

EUGENE WATER & ELECTRIC BOARD  
REGULAR BOARD MEETING  
EWEB BOARD ROOM  
AUGUST 15, 2006  
7:30 P.M.

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

Others present: Randy Berggren, Marty Douglass, Debra Smith, Dick Helgeson, Jim Origliosso, Dick Varner, Steve Mangan, Dick Helgeson, Dick Varner, Dave Koski, Ken Beeson, Mike Logan, and Krista Hince of the EWEB staff; Ruth Atcherson, City of Eugene minutes recorder.

Vice President Menegat convened the Regular Meeting of the Eugene Water & Electric Board (EWEB).

### **AGENDA CHECK**

There were no changes to the agenda.

### **PUBLIC INPUT**

**Sheila Cook**, 2045 Medina Street, said she had read of EWEB's thoughts about monitoring water usage and how to encourage customers to use less. She related that she had previously lived in other areas where such measures had been taken and believed that only bracket pricing had worked. She recommended that EWEB engage in a program to advocate for people not to water their lawns.

**Sang Huinh**, 1470 Mesa Avenue, recalled that the EWEB Board had increased the electric rates by 5.8 percent in May and was facing another possible increase in 2007 of up to three percent. He observed that the Springfield Utility Board (SUB) had much cheaper rates and wondered why.

Mr. Huinh also questioned the wisdom of striking over \$200,000 in additional health care. He asked how much the strike procedures had cost the ratepayers.

Vice President Menegat noted for the record that the Board would not respond directly to the questions. General Manager Randy Berggren indicated that a staff member would answer Mr. Huinh's questions.

**Rick Grosscup**, 2540 Lincoln Street, read aloud an email from the president of the Eugene Astronomical Society. The president reported that the last meeting of the group featured nine to ten telescopes and had been enjoyed by over 100 stargazers. Mr. Grosscup said the Portland Water Bureau had increased the security of its reservoirs by taking down fences. He asked for an update on the status of work to determine what measure if any needed to be taken to protect the College Hill Reservoir. He noted that staff intended to provide information to the Commissioners by September 14 and asked that the task force on security issues at the College Hill Reservoir be

provided this information as well. He said the task force wished to have the opportunity to present an alternative solution at the meeting scheduled for September 19. He pointed out that this would not be necessary if staff worked with area residents on a solution.

Commissioner Lanning noted that Mr. Huinh had asked questions. He said the Board needed, at some point, to agree on how to respond to someone asking direct questions. Assistant to the General Manager Debra Smith stated that she had given Mr. Huinh her card and indicated to him that she would call him.

## **APPROVAL OF CONSENT CALENDAR**

### **Minutes**

1. Minutes from the June 20, 2006, Work Session and Regular Board Meeting, and the Executive Sessions of February 21, March 7, April 4, May 2, May 16, May 30, June 13, June 28, July 5, July 12, and July 14, 2006.

### **Business Service Agreements**

2. Black & Veatch – Water Supply Activities Project – Water Division.
3. Eaton Electrical, Inc. – Network Protector Upgrade Program – Electric Systems – Electric Division.
4. Keri Green & Associates – Facilitation Services – Hydroelectric Relicensing – Electric Division.
5. Kim De Rubertis, Consulting Engineer – Leaburg & Walterville Canals – FERC Part 12, Subpart D, Safety Analysis – Hydroelectric Relicensing – Electric Division.
6. L.H. Morris Electric, Inc. – Leaburg Canal Hazard Mitigation Project – Electric Division.
7. Mak Solutions – Technical Support Services – Information Services – Corporate Services Division.
8. Pacific Northwest Generating Cooperative (PNGC) – BPA Slice Audit – Power Management & Planning – Power Resources Division.
9. Portland Energy Conservation, Inc. (PECI) – “Savings with a Twist” Program – Energy Management Services – Power Resources Division.
10. Public Agency Network (PAN) – PAN’s Operating Budget – Systems Engineering – Electric Division.
11. Second Growth, Inc. – Vegetation Management on Leaburg/Walterville Canals – Hydroelectric Relicensing – Electric Division.
12. Standard & Poor’s – Ratings Direct – Two-Year Subscription – Fiscal Services – Customer & Financial Services Division.
13. Vermeer Pacific – Directional Boring Machine with Trailer – Water Construction – Water Division.

