Memorandum

February 21, 2025

TO: Salt River Project Board of Directors
FROM: SRP Management
SUBJECT: Management Recommendations for the February 27, 2025, Special Board Meeting

Executive Summary

On December 2, 2024, Management of the Salt River Project Agricultural Improvement and Power District (SRP) published its *Proposed Adjustments to SRP's Standard Electric Price Plans Effective with the November 2025 Billing Cycle*, including *Appendix A to Proposed Adjustments to SRP's Standard Electric Price Plans Effective with the November 2025 Billing Cycle: Proposed Standard Electric Price Plans and Riders* (collectively, the "December 2nd Proposal"). The December 2nd Proposal was amended and restated in its entirety by the December 30, 2024, *Proposed Adjustments to SRP's Standard Electric Price Plans Effective with the November 2025 Billing Cycle (Amended and Restated)*, including *Appendix A to Proposed Adjustments to SRP's Standard Electric Price Plans Effective with the November 2025 Billing Cycle (Amended and Restated): Proposed Standard Electric Price Plans and Riders* (collectively, the "Amended and Restated Proposal").

This memorandum provides Management's recommendations regarding the Standard Electric Price Plans and Management's response to certain comments and proposals made by members of SRP's Board of Directors (the "Board") and others during the course of the proceedings related to the Amended and Restated Proposal. The Amended and Restated Proposal, with the modifications recommended in this memorandum, is referred to herein as "Management's Proposal." This section summarizes Management's recommendations that are detailed in this memorandum.

Recommended Changes to Amended and Restated Proposal

Management continues to recommend approval of the 2.4% overall increase as well as class specific increases and the proposed price plan schedules as included in the Amended and Restated Proposal, with only the following modifications:

1. **Economy Price Plan (EPP)** - Management recommends that the Board adopt the modified proposal to the EPP that Wildfire presented at the February 6 Special Board meeting,

as well as a temporary increase Bill Assistance funding as supported by Director Arnett and Director O'Brien.

2. **E-16 60-minute Demand** - Management recommends modifying the proposed E-16 price plan ("Manage Demand 5-10 p.m. and Save") to feature a 60-minute demand interval, instead of a 30-minute demand interval, and adjusting demand prices accordingly.
3. **Keep the E-13, E-14, E-15, and E-27 Price Plans Open Pending Sunset in 2029** – In response to Director Arnett's inquiry about the transition of the Residential Solar price plans, Management recommends modifying the proposal to keep the E-13, E-14, E-15, and E-27 price plans open to customers until the November 2029 billing cycle, at which point they would be eliminated.
4. **Clarification on Buyback Rider** – Minor revision to the Buyback Service Rider to clarify the date on which the market price for purposes of determining the Buyback Credit is fixed.

Future Commitments

Management commits, separately from this pricing proceeding, to the following actions, which address many stakeholder comments and concerns raised in this proceeding:

1. **Price Plan Comparison Display** - Management will develop a comparison display that allows residential solar and non-solar customers to determine the best new price plan for them based on 12 months of the customer's historical usage at the same location by November 2025 billing cycle.
2. **Renewable Energy Certificate (REC) Purchase Program** - Management intends to develop a new residential solar program that offers to purchase Renewable Energy Certificates (RECs) from distributed generation customers before the end of the calendar year.
3. **Virtual Power Plant (VPP) Pilot** - Management will develop a pilot customer program to enroll and dispatch residential batteries for the purpose of peak load reduction and other potential system benefits.
4. **EZ-3 Sunset Plan** – Assuming the Board approves Management's Proposal, Management's comprehensive TOU education campaign will reach out to EZ-3 customers to educate them on the mechanics and benefits of the E-28 price plan before the sunset date.
5. **Online Availability of Pricing Process Data Files** - Management will expand the online availability of electronic data files for the next pricing process.
6. **Credit Provisions for E-67 Customers** – Assuming the Board approves Management's Proposal, Management will take measures (which may include, as necessary, updating SRP's credit policy and proposing changes to SRP's Rules and Regulations) to address appropriate security requirements from new E-67 large-load customers to further protect SRP and its customer base for the duration specified in the customer's agreement with SRP.
7. **Comprehensive TOU Education Campaign** – Assuming the Board approves Management's Proposal, Management will develop and launch a comprehensive TOU

education campaign with the goal to increase customer enrollment on the E-28 price plan, including existing TOU and EV customers.

Discussion on Topics where Management Recommends No Change to Proposal

- **Timing of Board Decision and implementation** – Management maintains the need for the eight months between the Board decision and the implementation of pricing changes as it allows SRP time to communicate with and educate customers on the changes, it allows SRP time to re-develop and re-launch a price plan comparison display with pricing changes, and it allows SRP time to make all necessary billing and metering changes required for the new price plans to be implemented. Delaying the approval will delay implementation of any adjustments and potentially result in other financial impacts. Businesses have also requested a longer window for budgeting purposes and to be able to adjust shifts and operations to respond to the new TOU hours.

- **Tiered Monthly Service Charge (MSC) –** Management's proposed MSC tiers of $20, $30, and $40 more closely align with the pricing principles of Cost Relation, Equity, and Gradualism than alternatives with lower MSCs and higher per kWh charges. The tiered approach combined with the new EPP proposal will result in approximately 93% of the EPP participants receiving a bill decrease. Additionally, the proposal maintains strong financial incentives for energy conservation and efficiency investments while furthering sustainability goals with respect to electrification.

- **TOU Hours -** TOU Evolution was one of the key action items from SRP's recent Integrated System Plan (ISP). A key finding in the ISP was that system costs will change with high-cost hours shifting to later in the evening (after 6 p.m.). ISP Action #1 was to evaluate the E-28 pilot that started in May of 2023 to inform future price processes. To address future resource planning needs and to maximize cost savings for customers, Management finds the transition to new TOU hours as a part of this pricing process to be necessary. SRP resource planners are already making resource decisions for 2029 and 2030 when the five most critical hours are already 5-10 p.m. (with 6-9 p.m. being the three most critical hours).

- **Residential Solar Price Plans –** Management's Proposal to freeze and eventually sunset the residential solar price plans (E-13, E-14, E-15, and E-27) is modified as noted under "Recommended Changes". The proposal makes the new standard residential TOU price plans (E-16 and E-28) available to customers with solar immediately upon those price plans becoming effective. Solar customers will have the same prices, time-of-use hours, and choice among TOU plans as customers without solar. But the higher-than-average increase in November 2025 reflects that the residential solar price plans have had the lowest price increase since the last pricing process when taking into account FPPAM changes and they now recover a lower percent of their cost to serve than other classes.

Although Management's proposal includes significant deference to Gradualism[1], there is some movement towards the pricing principles of Cost Relation and Equity with the 5.5% increase.

- **Carbon Reduction Rider** - While there are no programs currently contemplated for use under the Carbon Reduction Rider, Management recommends its approval should technology, market conditions, and/or the regulatory environment make such programs of interest to customers. The goal is to provide a mechanism for potential investment in future carbon reduction strategies.

- **Management Responses to Other Proposals** – Various stakeholders and board members made specific proposals that are addressed in more detail below.

Summary Conclusion

Management's Proposal, when packaged with the future commitments, broadly benefits all customers and has some very positive improvements for certain customers, such as our EPP participants. In making its proposal and the future commitments, Management considered all pricing principles and customer perspectives, leading to customer benefits including:

- **Simplified Residential Portfolio**: Basic, M-Power (with prices equal to Basic), plus two TOU options for all customers, including those with solar.
- **Updated Time-of-Use Hours**: Pass to customers the benefits of abundant low-cost, low-carbon utility scale solar and market prices, with 50%+ cheaper energy from 8am to 3pm for all (non-frozen) TOU plans; align on-peak hours with higher cost periods.
- **Help for Those in Need**: Increased assistance and broader eligibility for limited-income customers.
- **Improved Experience for Residential Solar Customers**: Simplified experience for rooftop solar customers without reintroducing cost shifts. Same price plans, MSC (including lower MSC prices than current price plans), TOU hours, and energy charges as customers without solar, with no additional grid access fees; market-based export rate.
- **Cost Protection for Existing Customers**: Protection for existing customers from costs of new industrial loads by imposing a minimum bill for those customers, thereby ensuring that new large-load customers bear the risk of paying for the costs that SRP incurs to serve them.

