



United States
Department of Energy

WESTERN AREA
POWER ADMINISTRATION

Phoenix Area

CONTRACT

CONTRACT NO. 94-PA0-10563

AMONG

THE UNITED STATES
DEPARTMENT OF ENERGY
WESTERN AREA POWER ADMINISTRATION

AND

THE UNITED STATES
DEPARTMENT OF THE INTERIOR
BUREAU OF RECLAMATION

AND

SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT

AND

CENTRAL ARIZONA WATER CONSERVATION DISTRICT

FOR

LONG-TERM SALE OF REMAINING NAVAJO SURPLUS POWER
AND COORDINATED OPERATION OF POWER SYSTEMS
Central Arizona Project

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11 SALT RIVER PROJECT AGRICULTURAL
12 IMPROVEMENT AND POWER DISTRICT

13 AND

14 CENTRAL ARIZONA WATER CONSERVATION DISTRICT

15 FOR

16 LONG-TERM SALE OF REMAINING NAVAJO SURPLUS POWER
17 AND COORDINATED OPERATION OF POWER SYSTEMS
18 Central Arizona Project

- 19 1. PREAMBLE: This CONTRACT, made this 15th day of March, 1994, pursuant to
20 the Acts of Congress approved June 17, 1902 (32 Stat. 388); September 30,
21 1968 (82 Stat. 885); June 24, 1974 (88 Stat. 266); August 4, 1977 (91
22 Stat. 565); August 17, 1984 (98 Stat. 1333); and Acts amendatory or
23 supplementary to the foregoing Acts; among the UNITED STATES OF AMERICA,
24 (i) acting by and through the Administrator, Western Area Power
25 Administration, Department of Energy, hereinafter called Western,
26 represented by the officer executing this Contract or a duly appointed
27 successor, hereinafter called the Contracting Officer, and (ii) acting by
28 and through the Commissioner, Bureau of Reclamation, Department of the
Interior, hereinafter called Reclamation, represented by the Regional
Director, Lower Colorado Region, and with the concurrence of, and pursuant
to delegations duly made by, the Secretary of the Interior of his

1 responsibility, power, and authority under the foregoing Acts of Congress;
2 the Salt River Project Agricultural Improvement and Power District,
3 hereinafter called SRP, an agricultural improvement district duly
4 organized and existing under the laws of the State of Arizona; and the
5 Central Arizona Water Conservation District, hereinafter called CAWCD, a
6 multi-county water conservation district duly organized and existing under
7 the laws of the State of Arizona, with its principal office in Phoenix,
8 Arizona; the successors or assigns of any of the Parties; each sometimes
9 hereinafter individually called Party, and all sometimes hereinafter
10 collectively called Parties.

11 2. EXPLANATORY RECITALS: This Contract is made with reference to the
12 following facts among others:

13 2.1 Reclamation is the agency of the Department of the Interior
14 responsible for constructing the authorized features of the Central
15 Arizona Project and for acquiring and maintaining electrical capacity and
16 energy for the purpose of supplying the power requirements of the Central
17 Arizona Project as authorized and directed by the Colorado River Basin
18 Project Act of 1968, as amended or supplemented (43 U.S.C 1501, et seq.),
19 hereinafter called the Project Act.

20 2.2 Western is the power marketing administration of the Department
21 of Energy which is responsible for marketing and exchanging Navajo
22 Surplus, as defined, authorized, and directed by the Hoover Power Plant
23 Act of 1984 (98 Stat. 1333), hereinafter called the Act.

24 2.3 CAWCD is a multi-county water conservation district organized
25 pursuant to the Arizona Revised Statutes (A.R.S.) Sections 48-3701, et
26 seq. for the purposes, among others, of providing assistance in financing
27 and repaying portions of the construction costs of the Central Arizona
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1 Project, and is the organization with the contractual responsibility to
2 operate and maintain the Central Arizona Project in the most economic and
3 efficient manner.

4 2.4 SRP is an agricultural improvement district organized pursuant
5 to A.R.S Sections 48-2301, et seq. which operates an electric system
6 located primarily in the State of Arizona, and which is the operating
7 agent for the Navajo Generating Station.

8 2.5 Section 107 (c) of the Act required that in the marketing and
9 exchanging of Navajo Surplus, the Secretary of the Interior shall adopt
10 the plan deemed most acceptable after consultation with the Secretary of
11 Energy, the Governor of Arizona, and CAWCD for the purposes of optimizing
12 the availability of Navajo Surplus and providing financial assistance in
13 the timely construction and repayment of construction costs of the Central
14 Arizona Project.

15 2.6 On December 1, 1987, the Secretary of the Interior adopted the
16 Navajo Power Marketing Plan, hereinafter called Plan, which establishes
17 the terms and conditions for the marketing of Navajo Surplus.

18 2.7 The Plan identifies approximately 400 Megawatts (MW) of Navajo
19 Surplus that could be marketed, and sets forth the terms and conditions
20 under which such Navajo Surplus would be marketed and exchanged. The Plan
21 also provides for the use by CAWCD of the State of Arizona's Hoover
22 Schedule B Capacity, Hoover Schedule B Energy, and Hoover Schedule C
23 Energy.

24 2.8 Pursuant to Section V, Paragraphs A and B, of the Plan, 350 MW
25 of Navajo Surplus has been marketed and sold to SRP pursuant to Western
26 Contract Nos. 89-BCA-10287 and 91-PAO-10404. Section V Paragraph C, of
27 the Plan provides that any Navajo Surplus not sold or exchanged in
28

1 accordance with paragraphs A and B of Section V may be sold under
2 appropriate arrangements, as determined by Western in cooperation with
3 CAWCD and Reclamation.

4 2.9 Western, in cooperation with CAWCD and Reclamation, has
5 determined that (i) a long-term sale to SRP of the Remaining Navajo
6 Surplus, (ii) the operational integration of the Navajo Surplus and the
7 Remaining Navajo Surplus with Hoover Schedule B Capacity, Hoover Schedule
8 B Energy, Hoover Schedule C Energy, and generation from the New Waddell
9 Pumping/Generating Plant, and (iii) the coordinated operation of the
10 electric system of SRP with Central Arizona Project pumping plants, power
11 transmission facilities, transmission rights of CAWCD, and transmission
12 rights acquired by Reclamation to serve Central Arizona Project needs,
13 will optimize the availability and value of the Remaining Navajo Surplus.
14 Such a transaction will also assist in the timely repayment of Central
15 Arizona Project Facilities. Coordinated operations will also provide
16 certain economies and benefits to the Central Arizona Project, CAWCD, and
17 SRP.

18 3. AGREEMENT: This Contract undertaken pursuant to Section V, Paragraph C of
19 the Navajo Marketing Plan grants SRP among other things the right to the
20 use of the remaining United States entitlement to output of the Navajo
21 Generating Station, the right to schedule and integrate with the SRP
22 system CAWCD's contractual rights to Hoover capacity and energy with
23 return of such energy to CAWCD, the right to integrate with the SRP system
24 energy produced at New Waddell Dam with return of such energy to CAWCD,
25 and certain specified transmission rights. In return, SRP among other
26 things agrees to pay a fixed amount for the above benefits, to pay the
27 cost of Navajo generation and other related costs, and to supply, and be
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1 paid for, energy used for Central Arizona Project Facilities by CAWCD, all
2 as provided in this Contract. The Parties agree to the terms and
3 conditions set forth herein.

4 4. TERM AND TERMINATION:

5 4.1 If this Contract is fully executed by all of the Parties on or
6 before March 15, 1994, the Contract shall become effective June 1, 1994.
7 If this Contract is fully executed by all of the Parties after March 15,
8 1994, but in any event no later than January 1, 1995, the Contract shall
9 become effective on June 1, 1995. In either event, the Contract shall
10 remain in effect through September 30, 2011. The obligations contained in
11 subsection 10.7 hereof shall become effective upon execution and delivery
12 of this Contract by all of the Parties. The obligations contained in
13 *Section 19, and subsections 11.1 and 11.3 shall remain in effect through*
14 September 30, 2014, or for three years after termination of this Contract,
15 whichever occurs first; except that SRP's monthly payment obligation
16 pursuant to paragraph 11.1.1 shall not continue beyond termination of this
17 Contract.

18 4.2 SRP shall have the first opportunity upon the termination of
19 this Contract to obtain a new contract with similar terms and conditions
20 for long-term sale of Remaining Navajo Surplus and coordinated operation
21 of power systems. Such new contract shall be consistent with the Plan
22 with such amendments or revisions as may be adopted by the Secretary of
23 the Interior, after consultation with the Secretary of Energy, CAWCD, and
24 the Governor of Arizona, and as provided by law, including the authorities
25 set forth in Section II of the Plan. If such new contract is agreed upon,
26 it shall be executed by the Parties prior to October 1, 2007.

*D. 7 in
CAWCD
for review*

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4.3 If, and for so long as, Western shall cease and discontinue deliveries of, or making available for delivery, capacity and energy to the contractor under Western Contract Nos. 89-BCA-10287 or 91-PAO-10404 due to an event of default thereunder, this Contract, and the rights and obligations of the Parties hereunder, shall be immediately suspended, provided however, that such suspension shall cease, and the rights and obligations of the Parties hereunder shall be reinstated, if the contractor makes a timely cure of all such defaults. If Western shall terminate either Western Contract No. 89-BCA-10287 or 91-PAO-10404 or both due to default thereunder, this Contract shall immediately terminate. Such suspension or termination shall be in addition to and shall not constitute a waiver of any other rights or remedies under such other contracts or this Contract. The Parties' obligation to pay all amounts which have come due or accrued under this Contract prior to such suspension or termination shall survive suspension and termination of this Contract under this subsection 4.3.

5. DEFINITIONS: The following terms, whether in the singular or the plural, when used in this Contract shall have the meanings specified:

5.1 Act - The Hoover Power Plant Act of 1984 (98 Stat. 1333).

5.2 Authorized Representative - The representative of a Party as described in Section 28 hereof.

5.3 Capital Improvements - All or any Capital Additions, Capital Betterments, or Capital Replacements as defined in Section 5 of the Navajo Project Co-Tenancy Agreement, but not including any Capital Improvement required by or associated with the certain EPA Final Rule pertaining to Navajo Generating Station set forth at 40 CFR Section 52.145(d), issued October 3, 1991. Capital Additions, Capital Betterments, or Capital

*Double
excluded*

1 Replacements required by or associated with said EPA Final Rule include,
2 but are not limited to, emission control systems and related equipment,
3 replacement of stacks, and continuous sulfur oxides emissions monitoring
4 systems.

5 5.4 Central Arizona Project Facilities - Those pumping plants,
6 water control structures, substations, transmission lines, and other
7 physical properties listed in Exhibit F hereof.

8 5.5 Central Arizona Project Transmission - Transmission facilities
9 which connect Central Arizona Project loads to the Parker-Davis Project
10 Transmission System, and transmission lines and associated facilities
11 which were constructed as part of the Central Arizona Project and which
12 are a repayment obligation of the Central Arizona Project. Central
13 Arizona Project Transmission does not include the Navajo Western
14 Transmission System and the Navajo Southern Transmission System.

15 5.6 Energy Rate - The rate used to calculate the monthly billing to
16 CAWCD pursuant to paragraph 11.4.4 hereof.

17 5.7 Extended Unscheduled Outage - Any unscheduled outage of at
18 least 300 Megawatts of the Navajo Generating Station that is of a greater
19 duration than 480 consecutive hours becomes an Extended Unscheduled Outage
20 when the 480 hour time period has elapsed. An Extended Unscheduled Outage
21 includes a scheduled outage that, while repairs were underway, was
22 extended by the Navajo Operating Agent to make additional repairs or
23 correct deficiencies that were unknown at the time the outage was
24 scheduled. In the case of such an extended outage, the 480 hour time
25 period shall begin at the time the original scheduled outage was to have
26 ended.