### **Resolution No. 0620 – BPA Slice Litigation Settlement Agreement**

14. Execute Settlement of Slice True-Up Litigation with Bonneville Power Administration – Power Resources Division

Commissioner Simpson, seconded by Commissioner Farmer, moved to approve the Consent Calendar. The motion passed unanimously, 4:0.

### **ITEMS FROM BOARD MEMBERS**

Commissioner Simpson reported that he had attended the ground-breaking ceremony at the site of the planned geo-thermal generation plant in Idaho. He noted that he had accompanied EWEB's New Resource Manager Jim Maloney. He provided copies of the handouts regarding the event to his colleagues. He said it was not a ground breaking in the usual sense, rather one of the steam pipes was opened in the ceremony. The plant will harness natural steam power. He was pleased EWEB was considering an investment in this type of power generation.

Commissioner Simpson related that a constituent seeking information about lawn sprinkler efficiency had called him. He had linked her to water services personnel.

Commissioner Simpson conveyed another constituent's request that the Board look into the idea of basing wages on local comparables rather than regional utility comparables.

Commissioner Farmer noted he would miss the meetings scheduled for September 5 and October 3.

Commissioner Lanning stated that the Lane Council of Governments (LCOG) had held its annual planning retreat two weeks earlier; one of the issues identified as a focus had to do with regional water supply.

Commissioner Lanning related that he had met with Human Resource Manager Jean Meyers and Commissioner Farmer as a function of the committee on General Manager recruitment and hiring. He said they would bring an update on the survey they were conducting to the Board when it was completed.

Vice President Menegat reported that the General Manager's Compensation Committee continued to meet and were in the process of reviewing the performance evaluation process document. He asked that Commissioners review the performance appraisal and bring back any questions or concerns they may have so that the committee could begin to address them. He understood that Ms. Meyers intended to send a blank copy of the performance appraisal to all of the Commissioners. They had also reviewed the policy that had to do with the performance evaluation and intended to bring the policy to the Commissioners for full Board consideration.

### **CORRESPONDENCE**

Mr. Berggren reported the following correspondence:

- Senator Gordon Smith had asked for testimony from an EWEB representative on capitalizing on renewable energy resources for Oregon's economy. He said the hearing would be held on August 16 and Scot Spettel planned to represent EWEB.
- EWEB had been invited to the opening ceremony and dedication of the sequential bio-fuel first retail station in the nation. It was hoped that one of the Commissioners would be available to attend.
- EWEB once again sponsored its Oasis Booth at the Lane County Fair and EWEB staff, commissioners, and volunteers were providing water to fairgoers.
- Board packets included a copy of Mr. Oberle's memorandum on Riverfront planning.
- Commissioners had been sent a lengthy document regarding energy management services program accomplishments.

## **BOARD AGENDAS**

Mr. Berggren reviewed the *Board Agenda Report* dated *August 15, 2006*.

In response to a question from Commissioner Lanning, Mr. Berggren said he was not convinced the preliminary results from the continued study of the College Hill Reservoir would be ready by September 19. Commissioner Lanning noted that when a topic addressed in a Work Session the public could comment afterwards.

Commissioner Farmer observed that there was an item regarding adoption of the Region 2050 planning assumptions. He thought the Board and staff might want to consider not spending a lot of time on that item given that the Cities of Springfield and Cottage Grove had formally pulled out of the process and the City of Eugene had refused to adopt the planning assumptions.

## **WESCO DISTRIBUTION, INC.**

Distribution Reliability Manager Dave Koski stated that he was seeking approval for a price agreement to purchase transformers over the next five years. He explained that the reason it was a price agreement was that the metals market was extremely volatile due to a huge demand in India and China and from the hurricane damaged areas of the southern United States. He stated that Wesco Distribution Inc. was the only company that had been willing to work with EWEB. He asked for the authority to get the best price and move on this agreement.

Commissioner Lanning ascertained from staff that approval would mean that the agreement would go into effect for five years. Mr. Berggren assured him that the Board would hear a lot about it. He felt it would "almost be a strategic issue" on an annual basis.

In response to a question from Commissioner Simpson, Mr. Koski affirmed that the agreement was only for single-phase pole metal transformers.

In response to a question from Commissioner Farmer, Mr. Koski clarified that the intent of the agreement was to “nail down” product capacity.

