

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT MEETING NOTICE AND AGENDA

FINANCE AND BUDGET COMMITTEE
Thursday, November 16, 2023, No Sooner Than 9:55 AM

SRP Administration Building
1500 N. Mill Avenue, Tempe, AZ 85288

Committee Members: Jack White Jr., Chairman; Leslie C. Williams, Vice Chairman; and Nick Brown, Randy Miller, Krista O'Brien, Stephen Williams, and Keith Woods

Call to Order
Roll Call

1. **CONSENT AGENDA:** The following agenda item(s) will be considered as a group by the Committee and will be enacted with one motion. There will be no separate discussion of these item(s) unless a Committee Member requests, in which event the agenda item(s) will be removed from the Consent Agenda and considered as a separate item CHAIRMAN JACK WHITE JR.

- A. Request for approval of the minutes for the meeting of September 21, 2023.
- B. Request for approval of the Monthly Cash Statement for October 2023 (District and Association).
- C. Request for approval of the Quarterly Cash Statement for Period Ending October 31, 2023 (Association).

2. Multi-Year Membership with the Electric Power Research Institute (EPRI)CHICO HUNTER

Request for approval to enter into a new three-year EPRI membership agreement that will cover membership for 2024 through 2026.

3. Cable TV and Telecommunications Pole Attachment Fees BRANDON SHOEMAKER

Request for approval to increase the Cable TV and Telecommunications pole attachment fees from the current level of \$22.95 to \$25.16 per attachment per year. If approved, the new fees would become effective January 1, 2024.

4. Renewable Energy Credit (REC) ProgramDAN DREILING

Informational presentation regarding plans to launch a new REC program to SRP's existing large and strategic business customers.

5. Trade Limits for Renewable Energy Certificates (RECs) RUSSELL MUELLER

Request for approval to increase trade authorizations for RECs.

- 6. Energy Risk Management (ERM) Update.....RUSSELL MUELLER

Informational presentation regarding the periodic update on ERM activities. Topics include an overview of commodity prices (natural gas/electricity); a summary of retail natural gas hedging requirements and current hedge levels; current gas transportation under contract and expected incremental needs; the wholesale credit exposure summary; and Board-approved aggregate financial limits and existing financial positions.

- 7. Report on Current Events by the General Manager and Chief Executive Officer or DesigneesJIM PRATT

- 8. Future Agenda Topics..... CHAIRMAN JACK WHITE JR.

The Committee may vote during the meeting to go into Executive Session, pursuant to A.R.S. §38-431.03 (A)(3), for the purpose of discussion or consultation for legal advice with legal counsel to the Committee on any of the matters listed on the agenda.

The Committee may go into Closed Session, pursuant to A.R.S. §30-805(B), for records and proceedings relating to competitive activity, including trade secrets or privileged or confidential commercial or financial information.

Visitors: The public has the option to attend in-person or observe via Zoom and may receive teleconference information by contacting the Corporate Secretary's Office at (602) 236-4398. If attending in-person, all property in your possession, including purses, briefcases, packages, or containers, will be subject to inspection.



MINUTES
FINANCE AND BUDGET COMMITTEE

DRAFT

September 21, 2023

A meeting of the Finance and Budget Committee of the Salt River Project Agricultural Improvement and Power District (the District) and the Salt River Valley Water Users' Association (the Association), collectively SRP, convened at 10:43 a.m. on Thursday, September 21, 2023, from the Hoopes Board Conference Room at the SRP Administration Building, 1500 North Mill Avenue, Tempe, Arizona. This meeting was conducted in-person and via teleconference in compliance with open meeting law guidelines.

Committee Members present at roll call were J.M. White Jr., Chairman; L.C. Williams, Vice Chairman; and N.R. Brown, R.J. Miller, K.H. O'Brien, S.H. Williams, and K.B. Woods.

Also present were Board Members R.C. Arnett, M.J. Herrera, K.L. Mohr-Almeida, and L.D. Rovey; Council Vice Chairman J.R. Shelton; Council Members A.A. Freeman and T.S. Naylor; Mmes. I.R. Avalos, M.J. Burger, C.C. Burke, A.P. Chabrier, K.A. Heth, L.F. Hobaica, K.B. Kochenderfer, G.A. Mingura, N.J. Mullins, S.A. Perkinson, and C.M. Sifuentes; Messrs. J.B. Carpenter, K.J. Cormier, S.E. Cutruzzula, J.M. Felty, J.D. Hovis, R.T. Judd, K.J. Lee, D.B. Mitchell, R. Navarro, B.A. Olsen, J.M. Pratt, M.B. Rosen, and J.A. Wright; and Ana Gorla of Sierra Club.

In compliance with A.R.S. §38-431.02, Andrew Davis of the Corporate Secretary's Office had posted a notice and agenda of the Finance and Budget Committee meeting at the SRP Administration Building, 1500 North Mill Avenue, Tempe, Arizona, at 9:00 a.m. on Tuesday, September 19, 2023.

Chairman J.M. White Jr. called the meeting to order.

Consent Agenda

Chairman J.M. White Jr. requested a motion for Committee approval of the Consent Agenda, in its entirety.

On a motion duly made by Board Member S.H. Williams and seconded by Board Member K.H. O'Brien, the Committee unanimously approved and adopted the following items on the Consent Agenda.

- A. Minutes of the Finance and Budget Committee meeting on August 22, 2023, as presented
- B. Approval of the District and Association Monthly Cash Statement for August 2023

Corporate Secretary J.M. Felty polled the Committee Members on Board Member S.H. Williams' motion to approve the Consent Agenda, in its entirety. The vote was recorded as follows:

| | | |
|------------|--|-----|
| YES: | Board Members J.M. White Jr., Chairman; L.C. Williams, Vice Chairman; and N.R. Brown, R.J. Miller, K.H. O'Brien, S.H. Williams, and K.B. Woods | (7) |
| NO: | None | (0) |
| ABSTAINED: | None | (0) |
| ABSENT: | None | (0) |

Copies of the handout distributed are on file in the Corporate Secretary's Office and, by reference, made a part of these minutes.

Finance Presentation

Jeff A. Wright, SRP Director of Financial Reporting, referenced the financial handout distributed to the Members relative to the combined highlights of operations of the District and Association for the month of August 2023. Using a PowerPoint presentation, he compared the actual versus budgeted figures for categories such as General Fund balance, Combined Net Revenue (CNR), system sales, and customer accounts. Mr. J.A. Wright concluded by reviewing the financial summary and key financial indicators for the month of August 2023 and fiscal year-to-date.

