

Heartland Annual Meeting remarks
Dec. 10, 2020

It has been a historic year, heralding a level of change we could not anticipate this time last year.

- This video address of my Heartland annual speech demonstrates that.
- Thank Russ Olson and Heartland members.

Before delving into my remarks, I want to provide you a status update on our COVID response, which is top of mind for many of us, especially in the Upper Great Plains region.

- Like many other utilities, our responsible workplace re-entry has been delayed due to the exponential surge in cases across our territory.
- We have resumed discussions and planning for sequestering our dispatchers, if that becomes necessary, to protect our on-site mission-critical staff.
- We have several measures in place to protect our employees and mission, which include maximized telework.
- We anticipate continuing with maximized telework until summer 2021.

Responding to COVID-19 has presented a major evolutionary step for WAPA, and indeed all government agencies and utilities, to deploy innovative new processes, procedures and tools in line with the 21st century.

Over the course of the year, we adapted and persevered against the backdrop of adversity and uncertainty to continue successfully delivering on our mission in 2020.

It brings me great pride to say that we were able to:

- Accomplish our mission
- Provide industry leadership for responding to COVID AND
- also achieve our annual performance targets for the fiscal year,
- all while about 75 percent of our employees worked from home for most of that time.

We also focused on:

- The advent of markets in the West.
- The value of hydropower.
- The challenge of building and upgrading transmission.
- Combatting and mitigating the effects of more severe natural weather events.
 - We had a record-breaking wildfire season across much of our territory this year, and thanks to proactive vegetation management, were spared significant damage.
- The changing generation mix and how that is causing utilities to operate the system ever closer to its limits and sometimes pushing the system over the edge as we saw in California this summer.
- Incorporating battery storage technology into our system and pairing it with hydropower.

Our accomplishments this year are many as we adjusted to a new way of working and living.

Rather than go over them all, which you may have heard at other meetings this week, I encourage you to peruse our FY 2020 Annual Report entitled “Engaging in a world of change,” as that is exactly what we did.

- The theme, selected before the COVID pandemic, reaffirmed our commitment to inclusiveness, openness, transparency and collaboration with our customers and other stakeholders to preserve the value of WAPA and its services.

Despite the obstacles facing us, we continued to collaborate with customers, especially on markets activities such as:

- the transition to new energy imbalance management entities for UGP, RM, CRSP and SN
- DSW’s study of energy imbalance management options
- providing input on CAISO’s Extended Day-Ahead Market
- and evaluating a move to full SPP membership for UGP-West and Loveland Area Projects

Participating in SPP’s exploratory effort to expand the RTO into the West is consistent with our commitment to evaluate alternative ways of doing business that will retain and increase the value of WAPA to customers.

- It also will open opportunities to upgrade both the equipment and the value of the direct-current ties, which will become even more important in an energy frontier dominated by intermittent generation.
- If we were better able to send Arizona solar to Chicago or Nebraska wind to San Diego, we could be closer to realizing the safe and reliable grid of the future, to the benefit of the owners and operators of those interties.

The evaluation is also a logical next step after more than 30 years of exploring markets and market-like constructs in the West, including:

- UGP-East’s full membership in the SPP RTO in 2015.
- The Mountain West Transmission Group
- The Southwest Markets Assessment Group
- Our internal Organizational Approach to Markets effort
- And a host of other activities.

Finally, we must participate now because I believe that there will be a full market in the West in the next few years.

- It is our obligation as stewards of critical electric assets in the West and as a critical energy supplier for our customers to be present at the markets table and to participate and negotiate from a strong, unified position.
- It is only by proactively participating in the development of markets in the West that we can ensure an optimal outcome for WAPA and our customers.

Our decisions regarding our future and specifically markets will serve the best interests of WAPA, the regions and our customers based on the unique needs and circumstances of each locality.

- That can take many forms; however, we are committed first and foremost to protecting the interests of WAPA and our customers.
- We will not allow others to benefit from us without adequate and appropriate compensation, in line with our beneficiary pays principle.

Contributing to market developments is not the only thing we are doing to ensure the continued success of our mission in the energy frontier.

