

EUGENE WATER & ELECTRIC BOARD
REGULAR BOARD MEETING
EWEB BOARD ROOM
OCTOBER 7, 2008
7:30 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, Patti Boyle, Debra Smith, Jim Origliosso, Dick Varner, Lance Robertson, Steve Newcomb, Mat Northway, Gene Austin, Tom Williams, Bill Welch, Sheila Crawford, Will Bondioli, Cathy Bloom, Mark Freeman, Megan Capper, Steve Mangan and Krista Hince of the EWEB staff; members of the public, and Lynn Taylor, City of Eugene minutes recorder.

President Simpson convened the Regular Meeting of the Eugene Water & Electric Board (EWEB) at 7:45 p.m.

AGENDA CHECK

There were no changes to the agenda.

PUBLIC INPUT

There was no public input.

APPROVAL OF CONSENT CALENDAR

Minutes

1. a. March 18, 2008 Work Session
- b. March 18, 2008 Regular Board Meeting
- c. September 2, 2008 Work Session
- d. September 2, 2008 Regular Board Meeting
- e. September 16, 2008 Work Session
- f. September 16, 2008 Regular Board Meeting

Contracts

2. MacMillian & Associates – Design Distribution Engineer Services – Electric Division - \$80,000 - \$80,000
3. Scelzi Enterprise – Services Bodies for EWEB Utility Trucks – Shop – Corporate Services – \$236,036 - \$236,036
4. Selectemp – Contract Substation Engineer – Electric Division - \$145,000 - \$145,000

RESOLUTIONS

5. Resolution No. 0828 – Appointment of member to Western Generation Agency Board.
6. Resolution No. 0833 – Interim Amendment of the Power Sales Agreement with Hynix

MEMORANDUM OF UNDERSTANDING NO. 1164

7. TEREX Utilities West – Price Agreement – TEREX Equipment Purchase of a Troubleshooter truck – Shop Fleet – Corporate Services - \$129,908

Commissioner Cassidy pulled Item 6 (Interim Amendment of the Power Sales Agreement with Hynix) from the Consent Calendar.

Commissioner Brown, seconded by Vice President Farmer, moved to approve the Consent Calendar with the exception of Item 6. The motion passed unanimously, 5:0.

ITEMS REMOVED FROM THE CONSENT CALENDAR

Referring to the item that was pulled, Resolution No. 0833 – Interim Amendment of the Power Sales Agreement with Hynix, Commissioner Cassidy expressed concern with the perception that the agreement was already negotiated and the Board could not change it; it could only approve or disapprove the extension. He felt the Board should have had input on items such as the timing of the amendment, which appeared arbitrary, and permitting the contract to be assignable to an unknown party. Power Resources Division Director Dick Helgeson said the proposal was based on terms staff developed as a result of discussions with Hynix during its production shutdown. He said staff was putting forward the recommendation for a six-month extension because of the significant uncertainty as to the continued operation of the plant. He said Hynix expected to maintain its clean room environment for at least that long. He said EWEB and the Board retained all of their options with respect to further extensions and assignability.

Mr. Berggren noted that the cover memorandum indicated that other than the six-month extension, the amendment did not include any new policy positions. He said the intent of the amendment was to ensure Hynix paid the same appropriate moneys that it was paying under the old contract, with a different demand, and EWEB customers were not damaged by the Hynix closure. He said EWEB should recover from Hynix all costs associated with service.

Mr. Helgeson said the existing agreement, without the amendment, that provided for assignment to parties with EWEB's consent. He reiterated that EWEB preserved all appropriate options within the current agreement and established a holding pattern without the need to develop a new contract for interim operations. Mr. Berggren added that assignability was a typical provision in that type of contract.

President Simpson, seconded by Vice President Farmer, moved to approve the Interim Amendment of the Power Sales Agreement with Hynix for execution by the EWEB General Manager as proposed. The motion passed unanimously, 5:0.

ITEMS FROM COMMISSIONERS

Commissioner Menegat welcomed Power Management & Planning Manager Dick Varner to the Western Generation Agency Board.

