

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
JANUARY 2, 2007
5:45 P.M.

Commissioners present: Mel Menegat, Vice President; John Simpson, Patrick Lanning, Ron Farmer, John Brown, Commissioners.

Others Present: Randy Berggren, Dick Varner, Tom Buckhouse, Marty Douglass, Jason Heuser, Jim Origliosso, Dick Helgeson, Jim Wiley, Debra Smith, Scott Spettel, Mat Northway, Jim Maloney, Terry Bequette, Tom Williams, John Mitchell, and Krista Hince of the EWEB staff; Ruth Atcherson, City of Eugene minutes recorder.

Vice President Menegat convened the work session of the Eugene Water & Electric Board (EWEB) at 5:45 p.m.

GREEN POWER REVIEW

Energy Management Services Manager Mat Northway explained that he and Energy Resource Projects Manager Jim Maloney would provide an update on green power. He stated that there would be no specific actions coming before the Board regarding green power with the exception of the possible suspension of sign-ups for new wind power sales, scheduled for the meeting of January 16. He noted that EWEB would have an open house for windpower customers later in the month in order to talk about green power and provide an opportunity to get in “on the ground floor.”

Intergovernmental Affairs Coordinator Deborrah Brewer said EWEB would have a booth at the Good Earth Home Show that would focus on green power. He stated that EWEB should receive its official certification from the Senate Resource Solutions and it was hoped that sign-ups could open in February.

Commissioner Simpson asked if green power would essentially be an “adder” for existing ratepayers, who would receive the “pass-throughs” from the Bonneville Power Administration (BPA) like all customers. He noted that windpower customers were not assessed for the “pass-throughs.” Mr. Northway affirmed that this was correct.

Commissioner Farmer asked what advantage there was to having people sign up for green power. Mr. Northway replied that it provided the ability for developers and corporations to get certification for their activities. He said to do that they had to make a certified purchase of a Renewable Energy Certificate (REC).

In response to a follow-up question from Commissioner Farmer, Mr. Northway clarified that all retail customers would be paying for the power resources, but the retail REC revenue would go into a reserve account that would be for future green projects.

Commissioner Simpson asked who would be charged a premium and how long the premium

would last. Mr. Northway responded that the premium was a one-time purchase for the number of kilowatt hours (KWH) a buyer would want to purchase.

Key Account Manager Tom Williams cited the Federal Courthouse as a recent example of a REC buyer. He explained that the courthouse needed points for its Leadership in Energy and Environmental Design (LEED) certification. He said the courthouse was on a general service rate and included in that rate was some funding for the Stateline project. He related that they had taken some of the RECs from the Stateline project and instead of selling them to the wholesale market they had sold them directly to the Federal Courthouse.

Commissioner Farmer surmised that a building project could be considered a LEED certified building and could have the status for having the certification though it did not incorporate any energy savings into the design. Mr. Maloney responded that a building project would get very few points for buying green power; the largest portion of points was given for incorporating energy saving elements and sustainable technologies.

Mr. Maloney provided a power point presentation on RECs and the Renewable Portfolio Standard (RPS). He noted that the Center for Resource Solutions was the trade name for the group that gave the Green-E certification to energy resources.

Mr. Maloney reported that the Western Governor's Association had put together the West Renewable Energy Generation Information System (REGIS), due to go online in mid-2007. He expressed some skepticism regarding that project. He related that the system was planned to be connected to all of the renewable generators in the Western Electricity Coordinating Council (WECC) and would generate serialized electronic certificates for every megawatt hour (MWH) of renewable generation that was produced. Every REC would have a unique number attached to it and would be tracked.

Commissioner Simpson asked if EWEB could include the newly relicensed Carmen-Smith facilities in its portfolio of renewable resources. Mr. Maloney replied that it could not be included in the Oregon RPS, but if another state wanted to grant certificates for any hydroelectric facilities, those certificates were acceptable and it was a potential market.

Commissioner Farmer asked who had the authority for the state to regulate public utilities. Mr. Maloney responded that there was some authority state to state, in some cases the commission, and usually it was authority granted in statute to state government. He explained that some states had departments of energy that did the certification. He added, in response to a follow-up question, that the Federal Energy Regulation Commission (FERC) did not have jurisdiction.

