

**EUGENE WATER & ELECTRIC BOARD
WORK SESSION
VIRTUAL MEETING
June 16, 2020
5:30 P.M.**

Commissioners may pose questions to staff prior to the scheduled board meeting. To view Commissioners' pre-meeting questions and staff responses, visit <http://www.eweb.org/about-us/board-of-commissioners/2020board-agendas-and-minutes>.

Commissioners Present: Steve Mital, President; Mindy Schlossberg, Vice President; John Brown, Sonya Carlson, Dick Helgeson, Commissioners.

Others Present: Frank Lawson, General Manager; Rod Price, Chief Engineering & Operations Officer; Susan Ackerman, Chief Energy Officer; Deborah Hart, Chief Financial Officer; Mike McCann, Generation Manager; Patty Boyle, Generation Contract Supervisor; Mark Zinniker, Generation Engineering Supervisor; Adam Rue, Fiscal Services Supervisor; Amber Nyquist, EES Consulting Manager.

President Mital called the Work Session to order at 5:30 p.m.

Agenda Check

President Mital wanted to add an agenda item so that commissioners could give updates if they wanted to.

Commissioner Updates

Commissioner Brown thanked staff for all the work they had done with the Oregon Department of Fish and Wildlife (ODFW) to get water through the pumps so fish sorting could be done at the Leaburg dam.

Leaburg/Waltermville Evaluation Project Update (Organizational Goal #7)

Mr. McCann announced to the Board that they would be giving an update on the Leaburg/Waltermville evaluation project that had started earlier in the year. They were able to get some work done before the COVID-19 pandemic started. He stated that going forward they needed to think about the potential socio-economic and environmental impacts.

There were two scenarios they were looking at. The first one was for them to return the plants to service. That would entail repairing/rebuilding portions of the Canal. By doing that it would resolve seismic issues with the Canal and potentially the powerhouse. The second scenario was to convert to water conveyance. This would mean repairing/rebuilding parts of the Canal and establishing one or more paths for water conveyance to the river. Mr. McCann noted that this would also include resolution of seismic issues. He emphasized that there was no easy answer and both scenarios would take time and have high costs.

Mr. McCann said that the Leaburg Powerhouse was constructed in the 1920s and 1930s and was licensed through 2040. Seepage at the area had been chronic since its construction.

Mr. Zinniker mentioned that there were a couple of problem areas along the river. The Cogswell Creek Area had internal erosion and had been out of service since September 2018. The Ames area had similar issues and had been closed since April 2019. Both these issues, if left

untreated, would become worse. Investigations at the areas showed soft soil and seismic concerns.

Mr. Zinniker said that a desk review was completed on all available materials. The Canal was segmented based on physical features and underlying Geologic characteristics to help evaluate risk. They investigated the flooding potential, past incidents, and historical repair reports to evaluate each segment. He said that some segments were not showing issues, but they wanted to be thorough. He stated that the risk analysis would indicate planning for repairs at Ames and Cogswell. It would also indicate planning level scope of future repairs on other segments.

Ms. Boyle shared the financial analysis for the Leaburg plant with the plant running at its current condition. The power value costs were Low (\$31,000,000), Medium (\$36,000,000), and High (\$48,000,000). The twenty year out net present value (NPV) would have them losing money on the Low (\$8,000,000 loss) and Medium (\$5,000,000 loss) power values. Even the High-power value NPV only had EWEB gaining \$3,000,000 over twenty years. Ms. Boyle noted that the Leaburg plant was small and had a high running cost. It was a high hazard zone, had a lot of fish passages, and had aged infrastructure.

Ms. Boyle shared the financial analysis for the Waltherville plant. She noted that it was a little better off than Leaburg. The Low, Medium, and High-power value costs were the same. The twenty-year NPV's differed. On the Low power value, they would lose \$1,000,000, On Medium they would make \$1,000,000, and on High they would make \$6,000,000 over twenty years. Ms. Boyle mentioned that Waltherville probably had seismic issues as well since it was built the same year as Leaburg.

Mr. Zinniker informed the Board that there would be two full weeks of Semi Quantitative Risk Analysis (SQRA) workshops in July for EWEB staff. Also, they were looking at around two hundred potential failure modes in the risk analysis for the Leaburg plant. These modes would be plotted on the risk chart provided. He said that risk reduction measures might involve engineered solutions (taking the canal out of service, etc.) and that some areas might not have needs. They would figure out costs for these solutions and then do public outreach.

Ms. Boyle stated that after the risk analysis was done, they would show the impacts of investments to the community and conduct an environmental review. Those solutions and impacts would come to the Board later.

