

EUGENE WATER & ELECTRIC BOARD
REGULAR BOARD MEETING
EWEB BOARD ROOM
MARCH 18, 2008
7:30 P.M.

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

Others present: Randy Berggren, Jim Wiley, Jim Origliosso, Lance Robertson, Patty Boyle, Scott Spettel, Sheila Crawford, and Judy Chase of the EWEB staff; Minutes written from a digital recording.

President Simpson convened the Regular Meeting of the Eugene Water & Electric Board (EWEB) at 7:15 p.m.

AGENDA CHECK

There were no changes to the agenda.

PUBLIC INPUT

There were no members of the public who wished to speak at this time and the item was deferred until later in the agenda.

APPROVAL OF CONSENT CALENDAR

Minutes

1. a. January 2, 2008, Work Session
- b. January 15, 2008, Regular Board Meeting

Contracts

2. SOLARC Architecture and Engineers – Design, Consulting, and Construction Administration of New Visitor Shelter at Lloyd Knox Water Board Park – Electric Division.
3. Stettler Supply Company – Hayden Bridge Backwash Pump & Electrical Improvements – Water Division.
4. Telecom/Telephone Expenses – Various Vendors – Information Services – Corporate Services Division.
5. UCN – Long Distance Services – Information Services – Corporate Services Division.

Resolutions

6. Resolution No. 0810 – BPA Standstill and Interim Relief Payment Agreement – Power Resources Division.
7. Resolution No. 0811 – Strategic Plan Development (GP-3) – Adopts the 2008 Strategic Plan Summary.

Commissioner Brown, seconded by Vice President Farmer, moved to approve the Consent Calendar. The motion passed unanimously, 4:0.

ITEMS REMOVED FROM THE CONSENT CALENDAR

There were no items removed from the Consent Calendar.

ITEMS FROM BOARD MEMBERS

Commissioner Menegat thanked the legal counsel for being available in case there were questions or concerns.

Vice President Farmer requested information on what the rating agencies would be focusing on going forward. He felt they had put out some fairly strong indications that they would be looking at the financial burden that the cost mandated renewables would have. He wanted to ensure EWEB was ahead of that curve, that EWEB could show the rating agencies that it had looked at the issue and acknowledged what the financial implications were and then dealt with it. General Manager Randy Berggren responded that staff had the elements available to them in terms of forecasts and could put together a “white paper” for the Board.

Vice President Farmer said another piece of information he would like to see would be a better layman’s interpretation of the costs of the different renewables.

President Simpson reported that he had been contacted by the director of the Northwest Energy Coalition (NVEC) to consider the concept of a joint meeting of the Emerald People’s Utility District (EPUD) and EWEB to hear a presentation regarding what it would take for the utilities to remain whole should the four lower Snake River dams be removed. He related that he had briefed Mr. Berggren and Power Resources Division Director Dick Helgeson on it and they were following up with the NVEC.

General Manager Randy Berggren said Power Resources Division Director Dick Helgeson had been in contact with the NVEC regarding this presentation. He wanted to bring in the regional views of that issue both from the biological and environmental perspective and the traditional utility views. He averred that it was a divisive issue that had “political legs lately.” He was trying to find some representatives of both the pros and cons of the issue to speak to it.

Vice President Farmer noted that he had also been contacted by the NWECC. He related that he stressed to the NWECC representative that there were a lot of ramifications to consider. He averred that the NWECC board was determined to eliminate the dams. He did not want EWEB to be incorrectly “painted” as being in complete support of razing them. Mr. Berggren responded that this was why he was seeking to gain both points of view for a presentation. He underscored the need for an understanding of the ramifications, as it would alter the Federal Base System (FBS) in a significant way. He noted that the hydroelectric power generated by the Snake River dams was currently considered to be green power.

Commissioner Brown said a couple of items that could end up on the agenda in June and July included the Walterville flows and EWEB’s stewardship of the McKenzie River. He thought it would be good for all of the Commissioners to see the river when EWEB impacted the flows, dropping the river to 1,000 cubic feet per second (CFS). He offered to make arrangements in order for people to see this.

