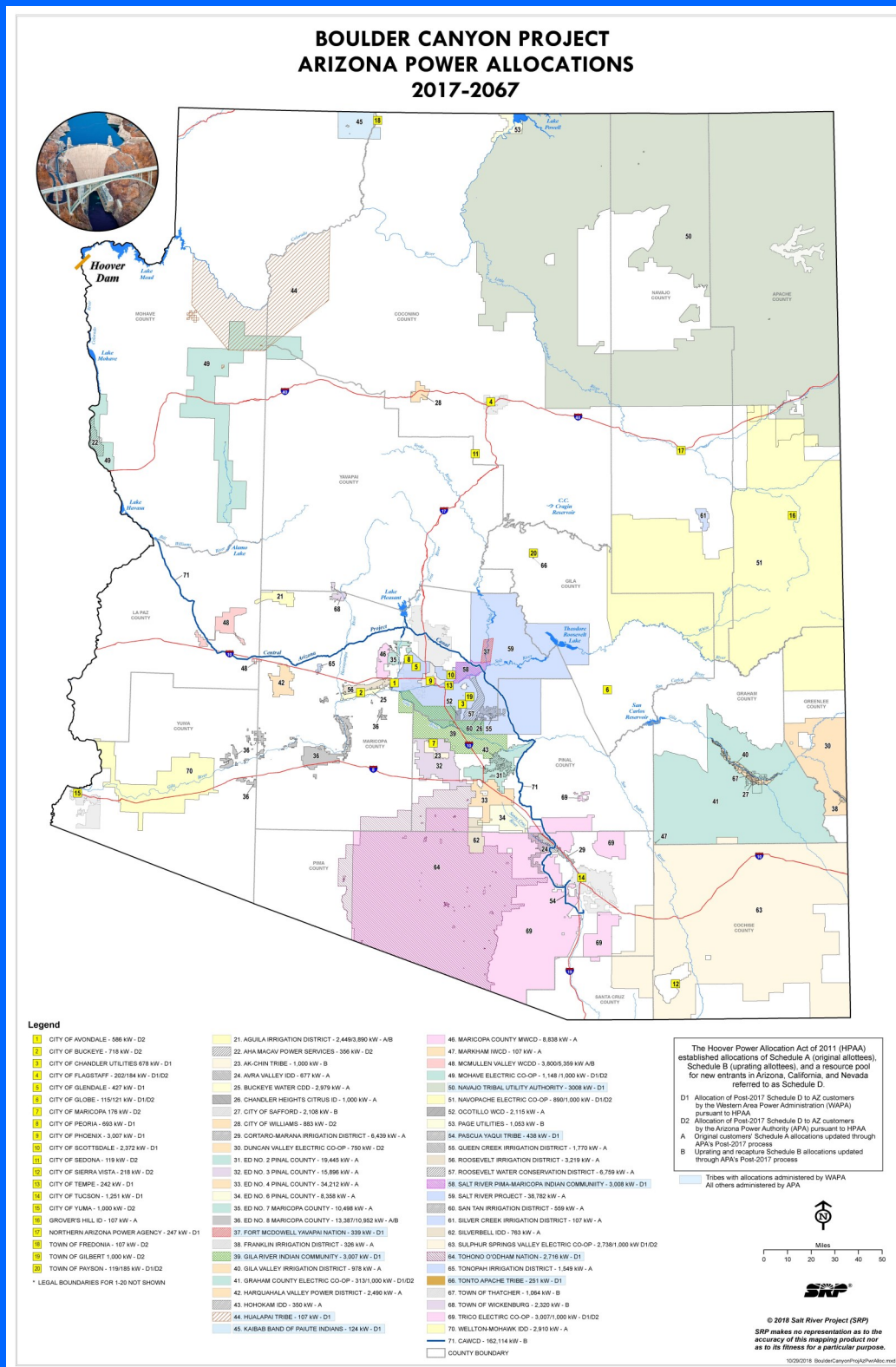


We Have Arizona Covered



ARIZONA POWER AUTHORITY 2018 ANNUAL REPORT—NO. 60

Presentation of Report

COMMISSION

April 2019

Dalton H. Cole

Chairman

10/1/2017-9/30/2018

The Arizona Power Authority (Authority) presents the Operating Year 2018 Annual Report. This report accounts for the Authority's operational and financial activities for the operating year ending September 30, 2018. It also covers the Authority's administration of Arizona's hydroelectric power entitlement generated at Hoover Dam and Powerplant.

