

**MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF
SOUTHWEST PUBLIC POWER AGENCY, INC.**

August 12, 2024

A meeting of the Board of Directors of the Southwest Public Power Agency, Inc. ("SPPA") was held on August 12, 2024, at the offices of Clark Hill, located at 3200 North Central Avenue, Suite 1600, Phoenix, Arizona 85012.

The following Board Members or Member alternates were present:

| | |
|--------------------------------|----------------------------------|
| Ken Robbins—ED2 | Ed Gerak – Ak-Chin |
| Glen Steiger – NTUA | Elena Byrd – ED2 |
| Noel Carter – BWCCDD | Derek McEachern – ED4 |
| Brian Yerges—ED3 | Ron McEachern – ED4 |
| Brian Fickett – TOUA | Bill Van Allen – ED6 |
| Jeff Woner—OWCD | Arnold Mejia - GRICUA |
| Scott Saline – AID, HVPD, TID | Ken Stock - GRICUA |
| Heath Brown – City of Thatcher | Donovan Neese – RID |
| Robert Van Hofwegen – ED8 | Taylor Howerter - RID |
| Glen Vortherms – MWD | Jason Brimhall – City of Safford |
| Michael Curtis – WICK | Joe Mease - TOUA |

Also present:

| | |
|----------------|------------------------------|
| Dennis Delaney | Brian Hemmerle – Baker Tilly |
| Frank McRae | Steve Pearson |
| Daniel Herder | Dan Pritchard |
| Sheryl Sweeney | Kim Polivka |
| Judy Spallino | Lisa Dowden |
| | Ken Saline |

The following Committee Members were not present:

McMullen Valley Water Conservation
ED7

The meeting was called to order at 12:06 p.m. Chairpersons Ken Robins chaired the meeting while Ms. Spallino functioned as secretary.

ROLL CALL

Mr. McRae called the roll of the Committee Members to ensure there was a quorum present. Quorum being established, the business of the meeting proceeded.

The agenda items were moved to accommodate a guest speaker, Mr. Brian Hemmerle of Baker Tilly.

**5.) FINANCIAL MATTERS
B. REVIEW OF THE 2022 AND 2023 AUDITS**

Mr. Brian Hemmerle, Lead Audit Partner of Baker Tilly presented to the board, the final audited financial statement of the years 2022 and 2023.

- Two years of audited financial statements were presented. 2022 and 2023.
- Both years received the same clean and unqualified opinion

- There were no significant deficiencies. All the deficiencies that were found in 2021 have now been remedied. Dramatic turn round.
- Biggest changes were decreases in cash and deposits due to members opting for Letters of Credit and Financial Hedging, regulatory asset.
- GASB 62 defers the mark to market changes of the hedge investments to the settlement.
- Energy sales and purchases decrease yet profit margin improved.
- Interest income of \$850K was the major contributor of the net profit margin for the year
- Cash flow decreases was also explained with refund to members and members opting to put up Letter of Credit in lieu of cash funds.
- Note disclosures did not change except for the addition of the hedge accounting and the disclosure of the use of GASB 62 for regulatory accounting.
- Subsequent events noted the downgraded rating from S&P.

Mr. Jason Brimhall asked that with the release of these statements would our deposit requirements with projects such as Box Canyon be affected. Mr. Frank McRae responded that the deposit requirements were not dependent on our financial statements, but addressing our credit rating with S&P and will be discussed later in the meeting.

Mr. Michael Curtis asked Mr. Hemmerle how many other firms like SPPA did Baker Tilly audit. Mr. Hemmerle was not sure of the exact number, perhaps a handful and we did have to engage Ms. Sarah Slaughter of Baker Tilly as a subject matter expert to assist in the gas hedging aspect of the financial statements.

At the conclusion of the presentation, Mr. Ed Gerak moved to accept the audited financial statement for the years of 2022 and 2023 as presented. Mr. Glenn Steiger seconded the motion. Upon the taking of a voice vote, the motion was unanimously carried.

The board meeting was adjourned at 12:21 and returned to the Pooling Committee Meeting.

The board meeting was continued at 12:40

3.) CONSIDERATION AND POSSIBLE APPROVAL OF CONSENT AGENDA

A) MINUTES FROM JUNE 10, 2024, MEETING OF THE SPPA BOARD OF DIRECTORS

B) RATIFICATION OF APPROVAL ITEMS, IF ANY, FROM THE SPPA POOL MANAGEMENT COMMITTEE

Mr. Ken Robbins presented the Consent Agenda for the Board's review and possible approval. All items listed on the Consent Agenda may be enacted by a single motion unless a Board Member requests otherwise. There were no approval items from the SPPA Pool Management Committee included in the Consent Agenda.

Upon discussion, Mr. Robert VanHofwegen moved to approve the contents of the Consent Agenda as presented. Mr. Glenn Steiger seconded the motion. Upon the taking of a voice vote, the motion was unanimously carried.

