Proposal for SRP's Buy-Through Program Effective January 1, 2024

Salt River Project Agricultural Improvement and Power District

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Introduction

Salt River Project Agricultural Improvement and Power District (SRP), one of the nation's largest public power utilities, is an integrated utility, providing generation, transmission, and distribution services. SRP provides electricity to more than 1 million retail customers in a 2,900-square-mile service area in parts of three Arizona counties, including most of the Phoenix metropolitan area.

In accordance with A.R.S. § 30-810 (effective September 24, 2022), SRP must offer a buy-through program by January 1, 2024. A.R.S. Section 30-810 provides as follows:

> *Buy-through program; terms, conditions, limitations; definition*
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> *A. On or before January 1, 2024, a public power entity that is an agricultural improvement district established pursuant to title 48, chapter 17 shall offer a buy-through program that both:*
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> *1. Includes terms, conditions and limitations, including a minimum qualifying load and a maximum amount of program participation.*
>
> *2. Is structured to maintain system reliability and to avoid a cost shift to nonparticipating customers.*
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> *B. For the purposes of this section, "buy-through" means a purchase of electricity by a public power entity at the direction of a particular retail consumer, subject to the terms of the program.*

On January 1, 2024, SRP will make SRP's Buy-Through Program (the "Program") available to a limited number of large Customers. The Program, as proposed by SRP management ("Management"), is structured to comply with all statutory requirements, and be consistent with established industry practice.

With respect to establishing a minimum qualifying load and a maximum amount of program participation, Management is proposing that Program participation be limited to 200 MW of customer demand and be available to customer accounts on E65 and E67 Price Plans with a minimum annual peak load of 5 MW, and a minimum average monthly load factor of 60%. While not identical to other programs in the state, the overall program size and characteristics of minimum load requirements are comparable to other buy-through programs offered in Arizona. This is a reasonable structure for the buy-through program that must be implemented by January 1, 2024.

Customers participating in the Program (each, a "Buy-Through Customer") will arrange for an eligible third-party Generation Service Provider (GSP) to sell and deliver to SRP, at the Buy-Through Customer's expense, energy to serve the Buy-Through Customer's load.

Because a Buy-Through Customer will not receive all its generation service from SRP, the Buy-Through Customer will bypass most of SRP's generation and fuel adjustor charges related to the energy provided by the GSP. However, since SRP will provide backup generation services, SRP will continue to include the Buy-Through Customer's load in SRP's planning reserves and charge the Buy-Through Customer for such service.

SRP will continue to charge Buy-Through Customers the applicable monthly service charge, delivery charges, ancillary service charges, and system benefit charges.

In addition, to ensure the Program fairly reflects the underlying cost drivers, SRP will charge Buy-Through Customers a "Buy-Through Charge," which consists of three components: an Administrative Charge reflecting those incremental costs incurred on behalf of Buy-Through Customers; a Reserve Capacity Charge; and an Early Technology Adoption Charge. The Buy-Through Customer will pay all charges related to the purchase of energy from the GSP and will settle with SRP for any energy imbalance adjustments. Lastly, if the Fuel and Purchased Power Adjustment Mechanism (FPPAM) over- or under-collection balance exceeds $20 million at the time of the Buy-Through Customer's enrollment in the Program, the Customer will be assessed or refunded, as applicable, a FPPAM Settlement Adjustment (FSA) based on the Customer's pro-rata share of the FPPAM over- or under-collection balance.

The proposed forms of the Program document and detailed Program Requirements document will be posted online at SRPnet.com the week of June 5th, 2023.

Prior to Board consideration of the proposed Program, SRP Management will solicit and consider input from stakeholders. Management will hold stakeholder engagement sessions on June 27th and July 18th. Management may elect to make adjustments to the proposal based on the input received, however, any adjustments must meet the requirements of A.R.S. § 30-810.

Management will present the recommended Program proposal at a Special Board meeting on August 10th. At that meeting, Christensen Associates Energy Consultants, LLC, the consultant engaged by the Board to provide an independent review of Management's proposal, will present its findings. Interested parties will have an opportunity to speak on the proposal at that meeting.

On September 26th, the Board is scheduled to hold a Special Board meeting to review and make a final decision regarding the proposed Program for implementation on January 1, 2024.

Management's proposal complies with A.R.S. § 30-810 requirements and is structured to maintain system reliability and to avoid a cost shift to nonparticipating customers.

Management’s Program Proposal

The Administrative Charge, Reserve Capacity Charge, an Early Technology Adoption charge, and a three-year notice requirement to return to standard service, are critical to ensuring that the Program meets all statutory requirements.