Mr. J.A. Wright responded to questions from the Committee.

Copies of the handout distributed and the PowerPoint slides used in this presentation are on file in the Corporate Secretary's Office and, by reference, made a part of these minutes. The financial information in the handouts and PowerPoint slides is unaudited and non-GAAP.

Ana Gorla of Sierra Club left the meeting during the presentation.

Report on Current Events by the General Manager and Chief Executive Officer or Designees

Jim M. Pratt reported on a variety of federal, state, and local topics of interest to the Committee.

Future Agenda Topics

Chairman J.M. White Jr. asked the Committee if there were any future agenda topics. Board Member R.J. Miller requested an update on the scrubber duct project at Coronado Generation Station.

There being no further business to come before the Finance and Budget Committee, the meeting adjourned at 10:51 a.m.

John M. Felty
Corporate Secretary

**Statement of Cash Received and Disbursed**

October 2023

(\$000)

| | <u>District</u> | <u>Association</u> | <u>Total Month</u> | <u>Year-to-Date</u> |
|---|-------------------|--------------------|--------------------|---------------------|
| Fund Balance Beginning of Period | \$ 712,213 | \$ 625 | \$ 712,838 | \$ 697,781 |
| Cash Receipts: | | | | |
| Electric Revenues | 386,894 | --- | 386,894 | 2,194,227 |
| Water Revenues | --- | 672 | 672 | 4,536 |
| Electric Customer Deposits | 4,413 | --- | 4,413 | 25,798 |
| Reimbursement on Joint Ownership Projects | 7,604 | --- | 7,604 | 57,752 |
| Construction Contributions and Advances | 10,148 | --- | 10,148 | 144,651 |
| Proceeds from Bond Sales | --- | --- | --- | --- |
| Proceeds from Other Borrowings | --- | --- | --- | --- |
| Transfers from Segregated Funds | --- | --- | --- | 155,667 |
| Sales Tax Collected | 24,632 | --- | 24,632 | 170,993 |
| Other Cash Receipts | 15,184 | --- | 15,184 | 75,286 |
| Total Cash Receipts | <u>448,875</u> | <u>672</u> | <u>449,547</u> | <u>2,828,910</u> |
| Fund Transfers - Net | <u>(4,432)</u> | <u>4,432</u> | <u>---</u> | <u>---</u> |
| Cash Disbursements: | | | | |
| Purchased Power and Fuel | 180,625 | --- | 180,625 | 832,574 |
| Operations and Maintenance | 80,708 | 1,731 | 82,439 | 532,391 |
| Employee Payroll and Payroll Taxes | 48,465 | 3,395 | 51,860 | 362,465 |
| Purchased Inventory | 24,064 | --- | 24,064 | 150,043 |
| Cash Segregated for - | | | | |
| Bond Interest | 17,198 | --- | 17,198 | 101,368 |
| Bond Principal | 9,494 | --- | 9,494 | 56,964 |
| Other Debt - Principal Repayment | --- | --- | --- | --- |
| Other Debt - Interest Expense | 1,025 | --- | 1,025 | 9,223 |
| Capital Expenditures | 92,547 | --- | 92,547 | 462,600 |
| Advances on Joint Ownership Projects | --- | --- | --- | --- |
| Transfers to Segregated Funds | --- | --- | --- | 98,205 |
| In Lieu and Ad Valorem Taxes | --- | --- | --- | 57,948 |
| Sales Tax Remitted | 34,020 | --- | 34,020 | 172,884 |
| Margin and Collateral Disbursed - Net | (3,776) | --- | (3,776) | 1,136 |
| Miscellaneous Cash Disbursements | 1,224 | --- | 1,224 | 17,225 |
| Total Cash Disbursements | <u>485,594</u> | <u>5,126</u> | <u>490,720</u> | <u>2,855,026</u> |
| Fund Balance End of Period | \$ <u>671,062</u> | \$ <u>603</u> | \$ <u>671,665</u> | \$ <u>671,665</u> |

**Cash Position****October 2023**

| Composition of Funds Balance | (\$000) | | |
|-------------------------------------|---------------------|--------------------|---------------------|
| | <u>District</u> | <u>Association</u> | <u>Total</u> |
| Cash and Cash Equivalents | \$ 394,682 | \$ 603 | \$ 395,285 |
| Other Temporary Investments | 166,855 | --- | 166,855 |
| Other Non-Current Investments | <u>109,525</u> | <u>---</u> | <u>109,525</u> |
| General Fund | <u>671,062</u> | <u>603</u> | <u>671,665</u> |
| Segregated Funds | | | |
| Electric System Debt Reserve Fund | 80,598 | --- | 80,598 |
| Debt Service Fund | 165,350 | --- | 165,350 |
| Rate Stabilization Fund | --- | --- | --- |
| Nuclear Decommissioning Fund | 576,198 | --- | 576,198 |
| Post-Retirement Benefits Fund | 1,125,397 | --- | 1,125,397 |
| Construction Fund | --- | --- | --- |
| RHCP Fund | 11,633 | --- | 11,633 |
| HHCP Fund | 7,908 | --- | 7,908 |
| SPRHCP Fund | 3,329 | --- | 3,329 |
| Four Corners Mine Reclamation Trust | 13,903 | --- | 13,903 |
| Other Special Funds | <u>1,260</u> | <u>---</u> | <u>1,286</u> |
| Total Segregated Funds | <u>\$ 1,985,576</u> | <u>\$ ---</u> | <u>\$ 1,985,576</u> |

SALT RIVER VALLEY WATER USERS' ASSOCIATION
STATEMENT OF CASH RECEIVED AND DISBURSED

For Fiscal Quarter Ended October 31, 2023

(In Thousands)

| | |
|--|------------------|
| Funds Balance at July 31, 2023 | \$ 77 |
| Cash Received: | |
| Water revenues | \$ 1,955 |
| Other cash receipts | \$ - |
| Total cash received | \$ 1,955 |
| Operating Funds from SRPAI&PD - Net | \$ 15,035 |
| Total Funds Received | \$ 16,990 |
| Cash Disbursed: | |
| Operating and maintenance expense | \$ 5,202 |
| Net paychecks and deductions paid to others | \$ 11,262 |
| Corporate and payroll taxes | \$ - |
| Other | \$ - |
| Total Cash Disbursed | \$ 16,464 |
| Funds Balance at October 31, 2023 | \$ 603 |



