



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

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TO: Commissioners Brown, Mital, Helgeson, Manning and Simpson
FROM: Roger Kline, Generation Manager, and Mike McCann, Carmen-Smith Project Manager
DATE: July 11, 2014
SUBJECT: Carmen-Smith Project Update

Issue

This memorandum provides an update on the relicensing and re-capitalization efforts at EWEB's Carmen-Smith Hydroelectric Project. It describes a revised schedule developed for implementation of needed power system improvements and current expectations regarding new license implementation. The schedule and cost assumptions described herein are reflected in the 2015 capital budget and CIP update.

Background

The Carmen-Smith Project, which is located 71 miles east of Eugene on the upper McKenzie River, represents almost half of EWEB's total owned generation capacity. EWEB received an initial federal license for the Carmen-Smith Project in 1958, and the project went online in 1963. The original 50-year license expired in November 2008, and EWEB has been operating under an annual license from the FERC since that time. The annual license renews automatically until EWEB receives a new license for the Project from the FERC.

EWEB has been engaged in a process to relicense the Carmen-Smith Project since 2002. This relicensing process resulted in the development of draft and final license applications that were submitted to the FERC in 2006. In October 2008, EWEB entered into a Settlement Agreement that was filed with the FERC in support of and as a supplement to EWEB's 2006 license application. In late 2010 and early 2011, the FERC received a Clean Water Act Section 401 Certification from the Oregon Department of Environmental Quality (ODEQ) and biological opinions (BiOps) from the National Marine Fisheries Service (NMFS) and the U.S. Fish and Wildlife Service (USFWS) in support of the license application and settlement agreement. In May 2011, EWEB confirmed that the FERC had in its possession all of the requisite pieces to process the new license for the Carmen-Smith Project.

In March 2012, the FERC convened a Technical Conference on EWEB's license application. At that meeting the FERC identified several concerns that FERC staff had with the Carmen-Smith Settlement Agreement related to the McKenzie Wild & Scenic River boundary. In addition, FERC staff identified survey errors that dated back to the original McKenzie Wild & Scenic designation by the USDA Forest Service. The Forest Service corrected those survey errors in November 2012. The

Forest Service subsequently revised their analysis of potential project effects (termed a “Section 7 Determination” after Section 7 of the Wild & Scenic Rivers Act), and EWEB filed with the FERC, in October 2013, a letter on behalf of all settlement parties proposing resolution of the W&S River issue and asking the FERC to proceed with licensing of the Carmen-Smith project consistent with the Settlement Agreement.

In the interim, in November 2012, the USFWS finalized a designation of critical habitat for the northern spotted owl, and parts of the Carmen-Smith Project were included in the critical habitat designation (roughly Smith and Trail Bridge Reservoirs and the forests and stream reaches nearby). This designation requires further consultation between FERC and USFWS before the FERC can issue the Carmen-Smith license. EWEB, acting as FERC’s designated representative, prepared a revised Biological Assessment (BA) Amendment for the FERC, in January 2014, to address the critical habitat designation.

Discussion

While EWEB has again met all of the obligations required by the process, the FERC must initiate and conclude consultation with the USFWS on the critical habitat designation for the northern spotted owl before a license can be issued. Because the consultation process generally takes four to six months to conclude and the FERC has yet to initiate the process, staff do not believe that the Carmen-Smith license will be issued by the FERC in 2014. Staff understand, from discussions with FERC staff, that the FERC intends to proceed with license issuance upon conclusion of the consultation. It now appears that this will occur in 2015.

Based on the information requested by the FERC on the proposed projects within the Wild & Scenic corridor, staff believe that the FERC may be treating the Carmen Smith License differently than other recently issued and similarly situated licenses. If that occurs, there is a high likelihood that the Carmen-Smith license will be challenged in federal court following issuance by one or more parties. While EWEB is not obligated to participate in a legal challenge to the license, any court challenge could further delay, by two to five years, implementation of the new license and the requirements of the 2008 Settlement Agreement.

Because of the ongoing delay in license issuance and the potential for additional delay resulting from a legal challenge to the license, EWEB staff have developed a revised implementation schedule that focuses on maintaining EWEB’s ability to generate high-value peaking power and meeting EWEB’s load with the Carmen-Smith facility. Recall that the Carmen powerhouse has been operating for more than 50 years without a substantial re-capitalization effort, and EWEB has planned to invest in the plant by repairing, replacing and upgrading most of the operating components in the plant as part of the relicensing process. Several recent operational issues with primary components of the power plant have led staff to conclude that EWEB needs to move forward with the re-capitalization effort now, rather than wait for the licensing issues to be resolved.

Using HydroAMP, a hydroelectric facility condition assessment tool, and other asset management protocols, staff are in the process of developing a plan and schedule for addressing the most critical needs within the Carmen power generation system within the next five years using existing Type 3

Capital funds. This plan and schedule is reflected in the 2015 capital budget and updated CIP. It calls for an investment of approximately \$20 M between 2014 and the end of 2018 for replacement or repair of most major powerhouse components, including new transformers, switchgear, turbine shutoff valves, compressors, pumps and motors. The electrical and control systems will be upgraded. The two unit generators will be re-wedged, providing an estimated additional 8 to 10 years of life before a more substantial rewinding of the generators is necessary. The turbine runners will similarly be inspected and repaired to provide additional life before they need to be replaced. The Carmen gantry crane will be repaired and made operational to support the work. Staff believe that with these repairs and replacements in place, EWEB will be able to operate the Carmen powerhouse for an additional 8 to 10 years (2023-2025) before turbine runner replacement work and generator rewinding will be necessary.

The 2015 capital budget and updated CIP also reflect staff's belief that new license implementation will be delayed until 2020 due to the potential legal challenge described above, and staff's belief that the FERC will grant a stay of the license during the legal challenge¹. The 2015 capital budget includes no money for license implementation and only minimal funds for maintenance of the relicensing effort and work already underway. The anticipated capital costs associated with license implementation have been moved out until 2020 and beyond. As a result, additional borrowing that will be needed for license implementation has also been moved out in the schedule.

As described previously, EWEB has very little influence over the course and schedule for the relicensing process, which is the primary reason for scheduling the powerhouse work independent of FERC's action. If the FERC issues the Carmen-Smith license in 2015 and the anticipated legal challenge fails to materialize or the FERC denies EWEB's request for a stay of the license during a legal challenge, EWEB would be required to begin license implementation within 30 days of license issuance in accordance with the implementation schedule submitted as part of the Settlement Agreement. This would necessitate another re-evaluation of Project schedules and budgets.

Recommendation

This memorandum is being provided for the Board's information only.

Requested Board Action

None.

¹ Once a license is issued by the FERC, the Licensee and others party to the license have 30 days to request an administrative rehearing before the FERC. The FERC then has 30 days to grant or reject the rehearing request. The license is not automatically stayed during the rehearing process. A stay, in full or in part, must be separately sought by the Licensee and granted by the FERC. Following the administrative rehearing or denial of the rehearing request, the Licensee, or any party to the license, may file a challenge to the license, in full or in part, with the Federal Circuit Court of Appeals. Again, a stay of the license must be sought and granted during any legal challenge to the license.