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ARIZONA POWER AUTHORITY

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MINUTES OF THE ARIZONA POWER AUTHORITY (“APA”) CUSTOMER MEETING HELD JUNE 18, 2024

COMMISSIONERS: Jim Sweeney, Vice Chairman (*Virtual*)

STAFF: Heather Cole, Executive Secretary to the Commission
Jordy Fuentes, Executive Director
Ben Norris, Legal Counsel
John Schutter, Chief Financial Analyst
Sonseeahray Thayer, Financial Administrator

CUSTOMERS: Darrin Francom, Central Arizona Project
Ed Gerack, IEDA
DeWayne Justice, Electrical District #7
Adam McAnally, Salt River Project
Kristine McMinimy, AEPCO
Jason Moyes, Moyes, Sellers & Hendricks
Daniel Pritchard, K.R. Saline & Associates
Emily Rice, AMPUA
Ken Robbins, Electrical District #2
Ken Saline, K.R. Saline & Associates
Scott Saline, K.R. Saline & Associates
Lori Tatiano, Salt River Project
Robert VanHofWegen, Electrical District #8
Glen Vortherms, Maricopa Water Conservation District
Jeff Woner, K.R. Saline & Associates

CALL TO ORDER: The meeting was called to order at 10:00 a.m. by Executive Director, Jordy Fuentes.

SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY “SCPPA” RESTITUTION UPDATE: SCPPA is entitled to restitution from defendants for fraudulent criminal activity arising from a contract for a close-out audit of the Boulder Canyon Project (the “Project”).

- *For those Customers wishing to receive any Refunds/REC Payments quicker, please send your Wire Transfer information to Sonseeahray@powerauthority.org as soon as possible.*

REVIEW OF DRAFT APA & HOOVER OPERATIONS FUND 2025 BUDGETS – *Jordy Fuentes, Executive Director & Sonseeahray Thayer, Financial Administrator*

APA Budget

The APA fund serves several purposes. Firstly, it provides the credit agencies quasi debt service coverage, although ultimately the \$4.3 million in cash belongs to the customers. Secondly, for cash flow purposes, it 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.

Firming activity is expected to be minimal in OY 2025, primarily for the benefit of Current Insight customers. The depreciation expense is expected to be \$29,000 with claw back from the HOA fund of \$13,000, with possible capital purchases of \$140,000 for a new parking lot and minimal other purchases for computer equipment. The ED4 revenue is comprised of \$7,400, which is 60% of risk management premiums, and \$2,500 in APA administrative fees.

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 2025 Public Information Forum (updated May 20, 2024). 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 05/08/24). This number is volatile and will change all the way up to the final budget publication date in August. Additionally, the APA then adjusts this number down by a percentage based on prior history in order to create a budget using a more representational amount of what is actually expected to be received in Megawatts throughout the operating year.
- 3) Debt Service.
- 4) Administrative & General Expenses.

Please note that the HOA budget is comprised of the four components just mentioned (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 makes up 84% of the budget
- 2) Debt Service, 8%
- 3) Administrative and General Expenses, 6% and
- 4) Planned margin, 2%

In other words, 92% of the budget is essentially out of control of the APA. The 6% for A & G Expenses comprises only \$1.3 million of the total budget of \$20.1 million. Further, the A & G costs have been significantly reduced over the past several budget years through the reduction of legal and outside services related to the post 2017 contracts, staff attrition, and transfer of IT and other building operating expenses over to ADOA. Although the APA continues to look at ways to decrease expenses, certain operating costs continue to increase. Therefore, A&G is expected to increase 4.6% or \$56,000.

As stated earlier, the preliminary budget utilizes what we believe to be overly optimistic energy through the dam. Despite estimated OY25 energy from WAPA being slightly lower than the original estimate for OY24, WAPA is still predicting an increase of 168,871 MWh from the current year's presently predicted final amount. Using their assumptions, this would indicate an overall composite rate decrease of 3.2%. However, utilizing a decrease of 3.7% applied to WAPA's OY25 Megawatt

prediction, the APA can present a preliminary budget that uses a more conservative estimate for OY25 energy while still being able to hold the composite rate at the current OY24 rate of \$34.56.

A&G Detail

Commission Expenses

- Per Diem is a reduction of \$600 based on OY24 spending
- Travel – In State is a reduction of \$943 based on OY24 spending
- Travel – Out of State is going up \$1,000. This includes APPA, CRUWA, NWRA, and other industry meetings
- Customer Service Program Expense is going up \$3,000 as a result of moving sponsorship costs from Miscellaneous Outside Services to the more appropriate category of Customer Service and an additional \$1,500 increase to include Dam tours, customer training, off-site meetings, and other sponsorships
- Conference Fees are flat and include APPA, CRUWA, NWRA, and other industry conferences

Staff Expenses

- Staff Salaries is an increase of \$41,000 due to budgeting for possible yearly raises or bonuses
- Travel – In State – is an increase of \$1,000 based on OY24 spending
- Travel – Out of State – is an increase of \$5,000 based on OY24 spending and includes APPA, AMPUA, CREDA, CRUWA and other industry conferences
- Office Supplies is a reduction of \$1,000 based on OY24 spending
- Copier expenses are flat
- Miscellaneous Office Expense is an increase of \$500 based on OY24 spending
- Postage is increasing \$100 due to an increase in check mailings for quarterly REC payments
- Telephone and Computer Expenses are decreasing 3% due to slightly lower expenses incurred in OY24
- Staff training decreasing 50% based on OY24 spending
- Conference fees are increasing \$4,000 and include APPA, CRUWA, NWRA, and other industry conferences

Outside Services

- Auditing, Legal, and MSCP are up 6.6% primarily due to inflation
- Other Outside Service Expenses are flat
- Please note, Miscellaneous Outside Professional Services is down due to moving sponsorship costs from this category into the more appropriate category of customer service.

Employee Related Expenses

- The majority of these expenses are driven by salary multipliers and are therefore up by 3.2% due an increase in salaries
- Please note Hospitalization is a preliminary number and is subject to change based on the new rates issued by the State in July.

Occupancy Expenses

- Janitorial is a decrease of 20% based on OY24 spending
- Trash Collection, Water and Electric are up 8.1% due to an increase in these utility costs

- Copier maintenance is an increase of \$200 based on OY24 spending
- Office Building Maintenance includes expected minor building repairs and maintenance and is a reduction of 50% to account for the fact that interest has been better than expected in the APA fund and therefore, the APA can move some of the larger building maintenance costs to this fund, thereby lowering costs for customers.
- Other Occupancy Expenses are expected to be flat.
- Please note, the insurance rate is subject to change once we receive the invoice from ADOA in July

Organizational Dues

- Subscriptions are up \$372 due to the renewal of the monthly Capitol Times Report
- Please note, this renewal is for a 3-year period and therefore will not be included in the subsequent two years budgets
- Membership Dues are up \$1,115 due to an increase in yearly membership fees including NRECA and Agribusiness & Water Council
- Organizational Dues are decreasing 18% due to a decrease in APPA yearly dues

In total the A&G budget is up 4.6%.

VISITORS' COMMENTS/CALL TO THE PUBLIC:

- Darrin Francom, CAP, thanked the APA for working hard to stabilize rates and create as much certainty as possible for the customers.
- Ken Saline asked that the APA continue to look at ways to reduce Bureau costs.