Jason Riggs
Assistant Corporate Treasurer

EPRI Membership Agreement

Finance & Budget Committee

Chico Hunter | November 16, 2023

Agenda

- SRP's Engagement with EPRI
- Key Current EPRI Projects
- Multi-year EPRI Membership Agreement Proposal



SRP's Engagement with EPRI



- Member since EPRI's inception in 1973
- Supports SRP's Strategic Direction
 - Carbon Emissions Reductions
 - Customer and Grid Enablement
 - Finances: Retail prices in lowest quartile
- Reduces cost through joint funding

Key Current EPRI Projects

- Low Carbon Resources Initiative (LCRI)
 - Decarbonizing the economy
 - Hydrogen, carbon capture, synthetic fuels
- Long Duration Energy Storage
 - Maximize our renewable resources
 - Pilot RFP support, performance evaluation
- Distribution Enablement Test Lab
 - Distributed energy resource simulator
 - Battery and smart inverter test plans



Multi-year Membership Proposal

- 3-year commitment = 35% discount
- All committed funds apply to research programs
- Any additional projects will be included in annual budget requests

| Contract Term | Annual Membership |
|------------------|-------------------|
| 2018-2020 | \$5.7M |
| 2021-2023 | \$4.8M |
| 2024-2026 | \$5.2M |

Potential Termination Costs

- \$750,000 penalty fee for underfunding the annual commitment
- Annual commitment + \$750,000 for early termination

Recommendation

In accordance with the terms discussed herein, request Board authorization for the General Manager and Chief Executive Officer or the Associate General Manager & Chief Planning, Strategy, & Sustainability Executive to execute a multi-year membership agreement with the Electric Power Research Institute and any subsequent amendments to said agreement that do not materially modify the economic terms of the agreement.

thank you!



2024 Pole Attachment Fees Annual Review

Finance & Budget Committee

Brandon Shoemaker | November 16, 2023

Management's Proposal

- **Modify Pole Attachment Fees in accordance with FCC formula**
 - Increase both Cable TV fee and Telecommunications fee from \$22.95 to \$25.16 (9.6% increase)
- **Proposed Annual Revenues: \$1,109,690 (\$97,457 increase)**
 - Cable TV: \$ 211,366 (\$18,563 increase)
 - Telecom: \$ 898,324 (\$78,894 increase)

Background

- Change in pole attachment fees requires SRP Board approval
- The Board approved the FCC calculation methodology for Cable TV and Telecommunications fees in 2001
- The FCC revised the Telecom methodology in 2011 to effectively create a single fee
- If SRP Management's annual review calculation indicates an adjustment outside a +/- 5% dead band, an adjustment may be proposed

FCC Formula for Fee Calculation

- Calculate Average Pole Value
- Multiply by Annual Carrying Charge
 - Cost of Capital
 - Depreciation
 - O&M
 - Administrative & General
 - Taxes
- Multiply by Space Allocation Factor

Attachment Fee Calculation

| | Cable TV Attachment Fee | Telecommunications Attachment Fee |
|-------------------------------|-------------------------|-----------------------------------|
| Average Pole Value | \$1,895.25 | \$1,895.25 |
| Annual Carrying Costs | 17.96% | 17.96% |
| Annual Pole Cost | \$340.36 | \$340.36 |
| Urban Adjustment Factor | | 0.66 |
| Adjusted Annual Pole Cost | \$340.36 | \$224.64 |
| Allocation Factor | 7.41% | 11.20% |
| Calculated Annual Fee | \$25.21 | \$25.16 |
| Change from Current (\$22.95) | 9.9% | 9.6% |

Customer Communications

- Letters mailed to all current pole attachment customers advising them of the proposed change and the November Finance & Budget Committee Meeting
- Comments to date

Schedule - 2024 Adjustment of Pole Attachment Fees

- 10/02/23: Notification letter & management report mailed to customers
- 11/16/23: Management presentation to the Finance & Budget Committee
- 12/04/23: Board decision
- 01/01/24: Change in fees effective

Recommendation

Management requests that the Committee recommend Board approval of the increase to the Telecommunications and Cable TV pole attachment fees from \$22.95 to \$25.16 per pole attachment effective January 1, 2024.

thank you!





Management Report on Pole Attachment Fees

Corporate Pricing
October 2023

MANAGEMENT REPORT ON POLE ATTACHMENT FEES

Summary

Management prepares an annual report to the SRP Board of Directors regarding Cable TV and Telecommunications pole attachment fees. Formal action, in the form of customer notification and Board action, is only taken when management recommends a change to the existing Cable TV or Telecommunications pole attachment fees. Management only recommends a pole attachment fee adjustment when the newly calculated fee falls outside of the $\pm 5\%$ dead band established by the Board (the “dead band”).

At its January 8, 2001 meeting, the Board of Directors approved the use of the Federal Communications Commission (FCC) methodology in determining the Cable TV and Telecommunications pole attachment fees.

On April 7, 2011, the FCC issued an order (FCC 11-50) that changed how the Telecommunications fee is calculated. The revised methodology results in a Telecommunications pole attachment fee that is essentially equal to the Cable TV fee. In an effort to simplify the process, the Board of Directors approved using the amount calculated for the Telecommunications fee for both Cable TV and Telecommunications attachments.

The current Telecommunications pole attachment fee of \$22.95 has been in effect since January 1, 2023. Using the FCC methodology and updated economic factors, the fee for 2024 would fall outside the dead band. Management therefore proposes that the annual Telecommunications attachment fee be changed from \$22.95 to \$25.16, an increase of 9.6%.

The Cable TV formula results in a fee of \$25.21, an increase of 9.9%. However, Management recommends using the result of the Telecommunications formula, \$25.16, for Cable TV attachments. This would result in an increase of 9.6% and would continue the use of the same fee for both types of attachments.

Background

Pole attachment fees are collected from companies that request space on SRP electric poles to attach their own equipment, historically coaxial cable for cable TV or telephone lines. SRP currently has two types of pole attachment fees that apply to parties who do not jointly own poles with SRP:

1. Fees for cable TV companies; and
2. Fees for telecommunication providers.

Attachment Fees

The FCC methodology uses an average pole value as the starting point for calculating the fee. The pole cost is multiplied by an annual carrying charge to recover capital costs and pole related expenses. The result is the annualized average pole cost which is then allocated among potential users. This becomes the basis for the Cable TV and Telecommunications pole attachment fees.



