

San Carlos Irrigation Project – Power Division **Proposed Rate Adjustment**

Public Customer Meeting

March 16, 2022, at 5pm MST time.

Welcome & Housekeeping

Thank you for joining us today!

Important Notes

- This presentation will be posted to SCIP's website at <https://www.bia.gov/programs-services/power-utilities/scip-power>.
- This meeting is being recorded.
- We have muted guest microphones for the duration of this presentation.
- There will be a Q&A session following the presentation. Please limit your individual questions and discussion to 5 minutes.

Rate Adjustment Process

We Are Here →

Step	Date
SCIP Review of Rates	Completed
Public Meeting	March 3 rd , 2022
Stakeholder Meetings	March 10 th , 11 th , 2022
Public Meeting	March 16 th , 2022
Public Comments Due	April 11 th , 2022
Agency Review	
Final Federal Registry Notice of Rate Adjustment	Expected May 2022
New Rates Become Effective	Expected July 1 st , 2022

About SCIP

- SCIP was created by an act of congress in 1928 to facilitate the delivery of water for the purpose of irrigating Indian/ non-Indian lands for agricultural development.
- SCIP's service territory stretches across Pinal, Pima, Maricopa, Graham, and Gila Counties.
- SCIP's electrical system includes 28 substations, 242 miles of 69-kV transmission, and 1,670 miles of distribution lines.
- In 2021, SCIP consumed 260,000 MWh's of Electricity. SCIP's Peak Demand was 67.078 MW
- SCIP added approximately 15 new customers per month during the previous 12 months.



Rate Stability

- Prior to 2021, SCIP customers had benefited from over 12 years of rate stability.
- SCIP's current base rates went into effect in May 2006.
- Prior to September 2021, SCIP's power cost adjustor had not increased since October 2007.

Why is SCIP raising rates now?

- We have determined a rate increase is needed to ensure SCIP can pay its expenses and replenish its reserve fund.
- Rising Power Costs:
 - Changing economics and availability of power supply sources.
 - Extreme weather-related events.
 - Rapid recovery of consumer demands following covid pandemic.
- Recently, SCIP's power cost adjustor was increased to \$0.031 per kWh in September 2021 to partially reflect the rising cost of power.
- SCIP is now proposing to adjust the base rates and the power cost adjustor to reflect SCIP's forward operating costs and replenish fund balances to safe operating margins.

Rate Adjustment Process

- SCIP completed a review of our rates in accordance with 25 C.F.R. 175.205 to:
 - a) Determine if our financial requirements are being met to ensure the reliable operation of the utility; and,
 - b) Determine if revenues are sufficient to meet our statutory requirements.
- BIA determined that the current rates do not sufficiently collect enough revenues to meet financial and statutory requirements.
- BIA determined that the current rate design did not adequately match SCIP's current costs of purchasing power.
- BIA determined that a more modern rate structure encouraging energy conservation was needed.

Steps Being Taken

- SCIP is proposing to increase revenues by 10.54%
- SCIP is proposing to adjust its rate design to encourage more conservation
- SCIP is actively pursuing and procuring new purchase power contracts and is seeking increased contract term flexibility/options