Changing any one aspect of the proposal may impact other parts of the proposal. For example, a lower MSC may impact the ability to merge the TOU plans for residential solar and residential customers without introducing additional fees for solar customers. Overall, Management's recommendations balance various perspectives and bring benefits to all SRP customers.

[1] Residential solar price plans would need more than a 30% price increase to reach the average return

Background and Procedural History

At a Special Board meeting held on January 31, 2025, SRP Management presented to the Board Management's proposal for an overall 2.4% net revenue increase, effective with the November 2025 billing cycle. The proposed increase is the result of a 4.0% increase in base prices partially offset by a 1.6% revenue decrease through the Fuel and Purchased Power Adjustment Mechanism (FPPAM). Management's proposal was comprehensively set forth in the Amended and Restated Proposal.

The December 2nd Proposal, along with other pertinent information, was made available for viewing in the Information Center, as well as online at srp.net/srpprices, on December 2, 2024. The Amended and Restated Proposal was made available for viewing in the Information Center, as well as online at srp.net/srpprices, on December 30, 2024. Since December 2, 2024, customers and stakeholders have had the opportunity to submit comments, ask questions, and request additional documents. Customers and stakeholders also had the opportunity to interview Management and the Board's consultant. In January, two public open house sessions were held, allowing customers and stakeholders to ask questions of Management, and submit comments if they so desired. Special Board meetings were held on January 31, February 6, and February 11 to discuss the Amended and Restated Proposal, allow public comments, and discuss alternative proposals requested by Board members and other stakeholders. Another Special Board meeting was held on the evening of February 11 to allow additional public comment.

Details of Management's Recommended Changes to Amended and Restated Proposal

The Amended and Restated Proposal remains unchanged except as expressly stated in this document.

1. Economy Price Plan (EPP)

The December 2nd Proposal included an increase of the EPP credit from $23 per month to $25 per month and an expansion of eligibility requirements from 150% to 200% of the Federal Poverty Level (FPL). That proposal would have increased the program spend from $20M to an estimated $41M per year. However, over the last few months Management has listened to feedback and worked with Wildfire and other customer advocates to develop a proposed tiered EPP structure with two steps: the first, a two-tiered structure to start as of the November 2025 billing cycle with an estimated annual spend of $41M; and the second, a four-tiered structure, with an estimated annual spend of $53M, to start once SRP's new customer information system is in place and stabilized.

Wildfire's proposal also included $1-$2M in temporary additional Bill Assistance program funding until the four-tiered structure is in place. On February 12, Management received an inquiry from Directors Arnett and O'Brien regarding temporary additional Bill Assistance program funding to achieve a total of $5M per year. This temporary funding would be in place until the second step of the tiered structure could be put in place. The first step in the tiered EPP proposal would increase combined EPP and temporary Bill Assistance funding to an estimated $46M per year, as follows:

Table 1:

Household Income as percent of FPL	Director Inquiry
0-150%	$35 per month
151-200%	$10 per month
Effective:	November 2025
Estimated Annual Program Cost:	$41 Million (+ $5M Additional Bill Assistance)

When implemented, the second step in the tiered EPP proposal would provide a total estimated $53M in annual support to SRP's limited income customers, as follows:

Table 2:

Household Income as percent of FPL	Wildfire Proposal
0-50%	43% of Bill
51-100%	30% of Bill
101-150%	23% of Bill
151-200%	6% of Bill
Effective:	Pending System Capability
Estimated Annual Program Cost:	$53 Million

Management supports the two-step implementation of the tiered EPP structure, along with the temporary additional Bill Assistance funding of $5M, as described above.

2. 60-minute Demand on E-16

In the Amended and Restated Proposal, the E-16 price plan uses a 30-minute period for determining demand. Management heard input from Board members and stakeholders suggesting that using a demand period of 60 minutes, rather than 30 minutes, would provide greater simplicity and visibility of kW reads, in particular for those who are not currently on a demand price plan (including prospective solar customers). Management believes that increasing the demand interval from 30 minutes to 60 minutes provides a simpler and easier to manage customer experience, while still meeting SRP's Cost-Relation objectives. Furthermore, the 60-minute demand interval aligns with the 60-minute measurement period for hourly kWh usage and is currently shown in My Account. For the reasons outlined above, **Management recommends modifying the proposed E-16 price plan to change the demand interval to 60-minutes and modify the Per kW Charges (Average On-Peak Daily kW) accordingly, as shown on Attachment 1 hereto.**

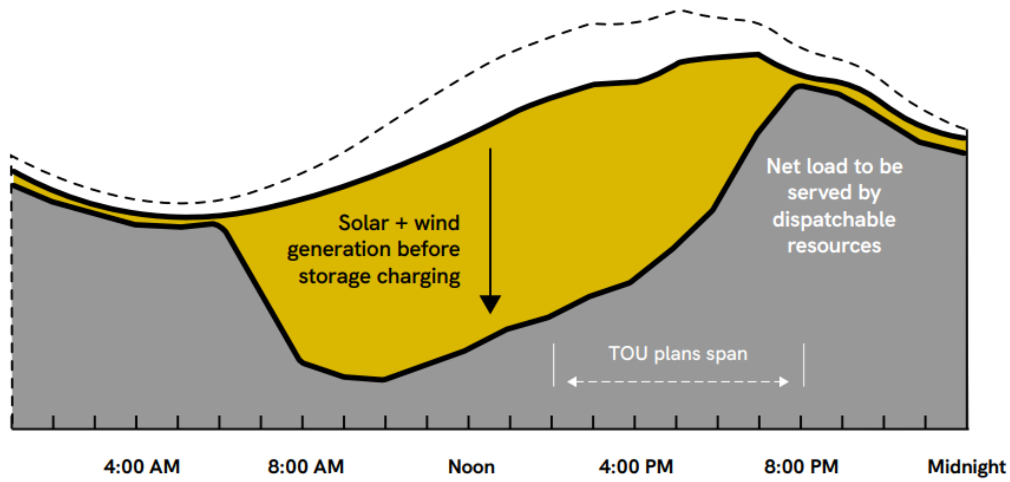
All other prices and components of E-16, including the MSC, Per kWh Charges, and Per Exported kWh Credit, are proposed to remain unchanged from the Amended and Restated Proposal.

3. Keep the E-13, E-14, E-15, and E-27 Price Plans Open Pending Sunset in 2029

Per the ISP, "as increasing amounts of solar and wind are added to the system, the net load that is served by dispatchable resources begins to peak after the existing TOU window, as shown in [**Figure 1**]. This highlights the growing need for evening and overnight load reduction." As discussed at length during Board meetings related to this 2025 pricing process, additional research and data have been studied since Management first presented this concern to the Finance & Budget Committee in January of 2022. The ISP's findings reinforce that deployment of solar in the years since the last pricing process has dramatically impacted SRP's costs throughout the day. First, it has resulted in a low-cost, low-carbon period during solar production hours. Second, it has pushed the need for new peaking resources later into the evening. Third, it highlights the need for evening and overnight load reduction.

All of the existing TOU price plans, including residential non-solar and solar, no longer send appropriate signals to customers. The existing EZ-3 plans that start the summer on-peak period at either 3pm or 4pm or the residential solar price plans that begin at 2 p.m. are sending the wrong price signals. These are now times when SRP very much wants to send signals to customers to shift as much load as possible to that part of the day to lower costs and carbon emissions during the new peak.

