

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
DECEMBER 4, 2007
5:30 P.M.

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

Others present: Randy Berggren, Tom Buckhouse, Dick Varner, Patty Boyle, Jim Origliosso, Cathy Bloom, Debra Smith, Jim Wiley, Matt Northway, Dick Helgeson, Bob Lorenzen, Jason Heuser, Terry Bequette, John Mitchell, Bill Welch, Rob Roy, Susan Eicher, and Krista Hince of the EWEB staff; Julie Desimone, Kate Anderson, auditors with Moss-Adams LLP; Ruth Atcherson, City of Eugene minutes recorder.

President Menegat convened the work session of the Eugene Water & Electric Board (EWEB).

ENERGY CONSERVATION PLAN

Energy Management Services Manager Mat Northway explained that the intention was to review the draft objectives, to look at the costs and benefits of acquiring conservation, and to look at the suggested path forward. He hoped to garner input from the Board and to provide the opportunity to answer any questions commissioners might have.

Energy Management Section Manager Bob Lorenzen began a power point presentation on the *Energy Conservation Resource Strategy*, hard copies of which were provided to those present. He noted that consultants in determining the conservation resource potential for EWEB had aided staff. He stated that achievable potential was approximately 85 percent of the technical potential for conservation resources.

Mr. Northway cited, as an example, the savings that could be acquired through insulating all of the walls of homes in Eugene. He said there was a subset of customers that would consistently refuse this insulation.

Commissioner Farmer recalled that Mr. Lorenzen had stated that 40 percent of the projected resources for the commercial sector did not yet exist at the July work session in which the Conservation Resource Strategy had been discussed. He asked if this 40 percent was growth that had yet to occur. Mr. Northway affirmed that it was. Commissioner Farmer asked what sort of growth projection was contained in the model. Mr. Lorenzen replied that it utilized the standard growth projection used in planning for all EWEB resource activity. Mr. Helgeson added that the growth projection was 1.2 percent and was consistent with the 10-Year Financial Forecast.

In response to a follow-up question from Commissioner Farmer, Mr. Northway clarified that staff anticipated that 40 percent of what could be acquired in the next 20 years lay in the new construction component.

Mr. Lorenzen reviewed a graph of potential conservation measures that could be undertaken and the cumulative megawatts savings that would result from them. He explained that the 54 average megawatts (aMW) identified as available in the City of Eugene was determined based upon a cost effectiveness window of 5.5 cents per kilowatt hour (kWh). He noted that staff had chosen that amount because that was the cost of acquisition for some of the new wind resources. He said by comparison they were measuring the benefits against the market forwards. He projected that the cost in 20 years would run 7.4 cents per kWh and if the line was drawn there, EWEB would have an additional 6 megawatts.

Continuing, Mr. Lorenzen discussed the *EWEB Conservation Supply Curve – 2027*. He stated that EWEB had a potential for 49 megawatts of conservation measures for fewer than 4 cents per kWh. He averred that this represented a significant amount of resources available that were very inexpensive. He said this was what they had identified as a target moving forward, to access the first 54 aMW.

In response to a question from Vice President Simpson, Mr. Lorenzen confirmed that the customers paid for the conservation measures but EWEB provided incentives to discount the costs.

Mr. Lorenzen underscored the second draft strategy objective, which was that the rate of annual acquisition should be reasonable and predictable. He reviewed the *Conservation Acquisition Rate Scenarios*, four scenarios delineated in a graph including the “current path to acquire 2.5 aMW annually.”

Commissioner Farmer observed that both Scenarios 1 and 2 were cost effective though one acquired conservation at a slower steadier rate than the other. He asked what the difference would be. Mr. Lorenzen replied that the difference was that in Scenario 2 the retrofit portion would be sought within a 15 year period of time instead of 20 years.

In response to a follow-up question from Commissioner Farmer, Mr. Lorenzen affirmed that in order to acquire conservation more rapidly EWEB would have to provide more incentives.

