

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
VIDA COMMUNITY CENTER
90377 THOMSON LANE
VIDA, OREGON 97488
MAY 1, 2007
5:30 P.M.

Commissioners [resent: Mel Menegat, President; John Simpson, Ron Farmer, John Brown, Patrick Lanning.

Others present: Jim Wiley, Tom Buckhouse, Jim Origliosso, Dick Helgeson, Scott Spettel, Regan Lee, Marty Douglass, Gale Banry, Brenda Sirois, Suzanne Pearce, Deborah Brewer, Debra Smith, Jay L'Strange, Dave Koski, Ron Dyer, Dean Ahlsten, and Krista Hince of the EWEB staff; Lynn Taylor, City of Eugene minutes recorder; and members of the public.

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

REGIONAL AFFAIRS/INTEGRATED ENERGY RESOURCE PLAN (IERP) UPDATE

Power Resources Director Dick Helgeson and Power Management and Planning Manager Scott Spettel used a PowerPoint presentation to provide an update on regional affairs and EWEB's IERP. Copies of the presentation were distributed.

Mr. Spettel discussed a graph of the resource gap, which indicated that Bonneville Power Administration's (BPA) contract with EWEB would end in 2011. He said EWEB was a member of the Western Electricity Coordination Council (WECC), which represented an interconnected grid that consumed an enormous amount of energy. He said that EWEB represented an insignificant consumer in that grid and the question related to the BPA gap in 2011 was how much power would be offered to EWEB at a higher cost rather than a shortage of power.

Mr. Spettel said the IERP update in 2004 reaffirmed policies related to affordable and competitive costs, sustainable energy future, environmental stewardship, responsive to customers, flexible and sustainable resource portfolio and systematic reduction of environmental impacts. He noted that the gap was not mentioned nor was the diversification issue. He reviewed the 2004 IERP Strategy Tree and said that the strategy to acquire lost opportunity resources over the 2006-2008 time period was chosen; periodic check-in with the Board would determine if that was still the appropriate course. He reviewed lists of IERP accomplishments and potential future activities.

Mr. Helgeson established a context for re-visiting the strategy tree in 2007 including financial recovery and building reserves, stable BPA and EWEB rates, better water conditions and higher market prices, regional dialogue and anticipated policy announcements, renewable portfolio standards, climate change legislation and competing priorities.

Mr. Spettel commented regarding renewable portfolio standards that he had seen higher prices for renewable projects and increased demand, particularly in California, and anticipated an explosion in renewable market.

In response to a question from Commissioner Farmer, Mr. Helgeson explained that the independent power industry was now well-established and it had become a seller's market.

Continuing, Mr. Helgeson said it was highly likely that EWEB would receive a contractual entitlement to BPA's allocation of lower costs federal system. He anticipated a shift from being in a surplus position to a balanced position, although there were a number of variables beyond EWEB's control that could create a shortfall by 2011. He used a chart to illustrate EWEB's forecasted load-firm resource position under the most likely scenario.

Vice President Simpson asked if EWEB could purchase Tier 2 BPA from 2013 onwards to bring itself into balance. Mr. Helgeson said that could be done or power could be purchased on the spot market. He said there were many strategies for doing that.

In response to a question from President Menegat, Mr. Helgeson said a number of factors accounted for the deficit after 2013, including Carmen Smith capability loss, expiration of the Weyerhaeuser #4 contract and other contracts.

Commissioner Farmer asked about the cost of going to a balanced position immediately. Mr. Helgeson replied that it could be \$3 to \$5 million, with \$6 to \$10 million in a worst case scenario.

Vice President Simpson asked what proportion the Leaburg power plan represented. Mr. Spettel replied that the plant was about one percent of the system load.

Mr. Helgeson and Mr. Spettel continued with their review of the probability distribution for EWEB's forecasted 2012 retail load and upcoming decisions during the 2007-2009 time period. Mr. Helgeson emphasized that while EWEB faced challenges, they were solvable with more strategy work and there were also opportunities to maximize the value of its overall portfolio.

Commissioner Farmer asked if it was cheaper to buy Tier 2 power from BPA. Mr. Helgeson said that BPA had not yet indicated how it intended to supply Tier 2 and a question was what would the price of Tier 2 products be relative to the market and cost of resources EWEB could otherwise acquire. Mr. Spettel said BPA faced a challenge segregating Tier 2 products from the existing federal-based system.

Mr. Helgeson discussed strategies for managing allocation risks and Mr. Spettel reviewed BPA product choices.

Vice President Simpson asked if any Tier 1 resources were held in reserve. He asked about the

distinction between the power reserve and the green power reserve and what affect an early spring runoff might have. Mr. Spettel said it was likely that Tier 1 resources would be fully allocated across the region. He said the spring runoff differed each year and the best plan was to have good hedges in place for the remainder of the second quarter. He did not expect a dramatic difference in runoff this year from previous ones. Mr. Helgeson said there was a power operating reserve and a power resource reserve, which was the one percent, and those were separate from the green power reserve.

Regarding possible industrial cogeneration projects, Mr. Spettel said that EWEB stayed in touch with major customers that had cogeneration potential and while interest had waxed and waned in the past, inquiries had begun to increase.

Commissioner Farmer asked if there were any transmission concerns, particularly in the Roseburg area. Mr. Spettel replied that the customers he was thinking of were in the immediate area and transmission would not be a concern but EWEB was always looking for cogeneration hosts and there were several possible opportunities in the Roseburg area.

Mr. Helgeson stated that staff had been engaged in conservation activities and would be engaging the Board in a discussion of conservation planning over the remainder of the year. He said that conservation was becoming increasingly valuable. He reviewed a chart of EWEB's conservation supply curve. He said that the proposed next steps included revisiting the IERP strategy tree, completing a long-range conservation plan and completing the IERP review and update. He expected two or three additional work sessions would be needed to engage those issues.

