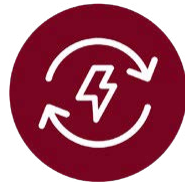


Relicensing and Early Action

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Presentation Outline

- Project License and Early Action Background
- Rock Island Project Overview
- Federal Energy Regulatory Commission (FERC) Relicensing
- Strategic Planning Approach
- Next Steps



A License to Operate

- The Federal Energy Regulatory Commission (FERC) is the regulator that issues hydroelectric operators licenses to operate.
- The licensing process is lengthy and expensive – 8-10 years and tens of millions of dollars.
- One goal of relicensing is to obtain the longest license term possible – 50 years.



Setting the License Term

- Until very recently, FERC decided how long the license would be based on a number of factors including the planned investments made in relation to the licensed project during the next license.
- The issue with this approach was that investments made during a license term, that were not anticipated during the relicensing process, did not count towards the next license term.
- Enter the Early-Action Concept



Evolution of Early Action Concept

- A step in the right direction –
 - After discussions by the District and others, FERC issued a policy statement in 2017 that set the default license term at 40 years and made some allowances for early-credit, but greater clarity was still desired.
- The next step –
 - Chelan PUD then developed and strongly promoted the passage of a new law that we refer to as Credit for Early Action – the provision was part of America’s Water Infrastructure Act of 2018 (S. 3021).
 - Early-Action Credit provides a mechanism for Licensees to request “credit” towards the next license term for actions we choose to take in advance of relicensing.
- Implementation –
 - Chelan PUD may now consider pursuing early actions, but this is an untested process and we are looking for customer-owner input.



The Law

In determining the term of a new license issued...the Commission (FERC) shall take into consideration, among other things –

“(b)(2) investments by the licensee over the term of the existing license that:

- (A) Resulted in redevelopment, new construction, new capacity, efficiency, modernization, rehabilitation or replacement of major equipment, safety improvements, or environmental, recreation, or other protection, mitigation, or enhancement measures conducted over the term of the existing license; and
- (B) COMMISSION DETERMINATION – At the request of the licensee, the Commission shall make a determination as to whether any planned, ongoing, or completed investment meets the criteria under subsection (b)(2). Any determination under this subsection shall be issued within 60 days following receipt of the licensee’s request”...



Why is this Good for Customer-Owners?

- Early Action Credit can help increase the license term. A longer license term helps recoup costs associated with operating a hydroelectric project which is better for ratepayers given the time, resources, and cost associated with relicensing.
- Actions and improvements could occur in advance of relicensing – providing a benefit sooner.
- Investments include: *redevelopment, new construction, new capacity, efficiency, modernization, rehabilitation or replacement of major equipment, safety improvements, or environmental, recreation, or other protection, mitigation, or enhancement measures.*
- Provides an opportunity to build support for relicensing and achieve community consensus on planned investments.



Current Status

- The law was signed by the President on Oct. 23, 2018.
- FERC now needs to revise its policies and establish the formal process by which licensees may request use of the new law.
- Chelan PUD held discussions with FERC in January 2019 and the agency is willing to collaborate with the District as an early-adopter.
- If pursued, Chelan PUD may be the first to use the new provisions.
- Chelan PUD is actively working with FERC to determine how the new provisions will be implemented.



Early Action Implications for Strategic Planning

- Focus for 2020-2024 Strategic Plan horizon: Planning for a relicensing process that provides the best chance of receiving the longest license term while addressing stakeholder interests and preserving the Rock Island Project's ability to be cost effective in the western power markets.
- Key questions:
 - To what extent should the PUD pursue early action projects?
 - What types of projects are our customer-owners interested in pursuing?
 - What are the pros and cons of pursuing these projects?



Rock Island Hydroelectric Project

Federal Energy Regulatory Commission (FERC Project No. 943)

- Original construction 1930s
- Second Powerhouse added 1970s
- 18 generating units
- Generating nameplate capacity of 624 MW
- First license 50 years
- Second license 40 years, expires Dec. 31, 2028



Additional Project Details

Since 2008, Chelan PUD began replacing aging infrastructure to enhance system reliability and safety. Chelan PUD will invest over \$622 million between 2008 and 2029 to rehabilitate and replace aging equipment:

- RI PH2 generating unit (8) and balance of plant rehab is forecasted to cost \$352M. This is 2018 through 2029.
- RI PH1 generating unit (10) and balance of plant rehab spent since 2002 and budgeted through 2022 is \$270M.
- Balance of plant includes cranes, transformers, utility systems, head gates, stoplogs, breakers, motor control centers, etc.



