



## Proposed Adjustments to SRP's Standard Electric Price Plans Effective with the May 2019 Billing Cycle

February 18, 2019



Delivering water and power™

**Aidan McSheffrey**  
Associate General Manager &  
Chief Financial Executive

# Salt River Project

- One of the nation's largest public power entities
- Community-based, not-for-profit utility
  - No equity investors (stockholders)
  - Customers ultimately pay for costs to provide electric service
  - Solid credit ratings
- SRP is customer-focused
  - Award-winning customer service
  - Industry-leading reliability

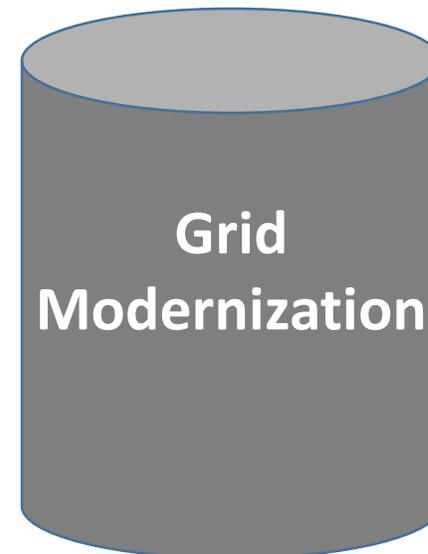
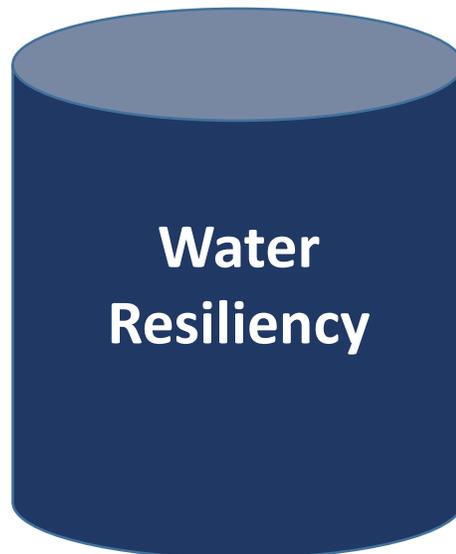
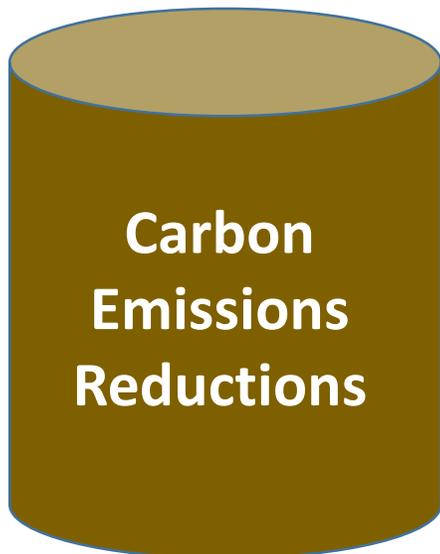
# Current Environment – A Utility in Transition

## 2035 Sustainability Goals Delivering today, shaping tomorrow

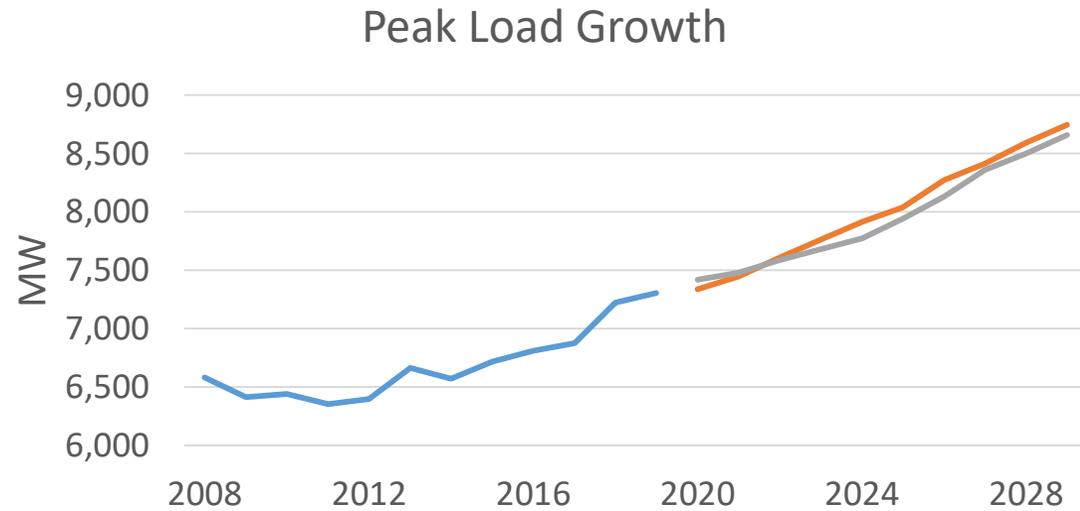
SRP is working toward a sustainable future for the benefit of our customers and the communities we serve.

To do this, we make decisions through the eyes of future generations, balancing costs and impacts while providing reliable, affordable water and power – for today and tomorrow.

Work on the 2035 Sustainability Goals is on track. The commenting period is now closed, but we will be sharing the feedback we received via a publicly available report in Spring 2019.



# Current Environment – A Utility in Transition



# Why Management is Proposing Changes

- To decrease overall prices to reflect lower fuel costs
- To keep up with economic growth and maintain reliability
- To support the transition to sustainable resources and new technologies

# SRP's Pricing Principles

- **Cost Relation:** Prices need to reflect cost of service
- **Equity:** Treat all customers in an economically fair manner
- **Sufficiency:** Prices need to maintain enterprise financial health
- **Gradualism:** Stabilize price levels, smoothing the impact of cost movements
- **Customer Choice:** Promote pricing options that help customers manage their bills (e.g., Time-of-Use)

# Basis for Analysis

- Test Year Fiscal Year 2020 (May 2019 – Apr 2020)
  - Based on budget / financial plan reviewed by the Board in March 2018
  - Projected financials updated for the following:
    - Financial Plan 2020 sales forecast
    - More recent fuel forecast and updated natural gas price hedge positions
    - Financial results through October 2018
    - Capital reductions per management guidance

# Supporting Cost Information

- Cost Allocation Study (CAS)
  - Allocates costs to customers and rate classes
  - Returns serve as the basis to allocate proposed base increase
- Marginal Cost Study (MCS)
  - Results serve as a basis for rate design
    - Customer-, Facilities-, Demand- and Energy-Related costs
    - Seasonal Cost Differences
    - Period Cost Differences – Time-of-Use Periods

# Recommendation for Proposed Prices

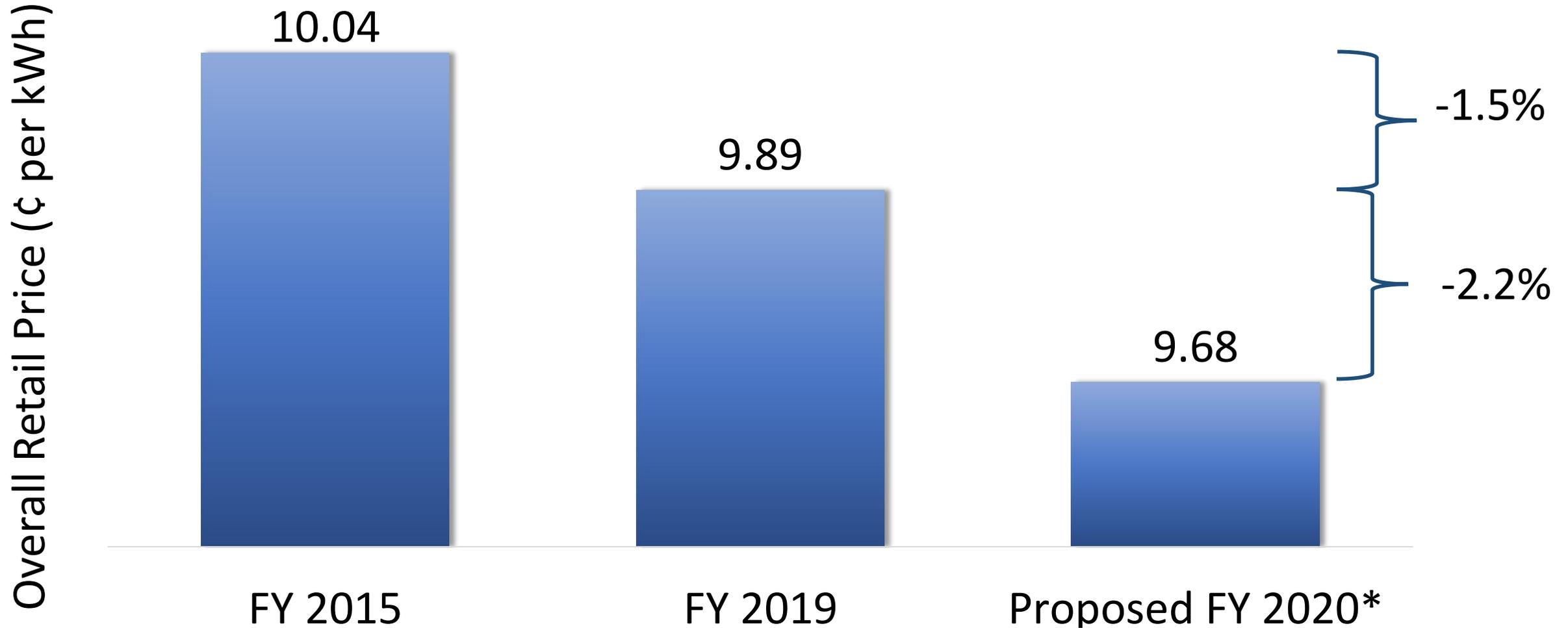
- Fuel Reductions allocated generally on a per kWh basis
  - Adjusted for losses
  - % impacts greater for larger energy users (e.g., industrial customers)
- Base increases allocated based on rates of return
  - Move relative returns closer to the overall average
  - Range of adjustments from 1.4% to 2.5%
  - Exception for Customer Generation E-27 and M-Power E-24

# Proposed Revenue Adjustment

	Change in Revenue (\$ millions)
Fuel and Purchased Power	(\$114.1)
Base Prices	\$ 50.1
EPCAF Reformulation	\$ 0.0*
<b>Total</b>	<b>(\$ 64.0)</b>

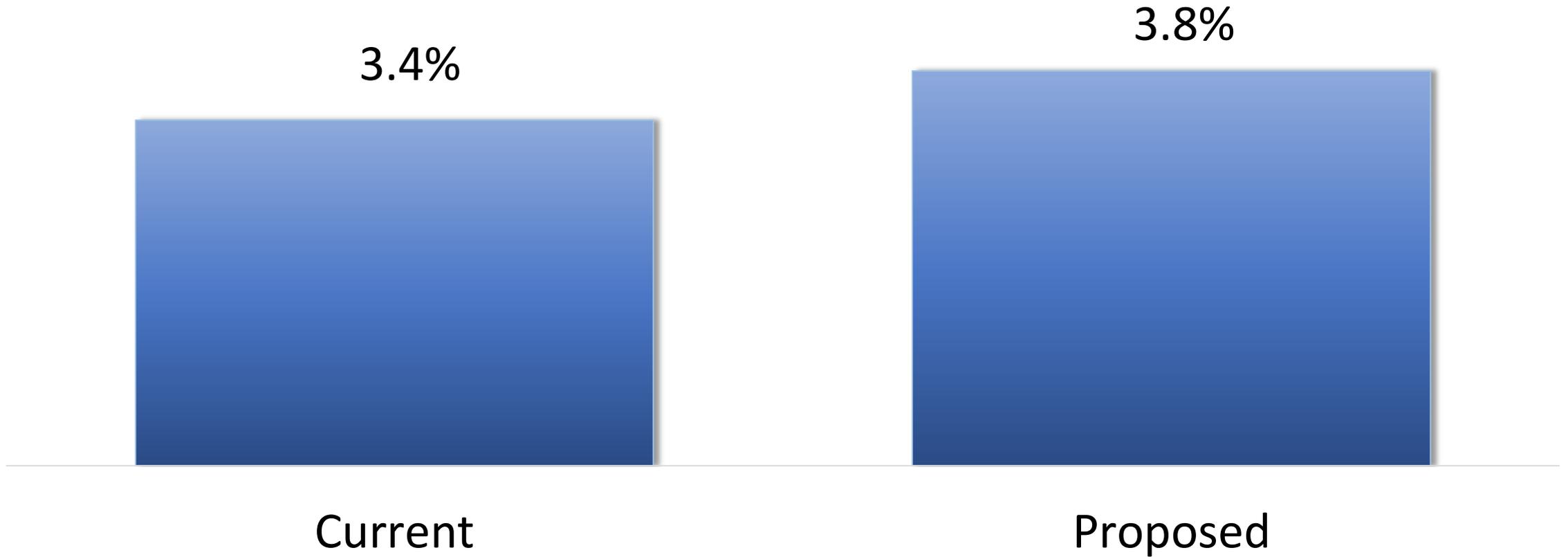
\* EPCAF is proposed to be eliminated. Current EPCAF revenues transferred to base prices and FPPAM.

# Current & Proposed Prices



\*Proposed prices for FY20 would be 3.7% below those approved for FY15

# Proposed Return



# From 6/26/18 Finance and Budget Committee:

## Why Consider Pricing Actions?

- FPPAM collection balance
- EPCAF restructure/redesign
- Address accelerated coal plant depreciation
- Review TOU hours
- Restore rate of return
- Additional options for DG customers
- Large industrial rate design/economic development

**Steve Hulet**

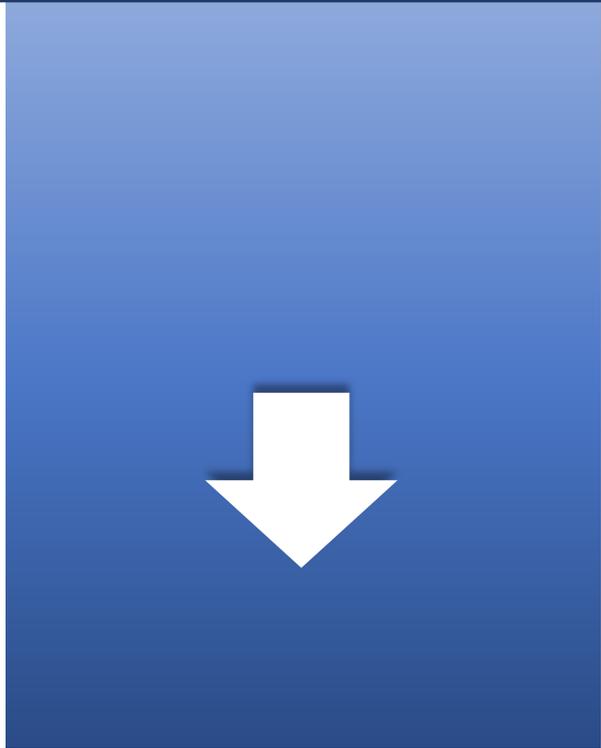
Treasurer & Sr. Director, Financial Services

# 2019 Pricing Proposal

- Overall average price reduction of 2.2%
- Elimination of Environmental Programs Cost Adjustment Factor (EPCAF)
- Fuel and Purchased Power Adjustment Mechanism (FPPAM) Modifications
- Reduced Time-of-Use on-peak hours
- Reduced M-Power E-24 prices to better align with Basic E-23 prices
- More choices for residential solar customers
- Option for Large Extra High Load Factor Customers
- Other Proposed Changes
  - Limited Income
  - Energy Efficiency

