

Indirect Expenses

- Indirect Expenses are over budget by \$42,000 due to the increase in actual FTEs. WECC's indirect allocation is based on actual FTEs in each Program Area.

Miscellaneous Expense

- Recognition of \$2.0 million civil penalty expense related to the Arizona-Southern California outages that occurred on September 8, 2011. (Note: \$1.0 million was recognized in 2013.)

Fixed Assets

- Not applicable.

Technical Committees and Member Forums

| Western Electricity Coordinating Council | | | | |
|---|---------------------|---------------------|------------------------------|---------------|
| 2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital | | | | |
| Technical Committees and Member Forums | | | | |
| | 2014 Actual | 2014 Budget | 2014 Variance Over(Under) | % |
| Funding | | | | |
| WECC Funding | | | | |
| WECC Assessments | \$ - | \$ - | \$ - | - |
| Penalty Sanctions | - | - | - | - |
| Total ERO Funding | \$ - | \$ - | \$ - | - |
| Membership Fees | - | - | - | - |
| Grant Funding | - | - | - | - |
| Services & Software | - | - | - | - |
| Workshops | - | - | - | - |
| Interest | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Total Funding | \$ - | \$ - | \$ - | - |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 70,917 | 874,612 | (803,695) | -91.9% |
| Payroll Taxes | 6,573 | 59,075 | (52,502) | -88.9% |
| Employee Benefits | 16,326 | 115,178 | (98,852) | -85.8% |
| Savings & Retirement | 6,698 | 59,075 | (52,377) | -88.7% |
| Total Personnel Expenses | \$ 100,514 | \$ 1,107,940 | \$ (1,007,426) | -90.9% |
| Meeting Expenses | | | | |
| Meetings | 76,619 | 278,090 | (201,471) | -72.4% |
| Travel | 82,762 | 128,720 | (45,958) | -35.7% |
| Conference Calls | 558 | 18,800 | (18,242) | -97.0% |
| Total Meeting Expenses | \$ 159,939 | \$ 425,610 | \$ (265,671) | -62.4% |
| Operating Expenses | | | | |
| Consultants & Contracts | - | 212,000 | (212,000) | -100.0% |
| Office Rent | - | - | - | - |
| Office Costs | 7,728 | 35,203 | (27,475) | -78.0% |
| Professional Services | 825,863 | 465,756 | 360,107 | 77.3% |
| Miscellaneous | - | - | - | - |
| Depreciation | - | - | - | - |
| Total Operating Expenses | \$ 833,591 | \$ 712,959 | \$ 120,632 | 16.9% |
| Total Direct Expenses | \$ 1,094,044 | \$ 2,246,509 | \$ (1,152,465) | -51.3% |
| Indirect Expenses | (1,094,044) | (2,246,509) | 1,152,465 | -51.3% |
| Other Non-Operating Expenses | \$ - | \$ - | \$ - | - |
| Total Expenses | \$ - | \$ - | \$ - | - |
| Change in Assets | \$ - | \$ - | \$ - | - |
| Fixed Assets | | | | |
| Depreciation | - | - | - | - |
| Computer & Software CapEx | - | - | - | - |
| Furniture & Fixtures CapEx | - | - | - | - |
| Equipment CapEx | - | - | - | - |
| Leasehold Improvements | - | - | - | - |
| Allocation of Fixed Assets | - | - | - | - |
| Incr(Dec) in Fixed Assets | \$ - | \$ - | \$ - | - |
| Total Budget | - | - | - | - |
| Change in Working Capital | \$ - | \$ - | \$ - | - |
| FTEs | 0.7 | 9.0 | (8.3) | |
| Headcount | - | 9.0 | (9.0) | |

Significant Variance Explanations – Technical Committee and Member Forums**Personnel Expenses**

- Salaries are under budget by \$804,000 due to a shift of 9.0 positions from Technical Committees and Member Forums to RAPA to more appropriately align staffing with work performed.
- Payroll Taxes are under budget by \$53,000 due to the shift of employees.
- Employee Benefits are under budget by \$99,000 due to the shift of employees.
- Savings and Retirement are under budget by \$52,000 due to the shift of employees.

Meeting Expenses

- Meetings are under budget by \$201,500 due to an overall saving of \$135,000 for Board meetings being held onsite and \$66,300 for meetings budgeted for Technical Committees and Member Forums that has transitioned to RAPA.
- Travel is under budget by \$46,000 due to \$71,600 of travel budgeted for Technical Committees and Member Forums that has transitioned to RAPA as well as an overage of \$25,600 of higher-than-anticipated travel for the Board of Directors.
- Conference Calls are \$18,000 under budget due to lower-than-anticipated usage of \$6,200 for the Board of Directors and \$12,000 budgeted for Technical Committees and Member Forums transitioned to RAPA.

Operating Expenses

- Contracts and Consultant are \$212,000 under budget due to a contract for data validation and voltage stability shifting from Technical Committees and Member Forums to RAPA. The actual contractual cost of \$74,000 was expensed in RAPA.
- Office Costs are \$27,000 under budget due to the transfer of Technical Committees and Member Forums' FTEs to RAPA.
- Professional Services are \$360,000 over budget due to an increase in the number of compensable Board Meetings and restructured Board member compensation.

Indirect Expenses

- Indirect Expenses are under budget by \$1.15 million due to the shift of FTEs to RAPA. WECC's indirect allocation is based on actual FTEs in each Program Area.

Fixed Assets

- Not applicable.

General and Administrative

| Western Electricity Coordinating Council | | | | |
|---|---------------------|---------------------|------------------------------|--------------|
| 2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital | | | | |
| General and Administrative | | | | |
| | 2014 Actual | 2014 Budget | 2014 Variance Over(Under) | % |
| Funding | | | | |
| WECC Funding | | | | |
| WECC Assessments | \$ - | \$ - | \$ - | - |
| Penalty Sanctions | - | - | - | - |
| Total ERO Funding | \$ - | \$ - | \$ - | - |
| Membership Fees | - | - | - | - |
| Grant Funding | - | - | - | - |
| Services & Software | - | - | - | - |
| Workshops | - | - | - | - |
| Interest | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Total Funding | \$ - | \$ - | \$ - | - |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 1,959,848 | 1,801,127 | 158,721 | 8.8% |
| Payroll Taxes | 101,176 | 92,319 | 8,857 | 9.6% |
| Employee Benefits | 181,942 | 188,224 | (6,282) | -3.3% |
| Savings & Retirement | 130,917 | 92,319 | 38,598 | 41.8% |
| Total Personnel Expenses | \$ 2,373,883 | \$ 2,173,989 | \$ 199,894 | 9.2% |
| Meeting Expenses | | | | |
| Meetings | 9,166 | 11,250 | (2,084) | -18.5% |
| Travel | 148,305 | 121,750 | 26,555 | 21.8% |
| Conference Calls | 9,636 | 8,100 | 1,536 | 19.0% |
| Total Meeting Expenses | \$ 167,107 | \$ 141,100 | \$ 26,007 | 18.4% |
| Operating Expenses | | | | |
| Consultants & Contracts | 134,550 | 90,000 | 44,550 | 49.5% |
| Office Rent | 900,861 | 888,600 | 12,261 | 1.4% |
| Office Costs | 119,735 | 196,881 | (77,146) | -39.2% |
| Professional Services | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Depreciation | 202,995 | 205,000 | (2,005) | -1.0% |
| Total Operating Expenses | \$ 1,358,141 | \$ 1,380,481 | \$ (22,340) | -1.6% |
| Total Direct Expenses | \$ 3,899,131 | \$ 3,695,570 | \$ 203,561 | 5.5% |
| Indirect Expenses | (3,899,131) | (3,695,570) | (203,561) | 5.5% |
| Other Non-Operating Expenses | \$ - | \$ - | \$ - | - |
| Total Expenses | - | - | - | - |
| Change in Assets | \$ - | \$ - | \$ - | - |
| Fixed Assets | | | | |
| Depreciation | (202,995) | (205,000) | 2,005 | -1.0% |
| Computer & Software CapEx | - | - | - | - |
| Furniture & Fixtures CapEx | - | - | - | - |
| Equipment CapEx | - | - | - | - |
| Leasehold Improvements | 7,647 | - | 7,647 | - |
| Allocation of Fixed Assets | 195,348 | 205,000 | (9,652) | -4.7% |
| Incr(Dec) in Fixed Assets | \$ - | \$ - | \$ - | - |
| Total Budget | - | - | - | - |
| Change in Working Capital | \$ - | \$ - | \$ - | - |
| FTEs | 17.5 | 15.2 | 2.3 | - |
| Headcount | 17.0 | 16.0 | 1.0 | - |