Commissioner Simpson, seconded by Commissioner Farmer, moved to approve award of a contract with Wesco/ABB for the purchase of single-phase pole-mounted transformers, as needed. The motion passed unanimously, 4:0.

## **HYNIX NEGOTIATION STATUS**

Power Resources Division Director Dick Helgeson explained that the basis of the current contract had been a result of skillful negotiation, which had preserved 21 megawatts (MW) of the low-cost federally-owned Bonneville Power Administration (BPA) power. He said at the time the BPA had been trying to force EWEB to dedicate the output of the cogeneration facility at Weyerhaeuser and the Stone Creek facility to its retail load. He said this put the 21 MW of BPA entitlements at risk. He stated that EWEB had chosen to designate the two resources as used to serve Hynix, and this had retained the benefit of the entitlement for EWEB. He said what had changed since the current contract was implemented and that relative to the BPA price the cost and output of the surplus resources being used to serve Hynix had changed due to higher gas prices and drought conditions. This trend shifted the equity balance so that the benefit of having retained the BPA entitlement was shifting more toward Hynix and less toward other customers. He noted that EWEB’s negotiating team included Steve Mangan, Scot Spettel, Dick Varner, Bill Welch, and himself. The current contract expires on September 30, 2006. He stated that the change in pricing approach would mean a significant rate increase for Hynix Semiconductor Incorporated.

Fiscal Services Supervisor Dick Varner reported that the current contract with Hynix prices the first 21 megawatts (MW) at the Bonneville Power Administration (BPA) Priority Firm (PF) Rate, with the rest of the company’s power needs priced at market. He noted that some people would tend to think that Hynix should not receive any of the BPA entitlement benefit, and should get all of its power on the open market. He stated that, if such an approach were taken, Hynix could find itself with a price that was double the current price with no recognition of the BPA entitlement that had been retained. He provided a power point presentation that delineated the factors that had come into play in the formation of the contract proposal to Hynix. He explained that EWEB had become “unbalanced” in the cost/benefit equation. He said it would be awkward to pledge the BPA resources to serve Hynix’s entire load, but EWEB did have some surplus in its declared resources. Staff proposed to sell a 10 MW “piece of that” to Hynix, as well as some resources that were not committed to EWEB’s “preference loads.”

Mr. Varner explained that the risk in this was that if retail loads were to either grow or EWEB was to suffer a significant resource loss, which would “push Hynix up the stack.” He noted that 10MW was a cap and not an entitlement. He said Hynix could have part of its load served by market under those conditions.

In response to a question from Commissioner Simpson, Mr. Varner said the risk would be to Hynix. He elaborated, explaining that EWEB would retain the first right to the cheaper power for its non-Hynix customers. He stated that the power would be divided into three levels: 1) up to 10 MW from the declared resources; 2) the remainder up to the total available power out of the undeclared resources; and 3) if those two were not sufficient to meet the Hynix load the load would have to be served from the power market.

Mr. Varner stated that staff would review loads and resources on an annual basis and “reshuffle” as needed. He said the Level 1 and Level 2 powers would be based on the forward look on resource availability on a planning basis in each individual month. He related that the proposal included a provision that would allow staff to update the resource allocation within the year if there were a major contract default or the loss of a resource for a long period of time. He noted that it would take two or three “fairly draconian” events to force Hynix into any significant market exposure, as there was enough resource in the Level 2 power to cover its load most of the time.

Mr. Helgeson observed that this did represent a significant increase in power costs for Hynix. Mr. Varner clarified that Hynix had not experienced a big increase in its power costs in 2001, though the cost of power had increased for everyone else. He said this contract would be similar to what the industrial classes received as an increase in that year.

In response to a question from Commissioner Lanning, Mr. Helgeson explained that the three levels of power were unique, resulting from Hynix/ status as a New Large Single-Load customer. He said the issue was that EWEB could not get a BPA entitlement to serve Hynix because of their stats. So, if EWEB did not have surplus resources it could use and recover the cost of those resources EWEB would have had to go to the market. He believed staff’s proposed approach to be an appropriate and equitable construct for Hynix for the next five years, though EWEB should there be a significant change in the amount of the BPA entitlement or surplus EWEB resources.

Commissioner Farmer asked how EWEB would handle the situation should another large customer akin to the size of Hynix “land here.” He wondered if the utility was setting a precedent or possibly “playing favorites.” Mr. Helgeson replied that customers of that magnitude were few and far between. Mr. Berggren added that EWEB was not setting a precedent as much as the utility was working with a customer with unique needs. He was uncertain if EWEB would treat another customer in the same way.

