Financial Transparency Narrative

Fiscal Year 2022

Western Area
Power Administration

1/31/23

Introduction

Western Area Power Administration is committed to the safe, reliable, and affordable delivery of power and transmission services consistent with sound business principles. Following our new Power Forward 2030 strategy, we pledge to stay current with industry developments and regulations, while making sound investments and improving organizational alignment. In this same spirit, we continue to evolve our transparency efforts with our customers, other Executive Branch agencies and members of Congress.

Below is additional information and context on WAPA's fiscal year 2022 reported transparency data and primary drivers and variances between FY 2022 and FY 2021 costs.

As you review the information provided on The Source, it may be helpful to first read the How-to Guide.

Expenditures

Operations & Maintenance

WAPA strives to contain costs of operations and maintenance and staffing levels while also balancing the needs and safety of our employees, affordability, and reliability with environmental and critical system investments. All O&M activities supported maintaining the safety and reliability of our transmission grid and were largely driven by regulatory requirements and aging infrastructure needs. Costs include replacing aging equipment, removing constraints that would impede power flows and ensuring WAPA's transmission system is at or above industry standards. Non-rate-impacting costs include mainly reimbursable work done based on specific agreements. The impact of O&M activities on WAPA's rates increased by $31.8 million or 5.8% year-over-year.

Significant regional O&M variances between FY 2022 and FY 2021 were primarily due to:

- Colorado River Storage Project Management Center: Increase of $7.6 million is due primarily to the reversal of $6.5 million in environmental operating expenses in FY 2021. In FY 2020, according to the Dingell Act of 2019, it was understood that costs incurred for the Recovery and Implementation Program should be recorded as environmental operating expenses and not constructive returns to Treasury. Environmental operating expenses of $6.5 million were recorded in FY 2020. In FY 2021, however, it was determined that WAPA could account for these costs as constructive returns to Treasury. This resulted in a reversal in FY 2021 of the $6.5 million in costs recorded in FY 2020.
- Rocky Mountain: Increase of $7.6 million is due primarily to increased cost of materials and a slight increase in the amount of repairs performed in FY 2022 verses FY 2021.
- Sierra Nevada: Increase of $5.2 million is due primarily to a $2.3 million FY 2019 bankruptcy action that was paid in FY 2021, $1.3 million increase in interest on investments, and a $1.5 million increase in maintenance of transmission lines primarily in integrated vegetation management and Trinity-Weaverville/Lewiston project services.

- Upper Great Plains: Increase of $10.1 million is due primarily to increased O&M activity levels year-over-year. Overtime, other expenses for storm damages and higher indirect expenses driven by higher labor costs were also factors.

Purchase Power & Wheeling

The Purchase Power and Wheeling (PPW) program enables WAPA to fulfill contractual obligations to our customers whenever the generation output from the 57 hydroelectric plants in WAPA's portfolio is insufficient. Rate-impacting PPW costs increased by $62.4 million or 10% year-over-year.

Significant regional PPW variances between FY 2022 and FY 2021 were primarily due to:

- Desert Southwest: Increase of $28.6 million is due primarily to higher energy prices, higher agency purchases on behalf of customers, along with decreased hydrology which reduced the output from the federal dams in the region.
- Rocky Mountain: Increase of $37.8 million is due primarily to 133 GWh more energy purchased in FY 2022 than in FY 2021. The average purchase price for energy also increased in FY 2022 over FY 2021. Typically, energy prices fluctuate up and down throughout the year, but in FY 2022 prices remained high for the majority of the year.
- Sierra Nevada: Increase of $62.6 million is due primarily to a decrease in generation of 55% combined with higher energy prices which increased by 37%. To meet contractual commitments, SNR purchased more energy at a higher price. This resulted in an increase in day-ahead, real-time, and custom product of $22.8 million, transmission access charges under Wholesale Distribution Tariff of $36.6 million, and Resource Adequacy of $2.9 million.
- Upper Great Plains: Decrease of $69.5 million is due primarily to reduced purchases of non-firm energy. In February 2021, UGP experienced increased costs for energy purchases due to the Polar Vortex. This event did not repeat in FY 2022 leading to reduced PPW expenses compared to FY 2021.

