

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
APRIL 1, 2008
6:00 P.M.

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

Others present: Randy Berggren, Jim Wiley, Jim Origliosso, Dick Helgeson, Cathy Bloom, Lance Robertson, Debra Smith, Dean Ahlsten, Patti Boyle, Ken Beeson, Tom Buckhouse, Marc Anderson, Mark Freeman, Mark Oberle, Bill Welch, and Krista Hince of the EWEB staff; Ruth Atcherson, City of Eugene minutes recorder.

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

STRATEGIC DIRECTION POLICY/NERC RELIABILITY

Treasurer Jim Origliosso reviewed the information contained in the memorandum entitled *Board Policy on NERC Reliability* dated *March 26, 2008*. He said the regulatory framework that surrounded electric reliability had placed requirements on utilities that had “more teeth.” He explained that regulations sought to ensure utilities engaged in prudent business practices. He stated that the North American Electric Reliability Corporation (NERC) would give discounts on penalties that were related to the extent that EWEB was found in non-compliance. He related that there were 13 criteria that would allow a discount and those were collectively called an internal compliance program. He stated that a governance policy had been crafted in relation to the NERC Reliability Standards.

Systems Engineering and Substation Reliability Manager Dean Ahlsten Ahlsten commented that these were “broad brush” sweeping changes to the industry. He reviewed them with the aid of power points.

President Simpson asked if a discount on penalties was the only element and whether the penalty was incremental based on what the utility had done or not done. Mr. Origliosso responded that the initial penalty depended on the severity of the event. He said EWEB had a budget item that would help with an internal compliance component. He related that it was a fairly involved and comprehensive approach for monitoring compliance.

Mr. Ahlsten explained that previously the control area operators, such as the Bonneville Power Administration (BPA) and PacifiCorp, were responsible for reliability functions. He said the reliability coordinator was an overseer function that had been implemented in the last eight to ten years. He related that the Western Electricity Coordinating Council (WECC) had a delegation agreement with NERC which delegated authority to the WECC to enforce the program. He stated that Exhibit D of that delegation agreement comprised the compliance program, the major components of which consisted of monitoring processes, mitigation plans, and the hearings process for resolving situations in which a utility disagreed with a violation levied against it.

Vice President Farmer surmised that the standards were not measuring EWEB's reliability for delivering its product to its customer; rather it was how its reliability would affect the entire grid as a whole. Mr. Ahlsten affirmed that the focus was on reliability of the interconnected system. He noted that there were a lot of different viewpoints about what is considered sub-transmission versus bulk transmission. He said the movement at this point was to bring all of the underlying systems in. He added that by definition this included systems that were "100 kV" or above, unless it was a radial system.

President Simpson asked if the rules were designed to protect the greater grid or the customers. He wondered why EWEB could not have a circuit breaker that would "snap open" and isolate EWEB from the rest of the grid. Treasurer Jim Origliosso responded that EWEB did have such a system. General Manager Randy Berggren clarified that the standards were to ensure the equipment was ready to operate. He said if companies do not maintain or replace equipment it can lead to a series of cascading failures and a widespread blackout.

In response to a question from Vice President Farmer, Mr. Origliosso explained that the penalties were based on whether all of the smaller procedures were followed. Mr. Ahlsten reiterated that the focus was on the bulk system.

Mr. Ahlsten elaborated on the monitoring process. He said there were nine avenues for discovery of violations. He stated that EWEB conducts quarterly self-certifications in which standards are reviewed and a report submitted regarding how EWEB was meeting compliance standards. He related that spot checking could happen at any time but generally happened in relation to the quarterly reporting. He explained that the basic penalty was based on risk factors and the severity levels that had been assigned to that violation and could be as much as \$1 million per day per violation.

President Simpson noted that an issue had come up two or three years earlier in Dexter in which the protective breaker had failed to open and asked how severe it was. Mr. Ahlsten replied that there were thresholds and a disturbance reporting standard, which was defined as 300 megawatts of lost load. He thought the City of Springfield had lost approximately 100 megawatts in that incident and would not meet the criteria.

