NAVAJO

POWER MARKETING PLAN

December 1, 1987

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I. PURPOSE AND SCOPE

Section 107 of the Hoover Power Plant Act requires that a power marketing plan be developed to provide for marketing and exchanging of Navajo Surplus to provide financial assistance in the timely construction and repayment of construction costs of authorized features of the Central Arizona Project.

A. This Plan has been developed based upon data contained in the report by Reclamation entitled "Central Arizona Project Power Marketing and Water Supply Study-October 1985" to meet the requirements of the Hoover Power Plant Act and provide for the sale and Exchange of Navajo Surplus for the benefit of the Central Arizona Project as provided in section 107 of the Hoover Power Plant Act.

B. This Plan recognizes the obligation of the United States to use its entitlement to electrical capacity and energy from Navajo to provide necessary power for the pumping requirements of the Central Arizona Project and any such needs for desalting and protective pumping facilities as may be required under section 101(b)(2)(B) of the Colorado River Basin Salinity Control Act. For the purposes of this Plan, Reclamation has determined that the Navajo Surplus peaking resource identified in section V.A and V.B of this Plan is not required to meet the needs for desalting and protective pumping facilities as may be required under section 101(b)(2)(B) of the Colorado River Basin Salinity Control Act; however, the Navajo Surplus identified in section V.C will be considered in meeting these needs.

C. The Plan provides that Western, working closely with Reclamation and CAWCD, will be the primary marketing entity responsible for the sale and Exchange of Navajo Surplus in accordance with applicable Federal law and regulations. Western may utilize exchange, banking, purchase agreements, or integration with other resources to fulfill any purpose of this Plan. CAWCD will act as a marketing entity solely for the purpose of establishing and causing to be collected the Additional Rate Component.

D. This Plan sets rates and parameters for the establishment of rates, not exceeding levels that allow for an appropriate saving for the contractor, that will provide revenues from the sale and Exchange of Navajo Surplus for the purposes of: payment of the operation and maintenance costs associated with Navajo Surplus; utilization and assignment of the revenues derived from the Additional Rate Component at least sufficient to make repayment and establish reserves for repayment of $175,000,000 (or more) of funds advanced by CAWCD to Reclamation for construction of authorized features of the Central Arizona Project pursuant to the Plan Six Cost Sharing Agreement; recovery of capital costs, including interest, of authorized features of the Central Arizona Project allocated to power; and recovery of capital costs of authorized features of the Central Arizona Project allocated to irrigation that are determined to be beyond the irrigators' ability to repay.

II. AUTHORITIES

The authorities under which this Plan is developed are:

A. Federal Reclamation laws (43 U.S.C. 372 et seq., and all Acts amendatory thereof or supplementary thereto); in particular, the Colorado River Basin Project Act (Pub. L. 90-537); and the Hoover Power Plant Act of 1984 (Pub. L. 98-381).

B. Rules, regulations, and agency agreements of Western and Reclamation issued or made pursuant to applicable law.

III. DEFINITIONS

The following terms wherever used herein shall have the following meanings:

A. "Additional Rate Component" shall mean the rate component(s) established, charged and caused to be collected by CAWCD to recover the CAWCD Advance to Reclamation, plus interest thereon, pursuant to section 107 of the Act and to Chapter 21, Laws of the State of Arizona, Thirty-Seventh Legislature, Second Regular Session, 1986.

B. "Authority" shall mean the Arizona Power Authority.

C. "Authority's Final Hoover Power Marketing Plan" shall mean the Arizona Power Authority's marketing plan entitled "Final Hoover Power Marketing, Post-1987" dated June 7, 1985.

D. "Central Arizona Project" or "CAP" shall mean the Reclamation multipurpose water resource development and management project in Arizona authorized by the Colorado River Basin Project Act, as amended (43 U.S.C. 1501 et. seq.)

E. "CAWCD" shall mean the Central Arizona Water Conservation District.

F. "CAWCD Advance to Reclamation" shall mean the advance of $175,000,000 (or more) to Reclamation by CAWCD for authorized features of the Central Arizona Project in accordance with the Plan Six Cost Sharing Agreement.