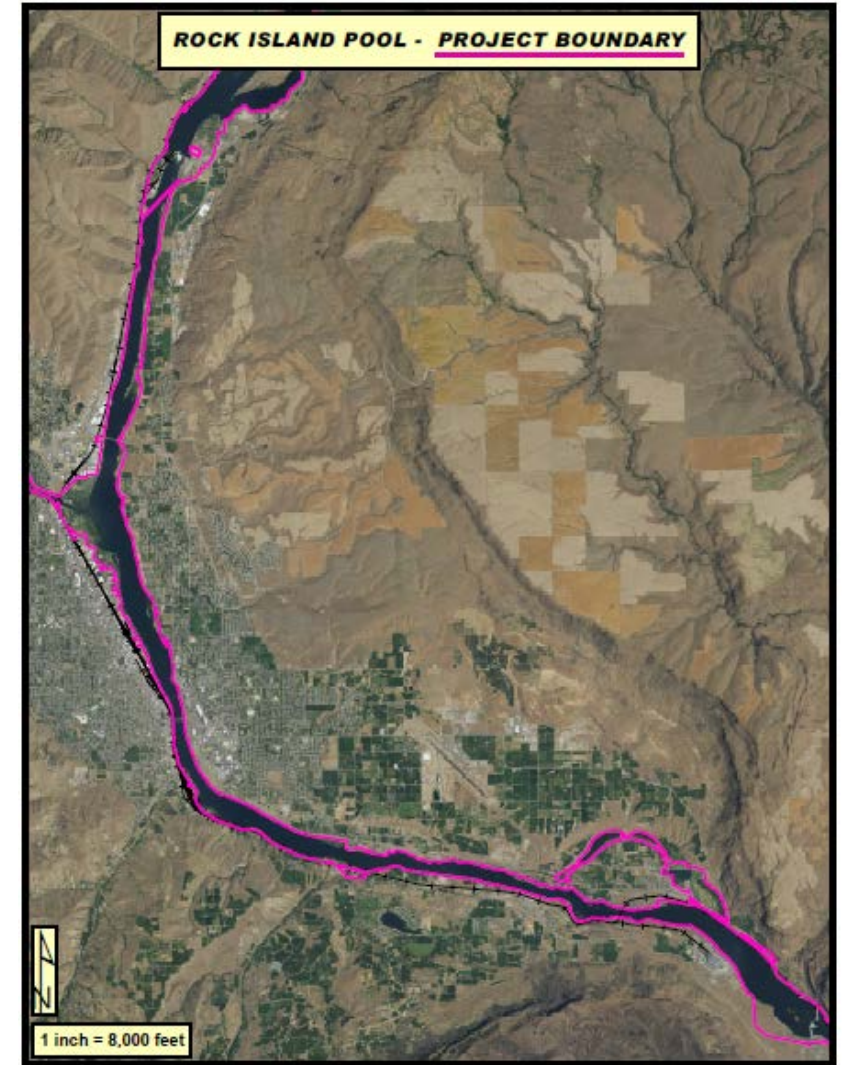
Relicensing Process

Project Boundary – FERC Jurisdiction

- Defines FERC's authority over lands needed to meet license requirements and project operations

Resources Evaluated in Relicensing

- Fish and Water Quality
- Cultural
- Recreation
- Socioeconomics
- Recreation
- Lands
- Terrestrial
- Soils and Geology
- Wildlife
- Safety
- Operations