Commissioner Farmer expressed some confusion regarding whether the RECs could expire or whether they lasted "forever." Mr. Northway responded that there were different rules and different standards. He noted that EWEB would have to be careful with its Green-E certifications as they adhered to a different set of standards in regard to the expiration of debt.

Commissioner Farmer asked if EWEB was “shooting [itself] in the foot” by having Green-E certification versus working out of the arbitrators. Mr. Maloney replied that it opened arbitrage opportunities that could allow EWEB to play off the different REC markets in order to gain the highest value for the certificates they had.

Mr. Maloney stated that Oregon had mandatory RPS requirements. He noted that some states had no penalties, but Oregon at present required that the Investor Owned Utilities (IOUs) to meet the requirements or face a \$45 per MWH penalty for every REC it was “short” in a “true-up period.” He said the public utilities had been making a case that the State had no authority to apply penalties to them, but had not received a determination from the Attorney General’s Office at this point.

Commissioner Farmer asked if an IOU would have to build green facilities if it did not have access to them to meet its 25 percent requirement under the RPS. Mr. Maloney replied that it would fall under the exclusions, which he had outlined in the memorandum entitled *Windpower/Green Power Discussion Planned for January 2nd Work Session* dated *December 28, 2006*. He commented that he had made the argument thus far that a law should not make EWEB do things that did not make clear sense and the argument had so far held sway.

Mr. Maloney reviewed EWEB’s *Resources Over Time*. He stated that the only thing that could be considered a fossil fuel resource was a small amount of natural gas-generated power EWEB received from Weyerhaeuser. He noted that 40 percent of the power from Weyerhaeuser was generated with natural gas and the other 60 percent was generated with biomass fuels.

Mr. Maloney considered the EWEB renewable energy portfolio to be the most unique in the northwest with the exception of a utility in Grant County that utilized 100 percent hydroelectric power. He said EWEB had the most diverse resource portfolio.

Mr. Maloney stated that EWEB had a number of projects that produced bundled energy and RECs. He explained that the energy portion of those resources went to the EWEB system and the RECs went to the “REC part of the puzzle.” He said the energy sales, both wholesale and retail, were serviced out of EWEB’s energy system. He clarified that a windpower customer received system energy, but those customers also received RECs.

Continuing, Mr. Maloney stated that he had been selling RECs wholesale to parties such as Three Phases Energy Services and the Bonneville Environmental Foundation and selling them retail to the University of Oregon, the Federal Courthouse, and the Lane County Fair.

In response to a question from Commissioner Simpson, Mr. Maloney said EWEB had been retiring the windpower RECs on those customers over time. He explained that they had been claimed as part of the BPA contract as being in the firm resources.

Mr. Maloney said should the RPS proposal to require that utilities obtain 25 percent of their

power resources from renewable resources by 2025 pass in the Oregon Legislature EWEB could begin banking its RECs. He stated that any RECs EWEB did not sell could be banked.

In response to a question from Commissioner Farmer, Mr. Maloney affirmed that once a REC was sold it was, in general, retired. He said the current proposal had language in it that would allow the customer that was sold the REC to return that REC to EWEB and let it retire on behalf of the utility.

Commissioner Farmer asked why a customer would do so. Mr. Maloney replied that if it was trying to be green certified, as an example, it might do so. He said that the Governor was recommending that the State agencies that were participating in Green Power programs return their RECs to their local utilities for use in RPS compliance. He added that people were only beginning to understand how the Governor's RPS program would work.

Commissioner Simpson ascertained from Mr. Maloney that the Raft River Geothermal Plant would come on line in 2009. He asked if the BPA would provide a green component were it to acquire renewable resources. Mr. Maloney replied that the BPA was planning to have an option for a Tier Two product that would be a REC-based product available to all of the customers. He commented that he had more than 20 years of experience working with the BPA and he would not "put the fate of the utility" in hoping that the BPA would follow through on it.

Mr. Maloney reviewed the resource portfolio of EWEB as it was projected to be in the timeframe from 2007 to 2010 and from 2011 to 2015. Staff predicted that the wholesale markets would go up with the RPS coming into play, but the retail markets would remain in the same range because it was more affected by what the retail customer was willing to pay.