1 5.8 Fund - The Lower Colorado River Basin Development Fund
2 established pursuant to the Project Act as amended by the Hoover Power
3 Plant Act.

4 5.9 Hoover Schedule B Capacity - The capacity from the Boulder
5 Canyon Project described in Section 105(a)(1)(B) of the Act which is
6 available to CAWCD from the Arizona Power Authority or its lawful
7 successor.

8 5.10 Hoover Schedule B Energy - The energy from the Boulder Canyon
9 Project described in Section 105 (a)(1)(B) of the Act which is available
10 to CAWCD from the Arizona Power Authority or its lawful successor.

11 5.11 Hoover Schedule C Energy - The energy from the Boulder Canyon
12 Project described in Section 105 (a)(1)(C) of the Act which is available
13 to CAWCD from the Arizona Power Authority or its lawful successor.

14 5.12 Lake Pleasant - The reservoir formed behind New Waddell Dam
15 which is used for regulatory storage of water for the Central Arizona
16 Project.

17 5.13 Navajo Energy Cost - The Navajo Energy Cost calculated
18 pursuant to subsection 11.3 hereof.

19 5.14 Navajo Generating Station - The thermal generating powerplant
20 located near Page, Arizona, as generally described in Exhibit A to the
21 Navajo Project Co-Tenancy Agreement dated March 23, 1976, as amended or
22 supplemented.

23 5.15 Navajo Operating Agent - The entity charged with the
24 responsibility to operate and maintain the Navajo Generating Station. The
25 Navajo Operating Agent is currently SRP.

26 5.16 Navajo Project - The Navajo Generating Station, the Navajo
27 Western Transmission System, the Navajo Southern Transmission System, and
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1 the works, structures, and systems necessary for their operation, as
2 generally described in the Navajo Project Co-Tenancy Agreement.

3 5.17 Navajo Surplus - As set forth in the Plan, capacity and energy
4 from the United States entitlement in the Navajo Generating Station that
5 is surplus to the needs of the Central Arizona Project and any needs for
6 desalting and protective pumping facilities under Section 101 (b)(2)(B) of
7 the Colorado Basin Salinity Control Act (43 U.S.C. 1571, et seq.).

8 5.18 Navajo Southern Transmission System - The United States
9 entitlement in the 500-kV transmission lines and associated facilities
10 from the Navajo Generating Station to and including the Westwing
11 Substation, which are described in Appendix A of the Navajo Project
12 Southern Transmission System Operating Agreement as may be amended.

13 5.19 Navajo Western Transmission System - The United States
14 entitlement in the 500-kV transmission line and associated facilities from
15 the Navajo Generating Station to and including the McCullough Substation
16 which are described in Appendix A of the Navajo Project Western
17 Transmission System Operating Agreement as may be amended.

18 5.20 Operating Emergency - An unplanned or unexpected operational
19 event, series of operational events or operational circumstances, or any
20 restriction or condition imposed by any governmental authority that (a)
21 causes a loss or interruption of (i) a generating resource or transmission
22 facility (ii) a pumping unit or units (iii) water control structures, or
23 (iv) purchase of firm power; and (b) in the reasonable judgement of the
24 affected Party's operator requires the taking of immediate action (i) to
25 preserve, maintain, or reestablish the safety, integrity, or operability
26 of the facilities that have been affected and (ii) to meet the required
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1 power demands of the SRP Electric System or the water demands of the
2 Central Arizona Project water system, as the case may be.

3 5.21 Parker-Davis Project Transmission System - The transmission
4 lines, substations and associated facilities authorized under Reclamation
5 law located in the states of Arizona, California, and Nevada that are
6 features of the Parker-Davis Project, and are operated by the Phoenix Area
7 of Western.

8 5.22 Pacific Northwest/Pacific Southwest Intertie Project
9 Transmission System - For purposes of this Contract, the 345-kV
10 transmission line between Mead Substation and Liberty Substation, Mead
11 Substation, Liberty Substation, the United States 230-kV transmission line
12 between Liberty Substation and Westwing Substation and between Westwing
13 Substation and Pinnacle Peak Substation, and Western's rights in the
14 500-kV transmission line between Westwing Substation and Mead Substation
15 and associated facilities which are operated by the Phoenix Area of
16 Western.

17 5.23 Plan - The Navajo Power Marketing Plan adopted by the
18 Secretary of the Interior on December 1, 1987 (52 Fed. Reg. 48328 dated
19 December 21, 1987).

20 5.24 Project Act - The Colorado River Basin Project Act of 1968, as
21 amended or supplemented (43 U.S.C. 1501, et seq.)

22 5.25 Remaining Navajo Surplus - All Navajo Surplus that was not
23 marketed in accordance with paragraphs A and B of Section V of the Plan,
24 and which is being marketed in its entirety under paragraph C of Section V
25 of the Plan in accordance with the terms and conditions contained herein.

26 5.26 Scheduling Agent - The entity named in Section 6 hereof
27 responsible for scheduling energy deliveries from the United States
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1 entitlement in the Navajo Generating Station, Hoover Schedule B Capacity,
2 Hoover Schedule B Energy, Hoover Schedule C Energy, the New Waddell
3 Pumping/Generating Plant, and other energy deliveries pursuant to
4 subsection 10.3, and for scheduling the use of the Navajo Southern
5 Transmission System, the Navajo Western Transmission System, the Central
6 Arizona Project's rights in the Parker-Davis Project Transmission System
7 and the Pacific Northwest/Pacific Southwest Intertie Project Transmission
8 System, and the Central Arizona Project Transmission.

9 5.27 SRP Electric System - All properties and other assets, now or
10 hereafter existing, owned or controlled by SRP, and used for or pertaining
11 to the generation, transmission, transformation, distribution, or sale of
12 electric capacity and energy, including all additions, extensions,
13 expansions, and improvements. To the extent SRP is not the sole owner of
14 an asset or property, only SRP's owned or controlled interest in such
15 asset or property shall be considered to be a part of the SRP Electric
16 System.

17 5.28 WALC Control Area - The control area recognized by the Western
18 Systems Coordinating Council that is operated by the Phoenix Area of
19 Western.

20 5.29 Uncontrollable Force - Uncontrollable Force means any cause
21 beyond the control of the Party affected, including but not restricted to,
22 failure of or threat of failure of facilities, drought, flood, earthquake,
23 storm, fire, lightning, epidemic, war, riot, civil disturbance or
24 disobedience, labor dispute, labor or material shortage, sabotage,
25 restraint by court order or public authority and, subsequent to execution
26 and delivery of this Contract by the Parties, action or nonaction by, or
27 failure to obtain the necessary authorizations or approvals from, any
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1 governmental agency or authority other than Western, Reclamation, CAWCD,
2 or SRP, which by exercise of due diligence such Party could not reasonably
3 have been expected to avoid and which by exercise of due diligence it
4 shall be unable to overcome.

5 6. SCHEDULING AGENT: Upon the effective date of this Contract, the Parties
6 hereby appoint SRP and SRP shall act as the Scheduling Agent to undertake
7 and perform the power scheduling and power accounting functions for the
8 United States entitlement in the Navajo Generating Station, Hoover
9 Schedule B Capacity, Hoover Schedule B Energy, Hoover Schedule C Energy,
10 generation from the New Waddell Pumping/Generating Plant, Navajo Surplus
11 Contract Nos. 89-BCA-10287, 91-PAO-10404, and 93-PAO-10536, and other
12 energy deliveries pursuant to subsection 10.3 hereof. SRP shall also
13 schedule the use of the Navajo Western Transmission System and the Navajo
14 Southern Transmission System, and schedule and account for energy
15 deliveries to Central Arizona Project Facilities through Western over the
16 Parker-Davis Project Transmission System, the Pacific Northwest/Pacific
17 Southwest Intertie Project Transmission System, and the Central Arizona
18 Project Transmission.

19 6.1 Navajo Project - SRP shall schedule, coordinate, and account
20 with the Navajo Operating Agent for energy deliveries from the United
21 States entitlement in the Navajo Generating Station on a daily, weekly,
22 and monthly basis in accordance with the Navajo Project agreements.

23 6.2 Hoover - SRP shall schedule, coordinate, and account for energy
24 deliveries from Hoover Schedule B Capacity, Hoover Schedule B Energy, and
25 Hoover Schedule C Energy entitlements, including submittal of master
26 schedule data, with the Arizona Power Authority in accordance with the
27 agreements between CAWCD and the Arizona Power Authority.
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1 6.3 New Waddell Pumping/Generating Plant - SRP shall schedule,
2 coordinate, and account for generation and pumping from the New Waddell
3 Pumping/Generating Plant with CAWCD.

4 6.4 Central Arizona Project Facilities - SRP shall develop
5 procedures with Western to schedule and account for energy deliveries to
6 Central Arizona Project Facilities consistent with Central Arizona Project
7 agreements.

8 6.5 Western Contracts - SRP shall schedule, coordinate, and account
9 for energy deliveries with Navajo Surplus contractors under Western
10 Contract Nos. 89-BCA-10287, 91-PAO-10404, and 93-PAO-10536. Subject to
11 the terms and conditions of the aforementioned contracts and, as to
12 Western, Reclamation, and CAWCD only, of Western Agreement
13 No. 90-BCA-10307 as amended, the Authorized Representatives of SRP and
14 Western shall agree upon procedures for scheduling, accounting, and
15 billing for energy under Western Contract Nos. 89-BCA-10287, 91-PAO-10404,
16 and 93-PAO-10536, scheduling capacity under such contracts, and for
17 accounting and billing for capacity under Contract No. 93-PAO-10536.

18 7. POWER SUPPLY RESOURCES:

19 7.1 Navajo Generating Station - SRP shall have the right to
20 schedule capacity and energy deliveries from the United States entitlement
21 in the Navajo Generating Station in any manner that SRP deems necessary,
22 consistent with the Navajo Project agreements; provided that SRP shall
23 schedule capacity and energy deliveries from the United States entitlement
24 in the Navajo Generating Station to fulfill the obligations of the
25 United States under Western Contract Nos. 89-BCA-10287, 91-PAO-10404, and
26 93-PAO-10536. Western shall cooperate with SRP to accomplish an orderly
27 transition of the scheduling function from Western to SRP, including any
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1 notifications required under the Navajo Project agreements among the
2 Navajo Project participants.

3 7.1.1 Reclamation, as a Navajo participant, holds a share of
4 SO₂ emission allowances allocated by the Environmental Protection Agency
5 to the Navajo Generating Station. Reclamation shall make its SO₂ emission
6 allowances available for use by SRP each calendar year in quantities
7 sufficient to cover the sulfur dioxide emissions related to the total
8 generation from the United States entitlement in the Navajo Generating
9 Station.

10 7.1.2 Allowances in excess of the allowances needed for total
11 generation from the United States entitlement in the Navajo Generating
12 Station shall be for the benefit of the Central Arizona Project.

13 7.2 Hoover Schedule B and Schedule C - SRP shall have the right to
14 schedule Hoover Schedule B Capacity, Hoover Schedule B Energy and Hoover
15 Schedule C Energy with the Arizona Power Authority in any manner that SRP
16 deems necessary, consistent with the agreements between CAWCD and the
17 Arizona Power Authority. Western and CAWCD shall cooperate with SRP to
18 accomplish an orderly transition of the scheduling function to SRP,
19 including any notifications required under the agreements between CAWCD
20 and the Arizona Power Authority.

