

MEMORANDUM

DATE: November 17, 2023
FROM: T. LeBeau, A0000
FY 2026 Administrator's Budget Guidance
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I am pleased to release the Administrator's Budget Guidance Memo for FY 2026. This guidance prioritizes our continued mission to market and deliver clean, renewable, reliable, cost-based Federal hydroelectric power, transmission and related services to our customers; progress towards achieving *Power Forward 2030* goals and as well as the cost management commitment to our customers as we continue to experience drought and inflationary conditions.

The following guidelines detail my expectations for your budget submissions and the subsequent implementation of those budgets in the execution years. Guidance is provided by the following budget categories:

In recognition of WAPA's growing workload to support our core mission as well as new requirements, I am authorizing a 1% (approximately 15 FTE) increase in WAPA-wide FTE for FY26.

- **LABOR:** Includes Federal payroll, benefits and performance & incentive compensation in addition to costs incurred for details and temporary promotions. Utilization of authorized full-time equivalent resources (FTEs) will be included in Seniors' performance evaluations.
- **DISCRETIONARY:** Includes Operations & Maintenance (O&M) expense, reimbursable work-for-others and all other expenses not included within the Labor, PPW and Capital budget categories.
- **PURCHASED POWER & WHEELING (PPW):** Includes purchased power, purchased transmission, and purchased ancillary services.
- **CAPITAL:** Includes capitalizable costs such as Property, Plant, and Equipment (PP&E) and internal-use software.

I ask that you engage across the enterprise in discussions on the tradeoffs as well as the sequencing of work and initiatives in order to meet this budget guidance.

Thank you all for continuing to execute WAPA's priorities as we look to continuing work to meet our *Power Forward 2030* goals.

1. Labor

- a. Methodology: WAPA's methodology for budgeting federal labor is as follows:
 - i. WAPA will assume full FTE execution of authorized FTE.
 - ii. WAPA will conform to the salaries and wages set by Congress and will utilize historical data, current salaries and wages, and current Federal administration guidance for purposes of estimating General Schedule (GS) salaries and wages in the budget request.
 - iii. Wage Board (WB) and Administratively Determined (AD) salaries will be evaluated by region for the appropriate market and/or inflation percentage.
 - iv. Any adjustments to base pay and benefits will be applied consistently across WAPA and supported by data. Adjustments will be approved by WAPA Budget & Analysis.
- b. FTE increase: WAPA will increase FTE by 1%. I expect the allocation to follow WAPA policies.
- c. Cash awards: Performance-based cash awards should be budgeted based on Department of Energy guidance and/or historical expenditures. Cash awards will be categorized as Labor budget expenses.
- d. Relocation, recruitment and retention: Relocation will be categorized as Labor budget expenses. Recruitment and retention will now also be categorized as Labor budget expenses.
- e. Overtime: Overtime will continue to be treated as a Discretionary budget item and subject to the constraints outlined in the Capital and Operations and Maintenance sections of this guidance.

2. Discretionary

- a. Operations and Maintenance (Indirect/O&M):
 - i. Increases over historical expenditures. I expect increases to the FY 2026 budget request to be no greater than historical expenditures plus 15 percent. Additional constraints may be applied by the Regional Managers or WAPA's Administrator for Headquarters. Increases will be evaluated at the regional level where applicable, and WAPA-wide otherwise.
 - ii. Contracted services including those for Information Technology, Technical and Engineering, Administrative, and building lease agreements will be the lower of Discretionary guidance or option year pricing. Additional scope or positions require Administrator approval.
 - iii. FY 2026 travel budgets for non-maintenance functions will be set at up to 120 percent of FY 2023 expenditures to facilitate meaningful face to face interactions in a post-COVID working environment.
 - iv. FY 2026 leadership development budget will be set at 100 percent of the FY 2024 budget due to the program's recent launch and because a majority of the previous three historical expenditure years were impacted by COVID.
- b. Work for Others: Expectation to revalidate trust and reimbursable work assumptions. I expect the organization to revalidate work assumptions associated with trust and reimbursable work and prioritize existing WAPA workload over new trust and reimbursable work, subject to contractual and regulatory requirements.

