

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
FEBRUARY 6, 2007
5:30 P.M.

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

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

President Menegat convened the Work Session of the Eugene Water & Electric Board (EWEB) at 5:30 p.m.

EWEB/CITY OF EUGENE ISSUES

General Manager Randy Berggren discussed the planned joint meeting with the Eugene City Council, scheduled for February 12.

He asked Real Property Manager Mark Oberle and Intergovernmental Affairs Coordinator Deborah Brewer to review the process.

Mr. Oberle highlighted the *draft Eugene City Council Agenda Item Summary* (AIS). He noted that *Strategy One* in the AIS, *Initiate Master Planning*, was identical to the first item under *Urgent Issues* in the memorandum entitled *EWEB/City Issue Coordination Updated: February 1, 2007*, also a draft.

Ms. Brewer reviewed the memorandum entitled *Proposed Meeting Process and Concepts Joint EWEB/City Council Meeting February 12, 2007*. She observed that it was still a “work in progress.” She reviewed the process for the City Council Work Session. She noted that unlike the EWEB Board, the City Council could take action in a Work Session setting. She said staff had determined that the meeting would have to be considered a “workshop” in order to have the Board and City Council both is restricted from taking action. Staff members to both elected bodies were negotiating what kind of meeting it would be.

Ms. Brewer related that fire hydrants were a topic of interest as the City desired for EWEB to reassume ownership of them, but it was not a huge issue.

Vice President Simpson suggested that it would be beneficial to the Board to see a list of issues that crossed over to both elected bodies on at least an annual basis.

Commissioner Farmer asked that EWEB cease to refer to the riverfront property as “surplus” and to consider it to be “available” instead. He asked if EWEB believed it would have to conduct a master plan process in order to gain a lot line adjustment. Mr. Oberle affirmed that it would.

Commissioner Farmer asked if that would apply if EWEB utilized the land for itself. Mr. Oberle was uncertain of the answer.

Commissioner Farmer said he would like to explore whether it would be required. He noted that the AIS said the City Council had been told that the land was available and that the Council had five years to decide whether the City should purchase the property or not, but EWEB still had to undergo a master plan. He requested a legal opinion on this requirement. He added that he was in favor of telling the City sooner rather than later that the property was available.

Intergovernmental Affairs Coordinator Deborah Brewer said staff had tried to amend the wording so that it would not commit EWEB to anything at this point.

Commissioner Lanning asked what the timeline would be to be able to make a formal motion on the recommendation. Mr. Berggren replied that the Board could take a motion at the next meeting, but he strongly recommended that the Board be very clear about what the motion would be.

In response to a follow-up question from Commissioner Lanning, Mr. Berggren said he did not think the Board would take formal action at the joint meeting. He thought the meeting would serve to gain common ground between the two elected bodies. He suggested the Board inquire as to what the Council considered the word ‘value’ meant when referring to the property. He noted that for EWEB to “value” was primarily related to economics. He related that the Council was concerned about the advisory committee and that the Board had not consulted them or proposed that any Councilor members participate in the process. He stressed that they had said as a concept EWEB was open to whatever made the most sense apropos a master plan. He felt the Board should ascertain what the Council’s interest was in exercising their option on the property.

Commissioner Lanning commented that it seemed that staff had done a good job in working with the City’s staff.

Commissioner Farmer related that he had met with two councilors individually. He remarked that he would be disappointed if the council voted on a motion and the EWEB Board was not permitted to. He underscored the necessity to hold a collaborative process. He averred that EWEB would be “ill-served to jump into motions right away.” He hoped EWEB representatives were encouraging the Mayor not to vote on anything at this time.

Ms. Brewer said she would continue to work with the City’s staff, but she recommended the Board request that the council consider the meeting a “workshop.”

President Menegat called for a ten-minute break.