21 7.3 New Waddell Pumping/Generating Plant - SRP shall have the right
22 to schedule capacity and energy deliveries from the New Waddell
23 Pumping/Generating Plant and to integrate this capacity and energy with
24 SRP's other system resources.

25 7.4 Reservation of Power for Desalting Facilities - Pursuant to the
26 Plan Reclamation reserves the right to use up to 30,000 kilowatts, with
27 associated energy, of Navajo Surplus to serve the electrical loads of the
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1 desalting and protective pumping facilities authorized under Section 101
2 (b)(2)(B) of the Colorado River Basin Salinity Control Act (43 U.S.C.
3 1571, et seq.).

4 7.4.1 Reclamation shall provide notice to the other Parties at
5 least five (5) years in advance of its use of such Navajo Surplus. The
6 notice shall provide the amount of capacity and energy to be used, and the
7 time period for such use.

8 7.4.2 For capacity used during any month, SRP shall invoice
9 Reclamation, and Reclamation shall pay an amount equal to seven dollars
10 and fifteen cents (\$7.15) per kilowatt-month for capacity used during the
11 month, and shall pay SRP for energy used at the rate calculated in
12 accordance with subparagraph 11.4.1.2 hereof. SRP shall invoice
13 Reclamation, and Reclamation shall pay SRP, monthly, for the energy
14 delivered to Western, including losses to Western's transmission systems,
15 to serve the loads of the desalting and protective pumping facilities.
16 The Authorized Representatives shall agree upon billing and payment
17 procedures to implement this paragraph 7.4.2.

18 7.4.3 Reclamation and Western shall agree upon arrangements
19 for energy deliveries to the desalting and protective pumping facilities.

20 8. TRANSMISSION RIGHTS:

21 8.1 Navajo Transmission Systems - SRP shall be entitled to use the
22 Navajo Southern Transmission System and the Navajo Western Transmission
23 System in any manner that SRP deems necessary, consistent with the Navajo
24 Project agreements.

25 8.1.1 Western shall cooperate with SRP to accomplish an
26 orderly transition of the scheduling function from Western to SRP,
27 including any notifications required under the Navajo Project agreements.
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1 8.1.2 Navajo Transmission Upgrades - If the United States
2 agrees to upgrades or improvements, which agreement shall not be
3 unreasonably withheld, SRP shall have the right of first refusal to
4 participate, as to the United States entitlement, in any upgrades of the
5 Navajo Southern Transmission System and the Navajo Western Transmission
6 System, and to furnish the necessary funds to accomplish such upgrades on
7 behalf of the United States. SRP shall have the right to use and benefit
8 from such upgrades to the extent of the United States entitlement for
9 which SRP supplied the funds.

10 8.1.2.1 Western and Reclamation shall notify SRP in
11 writing of any Navajo Western Transmission System or Navajo Southern
12 Transmission System upgrades or modifications being considered by the
13 Navajo Project committees within thirty (30) days of being notified by
14 such committees.

15 8.1.2.2 Within ninety (90) days of receipt of the
16 notification pursuant to paragraph 8.1.2.1 above, SRP shall notify
17 Western, Reclamation, and CAWCD of its intent to participate as to the
18 United States entitlement in the upgrades or modifications, or SRP's
19 desire to refuse such participation.

20 8.1.2.3 If SRP elects to participate in the United
21 States share of the upgrades or modifications, SRP shall notify Western,
22 Reclamation, and CAWCD of the desired participation level (all or part of
23 the expected increase in transmission capacity or other benefits
24 associated with the United States entitlement in modifications or
25 upgrades), the amount of funding to be provided by SRP based on
26 preliminary cost estimates of the modifications or upgrades, and a
27 suggested schedule to prepare the necessary agreements among the Parties.
28

1 Such agreements shall specify the allocation of costs, benefits, or
2 transmission capacity attributable to the upgrades or modifications,
3 allocation of operation and maintenance costs to the upgrades or
4 modifications, allocations of costs of replacements to the upgrades or
5 modifications, and such other provisions as may be agreed upon by the
6 Parties.

7 8.1.2.4 If SRP elects to refuse participation as to the
8 United States entitlement in the upgrades or modifications, the right of
9 first refusal contained in paragraph 8.1.2 hereof shall be deemed to be
10 satisfied with respect to the affected facilities for the term of this
11 Contract. In that event, Western and Reclamation may participate in the
12 upgrades or improvements on their own behalf, or may market or exchange
13 participation in the improvements or upgrades in a manner as they may
14 determine; Provided that, Western and Reclamation shall enter into an
15 agreement with the Parties which provides for the allocation of benefits
16 or transmission capacity attributable to the upgrades or modifications,
17 allocation of operation and maintenance costs to the upgrades or
18 modifications, allocation of costs of replacements to the upgrades or
19 modifications, and such other provisions as may be agreed upon by the
20 Parties.

21 8.1.3 In the Westwing Substation, SRP shall make available to
22 Western, for transfer of power to its Westwing-Mead 500-kV transmission
23 line portion of its Pacific Northwest/Pacific Southwest Intertie Project
24 Transmission System, 412 Megawatts of transformation capability, from
25 230-kV to 500-kV, and any amount, up to 412 MW of transformation
26 capability, from 500-kV to 230-kV which is not needed by SRP for Navajo
27 Generating Station energy deliveries. Use of this transformation
28

1 capability by Western shall be subject to the agreements which govern the
2 rights in the Westwing Substation. The Authorized Representatives of
3 Western and SRP shall determine an appropriate portion of the operational
4 costs to be paid by Western to SRP for the use of the transformers and
5 other necessary switching equipment. Such proportional costs shall be
6 based upon SRP's actual costs associated with the use of the transformers
7 and necessary switching equipment and the use of upgrades thereto.

8 8.2 Parker-Davis Project, Pacific Northwest/Pacific Southwest
9 Intertie Project and Central Arizona Project - SRP shall have the use of
10 all CAWCD's contracted and acquired transmission rights on the Parker-
11 Davis Project Transmission System, the Pacific Northwest/Pacific Southwest
12 Intertie Transmission System, and Central Arizona Project Transmission to
13 serve the electrical loads of Central Arizona Project Facilities, all as
14 shown in Exhibit E. SRP shall have the right to use the Central Arizona
15 Project Transmission for other schedules subject to subsection 10.11;
16 provided, such use shall include the right of SRP to schedule at no charge
17 over buses between the Central Arizona Project Transmission and the
18 Parker-Davis Project Transmission System and Pacific Northwest/Pacific
19 Southwest Intertie Project Transmission System.

20 8.2.1 Use of CAWCD's transmission rights shall be in
21 accordance with Western Contract No. 93-PAO-10537, Firm and Nonfirm
22 Transmission for Central Arizona Project pumping loads.

23 8.2.2 Such use may be scheduled dynamically to the WALC
24 Control Area to supply Central Arizona Project Facility electrical loads.
25 Costs to install hardware and software to achieve such dynamic scheduling
26 shall be borne by SRP.

1 8.2.3 Western may contract with other parties for transmission
2 service on the Westwing-New Waddell 230-kV Transmission Line so long as
3 such transmission service does not interfere with SRP's use of the
4 Westwing-New Waddell Transmission Line to fulfill its obligations or
5 exercise its rights to transmit New Waddell generation under this
6 Contract. Western shall deposit the revenues from such transmission
7 service in the Fund.

8 8.2.4 The Authorized Representatives of Western and SRP shall
9 cooperate in developing written procedures necessary for SRP to assume the
10 scheduling function for power deliveries to Central Arizona Project
11 Facilities and for scheduling energy that flows through the WALC Control
12 Area. Such procedures may be revised as necessary by the Authorized
13 Representatives.

14 8.2.5 The United States retains the right to upgrade any
15 Parker-Davis Project Transmission System, Pacific Northwest/Pacific
16 Southwest Intertie Project Transmission System, or Central Arizona Project
17 Transmission facility, and to utilize or market any additional
18 transmission capacity which results from such upgrade.

19 8.2.6 SRP and Western acknowledge that there is an existing
20 Parker-Davis Project Firm Transmission Contract No. 87-BCA-10140 between
21 Western and Citizens Utility Company which provides for deliveries over
22 the Parker-Davis No. 2 230-kV Transmission Line to Black Mesa Substation.
23 This Parker-Davis firm transmission service commitment does not impact,
24 affect or restrict SRP's use of CAWCD's firm transmission Service rights,
25 under Western Contract No. 93-PAO-10537, up to amounts adequate to serve
26 CAP pumping loads.

1 9. OBLIGATIONS ASSUMED: SRP hereby assumes the obligation to meet the
2 electrical load of the Central Arizona Project Facilities by use of the
3 transmission rights described in Section 8 as scheduled in accordance with
4 paragraph 10.7.5 hereof. For the purposes of determining procedures for
5 scheduling capacity and energy under Western Contract Nos. 89-BCA-10287
6 and 91-PAO-10404 and this Contract, all capacity and energy shall be
7 deemed to be scheduled under this Contract. SRP is not relieved of its
8 obligation to pay for 350 MW of capacity pursuant to Western Contract Nos.
9 89-BCA-10287 and 91-PAO-10404.

10 9.1 Normal Operation - SRP shall integrate the United States
11 entitlement in the Navajo Generating Station, Hoover Schedule B Capacity,
12 Hoover Schedule B Energy, Hoover Schedule C Energy, and generation from
13 the New Waddell Pumping/Generating Plant with other generating resources
14 on the SRP Electric System, and shall serve the electrical load of Central
15 Arizona Project Facilities in accordance with the terms and conditions
16 contained herein. SRP shall serve the electrical load of Central Arizona
17 Project Facilities regardless of the availability of the United States
18 entitlement in the Navajo Generating Station, Hoover Schedule B Capacity,
19 Hoover Schedule B Energy, Hoover Schedule C Energy, or generation from the
20 New Waddell Pumping/Generating Plant.

21 9.2 Operating Emergencies - SRP may interrupt or curtail scheduled
22 energy deliveries to Central Arizona Project Facilities during Operating
23 Emergencies only after SRP has made all reasonable efforts to restore the
24 SRP Electric System to normal load and resource balance.

25 9.2.1 In the same order of priority as the interruption or
26 curtailment of other SRP interruptible loads, SRP shall request CAWCD to
27 trip the following loads or, if circumstances make such a request
28

1 impractical, SRP may remotely trip individual pumps or the entire pumping
2 plant in accordance with subsection 10.8 hereof:

3 Havasu Pumping Plant

4 Bouse Hills Pumping Plant

5 Little Harquahala Pumping Plant

6 Hassayampa Pumping Plant

7 New Waddell Pumping/Generating Plant

8 9.2.2 Interruption or curtailment of the loads at the
9 following pumping plants shall only be requested to be tripped or be
10 remotely tripped in accordance with subsection 10.8 hereof, following the
11 interruptions or curtailments as set forth in paragraph 9.2.1 hereof, and
12 only when SRP is curtailing the loads of its firm wholesale customers:

13 Salt Gila Pumping Plant

14 Brady Pumping Plant

15 Picacho Pumping Plant

16 Red Rock Pumping Plant

17 Twin Peaks Pumping Plant

18 Sandario Pumping Plant

19 Brawley Pumping Plant

20 San Xavier Pumping Plant

21 Snyder Hill Pumping Plant

22 Black Mountain Pumping Plant

23 9.3 Extended Outages of Navajo Generating Station - In the event
24 that an Extended Unscheduled Outage should occur, SRP shall continue to
25 serve the electrical load of the Central Arizona Project Facilities.
26 During the term of such Extended Unscheduled Outage, CAWCD may purchase
27 energy from Western or other suppliers pursuant to subsection 10.3 hereof,
28

1 may pay for energy at an Energy Rate calculated in accordance with the
2 combined application of subparagraphs 11.4.1.1, 11.4.1.2, and 11.4.1.3
3 hereof, or may reduce its scheduled energy deliveries and reschedule water
4 deliveries for the period following the Extended Unscheduled Outage, all
5 as determined by CAWCD. In addition, an Extended Unscheduled Outage shall
6 reduce the energy threshold shown in Exhibit A by an amount calculated
7 pursuant to Exhibit B.

