

Examples of Cost Management Initiatives at SRP

Power System

- SRP has adopted an operational strategy for the Coronado Generating Station (CGS) in St. Johns that will reliably and economically meet customer load growth while allowing SRP to meet its 2035 Sustainability Goals to reduce CO2 emissions. This strategy involves splitting the selective catalytic reduction (SCR) system on CGS Unit 2 with CGS Unit 1. In addition, both CGS units will be retired no later than 2032. This approach will result in less CO2 emissions than if CGS Unit 1 were retired in 2025, while maintaining critical capacity to serve SRP customer needs during the highest demand seasons. SRP estimates the work to reengineer the SCR systems to accommodate both CGS units will cost approximately \$78 million and is expected to be in service by February 2025.
- Utilized a new vendor which allowed for utilizing existing, refurbished turbines instead of more expensive, new turbines, for the Coolidge and Copper Crossing natural gas expansion projects. This resulted in over \$102 million in total cost savings, as well as a quicker construction timeframe.
 - Copper Crossing Energy and Research Center (Phase 1): In December 2022, the Board approved the continued development at the Copper Crossing Energy and Research Center. In June 2024, SRP completed the installation and commissioning of two flexible gas combustion turbines totaling 99 MW.
 - Coolidge Expansion Project: As part of the approved Coolidge Expansion Project, 12 gas turbines offering 575 MW of new power generation will be constructed. Construction activities commenced in June 2024. SRP expects the first six natural gas turbines to be operational by the summer of 2026, with the remaining six becoming operational by the summer of 2027. This project includes installation of a new 500-kilovolt (kV) switchyard and interconnection into the 500 kV system.
- Asset Management – Ongoing application of asset management principles related to protection, control and telecom infrastructure has enabled the optimization of preventative maintenance frequency and asset lifecycle timeframes.
- Integrated Substation Protection & Control – Further refinement and deployment of the IPACS3 substation design that integrates and consolidates protection and control infrastructure at distribution substations, resulting in lower design, construction, and maintenance costs while enabling outsourced design and construction resources due to standardization.
- Leased Telecom Circuits – Conducted recurring reviews of leased circuits that resulted in discontinuation of service for unused or underutilized circuits. The most recent effort resulted in a reduction of \$420k/year.
- Open Systems International (OSI) Contract Re-negotiation – Renegotiated vendor support contracts for the Energy Management System (EMS) and Advanced Distribution Management System (ADMS) at a 6-year cost savings of \$954k.
- Consolidated substation control cable standards to streamline project design and construction. Eliminated obsolete cables in the warehouse resulting in the retirement of over 33 miles of conductor worth around \$350,000, reducing carrying costs and improving warehousing efficiencies.
- Utilized Asset Optimization risk assessments to identify additional, low risk, 69kV breaker preventative maintenance intervals that could be safely extended from 4 years to 6 years.
- Using drones for substation inspections reduces the need for outages and minimizes the reliance on flight services, pilots, and crews.

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Power System (continued from previous page)

- Asset Health Management and Performance Monitoring processes proactively look at operations and maintenance trends to identify and prevent severe equipment failure problems resulting in significant cost and time savings as compared to reactive maintenance practices.
- 11 of 12 combined cycle gas units have been upgraded with enhanced turbine hardware, which has enabled increased unit capacity, improved emissions, and reduced heat rate/fuel cost.
- Turbine parts for SRP's combined cycle units have been consolidated into a single location resulting in significant inventory reductions.
- Formation of a mobile maintenance crew and focusing the crew to specialize on gas and steam turbine maintenance has resulted in significant savings as compared to contractor costs.
- Innovative engineering, construction, and procurement practices on large generation projects such as Copper Crossing resulted in significant savings over traditional large project efforts.
- Due to changes in the plant operating profile and in compliance with environmental regulations, the staffing at CGS has been reduced by not backfilling non-critical roles that open up from retirements and on-going average attrition, resulting in significant labor savings.

Customer Operations

Several cost-saving measures have resulted in a total savings of \$16.4 million. By leveraging new technologies beginning in FY20 and continuously through FY25, these initiatives have led to significant labor savings and improved efficiencies.

Cost reduction efforts include:

- Removed the Paycenters and introduced walk-in payments with same day ACH. This change resulted in annual savings of approximately \$680,000.
- Implemented Early Warning bank account validation and Transaction Repair services, enabling direct communication between banks to validate account information. These services reduced return items, customer entry errors, and bank account fraud, which decreases costs by \$120,000 annually.
- Negotiated lower prices from vendors for overall meters purchases.
- Implemented Central Prepay which reduces the need for truck rolls, resulting in an annual labor cost savings of \$5.5 million.
- Implemented App First for M-Power customers which reduces procurement, reprocessing, and delivery costs associated with User Display Terminals resulting in an annual savings of approximately \$1.4 million.
- Enhancements to the M-Power App and Computer and Interactive Voice Response (CIVR) systems provide customers more self-service options, resulting in labor savings of \$720,000 annually.
- Deployed Robotic Process Automation (RPA) throughout the organization, automating tasks and streamlining customer interactions, which led to a labor savings of \$750,000 annually.
- Implemented Adobe Campaign/Zeta significantly streamlining the process of sending mass communications to customers, resulting in an annual labor savings of \$190,000.

