CENTRAL
Nebraska Public Power and Irrigation District

DAWSON PUBLIC POWER
today's energy. tomorrow's vision.

Can 1 + 1 Be Greater than 2?

The boards of directors of The Central Nebraska Public Power and Irrigation District and the Dawson Public Power District and management teams at both districts have proceeded through three phases of a study of the potential for consolidating the two districts into a single entity and have now reached the final fourth phase.

The study has been facilitated by Power Systems Engineering (PSE) of Madison, Wisc., a consulting firm with experienced and professional engineers, economists, and financial analysts that focuses on the electric power and industrial sectors. PSE has produced study results that show a merger would result in financial benefits to the combined entity and to customers and stakeholders, as well as other intuitive benefits.

PSE's consolidation assessment indicated that, conservatively, overall savings of $11.7 million could be realized over seven years if the two districts consolidate. The initial savings are derived from the combination of the two Districts' ability to utilize 20 megawatts (MW) of power from the Jeffrey Hydroplant as well as efficiencies, realignment, and workforce reduction through natural attrition as employees retire. The phase two report also identified challenges that would need to be addressed to move forward.

Throughout the process, which started in November 2020 when it was announced that the two districts were engaged in conversations to explore the feasibility of a mutually beneficial consolidation, a number of questions have been asked by customers and stakeholders. Below are answers to a few common questions.

Q: How will the board of the prospective combined entity be organized and what will representation of the various subdivisions look like?

A: One of the primary focus areas during phase three was to fully explore options for determining board representation. Initially, the two boards would be combined into a single 23-member board of directors. In the future, negotiations and discussions have resulted in a plan to establish a 14-member board. Nine seats would be phased out during election years as terms in office expire until each of the seven subdivisions is represented by two board members.

Q: How does this work? Why now?

A: Central's three hydroplants along its Supply Canal (Jeffrey, Johnson No. 1, and Johnson No. 2) are either near or already electrically connected to Dawson's sub-transmission system. That connection of a portion of the Central hydro generation capacity to Dawson customer load can result in significant savings to the new District. The timing of this discussion is important. Central's power sales agreement (PPA) with Evergy, an investor-owned utility in Kansas City, ends in 2023 and the potential opportunity to utilize even more generation for the benefit of stakeholders lies in the near future. The current power purchase agreement between Dawson and NPPD through the Nebraska Generation & Transmission cooperative (NEG&T) requires that NEG&T must supply and Dawson must purchase 100% of all power supply requirements. Within that contract, there is a provision that allows Dawson to offset a portion of its power purchases from a "Qualified Local Generation" (QLG) component.

That QLG can apply to generation with a nameplate rating of 10% of Dawson's demand if the generation is provided by methane, wind, solar, biomass, geothermal or hydropower sources. Dawson's 2021 eligible demand was nearly 20 megawatts (MW), closely matching Central's Jeffrey Hydro capacity. The combined entity would be able to apply the power generated at Jeffrey Hydro to the wholesale power purchases, which would result in significant savings. Applying that generation intelligently from the Jeffrey Hydro to the Dawson load during peak periods, the combined entity would be able realize significant savings by providing its own locally generated power.

Q: Why don't Dawson and Central just enter into a power purchase agreement?

A: The ability to realize the aforementioned financial benefit requires intelligent, unified alignment of the generation with loads far into the future for the benefit of all. A contractual arrangement between the two entities cannot foresee the future and realize those significant financial benefits to each entity and to customers. Contracts are established through negotiations where each party is cognizant of its own best interests and there is limited transparency with the other party. In a consolidated scenario, the process of negotiation is removed, essential information is fully transparent within the single organization and optimization of benefits is easily accessible. In addition, operations can be readily adjusted as new realities and opportunities to maximize efficiency and financial benefit emerge. The many other associated benefits of the consolidation, including those of associated with organizational and employee savings, cannot be realized under a PPA.

Q: How would this affect water rights or supplies for irrigation?

A: Water rights held by our customers would not be impacted and would continue to be held in trust for those same customers. In fact, a consolidation could have a positive effect on irrigation water supplies. Releasing water from Lake McConaughy simply to generate power and not storing it for drought protection would be counter-productive. The highest demand for irrigation water occurs at the same time as peak demands for power, e.g., in July and August. Additionally, all power does not cost the same nor have the same impact to the bottom line. Power is most valuable when demand is at

its highest. Aligning generation with demand is the key to maximizing benefit to all customers; it makes fiscal sense to use the same finite supply of water to maximize generation during the times of day when demand is highest and store when demand is low, for example, at night or when it's cool and wet. The amount of water released does not change; instead, making the best use of that generation is at the core of the opportunity. Additionally, since that intelligent use of generation is still based on a daily, 24-hour cycle, water levels at the regulating reservoirs, like Johnson and Jeffrey, will see a similar daily variation to current operations, beyond unforeseeable weather-related events, which is always the case.

In addition, understanding the ever-increasing demand for water, the new entity should be armed with greater political and collective power to defend against threats to water supplies/water rights.

Q: Will the communities of Holdrege and Bertrand lose the presence of Central facilities?

A: No. Actually, construction of a new main irrigation and water operations facility at Holdrege is envisioned as part of the consolidation plan at Holdrege to serve our customers far into the future. Also, a new satellite facility would be proposed for Bertrand that could potentially serve both irrigation and energy customers as well as an office/conference room at the site of the Hilltop office at Kingsley Dam to replace those outdated buildings.

Q: What are the potential benefits to be gained from a greater emphasis on integrated management of surface water and groundwater supplies?

A: A consolidation of Central and Dawson will open the door to exciting possibilities for improving and expanding the integrated management of the Platte Valley's surface and groundwater supplies. Central owns and operates Lake McConaughy, the storage reservoir on which several hundred thousand acres rely for irrigation water.

Consolidation will open opportunities to work with regional surface water and groundwater resources to manage the "groundwater mound" beneath and adjacent to Central's irrigation service area. The combined ability to deliver power, irrigation water and access to groundwater supplies to manage the storage supply in Lake McConaughy and stabilize groundwater supplies in the central stretch of the Platte Valley in a sustainable manner would mark an important gain toward true conjunctive management of water resources in the Platte Valley and result in a more stable water supply in Lake McConaughy and more stable groundwater levels throughout the irrigated area.

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George E. Johnson, Central's chief engineer and general manager from 1935 to 1947 and the architect of the hydro-irrigation project, recognized that electricity and water DO mix. The hydropower plants that were part of the original project made it possible for Central to develop one of the most efficient and effective irrigation projects in the western United States. Upon leaving Central in 1947 to pursue other opportunities, he left the board of directors with wise advice:

"I feel that you will make a great mistake if you do not go along with the power development … as the success of the District will be enhanced by the benefits the water and power resources provide for each other."

The defining question during the consolidation study was simply, "Can 1 + 1 = More than 2?

As both boards and staff move through this process, it appears the answer is clearly, "Yes!"