

Full Talking points for Midwest annual meeting

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

- This video address of my Midwest annual speech demonstrates that.
- Thank Jim Horan and Midwest members.

WAPA adapted and persevered against the backdrop of adversity and uncertainty to continue successfully delivering on our mission in 2020.

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

- Marketed 26,985 gigawatt-hours of hydropower, or 100.3% of average
- Transitioned 1,500 employees to maximized telework in four days
- WAPA's pandemic plan was sent by NERC and FERC to every utility in America
- Executed 98% of our operational maintenance budget and 97% of our capital budget
- Returned \$272.3 million to Treasury and a total of \$2.6 billion over the past eight years
- Procurement awarded \$189 million in contracts
- Selected common SCADA vendor and attained 100% up-time for SCADA
- Achieved all of our reserve balance targets for the first time
- Added four new classes to our asset management program
- Managed total operations and maintenance cost per kilowatt-hour at \$0.012
- Saved or avoided over \$113 million in costs since 2014 through continuous process improvement activities
- Initiated a fiber pilot project with two Rocky Mountain customers and one Sierra Nevada customer
- Supported California during its energy emergency Aug. 14-19 – total of 5,400 megawatt-hours
- Won Gears of Government awards for continuous process improvement and collaborating with the Forest Service to safely clear vegetation around WAPA transmission lines.

Finally, we also Engaged in a World of Change with you, our theme for last year and title of our Fiscal Year 2020 Annual Report, released the other day.

That theme reaffirmed our commitment to inclusiveness, openness, transparency and collaboration with our customers, neighboring utilities, generating agencies, Department of Energy and others to preserve the value of WAPA and its services.

- This was a unique year for engagement.
- We employed new technology to meet with our customers so we could continue to Engage in a World of Change.
 - Held customer and project meetings
 - Negotiated a BA Services Agreement for WAPA
 - Made progress on the moves to new energy imbalance management solutions and continued studies on the best choice for DSW.

- 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.
- This year, we also focused on
 - the value of hydropower
 - the challenges to building transmission during the generation transition
 - the advent of markets in the West and
 - the twin pillars of stability and progress. A successful organization must be both progressive and stable. One cannot exist without the other, and an organization missing one is doomed to fade into irrelevance or fall apart under pressure.

Although we will continue to emphasize these important issues as often as we can, only markets will transcend into a focus this year as well.

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

As we adapt and evolve in this energy frontier, one that now includes COVID-19, it will be critical for us to embody strength, resilience, unity and leadership while also being mindful of our enduring mission, reliability, regional differences and collaborative culture with our customers.

It is not beyond the imagination to believe that we will have a fully integrated market in the West in the next 2-3 years.

- We have been preparing for this eventuality for the past several years with Organizational Approach to Markets, Mountain West Transmission Group and our transition into the CAISO EIM and SPP WEIS.
- Our goal is to optimally position WAPA as a major player at the markets table to ensure we can influence their development and preserve and strengthen the value of WAPA and our customers. This requires a delicate balance between leadership and collaboration.
- We will continue to fully explore our opportunities regarding markets and continue to keep you apprised of our activities through this evolution of the energy industry in the West.

We will also focus on resilience, both in our physical and cyber assets and in our culture.

We operate a reliable system, weathering disruptions, including storms, wildlife interactions, vehicle accidents, routine maintenance and emergency situations and safely returning power to citizens

We do this by concentrating on

- our key drivers of security, quality, resilience and availability;
- a best-in-class reliability-centered maintenance program;
- a mature asset management program;
- aggressive integrated vegetation management;
- long-term capital planning;
- and support from our customers.

- We also participate in industry leadership groups, like the Electricity Subsector Coordinating Council.

We anticipate investing \$1.3 billion in our system over the next decade to ensure reliability. Those are the projects you have seen in the 10-year capital plans.

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.

- This has been a difficult year not just with the pandemic, but with a record-breaking wildfire season across much of our territory that some of our infrastructure, particularly in Arizona and Colorado.
- Thanks to proactive vegetation management, we avoided what could have been a devastating wildfire year requiring rebuilding and repairs.

Yet, wildfires were only the most visible resilience challenge we faced.

- The California energy crisis was a harbinger of resilience challenges to come due to the energy transition and lack of transmission buildout.
- We continue to be concerned that the long-term contracts needed to build more transmission are lacking in these uncertain times.
- SPP and MISO both announced limited transmission capacity that is preventing new generation sources from being added to the grid.
- We are operating closer and closer to system limits with each passing year.
- Cyber attackers are becoming more prolific and advanced in their techniques.
- Outages are less acceptable for any reason and for any duration due to electricity's integral role to our economy and way of life.
- Regulatory agencies and legislators are focusing on resilience measures and requirements.

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 use these upgrades and those who benefit from projects that support the national energy resilience and security.

Markets and rules will not solve these resilience issues. They cannot control the creation of electrons on physical system.

- Markets are financial constructs, not construction. They are virtual overlays on a physical system.
- The grid, at its core, is a machine that cannot be ordered by rules to meet our needs and desires nor bribed into innovation with financial incentives.
- Solutions require physical activities to put steel in the ground and wires in the air.

Finally, we will 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

All of 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.

This is an exciting initiative—a favorite of mine as it represents many accomplishments over the years.

- As we progress with this initiative, the outcome it provides will allow us to better define and plan what operations and maintenance and capital projects can be done each year and over a multi-year timeframe.
 - 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 better 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 to 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 there to share these updates in person as the Midwest annual meeting is a highlight of my year.

I greatly appreciate your continued engagement and support of WAPA and look forward to continuing our journey together to create a bright, valuable and relevant future.

Together, we will achieve and sustain balance amid the many opportunities and challenges before us.

Stay safe, remain socially distanced and wear your mask.