Commissioner Brown asked if there was a relationship between the projected demand growth and possible expansion of the urban growth boundary and an increase in industrial, commercial and residential land. Resource Planning Analyst Brenda Sirois said the load forecast did not take into account land supply as a factor; it looked at the average annual load growth. Mr. Helgeson said that issue could be addressed in the next presentation.

Vice President Simpson observed that conservation cost EWEB money but in return it promoted saving of electricity. He said that conservation was treated as a resource and the advantage of that was it did not require new overhead transmission lines. He was a strong supporter of conservation.

MCKENZIE RIVER VALLEY PROJECT STATUS REPORTS

Electric Division Director Jim Wiley indicated that many of the items listed on the agenda for this topic had been covered in the previous discussion and due to the presence of a large audience interested in the boat landing and lake raise, the report would focus on those topics. He noted there would be an opportunity for comments from the audience at the beginning of the regular meeting.

Public Affairs Manager Marty Douglass referred to the April 25, 2007, memorandum on all of the McKenzie projects, which was included in the agenda packet, and invited questions from the

board following the discussions of the boat landing and lake raise.

Leaburg/Waltermville Boat Landing

Mr. Douglass stated that the Federal Energy Regulatory Commission (FERC) had directed EWEB to develop a plan identifying potential sources of funding or matching funds for the development of a boat launch/take out facility at Indian Creek or another location at or above Leaburg Lake. He said that directive was based on EWEB's proposal of a new landing in the Leaburg/Waltermville relicense application, which hinged on an 18-inch lake raise. He said an advisory group to consult on the concept of a new landing was established in 2005 and included representatives of a range of stakeholders. He the group considered a number of potential sites for a landing and after reviewing advantages and disadvantages of each location, the group concluded that the Indian Creek sites was the best location and the one most likely to meet with the approval of area residents. He said that the Oregon Department of Transportation (ODOT) had not expressed any major concerns about a landing at the Indian Creek site, but preferred there be only one entrance/exit and that it have the greatest sight distance to both directions of highway traffic.

Mr. Douglass said EWEB's subsequent decision to raise the lake six inches instead of 18 inches was not determined to have a noticeable impact on the facilities or little increase in slack water and therefore a new boat landing was not absolutely necessary according to the criteria. He said staff had petitioned FERC to relieve EWEB of the requirement to build a new boat landing and FERC had decided that EWEB should continue to plan, explore funding options and consult with its advisory group. He said that staff would continue to refine the plan, more accurately estimate costs and develop a strategy for seeking outside funding, which would rely heavily on the assistance of groups that would use the landing. He said the plan had to be developed and available for review by August 1, 2007. He thought it was unlikely a site with unanimous support could be identified but one with majority approval could be found.

Commissioner Brown relayed comments from a constituent about EWEB's relationship with the upper McKenzie area. He said that long ago EWEB came to the area and constructed facilities that necessitated the landing. He noted that the requirement was to develop a plan to identify funding sources, not to actually identify the funding. Compliance Manager Suzanne Pearce replied that the language was vague to provide maximum flexibility and did not require EWEB to build a landing.

Commissioner Brown noted that FERC did not find EWEB's argument persuasive that a landing was not required because the lake raise was only six inches. Mr. Wiley said the onus was on EWEB to develop a plan to identify funding sources and that plan would indicate the length of time it was likely to take.

Vice President Simpson asked about the negative aspects for Water Board Park as a landing site. Mr. Douglass said the primary concerns related to traffic congestion and safety and additional traffic crossing the dam.

Vice President Simpson stated for the record that he had inadvertently encountered some members of the McKenzie Flyfishers, who indicated clearly they preferred to retain Ike's Landing. He asked if FERC had changed any of the original decision related to the license. Mr. Douglass said that nothing had changed; meaning that not building a landing would have to be justified to FERC.

Commissioner Farmer thought EWEB should plan on building a facility and move forward as it was unlikely that user groups had an incentive to pay for its construction. Mr. Douglass observed that EWEB already had a financial commitment to the project and could provide full funding if the Board authorized that.

Leaburg Lake Raise Status

Commissioner Farmer asked if increased seepage as a result of the lake raise was limited to the canal or included the dam. He also asked about inundation facility impacts. Mr. Douglass said seepage was restricted to the canal. He said that impacts differed, but did not expect significant impacts that would require mitigation. He said tree and septic impacts were still being determined.

Commissioner Farmer asked about FERC requirements regarding the canal seepage. Mr. L'Estrange said that Walterville and Leaburg were unlined, earthen canals and seepage would increase somewhat with the lake raise. He said the seepage was being monitored and the water was clear, which was a good sign. He expected the seepage to heal and EWEB would continue to monitor it to assure there were no problems. He said the seepage went into the drainage system that routed it back to the river and neighbors were not affected. Mr. Wiley added that a collection basin might be needed if there was significant seepage.

Commissioner Brown asked if percolation rates of drain fields had been tested before and after. He also asked if EWEB had a policy regarding mitigation of any problems that resulted from the lake raise. Mr. Wiley said that drain fields had been reviewed over the past five years and some were beginning to lose function due to age; EWEB had a contract with a consultant to investigate alternative technology. He said there was no formal policy but FERC had said EWEB had six months to mitigate any septic system that failed, although EWEB would act more quickly before there was a failure.

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Vice President Simpson distributed information on the design of the new visitor's center at Lloyd Knox Water Board Park.

President Menegat adjourned the Work Session at 7:10 p.m.

Assistant Secretary

President