

EUGENE WATER & ELECTRIC BOARD
REGULAR BOARD MEETING
EWEB BOARD ROOM
NOVEMBER 4, 2008
7 P.M.

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

Others Present: Randy Berggren, Patty Boyle, Debra Smith, Jim Wiley, Dick Varner, Jim Origliosso, Jeannine Parisi, Steve Newcomb, Mel Damewood, Dick Helgeson, Bill Welch, Sheila Crawford, Terry Bequette, Lance Robertson, Cathy Bloom, Ed Case, Brenda Sirois, Eric Hiaasen, and Krista Hince of the EWEB staff; Joann Ernst, members of the public; and Ruth Atcherson, City of Eugene minutes recorder.

President Simpson convened the Regular Meeting of the Eugene Water & Electric Board (EWEB) at 7:26 p.m.

AGENDA CHECK

There were no changes to the agenda.

PUBLIC INPUT

Steven Monk stated that he had worked with the Oregon Rehabilitation Center for 16 years and had worked closely with the laws and rules with contracting with Qualified Rehabilitation Facilities (QRFs). He indicated his willingness to be available to answer questions, should they arise.

APPROVAL OF CONSENT CALENDAR

Minutes

1. a. August 5, 2008, Work Session

Contracts

2. Bond Logistix LLC – Arbitrage Rebate Consulting Services – Accounting – Corporate Services - \$125,000
3. Brattain International Trucks, Inc. – International Ten-Yard Dump Truck – Shop – Corporate Services \$129,971
4. CH2M Hill, Inc. – Engineering Services for Willamette 975 Reservoir Construction – Water Division - \$131,000
5. Good Company – Sustainability Data Collection and Presentation – Environmental Management – Employee, Customer & Community Services Division - \$130,000
6. High Line Corporation – Human Resource Information System (HRIS) – Human Resources – Employee, Customer & Community Services Division - \$562,874
7. Sirius Computer Solutions, Inc. – Total Productivity Center (TPC) Installation – Information Services – Corporate Services – 27,540

Surplus Property

8. Angel Flight Road, Leaburg, Oregon.

Resolution

9. Resolution No. 0839 – Reimbursement of Expenditures for the Harvest Wind Project.

10. Resolution No. 0840 – 2009 Customer Generation Rates.

President Simpson stated that Consent Calendar Item 5 had been pulled for further review.

Vice President Farmer, seconded by Commissioner Menegat, moved to approve the Consent Calendar, with the exception of Item 5, a contract with the Good Company. The motion passed unanimously, 5:0.

ITEMS REMOVED FROM THE CONSENT CALENDAR

Commissioner Cassidy said he had pulled Item 5 because the amount of money seemed high.

Environmental Manager Steven Newcomb explained that the contract was part of a utility-wide effort aimed at gathering information to gain an understanding of the sustainability footprint of the utility. He related that it was not unlike the work to understand the financial, environmental, and social footprints of the organization. He said it was a very expansive piece of work that entailed bringing in a contractor. He noted that a total of 137 pieces of information would be collected throughout the utility.

Vice President Farmer stated, for the record, that he had appointed the president of the Good Company to serve on boards and commissions in the community. He was not certain if this represented a perceived conflict of interest.

Commissioner Cassidy, seconded by Vice President Farmer, moved to approve the contract with the Good Company. The motion passed unanimously, 5:0.

ITEMS FROM BOARD MEMBERS

Commissioner Brown asked General Manager Randy Berggren to speak about the boat landing donation and where EWEB was in that process when he discussed board agendas. He also asked what the focus of the joint meeting with the City Council would be. Mr. Berggren responded that staff planned to provide the latter information to the Commissioners when it was known.

President Simpson related that he planned to meet with Mayor Kitty Piercy on Monday to review the draft agenda. He had met with Community and Local Government Outreach Coordinator Jeannine Parisi to preview it on November 3.

