

Navajo Generating Station threatened with closure

Ryan Randazzo



Valley homebuilders are poised to start raising prices in 2017 to offset their rising costs of land and labor. Wochit

The Navajo Generating Station coal-fired power plant near Page and the coal mine that supplies it may close this year in the face of low natural-gas prices that undercut the economics of the plant.

The glut of cheap natural gas sweeping the country has made the plant's electricity more expensive than simply buying power from natural-gas-fired plants. That trend is bringing renewed focus on whether the five utility owners should continue to run the plant.

Salt River Project, an owner and the plant's operator, has been negotiating to keep it open but faces a variety of headwinds, from retrofits required by federal environmental regulations to renewing a property lease with the Navajo Nation.

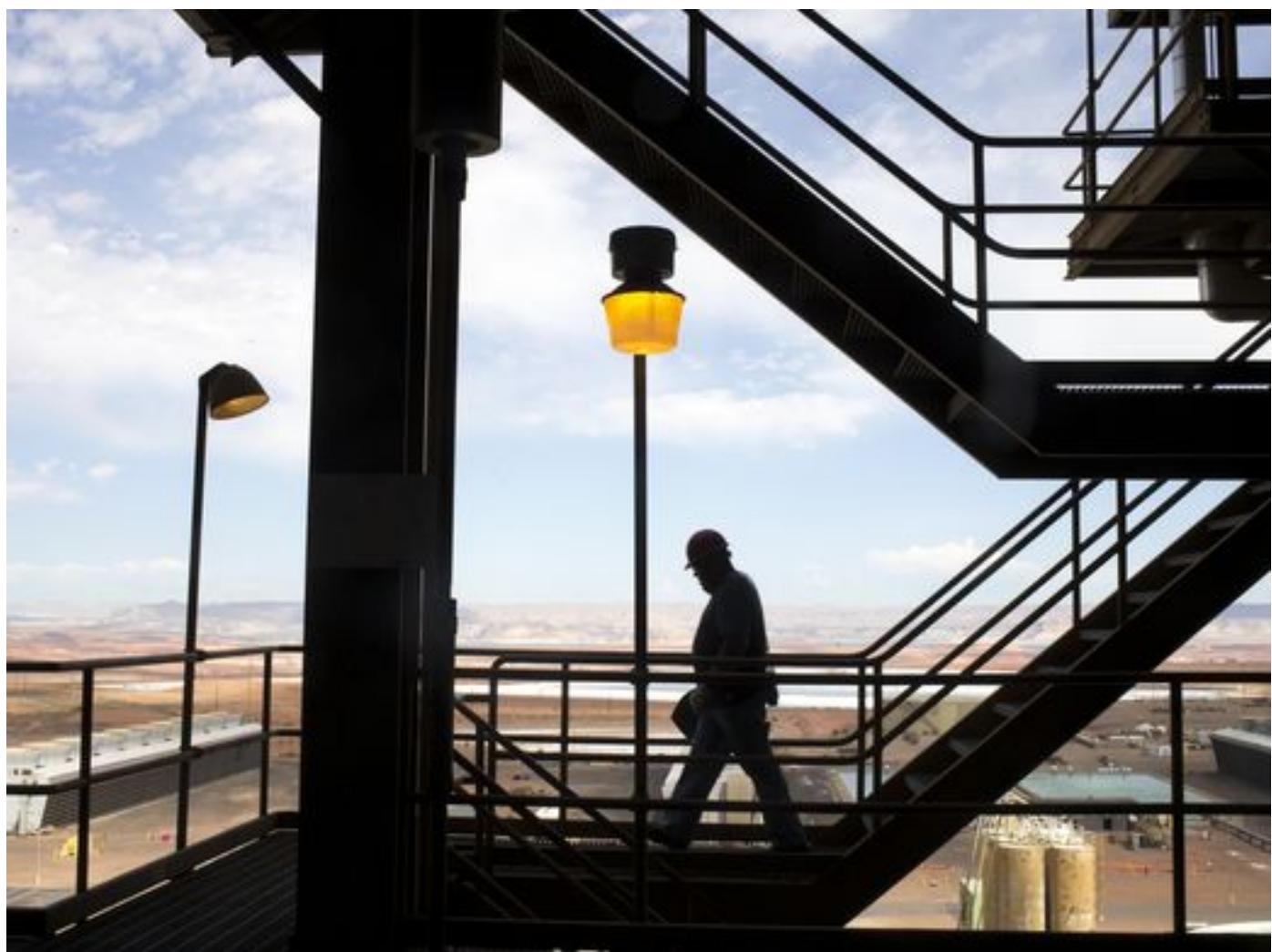
"The economics are changing and this has kind of shifted how the owners look at potentially the future of the plant," SRP spokesman Scott Harelson said Tuesday. "We anticipate we will make a decision right around or before spring of this year."

