

STATE OF COLORADO

Colorado Water Conservation Board

Department of Natural Resources

1313 Sherman Street, Room 721
Denver, Colorado 80203
Phone: (303) 866-3441
Fax: (303) 866-4474
www.cwcb.state.co.us



October 1, 2012

Mr. Mike Berry, General Manager
Tri County Water Conservancy District
P.O. Box 347
Montrose, CO 81402

John W. Hickenlooper
Governor

Mike King
DNR Executive Director

Jennifer L. Gimbel
CWCB Director

Re: Tri County Water Hydropower Project
Contract Number C150324

Mr. Berry:

I am pleased to inform you that on September 27, 2012 the Colorado Water Conservation Board approved your loan contract modification request for the Tri County Water Hydropower Project. Staff recommends the Board approve a change to Loan Contract #C150324. The Loan Contract shall include an additional contract condition which shall state: The CWCB may disburse up to \$5,000,000 for Project costs prior to accomplishing 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 District 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.

I have attached a copy of the updated Board memo dated September 28, 2012, that includes the Board's approval.

Peg Mason of our office will be in contact with you to amend the Loan Contract. This amendment will need to be in place before funds can be disbursed. When all of the Loan Contract conditions are met and a contract with the Colorado Water Resources & Power Development Authority is

executed, the District shall begin drawing on the \$2 million of CWRPDA funds to cover eligible project expenses.

On behalf of the Board, I would like to thank you for your interest in utilizing loan funds from the Colorado Water Conservation Board.

Sincerely,

A handwritten signature in blue ink, appearing to read "KR", with a stylized flourish at the end.

Kirk Russell, P.E., Chief
Finance Section
Colorado Water Conservation Board

Attachment: Updated Board Memo

E-mail Copy (Including Attachments)

John McClow, CWCB Board Member – Gunnison River Basin
CWCB Finance Section Staff

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TO: Colorado Water Conservation Board Members

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

DATE: September 18, 2012 (UPDATED September 28, 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)

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 (Board Approved Staff Recommendation on September 28, 2012)

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 CWCBA 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 5th 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 indicated 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

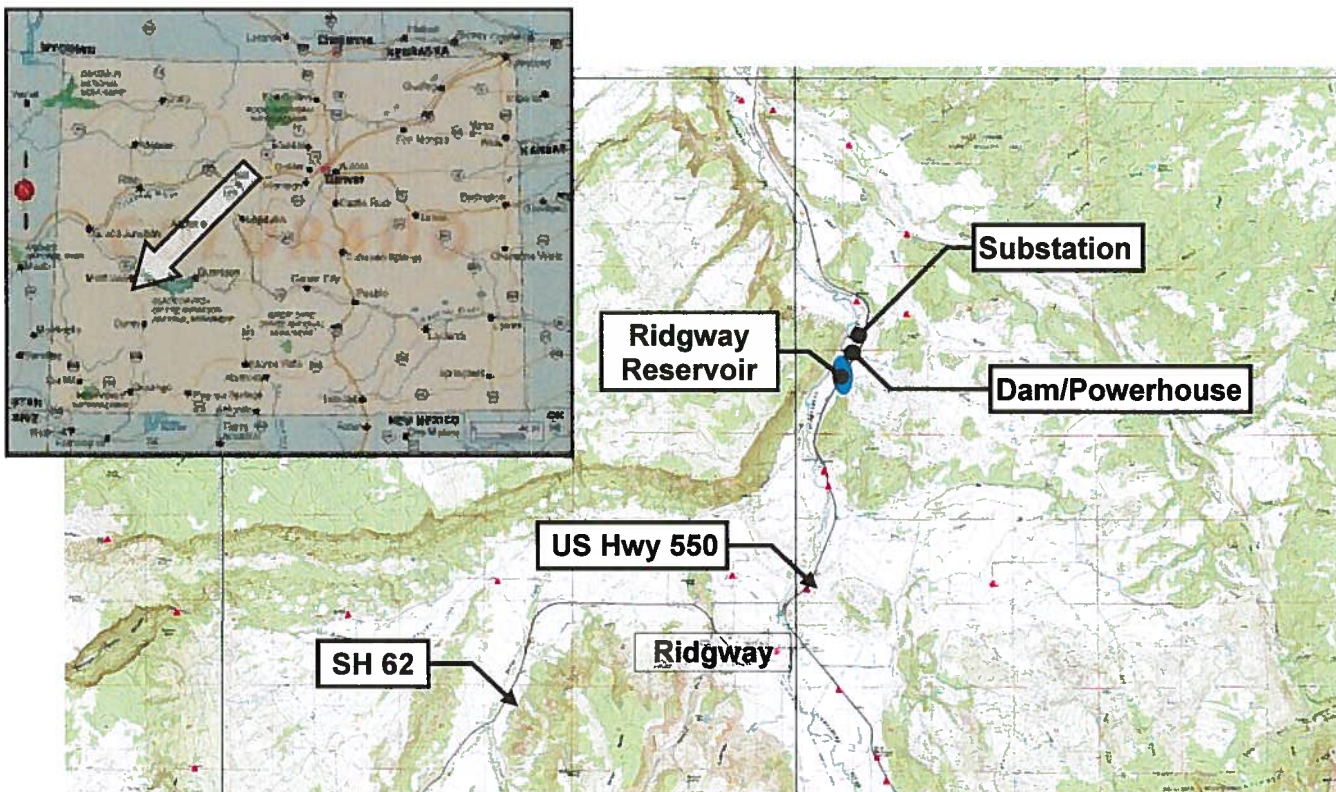
Drainage Basin: Gunnison, District 68 **Water Source:** Uncompahgre River

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.



