



COLORADO

Colorado Water Conservation Board

Department of Natural Resources
1313 Sherman Street, Room 718
Denver, CO 80203

March 15, 2021

Max Schmidt
Orchard Mesa Irrigation District
668 38 Road
Palisade, CO 81526
max@omirrigation.com

Re: Vinelands Power Plant - Loan Approval

Dear Mr. Schmidt:

I am pleased to inform you that on March 11, 2021, the Colorado Water Conservation Board approved your loan request for the Vinelands Power Plant described in the application and approved Loan Feasibility Study titled *Vinelands Hydroelectric Power Plant Loan Feasibility Study, dated February 1, 2021*. The Board approved a loan not to exceed \$1,076,660 (\$1,066,000 for Project costs and \$10,660 for the 1% service fee). The loan terms shall be 2.00% per annum for 20 years.

I have attached a copy of the updated Board memo dated March 12, 2021 that includes the Board's approval. After the Board approves a loan there are a few steps that remain in the loan process including:

Contracting: An executed loan contract must be in place before funds can be disbursed for eligible project expenses. Peg Mason, Loan Contracts Manager, will contact you to initiate the loan contracting process. She can be reached at (303) 866-3441 x3227.

Design/Construction: You must adhere to the CWCB Design and Construction Administration Procedures including an invitation to the Prebid, Preconstruction and Bid Opening meetings. Matt Stearns, P.E., will be the Project Manager for this phase of the process and will work with you on the disbursements of your loan funds. Matt can be reached at (303) 866-3441 x3257.

On behalf of the Board, I would like to thank you for your interest in a loan from the CWCB.

Sincerely,

Kirk Russell, P.E., Chief
Finance Section

Attachment: Updated Board Memo





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1313 Sherman Street, Room 718
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Jared Polis, Governor

Dan Gibbs, DNR Executive Director

Rebecca Mitchell, CWCB Director

TO: Colorado Water Conservation Board Members

FROM: Matthew Stearns, P.E., Project Manager
Kirk Russell, P.E., Finance Section Chief

DATE: March 10-11, 2021 Board Meeting (**Updated March 12, 2021**)

AGENDA ITEM: 19f. Water Project Loans
Orchard Mesa Irrigation District - Vinelands Power Plant

Staff Recommendation (Board approved Staff Recommendation March 11, 2021)

Staff recommends the Board approve a loan not to exceed \$1,076,660 (\$1,066,000 for Project costs and \$10,660 for the 1.0% service fee) to the Orchard Mesa Irrigation District for costs related to the Vinelands Power Plant, from the Severance Tax Perpetual Base Fund. The loan terms shall be 20 years at an interest rate of 2.00% per annum. Security for the loan shall be in compliance with CWCB Financial Policy #5.

Staff additionally recommends the following loan contract conditions:

1. Prior to the disbursement of funds, the District shall provide an executed Lease of Power Privilege, and Power Purchase Agreement.
2. Prior to disbursement of funds, the District shall provide documentation that all non-CWCB funding is secured and adequate to cover the Project cost estimate.

Introduction

The Orchard Mesa Irrigation District (District) is applying for a CWCB Hydroelectric interest rate loan for the Vinelands Power Plant (Project) which includes permitting, infrastructure necessary to convey that power to the electrical grid (Interconnect), and a portion of the costs to construct the power plant and necessary appurtenances. The District is working with the Grand Valley Water Users Association (Association) and Sorenson Engineering, Inc (Sorenson) to complete the Project. The new power plant will replace the existing Grand Valley Power Plant (GVPP) and will be safer, more efficient, and more economical to own and operate while maintaining the same environmental benefits. This Project will increase the maximum power generation from 2.75 MW to 4.5 MW. The District is requesting a loan from the CWCB for a portion of its share of the Project cost. The Association is concurrently seeking a CWCB loan to help cover its share of the Project cost (see March 2021 Agenda Item 19e). Combined these two loans would cover approximately 23% of the total Project cost. The total Project cost is estimated at \$9,227,825. See attached Project Data Sheet for a location map and Project summary.



Borrower - Orchard Mesa Irrigation District

The District is organized under the Colorado Irrigation District Law of 1921, and was formed for the purpose of diverting, carrying, and delivering irrigation water within the District's boundaries. The District provides irrigation water to approximately 9,800 parcels in Mesa County. Revenues are primarily derived from assessments charged to its water users, with additional revenues coming from the sale of electricity generated by the GVPP, and Specific Ownership Taxes. The District is not a public governmental entity exercising taxing authority and is therefore not subject to TABOR restrictions.