Capital Investments

Capital investments ensure the safe, reliable, and affordable delivery of power to wholesale customers while meeting their changing needs. WAPA collaborates with customers on 10-year capital investment plans to ensure we are making the right investments at the right time and in the right place. Key drivers of WAPA's capital plan include asset management strategies, rebuilding parts of the transmission system across our service territory, public safety, statutory and regulatory compliance, cost predictability and cost containment.

Regional plant placed-in-service during FY 2022 included:

- Desert Southwest: $66 million consisted primarily of $27 million for rebuilding the Gila Substation, $9 million for completing the Whitehill's ACF Projects, $7.7 million for structure replacement for the Blythe-Goldmine Tap, $5 million for the Glen Canyon warehouse/workspace project, $5 million for replacing the capacitor bank at Pinnacle Peak, $4.6 million for moveable property, $3 million for circuit breaker replacements, $2 million for various communication system upgrades, $1.5 million for completing various upgrades to the Phoenix Service Center and $1 million for various Replacements, Retirements, and Additions (RRADS) projects.
- Rocky Mountain: $6.5 million consisted primarily of $3.5 million to replace circuit breakers at 12 different projects and $3 million for various other capital replacement projects.
- Sierra Nevada: $11.7 million consisted primarily of $4.6 million for the Carr-Keswick tower and fiber cable replacement, $3.6 million for completion of various Replacements, Retirements, and Additions (RRADS) projects at locations across the SN region, $2.1 million for completion of station service and ratings upgrade projects at Folsom and Tracy, and $1.4 million for capital movable equipment.
- Upper Great Plains: $41.3 million consisted primarily of $11.7 million for additions at Devils Lake, ND - control building and transformer, $5 million for project use costs, $4.9 million for moveable equipment, $3.2 million for Grand Forks, $3.2 million for ND - control building and panels replacement, $2.3 million for the 230-kilovolt (kV) line from Sioux City, IA to Dennison, IA, $2.1 million for a fiber optic line install at Fort Peck, MT to Williston, ND, $1.6 million to replace 3 circuit breakers at Grand Island, SD and$1.2 million for the Crossover, MT Substation relay replacement.
- Headquarters: $5.9 million investments related to lifecycle management strategy for information technology, aviation assets, financial systems upgrades, and operational enhancements.

Majority of non-rate-impacting investments, approximately $92,400, are a result of non-reimbursable funding primarily for replacements required by legislation. This investment resulted in zero costs to customers and is not included in the above regional investments.

We forecast investing roughly $2 billion in our assets over the next decade, approximately 78% of which will go toward transmission lines and substations.

Federal Full-Time Equivalents

Our authorized full-time equivalent positions ensure we have adequate staff to meet critical needs and requirements facing the organization. During FY 2022, WAPA's authorized and actual FTE employee positions remained consistent with the prior year. WAPA's internal budget guidance through FY 2025 anticipates flat FTE with an expectation to reallocate internally as needs change.

Rates and Sales

WAPA collaborates closely with customers to establish and administer rates for its 10 rate-setting projects, which are made up of 14 multipurpose water resource projects and three transmission projects. Each project has its own authorizing legislation that requires the U.S. Treasury to be repaid by those who benefit from federal investments in these projects. Many of WAPA's customers are experiencing stable or increased rates in FY 2022.

- Colorado River Storage Project Management Center: For FY 2022, the Salt Lake City Area/Integrated Projects customers experienced higher energy and capacity rates of 8.1% and 8.2%, respectively, due to the drought impacts on generation. The transmission rate increased 3.6% due to decreased transmission load caused by customer transmission contracts expiring and reduced phase shifter revenue. For FY 2023, there will be no change to the energy and capacity rate.
- Desert Southwest: In FY 2022, the base charge for the Boulder Canyon Project increased 2.9% from FY 2021 and the energy, capacity, and composite rates increased primarily due to decreases in forecasted energy and capacity values from the drought in the Lower Colorado River Basin. The transmission rates for the Central Arizona Project and the Pacific Northwest-Pacific Southwest Intertie Project remain unchanged. The Parker-Davis Project power and firm transmission rates increased 9.4% and 4.7%, respectively, primarily due to an increase in O&M and in purchase power and wheeling expenses on generation, and a decrease in transmission reservations.
- Sierra Nevada: The Central Valley Project's Power Revenue Requirement increased less than 1% per year on average since 2008, largely due to revenue from transmission sales and cost-containment initiatives. However, in FY 2022, the CVP PRR decreased by 4.1% to $69.8 million, primarily due to financial settlement of transmission losses and lower interest on investments. Additionally, CVP power customers are required to pay their contractual share of the PRR regardless of the amount of base resource delivered. The effective rate varies based on the amount of base resource delivered and Restoration Fund assessments. Drought significantly impacts these two variables when comparing SN's effective rate to market rates.
- Upper Great Plains and Rocky Mountain: Power rates for the Loveland Area Projects and the Pick-Sloan Missouri Basin Program – Eastern Division remained stable in FY 2022 for a fifth consecutive year after experiencing 14% and 15% decreases, respectively, in January 2018. UGP and RMR's firm rates expire December 31, 2022 and new rate schedules are in effect for January 1, 2023.