Mr. McCann said that they benchmarked their costs against other plants in the nation. These plants were expensive because of all the things they did, which left them stuck and unable to decrease costs.

Commissioner Helgeson appreciated that they were in a place to start this conversation, since the project is a long-term consideration. He was not surprised that in respect to power values only the high value NPV would have a revenue as most of EWEB's power supply comes at a higher cost than what our market projections currently show simply because the market is depressed. Commissioner Helgeson believed that they were better off than buying from Bonneville. Ms. Ackerman reminded him that the Bonneville contract was not a good comparison to energy prices in the market because Bonneville's costs include all of the services EWEB receives from them whereas the energy prices in the market do not include the services necessary to provide a reliable product for our customers. If energy prices included all those things it would cost more than Bonneville.

Commissioner Helgeson asked what source of power would replace these projects if we ceased generation in the short, medium and long-term; he wondered if EWEB would buy from the market or use their surplus. Mr. McCann replied that they did not have that information yet but assumed they would use their surplus power and then supplement with the market. Ms. Boyle added that their surplus could cover everything but very low water peak usage periods.

Commissioner Brown asked if the NPV analysis included amortizing the licensing cost when they bought the plant twenty years ago. Ms. Boyle responded that that cost was not included. Commissioner Brown asked if there was still a recovery cost. Ms. Boyle replied that she would have to go back and look, but she believed that they did not have debt services associated with those previous investments. Going forward they still owed that money and would have to pay it.

Commissioner Brown asked if in the water conveyance scenario if they would have expenses indefinitely. Ms. Boyle said that was correct and it's possible the cost would be similar to the return to service costs. She added that they would need to do some analysis and have discussion with FERC dam safety before making a further decision.

Commissioner Carlson inquired if the benefits accounted for were just revenue or were other benefits given analysis. Ms. Boyle told her that the benefits included in the economics were just the power value. They had looked at the value of the ancillary benefits of the project; it is legacy hydro and it offsets EWEB's requirement for the RPS but that is not a significant value. She said that they still needed to look at community and environmental benefits.

Commissioner Carlson asked if the plants had black start capability. Ms. Boyle responded that they did not. Mr. McCann clarified that Leaburg did, but it has not been tested. Their current concern was that even though it had black start capability that the plant might have seismic issues, since it was built in the 1930s with masonry construction. Mr. Zinniker said that the site might be reliable otherwise. Mr. McCann said that the Walterville plant was made of sheet metal and asbestos siding and corrugated roof and therefore might be more likely to stand.

President Mital stated that he did not like either of the two scenarios. He asked if they could look into finding a buyer for the plants. Ms. Boyle told him that it would be hard to sell since the costs would be the same for whoever bought them. President Mital noted that it might fill a gap in a portfolio and that it would not hurt to look.

President Mital wondered why they would continue to pay for the dam, bridge, and lake if the power was decommissioned instead of creating a river. Mr. McCann replied that that was an option but talking about it was something they would do farther down the line. President Mital noted that if they found a natural course for the river it would have to cross the highway. He asked if the owner of the road would be obligated to help, or if EWEB would be. Mr. Zinniker assumed that it would be in EWEB's hands to deal with.

Mr. Lawson recognized that there were many issues moving forward with these projects. He noted that returning streams to their natural course might be more expensive than keeping them. Since EWEB originally created the plants they would have legal responsibility and would be in charge of all costs. Mr. Lawson emphasized that no option was going to be cheap and easy.

Commissioner Brown asked if the lake was returned to a free flowing river, would EWEB have a legal obligation with regard to supplying water to the hatcheries or for dam access to homes on the other side of the river. Mr. McCann indicated it is too early to address those issues. He

informed him of an incident a couple years ago where they drained the lake and were not in charge of providing water for the hatcheries. He stated that housing access is via an easement that runs into perpetuity and staff have not looked into that.

Commissioner Carlson noted that the NPV low scenario was not where they were currently and that it would eventually trend farther down. Ms. Boyle mentioned that the range was only a power forecast. The price that day was lower than shown, however that could change. Ms. Ackerman added that the prospect of having a regional resources adequacy requirement might help create a value stream in the future. However, that would not be happening soon. Commissioner Carlson said her issues surrounded the ancillary benefits they could get from the project in terms of resiliency or other benefits that are hard to quantify. Mr. McCann mentioned the positive benefits of the project such as providing water to the hatchery, a lake for recreation, and canal banks for walking, although the power value was not very strong at that moment.