8 10. COORDINATED OPERATIONS

9 10.1 Benefit Enhancement - In order to enhance the value of Navajo
10 Surplus, the Central Arizona Project shall be operated utilizing daily,
11 weekly, and seasonal power management as described in the Plan. It is the
12 intent of the Parties that the water deliveries and associated power
13 deliveries be coordinated by SRP and CAWCD to provide the greatest
14 benefits in operational flexibility and economies of operation of the SRP
15 Electric System while meeting Central Arizona Project water deliveries.
16 Accordingly, SRP and CAWCD intend to establish pumping plant power usage
17 schedules to minimize pumping during times specified by SRP while
18 providing for CAWCD water deliveries within the water delivery constraints
19 of the Central Arizona Project. This includes arranging schedules to pump
20 water into Lake Pleasant. SRP, CAWCD, and Western intend to cooperate in
21 making the pumping schedules accommodate, to the extent practicable, SRP's
22 power needs.

23 10.2 Water Deliveries - The Authorized Representatives of CAWCD and
24 SRP shall agree, by January 1 of each year, upon an amount of water to be
25 stored for the benefit of CAWCD in Lake Pleasant (Storage Target), and the
26 month that such Storage Target shall be reached. Monthly water amounts to
27 be placed in CAWCD's storage account will be shown on the last twelve-
28

1 month forecast submitted to SRP by CAWCD prior to January 1 of each year.
2 The Authorized Representatives may agree at any time to revise the Storage
3 Target and the month in which such Storage Target is to be reached;
4 provided that if SRP requests water in CAWCD's storage account be used in
5 lieu of pumping water from the Colorado River, either (i) SRP shall pay
6 for and deliver energy to New Waddell Pumping/ Generating Plant to replace
7 the amount of water that was used from CAWCD's storage account, less the
8 energy generated when the water which was replaced was released from Lake
9 Pleasant, (ii) the Storage Target shall be reduced by the amount of water
10 released from CAWCD's storage account, or (iii) a combination of (i) and
11 (ii) as agreed upon by the Authorized Representatives of CAWCD and SRP.
12 The Authorized Representatives of CAWCD and SRP shall agree upon
13 procedures to implement this subsection 10.2.

14 10.3 Power Supply - Except for Hoover Schedule B Energy, Hoover
15 Schedule C Energy, and New Waddell energy, CAWCD agrees to obtain all
16 capacity and energy to serve the electrical load of Central Arizona
17 Project Facilities from SRP; provided that CAWCD may purchase energy from
18 Western and other suppliers (i) to pump water in excess of the annual
19 quantity agreed upon in accordance with Exhibit A, and (ii) to pump water
20 during an Extended Unscheduled Outage in accordance with subsection 9.3
21 hereof. Such purchases shall be coordinated with and scheduled by Western
22 and SRP prior to implementation.

23 10.4 Quarterly Meetings - It is recognized by the Parties that
24 knowledge of factors impacting the operation of each other's systems is
25 required to optimize the benefits of this Contract. Accordingly, it is
26 the intent of the Parties for the Authorized Representatives to meet at
27 least once each calendar quarter to discuss operations under this Contract
28

1 and issues and other factors expected to have an influence on operations
2 under this Contract during the upcoming months.

3 10.5 Committee Action - CAWCD, Reclamation, and Western shall
4 consult with SRP prior to the United States voting or taking any action in
5 Navajo Project committees, or independently, which would affect the
6 United States entitlement in the Navajo Project or SRP's use thereof.

7 10.6 Written Procedures - The Authorized Representatives shall
8 develop and agree upon written procedures to implement provisions of this
9 Contract, which shall be appended to this Contract and may be revised as
10 necessary by the Authorized Representatives.

11 10.7 Forecasts - CAWCD, in consultation with Reclamation, shall
12 prepare forecasts of water deliveries showing the estimated monthly water
13 demands and associated energy deliveries for each pumping plant, and such
14 other information as may be agreed upon by SRP and CAWCD. It is
15 recognized that data from CAWCD contractors may not always be available.
16 Nevertheless, CAWCD shall make best efforts to develop forecasts that most
17 nearly approximate the expected water demands. The dates and times of
18 submission of forecasts to SRP contained in this subsection 10.7 hereof
19 may be changed by mutual agreement of the Authorized Representatives of
20 CAWCD, SRP, and Reclamation.

21 10.7.1 Twelve-Month Forecasts - Forecasts shall be developed
22 by CAWCD for a twelve (12) month period, and shall be submitted to SRP at
23 least thirty (30) days prior to the effective date of this Contract.
24 Updated forecasts shall be submitted to SRP by the first day of each
25 calendar quarter, showing updated estimates for the upcoming
26 nine (9) month period shown on the previous forecast and new estimates for
27 the three (3) months not shown on the previous forecast. The intent is to
28

1 provide SRP with a rolling twelve (12) month forecast of water deliveries
2 and the associated power needs. The last forecast submitted to SRP prior
3 to January 1 of each year will contain the agreed upon annual amount of
4 water deliveries for the upcoming year.

5 10.7.2 Extended Forecasts - By June 1 of each year, CAWCD
6 shall provide a forecast to SRP which shall include an additional two (2)
7 years of forecasted water demands and associated power schedules beyond
8 the twelve (12) month rolling time period.

9 10.7.3 Long-Range Forecast - CAWCD shall provide SRP with its
10 long-range (20 year) forecast and the associated assumptions in sufficient
11 detail to enable SRP to develop an understanding of the forecast. Such
12 information and annual update thereto will be provided by July 1 each
13 year. This long-range forecast shall be for planning purposes only, and
14 shall not be binding on either SRP or CAWCD.

15 10.7.4 Monthly Forecasts - Five (5) business days prior to the
16 beginning of each month during the term of this Contract, CAWCD shall
17 submit an estimate of daily water demands and associated power schedules
18 for each pumping plant for the upcoming month. SRP may request CAWCD to
19 reschedule water deliveries, and CAWCD shall comply with such request if
20 the flexibility exists within the water delivery systems, as determined by
21 CAWCD.

22 10.7.5 Daily Forecasts - CAWCD shall provide SRP with hourly
23 flow schedules and the associated hourly power schedules for the next
24 day(s) for each pumping plant prior to 10:30 a.m. each business day. Such
25 hourly schedules for weekend days and holidays and through the next
26 business day shall be prepared on the last business day prior to the
27 weekend or holiday, unless otherwise agreed by CAWCD and SRP. Such
28

1 schedules shall be in a format, and shall contain such additional
2 information as may be agreed upon by CAWCD and SRP. SRP may request
3 changes in the hourly flow schedules, and if the changes can be
4 accommodated within the constraints of the water delivery systems, CAWCD
5 shall comply with the request. When these hourly flow schedules and the
6 associated hourly power schedules are agreed upon by SRP and CAWCD, such
7 schedules shall be the schedule for the following day, subject to the
8 operational changes made in accordance with operating guidelines developed
9 by the Authorized Representatives, and shall be adhered to, except during
10 Operating Emergencies.

11 10.7.6 Pumping Plant Maintenance Schedule - CAWCD shall
12 develop a pumping plant maintenance schedule showing the planned
13 maintenance outages for the two (2) year period following the effective
14 date of this Contract, shall coordinate such schedules with Western, and
15 shall submit such schedule to SRP ninety (90) days prior to the effective
16 date of this Contract and by July 1 of each year thereafter during the
17 term of this Contract. Such maintenance schedules shall be prepared in
18 consultation with Western and SRP. SRP may request rescheduling of any
19 maintenance outage(s) at any time, and CAWCD shall make best efforts to
20 reschedule such outage(s). It is the intent of the Parties that
21 maintenance outages be planned to provide the greatest economic and
22 operational benefits to SRP and CAWCD and to minimize any adverse impacts
23 on CAWCD water deliveries.

24 10.8 Load Shedding and Restoration - During Operating Emergencies,
25 SRP shall have the capability from the SRP energy control center to
26 remotely trip pumps or pumping plants at Havasu Pumping Plant, Bouse Hills
27 Pumping Plant, Little Harquahala Pumping Plant, Hassayampa Pumping Plant,
28

1 and New Waddell Pumping/Generating Plant. SRP will make best efforts to
2 contact CAWCD and request the amount of pump load to be interrupted in
3 lieu of tripping pumps remotely. This will allow CAWCD to select the
4 pumps that will be interrupted. CAWCD shall comply with such request and
5 will make best efforts to interrupt the necessary pumps within ten (10)
6 minutes of the request by SRP. In making such request, SRP will give the
7 reason for the request and the expected duration of the requested
8 outage(s). As soon as practicable following interruption or curtailment,
9 SRP shall inform CAWCD and Western of the timing and the amount of pumping
10 load that can be restored. When interrupted or curtailed, those pumping
11 plants referred to in paragraph 9.2.2 hereof shall be restored in the same
12 priority as other firm wholesale load of SRP. CAWCD may restart the pumps
13 in the order desired, and at times as agreed upon by Western, SRP, and
14 CAWCD. SRP shall be permitted five (5) load interruptions or curtailments
15 per calendar year without any charge. For each occurrence thereafter, SRP
16 shall be charged for interruptions or curtailments at the rate calculated
17 in accordance with subsection 11.7 hereof.

18 10.9 Daily Reports - CAWCD, Western, and SRP shall agree upon the
19 actual amount of water deliveries and energy deliveries each day. Reports
20 shall be compiled for each day showing water flows through each pumping
21 plant, energy use at each pumping plant, generation at New Waddell
22 Pumping/Generating Plant, and such other information as may be agreed upon
23 by CAWCD, Western, and SRP. The Parties shall agree upon the entity
24 responsible to prepare the daily reports, and the distribution and
25 frequency of transmittal of such reports.

26 10.10 Losses - CAWCD, Western, and SRP shall agree upon procedures
27 for accounting for electrical losses associated with the delivery of
28

1 energy to Central Arizona Project Facilities, and to SRP. Authorized
2 Representatives of the Parties shall establish written procedures for
3 return of electrical losses (i) to Western for losses associated with the
4 delivery of energy using the Parker-Davis Project Transmission System,
5 Central Arizona Project Transmission, and the Pacific Northwest/Pacific
6 Southwest Intertie Project Transmission System, and (ii) to the operating
7 agents for the Navajo Southern Transmission System and the Navajo Western
8 Transmission System for losses associated with the delivery of energy
9 using those transmission systems.

10 10.11 Other Transactions - After operations have been coordinated
11 and schedules established pursuant to this section 10, should additional
12 opportunities for transactions or for increasing the value of the power to
13 SRP arise which might require a change in pumping schedules and/or use of
14 Central Arizona Project Transmission, the Authorized Representatives of
15 SRP, CAWCD, and Reclamation shall agree on arrangements and compensation
16 for such transactions.

