

# Customer Advances and Budget Formulation

Western Customer Meeting  
April 13, 2010

# Budget Formulation Policy

- ▶ Contractual advances are used to offset appropriated funding requests (Parker–Davis Advancement of Funds (AOF))
- ▶ Other advances and prepayments do not offset appropriated funding requests (Western States Power Corporation (WSPC), Central Valley Project (CVP) O&M, Parker–Davis and Intertie Prepayments)

# Policy Rationale

## ▶ *Contractual Advances*

- Customers have contractually agreed to a known amount for a future year requirement.
- Because this is contractual, Western feels confident including the amount as an alternative financing source in the budget.
- Western can reflect this offset to planned mission appropriated funded work during budget formulation without jeopardizing the funding of other Western priorities.

# Policy Rationale (cont'd)

## ▶ *Other Advances*

### ○ WSPC

- For specific capital projects not covered by appropriations
- Contracts are signed after the budget is formulated

### ○ CVP O&M

- For O&M and capital requirements not covered by appropriations
- Contract requires that Western request appropriations
- Advances are provided and credited back to customers prior to the budget execution year
- If appropriations are also received, excess advances can be carried forward or reprogrammed for capital projects with customer approval

# Policy Rationale (cont'd)

## ▶ *Prepayments*

- The customer's willingness to advance funds is documented through the ratesetting process.
- A change in the rate schedule could change this method for advancing funds to Western.
- Should a change to the rate schedule not allow for advance customer funds, and appropriated funding was not requested, Western would experience a funding shortage during the year of execution.
  - Changes to the rate and to reserved capacity amounts will alter the dollars actually received through prepayments.
- This shortage of appropriated funding would affect all Regions as Western reprioritizes funds to meet core mission needs.

# Budget Execution

- ▶ Western revalidates funding needs and prioritizes unfunded requirements.
- ▶ Western looks to customer advances, including prepayments, to offset appropriated funded shortages.
- ▶ Use of customer advances is subject to customer approval.
- ▶ Prepayments not used to fund program needs are deposited in the Reclamation Fund.