

Irrigation and Electrical Districts of Arizona Annual Meeting remarks Jan. 8, 2021

2020 was a historic year, bringing with it an unexpected level of change and disruption.

- This virtual address of this annual speech demonstrates that.
- Thank Bob Lynch and IEDA members.

Before delving into my remarks, I want to provide you a status update on our COVID response, which is top of mind for many of us, especially as cases rise again in Arizona.

- Like many other utilities, our responsible workplace re-entry has been delayed due to the exponential surge in cases across our territory this fall and winter.
 - As of Jan. 6, WAPA has had more than 320 confirmed, cautionary or possible cases since the beginning of the pandemic. We have 15 active positive cases, six of which are located within DSW.
- We have resumed discussions and planning for sequestering our dispatchers, if that becomes necessary, to protect our on-site mission-critical staff.
- We have several measures in place to protect our employees and mission, which include maximized telework and developing a COVID Risk Field Guide for craft.
- We anticipate continuing with maximized telework until summer 2021.

Responding to COVID-19 has presented a major evolutionary step for WAPA, and indeed all government agencies and utilities, to deploy innovative new processes, procedures and tools in line with the 21st century.

Over the course of the year, we adapted and persevered against the backdrop of adversity and uncertainty to continue successfully delivering on our mission in 2020.

It brings me great pride to say that we were able to:

- Accomplish our mission
- Provide industry leadership for responding to COVID AND
- also achieve our annual performance targets for the fiscal year



- all while about 75 percent of our employees worked from home for most of that time.

We also focused on:

- The advent of markets in the West.
- The value of hydropower.
 - Only last week, the *New York Times* ran an article that the Colorado River has plenty of water to go around, and investors want to use that commodity to their own ends, without considering hydropower.
 - The day before, the *Arizona Republic* published an article titled “Climates’ toll on the Colorado River: ‘We can weather may be a couple of years.’ Also, no mention of hydropower.
- We focused on the challenge of building and upgrading transmission.
- Combatting and mitigating the effects of more severe natural weather events.
 - We had a record-breaking wildfire season across much of our territory this year, and thanks to proactive vegetation management, were spared significant damage.
 - DSW, in particular, fared well during the extreme wildfire season thanks to the incredible teamwork of Environment, Maintenance and Engineering.
- The changing generation mix and how that is causing utilities to operate the system ever closer to its limits and sometimes pushing the system over the edge as we saw in California this summer where the market was forced to conduct rolling blackouts.
- Incorporating battery storage technology into our system and pairing it with hydropower.

Our accomplishments this year are many as we adjusted to a new way of working and living.

Rather than go over them all, I encourage you to peruse our FY 2020 Annual Report entitled “Engaging in a world of change,” as that is exactly what we did.

- The theme, selected before the COVID pandemic, reaffirmed our commitment to inclusiveness, openness, transparency and collaboration with our customers and other stakeholders to preserve the value of WAPA and its services.



In a couple weeks, President-elect Joe Biden will take the helm of the nation. We have been and will continue to meet with transition teams to help educate them on the role of WAPA in the energy industry and the powerful partnerships we have with our customers.

It is too soon to say anything definitive about the new Administration, especially regarding the sale of the PMAs. As we know, party affiliation is not an indicator for whether we will see the proposal appear again.

- We did have some good news with the latest appropriations bill, which rejected the current Administration’s proposal to sell all PMA assets, impose market-based rates and repeal the Transmission Infrastructure Program.
- With the leadership selections announced so far, I anticipate we will see some policy changes and rollbacks of direction provided over the past four years.

However, the major changes in the industry have not been swayed much by the political will of Washington in recent history, including:

- Retirement of thermal generation, which is being replaced with variable energy resources
- New advancements being added at the edge of the grid, complicating an already complex operations environment
- Challenges with capacity, reliability and resilience. This year, NERC’s annual long-term reliability report expanded its analysis to assess resource adequacy across entire regions and the year. The conclusion: “hope the next 10 years are as reliable as the previous 10 years.”
 - Part of that solution is more long-distance high-voltage transmission, which remains a critical need.
- The industry has also discussed how to appropriately value electricity as the kilowatt-hour is sometimes worthless parts of the day
- And finally, the rise of organized markets in the West. I believe we will see a fully integrated market in our territory in the next couple of years.
 - It is our obligation as stewards of extensive electric assets and as a critical energy supplier for our customers to be present at the markets table and to participate and negotiate from a strong, unified position.



- It is only by proactively participating in the development of markets in the West that we can ensure an optimal outcome for WAPA and our customers.

Given all of the prospects for markets today, it is imperative we review these developments individually and holistically so we understand how the parts and the whole will affect WAPA and our customers. We are taking a multifactor approach to our vision of the future, evaluating each initiative on its own merits, on the compounding effects of multiple overlapping changes and in the context of the broader energy industry.

In that vein, last year we continued or initiated multiple activities to explore market opportunities across the Western Interconnection, focusing on retaining and strengthening the value of WAPA for our customers and sustaining reliable operations. These efforts included:

- Switching reliability coordinators at the end of 2019.
- Continuing the transition to new energy imbalance management entities for Upper Great Plains, Rocky Mountain, the Colorado River Storage Project and Sierra Nevada regions.
- Studying energy imbalance management options in Desert Southwest.
- Exploring a combined transmission rate for the DSW and CRSP transmission projects.
- Participating in the California Independent System Operator Western Energy Imbalance Market Governance and Extended Day-Ahead Market Straw Proposal reviews.
- Announcing a new evaluation of full membership in the Southwest Power Pool Regional Transmission Organization for UGP-West and Loveland Area Projects.