17 11. BILLING AND PAYMENT:

18 11.1 The Authorized Representatives shall agree upon written
19 billing procedures that may be revised as necessary to implement the
20 provisions of this Section 11. Such procedures shall include (i) a
21 process for accounting, billing, and payment (or credit) for adjustments
22 made after termination of this Contract to the components of the Navajo
23 Energy Cost as set forth in subsection 11.2, and to the Energy Rate set
24 forth in subsection 11.4, (as such adjustments result from adjustments
25 included in the invoices from the Navajo operating agent for the term of
26 this Contract) until three years after termination of this Contract, and
27 (ii) a process for CAWCD to reimburse SRP for energy delivered by SRP to
28

1 Western in fulfillment of CAWCD's obligation to return Hoover integration
2 energy to Western.

3 11.1.1 Payment - In consideration of (i) the purchase by SRP
4 of the Remaining Navajo Surplus (ii) the integration with the SRP Electric
5 System of Hoover Schedule B Capacity, Hoover Schedule B Energy, Hoover
6 Schedule C Energy, and capacity and energy from the New Waddell
7 Pumping/Generating Plant and (iii) the operational flexibility afforded
8 SRP under this Contract, each month during the term of this Contract SRP
9 shall pay Western, and Western shall transfer to the Fund as soon as
10 administratively possible, one million eight hundred twelve thousand five
11 hundred dollars (\$1,812,500), subject to reduction as described in
12 paragraph 11.1.2. hereof. Western shall invoice SRP at the beginning of
13 each month for such use during the previous month. The invoiced amount
14 shall be due and payable by SRP ten (10) days after receipt of the
15 invoice. If the due date falls on a weekend or holiday payment is due on
16 the next working day of SRP.

17 11.1.2 In any month that an Extended Unscheduled Outage
18 occurs, the payment pursuant to paragraph 11.1.1 shall be reduced. The
19 amount of the reduction shall be calculated as follows:

20 $PR = (N) * (C) * (DO/D)$ where:

21 PR = Payment Reduction;

22 N = Megawatt reduction in Navajo Generating Station capacity
23 divided by the maximum generating capacity;

24 C = Payment pursuant to paragraph 11.1.1;

25 D = 730 Hours; and

26 DO = Duration of the outage in hours in excess of 480 consecutive
27 hours.

1 In no event shall PR be greater than C.

2 11.2 Western shall issue invoices to SRP monthly for all Navajo
3 Energy Cost within ten (10) days after the end of each month, and SRP
4 shall pay Western for transfer by Western to the Fund, in accordance with
5 billing procedures pursuant to subsection 11.1 hereof. The Navajo Energy
6 Cost shall include a generation operating charge, a generation energy
7 charge, a transmission operating charge, and a charge to cover costs of
8 Western and Reclamation.

9 11.2.1 The monthly generation operating charge shall be equal
10 to the sum of the following:

11 1) the amount billed to the United States by the Navajo
12 Operating Agent in accordance with the Navajo Project agreements for the
13 operation, maintenance, and Capital Improvements (as amortized pursuant to
14 subparagraph 11.2.6.1 hereof) for the United States entitlement in the
15 Navajo Generating Station for those costs of operation, maintenance, and
16 Capital Improvements (as amortized pursuant to subparagraph 11.2.6.1
17 hereof) allocated among the Navajo Project participants on the basis of
18 Navajo generation entitlement shares.

19 2) actual state and local taxes levied or assessed upon or
20 measured by the United States entitlement in the Navajo Generating Station
21 which are not included in 1) above.

22 11.2.2 The monthly generation energy charge shall be equal to
23 the amount billed to the United States by the Navajo Operating Agent in
24 accordance with the Navajo Project agreements for variable fuel costs
25 allocated among the Navajo Project participants on the basis of monthly
26 net energy scheduled from the Navajo Generating Station less any energy
27 related revenues received by Western under Western Contract
28

1 Nos. 89-BCA-10287, 91-PAO-10404, and 93-PAO-10536.

2 11.2.3 The monthly transmission operating charge shall be
3 equal to the sum of the following:

4 1) the amounts billed to the United States for the operation
5 and maintenance and Capital Improvements (as amortized pursuant to
6 subparagraph 11.2.6.1 hereof) for the Navajo Southern Transmission System
7 and the Navajo Western Transmission System and other transmission
8 facilities needed to deliver the United States entitlement in the Navajo
9 Generating Station to the Westwing and McCullough delivery points.

10 2) Actual state and local taxes levied or assessed upon or
11 measured by the United States entitlement in the Navajo Southern
12 Transmission System and the Navajo Western Transmission System which are
13 not included in 1) above.

14 11.2.4 The monthly costs associated with Western's activities
15 as they relate directly to the United States entitlement in the Navajo
16 Project. These costs shall be calculated as follows:

17 $Ww = 1/12 (Qw + Zw)$ Where:

18 Ww = Western's estimated monthly costs associated with the United States
19 entitlement in the Navajo Project;

20 Qw = Western's estimated budgeted annual costs, based on fiscal year
21 budgets, for services associated with the United States entitlement
22 in the Navajo Project for the applicable calendar year exclusive of
23 Western's annual administrative expenses; and

24 Zw = Western's estimated annual administrative expenses associated with
25 the services of Qw for the applicable calendar year.

26 11.2.5 The charge for Reclamation's monthly costs associated
27 with the Navajo Project shall be calculated as follows:

28

1 $W_r = 1/12 (Q_r + Z_r)$ Where:
2 W_r = Reclamation's estimated monthly costs associated with the
3 United States entitlement in the Navajo Project other than costs
4 billed to Reclamation by the Navajo Project operating agent(s);
5 Q_r = Reclamation's budgeted annual costs for services associated with the
6 United States entitlement in the Navajo Project exclusive of
7 Reclamation's annual administrative expenses for the applicable
8 calendar year; and
9 Z_r = Reclamation's estimated annual administrative expenses associated
10 with the services of Q_r for the applicable calendar year.

11 11.2.6 Reclamation will continue to manage the Fund and
12 provide for the payment and amortization of all approved Capital
13 Improvements associated with this Contract. Reclamation will establish,
14 in its financial accounting system, appropriate asset accounts for the
15 United States share of the costs of each Navajo Project approved budgeted
16 Capital Improvement. Reclamation will coordinate with the CAWCD in
17 determining an amount to be maintained in the Fund to provide for the
18 monthly cash flow required to accomplish the annual payment to the Navajo
19 Project operating agents for costs for each approved Capital Improvement.

20 11.2.6.1 The United States share of the costs of each
21 Capital Improvement will be carried on Reclamation's asset accounts at the
22 cost value of the asset. A schedule of amortization will be prepared
23 reflecting the acquisition cost plus an interest component to arrive at
24 the total capitalized cost to be recovered over the composite useful life
25 of the assets. The useful life of the assets will be consistent with the
26 Navajo Project's operating agents' capital assets useful life criteria.

27
28

1 11.2.6.2 The interest rate to be used for computing
2 interest on the United States share of each Capital Improvement shall be
3 the yield rate, as hereinafter provided in "a" of this subparagraph,
4 during the Federal fiscal year in which the capital cost is incurred.

5 a. Each Federal fiscal year the Secretary of the Treasury will provide
6 the computations made as of October 1 of the yield rate for the
7 preceding Federal fiscal year. For purposes of this subparagraph,
8 the yield rate is the average yield during the preceding Federal
9 fiscal year on interest-bearing marketable securities of the United
10 States which, at the time the computation is made, have terms of 15
11 years or more remaining to maturity. The average yield shall be
12 computed as the average during the fiscal year of the daily bid
13 prices. Where the average yield so computed is not a multiple of
14 one-eighth of one percent, the yield rate shall be the multiple of
15 one-eighth of one percent nearest to such average yield.

16 11.2.6.3 Reclamation will annually record and provide,
17 for the purposes of this Contract, the summation of the annual
18 amortization amounts of the United States share of the costs of all
19 Capital Improvement items which have not yet been fully amortized.

20 11.3 The Navajo Energy Cost shall be calculated by Western as
21 follows:

22
$$E = O + V + T + Ww + Wr + An - Rs$$

23 where;

24 E = the Navajo Energy Cost;

25 O = monthly generation operating charge calculated in accordance with
26 paragraph 11.2.1 hereof;

- 1 V = monthly generation energy charge calculated in accordance with
- 2 paragraph 11.2.2 hereof;
- 3 T = monthly transmission operating charge calculated in accordance with
- 4 paragraph 11.2.3 hereof;
- 5 Ww = Western's monthly costs calculated in accordance with paragraph
- 6 11.2.4 hereof;
- 7 Wr = Reclamation's monthly costs calculated in accordance with paragraph
- 8 11.2.5 hereof;
- 9 An = the difference, positive or negative, between the actual monthly
- 10 costs of Western and Reclamation and those costs calculated in
- 11 accordance with paragraphs 11.2.4 and 11.2.5 hereof. Authorized
- 12 Representatives of the Parties shall meet each calendar quarter to
- 13 agree upon actual costs accrued under this Contract related to Ww
- 14 and Wr; and
- 15 Rs = Monthly energy revenues associated with Western Contract Nos. 89-
- 16 BCA-10287, 91-PAO-10404, and 93-PAO-10536 for Navajo Surplus.

17 11.4 CAWCD shall pay SRP monthly for energy supplied by SRP for

18 Central Arizona Project Facility electrical loads. Energy supplied by SRP

19 shall include losses incurred on the Navajo Western Transmission System,

20 the Navajo Southern Transmission System, Central Arizona Project

21 Transmission, the Parker-Davis Project Transmission System, and the

22 Pacific Northwest/Pacific Southwest Intertie Project Transmission System

23 associated with energy delivered to the Central Arizona Project

24 Facilities.

25 11.4.1 The Energy Rate used to calculate the monthly bill

26 described in subsection 11.4 shall be prepared as follows:

27

28

1 11.4.1.1 For the initial twelve (12) months of service
2 under this Contract:

3 Energy Rate = $\sum_{i=1}^n \left[\frac{(A/B)_i}{n} \right]$, where:
4

5 n = number of the month after service is initiated;

6 A = Navajo Energy Cost determined for each month in accordance with
7 subsection 11.3 hereof; and

8 B = corresponding monthly generation from the United States entitlement
9 in the Navajo Generation Station less energy delivered to other
10 Navajo Surplus contractors under Western Contract Nos. 89-BCA-10287,
11 91-PAO-10404, and 93-PAO-10536.

12 11.4.1.2 For the thirteenth (13th) month and all
13 succeeding months of service under this Contract:

14 Energy Rate = $\sum_{i=1}^n \left[\frac{(A/B)_i}{12} \right]$, where:
15

16 A = Navajo Energy Cost for each of the twelve (12) months immediately
17 prior to the month for which service is being billed; and

18 B = corresponding generation from the United States entitlement in the
19 Navajo Generating Station for each of the twelve (12) months
20 immediately prior to the month for which service is being billed,
21 less energy delivered to other Navajo Surplus contractors under
22 Western Contract Nos. 89-BCA-10287, 91-PAO-10404, and 93-PAO-10536.

23 11.4.1.3 During Extended Unscheduled Outages, a
24 Surcharge shall be added to the Energy Rate used to calculate the monthly
25 invoice pursuant to paragraph 11.4.4 hereof for energy furnished to CAWCD
26 by SRP. The Surcharge shall be computed as follows:
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$$SC = [(ER + S) * (IN / IN93)] - ER$$

Where:

SC = Surcharge;

ER = Energy Rate;

S = \$.005/kWh;

IN = Index in year N; and

IN93 = Index in year 1993 = \$2.00 per million BTU.

