



ORCHARD MESA IRRIGATION DISTRICT

Notice of the Cancellation of the 2021 Annual Meeting

of Orchard Mesa Irrigation District Landowners and Special Election by Written Ballot

November 20, 2020

At the time it was necessary to proceed with the notification of landowners for the 2021 annual meeting in January, the State of Colorado First Amended Public Health Order 20-36, Executive Order 2020-245 and Mesa County Public Health Order MCPH2020-06 contained restrictions on indoor gatherings and social distancing which Orchard Mesa Irrigation District is unable to comply with and still hold an indoor meeting. In the interest of the safety of the staff, Board and landowners, the Board of Directors has decided to cancel the 2021 annual meeting of landowners. This Notice discusses how pending District issues will be handled considering the necessary cancellation.

BOARD OF DIRECTORS ELECTION

Because of the COVID-19 pandemic restrictions to public meetings in effect as of the date of this Notice and the uncertainty as to when such restrictions may be lifted, the Board has authorized a special 12-month extension of the 3-year terms of the two directors whose terms expire in January, 2021. Those directors are Roblee Talbott and Neil Jaquet. Accordingly, their terms of service will expire in January 2022. At that time, these director seats will be voted upon by the landowners of the District and the elected directors will complete the normal term of these seats through January 2024.

AUTHORIZATION TO BORROW FUNDS FOR THE GRAND VALLEY POWER PLANT REPLACEMENT

An item which needs action by the landowners in January 2021 is the authorization for the District to borrow funds to replace the existing Grand Valley Power Plant (“Existing Hydro”) with a new power plant, the construction of which could begin in late 2021.

The Existing Hydro has been in operation since the 1930’s, and the majority of that time it was operated by Public Service Company of Colorado, now known as Xcel Energy. Xcel Energy terminated its operation of the Existing Hydro in 2010. The District and the Grand Valley Water Users Association (“Water Users”) then jointly took over operation of the Existing Hydro through an agreement with the Bureau of Reclamation which owns the Existing Hydro and the power water right.

The District and the Water Users took over the Existing Hydro because it provides important benefits to their irrigators, such as: 1) it helps to convey irrigation water nearly 5 miles from the Cameo Diversion to the District's pumps, increasing the reliability and amount of irrigation water; 2) it generates revenue; and 3) it provides significant water to a critical reach of the Colorado River, helping to ensure the State of Colorado remains in compliance with Endangered Species issues which benefits the continued operations of both the District and the Water Users.

Beginning in 2016, the District contemplated rebuilding the Existing Hydro, at an original cost estimate of approximately \$5 million dollars. This new plant would have produced about 3.4 megawatts of electrical power. (A megawatt of the electricity can power 250-300 homes in Colorado).

Since 2016 the District’s management and Board, along with the Water Users, have been pursuing permitting and financing for the rebuilding project, given the Existing Hydro’s age, state of repair, availability of parts and lack of prior maintenance by Xcel Energy. In early 2020 it became obvious that the rebuilding would not be economically feasible for the District and the Water Users given the requirements of the Bureau of Reclamation. At the time the District and the Water Users determined the rebuilding of the Existing Hydro could not proceed, the project cost had already doubled, and the Bureau had not even completed its review. The projected revenues of a rebuilt plant simply did not justify the District or the Water Users proceeding with the project.

The District's and the Water Users consultants then recommended building a new, modern power plant ("New Hydro") adjacent to the old, worn-out Existing Hydro. The new construction cost would be approximately \$8.5 million dollars and the New Hydro would generate roughly 40% more power and revenue than a rebuilt Existing Hydro.

The New Hydro will be constructed with funds contributed by the District, the Water Users and Sorenson Engineering, a family owned engineering firm specializing in small hydroelectric plant design, construction, operation, permitting and financing. Sorenson Engineering has been involved in evaluating and troubleshooting the Existing Hydro for several years and were involved in the construction of hydroelectric plants on the Bureau's Uncompahgre Project. Sorenson Engineering owns and/or operates over 30 small hydroelectric power plants (<5 megawatts), many in conjunction with irrigation companies in Colorado and adjacent states. The plan is that after the New Hydro is completed, the District and the Water Users would together own 51% (25.5% each) of the New Hydro and Sorenson Engineering would own 49%.

Over the past 4 years, the District and Water Users management have been able to secure approximately \$3.5 million in grant funding for the project from the Federal and State governments, various non-profits, and a local water fund. There is also a good possibility of additional grant funds to be provided given the importance of protecting the endangered fish through delivery of water to the 15-Mile reach of the Colorado River between Palisade and the Gunnison River confluence. Construction will likely begin in late 2021 and the Hydro should begin operations in early 2023.

BALLOT QUESTION FOR LANDOWNER APPROVAL

You may recall the District landowners authorized the District to borrow up to \$1.7 million to rebuild the Existing Hydro at the annual meeting in January 2016.

The approval of the landowners for the \$1.7 million in 2016 was for rebuilding the Existing Hydro. The Board of Directors is now asking for landowner approval of a financing program to replace the Existing Hydro with a New Hydro at a construction cost of approximately \$8.5 million, at a location on District and United States property adjacent to the Existing Hydro. Financial projections of the New Hydro's construction cost and future generated revenue show considerable positive annual cash flow, well into the low six figure range.

BOARD OF DIRECTORS RECOMMENDATION

The Board of Directors recommends approval by the landowners for the District to enter all agreements necessary to permit, finance, design, construct, operate and own 25.5% of the New Hydro. If the ballot question is approved, the District and the Water Users will ultimately own a total of 51% of the New Hydro. The District requests authorization by the landowners to borrow up to \$1.7 million to finance its share of the New Hydro construction cost and related expenses. The District does not anticipate needing to borrow the full amount of this request, but the projected revenues support such a loan, if necessary. The District will only borrow funds necessary to complete the project, and such borrowing will not exceed \$1.7 million. The funds will be borrowed from the Colorado Water Conservation Board at an interest rate of 2.0% and a term of 30 years.

If the Directors' recommendation is approved, several contracts will be signed by the District to establish an operating entity, provide the mechanisms for the Water Users and the District to control 51% of the entity, construct and operate the New Hydro, lease the water right from the Bureau of Reclamation, and sell the power to an electric utility to generate revenue for the District.

2021 ELECTION PROCESS

This request would normally be made at the annual meeting in January 2021. However, due to the COVID restrictions the Board of Directors is conducting the landowner approval process by mail-in / drop-off ballot.

The ballot is attached and asks for authorization to borrow up to \$1.7 million to complete OMID's share of the New Hydro funding, and authorize the Directors to enter into long-term contracts to finance, design, operate and own 25.5% of the project, along with the Water Users and Sorenson Engineering.

Please complete the attached ballot and return it by mail or drop it at the District office at 668 38 Road, Palisade during normal business hours 7 A.M. – 3:30 P.M. We will have a drop box located outside the office to minimize the staff's contact with the public. Your ballot must be received by the District by 5 P.M., January 14, 2021.

The landowner authorized number of votes will be assigned to each ballot, in accord with the District and Mesa County Assessor records, and the votes tabulated by District personnel by 5 PM, January 21, 2021. Results of the election will be posted on the District's web site, www.omirrigation.com .

If you have any questions, please call the District's General Manager, Max Schmidt, at 970-464-7885.