# Proposal

Change in Overall Prices\*



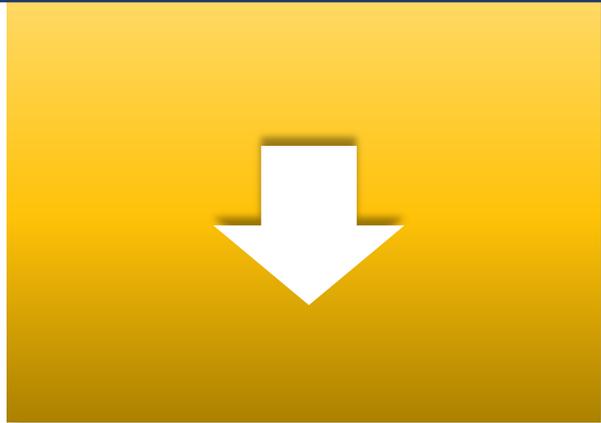
-3.9%

Fuel Decrease



+1.7%

Base Increase

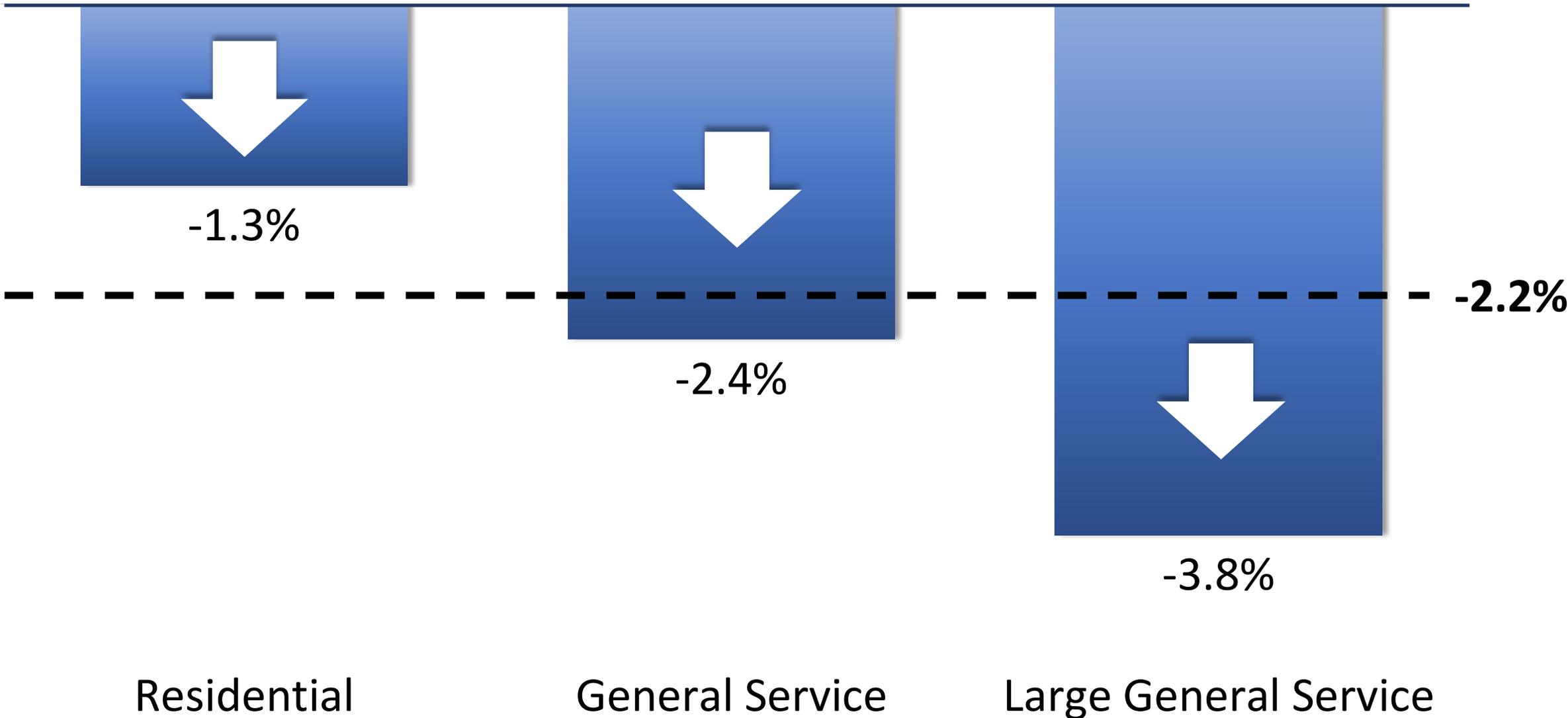


-2.2%

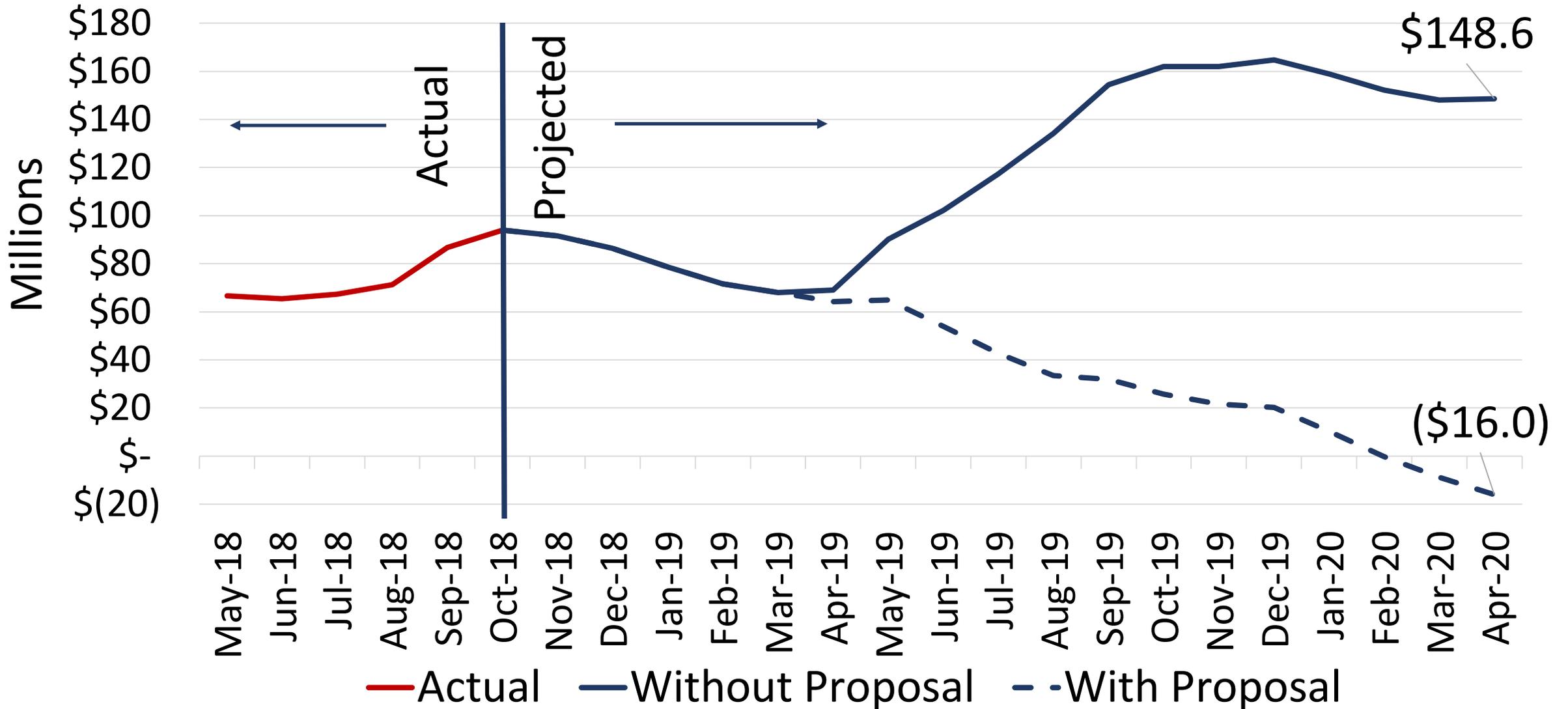
Overall Change

\*Percentages based on overall bill

# Proposed Average Adjustment Varies by Class



# Projected Fuel and Purchased Power Adjustment Mechanism (FPPAM) Balance



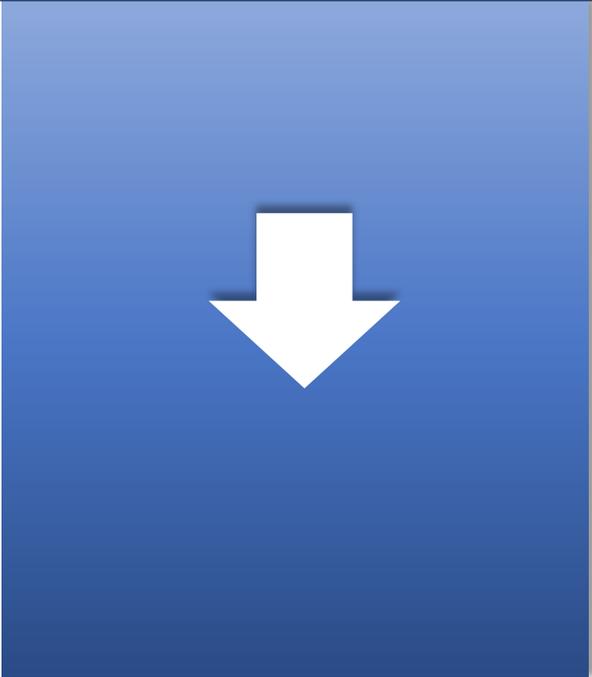
# Environmental Programs Cost Adjustment Factor (EPCAF)

- Renewable energy and energy efficiency are an important part of SRP business
- Environmental programs will continue, and materially increase, but the costs associated with such programs will be rolled into other billing programs
- Costs of renewable energy and energy efficiency are proposed to be recovered through the Fuel and Purchased Power Adjustment Mechanism (FPPAM) or base prices

# Environmental Programs Cost Adjustment Factor (EPCAF)

Total: 0.0%

Change in Overall Prices\*



-5.55%

Eliminate EPCAF



+4.13%

EPCAF to FPPAM



+1.42%

EPCAF to Base

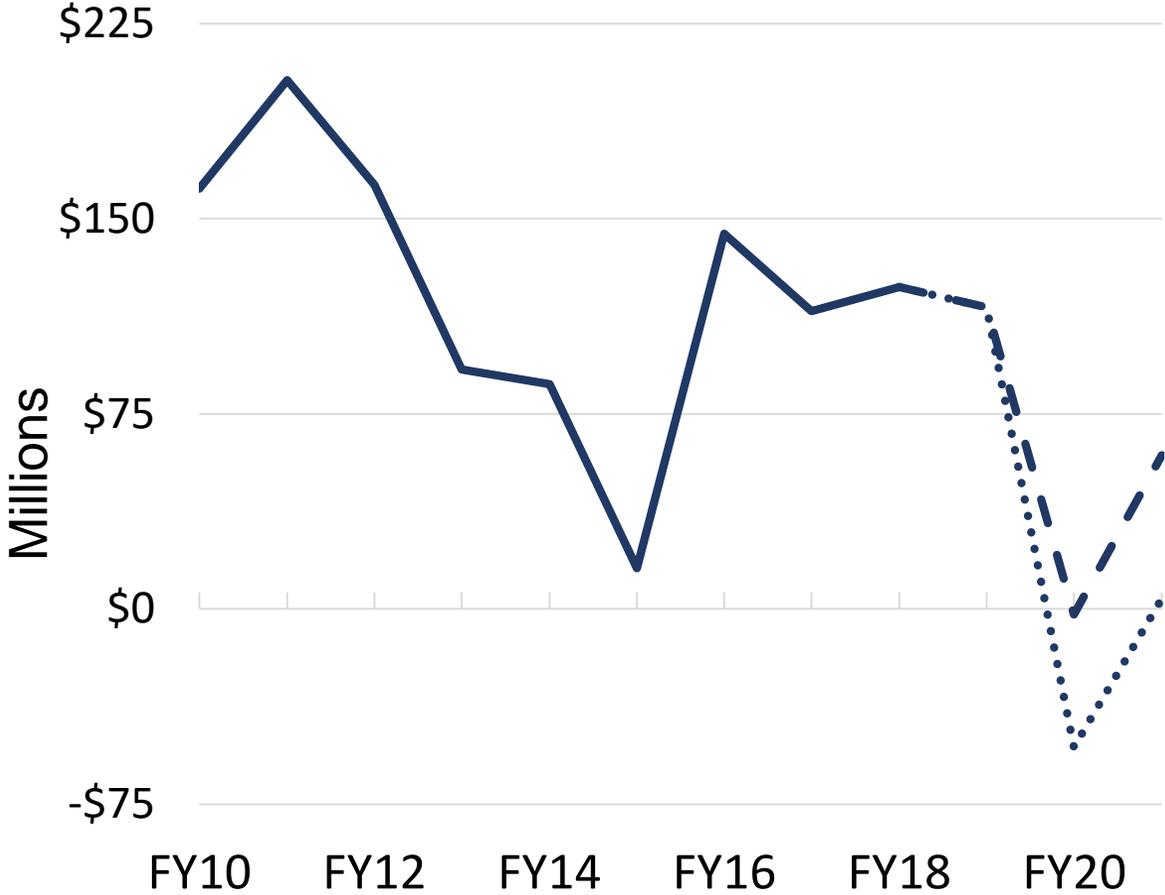
\*Percentages based on overall bill

# Specific Needs for Base Increase

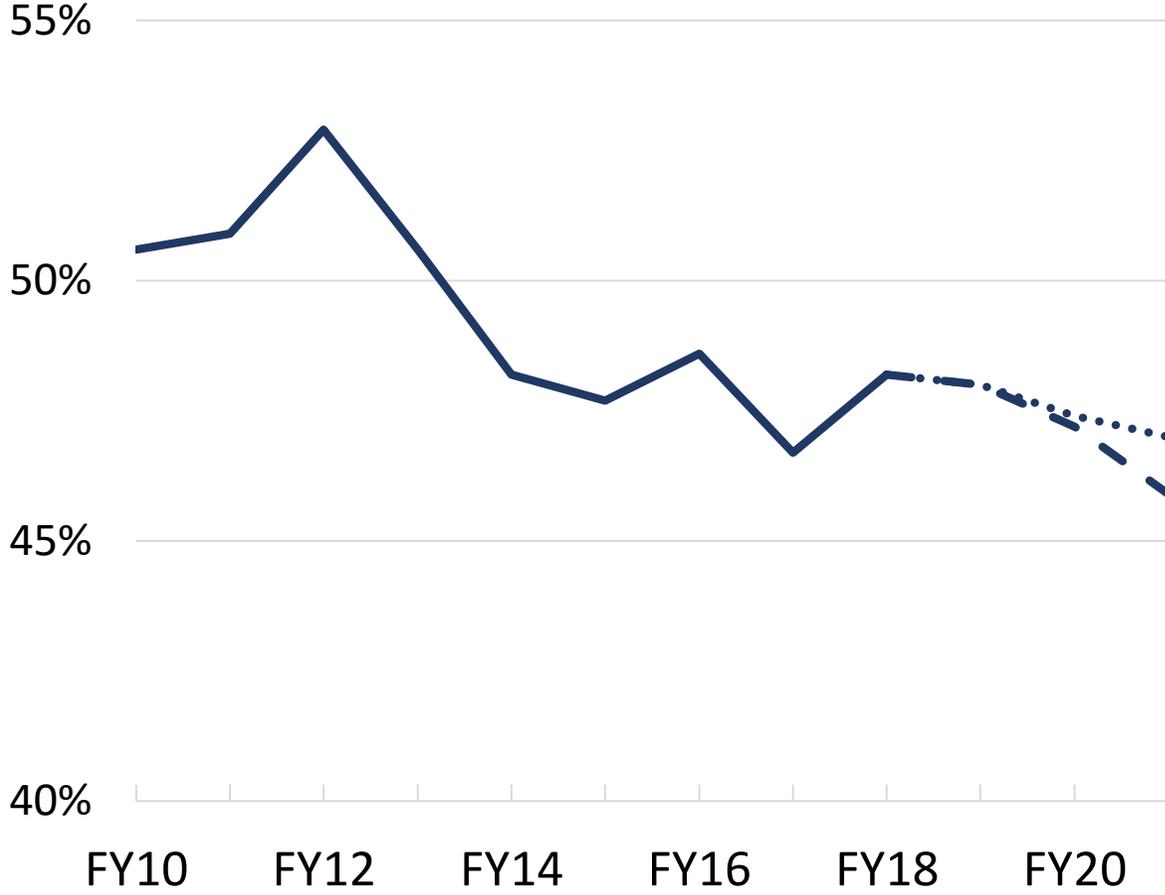
- Controlling Costs
  - Financing Costs
  - Operations & Maintenance Efforts
  - Capital Management Process
- Increases in O&M Costs
- Maintaining Financial Strength & Flexibility
- Depreciation & Payments In Lieu of Property Taxes
  - New facility additions
  - Shortened coal-fired generation plant book lives
  - Payments In Lieu of property taxes
- Improve Return on Net Plant

# Financial Metrics

## Combined Net Revenue



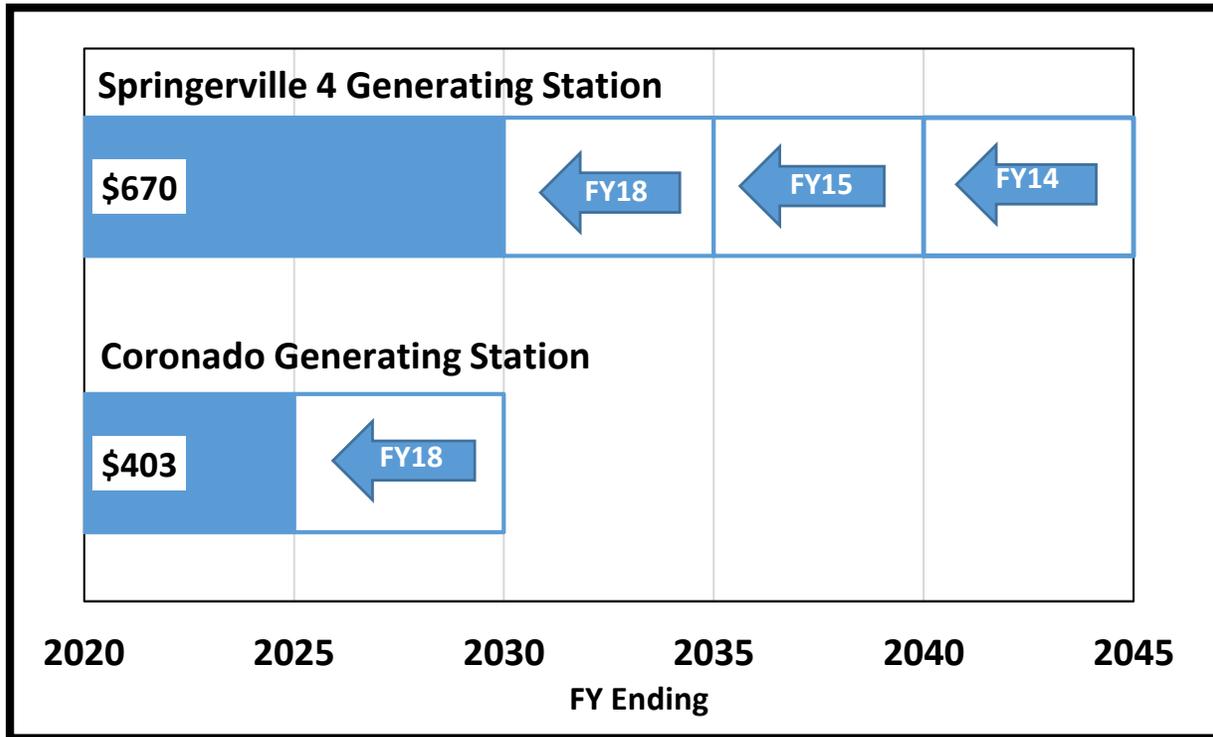
## Debt Ratio



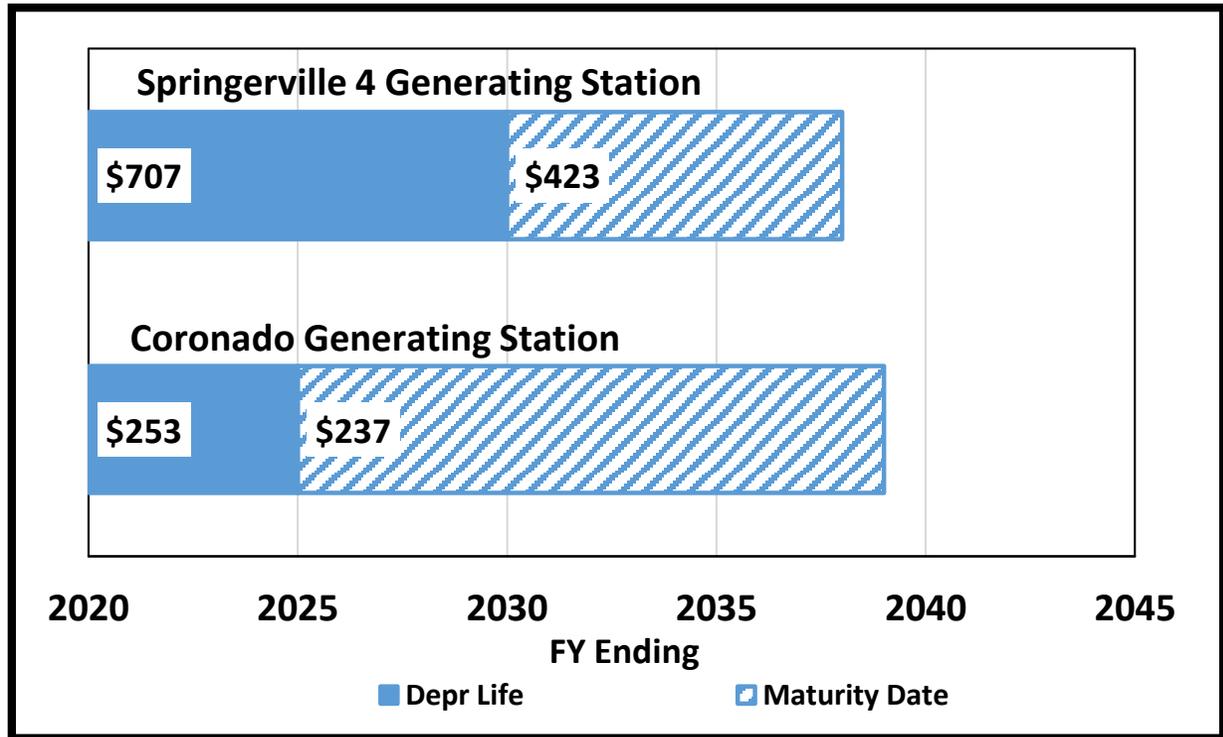
— Actuals   - -w/Base Increase   ..... w/o Base Increase   — Actuals   - -w/Base Increase   ..... w/o Base Increase

# Key Coal Plant Book Lives & Associated Debt Springerville Unit 4 and Coronado Generating Station

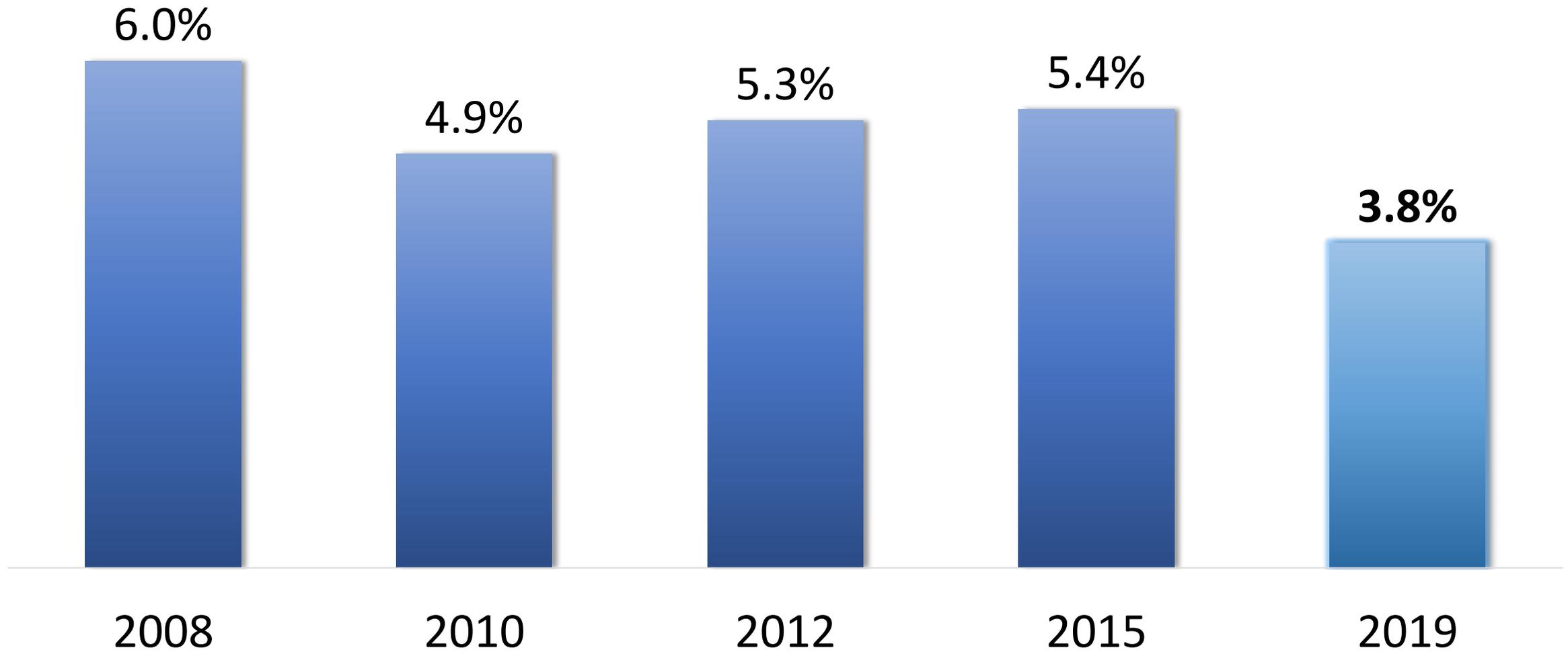
## Book Life / Net Book Value (\$M)



