



Department of Energy
Western Area Power Administration
299 South Main Street, Suite 200
Salt Lake City, UT 84111

April 25, 2019

**MEMORANDUM FOR DENNIS R. SULLIVAN, A8000, LAKEWOOD, CO THROUGH
STEVE JOHNSON, L0000, MONTROSE, CO**

FROM: Tyler Nelson, Finance Manager
Colorado River Storage Project Management Center (CRSP MC)

SUBJECT: Upper Colorado River Basin Fund (Basin Fund) Reserve Balance Strategy

BACKGROUND: To ensure the financial stability of the Basin Fund, the CRSP MC and Western Area Power Administration (WAPA) have developed an updated and revised Reserve Balance Strategy for the Basin Fund. This strategy has been revised from an earlier strategy to help mitigate the unique risks associated with a revolving fund, including but not limited to drought, equipment failures, unplanned and catastrophic events and purchased power uncertainty.

PROPOSAL: Below are the components of the Strategy:

Capital

- Up to 3 years of future planned capital projects funding for the CRSP and participating projects that WAPA and Reclamation plan to execute

Annual Operations and Maintenance (O&M)

- 25 percent of the next year's O&M funding amount for the CRSP and participating projects that WAPA and Reclamation plan to execute¹

Purchased Power and Wheeling

- Using current CRSP MC model projections of hydrology and pricing -- calculate 3 years of Purchased Power expenses projected for drought years (90 percent exceedance) above calculated revenues in the power repayment study (PRS)²
 - This Purchased Power and Wheeling component aligns the Basin Fund with a more consistent WAPA wide approach

¹ The Basin Fund is authorized for O&M and Replacements and Additions, but not for construction of new facilities. Maintaining a reserve for a lapse of appropriation is not a consideration for the Basin Fund.

² The initial Basin Fund strategy consisted of 25% of the peak annual purchased requirement seen in the most recent 10-year period. This memo revises the strategy based on the anticipated amounts necessary to cover projected purchase power expenses during a drought and the revolving fund's inability to mitigate purchased power expenses using WAPA's Construction, Operation and Maintenance (CROM) account.

Reclamation Transfers

- CRSP MC transfers power revenues, previously deposited into the Basin Fund, to Reclamation for its O&M, Capital Investments (replacements and additions), and other programs (e.g. statutory and contractual program activities). In order to appropriately account for reserve amounts for Reclamation, the Reclamation funding letter will notate and report to the CRSP MC any unused amounts or carryover amounts of O&M and Capital. The Reclamation unused or carryover amount will be subtracted from the amount that the Basin Fund holds in reserve for Reclamation O&M and Capital. This will ensure that the Basin Fund Reserve target balance will not be overstated.

Capital, O&M, and Purchased Power and Wheeling will have target values calculated and set annually. The target values will also be assessed throughout the year, as needs arise. CRSP MC and Reclamation will obtain customer input on the data used in this strategy during Workplan meetings, 10 Year Capital meetings, and discussions related to purchased power. These inputs determine the fiscal year-end target balance. The annual target balance and components will be discussed with Customers at the annual Workplan meeting and updates will be provided in subsequent meetings throughout the year. The target balance will help ensure sufficient funds for operating requirements and unforeseen events.

SENSITIVITIES: The strategy was most recently discussed with the Colorado River Energy Distributors Association (CREDA) Board on 3/28/2019 and they are in support of this strategy.

REQUEST: Request approval of the proposed Upper Colorado River Basin Fund Reserve Balance Strategy

POLICY IMPACT: None

STEVE JOHNSON, SENIOR VP AND CRSP MANAGER

DATE

APPROVE: X DISAPPROVE: NEEDS DISCUSSION:

DENNIS R. SULLIVAN, CHIEF FINANCIAL OFFICER

DATE

APPROVE: X DISAPPROVE: NEEDS DISCUSSION: