Mid-West Electric Consumers Association
Board Meeting
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Reflecting on 4 years: Where we have been, where we are going

Thank you for the opportunity to speak with you today. In the next couple weeks, I will celebrate my 4-year anniversary with WAPA. I cannot help but reflect on how far we have come since the first time I stood before you. Although many of the issues we spoke about then still exist and require improvement and innovative solutions, so much has changed, specifically around the tone of our conversations. I am grateful for both our evolving partnership and how we have increased trust and transparency over the past four years.

Four years ago, I challenged us to collectively change the dialogue and the narrative. I asked you to stop picking on us. To stop seeking “GOTCHA!” opportunities. To be less confrontational. I asked that you measure me—and WAPA—on our rates.

I have thanked you before and I want to thank you again today. Thank you for responding to that challenge. Thank you for your partnership—as we seek solutions to common problems. Thank you for your patience—during times of change and transition. And thank you for the times you have brought your concerns directly to me. It has been my goal to demonstrate that I hear you and that I understand your position. I have sought to be responsive within the bounds of WAPA’s mission and authorities.

I believe we have succeeded in being more cooperative and collaborative. We have given you more visibility into our Headquarters 10-year capital planning. Are there more opportunities for improvement? Absolutely. We are working on ways to continue to improve in this area. We continue to evolve and expand The Source, which is coming up on its first anniversary, by adding more and more operational and financial data. Most recently—on Thursday—we posted our FY16 Results of Operations, or ROOs—balance sheets and supporting schedules that correspond to our audited financial statements. They are thousands of pages—thousands, I am not kidding—of detailed financial information. I have not seen this level of financial information shared by any organization or company for whom I have worked.

As WAPA approaches its 40th anniversary, it becomes evident that the relationships we have been building with partners like you—for almost four decades now—are a pillar of our business. Are you familiar with the concept of the "origin story"? It is the backstory of how a superhero came to be…what his or her motivations were…and in some cases, how they gained their powers. Although I am enormously proud of WAPA and the work we do, I know that we are not elevated to superhero status. However, our "origin story" is rooted in the rural electrification of the West. Our organization was—quite literally—*born* to deliver power across the West. You, and your members, are an integral part of our story. Of the public power story. And with a changing administration in Washington, the opportunity is ripe to tell the story of how powerful partnerships have succeeded in both electrifying the West and supporting economic growth and expansion.

Did any of you see the American Public Power Association's paper on the U.S. Federal Power Program, published in January 2017? It discusses the value the power marketing administrations offer to the utility industry, especially seeing as we are one of the few providers of cost-based wholesale power. It read as follows:

> "The PMAs serve as a yardstick against which consumers, regulators and policymakers can measure the profit margin embedded in the cost of power from other sources. This is a key piece of market information needed to further the goal of a healthy and competitive marketplace. The PMAs also help to ensure market diversity and lower the risks associated with consolidation of generation assets. Most importantly, they assist in keeping power rates low for millions of electricity consumers."

I am proud of the work we do—of our story—delivering power and opportunity to your members and the communities they serve. Our partnership results in the management and maintenance of the remarkable electric power and transmission system upon which nearly 40 million Americans rely.

Big Rocks recap

A few years ago, we also talked about the BIG ROCK issues… Those bigger-picture issues that affect rates. Specifically, the issues over which we have some control. I urged us to focus on them, rather than getting caught up in the smaller details. I want to take a moment to evaluate how we are doing.

- **Rates** — Through innovation and big-picture vision and planning, we have lowered rates for Mid-West customers. And we are looking to do more in 2018.

- **Human capital** — As our workforce ages and moves toward retirement, we understand the importance of succession planning. As of March 1, we have 203 employees eligible for retirement—that is more than 13% of our federal workforce. Within the next five years, an *additional* 321 employees will become eligible—that is another 21%. For a total of more than 500 employees, or 35% of our federal employees. Our human resource efforts—in both efficiency and cost-effectiveness—have been recognized by the Department of Energy, and our newly implemented HR Shared Service Center and HR Business Partners are poised to tackle these issues.