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Average Pole Value

The FCC methodology uses actual accounting records to determine average pole value. This results in an average pole value that is consistent with industry standards and practices.

The pole value was determined using the following formula:

| FERC Account 364: Poles, Towers and Fixtures | |
|---|-------------------|
| Original Installed Cost | \$240,039,240.33 |
| less Accumulated Depreciation | \$44,596,640.46 |
| Original Installed Cost Depreciated (OICD) | \$195,442,599.87 |
| less Framing (15% of OICD) | \$29,316,389.98 |
| Net Pole Investment | \$166,126,209.89 |
| Pole Count | 87,654 |
| Average Pole Value | \$1,895.25 |

The key driver for the increase in this component from \$1,843.75 in FY2022 is the replacement of older poles. The installation of new poles as replacements for older poles is generally more costly over time because of labor and material cost inflation as well as crews having to work around more existing infrastructure.

Annual Carrying Charge

The annual carrying charge for the FCC methodology consists of:

- Cost of Capital
- Depreciation
- Administrative and General Expenses
- Maintenance Expense
- Taxes

The annual carrying charge component increased from 16.84% in FY2022 to 17.96% in FY2023. This increase is driven primarily by a higher cost of capital and higher operations & maintenance (O&M) expenses. Based on the FY23 average pole value, the FY23 annual pole cost for Cable TV and Telecommunications is \$340.36.

Joint Use Allocation

For Cable TV, the FCC methodology assumes there is 13.5 feet of usable space on a pole. Each attachment is presumed to use 1 foot of the usable space. The allocation is derived by the formula:

$$1 / 13.5 = 7.41\%$$

For Telecommunications, the FCC methodology uses a detailed formula that considers pole height, usable space and non-usable space. This methodology differs from the joint use allocation formula used for the Cable TV fee. The FCC telecommunications allocation factor for SRP is 11.20%, derived by the formulas:

$$\text{Usable Space Factor: } (1 \text{ foot} / 13.5 \text{ feet} * 13.5 \text{ feet} / 37.5 \text{ feet}) = 2.67\%$$

$$\text{Unusable Space Factor: } (2/3 * 1 / \# \text{ of users [5 for SRP]} * 24 \text{ feet} / 37.5 \text{ feet}) = 8.53\%$$

$$2.67\% + 8.53\% = 11.20\%$$



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Proposed Fee

The calculation for the Cable TV fee and Telecommunications fees according to the FCC formula are as follows:

| | Cable TV Attachment Fee | Telecommunications Attachment Fee |
|-------------------------------|----------------------------|--------------------------------------|
| Average Pole Value | \$1,895.25 | \$1,895.25 |
| Annual Carrying Costs | | |
| Cost of Capital | 6.76% | 6.76% |
| Depreciation | 3.74% | 3.74% |
| O&M | 3.11% | 3.11% |
| A&G | 2.69% | 2.69% |
| Taxes | 1.65% | 1.65% |
| Total | 17.96% | 17.96% |
| Annual Pole Cost | \$340.36 | \$340.36 |
| Urban Adjustment Factor | | 0.66 |
| Adjusted Annual Pole Cost | \$340.36 | \$224.64 |
| Allocation Factor | 7.41% | 11.20% |
| Calculated Annual Fee | \$25.21 | \$25.16 |
| Change from Current (\$22.95) | 9.86% | 9.63% |

Management recommends that the Telecommunications formula continue to be used to set the fee for both types of attachments, as the results of both formulas are nearly identical. While the Cable TV fee is slightly higher (\$0.05) than the Telecommunications fee, when calculated using the FCC formulas, the formulas are designed to produce a maximum allowable rate. Management therefore recommends that the fee be set at \$25.16 per attachment per year effective January 1, 2024. This is an increase of \$ 2.21 (9.6%) from the current pole attachment fee. The proposed fee falls outside the dead band, and therefore management recommends an adjustment to the existing fee.

Currently, there are four customers that pay the Cable TV attachment fee. Current pole attachment fees total \$192,803 for 8,401 Cable TV attachments. The proposed increase would result in 2024 Cable TV pole attachment projected revenues of \$211,366. This represents an increase of \$18,563 in annual revenues.

Currently, there are seven customers that pay the Telecommunications fee. Current pole attachment fees total \$819,430 for 35,705 Telecommunications attachments. The proposed increase would result in 2024 Telecommunications pole attachment projected revenues of \$898,324. This represents an increase of \$78,894 in annual revenues.

Management Recommendation

Management continues to recommend using the same fee for both types of attachments. Using the FCC methodology and updated economic factors, the proposed fee falls outside the dead band for both Cable TV and Telecommunications attachments. Management therefore recommends that the annual pole attachment fee be changed to \$25.16 per attachment, effective January 1, 2024. The net revenue impact of the change to both fees is an increase of \$97,457 per year, based on the current number of attachments.



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Renewable Energy Credit Program

Finance & Budget Committee Meeting

Dan Dreiling - Director, Customer Programs

November 16, 2023



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Agenda

- Corporate Objective & Purpose
- Program Background & Development
- Program Design
- REC Offering
- Program Terms & Counterparty
- Next Steps

Corporate Objective & Purpose

FY24 Corporate Objective

- Implement a Renewable Energy Certificate (REC) supply option for large and strategic customers by December 31, 2023 to complement SRP's Solar Choice offering.