Mr. Lorenzen noted that Scenario 3 represented doing only the minimum to qualify for the construction rate break EWEB received through its contract with the Bonneville Power Administration (BPA), equivalent to \$1.3 million per year. He said the third scenario would back EWEB off to a lower level of conservation.

Commissioner Farmer asked if the first three scenarios, the current path and Scenarios 1 and 2, could not be done without the BPA contract as it was currently structured. Mr. Northway responded that all of the scenarios assumed that there would be a rate correction from the BPA between the present and 2011.

Mr. Lorenzen stated that pursuing the conservation more aggressively would mean that EWEB would use up its rate credit earlier. He discussed the current funding practice of putting five percent of retail revenues aside for conservation program funding. He reviewed a graph that delineated conservation spending from 1998 through 2006 and discussed how events surrounding the energy crisis had affected it.

Commissioner Farmer observed that \$7.4 million had been the conservation expenditure for 2006. He asked what the 2.5 mW was equivalent to in dollars. Mr. Northway replied that the 2.5 mW was roughly equivalent to \$8.5 million. Power Resources Division Director Dick Helgeson added that the graph did not really portray the long-term value of the costs. He said all of it had been a level that was competitive with the BPA rate.

Vice President Simpson noted that EWEB had spent more for less conservation in 2005 and had spent less for more conservation in 2000. Mr. Lorenzen explained that in 2000 EWEB had a significant amount of industrial conservation, which was typically “very cheap.”

Commissioner Farmer asked how 2007 looked. Mr. Lorenzen replied that 2007 would be in the “same ballpark” as 2006. He said with the current funding formula EWEB would not be able to gain more than 2.5 mW unless it found a much cheaper resource.

Vice President Simpson observed that conservation could be achieved by a change in behavior or an increase in the efficiency of the available devices. He asked if EWEB was distinguishing the difference between behavior and efficiency. He asked if the electrical consumption per capita was increasing. Mr. Northway responded that even though national electric consumption had increased the City of Eugene had remained at a stable level of consumption.

In response to Vice President Simpson’s first question, Mr. Lorenzen stated that EWEB was only measuring the savings brought about by the installation of equipment. Mr. Northway added that it was not due to lifestyle changes.

Mr. Lorenzen discussed the fourth draft strategy objective, which sought to focus on resource targets based on potential. He stated that 55 percent of the program budget was allocated to the commercial/industrial sector because it provided 55 percent of the conservation; 45 percent of the budget was allocated to residential. He said if EWEB was going to decouple itself from the five percent funding formula it needed to identify what it cost to get the desired rate of acquisition and plan for it. He added that they needed to identify sector targets based upon the resource potential. He reviewed resource acquisitions since the 1980s with the aid of a bar graph that indicated the shift from 90 percent residential acquisitions to the majority of acquisitions coming from the commercial/industrial sector. He stated that the assumption was that the distribution of resources would continue to move away from acquisitions from the residential sector.

Mr. Lorenzen stated that the fifth objective sought to offer a set of programs that would allow all customers to participate, but would focus the marketing and strategies on the sub-class of customers that had the most resource potential available.

In conclusion, Mr. Lorenzen said the final objective would be that all approaches for acquisition would be considered.

Mr. Lorenzen related that historically EWEB had been the primary implementer of conservation programs. He said EWEB had contracts with contractors, such as for installing electronic thermostats in ceiling cable heated homes. He explained that an electronic thermostat provided the customer with better control and promoted energy savings. He stated that EWEB had negotiated prices through a bidding process with an electrician for doing that work. He added that EWEB was also promoting a program for small grocers in the commercial sector, a small program out of Portland that had been approved by BPA, wherein EWEB contracted with an entity that conducted audits for the grocers, made the recommendations for the conservation measures, and then made the arrangements for the contractors to install the equipment.

Vice President Simpson asked whom the contractor would then bill. Mr. Lorenzen replied that the bill came to EWEB and then the customer was billed and could potentially make payment arrangements over the course of 12 months.

