EnergyTrust of Oregon, Inc.

Board Decision
Proposed Funding for Swalley Irrigation District Hydropower project

August 8, 2007

Summary

Staff seeks authority to enter into a contract with Swalley Irrigation District to pay up to $895,609 of the above-market costs of a 750-kilowatt (kW) hydropower project.

Background

- Swalley Irrigation District proposes to pipe 5.1 miles of what is now an open irrigation canal that diverts water from the Deschutes River in Bend. The pipe would conserve water, a significant portion of which the District would restore to the Deschutes. The project is expected to be completed in mid-2008.

- Energy Trust would pay the above-market costs of installing a generator at the end of the 5.1-mile pipe. The generator's nameplate capacity would be 750 kW, will operate during the 6.5 month irrigation season and is expected to generate 2,752 megawatt-hours (MWh) per year.

- The total project cost is $10,436,585. Because of the project's watershed benefits, Swalley has secured commitments for $4,228,865 in grants from the Oregon Watershed Enhancement Board, the Deschutes River Basin Conservancy, the National Fish and Wildlife Foundation, and several other agencies and organizations.

- Staff analysis concluded that an incentive of $895,609 was necessary to cover the full above-market costs and bring the project on-line. The analysis used the newly submitted market prices from Pacific Power for standard, qualifying facilities.

- The incentive has a levelized cost of $0.0216/kWh, which is lower than the cost forecasted in the 2007-2008 budgets for the Open Solicitation Program.

- Staff proposes to pay the incentive based on production over a fifteen year period. The payments would match the 15-year term and debt service requirements of an anticipated loan from the State Energy Loan Program (SELP). Energy Trust would own all green tags.

- Energy Trust funding would be contingent on approval of their pending application for a loan through Oregon's State Energy Loan Program (SELP) and securing a BETC pass-through.

- Major terms of the proposed agreement:

    - Payment will begin upon commissioning of the project after an inspection shows standards for commercial operation have been met.

- Swalley will manage the project to meet agreed construction and operation milestones.

- Payments will be spread over 15 years and based on actual generation. If the project fails to meet minimum production levels and cannot solve the problem, Energy trust will be able to reduce its incentive.

Discussion

- The piping portion of the project will provide a variety of benefits to the Deschutes River watershed by increasing flows and cooling the river.

- The project will help develop our relationship with irrigation districts and open the door to other hydropower projects.

- The project will demonstrate that the fish impacts of irrigation can be reduced while increasing hydropower generation.

- The project is an example of a multi-partner/multi-benefit project in a water-challenged part of the state and sets the stage for other cooperative endeavors.

Recommendation

Approve funding for the project by adopting resolution number 444:

RESOLUTION #444

APPROVING FUNDING FOR THE SWALLEY IRRIGATION DISTRICT HYDROPOWER PROJECT

WHEREAS:

1. **Swalley Irrigation District proposes to pipe 5.1 miles of what is now an open irrigation canal that diverts water from the Deschutes River in Bend. The pipe would conserve water, a significant portion of which the District would restore to the Deschutes.**
2. **Swalley seeks an Energy Trust incentive to pay the above-market costs of installing a 750 kW generator (nameplate capacity) at the end of the 5.1-mile pipe. If paid over 15 years, the above-market costs of the project's electric generation would be $895,609.**
3. **Energy Trust funding would be contingent on approval of a State Energy Loan and Swalley securing a pass-through partner under the state's Business Energy Tax Credit program.**
4. **The project will demonstrate the benefits of cooperation among diverse parties in a water-challenged part of the State.**

It is therefore RESOLVED:

The board of directors of Energy Trust of Oregon, Inc., authorizes the Executive Director to negotiate and execute a contract with the Swalley Irrigation District to pay up to $895,609 of the above-market costs of the electric generation aspect of this project, consistent with the following terms:

1. **Payment will begin upon commissioning of the project after an inspection shows standards are met for commercial operation.**
2. **Swalley will manage the project to meet agreed construction and operation milestones.**
3. **Funds will be paid on actual production over a 15 year period.**
4. **Energy Trust will receive all the green tags generated by the project.**

Moved by: Seconded by:

Vote: In favor: Abstained:

Opposed: [list name(s) and, if requested, reason for "no" vote]