Rate Study

Presented by Kent Simer of
K. R. Saline & Associates

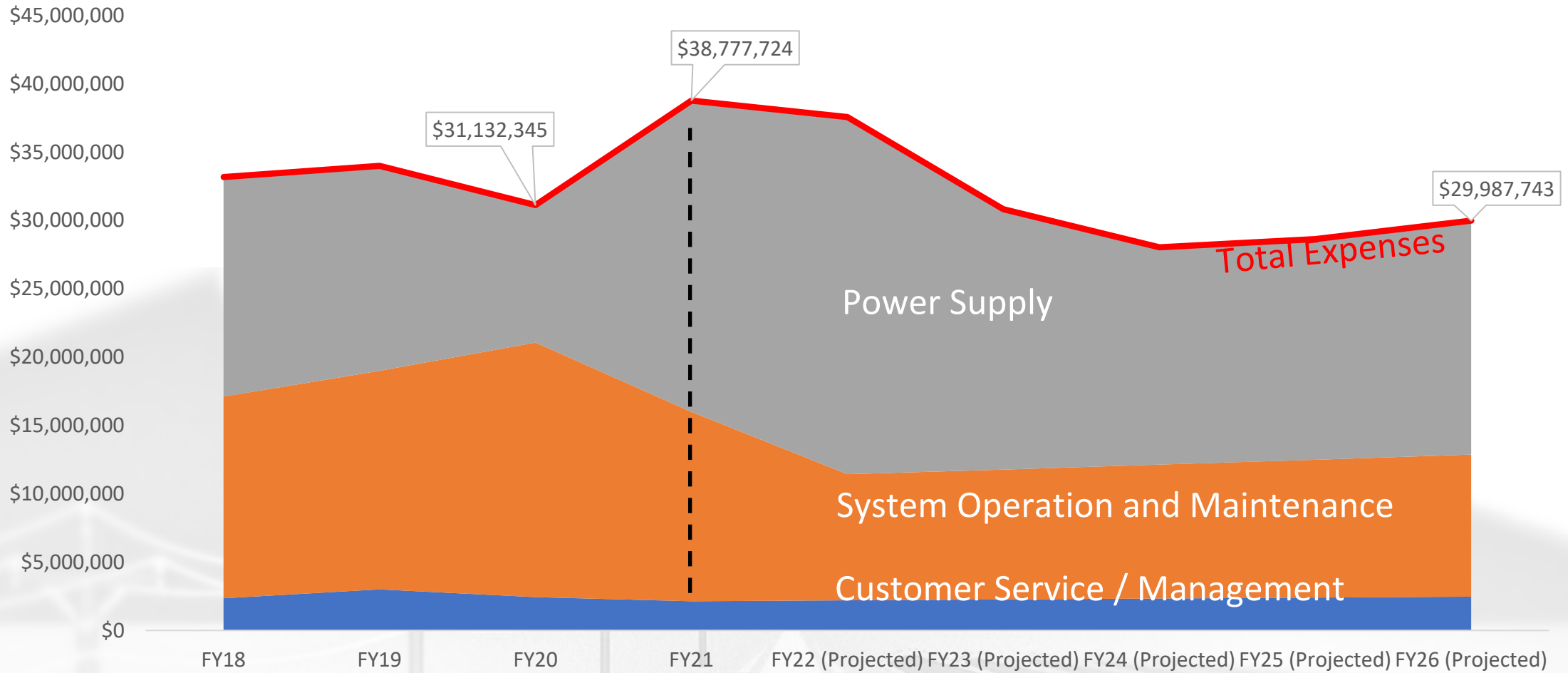


KRSA has provided contract negotiation, power scheduling, and utility rate consulting services throughout the Southwest for the past 25+ years. KRSA is based out of Mesa, AZ.