Commissioner Farmer wished to make sure that Hynix clearly understood that if a new large load moved in Hynix would not get the same contract again. Mr. Helgeson responded that the proposed contract had several “whereas” clauses indicating that service under the new contract are predicated on the continued availability of a surplus.

Commissioner Farmer asked if being in a “down period” for the Carmen-Smith relicensing work would impact the Hynix contract. Mr. Varner replied that if construction began in 2011 EWEB might not have 10 MW of level 1 power to meet the Hynix load. Commissioner Farmer encouraged staff to fully disclose this possibility.

Commissioner Farmer asked why the price was so different between the Walterville facility and the Carmen-Smith facility. Mr. Varner responded that it had to do with differences in the operating costs and the debt service.

Commissioner Lanning asked if the three levels of power built in a position so that there was no subsidy coming from residential customers. Mr. Helgeson replied that none of the power going to Hynix would be unavailable for other customers. He said the benefits of having obtained the 21 MW entitlement were shared equally between Hynix and other customers. He added that the only change that was being made was that it was no longer at the BPA ‘PF’ rate, instead the rate would be based on the actual cost of the surplus resources.

Vice President Menegat commented that he was comfortable with the three level pricing as proposed and the position that EWEB had taken in approaching the contract.

Commissioner Simpson said he was aware that Hynix felt that the price had increased rapidly in a short period of time, but he was comfortable with the structure of the proposed agreement and was confident it was fair and equitable. He wanted Hynix to have the components of the next contract on the horizon at least two years prior to the end of the contract term.

Mr. Helgeson said staff shared this latter concern and intended address the contract with more lead time in the future.

Commissioner Simpson asked if there would be any benefit to ramping up the contract process, such as providing a “deal” for the first several years and then increasing rates in the last couple of years. Mr. Helgeson replied that a remedy was needed sooner than several years out.

Commissioner Farmer felt customer relations were important and underscored that Hynix was EWEB’s largest customer. He thought there would be value in directing the General Manager to contact the senior executive staff at Hynix to tell them that EWEB valued the relationship and that EWEB recognized that it should have started the negotiation process “cleaner” than it had, after negotiations were completed.

Mr. Helgeson sensed that the Board was comfortable with the contract proposal as presented. He said staff would finalize the draft contract and submit it to Hynix in the next two weeks. He stated that staff hoped to bring the contract to the Board for final approval on September 19.

Commissioner Farmer asked what the default position was if EWEB could not reach an agreement. Mr. Helgeson replied that the contract said that if there was not an agreement the Board would impose rates that were equitable as related to costs.

## **ROOSEVELT BUILDING PROJECT – BOARD INVOLVEMENT**

Resource Project Manager Ken Beeson said he wanted to talk about Board participation in the design process. He conveyed staff's feeling that Board participation on the Building Advisory Team (BAT) would enhance the process. He stated that as the design was being worked on, the design team was following the basic objectives of the 30 percent design work and trying to be certain it was focused on performance, economy, and sustainability/efficiency.

Commissioner Farmer asked if Mr. Beeson felt EWEB was on track in its process to hire a Construction Manager/General Contractor (CM/GC). Mr. Beeson replied that EWEB had received five responses from very qualified firms, two of them local. He was certain EWEB would hire its CM/GC by mid-September.

Commissioner Farmer said he was comfortable with how the BAT was coming together. He stood by his recommendation to have President Bishop and Commissioner Lanning on the team, with President Bishop to be succeeded by Commissioner-elect John Brown when Mr. Brown was sworn in.

Commissioner Simpson approved of what had been outlined and was pleased to hear that the CM/GC process was on track.

Commissioner Lanning supported the concept. He felt having commissioners on the team was a good idea, but noted he would support Vice President Menegat as a member of the team.

Vice President Menegat said he supported the process and had been pleased to be part of the initial planning. He found the experience to be rewarding. He wanted to give everyone an opportunity to participate in "such an enlightening and rewarding experience."

Commissioner Simpson indicated that he would serve if Commissioner-elect Brown were not interested in doing so.

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**ITEMS REMOVED FROM THE CONSENT CALENDAR**

There were no items removed from the Consent Calendar.

Vice President Menegat adjourned the meeting.

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Assistant Secretary

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President