



Western  
Area Power  
Administration

# Prepayment vs Net Zero Funding

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Customer Meeting  
Phoenix, AZ



# Problem Statement

- WAPA requests budget authority for annual expenses in its Annual Expense Fund (Net Zero)
- WAPA also requests authority to accept advancement of funds and prepayment collections in its Federal/non-Federal reimbursable funds
- Having this dual authority can lead to the potential for overspending
- Actions taken to date have not fully addressed customer concerns



# Intertie/Parker-Davis O&M Funding Sources

- Parker-Davis Advancement of Funds (AOF)
- Parker-Davis Firm Electric Service (FES) Advances
- Intertie/Parker-Davis Prepayments
- Net Zero
- Appropriations (when available)



# Process Prior to FY15

- Budgeted Net Zero authority for annual O&M
- Used prepayments for annual O&M and RRADs
- Applied costs at year-end to appropriations first, then Net Zero to the extent possible
- Available Net Zero balances in excess of applied costs increased unobligated balances
- Available prepayment balances retained for capital projects instead of remitting to Treasury



# Process Concerns

- Customer concerns regarding risk of overspending
- Monthly execution reporting
- Transparency
- Internal controls
- Alignment with unobligated balance strategies

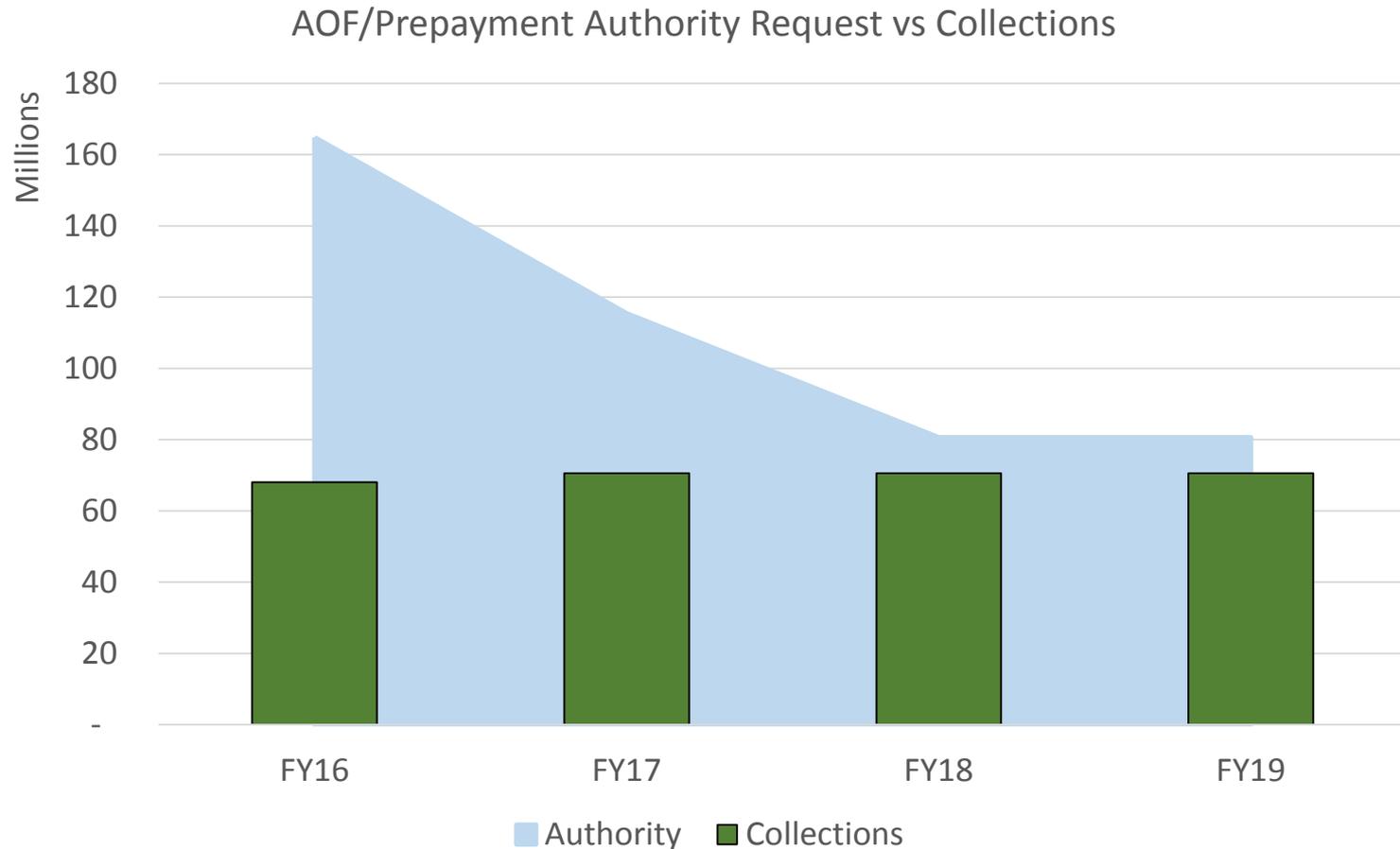


# FY15/16 Changes

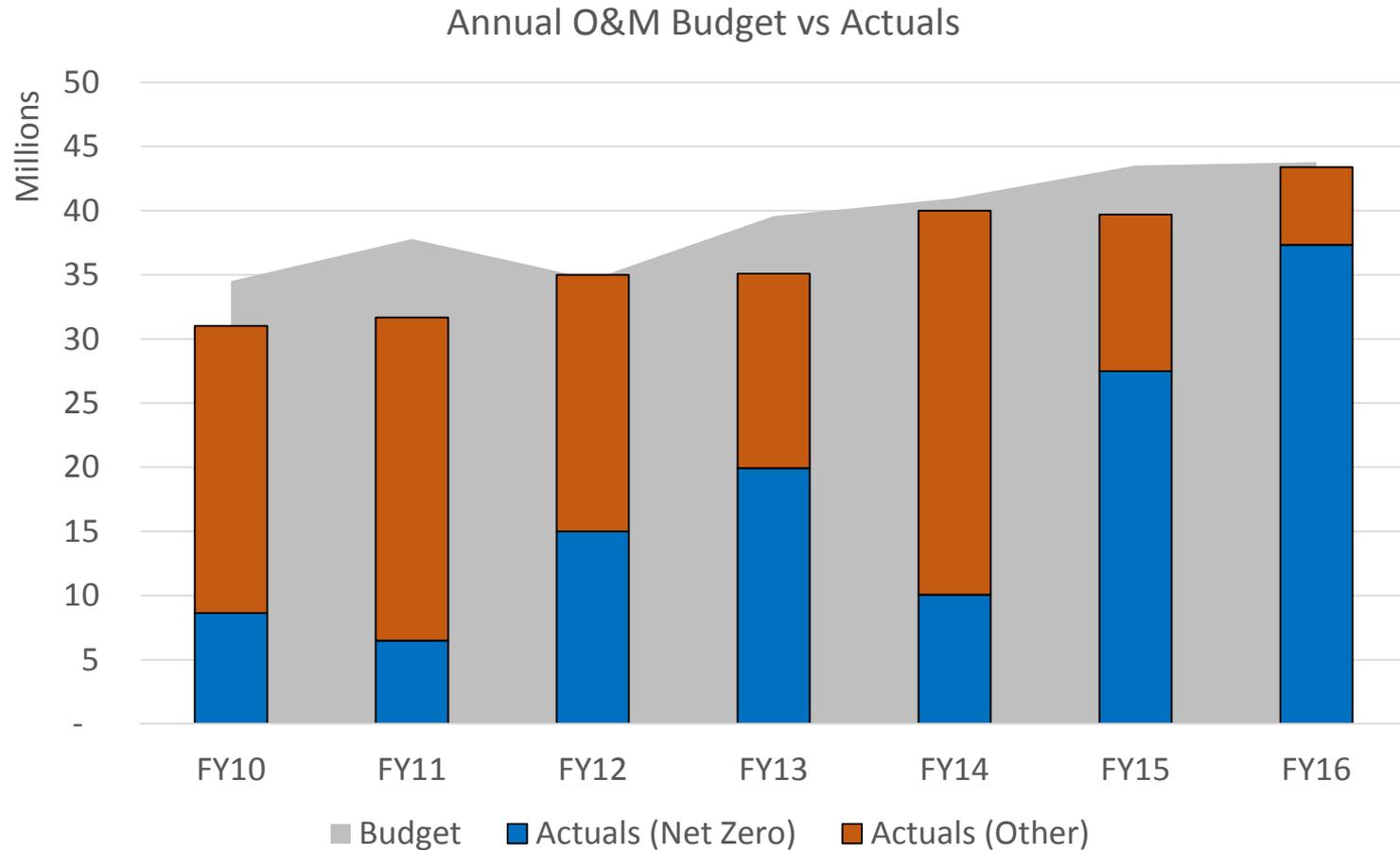
- Reduced AOF/prepayment authority request
- Use appropriations for all RRADs expenses
- Use Net Zero for all annual O&M expenses
- Use AOF/prepayment receipts in alignment with unobligated balance strategies:
  - Matched against Net Zero authority
  - Retained for construction based on 10-Year Capital Plan
  - Balances exceeding needs remitted to Treasury