President Simpson related that the McKenzie Watershed Council (MWC) had expressed interest in retaining him on the Alliance and on the Executive Board. He said he wanted to continue to serve on those two Boards.

President Simpson stated that he would be unable to attend the Climate Change Summit on March 21. He asked if anyone would be willing to attend in his place. General Manager Randy Berggren noted that he would attend as a staff representative. Commissioner Brown indicated he would also attend.

CORRESPONDENCE

Mr. Berggren reported the following items of correspondence:

- Mr. Douglass had sent an email regarding a public meeting that was planned to be held at the McKenzie Fire & Rescue Training Center in Leaburg on March 20 at 7 p.m. for the purpose of discussing some planned maintenance projects and issues associated with the Leaburg/Walterville hydroelectric facilities.
- Mr. Beeson sent a memorandum dated March 11 on the Roosevelt Project review. Mr. Berggren assured the Board of staff’s intention to honor the Board’s decision and to provide the Board with whatever information needed regarding cost-effectiveness. Staff planned to bring an update to the Board at the April 1 work session.
- There was a report in the newspaper that Weyerhaeuser Company had sold some of its facilities, including the Springfield facility which was EWEB’s largest customer. EWEB would need to assign the contract from Weyerhaeuser to International Paper and the due diligence assessments of this had been initiated.

Vice President Farmer wanted to know if there would be any impact to the cogen facility EWEB had with Weyerhaeuser. He said some facilities that were sold could be closed and it would also be good to know what the ramifications of that situation would be for EWEB, should it occur.

Commissioner Brown thought they should assume the potential for closure existed. He remarked that the facility had substantial water rights for its pulp operation. He said there could be an opportunity to collaborate with that in order to supplement the regional water concept.

Vice President Farmer noted that there was an interesting article in the *Register Guard* about a boat landing built in Reedsport that had been funded largely by grants from the Oregon Fish & Wildlife Department (ODFW) and by the Oregon State Marine Board. Mr. Berggren responded that staff intended to include those funding opportunities in the discussions of the planned boat landing.

BOARD AGENDAS

Mr. Berggren highlighted the *Eugene Water & Electric Board Agenda Report* dated *March 18, 2008*.

2008 SPRING WATER RATES PROPOSAL

Facilities Supervisor Patty Boyle reported that nothing had changed in the rate proposal from the previous presentation. She stated that staff proposed a 17 percent overall water rate increase. She explained that the main cost drivers were capital funding for projects planned for the coming year as well as funding for the capital reserve that sought to address unexpected overruns and to be prepared for a larger capital program. She reviewed the rate increases by class.

Vice President Farmer asked how a Commissioner could best explain why the General Service was cheaper outside of the service area of the city. Ms. Boyle replied that the rate increases were affected by a number of things such as the relative use of peaking within the rate classes and how much water they anticipated that rate class to use. She explained that if the behavior outside of the city implied that they typically had a lower peaking factor they would have a lower portion of the rate increase.

President Simpson asked staff to elaborate about the peaking factor. Mr. Berggren responded that the peaking factor related to the manner in which a class of users consumed its water and how it impacted the water service, which impacted the cost allocation.

Vice President Farmer asked what the characteristics drove the difference in this case. Ms. Boyle attributed the difference to the greater use of water in the summer by people living in the city.

Ms. Boyle continued her review. She also had included a review of EWEB's comparator cities' rates.

In response to a question from President Simpson, Ms. Boyle confirmed that the city's sewer fees would not be affected by the rate changes.

President Simpson asked if the rate change would affect how EWEB compared with the cities in Ms. Boyle's review. Ms. Boyle replied that it would not.

President Simpson asked if the increase would provide a funding mechanism for a water reserve. Ms. Boyle responded that it would provide a funding mechanism for the water capital reserve, and not the operating reserve.