CORRESPONDENCE

Mr. Berggren reported the following items of correspondence:

- Board packets included a memorandum from Ms. Parisi regarding the Spring Boulevard Water Service Area Task Team.
- Packets also included copies of a letter from Ryan Ruggiero, Land Protection Manager for the McKenzie River Trust, in support of EWEB's decision to adopt the Watershed Stewardship Policy.

President Simpson stated that the Board members had signed a letter thanking an anonymous donor for the \$300,000 donation to the Customer Care Program.

Board Agendas

Mr. Berggren highlighted the *Eugene Water & Electric Board Agenda Report* dated *November 4, 2008*. He noted that Ms. Parisi would provide a memorandum regarding the donation of the boat landing to the Commissioners.

Commissioner Brown requested a Board discussion of the ownership of the Roosevelt Boulevard facility. He had some concerns about the current arrangement, which had the water utility paying a portion of the debt service as rent and not for an equity position. President Simpson ascertained from the Board that they were willing to have this as an agenda item for discussion purposes.

In response to a question from Commissioner Menegat, Mr. Berggren said he was not aware that a change in the arrangement would affect the bond.

Vice President Farmer noted that the Citizen Advisory Team (CAT) for the Riverfront Master Planning process was no longer listed in the Agenda Report. Mr. Berggren said it was still ongoing, but there had been uncertainty about when they would next meet.

Employee, Community & Customer Services Division Director Debra Smith said once the Request for Qualifications (RFQ)/Request for Proposals (RFP) was resolved they would be more clear about when they were meeting again.

Commissioner Brown asked if there was a summary of the competition the University of Oregon Architectural School had on possible views of and ideas for the property. Mr. Berggren responded that there were videotapes available of it. Ms. Smith added that they had done a lot of research and they had presented their research on various master-planning projects in the northwest and Canada. She related that each team had, as a specific project, been assigned to develop a specific feature of the master plan and this had been what had been presented.

WILLAMETTE VALLEY REHABILITATION CENTER

Treasurer Jim Origliosso conveyed staff's request for approval of the contract. He said they had a "rich" discussion and there were some issues they could not resolve. He noted that Commissioner Brown had pointed out that other agencies were not using QRFs and their costs were different as a result. He stated that they knew what the requirements were for EWEB and could not speak to the requirements for other entities. He related that EWEB had been taken into litigation on the issue and it had not been conclusive. He was responsible for the area this contract took care of and the condition of the facilities had deteriorated while they were waiting to resolve it. He was anxious, as were other staff members, to get the contract back on track as it was affecting the morale of employees and the appearance of the facility to customers.

Commissioner Brown stressed that he was not against the QRF process. He said part of the Board's job was to ensure that EWEB "got the best bang for the buck." He had looked at the cost per square foot for other agencies in the community and how the Hult Center had addressed the QRF issue. He felt there were ways to deal with it. He noted that the last two providers were terminated due to quality of service. He said it also appeared that EWEB was paying for the equipment, which included a golf cart. He asked if it were a fair assessment to say that EWEB was basically buying the equipment that the QRF would be utilizing to provide the service.

Mr. Origliosso stated that the costs of the contract had been submitted to and approved by the state. He pointed out that the state thought it was reasonable. He felt that given the state approved it and thought it was reasonable it was not EWEB's purview to second-guess this. He said EWEB was being charged for the equipment that was being used to serve its account.

Commissioner Brown ascertained from Mr. Origliosso that the University and the city did not hire QRFs because they chose to use their own employees to do this work. Mr. Origliosso related that Rich Cunningham, EWEB's future Commissioner in January, had asked questions about the cost and staff had determined that it would be substantially more costly for EWEB to pay its own employees to do the work. He estimated the annual savings to be on the order of \$60,000 to \$80,000. He stressed that EWEB had the right to terminate the contract if performance was not to the level they had agreed to.

Commissioner Brown asked if the employees of the QRF were local. Mr. Origliosso confirmed that they were.

