

COMMISSION

JOHN F. SULLIVAN – CHAIRMAN
PHILIP C. BASHAW – VICE CHAIRMAN
RUSSELL L. JONES – COMMISSIONER
KIM OWENS – COMMISSIONER
JIM SWEENEY – COMMISSIONER

STAFF

JORDY FUENTES – EXECUTIVE DIRECTOR
HEATHER COLE – EXECUTIVE SECRETARY



ARIZONA POWER AUTHORITY

1810 W. ADAMS STREET
PHOENIX, AZ 85007-2697
(602) 368-4265

WWW.POWERAUTHORITY.ORG

MINUTES OF THE ARIZONA POWER AUTHORITY (“APA”) COMMISSION (“Commission”) MEETING HELD JUNE 21, 2022

- PRESENT:** Philip C. Bashaw, Vice Chairman
Kim Owens, Commissioner
John Sullivan, Chairman
Jim Sweeney, Commissioner
- STAFF:** Jordy Fuentes, Executive Director
Gary Kern, Financial Administrator
Ben Norris, Attorney General’s Office
Sonseeahray Thayer, Senior Rate Analyst
- OTHER:** Alexandra Arboleda, TSL Law Group
Dennis Delaney, KR Saline & Associates
Bryce, Dinger
Elston Grubaugch, Wellton Mohawk
DeWayne Justice, Electrical District #7
Ron McEachern, Electrical District #
Kristine McMinimy, AEPCO
Jason Moyes, Moyes, Hendricks
Emily Rice, B3 Strategies/AMPUA
Ken Robbins, Electrical District #2
Ken Saline, KR Saline & Associates
Meghan Scott, Wellton Mohawk
Elizabeth Story
Sheryl Sweeney, ClarkHill
Robert VanHofwegen, Electrical District
Glen Vortherms, Maricopa Water Conservation District
Bryan Young, Central Arizona Project

CALL TO ORDER: The meeting was called to order at 10:04 a.m. by Chairman John Sullivan. Quorum was established.

ROLL CALL: Commissioners Bashaw, Owens, Sullivan and Sweeney were present.

CHAIRMAN REQUEST FOR DECLARATION OF CONFLICT OF INTEREST BY ANY COMMISSIONER:

- Each Commissioner declared they had no conflict of interest on any matter as listed on the agenda for today's meeting.

PLEDGE OF ALLEGIANCE: The Pledge of Allegiance was recited.

INTRODUCTION OF JORDY FUENTES – Executive Director

APPROVAL OF MINUTES:

- **Motion:** To approve the minutes from the Regular Commission Meeting held on May 17, 2022 was made by Vice Chairman Bashaw and seconded by Commissioner Sweeney.
- **Vote:** Commissioners Bashaw, Sullivan & Sweeney approved the motion. Commissioner Owens was not present at the May Commission Meeting, therefore, did not vote on approval of minutes.
- **Resolved:** Approved as stated above and the written documents are entered into the Commission records.

REVIEW OF EXPENDITURES AND FINANCIAL REPORTS AND APPROVAL OF

CLAIMS: Gary Kern, Financial Administrator, provided the Expenditures & Financial Reports. Hoover Operations Fund Claims #13413 - #13450 and APA Fund Claim #654 - #655 for the period May 1, 2022 through May 31, 2022 were presented.

- **Motion:** To approve Hoover Operations Fund Claims #13413 - #13450 and APA Claim #654 – #655 as presented was made by Commissioner Sweeney and seconded by Commissioner Owens.
- **Vote:** Commissioners Bashaw, Owens, Sullivan & Sweeney approved the motion.
- **Resolved:** Approved as stated above and the written documents are entered into the Commission records.

REVIEW OF DRAFT APA & HOVER OPERATIONS FUND 2023 BUDGETS: Gary Kern, Financial Administrator, presented the Draft APA & Hoover Operations Fund 2023 Budgets

APA Budget

The APA fund serves several purposes. It provides the credit agencies quasi debt service coverage, although ultimately the \$3.9 million cash belongs to the customers. Secondly, for cash flow purposes is used for the sale and purchases of supplemental (or firming) power. Thirdly, due to decades of convention the fund is utilized for capital purchases and then recaptured from the HOA fund as the assets are depreciated. Finally, it is used as a pass through for ED4 expenses. Note that the fund was also used to fund annual \$60,000 scholarships to the major universities but this practice was discontinued in OY 2013.

