WAPA Financial Strategy

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Mid-West Electric Consumers Association
Annual Meeting
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Discussion topics

*Audience participation is welcome, so please interject*

Strategic considerations for maintaining reliability while minimizing expenditures
- Drought = challenges ahead
- Distinction between spending and investing
- The Consequence Ratio

Finance and budget updates
- FY21 – Annual report published, commercial reporting & external audit (KPMG) on track
- FY22 – Year of the continuing resolution? Maybe.
- FY23 – WAPA budget submission approved by DOE, under review by OMB, embargoed
- FY24 – 10-year capital plan finalized, development of labor and discretionary budgets underway

Managing in an environment of rising prices and volatility
- Inflation
- WAPA’s value proposition
- Purchase Power & Wheeling
Drought = challenges ahead

Drought conditions projected across all WAPA power systems
Distinction between spending and investing

Spending consumes value, while Investing creates value

- Transmission Line
- Substation
- Helicopter
- Fire extinguishers
- High voltage signage
- Security harnesses

- Networking event in Vegas
- Over-the-top T&E
- New phones every year

- Outsourced printing
- Dual monitors
- Paperclips
The consequence ratio

Probabilistic risk assessment of the negative impact of asset failure

Probability of failure (POF)
- Unique assessment per asset, established by WAPA’s Asset Management Team
- Determined by the health (condition) of a specific asset and its failure history

Consequence of loss
- Relative scoring of the negative impact to customers, the public, and/or WAPA if an asset fails

What is considered?
- Asset failure means the asset is unavailable for service
- MW impacts are determined with only the asset under evaluation out of service (N-1)
The consequence ratio

*Probabilistic risk assessment of the negative impact of asset failure*

How is the consequence ratio applied to budgeting for life cycle management assets?

- The consequence ratio aids in budget prioritization by approximating the inherent risk of run-to-failure results attributable to exceeding LCM targets
- **EXAMPLE:** Consider a $100 tire with an LCM target of 50k miles, and a 2:1 Consequence Ratio
  - Cost of running the tire to failure (eg: 75k miles) = $200 (tire + tow)
  - Cost of replacing the tire at 50k miles = $100 (tire)
## Stages of a budget

### Formulation, approval and execution

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*FY Performance Review*
10-year plan totals
- $2B investment (including SLTP)
- Decrease of $242M from previous plan
- FY22 – 13% above previous plan
- FY24 – 15% lower than previous plan

Rate window
- Rate window is 3% lower than previous plan

Appropriations
- Assumes levels consistent with FY22 President’s Budget
Composition of the WAPA 10-Year Capital Plan

Transmission lines, substations & communications comprise 83%
Inflation

Eroding buying power combined with sector-specific pressures merit concern
WAPA’s value proposition
Maintaining reliability & system integrity while holding the line on costs

Disposition of Total Revenues

- Net WAPA revenues, 11%
- Net interest expense, 1%
- Depreciation, 8%
- Administration & general, 6%
- Purchased power & transmission services, 24%
- Generating Agencies’ expenses and transfers, 25%
- Operation and maintenance, 25%

Disposition of Total Power Sales Revenues

FY20 revenues per MWh = $26.24

- WAPA, 54%
- Generating Agencies, 46%
Purchase Power & Wheeling (PPW)

*Infrastructure Act provides emergency funding to secure FY22 and FY23*

**Purpose of PPW**

To firm WAPA’s contractual power delivery commitments when the generating assets (federal dams) are unable to provide sufficient power to meet WAPA’s contractual obligations.

**History of PPW Receipt Authority**

- Instituted at WAPA over two decades ago
- Has always been reimbursable
- Until four years ago, was scored at net zero

*2022 Enacted based on HEWD markup and recent CBO scoring*
Purchase Power & Wheeling (PPW)

Infrastructure Act provides emergency funding to secure FY22 and FY23

Infrastructure Investment & Jobs Act

- Provided $500 million of reimbursable funding for WAPA’s PPW reserves to be used exclusively for PPW costs incurred throughout WAPA’s footprint
- This emergency provision addresses WAPA’s estimated PPW funding needs through fiscal year-end 2023
Purchase Power & Wheeling (PPW)

*Infrastructure Act provides emergency funding to secure FY22 and FY23*

**Current PPW Funding Issues**

- Congress has been limiting PPW funding levels since 2018 due to CBO scoring
- Targeted PPW reserves, established in 2016, total $477 million
- Re-assessment of PPW reserve targets will commence in 2022, power system by power system
- At fiscal year-end 21, WAPA’s PPW reserves were at 48% of targeted levels ($228 million)
- WAPA incurred $457 million in PPW costs in FY 2021
Thank you for your time and interest.