REGIONAL ISSUES UPDATE

Power Resources Division Director Dick Helgeson provided a quarterly update on regional issues with the aid of a power point presentation. He reviewed potential changes in the Bonneville Power Administration (BPA) power allocation to EWEB in 2011, when the EWEB contract would be reviewed and renewed. He said the BPA document issued in July indicated that EWEB was likely to be in a fairly balanced position in 2011. He noted that some of this would be a function of the load balancing circumstances in the region as a whole and projections of EWEB's resource capability and load conservation over the next few years. He stated that there were multiple variables, most of which were out of the control of EWEB, such as load growth in the region as a whole, whether or not there was a "re-rating" of individual utilities' resource capabilities, or whether or not the BPA would choose to serve of the direct service industries (DSIs) with firm power. He reiterated that staff intended to continue updating the analysis.

Mr. Helgeson reported that EWEB was urging the BPA to begin to develop its methodology for power allocation as soon as possible. He said knowledge of the methodology would allow the utility to narrow the uncertainty regarding a contract after 2011. He stated that staff also requested that the process be iterative and transparent.

Commissioner Farmer asked what it would mean financially if EWEB were balanced rather than long in four years. Mr. Helgeson responded that it could be good or bad. He said EWEB may need some of its undeclared resources to be dedicated to the load.

Commissioner Farmer asked what the Board should think about in terms of action. Mr. Helgeson responded that EWEB should continue to move in the direction set forth in the Integrated Energy Resource Portfolio (IERP) process, to move forward with lost opportunity acquisitions that EWEB was committed to. He stressed that EWEB's objective was to do everything possible to find a balanced position, but it still had to recognize that EWEB would either buy additional power out of Tier Two to cover load growth or it would be using the undeclared resources.

Fiscal Services Supervisor Dick Varner reported that EWEB had a 30-megawatt hour (MWH) long position with the BPA at present, at circa \$30 per MWH, and it was selling it at circa \$60 per MWH. He said the positive cash flow from this was over \$20 million per year. He thought taking this "out of the mix" would bring about a rate increase, estimated at being on the order of 5 to 10 percent.

Commissioner Farmer asked if the current strategy was sufficiently aggressive. Mr. Helgeson replied that it would be tough to replace the revenue stream that had come from the BPA position because EWEB would not be able to buy those resources elsewhere. He said part of the firm position from the Slice share came from paying a fairly high average price per kilowatt hour because of the variability in the volume of the secondary. He thought some of this might be mitigated by reduced risk associated with having to manage the high volumes of secondary if EWEB chose a product that

was not a Slice product. He noted that staff would be bringing the IERP decision “tree” back before the Board later in the year.

Mr. Varner did not think there was a “silver bullet” that would allow EWEB to be in as good of a position in five years as it was in the present moment.

Commissioner Farmer commented that a 10 percent rate increase to compensate for a change in the BPA allocation could come at the same time as the rate increase to pay for the Carmen-Smith relicensing.

Mr. Varner thought the mitigating factor down the line would be whether there were enough cash reserves so that staff was willing to change its generation assumption.

Mr. Helgeson affirmed that the Board was focused in the correct direction. He said from a power supply perspective, staff’s purpose over the next few years would be to figure out as clearly as possible what the future power environment would look like. He reiterated that the present situation was driven by two questions: how much load growth would there be over the next several years and how successful would other utilities be in convincing the BPA to make changes to the resources it was currently obligated to bring to the load in the face of possible reductions in the system. He noted that there were some dams on the Snake River that could potentially be removed from the system.

Regarding the BPA product design, Mr. Helgeson said the July proposal lacked specificity because it was a policy-level proposal. He reviewed the staff objectives, noting that EWEB purchased 70 percent of its power from the BPA. He did not believe the BPA would continue to allow EWEB to take the long position it currently enjoyed. The staff objectives were, as follows:

- Retain the viability and flexibility of the Slice product
- Advocate for a workable partial requirements product
- Protect the ability to meet loads, integrate resources, and access the markets
- Maximize the portfolio value and competitiveness.

