

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
SEPTEMBER 16, 2008
5:30 P.M.

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

Others present: Randy Berggren, Dick Helgeson, Tom Buckhouse, Mike Logan, Patty Boyle, Debra Smith, Mel Damewood, Jim Origliosso, Jim Wiley, Dick Varner, Jeannine Parisi, Eric Hiaasen, Kathy Grey, Lance Robertson, Jay Bozievich, Brad Taylor, and Judy Chase of the EWEB staff; Ruth Atcherson, City of Eugene minutes recorder; and Rich Cunningham, Joann Ernst, members of the public.

President Simpson convened the Work Session of the Eugene Water & Electric Board (EWEB) at 5:25 p.m.

NEW BONNEVILLE POWER ADMINISTRATION'S CONTRACT PRODUCT RECOMMENDATION

Power Management and Planning Manager Dick Varner initiated the presentation of *Staff's Recommendation for New BPA Contract Product Choice* as outlined in the memorandum dated *September 9, 2008*. He said as they reviewed the three products they needed to keep in mind how they were constructed. He explained that the *Load Following* product was primarily designed for a small utility that did not have resources and that did want the Bonneville Power Administration (BPA) to "manage their destiny going forward." He stated that the *Block* product was designed for a utility where the amount of the BPA power was not a large portion of the resource supply and where they had resources that could be used to follow their load. He cited Seattle City Light as an example of a utility that had its own hydro and flexibility to utilize its power resource. He related that the *Slice* product was designed for utilities that were used to running their own resources. He explained that a utility using that product was looking at managing its own resource destiny going forward. He noted that no one was presently leaning toward the Block product.

In response to a question from President Simpson, Mr. Varner stated that there were a couple of Block customers at present.

Mr. Varner recalled that there had not seemed to be an inherent bias toward any of the products in terms of pricing when staff had brought the options before the Board in May. He said staff was leaning toward the Slice product and had reviewed the options further, subsequently arriving at the costs and values of the products.

Mid-Term Trader Eric Hiaasen provided an analysis of costs, included in a power point presentation entitled *New 20-Year BPA Contracts*, hard copies of which were provided to everyone present.

President Simpson ascertained from Mr. Hiaasen that with the Slice product the utility would not buy actual megawatts (MW); rather it would buy a percentage of the system.

Mr. Hiaasen stated that the BPA would effectively allocate the Federal Base System (FBS) to all of the current customers, calling them Tier One. He said because of this there would not be any of the cheap BPA power in the future; load growth would be considered Tier Two.

Vice President Farmer arrived.

Commissioner Brown asked if EWEB were on a *pro rata* basis, would this be a variable expense? Mr. Hiaasen responded that it would be a fixed expense for everyone. He underscored that the BPA power was a “good deal.”

Commissioner Brown related that he had just heard a proposal from the Army Corps of Engineers (ACOE) regarding restoration projects planned for the watershed. He asked if the BPA was part of this and whether this would be part of the future rate structures. Mr. Hiaasen affirmed that any wildlife costs the BPA paid would automatically flow through to EWEB’s percentage share of the BPA load.

In response to a question from President Simpson, Mr. Hiaasen stated that EWEB currently received 2.43 percent of the FBS. He said current estimates were that EWEB would receive slightly less than that with the new contract at 2.29 percent. Mr. Varner added that EWEB was 4 percent of the FBS if the Block product was included.

Mr. Hiaasen highlighted the *Total Payments and Revenues*. He underscored that what power EWEB did not buy from the BPA would have to be bought from the market. He explained that the shaping charge was the cost BPA charged to convert the FBS into a winter peaking load and the demand charge was for load following. He said the latter was what the BPA would charge if it had to follow the load on an hour by hour basis.

President Simpson asked if there was going to be no pure Slice product post-2012. Mr. Hiaasen confirmed this, explaining that the BPA indicated that the maximum for the slice product would be 70 percent and the minimum for the Block product would be 30 percent.

President Simpson surmised that all of the products would be affected by a dry year.

Mr. Varner discussed the *BPA Product Values*. He explained that flexibility meant the ability to move power around between hours to capture the most economic value.