Vice President Farmer asked if EWEB was bound to accept anyone that fit the criteria from anywhere in the State of Oregon or was it held to the local area. Mr. Origliosso understood that a work group hired from John Day, Oregon, as an example, would be unreasonable on its face because of the added cost of transportation.

A representative from the State Administration of Oregon, Mr. Monk, clarified that typically the contract with a QRF was specific to the area in which County hired them, usually. He said including travel costs from a long distance would mean that the contract would not be reasonably priced. He added that the golf cart in the contract was no different than the soap or paper towels that the contract included.

Commissioner Brown underscored that local companies did not get to bid on the process. He believed the unit price of the QRF was substantially higher than a local company could provide the service for. He reiterated that he was not opposed to helping people but he had to be a steward of the ratepayers' money.

Mr. Monk stated that the people who did the work were typically on Supplemental Security Income (SSI) and Social Security Disability Income (SDI) and had approximately a 70 percent unemployment rate. He stressed that the QRF programs took "tax receivers" and turned them into taxpayers. He agreed that there were extra costs involved in the QRF, such as supervision costs, but he felt the benefits were many.

Vice President Farmer asked if EWEB had no ability to challenge the price if the state set it. Mr. Monk responded that it was set up as a win-win by law. He explained that the Department of Administrative Services set the price, but they were supposed to be in close cooperation with the public agency that contracted with the QRF.

Marty Blochman, executive director of Willamette Valley Rehabilitation Center, stated that he had participated in putting the pricing together. He said if EWEB were going to a private provider the contract would not contain the level of detail the QRF contract contained, as it was required to be exact. He related that they had included the golf cart to move staff and equipment around the complex, as they believed it would save some money in the long run. He averred that if EWEB took issue with one of the prices they would be "more than happy" to review the price and work to reduce the price.

Commissioner Menegat, seconded by Commission Cassidy, moved to approve the contract with Willamette Valley Rehabilitation Center for janitorial services for the headquarters complex. The motion passed unanimously, 5:0.

BUDGET AMENDMENT NO. 6

Mr. Origliosso explained that the amendment was due to the settlement with retirees and would provide the funds to make the payments the court had ordered. He stated that it was allocated so that it came from both the electric and water divisions.

Commissioner Menegat, seconded by Commissioner Cassidy, moved to approve Budget Amendment No. 6, which would transfer \$3,093,200 from the Electric Power Reserve and \$506,800 from the Water Operating Reserve to pay the settlement of the retirees' lawsuit and to place an additional \$500,000 into the Other Post-Employment Benefits Trust based on the settlement and resulting increased actuarial required contribution. The motion passed unanimously, 5:0.

POST-2011 BPA CONTRACT AND PRODUCT SELECTION – RESOLUTION NO. 00838

Power Resources Division Director Dick Helgeson said the resolution would do two things: it would affirm staff's recommendation that EWEB select the Slice/Block product and it would authorize the General Manager to execute the agreement in the next month. He noted that the action represented the "closing conversation" and the culmination of approximately three years of work and involvement in the region and with the Bonneville Power Administration (BPA) in the context of the new contract, slated to go into effect in 2011 when the current contract expired. He felt it also represented an opportunity for the Board to secure EWEB's rights to access to the Federal Base System (FBS), and "extremely valuable" power supply that currently constituted approximately 70 percent of the total power in the utility's portfolio. He reviewed the proposed *New 20 Year BPA Contracts* with power points, hard copies of which were available to everyone present.

Power Management & Planning Manager Dick Varner reviewed the *Customer Capabilities and Goals* and the available power products, which included Load Following, Shaped Block, and the Slice/Block products.

In response to a question from Vice President Farmer, Mr. Varner affirmed that the proposed contract would garner a 50 to 55 percent portion of Slice product and that the rest of the product would be Block.

Mr. Varner discussed the *Reasons to Choose Slice* and the *Reasons to Not Choose the Other Product*. He underscored the importance of having a flexible resource given that EWEB owned the Carmen-Smith generation facility. He explained that it also provided the potential to get better market prices as a Slice customer had access to information about the FBS that entities with the other product choices would not. He said EWEB could then get a better deal when buying and selling in the market because of this information.