Mr. Maloney thought EWEB could be "awash in RECs" if the proposal went through as it was written at present.

In response to a question from Commissioner Farmer, Mr. Maloney explained that if a utility had "a ton of RECs from 2006 sitting in the bank so that [it] could comply with the state" it would not need more RECs from 2006 and could sell the RECs to another Green-E customer that needed it. He said the RECs in the bank would be expiring but the Green-E customer needed an unexpired REC. He noted that this was part of the arbitrage that EWEB would have to manage.

Mr. Maloney referred to a slide of a spreadsheet. He stated that 2008 would be the first year, if legislation went through, that EWEB would begin tallying the statistics. He noted that the base RPS requirement would not be instituted until 2011. He said during 2008, the designated resources would all qualify under the current RPS proposal. Those resources included Foote Creek 1, Stateline, Klondike, the WGA, Tieton Hydro, and photovoltaic (PV) resources in Eugene. He predicted that the total generation of RECs for that year would be 250,000 RECs as one REC was equal to one KWH. With no RPS requirement, the RECs would be deposited in the bank. He projected, given the amount of RECs EWEB generated, that EWEB would be long in 2012 when it was required to turn

in 5 percent of the 3 million MWH load in RECs. He said EWEB would still have 206,000 RECs and the new bank total would be 1.2 million RECs.

In response to a question from Commissioner Simpson, Mr. Maloney explained that the RECs did not “go stale” under the RPS program. He noted that before three months ago, the rule had been that there was only a year to 18 months to use the RECs. He related that the public utilities had made the case that it was a penalty for utilities that had taken and were planning to take early access to comply.

Vice President Menegat asked where the figures related to the commitments EWEB had made to other agencies such as the courthouse fit in. Mr. Maloney explained that it was delineated in the graph entitled *Estimate of Retail RECs as % of Annual Totals*. He believed some people would switch from the Windpower Program to the Green Power Program and some would continue to participate in the Windpower Program.

Mr. Maloney discussed the REC allocation choices EWEB was facing. He noted that Commissioner Simpson had inquired as to how many of the EWEB’s existing resources would be qualifying renewable resources under the rules of the RPS. He said the resources comprised about five percent. He stated that older hydroelectric projects and the 60 percent biomass generation that was coming from Weyerhaeuser, as well as the BPA resources would qualify. This was 80 percent of the EWEB resources.

Mr. Maloney discussed how the “fossil cap” worked. He said the proposal stated that EWEB would have to turn in RECs for a certain percent of its load. He stated that the RECs would go against the BPA purchase and would exempt EWEB from that part of the requirement, as well as exempting EWEB from that part of the compliance requirement should EWEB have to apply the RECs to any part of the Mid-Columbia contract purchase of hydroelectric power. He related that staff had been successful in getting the Governor’s Office and the Renewable Energy Working Group to agree that for EWEB the exemption should apply to any resources it had that were not fossil fuel resources.

Mr. Maloney reviewed staff projections for the REC retail portfolio. He said EWEB would not have to go out and buy RECs on the market in 2015, when the requirement for the percentage of power load to come from RPS would reach 15 percent, because EWEB’s biomass fuel generation and hydroelectric generation were firm resources. He believed that EWEB would be able to turn in its accumulated RECs to meet the increasing requirements of the RPS. He attributed this to the combination of EWEB’s existing resource base and the fact that the bank existed and the utility would not lose RECs.

Continuing, Mr. Maloney commented that even if the legislative proposal was passed unscathed the administrative rules process that would follow enactment of the statute merited careful monitoring. He said what he had shown the Board was contingent on the assumptions he had outlined. However, he saw no compelling arguments against the Green Power Program envisioned

for 2007.

Mr. Berggren noted that the resource staff had spent a lot of time working on the renewable portfolio. He said Angus Duncan of the Bonneville Environmental Foundation had been a strong advocate for the region. He commended Mr. Maloney, saying he had been “extremely successful” in getting something pragmatic and beneficial for EWEB in the current version of the RPS.

Vice President Menegat observed that EWEB had designated a certain number for lost opportunities. He asked if this had been obligated or whether EWEB would still be looking for lost opportunities. Mr. Maloney replied that it was his “existing marching orders” to continue to pursue those opportunities.

