

KERR PROJECT ACQUISITION: DUE DILIGENCE OF OPERATIONS & MANAGEMENT

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After getting a sense of the goods that the Tribes intend to purchase in 2015 by structurally evaluating the Kerr Project Works (i.e. Dam, Penstocks, Powerhouse, etc), the next step is thoroughly evaluating the resources and systems that are needed to effectively operate and maintain Kerr Dam.

For this type of in-depth, nitty-gritty work, NAES Corporation fit the bill and was contracted by EKI as an expert in the area of power generation operations and maintenance.

Founded in 1980, NAES has over 2,600 employees, and is a world leader in operations and maintenance of hydropower facilities. The company has been very successful, with over two decades of renewable energy experience, and over three decades of leading clients on major maintenance challenges at hydropower projects.

Headquartered in Issaquah, Wash., NAES expertise encompasses a successful record of conducting ownership transition services at 139 different facilities, including over 3,300 personnel. Some specific activities of these transitions included transition hiring; program development and implementation; environmental and safety assessments; information management systems setup; and union/non-union labor issues.

“One strength that NAES brings to the table is that they know what it takes to run a successful power generating facility,” said Lon Topaz, EKI Board Member. “They have significant hands-on experience running power generating plants. It’s not just theoretical, but a deep well of practical knowledge that greatly benefits EKI as we continue to move forward in preparation of running Kerr Dam by 2015.”

To date, EKI has paid both MWH and NAES for their services primarily through grant funding that was awarded to EKI by the Department of Interior Division of Energy and Mineral Development. Part of the Bureau of Indian Affairs, this division assists tribes with the exploration, development and management of their energy and mineral resources.

Upon evaluation of Kerr Dam, NAES recommended the following four phases for successful operation and maintenance of the Kerr Project Works, including:

- 1) Operations and maintenance due diligence (completed).
- 2) Preparation for operations and maintenance (in progress).

- 3) Operations and maintenance transition (anticipated in September 2015).
- 4) Initial months of ownership by EKI of the Kerr Project (anticipated last quarter of 2015 into 2016).

To date EKI has hit the ground running on the first two phases. Now sights are set on phases 3 and 4.

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Phase 1 – Operations and Maintenance (O & M) Due Diligence

NAES recommended that due diligence be performed regarding the operations and maintenance of Kerr Project Works. Specifically including:

- Taking a hard look at the risks associated with the configuration, equipment and layout of the plant;
- Site inspection and general condition assessment (primarily completed by the MWH evaluation);
- Maintenance program;
- Environmental, health and safety program (including permits and regulatory actions that have been taken and are projected);
- Management and administration;
- Operations and maintenance budget history, current status and projection;
- Personnel training, qualification, capability and seasonal planning;
- Emergency staffing;
- And tribal jurisdiction and legal issues.

Some of the major findings of the NAES due diligence investigation of the project included that all of the Project Works are in very good condition with historically solid operational performance. The current on-site workforce is effective, and the current owner, PPL Montana, has developed and implemented an effective management and support infrastructure. NAES concluded that the Kerr Project Works have strong potential for continued successful, long-term operations.

Phase 2 – Preparations for Operations and Maintenance

Currently, PPL Montana operates, manages and supports the Kerr Project as part of its larger portfolio of systems that includes 12 different hydropower projects. Under CSKT

ownership, the Kerr Project would be a “stand alone” single project not supported by the current PPL organization and infrastructure. As a result, upon conveyance, EKI must tailor the management and support of the Kerr Project Works to fit the Tribes’ circumstances.

This will include adding specially trained personnel, and revamping some of the management systems to provide comprehensive support at the Kerr Dam and Powerhouse. Successful transition of operations also entails developing a detailed transition plan, something that EKI has been focused on intensively for the last several months.

“NAES has helped us round out our team of expertise that also includes our staff and board members,” says Topaz. “If we were part of huge corporate portfolio, then we might have many of these types of experts in-house, but typically for a smaller independent operation such as the Kerr Project within EKI, this isn’t economically efficient. By developing a long-term relationship with NAES, we fill in the gaps effectively to help the Tribes achieve the goal of successfully running the dam upon conveyance.”

Additional considerations that EKI has to take into account while preparing for the acquisition of the Kerr Project are:

- Critical standard operating procedures that will ensure compliance with regulatory requirements overseen by FERC;
- Workplace safety protocols to ensure compliance with requirements of the Occupational Safety and Health Administration (OSHA);
- Fail-safe start-up, generation, and shut-down protocols to ensure compliance with the requirements of the North American Electric Reliability Corporation (NERC) a not-for-profit entity whose mission is to ensure the reliability of the bulk power system in North America;
- Meet the standards set by the Western Electricity Coordinating Council (WECC), a non-profit corporation that exists to assure a reliable Bulk Electric System in the geographic area known as the Western Interconnection; and National Security Agency (NSA).

Additionally, as EKI moves toward the transition of operations and maintenance of the dam, one personnel position is critically important, the Kerr Project Plant Manager.

Bart Vanderhoof has been chosen for this leadership role at the Kerr Project.

“Moving across the country to work at the Kerr Project for the Tribes is a new experience for myself and my family,” said Vanderhoof. “I am excited by the opportunity to support EKI with the ownership of a major hydropower facility. There are no other tribes in the nation in this position, and it is great to be part of the team working to set up this valuable resource that the tribal community will have well into the future.”

Vanderhoof comes to EKI with significant experience in hydropower operations, most recently as the Deputy Power Manager of the Upper Colorado Region for the Bureau of Reclamation. In this position Vanderhoof provided managerial oversight and direction for the development, execution, and coordination of programs related to power generation within the upper Colorado region, including the operation and maintenance activities for power generation and associated facilities of the Colorado River Storage Project.

Vanderhoof's prior work positions include Bureau of Reclamation Deputy Facility Manager/Field Division Manager for Glen Canyon Dam in Ariz.; U.S. Army Corps of Engineers Operations and Maintenance Manager at Dworshak Dam in Idaho; U.S. Army Corps of Engineers Dual Rate/Chief Power Plant Operator at Chief Joseph Dam in Wash.; Power Plant Operator at Kannapolis Energy Partners/Peregrine Energy Corporation, a 50 megawatt coal electric generating facility; Power Plant Operations at PGE's 1200MW Trojan Nuclear Plant; and 6 years in the U.S. Navy, USS Mississippi, Work Center Supervisor Nuclear, with an honorable discharge.

EKI also continues to move forward with other key personnel in addition to the plant manager. As contemplated in the Kerr license, EKI has hired and placed 4 plant operator trainees, who are all Tribal Members, into PPL Montana's Apprenticeship program.

Lastly, in addition to personnel, EKI has begun to study and evaluate power-marketing partners that will assist with the marketing of energy generated by the dam upon acquisition. Currently Daniel Howlett, CSKT Tribal Member, is working with Bonneville Power Administration in Portland, Ore., to gain experience and on-the-job training for his position with EKI as the Power Marketing Coordinator.

"There are some big issues and certainly a big investment at stake," said Topaz. "But in my experience, EKI's activities are part of a straightforward due diligence process that is imperative in this kind of business. The key is putting together a strong team, then setting in place the parameters for doing business, then taking it step-by-step to make sure the major issues are covered. There are many others out there who covet the position of EKI-- to be able to buy a proven generation asset, in a market on the upswing, and for a good price. I feel really confident about where we are standing and our direction moving forward."

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