



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD



TO: Commissioners Mital, Simpson, Helgeson, Manning and Brown

FROM: Dave Churchman, Power Operations Manager, Erin Erben, Power & Strategic Planning Manager and Patty Boyle, Principal Project Manager

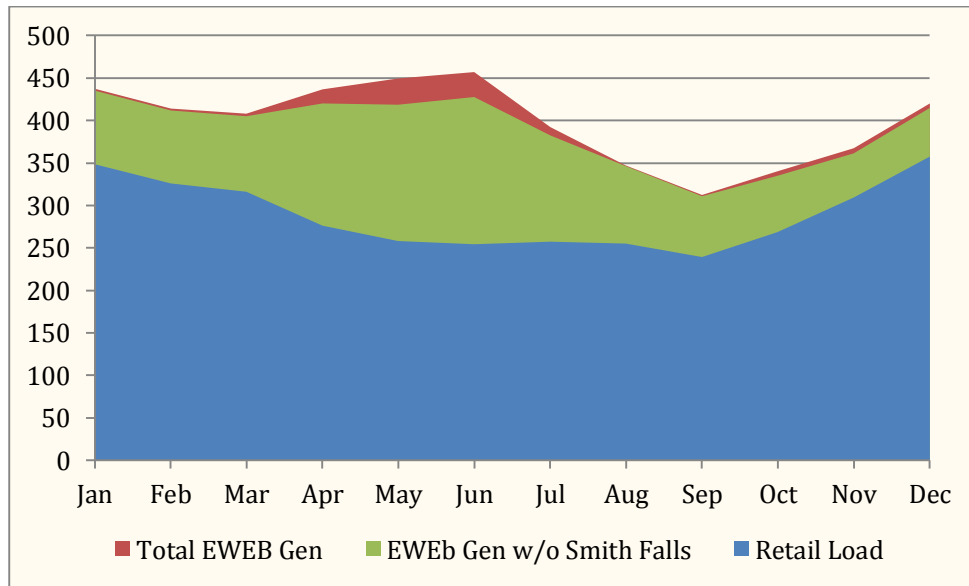
DATE: November 3, 2015

SUBJECT: Smith Creek Hydro Project Asset Sale

OBJECTIVE: Board Authorization for the General Manager to execute Agreements finalizing the Sale of Smith Creek Hydro Project and enter a 3-year Power Purchase Agreement.

Issue

EWEB's power portfolio is approximately 35-40aMW surplus on an annual firm basis and up to 80-100 aMW surplus during periods of high-flow in the spring. Based on the current forecast, these volumes are in excess of what is required to meet EWEB's short and long term power needs as indicated in the chart below.



In an effort to reduce debt and to improve EWEB's financial metrics, the 2013 Operating Plan included an initiative to explore the sale of generation assets that are not required to meet forecasted load. Doing so will lower EWEB's debt service coverage ratio and will reduce market price risk inherent to managing surplus power. In absence of an asset sale, staff have determined that additional rate increases would be required to meet EWEB's minimum debt service coverage ratios.

Accordingly, EWEB conducted an RFP to facilitate a sale and now requests Board authorization for the General Manager to execute Agreements which will finalize the sale of The Smith Creek Hydro Project.

Background

The Smith Creek Hydro Project is a 38 MW plant located on Smith Creek in the Kaniksu National Forest near the Canadian border in Idaho. The powerhouse was constructed in 1990. EWEB acquired the FERC license to operate the plant in 2000 and manages it predominately through contracted labor. It is a spring peaking resource that is operational between April and July and then again in the late fall until Smith Creek freezes. The remote location and generation profile of Smith Creek make it an ideal target for disposal given EWEB's operational and financial outlook.

EWEB participated in a BPA program that provided EWEB billing credits associated with Smith Creek. BPA confirmed in an October 1st email that all obligations were satisfied under the billing credit agreement and that if the asset was sold there would no ongoing liability.

Smith Creek is a Specified Resource under EWEB's Regional Dialogue Contract with Bonneville Power Administration. Under Section 5(b)(1)(B) of the Northwest Power Act of 1980, BPA is required to sell federal power to meet regional load obligations. Specifically, BPA provides federal power to meet EWEB's net requirement, which is calculated as total retail load less Dedicated Resources which may consist of both Specified and Unspecified Resources. The BPA Administrator granted consent to replace the Smith Creek Specified Resource with unspecified market purchases in a letter to EWEB on April 17th, 2014.

Discussion

In 2014, EWEB created an RFP Evaluation Team consisting of employees from Power & Strategic Planning, Finance, Generation, Purchasing, and Power Operations. The RFP was posted on May 12th, 2014 and resulted in the registration of 30 potential proposers. Ultimately, six companies submitted proposals and on August 25th, 2014 EWEB announced a shortlist of four bidders.

During September each of the bidders were hosted by EWEB staff at the site. Subsequent to those visits, staff responded to questions and provided additional information to interested bidders. Shortly after visiting the facility, one of the bidders withdrew from the process. The remaining bidders were asked to red-line EWEB's proposed asset sale agreement so that specific terms could be included in the final evaluation. By February, 2015 EWEB had narrowed the selection to two bidders and began a parallel negotiation phase with each of the finalists. On February 26th, Best and Final offers were submitted by the remaining bidders. The submissions were competitive, and the Evaluation Team was satisfied with the results.