G. "Colorado River Basin Salinity Control Act" shall mean the Colorado River Basin Salinity Control Act of 1974, as amended, (43 U.S.C. 1591 et. seq.)

H. "Conformed Criteria" shall mean the Conformed General Consolidated Power Marketing Criteria or Regulations for Boulder City Area Projects published in the Federal Register (49 FR 50583) on December 29, 1984.

I. "Date of Initial Operation" shall mean the date of initial test pumping into regulatory storage at New Waddell Dam, as determined by Reclamation.

J. "Exchange" shall mean any arrangements providing for delivery of capacity and energy to Western by an Exchange Contractor during an Operating Year and the return of such capacity and energy to the Exchange Contractor by Western from Navajo in the same Operating Year.

K. "Exchange Contractor" shall mean a contractor which enters into a Long-Term Exchange Contract.

L. "Exchange Energy Account" shall mean the record of Exchanges between Western and an Exchange Contractor.

M. "Hoover Power Plant Act" or "Act" shall mean the Hoover Power Plant Act of 1984 (Pub. L. 98-381).

N. "Hoover Schedule B Capacity and Energy" shall mean the capacity and energy from the Boulder Canyon Project described in section 105(a)(1)(B) of the Act which is available to the Authority.

O. "Hoover Schedule C Excess Energy" shall mean the energy from the Boulder Canyon Project described in section 105(a)(1)(C) of the Act which is available to the Authority.

"Interim Plan" shall mean the Interim Navajo Power Marketing Plan adopted by the Commissioner of Reclamation on March 17, 1986.

Q. "Layoff Contract" shall mean the contract(s) entered into as of September 30, 1969, between certain non-Federal entities and Western for the sale of the Navajo Entitlement.

R. "Long-Term Contracts" shall mean the Long-Term Peaking Sales Contracts and the Long-Term Exchange Contracts.

S. "Long-Term Peaking Sales Contract" shall mean a contract between Western and a contractor for sale of Navajo Surplus for a period of years ending September 30, 2011.

T. "Long-Term Exchange Contract" shall mean a contract between Western and an Exchange Contractor for Exchange of Navajo Surplus for a period of years ending September 30, 2011.

U. "Navajo" shall mean the Navajo Generating Station, the thermal generating power plant located near Page, Arizona, and associated transmission facilities.

V. "Navajo Entitlement" shall mean the United States entitlement of 24.3 percent of the generation from Navajo.

W. "Navajo Surplus" shall mean capacity and energy associated with the Navajo Entitlement which is in excess of the pumping requirements of the Central Arizona Project and any such needs for desalting and protective pumping facilities as may be required under section 101(b)(2)(B) of the Colorado River Basin Salinity Control Act.

X. "New Waddell Dam" or "New Waddell Reservoir" shall mean the regulatory storage facilities constructed on the Agua Fria River as a feature of the CAP.

Y. "Offpeak" shall mean those hours during a day that are not considered Onpeak.

Z. "Onpeak" shall mean the hours during a day, except Sunday, that are between 9:00 a.m. to 9:00 p.m. mountain standard time during the Summer Season.

AA. "Operating Year" shall mean the period beginning October 1 and ending September 30 of the next succeeding year.

BB. "Plan" shall mean this Navajo Power Marketing Plan.

CC. "Plan Six Cost Sharing Agreement" shall mean the agreement among the United States, the Central Arizona Water Conservation District, the Flood Control District of Maricopa County, the Salt River Project Agricultural Improvement and Power District and Salt River Valley Water Users' Association, the Arizona cities of Chandler, Glendale, Mesa, Phoenix, Scottsdale, and Tempe, the State of Arizona, and the city of Tucson for funding of Plan Six facilities of the Central Arizona Project, Arizona, and for other purposes, dated April 15, 1986, and any amendments or supplements thereto.

DD. "Reclamation" shall mean the Bureau of Reclamation, Department of the Interior.

EE. "Summer Season" shall mean the period from May 1 through September 30 of any year.

FF. "Western" shall mean the Western Area Power Administration, Department of Energy.

GG. "Winter Season" shall mean the period from October 1 through April 30 of the next succeeding year.

