

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
APRIL 15, 2008
5:30 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, Patti Boyle, Tom Buckhouse, Mark Oberle, Bill Welch, Mike Logan, Dick Varner, Jeannine Parisi, Marty Douglass, Mat Northway, Terry Bequette, Brenda Sirois, Mike McCann, Sheila Crawford, Bob Lorenzen, and Krista Hince of the EWEB staff; Kathi Wiederhold, Lane Council of Governments; Ruth Atcherson, City of Eugene minutes recorder.

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

LOST OPPORTUNITY RESOURCE: HARVEST WIND PROJECT

Power Management and Planning Supervisor Dick Varner provided a power point presentation on the *Harvest Wind Project*, hard copies of which were provided to all who were present. He reported that the proposed project was in the Goldenvale area just south of the Yakima Reservation in Washington. He stated that Klickitat County had an energy overlay zone that permitted 1,000 megawatts (MW) of wind power. He said the Environmental Impact Summary (EIS) that had been conducted did not indicate any issues. He noted that, as with a prior project, the Harvest Wind organizers had consulted with the Klickitat County Stewardship Council, which had taken the place of the local Audubon Society.

Mr. Varner explained that because EWEB was a customer of the Bonneville Power Administration (BPA) it could get around some of the John Day Cut Plane issues and utilize BPA transmission facilities.

Commissioner Brown asked how this differed from EWEB's inability to take precedence on putting generating facilities on local reservoirs such as Fall Creek. He recalled that staff had indicated that EWEB could not do so and sell power to the markets because it was a BPA consumer. Mr. Varner replied that this situation only applied to transmission of electricity. He explained that EWEB would not be able to undertake a long-term deal to sell the power generated by the wind facility to California; it would have to be utilized for EWEB's load.

Mr. Varner related that because EWEB would be buying into a BPA substation it would be entitled to transmission credits. He stated that BPA required a utility to pay to connect to its system and then it provided credits back that could be used to recoup the investment over time. He said part of the cost of the project would help pay for the new substation the BPA would have to build.

Continuing, Mr. Varner highlighted the financing alternatives. He said in order for EWEB to have a pre-purchase of power a tax owner would have to assume some responsibility for risk. He explained that if the project did not produce power at a rate of 80 percent of the projected amount for three years running, the tax owner would be obliged to go out on the market and provide it.

Commissioner Brown asked if EWEB was bonded in case the tax owner would not have the capacity to purchase power in that circumstance. Mr. Varner replied that if the tax owner could not do this EWEB would have the right to take ownership. He added that there was not really a bond available to “rescue” EWEB if the utility was faced with this situation.

Vice President Farmer asked when the payment would occur. Mr. Varner replied that there would be some “up front cash calls” until the tax owner was in place. He estimated that this could occur as late as when the partners were halfway through the project. He said at that time EWEB would have whatever money into it returned and at closing when the project went commercial EWEB would have to come back in with its cash in a lump sum.

In response to a follow-up question from Vice President Farmer, Mr. Varner clarified that EWEB was buying the firm output for 20 years and if the utility took ownership at 10 years it would work as a discount to the price. He said in order to meet the tax regulations EWEB would have to buy at fair market value. He related that part of the determination of the fair market value was based on that EWEB had participated in the “pre-purchase” and this meant power would have to be delivered to EWEB at a cheap price.

Vice President Farmer asked if the fair market value was defined as the value of the prepayment. Mr. Varner responded that it was the value that EWEB would receive from an appraisal from an independent entity that would take into account the value of the power, including the requirement to deliver a certain amount of units for operations and maintenance costs. He added that there would be no additional revenue for the tax owner after ten years.

In response to a question from Vice President Farmer, Mr. Varner further clarified that the tax owner would put in the present value of the tax benefits and the utilities would bring the remainder of the cost to the table. He said the utilities then received power at the operations and maintenance cost for the next 20 years and there would be no encumbrances on the project.

Commissioner Brown asked if the operations and maintenance costs would include money in a reserve fund for turbine replacement. Mr. Varner replied that there was an extended warranty built into the costs, but it did not cover the replacement of turbines. He noted that he had seen turbine lifetimes as short as 5 to 7 years, but the newer ones had a lifetime of 15 to 20 years.

Commissioner Brown wondered if EWEB would factor the replacement costs into the fair market value. Mr. Varner responded that this was part of the decision for EWEB to consider. He explained that EWEB would sit on the purchasers committee and the owner would draw up a budget annually to present to the owners committee. He related that if there were disputes over the budget

there was a process in place akin to arbitration.

