February 20th, 2025

Dear Salt River Project (SRP) Board of Directors and Management,

Re: SWEEP's Comments on SRP's FY25 Pricing Process

The Southwest Energy Efficiency Project (SWEEP) appreciates the opportunity to submit our comments regarding the Salt River Project (SRP) 2025 Pricing Process to Management on the Board of Directors ("Board"). We also thank Management for meeting with us to discuss essential parts of the Pricing Process.

As a stakeholder that has engaged in SRP's ratemaking for decades, SWEEP is pleased to prepare recommendations for the Board about two important issues in this process: the newly proposed residential tiered Monthly Service Charge (MSC) and the time-varying price plans called E-16 ("SRP Manage Demand 5-10 pm and Save") and E-28 ("Conserve 6-9 pm and Save"). In summary, SWEEP recommends that the Board adopt our three amendments to Management's Pricing Proposal:

1. Lower the Tiered MSC by an average of ~30% and shift these costs into the energy (per kWh) charges within each price plan.
2. Launch a comprehensive TOU education campaign to increase E-28 price plan enrollment for all customers – including existing TOU and EV customers.
3. Maintain the same three-hour on-peak period for both the E-16 and E-28 price plans while requiring customers to review demand charge education materials before enrolling in E-16.

AMENDMENT #1: LOWER THE TIERED MSC BY AN AVERAGE OF 30%; INCREASE ENERGY (PER KWH) CHARGE

While Management asserts that all costs in the tiered MSC are fixed and cost-based, SWEEP is still very concerned that ***doubling*** the fixed charge for more than 68%[1] SRP residential customers sends a confusing price signal to customers and reduces the financial benefits of energy conservation and efficiency investments. An expensive MSC means customers pay a large portion of their bills regardless of how much electricity they use, making it harder for households to control their costs by reducing energy consumption. This disproportionately impacts limited-income power users, as most Economy Price Plan (EPP) customers (~53%) would be moved to the MSC's Tier #2.

The primary driver of the MSC's increase is the decision to include a large portion of the variable distribution system costs in the fixed charge, which is not the intent of an MSC. In its Pricing Proposal, Management increased the component of the MSC known as "Distribution Facilities" to include the variable distribution costs of transformers, overhead wires, and poles. These are shared infrastructure investments to meet peak demand and move energy across the system for all customers.

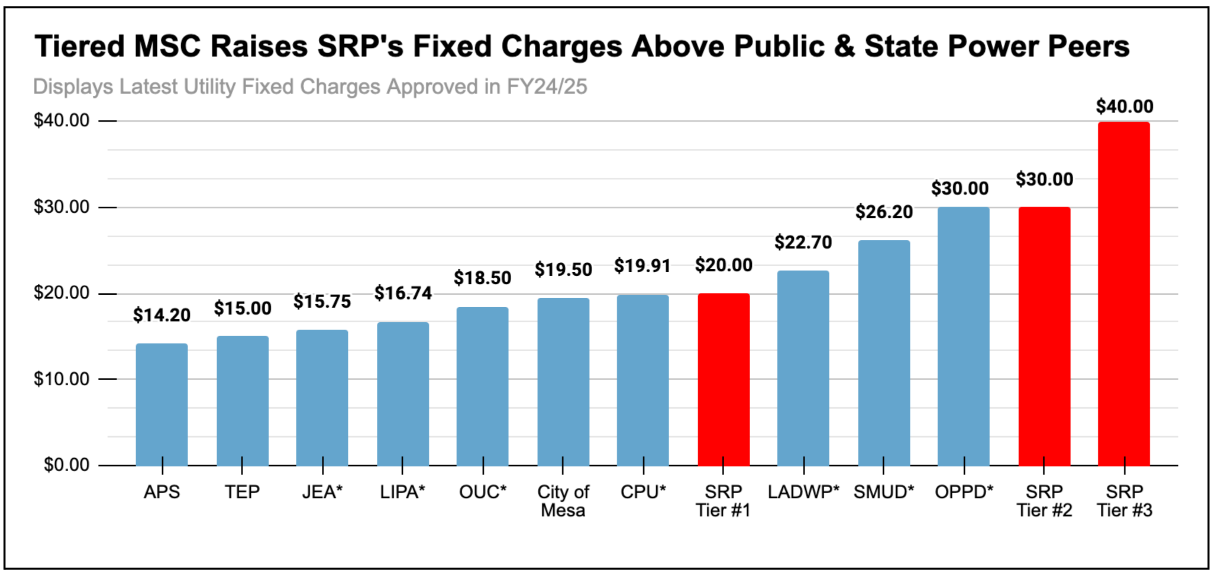
Fixed charges should only cover costs that change based on the number of customers, not the fixed costs of the entire system. Distribution systems (as designed) deliver energy 24/7, and their components are sized based on customer demand. As such, demand-related and energy-related costs should be recovered

[1] Figures provided to SWEEP in a data response from SRP.

through energy (per kWh) charges, while the MSC covers customer-specific costs—such as meters and billing.[2] Including other variable distribution costs in the MSC goes against standard ratemaking principles,[3] as these costs do not directly vary with the number of customers.