## Debt Maturity / Outstanding Value (\$M)

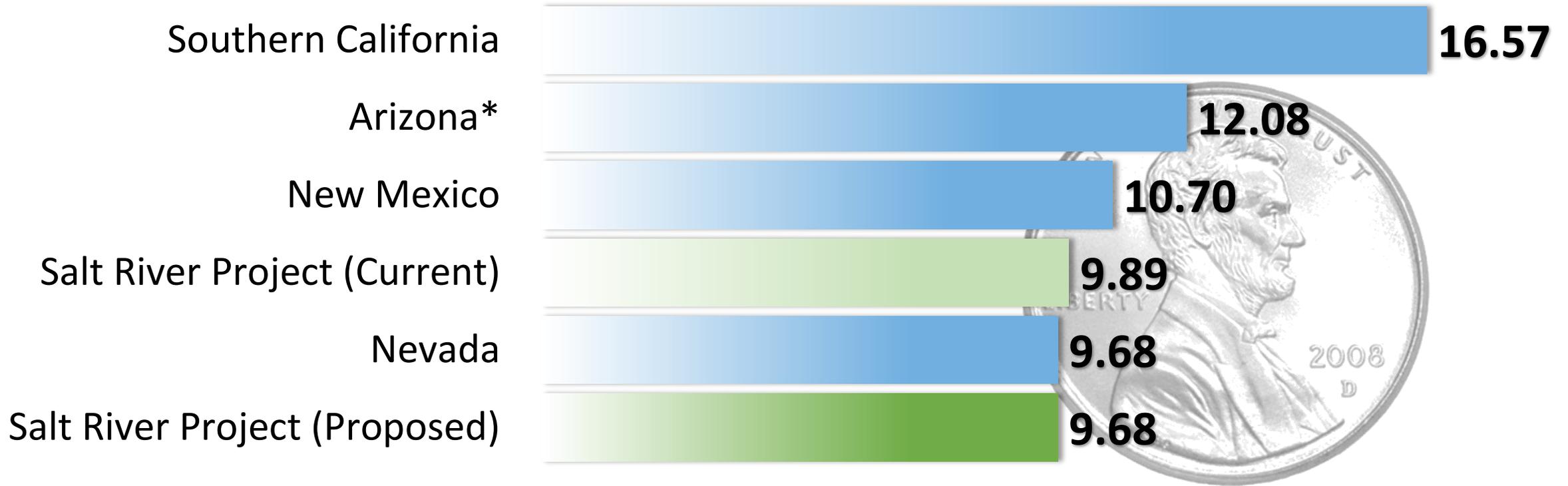


# Proposed Target Returns Retail Electric



# Price Comparison

## Overall Price (Cents per kWh)



Source: Dept. of Energy EIA-826 Reports for 12 months ending September 30, 2018

Source for SRP Prices: SRP Test Year Data

\*Arizona does not include SRP

# John Tucker

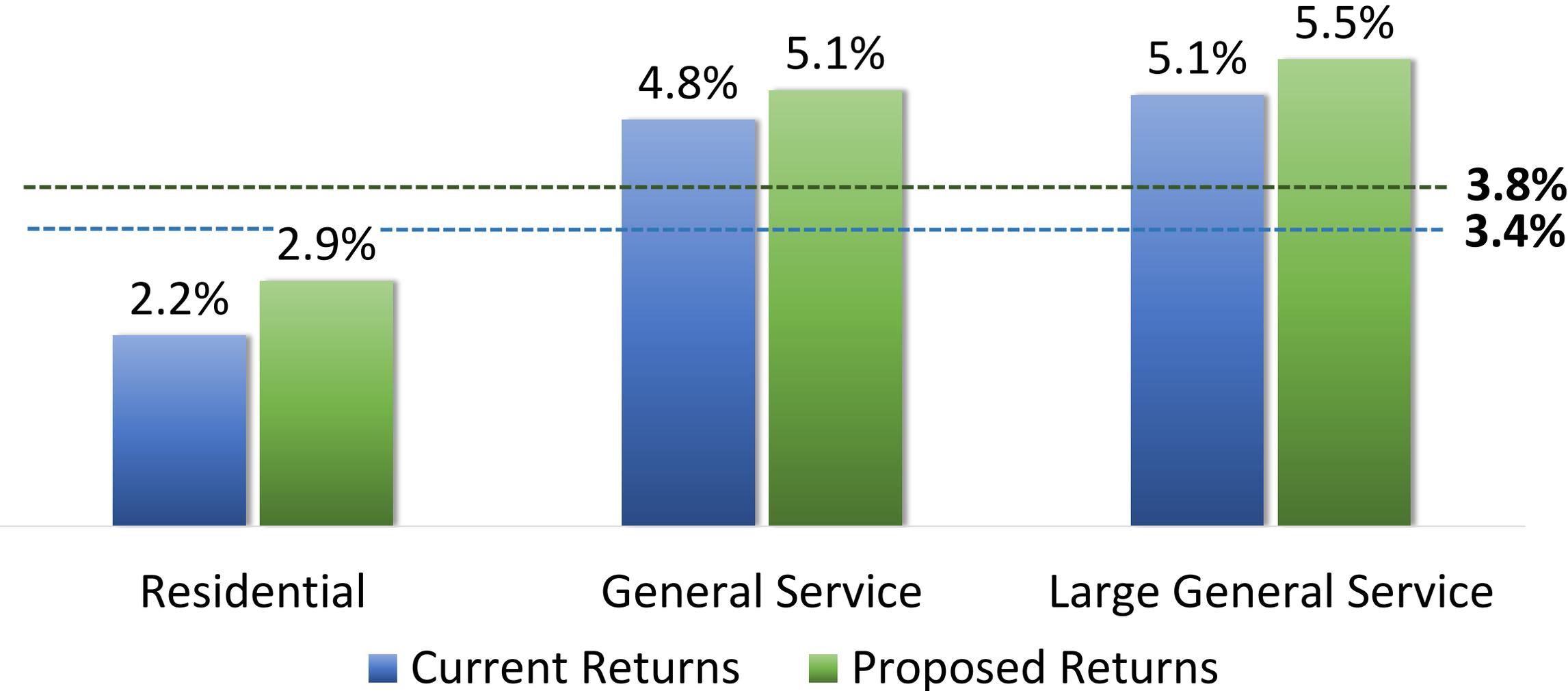
## Director, Corporate Pricing

# 2019 Pricing Proposal Supporting Documents

The formal proposal and related documents are incorporated into this presentation by reference:

- Proposed Adjustments to SRP's Standard Electric Price Plans Effective with the May 2019 Billing Cycle
- Appendix A to Proposed Adjustments to SRP's Standard Electric Price Plans Effective with the May 2019 Billing Cycle
- Derivation of Proposed Changes to SRP's Transmission and Ancillary Services Prices Effective May 1, 2019
- Cost Allocation Study in Support of Proposed Adjustments to SRP's Standard Electric Price Plans Effective with the May 2019 Billing Cycle
- Financial Market and Capital Structure Considerations In Public Power Pricing Decisions by Public Financial Management Inc.

# Returns by Class

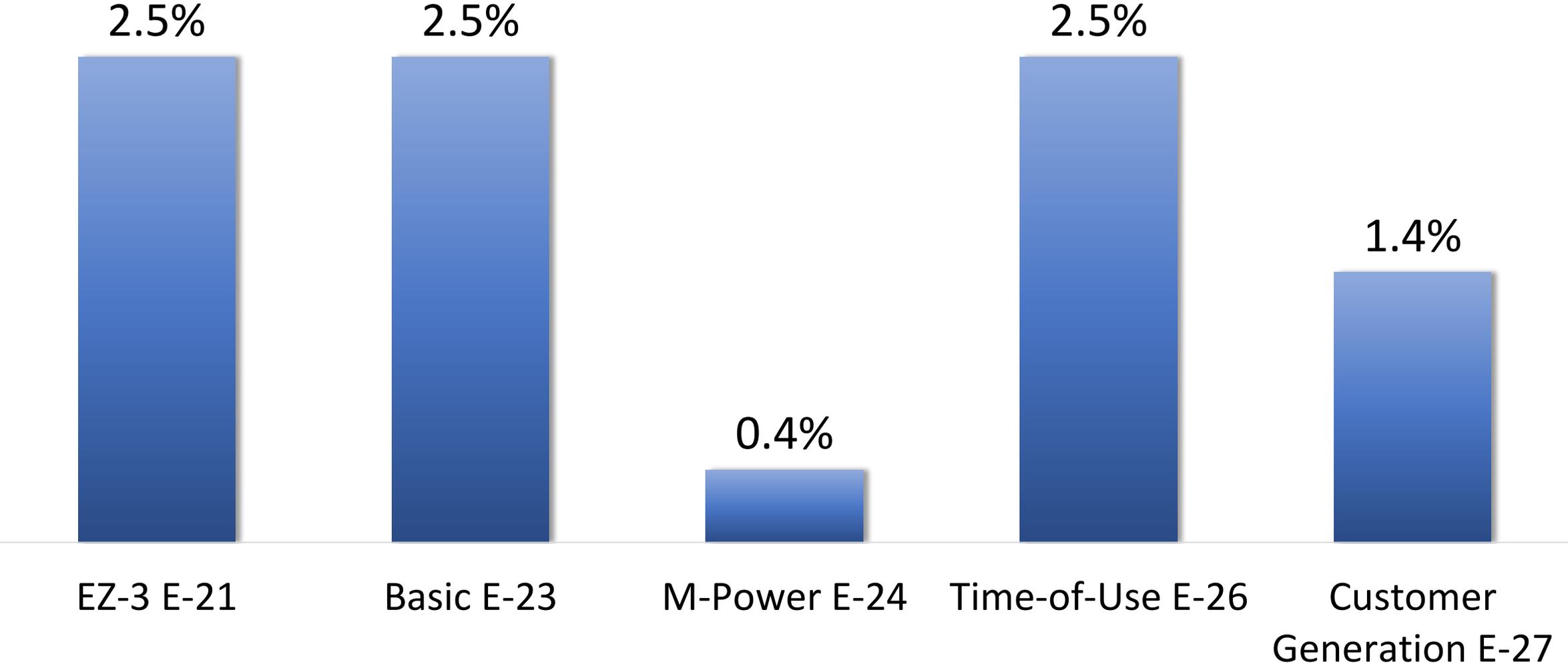


# Proposed Annual Revenue Adjustments by Class

Class	Base % Impact	FPPAM % Impact	Total % Impact
Residential (E-20s)	2.2%	-3.5%	<b>-1.3%</b>
General Service (E-30s)	1.4%	-3.8%	<b>-2.4%</b>
Pumping (E-40s)	1.4%	-3.4%	<b>-2.0%</b>
Lighting (E-50s)	1.4%	-2.8%	<b>-1.4%</b>
Large General Service (E-60s)	1.4%	-5.2%	<b>-3.8%</b>
<b>All Classes</b>	<b>1.7%*</b>	<b>-3.9%</b>	<b>-2.2%*</b>

\* Includes estimated rate selection impacts

# Base Adjustment



# M-Power E-24 Proposed Price Adjustment

- Traditionally had a higher cost of service
- In the coming few years, cost of service is expected to be roughly equal between M-Power and Basic E-23
- Working to equalize the prices between these two price plans
- Effort required an additional decrease of \$2.5 million for M-Power customers beyond what would have otherwise been proposed as a part of this price process

## Increase for E-27 is at the Lower Level

“There are customer-related costs unique to this small class of customers that are impacting the class’s return. The **impact of these costs is large given the relatively small number of customers** that currently make up this class. It is possible some of these customer-related costs may not persist in the future and/or may be less impactful with a greater number of customers on the price plan.”

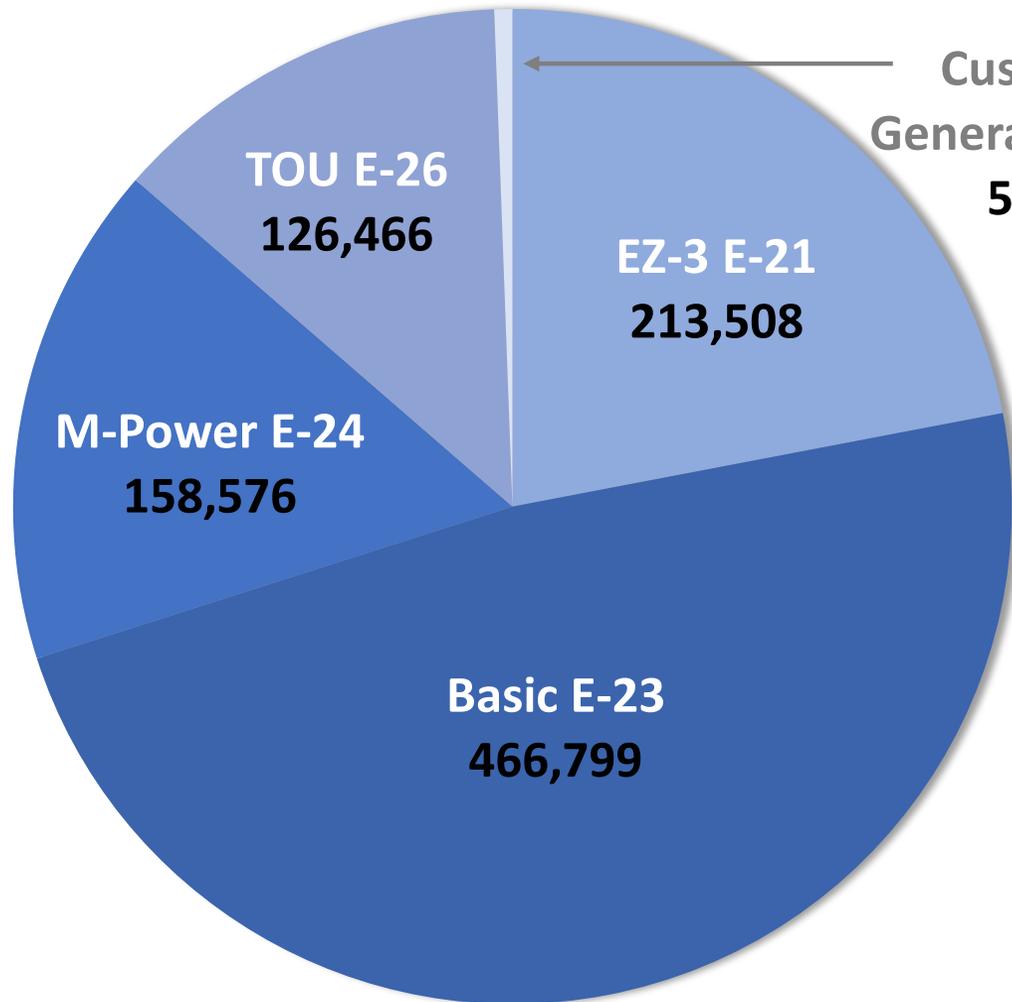
“In light of that possibility, **the recommended base price increase for E-27 is at the lower level** of recommended base increases.”

Source: Proposed Adjustments to SRP’s Standard Electric Price Plans Effective with the May 2019 Billing Cycle, Page 33

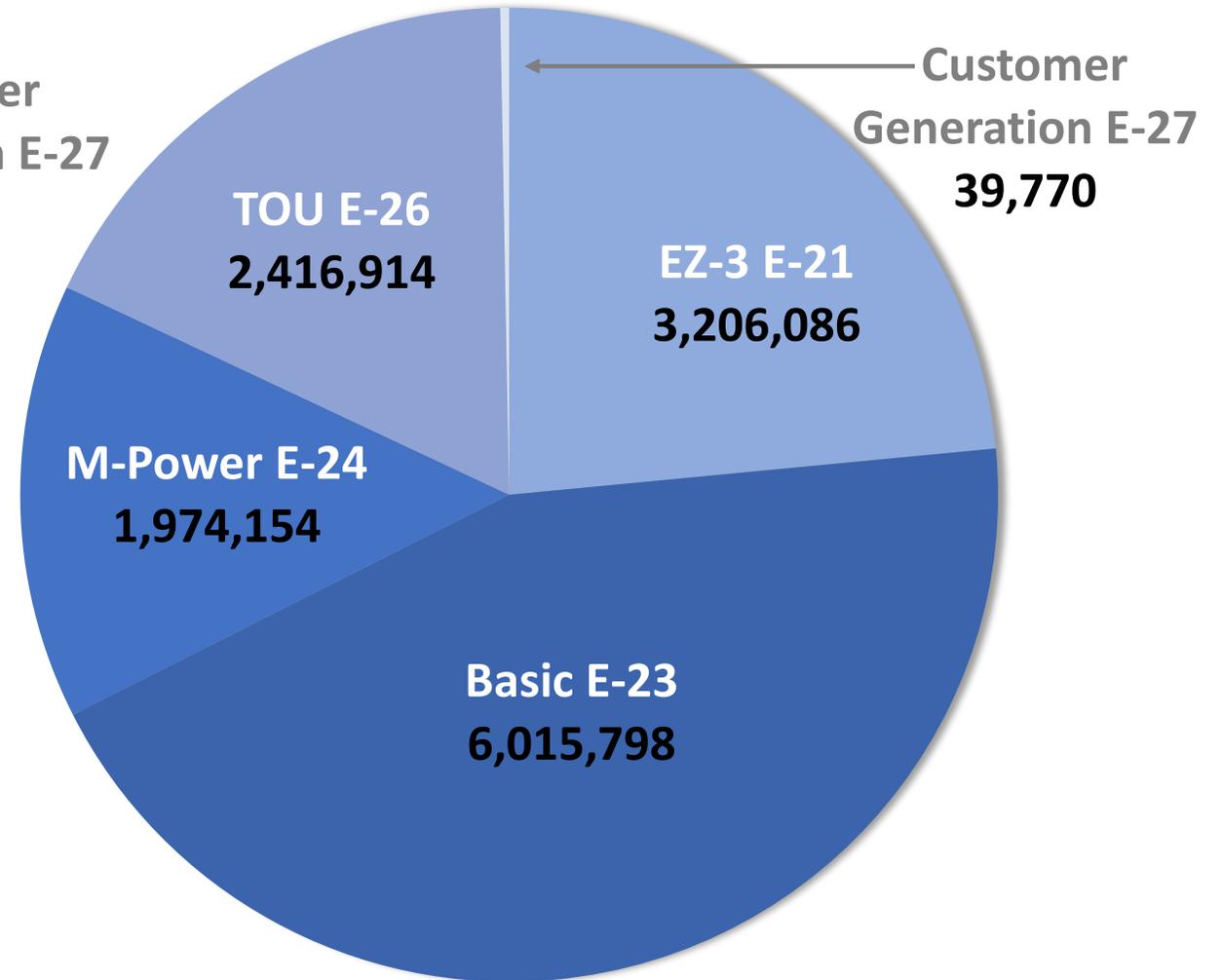
# Residential Price Plans

# Residential Customers

## FY2020 Test Year



Accounts

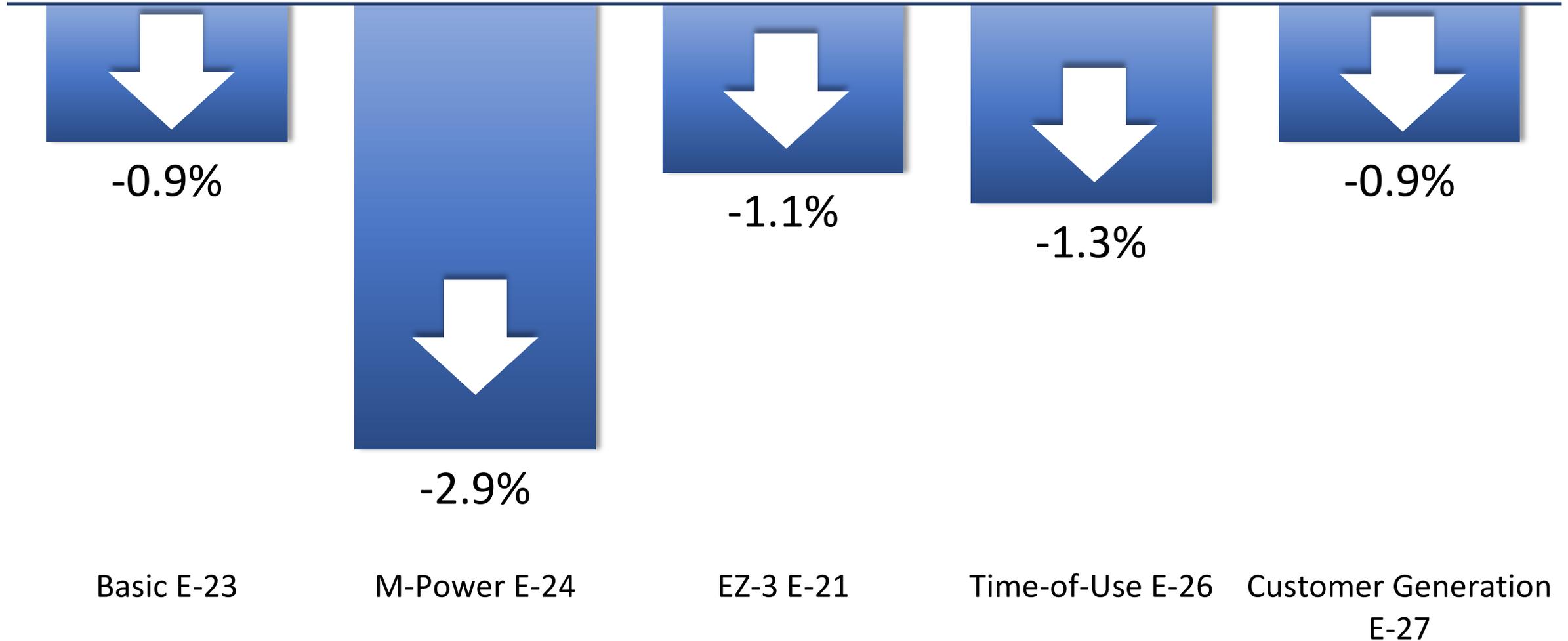


MWh

# Residential E-20 Proposal Highlights

- Proposed price decrease for all price plans
- 99.9% of customers receive bill decreases
- No changes to Monthly Service Charge