3. Purchased Power & Wheeling (PPW)

PPW budget assumptions should be based on reasonable base-case assumptions for PPW projections. PPW budget submissions must be supported by price and volume estimates respectively based on prevailing market prices and recent hydrology projections.

4. Capital

- a. Evaluation: To facilitate the evaluation of the capital plan, the following items are necessary to support a budget request:
 - i. Additions and Major Upgrades, as defined by the Financial Leadership Council (FLC), require a project initiation document (PID) for consideration in the budget request.
 - ii. Project specific budgeting is required for rate impacting capital projects \geq \$500K for the revalidation and formulation years.
 - iii. Requirement specific budgeting is required for rate impacting moveable property purchases \geq \$75K for the revalidation year.
- b. Feasibility assessment: Requests that exceed 15 percent of historical expenditures, by region or HQ department, require Administrator approval including the items detailed below. This threshold applies to the revalidation year, formulation year, and 5-year window.
 - i. Feasibility assessment to execute at higher level, and
 - ii. Feasibility assessment of funding (e.g., appropriations, customer advances, revolving fund, work for others reimbursable funding).
- c. Project funding: Funding by source will use the following guidance:
 - i. Appropriation assumptions will be consistent with the appropriation allocation targets provided by the VP of Budget & Analysis.
 - ii. Alternative financing and revolving fund assumptions will be consistent with cash flow projections and follow customer coordination processes established within each region.

5. Other Considerations and Priorities

- a. Rate impact assessment: Rates input provides the opportunity to communicate constraints on individual rate setting systems that may impact budget formulation levels. Rates input will be communicated both internally within each region as well as to cross- regional functions that rely on financial resources within that region. Additionally, the approved budget is expected to align with the forward assumptions in the Power Repayment Study for each rate setting system.
- b. Net receipts: To ensure sufficient net receipts are available for the budget year, projections of net receipts by rate setting system that are \leq depreciation + interest on investment requires Administrator approval.
- c. Safety, Sustainability and Cybersecurity: Safety, sustainability and cybersecurity are priority items for which funding must be included in this budget request. Funding request should include ensuring WAPA has the resources to meet the requirements and timelines set forth in recent regulations, directives and executive orders. I expect these estimates to be incorporated into the budget even if that means deferring other, non-priority items. These are also areas that I will strongly consider exceptions to the established budget guidance when determining our overarching funding for the year.

- d. Physical Security: Physical Security budgets will 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, non-priority 1 items.
- e. Information Technology (IT), Life Cycle Management (LCM) and Cost Containment: The CIO organization, in conjunction with its business partners, will prudently budget for IT LCM and related expenses with a focus on cost containment. Cost containment strategies may include (but are not limited to):
 - i. ongoing assessment of WAPA's IT application portfolio to assess usage, total cost of ownership, and redundancies;
 - ii. retirement of minimally used or redundant solutions; and
 - iii. replacement of applications with standard IT solutions across WAPA with commercial off-the-shelf products while minimizing custom solutions where possible.

6. Review and Approval

This budget, including any exceptions to this guidance, requires Senior Management review and Administrator approval. Additionally, WAPA will make the approved WAPA-wide plan available to stakeholders for review and comment. HQ and each region will follow the customer coordination and, where applicable, customer approval processes established within HQ and each region.

7. Budget Additions and Exceptions

As changes are necessary to WAPA's budget in a dynamic operating environment, I expect WAPA to follow the business rules detailed below to appropriately address changes between the budget and the execution of the budget in a way that effectively reallocates resources while balancing cost-shift impacts. The Budget Additions and Exceptions process is as follows:

- a. Increases in labor and or capital funding using customer advances require coordination and communication with customers.
- b. Changes in capital appropriations will follow the allocation process developed by the FLC.
- c. Increases in Discretionary budgets will follow the Additions and Exceptions process.
- d. Source of funding for appropriations will come from under-execution based on execution milestone reviews.

If you need assistance, or have questions, please direct them to Mike Peterson, Senior VP and Chief Financial Officer at (720) 962-7500 or MDPeterson@wapa.gov, or Colin Marquez, Vice President of Budget and 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.



Tracey A. LeBeau
Administrator and Chief Executive Officer