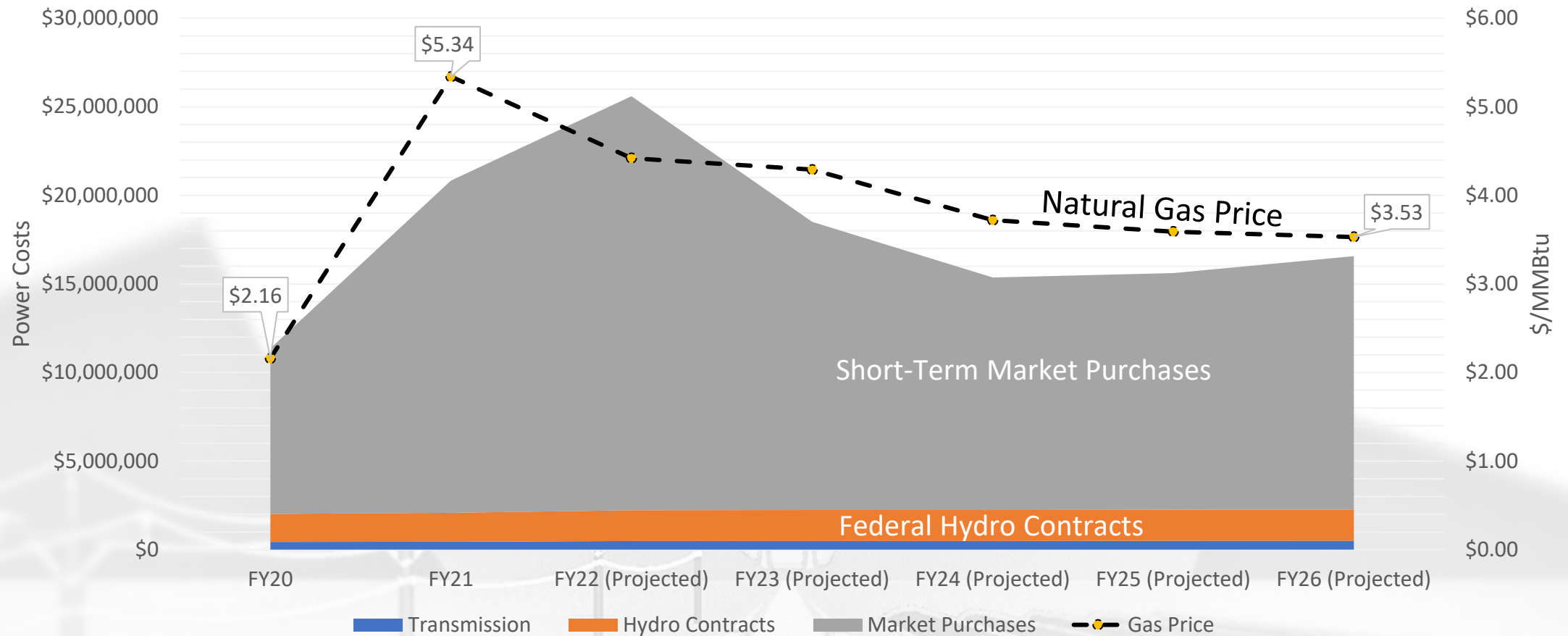
Overview of Rate Study Process

- Determination of Revenue Requirements
 - Determination of Operating Expenses
 - Review of Cash Fund Balance
- Functionalization and Classification of Expenses
- Allocation of Expenses to Customer Classes
- Review Existing Revenues
- Determination of Rate Action

Operating Expenses

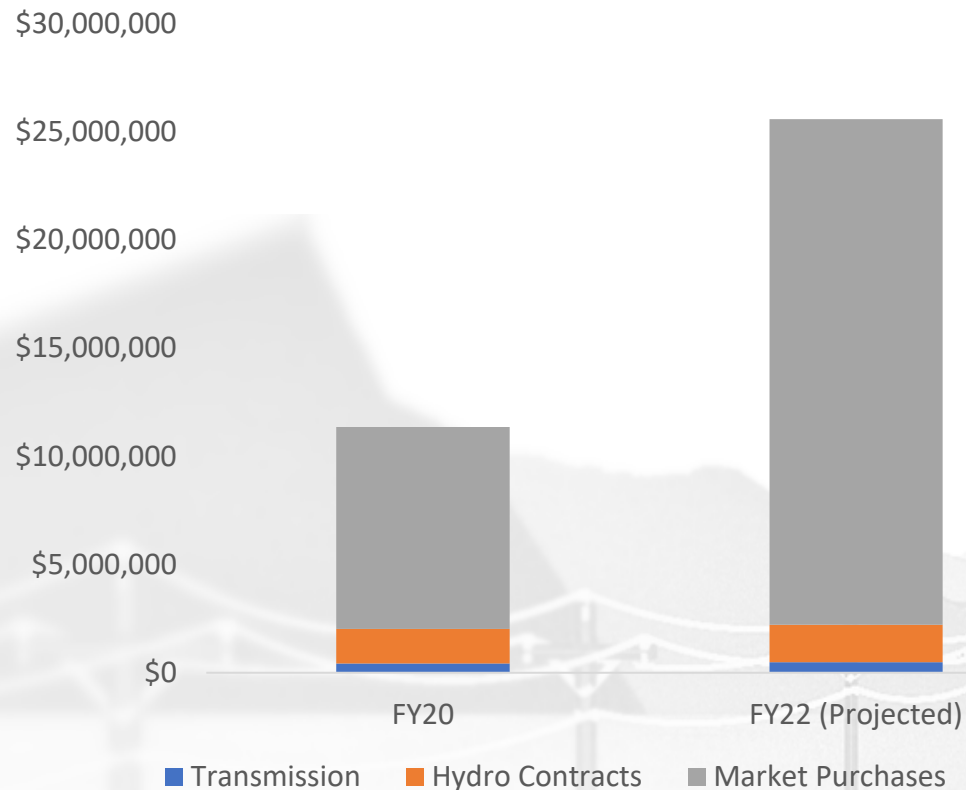


Purchased Power Outlook



Rapid Change in Power Costs

FY20 vs FY 22 Power Costs



- Drought in the Western US has increased Hydro costs.
- Market Purchases Increased due to:
 - Climate Related Events
 - Rapid economic recovery from Covid 19
 - Rising Natural Gas Prices
 - Increasing scarcity of available generation and trading Partners in the West.
- Transmission costs have increased due to:
 - O&M / Decreased Reservations on Parker-Davis Transmission System / Increased Purchased Power

System Operation and Maintenance

- Large transmission and distribution system required to serve the relatively few customers per mile.
- System highly exposed to monsoon events (Mostly Rural/Overhead wires, aging poles)
- Improvements/Replacements needed to keep up with aging infrastructure
- FY18 to FY21 – SCIP focused on needed improvements to the distribution system in the Coolidge area.
- FY22-FY25 SCIP to focus on 69kV line rehab/replacements near Hayden/Oracle and Casa Grande/Coolidge/Florence Substations
- SCIP does not have Federal authority to borrow money to finance improvements, SCIP MUST pay for all system improvement costs from cash.

