



# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

*Rely on us.*

TO: Commissioners Mital, Simpson, Helgeson, Manning and Brown  
FROM: Mike McCann, Generation Manager; Patty Boyle, Principal Project Manager  
DATE: December 23, 2015  
SUBJECT: Carmen-Smith Project Financial Analysis and Settlement Agreement Revisions  
OBJECTIVE: Informational and support of request to FERC for additional negotiation time

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## Issue

This memo is intended to provide the Board with an update regarding two ongoing efforts related to the Carmen-Smith Project license. Staff have completed a revised economic evaluation of the Project under the anticipated new license based on the 2008 Settlement Agreement. Staff have also been in negotiation with the Settlement Parties since September looking for opportunities to decrease implementation costs associated with the Settlement Agreement while preserving as much of the environmental benefit as possible. EWEB is due to report to the Federal Energy Regulatory Commission (FERC) by the end January regarding both efforts and EWEB's intentions regarding the Project license application.

## Background

Since EWEB and 16 other parties signed the Settlement Agreement for the relicensing of the Carmen-Smith Hydroelectric Project in October 2008, the economics of the relicensing project have deteriorated to the point that reassessment is necessary. The Project value has deteriorated primarily due to falling market price projections for power, although significant changes in estimated capital costs and ongoing O&M expectations are important as well. A preliminary economic evaluation of the relicensing project under the terms of the Settlement Agreement completed in June 2015 indicated that the project roughly broke even over the anticipated 50-year license term.

In July 2015, the Board reviewed several alternatives to accepting a new FERC operating license and supported Management's recommendation to pursue strategies to renegotiate the Settlement Agreement in order to improve the likelihood of the project remaining economic over the license term. On August 28, 2015, the FERC granted EWEB's request for a stay of license issuance until at least January 31, 2016, and requested that EWEB inform them of EWEB's intentions for the Project at that time.

In September, Management initiated an effort to renegotiate the Settlement Agreement with the Settlement Parties. The Settlement Parties indicated a willingness to consider proposed modifications to the Settlement Agreement in return for EWEB's consideration of interim measures to be implemented ahead of license issuance.

In December, the Board received a memo via correspondence that described more specifically the progress to date on the effort to revise the Settlement Agreement.

## **Discussion**

### Project Economic Analysis

Management has reviewed and, where appropriate, revised the economic analysis to align with current market expectations and anticipated capital costs, in order to better reflect the long-term financial risks of the relicensing project. Specifically, the updated analysis uses the recently released price forecast established in the Northwest Power and Conservation Council's Draft Seventh Power Plan and the capital estimates in EWEB's 2016 approved capital plan. Management also adjusted the discount rate used in this analysis to better reflect the economic risks to relicensing and operating the Project. The analysis confirms Management's assumption that alternatives to the current license application should be pursued. Using the median power price forecast, the full costs of the current license application, including all costs to acquire the license and operate the project for 40 years, has a negative net present value of \$34 million.

### Settlement Agreement Renegotiation

The EWEB team tasked with revising the Settlement Agreement has met with the Settlement Parties several times over the past six months and has made significant progress towards securing a modified agreement. Specifically, the team believes that they are on track to provide equivalent fish passage via spillway passage and a trap and haul facility rather than a full exclusion fish screen and ladder. The team further believes that there are more economical ways to protect planned fish habitat investments in the Smith Bypass Reach that can partially offset or avoid construction of the planned powerhouse bypass.

The team also reports that all parties have largely agreed to a list of interim measures to be implemented by EWEB upon reaching a modified agreement. These interim measures represent relatively inexpensive operational, recreation-related and aquatic habitat measures that were previously agreed to in the original Settlement Agreement. Implementing the measures ahead of license issuance carries some risk to EWEB but allows the habitat and recreation benefits to be realized much sooner than if delayed until the FERC ultimately issues the license.

If successful in a renegotiation of the Settlement Agreement, Management anticipates that the net present value of the project will improve to slightly above zero in the median price forecast scenario. This represents a significant improvement over current conditions. While a break-even economic analysis still carries risk, it should be noted that the analysis only includes those factors that can reasonably be quantified. For example, the price forecast used does not assume existence of a carbon tax or cap and trade scenario, which may improve economic outcomes.

### Correspondence with the FERC

Given the progress with the Settlement Parties to date and the potential for the project plan to be revised and remain economic, Management recommends that the General Manager be authorized to seek an additional stay of the license from the FERC of not less than one year. Assuming the renegotiation is successful, staff will then spend the next year drafting an amended Settlement

Agreement that will be submitted to the FERC as a modification to the existing license application. When complete, and prior to submission, Management will return to the Board to seek approval for the amended agreement.

If the Board chooses to approve the amended Settlement Agreement and further modify the Carmen-Smith license application, it will trigger the need to update the biological opinions issued by the National Marine Fisheries Service (NMFS) and US Fish & Wildlife Service (USFWS), the 401 water quality certification from Oregon Department of Environmental Quality (DEQ) and the fish passage waiver for Smith Dam from Oregon Department of Fish & Wildlife (ODFW). While the timeline for those requirements isn't entirely predictable, these actions will likely delay FERC license issuance by up to an additional three years. During that period, EWEB will focus on refurbishing the powerhouse as well as initiating any early implementation terms agreed to in the amended Settlement Agreement. There will continue to be opportunities for value-engineering during the powerhouse rehabilitation that can further lower the Project price tag, and Management will continue to evaluate those options as the project advances.

### **Requested Board Action**

Approve Management's recommendation for a request to the FERC for a continued stay of license issuance for no less than one year. The additional time is needed to complete negotiations and amend the 2008 Settlement Agreement. Please contact Mike McCann or Patty Boyle with questions.