August 22, 2012

Mr. Kirk Russell
Colorado Water Conservation Board
Department of Natural Resources
1313 Sherman Street, Room 721
Denver, CO 80203



Re: Tri-County Water Hydropower Project - Loan #C150324

Dear Kirk:

Tri-County Water Conservancy District requests Colorado Water Conservation Board (CWCB) to modify the contract disbursement requirements to allow us to have access to \$5,000,000 from our Loan #C150324. We will pledge \$5,000,000 from our investment portfolio to guarantee repayment of this advance until all requirements of the contract are met eliminating all risk in this modification. We have attached the Resolution adopted by our Board of Directors supporting this action. We have been meeting the cost of this Project to date but have some critical large dollar items that need to be paid in the next few months to keep this Project on schedule. If we can have this funding available, we will not have to cash out our investments and risk reinvesting them in the future at a lower rate.

Our Project is progressing "Full Steam Ahead" and we are meeting an aggressive schedule. We will have met the majority of the conditions stipulated in the loan approval in the very near future. Our Board approved two PPA's today which proceeds will be used to repay our loans with both CWCB and CWRPDA. We have the Final Environmental Assessment completed and Reclamation concluded there was a "Finding of No Significant Impact" on December 20, 2011. The Lease of Power Privilege with the United States of America was completed on February 6, 2012. Power Purchase Agreements with the City of Aspen and Tri-State Generation and Transmission Association, Inc. received final approval today. We have completed the on-site review with the Corps of Engineers, submitted the 404 Permit application, and expect the Permit in early September 2012. If this request is granted, we will work with CWPDA to get a letter of acknowledgment to approve this modification.

We are in the process of obtaining the Generator Interconnection Agreement (GIA) with Tri-State Generation and Transmission. Since Tri-State has committed to buy the summer power from our Project beginning June 2014, they have promised to fast track their process and provide a finalized GIA by December 2012. Tri-County is paying Tri-State's deposits as required to pay for the cost of the studies needed prior to entering into the GIA and to pay for equipment that needs to be ordered at this time due to long delivery time. The amount needed by Tri-State before December 2012 is estimated around \$1,000,000.

Recent Project cost is lower than the \$18,170,000 originally estimated. Total construction cost including all administrative and design expenses is estimated to be between \$15,000,000 and \$17,000,000 at this point. The District's repayment is based on a pledge of revenues generated from domestic water sales and therefore is very strong and guaranteed. We also have the power (including pre-term sale to Aspen) from this Project sold as soon as we can deliver which we hope to be October 1, 2013.

This loan will also be used to pay our contractor, Mountain States Hydro, LLC, for the Project's Design. They have provided the 30% design to Reclamation and are scheduled for 60% in September 2012. Mountain States is also providing information Tri-States requests for its study. The turbines and generators have been ordered. We have attached a copy of Mountain States' Cash Flow Projection for your reference.

It is very important to us and our customers that we stay on schedule to begin selling our power generation by October 2013. We believe the granting of this request will be a "win" for everyone. Thank you for your consideration of our request and we look forward to your reply.

Sincerely

A handwritten signature in black ink, appearing to read 'Mike Berry', with a stylized flourish extending from the end.

Mike Berry
General Manager

Enclosures

cc: Mike Brod, CWRPDA
Jeremy Wendt, CWRPDA



COLORADO WATER RESOURCES & POWER DEVELOPMENT AUTHORITY

Logan Tower Bldg – Suite 620, 1580 Logan Street, Denver, Colorado 80203-1942
303/830-1550 • Fax 303/832-8205 • info@cwrpda.com

September 11, 2012

Mike Berry, General Manager
Tri-County Water Conservancy District
647 North 7th Street
Montrose, CO 81401

**Re: Letter of Support for Advanced Financing to Tri-County Water
Conservancy District (“District”)**

Dear Mr. Berry:

On October 7, 2011, the Board of Directors of the Colorado Water Resources and Power Development Authority (“Authority”) approved a \$2,000,000 loan to the District for the Hydropower project at Ridgeway Dam. Additional needed financing for this project will be provided by the Colorado Water Conservation Board (“CWCB”) in the form of a 9,090,000 loan. The Authority is in receipt of the District’s August 22, 2012 request to modify their contract with CWCB to allow access to \$5,000,000 of the funding prior to the District meeting all the requirements of the contract.

The Authority is in full support of the request to the CWCB and of this project. When the conditions in Resolution 11-44 are met, Authority staff will work with the District to execute a loan agreement for the \$2,000,000 approved by the Authority’s Board of Directors. Please contact Jeremy Wendt at (303) 830-1550 x 12 if you have any questions.

Mike Brod
Executive Director

Enclosure: Resolution 11-44

Cc: Kirk Russell, CWCB (via email)
Kathleen Margetts (via email)