Fiscal Year 2020 Work Plan – Introduction

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Mid West Electric Consumers Association
Denver, CO
Introduction

• Budget Timeline

• FY20 Budget Guidance Reminder

• WAPA-wide annual expense snapshot
Budget Timeline

**Capital Planning**
- Regional/HQ 10-Year Capital Plan Process
- Multiple Customer Interactions
- WAPA-Wide 10-Year Capital Plan Cust. Briefing
- State of Capital Appropriations
- Review Annual Budget Guidance

**Annual Expense Planning**
- Annual Expense Process
- Senior Review of Annual O&M Work Plan
- Customer Work Plan Meetings
- Final Changes to Work Plan

**Submission Process**
- Submit Budget Request to DOE

Timeline:
- Apr. ’17
- May ’17
- Jun. ’17
- Jul. ’17
- Aug. ’17
- Sep. ’17
- Oct. ’17
- Nov. ’17
- Dec. ’17
- Jan. ’18
- Feb. ’18
- Mar. ’18
- Apr. ’18
- May ’18
- Jun. ’18
FY20 Strategic Budget Guidance

• Investment drivers
• Assumptions / constraints
• Cost savings / avoidance

• Read more: The Source - Budget Allocation
Investment Drivers

- Engineering salary increases ~ $1.2M
- Leadership development
- Cyber risk
- Market start-up costs
Assumptions / Constraints

• Investment drivers must be offset
• FTE neutral
• Inflation at 2% for labor / non-labor
• Revalidate Trust & Reimbursable assumptions
• Increases over FY19 work plan require approval
Cost savings / avoidance

- Organizational Approach to Markets (OAM)
- Program assessments
- Reduction in facility footprint / cost
- Strategic sourcing
WAPA-wide Annual Expense Budget

**Summary**

- Annual O&M and PD exceed 2% threshold by 0.4% or ~$1.2M
  - Labor over 2% threshold by $3.1M
  - Engineering salaries +$1.2M WAPA-wide
- Budget reflects investments per guidance
  - Training at ~2% of payroll WAPA-wide
  - Engineering salaries
  - Market start up costs
- Labor shifts between annual, capital, work for others
- Budget shifts from regions to WAPA-wide programs
- Regional cost allocations resulting from mission program requirements
- WAPA senior management decision to move forward at this budget level

**WAPA-Wide PD and Non-PD**

**Budgeted Annual Expenses for Rate-Setting Systems**

<table>
<thead>
<tr>
<th></th>
<th>FY 2017 Actuals</th>
<th>FY 2018 Request</th>
<th>FY 2019 Request</th>
<th>FY 2020 Request</th>
<th>% of Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL Non-PD</td>
<td>46,660</td>
<td>44,302</td>
<td>46,618</td>
<td>45,584</td>
<td>-2.2%</td>
</tr>
<tr>
<td>TOTAL-PD</td>
<td>247,065</td>
<td>249,331</td>
<td>255,886</td>
<td>264,109</td>
<td>3.2%</td>
</tr>
</tbody>
</table>
WAPA Annual Expenses by Region
WAPA Financial Updates

• Reserve balance update

• WAPA Cost transparency – Expanding “The Source”

• FY18 WAPA-wide budget execution pressures
# WAPA Reserve Balances Strategy

**Sustainable funding tool in support of WAPA’s mission**

<table>
<thead>
<tr>
<th></th>
<th>Annual O&amp;M</th>
<th>Capital funding</th>
<th>Purchase power &amp; wheeling</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Example</strong></td>
<td>Salaries, supplies and equipment</td>
<td>Building new transmission lines and related structures</td>
<td>Buying power on behalf of customers when water conditions require it</td>
</tr>
<tr>
<td><strong>Purpose</strong></td>
<td>Allows WAPA to sustain operations during emergencies, continuing resolutions or lapses in appropriations</td>
<td>Provides funding in advance of starting capital construction projects and flexibility with schedule / priority changes in collaboration with customers</td>
<td>Improves both WAPA and customer cash management while minimizing energy rate spikes during a drought</td>
</tr>
<tr>
<td><strong>Strategy</strong></td>
<td>Retain 31% of annual funding need</td>
<td>Retain sufficient funding to cover up to 3 years of capital investments</td>
<td>Retain 3 years estimated funding during drought</td>
</tr>
</tbody>
</table>

**Carrying reserve balances do not impact power rates**
Fiscal Year End 2017 Summary
All Accounts

• Strategy progress: 2016-17
  – Total: Reduced ~ $85M
  – Annual: Reduced ~ $22M
  – Capital: Reduced ~ $182M
  – PPW: Increased ~ $97M

• Returns to Treasury Reclamation Fund
  – 2016: $328M
  – 2017: $338M
## Planned FYE 18 Targets / Actions

### CROM Account Strategies**

<table>
<thead>
<tr>
<th>Program</th>
<th>FYE 17 Balance</th>
<th>Strategy Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual O&amp;M</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• FY18 enacted budget authorized ~$44M use of PY balance</td>
<td>$114.8M</td>
<td>$65.6M</td>
</tr>
<tr>
<td>• Monitoring closely</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Re-evaluate current strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Regions collaborate with customers on amount to retain</td>
<td>$140.2M</td>
<td>$166.1M</td>
</tr>
<tr>
<td>• Returns to treasury as needed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Re-evaluate current strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Purchase Power &amp; Wheeling</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Incremental increase, up to $50M, planned</td>
<td>$245.6M</td>
<td>$393.0M</td>
</tr>
<tr>
<td>• Reach target by FYE 2020</td>
<td></td>
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<tr>
<td>• Requires solution to CBO budget authority “scoring” issue</td>
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** Does not include: CROM “Other”; CRBPMF; TIP; Falcon & Amistad; Emergency Fund
WAPA Cost Transparency
Expanding “The Source”

- Part-time, 23-person project team actively working requirements
  - Power and transmission rates
  - Capacity or energy sold
  - Expenditure detail
  - Unobligated balances
  - Annual summary report

- Working from latest version of Senate bill S.930 (Jan 2018 amendment)

- Deploying FYs 2008 - 2017 in May 2018
FY 2018 Budget Execution Pressures

• Administrator’s budget guidance called for flat budget including no inflation

• Capital & Annual expense execution challenges
  • “Tiger” system replacement accelerated to support potential for MWTG / SPP implementation
  • Engineer retention incentives
  • NARA Records Management mandates and efficiencies
  • Cyber security / Network investments
  • IT support services contract consolidation and anticipated bill rates
  • Miscellaneous

• Mitigating through various mechanisms including
  • Reduced capital investment needs
  • Incremental funding of cross-FY contracts
  • Delayed hiring
  • Annual expense dollars under-executed in FY17

• Expect some over execution compared to initial work plans – Mid-year est. ~ $4M in annual program direction