Significant Variance Explanations – General and Administrative**Personnel Expenses**

- Salaries are over by a net of \$159,000 due to a net increase of 2.3 FTEs, labor float assumptions compared to actual vacancy rates, unbudgeted recruiting fees, and an underrun in incentives that were expensed in other departments.
- Savings and Retirement are \$39,000 over budget due to an unanticipated increase in the defined-contribution percentage, the increase in FTEs and WECC's labor float assumptions.

Meeting Expenses

- Travel is over budget by \$27,000 primarily due to an increased engagement and outreach to stakeholders by WECC's new Chief Executive Officer.

Operating Expenses

- Consultants and Contracts are \$45,000 over budget primarily due to unbudgeted costs related to the Regional Executive Management Group.
- Office costs are \$77,000 under budget primarily due to a consolidation of equipment rentals and decreased office supply usage post-bifurcation.

Indirect Expenses

- Indirect Expenses are over budget by \$204,000 due to the increase in actual FTEs. WECC's indirect allocation is based on actual FTEs in each Program Area.

Fixed Assets

- Not applicable.

Legal

| 2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital | | | | |
|---|---------------------|---------------------|------------------------------|---------------|
| Legal | | | | |
| | 2014 Actual | 2014 Budget | 2014 Variance Over(Under) | % |
| Funding | | | | |
| WECC Funding | | | | |
| WECC Assessments | \$ - | \$ - | \$ - | - |
| Penalty Sanctions | - | - | - | - |
| Total ERO Funding | \$ - | \$ - | \$ - | - |
| Membership Fees | - | - | - | - |
| Grant Funding | - | - | - | - |
| Services & Software | - | - | - | - |
| Workshops | - | - | - | - |
| Interest | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Total Funding | \$ - | \$ - | \$ - | - |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 967,809 | 657,788 | 310,021 | 47.1% |
| Payroll Taxes | 56,480 | 44,388 | 12,092 | 27.2% |
| Employee Benefits | 86,877 | 77,152 | 9,725 | 12.6% |
| Savings & Retirement | 72,640 | 44,388 | 28,252 | 63.6% |
| Total Personnel Expenses | \$ 1,183,806 | \$ 823,716 | \$ 360,090 | 43.7% |
| Meeting Expenses | | | | |
| Meetings | - | - | - | - |
| Travel | 16,355 | 48,000 | (31,645) | -65.9% |
| Conference Calls | 2,087 | 1,200 | 887 | 73.9% |
| Total Meeting Expenses | \$ 18,442 | \$ 49,200 | \$ (30,758) | -62.5% |
| Operating Expenses | | | | |
| Consultants & Contracts | 675 | - | 675 | - |
| Office Rent | - | - | - | - |
| Office Costs | 28,102 | 28,690 | (588) | -2.0% |
| Professional Services | 424,238 | 190,000 | 234,238 | 123.3% |
| Miscellaneous | - | - | - | - |
| Depreciation | 8,489 | 8,000 | 489 | 6.1% |
| Total Operating Expenses | \$ 461,504 | \$ 226,690 | \$ 234,814 | 103.6% |
| Total Direct Expenses | \$ 1,663,752 | \$ 1,099,606 | \$ 564,146 | 51.3% |
| Indirect Expenses | (1,663,752) | (1,099,606) | (564,146) | 51.3% |
| Other Non-Operating Expenses | \$ 3,090 | \$ - | \$ 3,090 | |
| Total Expenses | 3,090 | - | 3,090 | |
| Change in Assets | \$ (3,090) | \$ - | \$ (3,090) | |
| Fixed Assets | | | | |
| Depreciation | (8,489) | (8,000) | (489) | 6.1% |
| Computer & Software CapEx | - | - | - | - |
| Furniture & Fixtures CapEx | - | - | - | - |
| Equipment CapEx | - | - | - | - |
| Leasehold Improvements | - | - | - | - |
| Allocation of Fixed Assets | 8,489 | 8,000 | 489 | 6.1% |
| Incr(Dec) in Fixed Assets | \$ - | \$ - | \$ - | |
| Total Budget | 3,090 | - | 3,090 | |
| Change in Working Capital | \$ (3,090) | \$ - | \$ (3,090) | |
| FTEs | 6.0 | 6.0 | - | |
| Headcount | 6.0 | 6.0 | - | |

Significant Variance Explanations – Legal**Personnel Expenses**

- Salaries are over budget by \$310,000 due to WECC's budgeted labor float rate assumptions compared with actual vacancy rates and incentives that were budgeted in Human Resources and General and Administrative.
- Payroll Taxes are \$12,000 over budget due to WECC's labor float assumptions and other increases in Salaries.
- Employee Benefits are \$10,000 under budget due to lower-than-anticipated plan enrollment among existing employees and under-utilization of training.
- Savings and Retirement are \$28,000 over budget due to an unanticipated increase in the defined-contribution percentage, WECC's labor float assumptions, and other increases in Salaries.

Meeting Expenses

- Travel is \$32,000 under budget due to cost-saving efforts and lower-than-anticipated travel requirements.

Operating Expenses

- Professional Services are \$234,000 over budget due to an increase in legal fees related to unanticipated litigation.

Indirect Expenses

- Indirect Expenses are over budget by \$564,000 due to the increase in actual expenditures.

Fixed Assets

- Not applicable.