Figure 1:
SRP's 2023 Integrated System Plan Report Figure 6.29: Customer Programs and Pricing Plans can Help SRP Meet New System Needs



Under the Amended and Restated Proposal, all existing TOU price plans were to be frozen from new participation effective with the November 2025 billing cycle and sunset by the November 2029 billing cycle. The Amended and Restated Proposal also introduces new residential price plans (E-16 and E-28), available to customers with and without solar, with updated TOU hours that align on-peak hours with the new high-cost period and super off-peak hours with the new low-cost and low-carbon hours.

The TOU hours under existing price plans are not in line with costs, and maintaining those hours will increase system costs and work against SRP's sustainability objectives. However, in response to a request from Director Arnett, Management recommends keeping the residential solar price plans (E-13, E-14, E-15, and E-27) open to new participation during the transition period from November of 2025 and fixing the elimination date to be the November 2029 billing cycle. By keeping those plans available for new customers, solar installers will have ample time to adjust to the new realities of an evolving power grid and develop mature storage or other solutions to be more responsive to the new TOU hours. Concerning the other current TOU price plans, Management recommends that those price plans be frozen and eliminated as set forth in the Amended and Restated Proposal.

Management recommends modifying the Availability sections of the proposed E-13, E-14, E-15, and E-27 price plans to remove the language freezing new participation as of the November 2025 billing cycle and the language allowing elimination before the November 2029 billing cycle.

4. Clarification on Buyback Service Rider

In response to stakeholder request for clarification, Management recommends a minor technical addition to the language in the Buyback Service Rider to clarify that SRP will base the

Buyback Credit on the CAISO External Load Aggregation Point prices published on the day immediately following the day on which the energy is delivered by the customer to SRP.

Management recommends modifying the proposed Buyback Service Rider to clarify the date on which the market price is fixed for purposes of determining the Buyback Credit, as shown on Attachment 2 hereto.

Details of Future Commitments

Management commits, separately from this pricing proceeding, to the following actions, which address many stakeholder comments and concerns raised in this proceeding:

1. Price Plan Comparison Display

In response to Board and stakeholder input, and to support the proposed price plan changes, Management commits to re-launching a residential price plan comparison display through SRP's My Account platform by the start of the November 2025 billing cycle.

Management's recommendation is to present a comparison display that allows residential solar and residential non-solar customers to choose the best price plan for their household. The display will be based on 12 months of a customer's historical usage at the same location and will provide, at a minimum, the following:

- The customer's current price plan and the annual cost of their usage based on SRP's prices at the time the comparison is generated
- All other non-frozen price plans as of the November 2025 billing cycle (Basic, E-16, and E-28) with annual cost of customer usage based on SRP's prices at the time the comparison is generated
- A link to view details for each price plan displayed (how it works, higher and lower cost times, prices, etc.)
- A link to select a new price plan.

Management recognizes that historical usage for customers on a TOU price plan may not align with proposed TOU peak hours included in Management's Proposal. Given the impact of customer behavior on costs, the display will also include or link to additional guidance and information on how the customer could save more money if they shift their usage of high-energy items like pool pumps, dryers, EV chargers, etc., to off-peak or super off-peak hours.

The goal is to provide a display that is informative, easy for customers to understand and use, and able to be continually improved with additional features and information in future iterations.

While this display is in development and after it is implemented, customers can continue to call SRP and talk with our contact center agents, who will discuss a number of items (including the size of the home, hours people are in the home, and ability and willingness to shift usage and precool) with the customer to guide them to a price plan that is best suited for their needs.

2. Renewable Energy Certificates (REC) Purchase Program

Management commits to developing a new residential solar program that recognizes the benefits associated with residential solar installations. The program will be designed to provide a simple path for residential customers to realize a financial benefit for Renewable Energy Certificates (RECs), applicable to their solar generation, by transferring those environmental attributes to SRP. The program, if approved, will not only support SRP's renewable energy goals, but will also reinforce sustainable energy solutions.

3. Residential Battery VPP Pilot Program

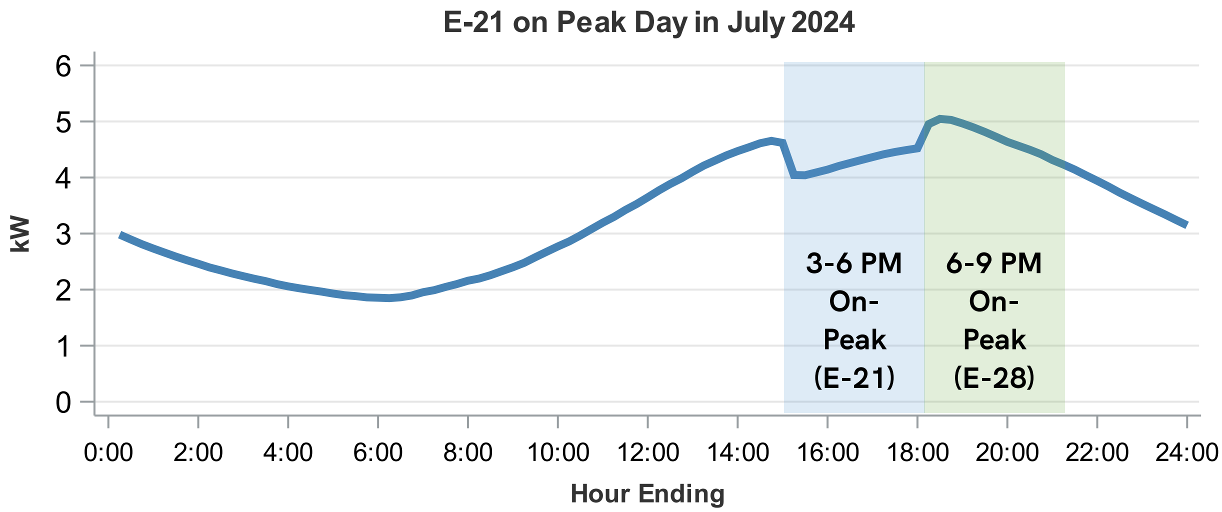
At the Special Board meetings, Board members and stakeholders suggested that SRP explore utilizing residential battery systems as an additional component of SRP's existing demand response portfolio. Based on that feedback, Management will develop a pilot program to enroll and dispatch residential batteries for the purpose of peak load reduction and other potential system benefits. The program will be designed to leverage available incremental capacity within SRP customers' systems and provide performance-based incentives to participating customers. The customer program, if approved, will contribute to SRP's 2035 Sustainability Goals and further enable distributed energy resources.

4. EZ-3 Sunset Plan

Management's Proposal includes the permanent sunsetting of existing residential and residential solar TOU price plans as SRP aligns TOU hours with evolving costs. Management presented thoughts around which of the successor TOU price plans (E-28, E-16, or in some cases, E-23) seemed most appropriate for those customers who have not elected a new price plan at the time that their frozen price plan is eliminated. Members of the Board and the public expressed concerns around moving EZ-3 customers to the Basic price plan when EZ-3 is sunset.

Management, the Board, and stakeholders are aligned in the desire to maintain SRP's strong TOU participation. Management's concern with defaulting customers on EZ-3 to the new E-28 price plan is that there is no overlap in on-peak hours for E-21 and E-28, and only one hour of overlap for E-22 and E-28. In fact, for the 173,000 customers on E-21 today, the 3-6 p.m. on-peak period ends right when E-28's begins (see **Figure 2** below). While Management expects that most of these customers will engage with our communication material and switch to a new TOU price plan of their choosing, those that don't, if moved to E-28, may not realize their TOU hours had changed and may respond to the wrong on-peak hours. The risk is then threefold: it would likely be an unpleasant experience for these customers, it could potentially result in high bills, and it may result in them opting out of TOU altogether.