The District has a 5-member Board of Directors that carries out the normal business functions of the District including levying assessments. As a 1921 Act irrigation district, the Mesa County treasurer collects assessments for the District with property taxes, and the treasurer can enforce penalties and forfeitures for delinquent assessments. Additionally, that Act requires Landowner approval in order to enter into a contract over \$500,000, which the District has accomplished for the Project.

The District serves 9,200 acres and provides irrigation water to farms, vineyards, orchards, and subdivisions in the Grand Valley of Mesa County. Its service area is on the south side of the Colorado River starting just east of the Town of Palisade down to the confluence of the Colorado and Gunnison Rivers near downtown Grand Junction. Major crops grown in the District include alfalfa, orchards, vineyards, corn and grain, pasture, grass lawns, and truck gardens. The District became a division of the Bureau of Reclamation's (Reclamation) Grand Valley Project in 1921. Its water is diverted at the Grand Valley Project Diversion Dam, also called the Roller Dam, then flows through the Canyon Canal, and is diverted into the District's Power Canal.

Background

The GVPP was built in the early 1930's and was operated by Public Service Company of Colorado (Xcel Energy) in conjunction with the Cameo coal power plant until 2010. When the Cameo coal power plant was decommissioned, Xcel Energy decided to cease operations at the GVPP as well. As the continued operation of the GVPP is important for river flows in a stretch of the Colorado River known as the "15-Mile Reach," Reclamation encouraged the District and Association to operate and maintain the GVPP. At the end of 2010, a Lease of Power Privilege (LOPP) was entered into between Reclamation and the District and Association. Under this LOPP, the District and Association equally split GVPP operational and maintenance costs. Starting in 2011, the Association and District entered into a 10-year Power Purchase Agreement (PPA) with Xcel Energy, with revenues being equally split as well. The District operates the GVPP and invoices the Association for half its cost. Reclamation remains the owner of the GVPP and its hydropower water right.

Minimal maintenance has occurred on the GVPP since its construction in the 1930's. The turbines, generator, and electrical panels are more or less as they were originally constructed, and rely on 1930's technology. In 2015, the District and Association went through a Request for Qualifications process and selected Sorenson to provide a feasibility study for options to repair or replace the GVPP. They each were subsequently approved for a \$1,717,000 CWCB loan to rehabilitate the GVPP at the November 2016 Board Meeting. Since then, they have encountered significant delays in the design and permitting process with Reclamation, and their loan contracts expired in mid-2020, with the funds being deauthorized at the November 2020 Board Meeting. In response to the delays, they began exploring the concept of constructing a new plant that could be built to generate more power but without the same design and permitting concerns. After going through a Request for Proposal process to select a contractor, the District and Association decided to partner with Sorenson and form Grand Valley Hydropower, LLC (LLC). Sorenson, under contract with the LLC, will design and construct the

VPP, while the LLC will own and operate it. This new plant will increase power generation using the same water right, while maintaining critical flows in the 15 Mile Reach critical habitat area. The District and Association are currently negotiating a revised LOPP with Reclamation, which they will allow the use of by the LLC. This revised LOPP is critical to the Project agreements and no construction will begin before it is executed. Once it is executed, the LLC will execute an already negotiated PPA with Holy Cross Energy at nearly the same rate as the existing PPA with Xcel; however, it will include an annual escalator for the power purchase price over the life of the 20 year agreement.

During the first year of VPP operation, the District and Association will not be owners of the LLC, but will be paid 22% of gross power sales as a royalty. After one year of operation, the District and Association will have the option to purchase a 20% stake in the LLC along with a reduced royalty payment, and after 5 years of operation, they will have the option to purchase a 51% stake in the LLC with royalty payments ceasing. This arrangement has been formalized in a convertible promissory note and puts Sorenson “at risk” as required by the Internal Revenue Service in order to be eligible for the Renewable Energy Credits (RECs). These RECs are a critical funding component to the Project, making it financially feasible for the District and the Association.

Loan Feasibility Study

The District and Association together prepared the Loan Feasibility Study titled, “Vinelands Hydroelectric Power Plant Loan Feasibility Study,” dated February 1, 2021. This study relied on a 2015 Feasibility Study titled “Grand Valley Power Plant Feasibility Study” and a 2020 “Supporting Design Report” both prepared by Sorenson. The loan feasibility study was prepared in accordance with CWCB guidelines and includes an analysis of alternatives, preliminary engineering, design, and construction cost estimates. Also submitted were recent years’ Annual Financial Reports audited by Paul D. Miller CPA, LLC.

Water Rights

The water rights associated with the District are shown in Table 1. The United States, through Reclamation, is the owner of the hydropower water right. Additionally, the District owns water rights for the benefit of its Landowners.