IV. ELEMENTS

This Plan includes the following elements:

A. The estimated amounts of Navajo Surplus used in developing this Plan were obtained from data contained in a report by Reclamation, entitled "Central Arizona Project Power Marketing and Water Supply Study - October 1985," and the "Central Arizona Project, Surplus/Shortage Pumping Power Profile (Revision No. 1)," dated October 1986, prepared by CAWCD/Arizona Department of Water Resources.

B. Optimization of Navajo Surplus will be achieved through several means: (1) delivering maximum amounts of water from the Colorado River in the Winter Season for storage in the New Waddell Reservoir and then serving CAP water demands in the Summer Season from water previously placed in storage, and on a daily basis, delivering maximum amounts of CAP water Onpeak from the limited aqueduct storage and recharging that storage to the extent possible Offpeak, thereby making Navajo Surplus available when electrical loads in the marketing area are at their peak and thus enhancing the value of the Navajo resource; (2) CAWCD contracting with the Authority for Hoover Schedule B Capacity and Energy and CAWCD receiving Hoover Schedule B Capacity and Energy pursuant to paragraph E of this section and using it to meet CAP pumping requirements in part, (3) CAWCD contracting with the Authority for Hoover Schedule C Excess Energy and CAWCD receiving the Hoover Schedule C Excess Energy pursuant to paragraph F of this section and using it to meet CAP pumping requirements in part; and (4) using CAP and Western operating flexibility.

C. In order to enhance the value of Navajo Surplus to maximize financial assistance to CAP, the proposed CAP operation will utilize daily energy management, weekly energy management, and seasonal power management as described in paragraph B of this section. Except for scheduling adjustments to achieve operating flexibility, to the extent possible CAP pumping will be Offpeak to optimize Onpeak availability of Navajo Surplus.

D. CAP pumping will be maximized during the Winter Season, to the extent possible, within the physical and legal limitations of moving CAP water through the CAP aqueduct. Any Winter Season energy deficiencies are intended to be met through exchanges or through a combination of exchange, banking, purchase agreements or integration with other resources.

E. This Plan includes, for purposes of the Authority's Final Hoover Power Marketing Plan, the recapture of Hoover Schedule B Capacity and Energy pursuant to the Authority's Final Hoover Power Marketing Plan, as further provided for in a resolution of the Board of Directors of CAWCD which is attached hereto as Appendix A, and incorporated by reference herein, for the benefit of CAWCD (1) after October 1, 1991, if requested by CAWCD pursuant to the provisions of Appendix A, or (2) upon the Date of Initial Operation, but (3) not later than December 31, 1994.

F. The Authority's Final Hoover Power Marketing Plan states that "the Authority intends to allocate and sell" Hoover Schedule C Excess Energy "in a manner which is consistent with such adopted [Navajo Marketing] Plan". In order to accomplish the goals of this Plan, this Plan assumes that all Hoover Schedule C Excess Energy available to the Authority will be marketed by the Authority in accordance with the Hoover C energy sales contracts dated as of April 15, 1987, as follows:

1. From June 1, 1987, until recapture of Hoover Schedule B Capacity and Energy for CAWCD is completed, to Authority contractors taking capacity and energy in a manner calculated to equalize load factors between Hoover Schedule A Capacity and Hoover Schedule B Capacity. (This provision contemplates that increasing amounts of Hoover Schedule C Excess Energy will be marketed with Hoover Schedule B Capacity as increased amounts of that capacity become available.)

2. After recapture of Hoover Schedule B Capacity and Energy has been completed, pursuant to the Authority's power sales contracts with its contractors, dated as of September 15, 1986, on the basis of a first right of refusal to Authority contractors which are then utilizing Hoover Schedule B Capacity and Energy, pro rata to the amount of capacity being taken.

3. To CAWCD, on the basis of a first right of refusal, at any time after June 1, 1987, until recapture of Hoover Schedule B Capacity and Energy has been completed, to the extent that the amount of Hoover Schedule C Excess Energy, if made available under contract with the United States to be marketed by the Authority in the current contract year (October through September), shall exceed 400 GWh, but not exceed 800 GWh. During the same period, Hoover Schedule C Excess Energy over 800 GWh shall be marketed, if available,

on the basis of first right of refusal, 50 percent to CAWCD and 50 percent to other Authority contractors. Delivery pursuant to this section shall be made only at a time and to the extent that the capacity of Authority's contractors is not being utilized to generate Hoover Schedule A energy or Hoover Schedule B energy, or if other capacity is made available by Western for said delivery.