Information Technology

| Western Electricity Coordinating Council | | | | |
|---|---------------------|---------------------|------------------------------|---------------|
| 2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital | | | | |
| Information Technology | | | | |
| | 2014 Actual | 2014 Budget | 2014 Variance Over(Under) | % |
| Funding | | | | |
| WECC Funding | | | | |
| WECC Assessments | \$ - | \$ - | \$ - | - |
| Penalty Sanctions | - | - | - | - |
| Total ERO Funding | \$ - | \$ - | \$ - | - |
| Membership Fees | - | - | - | - |
| Grant Funding | - | - | - | - |
| Services & Software | - | - | - | - |
| Workshops | - | - | - | - |
| Interest | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Total Funding | \$ - | \$ - | \$ - | - |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 633,746 | 670,107 | (36,361) | -5.4% |
| Payroll Taxes | 48,920 | 45,103 | 3,817 | 8.5% |
| Employee Benefits | 97,999 | 101,928 | (3,929) | -3.9% |
| Savings & Retirement | 54,278 | 45,103 | 9,175 | 20.3% |
| Total Personnel Expenses | \$ 834,943 | \$ 862,241 | \$ (27,298) | -3.2% |
| Meeting Expenses | | | | |
| Meetings | - | - | - | - |
| Travel | 2,995 | 13,200 | (10,205) | -77.3% |
| Conference Calls | 6,223 | 7,200 | (977) | -13.6% |
| Total Meeting Expenses | \$ 9,218 | \$ 20,400 | \$ (11,182) | -54.8% |
| Operating Expenses | | | | |
| Consultants & Contracts | 42,639 | 36,000 | 6,639 | 18.4% |
| Office Rent | 260 | - | 260 | |
| Office Costs | 354,317 | 340,800 | 13,517 | 4.0% |
| Professional Services | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Depreciation | 83,838 | 106,000 | (22,162) | -20.9% |
| Total Operating Expenses | \$ 481,054 | \$ 482,800 | \$ (1,746) | -0.4% |
| Total Direct Expenses | \$ 1,325,215 | \$ 1,365,441 | \$ (40,226) | -2.9% |
| Indirect Expenses | (1,325,215) | (1,365,441) | 40,226 | -2.9% |
| Other Non-Operating Expenses | \$ - | \$ - | \$ - | - |
| Total Expenses | - | - | - | - |
| Change in Assets | \$ - | \$ - | \$ - | - |
| Fixed Assets | | | | |
| Depreciation | (83,838) | (106,000) | 22,162 | -20.9% |
| Computer & Software CapEx | 101,702 | 60,000 | 41,702 | 69.5% |
| Furniture & Fixtures CapEx | - | - | - | - |
| Equipment CapEx | 48,359 | 105,000 | (56,641) | -53.9% |
| Leasehold Improvements | - | - | - | - |
| Allocation of Fixed Assets | (66,223) | (59,000) | (7,223) | 12.2% |
| Incr(Dec) in Fixed Assets | \$ - | \$ - | \$ 0 | 0 |
| Total Budget | - | - | 0 | 0 |
| Change in Working Capital | \$ - | \$ - | \$ (0) | (0) |
| FTEs | 7.2 | 9.0 | (1.8) | (1.8) |
| Headcount | 8.0 | 9.0 | (1.0) | (1.0) |

Significant Variance Explanations – Information Technology**Personnel Expenses**

- Not applicable.

Meeting Expenses

- Travel is \$10,000 under budget due to lower-than-anticipated travel requirements as well as cost-saving efforts.

Operating Expenses

- Not applicable.

Indirect Expenses

- Not applicable.

Fixed Assets

- Computer and Software CapEx are \$42,000 over budget due to higher-than-anticipated costs for WECC's new website.
- Equipment CapEx is \$57,000 under budget due to lower-than-anticipated equipment needs to support WECC's new website.

Human Resources

| Western Electricity Coordinating Council | | | | |
|---|-------------------|---------------------|------------------------------|---------------|
| 2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital | | | | |
| Human Resources | | | | |
| | 2014 Actual | 2014 Budget | 2014 Variance Over(Under) | % |
| Funding | | | | |
| WECC Funding | | | | |
| WECC Assessments | \$ - | \$ - | \$ - | - |
| Penalty Sanctions | - | - | - | - |
| Total ERO Funding | \$ - | \$ - | \$ - | - |
| Membership Fees | - | - | - | - |
| Grant Funding | - | - | - | - |
| Services & Software | - | - | - | - |
| Workshops | - | - | - | - |
| Interest | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Total Funding | \$ - | \$ - | \$ - | - |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 257,936 | 384,508 | (126,572) | -32.9% |
| Payroll Taxes | 20,600 | 14,190 | 6,410 | 45.2% |
| Employee Benefits | 431,923 | 414,876 | 17,047 | 4.1% |
| Savings & Retirement | 39,357 | 14,190 | 25,167 | 177.4% |
| Total Personnel Expenses | \$ 749,816 | \$ 827,764 | \$ (77,948) | -9.4% |
| Meeting Expenses | | | | |
| Meetings | 3 | - | 3 | |
| Travel | 10,429 | 10,200 | 229 | 2.2% |
| Conference Calls | 667 | 1,000 | (333) | -33.3% |
| Total Meeting Expenses | \$ 11,099 | \$ 11,200 | \$ (101) | -0.9% |
| Operating Expenses | | | | |
| Consultants & Contracts | 33,484 | 150,000 | (116,516) | -77.7% |
| Office Rent | - | - | - | - |
| Office Costs | 97,165 | 59,100 | 38,065 | 64.4% |
| Professional Services | 13,093 | 17,000 | (3,907) | -23.0% |
| Miscellaneous | - | - | - | - |
| Depreciation | 692 | 7,000 | (6,308) | -90.1% |
| Total Operating Expenses | \$ 144,434 | \$ 233,100 | \$ (88,666) | -38.0% |
| Total Direct Expenses | \$ 905,349 | \$ 1,072,064 | \$ (166,715) | -15.6% |
| Indirect Expenses | (905,349) | (1,072,064) | 166,715 | -15.6% |
| Other Non-Operating Expenses | \$ 852 | \$ - | \$ 852 | |
| Total Expenses | 852 | - | 852 | |
| Change in Assets | \$ (852) | \$ - | \$ (852) | |
| Fixed Assets | | | | |
| Depreciation | (692) | (7,000) | 6,308 | -90.1% |
| Computer & Software CapEx | - | - | - | - |
| Furniture & Fixtures CapEx | - | - | - | - |
| Equipment CapEx | - | - | - | - |
| Leasehold Improvements | - | - | - | - |
| Allocation of Fixed Assets | 692 | 7,000 | (6,308) | -90.1% |
| Incr(Dec) in Fixed Assets | \$ - | \$ - | \$ - | |
| Total Budget | 852 | - | 852 | |
| Change in Working Capital | \$ (852) | \$ - | \$ (852) | |
| FTEs | 2.9 | 3.0 | (0.1) | |
| Headcount | 3.0 | 3.0 | - | |

Significant Variance Explanations – Human Resources**Personnel Expenses**

- Salaries are under budget by \$127,000 due to incentives budgeted in Human Resources but expensed in other departments.
- Savings and Retirement are \$25,000 over budget due to an unanticipated increase in the defined-contribution percentage and WECC's labor float assumptions.

Meeting Expenses

- Not applicable.

