

SRP BUY-THROUGH PROGRAM

ARIZONA LARGE CUSTOMER GROUP'S COMMENTS

The Arizona Large Customer Group (“AZLCG”), by and through its counsel, Holland & Hart LLP, respectfully provides these informal comments regarding the SRP Buy-Through Program.

I. INTRODUCTION

The AZLCG has a vested interest in designing and participating in mutually beneficial utility buy-through programs in Arizona in order to provide participants with reasonably priced and reliable electric energy, as well as an opportunity to further individual participant procurement preferences, corporate goals, and initiatives. The AZLCG appreciates SRP’s willingness to engage stakeholders in the design phase of its Buy-Through Program. These comments are intended to provide issues for discussion at SRP’s July 18, 2023 stakeholder workshop and reflect the AZLCG’s initial position on these issues. Following the conclusion of the July 18th stakeholder workshop, the AZLCG may provide more detailed comments for SRP’s consideration.

II. THE AZLCG’S COMMENTS

Based on the presentation and discussion following SRP’s June 27, 2023 stakeholder workshop, several aspects of SRP’s Buy-Through Program necessitate further explanation, discussion, and potential revision. Rather than submitting detailed positions at this nascent stage, the AZLCG provides the below list of issues and initial positions as a guide to further discussion at the July 18, 2023 stakeholder workshop:

Program Limits and Participation Requirements

Topic 1. Reevaluation of program participation limits

The AZLCG does not support arbitrary limits on participation on Buy-Through programs. Rather customers meeting eligibility requirements should be able to evaluate their benefits and

potential risks of participating in the program and make the business decision to participate or not without utility imposed artificial constraints. However, if program participation limits remain, the AZLCG recommends evaluating these limits (as well as eligibility and participation criteria) based on customer interest at regular intervals specified in the tariff. For example, the tariff could include a provision stating that SRP will reevaluate Buy-Through Program requirements and participation limits every three years with stakeholder input.

Topic 2. Allocation of program participation

The Buy-Through Program is currently proposed with a 200 MW program participation limit. However, it is unclear how participants will be selected in the event that more customers subscribe than the participation limit allows. SRP has not provided any reasoning or justification for this participation limit. It is important to provide fair, non-discriminatory services to all customers, and it is widely accepted industry practice to segregate customers by eligibility requirements. If eligible customer subscriptions exceed the Buy-Through Program size, how will SRP determine which of its customers get to participate? Will SRP allocate the participation limited Buy-Through Program on a pro-rata share? A first-come-first-served basis? Or on a lottery system? Or other method? Which, if any, of these methods is most fair and non-discriminating to current and future customers? While this dilemma helps demonstrate why arbitrary limits on participation are problematic, the AZLCG requests information on how SRP is justifying these participation limits and how SRP intends to allocate scarce program participation under such limits.

Topic 3. Participant load growth

Customers that are awarded participation in the Buy-Through Program will be commercial and industrial customers with a variety of business goals. These business goals may include

expansion with resulting increases to electric load. The current structure of the Buy-Through Program requires participants to commit 100% of their Annual Peak Demand, unless, as pertinent for this issue, the participant's load is greater than 50 MW. This presents several scenarios and associated questions regarding how future load growth will be handled.

- If a participant's load is 30 MW at subscription, but then increases their load by 20 MW: Is this customer's behind-the-meter growth part of the Buy-Through Program or subject to fully bundled rates? Does it matter if the Buy-Through Program participation limit is fully subscribed? Does it matter if the 100% Annual Peak Demand requirement is violated?
- If a participant's load is 40 MW at subscription, but then increases their load by 30 MW: Is this customer's behind-the-meter growth part of the Buy-Through Program or subject to fully bundled rates? Will any of the customer's behind-the-meter growth be eligible for SRP's Full Electric Service Requirements Rider (FESR)? If this customer's metered load factor is 96% but the load factor for the portion of load on fully bundled rates is 76% is the customer eligible for SRP's Large Extra High Load Factor Substation LGS (E-67) rate? If the program is fully subscribed when the customer increases their load, the participant will either be in violation of the 100% demand commitment or the participation limit. How does SRP intend to remedy this issue?
- If a participant's load is 40 MW at subscription, but then decreases by 5 MW: Will the customer's participation allocation be reduced and made available to new participants? Will the customer's participation allocation be automatically awarded

to a participant who may be in violation of the 100% Annual Peak Demand requirement?

These are additional problematic scenarios that are both foreseeable and probable, and they are primarily caused by the introduction of an arbitrary program participation limit. Accordingly, the AZLCG requests discussion on this topic and recommends that SRP remove the participation limit. If SRP is unwilling to remove the participation limit, AZLCG recommends SRP remove both the 100% Annual Peak Demand requirement and the 50 MW individual participant limit to eliminate incompatibilities with program design and allow those customers who elect 100% Annual Peak Demand participation to have any and all future load growth eligible for Buy-Through Program participation regardless of Buy-Through Program participation limits imposed upon initial subscription.

