

Budget Amendment Form

Amendment #7

General Information

Date: July 21, 2009

Project Name and No : Resource Development – Capital project #14499
Debt Management- Electric project #14343

Job No and Name: Harvest Wind- Job #30538; Financial Transactions- Job #1; Electric Bond Issue for Harvest Wind- Job # 31751; Debt Service- Job #238

Amendment for: Project Development Costs

Category of Amendment (Check all that Apply):

Utility: Electric Water Steam
 Major Capital Project Capital O & M Labor & Benefits

Contact Information:

Name: Dick Varner ext. 3299

Description and justification for Budget Amendment:

In the fall of 2007, EWEB was approached about its interest in a follow up to the White Creek Wind Project. The Board authorized the staff to move forward in May 2008. In July, the Board approved a resolution authorizing EWEB to enter into a Joint Ownership Agreement with other entities. In the fall, the Board confirmed EWEB participation at the 20 MW level and authorized a project budget of \$32 million on EWEB’s part. While the authorized expenditure level on the project is \$32 million, the Board was informed that it share of the project could cost approximately \$50 million if tax equity investors could not be found. (This \$50 million is about equal to the reserves and borrowing authority which has been committed to resource acquisition.)

A line of credit of \$46,355,000 was obtained in May 2009 and used to reimburse 2008 (\$9,236,523.00) and 2009 expenditures to date and will be paid off following the bond issuance in December. This amendment would adjust the budget to be consistent with expected expenditures in 2009 assuming that the tax investor financing does not close in 2009.

<i>Actual Expenditures thru 01/01/09-05/31/09</i>	<i>Projected Year-End Expenditures</i>	<i>Amount Currently Budgeted</i>	<i>Additional Funds Needed</i>	<i>Funding Source (reserves, new revenue, bonding)</i>
\$11,898,898	\$40,000,000	\$22,763,477	\$17,236,523	2009 Bond Funds
\$79,888	\$400,000	\$0	\$400,000	Issuance Cost- Bond Funds
\$0	(\$46,355,000)	\$0	(\$46,355,000)	Long Term Debt- 2009 Bond Issue

Finance Director Approval: _____ General Manager Approval: _____

Division Director Approval: _____ Board Consent Date: _____

GM Assistant Secretary Approval: _____



INTEROFFICE MEMO

EUGENE WATER & ELECTRIC BOARD

POWER RESOURCES DIVISION

Rely on us.

TO: Commissioners Farmer, Brown, Cassidy, Cunningham, and Ernst

FROM: Dick Varner

May 26, 2009

RE: Harvest Wind Project

ISSUE

Should the Board increase the amount that it is willing to authorize for financial commitment to Harvest Wind?

BACKGROUND

In the fall of 2007, EWEB was approached about its interest in a follow up to the White Creek Wind Project. The Board authorized the staff to move forward in May 2008. In July, the Board approved a resolution authorizing EWEB to enter into a Joint Ownership Agreement with other entities. In the fall, the Board confirmed EWEB participation at the 20 MW level and authorized a project budget of \$32 million on EWEB's part. While the authorized expenditure level on the project is \$32 million, the Board was informed that its share of the project could cost approximately \$50 million if tax equity investors could not be found. (This \$50 million is about equal to the reserves and borrowing authority which has been committed to resource acquisition.)

The four joint owners are EWEB, Cowlitz PUD, Lakeview Green Energy (a subsidiary of Lakeview Light and Power), and Peninsula Light (PenLight). The parties intend to follow a similar business model to the White Creek project. In that instance, the utilities sold the project to some investors with an option to purchase the project back in the future. The investors supplied a little less than 50 percent of the capital and some output guarantees in return for the tax benefits. The utilities provided the remainder of the capital through a pre-purchase of power for the project output for 20 years. The cost of project output for the utilities is essentially the debt service on their pre-purchase of power payment plus actual O&M cost.

The team for this project includes many of the same consultants and contractors have been used to take advantage of the White Creek project experience. This includes the project management firm, construction management firm, attorneys, financial advisor, and project engineering firm.

The project development timeline continues to point to the end of 2009 as the deadline for commercial operation. While this is still the target for the project, it is not as critical since the stimulus bill has extended the deadline for qualifying for federal tax incentives.

The utilities have selected Siemens 2.3 MW turbines for the project. The total contract price including delivery and set-up is about \$162 million. Siemens and its subcontractors are almost complete with manufacturing the components. The utilities are making progress payments to Siemens as components are manufactured and installed. At this point, Siemens has been paid for about half the cost of the turbines.

The contract for the remainder of the construction was competitively bid and RES America was selected as the prime contractor. While the project budget for this work was almost \$32 million, the actual contract price is substantially less.

The two cooperatives (Lakeview and PenLight) have formed a Limited Liability Company (LLC) and have taken the lead on building the transmission lines between the project and the existing White Creek substation as well as the east side collector substation. They have worked with Klickitat PUD (the local utility) and the owners of a neighboring wind project (enXco) to find the most economical way to connect the project. They have a design/build contract for this work and the work should be completed by the fall of 2009. There is a contract nearly ready for execution that would eventually sell the substation and transmission line to Klickitat PUD when completed and then contract for use of these facilities.

Interconnection with the Bonneville Power Administration has been contracted and BPA plans to do the work necessary at BPA's Rock Creek substation to meet the project completion date.

The Harvest Wind utilities and the owners of the neighboring White Creek project have conceptual agreement about a joint operations and maintenance contract which will save both projects significant O&M and capital costs. The contract is currently being drafted.

