

EUGENE WATER & ELECTRIC BOARD
REGULAR BOARD MEETING
EWEB BOARD ROOM
SEPTEMBER 18, 2007
7:30 P.M.

Commissioners present: Mel Menegat, John Simpson, and John Brown. Commissioner Patrick Lanning and Ron Farmer were excused.

Others present: Randy Berggren, Jim Wiley, Marty Douglass, Dick Helgeson, Dick Varner, Lance Robertson, Terry Bequette, Debra Smith, Jim Origliosso, Tom Buckhouse, Mat Northway, Jim Maloney, Scott Spettel, Megan Capper, and Krista Hince of the EWEB staff; Ruth Atcherson, City of Eugene minutes recorder.

President Menegat convened the Regular Meeting of the Eugene Water & Electric Board (EWEB) at 6:46 p.m. He noted that Commissioners Lanning and Farmer were excused.

AGENDA CHECK

There were no changes to the agenda.

CONSENT CALENDAR

Minutes

- 1a. July 17, 2007, Work Session
- 1b. July 17, 2007, Regular Board Meeting
- 1c. July 24, 2007, Special Board Meeting

Business Service Agreements

2. Genscape, Inc. – Subscription Services – Power Resources - \$156,000
3. Good Software Solutions – Backflow Database Support – Water Division - \$40,000
4. Kenney Consulting, LLC – Actuary – Financial Services – Corporate Services Division - \$125,000
5. OBEC Consulting Engineers – Willamette Substation Switchgear Control Building - Electric Division - \$30,940

Resolutions

6. Resolution No. 0721 – BL5 – Evaluating the General Manager’s Performance
7. Resolution No. 0722 – SD15 – Climate Change Policy
8. Resolution No. 0723 – Resolution Clarifying Wholesale Power Risk Management

Commissioner Brown, seconded by Vice President Simpson, moved to approve the Consent Calendar. The motion passed unanimously, 3:0.

ITEMS REMOVED FROM THE CONSENT CALENDAR

There were no items removed from the Consent Calendar.

ITEMS FROM BOARD MEMBERS

Commissioner Brown commended Intergovernmental Affairs Coordinator Deborrah Brewer and External Communications Coordinator Lance Robertson for their help in providing to him in putting together a presentation on EWEB for the Rotary Club.

Commissioner Brown related that he had the “fortune” to experience Ike’s Landing. He believed it would be the most dangerous place for a boat landing a person “could imagine.” He declared that anyone parking across the highway was “taking [their] life in [their] hands” to get to the landing. He noted that Lane County had petitioned the State to lower the speed limit at that point in the road to 45 miles per hour.

Vice President Simpson related that he had discussed the information services tracking system for the human resources division with a City of Eugene employee at a social engagement. The City employee had indicated to him that the city’s human resources department was also changing its tracking system. He suggested that EWEB and the city collaborate and share information.

Vice President Simpson stated that a constituent had contacted him about the pros and cons of the waterless tank for hot water heating systems. He said Mr. Northway had been very helpful.

President Menegat announced that he would be absent from the October 2 meeting. He said he would ask Commissioner Farmer to chair the meeting as Vice President Simpson would also be absent for that meeting.

CORRESPONDENCE

General Manager Randy Berggren reported the following items of correspondence:

- Board members were provided a copy of the letter, signed by President Menegat, sent to Eugene City Manager *Pro Tem* Angel Jones regarding the inclusion of a transportation system maintenance fee in EWEB bills.
- The Board received a letter from Gary Hatfield regarding a proposed boat landing site.
- A memorandum from Mr. Robertson was included in board packets regarding public input on boat landing sites. Commissioner Farmer has requested a survey to be conducted in regard to boat landings but it was unclear as to who should be surveyed. Mr. Berggren thought it would be useful for the Board to consider the concept of a survey. He was interested in having a Board discussion on the item.
- A feasibility report on the Leaburg Lake boat ramp project was included in board packets.
- Members of the EWEB Board and staff were invited to the annual Emerald Awards ceremony, presented by the Chamber of Commerce. The event was planned for the Soreng Theater in the Hult Center.

- In response to a question from Vice President Simpson, Power Resources Division Director Dick Helgeson stated that Commissioner Farmer planned to attend the Northwest Energy Coalition (NVEC) conference dinner. He said EWEB sponsored a table with four places at it. He noted that he would be attending it as well.