Firming activity is expected to be minimal in OY 2023, primarily for the benefit of Current Insight customers. The depreciation expense is expected to be \$20,000 with claw back from the HOA fund of \$13,000, with minimal capital purchases of \$10,000. The ED4 revenue is comprised of \$6,700, which is 60% of risk management premiums and \$2,400 in APA administrative fees. The highlighted items are pending updated numbers; risk management premiums will be received in July and planned capital purchases are subject to review.

HOA Budget

The HOA budget is driven by four components:

- 1) The base charge provided by WAPA. This is derived from the Boulder Canyon Project Fiscal Year 2023 Public Information Forum (updated May 13, 2022). The APA is then assigned our percentage of 19.75% for capacity and 19.4013% for energy.
- 2) The expected energy revenue. This is taken from the Master Schedule Energy report from the WAPA portal (last update 05/31/22). This number is volatile and will change all the way up to the final budget publication date in August.
- 3) Debt Service.
- 4) Administrative & General Expenses.

The preliminary budget indicates an overall composite rate increase of 7.9% or \$223,000. A & G is expected to increase 4.4% or \$50,000. If the OY 2022 rates had not been artificially reduced by the prepayment of \$400,000 of the OY 2021 refund, the overall composite rate would have increased only 5.7%.

Note that the HOA budget is comprised of purchased power (WAPA base charges), debt service, A & G, and a \$400,000 planned margin for debt service coverage ratio purposes. They breakout as follows:

- 1) Purchased power 83%
- 2) Debt Service 9%
- 3) Administrative and General 6%
- 4) Planned margin 2%

94% of the budget is essentially out of control of the APA. The 6% for A & G comprises only \$1.2 million of the total budget of \$19.0 million. Further, the A & G costs have been cut to the bone over the past four budget years through the reduction of legal and outside services related to the post 2017 contracts, staff attrition, and transfer of IT services to ADOA.

Chairman Sullivan explained that it appears that WAPA has removed the anticipated \$800,000 in REC revenue from their budget. Ken Saline confirmed that WAPA will be continuing discussions with the E&OC members regarding their policy on REC revenues. It is the feeling of the APA customers that any REC revenue should go to contractors who have not taken their allocated RECs and the revenues received should not be applied to rates.

Chairman Sullivan moved the Summer Rate Mitigation Strategy issue forward without exception as to include customer comments in the discussion. Ken Saline, on behalf of the APA customers, thanked the APA staff for their analysis and agrees that it makes sense. The increased desire/need to cut-back on water usage throughout the basin states will reduce the water deliveries which will in turn affect the energy derived from the dams.

POSSIBLE SUMMER RATE MITIGATION STRATEGIES: Gary Kern, Financial Administrator, presented Possible Summer Rate Mitigation Strategies.

The APA was requested by Ken Saline in the May 17, 2022 Commission meeting to explore rate mitigation through the summer in light of the estimated \$900,000 customer refund for the operating year 2022 ending September 30th. Staff recommends against taking this action.

Upon analysis of the drivers behind the expected refund as part of the rate check calculation, we have a level of certainty as it pertains to the administrative and general expenses and debt service costs.

However, we cannot say the same for the expected revenue which is derived from the WAPA 24 month and target schedules. Three of the previous four operating years have seen shortfalls ranging from (\$200,000) to (\$450,000) in energy revenues versus the initial budgets. Further, in operating year 2021 the estimates provided by the WAPA schedules dropped (\$200,000) from May – September (actual year-end). Finally, the most recent target/24 month scheduled issued June 1st indicate a (\$66,000) drop from the previous schedules issued in May. The bottom line is that these energy estimates are too volatile to recommend any rate decrease.

In lieu of reducing rates at this time, APA staff recommends prepayment of the remaining \$506,433 OY2021 customer refunds which are scheduled to be paid September 2022. These checks would be issued and mailed with the June 30, 2022 accounts payable run.

Vice Chairman Bashaw asked Mr. Kern if he had confidence in the \$506,433 amount being presented. Mr. Kern confirmed that the number being proposed is based on 2021 customer refunds and is not reflective of the current energy scenario and/or hydrology.