Projected Revenue Requirements

- SCIP's power costs have increased dramatically in a relatively short period. Costs to remain high until at least 2024.
- Under current rates, costs are projected to exceed revenues until power costs decrease.
- High System Operation/Maintenance costs prior to FY21 and rapid increase in power costs starting in FY21 have depleted SCIP's operating reserves.
- The remaining reserve funds are below a minimum recommended level and need to be replenished.
- Rate increase is necessary immediately for the safe operation of SCIP.
- SCIP has approved an operating revenue requirements budget of \$34,270,490 for FY22-FY26
- SCIP is proposing to increase revenues from its customers by 10.54%

Revenue Requirements

Based on a 5-year projection of revenues and expenses, SCIP determines a revenue requirement amount to use as the basis of setting their retail rates. SCIP has determined an annual revenue requirement of \$34,270,490 is necessary to meet expenses over the next 5-years. Current rates are projected to under-collect by \$1,990,381.

Evaluation of Current Rates

Operating Income

	\$
Existing Revenue from Retail Customers	\$30,240,109
Revenue from Wheeling (System Use by 3 rd Parties)	\$2,040,000
Less Operating Expenses	<u>(\$34,270,490)</u>
Net Revenue Surplus/ (Shortage)	<u>(\$1,990,381)</u>

Determination of Rate Adjustment

SCIP has determined current rates under-collect by \$1,990,381. Additionally, SCIP has determined an additional \$1,145,487 per year is needed for the next three years to restore their minimum cash reserves. The combined amount establishes the minimum rate adjustment needed in this rate-setting process.

Base Revenue Increase Required for Operations	\$1,990,381
Additional Revenue Needed to restore Reserve Funds	\$1,145,487
Minimum amount to be collected from Rates	<u>\$3,135,868</u>

Allocation of Revenue Requirements to Customers

- Revenue Requirements are allocated to customer classes based on # of customers, peak demand, and total energy consumed

Revenue Class	Current Revenues	Allocated Expenses	Net Income
Residential	\$17,795,557	\$20,605,048	(\$2,809,491)
Small Commercial	\$6,611,239	\$7,404,680	(\$793,441)
Large Commercial	\$3,036,118	\$2,431,776	\$604,342
Industrial	\$1,540,660	\$1,263,575	\$277,085
Project Pumps	\$432,340	\$804,304	(\$371,964)
Commercial Pumps	\$434,195	\$523,342	(\$89,147)
Lighting	\$175,000	\$128,252	\$46,748
Total	\$30,025,109	\$33,160,977	(\$3,135,868)

Recommended Rates

- Recommending 10.54% overall rate increase
- Additional 2.0 % Rate increase proposed for 2023 to support revenue goals.

Revenue Class	Current Revenues	Proposed Revenues	% Change
Residential	\$17,795,557	\$18,685,335	5.00%
Small Commercial	\$6,611,239	\$7,933,487	20.00%
Large Commercial	\$3,036,118	\$3,491,536	15.00%
Industrial	\$1,540,660	\$1,771,759	15.00%
Project Pumps	\$432,340	\$603,547	39.60%
Commercial Pumps	\$434,195	\$521,034	20.00%
Lighting	\$175,000	\$183,130	4.65%
Total	\$30,025,109	\$33,189,827	10.54%