BOARD AGENDAS

Mr. Berggren highlighted the *Eugene Water & Electric Board Agenda Report* dated September 18, 2007.

REGIONAL ISSUES

Power Resources Division Director Dick Helgeson provided a power point presentation of the *Regional Issues Update*. He stated that Congress had passed two preliminary bills regarding climate change and carbon emissions. He said the administration had indicated that it had issues with some of the provisions in these bills. He predicted that differences between the House and Senate bills would be “hammered out” over the course of the next year. He related that the renewable portfolio standard (RPS) currently being discussed at the Federal level stands at 15 percent, which is significantly lower than the level set by the recent State of Oregon legislation. He thought EWEB should focus on avoiding conflicts between the things that the utilities had secured in the state bill, such as hydroelectric power as a renewable resource, and the things that might manifest in the national standard. He said they might need to seek assistance from the Oregon delegation to engineer some of the same considerations into the national bill. He stated that EWEB was also interested in whether the incentives for installing renewable energy resources were shifted more on the utilities’ side or the developers’ side.

Vice President Simpson asked what was meant by the “developers’ side.” Mr. Helgeson responded that he was referring to projects developed by third party independent power producers, as opposed to equity investments in projects by utilities themselves. He said those incentives could fall to the people who were developing and financing the projects rather than accruing as value to utilities and their consumers. He hoped to see some advantages preserved for the utilities.

Mr. Helgeson reported that they were seeing a lot of hearings on carbon and climate change. He anticipated that some form of carbon legislation, either a carbon tax or a cap in trade system, was in the works. He averred that these were more difficult issues for Congress “to wrestle with.” He said it was anticipated that there would be progress on those concepts. He predicted they would move toward a cap in trade system.

Mr. Helgeson stated that the Federal Energy Regulatory Commission (FERC) continued to develop rules to promote the development of electric wholesale markets and transmission reform. He said the thing to watch for was as the market reforms evolved it would “bump up against” the cost-based contractual relationships, such as that EWEB had with the Bonneville Power Administration (BPA). He related that the region’s consumer-owned utilities have contracts with the BPA for transmission access to deliver the cost-based federal power with “relatively preferential”

transmission rates and terms. He said the grid had been built to supply federal power, and that these historical relationships could be at risk with the market-based pricing concepts being promoted by FERC.

Mr. Helgeson related that the North American Electric Reliability Council (NERC) had required that each utility identify what categories of function they performed. He explained that EWEB was designated as a load-serving entity and a distribution entity, as well as a generating entity. He said EWEB was not a transmission entity nor did it serve as a balancing authority, the entity responsible for ensuring that enough power was being supplied from the grid in a control area.

Vice President Simpson asked when the Oregon RPS was slated to go into effect. Mr. Helgeson replied that the law would go into effect on January 1, 2008, but the first compliance date was set for 2012.

Mr. Helgeson showed a map of the United States that delineated the areas of power plant CO² emissions. He pointed out that aside from the plants in Centralia, Washington, and Boardman, Oregon, the region had a relatively low carbon footprint, much of which was weighted more toward the Investor Owned Utilities (IOUs). He said depending on what kind of legislation came forward, if Congress granted carbon credits to the east coast utilities for their existing plants, utilities in our region could end up sending money back to them to clean up their coal plants.

Mr. Helgeson reported that the BPA had finally generated its Regional Dialogue Policy record of decision. He said EWEB would now be able to begin the more detailed work of putting together the elements of the new BPA contracts. He underscored that BPA's policy decisions came approximately one year late and did not contain a lot of new information. He stated that the 9th Circuit Court decisions on the residential exchange issue also had a bearing on the Direct Service Industry (DSI) contracts, largely the aluminum companies the BPA served. He added that the court indicated that the BPA had discretion to enter into new contracts with the DSIs but the BPA had the obligation and commitments to them even if it meant buying high priced power and spreading the costs back to the public utilities. He underscored that EWEB needed to be careful to be protected from what the cost implications would be if the BPA did renew those contracts.

