

Pending Joint Purchase of the Vallecito Power Plant

(April, 26, 2025)

The Pine River Irrigation District (PRID) has recently been approached by Ptarmigan Energy Inc., Aspen, Colorado (current owners of Vallecito Hydroelectric Plant, regarding PRID's interest in becoming a joint owner in the Power Plant. Sadly, compromising health issues, with the present owner, have brought this remarkable opportunity to PRID. It has also put the potential purchase on a very "fast track" in meeting Ptarmigan's collective needs and expectations.

The joint purchase opportunity, for PRID and HydroWest - a local electrical power generating company, owned by Sam Perry and Eric Jacobson, who are associates of Ptarmigan, was discussed at our Annual Member Meeting on January 18, 2025. At that meeting, Board President Allen McCaw, informed those in attendance of the pending purchase. In addition, Allen asked that as discussions continue, regarding Ptarmigan's purchase proposal, any PRID members that have an interest in assisting the PRID Board of Directors (BOD) on the purchase, to please provide their contact information to Superintendent, Ken Beck. Ten (10) members followed through with Ken.

On Thursday April 3, 2025, a meeting was held at the Rose Restaurant, in Ignacio, Colorado with those individuals who expressed an interest in assisting the PRID BOD, in the decision to, or not to, purchase a joint interest in the ownership of Vallecito Power Plant. The following individuals were in attendance: Allen McCaw, Steve Pargin, Nate Wright, and Ken Beck (PRID BOD/Superintendent); Ezra Lee, Eric Witt, John Batey, Richard Perry, and Zack Riley (PRID Members). In addition, Amos Lee and Linda Odell were not able to attend the meeting. Allen provided them with copies of the financials and discussion points.

At the meeting, Allen prefaced his introductory remarks by informing those in attendance that Ptarmigan had structured the joint partnership proposal/sale. Specifically, the purchase would be between PRID and HydroWest. (Note - PRID was informed later, by Brett Anderson, an official with Ptarmigan overseeing and managing the sale, that the ownership apportionment was to be 50/50.) Additionally, as an offshoot from the aforementioned health concerns, the sale was to be consummated by early summer 2025. Thus underscoring the "fast track" element of the sale. Allen emphasized that Ptarmigan strongly desires to continue the legacy of benefiting the PRID irrigators (PRID land owners and Southern Ute Indian Tribe members) that has been established over the past 37 years with the development and operation of the Power Plant.

Financials

Allen distributed financial documents on the Power Plant for the preceding ten year period, from 2015 to 2024 (Projected Revenue and Balance Sheet. See attachments.) Over this period, net income averaged \$454,681. The high and low net annual income ranged from \$839,213, in June 2014 to June 2015, to -\$125,153 in June 2021 to June 2022, during the period of shutting down the Power Plant to make the repairs to the inlet conduit (See disadvantage 1 below.) Over this same period, Total liabilities and Equity ranged from a high and low from \$1,711,600 in June 2024, to \$335,576 in June 2019.

Allen then cover the disadvantages and advantages of the purchase.

Disadvantages

1. The most significant liability in purchasing the Power Plant is its age. It was built in 1988. As with most fix physical assets, the Power Plant is subject to deterioration over time. In 2021, two small holes developed in the Inlet Conduit. The causes for these occurrences were poor bedding material (the absence of a sufficient sand layer around the pipe to prevent abrasive wearing of the conduit against rocks as the pipe vibrates during operation), and electrolysis (the natural chemical reaction and breaking down of metals that are barried in the ground.).
2. The “fast track” associated with the sale. It is very difficult to bring all involved parties to a common understanding of the complexities of the proposed purchase to make a unified decision to purchase the Power Plant, or forego the opportunity. Many questions arise that need to be considered and addressed. For example, will the historic operational water releases, through the Power Plant, change from run-of-the river and flood control, and honoring the water rights doctrine of prior appropriation, or will it change to a focus on power generation maximization due to the vision of the new ownership? In addition, providing solid economic and future organizational and operational values can be difficult. PRID can provide purchase pricing that are being negotiated at present. However, if the final agreed upon purchase price migrates upward from that shared with PRID members, when PRID representatives are seeking their support, due to continuing negotiations and positioning, a problem of reliability and credibility will likely surface depending on the order of magnitude of the price change.
3. What leverage would PRID have, if we were not in an ownership position, to counter such change(s), that lead to injury and would be detrimental to irrigation, as outlined in item (2) above, and many other possible changes that could create injury that have not yet surfaced for consideration, etc.
4. Sorting through the legal ramifications and requirements to purchase the Power Plant takes time. The negotiation of ownership proportions, agreeing on new future operational regimes/requirements, researching and gathering future power pricing

