



January 25, 2012

CUSTOMER MEETING: MARKETING OF NAVAJO SURPLUS



AGENDA

- × Background
- × Resource
- × Products
- × Quantity & Term
- × Contract Terms
- × Bid Process
- × Payment
- × Contacts/Information
- × Questions

BACKGROUND

- ✘ The Bureau of Reclamation has a 24.3% interest in Navajo Generating Station (NGS) for the Central Arizona Project (CAP)
- ✘ Navajo Surplus is energy in excess of CAP load
- ✘ Western Area Power Administration (Western) markets Navajo Surplus pursuant to the Amended Navajo Power Marketing Plan (Plan) (see FRN Vol. 72, No. 184, 9/24/07)
- ✘ Navajo Surplus is not cost based like Federal hydropower
- ✘ Navajo Surplus to be marketed using a competitive process based on market prices
- ✘ Higher priority is provided to preference entities (highest for Arizona preference entities)



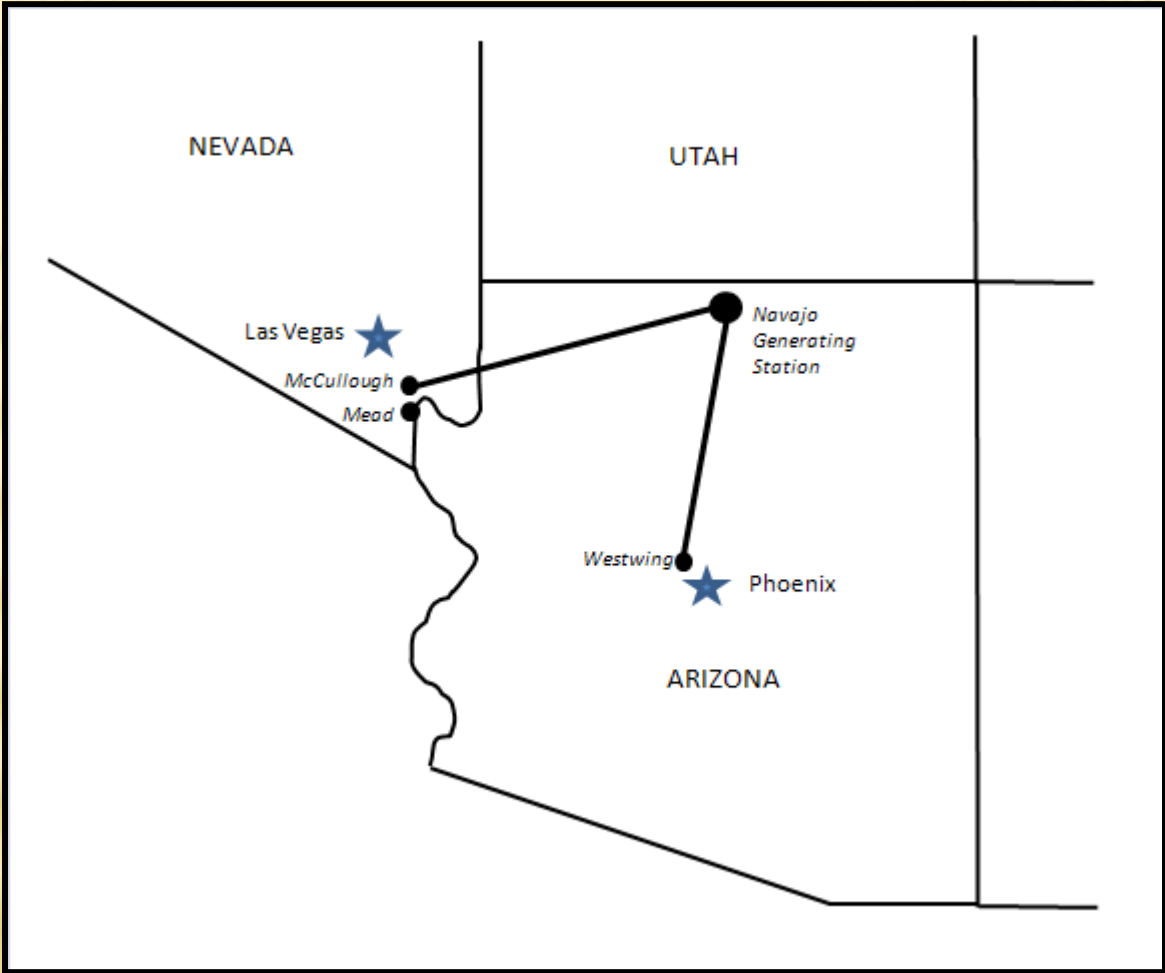
PRIORITY GROUPS

- × Group 1 – Preference entities within Arizona
- × Group 2 – Preference entities within the Boulder City Marketing Area
- × Group 3 – Preference entities in adjacent Federal marketing areas
- × Group 4 – Non-preference entities in the Boulder City Marketing Area

RESOURCE

- ✘ NGS is a coal fired plant operated by Salt River Project consisting of three 750 MW units
- ✘ U.S. share of plant capacity is 547 MWs
- ✘ NGS is a high performing plant with an Equivalent Forced Outage Rate of 3% during summer months (Jun-Sep) and under 5% overall, based on the last 5 years
- ✘ Navajo Project includes transmission to McCullough Substation near Las Vegas, NV and to Westwing Substation near Phoenix, AZ

