

**Western Area Power Administration
Strategic Planning Update
March 2008**

Western Area Power Administration's senior management team continued strategic planning discussions at a meeting held at the end of February. Ultimately, the goal of this effort is to develop and execute a plan that will focus Western on the increasing demands that we are currently facing and position ourselves strategically for the future.

Strategies and actions currently under discussion:

Some broad strategies and possible actions are being explored. These strategies focus on opportunities for improvement and the key issues we are facing. Among the issues are the increasing number of requests for service and increasing regulatory mandates which, in turn, are putting a strain on our resources. While the strategic planning process is not complete and the ideas listed below continue to be modified and evolve as a result of on-going discussions and input, the following are under consideration:

Strategy 1 – Maintain and strengthen Western's ability to participate in large-scale transmission projects to improve Western's transmission infrastructure, maintain or enhance system reliability, support customer projects, and/or increase overall effectiveness of the transmission system.

Strategy sponsor: Tony Montoya, Chief Operating Officer, (720) 962-7071, e-mail tmontoya@wapa.gov

Action 1 – Improve accuracy of future workload projections associated with likely transmission reliability and expansion needs.

Status: Alternative methods of projecting workload impacts associated with transmission projects most likely to be built are starting to be explored. Some of the primary functions that support this work include finance, transmission planning, project management, transmission contracts, environment, construction management, procurement, lands, engineering design, maintenance and operations. Ultimately, this type of information will be updated from time to time and used as a resource for assessing workload and setting priorities.

Action contacts: Tony Montoya, Chief Operating Officer, (720) 962-7071, e-mail tmontoya@wapa.gov and Harry Pease, Chief Financial Officer, (720)-962-7500, pease@wapa.gov

Action 2 – Explore the feasibility of identifying injection points for new generation, based upon available transmission capacity, onto Western's system.

Status: The action holds the potential to help industry focus in on promising areas for the addition of new generation that will not require extensive network upgrades. The senior managers are following-up with system planners to determine how meaningful information can be generated in a reasonable time and with a reasonable level of effort.

Action contacts: Jack Dodd, Assistant Administrator for Washington Liaison, (202) 586-5581, e-mail jack@wapa.gov, and Tony Montoya, Chief Operating Officer, (720) 962-7071, e-mail tmontoya@wapa.gov.

Action 3 – Help to address constrained paths by identifying a transmission congestion relief project under Energy Policy Act of 2005 and that could also involve renewable generation.

Background: In addition to broad pre-existing authority to construct transmission with non-Federal funds, the Energy Policy Act of 2005 gives Western’s Administrator authority to work with others and to obtain up to \$100 million in outside financing until 2015 for new and existing transmission facilities in national interest electric transmission corridors or to accommodate an increase in demand for transmission capacity.

Status: Western staff is actively working to identify a specific transmission project or projects. Once the project or projects are identified, Western (DSW) will issue a solicitation of interest from others who are interested in developing the project. It’s likely that the project will cross congestion points along the Colorado River below Hoover Dam. The time frame for issuing the solicitation is mid calendar year 2008.

Action contact: Tyler Carlson, DSW Regional Manager, (602) 605-2453, carlson@wapa.gov

Strategy 2 – Explore operations consolidation as a way to become more efficient and to minimize future costs due to increasing work requirements associated with FERC’s open access transmission and electric reliability standard requirements.

Strategy sponsor and contact: Tom Boyko, SN Regional Manager, (916) 353-4418, e-mail boyko@wapa.gov.

Status: A team has performed an in-house technical feasibility study of consolidating operations performed in Western’s Desert Southwest Region, Rocky Mountain Region and Upper Great Plains-west. The team’s December 2007 report concludes this idea is technically feasible; however, much more study and analysis, as well as customer input, is needed before making any final decisions.

A date for a final decision is not set, and the final decision will not be made without customer input. Informal discussions on this topic have been held with AFGE and IBEW representatives and a list of frequently asked questions has been developed. Customer meetings were held February 12 and February 14, and customers are providing input at this time. The next customer meeting to discuss this topic is set for April 24.

