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 DEBBIE HENDRICKSON

   • Request for approval of the minutes for the meeting of November 12, 2019

2. **Pricing Principles** ................................................................. ADAM PETERSON

   Informational presentation regarding SRP’s Pricing Principles that were formally adopted by the Board of Directors in 2000

3. **Report on Current Events by the General Manager and Chief Executive Officer or Designees** ........................................................................................................... MIKE HUMMEL

4. **Future Agenda Topics** ..................................................CHAIRMAN DEBBIE HENDRICKSON

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. §30-808, for records and proceedings relating to competitive activity, including trade secrets or privileged or confidential commercial or financial information.

**Visitors**: All property in your possession, including purses, briefcases, packages or containers, will be subject to inspection.
MINUTES
STRATEGIC PLANNING COMMITTEE MEETING

November 12, 2019

A meeting of the Strategic Planning 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 9:30 a.m. on Tuesday, November 12, 2019, in the Geronimo Conference Room at the SRP Administration Building, 1500 North Mill Avenue, Tempe, Arizona.

Committee Members present at roll call were D.S. Hendrickson, Chairman; C.J. Hawkey, Vice Chairman (by teleconference); and R.J. Miller, P.E. Rovey, and S.H. Williams.

Absent at roll call were and K.J. Johnson, M.V. Pace, and L.D. Rovey.


In compliance with A.R.S. §38-431.02, Anaveli H. Sierras of the Corporate Secretary’s Office had posted a notice and agenda of the Strategic Planning Committee meeting at the SRP Administration Building, 1500 North Mill Avenue, Tempe, Arizona, at 9:00 a.m. on Friday, November 8, 2019.

Chairman D.S. Hendrickson called the meeting to order.

Consent Agenda

Chairman D.S. Hendrickson requested a motion for Committee approval of the Consent Agenda, in its entirety.

On a motion duly made by Board Member R.J. Miller and seconded by Board Member P.E. Rovey, the Committee unanimously approved and adopted the following item on the Consent Agenda:

- Minutes of the Strategic Planning Committee meeting on September 12, 2019, as presented

The vote was recorded as follows:

YES: Board Members D.S. Hendrickson, Chairman; C.J. Hawkey, Vice Chairman (by teleconference); and R.J. Miller, P.E. Rovey, and S.H. Williams (5)
The Rio Reimagined Project

Using a PowerPoint presentation, Mike Hummel, SRP General Manager and Chief Executive Officer, stated that the purpose of the presentation was to provide information regarding the Rio Reimagined Project, a river revitalization project planned for a portion of the lower Salt and Gila River corridor. Kelly J. Barr, SRP Associate General Manager Chief Corporate Services and Sustainability Executive, introduced Duke Reiter, ASU Senior Advisor to the President.

Mr. D. Reiter provided history of the Rio Salado Project planning along with a diagram of the project area. He explained that the Rio Salado Project will reconnect the community to the river; establish a metropolitan vision for the future; be a catalyst for economic growth and inclusion; feature demonstrations of sustainable planning; and build an unprecedented regional destination.

Mr. D. Reiter provided comparisons to similar river and green infrastructure projects. He discussed federal, state, county, city, and private funding on similar projects and provided an overview of the following four major components: water, community, economy, and funding.

Mr. D. Reiter stated that the Rio Reimagined Project launch event was held on March 30, 2018, and since that time, federal and state tours have been provided. He said that the Rio Reimagined Project became affiliated with the Environmental Protection Agency’s (EPA) Urban Waters Federal Partnership (UWFP) on April 23, 2019 and highlighted various ongoing outreach events, along with an overview of the stakeholder framework. Mr. D. Reiter concluded by presenting the structure of the Rio Working Group, the next steps moving forward, and a video from the project’s website.

Mr. D. Reiter responded to questions from the Committee.

Board Members M.J. Herrera, M.V. Pace, L.D. Rovey, and K.B. Woods; and Ms. K.J. Barr entered the meeting during the presentation.

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.

Six-Year Strategy Plans

Mr. M. Hummel stated that the purpose of the presentation was to review Management’s new process to propose and evaluate specific initiatives and/or work prioritization that will define the amount of progress that SRP plans to make towards the 2035 Corporate Goals over the next six years. He introduced Hank A. Courtright, SRP Senior Director of Corporate Strategy Planning and Innovation.
Using a PowerPoint presentation, Mr. H.A. Courtright provided an overview of the strategic planning process for SRP customers, innovation and sustainability, workforce, leadership, community, and finances. He described the scope of the six-year plans as progress towards SRP’s first step towards the recently adopted 2035 Corporate Goals. Mr. H.A. Courtright presented a timeline of the developmental process from August 29, 2019 to January 17, 2020. He introduced Tom Cooper, SRP Director of Strategic Planning and Economic Development.