IN93 referred to above was developed using the natural gas price delivered to pipeline/Texas/West/Spot in the first published issue of Natural Gas Week every month. These first of the month prices were averaged for the year 1993 to develop the base index, IN93, above. During an Extended Unscheduled Outage, the term IN shall be the average of the prices for the first published issue of Natural Gas Week for all twelve (12) months of the preceding calendar year. In the event that Natural Gas Week should cease to be published, a successor publication for calculation of the above indices shall be agreed upon by the Authorized Representatives.

11.4.2 CAWCD shall pay SRP any transaction privilege tax, sales tax, gross receipts tax, excise tax, and any other type of tax, surcharge or exaction hereinafter called Exactions (but not net income or corporate franchise taxes) enacted prior to or after the date of this Contract, and levied or imposed by any Federal, state, tribal, and local governments (i) on energy supplied by SRP to CAWCD pursuant to this Contract, (ii) on SRP based upon amounts remitted by CAWCD pursuant to this Contract, (iii) on resources or the energy content of such resources utilized by SRP or other entities to generate the energy supplied by SRP to CAWCD hereunder, or (iv) on emissions of pollutants in conjunction with the generation of the energy. If any such Exactions results in an

1 increase in production costs, including but not limited to fuel costs, for
2 energy provided hereunder, then the Energy Rate set forth in paragraph
3 11.4.1 hereof shall be increased by an amount equal to the mills per
4 kilowatthour increase in costs associated with the Exactions. Exactions
5 shall be billed by SRP to CAWCD commencing with the month in which SRP
6 first incurs the Exactions and shall, to the extent determinable, be
7 identified as a line item on the bill issued by SRP to CAWCD pursuant to
8 paragraph 11.4.4 hereof. SRP shall promptly notify CAWCD of Exactions
9 enacted after the date of this Contract and payable hereunder.

10 11.4.3 SRP shall prepare and transmit a monthly invoice to
11 CAWCD based upon the energy used by Central Arizona Project Facilities,
12 exclusive of Hoover Schedule B Energy, Hoover Schedule C Energy, energy
13 provided by Western or other suppliers pursuant to subsection 10.3 or
14 11.5, hereof, and generation from New Waddell Pumping/Generating Plant.
15 The invoiced amount shall include associated transmission losses pursuant
16 to subsection 10.10 hereof. The calculation of the invoiced amount shall
17 be in accordance with the formula pursuant to paragraph 11.4.4 hereof.

18 11.4.4 The formula for calculation of the monthly invoice to
19 CAWCD is as follows:

20 $IA = ER * (ED - HE - WE - NG + TL) + TX$

21 where:

22 IA = Invoiced amount;

23 ER = Energy Rate calculated in accordance with paragraph 11.4.1 hereof;

24 ED = Energy delivered to the Central Arizona Project Facilities for the
25 month as agreed upon among CAWCD, Western, and SRP accounted for
26 pursuant to subsection 10.9 hereof;

1 HE = Hoover Schedule B Energy and Hoover Schedule C Energy amounts as
2 billed to CAWCD by the Arizona Power Authority;
3 WE = Energy supplied by Western or others pursuant to subsection 10.3
4 NG = Energy generated from New Waddell Pumping/Generating Plant for the
5 month;
6 TL = Transmission losses supplied by SRP accounted for pursuant to
7 subsection 10.10 hereof; and
8 TX = Exactions (other than Exactions that increase production costs) as
9 defined by paragraph 11.4.2 hereof.

10 11.4.5 If the results of the calculation in paragraph 11.4.4
11 hereof, IA, is negative for any month, SRP shall pay CAWCD or credit CAWCD
12 on the next succeeding month(s) bill, as determined by CAWCD, the dollar
13 amount that IA is negative.

14 11.4.6 SRP shall invoice CAWCD for the charges specified in
15 this Section 11 by the tenth (10th) calendar day of the month following
16 the month service is rendered. If such day is a weekend day, or a
17 holiday, the bill shall be submitted on the next business day.

18 11.4.7 CAWCD shall pay to SRP the amount billed within
19 fifteen (15) days after the date of postmark of the bill. If the due date
20 falls on a weekend day or holiday, the bill shall be payable on the next
21 business day. Payment shall be made by wire transfer to a bank of SRP's
22 choice or by any other method which provides available funds on the date
23 payment is due. Bills not paid in full when due shall thereafter bear an
24 interest charge accrued at the rate of interest specified in subsection
25 11.6 prorated by days from the date due to the date of payment.

26 11.5 Overdelivery and Underdelivery - It is recognized by SRP and
27 CAWCD that the ability to establish an annual quantity of power deliveries
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1 to CAWCD (total CAWCD pumping requirements, including pumping requirements
2 served by New Waddell and Hoover energy, and transmission losses) is of
3 prime importance in optimizing the economic benefits of this transaction.

4 11.5.1 If the amount of power deliveries set forth in
5 Exhibit A is exceeded during any year, CAWCD will have the option of
6 either paying SRP the Energy Rate, plus the Surcharge as calculated in
7 subparagraph 11.4.1.3 hereof, or such other rate as may be agreed upon by
8 SRP and CAWCD, for energy in excess of the amount identified in Exhibit A,
9 or arranging for Western to obtain and deliver the additional capacity and
10 energy associated with the power deliveries in excess of the maximum
11 annual quantity as indicated in Exhibit A. If CAWCD elects to have
12 Western obtain the additional capacity and energy, the scheduling of such
13 capacity and energy and electrical losses shall occur at times and in
14 amounts as agreed upon by SRP, CAWCD, and Western.

15 11.5.2 Prior to January 1 of each year, CAWCD and SRP shall
16 agree on an amount of water that shall be stored for CAWCD in Lake
17 Pleasant by an agreed upon date. If the amount of water stored for CAWCD
18 by the agreed upon date is less than the agreed upon amount as a result of
19 the physical constraints of the Central Arizona Project or decisions made
20 by CAWCD, the annual amount of deliveries set forth in Exhibit A shall be
21 adjusted downward using the formula set forth in Exhibit C.

22 11.6 Late Payment - The Parties agree that payments shall be made
23 when due. Invoiced amounts not paid on or before the due date shall bear
24 interest at a rate equal to the lesser of the highest fixed legal rate (if
25 one exists) or the then effective reference rate plus two (2) percent of
26 the Citibank, NA, New York, New York, or its successor in interest,
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1 prorated on a daily basis from the due date to the date of payment in
2 full.

3 11.7 Curtailment Charge - SRP is permitted five (5) load
4 interruptions or curtailments per calendar year without any charge in
5 accordance with subsection 10.8 hereof. For the purpose of determining
6 the number of load interruptions or curtailments which have occurred, a
7 load interruption or curtailment of 100 MW or less shall be accounted for
8 as one-half (1/2) of a curtailment. For each curtailment or interruption
9 in excess of five (5) per calendar year, SRP shall pay to CAWCD a charge
10 calculated as follows:

11
$$I = (HR * GP93 * IN / IN93) * LR / 1,000$$

12 Where:

13 I = Interruption Charge in dollars;

14 HR = 10,500 BTU per kilowatt-hour;

15 GP93 = \$2.294 per million BTU;

16 IN = Index in year N pursuant to subparagraph 11.4.1.3 hereof;

17 IN93 = Index in Calendar year 1993 = \$2.00 per million BTU; and

18 LR = Load reduction in whole megawatts.

19 11.8 Disputed Bills - If any Party disputes any portion of any
20 amount specified in an invoice, such Party shall provide written notice of
21 such dispute and documentation of the reason for disputing such amount to
22 the Party rendering the invoice. Notwithstanding such dispute, the
23 invoice shall be paid in full. The disputing Parties shall promptly meet
24 and attempt to resolve the disputed amount. If it is determined that an
25 overpayment or underpayment was made, the overpayment or underpayment
26 with interest accrued at the rate specified in subsection 11.6 hereof
27 shall be debited or credited in the next succeeding month(s) invoice;
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1 provided, however, that if such adjustment occurs after the termination of
2 this Contract, the adjustment shall be made by payment to or from the
3 invoicing Party.

4 11.9 Audits and Contests of Exactions - If the transactions
5 provided for herein become the subject of any audit by a competent
6 governmental authority for the purpose of imposing or levying any
7 Exactions as defined in paragraph 11.4.2, the Party receiving notice of
8 such audit shall promptly notify the other Parties. If it becomes
9 necessary for any Exactions to be paid under protest in order to contest
10 any such audit assessment or otherwise contest payment of the Exactions,
11 then CAWCD shall make such payment directly to the proper authority, under
12 protest. CAWCD may contest Exactions and pursue legal remedies, including
13 seeking a refund, at its sole cost. SRP will permit CAWCD to take such
14 action or actions in SRP's name whenever the name is required by law or
15 otherwise appropriate in the circumstances; provided, however, that CAWCD
16 shall not take a position in said action inconsistent with the interests
17 of SRP, and CAWCD shall reimburse SRP's out-of-pocket expenses, including
18 reasonable attorneys fees, incurred in such action.

19 12. CONSERVATION AND RENEWABLE ENERGY:

20 12.1 SRP shall develop and implement a conservation and renewable
21 energy program. All programs will be developed and implemented in
22 accordance with the terms of the "Final Amended Guidelines and Acceptance
23 Criteria for Customer Conservation and Renewable Energy Programs"
24 published in the Federal Register on August 21, 1985 (50 Fed. Reg. 33892),
25 and any subsequent amendments thereto, hereinafter called the Guidelines
26 and Acceptance Criteria.

1 12.2 To effect a conservation and renewable energy program, SRP
2 agrees as follows:

3 12.2.1 If requested and if within its capabilities, Western
4 will provide guidance and assistance in the development of a conservation
5 and renewable energy program.

6 12.2.2 SRP will develop a conservation and renewable energy
7 program suitable for its own geographic area and type of utility operation
8 and will submit said program to Western within twelve (12) months of the
9 date of execution of this Contract.

10 12.2.3 If SRP has a Western approved ongoing conservation and
11 renewable energy program, SRP shall provide Western with verification of
12 continuance of said program in accordance with the Guidelines and
13 Acceptance Criteria.

14 12.2.4 Conservation and renewable energy programs shall
15 consist of a designated number of activities, as stipulated in the
16 Guidelines and Acceptance Criteria. Credit will be given for past
17 accomplishments if they are ongoing and current under the Guidelines and
18 Acceptance Criteria. Approval and periodic review and verification of any
19 program shall take place in accordance with the Guidelines and Acceptance
20 Criteria.

21 12.3 The initial Conservation and Renewable Energy Program
22 submitted by SRP to Western will either be approved or disapproved within
23 three (3) months of receipt. If an initial submittal is disapproved, a
24 notification of deficiencies in the program will be given in writing by
25 Western. Deficiencies must be remedied within twelve (12) months of the
26 date of notification. If approval of an existing program is revoked at
27 any time, a notification of deficiencies in such program will be given in
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1 writing by Western. Deficiencies must be remedied within twelve (12)
2 months of the date of notification.

3 12.4 If deficiencies in any program are not corrected within twelve
4 (12) months of Western's written rejection of a program, SRP's right to
5 schedule energy may be reduced by ten (10) percent at the discretion of
6 the Administrator with such reduction to remain in effect only until SRP
7 has corrected such deficiencies.

8 13. DISPUTE RESOLUTION: If a dispute arises between or among any of the
9 Parties under this Contract which is not resolved through discussions of
10 the Authorized Representatives, the Parties may submit the dispute to
11 arbitration. Arbitration shall be subject to the Department of Energy's
12 and the Department of Interior's ability to consent to arbitration. If
13 Western or Reclamation does not consent to arbitration, any Party may
14 bring the dispute to a Federal court of competent jurisdiction.