Strategy 3 – Gain efficiencies and strengthen merchant services.

Strategy sponsor: Jim Keselburg, RM Regional Manager, (970)-461-7201, e-mail keselbrg@wapa.gov

Action 1 - Explore the feasibility of increased merchant function coordination and/or consolidation.

Status: The senior managers are continuing to look at the feasibility of increased merchant function coordination and/or consolidation as a strategy that may help Western operate more

efficiently. A date for a final decision is not set, and a decision will not be made without more discussions and customer input.

Action contact: Jim Keselburg, RM Regional Manager, (970)-461-7201, e-mail keselbrg@wapa.gov

Action 2 – Strengthen transmission and resources marketing services in order to increase our capabilities, gain more market knowledge and enhance customer relationships.

Status: A marketing services toolkit with sample merchant information has been developed. This toolkit will be made available in the near future and will be updated periodically.

Action contact: Tyler Carlson, DSW Regional Manager, (602) 605-2453, e-mail carlson@wapa.gov

Strategy 4 – Meet the increasing demands on maintenance from transmission growth and compliance requirements.

Strategy sponsor: Bob Harris, UPG Regional Manager, (406) 247-7405, e-mail rharris@wapa.gov

Action 1 – Reduce the amount of time our craft workforce spends on administrative tasks so they can spend more time doing maintenance activities.

Status: Based upon an initial look, appears that about 31.5%, or 120 FTE, of Western’s craft workforce time is being coded in MAXIMO as being spent on administrative tasks. The management team believes that this percentage is high and is looking to see if there are administrative tasks that may be more efficiently performed in other ways or eliminated altogether. The evaluation will be completed in 2008.

Action contact: Bob Harris, UPG Regional Manager, (406) 247-7405, e-mail rharris@wapa.gov

Strategy 5 – Continue to support development of renewable resources and increase visibility of Western’s activities in the renewable resources arena.

Strategy sponsor: LaVerne Kyriss, Senior Planning Advisor, (720) 962-7170, e-mail kyriss@wapa.gov.

Action 1 - Explore renewable energy purchase request for interest.

Status: The managers are looking into the feasibility of issuing a request for interest for a long term purchase of renewable energy to firm project resources. A small team is developing the criteria and a draft RFI.

Action contact: Brad Warren, CRSP Program Manager, (801) 524-6372 or e-mail warren@wapa.gov

Action 2 – Explore the possibility of adding to the scope of existing renewable resources studies, using non-reimbursable funding, to incorporate Western’s transmission system.

Status: This is a new idea that came out of the February meeting. It is being coordinated to see what approach might be taken to study this topic.

Action contacts: Jack Dodd, Assistant Administrator for Washington Liaison, (202) 586-5581, e-mail jack@wapa.gov, and Tony Montoya, Chief Operating Officer, (720) 962-7071, e-mail tmontoya@wapa.gov.

Action 3 - Develop and implement a renewable resources communications strategy.

Status: Based upon review of Western's accomplishments in supporting and promoting the development of renewable resources, it is evident that we have gained a lot of knowledge, experience and success in this area. A renewable resources communications strategy is being developed to share our successes and lessons learned more broadly—with industry and other stakeholders. A small group has developed a first draft of the strategy.

Action contact: Theresa Williams, Corporate Communications Manager, (720) 962-7051, twilliam@wapa.gov

Strategy 6 – Increase the visibility of Western's partnerships with Native American tribes.

Strategy sponsor and contact: Brad Warren, CRSP Program Manager, (801) 524-6372, e-mail warren@wapa.gov

Status: Senior managers have identified the areas of marketing services, transmission development, and renewable resources as possible opportunities for partnering with Native American tribes. A Native American communications strategy is being developed to share and expand upon our successes and lessons learned.

Strategy 7 – Strengthen Western's organizational capabilities and design the organization to meet growing demands.