Mr. T. Cooper summarized the focus areas for the six-year strategy plans as follows: Public Affairs; Community, Communications, and Marketing; Customer Operations; Transportation Electrification; Grid Modernization; Water Resources; Resource Transition; Human Resources; and Information Technology Services. He explained that Public Affairs’ goal is to create a cross-functional team to formulate policy positions that reflect SRP’s strategic goals and increase representation on strategically identified committees and boards by ten percent.

Mr. T. Cooper stated that the Community, Communications, and Marketing’s goal is to comprehend customers’ view regarding their experience, along with brand health and community indexes. He said that the Customer Operations’ focus area will concentrate on advanced metering infrastructure, implementing a strategy for power, water, and digital customers, along with energy efficiency savings and meeting demand response.

Mr. T. Cooper stated that the Transportation Electrification focus is to implement programs for residential and commercial customer new construction, which support charging infrastructures for Direct Current (DC) fast charging and Electric Vehicles (EV) public charging. Continuing, he said that Grid Modernization’s focus is to provide integrated system planning, an advanced distribution management system, a system-wide field area network, smart inverters, and a single geographic information system (GIS).

Mr. T. Cooper stated that Water Resources’ goal is to access urbanization and projected water demand by sector in 2035, determine the impact of a 2.0 acre-foot per acre water allocation on storage and surface water dependability, and help shape the outcomes of the Four Forest Restoration Initiative. He said that the Resource Transition focus (Transmission and Generation) is to have 1000MW of new solar by 2025, uprate efficiency of existing gas plants, improve water efficiency in generation plants, create a road map for replacing coal plants, and integrate with the Energy Imbalance Market (EIM), while monitoring broader regional market opportunities.

Mr. T. Cooper stated that Human Resources’ (HR) focus is to identify work needs and leverage capabilities in existing HR data, while developing corporate succession planning and a diversity and inclusion roadmap. He stated that Information Technology Services focus is to support the OneWorkforce database for HR, provide a rollout of SAP S/4 software, develop enhancements to customer information systems, and re-platform the corporate GIS.
In conclusion, Mr. T. Cooper reviewed the next steps for the six-year strategy plan process.

Mr. T. Cooper responded to questions from the Committee.

Copies of the handout distributed and PowerPoint slides used in this presentation are on file in the Corporate Secretary’s Office and, by reference, made a part of these minutes.

Board Member M.J. Herrera; Ms. K.J. Barr; Messrs. C.J. Podolak and R.S. Siegel; and Duke Reiter and Cece Riviere of ASU left the meeting during the presentation.

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

Mike Hummel, SRP General Manager and Chief Executive Officer, reported on a variety of federal, state, and local topics of interest to the Committee.

Council Member K.A. Owens left the meeting during the report. President D. Rousseau entered the meeting during the report.

Future Agenda Topics

Chairman D.S. Hendrickson asked the Committee if there were any future agenda topics. Chairman D.S. Hendrickson requested information regarding pricing principles and associated Board policies. Board Member N.R. Brown requested information regarding the policy aspects of participating in integrated power markets. Board Member R.J. Miller requested information about the implications of crypto currency and block chain structures on SRP’s future operations.

There being no further business to come before the Strategic Planning Committee, the meeting adjourned at 11:26 a.m.

John M. Felty
Corporate Secretary
SRP Electric Pricing Principles
Industry Pricing Principles
National Association of Regulatory Utility Commissioners (NARUC)

“Regulators design rates... using the costs incurred by each class as a major determinant. Other non-cost attributes considered by regulators in designing rates include revenue-related considerations of effectiveness in yielding total revenue requirements, revenue stability for the company and rate continuity for the customer, as well as such practical criteria as simplicity and public acceptance.”