We are pursuing a number of activities, including

- the combined transmission rate for Desert Southwest's four transmission systems and the Colorado River Storage Project,
- a fiber pilot project with three customers,
- the Standardized Budgeting and Reporting Initiative and
- participating in the Hydropower MOU, among other things.

During all this work, we remain committed to our core mission, beneficiary pays and lowest rates consistent with sound business principles.

With the upheaval and uncertainty that we have experienced in 2020, both in our society and in our industry, we decided that this year should be focused on restoration, recovery, resilience and strength.

Our theme for this year is a single, simple word: "Balance."

Achieving balance is a challenge many of us are likely pursuing, and not just at work but also in our personal lives.

The industry, too, needs to find balance. I would argue that the energy industry today is unbalanced.

- It values energy over capacity, leading to severe unintended consequences for system reliability.
- The desire to protect the idea of traditional utilities and resistance to change are stifling creativity and innovation to accommodate a new energy frontier, while technologies are growing at the edge of the system without utility input.
- We have scores of megawatts of new generation coming online every year and next to no new transmission to deliver it because the transmission side of the equation is not financially stable.
- We value the idea of markets as solutions to problems instead of addressing the root of the systemic issues we are seeing in operations.

- We are operating the system balance closer and closer to the edge.
- Hydropower, as one of the few baseload generating resources left, is not properly valued.

Closer to WAPA, we need to:

- balance the needs of our employees with the needs of WAPA
- balance the needs of our customers with one another and with the needs of our system, now and in the future
- Balance reliability and resilience
- Balance the needs in vegetation management with financial and environmental costs
- Balance our resources against our many competing organizational priorities, which is the goal of the workload planning initiative.
- And make system investments based on data driven from our asset management program balancing competing priorities

One of the ways we will seek to find balance with our new world is by conducting a refresh of our mission and vision.

- Many of you have likely been involved in one of our 28 stakeholder meetings to learn what you think of our purpose and goals.
- Thank you for participating in this process.
- At this time, we do not foresee a major change to our mission statement. Our vision statement will be more focused, clear and concise.
- We expect to share more information in January.

Another focus in 2021 will be on resilience, both in our physical and cyber assets and in our culture.

Resilience is the ability to prevent, withstand and recover from disruptive threats and events—an important distinction from reliability--as we balance our available personnel and funds.

In an ideal world, we would invest more in resilience, placing special emphasis on defense-critical electric infrastructure, including

- hardening facilities,
- increasing redundant services,
- enhancing black-start capabilities,
- replacing wood with steel,
- increasing the movement of energy between the Eastern and Western grids through interties and
- integrating artificial intelligence, machine learning and advanced technology solutions into grid operations.

These upgrades are expensive, and one enduring question is how do we strike the appropriate cost ratio between those who directly use these upgrades and those who benefit from projects that support national energy resilience and security.

We will also focus on workload planning to better balance our resources against our many competing organizational priorities.

Workload planning is the culmination of numerous ongoing programs that have been established at WAPA since 2013:

- Reliability-Centered Maintenance
- Continuous process improvement
- Asset Management
- 10-year capital planning
- Lifecycle Management

These programs have made WAPA a data-driven organization.

Now, we have reached a stage of maturity where we can use this data to accurately forecast our business needs and compare them to our available people and equipment.

- If we were able to better match our resources with business needs, we could more efficiently and effectively complete the many pressing projects before us and provide you more detailed information on our plans and ongoing projects.

This year, we will focus on documenting operations and maintenance projects to establish a baseline level of work, particularly for our craft.

- Although we are focusing on the craft first, these projects take a cohort of WAPA functions and people: from operations conducting system reliability studies, to Natural Resources performing environmental reviews and land acquisition, to Design and Engineering to Procurement, to Construction and finally to our crews.
- Eventually, the work done by all these functions will be captured in this initiative.

It is unfortunate that I could not be with you in person to share these updates as I look forward to meeting with you every year.

- Thank you again for your continued engagement and support of WAPA.
- Together, we will achieve and sustain balance amid the many opportunities and challenges before us.

Stay safe, remain socially distanced and wear your mask.