Discussion topics

Audience participation encouraged

Budgeting within the context of WAPA’s value proposition

- The value of WAPA = below-market cost + above-market reliability
- Commitment to our mission
- Sustained focus on execution, proactive bottoms-up management review and prioritization

Budget insights by fiscal year and notable FY 2024 labor, capital and discretionary elements

- FY 2021 – External audit finalized in June with a clean, unqualified opinion
- FY 2022 – Improved execution; increased cost/supply chain pressure; OMB release of allotments lagged into 4Q22
- FY 2023 – WAPA budget approved by OMB; Congressional Justifications posted in April
- FY 2024 – Capital, labor and discretionary budgets finalized & submitted to DOE
- FY 2025 – Formulation to commence in earnest in the weeks ahead

Administration of Purchase Power & Wheeling funding from IIJA = textbook example

- WAPA’s request was timely, focused and well estimated
- Implementation was methodical and is supported by robust oversight
- Execution commenced Jan. 1, 2022, projecting draw-down of $500 million in single-use authority by FY-end 2023
Budgeting within the context of WAPA’s value proposition
WAPA’s value proposition to customers

Delivering cost-based power while maintaining reliability & system integrity
## Recent budget process enhancements

*Our goal is to prioritize project execution with data-driven decision making*

| TAP Goal | Standardized Budgeting & Reporting  
|          | Total Capital Committee established  
|          | Total Resource Planning established  |
| Evaluation | Project class  
|           | Project type  
|           | Rate impact  |
| Feasibility assessment | Execution >15%  
|                       | Cash flow limitations  
|                       | Labor limitations (Design, Procurement, etc.)  |
| Project funding | Appropriation target  
|                  | Alternative financing coordination  |
| Key objectives | 2-pronged approach to closing the Execution Gap  
|                | Levelize year-to-year workload  
|                | Prioritize budget items in preparation for challenges ahead  |
Budget insights by fiscal year and notable FY 2024 labor, capital and discretionary elements
### Five stages of a budget

**Formulation, submission, approval, execution and performance review**

<table>
<thead>
<tr>
<th>FY 2025</th>
<th>FY 2024</th>
<th>FY 2023</th>
<th>FY 2022</th>
<th>FY 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>Regional &amp; HQ Capital Planning Discussions</td>
<td>10y Cap Plan</td>
<td>OMB Passback</td>
<td>Financial Reporting</td>
</tr>
<tr>
<td>WAPA</td>
<td>Capital Planning</td>
<td>Work Plan Presentation</td>
<td>President's Budget</td>
<td>FY Performance Review</td>
</tr>
<tr>
<td>Executive &amp; Legislative</td>
<td></td>
<td></td>
<td>Congressional Markup</td>
<td></td>
</tr>
</tbody>
</table>
Segmentation of WAPA’s FY 2024 budget

Goal is focused management on controllable and mission-supporting costs

**Labor**
- FTE
  - Remain flat at 1,521.
  - Reallocate 1 FTE from reserve.

**Capital**
- Evaluation
  - Additions & Major upgrades require Project Initiation Documents.

**Feasibility assessment**
- Requests >15% of historical execution require further justification.

**Project funding**
- Appropriation assumptions will be consistent with TCC process.
- Consistent with rate, cash flow estimates and customer coordination.

**Discretionary**
- **Discretionary O&M and Indirect**
  - Increases expected to be offset in discretionary spend areas.
  - Limited to historical expenditures (FY 2018-FY 2020) + 15%.

**Other considerations**
- Rate impact assessment.
- Work-for-others revalidation.
- Safety, physical & cybersecurity needs remain a top priority.
- IT cost containment strategies: portfolio assessment, retirements, commercial-off-the-shelf.
WAPA-wide: FY 2024 workplan

Financial discipline in preparing for projected operating challenges on the horizon

FY 2017-2024 Summary
3.0% annual growth (CAGR)
3 budget categories:
  a) Capital (approved 11/21)
  b) Labor
  c) Discretionary

Execution Gap = $ Amount by which budget plans exceed historical expenditure.

