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ANDY TOBIN
COMMISSIONER

Direct Line: (602) 542-3625
Email: Tobin-Web@azcc.gov

ARIZONA CORPORATION COMMISSION

April 27, 2017

Honorable Ryan Zinke
Secretary of the Interior
Department of the Interior
1849 C Street, N.W.
Washington, DC 20240

Dear Secretary Zinke:

Thank you for taking the time to visit with me in your office a few weeks ago. I enjoyed our time together, including the discussion of the Navajo Generating Station (NGS) with my fellow Commissioner, Boyd Dunn, and the Navajo Nation leadership.

Transitioning Arizona's energy security from in-state fuel sources to out-of-state energy imports in a mere **two months** from now is a major gamble that conjures a potential gain of lower fuel costs at the real expense of our state's economy and energy grid.

NGS is not just about the Navajo and Hopi economies, which will be significantly harmed to be sure, but this facility is also about Arizona's history and future.

The long-term natural gas forecasts have impressive low prices. The Salt River Project (SRP) forecast is very good, despite many of the forecast's inputs conflicting with industry norms. Indeed, the emergence of new technologies to extract natural gas have enriched America and reduced our country's dependence on foreign energy. There have also been unprecedented developments in renewable energy, both in terms of capability and flexibility. As Arizona looks to the future of energy, one that looks to the sun, battery storage and other zero emission resources, NGS and its contributions should not be so quickly dismissed.

NGS was built as a way to delicately balance the sometimes concurring, but often competing, interests of environmentalists, water users in Arizona (including the major metropolitan areas of Phoenix and Tucson), the federal government and the Native American communities of the Navajo and Hopi Tribes. The Central Arizona Project (CAP), one of the primary movers of water in Arizona, besides the Colorado River itself, conveniently forgets or woefully washes over this history.

CAP's management unprofessionally suggested in a recent *Arizona Republic* article that the federal government could help more by just "simply giving them [the Navajo and Hopi] cash rather than propping up the coal operations"¹ at NGS. This remark is insulting, shortsighted and implies that such a payment somehow doesn't affect the rest of taxpaying Arizonans. CAP management should apologize and begin the process of working toward a realistic, long-term solution to this crisis looming large over Northern Arizona and affecting the state as a whole.

CAP customers might experience immediate water savings from using lower priced, natural gas-powered electricity to move water into Central and Southern Arizona. I believe the CAP Board has failed to consider all of the pricing considerations in the next decade by eliminating a "tool in the tool box" of NGS so quickly. Having this resource available, in and of itself, counters market fluctuations that may occur more quickly with limited resource competition.

Accelerating new technologies is pure Americana and fitting for a rapidly evolving Arizona economy. These advancements must be given a chance to further improve. They should also be considered in the full context of all our available resources in order to prevent poor planning grid failures that set us back, not move us forward.

Arizona should strategically plan a "carbon transition" while leading the way in energy storage research that will undoubtedly be essential in the grid of the future.

I am also concerned by our utilities' increased reliance on the deluge of heavily subsidized California renewables like solar and wind. Forecasts indicate that even more renewable energy will flood in from outside the state as our neighbors adopt uneconomic renewable energy targets.

There are some very real issues that make the potential July 1st closure deadline imposed by SRP, just under 60 days away, **NOT** in the best interest for Arizona energy consumers:

- 1) SRP called NGS an "economical baseload resource"² in an October 2016 interview with the *Arizona Republic* and four months later, seismically shifted to the position of shuttering NGS. This sudden flip should concern everyone, especially any professional energy planner who must contemplate the transition costs associated with closure. Jumping from Arizona's mainstay "baseload" facility at NGS to closure almost overnight, suggests that SRP forecasters either got it significantly wrong for the last several years regarding the future of NGS or even more startling: they're

¹ Ryan Randazzo, "Navajo Nation officials want President Donald Trump to subsidize Kayenta Mine, power plant," *The Arizona Republic*, <http://www.azcentral.com/story/money/business/energy/2017/03/30/navajo-nation-officials-want-president-donald-trump-subsidize-kayenta-mine-power-plant/99782464/>, (accessed 25 Apr. 2017).