G. Termination of the Long-Term Contracts on September 30, 2011, will not terminate this Plan. So long as Navajo operates and there is Navajo Surplus, Western shall continue to market Navajo Surplus under this Plan with such amendments or revisions as may be adopted by the Secretary of the Interior, after consultation with the Secretary of Energy, CAWCD, and the Governor of Arizona and as provided by law, including the authorities set forth in section II. Contractors with Long-Term Peaking Sales Contracts and contractors with Long-Term Exchange Contracts whose contracts terminate in 2011 shall be given the first opportunity for new long-term sales contracts and new long-term exchange contracts for approximately the same amounts of power contained in the terminated contracts with available capacity and energy distributed pro rata among contractors. Such new contracts shall be entered into prior to October 1, 2007.

V. POWER TO BE MARKETED OR EXCHANGED

Contracts entered into pursuant to the Interim Plan shall expire as follows: (1) after consultation by Western with Reclamation and CAWCD, upon 1 year notice given by Western subsequent to September 30, 1989; but in any event, (2) after such notice as Western deems appropriate, upon the Date of Initial Operation. The Interim Plan shall terminate upon expiration of all contracts entered into pursuant to the Interim Plan. Navajo Surplus to be sold or Exchanged under this Plan consists of the following:

A. Capacity and energy will be available for sale on a long-term basis generally during the Summer Season. Capacity and energy will be available for delivery during the Summer Season and the Winter Season Onpeak and Offpeak. Capacity available for sale will be 400 MW, less the capacity used for Exchange purposes under paragraph B of this section. There will be 760 kWh of energy per year available for sale to a contractor for each kW of contract capacity.

B. A maximum of 150 MW of the 400 MW available under paragraph A of this section may be used for Exchanges on a long-term basis. Energy scheduled from an Exchange Contractor will be returned to such Exchange Contractor on a one-kWh-for-one-kWh basis under terms provided in a Long-Term Exchange Contract. There will be 760 kWh of energy per year available to an Exchange Contractor for each kW of contract capacity Exchanged.

C. Any capacity or energy not sold or Exchanged in accordance with paragraphs A and B of this section may, as determined by Western, in cooperation with CAWCD and Reclamation, be sold under appropriate long-term or short-term arrangements or integrated with the Federal system and sold by Western under arrangements developed in cooperation with CAWCD and Reclamation.

D. Any capacity or energy determined to be available under paragraph C of this section, up to 30 MW, will be made available first to Reclamation for the purposes of the Colorado River Basin Salinity Control Act.

E. Delivery of capacity and energy provided in paragraphs A and B of this section is subject to the following:

1. In the event of an outage, curtailment, or derating (or any combination thereof) of the generating capabilities at Navajo, each contractor's right to receive capacity and energy shall be as follows:

   a. Capacity shall be reduced on a pro rata basis among all contractors and CAWCD.

   b. Energy will be affected as follows:

      (i) If the energy produced by the Navajo Entitlement is equal to or greater than an average of 3,500 GWh per year in the current and immediately prior Operating Year, then the contractor is entitled to the full 760 kWh per KW per year.

(ii) If the total energy produced by the Navajo Entitlement is less than an average of 3,500 GWh per year in the current and immediately prior Operating Year, then either (1) each contractor's right to receive energy may be reduced by Western, and if reduced, the reduction shall be on a pro rata basis among all contractors and CAWCD, or (2) at the contractor's option, energy may be scheduled to Western, on a one-for-one basis at times and amounts mutually acceptable to Western and the contractor, to replace the energy which would have otherwise been lost by pro rata reduction.

2. If in the Operating Year in which the Date of Initial Operation occurs, contract entitlements cannot be delivered, such entitlements shall be reduced among all contractors pro rata.