Russell L. Jones

Vice Chairman

10/1/2017-9/30/2018

With the addition of 35 new customers, more than doubling our previous total, the Arizona Power Authority focused on customer service and training (both with customers and staff).

Stephen M. Brophy

10/1/2017-9/30/2018

A formal Customer Service program was developed during the Strategic Plan, so staff set about implementing it. Part of the program included formal tours with state legislators on relevant committees to familiarize them with the Arizona Power Authority. We also implemented a quarterly "Speaker Series" to educate our customers on the history of the Bureau of Reclamation/Hoover, history of Western Area Power Authority and an overview of the electrical transmission system.

John F. Sullivan

10/1/2017-9/30/2018

Lawrence V.

Robertson, Jr.

10/1/2017-9/30/2018

The hydrology in the Colorado River Basin was the fourth worst on record. The Bureau of Reclamation and the Basin States continued to work on a Drought Contingency Plan during the year. While the Authority can't impact the drought, we continue to strive for operational excellence and control costs in the face of reduced energy estimates.

STAFF

Ed Gerak

Executive Director

Arizona Power Authority

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Heather Cole

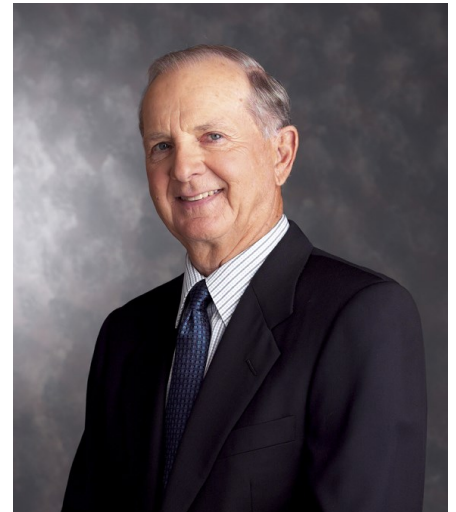
Executive Secretary



Commissioners

Dalton H. Cole—Chairman

Appointed to the Commission in January 2002 and re-appointed through his present term expiring in 2020, Dalton assumed the Chairman's role in September 2016. He is a retired businessman and farmer. A past member of the Central Arizona Water Conservation District Board, Mr. Cole co-founded and chaired the HoHoKam Irrigation District. He also served on the board of Electrical District No. 2 in Pinal County for 18 years and is a past chairman. In addition, Mr. Cole is a past chairman of the State Board of Directors for Community Colleges. He has served on the Ground Water Management Committee for Pinal County, as well as advisory committees to the Arizona Legislature regarding water and power issues.



Russell L. Jones— Vice-Chairman

Appointed to the Commission in 2014, for a term expiring in 2018, Russ assumed the role of Vice Chairman in September 2016. He is the Chairman of the Board of R.L. Jones Management Group and R.L. Jones Custom Brokers, with seven (7) offices, serving key Ports of Entry along the U.S./Mexican Border, established in 1938 by his grandfather. Russ served three (3) terms in the Arizona House of Representatives, where he was the Chairman of the Agriculture and Water Committee. As well as holding a National Customs Broker license, he is a licensed Surplus Lines Insurance Broker, and sits on the executive committee and boards of several organizations; including the Arizona/Mexico Commission and Chairman of the Border Trade Alliance. An active Rotarian and pilot in the Civil Air Patrol, Russ is also a proud member of VFW Post 19 in Yuma.

Staff



Staff (From Left to Right)