# Proposed Average Residential Customer Bill Impact



# Residential Proposal Highlights

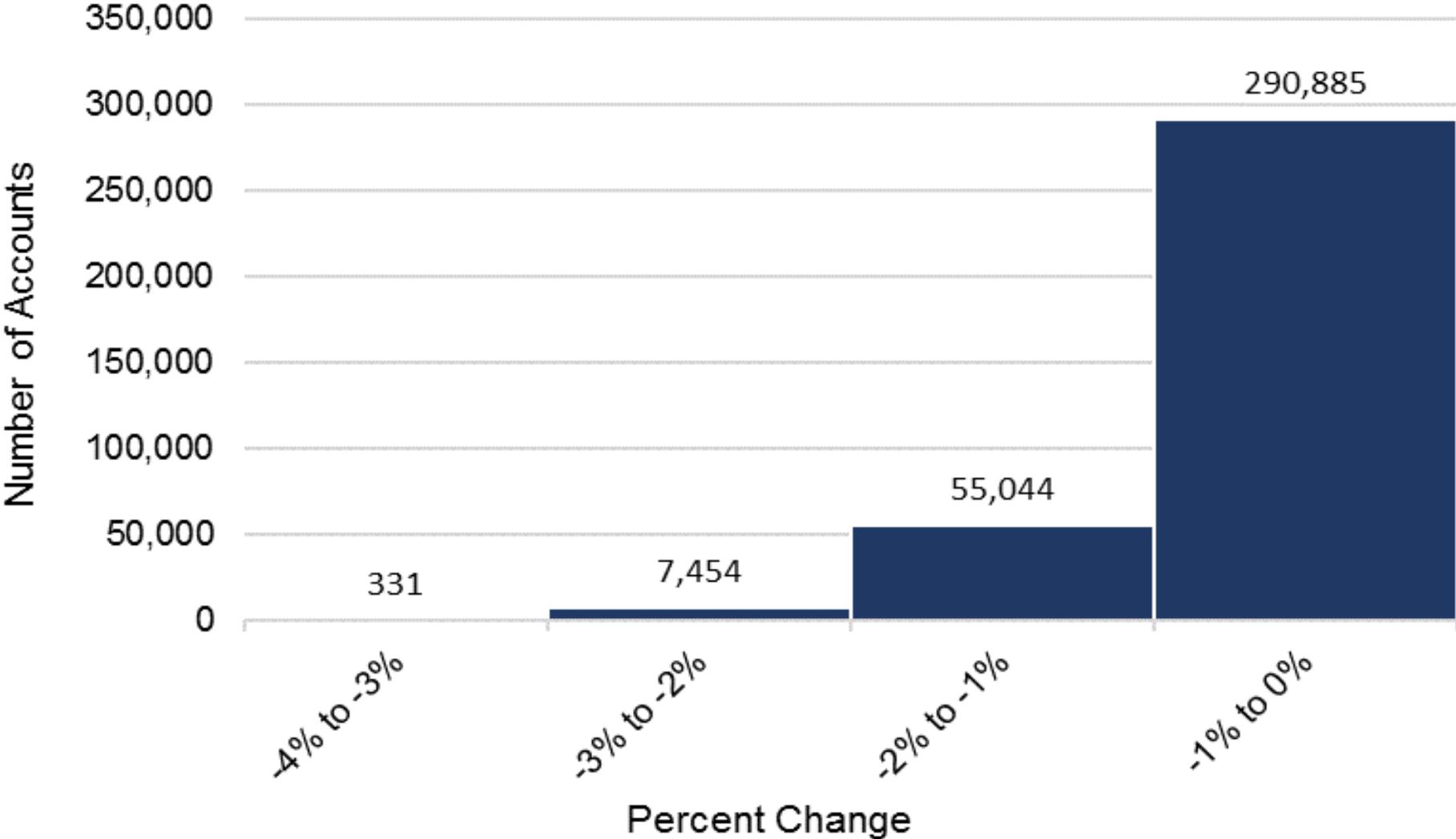
## **Basic E-23:**

- Align summer blocks' pricing levels to allow for future consolidation of all blocks in an effort to align Basic E-23 and M-Power E-24 prices

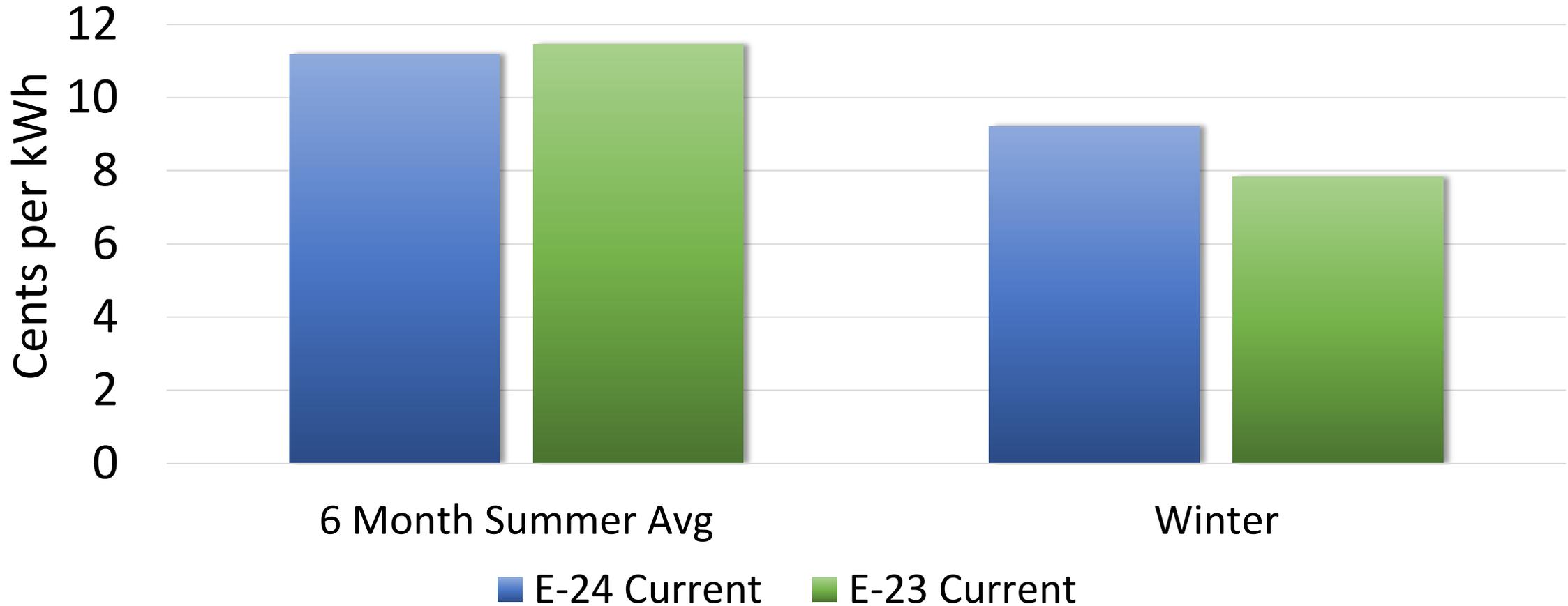
## **M-Power E-24:**

- Better align prices with Basic E-23 to allow for future consolidation between the two price plans
  - Designed winter prices to equal E-23's winter price.
  - Summer and summer peak price designed to fall between E-23's summer and summer peak block prices.
- **Additional decrease** of \$2.5 million beyond what would otherwise be proposed

# Basic E-23 Proposed Bill Impacts

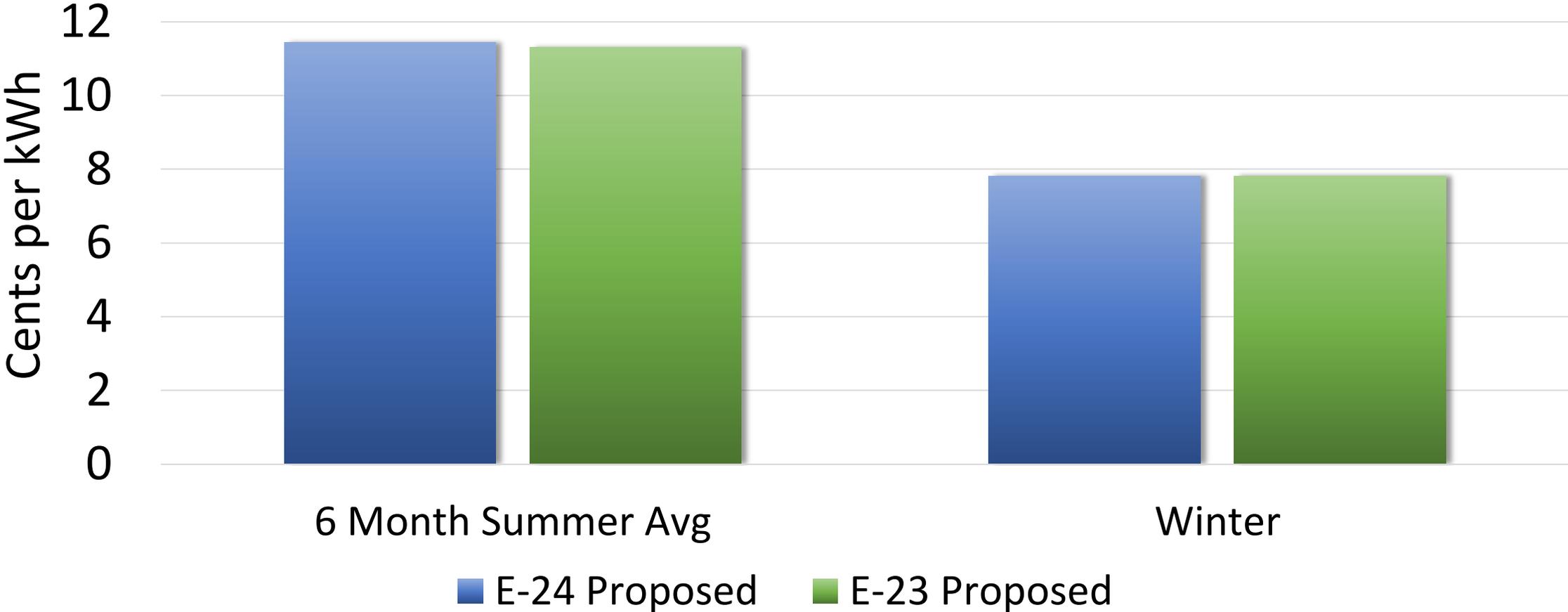


# Current M-Power E-24 and Basic E-23 Prices Comparison



\*Average seasonal kWh prices, does not include Monthly Service Charge

# Reduced M-Power E-24 Prices to Better Align with Basic E-23 Prices



\*Average seasonal kWh prices, does not include Monthly Service Charge

# Residential Proposal Highlights

## **Time-of-Use E-26:**

- Reduce summer and summer peak time-of-use hours from 1-8 p.m. to 2-8 p.m. to better reflect cost; no proposed changes to winter time-of-use periods

## **Electric Vehicle E-29:**

- Make E-29 a standard offer price plan and remove the participation cap
- Reduce summer and summer peak time-of-use hours from 1-8 p.m. to 2-8 p.m. to better reflect cost; no proposed changes to winter time-of-use periods

# New Time-of-Use Summer On-Peak Hours

Impacted Price Plans	
TOU E-26	Customer Generation E-27
TOU EV E-29	Residential Demand E-27P