President Simpson asked if EWEB could predict that a relay would not hold through testing or analysis. He asked if such a failure would be marked as a violation in and of itself. Mr. Ahlsten responded that the program required everything to be tested at least once every three years and if EWEB had not conducted that testing it would be considered a violation. Mr. Origliosso added the fact that an outage had occurred was not necessarily a sanctionable event.

President Simpson asked what the estimated annual cost to EWEB the increased monitoring would amount to. Mr. Ahlsten replied that it was budgeted at \$100,000 for 2008. He said there would be some additional up front costs and he would provide that number to the Board when it was known.

Commissioner Brown asked if any part of the pole failure at Quail Run would have had an effect on the standards. Mr. Ahlsten replied that technically it could have been a right-of-way clearing violation, but at present there was not a requirement. He reiterated that the pole failure had been the result of a freak storm.

In response to a question from Commissioner Brown, Mr. Ahlsten clarified that only the setbacks and clearance would have been considered in that instance.

Vice President Farmer recalled that EWEB had been fined a few years earlier because its tree trimming program was not coordinated enough and surmised that this would probably not have created an issue because it did not pertain directly to transmission lines. Mr. Ahlsten affirmed this. He remarked that EWEB had a stellar transmission program, which consisted of inspecting the entire system every year.

Vice President Farmer said he had no issues with the language in the governance policy, SD 17, which was a Strategic Direction policy related to NERC reliability standards.

In response to a question from Vice President Farmer, Mr. Ahlsten said there were “a few” issues. He explained that EWEB had been through gap analysis and had initiated mitigation plans and fixed most of the ones that were known. Mr. Origliosso noted that EWEB had self-reported some non-compliance issues. Mr. Berggren added that EWEB was at the end of its first quarter and had established a reliability council, of which he was chair. He said they were meeting weekly currently to understand the standards and to determine EWEB’s potential mitigation plan. He stated that the reliability council intended to provide routine reports to the Board.

Vice President Farmer observed that the Board looked at reliability using standards such as frequency and length of power outages at times. He wondered if there were any key measurements regarding these compliance standards they could utilize. Mr. Ahlsten replied that he would try to do so.

Vice President Farmer asked if staff could project whether this type of regulation would be developed for the water utility. Mr. Ahlsten responded that he was not certain. He said the Department of Homeland Security had considered water first when looking at things that could potentially be in jeopardy. He remarked that water already had a considerable level of oversight.

Mr. Berggren agreed that there were already a number of substantial regulatory requirements regarding water.

Commissioner Menegat said he would like to know, if the policy was going to be adopted, where EWEB stood. He wanted to stay in front of the standards. He averred that if they needed to stay ahead of it through strategic staffing or other ways EWEB should do so.

Mr. Berggren commented that this was an entirely new regulatory structure and in some cases it was not clear what the standard was.

Mr. Ahlsten stated that there would be a three year work plan to modify the standards. He said the big three items that came out of the 1996 outage on the west coast included tree trimming, operator certification and training, and testing. He related that FERC had been clear that utilities needed to have programs in place to ensure compliance with standards and system reliability. He explained that SD 17 would demonstrate that EWEB had an established formal program in place that would be supervised by a high-ranking official, which in this case was Mr. Berggren.

President Simpson commented that this regulatory supervision was akin to going against the concept of local control. He believed EWEB was perceived to be ahead of the curve and noted that the compliance that EWEB exhibited with the Public Utility Commission's (PUC). He was reminded of the International Organization for Standardization (ISO) 9000 Certification program. He had read in the Public Power Weekly that one of EWEB's peers in the south had been the first to achieve ISO 9000 compliance. He encouraged staff to keep open to any parallels the compliance program might have with the ISO 9000.

Vice President Farmer asked if any fines had been levied at this point. Mr. Ahlsten responded that there were a lot of pending probable violations from 2007 and PacifiCorp has had some fines levied against it.