There is a provision in Washington's renewable portfolio standards legislation (I-937) that gives a bonus for projects which meet certain prevailing wage and apprenticeship standards. The utilities have included provisions in the construction contracts to be in compliance with this provision. If we are successful in meeting those standards, then we will get a 20 percent bonus in renewable energy certificates. For EWEB, these bonus RECs probably won't help us with our Oregon RPS compliance but probably will have value for sale in Washington.

There was one significant piece of legislation in the Washington Legislature that impacts the project. Late in the session, a bill passed which extended the sales and use tax exemption for renewable energy projects past the June 30, 2009 date. Had this not passed, there could have been a significant negative impact on project cost.

DISCUSSION

The biggest issue facing the project continues to be financing.

The project budget approved by the management committee is \$229 million. The Balance of Plant contract was substantially less than the budget with other items trending close to budget. The current estimated expenditures for the project are about \$6 million less than the project budget. The current expected total expenditures for the project are about \$223 million. (Note: This estimate includes a \$13 million contingency.) EWEB's share of the \$223 million expected expenditure is about \$45 million.

The original plan was to have obtained construction financing by this time such that the utilities would not have to fund the whole construction cost. The banks that were offering this service pulled

back because of the financial crisis. With that, the utilities are faced with financing the full construction cost until such time as the ultimate financing closes.

The utilities had serious discussions with the large financial institution that bought out Lehman's position in White Creek. Ultimately, this entity was not willing to take all of Harvest Wind because it would have required the entity to consolidate the project on its balance sheet.

Since that time, the utilities have hired Meridian Investments, Inc. to solicit a consortium of entities to serve as tax owners for the project. (Meridian served a similar role on the White Creek project.) Meridian has been soliciting investors for another wind project. Their information to the partners is that a consortium of tax owners should be available in a timely manner. The current schedule is as follows:

June 3 – Offering documents and prospectus lists ready for review.

June 15 – Official solicitation begins.

August 1 – Forward commitments from investors obtained.

September 30 – Investor consortium completed.

December 15 – Financial closing.

Our advisors (based on the latest information from Meridian) believe that the tax owners would provide between \$100 and \$125 million. The utilities would be funding between \$100 and \$125 million through a long-term pre-purchase of power. EWEB's share of the ultimate cost would be in the range of \$20 to \$25 million. Later, if EWEB wants to take ownership of its share of the project, it will have to pay the tax owners the fair market value of the project. EWEB's share of such a buyout is estimated to be between \$5 to \$8 million.

The attorneys have identified an alternative financing strategy that could be used if tax ownership does not come through. In this strategy, the utilities could get the federal grant but would not be eligible for the accelerated depreciation tax benefits. However, there would not be a later buyout of the tax owner. In this case, we would still need to finance construction and our ultimate investment at closing would likely be in the range of \$32 to \$35 million.

EWEB's share of project costs during construction is expected to exceed the currently authorized amount of \$32 million in late June or July. Since construction financing is not available, the Board needs to authorize a larger expenditure of funds during construction if EWEB is to continue in its current role on the project.

BOARD ALTERNATIVES

There are two basic alternatives available.

1. Remain at \$32 million commitment. This would put our partners in a difficult position because they would need to fund our share until we could find someone to take part of our share. Also, given the operation of the Joint Ownership Agreement, our partners would have first right to buy us out.
2. Increase the authorized expenditure to \$50 million to maintain our 20 MW share of the project during construction.

RECOMMENDATION/BOARD ACTION

Staff recommends that the Board approve Resolution 0918 at the June 2, 2009 meeting authorizing the expenditure of up to \$50 million for Harvest Wind.

Suggested Motion: “I move that the Board approve Resolution 0918 authorizing the expenditure of up to \$50 million for the Harvest Wind Project.”

If you have questions, please contact Dick Varner at dick.varner@eweb.org or 484-2411 ext. 3299.

RESOLUTION NO. 0918
JUNE 2009
AUTHORIZING HARVEST WIND DEVELOPMENT

WHEREAS, the Eugene Water & Electric Board (“EWEB”) is a municipal utility formed and operated pursuant to ORS Chapter 225, the Eugene City Charter and Eugene City Code;

WHEREAS, ORS 225.020(1) authorizes EWEB to build, own, operate, and maintain electric light and power plants for benefit of its ratepayers and for profit;

WHEREAS, the Board approved resolution 0821 on April 15, 2008 authorizing EWEB to become a participant in a Joint Ownership Agreement and to expend up to \$3.5 million for the Harvest Wind Project;

WHEREAS, the Joint Ownership Agreement has been executed between EWEB, Cowlitz PUD, Lakeview Light and Power, and Peninsula Light;

WHEREAS, the Board approved resolution 0834 on October 7, 2008 authorizing EWEB to expend up to \$32 million for the Harvest Wind Project;

WHEREAS, EWEB’s share of the total construction cost is estimated to be between \$45 and \$50 million;

WHEREAS construction financing is not available at a reasonable cost; and

WHEREAS, EWEB believes it is in the best interests of its customers to continue development of the Harvest Wind Project;

NOW THEREFORE BE IT RESOLVED, that the General Manager is authorized expend up to \$50 million on the development of the Harvest Wind Project.

Dated this 2nd day of June 2009

THE CITY OF EUGENE, OREGON
Acting by and through the
Eugene Water & Electric Board

President

I, KRISTA K. HINCE, the duly appointed, qualified, and acting Assistant Secretary of the Eugene Water & Electric Board, do hereby certify that the above is a true and exact copy of the Resolution adopted by the Board at its June 2, 2009 Regular Board Meeting.

Assistant Secretary