

# STATE OF COLORADO

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## Colorado Water Conservation Board

### Department of Natural Resources

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TO: Colorado Water Conservation Board Members

FROM: Kirk Russell, P.E., Chief  
Finance Section

DATE: September 18, 2012

SUBJECT: **Agenda Item 18c, September 27-28, 2012 Board Meeting**  
**Finance Section – Changes to Existing Loans**  
**Tri-County Water Conservancy District – Tri-County Water Hydropower**  
**Project (Contract # C150324)**

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John W. Hickenlooper  
Governor

Mike King  
DNR Executive Director

Jennifer L. Gimbel  
CWCB Director

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### Introduction

The Tri-County Water Conservancy District (District), is requesting a change to its CWCB loan contract disbursement requirement. The loan contract includes conditions which are required to be met prior to disbursement of CWCB funds. The condition preventing the District's access to CWCB loan funds states "Borrower shall execute an interconnection agreement between the Borrower and either the San Miguel Power Association or the Tri-State Generation and Transmission Association". The District is requesting an exception to this condition in order to assist them with their cash flow and allow the Project to stay on schedule.

The loan is for the construction of the Tri-County Water Hydropower Project (Project) an eight mega-watt (MW) hydroelectric generating facility at the outlet works of Ridgway Dam in Ouray County. The \$9,090,000 loan was approved in September 2011 and a contract was executed on May 11, 2012. The current Project cost estimate is \$15 to \$17 million. The following documents are included: 1) Letter requesting the change from Mike Berry, District Manager, 2) Letter of Support from Mike Brod, Director, Colorado Water Development and Power Authority, and a 3) a Project Summary and Data Sheet.

### Staff Recommendation

Staff recommends the Board approve a change to Loan Contract #C150324. The contract shall include the addition of a contract condition which shall state: The CWCB may disburse up to \$5,000,000 for Project costs prior to completion of conditions 1 through 5, provided that the District conveys a security interest in \$5,000,000 of its investment portfolio. The CWCB will release its security interest in the District's investment portfolio upon the District's successful completion of Conditions #1 through #5. In addition, if the Borrower is unable to successfully complete Contract

Conditions 1 through 5 within three years from the date of the contract amendment, the Borrower shall pay the loan principal in full.

### **Background**

The Ridgway Dam and Reservoir are located on the Uncompahgre River about 6 miles north of the community of Ridgway, Colorado. The Reservoir has a capacity of 84,410 AF and stores waters for use by the District, Uncompahgre Valley Water Users Association and private land owners for irrigation, municipal, domestic, and industrial needs.

The Bureau of Reclamation (Bureau) completed construction of the Ridgway Dam in 1987 as part of the Dallas Creek Project, authorized by Congress as part of the Colorado River Basin Project Act of 1968. In 1981, the Bureau conducted a study and determined that a hydropower facility was technically feasible at the site; however, market rates at the time made the power production cost prohibitive.

In September 2011, the CWCB approved a loan to the District for \$9,090,000 for the construction of the Project with the following contract conditions to be satisfied prior to the disbursement of funds:

- 1) Execution of the Lease of Power Privilege (Completed Feb. 6, 2012)
- 2) Execution of the Power Purchase Agreement (Completed)
- 3) Execution of the loan contract with the Colorado Water Resources and Power Development Authority (Pending similar approval conditions)
- 4) A 404 Permit from the Corps of Engineers, or a letter from the Corps stating that a 404 Permit is not required. (Expected in Sept. 2012)
- 5) An interconnection agreement between the District and San Miguel Power Association or Tri-State Generation and Transmission Association. (Tri-State has committed to fast track the process for a final Generator Interconnect Agreement by Dec. 2012)

The 5<sup>th</sup> condition is preventing the District from accessing the necessary funds to move the project forward and stay on schedule to begin producing power by October 2013.

### **Project's Recent Progress**

As indicted in the attached letter dated August 22, 2012 from Mike Berry, District Manager, the District has made significant progress in securing the necessary agreements and permits to meet the Project's scheduled milestones in order to generate power by October 2013. This includes a Power Purchase Agreement with Aspen and Tri-State Generation and Transmission Assoc. The District also received a "Finding of No Significant Impact" from the Bureau regarding the Environmental Assessment.

Mountain States Hydro, LLC was selected by the District to provide design and construction services. Mountain States is scheduled to have the Project design 75% complete by October 2012. The purchase of expensive equipment with significant lead time and the desire to produce power by October 2013 is the primary basis for this request.

### **Justification**

The District has provided information to support the projected need of approximately \$5 million in order to maintain the project schedule. The District has provided CWCB staff a Tri-County WCD Board Resolution pledging up to \$5 million from its investment portfolio to guarantee repayment.

### **Collateral**

The collateral identified in the \$9.09 million loan contract is a pledge of power revenues and water usage revenues backed by a rate covenant. This will remain in place during the period of time that the \$5 million is secured by the District's investments.

cc: Mike Berry, General Manager, Tri-County Water Conservancy District  
Susan Schneider, AGO  
Peter Johnson, AGO

### **Attachment:**

- 1) Letter requesting the change from Mike Berry
- 2) Letter of Support from Mike Brod, Colorado Water Development and Power Authority
- 3) CWCB Construction Loan Program - Project Data Sheet

## CWCB Construction Loan Program Project Data Sheet

**Borrower:** Tri-County Water Conservancy District **County:** Ouray, Montrose, Delta

**Project Name:** Tri-County Water Hydropower Project **Project Type:** Hydroelectric

**Drainage Basin:** Gunnison, District 68

**Water Source:** Uncompahgre River

**Total Project Cost:** \$15 to 17 million

**Funding Sources:** Construction Fund,  
CWRPDA

**Type of Borrower:** Hydroelectric

**Avg. Diversion:** 35,000 AF (84,410 AF of  
reservoir storage)

**Loan Amount:** \$9,090,000 (Including 1% fee)

**Interest Rate:** 2.00%

**Term:** 30 years

The Tri-County Water Conservancy District (District) is requesting a CWCB loan for the construction of a 8MW hydroelectric power generating facility at Ridgway Reservoir. The project is permitted through the "Lease of Power Purchase" process with the Bureau of Reclamation (Bureau), allowing the incorporation of a hydropower facility into the existing outlet works of Ridgway Dam. The dam, constructed by the Bureau as part of the Dallas Creek Project, began storing waters of the Uncompahgre Basin in 1987. The District projects that the facility will produce an annual average of 22,600 MWh, which will be sold to the Tri-State Generation and Transmission and the City of Aspen/Municipal Energy Agency of Nebraska through a Power Purchase Agreement. Construction is scheduled to begin in the fall of 2012 and take one year to complete, with energy production expected in October 2013.