Funds Returned to Treasury

WAPA is responsible for returns to the U.S. Treasury for all power projects within its 15-state market area except for the Boulder Canyon and Central Valley projects' project-use O&M collections prior to FY 2014. Returns to Treasury fluctuate based on net cash flow from operations and use of receipts. A significant contributing factor is hydrological conditions, which impact purchase power costs. For the 15 years ended Sept. 30, 2022, WAPA has returned $4.5 billion, and the Bureau of Reclamation has returned $323.3 million to the U.S. Treasury. During

FY 2022, WAPA returned $300.6 million to the U.S. Treasury.

Reserve Funding

Summary of Reserve Balance Strategy Targets

WAPA has four primary purposes for its reserve balance strategy:

- Annual operation and maintenance (O&M) expenses.
- Capital investments.
- Purchase power and wheeling expenses (PPW).
- Other for generating agency annual and capital requirements.

Balances are primarily from receipts and customer advances; very little is appropriated funding.

Annual – Reserve annual O&M funds roughly three months to sustain operations during emergencies, continuing resolutions, or lapses in appropriations. The reserve strategy for fiscal year-end (FYE) 2022 supports annual reserve balances of $98 million.

Capital – Reserve capital funds are necessary to provide multi-year capital construction project startup funding and provide flexibility with schedule and priority changes. The strategy supports reserves up to three years of the capital planning requirement; that's $514 million for FYE 2022 capital reserves.

PPW – Reserve PPW funds improve both WAPA and customer cash management of the highly volatile PPW program needs during short and long-term drought conditions. For PPW, WAPA's reserve strategy supported balances of up to $500 million in FY 2022. In the first quarter of FY 2023, WAPA revised its PPW reserve strategy to support balances up to $1.4 billion.

> Note - The PMAs' PPW reserve strategies are discussed and expanded on in a September 2019 Department of Energy Report to Congress titled, "Power Marketing Administrations Execution of Current Receipt Authority for Purchase Power and Wheeling Expenditures."

Other - Reserve component mitigates risk for the generating agency annual and capital program requirements that rely solely on transfers from WAPA's CRBPMF balances. WAPA offsets this annual reserve component by the balances on hand at the generating agency. For FYE 2022, no balances were required to support the strategy.

Non-Reserve Balances

In addition to the reserve strategies, WAPA has balances associated with non-reserve activities. WAPA does not develop a strategy objective for these balances as the balances are primarily driven by stakeholders. For full disclosure, WAPA includes these non-reserve balances in the total results.

The non-reserve balances are primarily related to:

- Reimbursable work-for-others.
- Congressionally directed funds and earmarks.
- Other WAPA accounts (Transmission Infrastructure Program, Falcon and Amistad, Emergency).
- Proposed budgetary offsets (i.e., rescission, sequester, and use of prior year balances).

Reserve Actions Taken

Annual – No actions necessary; regional balances were within target levels.

Capital –No actions necessary; regional balances were within target levels.

