

# Powered by Marsh FINPRO

## Episode 4

### How one Arizona utility is navigating the energy transition

Welcome to the *Powered by Marsh FINPRO* podcast. Through a series of interviews with experts from across the energy and power industry, host Grace Brighter will examine key challenges and opportunities brought by the energy transition, and how to approach and manage the evolving management liability risks this transformation brings.

#### Sarah Baldys:

Welcome to the Marsh *Powered by FINPRO* podcast. Through a series of interviews with experts from across the energy and power industry, this podcast will examine key challenges and opportunities brought by the energy transition, and how to approach and manage the evolving management liability risks this transformation brings.

I am Sarah Baldys, US power and renewables leader at Marsh's financial and professional liability practice, and I am pleased to introduce the host of the *Powered by Marsh FINPRO* podcast, Grace Brighter.

#### Grace Brighter:

Welcome to the *Powered by Marsh FINPRO* podcast. I am your host, Grace Brighter.

For our discussion today, I am joined by John Draftz, Director, Risk Insurance Claims at Arizona Public Service. At APS, John is responsible for appropriately managing risk transfer and claims handling for

Arizona's largest electric utility, including Palo Verde Nuclear Generating Station.

In today's episode, our conversation is focused on understanding the role of utilities in the energy transition, while understanding some of the challenges they face every day.

Hey, John, thanks for joining us today.

#### John Draftz:

Sure. Pinnacle West is the parent company of Arizona Public Service, or APS. It's a vertically integrated regulated utility servicing 1.4 million customers in 11 of Arizona's 15 counties. Our service territory includes Phoenix, which is the 5th largest city in the United States and the number three market for data centers. We continue to see growth in residential manufacturing, and data centers and are currently projecting a 40% increase in peak demand by 2031.

#### Grace Brighter:

Thanks for that overview, John. So kind of as a follow up here, how do you, you know, really view the role of utilities like APS in this energy transition?

#### John Draftz:

I believe the industry's commitment to being 100% clean has driven demand for clean resources of energy. Since those commitments, we've seen a dramatic increase in solar and battery utilization, battery storage innovation, and interest in small modular reactors. Let's also not forget about the need for grid modernization to even out supply and demand imbalances.

#### Sarah Baldys:

So John, this is Sarah. So how are you navigating these changes then?

#### John Draftz:

Our approach has been to maintain a diverse generation portfolio in order to maintain reliability on a long-term basis. We are investing in battery energy storage systems, or BESS, and solar, while also building some new gas generation. We are also exploring owning a small modular reactor and whether hydrogen or additional wind, either owned or by a PPA,

makes sense. Given the build and recovery time for these assets, we need to insulate ourselves from any one particular generation resource. I see companies like APS focusing on safe and reliable clean energy and driving the industry to incorporate best practices in safety and partnerships with first responders.

As a regulated utility, we have a duty as stewards of Arizona to keep costs affordable for our customers, which helps drive the efficiencies in the renewable space, since many of these projects are procured in a competitive bidding process.

### **Grace Brighter:**

So it's evident through everything you kind of just highlighted John, that power and utility companies are central to the energy transition.

These companies are experiencing a great deal of change as part of it, such as meeting future demands for electricity. Companies like APS and others in this industry are no strangers to managing risks, but the energy transition does bring to light several new challenges. So with that, what do you think are the key challenges for utilities in the energy transition and what exposures do you think these challenges present for directors and officers?

Some of the hot topics we read about and hear in the news are, you know, increasing disclosure environment, wildfires and some extreme weather events. So, we're just curious, John, to hear what you think is the most relevant.

### **John Draftz:**

One of the biggest fundamental changes has been the transition from historically hardened assets, such as a gas plant or a coal plant, to renewable generation sources that are much more susceptible to being catastrophically damaged from things such as wind, water, and hail. There is also the challenge of limited resources and the reliance on other countries for items such as solar panels, creating supply chain challenges and an increased focus on liquidated damages in contracts.

As to D&Os, the new risk that I see are the commitment to clean energy goals while facing unprecedented demand challenges. The increased focus on wildfire, especially since Hawaii that has spread to utility

financing and has increased cost in almost every aspect of utility business and increased cyber activity.

### **Sarah Baldys:**

So John thinking about risks like cyber and wildfire like what you just mentioned, what can be done to try to manage risks to Arizona public service and the D&Os? You know, the risks like that, cyber and wildfire?

### **John Draftz:**

These risks, especially wildfire, have required utilities to be much more transparent with their regulators and customers. For example, the APS wildfire mitigation plan is available on our website. We socialized our public safety power shut off with communities that may be impacted in the future and have had candid conversations with our regulators about our mitigation efforts, the increasing cost of those efforts, and the recovery of those costs in a timely manner.

### **Grace Brighter:**

So John, earlier you mentioned that demand is expected to increase by 40% over the next six years and that Arizona is the number three location for data centers. This must be a massive undertaking for APS, and data centers seem to be getting a lot more public attention. How are you navigating this?

### **John Draftz:**

Another new area we are trying to deal with is that much of the demand pressure now comes from data centers. So cost equity is a significant focus. Data center demand needs require a tremendous investment by utilities, and utilities need to ensure that these costs are being appropriately funded by these large demand customers, and not residential customers, which is the chief focus for our Commission.

### **Grace Brighter:**

So as we wrap up our discussion here, John, do you have advice for other risk managers in approaching directors and officers within their company, and also for communicating effectively with underwriters?

### **John Draftz:**

My advice is to make sure that you evaluate your exposure on a more frequent basis given some of the dynamic industry changes recently that may have drastically changed the potential severity of a loss. As

to communication with underwriters, I think you need to be honest and acknowledge that you have these risks, but that the focus on what your company is doing to mitigate these risks. My experience has been that underwriters are very knowledgeable of the industry risks and are very open to differentiating between industry, and very open to differentiating between insurers based on how effective their mitigation efforts are.

### Grace Brighter:

Well, John, thank you so much for joining us today. I'm sure those listening greatly appreciate hearing directly from someone in your position on what is top of mind and how you are ultimately perceiving this energy transition. So thank you again.

### John Draftz:

Thank you.

### Grace Brighter:

That's all for this edition of *Powered* by Marsh FINPRO. We hope you enjoyed our discussion and thank you for listening. You can rate, review, and subscribe to *Powered* by Marsh FINPRO on Spotify, Apple Podcasts, or any other app you're using. You can also follow Marsh on LinkedIn or X.

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