Purpose

- Be responsive to customers' desire for a "green" future
- Provide customers a means to green further to meet their environmental goals
- Fulfill customer needs as additional solar resources are built-out
- Further SRP's commitment to renewable energy, while maintaining reliability and affordability

Key Design Components

- Builds upon SRP's existing green offerings
- Provides large and strategic business customers a way to go green faster
- Economical options to customers and SRP
- Simple for customers to understand and execute
- Easy online application process and on-bill payments
- Utilizes multiple program paths to address needs of various business customer segments

Program Offering

- Available to business customers with at least 750,000 kWh of annual energy usage (anticipate 30-50 large business customers will express interest)
- Allow eligible customers to enroll up to a maximum of 50% of their non-greened energy usage, with a maximum of 100,000 RECs
- RECs retired on behalf of the program
- Program will offer two REC options:
 - Higher Value Green-e Aligned (Solar & Wind RECs) - Up to 750,000 RECs
 - Low-Cost Carbon Free (Large Hydro & Wind/Solar) - Up to 1 Million RECs

Program Terms

- Program implemented under existing Renewable Energy Credit Pilot Rider
- Program year May 1 – April 30; available through April 30, 2028
- 1-year term customer agreements, with option for customer to renew
- Annual open enrollment opportunity in spring of each year
- Direct passthrough pricing to participating customer (REC Price + Counterparty Fee + SRP Administrative Fee)
- Customers commit to REC quantity; SRP contracts with third party to secure RECs

REC Counterparty Contracts

- Negotiating with leading national REC brokerage firms (ACT and 3Degrees)
- Confirmed necessary market depth exists for needed RECs
- Counterparties responsible for purchase, retirements, and attestation
- 60-day price lock on RECs for customers to sign agreements
- SRP Supply & Trading will engage with counterparty to initiate purchases
- Contracts will be developed with appropriate risk mitigation
- Trade approval authority being requested to accommodate transactions

Next Steps

- Continue discussions with customers and launch program subscription efforts
- Finalize contract details with selected counterparty and all back-office processes and billing
- Serve newly signed large business customers with REC Program in May/June timeframe

Questions?

Request to Increase Trade Authorizations for Renewable Energy Certificates

Finance & Budget Committee

Russell Mueller | November 16, 2023

Background

- Renewable Energy Certificates (RECs) are market-based instruments that represent energy was generated by a renewable/green energy source (1MWh of green energy = 1 REC).
- In addition to being created by generation, RECs can be bought and sold in the open marketplace (independent of the energy generated).
- In 2008, the Board approved Risk Oversight Committee (ROC) oversight of SRP's REC transactions within certain term/notional limits.
 - REC transactions are executed by Supply & Trading & Fuels (STF).
 - Energy Risk Management monitors transactions for compliance with ERM Policy and trading activity is regularly reported to the ROC.

Recent Developments

- Until recently, corporate needs for open-market RECs have generally remained constant and the original trading limits have been sufficient.
- To meet the needs of new customer programs, particularly the planned Renewable Energy Credit Program, STF will need to make significantly larger market purchases of RECs, beyond the current trading limits.
- Note: for the Renewable Energy Credit Program, the costs of these purchases will be passed directly to the participating customer.

Proposed Increases to REC Limits

| Approval Level | Current Limits | Proposed Limits |
|----------------------|---------------------|-------------------------|
| ROC | 6 years/\$1,000,000 | 6 years/ \$30M |
| Executive Management | 3 years/\$750,000 | 3 years/ \$22.5M |
| Staff | 2 years/\$500,000 | 2 years/ \$15M |

- Based on current market prices (~\$5/REC) and initial expected volumes, these proposed limits are sufficient to allow for market movement and/or expected program expansion.
- ERM and the ROC will continue to monitor and oversee REC transactions.

Approval Request

- Request approval to increase REC trading limits as specified below, subject to ROC oversight and compliance with the ERM Policy.

| Approval Level | Current Limits | Proposed Limits |
|----------------------|---------------------|-----------------|
| ROC | 6 years/\$1,000,000 | 6 years/\$30M |
| Executive Management | 3 years/\$750,000 | 3 years/\$22.5M |
| Staff | 2 years/\$500,000 | 2 years/\$15M |



