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ARIZONA CORPORATION COMMISSION

Commissioner Andy Tobin Calls on SRP to find Alternative to Shutting Down Navajo Generating Station

(Phoenix) Arizona Corporation Commissioner Andy Tobin is calling for an emergency summit to figure out ways to stop the shutdown of the Navajo Generating Station (NGS). Salt River Project (SRP), which is not regulated by the Commission, is considering shutting down its coal-fired NGS units when their lease expires in 2019 in order to find lower-cost natural gas energy elsewhere.

Commissioner Tobin wrote a letter to SRP President David Rousseau asking that they reconsider for the sake of the Navajo Nation the Hopi Tribe and other potential economic stakeholders which would suffer economically with the closure. Commissioner Tobin noted in his letter that nearly 3,000 Navajo Nation jobs are in jeopardy if NGS closes.

“Arizonans deserve to know how and when SRP determined NGS was no longer economical to operate. Further, SRP should explain its accounting of regulatory changes that might occur under President Trump’s administration,” Commissioner Tobin wrote in the letter. “It is true that SRP falls outside of the direct jurisdiction of the Commission. There is no Order this Commission can adopt that specifically requires SRP to remain at NGS. We can, however instruct SRP’s partners at NGS (Arizona Public Service Company (APS) and Tucson Electric Power (TEP), and I may offer such a proposal in the very near future.”

The full letter is included in a separate attachment.

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ARIZONA CORPORATION COMMISSION

February 2, 2017

David Rousseau, President
Salt River Project Agricultural Improvement and Power District
1521 N. Project Drive
Tempe, Arizona 85281-1298

Dear Mr. Rousseau,

I am deeply concerned about the Salt River Project's (SRP) surprisingly hostile attitude toward the Navajo Generating Station (NGS) in recent weeks.

In early January, SRP executives shared with me a financial analysis that essentially concluded natural gas is more economical to burn than coal, regardless of changes to the existing regulatory climate. SRP's lease of coal-fired electric generating units at NGS is set to expire in 2019 (although owners have the right to extend the lease for up to an additional 25 years). Accordingly, SRP is strongly considering shuttering the plant and finding lower-cost natural gas energy elsewhere.

This myopic calculus is of the worst sort and unacceptable to this commissioner.

Not only does SRP's analysis ignore the Navajo Nation and the Hopi Tribe, which face economic devastation of the highest order, but the rest of Arizona will also suffer with the loss of billions in gross state product (per SRP and the Navajo Nation's commissioned economic impact analysis)¹ and potentially steep water bill hikes to recipients of Central Arizona Project (CAP) water.²

¹ Patrick O'Grady, "Closure of Navajo Generating Station could cost Arizona \$18B," *Phoenix Business Journal*, <http://www.bizjournals.com/phoenix/news/2012/02/21/closure-of-navajo-generating-station.html>, (accessed 23 Jan. 2017).

² Ryan Randazzo, "Navajo Generating Station threatened with closure," *The Arizona Republic*, <http://www.azcentral.com/story/money/business/energy/2017/01/04/navajo-generating-station-threatened-closure/96164528/>, (accessed 23 Jan. 2017).

Navajo Nation President, Russell Begaye, and Navajo Nation Council Speaker, LoRenzo Bates, wrote to Arizona's members of Congress, John McCain, Jeff Flake, and Tom O'Halleran, on January 19, 2017 noting the "profound impact" that closing NGS will have for the Navajo Nation, the Hopi Tribe, the City of Page, and the Northern Arizona. Nearly 3,000 Navajo Nation jobs are in jeopardy if NGS closes, including 450 from NGS itself, and 325 from the Kayenta Mine that provides fuel to NGS.³

People will be hurt if NGS closes, and SRP knows this. In fact, SRP, the Navajo Nation and Arizona Public Service Company (APS) made this plea in a December 2014 joint letter to the Environmental Protection Agency (EPA), noting that over half (52%) of Navajos lacked a job; 32% lacked electricity, 31% lacked plumbing; 38% lacked water service; 28% lacked kitchen facilities; 60% lacked telephone service.⁴ The joint letter added:

"The Navajo people cannot absorb the detrimental economic effects that will come with unit shutdowns and decreased coal production....The Navajo Nation government has also seen a significant decrease in its revenue, which weakens its sovereignty and forces it to become more dependent upon the federal government to provide essential services to the Navajo people."⁵

The Hopi Tribe echoed this sentiment in a January 23, 2017 letter to the same members of Congress. The Hopi unemployment rate is in excess of 60%. The revenues generated from operation of NGS and the Kayenta Mine account for over 85% of the Hopi Tribe's general fund budget: "Loss of revenue from the Kayenta Mine will likely result in a severe curtailment of the governmental function of the Hopi Tribe."⁶

SRP must fully explain to the tribes and the people of Arizona how it plans to address the human toll the company will cause if NGS closes.