Participating in SPP's exploratory effort to expand the RTO into the West is consistent with our commitment to evaluate alternative ways of doing business.

- It also will open opportunities to upgrade both the equipment and the value of the direct-current ties, which will become even more important in an energy frontier dominated by intermittent generation.



- If we were better able to send Arizona solar to Chicago or Nebraska wind to San Diego, we could be closer to realizing the safe and reliable grid of the future, to the benefit of the owners and operators of those interties.

The evaluation is also a logical next step after more than 30 years of exploring markets and market-like constructs in the West, including:

- UGP-East's full membership in the SPP RTO in 2015.
- The Mountain West Transmission Group
- The Southwest Markets Assessment Group
- Our internal Organizational Approach to Markets effort
- And a host of other activities.

Our decisions regarding our future and specifically markets will serve the best interests of WAPA, the regions and our customers based on the unique needs and circumstances of each locality.

- That can take many forms; however, we are committed first and foremost to protecting the interests of WAPA and our customers.
- We will not allow others to benefit from us without adequate and appropriate compensation, in line with our beneficiary pays principle.

Contributing to market developments is not the only thing we are doing to ensure the continued success of our mission in the energy frontier.

We are pursuing a number of activities, including

- a fiber pilot project with three customers,
- the Standardized Budgeting and Reporting Initiative and
- participating in the Hydropower MOU, among other things.

During all this work, we remain committed to our core mission, beneficiary pays and lowest rates consistent with sound business principles.

With the upheaval and uncertainty that we have experienced in 2020, both in our society and in our industry, we decided that this year should be focused on restoration, recovery, resilience and strength.

Our theme for this year is a single, simple word: "Balance."



Achieving balance is a challenge many of us are likely pursuing, and not just at work but also in our personal lives.

The industry, too, needs to find balance. I would argue that the energy industry today is unbalanced.

- It values energy over capacity, leading to severe unintended consequences for system reliability.
- The desire to protect the idea of traditional utilities and resistance to change are stifling creativity and innovation to accommodate a new energy frontier, while technologies are growing at the edge of the system without utility input.
- We have scores of megawatts of new generation coming online every year and next to no new transmission to deliver it because the transmission side of the equation is not financially stable.
- We value the idea of markets as solutions to problems instead of addressing the root of the systemic issues we are seeing in operations.
- We are operating the system balance closer and closer to the edge.
- Hydropower, as one of the few baseload generating resources left, is not properly valued.

Closer to WAPA, we need to:

- balance the needs of our employees with the needs of WAPA
- balance the needs of our customers with one another and with the needs of our system, now and in the future
- Balance reliability and resilience
- Balance the needs in vegetation management with financial and environmental costs
- Balance our resources against our many competing organizational priorities, which is the goal of the workload planning initiative.
- And make system investments based on data driven from our asset management program balancing competing priorities

One of the ways we will seek to find balance with our new world is by refreshing our mission and vision.



- Many of you have likely been involved in one of our 28 stakeholder meetings to learn what you think of our purpose and goals.
- Thank you for participating in this process.
- We expect to share our refreshed mission and vision with you later this month. As you will see, our mission did not fundamentally change. Our vision statement is more focused, clear and concise.

Another focus in 2021 will be on resilience, both in our physical and cyber assets and in our culture.

Resilience is the ability to prevent, withstand and recover from disruptive threats and events—an important distinction from reliability--as we balance our available personnel and funds.

In an ideal world, we would invest more in resilience, placing special emphasis on defense-critical electric infrastructure, including

- hardening facilities,
- increasing redundant services,
- enhancing black-start capabilities,
- replacing wood with steel,
- increasing the movement of energy between the Eastern and Western grids through interties and
- integrating artificial intelligence, machine learning and advanced technology solutions into grid operations.

These upgrades are expensive, and one enduring question is how do we strike the appropriate cost ratio between those who directly use these upgrades and those who benefit from projects that support national energy resilience and security.

We will also focus on workload planning to better balance our resources against our many competing organizational priorities.

Workload planning is the culmination of numerous ongoing programs that have been established at WAPA since 2013:

- Reliability-Centered Maintenance
- Continuous process improvement



- Asset Management
- 10-year capital planning
- Lifecycle Management
- Data as a Strategy

These programs have made WAPA a data-driven organization.

Now, we have reached a stage of maturity where we can use this data to accurately forecast our business needs and compare them to our available people and equipment.

- If we were able to better match our resources with business needs, we could more efficiently and effectively complete the many pressing projects before us and provide you more detailed information on our plans and ongoing projects.

This year, we will focus on documenting operations and maintenance projects to establish a baseline level of work, particularly for our craft.

- Although we are focusing on the craft first, these projects take a cohort of WAPA functions and people: from operations conducting system reliability studies, to Natural Resources performing environmental reviews and land acquisition, to Design and Engineering to Procurement, to Construction and finally to our crews.
- Eventually, the work done by all these functions will be captured in this initiative.

It is unfortunate that I could not be with you in person to share these updates as I look forward to meeting with you every year.

- Thank you again for your continued engagement and support of WAPA.
- Together, we will achieve and sustain balance amid the many opportunities and challenges before us.

Stay safe, remain socially distanced and wear your mask.

