

EUGENE WATER & ELECTRIC BOARD  
WORK SESSION  
EWEB BOARD ROOM  
JULY 5, 2006  
6:00 P.M.

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

Others present: Randy Berggren, Jim Wiley, Debra Smith, Dick Helgeson, Patti Boyle, Tom Buckhouse, Marty Douglass, Roseanna McArthur, Mat Northway, Jim Origliosso, Lance Robertson, John Yanov, Dick Varner, and Krista Hince of the EWEB staff; Ruth Atcherson, City of Eugene minutes recorder.

President Bishop convened the Work Session of the Eugene Water & Electric Board (EWEB) at 6:02 p.m.

#### **REGIONAL ISSUES UPDATE**

Power Resources Division Director Dick Helgeson said it had been a “slow quarter on the Bonneville front” as the Bonneville Power Administration (BPA) had concluded its formal rate case proceedings and was now in the process of rendering a final record of decision. The BPA was experiencing favorable conditions and Mr. Helgeson predicted that there could be modest increases because of the change in rate design. He anticipated knowing more in the next several weeks and would apprise the Board of the new information at that time.

Mr. Helgeson reported that the issues staff had been following in terms of regional dialogue included benefits to non-utility entities i.e. the direct service industries and investor owned utilities (IOUs). He thought the construct the BPA had come up with for service to the direct service industries, the three aluminum plants that continue to operate in the region, in the next rate period and beyond was worthy of focus. He explained that the BPA had proposed that those companies not have physical power delivered to them from the BPA, but rather they should go out to the market to purchase power and the BPA would offer them a financial settlement to be capped at \$59 million. The goal of this move was to hold the full capabilities of the Federal Base System (FBS) for allocation to the public utilities. He stated that the benefits to the IOUs were still tied up in court and would not be negotiated until those court decisions were rendered.

Regarding power allocation, Mr. Helgeson related that the BPA’s new “net requirements” determination for the public utilities was projected to be a reduction in EWEB’s resource capability. He anticipated knowing more about the “particulars” later in July.

Mr. Helgeson discussed the Slice litigation. He believed that the items that had been raised through this litigation had not been “hugely material” in the context of four years of power bills. He felt it would be advantageous to settle. He predicted that if the settlement was approved by all of the parties EWEB’s share would be approximately \$2.5 million.

Commissioner Farmer asked if the cost of conservation was tantamount to a penalty for EWEB given that EWEB made strong conservation efforts while other utilities did not. Mr. Helgeson replied that this was one of the issues that had been raised. He said EWEB would look very closely at this in the next Record of Decision (ROD). He expected that the ROD would address this in some way, but was uncertain of the details. He added that there were other publicly owned utilities that held conservation as a high value.

Commissioner Farmer did not want EWEB to be penalized for good stewardship.

Commissioner Farmer asked if the gap that was projected to be created by the new net requirements policy was similar to the one EWEB had been led to expect from the Power Council proposal. Mr. Helgeson replied that the Power Council's proposal was based on the determinations made at the beginning of the current contract period. He surmised that the proposal would have left EWEB with the same level of entitlement that it held in the current contract. He said the problem arose when other utilities began to "peck away at that" and engineered specific solutions for their particular problems.

In response to a follow-up question from Commissioner Farmer, Mr. Helgeson underscored that the size of the entitlement gap that staff had foreseen in April had not changed.

Energy Management Services Manager Mat Northway highlighted the current BPA programs for conservation. He explained that the Conservation and Renewables Discount (C&RD) was a wholesale power discount that provided approximately \$1.2 million in discounts over the course of a year. He explained that EWEB had submitted its normal list of conservation activities that it undertook, such as low-income weatherization, energy efficient appliance program, and others and all of them together made enough to qualify EWEB for the discount. He said the discount EWEB received was \$6,140,000 and as of January EWEB had qualified for the full discount nearly nine months ahead of time. The other conservation program was the purchase of conservation agreement also known as the conservation augmentation (ConAug) program. He said this involved an actual purchase of a conservation resource from a utility and the utility delivered it by reducing its Block purchase by an amount equal to the conservation. He stated that the contract allowed EWEB to do this for as much as 13 megaWatts (mW) and to bill almost \$17 million and so far EWEB had billed the BPA for seven average mW at a cost of \$8.2 million.

Mr. Northway reported that the BPA planned to end both programs and replace them with "trimmed down" programs that appeared to provide less value than before, though they would still be worth the effort. He said the C&RD had been changed to the Conservation Rate Credit (CRC). Under this program the BPA had changed the values placed on the conservation activities that had been recognized by the C&RD program so that EWEB would have to do more of them to receive the discounts. He stated that ConAug had been changed to the Conservation Acquisition Agreements (CAA). He explained that the BPA hoped to have the entire utilities request pre-approval from the BPA for every offer the utility might make to a customer in this regard. He said fortunately the BPA

staff agreed that EWEB seemed to know what it was doing and had agreed to amend the existing contract so that it was the same contract EWEB already had with ConAug but with less compensation. Staff hoped that EWEB could negotiate a contract that would allow it to submit another seven mW of power with perhaps as much as \$9 million in compensation. He estimated that EWEB could produce another \$2 million to \$3 million per year in revenues from bill discounts.

Mr. Northway said staff would be returning to the Board in September to suggest that the Board authorize the General Manager to sign the contracts. In the meantime staff would be engaged in fully exploring the details and options involved.