Topic 4. Aggregation of multiple customer accounts

Aggregation is commonplace in Buy-Through programs or their equivalents in other utility service territories and states. One or more otherwise qualifying commercial and industrial customers should not be precluded from participating in the Buy-Through Program simply because the annual demand associated with any single delivery point is not high enough, provided that customers can meet participating thresholds across multiple service accounts on the SRP system. SRP has not provided any justification or reasoning regarding why this additional participation limit is being placed on the Buy-Through Program. The AZLCG recommends that customers be permitted to aggregate their loads for purposes of any demand minimum requirement. At a minimum, a customer with multiple service accounts under common ownership should be permitted to aggregate load in order to meet demand requirements. The AZLCG requests

discussion on this topic and reconsideration of the Buy-Through Program as it is currently proposed.

Topic 5. New load participation

The Buy-Through Program limits participation to those entities with a minimum Annual Peak Demand of 5 MW. Annual Peak Demand is defined as: “The maximum thirty-minute integrated kW demand for the Customer account, as measured by the meter, over a 12-month period. This amount will be based on the 12-month period immediately preceding the Customer’s initial enrollment in the Program, unless recalculated as set forth in the Program Requirements.” Because the potential participant must have demand data for the preceding 12 months, the Program appears to require new large load customers to take bundled service until 12 months of data demonstrate that it meets the peak demand floor. AZLCCG recommends if a customer is eligible for any of the E-65/E-66/E-67/ CPP price plans or has sufficient aggregated demand using the E-61/E-63 price plans that the customer is automatically eligible for the Buy-Through Program rider. The AZLCCG requests further discussion regarding why a new large load customer could not sign up for the Buy-Through Program and recommends that the Buy-Through Program be modified to accommodate those customers that can reasonably demonstrate that their annual peak demand will exceed applicable minimums by a date specified. This modification to the program seems particularly beneficial to SRP and its customers in an era of exceptionally tight generation capacity markets.

Program Charges

Topic 6. Basis for each component of the Buy-Through Charge.

The Buy-Through Charge is proposed to equal \$4.15/kW, comprised of the following components:

\$2.87 – Reserve Capacity Charge

\$0.76 – Early Technology Charge

\$0.51 – Administrative Charge

SRP has provided no justification or cost basis for how these costs were calculated to determine if they accurately recover the actual costs that Buy-Through participants may be causing on the system. The AZLCG requests a detailed explanation with calculations of the cost components of each charge.

Topic 7. Fuel and Purchased Power Adjustment Mechanism (“FPPAM”) and the FPPAM Settlement Adjustment (“FSA”)

Over the period in which the FPPAM rose to its current amount of approximately \$400M under-collected, SRP’s combined net revenues (“CNR”), excluding fair value adjustments on outstanding fuel and purchased power contracts, were substantially positive (\$47M in FY20, \$173M in FY21, \$13M in FY22, and \$39M in FY23). The AZLCG requests an explanation as to how the cumulative under-collections in fuel and purchased power expenses did not yield substantially negative CNR results in recent years. In particular, if over-recovery of non-fuel expenses materially offset the contemporaneous under-recovery of fuel expenses during this period, AZLCG seeks to understand why potential direct assignment of FSA costs to Buy-Through participants is reasonable.

Topic 8. Stranded Costs

SRP is one of the fastest growing utilities in the country. Buy-Through participants have the ability to significantly reduce SRP’s need for resource acquisitions and investments in an era of exceptionally scarce and expensive generation capacity markets. SRP and its remaining customers stand to benefit greatly through the willingness of Buy-Through Program participants

to incur the upfront costs of higher marginal costs for capacity and energy than SRP's current resource mix and bear the volatility of that market. The avoided cost of new generation requirements and associated benefits to SRP's remaining generation customers has not been acknowledged or allocated to Buy-Through Program participants in any of the proposed charges. The AZLCG suggests that the Early Technology Charge assigned to Buy-Through Program participants be offset with these benefits.

Topic 9. Mechanics of fully bundled rates above the individual participant limitation

Although AZLCG's recommendation is to eliminate the 50 MW individual participant limitation, if SRP retains this program element AZLCG requests clarification of the mechanics of how fully bundled rates would be applied to participants. The Buy-Through Program permits a single customer account to participate in the program up to 50 MW. Any amount over 50 MW would be served under the applicable bundled rate schedule. However, it is unclear how separate charges for the 50 MW, on the one hand, and the remaining load, on the other hand, would apply in the instance of a customer account with multiple meters. For example, one meter on that account may have a load factor of 100%, while another may have a load factor of 30%. Which portion of the participants overall load is to be considered within the 50 MW individual participation limit would have impacts on the charges the customer would pay. The AZLCG recommends that the Buy-Through participant be permitted to designate for each account which specific meters, up to the 50 MW limit, are subject to the program as compared to fully bundled rates and requests further discussion on how charges will be assessed when a participant is limited by the 50 MW individual participant limit.

