Upper Colorado River Endangered Fish Recovery Program

Dated: February 1, 2017

September 8, 2016 Management Committee Webinar Summary

Participants: See Attachment 1

<u>CONVENE</u>: 3:00 p.m.

Topic: Funding request for Grand Valley Power Plant rehabilitation

Brent reviewed the rationale for the Program providing cost-share to rehabilitate the power plant. There is a strong link between maintaining operation of the power plant and delivering water to the 15-Mile Reach. Approximately 44 percent of the storage water available to the Program to augment flows in the 15 Mile Reach is obtained from Green Mountain Reservoir. We currently have two mechanisms to legally protect this water. The first is Muni-Rec Contracts. The second is delivery of Green Mountain water to the Grand Valley Project Power Plant which discharges directly to the Colorado River below the Grand Valley Irrigation Company diversion dam. The power plant also affects the ability to call the power right if the aggregate call level for irrigation water falls below 1,310 cfs. This level of irrigation demand has not occurred to this extent until this irrigation season. With OMID Canal Automation Project coming online, the frequency of irrigation demands being below 1,310 cfs will increase. If the Grand Valley Power Plant water right were to be administered to bring the aggregate call level to 1,310 cfs, it would "recolor" water currently being debited in Ruedi Reservoir against the fish pool to the contract pool. The SEO Division 5 has indicated that with current diversion rates and gage flows they could/and would administer a call. Under current conditions the major benefit of doing so would be to have 36 cfs of the Ruedi Reservoir fish release debited against the contract pool instead rather than the fish pool. Therefore, the fish pool would be preserved at the rate of 72 acre-feet per day with no changes to flow rates in the 15-Mile Reach. There would be little change on the Colorado mainstem above Shoshone as the power right is already calling out users or requiring an augmentation plan.

Mark Harris provided three spreadsheets to the Committee to assist in discussing financing, especially the finances of generating 4.1 MWh versus 3.5 MWh (per Bart Miller's request; a summary graphic is provided as Attachment 2). Max clarified the meaning of a "low generation year" as one with high water that stacks up in the afterbay and reduces generation; so low flows do not mean low generation. Mark reviewed spreadsheets that explain revenues under a variety of scenarios (Mark noted an error in E6 and E7 of the 30 year Pro forma spreadsheet, but year 2017 probably should be removed since there would be zero revenue stream during construction). Low year annual net calculations show the worst-case scenario, and low year projection is ~35% lower than the next 3 lowest projections, therefore average annual net revenue seems the conservative way to look at the picture. Average annual net revenue becomes negative in year 2035. Under average conditions the power plant is projected to produce $1.3 million of net revenue over the thirty year period of analyses. Under low- and high-year generation scenarios, the range of net revenue is projected to be -$1.2 million to $4.3 million, again over a 30-year period of analyses. Even with the high year generation scenario the project would still produce an annual loss by 2045. Thus, the operators need to have a reserve set aside to cover the potential of poor years (especially if they come early in the project). If the interconnect agreement with Xcel can be renegotiated, the financial figures would be much more positive (pushes out the year at which operation would go in the red). Kevin McAbee asked what would happen to the annual revenues in excess of costs before the project goes annually into the red. Mark said the intent would be to first make a reserve fund (~3-year worth of savings to pay off loans in the case of poor production years), and then put a significant portion of the surplus toward dam and canyon improvements. Beyond that, perhaps there would be some left over for facility upgrades for GVWM and OMID (not as a way to keep assessments down, though it might dampen increases somewhat). And, potentially they would put money aside to fund the power plant in the future in a negative situation. Mark reminded the Committee that GVWUA and OMID are not for-profit entities.

Henry asked if the plant might just be shut down when annual production resulted in consistent losses. Mark said we might be faced with a similar situation as we are today if the plant was in the red out into 2035 or 2045, but he hopes they'd find a way to keep the plant profitable in the interim. Henry expressed concern that the Program's investment might only be good for 19 or 20 years. Mark reiterated they would seek solutions for sustainability in the intervening 20 years. Max said that the OMID Board believes even if the project breaks even, they should run it. There are benefits to having the power plant even if it is not making an annual profit. They think that if they can get 20 years of production, perhaps situations would improve. Henry asked about the effect of a higher price per megawatt. Mark said they could try to answer that (haven't yet since they don't want to assume a higher price they might not get).