2008 SPRING ELECTRIC RATES PROPOSAL

Senior Rates/Financial Analyst John Yanov stated that this was the second presentation of the rate proposal and there were no substantive changes from the first presentation. He provided a brief review of the proposal with power points.

Commissioner Brown asked if the Green Power would also have the same net change to rates. Mr. Yanov confirmed that the Green Power customers would also receive the same slight decrease in rates.

President Simpson summarized the rate action, which was a reduction due to an advance refund of the residential energy exchange from the Bonneville Power Administration (BPA).

Vice President Farmer wished to emphasize that this was a one-time interim payment that on a stand alone basis would result in a four percent rate reduction. He ascertained from Mr. Yanov that without this interim payment in 2009 the rates would have to be raised back up. Mr. Yanov added that the initial proposal for the current rate case scenario being suggested by the BPA included a four percent decrease to the rate. He thought there could be another decrease in the fall.

In response to a question from Vice President Farmer, Mr. Yanov confirmed that the potential rate decrease in the fall could add up to a 2.2 percent decrease to the 1.8 percent decrease the Board was considering at the present meeting. Vice President Farmer observed that EWEB had a policy of passing rate decreases from the BPA through to its ratepayers. He asked why the Board was mixing this with a budget increase. Mr. Berggren was not certain this characterization was accurate. He clarified that the BPA worked on a six-month basis and EWEB often considered BPA rate actions independent of its budget actions.

SECOND PUBLIC HEARING ON 2008 SPRING ELECTRIC & WATER RATE PROPOSAL

President Simpson opened the public hearing. Seeing no one present who wished to speak to the rate proposals he closed the public hearing.

2008 SPRING WATER & ELECTRIC RATES PROPOSALS – RESOLUTION NOS. 0807 AND 0808

Vice President Farmer, seconded by Commissioner Brown, moved to approve Resolution No. 0807, a resolution that proposed a 1.8 percent decrease in electric rates on or after May 1, 2008. The motion passed unanimously, 4:0.

Commissioner Menegat, seconded by Commissioner Brown, moved to approve Resolution No. 0808, a resolution to adopt proposed rates for the water utility. The motion passed unanimously, 4:0.

TIETON SETTLEMENT BUYOUT

Power Management & Planning Manager Scott Spettel stated that he had been before the Board many times with contracts for resource acquisition and this would be the first time he had come before the Board to “take one of them back.” He recalled that previous memoranda had discussed the status of the Tieton project, which was now in commercial operation. He said the developer had experienced cost overruns, which had led to a desire to restructure the project. In the response to this EWEB and the developer had sought a “win-win” solution. He related that in February 2007, the Board had indicated general agreement to the restructuring and a desire to “see something up front.”

Mr. Spettel explained that such a proposal was possible because of the niche market that had developed for bundled green power, largely in response to the Renewable Portfolio Standards (RPS) in Oregon and in surrounding states, especially California. He said the RPS market in California would most likely be the avenue for the developer to remarket the output of the project, bundled with the tax. He clarified that EWEB could not do such remarketing because it had limitations on its ability to resell the power out of the region and could be subject to an energy decrement from BPA because of its different institutional category. He recommended approval of the resolution to grant a release from EWEB’s obligations in the Tieton project.

Vice President Farmer asked if there were lessons to be learned from the experience in Tieton. Mr. Spettel replied that there was an emphasis on renewable energy credits and all of EWEB’s acquisition contracts specified that EWEB would get the rights to any intangible that could come out of a renewable energy product, such as carbon credits. He said one lesson was that when EWEB bought power it should buy everything of value that could be associated with it. He added that in terms of the overall experience and the developer’s cost overruns, they would not have done it differently. He felt good about EWEB’s ability to come out of the contract with a win-win solution.

