

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: JENNIFER BURKE, DIRECTOR
SANTA ROSA WATER
PETER MARTIN, DEPUTY DIRECTOR WATER RESOURCES
SUBJECT: UPDATE ON PG&E'S POTTER VALLEY PROJECT

AGENDA ACTION: NONE

RECOMMENDATION

It is recommended by Santa Rosa Water and the Board of Public Utilities that the Council hold a study session to receive information, ask questions, discuss, and provide direction regarding the future of the Potter Valley Project to inform Santa Rosa's Water Advisory Committee and Technical Advisory Committee member for participation in the Russian River Water Forum.

EXECUTIVE SUMMARY

The Potter Valley Hydroelectric Project (Project), owned and operated by PG&E, is located along the Eel River and diverts water into the East Fork of the Russian River which flows into Lake Mendocino. The Project is licensed by the Federal Energy Regulatory Commission (FERC). In 2019, PG&E notified FERC that it would not relicense the Project. Subsequent to PG&E's notification, Sonoma Water, Mendocino County Inland Water and Power Commission, Humboldt County, California Trout and the Round Valley Indian Tribes formed the Two Basin Solution Partnership (Two Basin Partnership) to explore relicensing the Project. The Two Basin Partnership was unable to secure funding and meet the required deadlines to file a relicensing application. In February 2022, PG&E announced its plans to surrender the FERC license and decommission the Project. In July 2022, FERC accepted PG&E's proposed 30-month schedule (by January 2025) to submit a license surrender application and decommissioning plan. PG&E will continue operating the Project under annual FERC licenses in the interim, but it is unclear whether water flow from the Eel River to the Russian River will continue after decommissioning of the Project. Sonoma Water and a collection of regional partners are initiating a collaborative process, the Russian River Water Forum, which aims to preserve the water flow from the Project into the Russian River while also fostering collaboration to support water supply resiliency in the Russian River watershed. Santa Rosa's Water Advisory Committee (WAC) member, Councilmember Rogers, and Technical Advisory Committee (TAC) member, Water Director Jennifer Burke, have been invited to provide

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input on Santa Rosa's perspective on the future of the Project. Santa Rosa Water staff will provide a brief update on the Project and anticipated next steps. The Council may discuss this item and provide direction regarding the future of the Project to inform Santa Rosa's WAC and TAC member for participation in the Russian River Water Forum.

BACKGROUND

For several years Santa Rosa Water staff have been monitoring the PG&E FERC relicensing developments for the Project. The Project is a 9.4-megawatt hydropower project located on the Eel River and the East Fork of the Russian River in Mendocino and Lake Counties, about 15 miles northeast of the city of Ukiah. The Project has been in continuous operation for more than 100 years and has been owned and operated by PG&E since 1930.

The Project features include Lake Pillsbury, a 76,876 acre-foot storage reservoir impounded by Scott Dam; Van Arsdale Reservoir, a 700-acre foot storage reservoir impounded by the Cape Horn Diversion Dam; and a tunnel and penstocks that divert Eel River water to the Project's powerhouse located in Potter Valley. From the powerhouse, the diverted water flows into the East Fork of the Russian River, where it continues into Lake Mendocino, just outside Ukiah. Releases from Lake Mendocino flow into the Upper Russian River. The Project currently diverts, on average, approximately 60,000 acre-feet of Eel River water into the Russian River per year.

FERC is the primary regulatory entity for non-federal hydroelectric projects, authorizing construction and issuing licenses for operations. PG&E's FERC license to operate the Project was set to expire in April 2022. In 2017, PG&E formally notified FERC of its intent to obtain a new license (relicense) for continued long-term operation of the Project. However, in 2019, PG&E unexpectedly filed a notice of intent to withdraw from the relicensing process amidst the backdrop of PG&E's Chapter 11 bankruptcy proceedings. PG&E's withdrawal from relicensing the Project meant an uncertain future with regard to Project operations and its continued diversions of Eel River flows and allowed for other potential entities to pursue relicensing of the Project.

Sonoma Water, Mendocino County Inland Water and Power Commission, Humboldt County, California Trout, and the Round Valley Indian Tribes formed the Two Basin Partnership and subsequently executed a planning agreement to evaluate the feasibility of relicensing the Project and pursuing a mutually beneficial project alternative. On May 13, 2020, the Two Basin Partnership submitted a feasibility report to FERC for pursuit of a preferred project alternative with estimated costs ranging from \$100M to \$400M for project modifications and relicensing cost estimates ranging from \$20M to \$30M.