In response to a question from Vice President Simpson, Mr. Helgeson explained that presently EWEB had the ability on the day power was being delivered to make modifications to its schedule, the advantage of which was that EWEB could flex its portfolio to deal with the load. He said EWEB could respond to market conditions and could obtain a high value for it. He sensed the BPA desired to lock in the schedule a day in advance.

Commissioner Farmer asked if the utilities had a commonality of voice, or whether EWEB was a minority view in its attempts to get information from the BPA and work with it. Mr. Helgeson replied that about a third of the customers were actively engaged in the discussion. He noted that some utilities did not operate with any BPA power. He said there was a large group of full requirements customers as well. He felt their fear was that the utilities with their own means of

generation would somehow take advantage of the system.

Mr. Helgeson discussed the investor-owned utilities (IOUs) and the Residential Exchange Program, which required the BPA to make annual payments to the IOUs in order to mitigate the impact on residential and farm customers the purchase of more expensive resources created. The IOUs were not able to obtain firm power from the BPA pursuant to the passage of the Northwest Regional Power Act of 1980. He said EWEB customer rates were seven percent higher due to the cost of making those payments. He noted that despite ongoing litigation, the BPA has urged that the issues regarding the calculation of the payment be settled going forward. He stated that gaining a settlement of some kind was preferred, but if no settlement was made, the payments should not be higher than the current proposal at this time. At this time staff had opted to wait for the 9th Circuit Court ruling on the rate test litigation

In response to a question from Vice President Simpson, Mr. Helgeson stated that EWEB had chosen not to be party to the litigation.

Continuing, Mr. Helgeson reviewed direct service industry (DSI) benefits. He explained that the DSIs still wanted the rights to firm power at the cost of that power. EWEB's position was that the DSIs should have no rights to the Federal Base System (FBS) after 2011. He said 1,200 jobs were provided by the DSIs and there was some question as to what the impact would be should the DSIs become less than viable. He related that the BPA had proposed a subsidy for the DSIs to help them transition into the future and this subsidy would be paid by the public agency customers.

Vice President Simpson commented that he disliked the idea of subsidizing an inefficient plant.

Mr. Helgeson highlighted the President's 2007 budget proposal, which included a proposal to "siphon" BPA revenues from secondary energy sales. While this had been successfully averted in 2007, he said it would likely be proposed again for 2008.

Regarding the BPA transmission rates, Mr. Helgeson explained that the current transmission accounted for \$11 million of the budget. The BPA had proposed to increase the rates by 5 percent in the next two-year contract starting in 2008. He related that the BPA had held a series of customer workshops and through these workshops it had come to light that the BPA would not need to increase the rates after all. He stated that because of cost-savings that the BPA projected in other areas, EWEB would experience a modest drop in costs leading to a possible \$1 million in savings over the two-year rate period.

Mr. Helgeson reviewed the Renewable Portfolio Standard (RPS). He related that Energy Resource Projects Manager Jim Maloney had been in Salem earlier in the day trying to obtain information on the Governor's proposal for the RPS. He said the draft bill was not yet out.

Commissioner John Brown arrived at 7:15 p.m.

Mr. Helgeson assured the Board that Mr. Maloney and EWEB's Legislative Lobbyist Jason Heuser were doing everything they could to "get a handle on" the bill.

In response to a question from Commissioner Farmer, Mr. Helgeson recommended asking Mr. Heuser for a more detailed sense of the legislative atmosphere around this bill. He sensed that EWEB was positioned to work with it. Mr. Berggren added that Mr. Heuser had indicated that EWEB's perspective was important to the legislators.

Vice President Simpson asked if there was anything the Board could do to expedite the legislative process. Mr. Helgeson responded that a large part of the delay was due to the backlog of bills stuck in legislative counsel. General Manager Randy Berggren noted that Mr. Heuser had attributed the delay in part to the complicated nature of the legislation.

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

Assistant Secretary

President