Continuing, Mr. Helgeson reiterated that staff was working to get its new contract with the BPA developed before 2011 so that the utility could plan and position its portfolio accordingly. He said the BPA had to work with EWEB to define how Tier 1 power would be configured and delivered. He thought this would be similar to what EWEB had done during the previous subscription process. He stated that the BPA would be undergoing a process to figure out how to set the rates for Tier 1 and Tier 2 power. He related that EWEB would also need to choose whether to take its Tier 2 power from BPA, or to acquire its own resources to meet future load growth. He said there are still many open questions about how BPA's Tier 2 products will be priced, and how additional utility resources would be integrated with the new BPA contract. He reported that each utility would have to give the BPA a 2-year notice of changes in its power purchases and a five-year commitment to purchase the Tier 2 power. He stressed that all of these issues would have to be addressed in the upcoming contract negotiations.

Mr. Helgeson explained, regarding the IOU Residential Exchange, that the BPA had declared that no one was getting “their deal” until everybody “got their deal.” He said that issues concerning service to preference customers and the residential exchange program would have to be worked out in parallel. He anticipated that the BPA would offer service contracts in the next year to EWEB and to the IOUs for a revised version of the exchange. He stated that the court ruling had struck down the settlement agreements and BPA had suspended the payments resulting in an increase in retail rates for IOU consumers in June. He related that the BPA and all of the parties had been interested in trying to reach a negotiated settlement. He averred that the longer those payments were suspended the more the issue became imbued with political energy. He observed that the BPA process had to do with how the IOU costs were determined. He explained that the BPA had not made those determinations in nearly a decade so no one knew what the average costs of the IOUs were. He felt this was part of why the courts had struck it down. He stated that the rate test capped the level of the subsidy, but the BPA had set aside that “piece” and had not applied it. He said the BPA had to determine what the refund obligation is for past rate periods, what the current benefits would be under this rate period and the next rate period, and run it “through their process.” He noted that one question was whether there would be a need for an interim resumption of the benefits with some corollary reduction in BPA’s rates. He underscored that EWEB did not want to see a “restart” of the benefits unless there was some rate relief. He added that it was not clear to him how this situation would be resolved.

Mr. Helgeson reviewed a graph of the Residential Exchange benefits for Public Agency and IOUs. He said prior to the mid-1990s there was a benefit of \$200 million and then it was capped with the rate test. He related that this caused political pressure to be brought to bear and the BPA reached its settlement agreements, driving the benefit levels up to the current level. He guessed that it would fall back to the \$200 million range. He underscored that EWEB was looking for predictability and stability in the exchange payments going forward.

Vice President Simpson asked what was meant by a “set-aside” for new publics of up to 250 MW. Mr. Helgeson replied that the BPA had proposed that it would make available during the course of the contracts up to 250 MW to serve new public utilities. If new publics formed this amount would be carved out of the allocations made to the existing utilities, up to 50 MW maximum per rate period. He explained that as new public utilities formed, if they should form, they were entitled to a power allocation. He noted that Portland was the “gorilla in the room” but there were some discussions of going public in Klamath Falls and among the Yakima tribe.

Mr. Helgeson stated that because of the compressed timeframe there would be “an awful lot going on with Bonneville” over the next year. He related that the BPA had indicated contracts would be out by August 2008. He believed that the BPA could nominally do that but the last time this had occurred EWEB had received its contract but the exhibits had not yet been prepared. He said if EWEB did not have clarity about the products offered, the rates they would be offered at, or what the allocation would be it made it difficult for EWEB to make decisions regarding the contract. He noted that BPA Administrator Steve Wright was interested in resolving the contract prior to the elections in 2008. He agreed that this was a reasonable concern. He related that staff would

participate in BPA “product development workshops.” He believed that the Slice option would still be available but some of the flexibility in that product would be reduced.

Discussion then turned to a discussion of BPA’s proposed formula for determining EWEB’s Tier 1 power entitlement. Mr. Helgeson stated that one question in the allocation discussion was how conservation would be treated. He said there was a concern that if there was conservation how it might simply reduce EWEB’s Tier 1 allocation.

Energy Management Services Manager Mat Northway provided a brief review of the BPA’s “High Water Mark” (HWM) methodology for determining allocation. He explained that the BPA forecasted the regional need, calculated the utilities’ net requirements, and then allocated that output from the Federal Base System (FBS) proportionately. He related that all utility conservation that the BPA deemed to be “good conservation” had to be reported to the BPA. He said it would be “tallied up” and included in the forecast. He anticipated that EWEB’s implementation of Demand Side Management (DSM) programs could move ahead on schedule in order to best meet the utility’s needs without negatively impacting the FBS allocation.