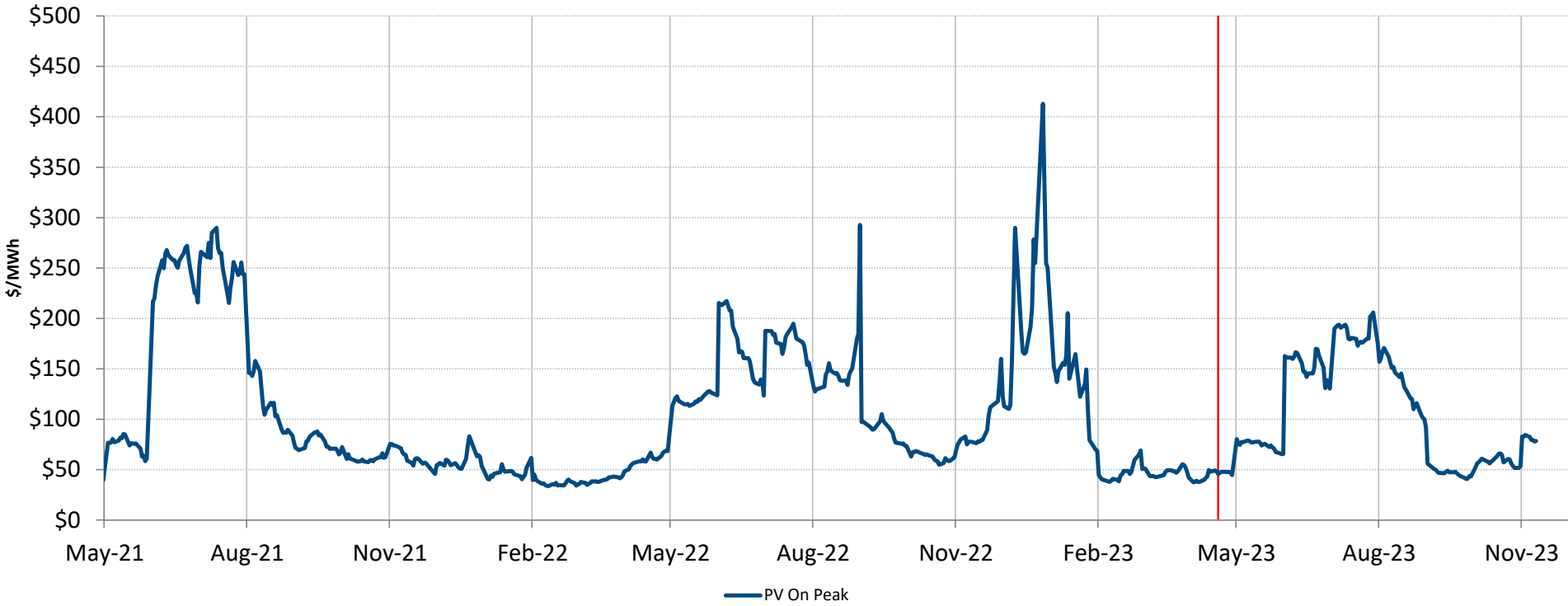
Energy Risk Management Update

Finance & Budget Committee

Russell Mueller | November 16, 2023

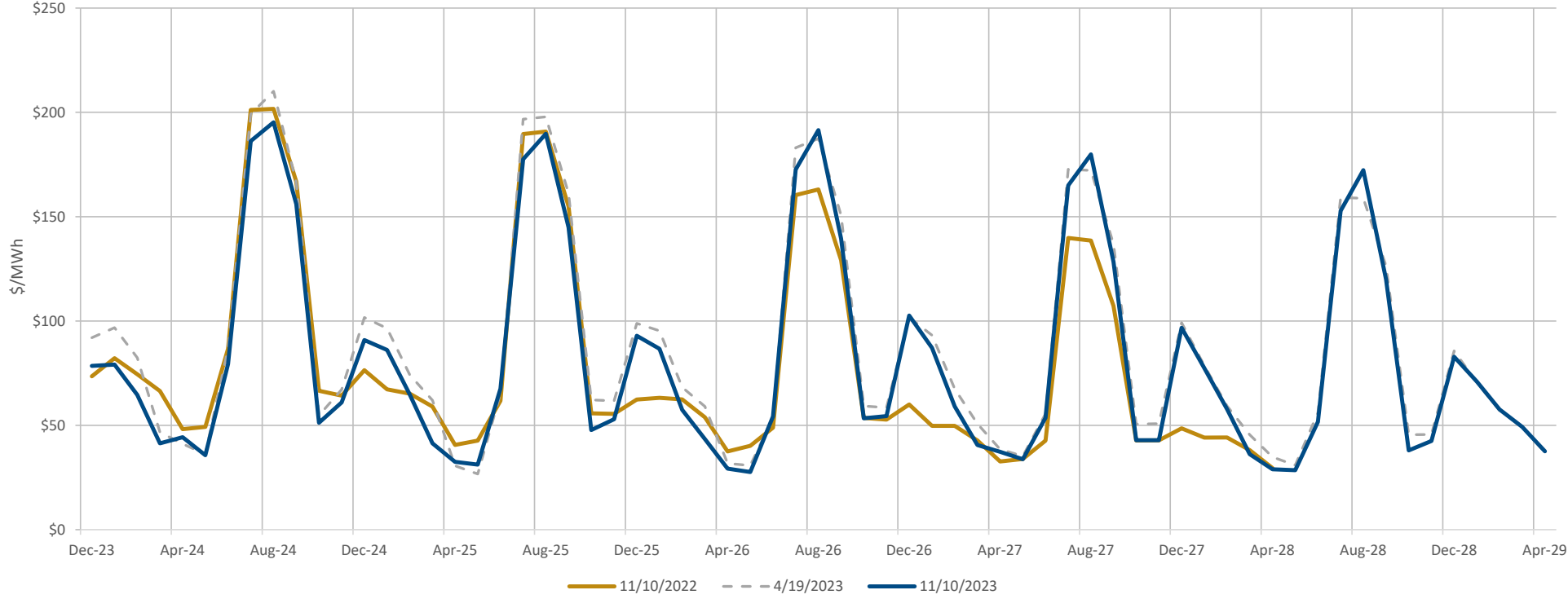
Electricity Prices

Front Month Palo Verde On-Peak



Electricity Forward Curve

Change in Palo Verde On-Peak Prices Since 2022