15 14. SEVERABILITY: In the event that any material term, covenant, or condition
16 of this Contract, or the application of such material term, covenant or
17 condition, shall be held invalid as to any person or circumstance by any
18 court having jurisdiction, the Parties shall have ninety (90) days, or
19 such other time as agreed by the Parties, to negotiate provisions which
20 restore the benefits and burdens of this Contract among the Parties. If
21 the Parties fail to agree on such provisions, this Contract shall
22 terminate and be of no further force or effect; Except that obligations to
23 pay for service rendered hereunder shall remain until satisfied.

24 15. UNCONTROLLABLE FORCE: No Party shall be considered to be in default in
25 the performance of its obligations hereunder (other than obligations of
26 such Party to make payment of bills rendered hereunder) when a failure of
27 performance shall be due to an Uncontrollable Force. Nothing contained
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1 herein shall be construed to require a Party to settle any strike or labor
2 dispute in which it may be involved. Any Party rendered unable to fulfill
3 any of its obligations hereunder by reason of an Uncontrollable Force
4 shall give prompt written notice of such fact to the other Parties, as the
5 case may be, and shall exercise due diligence to mitigate and remove such
6 inability with all reasonable dispatch.

7 16. AMENDMENT: Except as provided herein, neither this Contract nor any term,
8 covenant, or condition hereof may be terminated, amended, supplemented,
9 waived, or modified except by an instrument in writing executed by each
10 Party.

11 17. GENERAL POWER CONTRACT PROVISIONS MADE PART OF CONTRACT: Western's
12 General Power Contract Provisions effective January 3, 1989, attached
13 hereto, are hereby made a part of this Contract the same as if they had
14 been expressly set forth herein; Provided, That Articles 3 through 16, 18
15 through 28, 31, 32.1, 33, 37, 38, and 42 shall not apply to this Contract;
16 the references to Articles 10, 18, and 33 shall be deleted from Article
17 1.2; the reference in Article 1.2 to Article 42 shall be deemed to refer
18 to Section 26 hereof; the references in Article 34 to Articles 13 and 14
19 shall be deemed to refer to Section 11 hereof. With respect to article
20 32.1 "Liability", it is the intent of the Parties that the liability of
21 each Party to each other Party shall be governed, to the extent
22 applicable, by Section 19, "Liability", of the Navajo Project Navajo
23 Generating Station Operating Agreement, effective July 23, 1979, and
24 otherwise in accordance with applicable law.

25 18. EXHIBITS MADE PART OF CONTRACT: Exhibits A, B, C, D, E, and F are
26 attached hereto and are hereby made a part of this Contract. Revisions or
27 subsequent Exhibits to this Contract shall be approved by the Parties.
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- 1 19. RECORDS AND AUDITS: Each Party shall maintain appropriate records and
2 supporting documentation applicable to the provisions of this Contract.
3 Such records and supporting documentation shall be retained for at least
4 three (3) years after the close of the calendar year. Upon written
5 request and reasonable notice, each Party agrees to provide to any
6 requesting Party or its audit representatives access to such records and
7 supporting documentation for review and inspection. The records and
8 supporting documentation may be inspected and copied, at the requesting
9 Party's expense, any time during regular office hours. Any exceptions
10 noted in any audit process will be forwarded to the audited Party for
11 review and response. The audited Party agrees to respond within sixty
12 (60) days after receipt of any such exception. Any adjustments to records
13 and supporting documentation as a result of an agreed audit exception
14 shall be made for the period to which such exception applies.
- 15 20. WAIVER NOT TO AFFECT SUBSEQUENT DEFAULTS: No delay in exercising any
16 right or remedy shall constitute a waiver thereof, and no waiver of the
17 breach of any provision of this Contract shall be deemed a waiver of any
18 preceding or subsequent breach of the same or any other provision of this
19 Contract.
- 20 21. RELATIONSHIP OF THE PARTIES: Except to the extent otherwise provided
21 herein, the covenants, obligations and liabilities of the Parties are
22 intended to be several and not joint or collective, and nothing herein
23 contained shall ever be construed to create an association, joint venture,
24 trust or partnership, or to impose a trust or partnership covenant,
25 obligation or liability on or with regard to any one or more of the
26 Parties. Each Party shall be responsible for its own covenants,
27 obligations and liabilities as herein provided. No Party or group of
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1 Parties shall be under the control of or shall be deemed to control any
2 other Party or group of Parties as a group. No Party shall be the agent
3 of or have a right or power to bind any other Party without its express
4 written consent, except as expressly provided in this Contract. Except as
5 provided herein, no provision of this Contract is intended to, or shall be
6 for the benefit of, or construed to create rights in, or grant remedies
7 to, any person or entity not a Party hereto.

8 22. INTERPRETATION: Excluding terms defined in Section 5 hereof, the captions
9 of the sections and subsections hereof are for convenience only and shall
10 not govern or influence the interpretation of such sections and
11 subsections. This Contract is the result of negotiations between the
12 Parties and, accordingly, shall not be construed for or against any Party
13 regardless of which entity drafted this Contract or any portion thereof.

14 23. OTHER AGREEMENTS: No provision of this Contract shall preclude any Party
15 from entering into other agreements or conducting transactions under
16 existing agreements. Nothing in this Contract shall be interpreted as an
17 amendment, supplement, or modification of Western Contract
18 Nos. 89-BCA-10287 and 91-PAO-10404 or, as to Western, Reclamation, and
19 CAWCD only, of Western Agreement No. 90-BCA-10307, or to limit, modify, or
20 restrict the rights or obligations of the parties thereunder, including
21 without limitation, the right to enforcement of any and all remedies
22 thereunder in the event of a breach or default thereunder. In the event
23 of any conflict between the provisions of this Contract and Western
24 Contract Nos. 89-BCA-10287 or 91-PAO-10404 or Western Agreement
25 No. 90-BCA-10307, with respect to the rights and obligations of the
26 parties under such Western Contract Nos. 89-BCA-10287 or 91-PAO-10404 or
27 Western Agreement No. 90-BCA-10307, the provisions of Western Contract
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1 Nos. 89-BCA-10287 and 91-PAO-10404 and Western Agreement No. 90-BCA-10307
2 shall control with respect to such rights and obligations.

3 24. NONDEDICATION OF FACILITIES: The Parties do not intend to dedicate and
4 nothing in this Contract shall be construed as constituting a dedication
5 by any Party of its properties or facilities, or any part thereof, to any
6 other Party or to the customers of any Party.

7 25. SUCCESSORS AND ASSIGNS: This Contract shall inure to the benefit of and
8 shall be binding upon the respective successors and assigns of the Parties
9 to this Contract; Provided, however, that this Contract, or any interest
10 herein, may be assigned or transferred by any Party only with the written
11 consent of the other Parties, which consent shall not be unreasonably
12 withheld.

13 26. EQUAL OPPORTUNITY EMPLOYMENT PRACTICES: Except as provided in Title 42
14 U.S.C. 2000-e-2(i) and in keeping with any obligation undertaken by the
15 Parties, or their assigns, pursuant to the terms of said Title 42 U.S.C.
16 2000-e-2(i) to give preference for employment to qualified Indians for
17 work on or near an Indian Reservation, Section 202 of Executive Order
18 No. 11246, 43 Fed. Reg. 46501 (1978), which provides, among other things,
19 that the Parties will not discriminate against any employee or applicant
20 for employment because of race, color, religion, sex, or national origin,
21 is incorporated by reference in this Contract.

22 27. CONTINGENT UPON APPROPRIATIONS: Where the obligations of the
23 United States under this Contract extend beyond the current fiscal year
24 and require the appropriations of money therefor by Congress, the
25 performance of such obligations shall be contingent upon Congress making
26 the necessary appropriations: In case such appropriations are not made,
27 the United States shall be relieved of such obligations, and no liability
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1 shall accrue to the United States due to the failure of Congress to make
2 such appropriations.

3 28. AUTHORIZED REPRESENTATIVES: Each Party, by written notice to the other
4 Parties, shall designate the representative(s) who is (are) authorized to
5 act in its behalf with respect to those matters contained in this Contract
6 which are the functions and responsibilities of the Authorized
7 Representative(s) of the Parties. Each Party may change the designation
8 of its Authorized Representative(s) by written notice given to the
9 Parties.

10 29. GOVERNING LAW: This Contract shall be interpreted, governed by and
11 construed under the laws of the State of Arizona. Notwithstanding the
12 foregoing, insofar as the rights or obligations of Western and Reclamation
13 are concerned, applicable Federal law shall be controlling.

14 30. WATER RIGHTS: Nothing in this Contract shall be construed as a sale,
15 conveyance, lease, or transfer of any water right, water resource, or
16 water facility held by any Party, to another Party or third party.

17 31. DEFAULT: The failure of any Party to perform any of its respective
18 obligations under this Contract shall constitute a default under this
19 Contract; Provided, however, That the Party against whom the default is
20 asserted shall not be deemed in default if (i) it cures the asserted
21 default by rendering the necessary performance within sixty (60) days
22 following written notice from any other Party, which notice shall set
23 forth the acts and omissions which constitute the asserted default, or
24 (ii) it is proceeding with reasonable diligence to cure such default or to
25 contest in an appropriate forum and in good faith the assertion that a
26 default has occurred.

1 32. ESSENTIAL AGREEMENTS:

2 32.1 The Parties recognize that in order for SRP and CAWCD to fully
3 realize the benefits of this Contract, it will be necessary that certain
4 other agreements between the Parties (or between one or more of the
5 Parties and certain other parties to such agreements), that pertain to the
6 generation and transmission resources or rights needed for utilization of
7 the power and energy to be delivered to and purchased by SRP and to be
8 delivered to and purchased by CAWCD hereunder, remain in full force and
9 effect during the term of this Contract. Such agreements are referred to
10 herein as the Essential Agreements, and are listed in Exhibit D.

11 32.2 The Parties each agree to keep, preserve, and maintain the
12 Essential Agreements in full force and effect during the term of this
13 Contract. If any Essential Agreement is scheduled to expire or may expire
14 or be terminated during the term of this Contract, the affected Party or
15 Parties to any such agreement shall use its or their best efforts to
16 extend or renew such agreement until the expiration date of this Contract.
17 The Parties agree to promptly notify all other Party(s) hereto of any
18 material breach of, or default by any party to an Essential Agreement, or
19 of any material change to an Essential Agreement which may affect
20 transactions under an Essential Agreement.

21 33. NOTICES: Any notice, demand, or request required by this Contract to be
22 given in writing to any Party shall be considered properly given when
23 delivered in person, or sent by either registered or certified mail,
24 postage prepaid, or prepaid telegram addressed to the person and the
25 address set forth in Appendix 1 attached hereto. Any Party may change the
26 designation of the person or the address to which such notices are to be
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1 sent by notice in writing to the other Parties given in accordance with
2 the foregoing provisions.

3 IN WITNESS WHEREOF, the Parties have caused this Contract No. 94-PA0-10563
4 to be executed as of the date first written above and delivered on March 15,
5 1994.