Mr. Lorenzen reported that hook-up fees and standards, the last resort option for conservation, did not cover all potential resource acquisitions. He did not believe it would be an effective approach.

In response to a question from Vice President Simpson, Mr. Lorenzen affirmed that a hook-up fee would be charged to a new customer.

Mr. Lorenzen discussed the *Economic Analysis of Acquisition Scenarios*.

Commissioner Farmer asked for clarification on how the slides delineating the *Pessimistic Case* and the *Acquisition Scenario Options* related to one another. Mr. Lorenzen explained that if EWEB wanted to pursue conservation acquisition more aggressively it would have to spend more money. He related staff's recommendation, which was to undertake this process every five years and to recalibrate the resource potential, the rate of acquisition, and the budgetary requirements to do so as a part of the regular Integrated Energy Resource Portfolio (IERP) process.

Mr. Northway said they could guess where this path could lead in 20 years but not with a great deal of accuracy.

Commissioner Farmer ascertained from Mr. Northway that the first five years would cost \$15 million more, as recommended, but EWEB would gain more conservation from it.

Mr. Lorenzen said the IERP Strategy Tree, from the 2004 IERP, sought to maintain the baseline. He related that the Scenario 3, which provided 1.5 aMW, correlated with the Demand Side Management (DSM) Option 1. He noted that the committee had recommended that EWEB move to the DSM 3 option. He recommended following the Scenario 1 approach, which would increase the budget by approximately \$600,000 initially. He reviewed a *Five-Year Funding Comparison*. He stated that the difference between the annual costs and the five percent revenue projections over five years would be \$1.4 million.

In response to a question from Commissioner Brown, Mr. Lorenzen stated that the steam utility was not included in the conservation strategy. Commissioner Brown pointed out that EWEB would be faced with discussing alternatives with the steam customers. He thought there could be a parallel program for them. Mr. Northway responded that if the utility had a larger load because some of the steam customers converted to electricity, it would have a larger conservation target to acquire.

Commissioner Brown asked if residential customers received no-interest funding. Mr. Lorenzen replied that residential customers had access to a low-interest finance rate that was pegged to the federal interest rate.

Vice President Simpson thought EWEB was “going in the right direction.” He supported acquiring all cost-effective conservation measures. He said as Board members the Commissioners had to make “triple bottom line decisions.” He felt that what they had been presented with only represented the economic aspect of conservation. He thought in light of global warming issues EWEB might want to deploy Scenario 2 and acquire a lot of cost effective retro-fitting right away. He did not wish to guess at what was most prudent; he wanted staff’s “take” on the environmental and social impacts of decisions the Board would make. He said the other thing to keep in mind was the time frame. He noted that Scenario 2 showed acquisition dropping off to five percent by the year 2023. He disagreed as he thought more electric cars would be on the system in the near future. He wanted to ensure staff factored this in.

Mr. Northway said staff intended to engage in this strategy process every five years exactly because this load growth was a moving target to a certain extent.

In response to a question from Commissioner Farmer, Mr. Lorenzen stated that mostly there were capital improvements for conservation for industrial customers. He said most of those customers owned their own facilities. He acknowledged that for those who rented, the landlord would mostly see the benefits of conservation while the expense would be borne by the renter.

Mr. Lorenzen noted that the bulk of residential conservation acquisition that remained lay in the rental market. He said the smaller businesses that were located in leased space had been determined to have the most potential.

Commissioner Brown said he had used the conservation program. He advocated for having a good outreach program, noting that he had sought out the program. He wanted to see a follow-up

that determined that whatever had been installed had been cost-effective. He felt that a proactive approach that sought to educate people on the cost-effectiveness of conservation measures would benefit the program. He called the cost-effective aspect of it a “no brainer.”

Commissioner Farmer encouraged staff to be inventive about how the program could be subsidized. He said banks were looking for ways to make conservation loans.