National Association of Regulatory Utility Commissioners (NARUC)

Characterizes Bonbright Principles as “Enduring” Goals and Principles of Rate Design:

1. Revenue requirement or fair-return standard
2. Revenue requirements must be distributed fairly among the beneficiaries of the service
3. Promote all use that is economically justified in view of the relationships between costs incurred and benefits received

-NARUC Manual on Distributed Energy Resources Rate Design and Compensation (2016)
Summary of Bonbright Principles

- **Sufficiency** – Revenues are sufficient to attract needed capital and recover costs
- **Efficiency** - Rates should provide economically efficient price signals; align prices with costs
- **Fair and Equitable** – Revenue requirements are fairly allocated among customers based on cost of service
- **Customer Acceptance** – Rates are easily understandable, prices are relatively stable, transparent, etc.
## Bonbright Pricing Principles
### LPPC Survey Results

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**NOTE:** Respondents each used different language and had various levels of formality in Pricing Principles they followed. Checkmarks here indicate utility had language consistent with the corresponding Principle but not necessarily that they used identical language.
History of Pricing Principles at SRP
Elements of Sufficiency, Cost Relation, Equity, and Gradualism date as far back as 1942

It is generally recognized that any agency operating a public service utility must earn a sufficient return upon capital invested in its properties to attract new capital whenever required in connection with the operations of the system...

The schedules recommended for adoption… were prepared following general analysis… [including] statistics of the extent and distribution of use by each class…

[T]he endeavor has been to establish a more scientific and equitable set of schedules…

It is not considered advisable because of war emergency conditions with mounting operating costs to make any blanket rate reduction which could not be maintained and which would have to be offset later with rate increases.

-Economic Survey of Salt River Project, September 1942 (pages 115-120)
Informal Pricing Guidelines in 1980

Rate design is not influenced solely by costs. One cost study may show a drastic change in winter costs, for example, implying that all winter rates should be revised. If implemented, such a change could cause serious disruptions to the customers whose homes or businesses are affected. Thus, rate stability is an important concern in rate design. Other areas for concern are:

- Improving customer understanding of rates;
- Producing the proper amount of revenue with stability;
- Administering new rates or rate structures; and
- Avoiding discrimination among customers within a rate class

-Financial Analysis and Rate Schedules for Proposed Adjustments in Standard Electric Rate Schedules Effective March 1, 1981 (Page 47)
In 2000, SRP Board Formally Adopted Principles

• Affirmation of Long Standing SRP Pricing practices
• Pricing Principles align to Bonbright and industry
• Response to changing energy markets in Arizona
• Provided assurances to customers that SRP would not set prices with a profit motive
• Cited Federal Reclamation Project responsibilities
Discussion of Pricing Principles as Approved in 2000
SRP Electric Pricing Principles

- Gradualism
- Cost Relation
- Choice
- Equity
- Sufficiency
Gradualism

Gradualism – to enhance sound economic decision-making by customers of all types by stabilizing price levels and smoothing the impacts of cost movements that may be caused by temporary factors
Gradualism

- Examples of gradualism:
  - FPPAM’s 24-month view
  - More frequent small changes as opposed to less frequent large changes
  - Phase-in transition of M-Power to Basic price levels
  - Managing distribution of customer impacts during price changes (i.e., no customer has significantly higher increase than class average)
Cost Relation

**Cost Relation** – to establish prices in relation to costs and SRP’s stewardship to its water constituents, and thus not to pursue the maximization of “profit”
Cost Relation

• Examples of cost relation:
  • Using marginal cost study as a basis for pricing various rate components
  • Higher prices during on-peak periods; lower prices during off-peak periods
  • Summer/Winter price differential
  • Fixed versus variable charges
  • Super-off peak price on E-29 reflects lower marginal cost in those hours

• Considerations
  • Efficiency
  • Revenue stability
Choice

Choice – to constantly improve customer satisfaction through the creative design of pricing structures that reflect customers’ different desires and abilities to act; for example: to manage their consumption, to assume more price control or demand differentiated products and services
Choice

• Promote pricing options that help customers manage their bills
• Examples of choice:
  • TOU options for customers
  • Prepay option
  • Additional solar rate options
  • EarthWise energy
  • Interruptible offerings for large customers
Equity

**Equity** – to treat customers of all types in an economically fair manner
Equity

• Measure of economic fairness:
  • $Return = \frac{Revenue - Expenses}{Capital}$
  • Classes that are more costly to serve on a per unit basis pay a higher average price per kWh

• Examples of equity
  • Using Cost Allocation Study to allocate costs consistently across classes
    • Customer vs Facilities vs kW vs kWh
  • Move rates of return across customer classes closer together
    • Residential vs Commercial vs Industrial
Sufficiency

**Sufficiency** – to recover the cost of, and invest and reinvest in, a system of assets necessary to meet the demands of its customers; perform valid policy obligations; to maintain SRP’s financial well being and to practice the foregoing principles
Sufficiency