- **Sustainable funding** — You have heard me talk about the importance of unobligated balances and how they allow us to operate without interruption. We continue to develop ways to have sufficient funds for purchase power and wheeling. We have stood up a Continuous Process Improvement program, which has so far helped us avoid more than $20 million in costs. We continue to engage all employees across the organization to identify areas where we can save money and avoid costs. We have planned for declining appropriations and are positioned to manage our 10-year plan requirements.

- **Markets** — I think you are all up to speed on our efforts in this area over the past few years. We are a year and a half into the Southwest Power Pool and things are looking great. Our first-year savings exceeded our projections. Last I spoke with you, I broke news about developments in the Mountain West Transmission Group. We are continuing to explore options and we are committed to only engaging in opportunities that are good for both WAPA and our customers. We have proven this by choosing to NOT enter the California ISO. There are still valid questions around what the development of markets in the West will do to costs, but from my perspective, things look promising.

- **Asset management** — We continue to mature our program and make more data-driven decisions. We are still working on preparing for an increase in intermittence and system management changes that will occur.

Shift in strategic thinking

This leads me into another area upon which I have been reflecting. In my relatively short time at WAPA, we have undergone a considerable shift in our strategic thinking. It started with our Roadmap, ensuring that our priorities are not only aligned with DOE's, but that we are forward looking and well positioned for the future. Last I spoke with you I offered an update on the recent Roadmap Refresh, which further defined our focus by identifying core issues that need to be addressed.

And beyond the Roadmap, we have been engaging in a much broader view of our role in the industry. Many projects seek a WAPA-wide perspective to make sure they serve the whole organization and that we can realize efficiencies in making improvements and innovations that work across our organization, not just in one area region, function or office. This can be seen in our Power Billing system integration and many other examples where employees are seeking to leverage technology and expertise the find solutions that address the diversity of our customer needs from region to region.

Additionally, the value our Asset Management program is bringing to WAPA is vital. We have so much more information about our vast system than we did four years ago. We began by inventorying our system piece by piece – to be clear, there is still lots to be done – and we quickly moved to leveraging that information to make more data-driven decisions. As our program continues to mature, we will make increasingly strategic decisions about our investments.

Lastly, I have seen a significant shift in how we look at industry changes and impacts … but not only in our own interest. We are viewing these changes through a lens of understanding and anticipating how these changes will affect you and your members. And responding proactively in a way that demonstrates our commitment to and support of you.

Lifecycle considerations

In recent years, you have told me in one form or another that if I can demonstrate the needs we have, you will fund them. That message is a driver of our increased transparency in our 10-year capital plans. While I am with you today, I want to talk about one small piece of that.

One of our known and continued investments is in our IT equipment and systems. You all know we recently upgraded our core financial system. There are many other components to our system for which we are more strategically evaluating and planning. IT components—just like components of our transmission lines and assets—have maintenance schedules and expected lifecycles. Our IT investment is significant. It supports our ability to work efficiently across our large footprint. It supports the reliability of our system. It supports the security and sanctity of our piece of the grid…which, as you all know, is connected to the larger bulk electric system.

We have hardware and software and applications…and they require upgrades and security patches. I am not familiar with all the intimate details, but our Chief Information Officer Dawn Roth Lindell, would welcome the opportunity to speak more in depth to those of you who are interested in understanding more.

The bottom line is this. Just like how the cars we all drive require oil changes and checkups every 10- or 20-thousand miles to stay safe and running properly, so do our IT systems. And just like our cars, sometimes we need to replace parts on our IT systems… And just like our cars, sometimes even with all the best preventive care and maintenance, they simply become too outdated to run, no matter how much we invest. Sometimes you cannot find a mechanic to work on such an old model…no one has the right parts or tools anymore.

