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Strategic Plan Summary

On July 20th, 2021, the Arizona Power Authority held a Strategic Planning Session. Former Chairman Russ Jones requested this meeting as a follow-up to the meeting held on September 20-21, 2016. Despite initially being scheduled for October 2019, and following multiple delays (Commissioner turnover and a pandemic), the full slate of sitting Commissioners were present to have a focused discussion regarding the current state of the Arizona Power Authority (APA), the electrical industry and what strategic opportunities that the APA have to better serve Arizona and its current customer base.

While the staff laid the foundation of the Strategic Planning Session for multiple months prior to having the formal meeting, including highlighting statutory abilities, these plenary sessions were reintroduced in a condensed version (for the sake of time).

Opening the session was a reminder to the Commissioners what Good Strategy is. The most basic idea of strategy is applying a strength against a weakness. To aid in the analysis, staff highlighted their current job responsibilities to help make the Commissioners aware of the staffs' abilities. Staff reviewed the Mission and Values and made no recommendations for change, except for the structure/order of the items to create an acronym called "PILLAR," which the APA strives to be in the Public Power world in Arizona.

The remainder of this summary will focus on modifications of the Vision to meet current needs. Depending on your interpretation, the recommendations coming out of this Strategic Planning session still fit the Vision set in 2017, with more of a specific focus on financial and training opportunities.

One apparent weakness is the sustained drought (head) and increasing impacts due to drought mitigation (generation). On top of lost energy, deferred maintenance to keep rates stable in 2020 and 2021 due to lost tourism revenue, is appearing in the 2022 base rates. Staff presented analysis of the Dire Drought and potential long-term impacts based on a 50% stress test hydrology, with rates potentially seeing a 37% increase over in 2026 compared to the 2020/21 base cast.

Given the improved financial focus of the Authority, as well as existing non-rate based capital assets, one strategy would be to develop a financial policy to mitigate the rate increases allow customers to prepare for these upcoming changes.

7/29/2021

Staff recommends that the Commission approve a policy to advance anything above the planned margin of $400K as prepayment of debt. By reducing the debt service need on the rates, this will lower rates without establishing an expectation of a lower debt service ratio from our customers, which could diminish our bond ratings.

This early advancement of customer refunds would reduce the wait time for part of the customer refund from 11 months to an average of seven months (approximate weighted average). Despite not infusing any new money into the rates, it would effectively reduce next year's rate, but would also reduce the expected refund down to $400K.

In addition, staff recommends consideration of utilizing the $400K above required cash reserves from the APA fund to aid in rate mitigation in 2023. To the extent that this $400K will be utilized will need to be clarified, but could be used to shore up the early advancement of funds into 2023, similar to 2022. This could essentially transfer debt repayment from non-rate sources. A more formal discussion should be held during the 2023 budget process to determine next steps.

Besides rate stabilization, there was extensive discussion regarding firming power. Staff discussed the history of a prior RFP and that most customers were not looking to the APA to solve their portfolio needs outside of Hoover. Staff also reminded the Commissioners that the APA cannot engage in a project without having a willing customer to backstop the contract. Given the current market conditions highlighted in The Future is Now presentation, staff would recommend revisiting the needs of the customers and perhaps pursue a PPA utilizing a solar plus battery arrangement (or partner with an established firm for a baseload natural gas plant).

Staff reviewed comparable organizations in the West, their structure and each agency's primary service. This was meant to highlight the fact that these organizations evolved organically to meet their customers' needs. Finally, staff presented current and potential options tied to the Mission Statement.

After a planned break, the Commission reconvened to discuss direction and future decisions. Two primary objectives were highlighted, the need to mitigate rate impacts and the leadership training. Both fit squarely within the Customer Service from 2017, with rate stabilization touching also Operational Excellence and Being a Leader for Hoover. While the leadership training development has been ongoing, and plans to roll out the sessions are in the works, staff feels that the new financial policy should be approved by the Commission prior to implementation.

In addition to the leadership training, the Commission expressed an interest in the APA being a convener of more discussions on statewide energy policies. Staff feels that this is too heavy a lift given the ongoing politics (ACC vs. state legislators, upcoming 2022 election and small role the APA currently plays in resource portfolios [409 MW vs. 20K MW for APS & SRP]). Staff would recommend collaborating with cooperatives and smaller public power agencies in the state for a meeting, possibly partnering with Grand Canyon Electric Cooperative Association in 2022. Besides a potential joint/summer meeting, staff would recommend hosting a meeting in new locations for outreach and Commission awareness.

While no formal direction seemed to come out of the meeting, Commissioners seemed interested in the strategic advantage that the location of the APA has to the Capital and available space for meetings or subletting.

Finally, despite past attempts for firming power acquisition, staff would recommend revisiting this as an option given the future projections of capacity and energy reductions at Hoover.