



September 24, 2012

Mr. John I. Hudson  
Chairman  
Arizona Power Authority  
1810 W. Adams Street  
Phoenix, Arizona 85007-2697

Subject: APA Process for Allocating Hoover Power Post-2017

Dear Mr. Hudson,

As an APA customer of many years, Central Arizona Water Conservation District ("CAP") has a strong interest in the process for allocating post-2017 Hoover power. Of course, CAP has been and will continue to be engaged in that process. In that regard, I feel it is appropriate to bring to your attention several areas of concern as the Commission pushes forward on this issue of such significance for the State of Arizona.

First, the Commission recently made public a document labeled "Exhibit A" that purports to put forth post-2017 Hoover allocation alternatives. CAP is extremely concerned that the "alternatives" segregate CAP and SRP into a "different class because of their size." The document is incomplete in that it simply leaves blank any treatment of CAP and SRP, leaving customers to guess at what the Commission may be considering for those entities. CAP believes that the process will be better served by the Commission presenting a range of alternatives with respect to all existing customers and anticipated applicants. In addition, we are disappointed that document does not include Commissioner Stephen Brophy's "Proposal for Establishing Qualitative Principles for the APA process for Allocating Hoover Post 2017 Power." Mr. Brophy's proposal is thoughtful, logical and enjoys strong support from the existing customer base, necessitating, in our view, its inclusion in any discussion going forward.

With regard to that discussion, CAP applauds the Commission's support for workshops involving the Commission, customers and other interested parties to discuss allocation alternatives. Such a dialog would be very productive in fleshing out ideas, concerns and potential solutions. We believe that a small number of workshops would be far more productive than the multiple public meetings proposed in the letter of September 12, 2012, from Joe Mulholland to APA Customers and Interested Parties regarding the subject, "Presentations for Allocation of Hoover Power." CAP views Mr. Mulholland's request for multiple "conferences" to be superfluous to any logical process, and will involve a large investment of time for each customer or potential customer to send representatives to attend what could be a very large number of meetings, given that there are nearly 30 existing customers and there would be as many or more potential

Mr. John I. Hudson  
September 24, 2012  
Page 2

applications. At any rate, the answers to the five questions posed in the letter are, at least to CAP (and perhaps most of the other existing customer group) either irrelevant, readily apparent or have already been provided in writing. We concur with the suggestion aired by the Commission that the purpose of the "conferences" be combined with the workshops to make the process as efficient and expedient as possible.

Finally, CAP is troubled by the exclusion of Commissioner Brophy from participation in the allocation process. With the aforementioned proposal and prior contributions to the work of the APA, Mr. Brophy has demonstrated leadership and provided useful insight. CAP fully concurs with the views expressed in the letter of September 4, 2012, to you from SRP. In the coming weeks, we look forward to a full, open and fair process in resolving the alleged conflict issue. Indeed, the issue extends beyond just Mr. Brophy; based on the "conflict" as we understand it, any commissioner who receives, or owns a business that receives or could receive, Hoover power (or for that matter, CAP water) could be viewed as similarly conflicted. Consequently, this issue has the potential to cast doubt on the entire allocation process, even if Mr. Brophy is prevented from participating. Beyond the allocation process itself, adopting a position that Mr. Brophy has a conflict in these circumstances would certainly have a chilling effect on persons in the farming community participating on the Commission.

CAP supports a process for Hoover allocation that is as transparent and open as possible, while adhering to statutory imperatives. We look forward to our continuing work with the Commission to finalize this process.

Sincerely,



David V. Modeer  
General Manager

copy: Governor Jan Brewer  
Eileen Klein, Chief of Staff  
Steve Pierce, President of Senate  
Andy Tobin, Speaker of the House  
APA Commissioners:  
Joe A. Albo  
Stephen M. Brophy  
Dalton H. Cole  
Richard S. Walden  
Joseph W. Mulholland