

**ARIZONA POWER AUTHORITY
REGULAR MEETING HELD ON MAY 17, 2005**

PRESENT: Michael Francis, Chairman
John Hudson, Vice Chairman
Dalton Cole, Commissioner
Delbert Lewis, Commissioner

STAFF: Joseph Mulholland, Executive Director
Jim Bartlett, Legal Counsel
Harvey Boyce, Director of Administrative Services
Audrey Colletti, Power & Computer Operations Manager
Doug Fant, Associate Legal Counsel
Rita Gallant, Executive Secretary
Marcia Kennedy, Financial Administrator
Tom Kinsey, Business Manager
Bob Linsen, Director, Engineering & Operations
Evelyn Magnusson, Utilities Rate Analyst

OTHER: Stan Ashby, Roosevelt Irrigation District
Ken Bagley, R. W. Beck & Associates
Tyler Carlson, Western Area Power Administration
Rock Cramer, McMullen Valley Water Conservation & DD
Tom Hine, Consultant
Gary Ijams, C.A.W.C.D.
R. DeWayne Justice, ED-7, Maricopa
Joe Lane, Guest
Robert Lynch, I.E.D.A.
Michael Miller, DOI/San Carlos Irrigation Project
Mark Mitchell, Salt River Project
Jay Moyes, Moyes Storey
Gale Pearce, Electrical District No. 5
Frank Rojas, Lewis Farms
Pete Serrano, City of Mesa
Jerry D. Smith, Arizona Corporation Commission
Beth Story, Tonopah Irrigation District
Sheryl Sweeney, Ryley, Carlock & Applewhite
Jim Trangsrud, Salt River Project
Bill Woehlecke, Electrical District No. 5
Jeff Woner, K. R. Saline & Associates

CALL TO ORDER

The regular meeting of the Commission of the Arizona Power Authority was held on May 17, 2005 at the office of the Authority at 1810 W. Adams Street, Phoenix, Arizona. The Chairman called the meeting to order at 10:00 a.m. All Commissioners were present except Commissioner Richard Walden who was excused.

PLEDGE OF ALLEGIANCE

The Chairman led the meeting in the Pledge of Allegiance.

APPROVAL OF MINUTES

A motion was made by Commissioner Delbert Lewis to approve the minutes of the Regular Meeting of April 19, 2005 and seconded by Commissioner Dalton Cole. The motion was approved unanimously.

APPROVAL OF SPECIAL CLAIMS AND EXPENDITURES

The Commission reviewed the APA and Hoover Operations Funds expenditures presented by the Financial Administrator and Vice-Chairman John Hudson moved that APA Operations Fund Claims 273-276 and Hoover Operations Fund Claims 2704-2764 for the period of April 21, 2005 through May 13, 2005 be approved. The motion was seconded by Commissioner Dalton Cole and passed unanimously.

FINANCIAL STATEMENT

Next, the Commission reviewed the monthly Power Summary Statements reflecting month ending and year-to-date operations as of April 30, 2005. The statements compared actual operating data and expenses as experienced during the periods to budgeted figures for the same time frames. It was noted that the actual energy generated at the Hoover generating station was 0.8% below the amount budgeted for April 2005.

The Commission then reviewed the remainder of the financial statements and the Financial Administrator explained variances from budgeted amounts. Administrative and General Expenses were approximately 3% below budgeted amounts for the period ending April 30, 2005. This variance is primarily due to reduced Outside Services and reduced Staff Expenses. Outside Services have been reduced because a portion of legal expenses has been directly assigned to special projects and, consequently, were not included in the operating expense accounts. Likewise, Staff Expenses are below budget because a portion of Staff Expenses has been directly assigned to special projects.

REPORT OF EXECUTIVE DIRECTOR

The Executive Director discussed recent letters from the State Treasurer regarding a distribution of funds resulting from litigation and settlements in the Local Government Investment Pool case.

Next, the Executive Director reported on progress in the funding effort for Western's transmission system in Arizona. He described some of the detailed provisions being developed and noted that progress is being made toward completing this project.