Commissioner Brown shared a letter from the Eugene Human Rights Commission about EWEB employee Rob Dotson commending him for providing assistance to a woman with a guide dog. He also thanked the Energy Management staff for their efforts and hoped that improvements could be made to the current building. He reported that the McKenzie Watershed Council was holding a retreat on October 9. Regarding the master planning process for the EWEB site, he noted that there were no utility easements and hoped that would be addressed early in the process. He also asked for an update on the status of the Hunsacker property.

Vice President Farmer attended the dedication of the Klondike III wind farm along with EWEB staff. He said the event was well attended and the tour of a wind turbine was very interesting in how the technology had evolved. He said it was a very educational process.

President Simpson announced that the General Manager Evaluation and Compensation Subcommittee would meet October 9 on an accelerated schedule in order to complete its tasks by the end of 2008 because of the influx of new Commissioners. He attended a recent solar tour that was well attended and thanked staff for their support of the event. He said the McKenzie Watershed Alliance (The Executive Board for the McKenzie Watershed Council), was beginning an evaluation cycle for their Program Director.

President Simpson brought to the Board's attention a customer in the McKenzie River Valley who had complained about a perception of noise in her residence and said that staff was working with the customer to evaluate the situation and determine if there was any correlation with EWEB operations. He had received comments from another customer who stated that a change in the water's pH had caused tropical fish to die.

CORRESPONDENCE

General Manager Randy Berggren reported the following items of correspondence:

- EWEB was conducting a phone survey following up with specific customers who had a transaction experience since July of 2007 to determine the customer satisfaction level. He said it was a standard statistical survey of approximately 400 people. Results were expected in mid-November.
- Commissioners were invited to the October 23 major customer meeting.

- A copy of a letter to District Ranger Mary Allison for President Simpson's signature. The letter requested high priority for completion of environmental and cultural reviews of the proposed replacement and relocation of the diesel tank and generators by the Clear Lake Resort.
- A memorandum from Compliance Manager Suzanne Adkins in response to a Commissioner's request that explained the use of facilitators and value received from the facilitation costs related to the Carmen-Smith relicensing project.
- A memorandum from Key Accounts Manager Tom Williams and Energy Management Services Manager Mat Northway providing an update on the Greenpower Program and steps planned for the Greenpower Grant.
- A memorandum from Charles Dalton providing information on the Customer Care Program, including a spreadsheet showing contributions to the low-income programs compared to elsewhere in the state.

BOARD AGENDAS

Commissioner Brown asked if the November 19 joint meeting with the Eugene City Council had a specific agenda topic. Mr. Berggren said one of the discussion topics would be the legislative agenda and issues such as metal theft. He would provide update information when it was available.

Mr. Berggren noted that a discussion of the Seneca Project was scheduled for the November 4 Work Session and the General Manager's evaluation was scheduled for December 16. He said the evaluation process would be presented as an information item at the November 4 Regular Board meeting. He said a discussion of his employment contract and his interest in a two-year renewal was also scheduled for November 4. He said the Special Board meeting on October 21 would begin at 3 p.m., with a Carmen-Smith signature ceremony at 4 p.m. in the Training Room; a special budget workshop would begin at 5:30 p.m.

ENERGY TRADING RISK MANAGEMENT (ETRM)

Power Risk Analyst Megan Capper used a slide presentation to highlight the Energy Trading and Risk Management (ETRM) software. She said the system encompassed everything from recording of the initial trade through the actual billing procedure and receipt of payment and incorporated risk management functions such as credit availability or contracts. She said the current system was ten years old and no longer supported by the vendor and even if upgraded would lack certain risk management and security control features recommended by EWEB's external auditors. She said the current system required information to be recorded in several different locations and redundant data entry was prone to errors.

Ms. Capper described the requirements, selection and negotiation phases that resulted in the recommendation of Allegro Development as the preferred vendor. She said three separate contracts were recommended for approval:

- Allegro software and five-year maintenance - \$1,044,658
- Structure implementation services - \$1,630,00
- ACME consulting services - \$225/hour as requested up to \$50,000

Ms. Capper said during extensive reference checks it became clear that Allegro's strength was in its software and support of that software, but it was somewhat lacking in implementation skills. She said the Structure group was a partner of Allegro and a contract was negotiated with that organization for implementation services at a reduced cost. She said ACME Business Consulting assisted in contract negotiations and staff wanted the ability to continue to use those services during implementation for things such as issue resolution and industry perspective.

