

Impact of NGS Closure on CAP

Power Task Force
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2016 Case Study – CAP Repayment

- SRP paid **\$27.6 million** for Navajo Surplus energy in 2016 under a long-term sales contract
- Western’s sales of remaining Navajo Surplus energy in 2016 lost **\$15.6 million**
- Net revenues to the Development Fund from Navajo Surplus sales in 2016 were **\$12 million**
- **Without NGS, CAP would have had to collect an additional \$12 million for repayment**
 - M&I capital charge is the only current option



2016 Case Study – CAP Energy Costs

- CAP paid **\$81.2 million** in 2016 for pumping energy from NGS
- If that same energy had been purchased at the Palo Verde market rate, the cost would have been **\$42.7 million**
- **CAP would have saved a total of \$38.5 million in 2016 by buying energy on the market instead of from NGS**



Market costs were calculated based on CAP's actual 2016 on- and off-peak energy use. However, current CAP operations are dictated in many respects by NGS—e.g., minimum generation requirements and the need to create the Navajo Surplus block required under the SRP contract. Without NGS, CAP could pursue alternative pumping schedules that might result in even lower energy costs.

2016 Case Study – CAP Energy Rate

Savings if CAP had bought energy on the market instead of from NGS	\$38.5 million
Total CAP water deliveries in 2016	1.43 MAF
Energy rate savings	\$27/AF
CAP energy rate w/NGS	\$76/AF
CAP energy rate w/o NGS	\$49/AF



2016 Case Study – Impact to CAP

- If NGS had been closed as of January 1, 2016, and CAP had purchased replacement energy at prevailing market prices, the net impact would have been:

\$38.5 million	Energy savings
<u>(\$12 million)</u>	Repayment assistance
\$26.5 million	Net savings



2016 Case Study – Impact to CAP Tribes

Energy rate savings w/o NGS	\$27/AF
Total CAP water delivered to tribes (on-reservation and storage)	357,758 AF
Savings to CAP tribes	\$9.6 million



2016 Case Study – Impact to Agriculture

Energy rate savings w/o NGS	\$27/AF
Total CAP water delivered to Ag Settlement Pool	280,797 AF
Total savings	\$7.5 million
- Savings to CAP	\$5.3 million
- Savings to Ag users	\$2.2 million



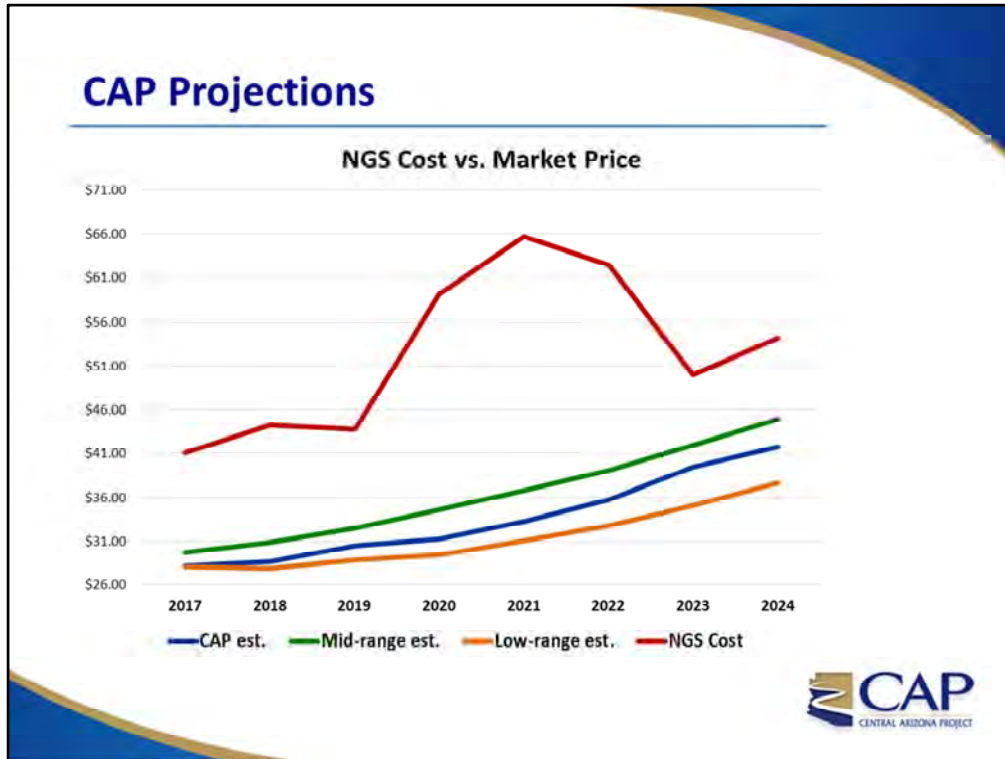
CAP currently provides an incentive to ag users of up to \$19/AF using a portion of its general ad valorem taxing authority. The 2016 energy rate w/o NGS would eliminate the need for that incentive. Thus \$5.3 million of the savings is attributed to CAP, and the remainder to ag users. Ag Settlement Pool users would have realized an effective energy rate of \$49/AF instead of the \$57/AF they paid in 2016.

2016 Case Study – Impact to M&I

Energy rate savings w/o NGS	\$27/AF
Total CAP water delivered to M&I users (includes Indian leases)	792,355 AF
Energy savings to M&I users	\$21.3 million
Additional cost to M&I users for repayment	<u>(\$12 million)</u>
Net savings to M&I users	\$9.3 million



This slide assumes that the \$12 million in repayment revenue shortfall without NGS is made up entirely through M&I capital charges. As noted on the previous slide, CAP would realize a \$5.3 million savings in tax revenue by eliminating the need for the ag incentive. Whether those tax savings are applied to repayment or to restore CAP's strategic revenues or for any other purpose would be a decision for the CAP Board at the appropriate time.



Because cost of generation at NGS is expected to remain higher than market for a number of years, the net impacts to CAP identified in the 2016 Case Study should be representative of impacts going forward.