

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
FEBRUARY 19, 2008
5:30 P.M.

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

Others present: Jim Wiley, Jim Origliosso, Dick Helgeson, Cathy Bloom, Lance Robertson, Dick Varner, Brenda Sirois, John Yanov, Marty Douglass, Debra Smith, Terry Bequette, and Krista Hince of the EWEB staff; Jeannine Parisi, Glen Svendsen, City of Eugene Staff; Emily Jerome, Eugene City Attorney; Ruth Atcherson, City of Eugene minutes recorder.

President Simpson convened the Work Session of the Eugene Water & Electric Board (EWEB).

INTEGRATED ELECTRIC RESOURCE PLAN UPDATE – 2008-2009 PROJECT PLAN AND UPDATE ON BPA ALLOCATION

Power Resources Division Director Dick Helgeson began the power point presentation, entitled *Electric Resource Planning Update*, copies of which were provided to all who were present. He characterized the presentation as a “preview of coming attractions.” He reported that EWEB was beginning to formulate a sense of the energy environment “post-2011” as it targeted its resource strategy. He reiterated that EWEB had been participating in largely informational briefings the Bonneville Power Administration (BPA) called the Regional Dialogue. He said the purpose of the dialogue would be to work out with the region what the role of the BPA would be after the current contracts ended. He related that this sought to frame up the environment in which EWEB would continue to have access to the “relatively low-cost resources” provided by the Federal Base System (FBS). He said included at the policy level portion of the process was a record of decision from the previous summer that laid out in concept the allocations of the FBS into the future to various “preference utilities” and the tiering of rates such that EWEB would be facing a higher “Tier 2” rate to meet its load growth going forward.

Mr. Helgeson stated that subsequent to this the BPA held a number of workshops in which it worked with its customers to develop terms of the various product offerings to different utilities. He said the BPA was moving into a negotiation phase with utilities wherein all of the concepts would become rendered into contract language form. He anticipated that the BPA would offer EWEB a draft contract in the third quarter of the present year. He noted that the BPA was also moving into hearings processes that would tie down some of the rate-related aspects of the process along with the allocation element. He underscored that EWEB would now be moving into the phase in which it would need Board direction regarding the new BPA contract.

Mr. Helgeson said EWEB had also seen changes relative to the Renewable Portfolio Standards (RPS) and impacts of legislation and climate change. He recalled that EWEB had anticipated when it undertook its Integrated Energy Resource Portfolio (IERP) process that it would reach a stage at this point in which it would have completed its near-term action plan and its work on the lost opportunity resources. He felt this was a logical time for a “check-in.”

Resources Planning Analyst Brenda Sirois provided the context for the IERP by reviewing the previous process. She reminded the Board that the near and medium-term strategies had been to pursue lost opportunity resources and to continue the current path of Demand Side Management (DSM). She said each year a work plan was developed based on this resource strategy. She provided a copy of the 2008 work plan for the Commissioners, which laid out the specific action items related to power resources that supported implementation of the lost opportunity path.

Power Management and Planning Supervisor Dick Varner continued the power point presentation and reviewed the *2008 Board Engagement & Upcoming Decisions*. He hoped staff would be able to bring a preliminary product line from the BPA to the Board in April. He said EWEB would need to revisit its strategy for resource acquisition. He underscored that there was a two to four year lead time between the time EWEB began working on acquiring a new resource and when it was actually delivering energy.

Mr. Helgeson clarified that the BPA product choices would look familiar, e.g. Block and Slice, but staff would analyze them and provide the Board with the results for its consideration.

Ms. Sirois underscored that staff would return every quarter of the year in order to gain direction in regard to the power resources.

Mr. Varner said it appeared that EWEB’s BPA contract “high water mark” would be allocated at 25 average megawatts (aMW) less than what EWEB currently had. He noted that this assumption was based on there being enough resources from the FBS plus the augmentation amounts the BPA had committed to that were needed to serve all of the public loads with no “big spurts” of load growth in the region. He related that it also assumed that EWEB’s conservation was at or ahead of what was going on in the region. He predicted that the BPA would indicate its best guess on what it thought EWEB’s contract “high water mark” was, but EWEB would not know the exact amount until after the BPA fiscal year 2010 was over and the data had been processed from that year. He stressed that there was a certain level of uncertainty that EWEB might want to hedge going forward. He showed a slide delineating *EWEB’s Forecasted Firm Resource Stack and Retail Load* with a graph. He underscored that at present EWEB was selling its surplus into the market to augment rates, but would no longer have a surplus in 2012. He said this scenario was based on “medium case conditions” that did not allow for any problems that could occur between now and then.