Rate Design Philosophy

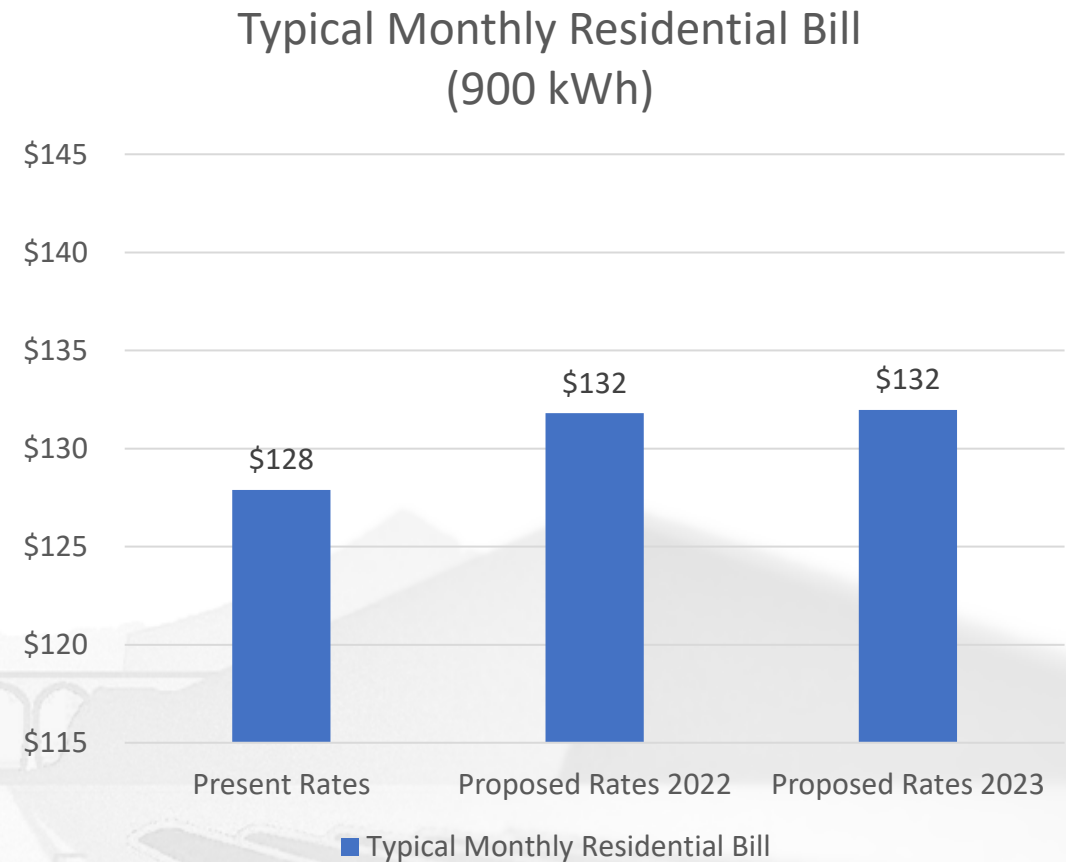
- Declining vs Flat vs Inclining Rates
 - SCIP's current Declining rate design gets less expensive as more power is consumed. This aims to collect more revenues in the lower tiers of energy across all consumers.
 - SCIP is choosing to move towards an inclining rate design which gets more expensive as more power is consumed. Inclining rates are more common in the industry, they encourage conservation, and they appropriately shift costs to larger consumers. Larger consumers put a greater demand on the system and require more expensive power to serve.
- Changing rate design can have significant short-term rate impacts. SCIP's proposed rates move towards a flat rate structure to slowly transition customers towards inclining rates to reduce rate "shock" on its customers.
- SCIP's Residential and Small Commercial rates were designed to remain comparable with surrounding utilities.

Rate Design Philosophy, cont.

- Large / Industrial Loads
 - SCIP's large and industrial proposed rates will collect more costs via the customer and demand components of the rates to ensure greater revenue recovery of SCIP's fixed costs incurred for serving these customers.
- Pumping related rates are being adjusted to be more in line with their allocated costs to serve.
- Discounts for multiple lights are being eliminated as they are not representative of actual costs to serve.

Residential Rate

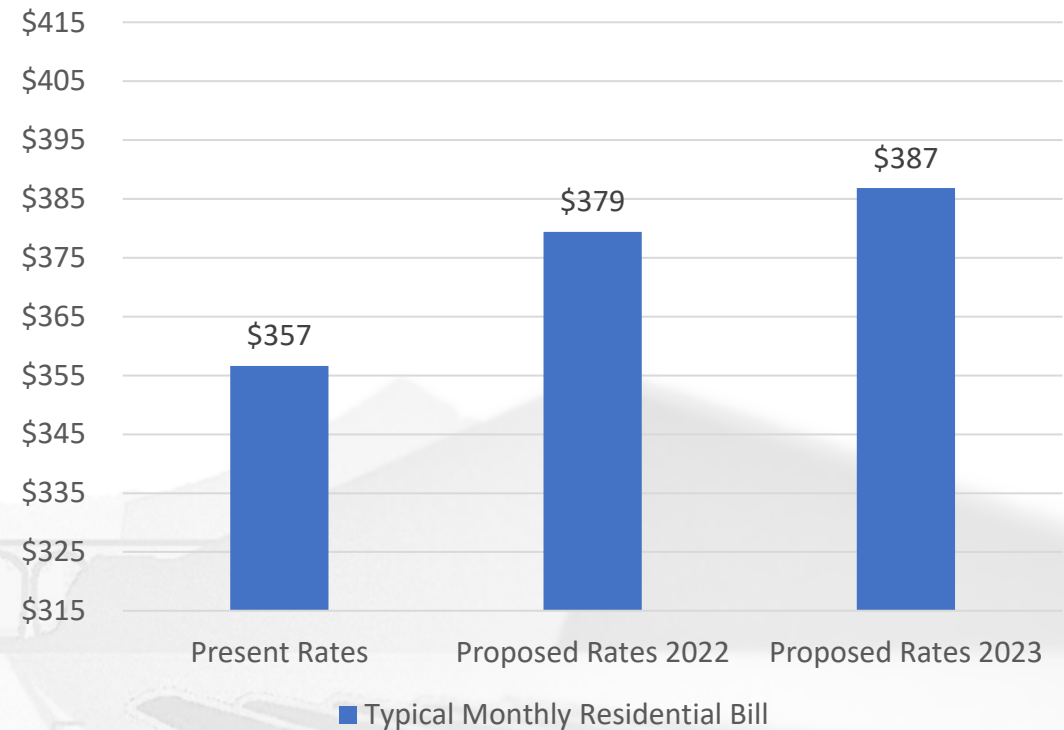
Rate	Present	Proposed 2022	Proposed 2023
Minimum Monthly Charge (Includes first 50 kWh)	\$10.00	\$14.08	\$14.08
Next 450 kWh	\$0.12	\$0.1385	\$0.1387
All Additional kWh	\$0.09	\$0.1385	\$0.1387
Power Cost Adjustor (per kWh)	\$0.031	\$0.00	\$0.00