TABLE 1: WATER RIGHTS

Source Name	Rate or Volume	Adjudication Date	Appropriation Date	Water Court Case No.
Grand Valley Project (Hydropower)	400 CFS (irr. season) 800 CFS (non-irr. season)	2/27/1908	7/25/1941	CA5812
Orchard Mesa Irrigation District (Irrigation)	450 CFS	7/22/1912	10/25/1907	CA5812
Orchard Mesa Irrigation District (Irrigation)	10.2 CFS	7/22/1912	10/1/1900	CA1927

The Project water right is a part of the “Cameo Call” which is a call comprised of a series of water rights on the Colorado River owned by five entities: the District, the Association, the Grand Valley Irrigation Company, the Palisade Irrigation District, and the Mesa County Irrigation District.

Project Description

The purpose of the Project is to ensure continued operation of the power rights to generate power while assuring Endangered Species Act compliance.

Alternative 1 - No Action: This alternative was not selected because the GVPP is projected to be operable for only a few more years if not rehabilitated or replaced. In addition to being a revenue source for the District and Association, the GVPP serves an important role in providing water to the “15-Mile Reach” which has been designated by the Upper Colorado River Endangered Fish Recovery Program as critical habitat where in-stream flows are crucial. The GVPP is directly responsible for providing up to 400 cfs of water throughout the critical base flow period.

Alternative 2 - Rehabilitate with Upgraded Production: This alternative includes: (1) recoating the existing penstocks, scroll case and draft tubes; (2) replacement of the turbine components, and rewinding of the generators; and (3) replacement of the existing controls, switchgear, and substation with equipment that meets current standards. This alternative would increase efficiency and increase power generation from 2.75 MW to 4.1 MW and is estimated to cost over \$10,000,000. The District and Association have determined that the limitations of the GVPP’s equipment would not provide sufficient revenue to rebuild the plant to meet Reclamation requirements for design and permitting.

Selected Alternative 3 - Replace with New Plant: This alternative includes constructing a 4.5 MW new hydroelectric power plant next to the existing GVPP, new buried penstocks to carry water from the existing power canal to the new plant, and a new power connection to the electrical grid (Interconnect.) The plant will be capable of producing more power and in turn generate more revenue. During construction of the VPP, the GVPP will not be accessible or operational; however, the District will be able to continue to supply irrigation water to Landowners. This alternative is estimated to cost \$9,227,825 as detailed in Table 2.

TABLE 2: ESTIMATED PROJECT COST

Task	Total
Design and Development	\$650,000
Permitting	\$400,000
Runner and Generator Purchase	\$1,810,000
Mobilization	\$225,000
Construction	\$4,815,000
Interconnect	\$900,000
Contingency (4.6%)	\$427,825
TOTAL	\$9,227,825

Permitting: The Project will be permitted through a new LOPP between Reclamation and the District and Association, which is expected to be complete in the summer of 2021. Reclamation also owns a portion of the underlying land and will take the lead to ensure compliance with the National Environmental Policy Act (NEPA). Since this is a replacement of existing infrastructure, compliance issues are not anticipated.

Schedule: Construction of the Project is expected to begin in the fall of 2021 with testing and commissioning complete in the fall of 2022.

Financial Analysis

The Project qualifies for the hydroelectric interest rate of 2.0%. The District is requesting a 20-year loan to cover its share of the Project cost not otherwise covered by alternate sources of funds. Currently, the District, Association, and LLC have obtained, or are in the process of obtaining commitments from numerous funding sources as shown in Table 3. The District and Association are each seeking to secure a CWCB loan for their remaining construction costs to ensure the Project is fully funded.

TABLE 3: PROJECT FUNDING

Source	Total
Association Loan (CWCB)	\$1,066,000
District Loan (CWCB)	\$1,066,000
Sorenson Cash Contribution	\$2,405,973
Endangered Species Recovery Program Grant	\$1,500,000
Colorado Water Trust Grant	\$425,000
Grand Valley Fund Grant	\$1,000,000
WaterSMART Grant	\$964,852
Species Conservation Trust Fund Grant (CWCB)	\$600,000
Water Plan Grant (CWCB) March 2021 Consent Agenda Item 3f	\$200,000
TOTAL	\$9,227,825

TABLE 4: FINANCIAL SUMMARY

Total Project Cost	\$9,227,825
CWCB Loan Amount	\$1,066,000
CWCB Loan Amount (Including 1% Service Fee)	\$1,076,660
CWCB Annual Loan Payment	\$65,845
CWCB Annual Loan Obligation (1 st Ten Years)	\$72,429
Annual Loan Obligation per kWh (22,380,000 kWh/year)	\$0.003
Project Cost per MW (4.5 MW Facility)	\$2,050,628

Creditworthiness: The District currently has no debt. The District has borrowed from CWCB in the past and in all cases has paid the loan off ahead of schedule.

