

Memorandum

To: Board of Commissioners
Rich Riazzi

From: Andrew Grassell
Gregg Carrington

Date: 10/29/09

Re: Water Storage Agreement in Principle with Washington Department of Ecology
Proposed Motion for Board's consideration at November 2 meeting

The Washington State legislature directed the Washington State Department of Ecology, Office of the Columbia River (OCR) to pursue new sources of water. RCW 90.90. This legislation has created opportunities for OCR to work with other entities, including Chelan PUD, to develop new or incremental storage projects that provide multiple benefits including the ability to issue new water rights, provide for additional instream flow for aquatic resources during critical time periods, increase generation from non green-house gas emitting sources, and to firm other non-firm renewable generating sources such as wind and solar.

On Monday, November 2, Gregg Carrington and Derek Sandison, Director – Office of OCR, will provide a presentation to the Board of Commissioners outlining a proposed Agreement in Principle (attached) between Chelan PUD and Ecology. Staff is requesting and recommending that the Board adopt a formal motion supporting the Agreement in Principle. This document outlines the basic principles of potential agreements between the two entities to investigate and potentially implement new storage opportunities either at or adjacent to Chelan PUD projects. Specifically, the importance of transparency and public involvement is identified, funding and reimbursement is outlined, and the importance of multiple benefit projects and the need to conduct studies to determine the efficacy of specific projects is described. It is understood by both Ecology and Chelan PUD that greater specificity and detail is required around each principle prior to initiation of a project and that agreements for individual projects will be subject to approvals within each entity.

Please contact me at (509) 670-5593 or Gregg Carrington (ext. 4178) with any questions.

Proposed Motion:

To authorize the General Manager to sign the Agreement in Principle with Department of Ecology outlining the general parameters of potential agreements to investigate and potentially implement new water storage opportunities.

AGREEMENT IN PRINCIPLE BETWEEN CHELAN PUD AND THE WASHINGTON DEPARTMENT OF ECOLOGY

INTRODUCTION

Through RCW 90.90, the Washington State legislature directed the Washington State Department of Ecology, Office of the Columbia River (OCR) to pursue new sources of water. This legislation has created opportunities for OCR to work with other entities, including Public Utility District No. 1 of Chelan County (Chelan PUD), to develop new or incremental storage projects that provide multiple benefits including the ability to issue new water rights, provide for additional in-stream flow for aquatic resources during critical time periods, increase generation from non green-house gas emitting sources, and to firm other non-firm renewable generating sources such as wind and solar.

This document outlines the basic principles of potential agreements between the two entities to seek public input, investigate and potentially implement new storage opportunities either at or adjacent to Chelan PUD projects.

It is understood by both OCR and Chelan PUD that greater specificity and detail is required around each principle prior to initiation of a project. However, agreement on these principles provides the foundation and starting point necessary to develop formal contractual agreements that will be required prior to project initiation. The agreements for individual projects will be subject to approvals within each entity.

BASIC PRINCIPLES

GENERAL PRINCIPLES FOR ALL PROJECTS

The staffs of OCR and Chelan PUD are interested in investigating water storage opportunities near or adjacent to existing Chelan PUD projects. Chelan PUD has a significant interest in protecting its water resources for the benefit of its customer-owners while OCR is considering the potential benefits of water storage opportunities to other users of the Columbia River.

1. Chelan PUD and OCR recognize that there are preliminary studies that must be completed before the technical feasibility of any water storage opportunities can be determined.
2. Chelan PUD and OCR have agreed that Chelan PUD will administer and manage contracts and initial preliminary studies of water storage opportunities as agreed upon by OCR.
3. OCR has agreed to reimburse Chelan PUD all costs associated with the studies, including consultants, contractors; and Chelan PUD internal staff time, if internal staff is utilized to conduct studies, field work, or analysis associated with studies or other work that has been agreed to by the both Chelan PUD and OCR.
4. OCR will not reimburse Chelan PUD staff time associated with the administration or management of contracts, consultants or Chelan PUD internal staff that are working on studies or other work that has been agreed to by both Chelan PUD and OCR.
5. OCR and Chelan PUD will cooperate with regard to seeking public input with regard to any water storage opportunities.

