Financial Strategy Update

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Acting Senior VP and Chief Financial Officer
Financial strategies

• Reserve balances strategy progress
• Transparency update
• Fiscal Year 2021 strategic budget guidance
# Reserve balances strategy

Sustainable funding tool in support of WAPA’s mission

<table>
<thead>
<tr>
<th>Example</th>
<th>Annual O&amp;M</th>
<th>Capital funding</th>
<th>Purchase power &amp; wheeling</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Salaries, supplies and equipment</td>
<td>Building new transmission lines and related structures</td>
<td>Buying power on behalf of customers when water conditions require it</td>
</tr>
<tr>
<td>Purpose</td>
<td>Allows WAPA to sustain operations during emergencies, continuing resolutions or lapses in appropriations</td>
<td>Provides funding in advance of starting capital construction projects and flexibility with schedule / priority changes in collaboration with customers</td>
<td>Improves both WAPA and customer cash management, allowing for continued funding of critical capital construction and maintenance projects</td>
</tr>
<tr>
<td>Strategy</td>
<td>Retain 31% of annual funding need</td>
<td>Retain sufficient funding to cover up to 3 years of capital investments</td>
<td>Retain 3 years estimated funding during drought</td>
</tr>
</tbody>
</table>

Carrying reserve balances does not impact power rates
Fiscal year-end 2018 reserve balances summary of all accounts

- Strategy progress: 2016-18
  - Annual: Reduced ~ $64M
  - Capital: Reduced ~ $182M
  - PPW: Increased ~ $142M

- Returns to U.S. Treasury Reclamation Fund
  - 2016: $328M
  - 2017: $338M
  - 2018: $266M
# Planned FYE 18 targets/actions

## CROM account strategies**

<table>
<thead>
<tr>
<th>Program</th>
<th>FYE 18 Balance</th>
<th>Strategy Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual O&amp;M</strong></td>
<td>$66.7M</td>
<td>$68.5M</td>
</tr>
<tr>
<td>• FY18 enacted budget authorized ~$44M use of PY balance</td>
<td></td>
<td></td>
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<tr>
<td>• Target changes annually based on program year</td>
<td></td>
<td></td>
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<tr>
<td>• Use of PY balances through budget formulation as needed</td>
<td></td>
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<tr>
<td><strong>Capital</strong></td>
<td>$133.5M</td>
<td>$166.1M</td>
</tr>
<tr>
<td>• Regions collaborate with customers on amount to retain</td>
<td></td>
<td></td>
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<tr>
<td>• Target changes annually based on rolling 10-year plans</td>
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<td></td>
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<tr>
<td>• Returns to Treasury as needed</td>
<td></td>
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<tr>
<td><strong>Purchase Power &amp; Wheeling</strong></td>
<td>$290.8M</td>
<td>$393.0M</td>
</tr>
<tr>
<td>• Executed incremental increase of ~$45M</td>
<td></td>
<td></td>
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<tr>
<td>• Reach target by FYE 2020</td>
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<tr>
<td>• Requires solution to CBO budget authority “scoring” issue</td>
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</table>

** Does not include CROM “Other,” CRBPMF, TIP, Falcon-Amistad, Emergency Fund
Transparency

• Created “The Source” in 2016
• Expanded financial data in May 2018
• Ongoing enhancements to capital and annual “work plan” reviews
• Programmatic insight
FY21 Administrator’s budget guidance

• Investment drivers
• Assumptions / constraints

Read more:
The Source – Budget Allocation
Investment drivers

• Tactical Action Plan
• Strategic Target Areas
  – Mission-critical Customer Services in Evolving Industry
  – Asset Management 2.0
  – Grid Resilience
  – People and Organization
Assumptions / constraints

• Investment drivers must be offset
• FTE neutral
• Inflation at 2% for labor / non-labor
• Training and leadership development at 2% of payroll
• Increases over FY 2020 work plan require Administrator approval
• Physical security to meet risk assessments and remediation plans
Budget Timeline

- **Capital Planning**
  - Regional/HQ 10-Year Capital Plan Process
  - Multiple Customer Interactions
  - WAPA-Wide 10-Year Capital Plan Cust. Briefing
  - State of Capital Appropriations
  - Review Annual Budget Guidance

- **Annual Expense Planning**
  - Annual Expense Process
  - Senior Review of Annual O&M Work Plan
  - Customer Work Plan Meetings
  - Final Changes to Work Plan

- **Submission Process**
  - Submit Budget Request to DOE

Timeline:
- Apr.
- May
- Jun.
- Jul.
- Aug.
- Sep.
- Oct.
- Nov.
- Dec.
- Jan.
- Feb.
- Mar.
- Apr.
- May
- Jun.