Buy-Through Charge: Buy-Through Charge consists of three components: an Administrative Charge; a Reserve Capacity Charge; and an Early Technology Adoption Charge.

> **Administrative Charge**: The Administrative Charge recovers SRP’s costs of administering the Program, including upfront program development costs for matters such as information technology, and ongoing operational costs for employee labor to administer and track Program requirements.
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> **Reserve Capacity Charge**: SRP provides reliability in part by planning for long-term resource adequacy. To provide resource adequacy, SRP generation resources must be capable of meeting future customer demand and energy requirements, as well as the Planning Reserve Margin (PRM) necessary to provide reliable electric service during equipment outages, severe weather conditions, sudden unexpected surges in load, and changing future marketplace conditions. SRP's PRM is calculated as 16% of system demand. Therefore, SRP plans and procures capacity to meet 116% of forecasted demand. SRP will continue to provide resource adequacy to Buy-Through Customers the same way it is done today, by planning for and providing a 16% PRM on the Buy-Through Customer's demand. Although Buy-Through Customers will bypass most of the capacity charges they pay today for the portion of their energy that is provided by the GSP, a portion of capacity charges in the form of a Reserve Capacity Charge will remain. The capacity charges mentioned are derived from capacity charges in the generation component of E65/67 rates as approved in 2019 and capacity related costs included in FPPAM. In addition, due to the three-year lead time required to plan and build for a Buy-Through Customer’s demand should they leave the Program, Management is proposing a three-year notice requirement for Buy-Through Customers to return to a standard retail price plan.
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> **Early Technology Adoption Charge**: The cost per MWh of SRP’s renewable generation assets that were procured over a decade ago is now substantially above today’s market prices due to natural declines in initial technology costs. Because Buy-Through Customers will not pay for generation capacity costs under their standard price plan, the Early Technology Adoption Charge is appropriate to ensure that when a generation contract carries a cost far above the market value of energy produced along with any appropriate adjustments, those higher costs are not shifted to other customers. This charge ensures compliance with ARS § 30-810 and is consistent with established precedent in Arizona regarding recovery of legacy renewable costs.

GSP Requirements and Charge: SRP and each Buy-Through Customer will contract with a GSP selected by the Buy-Through Customer to sell and deliver energy to SRP. The GSP will be required to meet all applicable legal and regulatory requirements to sell and deliver wholesale energy to SRP, must provide firm capacity/energy under WSPP Service Schedule C, and meet SRP's wholesale counterparty credit requirements. SRP will pay the GSP for energy delivered, then bill the Buy-Through Customer for the amounts paid by SRP.

Imbalance: The GSP is expected to deliver energy to match the Buy-Through Customer's load on an hourly basis. However, should there be an energy imbalance, depending on the magnitude of the imbalance, the Buy-Through Customer will be charged or credited under a pricing structure that compensates SRP for imbalance service while at the same time providing a deterrent for large imbalances. The energy imbalance charge is tied to the applicable CAISO Load Aggregation Point (LAP) price.

Should an excessive energy imbalance occur two or more times within any rolling 12-month period, SRP may cancel the Buy-Through Customer's participation in the Program and terminate the related contracts.

Resupply Charge: SRP will charge the Buy-Through Customer for energy provided by SRP due to a cancellation with less than three years' notice or during any period in which there is no contract in effect with a GSP. The price for such energy will be the hourly price of energy under the Palo Verde Peak or Off-peak Intercontinental Exchange Day Ahead index (or another comparable index selected by SRP if the foregoing index is unavailable), plus the greater of $10 per MWh (prorated for any partial MWh) or 10% of the index price.

FPPAM Settlement Adjustment (FSA): In order to ensure that non-participating customers are receiving the costs (or benefits) associated with an under-collected (or over-collected) fuel and purchased power balance, Management is proposing a FPPAM Settlement Adjustment (FSA) for participating customers. Should the FPPAM over- or under-collection balance exceed the currently established dead-band (currently +/- $20 million) as of the date on which the Buy-Through Customer enrolls in the Program, the Buy-Through Customer will be assessed an FPPAM Settlement Adjustment (FSA) based on the Buy-Through Customer's pro-rata share of the FPPAM over- or under-collection balance. The FSA will be settled in a lump-sum payment or credit (as applicable) or in equal installments over a 36-month period, as selected by the Buy-Through Customer.

Program Documents

The following documents provide detailed information on the proposed Program:

1. Buy-Through Program Design
2. Buy-Through web page
3. Buy-Through Program Requirements
4. FAQs (Frequently Asked Questions)
5. Agreements between SRP, Customers and GSP
6. Board Consultant Report