Fiscal Year 2020 Work Plan – Introduction

Dennis R. Sullivan, CFO

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Parker-Davis & Intertie
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 Annual Expenses by Region

WAPA-Wide
Budget Annual Expenses for Rate-Setting Systems
CROM, CRBPMF, Boulder Canyon, Central Arizona, ED5

<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>HQ</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1.0%</td>
</tr>
<tr>
<td>UGPR</td>
<td>73,999</td>
<td>72,893</td>
<td>75,480</td>
<td>76,219</td>
<td>1.8%</td>
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<tr>
<td>DSWR</td>
<td>69,169</td>
<td>66,429</td>
<td>69,557</td>
<td>70,790</td>
<td>5.3%</td>
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<tr>
<td>RMR</td>
<td>83,687</td>
<td>82,356</td>
<td>84,234</td>
<td>88,707</td>
<td>-1.5%</td>
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<tr>
<td>CRSP</td>
<td>12,141</td>
<td>11,779</td>
<td>12,186</td>
<td>13,914</td>
<td>14.2%</td>
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<tr>
<td>SNR</td>
<td>54,732</td>
<td>60,175</td>
<td>60,996</td>
<td>60,061</td>
<td>2.4%</td>
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<tr>
<td>Total Regions</td>
<td>$293,728</td>
<td>$293,632</td>
<td>$302,453</td>
<td>$309,691</td>
<td></td>
</tr>
</tbody>
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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>Example</th>
<th>Annual O&amp;M</th>
<th>Capital funding</th>
<th>Purchase power &amp; wheeling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose</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></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>Strategy</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

FYE 17 Unobligated / Reserve Balances
By purpose: $707.5 (in Millions)
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>Annual O&amp;M</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>
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<tr>
<td>• Monitoring closely</td>
<td></td>
<td></td>
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<tr>
<td>• Re-evaluate current strategy</td>
<td></td>
<td></td>
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<tr>
<td>Capital</td>
<td></td>
<td></td>
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<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>
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<tr>
<td>Purchase Power &amp; Wheeling</td>
<td></td>
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<tr>
<td>• Incremental increase, up to $50M, planned</td>
<td>$245.6M</td>
<td>$393.0M</td>
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<tr>
<td>• Reach target by FYE 2020</td>
<td></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 WAPA-wide 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