Robert Nieto—IT Manager

Gary Kern—Financial Administrator

Linda Sullivan —Senior Rate Analyst

Abel Gunn— Senior Accountant

Heather Cole—Executive Secretary

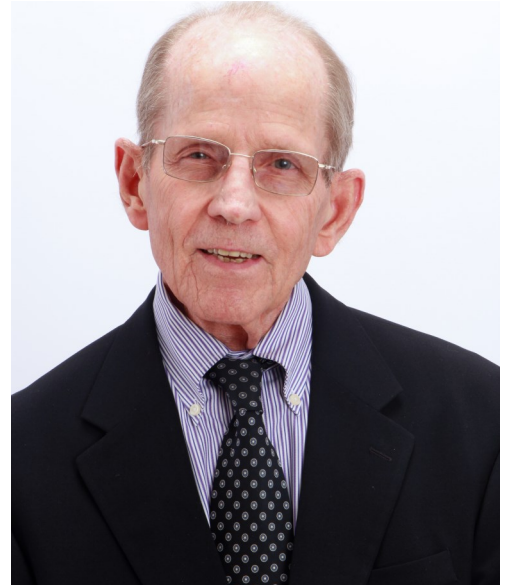
Chris Shoop—Senior Rate Analyst

Ed Gerak—Executive Director

Commissioners

Lawrence V. Robertson, Jr. —Commissioner

Appointed to the Commission in 2017 for a term expiring in 2022, Larry V. Robertson, Jr. is a natural resource, utility and energy attorney, of counsel with Munger-Chadwick . Admitted to the Arizona Bar in 1964, Larry has worked as Secretary and General Counsel for Southwest Gas Corporation; Vice President and General Attorney, Tucson Electric Power Company; Vice-President, Secretary and General Counsel, Interstate Natural Gas Association of America; Undersecretary of Energy and Deputy General Counsel for the U.S. Department of Energy. Larry has also been admitted to the Nevada, Wyoming, Montana, Texas and Colorado bars, as well as the U.S. District Court and the U.S. Supreme Court. He received a bachelor's degree and Juris Doctor from Stanford University.



John F. Sullivan —Commissioner

Appointed to the Commission in 2017 for a term expiring in 2022, John F. Sullivan is the former Deputy General Manager and Chief Strategic Initiatives Executive of the Salt River Project. His areas of responsibilities included Energy Management, Water Resource Management, and Strategic Planning. Prior to this John served for 2 ½ years as Associate General Manager and Chief Resources Executive and 17 years as Salt River Project's Associate General Manager for the Water Group. John received his baccalaureate degree in electrical engineering from the University of Arizona, is a past President of the Water for the West Foundation, Colorado River Water Users Association, Colorado River Energy Distributors Association and the National Water Resource Association.



Stephen M. Brophy—Commissioner

Appointed to the Commission in 2009 and re-appointed through his present term expiring in 2020, Stephen M. Brophy is president of Page Land & Cattle Co., Aztec Land and Cattle Company, Ltd., the Apache Railway Co., and a partner in Santa Lucia Farms. Among his affiliations, he is a member of the boards of the Arizona Cattle Growers Association, Mountain States Legal Foundation, The National Cowboy Museum and former Chairman and member of the Economic Advisory Council of the Federal Bank of San Francisco. He received a bachelor's degree from the University of Arizona and an MBA from Stanford University.



Report of the Executive Director

In recognition of getting through the allocation and the start of the new 50 year contracts, Salt River Project hosted the “Hoover Hootenanny,” a night to celebrate what had been accomplished and what was to come. The night was a celebration filled with fun and frivolity, a departure from the years leading up to the signing of the new contracts, and a great time for the Arizona Power Authority to build or rebuild relationships with its customers, new and old.

However, like most contracts (especially 50 year ones) there are always unanticipated issues that arise. In this case, it was an underestimation by the Bureau of Reclamation on the Transitional Items. These items were the new customers’ pro-rata share of previous financial obligations. The initial estimates ballooned 316%, causing undue hardship on certain new customers. The Arizona Power Authority offered to extend the repayment period from one to five years, with interest, for customers looking to lessen the impact.

With the consuming tasks of contract development and execution behind us, the Arizona Power Authority set about taking care of some housekeeping issues. These included performing a historical resolution review, issuing four resolutions of appreciation (two former Commissioners, and two individuals that aided the Authority during the allocation process), and issuing two Requests for Proposals for Outside Legal Counsel and a Financial Advisor.

During the year, the Arizona Power Authority presented to both Moody’s and S&P rating agencies, receiving an upgrade from Moody’s to AA1 stable. This made the APA one of 5 public power organizations in the United States to receive this rating.

The Arizona Power Authority strives to efficiently operate despite this recognition. For example, the Authority brought the development of their annual report and Copper Book (rules & regulations) in house, saving approximately twenty thousand dollars per year. However, this paled in comparison to the reduction in outside services by \$190K. The Authority also pre-paid liabilities with 3.25% interest, saving its customers \$128K over four years. Despite poor hydrology, the Authority still beat budget by \$6K on a \$21.8 million budget thanks to strong financial controls. It also allowed us to reduce A&G by 10% for the next fiscal year and reduce the composite rate by 3.4% .

Over this past fiscal year, staffing was stable and had time to increase their skills and responsibilities after finalizing the contracts. In anticipation of the future of the electrical grid, Chris Shoop was tasked with being the subject matter expert on battery storage. Linda Sullivan took on the additional role of monitoring the environmental program that we participate in, the Multi-Species Conservation Program. Finally, Heather Cole added the responsibilities of Customer Service Program Manager and Lobbying Liaison.