3. In September of each Operating Year, each Exchange Contractor shall supply Western with a schedule of proposed deliveries of energy during the Winter Season equal to the amount to which the Exchange Contractor will be entitled during the following Operating Year. Western may upon 24 hours notice cancel a day's delivery in the event that Western finds that the energy is not needed for pumping and could not be sold at a rate higher than the Navajo Surplus energy rates described in section VIII.A.2. In the event

that the Exchange Contractor, because of emergency conditions, would have to supply Exchange energy from oil-fired or gas-fired resources, the Exchange Contractor may notify Western and be relieved of its obligation under the schedule for the period of time until it is able to supply such Exchange energy without using oil-fired or gas-fired generation.

4. In the event of an outage, curtailment, or derating (or any combination thereof) of the Navajo transmission system, Western will use its best efforts to deliver Navajo Surplus to the contractors, in amounts as close to each contractor's Navajo Surplus entitlement or pro rata share of such entitlement as possible, using the available Navajo transmission system. Upon appropriate arrangements, Western may assist the contractors in the event of such outage, curtailment, or derating of the Navajo transmission system by arranging alternative emergency transmission service with third parties or on Western's transmission system as determined to be available in the sole judgement of Western.

5. Each Long-Term Exchange Contract will provide for an Exchange Energy Account. It is generally intended that the account will contain a balance of energy owed to the Exchange Contractor. Under some circumstances, the balance of the Exchange Energy Account may be reversed whereby the Exchange Contractor will owe energy to Western. Under

either circumstance, energy can be scheduled by the Exchange Contractor at any time for credit to his Exchange Energy Account provided Western has adequate pumping loads or sales opportunities to use the energy. It is not intended that Western would accept energy for resale when such resale would be at rates less than Navajo Surplus energy rates described in Section VIII.A.2. Energy deliveries by an Exchange Contractor to balance its Exchange Energy Account must be at times and amounts mutually acceptable to Western and to the Exchange Contractor.

6. Except as provided in paragraph 7 of this section, energy deliveries by Western under Long-Term Contracts will be scheduled at least 24 hours in advance, as mutually agreed between the contractor and Western, and such deliveries will be contingent only on the output of Navajo.

7. Capacity and energy, not scheduled at least 24 hours in advance, may be ordered by a contractor under a Long-Term Contract through appropriate dispatch channels. Such requested capacity and energy may be supplied, at Western's discretion, after coordinating with CAWCD, either through rapid pump unloading (estimated 100 percent loaded to 0 percent within 10 minutes) or from other resources available to Western. Such delivery not scheduled at least 24 hours in advance may be limited to 8 hours per day. A charge shall be assessed to a contractor as a start-up cost

for each occurrence of a request for an increase in delivery not scheduled at least 24 hours in advance. The accounting for energy delivered under the provisions of this paragraph shall be identical to accounting for energy scheduled 24 hours in advance.

VI. ELIGIBILITY

Navajo Surplus will be offered for sale and Exchange in accordance with the requirements of this section.

A. Capacity and energy will be offered for sale in the following order of priority, in accordance with part IV, section A of the Conformed Criteria:

1. Federal preference entities within Arizona.
2. Federal preference entities within the Boulder City marketing area.
3. Federal preference entities in adjacent Federal marketing areas.
4. Non-preference entities in the Boulder City marketing area.

B. In the event that a potential contractor fails to place capacity and energy under contract within a reasonable period, as specified by Western and in accordance with the terms and conditions offered by Western, the amounts of capacity and energy not placed under contract will be reoffered in accordance with the order of priority specified in paragraph A of this section.

C. Arizona entities, regardless of preference status, shall have first opportunity for electrical capacity and energy Exchange rights as necessary to implement this Plan. Western, in consultation with CAWCD and Reclamation, may determine that any capacity and energy not subscribed to by Arizona entities for Exchange may be offered for long-term sale in the order of priority stated in paragraph A of this section or may be offered to non-Arizona entities for Exchange.

