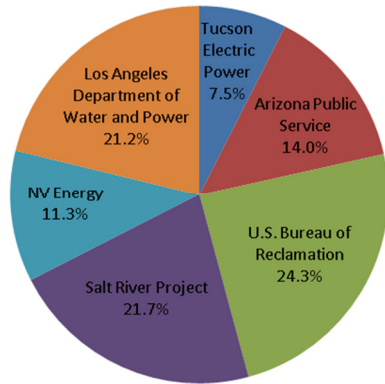


Summary of Navajo Generating Station Agreement

Background

- The Navajo Generating Station (NGS) consists of three coal-fired units rated at a total output of 2,250 net megawatts (MW). The plant is located on the Navajo Nation. Six participants have an interest in NGS, as shown below. SRP is the plant's operating agent.



- On February 5, 2013, the U.S. Environmental Protection Agency (EPA) issued a proposed Best Available Retrofit Technology (BART) rule for NGS under the Clean Air Act. The purpose of the BART rule is to improve visibility at eight national parks and three wilderness areas located in the vicinity of NGS including the Grand Canyon National Park.
- EPA's proposal would require an emission control technology called Selective Catalytic Reduction (SCR) to be installed and operational on all three NGS units by 2018. EPA also proposed an alternative that would give the NGS owners credit for early installation of low-NOx burners at NGS, and allow SCR to be installed on one unit per year between 2021 and 2023.
- In 2010, SRP estimated the cost of SCR on all three units to be \$544 million. If baghouses are also required, SRP estimated the total cost of the additional emission controls at NGS could top \$1.1 billion. SRP is currently working to update the cost estimates.
- In recognition of the importance of NGS and the unique circumstances surrounding the plant, EPA invited the submittal of alternative proposals that would achieve the same or greater benefits.
- In response, a Technical Work Group consisting of a group of stakeholders with different viewpoints was assembled to develop a supplemental proposal for submittal to EPA. Prior to the Technical Work Group, SRP convened an extensive stakeholder process that spanned from 2010 to 2011.
- The Technical Work Group includes the Central Arizona Water Conservation District, the Environmental Defense Fund, the Gila River Indian Community, the Navajo Nation, SRP, the U.S. Department of the Interior, and the Western Resource Advocates.

Elements of NGS Agreement

- The Technical Work Group has reached a historic agreement that includes the following elements:

A proposed "Reasonable Progress Alternative to BART" described further below, submitted to EPA for its consideration to issue as the final BART rule. The Reasonable Progress Alternative to BART proposed by the Technical Work Group includes two alternatives that both achieve even greater nitrogen oxide (NOx) emission reductions than EPA's Proposed BART Rule.

Alternative A

- Requires the NGS participants to cease coal generation on one unit or substantially reduce generation by January 1, 2020, depending on which ownership changes occur.
- This alternative also requires the NGS participants to achieve the same amount of NOx emissions reductions as provided for under EPA's BART proposal, while meeting a 30-day rolling average NOx emission rate limit of 0.07 lb/MMBtu on two units at NGS after installing SCR or an equivalent technology no later than December 31, 2030.

Alternative B

- If the conditions for Alternative A are not met, Alternative B requires a reduction of NOx emissions equivalent to the shutdown of one Unit from 2020 to 2030.
- This alternative also requires the submittal of annual Implementation Plans describing the operating scenarios to be used to achieve greater NOx emission reductions than EPA's Proposed BART Rule as described below.

Under either Alternative A or B, to ensure that the proposed alternative meets the "better than BART" criteria, the NGS Participants agree to maintain emissions below the total 2009-2044 NOx emissions cap delineated under EPA's BART proposal.

The 2009-2044 NOx cap is calculated based on an annual emission rate of 0.055 lb/MMBtu for SCR, which is the emission rate assumed by EPA in its proposed rule. Therefore, Alternative A and B meet the "better than BART" criteria by providing greater emission reductions than EPA's proposed rule.

Summary of Navajo Generating Station Agreement

Additional Elements of NGS Agreement

- Consistent with the President’s plan to reduce carbon dioxide (CO₂) emissions, a commitment by the Interior Department to reduce the CO₂ associated with the energy used to pump Central Arizona Project water by 3 percent annually for a total of 11.3 million metric tons to be achieved at NGS or through qualifying low emitting clean energy projects no later than December 31, 2035. Interior’s commitment will be administered through an innovative credit-based CO₂ tracking and accounting program that assures the reductions are accurately measured and genuine.
- In furtherance of the President’s “Blueprint for a Secure Energy Future” and to advance clean energy economic development that benefits the Indian tribes affected by NGS, the Interior Department will facilitate the development of Clean Energy Projects at a pace and scope to achieve 80% Clean Energy by 2035 for the U.S. share in NGS by securing approximately 26,975,000 MWh of Clean Energy Projects. The Interior Department will identify, prioritize and further low-emitting energy projects to benefit affected tribes, such as a 33 MW solar facility proposed by the Gila River Indian Community and local, community-based and large scale renewable energy projects within the Navajo Nation and the Hopi Tribe.
- A commitment by the Interior Department to carry out the National Renewable Energy Laboratory (NREL) Phase 2 Study to analyze options for the future of NGS consistent with the goals of the Joint Statement issued by EPA, Interior, and the U.S. Department of Energy on January 4, 2013, including identifying options for replacing the federal share of energy from NGS with low-emitting energy resources.
- A \$5 million Local Benefit Fund for community improvement projects within 100 miles of NGS or the Kayenta Mine (which supplies coal to NGS). Such projects could include coal or wood stove changeouts, local and community-based renewable energy projects, a partnership with the Navajo Tribal Utility Authority (NTUA) to address electric or water distribution and other infrastructure needs near the plant and mine, or other projects that benefit families and communities in the vicinity of NGS and the Kayenta Mine and that are developed with input from the affected communities.
- An agreement that SRP will work with the Navajo Nation to advocate to EPA for “Treatment as a State” (TAS) status under the Clean Air Act.
- A commitment by the Interior Department to work with affected Indian tribes in the coming years to address concerns about the impacts of the proposed changes to NGS over time resulting from this BART proceeding and other developments, including, among other things, making available \$10 million per year for 10 years, beginning in 2020, from the Reclamation Water Settlements Fund to mitigate impacts to the Lower Colorado River Basin Development Fund.
- A commitment by the current owners of NGS to cease their operation of conventional coal-fired generation at NGS no later than December 22, 2044 (the Navajo Nation can continue after 2044 at its election).

Next Steps

- The NGS Agreement was submitted to the EPA on July 26, 2013.
- EPA will review and determine whether the Reasonable Progress Alternative to BART proposed by the Technical Work Group is an acceptable “better than BART” alternative.
- If EPA determines that the Reasonable Progress Alternative to BART proposed by the Technical Work Group is an acceptable “better than BART” alternative, EPA will issue a supplemental proposal that provides public notice and requests public comment on the Technical Work Group BART Proposal. The deadline for public comments is currently October 4, 2013.
- EPA will provide public notice and consider public input in issuing a final BART rule.