This Project will provide additional revenue for both the District and the Association based on the terms in the new PPA and the Vinelands Hydro Project Agreement between the Association, District, and LLC. This is a result of the increased power generating capacity of the VPP and the higher negotiated purchase price for all but the first two years of the PPA. Estimated revenues for the plant will increase from approximately \$874,000 in year 1 of operation to \$1,397,838 in year 20 of operation. This revenue will be apportioned between the owners of the LLC based on percent ownership, and in certain cases royalty payments for the District and Association. Overall, the Project is expected to provide a positive cash flow to the owners of LLC over the life of the loan.

TABLE 5: FINANCIAL RATIOS

Financial Ratio	Prior Years	Future w/ Project
Operating Ratio (revenues/expenses) weak: <100% average: 100% - 120% strong: >120%	106% (average) \$1.96M/\$1.85M	102% (average) \$1.96M/\$1.92M
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: <100% average: 100% - 120% strong: >120%	N.A	152% (strong) <u>\$1.96M-\$1.85M</u> \$72.4K
Cash Reserves to Current Expenses weak: <50% average: 50% - 100% strong: >100%	56% (average) \$1.04M/\$1.85M	54% (average) \$1.04M/\$1.92M
Annual Operating Cost per Acre-Foot (67,922 AF) weak: >\$20 average: \$10 - \$20 strong: <\$10	\$29 (weak)	\$30 (weak)

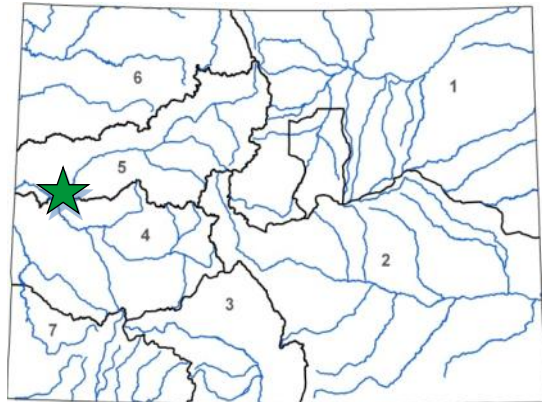
Collateral: Security for this loan will be a pledge of the District's assessment revenues backed by an assessment covenant, and will provide annual financial reporting. This is in compliance with the CWCB Financial Policy #5 (Collateral).

cc: Max Schmidt, Orchard Mesa Irrigation District
 Jennifer Mele, Colorado Attorney General's Office

Attachment: Water Project Loan Program - Project Data Sheet



L O A N D E T A I L S	
Project Cost:	\$9,227,825
CWCB Loan (with 1% Service Fee):	\$1,076,660
Loan Term and Interest Rate:	20 Yrs @ 2.0%
Funding Source:	Severance Tax PBF
Other Funding:	WPGrant, SCTF, GVVUA, SE, ESRP, Colo Water Trust, GVF, WaterSMART
B O R R O W E R T Y P E	
Irrigation District	
P R O J E C T D E T A I L S	
Project Type:	Hydroelectric
Average Annual Power Production:	22,380 MWh
Average Annual Diversions:	63,000 AF



L O C A T I O N			
County:	Mesa		
Water Source:	Colorado River		
Drainage Basin:	Colorado		
Division:	5	District:	72

The Orchard Mesa Irrigation District (District) and Grand Valley Water Users Association (Association) are each seeking a loan to cover a portion of their cost share for construction of a new Vinlands Power Plant (VPP). The VPP will replace the existing Grand Valley Power Plant (GVPP), which was built in the 1930's and is owned by the Bureau of Reclamation (Reclamation). It was originally operated by Public Service Company of Colorado (Xcel Energy) in conjunction with the Cameo coal fired power plant. In 2010 the Association and District took operational control of the GVPP when Xcel decided to cease its operations. The Association and District equally split costs and revenues from the GVPP under a Lease of Power Privilege (LOPP) with Reclamation and a Power Purchase Agreement (PPA) with Xcel Energy. In addition to being a revenue source, the GVPP also serves an important role in providing water to the "15-Mile Reach" which has been designated by the Upper Colorado River Endangered Fish Recovery Program as critical habitat.

The Project is a new hydropower plant to be built adjacent to the existing plant in order to maintain the same environmental benefits while being safer, producing more power, and being more economical to own and operate. The VPP will be constructed and owned by Grand Valley Hydropower, LLC, which will be jointly owned by the Association, District, and the engineering and construction firm, Sorenson Engineering, Inc. The project will combine private capital with grants from federal, state, and non-profit sources, with the loan filling the funding gap for the Association and District, including construction of a new interconnect from the VPP to the power grid. A new LOPP with Reclamation, and a new PPA with Holy Cross Energy will be included.