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Corporate, Planning & Strategy

- Supply, Trading, and Fuels has locked in \$430M of notional savings/discounts for SRP customers by executing 4 prepaid gas deals with total volumes of 368M MMBtus and 1 electric PPA prepay deal.

Financial Services

- As financial market opportunities arise, debt is refinanced at lower interest rates to lower overall interest expense. Over \$2.6 billion of revenue bonds have been refinanced since May 2015. The finalized refinancing transactions achieve net present value interest savings in excess of \$18 million per year, on average.

Supply Chain, Transportation & Flight Services

- Investment Recovery brought in over \$14M in revenue in FY24 as a result of selling scrap metal, materials, and assets that are no longer needed by SRP.
- SRP Purchasing Agents strive to procure goods and services in the most cost effective and efficient manner while meeting or exceeding the quality and delivery expectations of our internal clients. One of the Purchasing Agents' primary goals is to procure goods and services at the greatest economic value to SRP through negotiating, continuous improvements, or preventing/avoiding cost increases.
 - Savings are pursued through any activity that lowers SRP's Total Cost of Ownership for that product, service, or project, such as: lower unit costs/prices, competitive bidding opportunities, waste reduction/process improvements, index savings, finding and mitigating accounting errors, reducing transportation and handling fees, improving quality, and maintenance. Savings are verified as applicable with our internal clients and are based on the improvements to SRP's Total Cost of Ownership as a result of the Purchasing Agents' efforts.

Information Technology Services (ITS)

The measures outlined below have resulted in over \$30M in cost savings or avoidance since FY2021 with the focus on optimizing the management of IT assets and technology vendors.

Software Asset Management

- Consolidating multiple contracts into enterprise agreements to negotiate and garner better discounts
- Harvesting of unused licenses to recoup for redeployment in lieu of increasing license commitments
- Recommending enterprise solution options versus purchasing a new product
- Leveraging enterprise software solutions and retiring redundant software capabilities that reduce financial investments and support resource requirements
- Responding to vendor audit requests to confirm usage and appropriate licensing requirements

Hardware Asset Management

- Improving processes related to infrastructure and end user compute inventory tracking and analysis related to lifecycle schedules, required compute capacity, and transitional test & development environments
- Leveraging enterprise and outline agreements that standardize equipment thus reducing infrastructure equipment and support costs

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Information Technology Services (ITS) (continued from previous page)

Vendor Strategic Management

- Engaging with advisory service firms for contract negotiations and information technology vendor and industry expertise
- Enacting contract management process improvements that increase timeframes to review and finalize terms including pricing, appropriate licensing, and contractual obligations
- Executing multi-year contracts to reduce year-over-year escalation factors and agreement negotiation activities that reduce IT related equipment/solution costs and departmental overhead
- Reviewing and renegotiating Information ITS contractual agreements for more favorable language thus reducing SRP costs, obligations, and liability/risk exposure

Facilities and MCM Services

Over the years, Facilities and MCM Services has made a conscious effort to reduce costs where possible. Below is a highlight of those efforts:

- In support of 2035 Sustainability Goals, the department has initiated many projects and process improvements to reduce carbon and water usage. There has been a positive correlation between usage and the billing amounts, resulting in cost savings across Valley sites.
 - Reduced landscape irrigation at Valley sites by 50%.
 - Increased the cycling of tank water within the existing swamp coolers by 10% to help reduce water consumption.
 - Converted lighting to LED, which can lead to a 50% electricity usage reduction.
 - Implemented a thermal comfort policy in buildings with programmable systems. Doing so has increased operating temperatures on both ends of the spectrum (summer and winter), which is reducing electricity use.
 - Implemented technological improvements on the Building Automation Systems (BAS), which provides real-time data allowing for quick adjustments/fixes.
- Initiated the disposition of four sites with significant aging infrastructure, resulting in cost savings [operations and maintenance (O&M), contract services, and utilities]. The dispositioning of these sites results in a significant capital cost avoidance surrounding major building renovations and capital equipment replacements.
- Shifted to a holistic building renovation approach, as opposed to tackling projects one at a time. This has helped the department save on project-related costs, such as project management and mobilization fees, as well as reduce impacts to the building occupants.
- Identified material that could be manufactured internally for less cost than purchasing from a vendor.
- Improved processes to complete certain work internally (e.g., laser engraving), rather than outsourcing, saving time and money.
- Repurposed furniture and equipment where feasible, rather than purchasing new. This has helped the department reduce overall costs on projects and requests.
- Vacated various leased spaces and rental modular units, resulting in a reduction in lease and O&M costs.

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Facilities and MCM Services (continued from previous page)

- Reduced consumable custodial products onsite by 10% by moving towards a “just in time” stocking model versus “just in case,” and having the vendor stock some additional items for emergencies at their location.
- Began composting all café food waste to reduce general trash costs.
- Installed trash and recycling compactors at the headquarters building, helping to reduce daily dumpster service to weekly. This has also eliminated the need for front-load dumpsters, which have higher costs for service.

Community, Communications & Marketing

- Optimization of in-house print and mail service equipment resulted in future annual capital savings of \$330K (starting in FY24) and one-time proceeds of \$1M (in FY25) from the sale of existing owned equipment.