Mr. Helgeson remarked that the BPA had flexibility but operated the whole system for everyone and did not necessarily optimize the power for EWEB’s system.

Mr. Varner related that when the BPA went to the market it would purchase large amounts of power, so if the BPA was out buying in the market the market tended to go up. He said conversely if the BPA was selling, it was selling large lots that tended to drive the cost down. He stated that when EWEB sold power it dealt in smaller quantities, such as 25 MW, which did not affect the market and was also able to get to the market more quickly as it was smaller and “a bit nimbler operation.”

President Simpson asked how a new source of generation would affect a small utility that had the Load Following product. Mr. Varner responded that a power generation resource such as a couple of windmills could generate 1 MW one hour and 10 MW in the next hour and the BPA would want this small utility to purchase services from it that turned that rate of generation into a flat 3 MW an hour every hour of the year. Mr. Helgeson added that it was incumbent upon the utility to declare the shape of the resource to the BPA and then to the extent the resource performed differently from that the utility would either have to pay them the difference if it fell under or it would get credited for the value above it. The utility would not have the opportunity to maximize the value of it.

Mr. Varner stressed that EWEB owned its secondary power resource. He said with the Slice product EWEB would get the secondary resource as energy and was in control of how much value it could extract from it. He further explained that if the BPA sold the secondary power, it would give a credit in the rate-making process but whether EWEB would realize full value was not under EWEB’s control.

In response to a question from Vice President Farmer, General Manager Randy Berggren said he would characterize allowing the BPA to control whether EWEB realized full value was a detriment to EWEB. Mr. Hiaasen added that EWEB could get slightly better prices in the market than the BPA because of its size.

Vice President Farmer asked if there was any financial risk in power trading. Mr. Varner responded that EWEB’s trading history had been pretty good. Mr. Hiaasen noted that if the BPA sold power to an entity that went bankrupt those costs would show up in the rate case.

In response to a question from Vice President Farmer, Mr. Varner confirmed that the traders paid for themselves “many times over.” He underscored that it did not take many clients to pay for those extra costs.

Commissioner Brown asked if someone could say that EWEB was not meeting its fiduciary responsibility. Power Resources Division Director Dick Helgeson replied that there was no way to fully indemnify the utility from risk. Mr. Hiaasen stressed that EWEB was not opening itself intentionally to large financial risks at any time.

President Simpson asked for an explanation of what it would mean if the BPA recalled some of its Slice output. Mr. Hiaasen responded that there was a vague provision that allowed the BPA to recall some of EWEB’s capacity if it was not being used. Mr. Helgeson clarified that the BPA

characterized the sale as meeting EWEB's basic firm requirements with the forward sale of surplus secondary power. He said some of the energy and flexibility was associated with the secondary non-firm power. He explained that under certain conditions the BPA could be given the power to recall that surplus portion of EWEB's capability to meet other firm obligations for other preference agency customers. He stressed that this would not hamper EWEB's ability to serve its load but it would take EWEB out of the market. He said the questions were under what conditions could the BPA do this, what parameters would there be on it, and how EWEB would be compensated under those conditions.

In response to a question from Vice President Farmer, Mr. Varner affirmed that compensation would be for the sale of secondary generation.

Mr. Helgeson highlighted the *BPA Contract Update*. He underscored that the Slice product would be capped at 25 percent and 20 utilities had indicated a preference for the product. He stated that those utilities represented approximately 60 percent of the BPA's Tier One obligation. At this point, he thought it possible to negotiate the cap to 30 percent. He said all of the utilities were hoping to get a 60 percent Slice/40 percent Block product. He opined that there was no reason the BPA could not offer a larger share of the power in a Slice product.

Mr. Helgeson stated that staff anticipated returning before the Board in November with a final recommendation on product selection and a recommendation on the contract that would be contingent on a sufficient amount of the Slice product so that EWEB could continue to benefit from the flexibility it currently had.

Commissioner Brown thanked staff for the presentation. He asked if the Snake River dams were part of the FBS and if so would it be a liability on the ratepayers if the dams had to be removed or altered. He also wanted to know if there was a greater or lesser exposure to those potential costs among the three BPA products. Mr. Varner replied that the exposure between the three was equal.

