

American Public Power Association
Legislative Rally
March 8, 2016

- My name is Mark Gabriel. I am the Administrator of the Western Area Power Administration and I am honored to be here with you today in our nation's capital.
- At Western, the highest goal is to safely and securely support clean, carbon free, renewable, low cost federal hydroelectric power and a backbone transmission system while at the same time reducing risk to American taxpayers by using economically and environmentally responsible business practices.
- Western serves nearly 700 customers across 15 states including rural electric cooperatives, municipal entities, 21 U.S. Military bases, 92 Native American Tribes and a host of irrigation districts and public power entities.
- Western's more than 1,400 employees manage over 17,000 circuit-miles of transmission, 320 substations and 177,000 structures that cover a footprint of more than 1.3 million square miles. Such an encompassing system makes Western one of the 10 largest transmission providers in the nation.
- Evolution of the nation's power mix, continuous flux in energy market prices, reduction and destruction in energy supply and demand, the continuing advance of renewable energy and changing technology, and increased cyber and physical security threats require flexibility. Each of these challenges brings with it a series of technical and policy considerations.
- The result is Western is not as it was five years ago.
- External factors carve its path and drive changes to the aging operating model. All of us must work together to learn how to maintain use of the system in different ways for our continued shared success.
- Whether it is new North American Electric Reliability Corporation (NERC) standards adding roughly 40,000 work-person hours to our schedule for physical security compliance, changing rules and regulations, replacement of our core

financial system, increasing asset investments, or operating challenges due to renewables, Western must adapt so it can continue to be one of the lowest cost providers of electricity and transmission in the nation.

- This requires creativity in thinking and operating as well as agility in planning.
- Western, like all utilities, is facing an increasing challenge in cyber and physical security.
- The organization continues to evaluate and improve its cyber security capabilities through better operational monitoring and awareness using a comprehensive Cyber Security Program that protects Western from the ever-evolving threats and attacks to the energy sector, our perimeter, public systems, and communications.
- For Western's physical security, this has meant an ongoing review of its more than 320 substations and 500 communications sites integrating the findings with design planning and capital budgets.
- On the cyber side, Western has bolstered defenses, moving beyond a find and patch approach to a coordinated, focused and pro-active enclave protection scheme. In both physical and cyber security Western has added significant resources and realigned the organization to meet escalating threats to the system in the most effective manner possible.
- Western's outdated budget and financial systems lacked transparent data inputs and increased the risk of information loss. It is critical that our core-financial system be efficient and effective in tracking transactions, producing financial information that is relevant to our customers and program managers. To address this issue, these systems were realigned in a consolidated and cost-effective manner. These recent investments in technology and security, and how they are budgeted, are major drivers in increased Headquarters costs.
- Western is dedicated to engaged customers in its operational choices and capital planning efforts. Transmission Asset Management and the Ten Year Capital Plans highlight some of the most recent results and achievements in customer involvement and collaboration.

- In this way, Western completed more than \$230 million worth of work in capital projects during the 2015 calendar year and during calendar year 2016, anticipates nearly \$160 million in capital work.
- Western is working bridge the divide that often exists between regulation and varying constituencies. Our engagement in the LTEMP process is a great example of the need to balance the desires of some that would negatively impact hydropower production. We have been working with customers, other river stakeholders and the Department of the Interior to ensure a balance approach is taken. Similarly, we have been engaged in the issues of the CVPIA, striking a balance of meeting the Act's intention without crippling power sales in low water years on a pathway toward proportionality. At Hoover, the remarketing efforts are being carefully navigated to allow new allottees to participate while maintaining the strong relationships with existing contractors.
- In the last year, Western's accomplishments ranged from technical and operational to contracting and the ever important human capital management.
- On October 1 Western "went live" in the Southwest Power Pool, becoming the first federal agency to become a full member of a regional transmission organization. Western entered into agreements with SPP to place transmission facilities in its Pick Sloan-Missouri Basin Eastern Division project, served by its Upper Great Plains regional office, into the Southwest Power Pool. This move is important as it demonstrated our adaptability and how we can come together to resolve challenges
- The Electrical District 5-to-Palo Verde Hub transmission line began commercial operation January, 10, 2015, after energization of the final transformer at the Electrical District 5 substation. The project directly helps 18 communities and tribes. It also increases transmission capacity to deliver renewable energy to consumers in Arizona, southern Nevada and southern California, adding enough capacity to power 30,000 homes.
- It is the second project to be successfully completed under TIP.
- During FY 2016, TIP is working with advanced funding agreements for three projects under development: Centennial West Clean Line; Southline; and TransWest Express. Both TransWest Express and Southline saw completion of

Final Environmental Impact Statements as part of the federal National Environmental Policy Act component for the proposed transmission lines. TIP anticipates its active schedule to continue through FY 2017 and into the future.