President Mital thought that making the economic decision was easier, but the social and environmental decisions made it hard. He was concerned that it was only of value to a small amount of people. Mr. McCann told him that their next step would be talking to the community. President Mital stated that they needed to have a clear view of the next twenty or thirty years. He thought they should figure out how to separate their involvement over time, if they were not always managing the power.

Commissioner Schlossberg said that they did not want to rely on the matrix for the bottom line like they usually did. There was a mess they had to fix, and they had to be responsible for it. President Mital mentioned that the cleanup was forced on them no matter what.

Mr. Lawson viewed this project as EWEB being able to provide value to their community. They would need to hear from the community and stakeholders before making a decision.

Electric Cost of Service Analysis for Upriver Service Territory

Ms. Hart said that in May of last year the Board directed management to analyze the costs of service for the Upriver portion of EWEB's territory. Management came back to the Board sharing that there was a cost differential of about 10%-15%. EWEB then reached out to EES to incorporate the Upriver portion into their cost of service model. Ms. Hart introduced Amber Nyquist, an EES Consulting Manager.

Ms. Nyquist went through the customer classes from the electric cost of service analysis for the Upriver area. They wanted to group customers that had similar usage profiles and kWh/kW thresholds. Another reason to define a customer class would be new service; for example when Bonneville moved to a tiered rate methodology, EES conducted new large load studies to determine the marginal cost of taking on a new customer for utilities in the area, other factors include understanding the geographical area, knowing the utility programs available, as well as the dedicated facilities.

When they received money EWEB looked at the revenue requirements, decided which functionalization they wanted to put money into (production, transmission, distribution, customer services, or shared services), then the classification (demand, energy, or customer), and then figured out where to allocate that money for each class.

Ms. Nyquist went through EWEB's overall 2020 revenue requirement. They used current rates and 2019 load data for the cost allocation. EES had verified the rate revenues and power costs. She stated there was no rate increase overall for the revenue requirement study.

Next Ms. Nyquist wanted to show a comparison between Eugene area residents (78,841 accounts) and Upriver residents (2,477 accounts). Eugene had 7,487 small commercial accounts and Upriver had 130 accounts. Eugene also had 1,774 medium general service accounts and Upriver had 19 accounts. She noted the usage between the two areas was quite different. For example, residential and medium general service upriver customers had higher monthly usage than Eugene. Conversely, small commercial upriver customers used less.

Ms. Nyquist said that since their previous cost of service analysis (COSA) the allocation methodology was unchanged. EWEB uses a minimum system methodology for allocating costs, this method is commonly used by utilities in the northwest. She stated there are additional costs to serve upriver customers that aren't incurred for the rest of the Eugene area, for example the vegetation management cost for Upriver service was around \$650,000 a year. These costs were allocated to the classes based on customer which is consistent with the minimum system approach.

There were some COSA Upriver class observations that Ms. Nyquist wanted to share. The results showed Upriver customers need a 14-31% rate increase compared to what they are currently paying. The rate increase has two sides; the first is based on their usage, they are paying less per kWh than Eugene customers, the second piece is related to the additional costs to serve the Upriver area. For example, the presentation displayed at a residential level there was a 5% rate increase due to higher cost to serve, and 9% due to lower average rates. Small general service had a very low average use making assigned costs significant in \$/kWh terms. Also, in medium general services, there was higher current rates compared with Eugene services, however there was not enough to recover vegetation management. Ms. Nyquist said that the rate increases needed appeared to be significant (more than 10%). With that being said, Upriver customers' contribution to EWEB's overall revenue requirement is small; less than half of a percent; the presentation slide called out that under collection was less than .4% (\$0.8 million) of the total revenue requirement (\$215 million).

Mr. Rue said that they would include the feedback they got that night into the budget before coming back to the Board in the Fall.

Commissioner Carlson was curious about the base rate being spread out over more kWh. Because this caused a need for a high percentage increase in relation to the number of kWh used, she asked if they had looked at raising the base rate for the upriver customers instead. Ms. Nyquist replied that they did not look at rate design, but yes, they could raise the base rate. Commissioner Carlson asked how much they would have to raise it to even out the difference. Mr. Rue added that they could look into raising the rate more and then come back with information if the board wants to provide that direction.

President Mital stated that if people were being undercharged then they were also being subsidized at a rate that is higher than acceptable. He felt that they had to take action on that. President Mital asked, based on a gradualism approach, what the maximum amount they could increase each year to get to their goal in a relatively short time. Mr. Rue said that they could look at the range of bills and impacts and then make a plan. He thought a two or three year range seemed reasonable.