6 UNITED STATES OF AMERICA
7 WESTERN AREA POWER ADMINISTRATION

8 By /s/ J. Tyler Carlson
9 Title Acting Area Manager
10 Address Phoenix Area
11 Western Area Power Administration
12 P.O. Box 6457
13 Phoenix, AZ 85005

14 CENTRAL ARIZONA WATER
15 CONSERVATION DISTRICT

16 By /s/ Samuel P. Goddard
17 Title President
18 Address Central Arizona Water
19 Conservation District
20 23636 North 7th Street
21 Phoenix, AZ 85024

17 ATTEST:

18 /s/ Marybeth Carlile
19 Secretary

22 SALT RIVER AGRICULTURAL AND
23 IMPROVEMENT DISTRICT

24 ATTEST AND COUNTERSIGN:
25 /s/ William K. Oneal
26 Secretary

24 By /s/ John R. Lassen
25 Title President
26 Address Salt River Project Agricultural
Improvement and Power District
27 P.O. Box 52025
28 Phoenix, AZ 85072-2025

27 (APPROVED AS TO FORM Salt River
28 Project Legal Services Dept.
By John R. McNeill dated 3-11-94)

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UNITED STATES OF AMERICA,
BUREAU OF RECLAMATION

By /s/ Robert J. Towles

Title Regional Director

Lower Colorado Region

Bureau of Reclamation

P.O. Box 61470

Boulder City, NV 89006-1470

CAWCD PUMPING ENERGY THRESHOLD

1. This Exhibit A, made this 15th day of March, 1994, to be effective under and as a part of Contract No. 94-PAO-10563, dated as of March 15, 1994, shall become effective on June 1, 1994, and shall remain in effect until superseded by another Exhibit A.
2. In accordance with the provisions set forth in subsection 11.5 of the Contract, the pumping energy threshold is as follows:

<u>YEAR</u>	<u>GWH</u>	<u>YEAR</u>	<u>GWH</u>
1994 ^{1/}	650	2003	2,061
1995	1,586	2004	2,118
1996	1,596	2005	2,180
1997	1,628	2006	2,243
1998	1,665	2007	2,299
1999	1,682	2008	2,340
2000	1,835	2009	2,370
2001	1,901	2010	2,403
2002	2,004	2011	2,431

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^{1/} The year begins January 1 and ends December 31. Since the Contract is effective June 1, 1994, the first year's energy has been reduced to an amount needed in June through December.

ANNUAL CAWCD PUMPING ENERGY THRESHOLD REDUCTION
DUE TO AN EXTENDED UNSCHEDULED OUTAGE

1. This Exhibit B, made this 15th day of March, 1994, to be effective under and as a part of Contract No. 94-PAO-10563, dated as of March 15, 1994, shall become effective on June 1, 1994 and shall remain in effect until superseded by another Exhibit B.
2. In accordance with the provisions set forth in subsection 9.3 the annual CAWCD pumping energy threshold reduction due to an extended unscheduled outage shall be calculated as follows:

<u>Line</u>	<u>Calculation</u>
(A) Annual CAWCD Energy Resources (MWH)	
(B) Annual Navajo Energy (MWH)	
(C) CAWCD Pumping Energy Threshold (MWH)	
(D) Navajo Share of CAWCD Energy Resources	(B/A)(4 decimal places)
(E) Threshold Share of CAWCD Energy Resources	(C/A)(4 decimal places)
(F) Number of Hours of Extended Unscheduled Outage	
(G) Unavailable Navajo Capacity (MW)	
(H) Annual Threshold Reduction (MWH)	(F * G * E * D)

Definitions

1. Annual CAWCD Energy Resources (MWH) - All of the energy projected to be made available to CAWCD from the resources described in Section 7. This projection shall be agreed to annually by the Authorized Representatives of SRP and CAWCD on or before January 1 of each year and shall be in effect for the same year beginning January 1.

EXHIBIT B
Contract No. 94-PAO-10563

2. **Annual Navajo Energy (MWH)** - All of the energy projected to be available to CAWCD from the Navajo Generating Station as described in Section 7. This projection shall be agreed to annually by the Authorized Representatives of SRP and CAWCD on or before January 1 of each year and shall be in effect for the same year beginning January 1.
3. **CAWCD Pumping Energy Threshold (MWH)** - Annual energy available to CAWCD as described in subsection 11.5 and set forth in Exhibit A.
4. **Number of Hours of Extended Unscheduled Outage** - The number of hours that a unit outage or outages, or output curtailment greater than 300 MW at the Navajo Generating Station exceeds 480 hours.
5. **Unavailable Navajo Capacity (MW)** - The amount of capacity from the United States entitlement in the Navajo Generating Station that was unavailable during the period described in definition number 4 above.
6. **Annual Threshold Reduction (MWH)** - The amount the CAWCD pumping energy threshold is reduced in accordance with subsection 11.5 of the Contract.

ANNUAL CAWCD PUMPING ENERGY THRESHOLD REDUCTION
DUE TO INSUFFICIENT AVAILABILITY OF WATER IN LAKE PLEASANT

1. This Exhibit C, made this 15th day of March, 1994, to be effective under and as a part of Contract No. 94-PAO-10563, dated as of March 15, 1994, shall become effective on June 1, 1994 and shall remain in effect until superseded by another Exhibit C.
2. In accordance with the provisions set forth in subsection 11.5 of this Contract the annual CAWCD pumping energy threshold reduction due to insufficient availability of water in Lake Pleasant shall be calculated as follows:

<u>Line</u>	<u>Calculation</u>
(A) Projected Water to be Pumped into Lake Pleasant (AF)	
(B) Amount of Water Pumped into Lake Pleasant (AF)	
(C) Underfilling of Lake Pleasant (AF)	(A - B) but never less than zero (0)
(D) Energy Needed for Pumping Water to Salt/Gila	1.689 (MWH/AF)
(E) Annual Threshold Reduction	(C * D)

Definitions

1. **Projected Water to be Pumped into Lake Pleasant (AF)** - The amount of water that SRP and CAWCD agree to pump into Lake Pleasant prior to the agreed upon date pursuant to subsection 10.2 and paragraph 11.5.2.
2. **The Amount of Water Pumped into Lake Pleasant (AF)** - Actual water

EXHIBIT C
Contract No. 94-PA0-10563

pumped into Lake Pleasant prior to the agreed upon date.

3. **Energy Needed for Pumping Water to Salt/Gila** - Based on the pump rating and water flows at Havasu, Bouse Hills, Little Harquahala, and Hassayampa pumping station.
4. **Annual Threshold Reduction (MWH)** - The amount the CAWCD pumping energy threshold is reduced in accordance with subsection 11.5 of this Contract.

ESSENTIAL AGREEMENTS

1. This Exhibit D, made this 15th day of March, 1994, to be effective under and as a part of Contract No. 94-PAO-10563, dated as of March 15, 1994, shall become effective on June 1, 1994, and shall remain in effect until superseded by another Exhibit D.
2. In accordance with the provisions set forth in Section 32 of the Contract the Essential Agreements are as follows:
 - 3.1 Navajo Project Agreements (as defined in the Navajo Project Co-Tenancy Agreement.
 - 3.2 Western Agreement No. 90-BCA-10307, as amended, for Administration of the Contracts for Long-Term Sale and Exchange of Navajo Surplus Power.
 - 3.3 Contract No. 93-PAO-10537 between Western and CAWCD for Firm and Nonfirm Transmission Service for Central Arizona Project Pumping Loads.
 - 3.4 Contract Nos. 89-BCA-10287 and 91-PAO-10404 for Sale of Long-Term Navajo Surplus to SRP.
 - 3.5 Power Sales Contract between Arizona Power Authority and Central Arizona Water Conservation District dated as of September 15, 1986.
 - 3.6 Hoover C Energy Sales Contract between Arizona Power Authority and Central Arizona Water Conservation District Dated as of April 15, 1987.

CAWCD Firm Transmission Service

Load Elements ^{1/}	@ Load Energy (kW)	Required for INT Losses (kW)	Required for P-DP Losses (kW)	Load + P-DP Losses (kW)	Load + INT + P-DP Losses (kW)	Total Capacity Available (kW)
Aha Macav Firm	5,000		208	5,208		
Parker (Havasu Pumping Plant)	252,000		10,500	262,500		
Parker/Liberty (Hayden-Rhodes Reach)	126,000		5,250	131,250		
Bouse Hills PP 30,000						
L. Harquahala PP 35,000						
Hassayampa PP 61,000						
CAP Load + Losses on West System				398,958		
Total Capacity Available on West System				325,612		325,612
CAP West Load + Losses for deliveries on APA Intertie Allocation		2,268		73,346	75,615	75,615
Spook Hill (Salt Gila PP)	25,000	805	1,042	26,042	26,847	26,847
ED-2/Saguaro (Tucson Phase A)	57,000	1,836	2,375	59,375	61,211	61,211
Brady PP 21,000						
Picacho PP 20,000						
Red Rock PP 16,000						
Rattlesnake/Del Bac (Tucson Phase B)	41,000	1,321	1,708	42,708	44,029	44,029
Twin Pks PP 4,000						
Sandario PP 5,000						
Brawley PP 8,000						
San Xavier PP 8,000						
Snyder Hill PP 12,000						
Black MT PP 4,000						
Totals	506,000	6,231	21,083			533,314

Firm Transmission Resources Required
 Reflecting Reclamation and APA Firm

Transmission Breakout

Reclamation 230-kV Transmission (McCullough-Davis-Parker)	Provided @ Point of Receipt	240,000
APA Hoover B (Mead-Davis)		85,612
Net Reclamation Liberty-Parker Capacity		75,615
Total		401,227

Additional Parker-Davis Firm Transmission Required	Required @ Point of Receipt	132,087
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Intertie Breakout

APA (Mead-Intertie)	Provided @ Point of Receipt	75,988
APA Intertie used		-75,615
Balance of APA Intertie		373

Additional Intertie Firm Transmission Required	131,714
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^{1/} Firm transmission service will be monitored at the Load Elements.

Central Arizona Project Facilities

The Central Arizona Project Facilities are as follows:

Pumping Plants:

1. Black Mountain Pumping Plant
2. Bouse Hills Pumping Plant
3. Brady Pumping Plant
4. Brawley Pumping Plant
5. Hassayampa Pumping Plant
6. Havasu Pumping Plant
7. Little Harquahala Pumping Plant
8. New Waddell Pumping/Generating Plant
9. Picacho Pumping Plant
10. Red Rock Pumping Plant
11. Salt Gila Pumping Plant
12. Sandario Pumping Plant
13. San Xavier Pumping Plant
14. Snyder Hill Pumping Plant
15. Twin Peaks Pumping Plant

Other Facilities:

1. Central Arizona Project Administrative and Operation and Maintenance Facilities.
2. Central Arizona Project Transmission.
3. Check Control Structures and Related Facilities.
4. Microwave and Communications Sites Utilized for Operation and Control of CAP Facilities.
5. New Waddell Dam and Appurtenant Structures.
6. Recovery Facilities for Underground Stored Water.
7. Tucson Terminal Storage Facility.
8. Turnout Structures and Related Facilities.

NOTICES

1. This APPENDIX 1 is a part of Contract No. 94-PAO-10563, dated as of March 15, 1994, shall become effective on June 1, 1994, and shall remain in effect until superseded by another Appendix 1.
2. The following shall be the persons and addresses for notices to the Parties pursuant to section 33 of the Contract:

Western: Area Manager
Phoenix Area
Western Area Power Administration
P.O. Box 6457
Phoenix, Arizona 85005

Reclamation: Regional Director
Lower Colorado Region
Bureau of Reclamation
P.O. Box 61470
Boulder City, Nevada 89006-1470

CAWCD: General Manager
Central Arizona Water
Conservation District
23636 North 7th Street
Phoenix, Arizona 85024

APPENDIX 1
Contract No. 94-PAO-10563

SRP: Salt River Project Agricultural
Improvement and Power District
c/o Secretary
P.O. Box 52025
Phoenix, Arizona 85072-2025

3. This Appendix 1 to Contract No. 94-PAO-10563 may be modified from time to time by notice given as provided in section 33 of the Contract, and upon such modification, Western shall prepare a superseding Appendix 1.