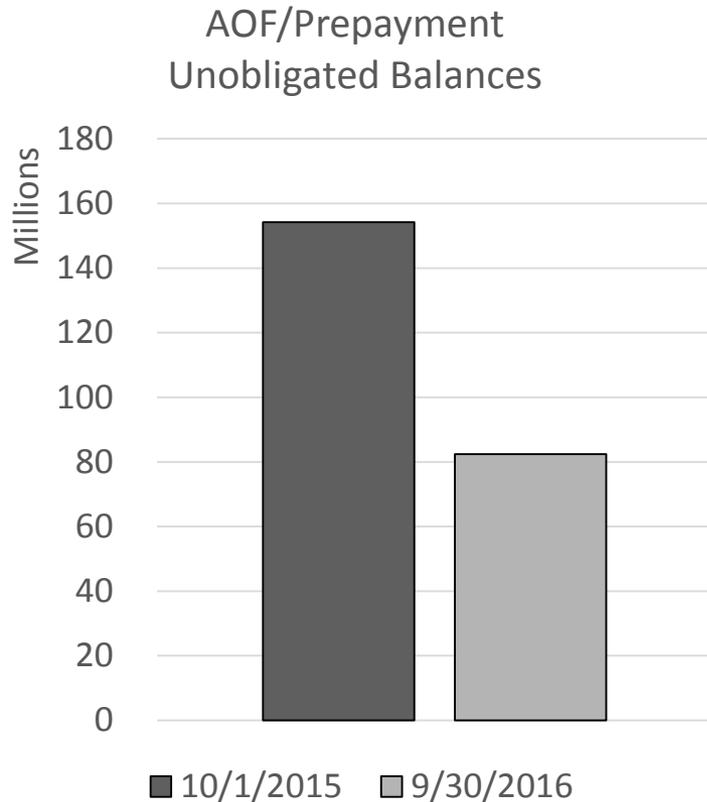
# Reduced AOF/Prepayment Authority Request



# Utilize Appropriations for RRADs & Net Zero for Annual O&M



# Alignment with Unobligated Balance Strategies



- Annual O&M conversion to Net Zero
- \$37M transferred to Reclamation Fund to match Net Zero Authority
- \$92M remitted to Treasury



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# Options for Funding Annual Expenses

- **Option #1 “100% Net Zero”** – Fund annual expenses exclusively using Net Zero and reduce prepayment authority request by that amount
- **Option #2 “100% Pre-Payment”** – Fund annual expenses exclusively using prepayment funds and remove annual expenses from Net Zero authority request
- **Other Options?**