Strategy sponsor: Tony Montoya, Chief Operating Officer, (720) 962-7071, e-mail tmontoya@wapa.gov

Action 1 – Improve how Western-wide transmission activities are administered and led to assure Western is organized properly to effectively and consistently comply with transmission service commitments and EAct 2005 requirements.

Status: The managers agreed to consolidate several existing or vacant positions that are supporting Western-wide transmission service functions into a small group that will report to the Office of the Chief Operating Officer. The group will be responsible for providing broad program direction and support for Western-wide transmission and operations services, standards of conduct, electric reliability standards and facility development. A reorganization proposal will be developed subject to routine requirements.

Action contact: Tony Montoya, Chief Operating Officer, (720) 962-7071, e-mail tmontoya@wapa.gov

Action 2 – Develop an action plan to help facilitate clearing the queue of requests for interconnection to Western's system.

Status: This is a new action as of February and work has not yet begun.

Action contact: Bob Harris, UPG Regional Manager, (406) 247-7405, e-mail rharris@wapa.gov

Action 3 – Take action to address the critical shortage of planning engineers throughout the industry.

Status: The managers have agreed to pursue an open-ended, Western-wide, recruitment for engineers that would be indefinite in quantity and time, cover various engineering job series, and would cover duty stations throughout Western's service area. The goal is to identify a pool of engineers that managers can then draw upon to meet specific demands. Other possibilities are also being explored.

Action contact: Tony Montoya, Chief Operating Officer, (720) 962-7071, e-mail tmontoya@wapa.gov

Action 4 – Look at other opportunities for improving organizational efficiency.

Status: The managers are continuing to look at opportunities for improving organizational efficiencies. Recommendations are being developed.

Action contact: Tony Montoya, Chief Operating Officer, (720) 962-7071, e-mail tmontoya@wapa.gov

Action 5 – Look at overall organizational capabilities.

Status: Once other strategic initiatives and activities are developed organizational capabilities will be reviewed and addressed. In terms of human capital management, this could mean training, targeted recruitment, realignments, etc.

Action contact: Tony Montoya, Chief Operating Officer, (720) 962-7071, e-mail tmontoya@wapa.gov

Strategy 8 – Strengthen Western's financial ability to meet commitments and changing requirements.

Strategy sponsor: Harry Pease, Chief Financial Officer, (720) 962-7500, e-mail pease@wapa.gov

Action 1 – Formalize the decision-making process on new large projects

Status: Due to the increasing requests for Western to support new transmission projects, the managers are revisiting the process Western uses to decide whether or not, as an organization, to move forward with new large projects. Discussions on this topic are on-going and there is a goal to implement the new process by October of 2008.

Action contact: Harry Pease, Chief Financial Officer, (720) 962-7500, e-mail pease@wapa.gov

Action 2 – Develop financing and cash flow strategies to support the strategic initiatives.

Status: Increasing Purchase Power costs due to the ongoing drought and additional reliance on customer advance funding because of inadequate appropriations are having a negative impact on Western's cash flow. The team agreed that Western should continue to look at alternative ways to finance our program and fund transmission capital projects. Discussions on this topic are on-going.

Action contact: Harry Pease, Chief Financial Officer, (720) 962-7500, e-mail pease@wapa.gov

Action 3 – Develop and implement an enterprise risk management approach.

Status: The managers are in the early stages of defining the scope of this action item and plan to develop an on-going process to address this need.

Action contacts: Harry Pease, Chief Financial Officer, (720) 962-7500, e-mail pease@wapa.gov; Tony Montoya, Chief Operating Officer, (720) 962-7071, e-mail tmontoya@wapa.gov; and Eun Moredock, Chief Information Officer, (720) 962-7241, e-mail moredock@wapa.gov .

Strategy 9 – Create an internal and external communications strategy for every aspect of the strategic plan.

Strategy sponsor and contact: Theresa Williams, Corporate Communications Manager, (720) 962-7051, twilliam@wapa.gov

Status: A plan will be developed and implemented as the above strategies take form.

Note: The unions representing Western's bargaining unit employees shall be given the opportunity for input and impact and implementation bargaining, if necessary, on decisions affecting general working conditions of those employees.