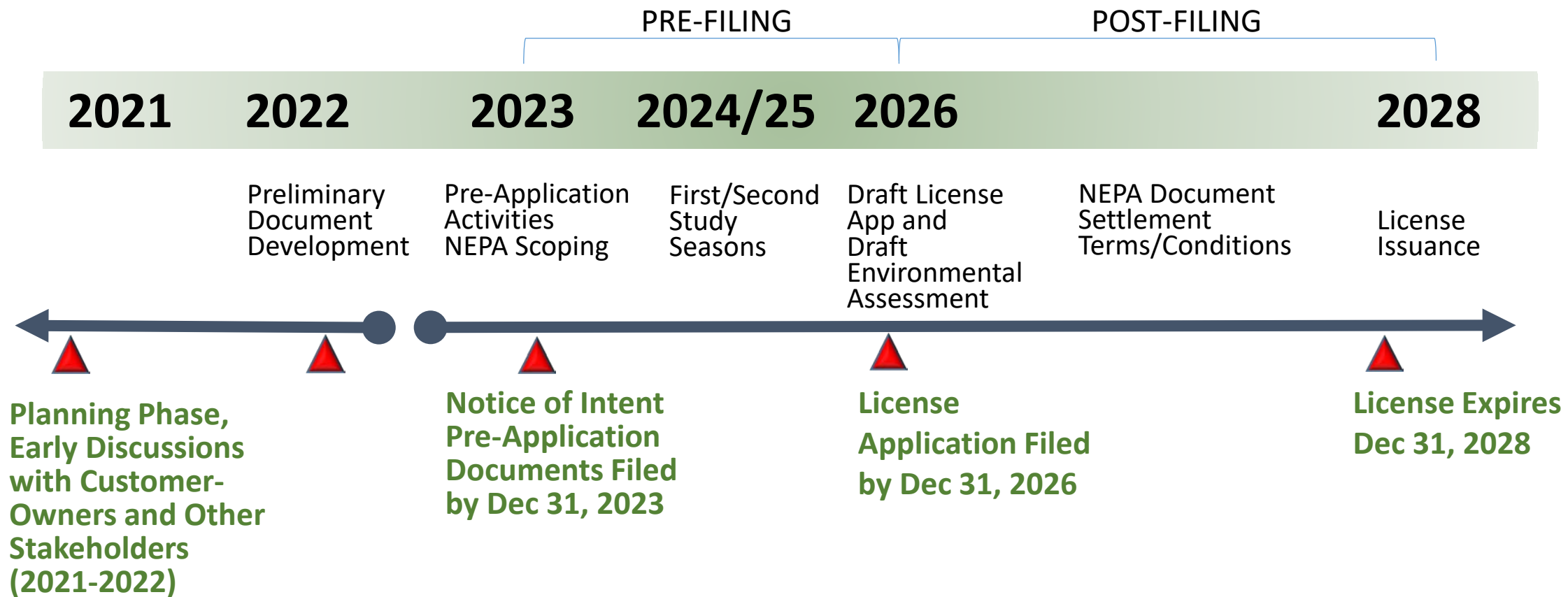
Relicensing Process



- Public Process
- Involves federal, state, and local agencies, Tribes, and non-governmental organization
- Begins with discussions to identify project-related issues, determine information gaps and study needs
- Results in long-term management plans for each resource area (e.g. recreation, cultural, wildlife, water quality, etc.)
- Typically also results in a Comprehensive Settlement Agreement
- Rocky Reach and Lake Chelan relicense experience



Anticipated Schedule for Relicensing Rock Island Hydro Project



This schedule is for early planning purposes only and should be con



How Does FERC Determine License Term?

- Will consider voluntary actions implemented under the prior license
- New default 40-year license term
- FERC will add more quantitative analysis
- FERC will accept license term agreed upon in a settlement agreement



Early Action Example – Major Infrastructure Investment

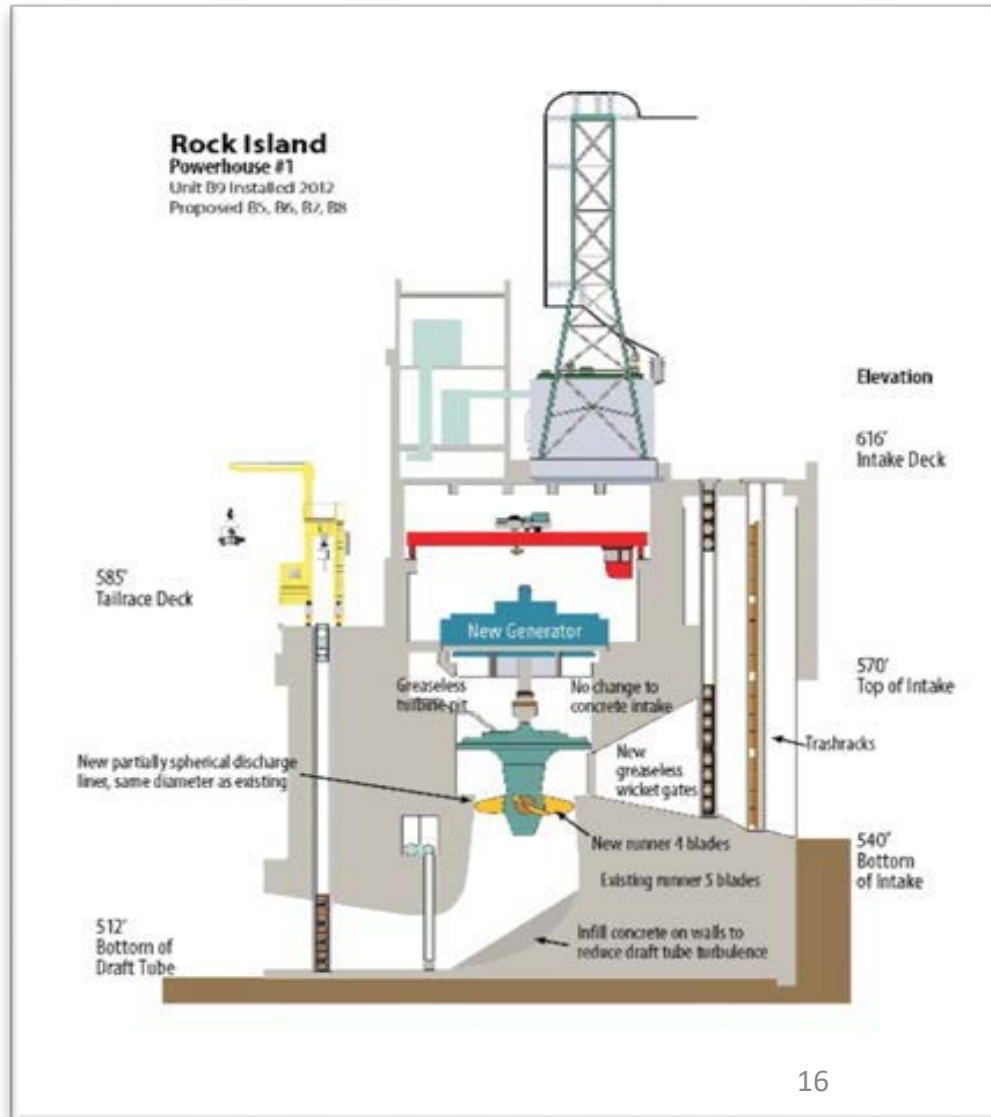
Rehabilitation of Turbine-Generator Equipment

