

Arizona Power Authority
Renewable Energy Certificate Program

History:

The Environmental Attributes associated with the Arizona Power Authority's ("APA") allocation of hydropower generation as part of the Boulder Canyon Project ("BCP") are governed by the following contractual language with the Western Area Power Administration ("WAPA").

APA's Rights via the Electric Service Contract with WAPA - #16-DSR-12626

6.11.6 Environmental Attributes: The Contractor shall have the right to utilize any Environmental Attributes associated with the Contractor's Allocation for compliance with any environmental laws, regulations, or standards applicable to the Contractor; provided, that any sale, transfer, or award of Environmental Attributes by the Contractor to third parties shall be subject to approval by Western, not to be unreasonably withheld. Western agrees to undertake any reasonable actions necessary to effectuate the Contractor's use of the Environmental Attributes. Western makes no representation or warranty as to whether the Environmental Attributes associated with the Contractor's Allocation are compliance instruments that qualify for or meet any particular environmental laws, regulations, or standards applicable to the Contractor. The Contractor shall be responsible for all costs arising from or directly relating to the Contractor's use of Environmental Attributes. Any Environmental Attribute not utilized by the Contractor may be utilized by Western or Reclamation for the benefit of the Contractor or the BCP as appropriate and feasible; provided, that Western and Reclamation shall consult with the Contractor prior to utilization of any Environmental Attribute.

Below is the contract language between the APA and its Customers, governing the Environmental Attributes associated with the hydropower generation from the BCP.

Customer's Rights via the Power Sales Contract with APA

Section 9. Environmental Attributes Available to the Customer

The Authority will use best efforts to maintain the right to any and all Environmental Attributes available to it under the Electric Service Contract. Customer shall have the right to use a pro-rata share of any Environmental Attributes associated with the Customer's Allocation that are available to the Authority pursuant to the Electric Service Contract or otherwise. Customer's pro-rata share will be equal to Customer's Allocation as compared to all Customer Allocations. The Customer will not be deemed to have elected not to use Environmental Attributes unless the election is made in writing. If the Customer elects not to use its pro-rata share of Environmental Attributes, then the Authority will use its best efforts to market or create value, to the extent allowed by the Electric Service Contract, for any portion of the Customer's share of Environmental

Attributes that the Customer elects not to use. Any sale of Environmental Attributes shall be pursuant to a separate agreement among the Authority, the relevant purchasing entity, and the relevant Customers. Such Environmental Attributes (such as renewable energy credits) shall be expressed in MWh, with one (1) MWh of Environmental Attribute produced for each one (1) MWh of energy generated by the renewable energy resource.

Prior to 2021, a customer receiving power output from the BCP would have also received the Environmental Attributes associated with that power. However, beginning in 2021, WAPA Desert Southwest Region (“DSW”) registered the hydropower generators at Hoover Dam with the Western Renewable Energy Generation Information System (“WREGIS”), which had the effect of unbundling the Environmental Attributes from the power. A Customer no longer received the Environmental Attributes when they received the power. For every MWh generated, a REC is created and placed in WAPA DSW’s WREGIS account. These RECs are allocated to BCP Contractors on a pro-rata basis. The APA has a right to claim 19% of the RECs created by BCP generators. WAPA has a right to sell unclaimed RECs for the benefit of the project.

In September of 2021, the APA sent each Customer an email asking if they would like to have their pro-rata share of Calendar Year 2021 (“2021 vintage RECs”) transferred to their WREGIS account. The only Customers who affirmatively asked to have their pro-rata share of 2021 vintage RECs transferred to them were the Electric Cooperative customers. The APA created a WREGIS account, received these RECs and facilitated the transfer of these RECs to the Electric Cooperatives. APA’s pro-rata share of the unclaimed 2021 vintage RECs were left with WAPA DSW, who then sold them and the proceeds were placed in the Colorado River Dam Fund for the benefit of the BCP.

APA Staff met with Customers on February 26th, 2023 to discuss how Customers would like the APA to handle RECs moving forward. One constant theme from the meeting was the need for flexibility in how the APA interacts with its Customers, in either claiming or selling their RECs. The market to sell these RECs is still being developed. The average price per REC from the 2021 vintage RECs, sold by WAPA DSW to brokers, appears to be well below market value, based on feedback from multiple sources. There appears to be very little risk in the APA attempting to market and sell the unclaimed RECs. Based on the feedback received from the customers during that meeting, there appears to be a desire for the APA to create its own program for marketing and selling the Customer’s pro-rata share of unclaimed RECs. Below is the design of the proposed project.

Program:

It is the APA’s goal to maximize the benefits of these RECs for its Customers. Therefore, the APA intends to provide Customers with the options to either claim their pro-rata share of RECs for their own use or leave them with the APA to market and sell RECs for the benefit of the Customer. If possible, direct assignment from WAPA to the APA customers claiming the RECs will be utilized. For the RECs that are left with the APA, the APA may 1) transfer these RECs to its WREGIS account to market a sell, 2) if possible, sell RECs and transfer them directly from WAPA’s WREGIS account to the purchaser’s WREGIS account, or 3) leave them with WAPA

to market and sell, with the benefit passed through to the individual Customers. These options will be evaluated and selected depending on maximizing the benefit to the Customers.

Therefore, for Calendar Year 2022 (“2022 vintage RECs”) and beyond, the APA will allow Customers to either 1) claim their pro-rata share of the APA’s 2022 vintage RECs, and/or subsequent year’s RECs, for their own use, or 2) have the APA market and sell the Customer’s unclaimed pro-rata share of 2022 vintage RECs, and beyond. Customers will annually make their election with APA.

Reasons a Customer might elect to claim their share of pro-rata RECs would be to satisfy any regulatory requirement, such as a Renewable Portfolio Standard, or to claim the environmental attributes as part of a corporate sustainability goal. Some Customer’s may wish to claim their share of pro-rata RECs to have to be available for their customers.

In order for the APA to facilitate each Customer’s desire, all Customers must respond in writing by the designated date(s), using the form provided by the APA, stating their intent to either 1) claim their pro-rata share of RECs and have the RECs transferred to the Customer’s WREGIS account, or 2) authorize the APA to use its best efforts to market and create value in the RECs, by selling the pro-rata share of the Customer’s unclaimed RECs.

Any cost associated with creating and transferring RECs will be paid for by the Customer incurring the cost. The Customers whose unclaimed RECs are marketed and sold will receive their pro-rata share of the proceeds from the sale of the RECs. Any cost associated with the marketing and selling of the unclaimed RECs will be the responsibility of the Customers whose unclaimed RECs are being marketed and sold. Such costs will be deducted from any sales proceeds, prior to the pro-rata credit being applied to the Customers’ account with the APA. Customers claiming their pro-rata share of RECs will not receive any proceeds from the sale of any RECs.