

WESTERN ENERGY MARKETS

Decision on financial planning initiatives: Cost-of-Service Study extension and revenue requirement cap increase

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The ISO performs a Cost-of-Service Study every three years to determine the formula for the allocation of costs.

- Cost-of-Service Study last performed in 2023
- 2026 study would use 2025 data and assumptions for 2026
- Significant events occurring that could materially change the cost allocation
 - EDAM launch
 - Development of the Regional Organization for Western Energy and ISO relationship

Management proposes to delay the next Cost-of-Service Study until 2028.

- 2028 study would use 2027 data and assumptions
 - First full year of EDAM operations
 - A more defined picture of the ROWE and ISO relationship
- Extension potentially leads to a more accurate cost allocation
- Existing cost allocation framework from 2023 study would remain in place in the interim

Delaying the Cost-of-Service Study requires the revenue requirement cap to be addressed for 2027 and 2028.

- Current cap of \$250 million was established during the 2023 Cost-of-Service Study initiative
- Larger than expected operating expense increases since 2023 pushed the 2026 revenue requirement to the cap
- No capital was collected in the 2026 revenue requirement
- Cap needs an increase for 2027 and 2028 to allow for the collection of capital

Management proposes to increase the revenue requirement to \$305 million in 2027 and \$320.3 million in 2028.

Revenue Requirement (\$ in millions)	Actual	Actual	Projected	Projected
	2025	2026	2027	2028
Operations and Maintenance Budget	\$ 275.9	\$ 290.3	\$ 304.9	\$ 320.1
Debt Service (including 25% Reserve)	14.7	14.7	14.7	14.7
Cash Funded Capital	25.0	-	31.0	31.0
Other Costs and Revenues	(68.6)	(51.3)	(50.0)	(50.3)
Operating Cost Reserve Adjustment	(8.6)	(3.9)	(2.4)	(0.7)
Total Revenue Requirement	\$ 238.4	\$ 249.8	\$ 298.2	\$ 314.9
Revenue Requirement Cap (\$ in millions)				
Revenue Requirement Cap	\$ 245.0	\$ 250.0	\$ 305.0	\$ 320.3
Variance between Cap and Total	\$ 6.6	\$ 0.2	\$ 6.8	\$ 5.4
Rates (\$/MWh)				
Market Services Charge	\$ 0.1611	\$ 0.1416	\$ 0.1513	\$ 0.1389
System Operations Real-Time Dispatch Charge	\$ 0.1144	\$ 0.0901	\$ 0.0960	\$ 0.0879
System Operations Balancing Authority Area Services Charge	\$ 0.1293	\$ 0.1356	\$ 0.1619	\$ 0.1690
Congestion Revenue Rights Services Charge	\$ 0.0076	\$ 0.0109	\$ 0.0134	\$ 0.0142

Position of stakeholders

- Stakeholders supported the proposal to delay the Cost-of-Service Study but requested assurance the study would not be delayed any further
- Stakeholders generally supported the proposal to establish the revenue requirement caps for 2027 and 2028, but some raised concerns about the magnitude and drivers of the increases
 - Most significant variance from 2026 is capital collection
 - Operating expenses forecasted to rise 5% over both years
 - Establishment of revenue requirement cap will not replace the annual budget stakeholder process to set the actual revenue requirement

Management recommends approval of the proposed financial planning initiatives

- **Extend Cost-of-Service Study to 2028**
 - Improves accuracy by incorporating EDAM operational data and development of ROWE / ISO relationship
 - Maintain existing cost allocation framework
- **Establish revenue requirement caps for 2027 and 2028**
 - Provide headroom for projected operating costs and capital projects