Figure 2:



Under Management's sunset plan, shared with the Board on February 6, sunsetting for the EZ-3 price plans starts in December of 2027, allowing time to market the new TOU programs to customers, gather savings data on those customers that elect to switch in the nearer term, and educate the remaining EZ-3 customers on benefits of the new plans. Management expects to be able to maintain SRP's robust TOU participation, while minimizing the risk of potential negative customer experience by forcing EZ-3 customers to E-28 if they have not elected it.

As previously noted, and discussed in detail later in this memo, Management is going to implement a comprehensive TOU education campaign to reach out to customers and educate them on the mechanics and benefits of the E-28 price plan.

5. Online Availability of Pricing Process Data Files

During this pricing process, Board members and stakeholders have expressed dissatisfaction with the method in which requested data files have been provided. In response to this feedback, Management commits to expanding the online availability of electronic data files for the next pricing process.

6. Credit Provisions for E-67 Customers

SRP expects significant load growth driven by various large-load customers, and therefore Management has proposed modifications to the E-67 price plan to address concerns that SRP customers may bear the costs incurred to provide the large-load customer-requested capacity, energy, etc. should the load not materialize as forecasted. Management will take measures (which may include, as necessary, updating SRP's credit policy and proposing changes to SRP's Rules and Regulations) to address appropriate security requirements from new E-67 large-load customers to further protect SRP and its customer base for the duration specified in the customer's agreement with SRP.

7. Comprehensive TOU Education Campaign

At the Special Board meetings, Board members and stakeholders expressed continued support for TOU programs. Management agrees that TOU will continue to be an important part of SRP's offerings going forward and will reach out to customers and educate them on the mechanics and benefits of the new TOU price plans. Management will develop and execute a comprehensive education campaign with the goal of ensuring that customers are informed and have an opportunity to switch to one of the new TOU price plans.

Additional Discussion Topics

This section will walk through key subject areas of focus during the Board meetings, including topics of particular interest to customers and stakeholders, and will then address other proposals received by Management.

Timing of Board Decision and Implementation

Management has been public about the need to modify TOU hours in a pricing process for more than three years. In January 2022, Corporate Pricing presented on evolving TOU hours to the Board's Finance and Budget Committee, offering a preliminary conclusion that "By 2025, EZ-3 and TOU programs may no longer be aligned with highest-cost periods," and suggesting the possibility of proposing on-peak hours of 5 to 10 p.m. and 6 to 9 p.m., with daytime super off-peak hours. The Integrated System Plan in 2023 concluded that the TOU hours needed to be updated, which served as the basis for new TOU hours being one of the key elements in Management's Proposal. In the FP25 financial plan process shared publicly with the board a year ago, Management discussed a need for a price process. Management has followed the timeline discussed with the board nearly a year ago.

Board members and stakeholders expressed concerns about the timing of the pricing process. Some recommended a delay of the Board decision, given the roughly 8 months between the current anticipated Board decision date (February 27, 2025) and the proposed implementation of the pricing changes (November 2025 billing cycle). This time frame allows SRP much needed time for critical actions, including:

- Develop and deliver communications and education of pricing changes to customers to allow them to have a full understanding of the updates to price plans, including new TOU hours.
- Update all related technology infrastructure including the billing system, the to-be-re-launched price plan comparison display, and various other customer-facing systems in time to implement pricing changes all during a soft code freeze for the major overhaul of our customer information system.

Additionally, many customers, in particular our business customers, have expressed desire for as much advanced notice as possible for pricing changes as it allows them time to plan for and budget upcoming expenditures and in some cases make modifications to employee shifts and equipment operations to be responsive to changing TOU hours.

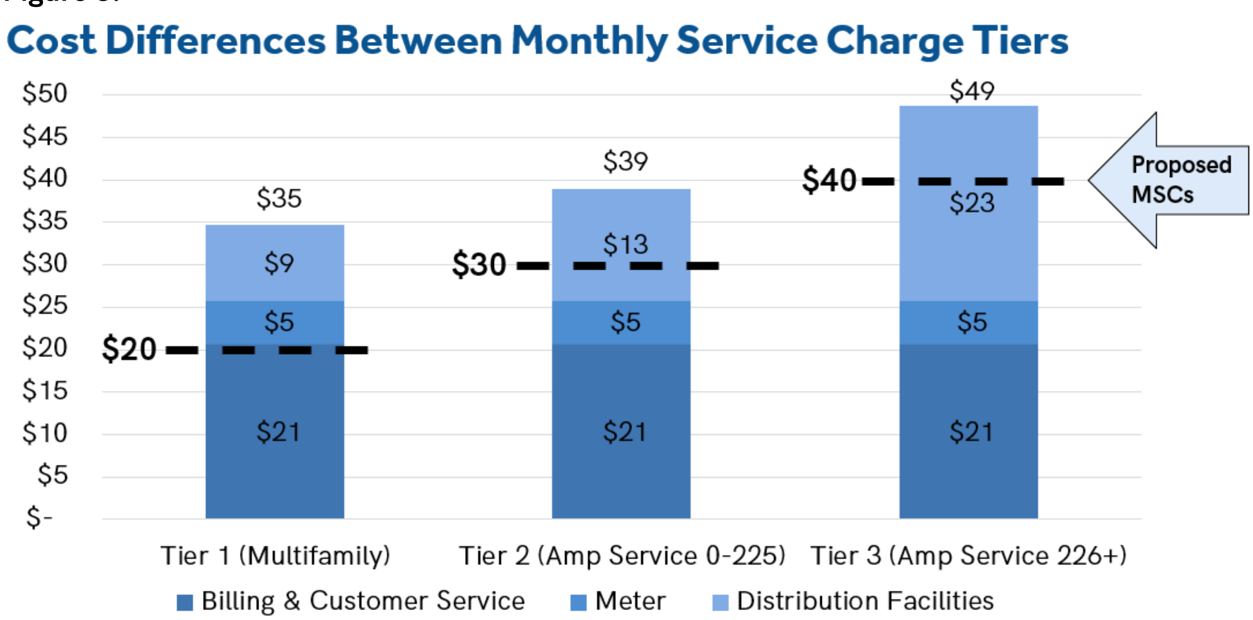
The pricing process timeline and structure SRP is following is consistent with Arizona statute and with pricing process timelines SRP has followed for decades. It balances the need to allow sufficient time for customers and stakeholders to understand and have an opportunity to ask questions of Management and the Board, to allow experts, including the Board's consultant, to evaluate the proposal and provide input to the Board, and maintains a timeline that minimizes potential risks associated with regulatory lag faced by many investor-owned utilities. SRP's governance process for ratemaking is a credit strength for SRP, as noted by both Moody's and Standard & Poor's, which regularly assess SRP's creditworthiness.

Management recommends no modification to the noticed timelines.

Monthly Service Charge (MSC)

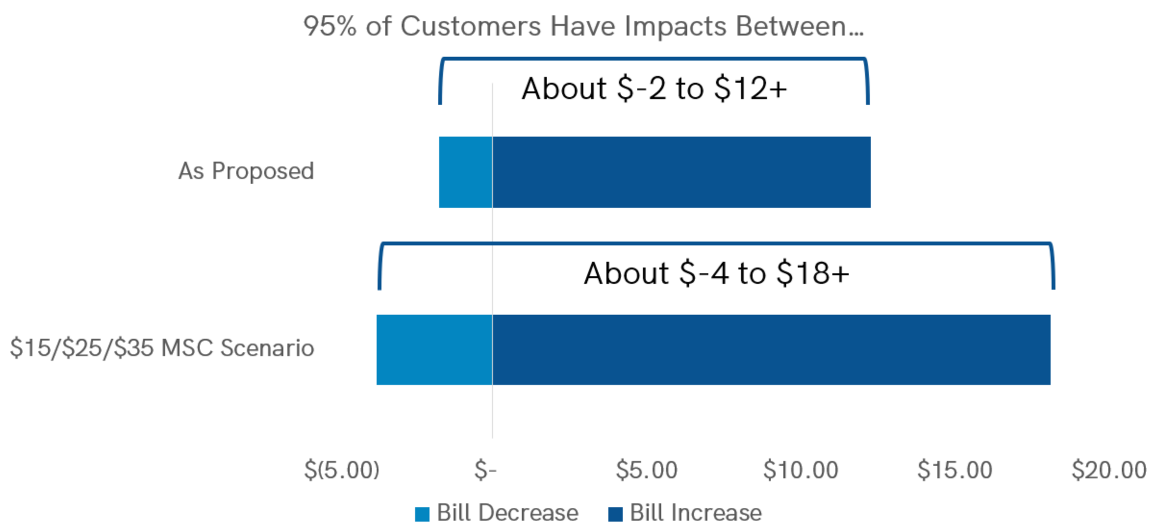
SRP, like most electric utilities, operates in an environment where most of its expenses and investments are fixed costs which are incurred regardless of the level of sales. However, under current price plans, a large portion of these costs is being recovered through variable per-kWh charges. For residential customers, the fixed costs not recovered with the current MSC are currently being recovered in the per-kWh energy charge. Better aligning SRP's fixed and variable pricing structures with costs would improve fixed cost recovery and better adhere to the pricing principles of Cost Relation and Equity as seen in **Figure 3.**