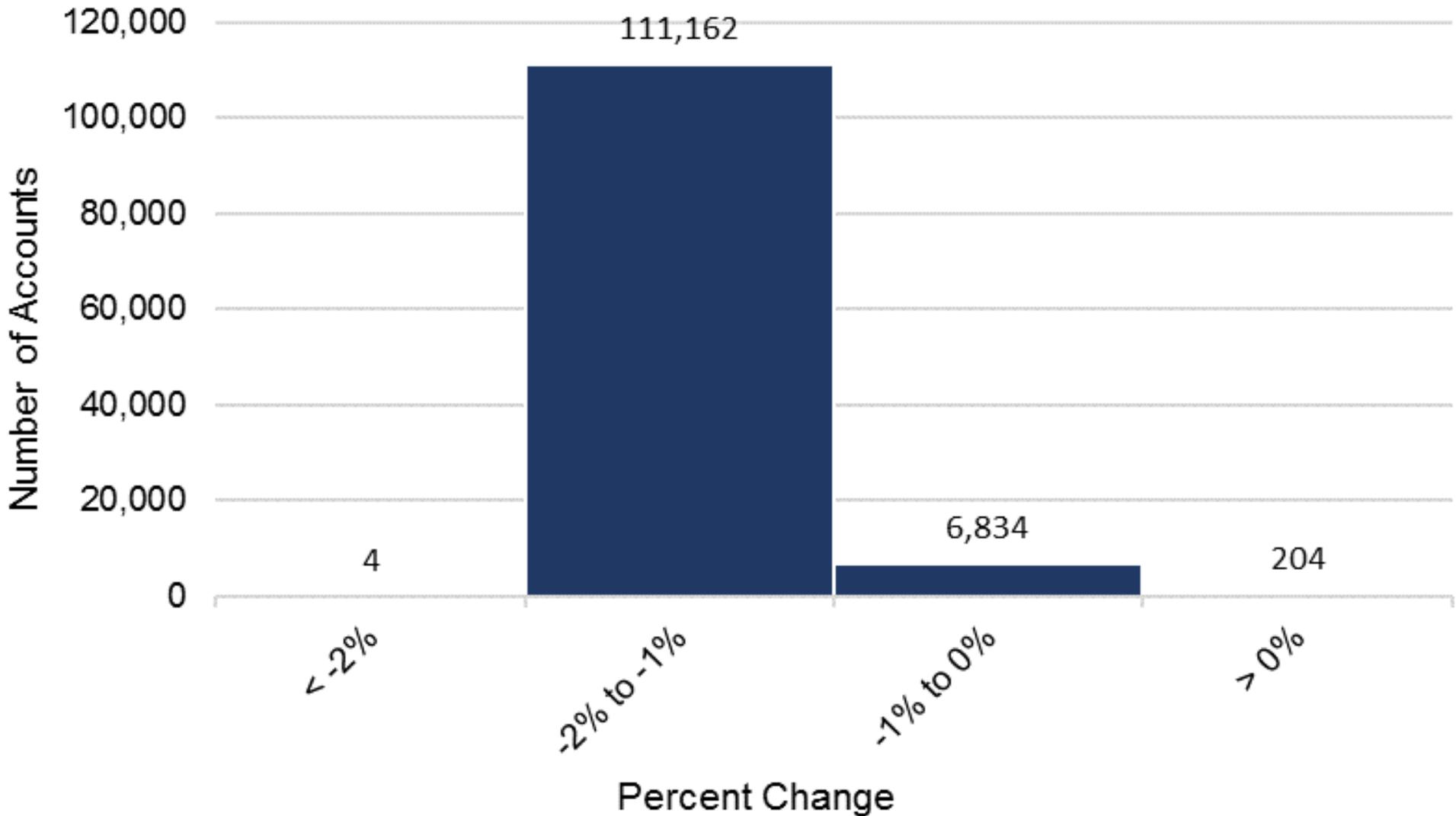
## Current



## Proposed



# Time-of-Use E-26 Proposed Bill Impacts



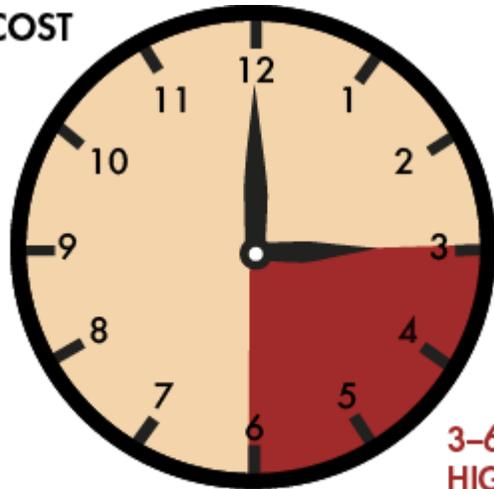
# Residential Proposal Highlights

EZ-3 Suite: E-21, E-22, E-25

- No proposed changes for time-of-use periods

## Standard Price Plan

LOWER-COST HOURS

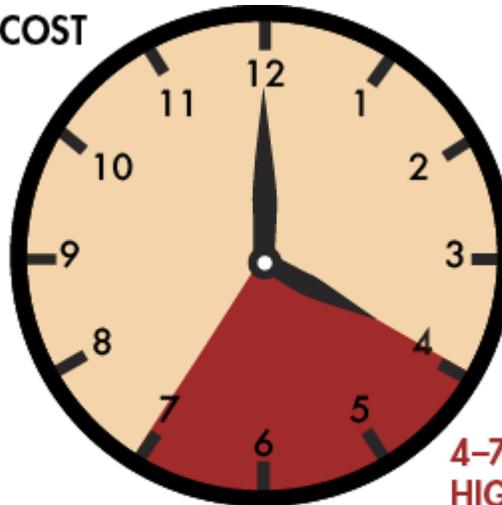


**3–6 P.M.**

**3–6 P.M.  
HIGHER-COST  
WEEKDAY  
HOURS**

## End Pilot, Make Standard Price Plan

LOWER-COST HOURS

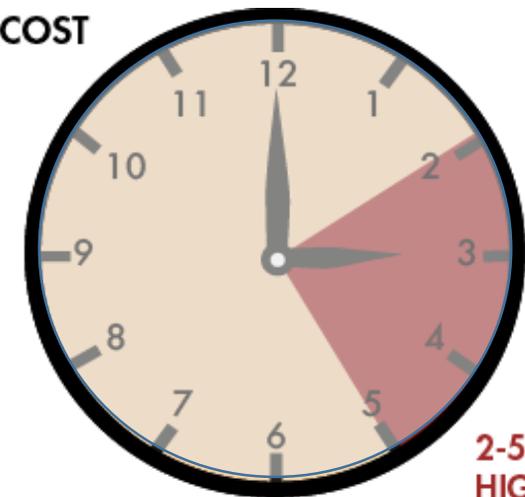


**4–7 P.M.**

**4–7 P.M.  
HIGHER-COST  
WEEKDAY  
HOURS**

## End Pilot

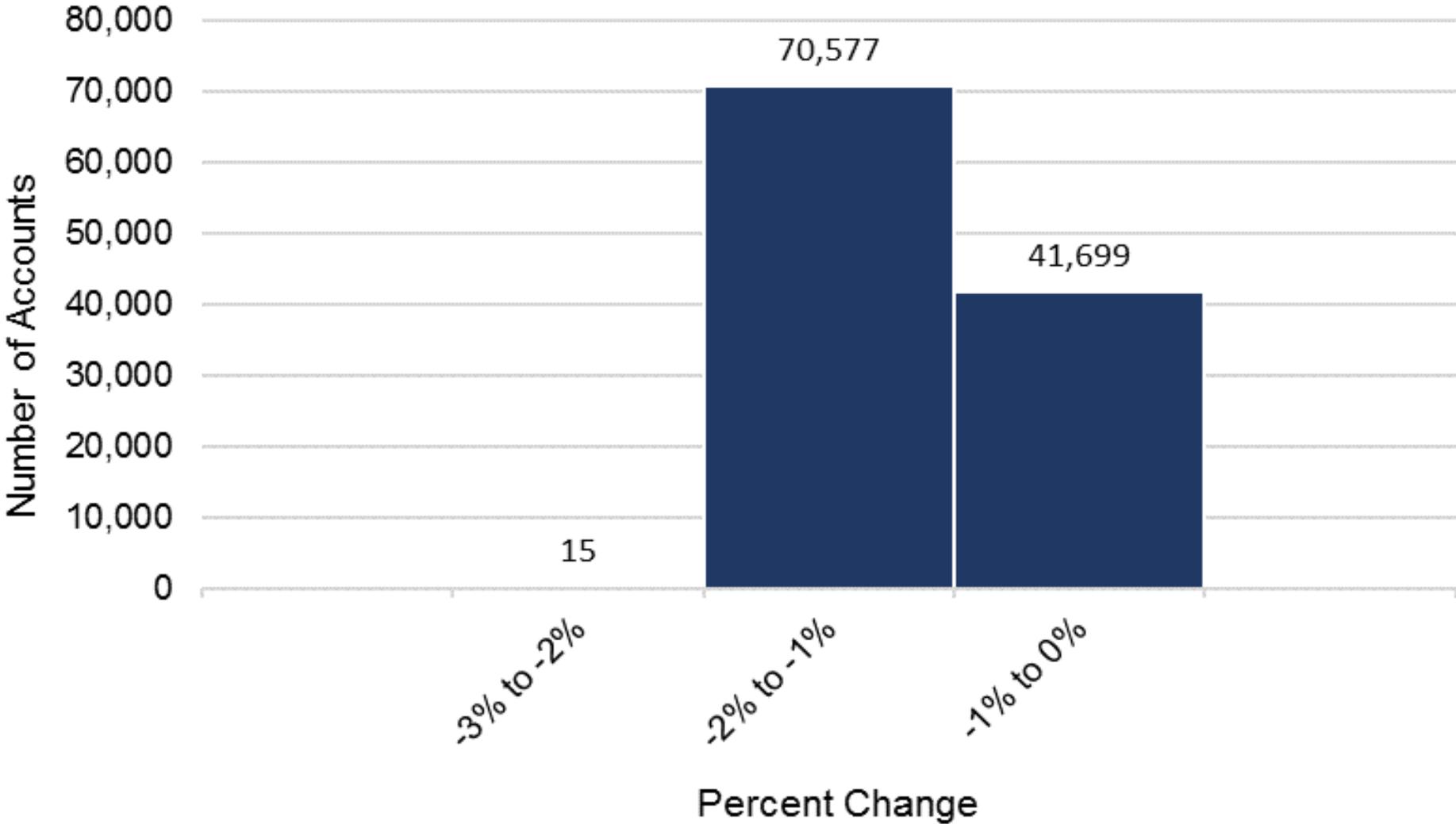
LOWER-COST HOURS



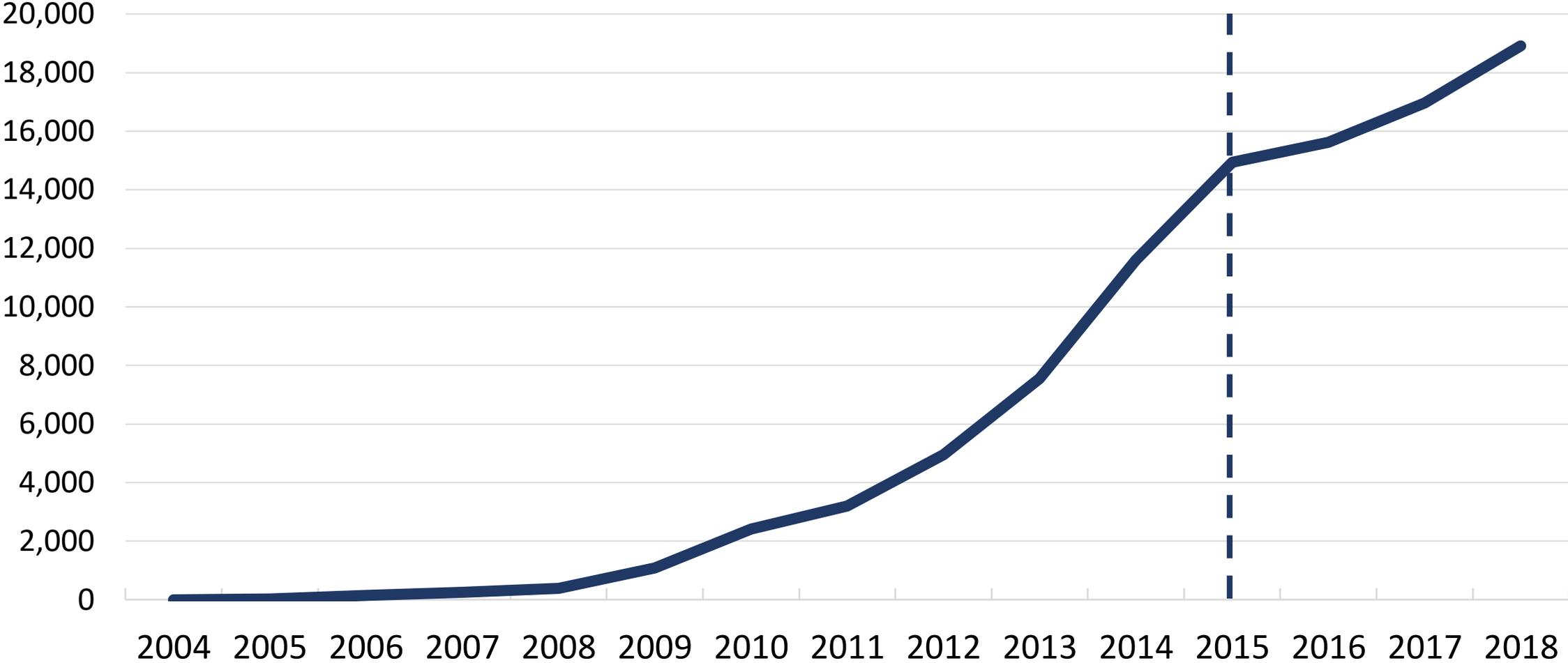
**2–5 P.M.**

**2–5 P.M.  
HIGHER-COST  
WEEKDAY  
HOURS**

# EZ-3 E-21 Proposed Bill Impacts



# Number of Cumulative Completed Solar Installations

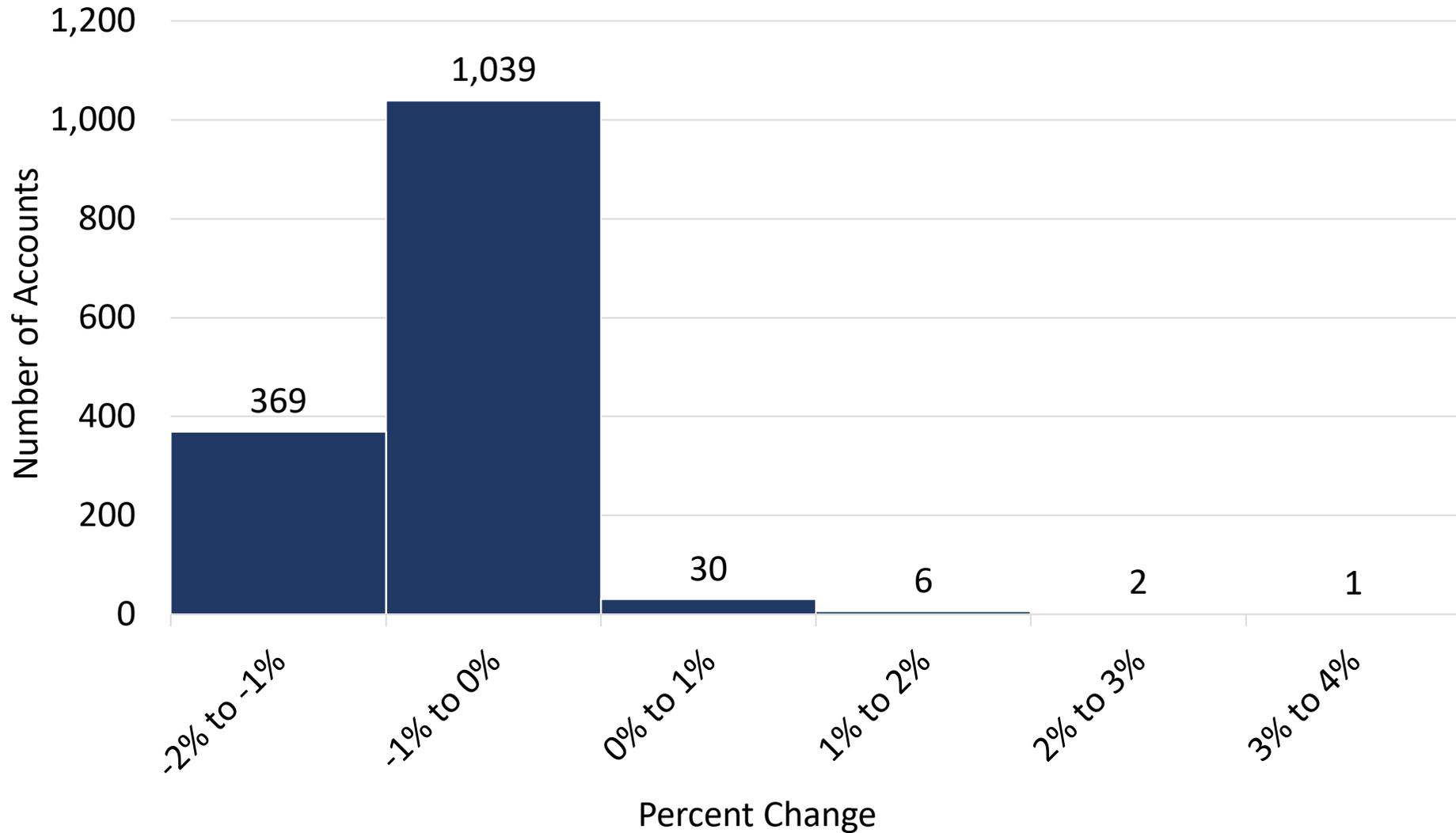


# Residential Proposal Highlights

## Customer Generation E-27

- Reduce summer and summer peak time-of-use hours from 1-8 p.m. to 2-8 p.m. to better reflect cost; no proposed changes to winter time-of-use periods
- Reduced demand (kW) prices across all seasons and blocks.

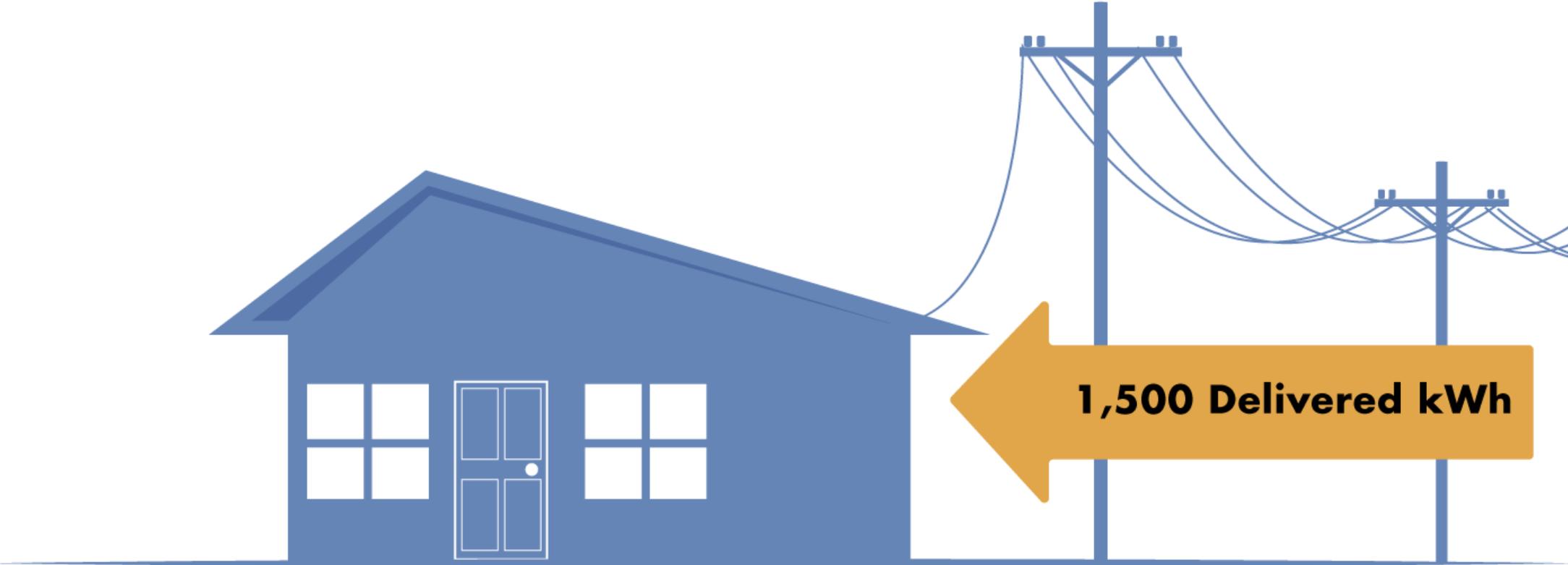
# Customer Generation E-27 Proposed Bill Impacts



# More Choices for Residential Solar Customers

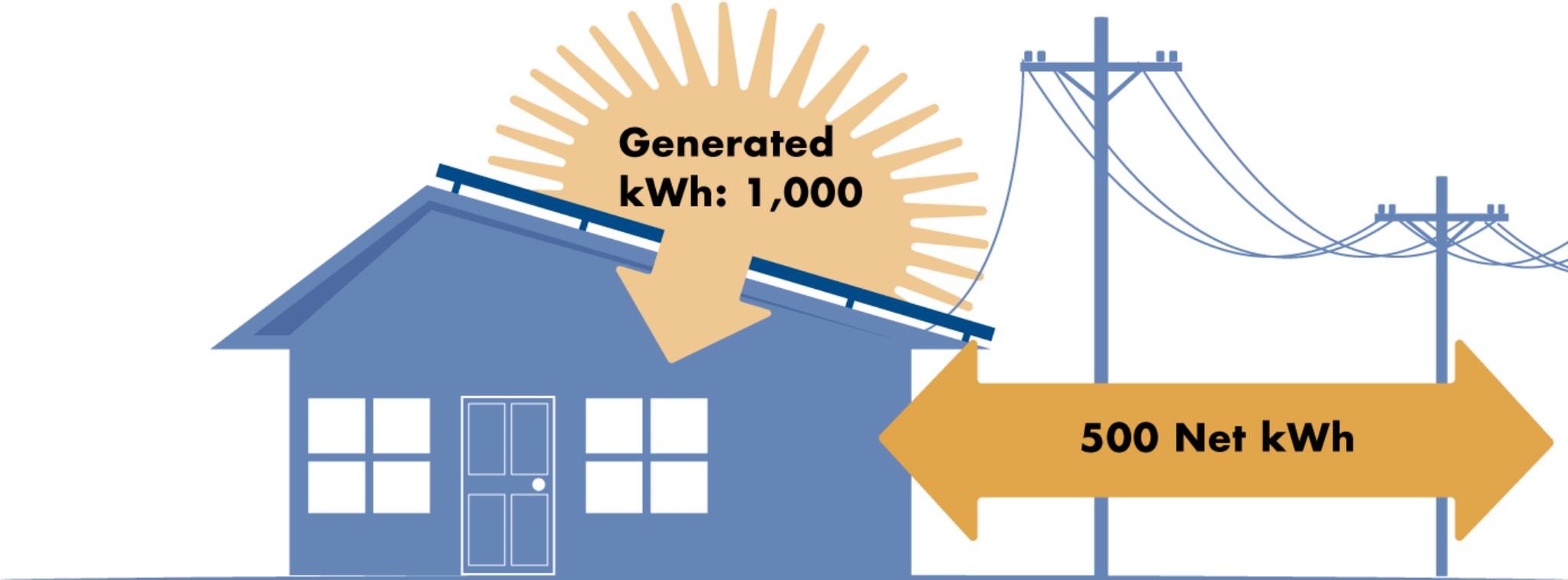
- Proposing 4 options for these customers
  - **Customer Generation E-27** (existing)
  - **Average Demand E-15**
  - **TOU Export E-13** (non-demand)
  - **TOU Export for EVs E-14** (non-demand)

