

Arizona Power Authority

CONCLUSION: The Office of the Auditor General has completed a performance audit of the Arizona Power Authority (Authority) pursuant to Laws 2016, Ch. 107, §4. The Authority was created in 1944 to receive and manage Arizona's share of hydroelectric power generated by the Hoover Dam (Hoover power). Federal law allocates Hoover power to Arizona, Nevada, and specific entities in California. The Authority contracts with a federal agency, the Western Area Power Administration, to receive Arizona's allocation. In turn, the Authority allocates the State's Hoover power to eligible Arizona entities and enters into long-term power sales contracts with those entities for a portion of this power. We found that the Authority's most recent process for allocating Arizona's Hoover power, which occurred from June 2011 through July 2015 and will take effect in October 2017, allowed for public input and was consistent with federal and state legal requirements. Additionally, the Authority works with its customers, who have some flexibility in using their Hoover power, to manage their allocations of this power. Customers may also participate in power pooling, and the Authority should ensure that any such arrangements taking effect in October 2017 are approved in accordance with its rules. Further, the Authority should implement the new policies and procedures it developed during the audit to improve conflict-of-interest disclosures and procurement practices.

Authority's 2015 allocation of Hoover power involved public input and was consistent with legal requirements

Authority undertook multi-year allocation process involving public input—This involved both a preliminary planning process and a formal decision-making process to allocate Hoover power that would be available on October 1, 2017. During the preliminary process, the Authority took steps to solicit public input, develop an estimate of the demand for Hoover power, make allocation policy decisions, hire consultants to assist the Authority with legal and technical issues, and develop a Hoover power application form. The preliminary process took place from June 2011 to March 2015. In April 2015, the Authority formally announced the availability of Hoover power, which triggered a decision-making process, or "formal process," specified in rule for holding public conferences, accepting and reviewing applications, verifying application data, announcing a preliminary allocation, and issuing a final allocation. The Authority continued to solicit and consider public input during this formal process.

Allocation policies consistent with legal requirements and other entities' Hoover power allocations—During the allocation process, the Authority made several policy decisions to ensure that it complied with applicable federal and state laws for allocating Hoover power. The allocation was particularly guided by its statutory mandate to dispose of power, as nearly as practical, in an equitable manner to render the greatest public service and at levels calculated to encourage its widest practical use. The Authority's policy decisions included retaining existing customers but making some Hoover power available for new customers, restricting allocations of a portion of Hoover power to districts—which include electrical or power districts, drainage districts, irrigation water delivery districts, and agricultural improvement districts—in accordance with statute, considering other federal sources of power granted to applicants, establishing minimum and maximum allocations, and making proportional allocations based on applicants' peak power demands. The Authority considered public input in making its policy decisions, and some of these decisions were comparable to those of other entities allocating Hoover power. We reviewed the Authority's policies and determined that they were consistent with legal requirements and/or made within the Authority's discretion granted to it by these requirements.

Authority made final allocation decision consistent with its policies—To arrive at a final allocation decision, the Authority developed a set of scenarios that reflected various possibilities for allocating Hoover power in alignment with its policies. The Authority's Commission reviewed and considered these scenarios to determine how best to allocate the Hoover power to encourage its widest practical use. It then adopted what it considered to be the best scenario as the final allocation decision, which allocated power to most applicants.

Authority works with customers to manage their Hoover power

The Authority relies on customer input to schedule the monthly delivery of available Hoover power to its customers. Customers have some flexibility in using Hoover power by participating in activities that maximize their use of this power. These activities include banking power for later use, exchanging power with another authority customer for later use, laying off unneeded power for another authority customer to use, and requesting the Authority to purchase additional power when the actual power generated by the Hoover Dam is not sufficient to meet customers' contractual allocations.

Statute also allows authority customers to combine their power resources through power pooling arrangements to maximize the value of each customer's Hoover power. Although more than one power pool may exist, the Authority has authorized and administers only one power pool for existing customers called the Resource Exchange Program (REP). All existing customers may participate in the REP, and the majority do. The Authority first authorized the REP in 2001, but it allowed the power pool to operate for several years after 2011 without its formal written approval, which is required by rule. In November 2016, the Authority formally approved the power pool to continue operating through September 2017, when the existing contracts for Hoover power end.

Recommendation

The Authority should ensure that any power pooling arrangements established under the new contracts effective October 2017 are approved in accordance with its rules.

Authority should improve some administrative practices

Authority should continue implementing new conflict-of-interest policies and procedures—During the audit, the Authority did not have documented policies and procedures to guide conflict-of-interest disclosures by commissioners or authority staff. Instead, the Authority reported that it relied on the commissioners to self-report and disclose any conflicts of interest. We reviewed the Authority's conflict-of-interest file but did not identify any disclosures that occurred during the most recent allocation process. One commissioner disclosed two financial interests during his 2009 appointment process, but a 2012 court ruling regarding whether one of these interests could impair the commissioner's objectivity related to the allocation process determined that it did not rise to the level of a conflict of interest. In November 2016, the Authority established a new policy that requires commissioners and employees to periodically disclose any potential conflicts. It also requires commissioners to publicly disclose at authority meetings any potential conflicts regarding any decision to be made related to items on meeting agendas, which the Authority began implementing in October 2016.

Authority should develop comprehensive procurement policies and procedures—Although the Authority is exempt from the state procurement code, state law requires the Authority to advertise for goods and services costing more than \$2,500, other than personal services, as it deems necessary to ensure opportunity for competition. Auditors reviewed three of seven authority purchases of goods and services between operating years 2013 and 2016, totaling \$23,608, and determined that the Authority ensured opportunity for competition as required by statute. However, the Authority had not documented its procurement practices in written policies and procedures. Further, although the Authority is not subject to procurement requirements for personal services, it is contractually required to provide power to its customers at the lowest possible rates, which are based on its expenditures, consistent with sound business principles. Auditors selected the six contractors who were paid more than \$100,000 each for personal services between operating years 2013 and 2015 and whose combined payments totaled nearly \$2.2 million, and examined the Authority's practices to determine what steps it took to ensure that it purchased these services at the lowest possible cost consistent with sound business principles. In each case, the Authority provided auditors some documentation indicating that it either competitively procured the contractor by issuing a request for proposals or selected the contractor because of previous work performed for, and familiarity with, the Authority. However, the Authority did not retain procurement files or sufficiently document its reasons for procurement decisions made. In November 2016, the Authority adopted a written policy documenting its procurement practices, although it did not address the procurement of personal services.

Recommendations

The Authority should:

- Continue to implement its new conflict-of-interest policies and procedures.
- Document its procurement practices for personal services in written policies and procedures. As part of its policies and procedures, the Authority should retain appropriate documentation to support procurement decisions made.