In the midst of the federal transition of power in Washington, D.C., I expected SRP to once again roll up its sleeves, engage relevant stakeholders and negotiate a sustainable pathway for NGS to continue operating in some form. I am disappointed that did not happen and implore SRP and the other owners of NGS (and also Commission-regulated utilities), Arizona Public Service (APS) and Tucson Electric Power (TEP), to immediately contact tribal and federal authorities to keep NGS open.

³ President Russell Begaye and Speaker LoRenzo Bates to Senators John McCain and Jeff Flake and Congressman Tom O'Halleran, 19 Jan. 2017, Re: Navajo Generating Station, Page 1.

⁴ Harrison Tsosie, et al. to Janet McCabe, Environmental Protection Agency, 1 Dec. 2014, Joint Comments from the Navajo Nation, Salt River Project and Arizona Public Service Company Regarding the U.S. Environmental Protection Agency's Carbon Pollution Emission Guidelines for Existing Stationary Sources: EGU's in Indian Country and U.S. Territories; Multi-Jurisdictional Partnerships; Supplemental Rule, Page 6.

⁵ *Ibid.*

⁶ Chairman Herman G. Honanie to Senators John McCain and Jeff Flake and Congressman Tom O'Halleran, 23 Jan. 2017, Re: Navajo Generating Station, Page 1.

This important move will provide the certitude that Arizona needs as her people endeavor to design the NGS of the future. A full review of energy options is in order by SRP and others, including lease and permit renewals of NGS and the Kayenta Mine, respectively; adoption of “Clean Coal” technology at NGS; fuel source conversion at NGS from coal to natural gas; the construction of a new railroad line from the Kayenta Mine that will allow the mine to supply Arizona coal to other generating stations near and far; and other, cutting edge energy technologies, such as major solar and energy storage investments.

Overlaying the above-mentioned energy alternatives is the concern by me and many other energy observers throughout the state and country about an over-reliance on natural gas. I have previously commented on this topic and noted that natural gas exposes Arizonans to significant financial risk:

“Not only does over-investment in natural gas increase the risk of higher energy prices that have been historically unstable, but Arizonans would also be forced to pay the unnecessary costs for idled generation infrastructure used a fraction of the year.”⁷

Despite the glut of inexpensive natural gas flooding energy markets, SRP has not sufficiently demonstrated its ability to hedge against the volatility in natural gas pricing. If anything, SRP natural gas price forecasts over the past several years have revealed that SRP has been wrong every year—by a lot. Coal, on the other hand, is a fuel that has enjoyed a consistent, stable pricing for decades, and may become even more competitive as coal pricing restructures given the current financial state of coal producers.

I am also confused by SRP’s seemingly new stance on NGS compared to last year. In a *Phoenix Business Journal* exclusive published August 22, 2016, SRP spokesman, Scott Harelson, unequivocally stated, “**We are not closing NGS...**In fact, we are deeply involved in efforts to extend the life of the plant.”⁸

In an August 2016 SRP presentation at the Arizona Manufacturing Council Air Quality Conference, SRP devoted a section to NGS entitled “Operations Extension.” SRP acknowledged the challenges facing the power plant including expiring leases with formidable federal approvals looming, uncertainty surrounding the Clean Power Plan and other legal issues from environmental regulations.⁹ SRP blamed major federal hurdles thrown up by President Obama.

This tone was consistent with the previously mentioned December 2014 SRP joint letter, which opposed increased carbon emission reductions under the Clean Power Plan beyond what other

⁷ Commissioner Andy Tobin to Docket Control, Arizona Corporation Commission, 6 Dec. 2016, RE: Resource Planning and Procurement, Docket No. E-00000V-15-0094, Page 1.

⁸ Mike Sunnucks, “Exclusive: SRP to scope potential closure costs at state’s largest coal-fired power plant,” *Phoenix Business Journal*, <http://www.bizjournals.com/phoenix/news/2016/08/22/exclusive-srp-to-scope-potential-closure-costs-at.html>, emphasis added.