Mr. Helgeson provided a brief overview of the *Contract Issues*. He explained that currently a significant amount of the BPA load was in the Slice product, but only ten utilities had expressed interest in it. He said the BPA was reticent to offer too much of that product because of the flexibility inherent in it. He related that the BPA had some fear that they could lose control of the system. He stated that the BPA had agreed to provide an additional amount of slice, but not enough to satisfy the request from customers. He noted that EWEB currently had a contract for 60 percent Slice and 40 percent Block.

In response to a question from Commissioner Cassidy, Mr. Helgeson said two-thirds of the utilities seeking the Slice product were larger than EWEB.

Mr. Varner reviewed the timeline. He said the BPA had asked EWEB to sign the contract by December 1. He stated that they still had some items remaining to do, such as having a legal opinion that EWEB could lawfully sign the contract. He noted that after a year EWEB would have to decide whether to sign up for one of the BPA's Tier 2 products.

President Simpson asked if the Tier 2 decision would be driven by the loss of generation associated with the work on Carmen-Smith. Mr. Varner responded that it was strictly the BPA's schedule; they wanted two years notice prior to providing power to a utility. He anticipated that it would be a low probability that EWEB staff would recommend purchasing Tier 2 power. He said for due diligence purposes they should still evaluate that option.

Vice President Farmer emphasized that this was a monumental decision given that it would solidify a contract that would span 20 years. He felt the Board should have a full understanding of the risks and asked staff to explain them.

Mr. Varner responded that EWEB had a certain amount of secondary energy, which was energy above the minimum of what they could expect on a 99 percent probability basis. He said this was the amount between a 75 percent and 85 percent hydro year, the money EWEB counted on to balance the annual budget. He explained that one of the things the power purchasers did a couple of years in advance was to buy put options. He elaborated; explaining that they purchased the right to sell power at a fixed price in the future, but it was not an obligation so if the cost of the power dropped EWEB could let the put option expire. Mr. Helgeson added that if the power did not show up they also did not exercise the put option. He said the Slice/Block product exposed EWEB to some variable revenue risk that it would then use a hedging strategy to cover and other risk management policies that would "boundary and affect" the way that played out.

Mr. Hiaasen stated that BPA charged non-Slice customers a little over \$6 million over the first year of the contract and EWEB would pay a little over \$7 million for its Block share plus the costs of the hedging program for the Slice product. He said EWEB paid approximately \$1.5 million to hedge its own risks, rather than having the BPA do it for the utility. He believed there were benefits in the Slice product that overcame the higher costs.

Mr. Origliosso stressed that there were Board policies on the risk management program and they worked. He said they would be bringing the policies to the new sitting Board after January so that they could understand what their role was in the program.

Mr. Hiaasen stated that EWEB had almost broken even on the premiums paid for the put options.

Vice President Farmer noted that the BPA was studying the capacity of the FBS and could ultimately make changes in the products or in the amounts available depending on the results. He asked what EWEB's risk was. Mr. Helgeson responded that there were provisions in the agreement that would allow the BPA to place "descriptions" on the amount of capacity EWEB could take on the contract under curtailment conditions.

Mr. Varner said it was important to recognize that if something large happened, such as removal of the Snake River dams, all of the customers regardless of product would feel the impact. He stressed that if the size of the FBS shrank, everyone's share of the power it generated would shrink accordingly.

Commissioner Cassidy commented that he had yet to understand the technicalities of the contract, but he understood that staff supported the contract as proposed and that it made sense. As such, he was comfortable with it.

President Simpson felt that the choice of the Slice product was the "right way to go." He said EWEB had enjoyed the benefits of a Slice product in the past and he was disappointed that EWEB would receive less of a percentage of it than before in the new contract. He declared that EWEB had been a very responsible steward of the product and had used it in a manner that has kept the revenue up to the advantage of all of the citizens in Eugene. He firmly supported the resolution and appreciated staff's hard work to put the recommendation together, as well as the work staff had done to utilize the product over the past two decades for the benefit of the utility's ratepayers.