4.) ITEM(S) REMOVED FROM CONSENT AGENDA (POSSIBLE ACTION ITEM)

No items were removed from the Consent Agenda.

5.) FINANCIAL MATTERS (APPROVAL ITEM)

A. FINANCIAL UPDATE & TREASURER'S REPORT INCLUDING DISBURSEMENTS (POSSIBLE ACTION ITEM)

Ms. Spallino presented disbursements from June 10 through August 9th for the Board's review and approval. All financial information presented is unaudited.

A motion to approve the disbursements was made by Mr. Ken Stock and seconded by Mr. Glenn Steiger. Upon the taking of a voice vote, the motion was unanimously carried.

B. REVIEW OF THE 2022 AND 2023 AUDITS

Note: Mr. Brian Hemmerle of Baker Tilly presented the board with the audited financial statements at the start of this meeting.

Mr. Frank McRae presented additional audit notes from the 2022 and 2023 audits to include some of the improvements over the 2021 audit findings. The timeline and illustration of the improvements are as follows:

2021 Audit (Financial Statements as of 12.31.21) Completed May 2023

- Prior Critical Issues => Three Significant Deficiencies
 1. Segregation of Duties: Energy Accounting
 - Allocations of Energy Supply Expenses & Related Revenues
 2. Segregation of Duties: Journal Entries (JEs)
 3. Untimely Record Keeping
 - 12.31.22 Financials submitted early 2024 & Audit completed May 2024

P.8: "We encountered significant difficulties during the audit..."

- Management Response – Hire GM & Train Staff

The 2022 audit had the following review points:

2022 Audit (Financial Statements as of 12.31.22) Completed May 2024

- Repeat of Three Significant Deficiencies
 1. Segregation of Duties: Energy Accounting
 2. Segregation of Duties: Journal Entries (JEs)
 3. Untimely Record Keeping
 - 12.31.23 Financials submitted early 2024 & Audit completed May 2024

P.7: "We encountered no significant difficulties in dealing with management and completing our audit."

2023 Audit (Financial Statements as of 12.31.23) Completed August 2024

- NO Significant Deficiencies
- NO concerns for cooperation of management

Mr. McRae also presented a portion of the MD&A that was part of the financial statement package presented. Pointed out was the difference between the 2022 and 2023 changes in net position and net income. Mainly explained by the one time "refund to members in 2022."

C. CREDIT RATINGS UPDATE

- Identifying steps for SPPA and its members to take to enhance future credit ratings
One of the issues that S&P had with SPPA was what they believed to be too little cash on hand to cover operating expenses. S&P did not consider our members operating reserves, or SPPA's deposits or letters of credit.
- Reviewing Credit Ratings Agencies' presentations at APPA meetings
Mr. McRae was able to discuss with other JAA in managing these relationships with credit agencies and found that other JAA have had difficulties in dealing with S&P

7.) Ongoing Activities:

A. Updates on Energy Accounting Conversion Project

Mr. Dennis Delaney presented the status of the Energy Accounting Conversion Project. Highlights include the following:

- Preliminary Invoice
 - 90% complete
 - SPPA using it to produce Preliminary Invoices
 - Remaining efforts, clean up, documentation, audit tools
- Reconciled Invoice
 - Energy accounting 75% complete, most of the complicated process are done
 - Finalizing Input Files, clean up, documentation, audit tools
 - Moving to financial settlements this month
 - Planning on onsite meeting with AEPCO
- Overall, 50% complete – should move faster once energy accounting finalized

Mr. McRae and Mr. Delaney addressed members prior concerns if the “logic” behind this new program would change regarding the billing. Both affirmed that the logic is in fact the same and the billing would not change at this time.

C. Box Canyon Deposits

Many of the members have made inquiries as to the deposits on hand and when deposits are due for the different projects. The next deposit for the members will be for the increased Box Canyon Deposit requirement.

Mr. Delaney presented the schedule of the amount of the deposits that are going to be required from the participating member and the due dates.

Also presented was a new format for the tracking and accounting for deposits for the various SPPA projects. A separate form will be created for each member of SPPA.

B. Organizational Development Plan

2024/2025 Priorities

Check marks are for items that are completed

- ✓ Continue to Address/Correct Audit Findings
 - ✓ Separation of Duties
 - ✓ Energy Accounting Conversion
- ✓ Reconciliation of 2024 Budget, Revenues, Costs
 - ✓ Allocation Factors => Sept Board meeting(s)
- Preparations for 2025 Budget
- Succession Planning
- Continue developing SPPA as a “stand-alone” entity
- Gas Hedging
- Loads & Resources Resource Planning & Acquisitions
- ✓ Continuous updates to Board and step by step approvals

Mr. McRae presented a comparison of the budget to actual costs for 2024. Noting that revenues and expenses are right on target. Illustrations show SPPA slightly under budget for 2024. Mr. McRae thinks there will be a bit of a challenge staying to the budget due to the upcoming increased legal billings with the challenges of Box Canyon and the Balancing Agency. We should still be within the budget for 2024.