Operating Expenses

- Consultants and Contracts are \$117,000 under budget due to lower-than-anticipated costs of compensation surveys and consulting fees.
- Office Costs are \$38,000 over budget due to an increase in recruiting costs as well as unbudgeted expenditures for compensation survey data.

Indirect Expenses

- Indirect Expenses are under budget by \$167,000 due to the decrease in actual expenditures in Human Resources.

Fixed Assets

- Not applicable.

Finance and Accounting

| Western Electricity Coordinating Council | | | | |
|---|-------------------|-------------------|------------------------------|---------------|
| 2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital | | | | |
| Finance and Accounting | | | | |
| | 2014 Actual | 2014 Budget | 2014 Variance Over(Under) | % |
| Funding | | | | |
| WECC Funding | | | | |
| WECC Assessments | \$ - | \$ - | \$ - | - |
| Penalty Sanctions | - | - | - | - |
| Total ERO Funding | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>-</u> |
| Membership Fees | - | - | - | - |
| Grant Funding | - | - | - | - |
| Services & Software | - | - | - | - |
| Workshops | - | - | - | - |
| Interest | - | - | - | - |
| Miscellaneous | - | - | - | - |
| Total Funding | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>-</u> |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 352,707 | 280,800 | 71,907 | 25.6% |
| Payroll Taxes | 23,325 | 18,992 | 4,333 | 22.8% |
| Employee Benefits | 38,916 | 63,758 | (24,842) | -39.0% |
| Savings & Retirement | 36,580 | 18,992 | 17,588 | 92.6% |
| Total Personnel Expenses | <u>\$ 451,528</u> | <u>\$ 382,542</u> | <u>\$ 68,986</u> | <u>18.0%</u> |
| Meeting Expenses | | | | |
| Meetings | 840 | - | 840 | |
| Travel | 3,237 | 11,250 | (8,013) | -71.2% |
| Conference Calls | 392 | 400 | (8) | -2.0% |
| Total Meeting Expenses | <u>\$ 4,469</u> | <u>\$ 11,650</u> | <u>\$ (7,181)</u> | <u>-61.6%</u> |
| Operating Expenses | | | | |
| Consultants & Contracts | - | - | - | |
| Office Rent | - | - | - | |
| Office Costs | 111,635 | 84,600 | 27,035 | 32.0% |
| Professional Services | 96,299 | 86,000 | 10,299 | 12.0% |
| Miscellaneous | - | - | - | |
| Depreciation | 6,526 | 7,000 | (474) | -6.8% |
| Total Operating Expenses | <u>\$ 214,460</u> | <u>\$ 177,600</u> | <u>\$ 36,860</u> | <u>20.8%</u> |
| Total Direct Expenses | <u>\$ 670,457</u> | <u>\$ 571,792</u> | <u>\$ 98,665</u> | <u>17.3%</u> |
| Indirect Expenses | (671,753) | (571,792) | (99,961) | 17.5% |
| Other Non-Operating Expenses | <u>\$ 1,296</u> | <u>\$ -</u> | <u>\$ 1,296</u> | |
| Total Expenses | <u>-</u> | <u>-</u> | <u>-</u> | |
| Change in Assets | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | |
| Fixed Assets | | | | |
| Depreciation | (6,526) | (7,000) | 474 | -6.8% |
| Computer & Software CapEx | - | - | - | |
| Furniture & Fixtures CapEx | - | - | - | |
| Equipment CapEx | - | - | - | |
| Leasehold Improvements | - | - | - | |
| Allocation of Fixed Assets | 6,526 | 7,000 | (474) | -6.8% |
| Incr(Dec) in Fixed Assets | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | |
| Total Budget | <u>-</u> | <u>-</u> | <u>-</u> | |
| Change in Working Capital | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | |
| FTEs | 4.2 | 4.7 | (0.5) | |
| Headcount | 5.0 | 5.0 | - | |

Significant Variance Explanations – Finance and Accounting**Personnel Expenses**

- Salaries are over budget by \$72,000 due to WECC's budgeted labor float assumptions compared with actual vacancy rates and incentives that were budgeted in Human Resources.
- Employee Benefits are \$25,000 under budget due to lower-than-anticipated plan enrollment among existing employees as well as under-utilized employee training.
- Savings and Retirement are \$18,000 over budget due to an unanticipated increase in the defined-contribution percentage, WECC's labor float assumptions, and other increases in Salaries.

Meeting Expenses

- Not applicable.

Operating Expenses

- Office Costs are over budget by \$27,000 due an unanticipated tax payment to the State of Washington for Business and Occupancy taxes.
- Professional Services are over budget by \$10,000 due to higher-than-anticipated audit fees.

Indirect Expenses

- Indirect Expenses are over budget by \$100,000 due to the increase in actual costs in Finance and Accounting.

Fixed Assets

- Not applicable.

Section B

Non-Statutory Programs

2014 Audited Statements of Activities and Variance Explanations

Western Renewable Energy Generation Information System (WREGIS)

| Western Electricity Coordinating Council | | | | |
|---|---------------------|---------------------|------------------------------|---------------|
| 2014 Statement of Activities, Fixed Asset Expenditures, and Change in Working Capital | | | | |
| Non-Statutory Summary | | | | |
| | 2014 Actual | 2014 Budget | 2014 Variance Over(Under) | % |
| Funding | | | | |
| WECC Funding | | | | |
| WECC Assessments | \$ - | \$ - | \$ - | - |
| Penalty Sanctions | - | - | - | - |
| Total ERO Funding | \$ - | \$ - | \$ - | |
| Membership Fees | 3,022,447 | 1,896,000 | 1,126,447 | 59.4% |
| Grant Funding | - | - | - | - |
| Services & Software | - | - | - | - |
| Workshops | 1,710 | 7,800 | (6,090) | -78.1% |
| Interest | 29,325 | - | 29,325 | |
| Miscellaneous | - | - | - | - |
| Total Funding | \$ 3,053,482 | \$ 1,903,800 | \$ 1,149,682 | 60.4% |
| Expenses | | | | |
| Personnel Expenses | | | | |
| Salaries | 280,854 | 350,730 | (69,876) | -19.9% |
| Payroll Taxes | 22,300 | 23,715 | (1,415) | -6.0% |
| Employee Benefits | 30,046 | 65,935 | (35,889) | -54.4% |
| Savings & Retirement | 24,596 | 23,715 | 881 | 3.7% |
| Total Personnel Expenses | \$ 357,796 | \$ 464,094 | \$ (106,298) | -22.9% |
| Meeting Expenses | | | | |
| Meetings | 1,438 | 13,225 | (11,787) | -89.1% |
| Travel | 6,418 | 61,000 | (54,582) | -89.5% |
| Conference Calls | 886 | - | 886 | |
| Total Meeting Expenses | \$ 8,742 | \$ 74,225 | \$ (65,483) | -88.2% |
| Operating Expenses | | | | |
| Consultants & Contracts | 1,595 | 6,000 | (4,405) | -73.4% |
| Office Rent | 66 | - | 66 | |
| Office Costs | 451,607 | 557,050 | (105,443) | -18.9% |
| Professional Services | - | 16,500 | (16,500) | -100.0% |
| Miscellaneous | - | - | - | - |
| Depreciation | - | - | - | - |
| Total Operating Expenses | \$ 453,268 | \$ 579,550 | \$ (126,282) | -21.8% |
| Total Direct Expenses | \$ 819,806 | \$ 1,117,869 | \$ (298,063) | -26.7% |
| Indirect Expenses | 409,077 | 541,111 | (132,034) | -24.4% |
| Other Non-Operating Expenses | \$ 19,000 | \$ - | \$ 19,000 | |
| Total Expenses | 1,247,883 | 1,658,980 | (411,097) | -24.8% |
| Change in Assets | \$ 1,805,599 | \$ 244,820 | \$ 1,560,779 | 637.5% |
| Fixed Assets | | | | |
| Depreciation | - | - | - | - |
| Computer & Software CapEx | - | - | - | - |
| Furniture & Fixtures CapEx | - | - | - | - |
| Equipment CapEx | - | - | - | - |
| Leasehold Improvements | - | - | - | - |
| Allocation of Fixed Assets | - | - | - | - |
| Incr(Dec) in Fixed Assets | \$ - | \$ - | \$ - | |
| Total Budget | 1,247,883 | 1,658,980 | (411,097) | -24.8% |
| Change in Working Capital | \$ 1,805,599 | \$ 244,820 | \$ 1,560,779 | 637.5% |
| FTEs | 4.00 | 5.0 | (1.0) | |
| Headcount | 4.00 | 5.0 | (1.0) | |