# Before Solar (Illustrative)



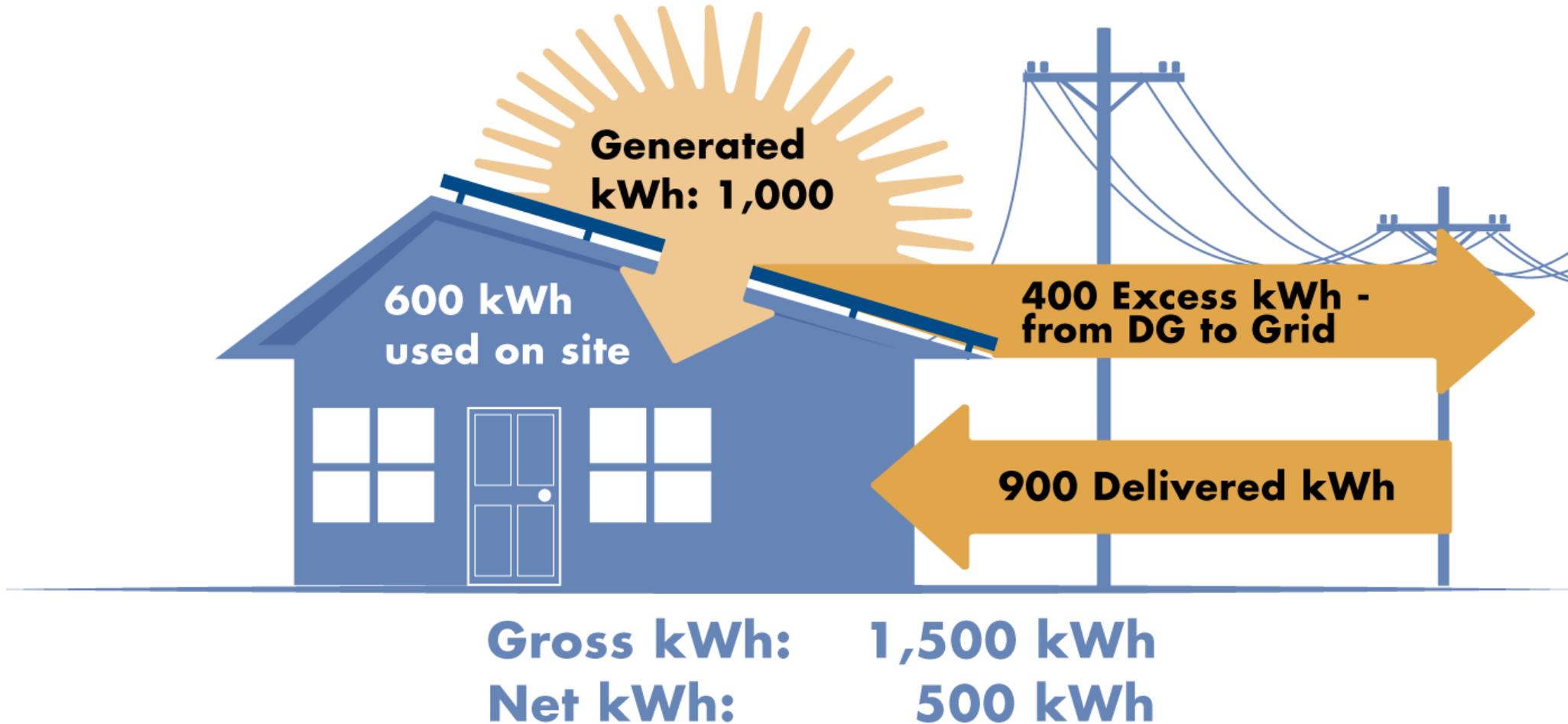
**Gross kWh: 1,500 kWh**

# After Solar, Net Billing (Illustrative)



**Gross kWh: 1,500 kWh**  
**Net kWh: 500 kWh**

# After Solar, Delivered/Export Billing (Illustrative)



# New Distributed Generation Price Plans

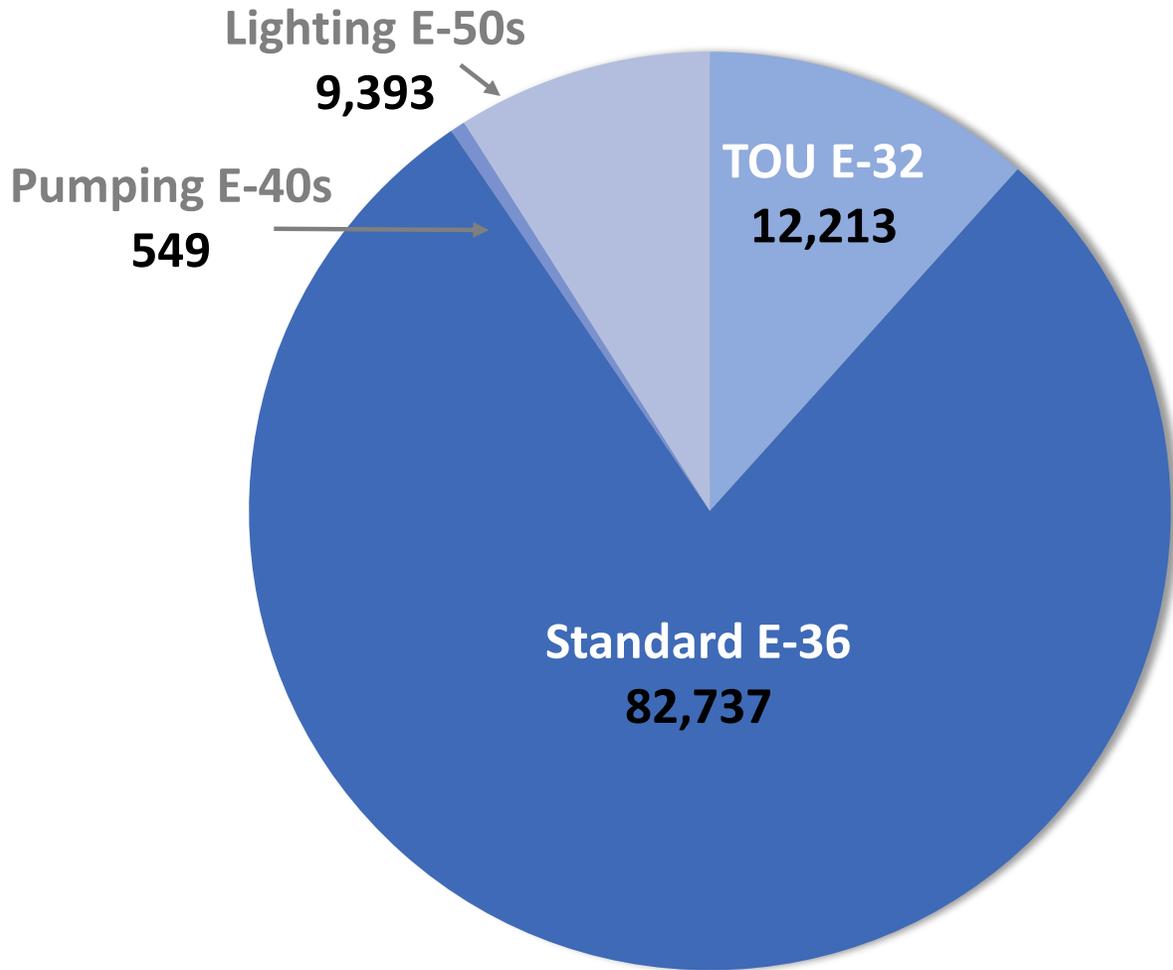
	Price Plan	Monthly Service Charge	kW Price Component	kWh Prices	Excess kWh Credit
Demand	Customer Generation E-27	Unchanged	Tiered, On-Peak Monthly Maximum	On/Off-Peak (Net kWh)	N/A
	Average Demand E-15	Equal to E-27	Flat, Average of Daily On-Peak Maximums	Equal to E-27 (Net kWh)	N/A
Non-Demand	TOU Export E-13	Equal to E-27	N/A	Equal to E-26 TOU (Delivered kWh)	\$0.0281/kWh
	TOU Export for EVs E-14	Equal to E-27	N/A	Equal to E-29 TOU EV (Delivered kWh)	\$0.0281/kWh

# Customer Generation Options

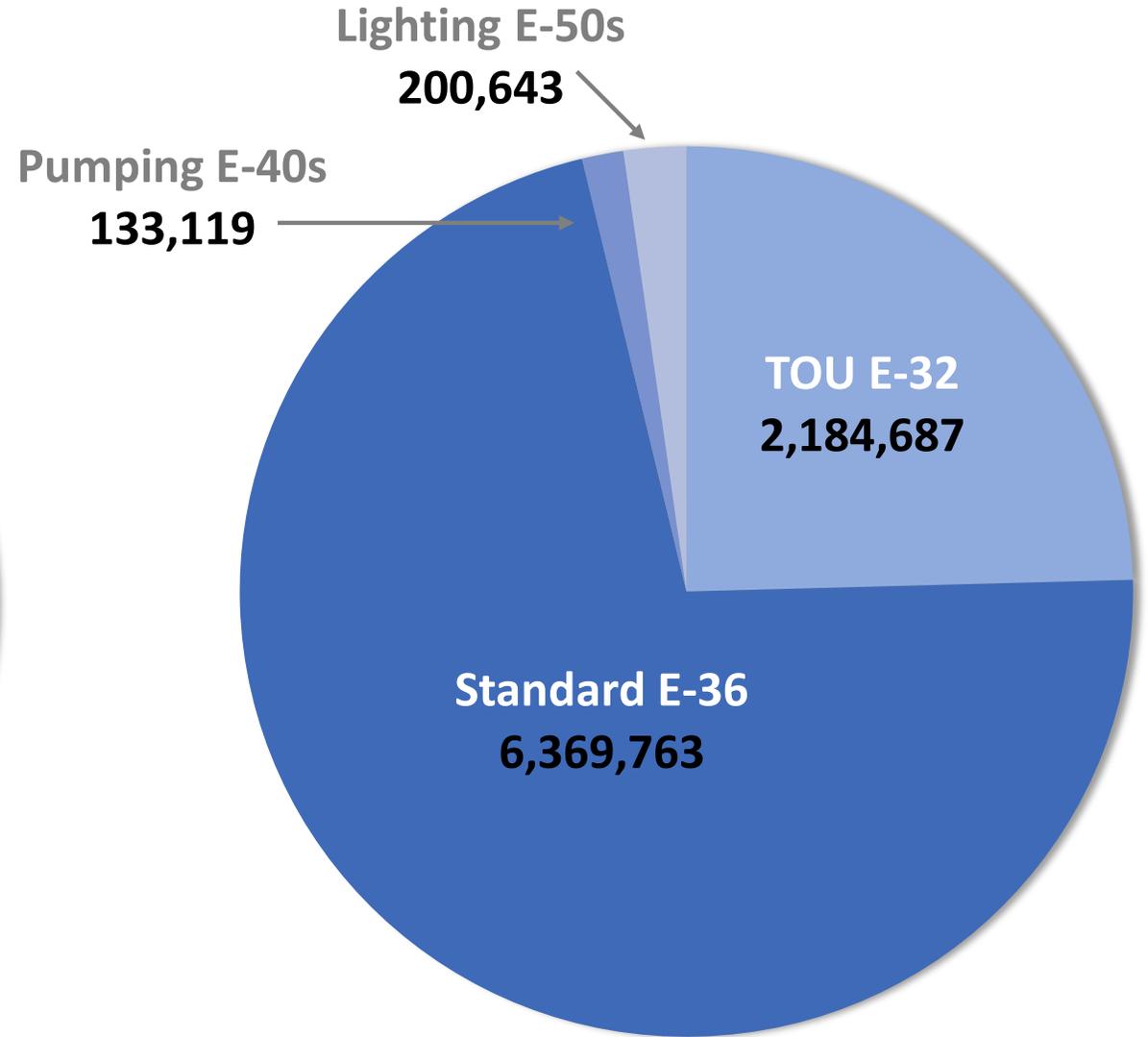
Potential Rate	% of Customers with a Lower Annual Bill	Average Monthly Savings	Average Savings (%)
Best on E-13 <b>TOU Export</b>	17%	\$9.07	7.8%
Best on E-15 <b>Average Demand</b>	23%	\$9.22	6.3%
Either E-13 or E-15	40%	\$9.15	6.9%

# General Service Price Plans

# General Service Customers FY2020 Test Year



Accounts

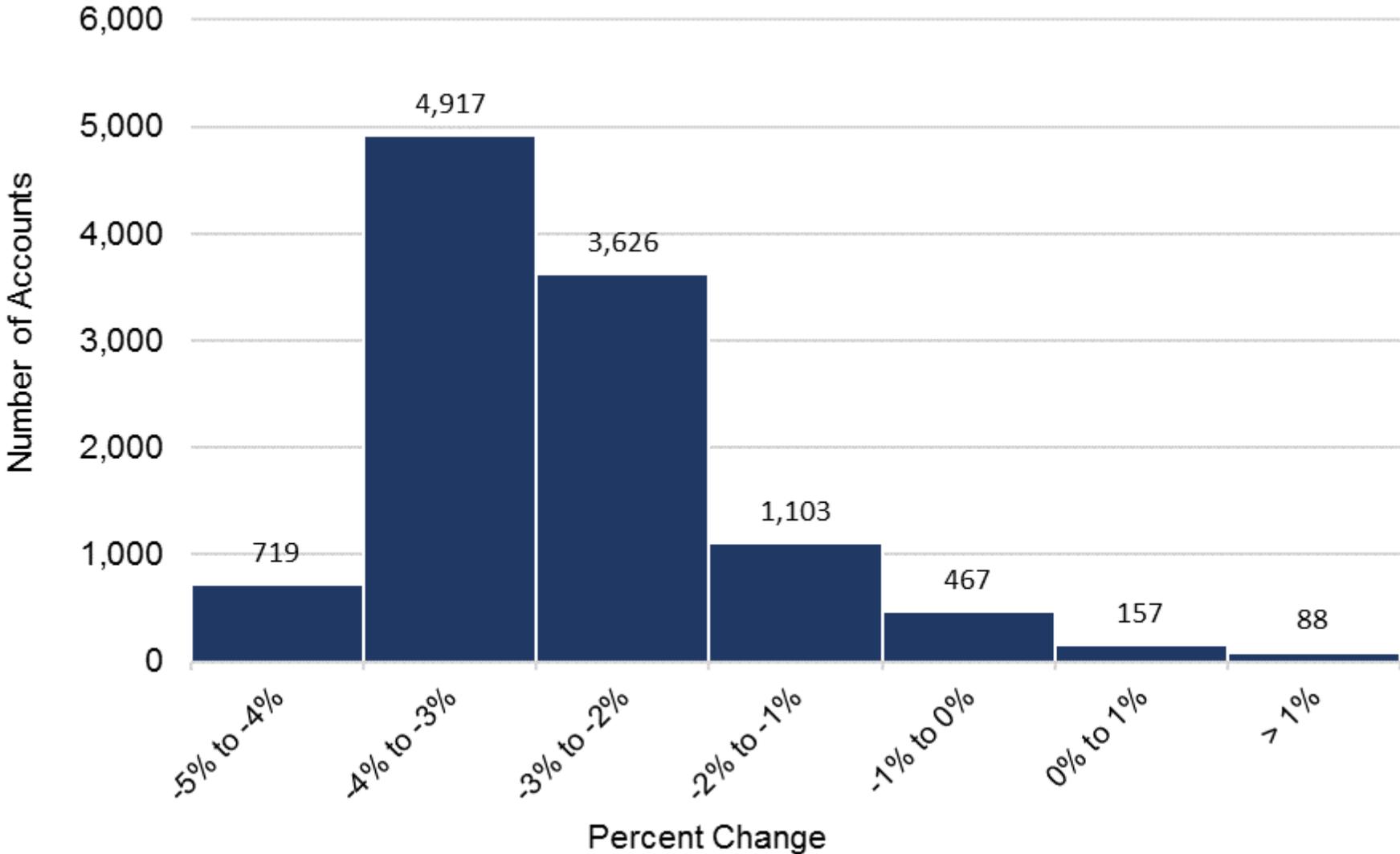


MWh

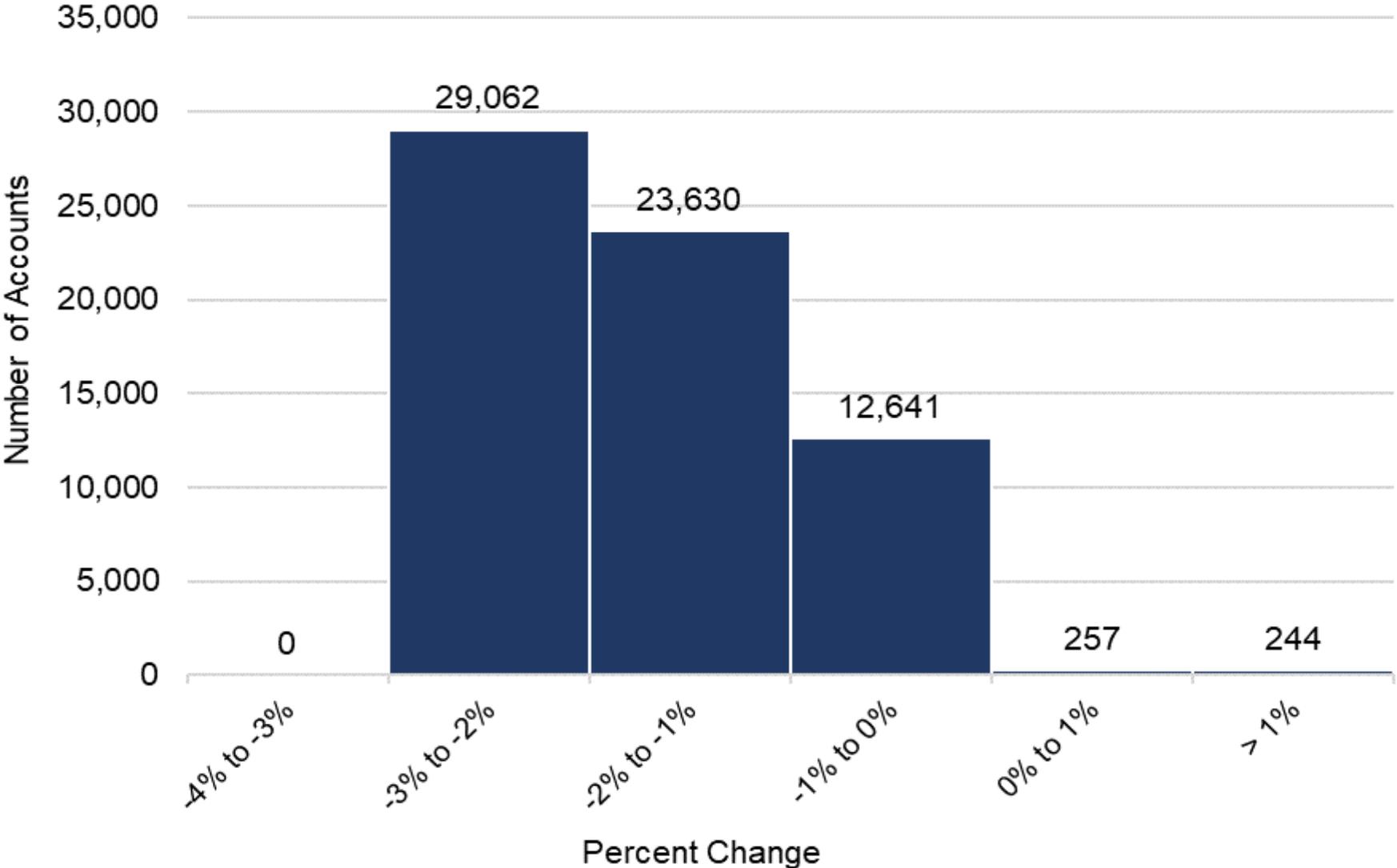
# Commercial E-30 Proposal Highlights

- Continue to align price plan components with marginal costs, primarily demand (kW) and energy (kWh)
- No proposed changes to the time-of-use periods for E-32 and E-33.