- Calendar year 2015 and FY 2016 have been especially busy years for remarketing.
- Last year, Western's Rocky Mountain region completed the Loveland Area Projects 2025 Power Marketing Initiative, a program benefitting 125 preference power customers across a four-state area of Nebraska, Kansas, Wyoming and Colorado.
- In FY 2016, the organization, through its Rocky Mountain Region, began executing the new firm power contracts based on that Marketing Initiative. Current contracts expire September 30, 2024 and the new firm power contracts will expire on September 30, 2054, giving customers 40 more years of low cost, clean reliable federal hydropower.
- Also in 2015, Western published the final allocations for the post-2017 remarketing of the Boulder Canyon Project, providing for marketing and delivery of the electric generation at Hoover Dam.
- The remarket will provide low-cost, renewable, reliable federal hydropower to Native American tribes and other preference customers in Arizona, California and Nevada. As a result of this effort, 59 new customers will receive power generated at Hoover Dam, including 23 allocations to tribal entities.
- The number one concern at Western, as it is around the industry, is the safety of its employees. Since 1992, Western has proactively embraced and incorporated OSHA's new fall protection standards into safety processes across its 17,000 miles of transmission lines, highlighting a continued drive toward business, technology and operational excellence.
- Adding to its achievements in safety, in December 2015, Western's Desert Southwest Region celebrated its five-year safety anniversary of no lost work days, setting a record for the organization.
- Transparency and collaboration are important to Western. In line with our promise of transparency, we are posting all financial material and presentations

to a new website, The Source. Delivering on our promise of collaboration, Western's four regions and Colorado River Storage Project Management Center held more than 400 face-to-face meetings with preference customers during 2015.

- At Western, we are committed to keeping both direct and indirect costs low. Costs rising in one part of Western have to be balanced by decreases in another. We are focusing on cost containment efforts to slow increasing costs and provide headroom for other required activities. By employing Continuous Process Improvements, "Just Do It" initiatives, and by reorganizing certain programs within its operational control, we obtained a total cost avoidance of \$6.9 million in FY 2015.
- For FY 2017, Western's new Budget Formulation Schedule produced \$1.7 million in cost avoidance.
- We are cognizant of how changes and expenses affect our customers and their ability to serve American homes and businesses. It is necessary Western continue to focus on costs of its entire enterprise. Overheads represent approximately 10 percent of the costs included in customer rates.
- Rates are Western's scorecard. After safety and reliability, we are judged on the rate impacts for those things within our control. We sell hydropower to our preference customers at very comparable rates. For example, Western's Arizona customers benefit from competitive power rates, less than 2 cents per kilowatt hour. That is 60 percent less than comparable wholesale rates and 80 percent less than comparable retail rates. Market wholesale rates are around 5 cents per kilowatt hour. Retail rates are around 9 to 11 cents per kilowatt hour. In another example, the Colorado River Storage Project Salt Lake City Area Integrated Projects composite firm power rate is 2.962 cents/kwh and has remained flat for the last six years.
- To support all of this work and accomplishment, on February 9, 2016, Western asked Congress for authorization to spend a total of \$1.2 billion during FY 2017. Only 6 percent of the \$1.2 billion comes from appropriated dollars, the remainder, 94 percent, comes from offsetting collections and alternative financing. As a result, our FY 2017 net appropriation requirement for Western is \$72.8 million.

- Western’s sources of funding ensure we are able to meet our contractual power sale commitments to customers and able to secure the revenue stream necessary to meet our federal repayment obligations, making it possible to repay appropriated funds invested for power related purposes. For the past five years, Western has returned more than \$1.4 billion to the US Treasury.
- Western has grown much over its 38-year history. While it adjusts to meet the changing industry around it, as a federal organization, it must remain true to its promises.
- Western must remain organizationally excellent, open to the benefits of partnership, and willing to evolve to meet the changing times.
- This is only accomplished by continued and dedicated work with our preference customers.
- As a power marketing administration, Western simply cannot afford to skimp on needed or required investments or to artificially keep costs low. Instead, the organization needs to be ready for the future so the nation and our customers can continue receiving the benefits of our federal mission.
- Western is dedicated to fulfilling its promise to customers: to continue delivering reliable, low cost federal hydroelectric power and related services at the lowest possible cost consistent with sound business principles.
- We need to make sure Western is robust in this era of change, working to keep costs low while recognizing sound business principles.
- That is how we will collaboratively continue to power the energy frontier.