Significant Variance Explanations – Non-Statutory**Funding**

- Membership Fees are \$1.13 million over budget due to higher-than-anticipated participation in WREGIS.
- Interest Income is \$29,000 over budget due to higher-than-anticipated rates of return on non-statutory cash balances.

Personnel Expenses

- Salaries are \$70,000 under budget due to 1.0 vacant position.
- Employee Benefits are \$36,000 under budget due to lower-than-anticipated plan enrollment with existing employees as well as employee training needs that were less than expected.

Meeting Expenses

- Meetings are \$12,000 under budget due to lower-than-anticipated costs for WREGIS meetings being held onsite and via webinar.
- Travel is \$55,000 under budget due to WREGIS offsite travel being lower than anticipated.

Operating Expenses

- Operating Expenses decrease by \$126,000 primarily due to decreases in WREGIS software licensing fees and lower-than-budgeted legal fees.

Indirect Expenses

- Indirect Expenses are under budget by \$132,000 due to the indirect allocation being based on actual FTEs.

Other Non-Operating Expenses

- Other Non-Operating Expenses are over budget by \$19,000 due to unbudgeted adjustments to the allowance for doubtful accounts.

Consolidated Financial Statements and Report of
Independent Certified Public Accountants

Western Electricity Coordinating Council

As of and for the years ended
December 31, 2014 and 2013

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors
Western Electricity Coordinating Council

We have audited the accompanying consolidated financial statements of Western Electricity Coordinating Council and subsidiary, which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Western Electricity Coordinating Council and subsidiary as of December 31, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Salt Lake City, Utah
June 26, 2015

CONSOLIDATED FINANCIAL STATEMENTS

Western Electricity Coordinating Council

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|--|--------------------------|--------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 37,415,777 | \$ 20,737,074 |
| Contractually restricted cash | 1,029,236 | 4,004,026 |
| Certificates of deposit | 3,711,823 | 2,044,097 |
| Investments | 2,128,775 | 2,942,933 |
| Accounts receivable, net of allowance of \$40,308 and \$33,283 as of December 31, 2014 and 2013, respectively | 4,449,584 | 4,099,826 |
| Prepaid expenses and other assets | 450,832 | 1,451,697 |
| Property, equipment, and software, net | <u>1,574,721</u> | <u>11,042,682</u> |
| Total assets | <u>\$ 50,760,748</u> | <u>\$ 46,322,335</u> |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable | \$ 22,020,846 | \$ 5,380,399 |
| Accrued expenses | 5,268,048 | 4,145,493 |
| Deferred revenue | 14,210,397 | 11,679,055 |
| Other liabilities | <u>1,284,835</u> | <u>1,665,866</u> |
| Total liabilities | 42,784,126 | 22,870,813 |
| Commitments and contingencies (Note I) | | |
| NET ASSETS - unrestricted | <u>7,976,622</u> | <u>23,451,522</u> |
| Total liabilities and net assets | <u>\$ 50,760,748</u> | <u>\$ 46,322,335</u> |

The accompanying notes are an integral part of these consolidated financial statements.

Western Electricity Coordinating Council

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended December 31, 2014 and 2013

| OPERATING REVENUES | <u>2014</u> | <u>2013</u> |
|---|---------------------|----------------------|
| Electric Reliability Organization funding | \$ 24,047,260 | \$ 45,329,397 |
| Meetings and workshops | 951,969 | 809,510 |
| Western Renewable Energy Generation Information System (WREGIS) | 3,022,447 | 1,913,930 |
| Federal grants | 3,638,249 | 11,989,630 |
| Other | - | 1,040 |
| Total operating revenues | <u>31,659,925</u> | <u>60,043,507</u> |
| OPERATING EXPENSES | | |
| Labor | 19,446,557 | 34,976,986 |
| Office and equipment | 3,731,001 | 9,680,774 |
| Depreciation and amortization | 1,321,086 | 4,541,466 |
| Contract labor and consultants | 3,134,081 | 13,991,057 |
| Meetings | 1,906,946 | 2,559,592 |
| Professional services | 1,445,880 | 1,520,333 |
| Excise taxes | 45,848 | 14,745 |
| Other | 2,040,256 | 1,400,000 |
| Total operating expenses | <u>33,071,655</u> | <u>68,684,953</u> |
| Decrease in unrestricted net assets from operations | <u>(1,411,730)</u> | <u>(8,641,446)</u> |
| NON-OPERATING ACTIVITY | | |
| Interest and dividend income | 175,716 | 255,273 |
| Net unrealized loss on investments | (47,400) | (88,991) |
| Net realized loss on investments | (9,884) | (205,201) |
| Transfer of assets | <u>(14,181,602)</u> | <u>-</u> |
| Net non-operating activity | <u>(14,063,170)</u> | <u>(38,919)</u> |
| Decrease in unrestricted net assets | <u>(15,474,900)</u> | <u>(8,680,365)</u> |
| Net assets, beginning of year | 23,451,522 | 32,131,887 |
| Net assets, end of year | <u>\$ 7,976,622</u> | <u>\$ 23,451,522</u> |

The accompanying notes are an integral part of these consolidated financial statements.