VII. CONTRACT PROVISIONS

Western, after consultation with Reclamation and CAWCD, shall enter into all power sales and Exchange contracts necessary to carry out the provisions of this Plan in selling and exchanging capacity and energy pursuant to section V. Navajo Surplus shall be marketed, and Exchange rights granted by Western on behalf of the Secretary of the Interior, under contracts consistent with this Plan and the Conformed Criteria. Contracts for sale or Exchange of Navajo Surplus made pursuant to this Plan shall include, but not be limited to, the following provisions:

A. Each Long-Term Peaking Sales Contract shall become effective upon its execution, the implementation of which, including all terms, covenants, and conditions related to delivery of capacity and energy and all appropriate payments therefore, shall begin on the first day within the Summer Season following the Date of Initial Operation. Contractors shall be given at least 60 days written notice prior to the Date of Initial Operation. If contract entitlements are reduced pursuant to section V.E.2, each contractor shall be charged only for the amount of capacity and the energy made available to the contractor in that Operating Year. Each Long-Term Peaking Sales Contract shall terminate on September 30, 2011.

B. Each Long-Term Exchange Contract shall become effective upon its execution, the implementation of which, including all terms, covenants, and conditions related to the Exchange of capacity and energy and all appropriate payments therefore, shall begin upon the Date of Initial Operation. Contractors shall be given at least 60 days written notice prior to the Date of Initial Operation. Each Long-Term Exchange Contract shall provide for an Exchange Energy Account. It is the intent of this Plan that the Exchange Energy Accounts will be balanced to zero annually. However, in the event that such balance owed Western is not reduced to zero, the Long-Term Exchange Contract shall include provisions for a carryover of such balance to the subsequent Operating Year or for payment to Western. In the event that such balance owed the Exchange Contractor is not reduced to zero, the Long-Term Exchange Contract shall include provisions for a carryover of such balance to the subsequent Operating Year to be credited against the Exchange Contractor's scheduled delivery. Prior to the Date of Initial Operation, each Exchange Contractor shall receive an estimate of the amount of capacity and energy which will be available to it during the first Operating Year, and the Exchange Contractor shall propose a schedule of Winter Season energy delivery to Western in the same amount as Reclamation's estimate of the available return of energy. If contract entitlements are reduced pursuant to section V.E.2., each Exchange Contractor shall be charged only for the amount of capacity made available to the Exchange Contractor in that Operating Year. Each Long-Term Exchange Contract shall terminate on September 30, 2011.

C. Any Long-Term Contract may, at the contractor's request, contain a provision that if the New Waddell Dam is not scheduled to be completed by a certain date the contractor may terminate the Long-Term Contract on or before a date established in the contract.

D. Contract entitlements will be measured or calculated at the 500 kV bus at the Navajo Generating Station. Capacity and energy, less losses, will be scheduled and delivered at a voltage of 500 kV to contractors at either Westwing Switchyard or McCullough Switchyard or at such other points and voltages on the Navajo system as Western and the contractor shall agree. Any necessary transmission service beyond the contractor's point(s)-of-delivery will be the responsibility of the contractor.

E. CAWCD shall be a party to contracts for the sale or Exchange of Navajo Surplus for the limited purpose of establishing and collecting the Additional Rate Component.

F. Written metering and scheduling instructions shall be agreed upon between Western and the contractor, in consultation with CAWCD and Reclamation, prior to any deliveries under this Plan. The metering and scheduling instructions shall provide the operating and accounting procedures for such deliveries. Metering and scheduling instructions are intended to implement terms of the contract, not to modify or amend it, and therefore are subordinate to the contract. The implementation shall be the responsibility of Western and the contractor. After consultation with Reclamation and CAWCD, Western and the contractor may modify these instructions, as necessary, to reflect changing power system conditions. In the event the contractor fails or refuses to execute the initial metering and scheduling instructions or any revised instructions Western determines to be necessary, Western shall develop and implement temporary instructions until initially acceptable instructions have been developed and executed by Western and the contractor.

VIII. RATESETTING PROCEDURES

In order to accomplish the requirements of the Act to market and Exchange Navajo Surplus "for the purposes of optimizing the availability of Navajo Surplus and providing financial assistance in the timely construction and repayment of construction costs of authorized features of the Central Arizona project," and the provision, "That rates shall not exceed levels that allow for an appropriate saving for the contractor," rates for Navajo Surplus sales and Exchanges shall be established and modified in accordance with the following provisions:

A. Long-term capacity and energy described in section V.A shall be sold at rates which will provide financial assistance in the timely repayment of the CAWCD Advance to Reclamation, plus interest thereon, and repayment of costs of authorized features of CAP to be repaid by power revenues. The following rates do not exceed a level that will allow for an appropriate saving for the contractor. The rates shall be composed of a capacity rate and an energy rate calculated in the following manner:

1. The capacity rate will be fixed for the term of the Long-Term Peaking Sales Contract at (a) the Additional Rate Component established by CAWCD, plus (b) an amount which when added to the Additional Rate Component shall total \$72 per kW-year. The annual rate of \$72 per kW-year shall be billed to each contractor in a monthly amount of \$6 per kW based on the amount of each contractor's capacity entitlement.

