

October 22 2015

The Honorable John McCain
United States Senate
218 Russell Senate Office Building
Washington, DC 20510

The Honorable Jeff Flake
United States Senate
413 Russell Senate Office Building
Washington, DC 20510

Re: Concerns about increasing cost impacts from Western Area Power Administration actions

Dear Senator McCain and Flake:

For the better part of the last century, Arizona public power and electric cooperative utilities have partnered with the federal government to provide Arizonans hydropower generated from Colorado River reclamation projects. These efforts have been key to the growth and prosperity of our state. Today, our customers rely on this power as a critical resource. It provides millions of Arizonans with safe, reliable and affordable electricity. The organizations represented below have advocated and continue to advocate on behalf of power customers in Arizona to ensure that the hydropower resources are sold to them at the lowest possible cost consistent with sound business principles.

Unfortunately, the Western Area Power Administration (“Western”), which is tasked with marketing and delivering hydropower and related services in Arizona, has in recent years sought to expand the scope of its mission at the expense of their utility contractors and customers.

Western’s overhead has increased from \$33.2m in fiscal year 2009 to \$54m in fiscal year 2016, a 63% increase over 8 years. These increased costs must be paid by power customers who have no direct opportunity to influence them. We have repeatedly asked for data on Western’s central operations with only a token response. During this same period, in the face of increased security needs and federal regulatory burdens, our member utilities have fought to keep their own operational costs low, only to face increased rates from Western. Now Western has confirmed that it intends to hire an additional fifty-one (51) employees for regulatory work with little justification of why such extensive hiring is necessary.

We have expressed directly to Western our concerns regarding increased costs and the lack of meaningful oversight provided to their contracting utilities. However, Western administration continues to seek new ways to expand its operations and limit administrative transparency.

Concerns were again heightened recently by Western’s involvement in proposed legislation that would make funding reserved for the narrowly defined Transmission and Infrastructure Program

(TIP) available for anything enumerated in its 10-year capital plan. While we appreciate that the proposed legislation is now being reexamined, the exclusion of stakeholders in initially drafting legislative language that could further limit our members' ability to address costs by giving the agency authority to borrow money without Congressional or customer oversight raises red flags about Western's commitment to working collaboratively with its customers. .

Unfortunately, we have witnessed a trend with Western that portends a decreasing lack of accountability of Western's activities and costs. For customers of Western there has always been the ultimate solution to walk away from the Western program if costs continue to escalate. However, in recent years Western has retreated from the tradition and practice of allowing customers to terminate a contract in the event that rates increase. Further, we are alarmed that Western has taken a similar position that future contractors for the Hoover resource remain bound to Western.

The erosion of customer protections that have been traditionally provided by allowing customers to terminate a contract appears tied to Western's strategy to insure revenues it wants.. As Western continues to recognize that Congress may not provide the funding it desires, pressure emerges to lock down the customers by eliminating any right to terminate a contract, which gives customers of Western in Arizona significant concern. If costs continue to rise and Western is holding customers captive – for 50 years under the proposed Hoover contracts – our ability to serve our customers at the lowest possible cost is being compromised by the actions of a federal agency.

We appreciate your long-standing support on this issue and ask that you continue to work with us to ensure meaningful oversight and cost controls on Western. While we remain committed to working with Western on these issues, Congressional engagement has often proven important to preserving the important partnership between our member utilities and the federal government that helps keep energy costs low for the communities and businesses we serve.

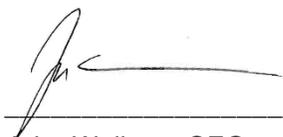
Sincerely,



Michael Curtis
Arizona Municipal Power Users Association



Robert S. Lynch, Counsel and Assistant Secretary/Treasurer Irrigation and Electric Districts' Association of Arizona



John Wallace, CEO
Grand Canyon State Electric Cooperative