

EUGENE CITY COUNCIL

AGENDA ITEM SUMMARY



Work Session: Carmen-Smith Relicensing Project

Meeting Date: May 29, 2012
Department: Central Services
www.eugene-or.gov

Agenda Item Number: B
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ISSUE STATEMENT

This is a work session to provide the council information about Eugene Water & Electric Board's (EWEB) project for relicensing the Carmen-Smith Hydroelectric Project. The work session will give some background for the item on the May 29 consent calendar for bonds to finance the project.

BACKGROUND

The Eugene Water & Electric Board owns and operates five hydroelectric generating facilities, three of which are located on the McKenzie River. All of EWEB's hydroelectric facilities operate under federal operating licenses issued by the Federal Energy Regulatory Commission, or FERC. The Carmen-Smith Hydroelectric Project, which is located 71 miles east of Eugene on the upper McKenzie River, is EWEB's largest hydroelectric facility and represents almost half of EWEB's total utility-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. EWEB expects to receive a new 50-year operating license from the FERC for the Carmen-Smith Project in late 2012 or early 2013.

Relicensing Process

EWEB has been engaged in a process to relicense the Carmen-Smith Project since 2002. This relicensing process, which is dictated by federal regulation, resulted in the development of draft and final license applications that were submitted to the FERC in 2006. Beginning in early 2007, EWEB entered into settlement negotiations with a stakeholder group that included federal and state agencies, three Native American tribes, and a number of non-governmental organizations. The negotiations concluded in October 2008, with an agreement signed by EWEB and 16 other groups (EWEB Board Resolution #0833, October 21, 2008). The Settlement Agreement was filed with the FERC on October 23, 2008, in support of and as a supplement to EWEB's 2006 license application.

In May 2011, EWEB verified that the FERC has in its possession all of the requisite pieces to process the new license for the Carmen-Smith Project. In March 2012, EWEB received a notice that FERC staff had identified an issue regarding the license application that requires resolution before the license can be issued. Measures to address the issue, which involves the intersection of EWEB's Carmen-Smith Project boundary, as licensed by the FERC, and the McKenzie Wild and Scenic River (WSR), as designated by Congress and managed by the USDA Forest Service, are underway and expected to be

complete by October, 2012. Because it will take the FERC several months to revise and review the draft license, EWEB does not expect the new license for the Carmen-Smith project to be issued before the end of 2012. There is also a chance that the resolution of this issue by the FERC may be challenged by outside groups, which could add to the relicensing timeline.

License Application and Settlement Agreement

In EWEB's application for a new operating license, as amended by the 2008 Settlement Agreement, EWEB committed to adding upstream and downstream fish passage (fish ladder and fish screening facilities) to the lowest of the three project reservoirs, Trail Bridge Reservoir. EWEB will also enhance fish habitat in all three reservoirs and three stream reaches, as well as modifying an existing salmon spawning channel and providing facilities for enhanced stream flow releases. These actions will directly benefit native trout and anadromous Chinook salmon. EWEB has also committed to rebuilding three campgrounds and day use areas associated with the project, and improving native vegetation and wildlife habitat in the project area. In addition, EWEB plans to rehabilitate the power generation and transmission facilities associated with the project so that Carmen-Smith can continue to serve the citizens of Eugene for the next 50 years.

License Implementation Preparation

EWEB staff has used the time between the Settlement Agreement signing and the issuance of the new FERC license to prepare for the implementation of the agreement and new license. This preparation includes the development of fish passage design elements and power plant rehabilitation plans, along with the completion of discrete engineering projects needed for license implementation. EWEB contracted with CH2M Hill, as design engineer, in 2009, and with Wildish Building Company, as Construction Manager/General Contractor (CM/GC), in 2011, to assist with the design and construction of the project. CH2M Hill, recently completed the 60 percent design development for the fish passage construction elements contained in the settlement agreement. EWEB will continue to work through the design and consultation process for the fish passage elements in 2012, with an expectation that the designs will be substantially complete by late 2012.

