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July 18, 2014

Mike Gazda, Executive Director  
Arizona Power Authority  
1810 W. Adams St.  
Phoenix, AZ 85007-2679

Dear Mike,

I would like to take this opportunity to submit questions and comments regarding the "Issue Papers" provided by the Authority's Consultants for the 2017 Hoover Power Allocation Process on behalf of Avra Water Co-op, Inc. We are excited to be a part of this process and look forward to the Authority's response.

Respectfully,

Chris E. Ward  
General Manager

CEW:clk

Enclosure

## Comments on the June 2014 Issue Papers

- 1) The financial procedures and surcharges suggested in some comments should be tabled until all of the data is collected and the final allocation is made. The new contractors should have the opportunity to discuss the impacts of those decisions on their future finances. This should be a part of the rate procedures and should not be put into a contract.
- 2) Using the APA Fund to reimburse the Pre-2017 customers for allocation expenses would only further erode the account and make it harder to maintain the debt service ratio and credit rating.
- 3) Historically the method of allocating power in Arizona was based on the customers' annual amounts of capacity and energy. Looking at the 2011 Act, one can see that the Arizona allocation is split into Summer (March through September) and Winter (October through February) allocations—approximately 70% in Summer and 30% in Winter. The Authority should make the allocation on the same basis as the federal allocation. By doing so the need for a banking arrangement with a scheduling entity would diminish, as would the associated financial burden the Authority encounters every year. The seasonal scheduling imbalances could be managed through the Authority's Exchange Program, which is a Commission approved procedure and can be rewritten, modified and expanded to include the exchange of Schedule D power and other issues that might arise with the Post-2017 contracts.
- 4) Several customers commented that they paid the Authority's portion of the Hoover expenses through the rates. This is partly true. The Authority contracted with Salt River Project as Scheduling Entity for an annual payment for the dynamic signal and other miscellaneous economic values that SRP would gain from scheduling Hoover and the dynamic signal for the Authority. From 2003 through the end of the current contract, the Authority will have collected approximately \$85,000,000 which reduced the amount needed to be collected in the power rates. There is no guarantee after operating year 2016 that there will be an annual payment associated with the dynamic signal of Hoover that will subsidize the power rates. However, the Hoover power from the Authority will undoubtedly never reach the level of market rates. This knowledge understandably makes the Hoover power all the more worth campaigning for; and redoubles the Commissioners obligation to give all qualified entities the same consideration in a transparent, fair and equitable allocation process.
- 5) The term of the contract must also be considered carefully by the Commission. The argument that it has to be 50 years for bonds is incorrect, because the term could be shorter and still qualify as "long-term". Also, stating it has to be 50 years because the MSCP agreement is 50 years is not a valid argument. MSCP has nothing to do with the

Hoover allocation within Arizona. It is more logical to have shorter contracts and have options for renewal or adjustment to address future issues and changing load requirements of the customers. The future reallocation in all likelihood will not fall upon the shoulders of the current Commissioners.

Avra Water Coop, Inc.