Ms. Capper reviewed a table of ETRM costs in 2008 and 2009, split between capital and operations and maintenance costs. She said the total project estimated cost was \$3,351,000. She said a 2007 survey of 35 ETRM implementers for license and implementation costs and EWEB's estimated costs were in line with that survey. She said the capital plan approved by the Board in September 2007 contained slightly over \$3 million for ETRM implementation and the estimated costs were about \$300,000 lower than the plan. She said if the Board implementation would begin at the end of October and approved the contracts, user acceptance would occur in May 2009 and the system would go live in July 2009.

President Simpson asked how long the ETRM system would remain functional. Ms. Capper said it was expected to last ten years with significant annual upgrades. She said the annual maintenance fee for the first five years was \$104,000, but there would also be negotiated costs for upgrades if EWEB opted to upgrade.

President Simpson calculated that the cost was approximately equivalent to four positions and asked if four people could provide the same functionality as the software to the level required by the auditors. Power Management and Planning Manager Dick Varner said given the volume of daily transactions and the details that had to be extracted for various purposes, it would be a monumental task to do manually.

President Simpson asked if the system would also be able to track consumption of purchased energy after the trade had been sold. Ms. Capper said the system would track a trade into transmission scheduling and into the actual delivery, billing and receipt of payment.

President Simpson asked if the software was proprietary and could EWEB adjust it to its needs. Ms. Capper replied that the base code was proprietary, but the software was highly configurable to EWEB's business needs.

Commissioner Brown inquired about information on the other bids. He also asked if EWEB would be prepaying for services. Ms. Capper said the license fee of \$522,000 and \$104,000 for annual maintenance of the Allegro software would be paid immediately; 20 percent of the fee would be held back until the system had gone live and there were no major defects. She said the implementation contract included percentage payments based on achievement of milestones.

In response to questions from Commissioner Brown regarding the ACME contract, Ms. Capper said that consulting fees during the negotiation process were between \$15,000 and \$17,000 and the \$50,000 contract would be for on call services in the event there were issues that required a third-party industry perspective during implementation. Mr. Berggren said that type of consulting contract was not unusual for those types of energy management control systems.

President Simpson asked how many users were included in the base cost and what would be the cost of adding users. Ms. Capper said 16 users were in the base and EWEB had the right to purchase additional users at \$34,500 per user.

Vice President Farmer asked if there was an estimated cost for annual upgrades. Mr. Varner estimated the cost at approximately \$300,000 to \$500,000 every two years. He said the experience of other users who had installed the software several years ago indicated it was a relatively easy system to upgrade.

Vice President Farmer commented that in the past auditors were particularly concerned with power trading. He asked if the system would resolve those concerns. Mr. Varner said the current software was a dead end product no longer supported by the vendor and it was fragile technology that would leave EWEB exposed if there were problems. He said it did not allow individual security within the software; users had access to all aspects of the system and user activity was not tracked and no audit trails were available. Additionally, limited functionality required multiple data entries with the potential for errors.

Vice President Farmer asked if any problems that were still unresolved. Mr. Varner said the extensive power portfolio spreadsheet would need to be redeveloped in a controlled manner.

Vice President Farmer asked if there were any limitations in the system that would prevent power trading with others. Mr. Varner replied that staff assured there was the ability to provide services for other in the contract.

President Simpson, seconded by Commissioner Brown, moved that the Eugene Water & Electric Board approve the Allegro Software Contract in the amount of \$1,044,258. The motion passed unanimously, 5:0.

President Simpson, seconded by Commissioner Menegat, moved that the Eugene Water & Electric Board approve The Structure Group Services Contract in the amount of \$1,630,000. The motion passed unanimously, 5:0.

President Simpson, seconded by Commissioner Brown, moved that the Eugene Water & Electric Board approve the ACME Business Consulting Contract in the amount of \$50,000. The motion passed unanimously, 5:0.