The current lease with the Navajo Nation expires in 2019. If the plant owners are not going to keep running the plant and don't negotiate a lease extension, they would need to start tearing it down for decommissioning by the end of this year to be done by the end of 2019.

Harelson said that the owners "could consider other options," but declined to elaborate.

The first of the plant's three generators opened in 1974. The plant employs about 500 on land owned by the Navajo Nation. Another 430 work at the Kayenta Mine, 80 miles away, on Navajo and Hopi land.

The [economic benefits of the plant extend far beyond northern Arizona](#), as its power pumps Colorado River water in the Central Arizona Project canal to Phoenix and Tucson. About half the water used in metro Phoenix comes from the canal. But its impacts, particularly its [climate-changing carbon emissions](#), also extend far beyond the region, making it a major target for environmental groups.



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Inside Navajo Generating Station

The plant is owned by the U.S. Bureau of Reclamation, SRP, Arizona Public Service Co., NV Energy and Tucson Electric Power. The Los Angeles Department of Water and Power recently withdrew from the plant, and NV Energy plans to do the same.

That leaves the remaining owners with the financial burden of retrofitting the plant with better air-quality controls, which they have negotiated with the Environmental Protection Agency for installation in 2030. They also have plans [to shut one of the units or reduce output at the plant by one-third to comply with air-pollution rules.](#)

But as the owners, tribes and other interested parties have begun to file public testimony on that plan, it has become apparent that the cost of running the plant is now higher than simply buying power from natural-gas plants.

“Electricity produced at NGS is currently more expensive than electricity purchased on the wholesale spot market,” the U.S. Department of Energy said in a [National Renewable Energy Laboratory report on the plant in November.](#)

“Price trends examined in this analysis suggest a turnaround might be years away, especially if natural-gas prices remain low,” the report said.

The Central Arizona Water Conservation District runs the CAP canal using power from Navajo, and the agency recently confirmed the upside-down economics of the coal plant cited in the NREL report.

The district’s general manager, Ted Cooke, said Wednesday that while it is

cheaper to buy power on the spot market at times, costs vary, and Navajo is the cheaper option during certain times of year.

"I don't believe anybody is quote, ready to back out," Cooke said. "Any decision to keep the plant open or close the plant is something the owners would have to agree on. But any prudent enterprise ... must look at all of the available options."

Because natural-gas power has been so cheap the past two years, coal plants across the country have been put to use less frequently.

Navajo only ran at 61 percent capacity in 2016. In 2014 it ran at 72 percent capacity, and running above 80 percent capacity is not uncommon for such plants, when gas prices are high and coal is a cheaper option.

According to the NREL report, the total cost of making power at NGS is about \$38 per megawatt hour, while electricity on the market in the region was just \$32 per megawatt hour in 2015 and 22 percent lower than that in the first half of 2016.

And the Navajo plant is about to get more expensive to run. Energy from the Navajo plant will cost about \$41 a megawatt hour after 2019, when a new lease with the Navajo Nation is scheduled to go into effect, and will increase to about \$51 a megawatt hour in 2030, with the new pollution controls to comply with the EPA. These figures don't consider any other factors that could raise the cost of doing business.

Utility owners like APS and TEP can decide to back out based on simple economics, but the water district has a more complicated involvement.

Under the act of Congress that enabled the power plant to be built, the water district also is responsible for selling surplus power from the plant and using the revenues to repay the cost of building the canal, pumping stations and power plant. More than \$1 billion is owed, and if the water agency

doesn't have surplus power to sell, the only other option to raise revenue is to raise the price of water to cities like Phoenix that use the CAP canal.

"Should Navajo surplus revenue no longer flow into the development fund, CAWCD may need to implement a rate increase to make up the shortfall in its repayment obligation," the agency said in a Dec. 28 letter to the Bureau of Reclamation.

Cooke said Wednesday that were the plant to close this year, a rate hike on users would be the only short-term option for the agency to meet its repayment obligation.

"Whether or not NGS exists to help us with repayment does not relieve us of that repayment obligation," he said.

The CAWCD and SRP are hoping to keep the power plant open under a plan agreed to by the EPA, but should any additional owners choose to withdraw, it's unlikely a new agreement could be reached to keep it open.



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How Navajo Generating Station became a coal-burning plant