

## COMMISSION

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December 20, 2016

Ms. Debra K. Davenport, Auditor General  
Office of the Auditor General  
2910 North 44th Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Davenport:

On behalf of the Arizona Power Authority (APA), the Commissioners, the employees and contractors, we sincerely enjoyed working with your staff over the past seven months. The staff and contractors appreciated the opportunity to explain the uniqueness of our business and its value to the State of Arizona. The review included a trip to Hoover Dam and time discussing APA's strategic direction. I wish to thank the auditors for their professionalism and thorough review of the work conducted by the APA and in learning the unique role the APA plays in delivering Arizona's share of Hoover Dam power. Through your staff's exhaustive efforts, the APA has been able to review current activities and improve planning for the post-2017 allocation and operation of Hoover Dam.

We are pleased that there are very few recommendations and in all cases the APA has or will be taking action. Below you will find our formal response and comments on the audit recommendations:

**Chapter 2:** Authority works with customers to manage their Hoover power

**Recommendation 2.1:** The Authority should ensure that any power pooling arrangements established under the new contract beginning October 1, 2017, are approved in accordance with its rules.

*Authority Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented*

*Response explanation: Note: An updated and revised REP will be implemented effective October 1, 2017*

**Chapter 3:** Authority should improve some administrative practices

**Recommendation 3.1:** The Authority should continue to implement its new conflict-of-interest policies and procedures.

*Authority Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented*

**Recommendation 3.2:** The Authority should pursue legislative changes to revise or remove statutory requirements in A.R.S. 30-105(B) regarding Authority Commissioners' business interests, which is superseded by the State's conflict-of-interest law in A.R.S. Title 38.

*Authority Response: The finding of the Auditor General is not agreed to.*

*Response explanation: THE AUTHORITY BELIEVES THAT ARS § 30-105 ADDRESSES QUALIFICATIONS OF THOSE ELIGIBLE FOR APPOINTMENT TO THE COMMISSION (ADMINISTRATIVE AND BUSINESS EXPERIENCE, CANNOT HOLD SALARIED PUBLIC OFFICE, BE ASSOCIATED WITH CERTAIN PUBLIC SERVICE CORPORATIONS, OR HAVE AN INTEREST IN A BUSINESS THAT MAY BE ADVERSLY AFFECTED BY OPERATION OF THE AUTHORITY) AT THE TIME OF APPOINTMENT. However, the recommendation will be implemented, and the Authority will work with the Arizona Legislature to amend and clarify ARS § 30-105, so as to ensure that THE DISTINCTION BETWEEN ARS § 30-105 ADDRESSING QUALIFICATIONS OF THOSE ELIGIBLE FOR APPOINTMENT TO THE COMMISSION, and ARS § 38-503 ADDRESSING CONFLICTS OF INTEREST OF COMMISSIONERS ONCE APPOINTED continue to be viewed as harmonious.*

**Recommendation 3.3:** The Authority should 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.

*Authority Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented*

*Response Explanation: Note: The Authority Staff is preparing a draft Resolution #16-14 covering Procurement of Personal Services to be presented to the Authority Commissioners for approval on Tuesday, December 20, 2016.*

**Recommendation 3.4:** The Authority should pursue legislative changes to revise or remove provisions in A.R.S. 30-107 regarding Authority meetings, which are superseded by the State's open meeting law in A.R.S. Title 38.

*Authority Response: The finding of the Auditor General is not agreed to.*

*Response explanation: THE AUTHORITY BELIEVES THAT EXECUTIVE SESSIONS PERMITTED BY ARS § 38-431.03 DO NOT CONSTITUTE PUBLIC MEETINGS SO AS TO BE IN CONFLICT WITH ARS § 30-107 ("ALL MEETINGS OF THE COMMISSION SHALL BE PUBLIC") OR ARS § 38-431.03 ("ALL MEETINGS OF ANY PUBLIC BODY SHALL BE PUBLIC MEETINGS..."). However, the recommendation will be implemented, and the Authority will work with the Arizona Legislature to amend and clarify ARS § 30-107, so as to ensure that statute, and ARS §§ 38-431.01 and 38-431.03, continue to be viewed as harmonious.*

Again, we thank you for the time and effort you and your staff have put into this report and we look forward to its review by the Arizona legislators. Thank you for the opportunity to respond to the recommendations.

Respectfully,

John T. Underhill, Jr.  
Interim Executive Director  
Arizona Power Authority