Vice President Farmer asked what staff had learned thus far from those violations. Mr. Ahlsten replied that any time there was an audit a consortium of utilities "got on the phone" and discussed the results.

ROOSEVELT SUSTAINABILITY COMMITTEE/PUBLIC FACILITY PV REQUIREMENTS

Mr. Berggren explained that this was a follow-up to the conversation with the Sustainability Commission from March 17. He wanted the Board to have time to ask questions and provide feedback.

Commissioner Brown observed that the Sustainability Commission vote was split. He wanted to know why it was not a unanimous decision. Mr. Beeson explained that staff had reviewed the budget reductions that had been made and the amount of early design work that had been done. He said he had talked about how they intended to proceed on design and how they could comply with statutes. He related that the Sustainability Commission members who had voted against the recommendation for photovoltaic (PV) panels had wanted to let EWEB pursue its own course.

President Simpson noted that much public inquiry had been received regarding PV panels. He had referred a lot of people to the Energy Management Division for answers to their questions. He averred that EWEB should have PV panels on its building so people could see them. He reiterated his suggestion that a public/private venture be pursued in which EWEB had PV panels on its building though the utility did not actually own them.

Mr. Beeson stated that provisions were being made for EWEB to be able to install PV panels in the canopies at a later point. He said this could be done inexpensively in relation to everything else.

Commissioner Menegat underscored that the majority of the Board had voted to restrict the budget to an amount of money that immediately took a lot of sustainability features out of the project. He said EWEB had been on track to go forward with the project at that budgeted level. He did not want to see a lot of energy put into PV panels when the primary focus should be to build the building and get the work stations up.

Commissioner Brown opined that this issue was analogous to the City Council's decision to exclude bicycle lanes from the reconstruction of Crest Drive. He said EWEB was doing the best it could but also had a fiduciary responsibility to the ratepayers and the Board had to make compromises. He averred that a lot of the people did not understand the tradeoffs that had been involved and that EWEB would be the first entity to try to strike the best balance it could between sustainability measures and cost.

President Simpson stressed that he did not wish his comments to be perceived to mean that he wanted to increase the budget, because this was not the case.

Vice President Farmer echoed comments made by Commissioner Menegat. He averred that they had to maintain this good faith effort, given that both the Board and the City Council had voted unanimously to move forward with the bond. He believed that if public dollars were being used they should be spent as smartly as possible. He said though it would look nice, the purchase of PV panels would not be the most efficient use of conservation dollars. He was concerned that because of EWEB's inability to use tax credits PV panels would not be the best use of money. He noted that he had been involved in funding the two largest solar installations in the state. He related that the businesses were amortizing the solar arrays in five years because taxpayers were subsidizing them at roughly 90 percent of the cost.

President Simpson declared that this was not about PV panels so much as it was about EWEB not having PV panels. He reiterated that it was not his desire for EWEB to own the panels. He wanted to find out how the utility could have panels on its roof that did not belong to EWEB.

Mr. Welch stated that there were a couple of models in Oregon for this type of arrangement. He explained that it required cash input up front to make the finances work and then a third party

would come in and purchase the kilowatt hours at slightly less than the retail rate. He added that to date no one had come up with workable finances to do this locally.

Mr. Beeson related that the new statute required that one percent be spent on solar energy, which meant EWEB would have to spend \$600,000 to \$900,000. He said there were several technologies to do so and there was money in the budget to comply. He stated that they would look at the ability to utilize daylighting but it was possible that the design team could return before the Board with a request for the inclusion of PV panels to aid in compliance.

Commissioner Brown remarked that there was a large difference between the two numbers. Mr. Beeson assured him that he would get this clarified and return before the Board. He noted that the wording of the statute was somewhat ambiguous.

In response to a question from Vice President Farmer, Mr. Welch affirmed that the law was up for renewal at the end of 2008. He said some projects that would not be completed by the end of the year were on hold until it was known whether it would be renewed. He noted that it had been extended by one year in 2007 and speculated that it would be extended again.

President Simpson adjourned the meeting at 7:10 p.m.

Assistant Secretary

President