Financial Considerations with Troubled Waters Ahead

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Senior VP and Chief Financial Officer

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Discussion topics

Audience collaboration 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 lagging 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; early engagement read-thru.
- 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, WAPA is projecting draw-down of $500M 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.

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%
### Year-over-year budget process enhancements

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<thead>
<tr>
<th>TAP Goal</th>
<th>Program and budget integration</th>
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<td>Total Capital Committee (TCC) standup</td>
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<td>Alternative financing coordination</td>
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<td>Key objectives</td>
<td>2-pronged approach to closing the Execution Gap</td>
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<td>Levelize year-to-year workload</td>
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<td>Prioritize budget items in preparation for challenges ahead</td>
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Budget insights by fiscal year and notable FY 2024 labor, capital and discretionary elements
### Stages of a budget

**Formulation, approval and execution.**

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**Key Stages:**
- **Formulation:** 10y Cap Plan, Work Plan Presentation
- **Approval:** Capital Planning, Expense Planning, Budget Submission to DOE, DOE Passback, Budget Submission to OMB
- **Execution:** 1Q Review, 2Q Review, 3Q Review, Continuing Resolution / Enacted Budget
- **Performance:** FY Performance Review, Source Post
- **Governmental:** OMB Passback, President’s Budget, Congressional Markup, CR / Enacted

**FY Dates:**
- FY 2022: WAPA, Budget Execution, 1Q Review, 2Q Review
- FY 2023: WAPA, OMB Passback, President’s Budget, Congressional Markup
- FY 2024: WAPA, Capital Planning, Expense Planning
- FY 2025: Customers, Regional & HQ Capital Planning Discussions

**Sources:** FY Performance Review, Source Post

**Years:**
- FY 2021, FY 2022, FY 2023, FY 2024, FY 2025

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**Note:**
- The budget process is a cyclical and iterative process, involving multiple rounds of discussions, submissions, and reviews throughout the fiscal year.
Segmentation of WAPA’s FY 2024 budget

Goal is focused management on controllable and mission-supporting costs.

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

**Capital**
- Additions & Major upgrades require Project Initiation Documents.
- Requests >15% of historical execution require further justification.

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

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

**Discretionary O&M and Indirect**
- 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.

**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.

**FTE**
- Assume full FTE execution.
- Apply data-driven labor rates.
- Wage Board & Administratively Determined salaries determined by region.
- OT and incentives treated as discretionary.
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 expenditures

FY 2023-2024 Summary
a) Capital = -7.7%
b) Labor = 6.6%
   (a + b = 1.5%)c) Discretionary = -3.5%
d) Total = 0.0%, or -$85k
Labor: Trends FY 2011-2024e

*Rising labor expense largely driven by growth in benefits; FY22 budget likely 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, WAPA’s benefits as a % of total compensation increased by 6.3 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.
- FY 2022 - 13% above previous plan.
- FY 2024 - 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 a majority of appropriations (nearly 2/3).
Capital detail: Composition of Approps. & Alt. Fin.

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

FY24 Top 10 Appropriated Projects = 16.3%
(total = $98.7 million)
- Bouse-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
- Bouse 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
- Philip 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>Budget Category</th>
<th>FY2017-21</th>
<th>FY2017-24</th>
<th>FY2023-24</th>
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<tbody>
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<td>UGPR</td>
<td>-0.1%</td>
<td>1.3%</td>
<td>5.9%</td>
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<tr>
<td>SNR</td>
<td>-3.7%</td>
<td>2.7%</td>
<td>0.0%</td>
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<td>-11.6%</td>
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<td>DSWR</td>
<td>-2.3%</td>
<td>0.9%</td>
<td>0.1%</td>
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<tr>
<td>CRSP</td>
<td>-12.0%</td>
<td>-3.2%</td>
<td>-5.6%</td>
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<tr>
<td>HQ</td>
<td>3.9%</td>
<td>3.4%</td>
<td>-5.3%</td>
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<tr>
<td>Total</td>
<td>-0.7%</td>
<td>1.9%</td>
<td>-3.5%</td>
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Compound Annual Growth Rate

FY2017-21 FY2017-24 FY2023-24

-0.7% 1.9% -3.5%

Execution Gap = Budget plans exceed historical expenditures

WAPA Discretionary O&M and Indirect

1.9% CAGR
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 $500M 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 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: $245 million, or 49%, of the $500M has been allocated through April 30, 2022.


- Execution: $106 million, or 22%, was executed between Jan. 1 and April 30, 2022.

- Projections: WAPA forecasts $330M 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.
- 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 25% of FY 2021 PPW costs incurred.

WAPA's FY21 PPW Costs Incurred ($M) = $676M

- CRSP PPW capitalized costs, $21, 3%
- UGP PPW capitalized costs, $120, 18%
- PPW Reserves Drawn, $146, 22%
- Alternative Financing, $219, 32%
- FY21 Receipt Authority, $170, 25%
Fiscal year-end reserves with IIJA funding in 2022
IIJA funding drives surplus in FY 2022, but likely consumed in FY 2023 as planned.
Thank you for your time and interest.