In November 2010, Arizona Public Service Company has entered into an agreement to purchase Southern California Edison's share in Units 4 and 5 of the Four Corners Power Plant near Farmington, NM. If the $294 million transaction gains approval from state and federal regulators, APS will close the plant’s older, less efficient Units 1, 2 and 3.

This course of action represents the best alternative for APS and its customers and provides a cleaner environment while preserving a needed reliable and affordable supply of energy for the Southwest.

BACKGROUND

APS is the owner/operator of the coal-fired Four Corners Power Plant. In recent years, a number of environmental and political issues have converged around the Four Corners plant and other coal-fired units across the nation. The high cost of implementing more stringent proposed environmental requirements, as well as other pressures, threaten the plant’s long-term viability. Those pressures include:

• Best Available Retrofit Technology (BART) requirements;
• Coal Combustion By-Products regulation (including fly ash and bottom ash);
• Mercury reduction initiatives; and
• California greenhouse gas rules requiring Southern California Edison (SCE) to divest its ownership interest in coal power plants, including Units 4 and 5 at Four Corners.

As a result of these and other factors, APS conducted a thorough valuation overview and economic analysis of the plant and examined other generating resource options to determine the future viability of Four Corners. These analyses have convinced APS management the best course of action would be to acquire Southern California Edison’s 48 percent ownership interest in Units 4 and 5 and—if that acquisition is approved and the plant lease with the Navajo Nation and fuel contract with BHP Billiton (the mine owner/operator) are extended—to subsequently shut down Units 1, 2 and 3.

APS will pay $294 million for the Southern California Edison share, which is substantially less than other generation alternative. Assuming timely receipt of required approvals and extensions of the land-lease and fuel contract, the companies are targeting closing the purchase by the end of 2012.

Environmental Benefits

Four Corners meets or exceeds all current state and federal environmental regulations. However, as a result of the agreement and shut down of Units 1-3, emissions of:

- NOX will decline by 36%;
- Mercury will decline by 61%;
- Particulates by 43%;
- CO2 will decline by 30%; and
- SO2 will decline by 24%.
APPROVAL PROCESS
The sale requires approval from the Arizona Corporation Commission, the California Public Utilities Commission and the Federal Energy Regulatory Commission. In addition, the acquisition is contingent on the Navajo Nation approving a lease extension for the plant beyond 2016. It also requires successful negotiation of a new fuel contract with mine-operator BHP Billiton for the post 2016 period.

PLANT OWNERSHIP
The Four Corners Power Plant, located on the Navajo Nation, has five (5) generating units with a total capacity of 2,100 megawatts (MWs) of electrical power, enough for more than 500,000 homes.

- Units 1, 2, 3 are 100 percent owned by Arizona Public Service (APS).
  - Total generating capacity is 560 MWs.
  - Units 1 & 2 were put into service in 1963 and Unit 3 in 1964.
- Units 4 & 5 are jointly owned.
  - Participant owners include:
    - Southern California Edison 48%
    - Arizona Public Service Co. 15%
    - Public Service Co. of NM 13%
    - Salt River Project 10%
    - El Paso Electric 7%
    - Tucson Electric 7%
- Total capacity is 1,540 MWs.
- Units were placed into service in 1969 and 1970.

EMPLOYMENT/COMMUNITY IMPACT
With an annual economic impact to the area of $225 million, Four Corners and the Navajo Mine (the exclusive supplier of fuel for the plant) are vital to the long-term sustainability of the community.

- The Four Corners Power Plant employs 549 workers, 74 percent of whom are Navajo.
- BHP Billiton Navajo Mine employs 491 workers, 82 percent of whom are Navajo.
- Under this proposal, there will be no layoffs at the power plant. APS will continue to support the Navajo Nation and Farmington area with high quality jobs that are an economic development driver for the region.
- In 2009, Four Corners employees contributed more than $600,000 to area initiatives and volunteered more than 10,000 hours to help their community.
- Continued operation of Units 4 and 5 is expected to provide more than $6.3 billion in economic value to the region through 2041, at least 70 percent of which will benefit the Navajo Nation and its citizens.

Questions?
APS is committed to keeping the community and its stakeholders informed throughout the process. Please visit aps.com/fourcorners or e-mail FourCorners@aps.com.