Commissioner Helgeson did not think this was an easy decision. He stated that with the number of customers and revenue requirement given it did not take much of a change to the allocation factors to result in the need for a high percentage increase to cover the additional costs. He

agreed with President Mital that they needed to limit subsidies. Commissioner Helgeson asked what had happened that brought about the idea of changing rates. He wanted to make sure that they were clear about their criteria.

Commissioner Brown shared that the delivery charge for EWEB was in the low twenties. Lane Electric was over \$30 for their delivery charge. He thought it was important to have this information when discussing rates.

Commissioner Schlossberg noted that the Upriver residential usage was much higher than in Eugene. She asked if EWEB kept data on customers who used any of the efficiency programs and if they were in town or Upriver. Commissioner Schlossberg acknowledged that today's Board inherited a disjointed geographic area and wanted to make sure that they did not unfairly penalize people for historical decisions made around what areas EWEB covered. She also wants to be sensitive to the needs of this community in general, also taking into consideration the canal issues.

Commissioner Helgeson thought no matter what decision they made they needed to be clear on what their criteria was. He said that it did not matter why those customers Upriver were in their service territory, because at the end of the day they were. A 10%-15% cost difference was not enough for him to make this change when similar cost differences in town have been ignored. Commissioner Helgeson stated that they needed to be consistent and clear about their determining characteristics and be prepared to apply that consideration appropriately and equally when there are other instances that have similar cost transfers.

Commissioner Carlson felt that they were looking at this issue since there was a subsidy issue and therefore things were unequal. They needed to make up for the lack of fairness between these areas. The rest of Eugene was subsidizing for that small group Upriver. She stated that they priced solar in a particular way to try to stop cross subsidizing. Commissioner Carlson stated that they needed to be consistent, fair, and look towards the future.

President Mital felt that they had a goal of eliminating subsidies if they got above 3%-5%. They had talked about implementing a demand charge, which would address those with solar power, but never did. He stated that when they had an opportunity to improve the system then they should.

Commissioner Brown reminded everyone that Upriver paid 6% to city funds and got no benefit from it.

Commissioner Helgeson clarified that he was not saying they should not change the system, but needed to be clear about the basis for the change and apply changes across the board. He understood that staff might disagree about the existence of cross-subsidies, but wanted to share his ideas. President Mital agreed that they need to be clear.

Commissioner Carlson believed it would be good to look at other cross subsidies and see where they can be shored up. Regarding CILT, if the basis is that EWEB is paying this in lieu of taxes, that property wouldn't be taxed by the City of Eugene. She wondered if the COSA handles that or not - as EWEB pays CILT on its total revenue.

President Mital said that the total amount of money had to be large if they were going to implement change. They would be saving around \$700,000, which exceed the amount for him.

Mr. Lawson stated that this was a complicated issue. He noted that it would be good to revisit the five principals they developed around rate design, one of which applied to subsidies. They would be revisiting all of this information in the Fall.

Ms. Hart recapped her understanding of the Board's direction. In general, she heard that staff should provide efficiency program usage for Upriver customers and further explore proposals using gradualism and perhaps some sort of division between the basic charge and the consumption charge.

Commissioner Carlson noted that COSA produced specific numbers rather than a range which made it tough to figure out. She asked what the difference would be if CILT was factored out. She said that they might not need to look at gradualism if that change would level things out. President Mital agreed that it would be a good idea to look into that. Commissioner Helgeson worried that would get the Board caught on a slippery slope since Upriver customers did not have the same level of service as those in town.

Board Wrap Up

Mr. Lawson thanked the Board for how they responded to everything that was put in front of them that night. He felt that they got a lot of good feedback.

President Mital thanked Commissioner Helgeson for asking big issue questions. Commissioner Helgeson said that it was important to deliberate on decisions, something they don't often have the opportunity to wade into.

Commissioner Schlossberg enjoyed the work session format for the meeting. She felt it made it easier to focus on the information and big issue topics.

Commissioner Carlson wondered if the choice to service Upriver would be from a water protection standpoint. She said that it would give them control over the powerlines and how they are situated around the river. Commissioner Carlson appreciated the discussion and said that it was good to not always agree and that they could learn a lot from each other.

President Mital said he always appreciated when Commissioner Helgeson spoke since he had a lot of experience. Commissioner Helgeson was glad that they talked and felt that it would help them land in a better place because of it.

Adjournment

President Mital adjourned the Work Session at 7:26 p.m.

Assistant Secretary

President