Powerhouse 1 - Est. Cost \$270 Million

- B10 complete, 2008
- B9 complete 2012
- B6 complete 2018
- B7 est. complete 2019
- B5 est. complete 2020
- B1-B4 (est. 2018-2022)
- B8 (est. complete 2021)

Powerhouse 2 - Est. Cost \$352 Million

U1-U8 (est. 2022 – 2029)



Early Action Example – Meeting New Regulatory Obligations

Habitat Conservation Plan (HCP) investments since 2004:

- Implemented to meet Endangered Species Act (ESA) obligations for salmon.
- HCP obligations relative to the license term length for the Rock Island Project were not considered by the Commission when it adopted the Habitat Conservation Plan and made it part of the Project's license as part of its June 21, 2004 Order.
- In the June 21, 2004 Order, the Commission did not extend the District's 40-year license for the Project.
- Over \$37 Million spent by Chelan PUD on incremental capital investment to address HCP obligations for ESA and non-listed species issues.





Strategic Planning



Key Questions

- Should the District pursue early-action credit?
- If so, what actions should be considered?
- What does the District gain in return?

Process and Outreach

- Topic Teams
- Customer–owner input
- Input from other interested parties



Strategic Planning Timeframe

- February – April: Topic Team Meetings (2-3)
- May: Community Engagement, Customer-Owner Survey
- June: Topic Team Meeting to Review Survey, Finalize Topic Team Summary Report
- Summer: Finalize Draft Report, Public Comment Period
- Late-Summer: Board of Commissioners Action



Desired Outcomes

- Vetting of the concept, process and building of community consensus
- Identification of criteria by which the District should consider early actions
- Understand the interest, key issues, and trade-offs associated with early actions
- Potential development of an early action project list that is reflective of the above considerations
- Topic Team will spend considerable time understanding the key opportunities and risks associated with pursuing Early-Action Credit
- A Summary Report will be issued towards the end of the planning process and this effort will inform the final Strategic Plan



Upcoming Meetings

Preliminary Schedule

- Topic Team Meeting #1 (week of ~Feb. 28, up to three hours)
Examine concept and key issues, interest, value, and draft criteria
- Topic Team Meeting #2 (week of ~March 25, up to three hours)
Finalize criteria for consideration, analyze tradeoffs, establish project categories and consider developing project list
- Optional Meeting if Needed (week of ~April 8, two hours)
Could be used to refine project list and to discuss public education/outreach efforts
- Topic Team Meeting #3 (~June, two hours)
Review community feedback, finalize Summary Report



Team Logistics

- Team Composition

Who are we missing and how do we reach them?

What information gaps exist – team member requests?

- Future Meetings

Preferences in terms of days, time and location

- Contact Information (sign-in sheet)

- Questions

- Adjourn

