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KIM OWENS – COMMISSIONER
JIM SWEENEY - COMMISSIONER

STAFF

ED GERAK - EXECUTIVE DIRECTOR
HEATHER COLE - EXECUTIVE SECRETARY



ARIZONA POWER AUTHORITY

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MINUTES OF THE ARIZONA POWER AUTHORITY (“APA”) COMMISSION (“Commission”) IN PERSON/VIRTUAL MEETING HELD ON MAY 18, 2021

- PRESENT:** Philip C. Bashaw, Vice Chairman
Russell Jones, Commissioner
Kim Owens, Commissioner
John Sullivan, Chairman
Jim Sweeney, Commissioner (*attended virtually*)
- STAFF:** Dena Benjamin, Attorney General’s Office
Heather Cole, Executive Secretary to Commission
Ed Gerak, Executive Director
Gary Kern, Financial Administrator
Linda Levine, Senior Rate Analyst
Ben Norris, Attorney General’s Office
Sonseeahray Thayer, Senior Accountant
All Commissioners & Staff attended in-person unless otherwise noted
- OTHER:** Tisha Brackeen, AEPCO
Tara Davis, AEPCO
Dennis Delaney, K.R. Saline & Associates
Jill Kipnes, Irrigation & Electrical Districts Association
Adam McAnally, Salt River Project
Chris Michie, Electrical District #4
Jason Moyes, Moyes Sellers & Hendricks
Donovan Neese, Roosevelt Irrigation District
Wade Noble, Wellton-Mohawk
Paul Orme, Electrical District #3
Roger Rhinehart
Ken Robbins, Electrical District #2
Ken Saline, K.R. Saline & Associates
Scott Saline, K.R. Saline & Associates
Elizabeth Story
Sheryl Sweeney, Ryley, Carlock & Applewhite
Glen Vortherms, Maricopa Water Conservation District
Jeff Woner, K.R. Saline & Associates
All Guests attended virtually unless otherwise noted

CALL TO ORDER: The meeting was called to order at 10:02 a.m. via Google Meets by Chairman John Sullivan. Quorum was established.

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

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

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

PLEDGE OF ALLEGIANCE: The Pledge of Allegiance was recited.

APPROVAL OF MINUTES:

- **Motion:** To approve the minutes from the Regular Commission Meeting, April 20, 2021 was made by Commissioner Owens and seconded by Vice Chairman Bashaw.
- **Vote:** Commissioners Bashaw, Jones, Owens, Sullivan & Sweeney approved the motion.
- **Resolved:** Approved as stated above and the written documents are entered into the Commission records.

REVIEW OF EXPENDITURES AND FINANCIAL REPORTS: Sonseeahray Thayer, Sr. Accountant, provided the Expenditures & Financial Reports. Hoover Operations Fund Claims #12839 - #12877 and APA Fund Claim #646 for the period April 1, 2021 through April 30, 2021 were presented.

- **Motion:** To approve Hoover Operations Fund Claims #12839 - #12877 and APA Fund Claim #646 as presented was made by Commissioner Jones and seconded by Vice Chairman Bashaw.
- **Vote:** Commissioners Bashaw, Jones, Owens, Sullivan and Sweeney approved the motion.
- **Resolved:** Approved as stated above and the written documents are entered into the Commission records.

REVIEW OF DRAFT APA & HOOVER OPERATIONS FUND 2022 BUDGETS: Gary Kern, Financial Administrator reported the following:

APA Budget: Effective Operating Year (OY) 2022, the APA Fund is now on an operating year budget, October - September, like the Hoover Operations Account (HOA) Fund. Highlights of the budget include:

1. Supplemental power has dropped to essentially \$0, with the only activity being by Current Insight customers.
2. Electrical District #5 (ED5) Transmission and Distribution expenses are no longer charged back in portion to the HOA Fund, but are now borne 100% by ED5.
3. Interest income has decreased to \$0 due to continued historically low interest rates.
4. We expect the APA cash balance to remain just over \$3.9 million.

HOA Budget: This budget is VERY preliminary with respect to the expected energy generation. An updated budget will be provided in the July commission meeting at which time the Administrative &

General (A&G) will also be discussed in further detail and depth; a final budget will be presented for approval in the August commission meeting.