HARVEST WIND FUNDING

Mr. Varner stated that Harvest Wind was the follow on project to the White Creek project that went on line in 2007. He said EWEB purchase a one fourth interest, along with Cowlitz PUD, Lakeview (WA) Light and Power and Peninsula (WA) Light, in the 80 MW project. EWEB's investment to date was approximately \$2.6 million and the four parties had entered into a Joint Ownership Agreement and development work had begun. Discussions were in progress with two turbine vendors. He calculated the benefit/cost ratio at between 1:1 and 1:5, with a positive cash flow each year of the project life. He said economic key assumptions were the ability to execute tax owner financing, six percent financing by EWEB, current turbine bids, the long-term power forecast and recent quotes for renewable energy certificates and their anticipated value in 2010 and 2011. Next steps would be selection of a turbine vendor and getting the turbines scheduled for manufacturing, finding a tax owner and building the transmission line to connect the project with the Bonneville Power Administration (BPA) substation.

Mr. Varner explained that a tax owner was someone who would have title to the project, be able to take the tax benefits and who would own the project for 10 to 20 years until such time as the utilities decided whether or not to buy out the owner. He said the utilities would pay some initial costs and when a tax owner was found a construction financing entity would pay back the utilities for their investments to that point and provide financing during construction. He said at the time the project was ready to go commercial the tax owner would provide the present value of the tax benefits and the utilities would prepay for the delivery of power over 20 years and construction financing would be eliminated at that point. He said utilities would receive power for the debt service on their borrowing, plus actual O&M costs going forward and the right to purchase the project at a modest price in the future.

Vice President Farmer asked how the project would be structured if a tax owner could not be found. Mr. Varner said it would be similar to buying market power; the advantage was that EWEB would own the project in a conventional financing. He said another factor was a one-year extension on production tax credits recently authorized by Congress and both turbine vendors indicated they had the ability to deliver turbines in time for an online date in 2009.

Commissioner Cassidy inquired about the possibility of state or federal incentives. Mr. Varner said there were two other options for the project: one was renewal energy production incentive, but it was subject to federal appropriation, and the other was zero interest clean renewable energy bonds. He said those strategies would only be considered if the tax owner approach did not work; both strategies would be preferable to conventional financing. He said there were seven or eight miles of transmission line from the project to the BPA substation that would be the responsibility of the utility to build. He said once it was in place it would be turned over to Klickitat PUD, who would own and operate the transmission line for its life.

Mr. Varner concluded his presentation by identifying the Board's decision points:

- Determine the size of EWEB's share of the project – remain at 20 MW or increase it to 25 MW
- Authorize the project budget - \$32 million
- Authorize a capital budget amendment - \$18 million

Ms. Bloom reviewed the financing strategy for the project. She said because of the uncertainty in the financial markets, EWEB's financial advisor recommended staying out of the market during November 2008. She said the current strategy requested Board approval for Resolution #0827, which would request City Council action to proceed with the issuance of \$46,366,000 in bond anticipation notes. Staff would return to the Board in November with a supplemental bond resolution or request for use of reserves, depending on market conditions, to fund the first \$18 million.

Vice President Farmer asked if power-operating reserves would be replenished when the bonds were actually issues. Ms. Bloom said reserves would be replenished and the latest forecast indicated an \$18 million excess contribution margin. Mr. Varner said even with power costs being down there were adequate reserve funds for O&M and capital costs.

Commissioner Menegat asked what resources other project partners were contributing. Mr. Varner said that Cowlitz PUD indicated it had enough cash for its obligations, Lakeview Light and Power had borrowing authority to cover its portion and Peninsula Light and Power was using a co-op financing organization and had authorization for its share. He would raise the issue again with partners, as it would require unanimous consent from all of them to move forward with the project.

President Simpson requested additional information in order to decide whether EWEB's project share should be 20 MW or 25 MW. Mr. Varner responded that EWEB had a contract on a geothermal project in Idaho, but the financing had fallen through and he preferred to have funds available to go into discussions about reforming that deal, or to look at other opportunities, than to spend it on another five MW of wind. Mr. Berggren noted that BPA had experienced integration problems and might have all the wind it could accommodate at this point.