Western Electricity Coordinating Council

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|--|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Decrease in net assets | \$ (15,474,900) | \$ (8,680,365) |
| Adjustments to reconcile change in net assets to cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 1,321,086 | 4,541,466 |
| Unrealized loss on investments | 47,400 | 88,991 |
| Realized loss on investments | 9,884 | 205,201 |
| Loss on the disposal of property, equipment, and software | 9,049 | 182,071 |
| (Increase) decrease in assets: | | |
| Accounts receivable | (1,004,876) | 8,808,402 |
| Prepaid expenses and other assets | 800,603 | (615,924) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 16,897,021 | (1,861,397) |
| Accrued expenses | 1,803,250 | 2,252,546 |
| Deferred revenue | 2,531,342 | (12,702,938) |
| Other liabilities | <u>(9,834)</u> | <u>(5,385,290)</u> |
| Net cash provided by (used in) operating activities | <u>6,930,025</u> | <u>(13,167,237)</u> |
| Cash flows from investing activities: | | |
| Purchase of property, equipment, and software | (812,474) | (4,117,343) |
| Transfer of assets | 8,497,214 | - |
| Sale of investments | 2,395,439 | 4,482,912 |
| Purchase of investments | <u>(3,306,291)</u> | <u>(2,397,423)</u> |
| Net cash provided by (used in) investing activities | <u>6,773,888</u> | <u>(2,031,854)</u> |
| Net increase (decrease) in cash and cash equivalents | 13,703,913 | (15,199,091) |
| Cash and cash equivalents, beginning of year | <u>24,741,100</u> | <u>39,940,191</u> |
| Cash and cash equivalents, end of year | <u>\$ 38,445,013</u> | <u>\$ 24,741,100</u> |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the year for interest | <u>\$ -</u> | <u>\$ -</u> |
| Property and equipment financed with accounts payable | <u>\$ 59,018</u> | <u>\$ 315,591</u> |

The accompanying notes are an integral part of these consolidated financial statements.

Western Electricity Coordinating Council

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of activities

Western Electricity Coordinating Council (WECC) is a not-for-profit organization whose primary mission is to assure a reliable bulk electric power system in the Western Interconnection. The Western Interconnection extends from Canada to Mexico and includes the Canadian provinces of Alberta and British Columbia, the northern part of Baja California in Mexico, and all or part of the 14 Western states in between. WECC's revenues are generated through performance of statutory and non-statutory activities.

WECC performs statutory activities pursuant to the Delegation Agreement effective October 2007 and Amended and Restated Delegation Agreement effective January 2011 with North American Electric Reliability Corporation (NERC). NERC is the Electric Reliability Organization (ERO) certified by the Federal Energy Regulatory Commission (FERC) to establish and enforce reliability standards for the bulk electric system. Statutory activities authorize WECC to develop, monitor, assess, and enforce compliance with NERC reliability standards and regional standards within the United States portion of the geographic boundaries of the Western Interconnection. Statutory revenues are derived from WECC's statutory funding from NERC, which NERC has delegated WECC to collect through assessments to load-servicing entities (LSEs) within the Western Interconnection.

Non-statutory activities include oversight of the operations of a component of WECC "doing business as" Western Renewable Energy Generation Information System (WREGIS). WREGIS is an independent, renewable energy tracking system within the Western Interconnection. WECC funds its non-statutory activities through annual and other activity fees.

On October 10, 2013, WECC incorporated Peak Reliability (Peak), a not-for-profit organization headquartered in Vancouver, Washington, in preparation for the legal separation of its regional entity function from its reliability coordinator function. On January 2, 2014, Peak began operating as a wholly-owned subsidiary of WECC and assumed WECC's reliability coordinator function. The consolidated financial statements of WECC include the accounts of Peak through February 12, 2014, when WECC received formal FERC approval of the sub-delegation of WECC's reliability coordinator function to Peak. Subsequent to February 12, 2014, Peak began to operate independently of WECC as an unconsolidated entity. All significant intercompany balances and transactions have been eliminated in consolidation.

2. Financial statement presentation

WECC's consolidated financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The information regarding its financial position and activities is reported based on the existence or absence of donor-imposed restrictions in three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As of December 31, 2014 and 2013, WECC had only unrestricted net assets.

Western Electricity Coordinating Council

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

4. Revenue recognition

WECC recognizes revenue from the statutory funding provided by NERC for performing the statutory activities that have been delegated to WECC. The annual assessments are collected by WECC, remitted first to NERC and then are returned to WECC within a few days. WECC generally receives assessment payments in advance of the assessment period, and records it as assessment payable or as deferred revenue after it has been remitted to NERC and returned to WECC. Assessments are recognized as revenue in the year they are intended to fund. Federal grant revenue is generated through WECC's and WECC sub-recipient's performance of services in accordance with federal award agreements on a cost reimbursement basis.

Other types of revenues, such as non-statutory revenue, are recognized when the services or products have been provided.

Until February 12, 2014, when WECC received formal FERC approval of the sub-delegation of WECC's reliability coordinator function to Peak, WECC could incur penalties assessed by its regulators. When the amounts of such penalties became known or reasonably estimable, WECC recognized penalty revenue (collected from U.S. LSEs) earmarked for a future year to offset the penalty expense. This resulted in WECC recording an expense and offsetting revenue. Depending on when the amount of the penalty became known (whether it was before or after NERC had approved the budget for the subsequent year), WECC's assessments revenue for the subsequent budget year or the year following was offset by the amount of the penalty. Such penalties have been recorded in the consolidated statement of activities as Electric Reliability Organization Funding and Other operating expenses. Subsequent to February 12, 2014, WECC is no longer subject to such penalties.

5. Cash and cash equivalents

WECC considers all highly liquid financial instruments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist of bank demand accounts, money market investment accounts, and other investments. WECC's cash deposits are held with financial institutions in the United States that are insured by the Federal Deposit Insurance Corporation (FDIC). Deposits may exceed the federally insured limits at times.

Pursuant to the Delegation Agreement with NERC, cash equivalents contractually restricted as of December 31, 2014 and 2013 were \$1,029,236 and \$4,004,026, respectively.

Western Electricity Coordinating Council

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

6. Certificates of deposit

Certificates of deposits held by WECC that are not classified as debt securities have original maturities greater than three months. Certificates of deposit are valued at amortized cost, which approximates fair value.

7. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at fair value in the consolidated statements of financial position, based upon published market prices at the end of the year or management's estimate of amounts to be realized on settlement. Investment income or loss, including realized gains and losses on investments, unrealized gains and losses on investments, interest and dividends, are included in the change in net assets. WECC has a significant investment in debt securities and is therefore subject to concentrations of credit risk.

8. Accounts receivable, net

Accounts receivable consists of statutory funding, grants and other fees receivables that have not been collected. Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on an annual basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

9. Property, equipment, and software, net

Expenditures for property, equipment, and software that exceed \$5,000 on an individual basis are capitalized at cost and are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|------------------------|---------|
| Equipment and software | 3 years |
| Furniture and fixtures | 5 years |

Leasehold improvements are depreciated over the shorter of the lease term or their estimated useful life of 10 years. Minor replacements, maintenance, and repairs which do not increase the useful lives of the property, equipment, and software to which they are related are expensed as incurred.

10. Impairment of long-lived assets

WECC reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may be impaired. If it is determined that the estimated undiscounted future cash flows are not sufficient to recover the carrying value of an asset, an impairment loss is recognized in the consolidated statement of activities for the difference between the carrying value and the fair value of the asset.

Western Electricity Coordinating Council

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

11. Income taxes

WECC has been recognized by the Internal Revenue Service as a not-for-profit corporation as described in Section 501(c)(6) of the Internal Revenue Code and, as such, is not subject to federal or state income taxes on exempt purpose income. WECC recognized no unrelated business income tax expense in the years ended December 31, 2014 and 2013.