A&G Expenses:

- A&G is expected to decrease 1.5%. Mr. Kern noted that it is becoming more and more difficult to squeeze out any savings, having dramatically reduced legal, outside services, and staffing in recent budget years. Staff will continue to shave costs wherever possible. For example, quoting out and reducing services whenever an opportunity arises.
- The only expected increases are in the area of salaries and related expenses. This is due to the assumption of absorbing the Senior Rate Analyst position into the Senior Accountant & Financial Administrator positions while adding a higher paying engineering/executive position pending the strategic plan conclusions later in the year.
- All other expense categories are down 15% in total.

Rates:

- Rates are expected to increase 11%.
 - a. Staff has reduced the energy adjustment from 3% to 0%, so far in OY 2021, unlike in prior years, there has been an INCREASE in expected energy forecast as the water year has progressed.
 - b. This year has turned into another dry year and we are expecting 7.48 million-acre feet (maf) of releases in the next two years which will further exacerbate water levels at Lake Mead.
- The budgeted composite rate is expected to be \$31.73 compared to \$28.47 in OY 2021. This is driven by:
 - a. An increase of \$6.0 million in the base charge, and
 - b. An 8.8% loss in energy due to the continued drought.
- Factors that could mitigate the rate increase will be discussed in the Strategic Planning meeting in July.

Chairman Sullivan asked if there were any comments on the proposed budget from the customers: no customers offered comments.

Note: Please contact Mr. Gerak or Mr. Kern at the APA office prior to the July Commission Meeting if you have any questions or concerns with the proposed budgets.

STRATEGIC PLAN – Hydrology & Drought Contingency Plan (DCP) Impacts:

Mr. Gerak shared that it appears as though by year end Arizona will be in Tier 1 of the DCP. This means that Arizona will not receive as much water, as it will need to remain in Lake Mead. Without water going through the turbines, Arizona will lose approximately 46,000 MWh.

Currently, Lake Powell is 35% full and Lake Mead is 38% full with the total system contents at 43% and 25.7 million acre feet (maf). This time last year system content was 52% of capacity with 30.7 maf in storage. APA staff prepared an APA Rate Forecast at the 10th, 50th and 90th percentile using estimates based on hydrology. The composite rate, without including the 2% adjustment, will increase at least 11% in 2022 and could increase 3% - 4% each year for the next several years. Energy will remain flat.

REPORT ON POWER OPERATION MATTERS: Sonseeahray Thayer, Sr. Accountant, reported that dry conditions continue and year to date precipitation for May is 73% of average. The annual inflow to Lake Powell is forecast to be 33% of average. The elevation of Lake Mead is currently forecast to drop below 1,075 this June and dip down to just below 1,050 in December of 2022.

CUSTOMER SERVICE: Heather Cole, Executive Secretary to the Commission, provided an update of the Arizona Municipal Power Users Association Meeting (AMPUA):

The legislative session is in its 126th day. Several “dead” bills have been resurrected, including legislation that was previously vetoed by the Governor.

Republican leadership is hoping to release a budget sometime in the coming week. For the first time this session, Republicans in the Senate are joining their House counterparts in sounding optimistic that a budget deal will be coming soon.

The Arizona Department of Forestry and Fire Management has announced additional fire restrictions across central and northern Arizona. Restrictions apply to campfires, smoking, fireworks, and welding on state land in Gila, La Paz, Maricopa, Mohave, Pinal, Yavapai, and Yuma Counties.

Russell Smoldon has been nominated for both Best Dressed and Best Lobbyist and B3 Strategies has been nominated as Best Lobbyist Firm for the Capitol Times' Best of the Capitol Awards. AMPUA member, Salt River Project's lobbyist, Megan Martin, has also been nominated as the Best Government Lobbyist and Grand Canyon State Electric Cooperative Association has been nominated for best Industry Trade & Professional Association.

Earmarks: Interesting Note: The 2011 ban has been lifted. There have been 3,309 Congressional earmarks proposed by 324 members. Total cost of the earmarks amounts to \$9.3 billion. House Democrats have made 2,338 earmark requests totaling \$4.6 billion. House Republicans made 971 requests totaling \$4.7 billion. All 5 Democrat members of the AZ Delegation have requested earmarks. Among these requests are a \$1.5 million for a Cochise County Animal Shelter project and a \$1.5 million earmark request to renovate a veteran transition housing facility.