Concepts for the 2025 budget were presented by Mr. McRae and asked the members of the board to meet with him prior to the September board meeting to begin to finalize the 2025 budget. Noted that in 2024 Baker Tilly did complete two audits in 2024 and there were additional hours worked on the gas hedging issues. BT did absorb a lot of those costs.

The two concepts that are TBD are the KSRA consulting and General Managers office. These need to be addressed in the succession planning of both Mr. Delaney and Mr. McRae.

A&G rate from 2024 to remain the same for 2025. No need to increase and A&G spending levels are consistent with the budgeted amounts.

2025 budget needs to include succession planning. Time frame is as follows:

- Frank McRae – 24-36 months (September 2026 or 2027)
- Dennis Delaney – Begin to transition to part time in early 2025

Looking for board direction and discussion regarding what is “Management and what is Consulting”

Mr. McRae asked the board to begin to start searching to hire a director level position for his successor. This would not be a guaranteed transition to the GM position. He explained that his time at SPPA has shown that SPPA is complex and getting more complex. He feels that a 24–36-month transition process would be necessary to develop qualifications, knowledge and relationships for the GM to support the board’s management of SPPA futures challenges and opportunities. Need someone with a utility background.

Mr. McRae presented an outline of what he feels to be SPPA management and what should stay with KRSA. The tasks and responsibilities of A&G Budget, manage the consultants and board administration should be under the SPPA management team and not consulting.

Mr. McRae opened the meeting for the board’s questions and opinions

- Q. Mr. Glenn Steiger asked how long Frank would like the Director position in place before retiring?
- A. If we get the budget approved and get the position posted. The person to be hired early 2025 less than two years.
- Q. Mr. Glenn Steiger – worried that two people in that position would be “tripping” over each other.
- A. There are so many things we are NOT doing at this time. There are critical needs.
- Q. Mr. Glenn Steiger – if that is the case, we need to fill in this position anyway.
- A. If this person does step up to fill the GM positions, than perhaps there will only be a need to hire an analysis to assist.
- Q. Mr. Ken Robbins – What is the timeline for the board to decide to act on this?
- A. The budget for 2025 must be ready for the September Board Meeting.

Mr. Donovan Neese made the suggestion that a committee be formed to lead this process of a succession plan. Mr. Robbins asked for a show of hands to serve on the committee. Committee is to “Provide leadership for the succession plan.” On committee are the following members:

- Mr. Donovan Neese
- Mr. Robert Van Hofwegen
- Mr. Glen Vortherms
- Mr. Glenn Steiger
- Mr. Michael Curtis

Mr. Robbins asked for a date for the committee to meet. Mr. Daniel Herder advised that the committee need to hold open meetings and post the agendas and notices.

D. Updates on Financial Gas Hedging

Covered in the Pool Management Committee Meeting

E. Status report on Energy Supply/Resource Acquisitions

Covered in the Pool Management Committee Meeting

F. AEPCO - Apache II & Pinal Co. Solar/BESS

Mr. McRae informed the board that he is now a member of the AEPCO board and will be attending the meeting on August 14, 2024.

Apache II - Grant applications for the greenhouse reductions act have been more complicated than first thought. New ERA application Consultants (Scott Madden, Inc) to assist in preparing final application & provides insight into various strategies and helpful information. Extension request granted which moved filing date to mid-august. Also requested SPPA to submit a support letter.

Construction to begin this month. Commercial Operation Date (COD) December 2025.

Mr. Van Hofwegen asked when the actual SPPA PPA would be made available to SPPA. Mr. McRae said that he would address with the AEPCO board on his visit Wednesday August 14, 2024.

G. Box Canyon Solar Project

Executive Session, pursuant to A.R.S. § 38-431.03 (A) (2) and (3) for discussion or consultation with the attorneys of SPPA for legal advice, and for the consideration of records exempt by law from public inspection, regarding Balancing Area Authority for Box Canyon.

The motion for the Executive Session was called for by Mr. Noel Carter and seconded by Mr. Donovan Neece, upon taking of a voice vote, the motion unanimously carried. 1:39PM

The Executive Session was adjourned at 2:20PM.

No additional business was discussed.

9.) DISCUSSION OF FUTURE AGENDA ITEMS

None

10.) ESTABLISHMENT OF DATE OF NEXT SPPA MEETING

September 9, 2024, announced as the date of the next SPPA meeting.

11.) PUBLIC COMMENT

There was no comment from the public.

12.) ADJOURNMENT

There being no further business to come before the Board, the meeting was adjourned at 2:21 p.m

Respectfully submitted,

Judy Spallino
Accountant

Approved: _____