Henry asked what would happen if the Program funded less than the requested amount. Mark said they'll be grateful and keep looking for remaining needed funds. Melissa asked the Committee about other similar power plants in the area, specifically Redlands (Gunnison River) and Thayn Hydro (Green River) -- might we be setting any precedent? Brent said there would be no precedent basis since we're not using the Redlands or Thayn plants as a delivery point for instream flows (as we are using the GVPP for delivery of Green Mountain water). There would be no reason or authority to participate in rehabilitation of the Redlands plant, as there is no link or authority. >Mark said they've been drafting some legal and operational summaries that could help address this kind of question and will send this to the Committee.

Brent said this would be a non-competitive grant to GVWUA and OMID for the purposes of rehabilitating the plant.

If the MC recommends today (conditional upon approval of MC members not on call today), this would go to the Implementation Committee (IC) for approval. Initially the MC was interested in discussion of an appropriate level of funding, but considered deferring the discussion of amount to the IC. Melissa said she's not against this, but as it is a significant portion of remaining capital funds, would like to explore options for repayment if there were a surplus. Bart Miller agreed with that and with the question of how much to invest at the beginning. Steve Wolff echoed this; what happens under a 4 cent contract. Max said OMID has told them he will receive a 3 cent agreement. Mark said he has been more concerned about the low end contract, but in the event of a surplus, would there be a mechanism for the Program to receive the funds? Henry and Angela thought NFWF would be a viable mechanism. Brent asked if we want to take a bond position or an equity position (i.e., in the latter scenario, would the Program be prepared to take 37% of the losses?). Kevin McAbee described a Section 7 consultation with a plant in Utah, proposing the possibility that in bad years with potential losses we ask for no repayment, but in high years we ask for a portion of production as repayment. For example, we identify some generation number (such as 17,000 MWh) and only request 37% above that amount, with a cap such as 50% repayment. Mark suggested that if we were to consider that, we wouldn't want to do it in the first few years to allow the establishment of a rainy day fund. Tom Chart was concerned that developing an equitable repayment option could be complex and time consuming and alternatively suggested that the Program identify an up-front investment that we are comfortable without the repayment option. Perhaps, for example, instead of $1.92M, we would consider $1M with no repayment. Patrick suggested that in light of the benefits and the tenuous revenue situation, the Program should consider an investment without a repayment schedule. Patrick added that we all have a strong interest in maintaining the integrity of this system. Henry agreed we should go in as a partner and

Utah would be support a Program contribution of $1.5M. Steve agreed, and thought that WY would not likely want to pursue a repayment plan. Steve and Henry proposed that on September 19, we seek IC approval for a Program contribution of $1.5M contribution (w/o repayment). Shane asked if this contribution would be contingent on GVWUA and OMID finding the balance of the necessary funding. Henry and Brent said yes. All MC members present on the call supported this proposal.

Brent will present the proposal to the Implementation Committee on September 19.

ADJOURN: 4:10 p.m.

Assignments:

1. Mark to provide some legal and operational summaries to the committee.
2. Brent to present proposal to IC 9/19.

Attachment 1: Participants

Colorado River Management Committee Conference Call, September 8, 2016

Management Committee Voting Members:

Brent Uilenberg	Bureau of Reclamation
Michelle Garrison	State of Colorado
Not represented	Upper Basin Water Users
Steve Wolff	State of Wyoming
Tom Chart for Seth Willey	U.S. Fish and Wildlife Service
Melissa Trammell	National Park Service
Patrick McCarthy	The Nature Conservancy
Shane Capron	Western Area Power Administration
Not represented	Colorado River Energy Distributors Association
Henry Maddux	State of Utah

Nonvoting Member:

Tom Chart	Recovery Program Director, U.S. Fish and Wildlife Service

Recovery Program Staff:

Kevin McAbee	U.S. Fish and Wildlife Service
Angela Kantola	U.S. Fish and Wildlife Service

Others

Mark Harris	GVWUA
Max Schmidt	OMID
Ted Dunn	Bureau of Reclamation
Kathy Callister	Bureau of Reclamation
Bart Miller	Western Resource Advocates
Krissy Wilson	Utah Division of Wildlife Resources
Robert King	State of Utah

Attachment 2 – Average year comparison graphic excerpted from (1 of 3) of Mark Harris' economic spreadsheet analyses provided to the MC prior to this discussion.