Vice President Varner seconded by Commissioner Cassidy, moved approval of Resolution No. 0834 authorizing the general manager to execute documents necessary to move forward with development of the Harvest Wind Project and expend up to \$32 million.

Commissioner Brown asked what options were available if project partners were unable to obtain their financing. Mr. Varner explained that the joint ownership agreement included options to delay the project or move forward with a smaller project without that partner.

The motion passed unanimously, 5:0.

Vice President Farmer, seconded by Commissioner Menegat, moved to approve Budget Amendment No. 5 to add \$18 million to the 2008 Capital Budget for Harvest Wind. The motion passed unanimously, 5:0.

Vice President Farmer, seconded by Commissioner Menegat, moved to approve Resolution No. 0827 requesting City Council action to proceed with the issuance of \$46,355,000 in bond anticipation notes for the harvest Wind Project. The motion passed unanimously, 5:0.

CONTRACT FOR IGI RESOURCES, INC.

Steam Supervisor Will Bondioli requested approval to enter into a new contract with IGI Resources Inc. for the purchase and delivery of natural gas for the steam plant in order to produce steam for EWEB customers. He said contract would be an extension to an existing contract for a one-year term, with no change in contract provisions or rates. He said natural gas was exempt from competitive bidding per EWEB Rule 6-0250 and due diligence as been performed in accordance with the Board's direction. He said IGI and NW Natural were the only two vendors capable of meeting EWEB's needs and NW Natural's pricing structure was non-competitive with IGI's proposal.

In response to questions from President Simpson, Mr. Bondioli said that IGI would deliver gas to Eugene City Gate and NW Natural would deliver the gas from that point to EWEB's meter under a separate bypass contract that had been in place for a decade or longer.

Commissioner Menegat, seconded by Commissioner Cassidy, moved to approve a one-year contract with IGI Resources for the purchase of natural gas in the amount of \$2.5 million. The motion passed unanimously, 5:0.

CONTRACT FOR WILLAMETTE VALLEY REHABILITATION CENTER

Treasurer Jim Origliosso stated that the contract with Willamette Valley Rehabilitation Center was for janitorial services for a five-year period for the headquarters complex, including operations facilities. He said the cost was \$336,000 for the first year, with a five percent increase annually through the remainder of the contract for a total of \$1,866,760. He said the contractor was a

qualified rehabilitation facility (QRF) regulated through the Oregon Department of Administrative Services (DAS) to provide employment opportunities for Oregonians with disabilities. He said there had been performance problems with the current vendor and staff worked with DAS to identify another QRF with which to contract. He said performance problems with the current vendor included lack of adequate supervision and a decline in the quality of service.

Commissioner Brown asked if using a QRF was discretionary. Mr. Berggren said use of a QRF was mandatory if one existed that could fulfill the contract requirements. Mr. Origliosso said the contract could be canceled if there were performance problems and EWEB could go to the private market if no other QRF was available.

Commissioner Brown calculated that other local utilities paid significantly less for janitorial services that EWEB would be paying under the proposed contract. He did not object to providing jobs for disabled persons, but did object to sending funds out of the area. Mr. Berggren noted that rates for QRF contracts were set by DAS.

Vice President Farmer asked if the QRF could be located anywhere in the state. Mr. Berggren said the company could be located anywhere within the state of Oregon, but the people employed under the contract were local residents and 75 percent had to have a disability.

Commissioner Cassidy agreed with Commissioner Brown's concern about using local firms.

President Simpson asked for further information on how the Springfield Utility Board and Emerald PUD were able to obtain janitorial services at lower cost.

Vice President Farmer requested information on how DAS established costs for QRF contracts.

Mr. Origliosso said EWEB could continue services with the exiting vendor pending resolution of the Board's concerns.

Vice President Farmer, seconded by Commissioner Menegat, moved to table the item to the November 4, 2008, meeting. The motion passed unanimously, 5:0.

ADJOURN

President Simpson adjourned the Regular Board Meeting at 9:30 p.m.

Assistant Secretary

President