² Mark Henle, "Future of Navajo Generating Station near Page," *The Arizona Republic*, <http://azc.cc/2iffmAV>, (accessed 25 Apr. 2017).

dead wrong for the next several years. Once NGS is shut down, there is **no return**. SRP's high risk for failure is further heightened by the permanence of what closure ultimately means. Not only would this energy resource become unavailable, but the economy of Northern Arizona, including the tribes, counties, cities and schools would face very hard times from SRP's haphazard decision that has obviously "turned on a dime." SRP bought out the ownership share at NGS belonging to Los Angeles Department of Water and Power (LADWP) for \$10 million in 2015. Why would SRP, less than two years ago, buy more of NGS only to close it? The back-and-forth of SRP's view on the economics of NGS doesn't give me confidence and lends even more weight to slowing down SRP's decision to close NGS.

- 2) NGS and the Palo Verde Nuclear Generating Station (PVNGS) are unique Arizona investments using many Arizona resources, largely paid for and owned by Arizona. In the case of the state's other coal burning facilities, only imported coal is used. PVNGS is in a similar position to NGS because the cost profile of both resources bear a striking resemblance, especially in relative cost to the current natural gas electricity generation. If the sun sets on NGS, is closure of PVNGS next? And, if so, when?
- 3) The utilities have not revealed what value, if any, they have placed on the locational aspect of fuel. There is an added cost associated with the risk of fuel transportation from other states. Arizona is already subject to carbon taxes when utilities buy/sell energy from/to California. NGS has several more decades of useful life and much of that investment has already been paid by Arizona ratepayers over the years. Natural gas imports, as they continue to grow in utilities' resource portfolios, will require the acquisition, construction, planning, training, and economic expense. These costs must be fully understood in order to draw a better cost comparison with NGS. The reduction of current and long term coal pricing, royalties and lease payments also help narrow the cost to NGS customers and alter the projected savings forecast by SRP.
- 4) Storage is guaranteed at NGS. Piling up our own Arizona coal strongly mitigates supply/demand issues. The coal is here at Kayenta, Arizona stored by nature for Arizonans. Compare that with the current state of storage for natural gas. There is none. The prospective costs and efficiency of salt caverns or even tank storage are immense. Pipeline expansion will be needed to serve the increased natural gas demands of Arizona utilities. An outage or interruption on one of only two pipelines that bring gas into the state could trip electric generators in about seven minutes, and KinderMorgan's plan for four gas storage caverns is three to six years away. The price tag for this project was estimated by El Paso Natural Gas to be \$320 million in 2011, plus brine removal and additional water expense.³

³ El Paso Natural Gas presentation to the Arizona Corporation Commission, 1-2, Nov. 2011, "Proposed Arizona Gas Storage Project," Page 8.

Assuming none of these concerns affects the planned closure of NGS, gradualism still must be part of the post-2019 conversation. To help move negotiations between SRP and the Navajo forward on this principle, I am proposing a settlement for consideration. *(Please see the attached document.)*

The key provisions include:

1. A five-year commitment to keep NGS in operation;
2. A waiver of Navajo's right to regulate, directly or indirectly, the decommissioning of NGS;
3. A 50/50 cost share with the owners and the federal government for the cost to repair and maintain NGS in good working order during the 5-year extension period;
4. A good faith effort on behalf of the federal government to secure relief from environmental regulations affecting NGS; and
5. A commitment by the current ownership group to work with a third-party to sell NGS to a new owner(s).