In the course of our careers, technology has evolved at lightning speed, and it appears to remain on that trajectory. Without the proper updated tools, we have no way to leverage the advances technology affords. And without reliable IT tools and systems, we risk unplanned outages. I am not speaking about this as a hypothetical scenario either. We have seen system failures over the past few years due to failing to look far enough ahead or invest when we *should* have rather than waiting until we *needed* to. Here are two examples:

- We experienced a network outage due to ***one*** failed component—a clock
- A server failed over the holidays—one that runs a power marketing app

We have since evolved how we think about and plan for IT. We know that typical systems need to be upgraded every 5 years and that hardware needs to be updated every 5-7 years. We are planning for these schedules. Our goal is no surprises. We need the best, most current tools to keep our assets safe and our system secure.

Foreign interest in the grid is high, as is the threat of domestic terrorism. The number of attempted hits on our systems is exponentially increasing. With regard to cybersecurity, we know that the longer any system or piece of equipment is in play, the more attempts at hacking it will receive. It is the opinion of our CIO that “Nothing can withstand multiple years of attacks.”

So we are looking ahead and including our IT investments in our 10-year capital plans.

Budget guidance

We have been talking about my budget guidance for years. And it is no secret … you have had some complaints over the years, specifically that it has been too limiting. The budget guidance I have offered for FY19 is simple. There will be no new FTEs over FY18 and I have put a 2-percent cap on increases to rate-impacting expenses. There are a few exceptions to the cap, including IT and security. We are coming up on a review at our senior leadership level and we can share additional information that comes out of it at your MOU Technical Meeting at the end of April. What I can tell you is that we are looking at ways to offer you even more detail about and insight into our capital planning processes.

Conclusion

I enjoy meeting and speaking with you. We are clearly in this together. Like the relationship between water and power…we are inextricably linked. And just as our system operators work to balance load and generation, so must we work together to ensure our communal and collective needs are met. Your questions are our questions. Your concerns are our concerns.

- Increased wind, solar and storage
- Changing market conditions due to regulations
- How quickly will coal be exiting markets?
- How much gas will be built and when?
- Prices which move from negative to multiples of what we are used to in the same day
- Increasing regulation on hydro limiting operations at critical times
- Threats to base loading of hydro resources in favor of ancillary services
- Dry years/wet years

I believe it down in my bones that by leading with trust and continuing with direct communication we will arrive at innovative mutually beneficial solutions more quickly than we could otherwise. I am encouraged by how far we have come together and the progress we have made. Let us continue this collaborative dialogue and work together on the questions and concerns we all have as we continue to bring affordable power throughout the West.

Before I open this up for questions, I want to address something I know you will be asking about. The Department of Energy's Office of Inspector General just published its follow-up report on our Government Purchase Card program on Thursday. You can read the whole report on The Source, but I want to cover a few of the important findings. First though, I want to reiterate—and this point cannot be overstated—this story is old. It is soooooo 2014. Internally, we identified some anomalies. We turned our findings over to the IG. We have since significantly improved our program, including policies and procedures. Our actions and response are consistent with the first critical pathway of our Roadmap—Business, Technology and Organizational Excellence. We strive for excellence in all our programs and services. And when we find we have fallen short. We work to correct it swiftly.

This has been handled. Anyone trying to spin this as new information or turn it into a scandalous story is simply fishing... Ok, back to a few key points from the report:

Essentially the IG is reporting that they found that both our Desert Southwest region and Headquarters office had taken numerous actions to address the issues identified in the internal review and to improve our overall GPC Program. Specifically, we have standardized training, policies, procedures and tools regarding our GPC program. We have a dedicated GPC program manager. We reduced our number of cardholders. We reduced our credit exposure. Our internal audit group has conducted data-mining and initiated a follow-on review of GPC transactions.

We have reported to the IG that we have completed all recommendations from initial reports. The IG asserts that continued oversight is necessary and prudent. I agree wholeheartedly.

Thank you for your time today.