Small Commercial Rate

Rate	Present	Proposed 2022	Proposed 2023
Minimum Monthly Charge (Includes first 50 kWh)	\$20.00	\$26.55	\$26.55
Demand Charge (All kW)	\$2.00	\$2.00	\$2.00
Next 900 kWh	\$0.13	\$0.1380	\$0.1412
Next 9,050 kWh	\$0.08	\$0.1380	\$0.1412
All Additional kWh	\$0.06	\$0.1380	\$0.1412
Power Cost Adjustor (per kWh)	\$0.031	\$0.00	\$0.00

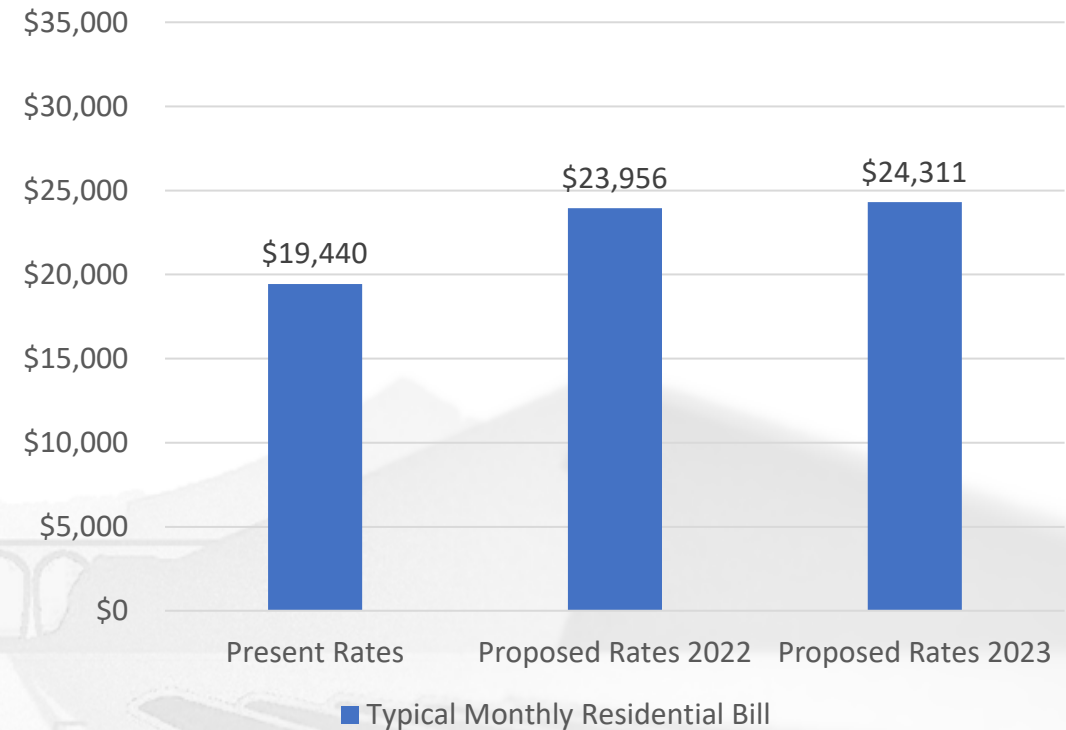
Typical Monthly Small Commercial Bill
(2,375 kWh, 16 kW)



Large Commercial Rate

Rate	Present	Proposed 2022	Proposed 2023
Minimum Monthly Charge (Includes first 500 kWh)	\$50.00	\$55.00	\$55.00
Demand Charge (All kW)	\$3.00	\$9.15	\$9.15
Next 9,500 kWh	\$0.095	\$0.099	\$0.101
All Additional kWh	\$0.065	\$0.099	\$0.101
Power Cost Adjustor (per kWh)	\$0.031	\$0.00	\$0.00