FY 2023 to 2024 Summary
a) Capital = -7.7%
   (a + b = 1.5%)
b) Labor = 6.6%
c) Discretionary = -3.5%
d) Total = 0.0%, or -$85k

<table>
<thead>
<tr>
<th></th>
<th>FY2017 Expenditures</th>
<th>FY2018 Expenditures</th>
<th>FY2019 Expenditures</th>
<th>FY2020 Expenditures</th>
<th>FY2021 Expenditures</th>
<th>FY2022 Request</th>
<th>FY2023 Request</th>
<th>FY2024 Request</th>
<th>FY2024 over 3-Yr Avg</th>
<th>FY2024 over 3-Yr Avg %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discretionary O&amp;M/Indirect</td>
<td>142,516</td>
<td>149,919</td>
<td>150,968</td>
<td>146,130</td>
<td>139,723</td>
<td>168,229</td>
<td>170,130</td>
<td>164,111</td>
<td>18,504</td>
<td>13%</td>
</tr>
<tr>
<td>Fed Labor</td>
<td>205,473</td>
<td>210,213</td>
<td>219,788</td>
<td>234,148</td>
<td>241,298</td>
<td>244,885</td>
<td>256,463</td>
<td>273,477</td>
<td>41,732</td>
<td>18%</td>
</tr>
<tr>
<td>Capital</td>
<td>114,973</td>
<td>91,584</td>
<td>96,243</td>
<td>83,993</td>
<td>88,482</td>
<td>124,179</td>
<td>144,746</td>
<td>133,666</td>
<td>44,093</td>
<td>49%</td>
</tr>
<tr>
<td>Total</td>
<td>462,962</td>
<td>451,716</td>
<td>466,999</td>
<td>464,271</td>
<td>469,503</td>
<td>537,293</td>
<td>571,338</td>
<td>571,253</td>
<td>104,329</td>
<td>22%</td>
</tr>
</tbody>
</table>
Labor: FY 2011-2024e Trends

Rising labor expense largely driven by growth in benefits; FY22 budget est. was low

FY 2011-20 Labor Growth

a) Benefits = 5.0%
b) Salary & wages = 2.3%
c) Total labor = 3.0%

Key drivers of growth

a) Benefits
b) Locality pay
c) Cost of living adjustments
d) Merit increases & promotions

Basis for FY 2024 Labor Rates

➢ FY 2024 labor was developed using FY 2011-2020 growth trends, factoring in known or anticipated compensation increases.

➢ Since FY 2011, benefits as a % of total compensation increased by 6.8 percentage points.
**Capital: Formulation, performance & optimization**

*Multi-functional peer reviews, feasibility assessments & rate alignment*

**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**
- Consistent with President’s FY 2022 Budget
Capital detail: CROM and Appropriations capital

Transmission lines & substations garner nearly 2/3 of appropriations
Capital detail: Appropriations & Alternative Financing

Appropriations are well diversified while Alternative Financed are more top heavy.

FY24 Top 10 Appropriated Projects = 16.3%
(total = $98.7 million)

- Bureau-Kofa 161kV Rebuild
- Power Billing Software
- Parker-Blythe 161kV Rebuild Phase 1
- Parker-Blythe 161kV Rebuild Phase 2
- RTO Implementation
- Eagle Butte Substation Stage 03
- Lovell Substation Control Building
- Bureau Substation Upgrade
- Lovell-North Cody OPGW
- Common SCADA
- All others

FY24 Top 10 Alternative Financed Projects = 40.1%
(total = $55.7 million)

- Gila Substation 69kV Rebuild
- Parker-Blythe 161kV Rebuild Phase 2
- Fort Thompson Transformer Replacement
- Alcova-Worland Tap OPGW
- Trinity-Weaverville Right-of-Way
- Shasta Station Service Upgrade
- Phillip Transformer Replacement
- Cottonwood MPAC Building
- Pierre Station Service Upgrade
- Folsom Station Service Upgrade
- All others
Discretionary: FY 2024 workplan