Vice President Simpson asked if the method was agreed upon. Mr. Northway replied that it was the BPA’s proposal and would not change. Mr. Helgeson added that this approach was documented in the BPA’s policy decision. He averred that the public utilities, which were the only ones that would be affected by it, were happy to see something that “levels the playing field” as far as conservation investments are concerned. He felt confident that the allocation procedure would not penalize EWEB for its ongoing conservation efforts.

Mr. Helgeson stated that Mr. Northway and Mr. Lorenzen would return with a more extensive presentation and discussion on a conservation plan, a component of the Integrated Energy Resource Plan (IERP) in October. He added that staff would continue to review and update the allocation analysis, as more information was available. He said one question they would have to ask was whether EWEB was in a comfortable position relative to the allocation risk in that the utility could end up as much as 30 MW short.

President Menegat expressed appreciation for the information before the Board. He felt everything was moving forward as it should.

Mr. Helgeson quipped that he must have either overloaded the Board with information or he must have made it appear that EWEB staff was “totally in control” of the situation.

Vice President Simpson echoed President Menegat’s appreciation. He said it was good to get the “heads up” in order to prepare for the myriad of decisions that lay ahead.

PUBLIC INPUT

Sandra Bishop, EWEB customer, thanked the Board for adopting a policy on climate change. She requested that the Board allow the Climate Crisis Working Group, of which she was a member,

to review the policy the next time it came before the Board. She averred that the policy was difficult to follow. She also asked that the Board allow public input on the policy. She said the group assumed that it would be an ongoing living document.

Commissioner Brown thanked Ms. Bishop for her testimony. He said the Board would give her request due consideration.

Vice President Simpson expressed an interest in hearing more about the group.

RENEWABLE RESOURCE ACQUISITION

Energy Resource Projects Manager Jim Maloney noted that he had sent out an email to the Commissioners that provided an update on the Klondike 3 (K3) power facility. He said EWEB would be entertaining acquisition of an additional 13.6 MW. He stated that an agreement had been signed for the first 25MW of power. He added that he did not believe that the recent tragic accident that had occurred at the facility would delay its power generation, which was slated to go on line in December. He stated that EWEB had a 25-year agreement with the Raft River Geothermal project.

Mr. Maloney showed slides of the Pacific Northwest in 2006 and 2007 that delineated the dramatic increase in renewable energy resource facilities. He attributed this to what was happening with the Renewable Portfolio Standard (RPS) in Oregon and Washington and the resource development environment. He said a lot of the people who develop gas and coal resources were being influenced by higher carbon taxes and greenhouse emissions limits. He observed that the renewable “side” of resource development was “going nuts” and prices were increasing dramatically. He noted that turbines were difficult to come by now and the price of steel had “shot up.” He averred that it was a “busy environment.”

Mr. Maloney showed a picture of the K3 facilities. He stated that it was a combination of General Electric turbines that could generate 1.5 MW and Siemens turbines that could generate 2.4 MW. He said one of the reasons EWEB had selected PPM Energy was that the company had a “stellar” environmental and wildlife reports. He related that PPM Energy had picked good resource areas and then worked with the Audubon Society and other wildlife agencies in order to reduce the facilities’ impact. He stated that the 2.4 MW turbines were the world’s largest rotating machines.

Mr. Maloney reported that the last proposal on K3 had looked attractive but had been contingent on the sale of Renewable Energy Certificates (RECs) to the City of Portland. This deal had fallen through and PPM Energy had returned to EWEB and indicated that the price would increase for the facilities to cover the lost RECs. He related that staff had felt that the price seemed higher than the price for the RECs would have been during that period. He added that PPM Energy had also indicated that they were uncomfortable with the BPA’s remaining with the status quo on how it would or would not pass through transmission costs for the development of the substation and other elements of the system. He stated that PPM Energy felt they were being put at an economic risk.

Mr. Maloney averred that it would behoove EWEB to look into other projects. He said he and Power Management and Planning Manager Scott Spettel had decided not to bring the proposed acquisition of 13.6 MW of additional power from this facility before the Board at this time.

