

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
OCTOBER 4, 2005
5:30 P.M.

Commissioners present: Sandra Bishop, Mel Menegat, John Simpson, and Patrick Lanning, President Ron Farmer was excused.

Others present: Randy Berggren, Dick Helgeson, Dick Varner, Jim Wiley, Marty Douglass, Jim Origliosso, John Yanov, Scott Spettel, Mat Northway, Debra Smith, Mel Damewood, Roseanna McArthur, and Krista Hince of the EWEB staff; and Ruth Atcherson, City of Eugene Minutes Recorder.

Vice President Bishop convened the work session of the Eugene Water & Electric Board (EWEB).

REGIONAL ISSUES UPDATE

Power Resources Division Director Dick Helgeson introduced the power point presentation on the *BPA Regional Dialogue*.

Power Management and Planning Manager Scott Spettel showed the Board several 15-year-old charts, drawn by GeoGraphics Supervisor Kevin Biersdorff, to demonstrate that the topic of allocation, entitlement, and pricing of power generated by the Bonneville Power Administration (BPA) was an ongoing discussion from years back.

Commissioner Lanning arrived at 5:35 p.m.

Mr. Spettel compared the power allocation and pricing predictions made in 1988 to the actual allocations and increases. He underscored that those predictions, results of strategic thinking in the past, were not too far off from the actual numbers as they transpired.

Commissioner Simpson asked if EWEB would assess a higher charge if Weyerhaeuser exceeded their entitlement of a little over 65 megawatts (MW). Mr. Spettel responded that the BPA would have to allocate more power and probably would not do so. Because of this, he said, EWEB had to manage Weyerhaeuser's usage. He stated that the commitment tied to the new large single load policy, which was an ongoing piece of the law without a sunset clause. Mr. Helgeson added that at one time loads had to be declared.

Commissioner Simpson asked for clarification on how the allocation would freeze the size of the Federal Base System (FBS). Mr. Spettel replied that there had always been a question of whether the BPA would have the ability to replace FBS resources, should they be somehow lost. He said the FBS currently comprised approximately 7,300 MW of firm capability. He related that there was uncertainty as to whether a loss of 1,000 MW, as an example, would mean that the BPA would find another way to generate that power or would the reduction in available load remain in place.

General Manager Randy Berggren remarked that he would not agree that the allocation froze the FBS. Rather, he said, it was the reverse in that prior to a freeze in the FBS the BPA, in meeting its obligation to serve the continuing net requirements of its customers, would add to the FBS and then meld the costs into the cost of the FBS. He averred that no one wanted the BPA to be in the resource acquisition business, so the decision to take them out of an acquisition role led to the conclusion that the existing resources would be frozen. He said once those resources were frozen what was left had to be allocated.

Mr. Spettel affirmed, in response to a question from Vice President Bishop, that the issue of large industrial customers was a separate issue. He said it would become relevant, though, if EWEB had not gone into its "full Tier 1 utilization" and a new large single load had come onto its system because EWEB would not be allowed to serve that new load with its first tier. He stated that a new load would not be permitted to be added to Tier 1 power under the law. However, if EWEB had reached full Tier 1 utilization, it would not matter because any load that came onto the system would be treated at the higher market rate.

Mr. Helgeson reviewed Investor Owned Utility (IOU) and Direct Service Industries (DSI) benefits. He explained that the residential exchange was comprised of payments made by the BPA to IOUs to compensate them for their lack of access on a firm basis to BPA power. He said it applied to only the residential and farm loads to IOUs under the regional act and was recovered through BPA wholesale rates charged to public utilities, and then included, in part, EWEB's charge to its own customers. He stated that the BPA checks written to IOUs were applied as a credit directly in the billings of the IOU customers. He added that currently the cost of the residential exchange for the IOUs was approximately \$3 million annually. He pointed out that this represented between 12 and 15 percent of the total revenues collected by the BPA in the wholesale power bills. He noted that this amount was as much or more than the amount of money EWEB paid in its Contribution In Lieu of Tax (CILT) money.