# Time-of-Use E-32 Proposed Bill Impacts



# Standard E-36 Proposed Bill Impacts

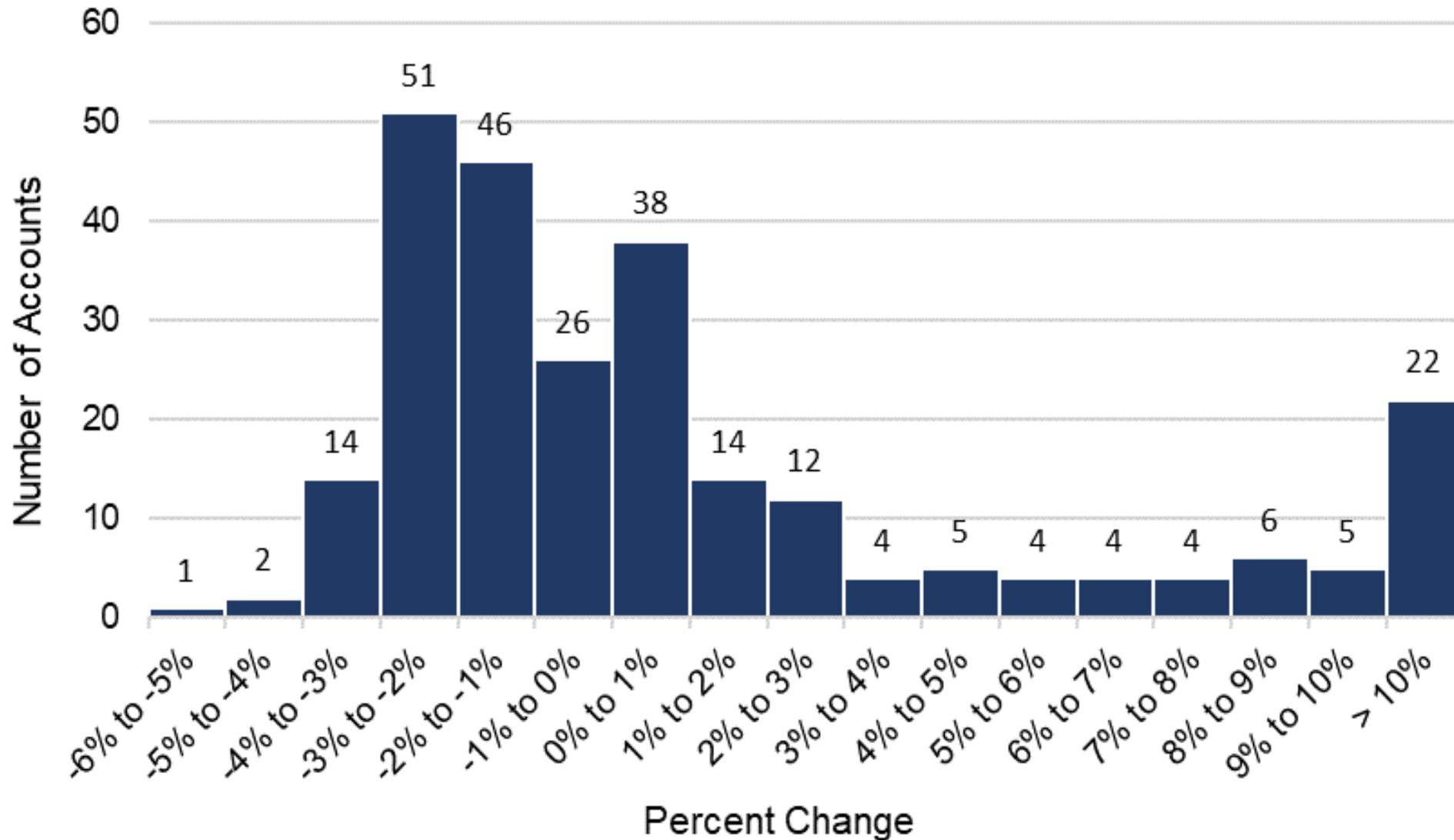


# Pumping Price Plans

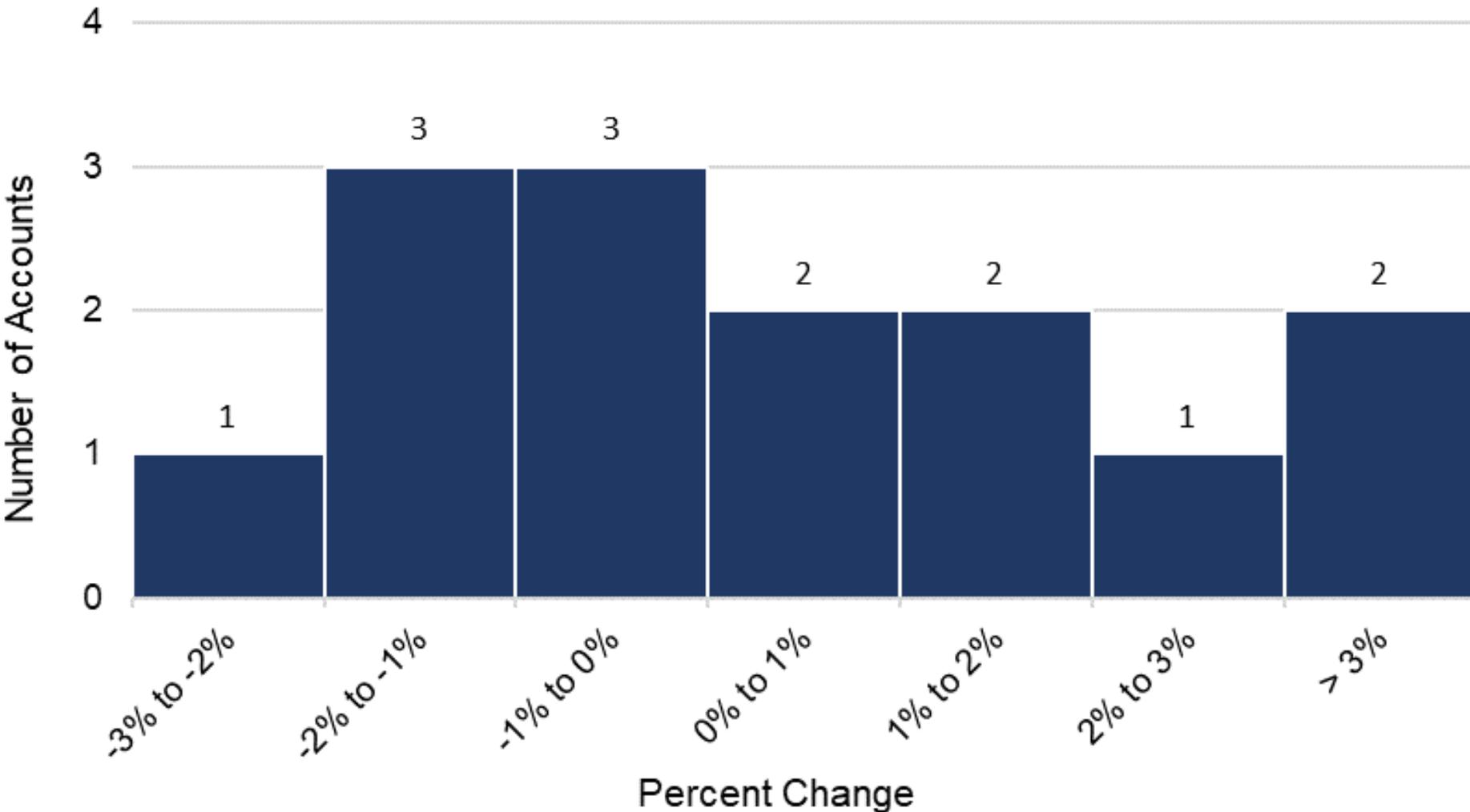
# Pumping E-40 Proposal Highlights

- Continue to align price plan components with marginal costs, primarily demand (kW), energy (kWh), and fixed charges

# Standard E-47 Proposed Bill Impacts



# Time-of-Use E-48 Proposed Bill Impacts

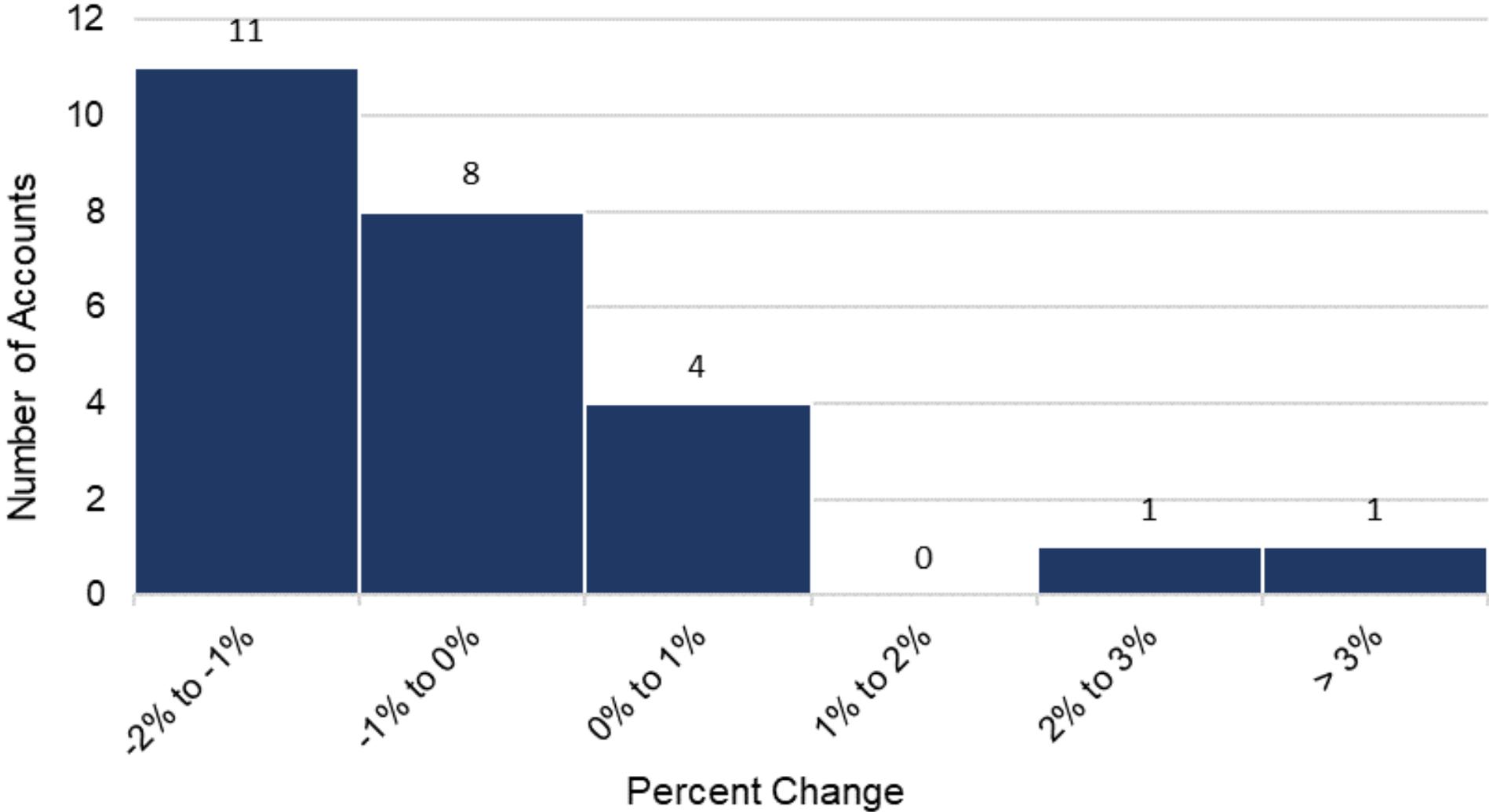


# Lighting Price Plans

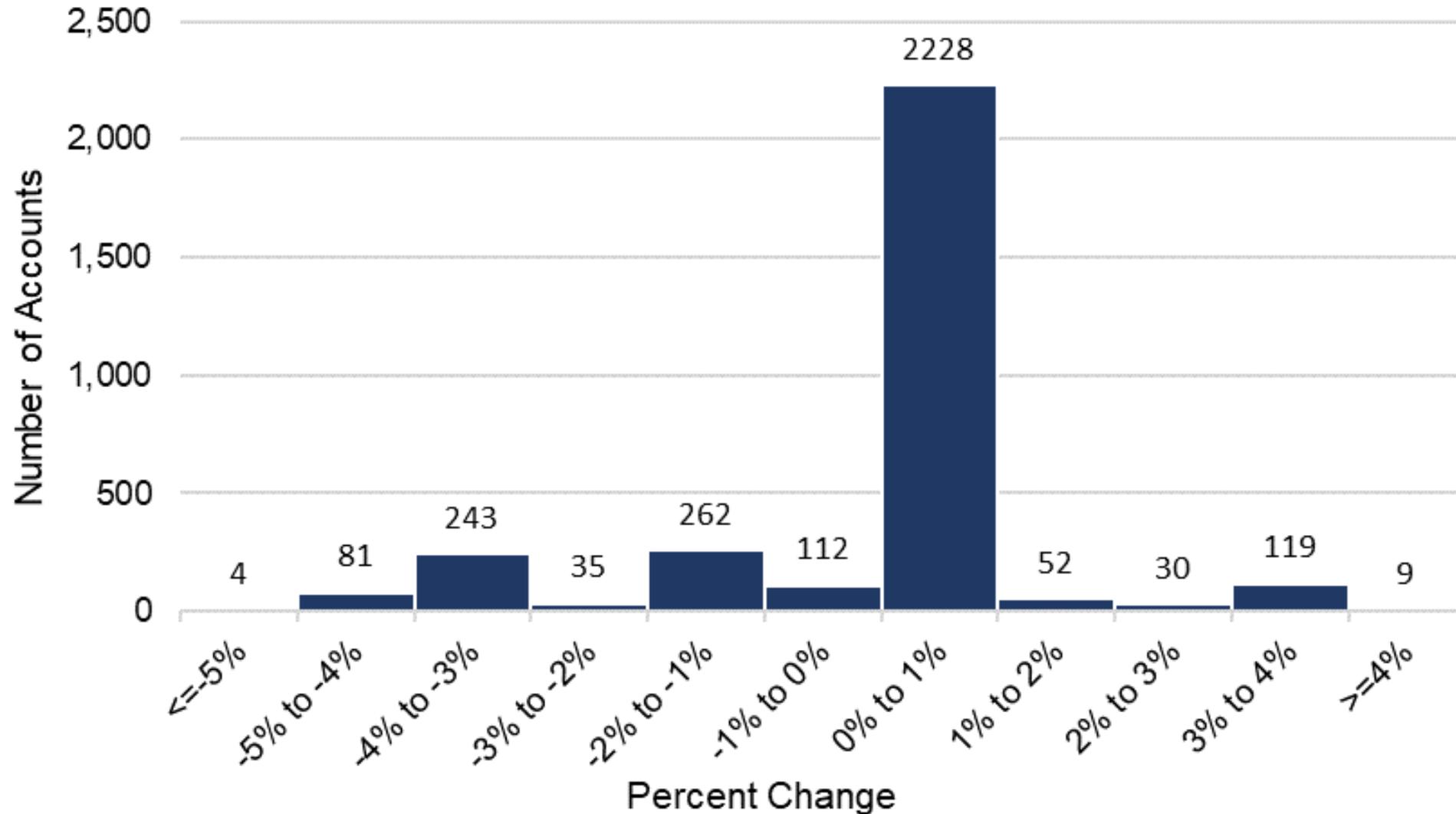
# Lighting E-50 Proposal Highlights

- Continue to align price plan components with marginal costs, primarily energy (kWh) and fixed charges

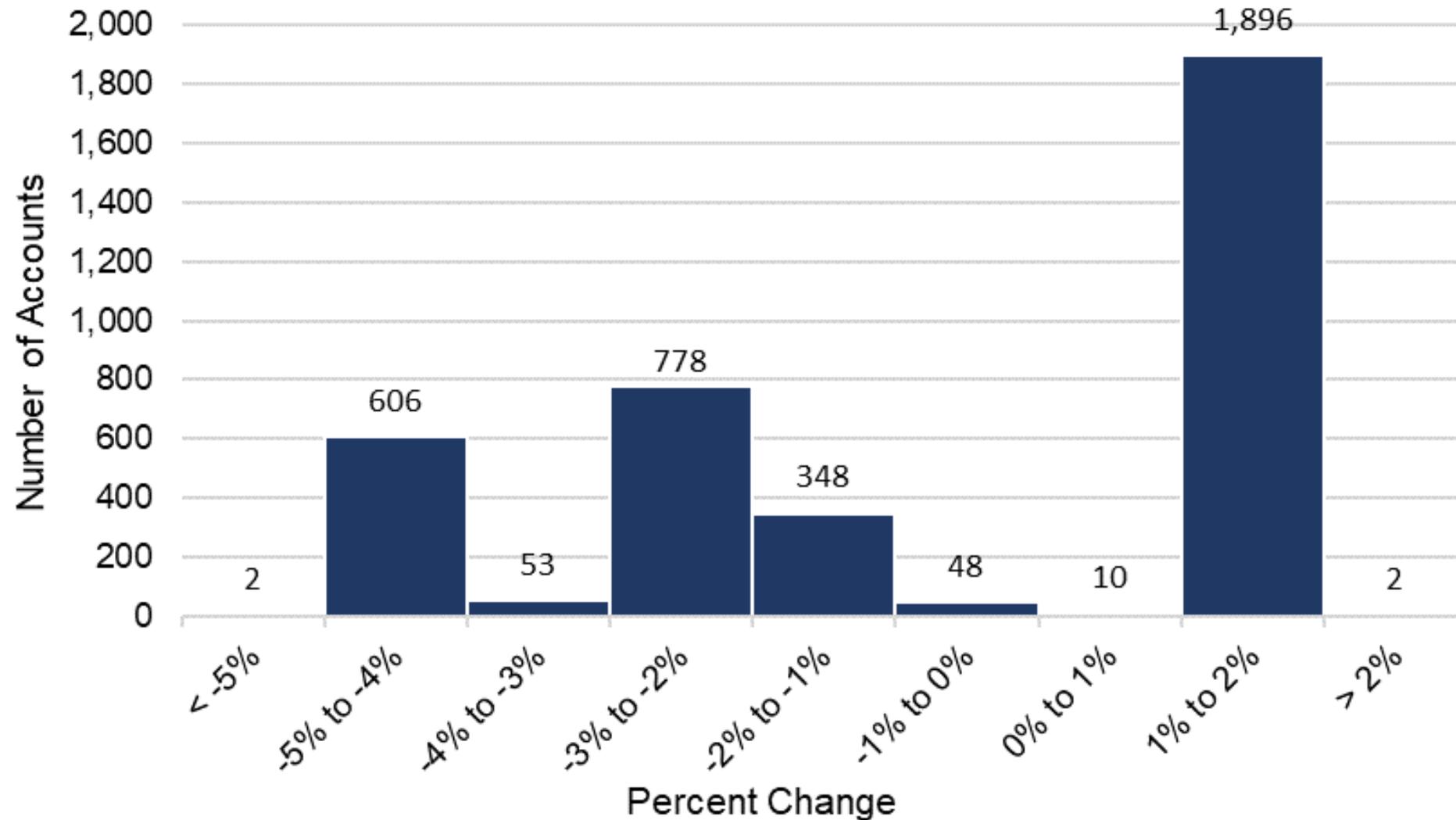
# Traffic Signals E-54 Proposed Bill Impacts



# Public Street Lights E-56 Proposed Bill Impacts

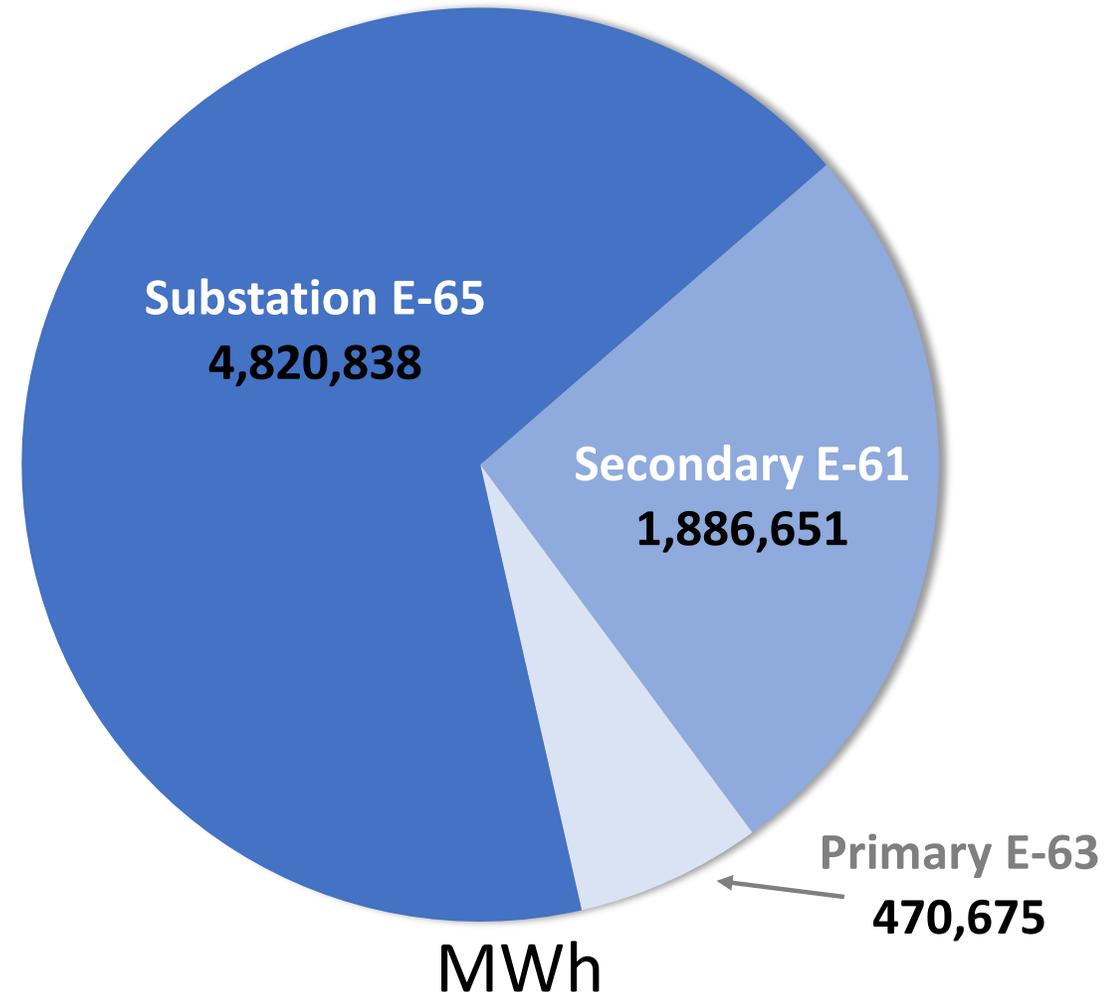
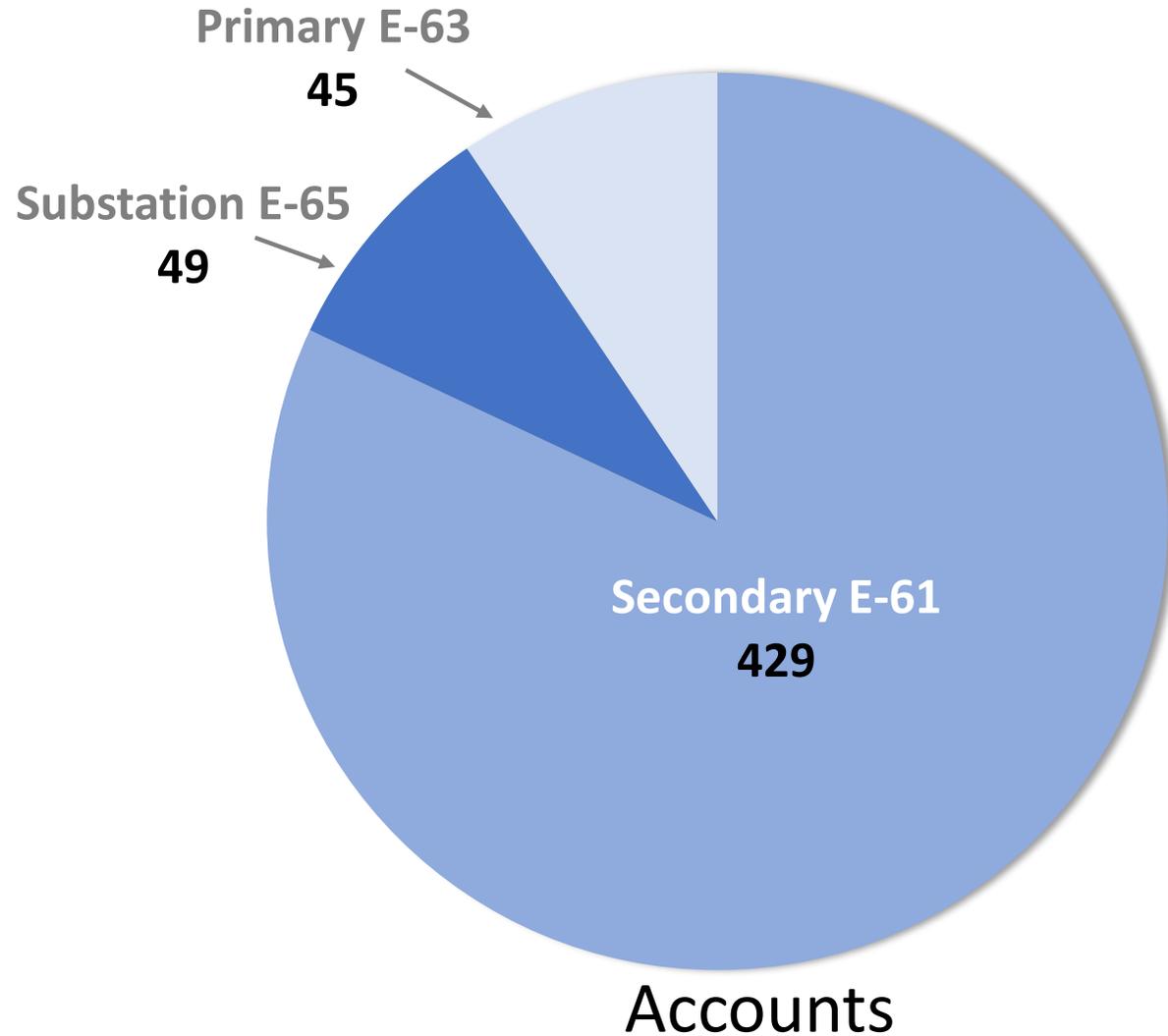