NAVAJO TRANSMISSION SYSTEM



PRODUCTS

- ✘ Products will normally be WSPP Schedule B Unit Commitment (or equivalent) with plant contingent curtailments
- ✘ Delivery at Navajo Bus, McCullough 500kV or 230 kV, Westwing 500kV or 230 kV (transmission is normally available for purchase from McCullough to Mead)
- ✘ Summer Sales (Jun-Sep) share pro rata curtailments with CAP load
- ✘ Non-Summer Sales (Oct-May) are curtailed pro rata prior to curtailment of CAP load

QUANTITY & TERM

- ✘ Quantities will vary monthly based on the forecasted CAP pump loads
- ✘ Approximately 100 - 200 MW per hr available most months except during overhauls (Feb/Mar)
- ✘ Products may be sold on a monthly, seasonal, yearly, or multi-year basis
- ✘ Transactions will be in Pacific Prevailing Time (PPT)
- ✘ Western anticipates the first RFP will be issued during the next few months

CONTRACT TERMS

- ✘ Will be based on the WSPP, Schedule B
- ✘ A contract template will be available in the near term
 - All entities will be required to execute an agreement prior to bidding
 - Western may transact under the WSPP at their discretion
- ✘ WAPA-Desert Southwest Region will be the counterparty on all contracts for Navajo Surplus

BID PROCESS - BACKGROUND

- ✘ Based on the Amended Navajo Power Marketing Plan
- ✘ Will utilize a 'common' RFP approach with two variations:
 - 1) Preference Customers given higher priority than non-Preference Customers
 - 2) Parties can bid on any volume (in whole MWs) within the range offered

BID PROCESS – HIGH LEVEL VIEW

- ✘ Issue RFP
- ✘ Receive bids from prospective suppliers
- ✘ Check contract status of each supplier
- ✘ Analyze bids
- ✘ Determine winner(s)
- ✘ Confirm transaction(s)

BID PROCESS – HIGH LEVEL VIEW

- ✘ Western will use a “fill the order” approach during bid processing
- ✘ Western will establish a minimum bid amount (\$) based on an evaluation of the market. This will be used to identify competitive bids
- ✘ Process is structured to incentivize competitive price bidding while maintaining obligation to Preference Customers
- ✘ Western’s Energy Management and Marketing Office (EMMO) CANNOT represent any existing EMMO Trust customers during the Navajo Surplus bidding



BID PROCESS – STEPS

Once all the bids are received Western will:

- ✘ Apply the “Competitive” price test. Any non-competitive bids will not be considered
- ✘ Verify the bidder has agreed to contract terms w/ Western. If not, bid will not be considered
- ✘ Group competitive bids into two lists that will be used during the bid evaluation process:
 - 1) Master List – All bids sorted by price (Highest to Lowest). This list is used to determine and track Market Prices
 - 2) Priority List – All bids grouped by the 4 categories defined in the Plan, sorted by price (Highest to Lowest). This list is used to keep track of preference status



BID PROCESS – STEPS (CONT.)

- ✘ Establish Market Prices
 - 1) Use the Master List to identify bids that fill the order
 - 2) Customers bids that fill the order become the Market Setters
 - 3) The Market Price can be set by one or more Market Setters
- ✘ The following are 2 examples of how Market Prices are determined based on a 200MW RFP

BID PROCESS – IDENTIFY MARKET PRICE

Example 1 – Market Price set by one Customer

MASTER LIST

Customer	Priority Group	Bid Price (\$)	Volume (MW)	Market Price (\$)
A	4	50.00	200	50.00
B	3	49.85	5	
C	1	49.75	50	
D	2	48.95	50	
E	1	48.25	5	
F	1	47.75	8	

- ✘ RESULT: Market Price is \$50.00 because Customer A's bid filled the order



BID PROCESS – IDENTIFY MARKET PRICE

Example 2 – Market Price set by Multiple Customers

MASTER LIST

Customer	Priority Group	Bid Price (\$)	Volume (MW)	Market Price (\$)
A	4	50.00	100	49.90
B	3	49.85	50	49.90
C	1	49.75	50	49.90
D	2	48.95	50	
E	1	48.25	5	
F	1	47.75	8	

- × RESULT: Market Price is \$49.90 based on the weighted average of bids from Customers A, B, & C



BID PROCESS – MAKE OFFERS

- ✘ Customers will be contacted in the order that they appear in the Priority List
- ✘ Each customer will be offered one of two prices:
 - 1) Their Bid Price, if they were a Market Setter *OR*...
 - 2) The Market Price
- ✘ Offers will be made until the RFP volume is achieved
- ✘ Customers may not always be offered their full bid volume

PAYMENT

- ✘ Western will prepare invoices, collect revenues, and direct all funds into the Lower Colorado River Basin Development Fund to benefit the CAP

CONTACTS/INFORMATION

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- Patrick Erwin
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For further information on Navajo Marketing see our website at:
<http://www.wapa.gov/dsw/pwrmkt/NAVAJO>



CONCLUSION

× Questions??