information, gathering and informing our members and constituents on the advantages and disadvantages of purchasing the Power Plant, etc., all take time and considerable effort. As stated earlier, limited time on the “fast track” is a given obstacle.

5. Over the years, since the Power Plant was constructed in 1988, there has been a great deal of criticism expressed about the PRID’s lack of foresight and agility to make swift and prudent decision in owning the Power Plant from its inception. If we misuse our collective time and good judgement, and miss yet another opportunity to own the Power Plant a second time, the criticism is sure to return and intensify.

Advantages

1. The age of the Power Plant stated above, as a disadvantage, is somewhat of a misnomer. Historically, Power Plants are one of the most reliable, long running man-made assets available (some pushing 100 years or more in operation). Recent intense evaluations of the Inlet Conduit indicate that the holes that developed in 2021 were isolated incidences. The remaining conduit, after studies and imaging, looks to be in remarkably good condition. In addition, Ptarmigin invested tens-of-thousands-of-dollars in a state-of-the-art cathodic protection system to prevent issues of electrolysis from occurring with the penstock in the future.
2. We have sufficient funds in our saving to pay cash for our 50 percent portion of the \$3.3 million to \$3.45 million purchase price.
3. PRID has over 37 years of spotless history of operating the Power Plant and doing the daily routine maintenance and beyond over this period of time.
4. With vested ownership, the PRID would have definite control in the operational releases from the Power Plant to prevent injure to the irrigators and insure that it is operated in the same manner (for irrigation) that it has been operated over the past decades. Put bluntly, without PRID’s joint ownership, injury would be problematic!
5. The purchase of the Power Plant would finely unite all PRID Members in achieving the goal of having significant revenues, from power generation, to help defray our annual operation and maintenance costs.
6. Lastly, but not least, the revenues generated from the Power Plant will greatly assist our shareholders in paying the immense future costs associated with our upcoming Spillway repairs and replacement with the Bureau of Reclamation.

Meeting Summary

As the meeting drew to a close, Allen asked if anyone had any additional questions. He then went around the table and asked for each persons perspective on whether PRID should pursue purchasing the Power Plant, or forego the opportunity. All of the

participants agreed, including those that Allen spoke with privately that could not attend the meeting, that purchasing the Power Plant was a wise decision for the irrigators.

Conclusion - The PRID BOD Position on the Purchase of the Power Plant

The PRID BOD, like the committee businessmen / irrigators noted above, are united 100 percent in favor of purchasing the Power Plant. The advantages, as stated earlier, far outweigh the disadvantages, and will move the PRID into a continuing sound financial footing to achieve our foreseeable future economic needs and requirements.

To help answer or clarify any additional question you may have, regarding the PRID's involvement and joint purchase of the Vallecito Power Plant, please call:

Allen McCaw, President, Pine River Irrigation District (PRID) - 970-799-2462

Nate Wright, Vice President, PRID - 970-759-3341

Steve Pargin, Secretary / Treasurer, PRID - 970-749-0418

Ken Beck, Superintendent, PRID - 970-903-6051

PRID will hold a Special Member Meeting on Saturday, May 3, 2025, at 1:00 PM at the Oxford Grange (8018 Hwy 172) to seek your support on moving forward with the purchase of the Vallecito Power Plant. Thanks in advance for your attendance!