⁹ Salt River Project presentation to AMC Air Quality Conference, 10, Aug. 2016, “Operations Extension, Page 18.

EPA rules require. Doing so, the parties wrote, would further erode the economic benefit of NGS and Kayenta Mine to the Navajo Nation at approximately \$13 billion.¹⁰

As late as November 18, 2016, SRP planned for the continued operation of NGS as noted in its Official Statement used for the marketing and sale of 2016 Series A Bonds.¹¹ There is only one implied reference to closure of NGS in the 57-page statement, and it is tied solely to environmental requirements:

“The full significance of future air-quality standards and emissions-reduction initiatives to the District in terms of costs and operational impacts is difficult to predict. The cost of fossil fuel purchased by the District may increase and permit fees may increase significantly, resulting in potentially material costs to the District as well as reduced generation. The District is assessing the risk of these policy initiatives on its generation assets and is developing contingency plans which may include the curtailment or closure of one or more of the District’s generating units. The District cannot predict the impact of such initiatives on the District at this time.”¹²

Meanwhile, SRP was presumably aware of the fuel trends they assert support their current contention and chief reason for walking away from NGS: namely, natural gas is cheaper than coal. When SRP executives briefed me in January, they cited a November 2016 MIT Technology Review that implied even if President Trump were able to change the regulatory environment for coal, the “cheap and plentiful” natural gas will still negate any cost savings of operating NGS.¹³ Why was this risk not more clearly articulated in SRP’s Official Statement to the bond market?

Arizonans deserve to know how and when SRP determined NGS was no longer economical to operate. Further, SRP should explain its accounting of regulatory changes that might occur under President Trump’s administration.

It is true that SRP falls outside the direct jurisdiction of the Commission. There is no Order this Commission can adopt that specifically requires SRP to remain at NGS. We can, however, instruct SRP’s partners at NGS (APS and TEP), and I may offer such a proposal in the very near future. To the extent the law and our constitutional powers allow, I will seek Commission support to value and protect our state’s baseload coal and nuclear generation resources in ratemaking, Integrated Resource Plans, and in requests for the construction of power plants and line siting.

¹⁰ Harrison Tsosie, et al. to Janet McCabe, Environmental Protection Agency, 1 Dec. 2014, Joint Comments..., Page 3.

¹¹ Salt River Project Agricultural Improvement and Power District, Arizona, 18 Nov. 2016, Official Statement RE: Salt River Project Electric Systems Refunding Revenue Bonds, 2016 Series A, Page 12, <http://emma.msrb.org/ES994749-ES776417-ES1177727.pdf>, (accessed 23 Jan. 2017).

¹² *Ibid.*, Page 40, emphasis added.

¹³ Salt River Project presentation to Commissioner Andy Tobin, 11 Jan. 2017, Navajo Generating Station Update: Arizona Corporation Commission, Page 7.

The closure of NGS will have a profoundly negative impact across all peoples and sectors of our state. SRP must look beyond its spreadsheets and see that this decision must not and should not be made unilaterally. SRP and other critical stakeholders, including commissioners, must suspend plans to close NGS. We should convene an emergency NGS Power Summit as soon as practicable to discuss ways to protect NGS.

Sincerely,



Andy Tobin
Commissioner

cc: Governor Douglas A. Ducey
President Steve Yarbrough, Arizona State Senate
Speaker J.D. Mesnard, Arizona House of Representatives
State Senator Gail Griffin, Chairman of the Senate Natural Resources, Energy and Water Committee
State Representative Russell Bowers, Chairman of the House Energy, Environment and Natural Resources Committee
Senator John McCain
Senator Jeff Flake
Congressman Tom O'Halleran
Congresswoman Martha McSally
Congressman Raul Grijalva
Congressman Paul Gosar
Congressman Andy Biggs
Congressman David Schweikert
Congressman Ruben Gallego
Congressman Trent Franks
Congresswoman Kyrsten Sinema
Chairman Tom Forese
Commissioner Bob Burns
Commissioner Doug Little
Commissioner Boyd W. Dunn
President Russell Begaye, Navajo Nation
Speaker LoRenzo Bates, Navajo Nation Council
Chairman Herman G. Honanie, Hopi Tribe
President Lisa A. Atkins, Central Arizona Project