Prioritizing must-have budget items at the expense of nice-to-haves

FY 2017-2024 Summary

1.9% annual growth

6 budget categories:

a) 5 Regions
b) HQ

Execution Gap = Budget plans exceed historical expenditures

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2017-21</th>
<th>FY2017-24</th>
<th>FY2023-24</th>
</tr>
</thead>
<tbody>
<tr>
<td>UGPR</td>
<td>-0.1%</td>
<td>1.3%</td>
<td>5.9%</td>
</tr>
<tr>
<td>SNR</td>
<td>-3.7%</td>
<td>2.7%</td>
<td>0.0%</td>
</tr>
<tr>
<td>RMR</td>
<td>-5.7%</td>
<td>0.5%</td>
<td>-11.6%</td>
</tr>
<tr>
<td>DSWR</td>
<td>-2.3%</td>
<td>0.9%</td>
<td>0.1%</td>
</tr>
<tr>
<td>CRSP</td>
<td>-12.0%</td>
<td>-3.2%</td>
<td>-5.6%</td>
</tr>
<tr>
<td>HQ</td>
<td>3.9%</td>
<td>3.4%</td>
<td>-5.3%</td>
</tr>
<tr>
<td>Total</td>
<td>-0.7%</td>
<td>1.9%</td>
<td>-3.5%</td>
</tr>
</tbody>
</table>

Compound Annual Growth Rate

FY2017-21 FY2017-24 FY2023-24

-0.7% 1.9% -3.5%

WAPA Discretionary O&M and Indirect

Execution Gap

CAGR

1.9%
Administration of Purchase Power & Wheeling funding from IIJA = textbook example
Infrastructure Investment & Jobs Act

WAPA received $500 million to secure Purchase Power & Wheeling

- **FUNDING PARAMETERS:** Provided $500 million of reimbursable funding for WAPA’s Purchase Power & Wheeling (PPW) reserves to be used exclusively for PPW costs incurred throughout WAPA’s footprint.

- **SCOPE OF FUNDING:** Congressional sponsors directed WAPA to address PPW funding needs for fiscal year (FY) 2022 and FY 2023.

- **TRACKING:** WAPA established 2 unique DOE fund codes (CROM and CRSP) to track execution.

- **ALLOCATION:** Initially allocated $85 million to CRSP PPW costs to be incurred, with the balance to be allocated on a first-come, first-served basis.

- **APPORTIONMENT:** $499 million received, $1 million charged for DOE oversight (non-reimbursable cost).

- **IMPLEMENTATION:** IIJA passed on Nov. 15, 2021, with implementation by WAPA on Jan. 1, 2022.

- **EXECUTION:** $265 million, or 53%, executed thru August 24, 2022, with another $25-35 million in FY22.

- **PROJECTIONS:** WAPA forecasts ~$300 million of execution in FY 2022, with the balance to be executed before the end of FY 2023 2Q.
PPW background: Purpose of statutory authority

Essential to WAPA’s mission to market and deliver power

- Enables WAPA to meet its contractual obligations whenever real-time generation is insufficient.
- Primarily financed through use of receipt authority and/or alternative financing.
- All PPW costs incurred must be recovered, with interest when the repayment period extends beyond 1 year.
- PPW program funds may only be used for PPW activities.
- Reimbursability establishes net zero budget scoring, however, it is important to note that this has been a point of contention between WAPA’s appropriators and CBO.

2019 DOE report to Congress
PPW background: Financing authorities

WAPA has four funding mechanisms to sustain PPW

A. Use of receipt authority
   - Credited as offsetting collections

B. Alternative Financing
   - Net billing and reimbursable

C. Revolving Fund
   (CRSP & Ft. Peck)

D. Emergency Fund
   - Up to $500K without OMB approval
   - Unlimited with OMB approval
   - Recovered from the Reclamation Fund
   - Repayment by customers within one year from when costs are incurred
PPW background: FY 2021 costs incurred

Receipt authority covered 24% of FY 2021 PPW costs incurred

WAPA’s FY21 PPW Costs Incurred ($M) = $700M

- CRSP PPW capitalized costs, $21, 3%
- UGP PPW capitalized costs, $93, 13%
- Alternative Financing, $270, 39%
- PPW Reserves Drawn, $146, 21%
- FY21 Receipt Authority, $170, 24%

FYE 2020 PPW Reserves ($M)

- WAPA-wide = 96% of Target
  - CROM: $393
  - CRSP: $65
  - WAPA-wide: $458

FYE 2021 PPW Reserves ($M)

- WAPA-wide = 53% of Target
  - CROM: $146
  - CRSP: $79
  - WAPA-wide: $225

19
Fiscal year-end reserves with IIJA funding in 2022

IIJA funding drives surplus in FY 2022, which is likely consumed in FY 2023
Contact

Michael D. Peterson
WAPA Senior VP & CFO
MDPeterson@wapa.gov
(720) 962-7500

Thank you for your time and interest.