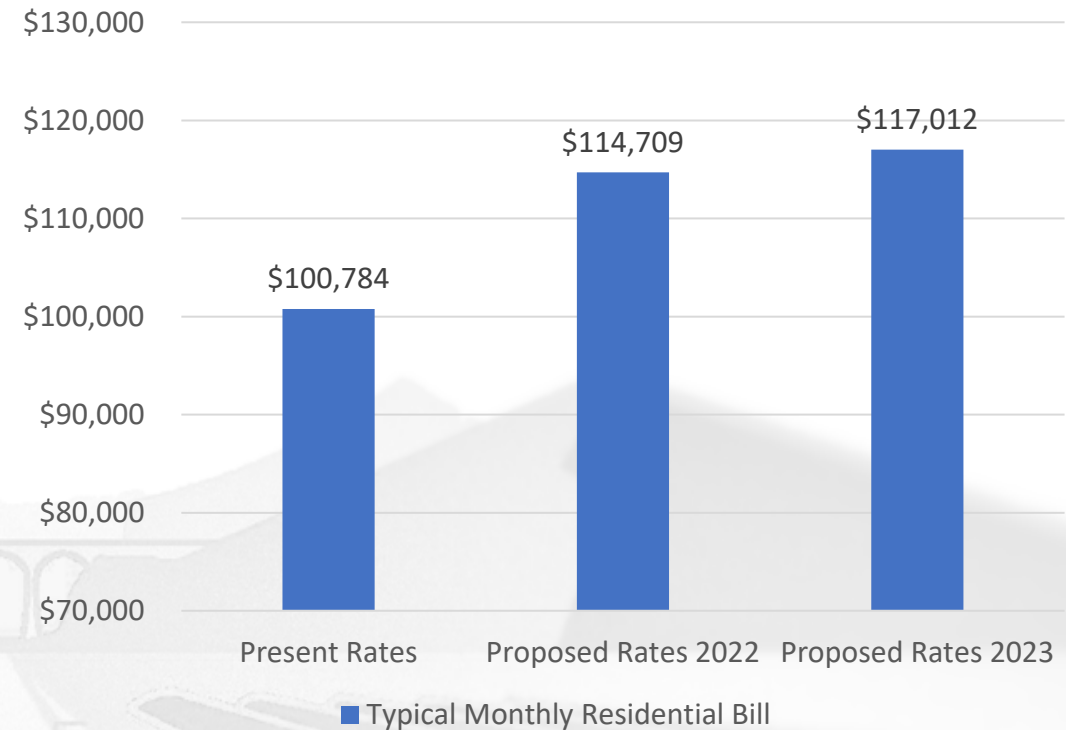
Typical Monthly Large Commercial Bill
(177,600 kWh, 696 kW)



Industrial Rate

Rate	Present	Proposed 2022	Proposed 2023
Minimum Monthly Charge	\$250.00	\$250.00	\$250.00
Demand Charge (All kW)	\$7.00	\$11.29	\$11.29
All kWh	\$0.05	\$0.0851	\$0.0873
Power Cost Adjustor (per kWh)	\$0.031	\$0.00	\$0.00

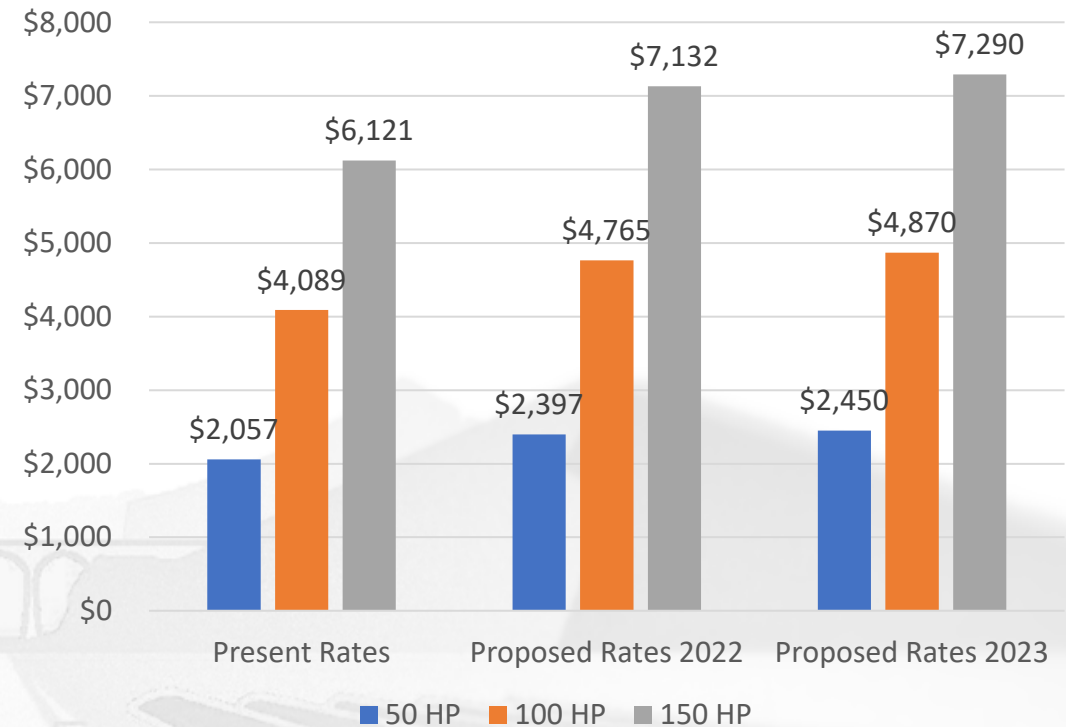
Typical Monthly Industrial Bill
(1,047,150 kWh, 2,245 kW)