The Executive Director also reported that Bob Linssen, Evelyn Magnusson and Robert Nieto attended a Hoover Engineering & Operating Committee Meeting in Las Vegas and a Western rate meeting in Phoenix where security expenses in connection with Hoover Dam were considered. The Authority took the position that security expenses should be borne by the federal government and should not be reimbursed by the Hoover customers. Bob Linssen also attended a STEP Transmission Committee Meeting concerning planning and coordination of transmission facilities in the southwest. Finally, the Executive Director reported that during the past month, the Authority had made customer refunds of approximately \$1 million based on the Operating Year ending September 30, 2004.

AGENDA ITEMS

Jerry Smith, Arizona Corporation Commission, Status of Arizona's Electric Infrastructure – Jerry Smith of the Arizona Corporation Commission made an excellent report regarding the electric infrastructure in Arizona. He described the existing infrastructure and discussed those elements that impact the operation and planning of the Arizona electric system.

He described the consumer demand and energy requirements and projections for the future. He also discussed the generation, transmission and distribution facilities needed to meet these requirements. He next made a detailed report on the existing and planned generation and transmission facilities to be constructed within the state and gave a detailed analysis of the adequacy of these facilities. Finally, Mr. Smith summarized the existing electric system and its adequacy to meet the summer 2005 requirements. Mr. Smith made a clear and informative report and it was well received by the Commission. There has been a very open line of communications and cooperation between the Arizona Corporation Commission and the Arizona Power Authority. This synergy between the Arizona Corporation Commission and the Arizona Power Authority works to the advantage of the state and the two organizations.

Responding to Vice-Chairman's John Hudson's earlier question, Bob Linssen gave a brief report on the background and activities of the STEP Transmission Committee Meeting.

Power Operations Matters – Mr. Linssen presented the power operations report and noted that drought conditions in the Colorado River Basin have been improving in recent months. Mr. Linssen discussed the current status of the Upper Colorado River Drainage Basin reservoirs and their current water levels. He noted that, on average, the Upper Basin reservoirs were 54% full; however, Lake Powell was only 37% full. He discussed the efforts by the Upper Basin states to retain as much water as possible in these Upper Basin reservoirs during this recent period of drought. Mr. Linssen went on to report that precipitation in the Colorado River Basin was at 109% of normal as of May 2005 and that the snow pack was 126% of normal. He noted that this additional water in the Upper Basin will ultimately flow down to Lake Mead. Mr. Linssen reported that the inflow into Lake Powell for water year ending September 30, 2005 is anticipated to be 105% of normal. He also reported that Lake Mead is at 61% of storage capacity with an elevation of 1,144 feet. Mr. Linssen went on to report on the capacity of generation at Hoover Dam and the availability of the generation as experienced during the last seven months and expected for the next five months. He also reported on the Authority's energy entitlement and the amount of energy banked by the Authority with Salt River Project.

Environmental/Colorado River Issues and Multi-Species Conservation Program – Mr. Tom Hine reported that the Lower Colorado River Multi-Species Conservation Program (MSCP) Steering Committee held its initial meeting in Las Vegas on May 13, 2005. Gerald Zimmerman, Executive Director of the Colorado River Board of California, was elected Chairman and George Caan, Executive Director of the Colorado River Commission of Nevada, was elected Vice-Chairman. Mr. Hine noted that the Steering Committee reviewed a Bureau of Reclamation (Reclamation) request for MSCP credit of \$3,381,440 for specific funds that Reclamation has expended for MSCP activities in the past several years. The issue will be considered for approval by the Steering Committee at its next meeting on June 22nd. Mr. Hine

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reported, that prior to that meeting, he requested that the Technical Committee prepare a statement setting forth the criteria used in evaluating the Reclamation expenditures so that the Steering Committee may consider adopting those criteria as a standard when considering similar applications by participants. This would provide the participants with the criteria that the Steering Committee will use to evaluate such requests, prior to the development of similar activities.

There was a discussion regarding the California Department of Fish and Game (CDFG), which, because of its reluctance to agree to the program, was not listed as an initial member and was not a signatory to the Funding and Management Agreement (FMA). Now CDFG would like to be recognized as an initial member by simply changing the FMA to show CDFG as an initial member. Some felt that since FMA was signed by forty some parties, it would be bad form to change it. The participants will attempt to resolve the issue before the next meeting.