In response to a question from Commissioner Farmer, Mr. Northway clarified that the BPA would be reimbursing a percent of cost in its CRC program. Commissioner Farmer expressed some concern that the discount would not be enough to pay for the overhead that the program caused EWEB. Mr. Northway responded that the \$6 million credit had cost, in the first five years, approximately \$6.2 million. He estimated that \$4 million to \$5 million in conservation work could be credited over the next three years.

Mr. Helgeson expected to enter into the new contracts in the fall. He said there would be policy decisions to address such as setting a baseline for the level of conservation EWEB should undertake and to make decisions about whether or not to access and utilize the funds available from BPA and how they should be used.

In response to a question from Commissioner Farmer, Mr. Helgeson said if EWEB “cleared” the allocation issue and could be assured that any investments that the utility would make beyond a certain level would not count against the utility’s allocation, the conservation acquisitions were the most cost effective resource.

Mr. Northway clarified that the ConAug contract in its new version was optional but the only way the utility could get the rate credit in the other contract would be to “give the money back.” He said in lieu of giving that money back, EWEB might as well take advantage of the programs it had in place and get the credit.

Commissioner Simpson asked if the utility received credit when people purchased replacement compact fluorescent lights. Mr. Northway replied that it did not. He related that the BPA felt the roadblocks to the CFLs had been people’s lack of familiarity with them and once people worked with them they would continue to do so. The credit was only to motivate people to try the CFLs.

In response to a question from President Bishop, Mr. Northway affirmed that the Integrated Energy Resource Portfolio (IERP) process had directed staff to find as much of the most complementary conservation as possible. He said the missing piece of that analysis was how much conservation efforts were available and how cost effective they were. He explained that staff was researching this.

President Bishop asked when this research was anticipated to be completed. Mr. Helgeson replied that it was a 2006 item in the IERP work plan, as outlined in a Board meeting held in January, and staff was about halfway through the work. He expected to conclude the part of that work that related to supply and availability of the conservation resources by the end of the year. He said from there staff would transition into what various strategies for mining that conservation; what would be the most advantageous delivery approach; what combination of programs EWEB should offer relative to its funding capabilities.

Mr. Helgeson stated that another issue staff was tracking and intended to speak about before the Board in the third quarter was a renewables portfolio standard that staff knew had some sponsorship out of the Governor's office.

## **PURPA POLICY DEVELOPMENT**

Senior Rates/Financial Analyst John Yanov provided a power point presentation on ***PURPA Policy Development***. He explained that the primary reason the Public Utilities Regulatory Policies Act (PURPA) of 1978 was being reviewed was because of provisions in the Energy Policy Act of 2005 relating to compliance with new standards that need to be considered. He noted that another reason to review them was the possibility of revising some of the adopted standards from 1980 and that there were some standards in the Energy Policy Act of 1992 that EWEB had apparently "glossed over."

Mr. Yanov stated that even though EWEB had not followed the letter of the law related to the PURPA provisions, the utility had followed the spirit of the law having gone through the IERP process and related items. He discussed the issues that the policy review had raised, which included determining which PURPA standards to review, what process should be used, who would conduct hearings – the Board or an administrative law judge, what the reporting requirements would be, and the role of legal counsel.

Commissioner Simpson appreciated that staff was taking a lead role in refreshing the PURPA standards. He asked why a consumer would need legal counsel, as described in the PURPA standards. Mr. Yanov replied that it was not immediately clear. He could not envision an issue that would be so contentious that a utility consumer would undertake a legal proceeding.

President Bishop thought this was more in relation to the IOUs and situations in which consumer councils go before the Public Utility Commission (PUC) regarding a rate case involving interveners.

Mr. Yanov concurred. He noted that most utilities that the PURPA standards applied to had the PUC as a reporting authority.

Commissioner Simpson favored striking the clause that indicated that EWEB should report to the Secretary of Energy on an annual basis, if it was no longer required.

Commissioner Simpson wished to underscore that EWEB did many of the required things as a part of its normal business.

In response to a question from Commissioner Simpson, Mr. Yanov explained that in the final order each of the standards would be split into findings, conclusions, and determinations and that this delineated exactly what staff recommended and what the Board approved for each of them.

Commissioner Simpson asked what EWEB would do with public comment when it was gathered in regard to the PURPA standards. Mr. Yanov stated that it would become part of the record, similar to how the Board gathered public testimony in rate actions and other items subject to public hearings.

Commissioner Farmer wanted to ensure that the Board was not making work for itself. He said the utility over the years had set out a good direction around many of the points raised. He wished to keep the PURPA standards review as concise as possible while also keeping it an open process. He asked to consider as many of the issues at the same time as possible.

Commissioner Lanning agreed with Commissioner Farmer. It made sense to him that the Board conducts the public hearings, but he did not wish to add unnecessary work to the Board's roster.

Mr. Yanov remarked that he was uncertain what level the public participation would actually be for the PURPA standards. He thought it would be good to have written testimony so that staff could better address it.

Commissioner Lanning said given that the Board already had a process whereby the President and Vice President worked with the General Manager to establish the agendas, maybe they should also establish a process for the review of the standards.

Commissioner Simpson felt comfortable with this.

Work Session  
July 5, 2006  
Page 6

President Bishop said if EWEB engaged in a public process, it should figure out how to design it so that the public that would be interested in the standards would be attracted to participate. She supported reviewing the standards.

President Bishop asked if the staff could prepare a comparison of the standards as they were added from the first standards of 1978, to the standards of 1992 and then 2005. Mr. Yanov replied that he would do so.

In response to a question from President Bishop, Mr. Yanov clarified that the standards were law but the utility could choose to adopt all of the standards as they were or just in part.

President Bishop adjourned the meeting at 7:20 p.m.

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Assistant Secretary

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President