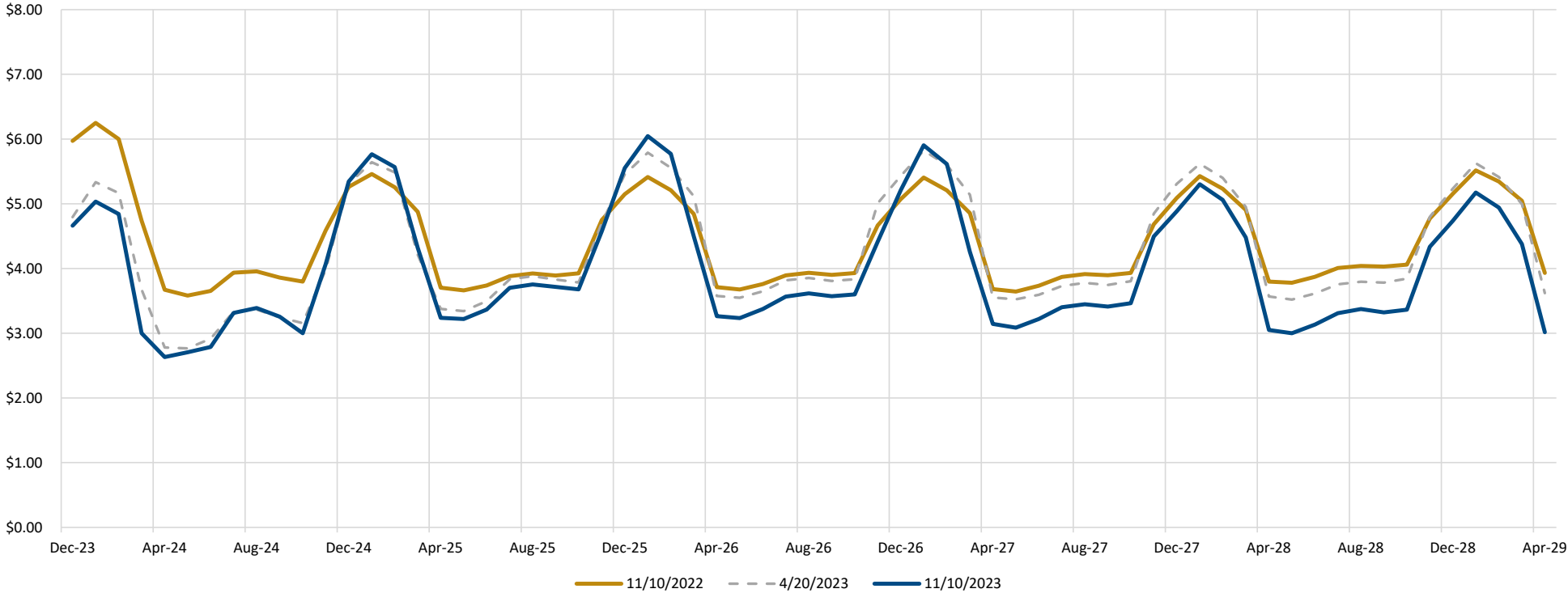
Natural Gas Prices

Front Month Permian & San Juan Basins



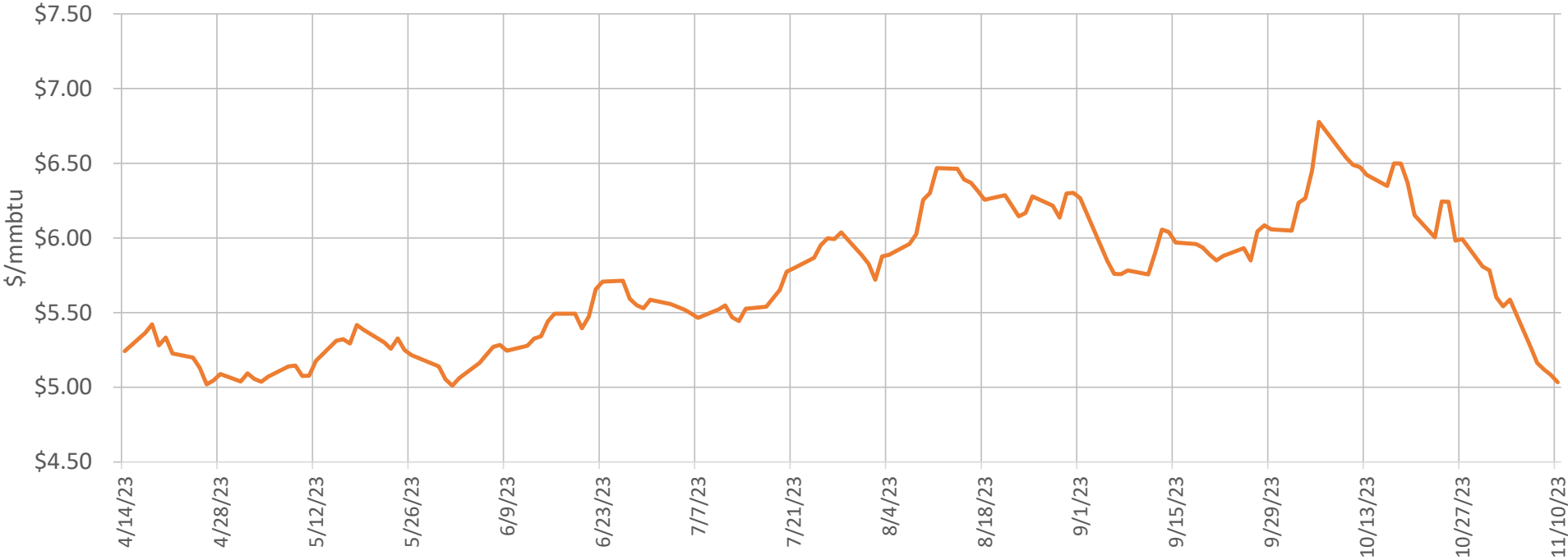
Natural Gas Forward Curve

Change in San Juan Basin Prices Since 2022



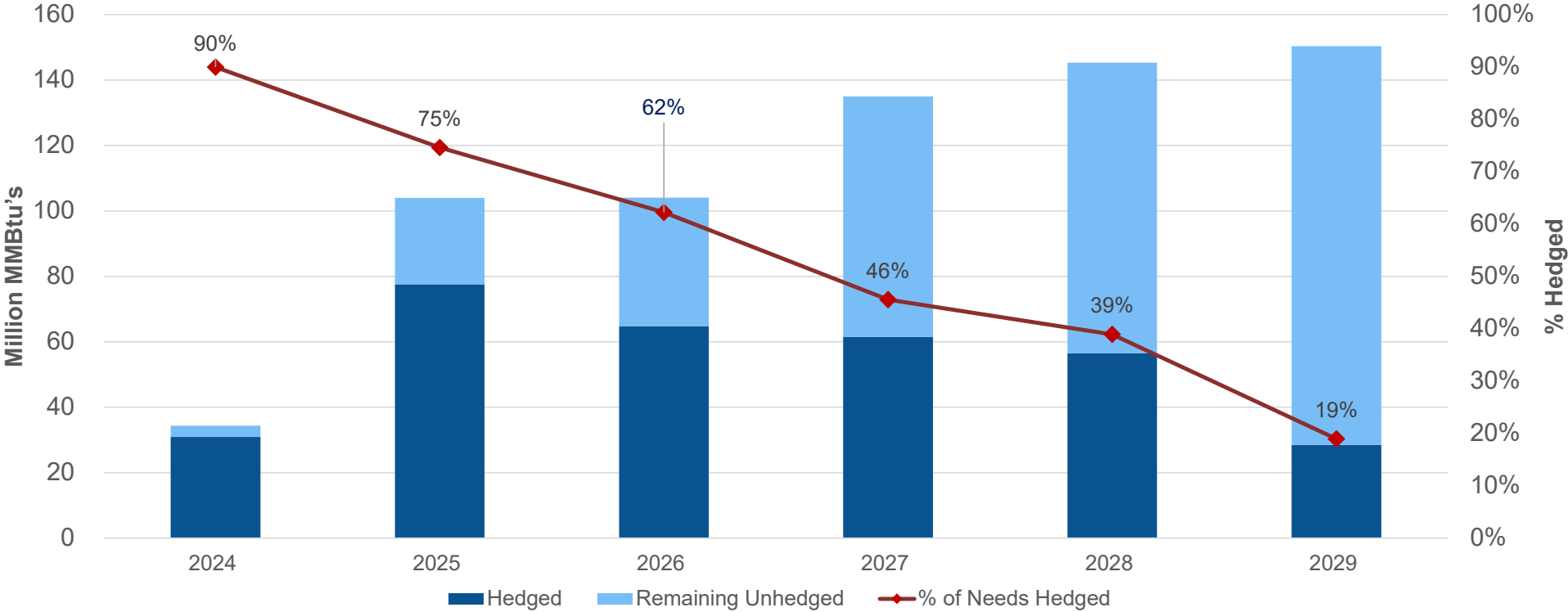
Example of Recent Natural Gas Price Volatility