The settlement provides a crucial five-year transition, which also allows the natural gas market to prove its certainty and prevents the imminent closure of NGS until that energy future is clearer. What is the hurry? I ask SRP. Where was the urgency six months ago when SRP proudly proclaimed that NGS was part of Arizona's future? Once NGS is gone, there is no turning back. It's not like another coal facility waits in the wings, ready to be built if or when SRP's decision proves to be wrong. Nor would building a new coal plant be well perceived by the public after buying out LADWP and then tearing down a plant that actually works. While new, large-scale customers could certainly improve the economics of NGS, a post-2019 world without the plant requires more time for the Northern Arizona economy to transition into new jobs and training—a transition not currently possible with immediate closure.

The five-year period also provides more time for renewable energy technology to improve. Perhaps energy storage advancements in scale and cost actually reduce or eliminate the need for massive capital investments in natural gas generators and infrastructure. Maybe the cost of natural gas storage falls, preventing Arizona from being a case study in which the expense of large gas storage facilities exceed the savings of the natural gas prices now forecasted.

Coal pricing is coming down, undoubtedly driven by competition of low natural gas prices. Oddly enough, that is also the reason that natural gas is likely to rise in cost. In fact, at the Department of Interior's most recent NGS stakeholder meeting, I asked "Does anyone believe the price of natural gas will get lower?" The answer was a deafening silence. Certainly, natural gas is at its lowest base. There is speculation that more gas infrastructure will be built to move a larger volume of gas around the country and throughout the world. This will serve to increase gas demand, reduce gas reserves, and ultimately apply upward pressure in gas pricing. There is

an expectation of higher levels of gas exports. Simply put, fool's gold fills the pot at the end of this rainbow. SRP and CAP know that they are subjecting their customers to the most volatile energy resource available.

Arizona has zero gas storage, no major domestic gas production wells in Arizona, and many see natural gas as a transition fuel to renewables once battery storage solves the intermittency problems with solar and wind energy. Meanwhile, the Hopi Tribe will be destroyed as we know it; the Navajo harmed as well. SRP and CAP customers become the winners—for now—maybe.

For the economic, historic, and energy security concerns I have mentioned above, I ask the Navajo and SRP to return to the table, with the Bureau of Reclamation as a mediator, and not leave until they have an agreement to transition through 2022. Arizonans understand what it means to be a good neighbor. Right now, more than ever, our neighbors in the northern part of the state need us to be fair. They need us to give them a fighting chance to survive. The current proposal by SRP and CAP actions don't do that. We need a better agreement that reflects Arizonans' work ethic and concern for each other. This current pathway doesn't achieve that balance.

Sincerely,



Andy Tobin
Commissioner

Enclosure: Lease Amendment and Extension Agreement

cc: Governor Douglas A. Ducey
President Steve Yarbrough, Arizona State Senate
Speaker J.D. Mesnard, Arizona House of Representatives
Chairman Tom Forese
Commissioner Bob Burns
Commissioner Doug Little
Commissioner Boyd W. Dunn
Secretary of Energy Rick Perry
Deputy Secretary of the Interior James Cason
Arizona Corporation Commission Docket Control; RE: Docket No. E-00000C-17-0039

LEASE AMENDMENT AND EXTENSION AGREEMENT

This Lease Amendment and Extension Agreement ("Agreement") is made this ____ day of _____, 2017, between: (1) The Navajo Tribe of Indians (the "Tribe"); (2) Arizona Public Service Company; Nevada Power Company; Salt River Project Agricultural Improvement and Power District, and Tucson Gas & Electric Company (collectively, "Lessees"); and (3) The United States, Department of Interior, Bureau of Reclamation ("BOR").