In response to a question from Vice President Farmer, Mr. Varner stated that there could be no encumbrances placed upon the facility in the first 20 years.

Mr. Varner reviewed the *Money Sources*. He compared wind project costs, delineated on a graph entitled *Comparison to Other Offers*. He believed the modeling based on the information available indicated that assumptions were conservative; the current assumption was that EWEB was looking at \$5.5 million net present value benefit. He said this included the upfront cash and not the debt service. He related that the project showed a positive cash flow in four years, but when combined with Klondike and Raft River there was a positive cash flow almost immediately. He added that he had engaged in some modeling in which prices were reduced to 70 percent of the current forward prices and the project remained a break-even situation. He assured the Board that they would not have to ask the customers for more than the one percent that had already been committed.

President Simpson asked Mr. Varner to define the cost/benefit ratio. Mr. Varner replied that it was 1.14. He noted that it was approximately one in conventional financing. He added that staff projected "tag values" around \$5 to \$6 early in the process and \$9 when the project came on line.

Vice President Farmer asked if it would affect debt service coverage. Mr. Varner responded that Fiscal Services Supervisor Patty Boyle had written it into the 10-Year Financial Plan. He said with a tax owner the project would have a negligible impact on debt service coverage.

Vice President Farmer asked what the likelihood was that this would affect the bond rating. Mr. Varner replied that to the extent that EWEB had a plan it did not seem that it would hurt the utility. Mr. Berggren underscored EWEB's strong track record with rating agencies. He did not think it would have a negative impact.

Treasurer Jim Origliosso stated that 2.0 was an EWEB standard according to Board policy and was higher than the rating agencies required. He said it would be more likely that staff would request a rate increase if there was potential that the rating would be affected.

In response to a follow-up question from Vice President Simpson, Mr. Varner explained that if EWEB went with conventional financing it would affect EWEB's rates and staff would likely recommend a rate increase of two to three percent.

Vice President Farmer asked if the tax credits were for longer than one year. Mr. Varner replied that tax credits had between one and three year renewal periods. He related that the Senate had passed a one-year renewal as a stop-gap and there was discussion about making it a two-year period.

Mr. Helgeson related that he had met with the delegation the previous week. He said there was

a desire to extend it beyond one year, but the elected officials did not want to do so until after the fall election.

Vice President Farmer commented that if the project were slated to be completed in 2010, even if the extension was passed, it would not affect it. Mr. Varner responded that a one-year extension would not get the project through 2009. He remarked that the Raft River project was somewhat at risk because it was not certain it would come on line by the end of 2009 and the price would have to be renegotiated at that time.

In response to a question from Vice President Farmer, Mr. Varner clarified that the tax owner would not be brought into the equation until there was certainty about the tax benefits being available.

Vice President Farmer ascertained that there would still be a risk of a two to three percent rate increase even if there were not a tax owner. Mr. Varner affirmed that if EWEB signed on for this project the utility would have to be ready to institute a rate increase of approximately that size in the future if the tax owner financing mechanism did not work.

Commissioner Brown recalled that EWEB was already projecting an increase of two to three percent in three to five years.

Commissioner Menegat asked if EWEB's partners in the project had the ability to issue debt. Mr. Varner said it appeared they did. He noted that both Cowlitz County Public Utility District and Lakeview Light and Power had demonstrated they could come up with significant amounts of funding when they had collaborated on the White Creek project. He added that they had already paid between \$3 million and \$4 million each for the project.

Mr. Helgeson remarked that Lakeview was in the process of getting a rating for the first time in years because the utility was debt-free. Ms. Sirois added that the early phases of White Creek had produced a lot of revenue for them.

Commissioner Brown thanked staff for their work. He remarked that the partners had come to EWEB because they liked the utility's track record and the diversity in the utility's knowledge pool. He averred that this was a testament to the organization. He was impressed with the project.

President Simpson asked why the resolution indicated the power would not exceed 20 MW. Mr. Varner responded that part of the reasoning was that this amount could be covered with existing bond funds and cash capacity. He explained that if they went for more it would be necessary to ask the Board to authorize the expenditure of more funds or more bond money.

Vice President Farmer asked who a tax owner would typically be. Mr. Varner replied that it would be a large entity looking for a passive investment.

In response to another question from Vice President Farmer, Mr. Varner said he did not know enough about the tax owner's end of the deal to be able to say whether the tax owner could borrow money. He reiterated that the tax owner would not be able to pledge the assets of the project.