Figure 3:



With significant analysis, Management has also found that MSC increases can also help with the principle of Gradualism. Ultimately, customers care most about their total bill and are less concerned with changes to various subcomponents. By including the necessary revenue increase in the MSC, with less change to the per kWh prices, the impact to customers is much less variable. For example, as seen in **Figure 4**, with Management's proposal ($20/$30/$40), 95% of customers have between a $2 decrease and $12 increase. But under an alternative MSC proposal of $15/$25/$35, both ranges extend such that 95% of customers would then have impacts between a $4 decrease and $18 increase.

Figure 4:



As such, management's proposal of $20/$30/$40 is also better from a Gradualism perspective.

Several stakeholders and Board members expressed reservations about increasing fixed charges citing two key concerns: 1) that higher fixed charges can reduce incentives to conserve energy, and 2) that they may disproportionally impact limited income customers. Management proactively and repeatedly engaged with community partners to understand those concerns.

Under Management's Proposal, customers have a strong financial incentive to conserve energy and limited income customers are generally expected to be better off than they would be if the proposal is not approved.

Given the changes to the FPPAM since the 2019 pricing process, the signal to conserve energy on SRP's two most popular residential price plans has increased between 11% and 24%. For example, a Basic E-23 customer who used 100 kWh less a month in 2019 would have saved $9.48 per month. On today's current prices, they would save $11.80, an increase of 24%.

Based on Management's Proposal, the bill savings to customers who conserve energy or invest in energy efficiency is maintained. See the table below:

Table 3:

Bill savings when a customer uses 100 kWh less every month		
Price Plan	**Current Prices**	**Proposed Prices**
E-23*	- $11.80	- $11.89
E-21**	- $23.03	- $22.95
E-26**	- $18.08	- $18.08
E-28**		- $20.58

*assumes monthly usage below 2,000 kWh

**assumes reduction occurs in the on-peak period

Conservation is only one aspect of sustainability. Increasingly, SRP's sustainability objectives require electrification. One finding from the ISP: "The reduction in carbon emissions by replacing internal combustion engine vehicles outweighs the incremental emissions from EV charging loads. Under the current rate structure, light-duty and heavy-duty vehicles primarily charge overnight, when grid emissions are higher. However, shifting EV charging to daytime periods, when emissions are lower, through managed charging programs and/or pricing plans, could lead to further emissions reductions. Similarly, although incremental load from heat pumps increases carbon emissions on the grid, carbon emission reductions from offsetting gas usage is much more significant."[2] Management's $20/$30/$40 MSC proposal helps to enable low prices during the super off-peak low-carbon daytime periods, which is expected to assist with electrification and emissions reductions; increasing per-kWh prices is inconsistent with the pricing principle of Cost Relation, and would serve as a disincentive to move from gas to electric heating, or from gas to electric vehicles.

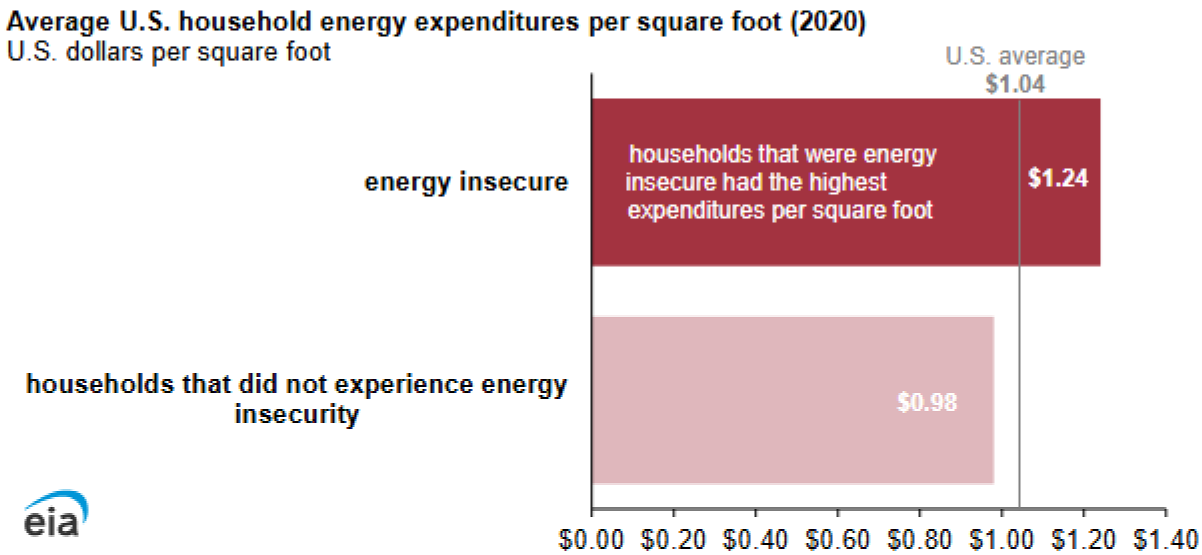
While concern has been raised around potential negative impacts to limited income customers given an increase in MSC, limited income customers in fact benefit on average under the proposal because many limited income customers will be on Tier 1 (multifamily), with the MSC remaining at $20, where it has been since 2015. The remainder of limited income customers are largely on Tier 2 (single family, 225 amps or below), with only a few hundred on Tier 3 (over 225 amps). While Tier 2 and Tier 3 customers will see an increase in their MSC, with the proposed increase of the EPP credit from $23 to $35 a month, more than 93% of current EPP customers will receive a decrease compared to current bills, even with the proposed overall increase to residential customer bills.

Limited incomed customers face unique challenges in potentially conserving energy or invest in energy efficiency equipment, and may be less able to conserve than other customers. Because they are more likely to rent, they may have limited or no control over appliance or efficiency choices. If they own their residence, they may be less able to afford to upgrade appliances, pay

[2] SRP's 2023 Integrated System Plan Report, page 127

for weatherization, or install more insulation to reduce energy usage. Nationally, limited income customers spend more per square foot than other customers on electricity, likely due to living in less efficient homes or having less efficient appliances, as shown below:

Figure 5:



Data source: U.S. Energy Information Administration, 2020 *Residential Energy Consumption Survey* (RECS)

Efforts to encourage energy efficiency by decreasing the MSC and increasing per-kWh energy charges may place a greater energy burden on limited income households with high energy use. If the MSC is reduced and energy prices increased compared to Management's Proposal, more EPP customers would see a bill increase.

Overall, under Management's $20/$30/$40 proposal, relative to alternative proposals with lower monthly service charges:

1. There is improvement in Cost Relation
2. There is improvement in Equity
3. There is improvement in Gradualism
4. More Limited Income customers have lower bills (after including the higher EPP credit)
5. Customers continue to have a strong financial incentive to conserve energy
6. Customers have an increased incentive for electrification.