For the powerhouse improvements, the EWEB and CH2M Hill team completed, in 2011, an in-depth assessment of all power generation components in both powerhouses and at all three dams. This work culminated in a comprehensive document that currently serves as EWEB's guide for future rehabilitation work at these facilities. Ancillary to the primary work being completed by EWEB staff and CH2M Hill, the project team continues to work on implementation elements that can either be completed now or soon after license issuance. In 2011, the project team completed several construction projects that are part of the overall license implementation program. These include a new bridge at Carmen Diversion Reservoir, installation of a restroom at Trail Bridge Powerhouse, contract construction of two SNOTEL weather stations near Carmen-Smith and replacing the remaining wooden transmission pole structures along the Carmen transmission line. Staff also completed the design of a number of projects that will be implemented shortly after license issuance in 2013. These include a new emergency access road to the top of Smith Dam, a re-routed portion of the McKenzie River Trail near Trail Bridge Dam, and a master plan for new homes and buildings to be built at the project office compound.

Project Costs and Financing

As part of the Settlement Agreement process, EWEB completed a comprehensive evaluation of license implementation costs. In June 2011, EWEB updated the implementation cost estimate for the

Settlement Agreement and new license based upon the preliminary design (30 percent design) for fish passage work and conceptual design (15 percent design) for power generation facilities. The cost to complete the project at that time was estimated to be \$156 million plus or minus 30 percent, in accordance with standard engineering practice. Since then, EWEB has expended approximately \$15 million in design, procurement and construction as part of the project. EWEB continues to monitor and update anticipated project costs as the design work progresses. The next project cost estimate, based on the 60 percent design for fish passage work, will be available shortly.

The project is being financed with a phased bonding approach. EWEB previously issued \$13.4 million in bonds relating to the Carmen-Smith Project. The remainder of the project will be funded through two additional bond authorizations: \$45 million requested at this time, and the balance to be requested after the license has been issued and accepted. Authorization for \$45 million is being requested to 1) provide reimbursement of \$20 million of project costs paid from reserves over the last several years and 2) provide funds to cover design and implementation work planned for the remainder of 2012 and through 2013. Once the FERC license is issued and after completion of design work, EWEB will return for additional authorization for bonding of the construction phase of the project. The reimbursement of prior year project costs will be placed in reserve to pay for project costs in 2014 and beyond. The authorization for the first \$45 million of bonding authority is on the May 29 council consent calendar. The impact on rates from issuance of the requested bonds is approximately two percent.

TRIPLE BOTTOM LINE – SOCIAL, ENVIRONMENTAL, ECONOMIC IMPACTS

EWEB and the Settlement Parties included triple bottom line (TBL) concepts as they balanced the environmental and social impacts of the Carmen-Smith Project with project economics in the Settlement Agreement. EWEB also recently completed a specific TBL analysis of the project as part of an updated economic evaluation. The TBL analysis identified the following impacts of completing the project.

Social

- Improved safety of recreational facilities through design and construction and financial support for State Police personnel stationed in the area.
- Improved accessibility and maintenance of recreation opportunities close to the Eugene/Springfield area.
- Bull trout and Chinook salmon habitat improvements that result in increased fishing and tourism opportunities.
- Enhanced Native American tribal value as a result of increased number and variety of culturally significant plant sources of traditional foods and vegetative craft material.
- Increased educational opportunities related to aquatics and wildlife management.

Environmental

- Decreased risk of oil contamination into the reservoir with the relocation of the substation.
- Maintains a low carbon hydro peak power generation facility for the region.
- Improvements to trout, Chinook, elk, bird and many other species habitat through installation of habitat or removal of invasive vegetation.

Economic Prosperity

- Creates local economic opportunities and activity especially during construction of the improvements, but also increased tourism as a result of recreation facilities and improved wildlife habitat.
- Compares favorably to the alternative of decommission and replacement capacity development.

FERC staff also completed an environmental assessment under the National Environmental Policy Act (NEPA) and found that the project as envisioned has no significant environmental impacts, and the State of Oregon has issued a certification for the project under Section 401 of the Clean Water Act, specifying that the Project, as certified, will comply with state water quality criteria.

RELATED CITY POLICIES

This project will contribute to the council goal of sustainable development.

COUNCIL OPTIONS

No action is required, therefore, there are no options listed.

CITY MANAGER'S RECOMMENDATION

No action is required; therefore, there is no recommendation.

SUGGESTED MOTION

No action is required; therefore, there is no suggested motion.

ATTACHMENTS

None

FOR MORE INFORMATION

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