RECITALS

WHEREAS, the Tribe and Lessees entered into an Indenture of Lease dated September 29, 1969, and as amended (collectively, the "Lease"), related to the premises described in Exhibits 1 through 4 of that Lease, said premises commonly referred to as the Navajo Generating Station (the "Premises");

WHEREAS, the Salt River Project Agricultural Improvement and Power District holds an ownership interest in the Navajo Generating Station for the use and benefit of BOR to provide power and energy for Central Arizona Project pumping;

WHEREAS, the Lease was amended to, among other things, extend the original term of the Lease through December 22, 2019;

WHEREAS the Tribe and Lessees each desire to extend the term of the Lease an additional two years, upon the terms and conditions set forth herein;

In consideration of the mutual promises contained herein, and other good and valuable consideration, the Tribe, Lessees, and BOR agree as follows:

AGREEMENT

1. **Extension of Term.** The Lease, originally scheduled to terminate on December 22, 2019, is extended for an additional period of three years and will terminate on December 22, 2022 ("Termination Date").
2. **Operation of Navajo Generating Station.** This section is intended to specifically amend Paragraph 16 of the Indenture of Lease dated September 29, 1969. The Tribe covenants that, other than as expressly set out in the Lease, it will not directly or indirectly regulate or attempt to regulate the Lessees in: (a) the construction, maintenance, operation, or activities associated with decommissioning, removal, restoration, remediation, and monitoring of the Navajo Generating Station and the transmission systems of the Lessees; or (b) the construction, maintenance, operation, or activities associated with decommission, removal, restoration, remediation, and monitoring of the fuel transportation system of the Lessees or the Fuel Transporter. This covenant shall not be deemed a waiver of whatever rights the Tribe may have to regulate retail distribution of electricity on the Reservation

Lands. Nothing herein shall convey to the Lessees, or any of them, any rights to engage in retail distribution of electricity in Reservation Lands.

3. **Contributions to Repair and Maintenance.** Starting December 22, 2019, and continuing to the Termination Date (the "Extension Period"), BOR agrees to pay 50% of the expenses of all necessary repairs, maintenance, and replacements, related to the Premises, arising during the Extension Period, and required to be made to maintain the Premises in good and operable condition, with normal wear and tear excepted.
4. **Environmental Regulations.** The Tribe, Lessees, and BOR, shall work cooperatively and in good faith to secure any and all extensions of environmental regulations and related equipment necessary to continue lawful operation of the Navajo Generating Station through the Termination Date, including, but not limited to: extending deadlines arising under the National Environmental Policy Act; and implementation of selective catalytic reduction systems at the Premises.
5. **Marketing for Sale.** No later than 60 days of executing this Agreement, Lessees shall retain a qualified real estate broker for the purpose of listing and actively marketing the Navajo Generating Station for sale. Lessees shall work cooperatively and in good faith to assist said real estate broker in taking all additional and necessary steps to bring about the sale of the Navajo Generating Station to a ready, willing, and able buyer.
6. **Limitation on Future Extensions.** The Tribe and Lessees agree that the extension of the term of the Lease by this Agreement does not guarantee that either party will renew or agree to renew or extend the terms of the Lease upon the expiration of the renewed or extended term. Nothing contained herein will require either party to consent to such a renewal or extension, and either party may determine, without cause, not to renew or extend the Lease beyond the Termination Date.
7. **Confirmation of Original Lease, as Amended.** The parties to this Agreement agree that this Agreement does not modify or change any other provision of the Lease except as provided herein, and that the terms of the Lease remain in full force and effect and will continue to govern the parties' rights and duties during the term of the lease extension effected by this Agreement. Unless otherwise noted, all defined terms in the Lease shall have the same meaning in this Agreement.

Approved:

THE NAVAJO TRIBE OF INDIANS

Date: _____

By: _____

Printed Name: _____

Its: _____

Approved:
Date: _____

SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

By: _____
Printed Name: _____
Its: _____

Approved:
Date: _____

ARIZONA PUBLIC SERVICE COMPANY

By: _____
Printed Name: _____
Its: _____

Approved:
Date: _____

TUCSON ELECTRIC POWER COMPANY

By: _____
Printed Name: _____
Its: _____

Approved:
Date: _____

NEVADA POWER COMPANY

By: _____
Printed Name: _____
Its: _____

Approved:
Date: _____

THE UNITED STATES, DEPARTMENT OF
INTERIOR, BUREAU OF RECLAMATION

By: _____
Printed Name: _____
Its: _____