President Simpson asked what the drop in 2021 would be attributed to. Mr. Varner replied that it was due to the end of EWEB's contract with the Western Generation Agency (WGA).

Mr. Varner stated that with the change in the BPA contract post-2011, Grant County would "take back" all of its generation and the BPA would replace this. He said the Raft River Geothermal project was slated to come on line in 2010, projected to be 11 to 12 aMW. He noted that the contract for the cogeneration project with Weyerhaeuser would end in 2015, unless something could be renegotiated with them, the contract with Stateline would end in 2026, and the contract with the Klondike 3 project would end "soon thereafter."

Mr. Helgeson related that the graph represented load growth projected at approximately four aMW per year.

Commissioner Brown asked if growth projections were based on redevelopment, given that the Urban Growth Boundary (UGB) was not going to be expanded in the near future. Ms. Sirois replied that a number of factors drove the load. She explained that there were more and more consumer products that required energy use and this drove the net consumption in homes up.

Commissioner Brown asked what would happen if the buildable lands inventory was expanded. Ms. Sirois responded that, as the strategy would be revisited over coming years, those sorts of uncertainties would be considered. Mr. Varner added that expansion of the UGB did not necessarily mean in tandem expansion of EWEB's service territory.

Mr. Helgeson thought it might be a good exercise to calibrate the different potential scenarios. He noted that there were "wild cards" that could not be anticipated such as development of a large industry or a dramatic increase in the use of electric cars.

Mr. Varner discussed a graph that delineated the power deficit to 2025, which he projected to present EWEB with an additional \$40 to \$60 million in purchased power bills. Ms. Sirois emphasized that this was the medium forecast, i.e. prices could be significantly higher or lower.

Commissioner Brown asked if the cost of operations and overhead was included in the deficit. Mr. Varner replied that it was not.

In response to a question from President Simpson, Mr. Helgeson related that, at present, the BPA purchased power for those areas that were not able to meet their own energy needs and the price was melded into the cost for the FBS power. He said EWEB and its customers were subsidizing load growth in the Puget Sound area. He thought one of the reasons to argue for allocation was if EWEB anticipated its load growth would grow at or below the regional trend; EWEB would be able in that case to fare better by managing those costs within its own portfolio or at in a tiered rate structure, if the utility could get into one.

Mr. Varner stated that now there was not only supply pricing, there was demand pricing. He

related that there were now entities in California willing to pay \$80 or more per megawatt hour for renewable projects in the northwest. He had observed that California was looking for more of its renewable power outside of the state than within it. He averred that EWEB was not likely to find the “kind of deals” it had encountered in the past. He said in the past EWEB tried to be within 25 megawatts plus or minus what the expected loads were so that EWEB had firm loads to meet firm demands. He related that as EWEB progressed it was not clear to staff whether this was the correct paradigm. He suggested that EWEB may want to look at energy by month, i.e. looking at the energy in the spring, selling the long position, and then if EWEB was short in the summer whether the long position could be sold to buy power during that time. He noted that there was some risk that EWEB would be left “holding the bag” with its long position not worth as much as before. He discussed the challenges of meeting the peak loads of summer and winter. He reviewed some of the different approaches to meet a power deficit, with the default position being one of going to the open market for it. He said at present EWEB was looking to purchase resources to aid in meeting its demand.

Ms. Sirois added that other options included increasing energy efficiency and invoking more demand response programs.

Commissioner Brown wondered if EWEB supported projects proposed for Dorena Lake, Cottage Grove, and Fall Creek Reservoir. He noted the recent application for nine hydro facilities to be built on the McKenzie River, adding that he would never support this proposal. He asked if EWEB could have an opportunity to meet some of its shortage by tapping some of the local facilities. Mr. Varner replied that staff intended to conduct analysis on whether putting a facility in at Blue River would be a prudent project to undertake. He said they would still pursue “lost opportunities.” He related that he had been in conversations with the General Manager of the Cowlitz County Public Utility District about a potential wind project that would require an investment of capital on EWEB’s part, should it choose to participate. He underscored that a potential investment represented a very different approach to such a project.

Mr. Helgeson remarked that EWEB’s ability to participate in hydroelectric projects had to do with where an entity was in the process. He pointed out that EWEB had been seeking to diversify its hydro risk by moving away from it. He noted that EWEB had also been moving away from the geographic risk by engaging in projects such as Stone Creek and Tieton. He said with respect to new applications EWEB had the ability to review them and to file competing license applications, which would be looked upon more favorably than those of speculative third-party developers. He stressed that the purpose of this process was to set boundaries for what EWEB wanted to pursue in regard to potential acquisitions.