6. OCR and Chelan PUD will work together to explore whether any incremental hydropower that is developed as a result of this agreement can be defined as “Renewable Energy” under the Washington State Renewable Portfolio Standard in recognition of the potential social, economic, and environmental benefits.
7. OCR will work with Chelan PUD to obtain additional generation and/or impoundment water rights that may be needed to implement projects. Chelan PUD will be made whole in terms of its generation, transmission and other associated impacts if any projects are implemented.

ROCKY REACH DAM POOLRAISE

The staffs of OCR and CPUD have specifically identified increasing the normal operating elevation of the Rocky Reach Project as a concept that should be studied as providing potential benefit to Chelan PUD’s customer-owners in terms of additional generation and revenue as well as additional water availability in Chelan County and provides potential benefit to OCR in creating potential benefits to others who depend upon the Columbia River for a water source.

1. Structure
 - a. OCR and Chelan PUD will run project development and implementation processes jointly;
 - b. Chelan PUD will seek public input with regard to the potential project development;
 - c. OCR will provide political and regulatory support with other state and federal agencies as needed;
 - d. Chelan PUD will take the lead on the FERC license amendment process utilizing staff expertise;
 - e. Chelan PUD and OCR commit to working jointly with stakeholders to implement the principles described in this document in a transparent manner;
 - f. Chelan PUD and OCR will jointly develop a communication plan and support each other as needed at various venues.
2. Ute Ladies Tresses (ULT)
 - a. A study is needed to determine the potential impacts of the proposed pool raise on the ULT and to identify potential mitigation options;
 - b. This work shall be completed prior to initiating the license amendment process;
 - c. This study will be considered as part of the costs identified in 3(a) below.
3. Funding
 - a. OCR will pay the costs associated with investigating and implementing a pool raise at Rocky Reach to include feasibility costs, mitigation costs, license amendment costs, and capital/construction costs Chelan PUD staff time to conduct field work associated with the aforementioned items will also be reimbursed;
 - b. Chelan PUD will not seek reimbursement costs for Chelan PUD staff labor for project management and contract management and administration. A mutually agreed to administrative fee will be reimbursed to Chelan PUD;
 - c. If Chelan PUD determines the project is economical and will result in a net benefit to its ratepayers over the life of the project, Chelan PUD will reimburse OCR for the costs associated with the project at 0% interest over a mutually agreed upon amortization schedule;
 - d. If Chelan PUD determines the project is uneconomical or that the project does not result in a net benefit to its ratepayers, OCR can choose to move forward but with an expectation that any funding associated with the project will not be repaid by Chelan

PUD, and Chelan PUD will be paid for losses or costs incurred due to implementation of the project.

4. Operations. Final operations will be determined by Chelan PUD and OCR following completion of feasibility studies, environmental reviews and public input. Conceptual operation goals are:
 - a. OCR will be provided a call-option on the incremental storage provided by the project for the months of July, August, and part of September;
 - b. Chelan PUD will be able to utilize the incremental storage provided by the project from mid-September to the following July;
 - c. Chelan PUD is also interested in utilizing the water stored from July to mid-September to the extent OCR has not fully exercised their call option;
 - d. OCR and Chelan PUD agree to investigate the environmental review options that may provide additional environmental, economic, or social value if pre-season forecasting indicates the water stored by the project is not required to fulfill the OCR's water-right obligations (i.e. high-flow year).

CHELAN PUD

OFFICE OF COLUMBIA RIVER

By _____
Richard Riazzi, General Manager

By: _____
Derek Sandison, Director

Date: _____

Date: _____