Vice President Simpson asked if EWEB's change in interest could result in a counter offer. Mr. Maloney responded that it had done so in the past. Mr. Spettel added that he did not think so at this time because the company had made a counter offer at this point, which EWEB had also refused.

Commissioner Brown asked how far apart EWEB and PPM Energy had been. Mr. Spettel replied that they were approximately \$3 per MWH apart. He acknowledged that it was not that much, but EWEB had already been at its limit. He related that EWEB had been satisfied with the price of the underlying project without the RECs and credits during the first three years. He said the REC market was new and emerging and as a result staff had more of a focus on the issue in the 2008 work plan. He stated that they wanted to make sure a better inventory of renewable energy credits was taken in order to ensure EWEB was hanging onto those for retail programs and any RPS compliance.

Mr. Maloney provided a brief overview of the Raft River Geothermal project. He noted that the project now had circa 11 square miles of land, which gave it flexibility on where it could tap the wells.

In response to a question from Vice President Simpson, Mr. Maloney explained that U.S. Geothermal, Incorporated was the parent company but EWEB had signed a contract with the Raft River Limited Liability Corporation (LLC).

Mr. Maloney related that the BPA had public customers in Idaho and transmission costs to get power to them. He said it had made sense to use those customers as a "sink" for the energy; the BPA could avoid transmission costs and it could re-dispatch power on the west side to a delivery point for EWEB. He noted that the best delivery point had been determined to be the Grand Coulee facility. He stated that it took a while for the BPA to recognize that everyone would benefit from this arrangement. Mr. Spettel reported that Steve Wright, administrator for the BPA, was "excited" about the exchange agreement. He said when they were ready to sign Mr. Wright had indicated he would try to get some publicity for the event.

Mr. Maloney stated that the project was under construction. He showed several slides of the different machinery that was involved. He delineated with a graph the "all-in" prices. He noted that trends indicated that the facility would go below market in the 8th year. Mr. Spettel added that they were looking to make up the revenue shortfall through the sale of RECs.

Mr. Maloney delineated with a diagram the *Cash Flows and Reserve Account*. He said the reserve fund would always have a surplus. He noted that the purpose of the reserve fund had been to acquire lost opportunity resources.

Power Risk Analyst Megan Capper discussed the credit aspects. She said when looking at an acquisition they looked at performance risk and credit risk. She stated that the contract was a “take” contract, in other words EWEB would only pay when it received the power. She related that the credit issues were significant in that EWEB was dealing with a single-purpose LLC with little no assets other than the project. She said the LLC was “highly capitalized” with Goldman Sachs. She averred that as the project decreased its equity EWEB would require collateral in the form of another credit or a guarantee. She stated that this collateral would be used in the case that EWEB would have to go out and replace the power and the price of the power was higher than the “contract price,” thus setting it up so that EWEB would avoid an emergency rate action.

Commissioner Brown asked if there was an escape clause in the contract related to natural disasters. Mr. Maloney replied that there was a Large Force Majeure Clause in the contract that would absolve both parties from performing until the disaster had been resolve. He said if the two parties were unable to continue generating then they would meet and determine what to do.

Mr. Spettel pointed out that if the purchase contract were discontinued the BPA exchange contract would also cease to exist.

Vice President Simpson asked if the contract would be dead should the geo-thermal pond cool down and plant output reduced. Mr. Maloney responded that the way U.S. Geothermal, Inc. had set up its business arrangement with its partners was such that the company would realize the benefits from the later years in the contract while Goldman Sachs would realize its benefits from the earlier part of it. He underscored that the parent company had an incentive to maintain a high level of power output over a long period of time. He said typically for these kinds of projects to get financed they had to have enough third party consultants and geo-thermal engineers to convince the lenders of the viability of the project.

Commissioner Brown, seconded by Vice President Simpson, moved to give authority to the General Manager to enter into power purchase agreements for the Unit 2 Raft River Geothermal Project. Such authority would be contingent on the final contract reflecting the information provided in the staff report, other information provided to the Board and subject to concurrence with Eugene Water & Electric Board legal counsel. The motion passed unanimously, 3:0.

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ADJOURNMENT

President Menegat adjourned the Regular Board Meeting at 8:40 p.m.

Assistant Secretary

President