As we look forward to next fiscal year, the Arizona Power Authority is looking to celebrate its 75th Anniversary. We anticipate celebrating this milestone with a luncheon on the Capital Lawn, as well as seeking a proclamation from the Governor’s office. Finally, I anticipate a great deal of my time will go towards the development of a history book chronicling the Authority over the years.

Ed Gerak
Executive Director



Give me six hours to chop down a tree and I will spend the first four sharpening the axe. – Abraham Lincoln

Operations

The ongoing generator life extension program has continued with inspections of A4, A8, A9, N1, and N7. Assessments of generator equipment helps plan for maintenance and replacement as they near the end of their service lives. The N0 station service Pelton turbine unit had its old Pelton water wheel replaced with a more efficient solid steel Pelton wheel. Research into replacing butterfly valves with full port valves continued, though the current valves have a life expectancy of 10-20 more years. Along with generator work, a landfill was discovered on top of the firing range, which contains toxic materials that must be removed, otherwise it will seep into the river. Reclamation is working with the Nevada Division of Environmental protection to determine a course of action.



Customer Service Report

Customer Service became a focus of the APA in 2017 and now has become part of the culture. Regional customer visits have continued and APA has hosted a variety of quarterly speaker series ranging in topics from the History of the Bureau of Reclamation to a Legislative Wrap-up. The C3 - Customer Consultation Committee continues to meet to discuss a variety of issues.

The VIP tours at Hoover Dam have become an event that state legislators will not miss. Customers have found that sending their Board of Directors on this tour is a great way to educate Board members on hydropower and the electric industry.

The APA office has been remodeled and updated and has that “Third Place” appeal. Many times APA customers stop by the office while they conduct business at the State Capitol. We have established three work desks for customers to use if they are at the Arizona Capitol Mall. The conference rooms, lounge and shared workspace areas make it an office away from the office.

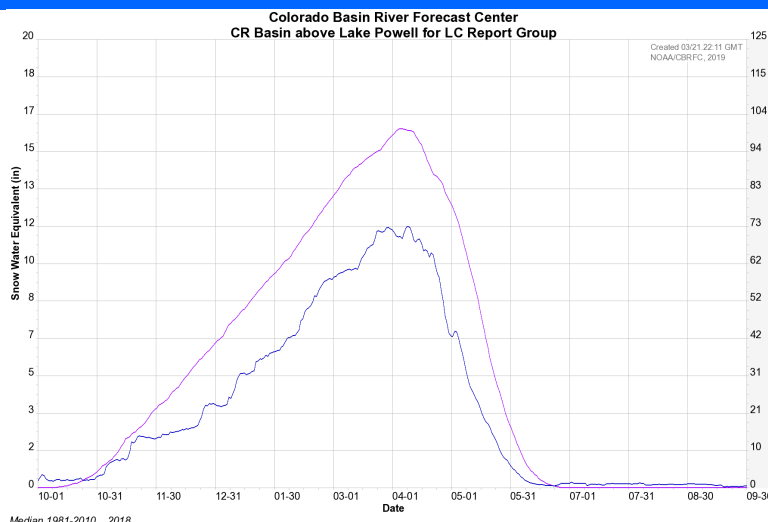
APA staff is continuing their professional development and provides monthly updates with the Commissioners and customers on things they have learned.

The biggest event on the horizon is the planning for APA’s 75th Anniversary. Founded on March 27, 1944, the APA looks to commemorate the event with Commissioners, customers and legislators by having an event at the Capitol Mall. In honor of this historic event, we have included a poster that was created to commemorate our 50th Anniversary.



Hydrology

Soil moisture throughout both the upper and lower basin was below average in the fall of 2017. This led to a less efficient runoff in the 2018 water year, which received little precipitation anyway. At year end, the upper basin was only 65% of average, while the lower basin was 56% of average. Lake Mead started the operating year at an elevation of 1082, and decreased by about 3 feet to 1079 by the end of the year. Inflow to Lake Powell was only about 44% of average. Heading into the next year conditions again point to low soil moisture, though there is an increased chance of precipitation heading into the winter.



Management's Discussion & Analysis

The CliftonLarsonAllen Audited Financial Statements and Supplementary Information are attached for your review. Included in this attachment, beginning on page 3, is the Management's Discussion & Analysis. The information contained in the Management's Discussion and Analysis is intended to provide a general overview of the Authority's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Accounting Department:

Arizona Power Authority
c/o Accounting Department
1810 West Adams Street
Phoenix, AZ 85007