Commissioner Lanning asked how much work was being conducted around DSM. He believed it was a huge significant shift in the way power was looked at. Mr. Varner responded that shifting the load from heavy load hours to light load hours would not serve as a panacea for EWEB. He said the area would have to actually cut usage.

Mr. Helgeson commented that regions that have high-priced “thermal peakers” that came on

line for few hours per day tended to focus more on DSM. He noted that within the five or ten-year planning horizon staff was looking into Automated Meter Reading (AMR) and Advanced Metering Infrastructure (AMI) and other applications that would facilitate DSM.

Mr. Varner remarked that there were a couple of DSM mechanisms, such as actual utility control of customer-owned facilities such as water heaters and cooling and heating units. He thought it possible, if this was worth it for EWEB, to provide incentives to customers to sign up for such programs. He stressed that this was not a “front burner item” for EWEB at this time.

Ms. Sirois reiterated that EWEB had not looked at the load/resource balance in a quantifying scale. She said staff needed to do so in order to come up with a list of supply, generating, and demand side resources that would help EWEB meet its need at the lowest cost and in the most environmentally balanced way. She noted that EWEB received many phone calls from people trying to sell products to the electric division. She commented that anyone could write up a proposal to place dams on a river and this was why the process for development of such a facility took five to ten years.

Mr. Varner said EWEB had focused on resources that generate energy up to the present and not when the energy was generated. He asked the Commissioners to consider whether EWEB would need resources that would “follow load.” He pointed out that most of the generating facilities produced most of the energy in the spring and the fall.

Mr. Wiley underscored that all of this was in the context of climate change, which could impact tremendously both supply and demand.

President Simpson commended staff for the presentation.

STEAM PLAN COMMUNITY INVOLVEMENT PROCESS

Public Affairs Manager Marty Douglass commented that the issue of the steam plant had been “on again off again” since he began with EWEB in 1989. He stressed the importance of communicating with those people directly affected by the steam plant when EWEB considered how to proceed in its stewardship of the facility. He noted that there were only approximately 100 steam customers at present. He said EWEB was employing the American Public Power Association (APPA) public participation manual in developing a process for involving the community and he highlighted the approach delineated in the manual.

Mr. Douglass stated that the first element in the manual was to identify the key stakeholders, which in this case were the commercial steam customers. He listed some of those customers, which included Sacred Heart Hospital, the municipal, federal, and county governments, and commercial enterprises in the downtown area among others.

Mr. Douglass said the next step would be to identify the special interest groups that could be involved in the process. He stated that EWEB would want to consult with the City of Eugene Planning Division, as an example, given the city's stake in how the riverfront properties would be changed or developed.

President Simpson asked Mr. Douglass how he envisioned the 'empower' component of the APPA-recommended public process working. Mr. Douglass responded that it meant to provide the stakeholders with a role in the decision. He said EWEB would work to inform the stakeholders so they could provide input throughout the process.

Commissioner Brown asked why the University of Oregon had not been included in the list of special interest stakeholders. Mr. Douglass replied that the University would be involved in whatever decision EWEB would make. Commissioner Brown said they should be considered as an alternative provider, given that the University had its own facility. Employee, Customer and Community Services Division Director Debra Smith added that a letter had been sent from General Manager Randy Berggren to University President David Frohnmayer, intended as specific outreach to the University of Oregon.

Mr. Douglass reviewed the *Public Participation Activities* as outlined in the memorandum entitled *Steam Plant Community Involvement Process and Communication Plan* dated *February 12, 2008*.

Commissioner Brown strongly recommended the inclusion of renters. He underscored that leaseholders ultimately paid for the energy provided and not just the people who owned the real estate.

Commissioner Lanning commented that at some point customers' support for transitioning to a different system would come up.

Commissioner Brown asked if the incentive to transition was declining. Mr. Douglass said he would get the answer for the Commissioners.

Commissioner Brown reiterated his concerns regarding asbestos in the lines. He said if tearing up the lines was a possibility it needed to be part of the conversation, given that it would involve asbestos abatement.

President Simpson assumed that opinions would vary among customers ranging from a desire to remain with the system to a desire to transition to a different way of heating buildings.

Commissioner Brown related that he had undertaken the cost exercise for a steam customer and had determined the building was paying 41 cents per square foot for utilities when the average was 14 cents. He averred that cutting a bill by 20 cents a square foot by installing a different form of heating made economic sense.

President Simpson adjourned the meeting at 6:44 p.m.

Assistant Secretary

President