# Option #1 – “100% Net Zero”

## Pros

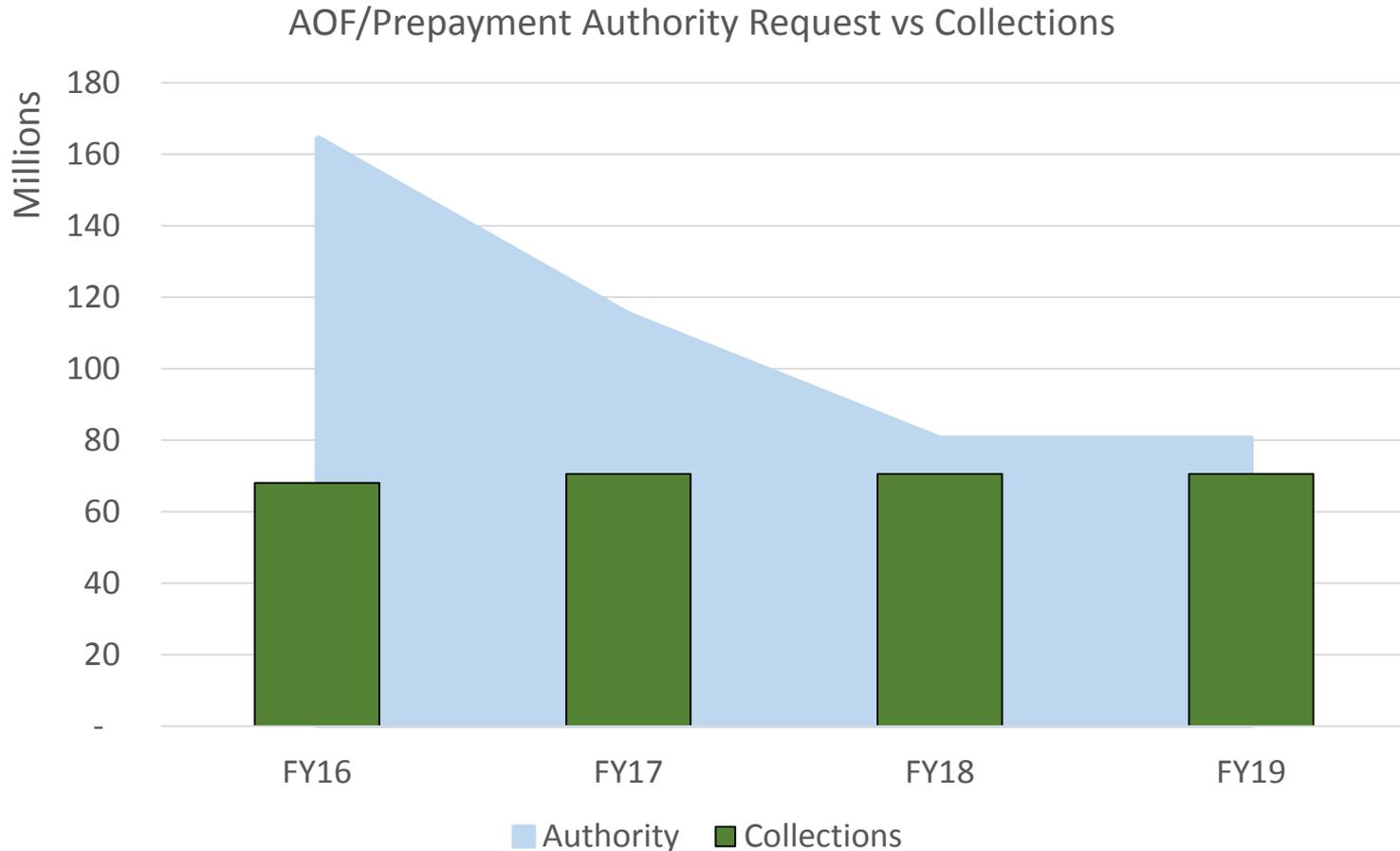
- More congressional controls (PD/Non-PD)
- Less WAPA discretion
- Better manage prepay unobligated balances
- Consistent with WAPA-wide approach