Limiting customer-related costs to the meter, service drop, and billing/collections ensures a cost-based approach where customers are only charged for the costs they directly incur. Classifying demand and energy-related costs as customer-related artificially inflates the MSC, which will overcharge some customers while undercharging others.

SRP can maintain a rate structure that aligns costs with usage, encourages efficient energy use, and supports customer control over their bills by limiting fixed charges to customer-related costs. This approach keeps SRP's fixed charges closer to the levels its peer public and investor-owned utilities offer their residential customers. Below is SWEEP's updated figure comparing SRP's three-tiered MSC proposal to the latest utility fixed charges approved in 2023 and 2024 for the FY24/25 pricing cycles. See Appendix A for a comparison of larger investor-owned and public power utilities' fixed charges relative to the size of residential customers in their service territory.



Note: *Utilities marked with an asterisk (*) were included in documents from the Jan. 31st Meeting.*

In conclusion, SWEEP recommends eliminating the variable distribution facility costs included in the tiered MSC and focusing exclusively on customer-related and the minimal fixed distribution costs. This amendment would lower the tiered MSC by, on average, ~30% across all the MSC tiers and increase the energy charge so that customers have more control over their monthly bills.

AMENDMENT #2: LAUNCH A COMPREHENSIVE TOU EDUCATION CAMPAIGN TO INCREASE E-28 ENROLLMENT FOR ALL CUSTOMERS – INCLUDING EXISTING TOU AND EV CUSTOMERS

SWEEP supports the proposed E-28 Price Plan as it simplifies customer time-based rates and aims to reduce peak demand through rate-driven load management. However, as we do not endorse mandatory TOU price plans, we recommend launching a comprehensive education campaign to promote E-28 as the primary residential rate under the following consumer-protecting conditions:

[2] In summary, customer-related costs are the operating and capital costs found to vary with the number of customers regardless, or almost regardless, of power consumption.
[3] Bonbright, James C. 1961. Principles of Public Utility Rates. Columbia University Press. p. 347.

A. The on-peak window should remain limited to three hours to ensure manageability for customers.
B. Customers should have the flexibility to opt out of the program without facing only financial barriers or fees.
C. A temporary bill protection period should be implemented, allowing customers to compare their actual costs under the E-28 plan with their previous rate and enabling them to switch if E-28 doesn't work for their household.
D. Vulnerable groups, such as medical baseline customers, should be identified proactively to ensure the TOU structure does not disadvantage them and should be proactively offered an alternative if needed.
E. Prepare for customers on a current TOU price plan or an EV-related price plan to switch to E-28 quickly, as these customers already understand how to fluctuate energy usage based on the time of day and can assist SRP in tailoring its message to customers.
F. Ensure the education campaign effectively reaches low-income, elderly, and non-English-speaking customers by providing multilingual materials and collaborating with trusted community organizations to distribute the information.

This approach will ensure that E-28 enrollment is accessible, fair, and beneficial for all customers while fostering a smooth transition to the new rate structure.

AMENDMENT #3: MAINTAIN A THREE-HOUR ON-PEAK PERIOD FOR E-16 & E-28; REQUIRE DEMAND CHARGE EDUCATION BEFORE E-16 ENROLLMENT

We formally recommend maintaining a three-hour on-peak period for the E-16 and E-28 price plans to align with SRP's highest-cost hours while keeping rates manageable. This alignment will improve price differentials and encourage customers to be responsive to peak pricing. We recommend tailoring enrollment to customers best suited for demand-based pricing, such as those with solar panels or electric technologies, such as heat pumps and heat pump water heaters. Additionally, before customers can enroll on E-16, we recommend that SRP require customers to review demand-charge educational materials to ensure they understand demand charges before registering and are also made aware that they can opt out of the price plan if they find the rate unmanageable.

This educational campaign should also feature consumer protections such as temporary bill protection periods to allow customers to compare their actual costs under the E-16 plan with their previous rate and enable them to switch if a demand charge doesn't work for their household.

