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FEATURED

Plant contributes to declining county revenues

Layton: We expect to see similar significant impacts as each of Cholla's three remaining units goes offline

BY Nolan Madden, The Independent Jan 15, 2017



Courtesy of Arizona Public Service

The four-unit coal-fired Cholla Power Plant in Joseph City was commissioned in 1962 and has units owned by Arizona Public Service and PacifiCorp. It has seen a decline in production related to low natural gas prices and sharp regulations utilities are facing related to emissions from coal plants.

BY Nolan Madden

The Independent

NAVAJO COUNTY — Property values and tax revenues in Navajo County have decreased in response to the decline of coal-fired power plants, officials said Tuesday.

Navajo County lent numbers to the chronic deficit stemming from the decrease in production from the Cholla Power Plant in Joseph City.

“When Unit 2 closed at Cholla, we saw a drop of nearly \$30 million in our property values. That translated to a total tax levy decrease of over \$200,000,” assistant county manager Bryan Layton said.

Layton noted, according to the Arizona City/County Management Association, that the collapse is unprecedented. ACMA discovered only three other instances since 2000 wherein an Arizona county’s property values dropped, none of which were as significant.

“We expect to see similar significant impacts as each of Cholla’s three remaining units goes offline,” Layton said.

The fiscal year’s first months were “disappointing,” Layton reiterated, noting that latest revenues met flat-growth projections at less than \$110,000 below budget.

State shared sales tax figures achieved expected incomes, while county tax revenues remained disappointing, the contrast owing to the state’s positive economic recovery, which Navajo County has yet to realize.

The statewide issue

Peabody Energy’s Kayenta Mine — the coal-fired Navajo Generating Station’s dedicated supplier — is located on reservation lands in the Black Mesa region of Navajo County. The mine operates through lease agreements with the Navajo Nation and Hopi Tribe, supplying roughly 7.5 million tons of coal each year to the NGS plant near Page, under a long-term contract. Peabody reported the mine sold 7.9 million tons of coal in 2013.

NGS and the Kayenta mine are expected to close as early as this year in a losing battle against low natural-gas prices that make their operations environmentally and cost-prohibitive to operate.

NGS last week reported its current lease with the Navajo Nation ends in 2019 and that it will decide this month whether to shut down the plant. Without a lease extension or plans to keep the plant running, NGS’ owners would have to begin tearing it down for decommissioning by the end of this year to be fully shut down by the end of 2019.

Nearly 1,000 jobs are at stake: NGS employs around 500 workers, in addition to more than 400 staff at Kayenta.

“The truth of the matter, in my opinion, goes far beyond the environmental aspects of the issue,” Navajo County economic development director Paul Watson said, citing a Jan. 4 Arizona Republic story on the pending NGS closure, which noted that the plant only ran at 61 percent capacity in 2016. In 2014 it ran at 72 percent capacity. The plant normally operated more than 80 percent capacity, when gas prices were high and coal was a cheaper option.

“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.

The NREL report noted the total cost to generate power at NGS is about \$38 per megawatt hour, while market price for electricity in the region was only \$32 per megawatt hour in 2015 and even 22 percent lower than that in the first half of 2016.

Energy from the NGS plant is calculated to cost roughly \$41 per megawatt hour after 2019, under the terms of the new lease with the Navajo Nation that would go into effect, and will increase to around \$51 per megawatt hour in 2030, once retrofitted with new pollution controls for EPA compliance.

A silver lining?

NGS pumps Colorado River water from northern Arizona to Phoenix and Tucson, a necessity Watson says could prevent the plant's looming closure.

"The plant was built for that purpose but also with extra capacity," he said, noting that revenues of which he estimates would subsidize the cost water users in the valley would have to pay. "If that extra capacity goes away, then those customers are going to have to pay that difference. So this issue is not just a local one for us, it's a statewide issue. To that extent, I think we have some hope that there will be some greater pressure brought to bear to come to a solution."

For Cholla, Watson unofficially said that Arizona Public Service's closure of the plant's Unit 2 in April and its switch to peak-power-only operation since then could present the same fate facing NGS in the near future.

A grim reality

"This could be devastating for our region," county supervisor Jason Whiting said.

Of speculation over potash mining to revive county industry, Watson said, "We do have enough indication that there is a significant potash deposit there, and we've had enough engineering done to tell us it is viable to mine it. Now it's a matter of prices and other economic factors" which are not currently suitable.

The up-front cost to establish a potash mine is about \$1 billion, he said, requiring a majority investment partner or other financing mechanism. Current market prices do not favor such a start-up.

Thomas Edison said, "There is great value in disaster. All our mistakes are burned up. Thank God we can start anew." The inventor watched a blaze consume over half his buildings following an explosion at his laboratory complex on Dec. 9, 1914. Damages estimated \$7 million, with only \$2 million reportedly covered by insurance. Edison vowed, "Although I am over 67 years old, I'll start all over again tomorrow."

Navajo County supervisor Steve Williams referenced the quote, echoing Edison's perseverance.

"Edison's niece couldn't believe that he wasn't crushed and devastated that all his work was burned up," Williams said. "The truth is, with the challenges to come and that we're currently facing, we can approach them one of two ways: We can be pessimists and complain or we can look at this as an opportunity to find new solutions to do things better than they were done in the past. I'm certain the latter is the approach we will take."

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