## Cons

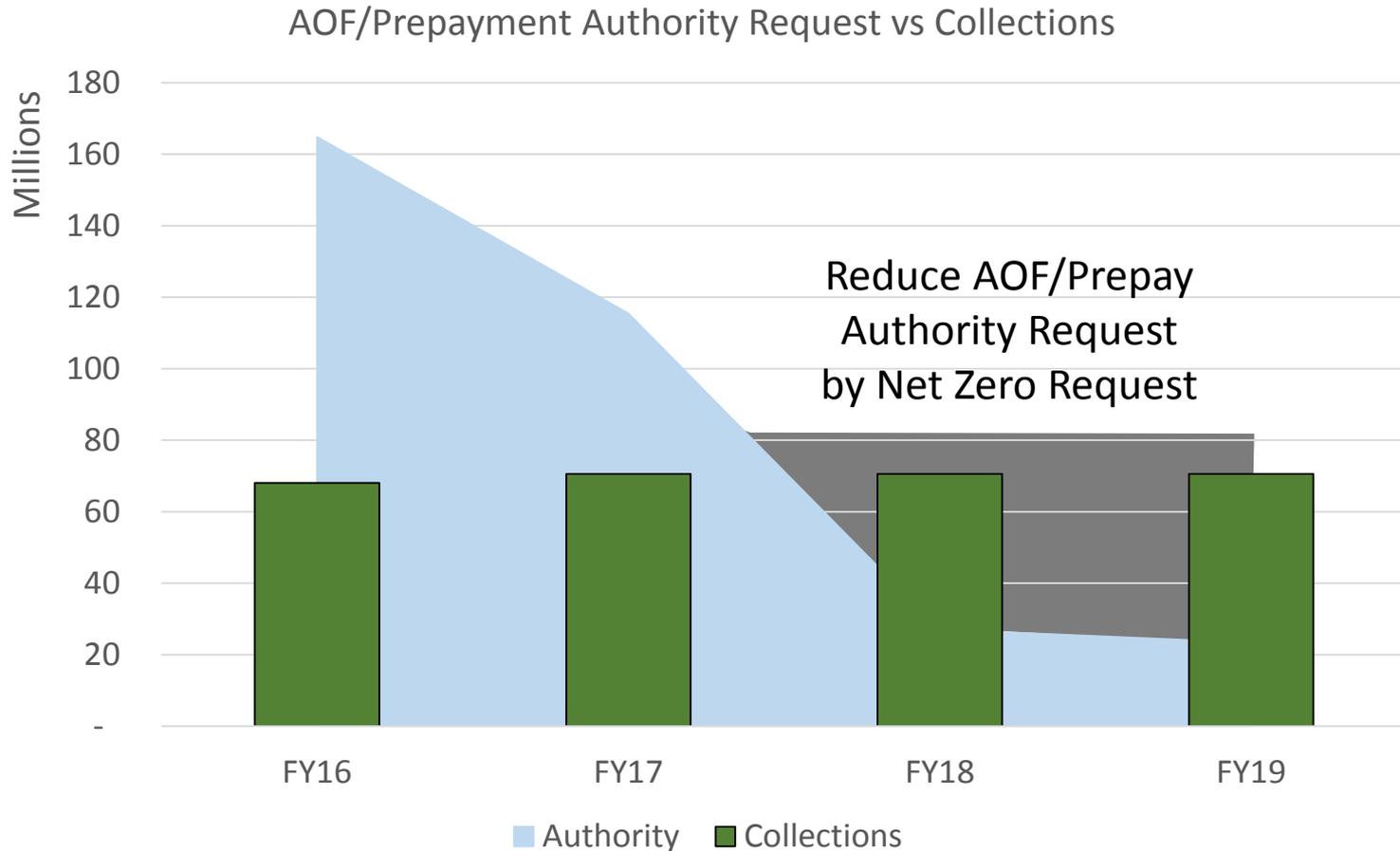
- Relies on upfront appropriations
- Legislative limitations on returns to Treasury
- WAPA-wide resource concerns



# Reduced AOF/Prepayment Authority Request



# Reduced AOF/Prepayment Authority Request



# Option #2 – “100% Pre-Payment”

## Pros

- Does not rely on upfront appropriations
- No legislative limitations on returns to Treasury
- DSW-only resource

## Cons

- Fewer congressional controls
- More WAPA discretion
- Not currently covered by a contract, budget formulation occurs 2-3 years in advance



# Discussion



# HQ Planned Improvements

- Mature the HQ 10-YCP Process – more customer interaction and transparency
- Customer dialogue regarding WAPA budget guidance early in the budget process
- Customer dialogue regarding WAPA transparency language

