



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240

JUN 01 2018

The Board of Directors and General Manager
Central Arizona Project
23636 North Seventh Street
Phoenix, Arizona 85024

Dear Members of the Board of Directors and Mr. Theodore Cooke:

As you are aware, the future of the Navajo Generating Station (NGS) as a power source for the Central Arizona Project (Project) has been the subject of significant discussion in light of the expiration of the Co-Tenancy Agreement, Fuel-Supply Agreement, Operating Agreement, and Participation Agreement in December 2019. Confronted with this reality, the Department of the Interior (Department) understands that the Central Arizona Water Conservation District (the District) has been actively pursuing sources of power other than NGS, and that the Project's Board of Directors expects to consider and possibly approve such alternatives in an upcoming meeting scheduled for June 7, 2018.

The Department has broad and important interests that are affected by the operation of the Project, particularly concerning stakeholders that use Project water, including tribes, irrigators, and municipal water users. These interests have prompted a close examination of the circumstances surrounding Project power and the role of NGS in providing that power. In light of the longstanding relationship between the District and the Department in operating the Project and the need for continued coordination and cooperation, the Department would appreciate the District's perspective regarding certain issues that have arisen in the course of that review. A significant concern is that the Colorado River Basin Project Act of 1968 (1968 Act)¹ appears to authorize NGS as a source of power for the Project, and the District is presently considering future arrangements regarding Project power that do not involve NGS.

The 1968 Act authorized the Project by providing that the "[Interior] Secretary shall construct, operate, and maintain the Central Arizona Project, consisting of [a number of specific works]." While most Bureau of Reclamation projects utilize hydroelectric power, Congress provided that power for the Project was to be obtained from an alternate source or sources, due to concerns that the dams necessary to generate the required power would detrimentally impact the landscape of the Grand Canyon.

Congress addressed these issues in Section 303 of the 1968 Act, which directed the Secretary of the Interior (Secretary) to conduct an evaluation of available sources of power for the Project and recommend the most feasible plan to supply the Project with power (the Plan):

¹ 43 U.S.C. §§ 1521-1528.

The Secretary is authorized and directed to continue to a conclusion appropriate engineering and economic studies and to recommend the most feasible plan for the construction and operation of hydroelectric generating and transmission facilities, the purchase of electrical energy, the purchase of entitlement to electrical plant capacity, or any combination thereof, including participation, operation, or construction by non-Federal entities, for the purpose of supplying the power requirements of the Central Arizona Project and augmenting the Lower Colorado River Basin Development Fund(...).²

In Section 303(b), Congress contemplated that the Secretary's Plan could include agreements between the United States and non-Federal parties for the purpose of providing the Project a thermal source of power:

(b) If included as a part of the recommended plan, the Secretary may enter into agreements with non-Federal interests proposing to construct thermal generating powerplants whereby the United States shall acquire the right to such portions of their capacity, including delivery of power and energy over appurtenant transmission facilities to mutually agreed upon delivery points, as he determines is required in connection with the operation of the Central Arizona Project. (...)³

Section 303(c) required the submission of the Secretary's Plan to Congress within a year.⁴

After passage of the 1968 Act, the Secretary submitted the required Plan to Congress. As contemplated in Section 303(b), the Plan included a thermal source of power for the Project.

The Secretary's Plan describes a negotiation among several southwestern utilities building a thermal power generating plant near Page, Arizona, which ultimately resulted in agreements among the United States and 5 utilities from Arizona, California, and Nevada regarding construction of NGS. Following the required submission of the Plan and its proposal to meet the Project's power requirements through the acquisition of a contractual interest in power delivered from a thermal source – in this case what would become NGS – Congress began appropriating funds for both the Project and the Federal portion of NGS soon after the Plan's submission.

While the Department recognizes that many circumstances have changed since passage of the 1968 Act, including enactment of the 2004 Arizona Water Settlements Act, it currently believes that the 1968 Act remains the applicable governing authority and must be addressed in any decision relating to future sources of Project power. With the 1968 Act in mind, the Department expects to consider several options going forward, including the feasibility of continued use of NGS-provided power. We hope to work collaboratively with the District and other stakeholders to explore available options consistent with the 1968 Act, which may include the submission of a new plan to Congress that reflects currently available and economically viable sources of power.

² 43 U.S.C. § 1523(a).

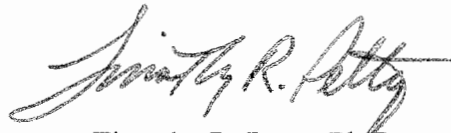
³ 43 U.S.C. § 1523(b).

⁴ 43 U.S.C. § 1523(c).

We welcome any further information you may wish to provide concerning this issue, especially as it relates to water resource management.

The Department appreciates your review of the matters set forth above, and we look forward to a constructive dialogue regarding the most appropriate path forward.

Sincerely,

A handwritten signature in cursive script that reads "Timothy R. Petty". The signature is written in black ink and is positioned above the printed name and title.

Timothy R. Petty, Ph.D.
Assistant Secretary for Water and Science