WECC has identified and evaluated its significant tax positions for which the statute of limitations remain open. The open tax years are the years ended December 31, 2011 through December 31, 2014 for federal and state tax purposes. WECC applied the more likely than not criteria to all tax positions and determined that no material unrecognized tax benefits or liability should be recognized. In addition, there have been no material changes in unrecognized benefits as of December 31, 2014, and it is not expected that there will be a material change in the 12 months following December 31, 2014. WECC did not incur any tax penalties or tax-related interest expenses during the years ended December 31, 2014 and 2013.

12. Functional allocation of expenses

The costs of programs and supporting services have been summarized on a functional basis. WECC's expenses are classified as *Statutory Expenses* or *Non-statutory Expenses* as the majority of expenses incurred fulfill the purposes or mission for which WECC exists. Furthermore, the statutory expenses are classified according to the statutory functions WECC performs pursuant to the Delegation Agreement with NERC. All direct costs are charged to the functional area to which they pertain. Indirect costs are charged to programs and supporting services based on estimates made by management, taking into account the nature of the expense and how it relates to the functional area.

13. Measure of operations

The accompanying consolidated statements of activities present the changes in net assets distinguishing between operating and non-operating activities. Operating activities principally include all revenues and expenses that relate directly to WECC's primary mission, including its statutory and non-statutory activities.

WECC has defined non-operating activities principally to include investment income earned, and gains and losses on investments held for long-term purposes. Certain other gains and losses considered to be of a more unusual or non-recurring nature are also included as part of non-operating activities.

14. Financial Instruments

The carrying amount of WECC's financial instruments approximate fair value due to their short-term nature.

Western Electricity Coordinating Council

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE B – TRANSFER OF ASSETS

On January 2, 2014, WECC transferred assets and liabilities related to the reliability coordinator function to Peak, a then wholly-owned subsidiary. The assets transferred to Peak consisted of property, equipment and software assets with a net book value of approximately \$9.4 million, cash and cash equivalents of approximately \$5.8 million and other assets of approximately \$0.9 million. The liabilities transferred to Peak consisted of deferred rent of approximately \$0.4 million and accrued employee compensation costs of approximately \$0.7 million. Subsequent to February 12, 2014 when WECC received formal FERC approval of the sub-delegation of WECC's reliability coordinator function to Peak, WECC's right, title and interest in all assets and liabilities directly related to the reliability coordinator function were terminated and Peak began to operate independently of WECC as an unconsolidated entity. During the period January 1, 2014 through February 12, 2014, Peak incurred a net loss of approximately \$0.8 million which reduced the value of the asset transfer from WECC to Peak in the accompanying consolidated financial statements. Upon deconsolidation of Peak on February 12, 2014, WECC recognized an expense of approximately \$14.2 million, which is included in the accompanying consolidated statement of activities as transfer of assets, which is a non-operating activity.

NOTE C – FAIR VALUE MEASUREMENTS

WECC's consolidated financial instruments, including cash equivalents, accounts receivable, accounts payable, and accrued liabilities, are carried at cost which approximates their fair value due to the short-term nature of these instruments.

Fair value is defined as the amount that would be received for the sale of an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, WECC uses various valuation approaches within a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of WECC. Unobservable inputs are inputs that reflect WECC's estimates about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The following hierarchy prioritizes the inputs according to valuation methodologies used to measure fair value:

Level 1: Inputs are quoted prices (unadjusted) in active markets that are accessible for identical assets or liabilities as of the measurement date. Valuation of these products does not entail a significant degree of judgment since it is based on quoted prices readily available in an active market. The types of instruments generally included in this category include listed equity securities.

Level 2: Inputs are observable for the asset or liability (either directly or indirectly) as of the measurement date, but are other than quoted prices in active markets as in Level 1. The types of instruments generally included in this category include unlisted derivative financial instruments and fixed income investments.

Western Electricity Coordinating Council

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE C – FAIR VALUE MEASUREMENTS – CONTINUED

Level 3: Inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant judgment or estimation by the reporting entity. The types of instruments generally included in this category include privately held investments, partnership interests and similar interests, and beneficial interests in trusts held by others.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, WECC's own assumptions are set to reflect those that WECC believes a market participant would use in pricing the asset or liability at the measurement date.

Assets and liabilities measured at fair value on a recurring basis are summarized as follows:

| Description | Fair Value Measurements as of December 31, 2014 | | | |
|-------------------------|---|--------------|---------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash equivalents: | | | | |
| Money market funds | \$ 1,798,863 | \$ - | \$ - | \$ 1,798,863 |
| Investments: | | | | |
| Government agency bonds | - | 1,916,032 | - | 1,916,032 |
| Corporate bonds | - | 212,743 | - | 212,743 |
| | - | 2,128,775 | - | 2,128,775 |
| | \$ 1,798,863 | \$ 2,128,775 | \$ - | \$ 3,927,638 |

| Description | Fair Value Measurements as of December 31, 2013 | | | |
|-------------------------|---|--------------|---------|---------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash equivalents: | | | | |
| Money market funds | \$ 12,690,456 | \$ - | \$ - | \$ 12,690,456 |
| Investments: | | | | |
| Government agency bonds | - | 2,440,179 | - | 2,440,179 |
| Corporate bonds | - | 502,754 | - | 502,754 |
| | - | 2,942,933 | - | 2,942,933 |
| | \$ 12,690,456 | \$ 2,942,933 | \$ - | \$ 15,633,389 |

Money market funds are valued using observable prices in the active market. Corporate bonds and government agency bonds are valued using observable quoted prices of similar securities.

Western Electricity Coordinating Council

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE D – INVESTMENTS

Investments stated at fair value consisted of the following as of December 31:

| | 2014 | 2013 |
|-------------------------|---------------------|---------------------|
| Government agency bonds | \$ 1,916,032 | \$ 2,440,179 |
| Corporate bonds | 212,743 | 502,754 |
| | <u>\$ 2,128,775</u> | <u>\$ 2,942,933</u> |

NOTE E – PROPERTY, EQUIPMENT, AND SOFTWARE, NET

Property, equipment, and software, net consisted of the following as of December 31:

| | 2014 | 2013 |
|---|---------------------|----------------------|
| Equipment | \$ 1,906,261 | \$ 12,284,835 |
| Software | 1,842,198 | 9,542,253 |
| Leasehold improvements | 1,231,638 | 6,145,304 |
| Furniture and fixtures | 425,708 | 695,513 |
| | <u>5,405,805</u> | <u>28,667,905</u> |
| Less: accumulated depreciation and amortization | (4,023,665) | (18,972,742) |
| Construction in progress | 192,581 | 1,347,519 |
| Property, equipment and software, net | <u>\$ 1,574,721</u> | <u>\$ 11,042,682</u> |

As described in Note B, during 2014 WECC transferred to Peak certain property, equipment and software assets with a net book value of approximately \$9.4 million, which consisted of approximately \$10.5 million of equipment, \$7.9 million of software, \$5.8 million of leasehold improvements, \$0.3 million of furniture and fixtures and \$15.1 million of accumulated depreciation on those assets. Depreciation and amortization expense for the years ended December 31, 2014 and 2013 was \$1,321,086 and \$4,541,466, respectively. Assets purchased with grant funds are secured by a lien on the assets. For the years ended December 31, 2014 and 2013 such assets totaled \$549,219 and \$7,196,746, respectively, net of accumulated depreciation.