- **Motion:** To approve prepayment of the remaining \$506,433 OY2021 customer refunds which are scheduled to be paid September 2022 was made by Vice Chairman Bashaw and seconded by Commissioner Sweeney.
- **Vote:** Commissioners Bashaw, Owens, Sullivan & Sweeney approved the motion.
- **Resolved:** Approved as stated above and the written documents are entered into the Commission records.

REPORT ON POWER OPERATION MATTERS: Sonseeahray Thayer, Senior Rate Analyst provided an update on power operation matters:

- Monthly Precipitation – May precipitation was comparable to the same time last year.
- Water Year Precipitation – When we compare this water year to date to the same time period last year, overall, we have had more precipitation.
- Upper Colorado River System – Precipitation to date in the upper Colorado river system is at 91% which is considerably higher than the same time last year.
- Lake Powell inflow is forecast to be at 52% of normal for the year.
- Total System Contents – (upper and lower basin) There was so little snow this past year that we are not seeing an increase in the basins and we do not expect to see this getting much better in the coming months.
- Reservoir and System Capacity – Currently Lake Powell is at 27% and Lake Mead is at 28% of capacity
- Lake Mead Elevation – Lake Mead is currently below 1,075. By this time next year, we anticipate the elevation to be at the 1,031 mark.

The Climate Forecast from the Colorado Basin River Forecast Center for Arizona for the next 90 days is above normal temperatures with a 33-40% chance of above normal precipitation over the next 3 months.

LEGISLATIVE UPDATE: Jordy Fuentes, Executive Director, provided the State Legislative Update: The legislature is finishing their work in Committees on many of the budget bills. There is agreement among Leadership (Governor's Office, Senate & House) on a budget package of approximately \$15.6 billion. The intent is to push the bills through and have a vote in the next couple

of days with the goal of wrapping up the Legislative Session on 6/24/22. The budget must be approved by 6/30/22.

Vice Chairman Bashaw asked Mr. Fuentes if there would be any adverse effects on APA operations were the budget not approved prior to 7/1/22? Mr. Fuentes deferred to Mr. Kern, who stated that there should be no effect on APA operations due to a governmental shutdown. The APA would not have any funding issues but may in some cases follow ADOA directives if possible and/or necessary.

Ken Saline asked if the APA has a policy regarding “essential/critical workers” that could be referred to in the event of a governmental shutdown that required furloughs, etc? Chairman Sullivan reiterated that the APA does not rely on state funds for revenues or expenses and that the APA employees are essential. Mr. Fuentes will look further into this issue and provide more input at a future time.

CHAIRMAN REPORT:

- APPA Annual Conference Update – Chairman Sullivan shared that the conference revolved around these key themes:
 - Reliability in Service
 - Resilience – Expecting the Unexpected
 - Security – Cyber & Physical Security of Facilities

There were also discussions revolving around Supply Chain & Labor issues.

- Law of Colorado River Annual Meeting – Chairman Sullivan attended the conference which addressed the following issues:
 - 100th Anniversary of the Colorado River Compact Signing
 - Lower & Upper Basin Presentations
 - Drought
 - Tribal & Environmental Presentations
- WAPA Public Comment Period – the APA will be submitting comments prior to the July 12, 2022 deadline.

BUSINESS ITEMS

- Interagency Service Agreement – Attorney General’s Office Representation – FY2023 Amendment
 - **Motion:** To approve the FY2023 Amendment to the Interagency Service Agreement between the APA & AG’s Office was made by Commissioner Owens and seconded by Vice Chairman Bashaw.
 - **Vote:** Commissioners Bashaw, Owens, Sullivan & Sweeney approved the motion.
 - **Resolved:** Approved as stated above and the written documents are entered into the Commission records.

COMMISSIONER COMMENTS: Commissioners Owens and Sweeney thanked Chairman Sullivan for his hard work and efforts during this transition period.

VISITORS’ COMMENTS/CALL TO THE PUBLIC: Ken Saline shared that he enjoyed giving Chairman Sullivan assignments over the past couple months. He also thanked the Chairman for his efforts.

ADJOURNMENT:

There being no further business to come before the Commission, Chairman Sullivan adjourned the meeting.

The meeting was adjourned at 10:44 a.m.

John F. Sullivan, Chairman

ATTEST:

Sonseeahray Thayer, Senior Rate Analyst

DRAFT