Regarding the revenue and expense projections, Commissioner Brown asked if staff had conducted a sensitivity analysis to see what a five or ten percent deviation on each of those numbers would do to the rates. Mr. Varner responded that the revenues and expenses were most sensitive to the secondary revenues. He said emergent issues such as the Snake River dams or the nuclear plant closing were the other variables that would drive the economics of the contract.

Commissioner Cassidy asked how EWEB's proposed contract compared with the other public utilities in the area. Mr. Helgeson replied that the Emerald People's Utility District (EPUD) was currently looking at the Slice product, the Springfield Utility Board (SUB) would likely pursue the Load Following product, and the Lane Electric Cooperative (LEC) was part of a consortium of co-ops that currently purchased the Slice product and was now looking at becoming Load Following.

Vice President Farmer asked who would do the power trading for EPUD if the utility purchased the Slice product. Mr. Varner thought the utility would approach EWEB or another party and contract with them. He noted that both EPUD and Central Lincoln People's Utility District had contacted EWEB. He thought they would approach EWEB and possibly some other parties about who would do the services for them.

Vice President Farmer asked what had changed in the BPA products since the last contract had been negotiated. Mr. Hiaasen replied that the physical attributes of the products were similar. He said the biggest change lay in the rate mechanism for the Block and Load Following products.

Vice President Farmer asked how staff would qualify the presentation of the new contract as having a "greater up side but also a greater down side." Mr. Helgeson replied that this meant EWEB would have to carry a power reserve that allowed EWEB to manage the variability of stream flows and the vagaries of the market. He said EWEB would otherwise be paying the BPA to do this for the utility and the BPA would carry such a reserve. He felt it made more sense for EWEB to do that for itself.

General Manager Randy Berggren commented that they had to believe that they were better at doing this work, fundamentally, than the BPA.

In response to a follow-up question from Vice President Farmer, Mr. Varner stated that there was no regulatory agency that audited power trading.

WATER SUPPLY PLANNING

Water Resource & System Planner Brad Taylor provided a power point presentation related to the memorandum entitled *Water Supply Planning* dated *September 9, 2008*. He stressed the importance of securing existing water rights and developing emergency capacity. He stated that EWEB had three water rights on the McKenzie River for a total of 194 million gallons per day (MGD). He said two of the rights were certificated and would provide 76 MGD and the undeveloped water right would supply 118 MGD. He noted that the peak day for EWEB was around 70 MGD and the average day demand was 50 MGD.

In response to a question from Vice President Farmer, Mr. Taylor affirmed that the water rights were specific to where the water could be removed.

In response to a question from Commissioner Brown, Mr. Taylor explained that the water right on the Willamette River was for approximately 65 MGD.

President Simpson asked if the permit for the water right from 1961 was for the Hayden Bridge intake point. Mr. Taylor confirmed that it was, noting that EWEB had used only the two rights at that point that were certificated. He said certificated meant the utility had demonstrated to the Oregon Water Resources Department (OWRD) that it was in need of or could put to beneficial use that quantity of water.

Mr. Taylor reported that EWEB had a dialogue with the Oregon Department of Fish & Wildlife (ODFW) regarding the persistence review of the water rights in April. Mr. Berggren noted that the ODFW conducted the persistence review. Mr. Taylor added that the ODFW forwarded the review to the OWRD, which wrote the conditions based on the recommendations from ODFW.

Vice President Farmer asked what persistence review was. Mr. Taylor replied that persistence had to do with long-term viability of a species. He said the question was whether a flow was tied to the recovery of a species or the maintenance of a species. He clarified that in terms of the McKenzie River, this was tied to federally and/of state-listed fish species.

Commissioner Brown understood that Weyerhaeuser used more water above the Hayden Bridge intake than the City of Springfield used from its wells. He asked staff to consider what would happen if Weyerhaeuser ceased drawing that water.

Mr. Taylor stated that he hoped to discuss with the Board whether to pursue or not pursue more water rights.

In response to a question from Vice President Farmer, Mr. Taylor stated that a persistence review did not address need for water.