Vice President Farmer, seconded by Commissioner Cassidy, moved to approve Resolution No. 0838, a resolution approving staff's recommendation for the purchase of the Slice/Block product and authorizing the General Manager to sign a Slice and Block Power Sales Agreement with the Bonneville Power Administration. The motion passed unanimously, 5:0.

Mr. Berggren asked that the Board give a moment of acknowledgement for the work of Mr. Helgeson, who had spent "hours and hours of work" as the designated point person for all of the general managers and chief executives with a Slice product interest and had led the negotiation to arrive at the point they were now at. He averred that Mr. Helgeson had done the yeoman's work for all of the interested public utilities in the northwest and congratulated him for a job well done.

Mr. Helgeson received a round of applause.

BIOMASS RESOURCES/RESOURCES NEGOTIATION DISCUSSION

Resource Planning Analyst Brenda Sirois initiated the presentation with several slides of the Klondike III Wind Project. Mr. Varner provided a brief power point presentation on power resource acquisition.

Ms. Sirois noted that the last time EWEB had updated its Integrated Energy Resource Portfolio (IERP) had been in 2004 and the process had been the result of a group consisting of two commissioners and customers from different customer groups. She said the group had prioritized resources, as follows:

- Do as much conservation as possible;
- Do as much local and renewable distributed cogeneration or combined heat and power;
- Pursue renewable generating resources
- If natural gas had to be brought into the portfolio, EWEB was to ensure it was a high efficiency use.

Mr. Varner reviewed the *Resource Development Project Phases*.

Ms. Sirois stated that once a project had come to EWEB it could take three to seven years to get it into actual operation. She delineated the flow chart entitled *Details of Preliminary Project Evaluation Phase*. Mr. Varner pointed out that a proposal for a coal plant was probably not something EWEB would bother to respond to given that it was not a resource included in the IERP. Ms. Sirois said, alternately, EWEB would also not enter into an agreement with an entity that had a bad reputation in regard to working with local communities or working with the siting agencies in a particular state.

Commissioner Brown asked if EWEB had been involved at all in the proposal for a natural gas power plant in the Coburg area. Mr. Berggren responded that EWEB had declined to be involved in it. Ms. Sirois related that they “entertained” the proponent for one meeting and “that was it.” She felt this was a good example of EWEB’s IERP evaluation process at work.

Mr. Varner provided a brief overview of the *Resource Development Projects* that were at hand, which included the University of Oregon cogeneration, which was only a possibility at this point pending the University’s search for funding. He said the Seneca Sawmill had given a little more information to EWEB regarding its proposal for EWEB to participate in a local combine heat and power biomass project. He believed EWEB was Seneca’s lead “proposer.” He said Seneca would be speaking to its board in the next week and making the call on whether they wanted to take any further action on the project. He related that if they did and they did believe EWEB was the lead “proposer.”

Commissioner Cassidy asked if Seneca was planning to burn biomass. Mr. Varner confirmed that they were planning to burn wood waste. Commissioner Cassidy asked if EWEB placed burning biomass in the same category as burning coal. Mr. Varner replied that it was classified as a renewable resource.

In response to a follow-up question from Commissioner Cassidy, Mr. Varner said Seneca had not prepared its final permit application to the Lane Regional Air Protection Agency (LRAPA). He underscored that this would be one of the things EWEB would discuss with Seneca, should it be chosen as one of the “proposers.” Commissioner Cassidy did not want to add anything to the airshed. Mr. Varner responded that Seneca had represented that its goal would be to have no net impact on the airshed. He reiterated that EWEB did not have detailed information at this point and Seneca would not have the level of detail to provide until the project was firmer.

Mr. Varner stated that the Raft River Geothermal project was at a point between having a contract and having the construction process begin. Staff did not know when that resource would materialize, but he and Ms. Sirois would be meeting with the others involved in the project in the next week. He also discussed the Klondike III Wind Project, which had been in operation for ten months.