# Private Security Lighting E-57 Proposed Bill Impacts



# Large General Service Price Plans

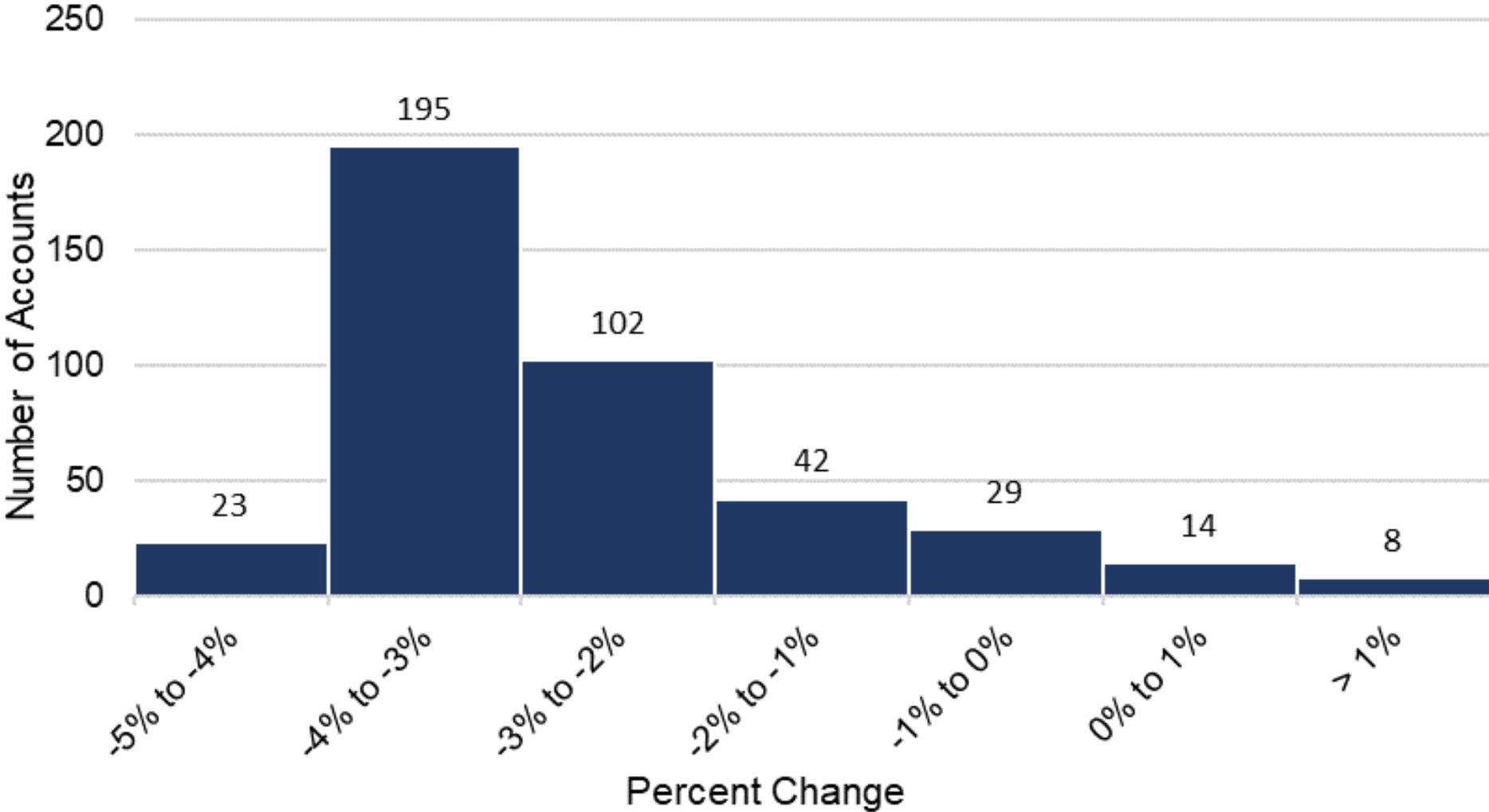
# Large General Service Customers FY2020 Test Year



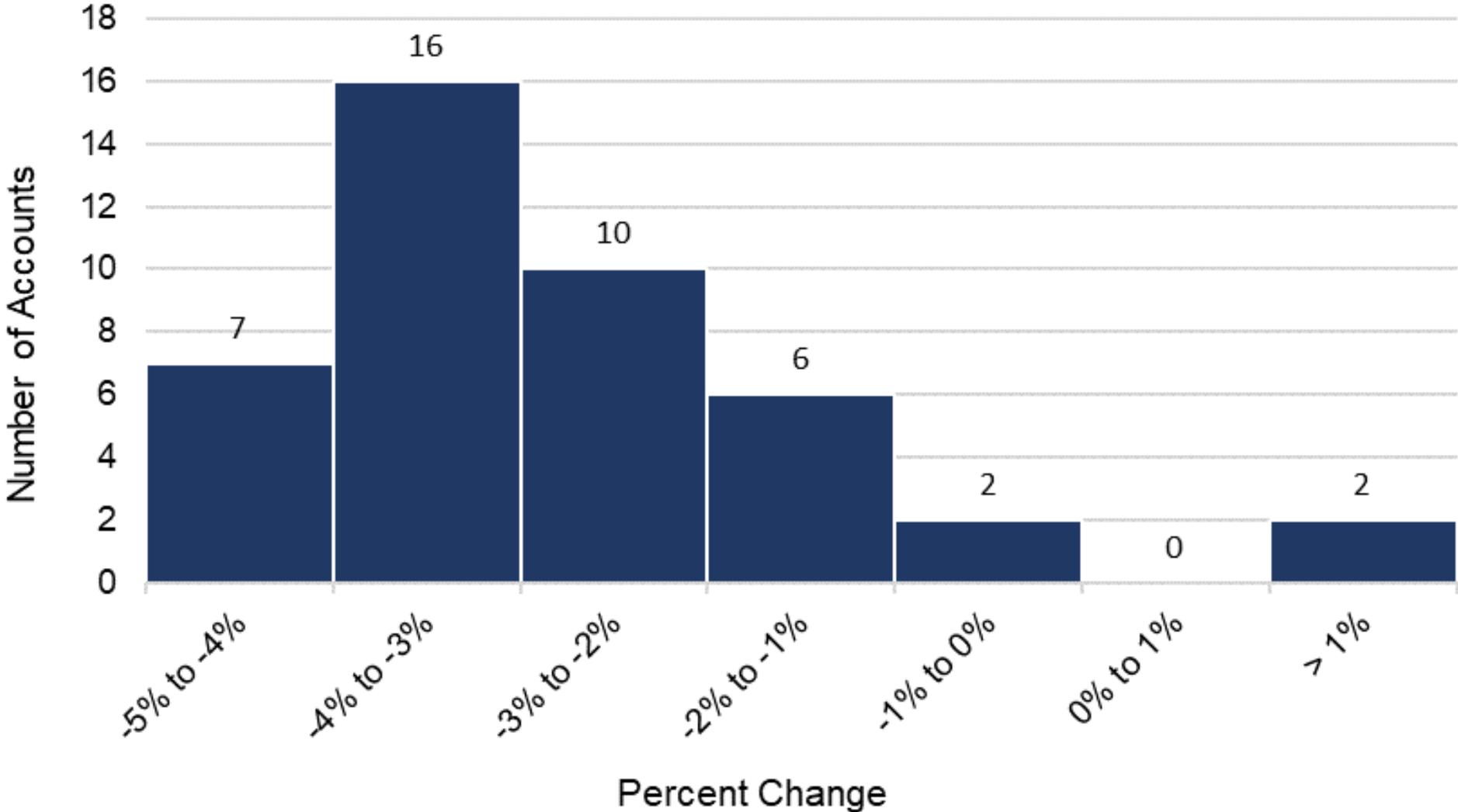
# Large General Service E-60 Proposal Highlights

- Continue to align price plan components with marginal costs, primarily demand (kW), energy (kWh), and fixed charges
- Energy Efficiency
  - Proposed annual cap of \$300k/*customer* annually
  - Elimination of the self-direct program
  - No impact to overall EE spending

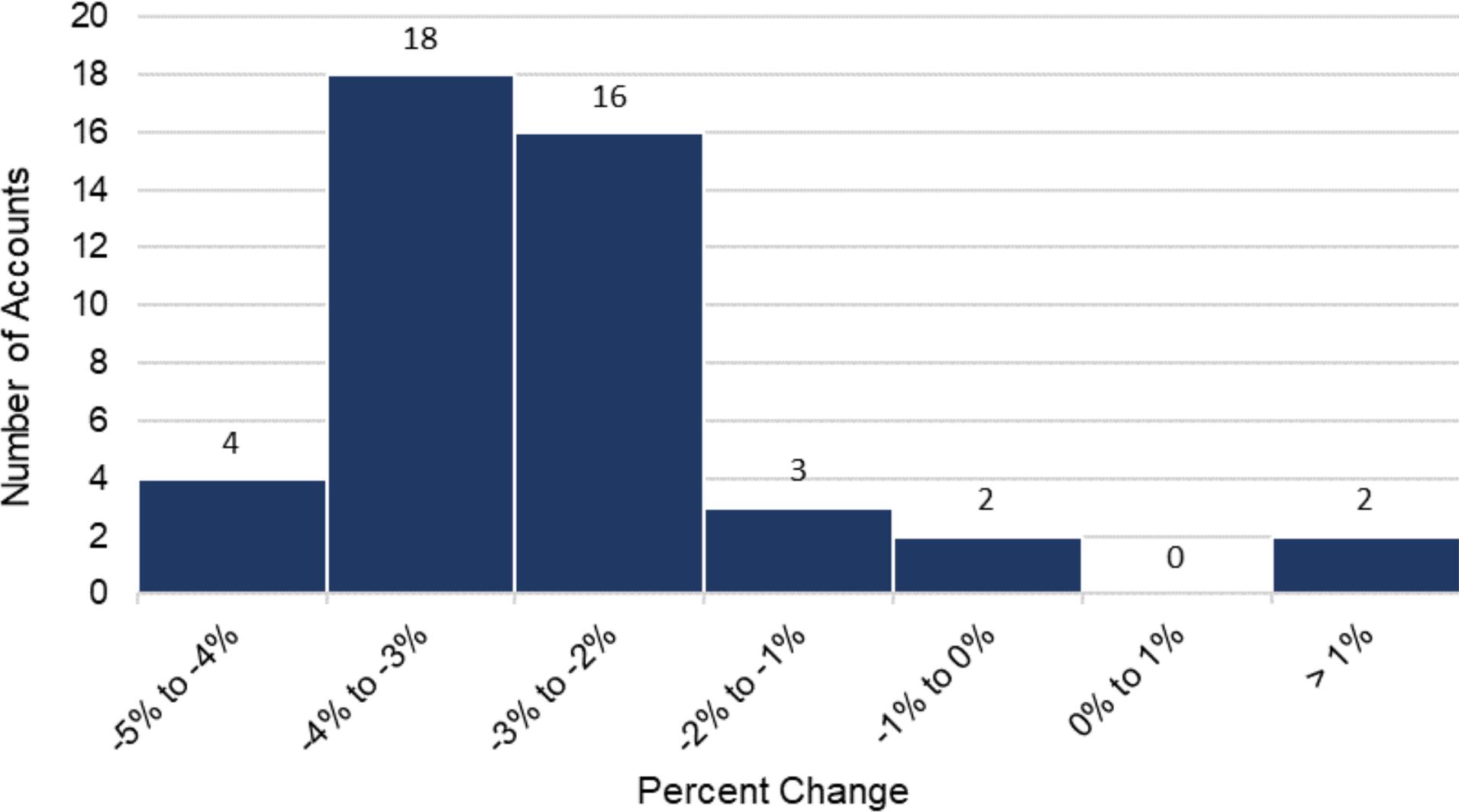
# Secondary E-61 Proposed Bill Impacts



# Primary E-63 Proposed Bill Impacts



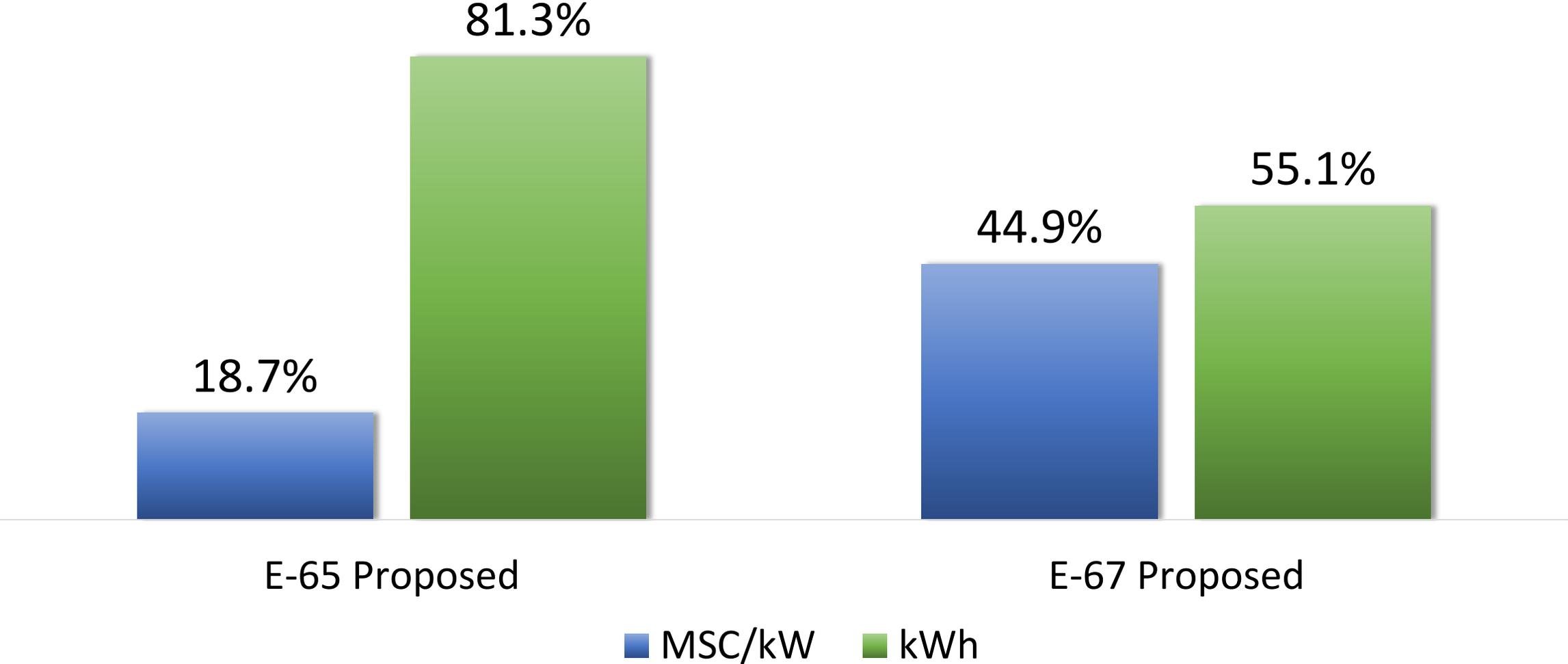
# Substation E-65 Proposed Bill Impacts



# E-67 Large Extra High Load Factor Proposal

- Overall design generates revenue equivalent to E-65
- For large, efficient energy users (20 MW @ 90 load factor or greater)
- Responsive to customer and community input to support regional economic development

# E-65 & E-67 Percent of Revenue from Design



# Riders/Other

# Highlights of Rider/Other Changes

- Facilities Rider
  - At SRP's discretion, provide option for customer to build dedicated substation
  - SRP continues to own/operate
- Market Price Pilot Rider
  - Provides option for customers to substitute market price for FPPAM
  - Supplemental to dedicated substation price plans (E-65, E-66 and E-67)
- Sustainable Energy Services Pilot Rider
  - Umbrella rider, allows for customer participation in renewable facilities to be developed in the future

# Other Changes

- SRP Bill Assistance will increase to a guaranteed minimum of \$500,000 annually

# Customer Contacts and Inquiries To-Date

	Counts*
Customer Comments	81
Customer Questions – All Answered	15
Call Center Customer Inquiries	53
Formal Data Requests (Sets of Questions)	26
Management/Board Consultant Interviews	3
Attendees at 2 Public Comment Sessions	~70

\*Questions and comments received from December 20, 2018 through February 15, 2019

# Arizona Solar Deployment Alliance (ASDA) Formal Recommendation

ASDA consists of 3 local companies: Arizona Solar Concepts, Harmon Solar and Electric, and Sun Valley Solar Solutions

- 1) Export credit should be 8.5 cents vs. 2.81 cents
- 2) No Sell Rate Rider
  - Allows any customer an option to produce, store, and consume electricity on site that never pushes electricity back to the utility
  - Applicable to any rate
- 3) Monthly Service Charge should be \$20.00 for solar and non-solar customers

# Proposal Recap

- Overall average price reduction of 2.2%
- More choices for residential solar customers
- Reduced Time-of-Use on-peak hours
- Reduced M-Power (E-24) prices to better align with Basic (E-23) prices
- Elimination of Environmental Programs Cost Adjustment Factor (EPCAF)
- Development of Large Extra High Load Factor price plan (E-67)
- Energy efficiency program modifications
- Increase in Bill Assistance contributions

# Calendar

Open Information Center/Mail Public Notice	December 20 <sup>th</sup>
Customer/Stakeholder Meetings	January 22 <sup>nd</sup> and 24 <sup>th</sup>
1 <sup>st</sup> Board Meeting	February 18 <sup>th</sup>
2 <sup>nd</sup> Board Meeting	February 26 <sup>th</sup>
3 <sup>rd</sup> Board Meeting	March 4 <sup>th</sup>
4 <sup>th</sup> Board Meeting	March 11 <sup>th</sup>
Deadline to Submit Written Comments	March 15 <sup>th</sup>
5 <sup>th</sup> Board Meeting (Decision Meeting)	March 25 <sup>th</sup>
Implement Price Plans	May Billing Cycle