He noted that EWEB had entered into the contract with a developer that had been associated with the Smith Falls project. He said included in the contract was the potential ability for EWEB to step in with its own capital once the project was built and running and was financially sound. He commented that he was glad that when Tieton experienced cost overruns that were close to \$23 million EWEB did not have that kind of exposure in the project. He averred that the contract structure had given EWEB a lot of flexibility and at no time was EWEB obligated to pay more than it had initially agreed to pay. He stressed that in this case EWEB was being remunerated in a way that was “attractive relative to the economic value.”

Vice President Farmer asked what drove the cost overruns. Mr. Spettel replied that it was his understanding that the developer had to dig deeper to find a rock foundation for the powerhouse. He said there were some additional cost overruns with the transmission agreement with Pacific Corps, a new substation, and other various capital risks.

In response to a follow-up question from Vice President Farmer, Mr. Spettel said it was possible that such cost overruns could occur in the Carmen-Smith work.

Commissioner Brown asked what EWEB’s financial position in the contract was. Mr. Spettel replied that all of the terms in the initial contract stayed in place; EWEB would continue to buy for 24 more years at a price of \$54 per megawatt hour (MWH). He said they would also continue buying transmission from Pacific Corps, which would add some cost.

In response to a follow-up question from Commissioner Brown, Mr. Spettel stated that \$3.1 million was a little more than the net present value of what EWEB thought it would get out of the contract using the engineering estimates behind the financing of the project.

Vice President Farmer, seconded by Commissioner Brown, moved to approve Resolution No. 0809, a resolution granting approval for the release of obligations under the Tieton Hydroelectric Project purchase power agreement. The motion passed unanimously; 4;0.

VACANT COMMISSIONER REPLACEMENT

Mr. Berggren stated that the Board had two options: a replacement Commissioner could be appointed or the Board could wait until after the election in May and appoint the successful candidate running for former-Commissioner Lanning’s position, who resigned in early March.

The Board generally agreed to wait until the May election to appoint the election winner to Commissioner Lanning’s position.

Vice President Farmer advised staff to have a contingency plan in case there was a close election that would result in a runoff.

Commissioner Brown pointed out that it would be important to expedite the appointment process after the election, given that with only four if two did not show up there would not be quorum.

PUBLIC INPUT

Janet Brown, an EWEB customer, said she had watched the water and electricity rates for years and had observed that the water rates had raised a great amount. She asked what the 1.8 percent decrease in the electric rates would be applied to. She stated that she had a small house and had watched the water, wastewater, and sewer rates escalate. She also wondered if the wastewater rates would increase. She preferred a gradual increase to the water rates in lieu of the decrease in the electric rates.

Vice President Farmer expressed frustration regarding the association of the wastewater charge with EWEB. He stressed that this was a city charge and not part of EWEB's charge; EWEB had to put the charge on the bill based on the City Charter. He encouraged her to express comments in regard to the wastewater charges to the City Council and to her councilor-representative, Betty Taylor.

Regarding the water rate increase, Vice President Farmer explained that EWEB's system was an old system; it was not a matter of whether EWEB could deliver more water to customers but rather could it continue to deliver the water.

President Simpson said there were small cost increases to what it took to produce the water, to purchase the chemicals that make sure the water was safe and "bug free," but the largest component was the degradation of the infrastructure. He underscored that EWEB now had pipes that were more than 100 years old. He stated that the increase that had been approved was the first of a series of increases intended to cover the replacement of the deteriorating water delivery facilities. He pointed out that EWEB could wait and hope the pipes would not break but eventually this would catch up. He did not want Eugene to get into that position because it would cost more money ultimately. He noted that EWEB tried to correlate its water main replacements with the City's street work as it was more efficient to do the work when the street was already being opened for other reasons.

In response to her question regarding the different rates, President Simpson explained the charges and the tiered rates, and underscored that the rate decrease would be applied to all three tiers.

Vice President Farmer emphasized that revenue collected for the electric utility could not be intermingled with the water utility and vice versa, so it would not be possible to alter the rate decrease to the electric utility so that it could be applied to the water utility.

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ADJOURNMENT

President Simpson adjourned the Regular Board Meeting at 8:37 p.m.

Assistant Secretary

President