LEGISLATIVE & POLICY UPDATE: Mr. Gerak highlighted the following articles in the Legislative Update:

- State Targets Urgent Projects as Wildfire Season Looms
- “Paradigm Shift”: Chief Calls for More Thinning, Burning
- White House Launches Drought Relief Working Group to Address Urgency of Western Water Crisis
- Federal Energy Regulatory Commission (FERC) Urged to Protect Grid from the Electric Vehicle (EV) Boom
- Coalition Pushes Lawmakers on \$63B Plan for Hydropower
- Arizona Commissioners Shut Down Proposed Rule On 100% Clean Energy By 2050

REPORT OF THE DIRECTOR: Mr. Gerak highlighted the following articles in the Industry Update:

- Washington Lawmakers Push Pumped Storage Project
- California Independent System Operator (CAISO) Board Adopts Final Set of 2021 Summer Readiness Initiatives
- Report: 22 Power Lines Could Boost Renewables by 50%
- “Jugular” Of the U.S. Fuel Pipeline Systems Shuts Down After Cyberattack

- EIA: As Economy Recovers, Electricity Use to Rebound in 2021
- Corporation Commission Votes to Strengthen Policies on Power Disconnections
- Annual Peak Loads are Shifting to Winter: ACEEE Report Details How Utilities Can Manage

BUSINESS ITEMS:

- Outside Legal Counsel Contract – Mr. Gerak explained that Dickinson Wright, a current APA outside legal counsel firm, has lost our contract attorneys on staff. Trout Raley, who also advises the APA on water matters has a conflict with DCP issues. Mr. Gerak would like the Commission to consider sending out a new Request for Proposal (RFP) for outside counsel. All RFP requests are processed through the Attorney General’s (AG’s) Office. The AG’s Office will work collaboratively with the APA regarding the scope of work and Mr. Gerak would sit on the selection committee. The Commission will have the final vote if and when a contract is awarded.

Commissioner Jones asked if there would be any changes to the original scope of work in the previous RFP? Mr. Gerak believes that most of the issues were covered in the previous RFP.

- **Motion:** To pursue and authorize the Attorney General’s Office to begin the RFP process was made by Commissioner Owens and seconded by Commissioner Jones.
- **Discussion:** Chairman Sullivan asked Staff to finalize the scope with the help of the AG’s office prior to the RFP being sent out to prospective law firms. He also asked that any variances from the previous RFP be outlined for review by the Commission.
- **Vote:** Commissioners Bashaw, Jones, Owens, Sullivan & Sweeney approved the motion.
- **Resolved:** Approved as stated above and the written documents are entered into the Commission records.
- June Commission Meeting Date Change: Mr. Gerak explained that he will be attending the American Public Power Association (APPA) National Conference, Colorado River Energy Distributors Association (CREDA) Summer meeting and the Cooperative Financial Corporation (CFC) Conference during the month of June. He proposed that the Commission not meet in June. The Commission would meet in July with the Strategic Planning Session immediately following the Commission meeting.
 - **Motion:** To cancel the June Commission Meeting and meet for a full day in July was made by Commissioner Jones and seconded by Commissioner Owens.
 - **Discussion:** Commissioner Owens asked if there would be any pertinent business that would need to be taken care of prior to the July meeting. Mr. Gerak explained that the state statutes do not state that the APA Commission must meet monthly. Chairman Sullivan explained the current process of approving and signing claims, all of which is now done electronically.
 - **Vote:** Commissioners Bashaw, Jones, Owens, Sullivan & Sweeney approved the motion.
 - **Resolved:** Approved as stated above and the written documents are entered into the Commission records.

COMMISSIONER COMMENTS: Commissioner Owens thanked Mr. Gerak and APA Staff for the use of the APA Offices and Commission Room for the Dodie Londen Excellence in Public Service Series Meeting. Everyone enjoyed Mr. Gerak's presentation and felt very welcome.

VISITORS' COMMENTS: None

EXECUTIVE SESSION: Chairman Jones asked for a motion to go into Executive Session.

- **Motion:** to convene in executive session for legal advice and discussion with its attorneys pursuant to A.R.S. § 38-431.03(A)(3) and (4) regarding:
 - Navajo Nation v. U.S. Department of Interior Litigation (per §38-431.03(A)(3) & (4)) was made by Commissioner Jones and seconded by Vice Chairman Bashaw.
- **Vote:** Commissioners Bashaw, Jones, Owens, Sullivan and Sweeney approved the motion.

- The Commission recessed to go into Executive Session at 11:10 a.m.
- The Commission reconvened to Open Session at 11:49 a.m.

ADJOURNMENT:

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

The meeting was adjourned at 11:50a.m.

John F. Sullivan, Chairman

ATTEST:

Heather J. Cole, Executive Secretary