In conclusion, SWEEP respectfully urges the Board to adopt our three amendments before it decides on the entire Pricing Proposal. We appreciate SRP's ongoing commitment to stakeholder engagement and look forward to collaborating on policies that benefit customers while supporting SRP's broader corporate, customer, and sustainability goals. Please do not hesitate to ask questions or for further discussion.

Sincerely,

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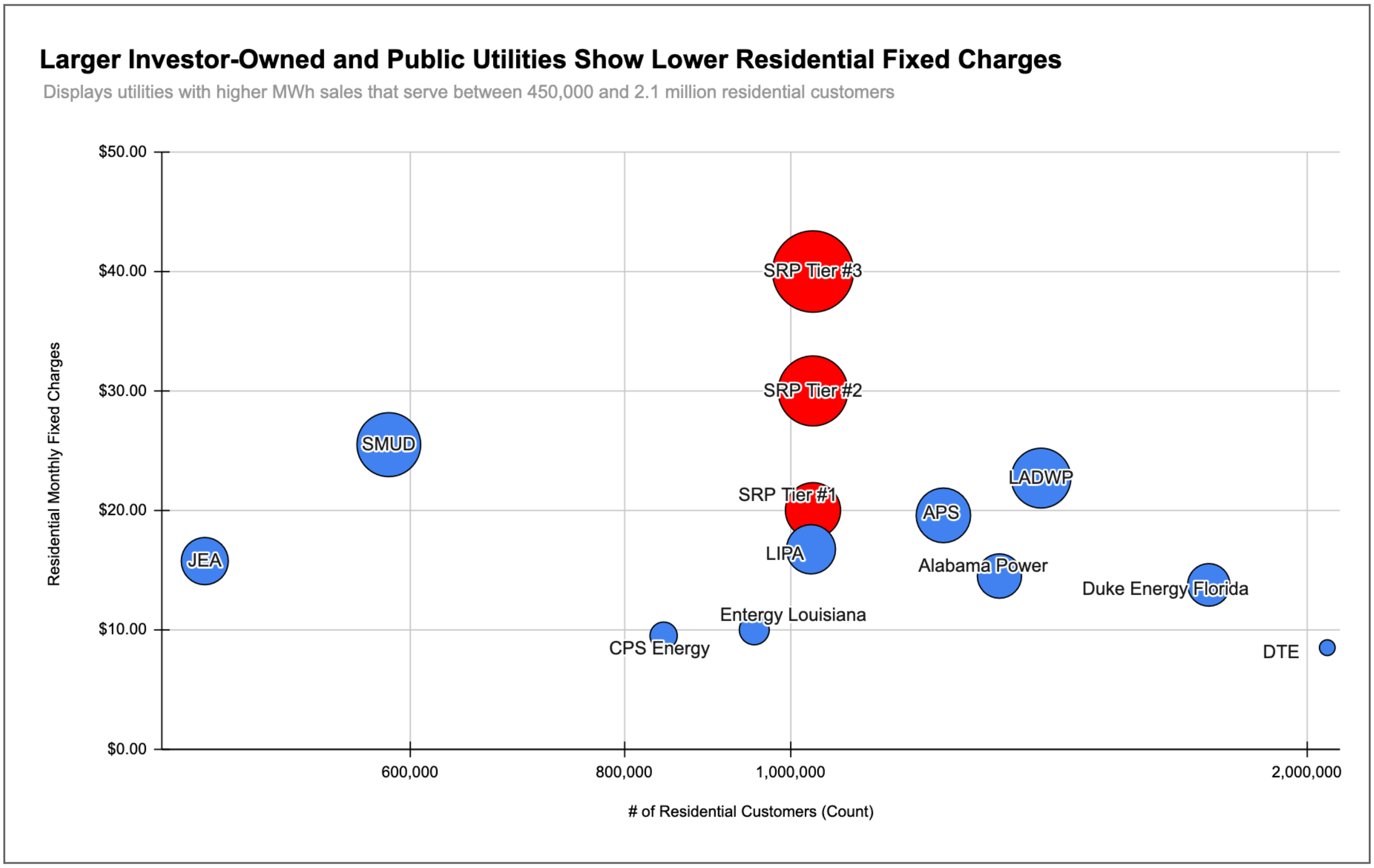
APPENDIX A: Comparison Of Larger Investor-Owned And Public Power Utilities’s Fixed Charges Relative To The Size Of Residential Customers In Their Service Territory



Data Sources: EIA 861 Annual Electric Power (Released Oct. 10th, 2024) and the latest Residential Rates Schedules offered by the ten featured utilities. Circle size is based on the highest-priced residential fixed charges.