3. The energy rate will be based on the actual annual operating costs associated with the Navajo Entitlement in the prior Operating Year plus a charge for Western's costs associated with Navajo. The Western charge will be based on Western's actual costs of services performed under this Plan, including appropriate administrative expenses. The annual operating costs will be determined in a similar manner as the generation operating charge, generation energy charge, and transmission operating charge in the Layoff Contracts. The energy rate will be a mills per kWh rate calculated by dividing the total costs described above by the total annual kWh available to the United States in the same Operating Year. The energy rate will be applied monthly to each kWh delivered.

B. Long-term Exchanges described in section V.B. shall be Exchanged at a one-for-one energy Exchange rate plus the following charges, which do not exceed a level that will allow for an appropriate saving for the contractor.

1. The capacity rate described in paragraph A.1 of this section.
2. A charge for Western's cost associated with Navajo as described in paragraph A.2 of this section.
3. If a balance remains in favor of Western in the Exchange Energy Account at the close of any Operating Year, Western may require a settlement of the account in cash at 115 percent of the Navajo Surplus energy rate described in paragraph A.2 of this section.

C. For capacity and energy not scheduled at least 24 hours in advance as described in section V.E.7, the charge shall be \$4,000 each occurrence of a request for an increase in delivery. This charge shall be in addition to the charges for capacity and energy described in paragraphs A and B of this section.

D. Capacity and energy described in sections V.C and V.D shall be sold at rates established by Western, after consultation with CAWCD and Reclamation. Such rates may include an Additional Rate Component.

E. Because of the Act's requirements for noncost-based rates, the rates established pursuant to this Plan are not suitable to the required review of Western's rates by the Federal Energy Regulatory Commission. All rates promulgated by the Administrator of Western under this Plan shall be a final act of the Secretary of Energy and shall be subject to review pursuant to the judicial review provided by the Administrative Procedure Act (5 U.S.C. 553, et seq.).

IX. REVENUE COLLECTION AND DISTRIBUTION

Western will bill and collect in accordance with the rates and charges for the sale or Exchange of Navajo Surplus, including the Additional Rate Component for CAWCD.

A. Western shall distribute all revenues collected from the application of the rates and charges in the following manner:

1. First, revenues will be deposited into the Lower Colorado River Basin Development Fund to pay all costs of operation and maintenance determined to be associated with the sale and Exchange of Navajo Surplus, including Western's costs.

2. Second, revenues derived from the collection of the Additional Rate Component by Western for CAWCD will be paid directly to CAWCD or its nominee for repayment and establishment of reserves for repayment of the CAWCD Advance to Reclamation plus interest thereon.

3. Third, any revenues remaining will be deposited into the Lower Colorado River Basin Development Fund to repay other CAP obligations.

B. In the event that the revenues and resulting funds available to make the repayments referenced in this Plan are insufficient for that purpose, the United States shall be under no obligation, by reason of this Plan, to supply funds to make up such insufficiency or to reduce any repayment obligations referenced in this Plan.

X. EFFECTIVE DATE

This Plan will become effective 30 days after publication in the Federal Register following adoption by the Secretary of the Interior.

CONSULTATION

This Plan is deemed most acceptable in accordance with section 107(c) of the Hoover Power Plant Act as evidenced by the concurrences below from the Western Area Power Administration (Secretary of Energy), the Governor of Arizona, and the Central Arizona Water Conservation District.

Adopted:

December 1, 1987
Date

By: ______________________
Commissioner of Reclamation

Concurrences:

WESTERN AREA POWER ADMINISTRATION

By: ______________________
Administrator

THE STATE OF ARIZONA

By: ______________________
Governor

CENTRAL ARIZONA WATER CONSERVATION DISTRICT

By: ______________________
President