

News

Portland, after losing \$11 million generating hydropower, forges new dam deal that could lose millions more

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A dam within the Bull Run watershed is under review for the city of Portland. Jamie Francis/The Oregonian

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By **Shane Dixon Kavanaugh | The Oregonian/OregonLive**

During the past half decade, Portland has lost millions of dollars operating a pair of once-profitable hydropower dams it owns, despite assurances by project managers it would make money.

Nevertheless, the Portland City Council this week approved a deal needed to continue running what has recently been a cash-losing venture, more than doubling the annual contract of a Eugene utility that helps sell power from the two Bull Run watershed facilities.

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David Peters, who oversees the hydroelectric project as a principal engineer for the Water Bureau, explained why he thinks Portland residents shouldn't fret.

"We cannot predict the weather, which directly impacts how much power we can generate, but we feel good about the value that we are receiving for our power generation," he said.

Over the past five years, bone dry weather, rock bottom energy prices and a costly end to a decades-long agreement with the project's former operator drained nearly \$11 million from city coffers, according to financial documents, city officials and industry experts.

But so far, the taxpayer-funded venture, which has historically turned a tidy annual profit, has not required a bailout from the city's general fund, a concern previously raised by city budget analysts.

Instead, the Portland Hydroelectric Project has remained afloat by drawing down on financial reserves it amassed during more lucrative periods of hydropower generation.

Despite a financially shaky start under a maintenance and operations scheme that was rejiggered in 2017, city officials forecast surging revenues over the next five years.

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The volume of water that goes over the dams and the market price for energy generated beyond the guaranteed volumes the city sells to Portland General Electric at pre-determined rates both dictate whether the city makes huge profits, loses big money or lands somewhere in between.

Portland began churning out hydropower in 1982 and currently generates enough carbon-free electricity to service about 10,000 homes, according to city officials and documents. The Bureau of Hydroelectric Power, a little-known city agency managed through the water bureau, is responsible for the project.

"I think you're just being funny, but this isn't an actual bureau, is it?" Commissioner Dan Ryan asked Peters during a City Council meeting last month.

"No, it's an actual bureau," the water bureau engineer said.

For decades, PGE maintained and operated the venture and bought hydroelectricity from Portland but ceased doing anything but purchasing the clean power in 2017. The city netted about \$400,000 annually, which went to the general fund, [documents show](#).

As that partnership came to an end, city officials concocted a proposal to keep the dams churning by hiring three separate entities to generate and sell hydroelectricity.

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Under it, Eugene Water and Electric Board is a relatively minor player, providing scheduling services to the venture at a cost of \$192,000 a year, up from \$84,000, according to its newly approved contract.

PGE buys the hydropower and also contracts with Portland to maintain the facilities' transmission lines — to the tune of about \$200,000 annually, documents show.

The city pays the most money — about \$1.6 million a year — to Energy Northwest, a Washington energy agency, to head up the project's operations and maintenance. The agency's contract was automatically renewed at the beginning of the month, city officials said.

Portland, meanwhile, assumes the financial risk of operating and maintaining the dams.

Officials declined to disclose what PGE pays for city hydropower, citing a confidentiality agreement. A copy of the contract provided to The Oregonian/OregonLive redacted all financial information. The contract ends in 2032.

Uncertainty about the project's ongoing success loomed large in the revenue projections released by water bureau officials in 2017. Officials estimated the city would lose more than \$3 million over the next five years in the worst-case scenario or make around \$9 million in the best-case scenario.

Water bureau officials, however, insisted Portland would continue turning a profit from the new operating agreements in the period from 2017 to 2021, even after the city's budget office raised concerns.

That did not happen.

While the project generated a small surplus of just over \$100,000 for the fiscal year ending in 2018, the city had to pay a massive \$8.9 million to PGE to finalize the dissolution of the original partnership, according to records and city officials.

The bulk of that money “was not a financial loss but a reimbursement for improvements to the system,” said Jaymee Cuti, a water bureau spokeswoman, in a statement. She said city officials don’t consider the nearly \$9 million to be part of operating costs or losses, because the money was used to cover “the repair and replacement of major equipment” at the dams over an extended period of time that she could not specify.

The next three years were dismal as operating expenses outpaced power revenues by more than \$2.6 million cumulatively, forcing officials to plug the gaps from reserves.

Peters, in an interview with the Oregonian/OregonLive this week, said that time period marked the driest three-year stretch since the two hydroelectric dams began operating, causing reservoir water volume — and with it, revenue — to plummet.

“We did not generate power as expected,” he said. “We did have the worst of the worst-case scenarios play out.”

Fortunes, however, improved for the fiscal year ending this past June as an extremely wet winter and spring — coupled with a power rate hike — bumped profits up above \$400,000 for the 12-month period, preliminary figures show.

City forecasts provided to The Oregonian/OregonLive are equally rosy over the next five years, with estimated annual profits ranging between about \$500,000 and \$1 million.

Robert McCollough, a nationally renowned energy consultant and former PGE executive based in Portland, is a little less optimistic about the project’s prospects, however.

McCullough, who reviewed the project’s financial tables as well as publicly available purchasing data by PGE, said that even with scheduled rate hikes and inflationary adjustments, the forecasts would remain out of reach unless the rains repeatedly soak through the record books.

“Suffice it to say, this makes damn little sense,” he said. “For these numbers to work, they’d need to have one hell of a water year — year after year.”

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