Management recommends no modification to the Amended and Restated Proposal with respect to the Monthly Service Charge for residential and residential solar price plans.

TOU Hours and Pricing

Management has been public about the need to modify TOU hours in a pricing process for more than three years. In January 2022, Corporate Pricing presented on evolving TOU hours to the

Board’s Finance and Budget Committee, offering a preliminary conclusion that “By 2025, EZ-3 and TOU programs may no longer be aligned with highest-cost periods,” and suggesting the possibility of proposing on-peak hours of 5 to 10 p.m. and 6 to 9 p.m., with super off-peak hours from 8 or 9 a.m. to 3 or 4 p.m., pending further study.

Management conducted that further study (with extensive stakeholder engagement) throughout, and after the conclusion of, SRP’s industry-leading ISP. Specifically, in November 2022, the Board approved the current E-28 Price Plan (referred to as “SRP’s Daytime Saver Pilot”) to study 6-9 p.m. on-peak hours and daytime super off-peak hours. Management’s public engagement efforts on evolving TOU programs included a technical working session in July 2023 on evolving TOU programs. At the conclusion of the ISP, as part of ISP Action #1, Management continued its customer research and study efforts, which included evaluating the E-28 TOU periods to inform the next pricing process. Those efforts resulted in Management’s development of the new proposed E-28 Price Plan, which is based on SRP’s Daytime Saver Pilot, but with some small improvements.

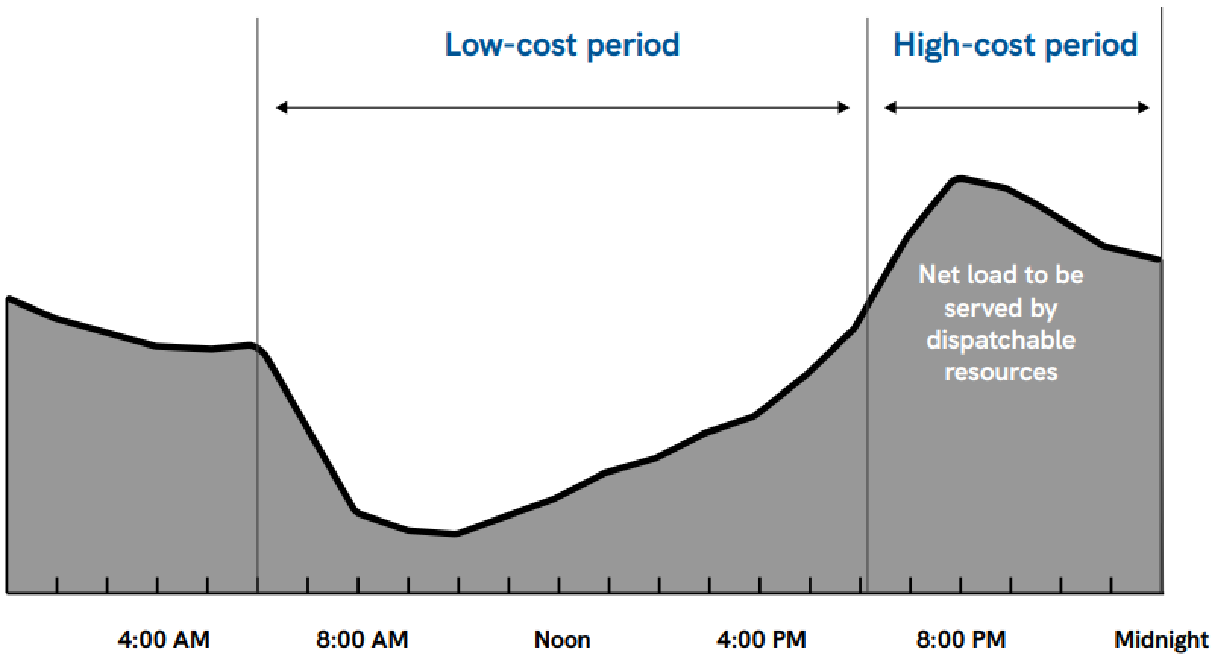
ISP Action #2 (Time-of Use Evolution) required SRP to, among other things, undertake a pricing process informed by the ISP to determine how TOU plans should evolve, and propose new TOU hours, including a super off-peak period.

These ISP Actions items were part of the Board-approved System Strategy of Evolution of Customer Programs & Pricing, intended to evolve pricing and customer programs to improve economy-wide carbon reduction and pace infrastructure development. The new TOU hours in Management’s Proposal are driven by this System Strategy. Under Management’s Proposal, residential customers (including those with solar) can choose either E-28, with a 6-9 p.m. on-peak period, or E-16, with a 5-10 p.m. on-peak period that includes an average demand charge.

TOU hours are designed to reflect low and high-cost hours in the near-term to facilitate avoiding longer term capacity costs. As utility investments are typically decades long, TOU hours should encourage avoidance of unnecessary investments in capacity through sending adequate signals. Resource planners are currently making resource decisions for 2029 and 2030, where the hours of 6-9 p.m. are clearly the most critical, and when the 9-10 p.m. hour moves from the 5th most likely hour for SRP to experience a need for additional capacity to the 4th most critical hour, as estimated by the Loss of Load Probability (LOLP) study. The sooner SRP customers are responding to appropriate price signals, the sooner SRP planners will be able to incorporate their usage patterns into SRP’s resource acquisitions, thereby reducing the amount of required peaking resources.

Figure 6:

SRP's 2023 Integrated System Plan Report Figure 6.30: As the system transforms, net load is the new target for pricing and programs



While some Board members and stakeholders have expressed support for the TOU hours of both E-28 at 6-9 p.m. and E-16 at 5-10 p.m., some have suggested that the E-16 on-peak period should be aligned with the three-hour period of E-28. However, these two price plans were intended to provide customers with two distinct options: a non-demand price plan with a three-hour on-peak period, and a demand price plan with a five-hour on-peak period. The five-hour on-peak period for the E-16 demand price plan is a reduction from today's six-hour demand period, is consistent with all proposed demand-based business TOU price plans, and better aligns with capacity costs than a three-hour period. Fewer on-peak hours would result in a lower percentage of the capacity costs being covered by the on-peak period, and thus a lower on-peak price, and would be taking away customers' choice to respond to price signals and avoid those costs, diminishing the incentive to conserve during critical hours. If E-16 on-peak hours were reduced to 6-9 p.m., there would be very little differentiation between the two price plans and Management would propose eliminating the price plan altogether.

Management does not recommend introducing new price plans that are missing the three most critical hours for which resource planners are procuring resources. Management recommends against introducing an option with a 5-8 p.m. on-peak window. As early as 2028, a 5–8 p.m. window is missing the 3rd most critical hour: 8–9 p.m. If a 5-8 p.m. option was created, it would need to be sunset and eliminated by 2027 which would create unnecessary confusion for our customers. Similarly, Management firmly recommends against introducing a 4-7 p.m. option which would lead to increased capacity costs and higher bills for our customers, as those hours would encourage increased usage during the middle of our most critical hours as customers suddenly turn back on the AC and other electrical equipment at 7 p.m. Even last summer on the peak day in July 2024, our batteries were discharging from 6 to 9 p.m.

In terms of the price levels of the TOU periods, some Board members and stakeholders have expressed concern about differentials or price ratios between the different periods. In particular, much interest was expressed in a 3:1 ratio between on-peak and off-peak pricing. While the Board's consultant opined (in the February 6 Special Board meeting) that it's most appropriate to base price deltas on cost, rather than pre-defined ratios, the proposed E-28 on-peak to off-peak ratio is indeed over 3:1 in the summer peak season, the season that is far and away most responsible for driving capacity need. Further, when including the super off-peak period, E-28 has two ratios of 3:1 or higher in every season.