Vice President Menegat asked if staff anticipated that the retail program would generate any usable revenue. Mr. Northway responded that he hoped so. He said if EWEB was as successful with the Green Power Program as it had been with the Windpower Program, it might be possible to generate on the order of \$100,000 to \$200,000 per year, which would be enough to make a significant impact.

Mr. Maloney noted that Commissioner Lanning had expressed interest in wave generation. He said there may be ways for EWEB to participate in pilot projects.

In response to a question regarding the ability for a customer to turn its REC back to EWEB, Mr. Maloney said though this was possible, he had modeled his projections on the premise that no one would exercise that option.

Commissioner Farmer asked if EWEB had the ability to model it by price. Mr. Maloney responded that EWEB could charge more for RECs, but it would not work for some customers.

Mr. Williams noted that the University of Oregon had chosen to work with EWEB though it could have purchased a REC through an outfit in Vermont because the money would remain in the community.

Vice President Menegat asked when EWEB would reach a point in the program at which it would be known that EWEB had a surplus of RECs and could sell them wholesale. Mr. Northway replied that EWEB could estimate the retail sales based on its experience with windpower. He presumed it would continue to grow, though not exponentially.

In response to a question from Commissioner Farmer, Mr. Maloney said he did anticipate that brokerage firms would embrace this medium for trading. He added that EWEB's credibility was high.

Commissioner Simpson asked what agency would certify up and coming technologies. Mr. Maloney said the Green E certification would apply to a Green E product and there was state and regional certification for other products.

In response to a follow-up question from Commissioner Simpson, Mr. Maloney affirmed that a renewable resource was defined as a resource that did not spend fuel.

Commissioner Simpson perceived RECs as fairly intangible to the uneducated customer's eye. He was curious as to what types of marketing strategies EWEB might employ to simplify and market them.

Mr. Williams said EWEB staff had talked to people who had been in the REC business for some time. He related that they found that many people depend on the organization, the fact that an organization was Green E certified and, in the case of EWEB, the fact that customers trust the utility.

Mr. Northway commented that from staff's research they had found that most people prefer to just understand it as "green power."

Commissioner Lanning asked what the administration costs for the program would be. Mr. Northway replied that staff assumed the costs would be approximately 10 percent. He predicted there would be start-up costs as staff learned how to work with the program. He noted that the existing Windpower Program had been relatively inexpensive to administer.

Commissioner Farmer commented that it seemed like a complicated process. Mr. Northway acknowledged that the item was complex. He added that it was important to the RPS program that EWEB support it.

Mr. Northway stated that staff would return in two weeks to ask the Board to consider cessation of the Windpower Program.

Commissioner Farmer asked why the Board had decided to meld all rates for the windpower given that this ran counter to the Board policy at the time. Mr. Northway responded that at the time it was thought that the windpower would be more expensive and there was a beginning of a wave of general public interest in participating in a renewable resource. He said the investment turned out to be cheaper than had been predicted, though windpower was more expensive.

Commissioner Simpson asked how many tiers of residential wind customers there were. Mr. Northway replied that a person could subscribe to 10, 25, 50, or 100 percent windpower.

Commissioner Simpson questioned whether discontinuing the subscriptions for windpower

would also prevent someone from changing the percentage he or she subscribed to. Mr. Maloney responded that he did not know how they would treat that situation at this point. He noted that anyone could get out of the program.

Commissioner Lanning commented that it seemed like there was some wisdom to providing a sunset date for the wind program given the shifts that the RPS would require.

Commissioner Farmer thought all customers should participate in green power. He said he was not there to represent the two percent of customers who had subscribed to windpower. He asked the Commissioners to consider what would happen if a large customer signed on for windpower and then ultimately obtained power at a lowered cost.

In response to a question from Commissioner Simpson, Mr. Williams affirmed that two percent subscribed to windpower and the program was oversubscribed.

Vice President Menegat averred that EWEB should not sell windpower if the utility did not have it to sell. He said he was also waiting to see what the 30 percent increase in windpower would look like.

Vice President Menegat adjourned the meeting at 7:28p.m.

Assistant Secretary

Vice President