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FROM: MARK A. GABRIEL, A0000
ADMINISTRATOR and CEO

A handwritten signature in blue ink, appearing to read "Mark A. Gabriel", is written over the printed name and title of the sender.

SUBJECT: FY 2023 Administrator's Budget Guidance

I am pleased to announce the FY 2023 budget process officially begins with the budget guidance contained in this letter. This guidance is consistent with the WAPA Strategic Roadmap 2024 and Tactical Action Plans designed to navigate the changing industry environment. As we plan for FY 2023, we must be mindful of how our decisions impact our core mission – to market and deliver clean, renewable, reliable, cost-based federal hydroelectric power and related services to our customers; as well as the Department of Energy priorities – protecting our energy infrastructure and strengthening the electric grid. It is imperative that we keep our core mission and the Department's priorities in focus as we formulate our budget requirements.

The following guidelines detail my expectations for your budget submissions and the subsequent implementation of those budgets in the execution years.

Investments to be Driven by WAPA's Tactical Action Plan

The Tactical Action Plan connects WAPA's Mission and Strategic Roadmap to day-to-day activities by focusing staff time and resources on those things that bring the most value to WAPA and its customers. The Tactical Action Plan includes:

- Preparing for Markets: Position WAPA for regional energy market participation by effectively managing industry changes surrounding WAPA's footprint while ensuring system reliability and alignment with WAPA's cost effectiveness principles.
- Fiber Partnerships: Explore additional opportunities to use WAPA's fiber assets.
- Data as a Strategic Asset: Enhance WAPA's ability to use data as a strategic asset to drive decisions and improve performance.
- Human Performance / Just Culture: Improve the design, operation and maintenance of WAPA's system by preventing, detecting and correcting human errors and organizational weaknesses that can impact safety, reliability and organizational effectiveness.
- Program and Budget Integration: Improve prioritization and resourcing of WAPA's needs through integration between program planning and budgeting.

I expect investment drivers in FY 2023 to align with WAPA's Tactical Action Plan.

Budgeting Assumptions and Constraints

1. Increases resulting from investment drivers must be offset.
2. Justify increases over FY 2022 workplan and historical execution – I expect justifications be presented to the Senior Managers for increases over the FY 2022 workplan plus inflation, as well as justifying increases over historical execution levels. Increases will be evaluated at the regional level where applicable, and WAPA-wide otherwise.
3. Workload Management – Beginning in FY 2023, regional and WAPA-wide budget submissions will be required to include a trailing 5 year budget to actual variance analysis. In addition to assessing historical execution performance, I will look to our workload management process to synthesize budgeting with resource allocation (both FTEs and contractors) and corresponding operational execution. My objective is to materially reduce our budget to actual variance while concurrently becoming more efficient.
4. FTE neutral – At minimum, WAPA will be FTE neutral. I expect existing FTEs to be reallocated to address new needs as necessary.
5. Inflation – Assume inflation over FY 2022 at 2% for non-federal labor and non-labor costs. Federal labor will use current base pay and benefits to initiate payroll formulation. General Schedule (GS) salaries will use a 2% inflation assumption. Wage Board (WB) and Administratively Determined (AD) salaries will be evaluated by region for the appropriate inflation percentage. Changes in benefits will also be evaluated to determine if additional adjustments are appropriate.
6. Training and leadership development – WAPA recognizes the need for continual investment in our workforce through training and development. Consistent with FY 2022

Budget Guidance, *up to* 1.5% of payroll to be budgeted for training and and additional 0.5% of payroll to be budgeted for the Leadership Development Program.

7. Physical Security – Physical Security budgets should follow the Physical Security Risk Assessments (PSRAs) and Physical Security Remediation Plans (PSRPs) or reasonable estimates if not available. I expect these estimates to be incorporated into the budget even if that means deferring other items.
8. Information Technology (IT), Life Cycle Management (LCM) and Cost Containment – The CIO organization, in conjunction with its business partners, should prudently budget for IT LCM and related expenses with a focus on cost containment. Cost containment strategies may include (but are not limited to):
 - a. ongoing assessment of WAPA’s IT application portfolio to assess usage, total cost of ownership, and redundancies;
 - b. retirement of minimally used or redundant solutions; and
 - c. replacement of applications with standard IT solutions across WAPA with commercial-off-the-shelf products while minimizing custom solutions where possible.
9. Expectation to revalidate Trust & Reimbursable work assumptions – I expect the organization to revalidate work assumptions associated with Trust & Reimbursable work and prioritize existing workload over new Trust & Reimbursable work, subject to contractual and regulatory requirements. My view of prioritization (which should carry over into the workload management process) is:
 1. WAPA system work
 2. Work for other WAPA customers that impact the WAPA system
 3. All other work
10. 10-Year Capital Planning and Asset Management – WAPA will consolidate the regional 10-year plans in early fall and review the scope and financing for sustainability. This includes both C&R program requirements and capital O&M (RRADS). The Total Capital Committee (TCC) will be tasked with WAPA-wide prioritization if necessary. The OCFO will consolidate the regional plans for Senior review and approval. WAPA will make the approved WAPA-wide plan available to stakeholders no later than December for review and comment. It is critical that the Asset Management data available be used to the fullest extent possible in defining the capital needs, and the priorities for appropriated financing. I expect that each of your 10-Year Capital Plan submissions demonstrate the integration of the Asset Management data.

Budget Review

The budget calendar continues to include a number of strategic review opportunities for WAPA’s 10-Year Capital Investment Plan, Program Direction, O&M, and Purchase Power and Wheeling submissions. The Senior Management Team will review the submissions for strategic alignment, cost containment, funding sustainability, and risk management/mitigation. This process culminates with the CFO submitting the final FY 2023 budget to me for approval.

If you need assistance, or have questions, please direct them to Mike Peterson, Senior VP & Chief Financial Officer at 720-962-7500 or MDpeterson@wapa.gov, or Colin Marquez, Vice President of Budget & Analysis at 720-962-7434 or CMarquez@wapa.gov.

I thank you and your teams for the tremendous effort and support in moving WAPA ahead during a constrained budgetary time.