Mr. Hine also reported that Lorri Gray has been appointed Project Manager for the MSCP by Reclamation. Ms. Gray was the principal official leading Reclamation's effort to complete the planning of the project. Mr. Hine noted that Ms. Gray has demonstrated impressive skill and perseverance and she is an excellent choice and will be a great asset as the program moves forward.

Mr. Hine further reported that Reclamation provided a draft Work Tasks and Obligations Plan for Federal Fiscal Year 2005 which describes fifty tasks to be performed in fiscal year 2005 at a projected total cost of \$7,060,000. The tasks are associated with specific provisions of the Conservation Plan and the species benefited are identified along with the description of the activity and the estimated cost.

Mr. Hine then reported that Secretary of the Interior Gale Norton sent a letter dated May 22, 2005 to each of the seven Colorado River Basin State Governors announcing her decision regarding to the Mid-Year Review of the 2005 Annual Operating Plan for Colorado River Reservoirs (AOP). Citing the improved runoff forecast, the Secretary determined that a reduction of releases from Lake Powell was not warranted at this time. The Secretary then went on to say that the AOP process was not the appropriate place to resolve the disagreements between the two basins over Lake Powell releases and called for Reclamation to convene a meeting of the Colorado River Management Work Group before May 31 in order "... to consult with the Colorado River Basin States and the public on the most appropriate processes and mechanisms to address these management challenges." She went on to announce that Interior "... will issue a notice through the Federal Register on or before June 15, 2005 to begin work on these matters. At a minimum, we will address the following matters in our Federal Register notice: 1. Development of Lower Basin Shortage guidelines, and, 2. Development of Conjunctive Management Guidelines for Lake Powell and Lake Mead." The Secretary expects these matters to be resolved by December 2007.

Mr. Hine then reported that earlier discussions of “conjunctive management” among the Basin States indicated that such management would permit a more flexible policy in deciding which reservoir to use to store certain amounts of water based on the overall benefit to the total system. Mr. Hine noted that such a change in policy could greatly impact hydroelectric customers of the Boulder Canyon and Colorado River Storage Project by altering the generating head at the two reservoirs and thus changing the generation output.

Pending Legal and Administrative Proceedings – Mr. Jim Bartlett, the Authority’s Legal Counsel, was asked by the Chairman to review the legal and administrative proceedings in which the Authority is currently involved.

LGIP/NCFE Investment Litigation – Mr. Bartlett reported that 11% of the Authority’s \$227,000 LGIP loss has been recovered. Gibbs & Bruns, the attorneys representing the Authority in this litigation, are still dealing with three defendants on settlement proposals. Mr. Bartlett plans to be on the conference call regarding these issues which is scheduled for May 18th. He discussed a Securities Exchange Commission (SEC) form 10Q which has been filed by J. P. Morgan Chase Bank. According to Gibbs & Bruns, the 10Q filing shows that J. P. Morgan’s affiliate, Bank One, may be charged with certain securities violations. Bank One, as the indenture trustee for National Century Financial Enterprises, has maintained it is not responsible for any securities violations and that any claims against them are limited to contractual matters.

Mr. Bartlett also commented on an Idaho case in which a landowner was charged with killing trout by diverting water to serve his family ranch. The District Court issued an injunction requiring him to cease and desist the water diversions. This injunction was appealed to the Ninth Circuit Court of Appeals which held that it is not enough to simply allege a violation of the Endangered Species Act; there must be facts that show that damage has occurred. This unreported case has been remanded to the District Court to determine if damages have been incurred.

EXECUTIVE SESSION – FUTURE COMMISSION MEETING

Chairman Michael Francis called for a motion to authorize an Executive Session for the next Commission meeting, if necessary. The motion was made by Vice-Chairman John Hudson, seconded by Commissioner Dalton Cole and passed unopposed.

There was no Executive Session.

COMMISSIONER COMMENTS

The Chairman had a question on Jim Horton's report.

VISITOR COMMENTS

None.

ADJOURNMENT

With no further business to come before the Commission, the meeting adjourned at 11:40 a.m.

Chairman

ATTEST:

Secretary