

**Metropolitan Domestic Water Improvement District
Board of Directors Meeting**

February 10, 2014

Hoover Power Application

Synopsis

The Board of Directors is requested to approve the District submitting to the Western Arizona Power Administration an application for Hoover D-1 Power.

Background

The District has been looking for a renewable power supply that would lower the District's electrical costs for pumping CAP water from the Avra Valley Recharge Project and power costs at Metro Southwest-Diablo Village. One key supply would be the allocation of a new pool of Hoover Power.

In November 2011, the U.S. Congress approved legislation to reallocate Hoover Power beginning in 2017. Hoover Power is a renewable energy supply averaging 3.6 cents per kilowatt-hour. The current 25 year contracts for Hoover Power expire in 2017. The "Hoover Power Reallocation Act of 2009" (HB 4349) is composed of three energy pools, Schedules A, B and D. The D pool is new and was created by turbine efficiencies at the dam, which resulted in an increase of generation capacity of 5 percent for each existing A and B customer to create a new pool called Schedule D. This new pool has been characterized as for federally recognized Indian Tribes and other eligible entities that do not currently have a Hoover power contract.

The Western Area Power Administration has released its final application criteria for a new pool of Hoover Power. Applications are due on March 31, 2014. The Arizona Power Authority also has a Hoover Power allocation process which may begin in August 2014.

Issues

The total annual amount of electrical power capacity identified in Schedule D, also called D-1, for reallocating by the Western Area Power Administration (WAPA) within Arizona to Indian Tribes and other eligible entities totals 69.5 MW among Arizona, California, and Nevada. The Arizona Power Authority (APA) is responsible for setting the criteria for dividing 11.5 MW of firm D-2 power among the new eligible entities in Arizona.

The District's electrical demand for all of its service areas is 3.9 MW or one-third of the D-2 pool and 6 percent of the D-1 pool. Therefore, the District will face competition in the allocation process. A Hoover Power allocation would lower the expected higher future energy costs at Avra Valley Recharge and Recovery Project and lower current TRICO Electric costs at Metro

Southwest-Diablo Village.

Presently, the average customer cost for Hoover power is 3.6 cents per kilowatt hour. Tucson Electric Power electrical rate during the year ranges from 7 to 12 cents per kilowatt hour. Trico Electric's rate at Diablo Village ranges during the year from 16 to 22 cents per kilowatt hour. TEP and Trico's rates are the combined cost for producing the energy and transmission to the customer. The Hoover rate does not include transmission costs to the customer from the electric grid. If the District secures a Hoover Power allocation, WAPA and APA require the District have a transmission (wheeling) agreement with the local electrical utility as part of the Hoover Power contract. Transmission costs for Hoover Power could be more expensive than current local transmission costs because the distance the power has to travel from the source to the customer. If the District is awarded an allocation, an energy rate consultant would be needed to complete an economic analysis on Hoover Power (generation and delivery) versus current local rates.

D-1 applications are due to WAPA by March 31, 2014. A copy of the application form is attached. There is no fee for submitting an application nor is there any obligations placed on the District by submitting an application. The only cost will be the staff time involved to complete the detailed application. The Arizona Power Authority projects their allocation process will be ready for applications in August 2014. The tentative APA schedule is also attached.

Staff Recommendation

It is recommended that the Board of Directors approve the submittal of an application to the Western Power Administration for Hoover D-1 Power by the March 31, 2014 deadline. Staff believes that obtaining an allocation of Hoover Power would provide an important new energy source that would help lower power costs for the CAP Recharge, Recovery & Delivery System and for Metro Southwest-Diablo Village service area.

Suggested Motion

I move that the General Manager is authorized to submit an application to the Western Power Administration for Hoover D-1 Power by the March 31, 2014 deadline.

Respectfully submitted,

I concur with staff's recommendation.

Respectfully submitted,

Warren Tenney
Assistant General Manager

Joseph Olsen, P.E.
General Manager