Pumping Rate (Commercial)

Rate	Present	Proposed 2022	Proposed 2023
Minimum Monthly Charge	\$25.00	\$29.69	\$29.69
Demand Charge (All kW)	\$2.40	\$4.25	\$4.25
All kWh	\$0.039	\$0.0796	\$0.0815
Power Cost Adjustor (per kWh)	\$0.031	\$0.00	\$0.00

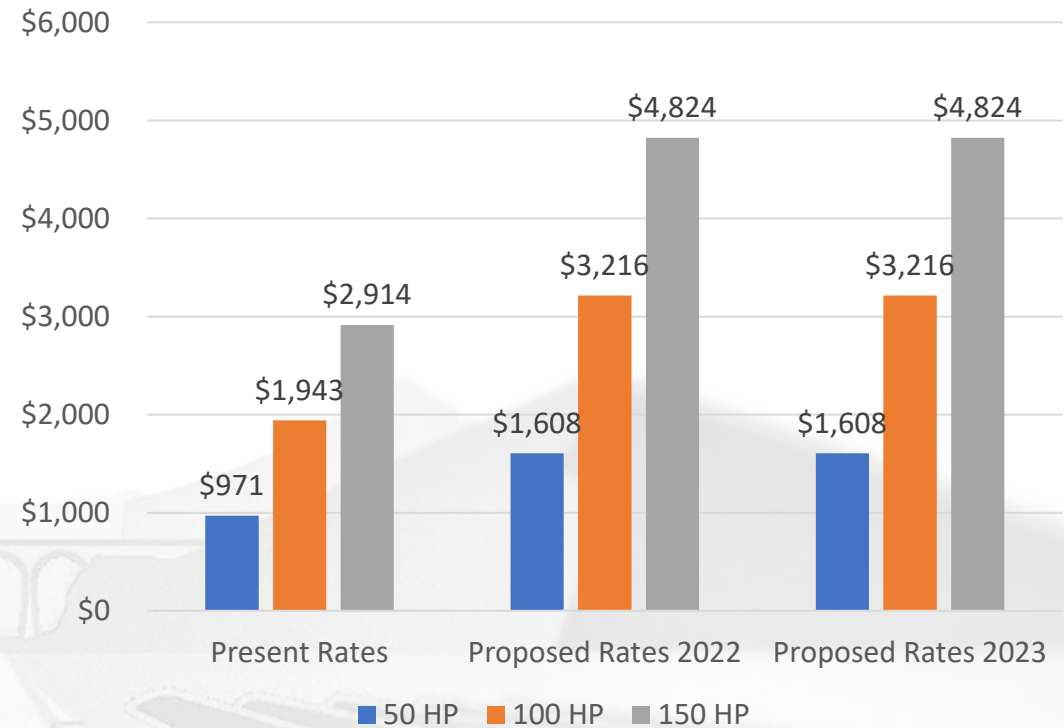
Typical Monthly Pumping Bill
(By Pump Size / 744 Hours of Operation)



Pumping Rate (Project)

Rate	Present	Proposed 2022	Proposed 2023
All kWh	\$0.035	\$0.05794	\$0.05794

Typical Monthly Project Pumping Bill
(By Pump Size / 744 Hours of Operation)



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Submitting Comments

- Interested parties may submit comments on the proposed rate adjustments on or before April 11th, 2022.
- Formal comments on the proposed rate adjustments must be in writing. Please include your customer type (Residential, Small/Large Commercial, Industrial, Pumping) to help us better respond to your comments.
- You may send comments via email to comments@bia.gov. Please reference “Rate Adjustment for SCIP-Power Division” in the subject line.
- Or you may submit written comments to:
 - Mr. David Fisher, Chief, Division of Water and Power, Office of Trust Services, 13922 Denver West Parkway, Suite 300, Lakewood, Colorado 80401.

Q&A

- In the Zoom meeting, please use the “Q&A” feature to type in a question or the “Raise Hand” feature to request to speak.
- Please try not to repeat a question.
- If speaking, please:
 - You will be asked to unmute yourself to speak
 - Please limit questions and comments to under 5 minutes
 - All comments and conversations are recorded, please use appropriate language for a public forum.
- If you do not feel your question was answered sufficiently, please submit a formal question in writing.
- This presentation will be posted to SCIP’s website at <https://www.bia.gov/programs-services/power-utilities/scip-power>.