Mr. Helgeson provided the historical background to these payments. He said the IOUs initially were required to show the average cost of power in order to file for the payments and then the BPA remitted the difference between the BPA rate and the average cost of power. He related that the IOUs did not like opening their books in order to allow the BPA to determine what that difference was. As a result, in the mid to late 1980s the BPA was convinced to move to a different methodology wherein they took the same loads being exchanged and instead of looking at the IOUs cost filing they looked at a "proxy resource." He explained that the proxy resource could be that "at the margin everyone was building a coal plant or a natural gas plant" so however much power the IOUs did not have as of 1980 to serve the load growth would be valued at the proxy resource prices.

Continuing, Mr. Helgeson stated that the exchange benefits continued to shrink because the cost of those resources kept going up. He related that by the mid-1990s the BPA realized that the power market was soft and some customers were turning to the market to buy it. The BPA suggested, at that time, that the exchange benefit should stop altogether. He said the BPA had

attempted to do so but had been stopped by numerous lawsuits, the end result of which was another methodology based on a certain amount of power between the “PF rate” and the market rate. He averred that the value of the benefit was no longer tied to the actual resource costs of the utilities, but rather was tied to “whatever the market was doing for however many MW they settled for.” He said this was the methodology the BPA was proposing to use in the next rate period. He delineated, with a graph, the *Average PNW Residential Rates in 1999 and 2003* and showed that public utility customers were now paying as much or more for power than IOU customers.

Mr. Helgeson outlined three options that the BPA had referenced in its material for future residential exchange rates. He observed that the first option would be most beneficial to EWEB and other publicly owned utilities as it served to potentially eliminate the exchange.

In response to a question from Vice President Bishop, Mr. Helgeson said the third option would, by either an amount or a formula, attempt to negotiate some monetary amount that would be paid over the course of time and calculated on a basis of what “one could divine” as a fair settlement. He likened it to one party having a financial claim on another party and the two parties would get together and agree on the future value of that claim and figure out a payment plan.

Continuing, Mr. Helgeson moved on to the question of what to do with the Direct Service Industries (DSIs), large industries that received power directly from the BPA.

In response to a question from Commissioner Simpson, Mr. Helgeson said the remaining load to the DSIs was approximately equivalent to EWEB’s load. Commissioner Simpson asked if the DSIs received preferential rates. Mr. Helgeson replied that they paid the same rates that EWEB paid and did not have priority access to power. He added that this was discretionary on the part of the BPA given that the power could be sold for more money on the market.

Mr. Helgeson reviewed the pros and cons of the BPA continuing this service and the BPA’s proposal for future DSI service. He thought the proposed DSI costs were preferential to where the costs had been in the past, with much higher amounts of load and augmentation costs.

Mr. Berggren commented that he had, in the last year, taken a position of no service to the DSIs, since the BPA was not obligated to provide it. He noted that Weyerhaeuser did not receive subsidized power though it created a fairly large job base (one of the arguments for maintaining the DSIs in their current load capacity). However, he thought the BPA proposal represented the lesser of the evils and represented the best shot it had to begin to constrain and eventually “choke off” the BPA’s sense of obligation to serve the DSIs.

In response to a question from Commissioner Simpson, Mr. Helgeson stated that the current decision gave the DSIs a contract to 2011.

Mr. Helgeson said, in response to a question from Vice President Bishop, that the four DSIs that were still being served by the BPA were two Alcoa plants, one in Wenatchee and one in

northern Washington, a large paper mill in Port Townsend, Washington, and one other aluminum plant.

In response to a question from Commissioner Simpson, Mr. Helgeson said the DSIs tended to be near BPA facilities. He stated, in response to a second question, that none had been successful in acquiring their own energy sources to date.

Energy Management Services Manager Mat Northway provided an overview of the BPA's post 2011 Conservation Plan.

Commissioner Lanning asked why the Conservation Plan did not include DSIs and IOUs. Mr. Northway responded that the BPA did not view them as part of their load.

Mr. Northway opined that the BPA had a tendency to take an unpopular program and give it a different name in order to continue using the same program. He noted that the Con Aug program was now called Bilateral Contracts with Utilities.

In response to a question from Commissioner Simpson, Mr. Spettel said that, in theory, Tier 2 should reflect the cost of resources that went into it, such as a renewable resource or a short-term market. He stated that Tier 2 was nearly always higher than Tier 1 power.