NOTE F – ACCOUNTS PAYABLE

Accounts payable consisted of the following as of December 31:

| | 2014 | 2013 |
|---------------------|----------------------|---------------------|
| Assessment payables | \$ 20,907,392 | \$ 4,296,396 |
| Trade payables | 1,106,948 | 1,082,204 |
| Other payables | 6,506 | 1,799 |
| | <u>\$ 22,020,846</u> | <u>\$ 5,380,399</u> |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE G – ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses consisted of the following as of December 31:

| | <u>2014</u> | <u>2013</u> |
|-----------------------------------|---------------------|---------------------|
| Accrued wages and paid time off | \$ 1,194,634 | \$ 2,279,629 |
| Accrued penalty expense | 3,400,000 | 1,400,000 |
| Other accrued expenses | 242,580 | 254,242 |
| Accrued employee benefits expense | 430,834 | 211,622 |
| | <u>\$ 5,268,048</u> | <u>\$ 4,145,493</u> |

Other liabilities consisted of the following as of December 31:

| | <u>2014</u> | <u>2013</u> |
|-----------------------|---------------------|---------------------|
| Deferred rent | \$ 1,177,960 | \$ 1,665,866 |
| Deferred compensation | 106,875 | - |
| | <u>\$ 1,284,835</u> | <u>\$ 1,665,866</u> |

NOTE H – NET ASSETS

WECC reports information regarding statutory and non-statutory related earnings to the Federal Energy Regulatory Commission in accordance with its Delegation Agreement with NERC dated October 16, 2007 as amended and restated January 1, 2011. As of December 31, the breakdown of such earnings included in unrestricted net assets consisted of the following:

| | <u>2014</u> | <u>2013</u> |
|----------------------------|---------------------|----------------------|
| Non-statutory earnings | \$ 10,448,563 | \$ 8,642,963 |
| Statutory earnings | 11,709,661 | 14,808,559 |
| Transfer of assets to Peak | (14,181,602) | - |
| | <u>\$ 7,976,622</u> | <u>\$ 23,451,522</u> |

Western Electricity Coordinating Council

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE I – COMMITMENTS AND CONTINGENCIES

1. Operating lease commitments

WECC has entered into non-cancelable operating leases for office space and office equipment. Future minimum lease payments under non-cancelable operating leases with terms of one year or more are as follows:

| <u>Year Ending December 31:</u> | <u>Amount</u> |
|---------------------------------|---------------------|
| 2015 | \$ 1,105,331 |
| 2016 | 1,130,075 |
| 2017 | 1,163,283 |
| 2018 | 1,188,974 |
| 2019 | 1,185,439 |
| Thereafter | 397,491 |
| | <u>\$ 6,170,593</u> |

Total rent expense under non-cancelable operating leases was \$974,505 and \$2,034,309 for the years ended December 31, 2014 and 2013, respectively.

2. Other matters

WECC may incur future losses from monetary penalties assessed by its regulators. As of December 31, 2014, WECC accrued its reasonable estimate of these expected penalties based upon the subsequent resolution of the matter as described in Note L. Additionally, WECC is a defendant in certain other legal matters. WECC is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on WECC's financial position, changes in net assets or cash flows.

WECC receives federal grants which are subject to audit by federal agencies. WECC is of the opinion that disallowances, if any, would not have a significant effect on WECC's financial position, changes in net assets or cash flows.

NOTE J – RETIREMENT PLANS

WECC has a 401(k) Retirement Savings Plan (Plan) for eligible employees. The Plan requires WECC to make matching contributions equal to 50% of the first 6% of eligible compensation of the participating employees' contributions to the Plan. WECC may also make, at its discretion, supplemental contributions for eligible employees. Plan expense reflected in the accompanying consolidated statements of activities was \$1,115,502 and \$1,802,545 for the years ended December 31, 2014 and 2013, respectively.

Western Electricity Coordinating Council

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 and 2013

NOTE J – RETIREMENT PLANS – CONTINUED

In 2006, WECC adopted a 457(b) deferred compensation plan to provide certain employees of WECC with the benefit of additional tax-deferred retirement savings opportunities. The annual 457(b) deferral limitation for 2014 and 2013 was \$17,500. This plan is entirely funded by employee salary deferrals. Plan assets and liabilities pertaining to the 457(b) plan, which are immaterial to the accompanying consolidated financial statements, have not been recognized.

NOTE K – FUNCTIONAL EXPENSES

The detail of functional expenses for the years ended December 31, are as follows:

| | | | | |
|------------------------|----|-------------------|----|-------------------|
| Program services | | <u>2014</u> | | <u>2013</u> |
| Statutory services | \$ | 21,702,010 | \$ | 56,316,225 |
| Non-statutory services | | <u>941,430</u> | | <u>927,738</u> |
| | | 22,643,440 | | 57,243,963 |
| Support Services | | | | |
| Management and general | | <u>10,428,215</u> | | <u>11,440,990</u> |
| | \$ | <u>33,071,655</u> | \$ | <u>68,684,953</u> |

NOTE L – SUBSEQUENT EVENTS

WECC has evaluated its December 31, 2014 consolidated financial statements for subsequent events through June 26, 2015, the date the consolidated financial statements were available to be issued. Except as noted below, WECC is not aware of any subsequent events, which would require recognition or disclosure in the consolidated financial statements.

On May 26, 2015, Staff of the Office of Enforcement (Enforcement) of FERC, NERC, WECC and Peak entered into a Stipulation and Consent Agreement (Agreement), Docket No. IN14-11-000, to resolve a non-public investigation conducted by Enforcement and NERC pursuant to Part 1b of the Commission's regulations, 18 C.F.R. Part 1b (2014). The investigation examined possible violations of NERC Reliability Standards by WECC as the Reliability Coordinator (WECC RC) for the Western Interconnection related to a system event in the Pacific Southwest on September 8, 2011 (September 8 event). WECC neither admits nor denies that WECC RC violated Reliability Standards described in the Agreement, but agrees to pay a total civil penalty of \$16 million, of which \$3 million will be paid to the United States Treasury and NERC (\$3 million is accrued as of December 31, 2014), divided in equal amounts over a three-year period. Enforcement and NERC agreed to give WECC a partial civil penalty offset for the remaining \$13 million in exchange for WECC and Peak implementing Reliability Enhancement measures as set forth in the Agreement, the majority of which have been completed as of June 26, 2015. The value of the Reliability Enhancements actually incurred is expected to substantially exceed the amount of the credited offset. Peak did not exist as a separate entity at the time of the September 8 event, but is a party to the Agreement as the successor to WECC as the Reliability Coordinator for the Western Interconnection. WECC and Peak also commit to certain measures, subject to compliance monitoring, as detailed in the Agreement.