

Executive Summary of Critical Issues
Topic – Navajo Power Marketing Plan (“Plan”)

Update Date
July 13, 2007

CAP Position

CAP’s objective is to have a Plan that gives CAP the ability to successfully manage risk in operating CAP pumps and marketing Navajo surplus energy. Risks to be managed in energy markets are (i) price and volume variability; (ii) delivery points and basis differential in price; (iii) performance and payment; and, (iv) physical O&M and business processes.

CAP uses energy for moving water and identifies Navajo surplus energy available for sale. CAP’s goal, implied by the objective above, is to dynamically seek an appropriate balance between (i) CAP pumping requirements in terms of energy cost and wear and tear on the pump motors; and (ii) the desire to optimize availability and market value of Navajo surplus energy as per the Hoover Power Plant Act, the Stipulation, and the Arizona Water Settlements Act.

The implications of the objective and goal are (i) CAWCD controls CAP pump operation/maintenance schedules; (ii) CAWCD develops new business processes and alliances to manage risk; and, (iii) Navajo surplus energy transactions take place under standard industry contracts and business processes.

Summary of Issue

The Bureau of Reclamation prepares and the Secretary of Interior adopts Navajo power marketing plans in consultation with the State of Arizona (represented by Arizona Department of Water Resources), Western and CAWCD. Western, as representative of the Secretary of Energy, markets surplus Navajo “directly to, with or through the Arizona Power Authority and/or other entities having the status of preference entities under Reclamation law...”

Section 107 of the Hoover Power Plant Act requires that a power marketing plan (known as the Navajo Power Marketing Plan) be developed to provide for marketing and exchanging of Navajo surplus energy to provide financial assistance in the timely construction and repayment of construction costs of authorized features of the Central Arizona Project. The first power marketing plan was adopted in 1987.

The United States of America has the obligation, in accordance with the Revised Stipulation, to “amend the Navajo Marketing Plan of December 1, 1987 (“Plan”) to provide for the establishment and collection of rates for the sale or exchange of Navajo Surplus Power after September 30, 2011, which optimize the availability and use of revenue, in a manner consistent with the Hoover Power Plant Act of 1984 (Pub. L. No. 98-381).”

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Under the 1987 Plan, Reclamation, Western, Salt River Project and CAWCD entered into a series of three (3) agreements, all of which terminate September 30, 2011. The last, known as the 4 Party Agreement, became effective in 1994. Under these agreements, SRP purchases all Navajo surplus energy. The three existing contracts with SRP must be, if they are to be, extended in term prior to October 1, 2007. CAWCD, Reclamation and Western believe that any such contracts should not be extended. Any new contracts should be developed pursuant to the Amended Navajo Power Marketing Plan.

Status as of July 13, 2007

The formal public process of developing the Amended Navajo Power Marketing Plant began with two public information forums in September of 2006, and two public comment forums in October of 2006. Submittal of written comments by interested parties ended on November 13, 2006.

Western summarizes the differences between the original plan and the proposed amended Plan as follows:

Original Plan	Proposed Plan
Surplus availability determined through a single long-term projection of water deliveries	Surplus sales are structured around current water operations on an annual basis
Little flexibility for annual changes in O&M of the system	Allows flexibility in O&M of the system needed to ensure reliable operation
There were no changes in water deliveries caused by water shortages anticipated during this period	Allows flexibility to respond to shortages or other changes in the water available to CAWCD from the Colorado River
Contractual commitments cause significant power purchases by CAWCD to meet pumping requirements	Anticipate that no net power purchases required on annual basis (some daily balancing required)
Frequent start/stops of pumps have resulted from contractual commitments under the Plan which causes wear on the units	Sales structured to limit impact on unit starts/stops
Rates were developed based on study of the market cost of alternative generation resources	Rates developed annually based on current market conditions
Products sold in long-term contracts of approximately 20 years	Product sold under shorter terms limited by foreseeable water & power market conditions
No mechanism for rate changes. Revenue remained unchanged as market prices increased	Annual rate determination (for products not sold on multi-year basis)

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The proposed Amended Plan is now in Reclamation’s hands, ready for signature by the Secretary of the Interior or designee.

CAWCD, as part of a strategic process with the CAWCD Board, retained a consultant to assist in establishing the market value of Navajo surplus energy in 2012. This work has ended with the major conclusion being that sufficient net revenue from the sale of Navajo surplus energy through a competitive process using standard contracts will likely result in sufficient annual net revenues to cover CAP’s annual repayment amount.

Western, Reclamation, CAWCD and SRP have met three times in 2007 to discuss the possibility for a new long-term contract with SRP. CAWCD is presently working with Western and Reclamation to determine the appropriate product and pricing mechanism for a new long-term contract with SRP.

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