PPW –Drought conditions, rising market prices, and the polar vortex weather event consumed a significant portion of WAPA's reserves in both the CROM and CRBPMF balances during FY 2021. Continued drought and market price pressures were realized in FY 2022. WAPA has taken several actions to increase reserves on-hand. These actions include:

- Requested additional PPW receipt authority in FY 2022 to begin restoration of the CROM account reserves. This request was not successful.
- WAPA received emergency supplemental appropriation of $500 million for PPW in the Infrastructure Investment and Jobs Act to provide for PPW funding for both CROM and CRBPMF accounts. This funding was approved on November 15, 2021 and was deployed by WAPA beginning January 1, 2022. Approximately 86% of this funding was deployed during the last 3 quarters of FY 2022, with the balance to be deployed during the first quarter of FY 2023. Importantly, and reflecting WAPA's full-cost recovery mission, $260 million of the funds expended were collected from customers in FY 2022 and will be returned to the Treasury at the direction of the Office of Management and Budget (OMB) in FY 2023, with the balance to be fully recovered and repaid to Treasury in the years thereafter.
- In collaboration with customers, WAPA initiated a new rate order for Salt Lake City Area Integrated Projects to reduce purchase power requirement and/or improve timing of purchase power expense recovery. The new rate, effective December 1, 2021, will help ensure purchase power costs do not continue to adversely deplete reserves through FY 2022 and FY 2023.
- In response to severe and system-wide drought as well as rising electricity prices, WAPA performed a power-system by power-system PPW needs assessment to calibrate its PPW reserve target with current and projected near-term hydrological and market conditions. Based on this bottom-up assessment of the primary drivers of PPW costs, namely the projected quantity of MWh to be demanded and the forecast market price per MWh, WAPA increased its PPW reserve target to $1.4 billion. For reference, the purpose of these reserves is to provide WAPA sufficient funding to sustain its operations on a rolling 36-month basis. The revised target will be effective for FY 2023 cycle reporting.

- WAPA received supplemental funding of $520 million for PPW and an incremental $305 million of PPW receipt authority totaling $475 million in the 2023 Omnibus Appropriations Bill to provide for PPW for both CROM and CRBPMF accounts. This funding was approved on December 29, 2022 and will be deployed in early 2023.

Other--No actions necessary; balances were within target levels.

Results

WAPA made continuing progress executing the reserve strategies in each of the primary purpose areas.

Annual – FYE 2022 annual reserves are in line with the strategy. FYE 2022 balances at $80 million were $18 million, or 18% below the annual reserve target of $98 million.

Capital – FYE 2022 capital reserves are in line with the strategy. FYE 2022 balances at $190 million are less than the capital reserve cap of $514 million.

PPW – FYE 2022 PPW reserves suffered a setback due to drought conditions, market prices and the polar vortex weather event. WAPA will continue to seek progress in this area to ensure the risk of high PPW cost variability is appropriately mitigated for both the CROM and CRBPMF accounts.

- FYE 2022 CROM PPW reserves at $312 million were $81 million short of the FY 2022 $393 million target, a shortfall of 21%.
- FYE 2022 CRBPMF PPW reserves at $73 million were $11 million short of the FY 2022 $84 million target, a shortfall of 14 percent.
- In aggregate, WAPA ended FY 2022, and began FY 2023 with PPW reserves at $385 million, a full billion dollars short of the revised PPW reserve target of $1.4 billion, a shortfall of more than 70%.
- During the first quarter of FY 2023, and as detailed above, WAPA received an incremental $825 million in funding to support its PPW program,

Other – Reserve balance of $0 in current CRBPMF reserves allocated to “Other” is in line with strategy.

WAPA’s combined reserve balances at $655 million provide for roughly 60% of the $1.1 billion risk mitigation level WAPA was targeting during FY 2022.

For full disclosure, WAPA’s overall FYE 2022 unobligated balances, including non-reserve balances of $248 million, totals $902 million.

WAPA relies 100% on cash to manage its business. Without a borrowing mechanism, cash reserves are critical for operating during emergencies, drought, or other abnormal business conditions. Read more about WAPA's reserve funding strategy here.

Summary

As we continue our journey along *Power Forward 2030*, we remain committed to enhancing programmatic and financial transparency at WAPA, both with customers and other branches of government, and remaining laser focused on our mission and the state of the industry. Continuing to enhance financial information sharing and program collaboration with customers aligns with our core value to "Be curious, learn more, do better. Repeat." As we build and develop this site based on feedback from you, we will provide detailed cost information and narrative summaries annually. If you have questions or comments about this site, email thesource@wapa.gov.