Sustainable Funding:
Unobligated Balances Strategy

November 2, 2016

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Acting Senior VP and CFO
What are Unobligated Balances

• Common in Federal government and used to manage WAPA operations since inception
• Difference between amounts budgeted and executed
• Some illustrative examples:
  • Mitigate risk such as Purchase Power & Wheeling (PPW)
  • Construction project delays in execution years
  • Employee pay raises budgeted but not enacted
• Carrying unobligated balances does not impact power rates
WAPA Funding

Total program = $1.172B; $95.8M Appropriated funding (8.2%)
Carryover = 95.6% Customer funding; 4.4% Appropriated funding
Unobligated Balances Strategy

• Sustainable funding tool in support of WAPA’s mission
  • Legislative mandates for Annual O&M, PPW
  • Multi-year construction investments without access to borrowing authority
  • Continue operations during emergency situations
  • Mitigates risk during continuing resolutions or lapses in appropriations

• Strategy under development since 2013

• Collaboration with WAPA customers

• GAO Audit: Committed to Congress to finalize and implement unobligated balances strategy
Fiscal Year 2016 Status Summary

- Progress toward strategy
  - Collaborating with DOE, OMB on best approach to reducing Annual O&M carryover
  - Reduced Capital carryover by $116M to align with strategy
  - Incremental increase in PPW carryover to align with strategy

- $328M returned to Treasury Reclamation Fund in FY16
Annual O&M Expenses

• **Strategy**
  - Retain 1 quarter plus 21 days; 31% of annual requirement
  - FY16 / FY17 amounts: $70.6M / $79.2M; includes Net Zero and revolving fund
  - Rationale: Based on CRs and longest lapse in Federal appropriations for Construction, Rehabilitation, Operation and Maintenance (CROM) since 1997; Effective cash management for revolving fund

• **Action plan**
  - Collaborating with DOE, OMB on best way to accomplish reduction given net-zero requirement to fully match authority in execution year and inability to return funds to Treasury
  - Adjusted budgeting assumptions for FY17 to better account for certain personnel costs

• **Status**
  - Pending coordination with DOE, OMB (in progress)
Capital Funding

• Strategy
  • Retain customer provided funding to cover next 3 years of capital investments
  • FY16 / FY17 amounts: $250M / TBD; changes annually based on 10-year capital plans
  • Rationale: Mitigate project risks by having funding on-hand prior to initiating; Provides flexibility with project schedule or overall priority changes in collaboration with customers

• Action plan
  • Near-term: Execute returns to treasury to align with strategy during FY16
  • Long-term: Review annually and make upward or downward adjustments

• Status
  • Reduced unobligated balance by $116M including over $100M returned to Treasury for Desert Southwest customers
  • Aligned with strategy
  • Pending coordination with DOE, OMB (in progress)
Purchase Power & Wheeling

• Strategy
  • CROM contingency based on power system with highest potential for hydro variability (Pick-Sloan)
    • Highest 3-year cumulative net energy need
    • Mid-point net energy price (drought period vs. current on-peak)
    • Offset by drought adder collections
  • Revolving fund contingency based on 25% of the peak annual purchasing requirement
  • Current amount: $427M; includes CROM ($393M) and revolving fund ($34M)
  • Rationale: Increases ability to stabilize power rates
    • Cash reallocated to cover net-zero requirements since 2010
    • Customers do not want to use “Continuing Fund” with 12-month payback requirement
    • Facilitates ability to reduce drought adder for 50% of our customers
    • Covers 3-year shortfall caused by a drought and accounts for end-to-end process to make rate adjustments and receive increased authority

• Action plan
  • Jointly developed approach with customers – strong support
  • Near-term: Reach optimal level by FY20
  • Long-term: Review annually and make upward or downward adjustments

• Status
  • Increased unobligated balance by $47M during FY16 for a total of $230M
  • Aligned with strategy
  • Pending coordination with DOE, OMB (in progress)
Other

• No single strategy for miscellaneous accounts

• Fluctuations difficult to predict
  • Reimbursable work for others
  • TIP program based on project development
  • Revolving fund customer needs

• Also includes Congressional directed activities
Active Management

• Monthly execution vs. forecast dashboard

• Quarterly senior management reviews

• Annual plan updates based on revised contingency levels

• Coordinate significant changes with DOE and OMB
### Western Area Power Administration
#### FY 2016 Unobligated Balances
($ in thousands)

<table>
<thead>
<tr>
<th>Construction, Rehabilitation, Maintenance and Operation (CROM)</th>
<th>PPW</th>
<th>Annual</th>
<th>Capital</th>
<th>Other</th>
<th>Total</th>
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<td>Annual Expense O&amp;M (PD and O&amp;M)</td>
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<td>134,548.5</td>
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<td><strong>CROM TOTAL</strong></td>
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| Colorado River Basins Power Marketing Fund                   |     | 34,000.0 | 16,200.0 | 48,028.1 | 34,528.5 | 132,756.6 |
| Falcon and Amistad O&M                                       |     |         |         |       | 215.6 | 215.6 |
| Emergency Fund                                               |     |         |         |       | 500.0 | 500.0 |
| TIP                                                           |     |         |         |       | 12,278.1 | 12,278.1 |
| **Grand Total**                                              |     | 229,636.2 | 150,748.5 | 254,669.9 | 132,312.7 | 767,367.3 |
## Western Area Power Administration
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($ in thousands)

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