Vice President Farmer asked if the partners had looked into other options. Mr. Varner responded that at this point they had talked with Northern California Power Agency, a consortium of Northern California utilities, but they preferred to do the project with EWEB in order to keep it in Washington and Oregon.

Vice President Farmer asked how the installed capacity compared. Mr. Varner replied that solar power cost approximately \$7 to \$10 per MW and a gas fired plant would cost \$500 to \$1,000. He said for a renewable resource Harvest Wind was comparable.

HEADQUARTERS MASTER PLAN CITIZEN COMMITTEE DISCUSSION

Property Manager Mark Oberle reiterated that the Board was charged with picking five people from the list of people the Board had interviewed to serve on the Citizen Advisory Team (CAT) for the Riverfront Master Planning process. He noted that the first four were clear choices and three people were tied for the fifth place. He added his recommendation that the Board refrain from picking an alternate until the City had selected its choices to serve on the committee.

Vice President Farmer commented that there had been "a ton" of qualified applicants and the Board had interviewed 16. He hoped that the first part of the discussion would focus on the three that were tied for fifth place, noting that the first four included Dave Hauser, Dan Dingfield, Tom Hoyt, and Dean Papé.

President Simpson concurred. He had been pleased with the quality of the applications and had found it challenging to select only five candidates. He related that the excitement for the planning process that interviewees exhibited had meant a lot to him. He stated that he had submitted his slate with Desirée Moore in the fifth slot. He underscored that he had based his selection on a combination of overall score and personal preferences.

Commissioner Menegat also appreciated everyone's interest in serving on the CAT. He had been challenged to even pick people for the personal interviews. He believed that it was important that the candidates had the background and knowledge to participate in the planning process but that they were not tied into one particular idea. He had made his selection based on how he felt they would work together. He noted that some had a background in this type of planning and some had a passion for the environment.

Vice President Farmer echoed Commissioner Menegat's feelings about the process. He emphasized that there were people on the list that were not in the top five that he would not object to selecting. He had tried to focus in on two areas: whether the advice being sought from the CAT members had professional merit and whether the person represented Eugene. He said Mr. Dingfield

was not included in his top five people because he had some concern regarding his recent arrival in this community. He was not certain that Mr. Dingfield would really know or have a strong feel for the community at this point. He understood that Mr. Dingfield had been involved in a pier project in Seattle, which he considered to be a completely concrete development and inappropriate for the riverfront. He noted that he did not have Ms. Moore in his top five but he would consider including her on the list in lieu of Mr. Dingfield. He added that he wanted to ensure that people understood that Gary Wildish did not work for the Wildish Company.

Commissioner Brown agreed with everything that had been said. He likened the selection process to having to tell someone who the favorite child was. He echoed Vice President Farmer's concern about Mr. Dingfield. He averred that he could have appointed 14 of the 16 interviewees without hesitation. His criteria did not ride as much on a person's personal expertise because the most important part of the process was to be able to take what the community said about it and to weigh it, synthesize it, and make recommendations based on what was real. He did not want one vocal minority to dominate the process. He supported including Mr. Wildish as he felt he was a good listener and was not confrontational. He added his intention to sit in on the process. He supported Vice President Farmer's suggested roster and thought Mr. Dingfield could serve as an alternate.

President Simpson indicated that he was amenable to that slate.

Commissioner Menegat appreciated the desire to have the committee made up of people who resided in the community but for him a person's vision took precedence. He had looked for someone who could bring a spark into the process in order to plan for the "ideal waterfront property." He averred that there was something to be gained from someone who might not have had the experience of Eugene that others had but also would not be limited by that experience. He said this was his reasoning for considering Mr. Dingfield.

Commissioner Brown concurred, but he did not want Eugene to look like someplace else. He felt the resulting plan should reflect the strongest community input and values. He opined that the closer the process stayed to home, "the better the end product." He averred that the balance between the left and the right in the community was what made it such a great place to live. He added that Mr. Dingfield could still participate and be heard in the process, even if he was not selected.

Vice President Farmer pointed out that the group would balance out more when the city made its selections.

President Simpson stated that the nine people who would serve on the CAT would be advisory to the Board and would be able to “divine the desires” of the community and help to shape the use of the property, which he felt was the gem of the city. He agreed that selecting local people was better for the process.

President Simpson adjourned the meeting at 6:50 p.m.

Assistant Secretary

President