Mr. Helgeson stated that the BPA would not reach a conclusion on this until April and so the Board would have another opportunity to discuss this item.

FUTURE LEGISLATIVE REPRESENTATION

Assistant to the General Manager Debra Smith said it was time to have a high-level discussion on the approach that EWEB should take to having representation in the form of a lobbyist at the Oregon State Legislature. She underscored that this was not a discussion of our Legislative Lobbyist Libby Henry's report and no decisions were needed in the short-term. She noted that no money had been earmarked for a state lobbyist in the 2006 budget so no action would be needed before June 2006.

Mr. Berggren asked the Board to consider whether an outside contractor should be hired or whether a staff person should fill this role. He underscored staff's desire to have a discussion of the desired "ends" versus the "means" by which to get there.

Vice President Bishop declared a potential conflict of interest. She explained that her primary source of income was from representing clients in the Oregon State Legislature.

Vice President Bishop remarked that EWEB had always had "top-notch representation" in Ms. Henry. She pointed out that she had handled regional and state lobbying. She stated that presently EWEB had no lobbying representation and asked what EWEB would do to replace her.

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Commissioner Simpson asked if EWEB was sufficiently tracking regional issues at this point. Mr. Berggren replied that this was a “soft question.” He felt he could put 10 FTE employees on this issue or one part-time, depending on the level of detail desired. He noted that Ms. Henry was EWEB’s lobbying effort on a regional level because she was convenient to forums in Portland and was well-connected. He averred that she knew how to lobby on issues. He said that arguably one could consider that EWEB had gone from having Ms. Henry representing it on regional issues to having four people engaged in these issues at one level or another.

Vice President Bishop stated that the Board was not discussing regional issues at the current meeting. She declared that the current discussion specifically sought to address what the Board wanted to do, at a policy level, and what it wanted from legislative representation at the State level.

Commissioner Menegat shared his concern that the focus of the discussion was on money and whether this person should be an employee or a private contractor. He felt the fact that no one currently represented EWEB at that level was of greater merit. He said EWEB needed someone today.

Vice President Bishop did not believe it was wise or reasonable to pay for part-time lobbying. She shared Commissioner Menegat’s concern regarding the current lack of representation.

Commissioner Simpson encouraged staff to consider the benefit of maintaining a staff position as lobbyist. He said having a long-term relationship with EWEB would provide the best opportunity for representation at the State level and it would be at the best price. He expressed concern that a privately contracted lobbyist could shift from year to year. He wanted the continuity of having one person in the position over the long term.

Ms. Smith said that should EWEB look to hire a private contractor it would go out with a Request For Proposal (RFP) and this would give EWEB information on pricing and the market for this work.

Commissioner Lanning asked how much lobbying EWEB’s comparators did. He pointed out, as an example, that EWEB’s water needs could be very different from another utility’s water needs. Ms. Smith responded that he was correct in surmising that it was relative to the scope of a utility’s functions.

Mr. Berggren assured the Board that the utility had other staff working at a strategic and influential level relative to the utility’s interest. He said all of that work came to a “confluence” during the legislative session. He noted that Ms. Henry had tremendous staff support in her work.

Vice President Bishop commented that from the perspective of having served on the Board for nine years, she did not believe another staff position was needed. She averred that a primary outcome from the reorganization was that there had been work allocated to ensure that issues were covered. She thought it was reasonable to look at how other jurisdictions and comparable utilities did their lobbying. She pointed out that EWEB had paid more for contracted lobbying services than some national corporate interests. She opined that something “was wrong with that picture.”

Mr. Berggren did not think EWEB would spend as much on the next lobbyist as it had. He stressed that the utility’s relationship with Ms. Henry was unique and not a precedent. He said EWEB had been very successful in the issues of legislative importance for EWEB.

Vice President Bishop stated that the Capitol Club was an organization of professional lobbyists. She read the Capitol Club definitions of different levels of lobbyists, including an employee, an independent contractor, and a lobbyist that worked for a lobby organization.

Ms. Smith said the next discussion on this issue was not scheduled at this point. She said she would make sure it was scheduled by the end of the coming summer. She thought all of the elements that EWEB wanted in a lobbyist could be included in an RFP.

Vice President Bishop adjourned the meeting at 7:29 p.m.

Assistant Secretary

President