Commissioner-elect Ernst asked if EWEB would be reviewing the IERP in 2009. Mr. Berggren responded that it was their intent to undertake an update to the process. Vice President Farmer pointed out that there was an informational display by the entrance to EWEB’s meeting rooms that recapped the IERP.

Commissioner Cassidy reiterated his opposition to entering into any cogeneration agreement that would add to air pollution in the area.

Mr. Varner reiterated that EWEB could put a stop to its participation but the utility had a very limited ability to put a stop to the project. He also repeated his assurance that EWEB would return to the Board with an environmental, social, and economic evaluation of the project as soon as it was possible to get a formal review.

Vice President Farmer asked how EWEB could assess its ability to be competitive. He asked if they could see a California power purchaser coming to the area and overbidding EWEB. Mr. Varner responded that there was a very real concern that this could happen. He said EWEB was favored because of the proximity of its distribution system, which provided advantages to both EWEB and potentially the developer, and that EWEB had demonstrated creativity in how EWEB thought about projects and used information from developers that “allowed them to see” how partnership with EWEB would be in both entities’ interests.

Vice President Farmer asked if the renewable tags that would go along with a project, such as the one Seneca was considering, more valuable to other utilities than EWEB. Mr. Varner replied that the tags were what allowed a California utility to bid as high as they could. He explained that the BPA renewable electricity had a premium price in California, but they also had to pay heavy transmission fees for it.

Vice President Farmer asked what the going price was for a renewable energy tag. Ms. Sirois responded that to develop a new resource it was \$80 to \$90 per megawatt hour (mWh).

Commissioner Brown asked if Seneca's proposal was a qualifying resource to meet the state mandate for Renewable Portfolio Standard (RPS). Mr. Varner affirmed that biomass was a qualifying resource.

General Manager's Employment Contract

Commissioner Menegat noted that the agenda indicated the Board was to take action. Mr. Berggren clarified that action was scheduled for December 16, which was the same date that the General Manager evaluation and action on the International Brotherhood of Electrical Workers (IBEW) contract were on the agenda. He noted that EWEB had not had contractual agreements with the General Manager prior to 1990. He stated that the contract had evolved over a series of renewals and provided a brief overview of the contents and lengths of duration of the agreements. He expected to retire within the three-year period of the upcoming contract.

Mr. Berggren said he had included proposed modifications, which included changing the language regarding salary so that it no longer included references to the 55th percentile, given that he made more than this amount currently and to gear the contract to the percentile would translate to a salary reduction. He also suggested a modification to the written notice required for cessation of his employment so that it provided for 180 days notice instead of 90. He expected to retire within the three-year period of the upcoming contract.

Vice President Farmer stated that they were in the process of looking at the whole issue of gauging salaries to the 55th percentile and this was scheduled for action in January. He believed there was a high likelihood, in looking at the compensation policy, that approach would "go by the wayside." He felt there was value in having the structure of the General Manager's pay have a tangible continuity to the executive compensation.

Commissioner Cassidy indicated his discomfort with setting salaries to a 55th percentile. He wanted to find another way to structure it.

In response to a question from Commissioner Menegat, Mr. Berggren assured him that the utility's legal counsel would review any contract language.

Vice President Farmer said, though it was not included in the contract, part of the process that had been put in place was a timeline for reviewing the General Manager's performance.

In response to a question from Commissioner Brown, Mr. Berggren stated that there was no penalty for the General Manager should he terminate his contract with less than 180 days notice. Commissioner Brown thought this was something to consider for the language in the contract, though it was not likely Mr. Berggren would do so. Mr. Berggren responded that as long as it was within reason, he would consider agreeing to such language.

Mr. Berggren stated that there were several board meetings between the current meeting and the date for action. He said he would send the revised update to the contract language for the Board's consideration.

ADJOURNMENT

President Simpson adjourned the Regular Board Meeting at 9:18 p.m.

Assistant Secretary

President