Commissioner Lanning agreed with Vice President Simpson regarding information on the triple-bottom line. He felt that it was possible to have a sense for just what would change based on staff's industry knowledge. He thought waiting five years could be too long given the pace of emerging technologies. Mr. Northway agreed that waiting five years could set them up for surprises.

Mr. Lorenzen stated that the conservation strategy was a snapshot in time and once adopted staff would immediately take a look at making adjustments in the supply curve. He said changes in building codes were being instituted for both commercial and residential construction that would effect conservation. He underscored that how EWEB attained the levels of conservation acquisition might not ultimately be based upon what was delineated in the resource assessment.

President Menegat saw the five-year plan as a basic outline. He thought the Board would be more involved in what was going on as staff would return for approval of the expenditures. He noted that the full time equivalent (FTE) employees needed for the outreach would also come before the Board. He said staff would return before the Board with the draft strategy on February 5 and would conduct a public review process on the strategy later in February. The item was scheduled for final adoption on March 18. He related that staff would then develop implementation plans for 2009.

AUDIT PLANNING FOR 2007

Assistant Treasurer Cathy Bloom introduced the Moss-Adams auditors, Julie Desimone and Kate Anderson.

Ms. Desimone reviewed the Audit Plan for 2007 with power points. She commended EWEB staff, stating that they had been “incredibly prepared.” She stressed that the auditors, as an independent third party, worked for the Board and not management. She said a Commissioner would be selected for the interview process. She noted that this was a part of the required “fraud interview process” which she deemed a great ability to get out into the organization and “just talk to people.” She stated that the final presentation was planned for March 4.

Ms. Desimone stated that new risk assessment standards had reshaped the audit process. She added that as energy auditors, Moss-Adams LLP had already shaped its audit process “around risk.” She recalled that the work order control cycle had been diverse for the previous year’s audit; everyone had “his or her own way of doing it.” She said this year all of the processes had been made uniform and this made the testing go more smoothly. She noted that the audit was 40 to 45 percent through the testing aspect.

Ms. Desimone reported that two new Government Accounting Standards Board (GASB) statements, Nos. 45 and 49 were initiating significant changes in the disclosures and some of the reporting. She explained that the GASB 45 regarding Other Post-Employment Benefits (OPEB) was an obligation to put everything on financial statements. She commended EWEB for setting up the Post-Retirement Medical Plan Trust to meet that obligation. She said GASB 49 required pollution remediation to be placed on the financial statements.

Commissioner Brown asked if the steam plant and the groundwater problem to the east were examples of unfunded pollution problems. Ms. Bloom replied that the coal/gas site was the only one that had remediation. She acknowledged that there was asbestos in the steam facilities but it did not qualify because it was currently contained.

Commissioner Brown commented that if money was not allocated for asbestos remediation it made it an unfunded liability. Ms. Bloom reiterated that the asbestos was contained and did not need remediation until the facilities were torn down.

Commissioner Farmer ascertained from Ms. Bloom that EWEB could set up a fund for such a reason but it could not be “booked” as such.

Ms. Bloom related that GASB was changing the pension standard. She said GASB intended to require companies to put the Unfunded Actuarial Liability (UAL) on the books.

Vice President Simpson wanted to maintain a focus on power trading transaction handling and to ensure that EWEB was handling its unfunded liability transactions in a “prudent sound manner.”

Commissioner Farmer wanted to make sure what EWEB was capitalizing and what it was expensing were correct with regard to the Carmen-Smith relicensing process.

Commissioner Brown advocated for focusing on the people who work for EWEB that had the community’s best interest at heart and did a good job for EWEB. He said if the auditors could help identifying those people EWEB would make sure to let the community know of their work.

Work Session
December 4, 2007
Page 8

Vice President Simpson said the auditors could contact the General Manager at any time if they wanted to contact the Commissioners.

President Menegat adjourned the meeting at 6:59 p.m.

Assistant Secretary

President