• Revenues from prices need to maintain enterprise financial health
• Returns sufficient to pay interest on debt, meet water support obligations, and invest in new capital
• Examples of sufficiency are reflected in the following:
  • Overall rate of return
  • Cash balances
  • Debt service coverage ratio
  • Credit rating
Application of Pricing Principles

Pricing Principles:
• Provide guidance for management to develop pricing proposals
  • May require balancing different principles
  • Provide guidance on how to translate costs to prices
• Provide context for Board to evaluate pricing proposals consistent with industry standards
• Intended to endure different policy decisions and are largely timeless
Objectives & Programs versus Pricing
Is “Affordable” an SRP Pricing Principle?

- SRP’s mission is to serve our customers and communities by providing sustainable, reliable, and **affordable** water and energy.

- SRP’s mission guides our strategic directions, 2035 corporate goals, and objectives. These in turn influence our resource mix, reliability levels, and programs offered to customers.
  - Affordability is accomplished through how we operate (cost control, limited income programs, etc.)

- Pricing principles provide guidance when allocating resulting costs to customer classes, determining usage charges, and TOU hours.
Policy vs. Pricing

- Policy objectives and goals are usually achieved through planning processes or programs
  - “The reasonableness of any given rates or rate policy be determined in part by reference to its unintended consequences” (Bonbright)
- Using prices to implement policy can have unintended consequences that may undermine other objectives
- Developing new rates or riders works best when they are an extension of existing principles and utilizing cost data on a more granular basis
  - EV price plan (based on more granular TOU periods)
  - Interruptible rider (based on marginal cost of demand)
Program vs. Pricing

Programs can accomplish policy objectives with fewer unintended consequences
• Programs can be targeted
• Programs can be budgeted
• Programs are more transparent
• e.g., Energy Efficiency rebate programs

Some programs are included as a rider to the price plans
• Limited income discount
• Economic development (FESR)
• EarthWise
Conclusion

• SRP’s Pricing Principles
  • Consistent with industry approaches
  • Intended to endure different policy decisions and are largely timeless
  • Assure customers that we price consistently with our public purpose
  • Used in conjunction with SRP’s mission, strategic directions and corporate goals
Questions?
Excerpt from SRP Board Resolution December 4, 2000

**Pricing Philosophy.** Having duly considered management's proposal and recommendation and the record in these proceedings in its entirety, the Board finds as follows:

1. The supply in the electricity industry is essential, highly capital-intensive and characterized by long construction lead times.

2. The demand in the industry is often difficult to predict and quite inelastic.

3. As a result, the industry tends to cycle through periods of imbalance in supply and demand, which can lead to large cost movements.

4. SRP is a political subdivision of the State of Arizona, and a publicly-owned electric utility whose operations are shaped by the public interest and which operates a federal reclamation project whose long-standing responsibility is to provide reliable and reasonably priced water to its constituents.

5. It is SRP’s foremost responsibility in its electric operations to assure the reliability and adequacy of supply of electricity to customers in its service territory; and

6. SRP has historically applied the following principles in pricing electric service to its customers (the “Pricing Philosophy”):

   - **Gradualism** – to enhance sound economic decision-making by customers of all types by stabilizing price levels and smoothing the impacts of cost movements that may be caused by temporary factors.

   - **Cost Relation** – to establish prices in relation to costs and SRP’s stewardship to its water constituents, and thus not to pursue the maximization of “profit”.

   - **Choice** – to constantly improve customer satisfaction through the creative design of pricing structures that reflect customers’ different desires and abilities to act; for example: to manage their consumption, to assume more price control or demand differentiated products and services.

   - **Equity** – to treat customers of all types in an economically fair manner.

   - **Sufficiency** – to recover the cost of, and invest and reinvest in, a system of assets necessary to meet the demands of its customers; perform valid policy obligations; to maintain SRP’s financial well being and to practice the foregoing principles; and

7. Success in pursuit of these principles largely depends upon acquisition and/or control of sufficient additional generating resources to keep pace with the growing energy demands of our customers, rather than being dependent on the volatile wholesale energy market.

8. Success in pursuit of these principles also depends upon timing and appropriate decision-making in various legislative and/or regulatory matters that affect SRP.

9. SRP pursues these success factors diligently.

10. SRP has found these policies to be in the best long-term interests of its customers, and indeed preferred by them, and intends to continue to follow them.