Operations and Scheduling

Topic 10. Imbalances

The Buy-Through Program tariff applies an imbalance settlement at CAISO LAP price or when significant scheduling errors occur a punitive 75% (over-scheduled) or 125% (under-scheduled) penalty of the “applicable LAP price.” The Federal Energy Regulatory Commission’s (“FERC”), April 24th 1996 Order (Order No. 888) specifically required all public utilities that own, control, or operate facilities used for transmitting electric energy in interstate commerce to file open access non-discriminatory transmission tariffs. While imbalance service is standard, SRP’s non-discriminatory costs for these services are well documented in Schedule 4 of SRP’s Open Access Transmission Tariff (“OATT”), effective August 1, 2022. However, the punitive penalty for scheduling errors is not included in SRP’s OATT. Charging an additional or greater penalty for imbalances through the Buy-Through Program appears to be discriminatory to GSPs and ultimately Buy-Through Program participants utilizing this standard service. SRP has provided no justification or reasoning why GSPs and Buy-Through Program participants engaging in standard wholesale transactions with SRP should receive a punitive penalty when no other market participant utilizing their system does. The AZLCG requests further discussion and justification on the punitive penalties included for Buy-Through Program participants but not included in SRP’s OATT.

Topic 11. Line losses

The Buy-Through Program tariff includes line losses of 4.14%. The Program Requirements document includes line losses of 4.32%. Accordingly, there appears to be ambiguity regarding the appropriate line loss percentage. Notwithstanding the different percentages, the line loss percentage is not adequately justified. For those participants taking service at the transmission

level, SRP's loss factor is 3.24% (per the SRP OATT), and distribution line losses should not apply. The AZLCG requests further discussion on the appropriate line loss percentage and the basis for the same.

Miscellaneous

Topic 12. Reserve capacity and ability to self-provide

As stated above, the Buy-Through Program contemplates a \$2.87 Reserve Capacity Charge. It appears the charge is intended to recover the costs of providing capacity sufficient to meet a 16% planning reserve margin on the participant's participating load. As an initial matter, reserve capacity charges intended to provide resource adequacy have not been sufficiently justified or supported by cost. This is especially true where, as here, participating customers are large energy users with high load factors and *contracted* load. Deviations in contracted load are rare, particularly as compared to residential customers, for whom a planning reserve margin finds greater justification. However, to the extent that resource adequacy requirements remain, participants should have the option to self-supply through their GSP.

Topic 13. Selection of GSP

The Buy-Through Program tariff and program requirements require that GSPs meet SRP's creditworthiness and other counterparty standards. These are not defined and could, if unreasonably onerous, restrict or eliminate the pool of eligible GSPs. The AZLCG recommends that the requirements for GSPs be clearly defined and detailed in supporting documentation to avoid changing, discriminatory, or overly restrictive standards that are unable to provide any credit risk mitigation to SRP and its remaining customers.

Topic 14. Program certainty

There is significant risk on the part of any Buy-Through Program participant and GSP when contracting for new energy resources. As mentioned previously in Topic 8, SRP's load growth is among the highest in the nation at a time when generation capacity markets in the West are exceptionally tight. All new load growth must be met with new generation resources which are increasingly costly, especially vis-à-vis existing resources. Buy-Through Program participants and/or their GSPs will almost certainly need to make long-term financial commitments, which may include investment in generation assets, to ensure themselves of future firm supplies. However, to the extent that the Buy-Through Program is subject to cancellation or modification at any time, participants and GSPs could be faced with significant stranded costs in that event. Similar to the 3-year notice of return period for participants to cancel participation in the program, the AZLCG recommends that participants receive some certainty in their participation in order to provide assurance to participants when making these financial commitments. As a result, Buy-Through Program participants require a 10-year notice of cancellation of the Buy-Through Program from SRP.

III. CONCLUSION

The AZLCG supports all programs that give customers choice. While the Buy-Through Program was a legislatively mandated program, AZLCG encourages SRP to consider additional offerings in the Sustainable Energy Opportunity program and Market Price Pilot Rider. Furthermore, AZLCG strongly encourages SRP to remove currently proposed arbitrary participation limits on the Buy-Through Program to resolve many of the program element incompatibilities discussed herein, to allow for a flexible and manageable program for customers over time, and to ensure that all similarly situated customers are provided fair and non-

discriminatory service offerings through SRP's rates. AZLCG appreciates the opportunity to submit these initial comments regarding SRP's Buy-Through Program and looks forward to engaging with the SRP and other stakeholders through this process.

Respectfully submitted July 14, 2023.

HOLLAND & HART LLP

By:  _____
Austin W. Jensen, #038143
Thorvald A. Nelson
Holland & Hart LLP
555 17th Street, Suite 3200
Denver, CO 80202
Tel: (303) 295-8000
awjensen@hollandhart.com
tnelson@hollandhart.com

***ATTORNEYS FOR THE
ARIZONA LARGE CUSTOMER GROUP***

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