Mr. Taylor reported that all new permits required water rights to be fully developed within 20 years. President Simpson asked if this applied to EWEB's permit from 1961. Mr. Taylor responded that this implied legally some definition or boundaries to the terms that were applied in rule around what was reasonable in terms of holding on to a water permit. He explained that with EWEB usage alone the utility would only use 20 percent of the water right, but if the regional water needs were added in it would increase that number to 40 percent. He added that if the 1961 water right was added to the two certificated water rights EWEB would use 15 percent of the flow of the McKenzie River at its lowest flow of the year.

Commissioner Brown remarked that EWEB could legally divert 74 percent of the water flow at the Walterville and Leaburg dams to generate electricity. He asked if staff anticipated problems arising from the Weyerhaeuser's effluent not being as well diluted if EWEB maximized its water right. Mr. Taylor responded that EWEB would have to demonstrate, in moving forward with the application, that it had a way to manage that issue. He predicted that there would be conditions and requirements of EWEB made that would cause the utility to be thoughtful about the diversion.

In response to a question from Commissioner Cassidy, Mr. Taylor explained that it would be very important to show in the first 20 years that EWEB was making significant progress in its water right.

Commissioner Cassidy asked if there was competition for water rights. Mr. Taylor replied that there were always other entities looking for opportunities to develop water rights, especially as the region moved into the future.

Continuing, Mr. Taylor stated that EWEB would need an emergency water supply of 20 to 26 MGD. He said the two options were groundwater and Willamette River water. He related that EWEB had been issued the permit to develop a groundwater resource up to 12 MGD, which would require mitigation, in August.

Commissioner Brown asked if the 26 MGD amount included service to the Santa Clara/River Road customers and other non-EWEB customers. Mr. Taylor confirmed that it currently included the wholesale obligations.

President Simpson asked if water rights could be sold. Mr. Taylor responded that if they were certificated such rights could be transferred.

Vice President Farmer asked if one scenario could be that a secondary water resource was used to supply water for one of the outlying communities. Mr. Taylor replied that this was a possibility; it would be something for a future Board to consider.

Ms. Parisi discussed the strategy for the conversation with the public. She said it presented a couple of challenges as it was complicated and there was not a clear path forward. She noted that a majority of the region did not perceive water supply to be an issue. She stated that it was known that the idea of regional partnerships triggered some sensitive and controversial issues in the community as it discussed population growth in areas outside the metropolitan region. She felt climate change could be another factor they would be discussing soon. She related that staff did not feel a media event was needed at this point. She said they were looking for opportunities to talk about water supply planning with the general public and to lay some of the background in regard to what the region was looking at in the next 50 years and where it would get water. She averred that EWEB was well-positioned but other communities were not as fortunate. She stated that some of those communities were going through master planning processes and some of those processes included the possibility of utilizing EWEB as a potential source of water for them. She suggested that EWEB should position itself to be a ready partner, to have some perspective to share with its policy-makers and those in other communities about where there was mutual benefit and what the challenges and risks were.

Ms. Parisi related that staff had been having consultations or interviews with people who had undertaken regional communication strategies or regional planning and not necessarily about water. She felt the concept of regional water would be a paradigm shift for the community. They were looking for a better understanding of the opportunities and the challenges. She said they were also looking for linkages to other statewide efforts. She thought the Board could be helpful by participating in public conversations on general water supply planning, perhaps before watershed protection and natural resource planning groups.

Mr. Taylor shared a recent clip from a newscast that featured him discussing regional water in regard to Fern Ridge Reservoir.

Vice President Farmer observed that the backgrounder indicated that the authority for EWEB to sell surplus water was granted in the charter. He asked if Ms. Parisi was working on a strategy in that regard. Ms. Parisi responded that staff had not talked specifically about EWEB's authority. She said before EWEB talked about the authority it was important to ensure other communities had an interest and a need.

Mr. Berggren observed that not only would the region need EWEB but that EWEB would likely need the region in order to perfect any additional water rights. He remarked that this symbiotic relationship could become critical. Mr. Taylor added that by the end of the year three communities would have master plan documents that identified EWEB as a potential opportunity for future water supply.

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

Assistant Secretary

President