For a variety of reasons, the Two Basin Partnership determined it would not be able to raise the funding to complete the required studies while also meeting the required deadlines to submit a relicensing application. In September 2021, FERC denied a request

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by the Two Basin Partnership to extend the deadline to submit a relicensing application, effectively ending the Two Basin Partnership's pursuit of relicensing the Project.

In February 2022, PG&E announced its intention to surrender the FERC license and decommission the Project. In July 2022, FERC accepted PG&E's proposed 30-month schedule to submit a license surrender application and decommissioning plan by January 2025. During the interim, PG&E will continue operating the Project under annual licenses issued by FERC.

Uncertainties related to the planned surrender and decommissioning process is concerning for those in Mendocino and Sonoma Counties that rely on the Russian River and the water flow from the Project. Sonoma Water recently secured grant funding from the California Department of Water Resources to initiate several studies that aim to accomplish the following:

1. Investigate the acquisition of key components of the Project from PG&E and modify them to function as a water diversion-only facility, including estimating the cost of modifications to Project facilities and operations.
2. Analyze and develop concepts for new projects necessary to improve water supply opportunities for Potter Valley.
3. Establish a Russian River Water Forum that aims to preserve the flow of water from the Project into the Russian River while also fostering collaboration to support water supply resiliency in the Russian River watershed.

The deliverables from these studies are critical to better understanding the potential future operating scenarios of the Project and the corresponding best options for securing water supplies in the future. Sonoma Water has retained the services of Kearns & West to establish and facilitate the Russian River Water Users Forum through an inclusive and transparent process.

ANALYSIS

Sonoma Water's modeling forecasts that, if the current Project water transfers into Russian River cease, there will not be enough water supply to meet all the needs of businesses, cities, residents, and wildlife that depend on the Russian River in eight out of ten years. And, in two out of these eight water-short years, there is predicted to be a 30,000-acre foot shortage of water in the Russian River such that Lake Mendocino is predicted to go dry. These forecasts portend an uncertain future for Russian River water supplies given PG&E's plans for license surrender and decommissioning of the Project.

The existing water supply from the Project is crucial to the economy and environment of the Russian River basin, including protection of threatened and endangered species of anadromous fish. Preliminary estimates suggest that the loss of Project water diverted into the Russian River could result in losses of up to \$40M per year to the economies of

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Mendocino and Sonoma County. Even if current Project water transfers continue, additional water supply resiliency improvements are needed for the Russian River Basin.

Sonoma Water and a collection of regional partners have initiated the Russian River Water Forum. The goals of the Russian River Water Forum are: develop a plan for strategic engagement, conduct outreach to and educate stakeholders, facilitate formation of a leadership structure, and engage in solutions to preserve the flow of water from the Project into the Russian River while also pursuing Russian River resiliency projects. The first step in the Russian River Water Forum engagement process is a series of interviews with stakeholders representing a range of communities and perspectives regarding the Russian River watershed.

Sonoma Water has invited Santa Rosa Water's WAC Member, Councilmember Natalie Rogers, and TAC Member, Water Director Jennifer Burke, to participate in the Russian River Water Forum interview process. On October 20, 2022, Santa Rosa Water staff held a study session with the Board of Public Utilities to provide input regarding Santa Rosa's WAC and TAC member responses to the Russian River Water Forum interview. The following input was provided:

- Support continued diversions of water from the Project into the Russian River to maintain water supply reliability and support the significant investments already made by Sonoma Water and the water contractors to restore endangered fish species in the Russian River.
- Generally support establishment of a Regional Entity to acquire elements of the Project and water rights necessary to continue such diversions.
- Indicate receptiveness to contributing funding to support continued diversions from the Project and a new Regional Entity as long as the funding is proportional to the benefit received.
- Ensure any decisions regarding the continued flow of water from the Project are consistent with the Restructured Agreement for Water Supply.
- Continue to seek opportunities for meaningful input on the Russian River Water Forum and on the evaluation of water supply resiliency projects

Santa Rosa Water Staff will seek input from the Council to inform Santa Rosa's WAC and TAC member for participation in the Russian River Water Forum.

PRIOR CITY COUNCIL REVIEW

Not Applicable.

FISCAL IMPACT

This is a study session and no formal action will be taken.

ENVIRONMENTAL IMPACT

This study session is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guidelines Section 15378.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

On October 20, 2022, the Board of Public Utilities conducted a study session and provided direction to staff regarding PG&E's proposed Project FERC license surrender and decommissioning.

On May 21, 2020, the Board of Public Utilities received a staff briefing regarding the Two Basin Solution Partnership's pursuit of relicensing the Project. This was subsequent to PG&E's notice of intent to withdraw its relicensing application in 2019.

ATTACHMENTS

None.

CONTACT

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