On the day of selection, an electric fault occurred in Generator #2 resulting in a fire at the facility and damaging the unit. Subsequently, EWEB talked with both bidders about the path forward and requested that each bidder resubmit proposals in light of the damage to the unit. On March 20th, the Evaluation Team submitted final scores and came to a unanimous decision to award the sale to Valtec Power, LLC. The bidders were notified and EWEB moved forward with final negotiations.

In the ensuing months, EWEB and Valtec have worked collaboratively to address needed repair

work, cost sharing, and necessary adjustments to the Agreements. Repair work has also been supported by two, third party consultation firms, HDR Engineering (HDR) and Hydro Consulting & Maintenance Services (HCMS). HDR was contracted to provide preliminary damage estimates and to create engineering specifications for the removal and inspection of Unit #2. HCMS performed a damage assessment and provided recommendations for bringing the unit back to full operation. On July 23, 2015, HCMS issued a report stating that the stator winding of unit #2 was damaged beyond economical repair and should be replaced.

EWEB and Valtec have negotiated an Asset Sales Agreement along with associated exhibits thereto. The Agreements will be executed by and between EWEB and Smith Creek Hydro, LLC, a newly established subsidiary of Valtec, but will continue to be contractually supported by the Parent. Once the agreements signed, there are a number of Conditions Precedent required prior to closing. EWEB anticipates clearing all of these conditions no later than Q1, 2016. Conditions Precedent include executing and assigning an interconnection agreement with the Bonneville Power Administration, finalizing an onsite environmental assessment, obtaining clear title for the transfer of real property and, executing a three year power purchase agreement. The power purchase agreement is intended to allow Valtec to take ownership of the plant and subsequently find a long-term buyer for the power.

Conditions Precedent will also include assignment of certain contracts to Valtec including a transmission contract with Northern Lights Electric Cooperative, and an emergency tap agreement with BPA. The longest lead time item is assignment of the FERC license which cannot begin until the Asset Sales Agreement is signed, which may take 90 days or more. EWEB staff have met with the principle stakeholders including the Forest Service, Dominion Services the contracted plant operator, Northern Lights Electric Co-op, and the City of Bonner's Ferry. There were no concerns raised at these meetings that would jeopardize the sale of the asset.

TBL Assessment

The sale of the Smith Creek Project improves the economic outlook for EWEB and has no material impact on the social or environmental condition of EWEB or its customers.

Under Oregon's RPS rules, if exempt generation exceeds 100 percent of total retail sales than the RPS obligation is equal to zero. Although the sale of Smith Creek will reduce exempt generation eligible for RPS compliance, EWEB has access to other means to meet those obligations in the future including RECs sourced from EWEB's other renewable resources, or acquiring RECs in the wholesale market.

Recommendation and Requested Board Action

Management recommends that the Board approve Resolutions No. 1507 and No. 1508 which will authorize the General Manager to execute Agreements required to sell the Smith Creek Hydro Project to Valtec Power and enter into a 3 year power purchase agreement. If you have any questions, please contact Dave Churchman, 541- 685-7598 or Patty Boyle at 541-685-7406.

RESOLUTION NO. 1507

**RESOLUTION OF THE EUGENE WATER & ELECTRIC BOARD
AUTHORIZING GENERAL MANAGER IN
SALE OF ASSETS**

WHEREAS, the Eugene Water & Electric Board (“EWEB”) has declared the Smith Creek Hydro-Generation Project surplus property by Resolution #1402, dated January 7, 2014,

WHEREAS, EWEB issued RFP 003-2014 seeking proposals to purchase all assets of the Smith Creek Hydro-Generation Project in its entirety by one buyer,

WHEREAS, the prospective purchaser has been identified and negotiation of the Asset Sales Agreement has proceeded in accordance with the provisions of RFP 003-2014 to present an offer of purchase subject to conditions of the Asset Sales Agreement, and

WHEREAS, the EWEB Commissioners have had the opportunity to be apprised of and address anticipated terms and conditions with those designated to negotiate the real property transaction during the course of executive session in accordance with ORS 192.660(2)(e).

NOW, THEREFORE, BE IT RESOLVED by the Eugene Water & Electric Board that:

The General Manager or his designee is directed to finalize the terms and conditions of the Asset Sales Agreement with the selected proposer, Smith Creek Hydro, LLC, as offering the best value to EWEB under the criteria of RFP 003-2014, and thereafter execute all necessary documents on behalf of EWEB to effect the transfer of all property rights and closing of the sale of the Smith Creek Hydro-Generation Project in accordance with Board policies.

DATED this 3 day of November, 2015.

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

President

I, ANNE M. KAH, the duly appointed, qualified and acting Assistance Secretary of the Eugene Water & Electric Board, do hereby certify that the above is true and exact copy of the Resolution adopted by the Board in its November 3rd, 2015 Regular Board Meeting.

Assistant Secretary