Recent Daily Price Movements for the San Juan Basin January 2024 Contract

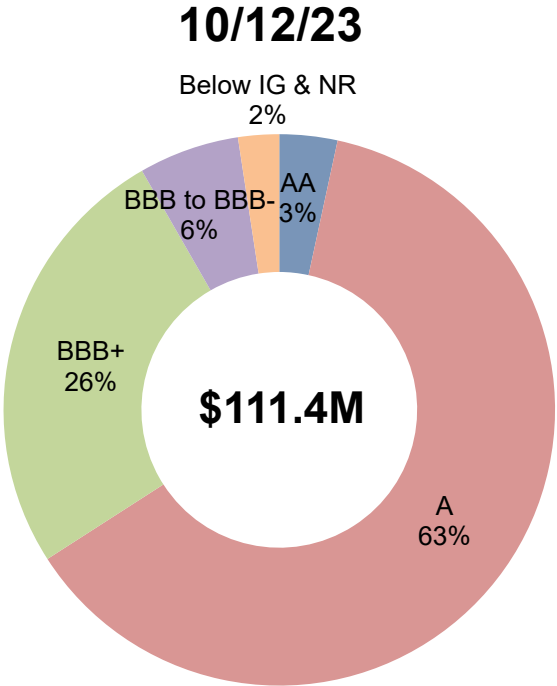
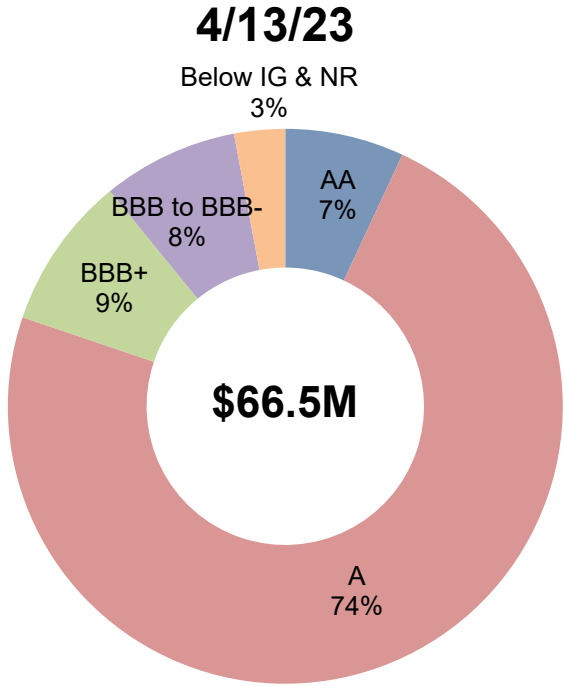


Retail Natural Gas Hedging

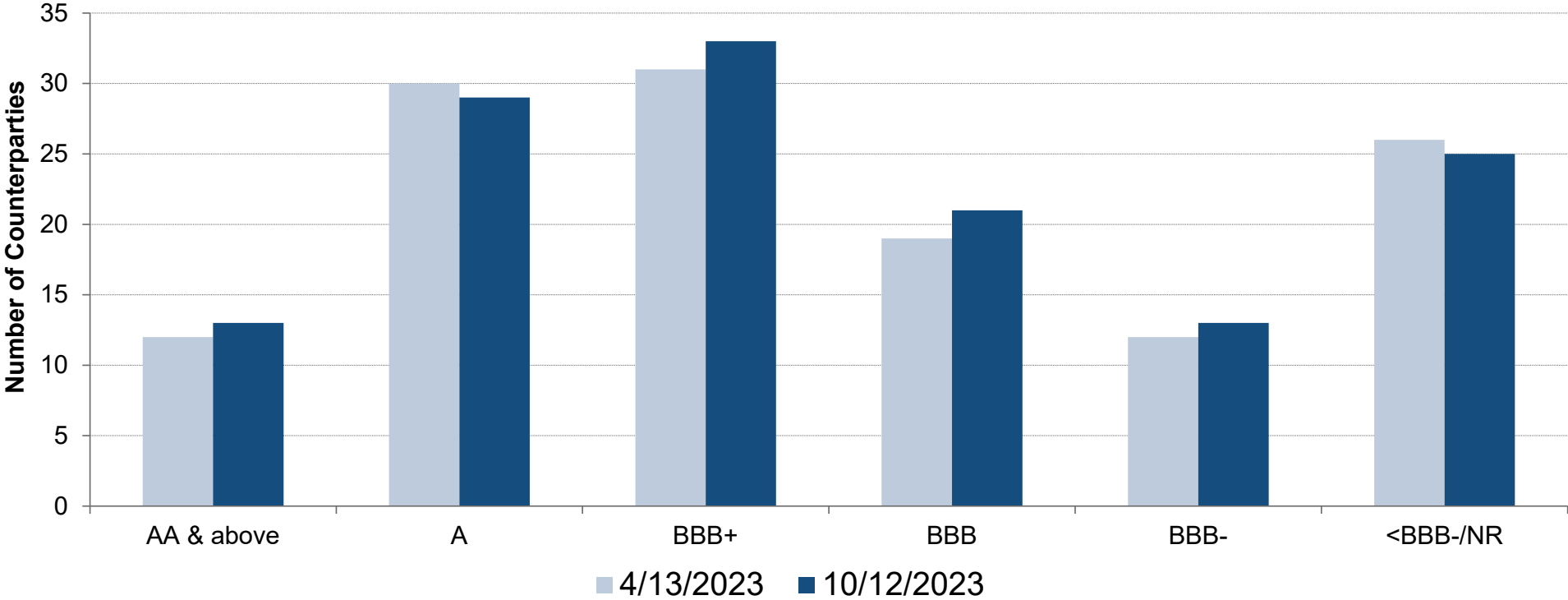
Expected Requirements and Hedge Levels (FP24)



Credit Exposure by Rating



Counterparties by Credit Rating



Aggregate Financial Limits

| Commodity | Limit | Current Position | % of Limit |
|---|-----------------|------------------|------------|
| Electricity | \$150M | \$8.5M | 6% |
| | 3M MWh | 109.2K MWh | 4% |
| Natural Gas | \$2B | \$1.14B | 57% |
| | 750M MMBtu | 339.1M MMBtu | 45% |
| Unleaded Gas | \$2.6M/FY | \$0.0M | 0% |
| | 900k gal/FY | 0k gal | 0% |
| Diesel | \$75M | \$15.4M | 21% |
| | 25M gal | 3.5M gal | 14% |
| Greenhouse Gas and Emissions Compliance Instruments | \$40M | \$12.1M | 30% |
| | 1.8M allowances | 355k allowances | 20% |

thank you!