Beyond redefining on-peak hours to better align with costs, Management's Proposal also includes a super off-peak period on all new TOU price plans that encourages the use of solar resources on the grid and in the markets in which SRP participates. This provides two benefits: it lowers SRP customer costs, and it also lowers emissions. Under Management's Proposal, customers have more hours and stronger signals than current TOU hours to shift load out of higher-cost periods and into periods of lower cost. Finally, customers have expressed a preference for consistent TOU hours year-round, and there is a consistent marginal cost difference in each season to support the proposed periods year-round.

Management recommends no modification to the Amended and Restated Proposal with respect to the TOU hours for E-16 and E-28.

Residential Solar Price Plans

An important goal of this proposal was to be responsive to common concerns from residential solar customers and advocates as well as Board members, and, consequently, Management's Proposal includes the following:

- The same TOU price plans for solar and non-solar customers
- The same MSC for solar and non-solar customers, which is lower than today's MSC for solar customers
- A 23% increase to the export rate based on a more transparent market price
- In response to stakeholder feedback, keeping the four existing residential solar price plans available for new signups until Nov 2029

Management is further exploring the following additions separately from this pricing proceeding:

- Through a separate but concurrent proposal, the development of QF-24, to provide customers with distributed generation with the option of being treated as a Qualifying Facility.
- Renewable Energy Certificate (REC) Purchase Program, as mentioned in this document.
- Virtual Power Plant (VPP) Pilot Program, as mentioned in this document.

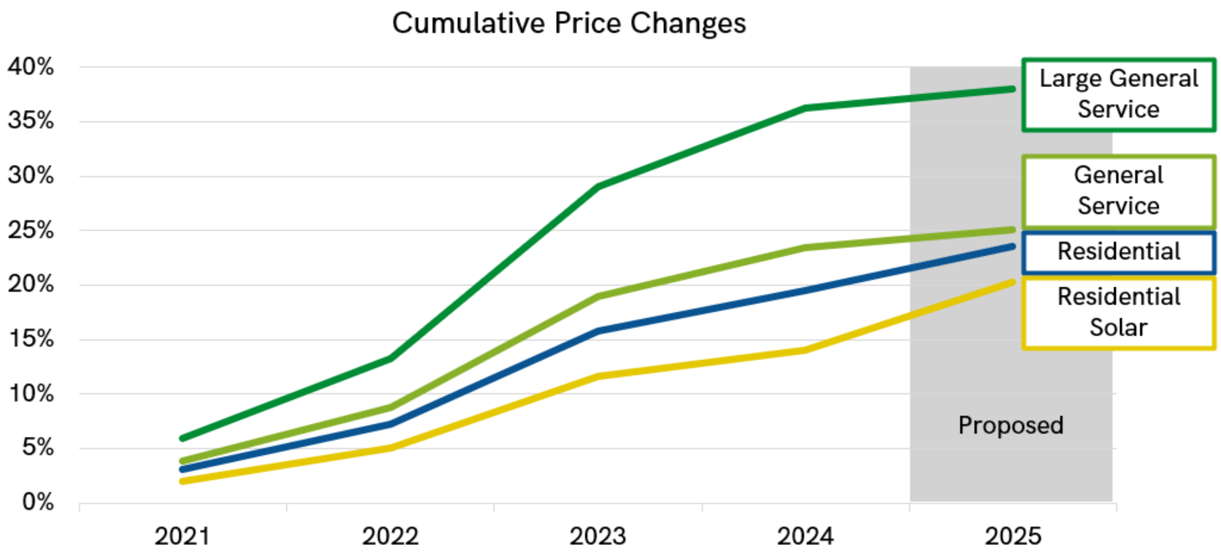
Management tasked staff to ensure the new price plans could re-unify residential and residential solar customers into a single class, without reintroducing cost shifts. The result is the inclusion in Management's Proposal of a 3-hour on-peak option for solar customers, a MSC that is the same as non-solar customers, compelling demand and non-demand options, and an initial increase to the export credit.

Beyond these items, Management's Proposal makes the export rate more transparent by basing it on a publicly available market index. Finally, as discussed further below, Management anticipates, after the conclusion of the pricing process, developing a new residential solar program under which SRP would offer to purchase RECs from distributed generation customers.

Several solar advocates recommended treating residential solar price plans more similarly to the rest of the residential price plans. Many of their specific requests were already addressed in the 2019 pricing process (e.g., not requiring participation under a price plan with a demand charge) or in Management's Proposal (e.g., equalizing the MSC, allowing participation on the same TOU price plans as standard residential, and providing a price plan with a three-hour on-peak window).

Some commenters also requested that residential solar price plans have the same average revenue increase as the residential price plans, lowering their revenue change from 5.5% to 3.4%. As Management noted in the February 11 Special Board meeting, the residential solar class has the lowest percent of revenue as a share of cost to serve. As seen in **Figure 7**, over the last several FPPAM increases, the residential solar class has had the lowest overall revenue increase of any class. To get the residential solar price plans to fully cover their cost of service, an increase of over 30% would have been required, which is not reflective of Gradualism. Management does not recommend lowering the revenue increase for residential solar price plans because a 5.5% increase better balances Equity, Cost Relation, and Gradualism.

Figure 7:



Since the 2019 pricing process, a significant amount of SRP's purchases under Power Purchase Agreements ($448.5M in the Test Year) have been made for capacity reasons. However, the FPPAM price changes from 2021-2024 were allocated by the then-approved FPPAM methodology, which only considered customers' overall seasonal energy usage. Along with the increasing importance of differences between hourly energy costs, this caused the FPPAM revenues for the large general service and general service classes to increase proportionally more than their cost-causation, and vice-versa for the residential and residential solar classes. Management's Proposal gradually realigns FPPAM revenues with cost causation, which balances the pricing principles of Equity, Cost Relation, and Gradualism. As seen in **Figure 8** and **Figure 9**, even with a higher than average 5.5% increase, residential solar price plans have a significantly lower cost recovery than other classes.

Figure 8:

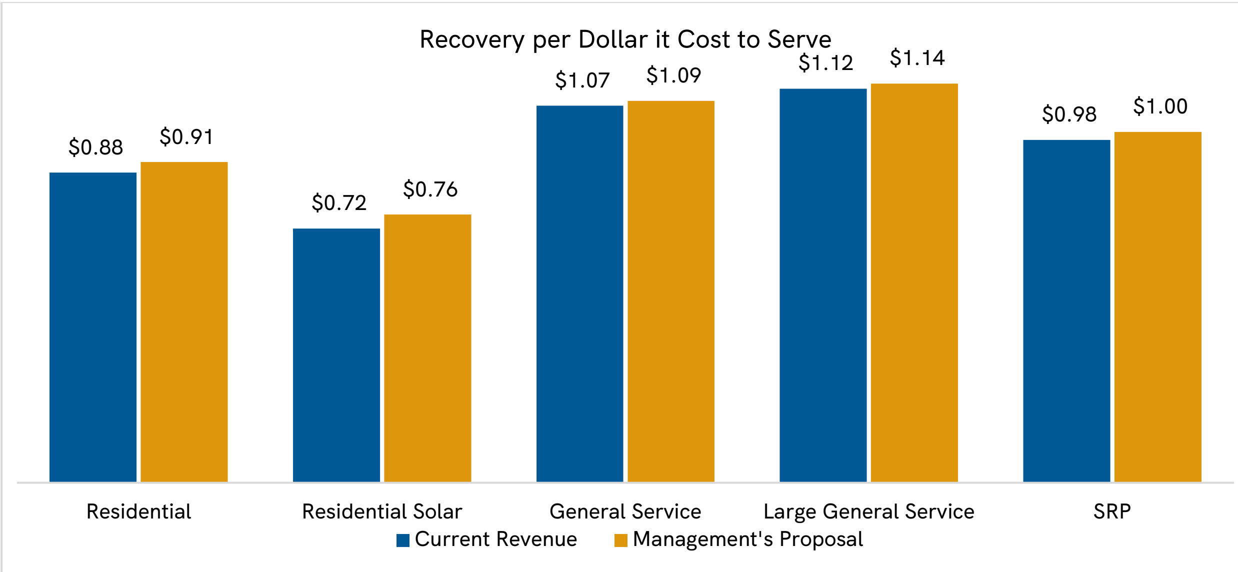
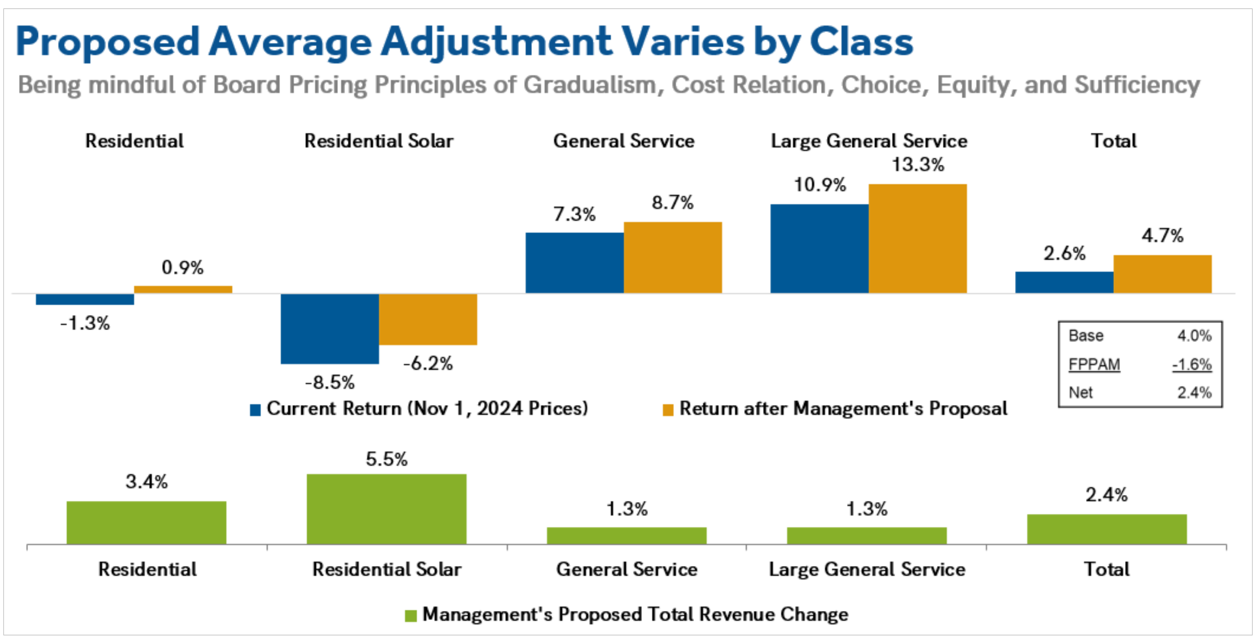


Figure 9:



Management recommends no modification to the Amended and Restated Proposal with respect to the residential solar class price increase.

Carbon Reduction Rider

Management's Proposal includes a new Carbon Reduction Rider under which customers wishing to support the reduction or removal of carbon dioxide emissions would be able to participate in programs developed by SRP with respect to the purchase, use, or retirement of

Delivering water and power®

offsets, allowances or credits associated with the reduction, removal, avoidance, capture, or sequestration of carbon dioxide emissions. Stakeholders expressed concern about potential implications of such a rider and associated programs being put in place. Management has not yet developed specific programs to offer customers, nor have customers expressed immediate interest in such programs at this time. However, Management recommends putting this rider in place should technology, market conditions, and/or the regulatory environment make such programs of interest to customers.

Management recommends no modification to the Amended and Restated Proposal with respect to the Carbon Reduction Rider.

Board Member Proposals

Management has received the Board member proposals set forth below as of February 20, 2025. To comply with Arizona's Open Meeting Law, Management will set out and respond to these Board member proposals at the February 27 Special Board meeting:

Director Clowes Proposal

> "I would like to express my support for changing to a lower monthly service charge than that which is currently being proposed. I support the three tiers of service charges based on system, but I would like to see all of them lowered including multifamily users.
>
> My rationale for lowering the monthly service charge is based on these factors:
>
> 1. Public policy concerns. All users require a minimum of electricity to ensure basic survival. As an electric utility, the provider of a vital public service, it is important to differentiate between basic needs such as air conditioner usage in the summer months and refrigerated medications from more optional uses of power such as heated pools, holiday lights, and the like. It is my contention that the cost of service addressing basic needs should be as affordable as possible.
> 2. A lower monthly service charge combined with a higher volume metric rate encourages conservation. The proposed volume metric rate does not have a sufficiently significant impact on a user's bill so as to encourage conservation.
>
> In summary, I would encourage management putting forward a proposal lowering the monthly service charge combined with a tiered volume metric rate based on usage. By doing so, we could achieve better serving our customers' needs while encouraging energy conservation."

Director Kennedy Proposal

> "1. Super off peak rate for schools

2. Create Tariffs for
    Low income/No income
    Veterans/Veteran spouses
    Houses of Worship
3. Do away with Demand charges for Solar customers
4. Peak hours 4pm to 7pm
5. Create a Pricing Comparison tool and list it on the bill for the first year after the implementation of rate hike. Place on website for customers to utilize.
6. Create an explicit Tariff for DATA CENTERS (they should bear the cost for their usage)
7. Wildfire 2 tier proposal
8. PLEASE CREATE A DOCKET SYSTEM SO THAT THE PROCESS BECOMES USER FRIENDLY!
9. Create Energy Efficiency and Conservation measures with incentives"

Management's Response to Certain Recommendations

AES Defined Proposal

AES Defined presented three recommendations to the Board on February 11. The first was to modify the proposed revenue increase among the general service price plans. Currently, Management's Proposal targets a 1.3% revenue increase from both E-32 (TOU) and E-36 (non-TOU) general service price plans. AES Defined recommended that the revenue increase for E-32 be lowered to 1.0% through lower off-peak kWh prices, and that the revenue increase for E-36 be raised to 1.4% through kWh and/or kW prices. Returns for E-36 are already higher than E-32, meaning that this recommendation would further depart from the Cost Relation and Equity pricing principles. Thus, **Management does not recommend adopting this proposed modification.**

The other two recommendations presented by AES Defined pertained to residential demand price plans. One was to add a tiered demand structure to the proposed E-16 price plan and the other was to create a new additional residential demand price plan based on maximum on-peak kW (with tiered demand structure). In response to significant stakeholder and Board member feedback over several years, as well as SRP's market research, Management's Proposal seeks to simplify the residential price plan portfolio along with the plans themselves. Management's proposed E-16 price plan reflects costs without the unnecessary complexity of a tiered demand charge. Furthermore, adding another residential demand price plan would further complicate the suite of residential price plan offerings that the proposal aims to simplify. **Management does not recommend adopting AES Defined's recommendations.**

Freeport McMoRan Proposal

At the February 6 Special Board meeting, Freeport McMoRan requested a modification to the revenue increases among the large general service class of price plans by raising the overall price increase for E-67 customers and providing an overall bill decrease for E-65 customers. Management's Proposal is that all large general service price plans receive a net 1.3% increase. The current return of all large general service price plans is above the proposed system average of 4.7%, with E-65 at 16.7% and E-67 at 8.3%. With the necessary changes to time-of-use hours and material changes to the E-67 applicability requirements and kW charges, Management's Proposal emphasizes Gradualism with respect to proposed net revenue changes by class and sub-class. Essentially, Freeport McMoRan is requesting that the proposal be modified to move towards Equity and Cost Relation with less consideration to Gradualism. Management will continue to monitor the relative returns of classes and sub-classes going forward, but **Management does not recommend adopting Freeport McMoRan's recommendations.**