

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
500 EAST 4TH AVENUE
JANUARY 20, 2009
5:30 P.M.

Commissioners present: Ron Farmer, John Brown, Bob Cassidy, Rich Cunningham, and Joann Ernst.

Others present: Randy Berggren, Jim Wiley, Debra Smith, Jim Origliosso, John Yanov, Sheila Crawford, Cathy Bloom, Dick Helgeson, Mark Freeman, Gene Austin, Terry Bequette, Dean Ahlsten, Marty Douglass, Patty Boyle, and Krista Hince of the EWEB staff; Ruth Atcherson, City of Eugene minutes recorder.

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

**SD 17 – NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION (NERC)
COMPLIANCE UPDATE**

EWEB Compliance Auditor Gene Austin provided the North American Reliability Corporation (NERC) Compliance Update with power points. He explained that the Federal Energy Regulation Commission (FERC) had formed NERC to carry out the recommendations that had arisen from the black out report that the task force that then-President Bush had commissioned to look into the causes of the rolling black-outs of 2003. He stated that the reliability standards had been voluntary prior to 2005 and NERC had worked to strengthen and improve the compliance enforcement program. He noted that 2008 was the first full year of mandatory reliability requirements.

Mr. Austin reviewed an organizational chart showing where NERC and its functions fell underneath FERC.

At President Farmer's request, Dean Ahlsten, Systems Engineering and Substation Reliability Manager, explained for the benefit of the newer commissioners that NERC was primarily focused on the reliability of bulk power systems i.e. systems that handled greater than 100 kiloVolts (kV) in magnitude. He stated that from a generating perspective any individual generating unit over 20 megavoltamperes (MVA) rated or an aggregate total plant rating of 75 MVA was by definition a facility that was subject to the mandatory standards.

President Farmer asked Systems Engineering & Substation Reliability Manager Dean Ahlsten to provide a perspective as to where that would apply to EWEB facilities. Mr. Ahlsten responded that the majority of EWEB's transmission network was at 115 kV, though EWEB had "small pockets" of 69 kV that unless designated as a critical path would not be subject to the compliance standards. He estimated that out of EWEB's 165 miles of line, 140 miles were subject to the standards, as were all of the substation facilities and the Carmen-Smith generation facility. He said there were also other individual generating units that fell within the parameters such as the Smith Falls unit.

Commissioner Ernst asked if the Carmen-Smith facility had a 110 megaWatt (mW) rating. Mr. Ahlsten responded that the line serving Carmen-Smith carried 115 kV and the plant was rated at over 100 MVA because it contained two 50 MVA units. He said the primary focus of the standards sought to contain and avoid cascading impacts.

Commissioner Ernst noted that in April 2008, the General Manager was to conform to the standards. She asked if EWEB had not conformed prior to this. Mr. Ahlsten responded that EWEB had been subject to the standards on a voluntary basis and had worked to voluntarily comply with the standards for over 23 years.

General Manager Randy Berggren remarked that the standards had not existed on a national basis when EWEB first began voluntarily complying. He said the standards were evolving and sometimes confusing; at times staff debated whether some standards even applied to EWEB. He underscored that EWEB did its best to live in the spirit of it, though they were still surprised by some aspects, and was doing its best to comply.

Mr. Ahlsten noted that there was discussion at the FERC level of extending the compliance standards to include distribution systems at some point in the future.

Mr. Austin highlighted the draft internal compliance program, noting that he considered it to be an accomplishment for 2008. He said the goal was to be compliant by the completion of 2009. He stated that Mr. Ahlsten's organization would be reviewing 86 standards and some 600 requirements relative to the compliance expectations. He related that compliance reporting was quarterly and EWEB would be subject to two "spot check" audits.

Mr. Ahlsten reported that out of the initial gap analysis 15 violations with standards had been identified, with roughly half of those comprised of documentation issues and the other half procedural issues. He said prior to the June implementation, staff had formulated mitigation plans for all 15 violations. He stated that two additional violations had been discovered, in December 2007, and April 2008. He related that in EWEB's self-certification for 2008 staff had identified one violation of standards that had been based on a clarification that been made in a compliance bulletin released in November 2008. He stated that the 15 that had been initially submitted had been closed out and there were no associated penalties. He said the two that were identified later in the year had penalties and sanctions associated with them and staff had yet to find out about the last item.

Vice President Brown ascertained from Mr. Berggren that the one that had been identified that occurred prior to the clarification bulletin issued by NERC could be retroactively sanctioned.

Mr. Ahlsten discussed the Reliability Standards and Requirements that EWEB requested settlements for. He explained that EWEB had identified two plants that were behind schedule with the maintenance program and those were the Smith Falls power plant and the Weyerhaeuser 4 Power Plant. He related that Requirement 2 stated that the utility would adhere to its own testing and

maintenance program. He stated that staff had noted through its maintenance and testing program that the 200 frequency relays that were part of the safety net program in the West Coast regional wide program were not in service. He said staff had submitted it as a violation and had replaced the relays in the same week. He reported that at this point in time the Western Electricity Coordinating Council (WECC) had approved the completed mitigation work and had acknowledged that EWEB was in compliance and had also acknowledged that EWEB had two outstanding violations.

President Farmer asked what the potential range of the sanctions could include. Mr. Ahlsten replied that the program would allow for a violation of that magnitude a range of fines between \$4,000 per violation per day to \$1 million per violation per day.

Mr. Berggren elaborated, explaining that the high end of the sanctions was not likely to be applied. He remarked that NERC had “set the bar high to get your attention.” He said there were four different levels of severities and there were different fine categories. He stated that there was a “special system” to mitigate the fine based upon the degree to which a utility would work to create a compliance program and accomplish the things in that program.

Mr. Ahlsten explained that EWEB’s WECC had made the decision in December to be proactive on the two violations because it pulled EWEB out of the process of having a Notice of Alleged Violation (NOAV) submitted to EWEB by NERC, which would state its case and what the sanction would be at that point. He said by moving directly to a settlement EWEB was able to move directly into negotiations and this allowed EWEB to be participatorier in the settlement discussion. He related that the settlement agreement was a result of bilateral negotiation and would contain the findings of facts for the case submitted and the sanction penalty associated with it.

Commissioner Cunningham asked if there were costs for legal review of the settlement after the negotiations were completed. Mr. Berggren replied that it was extremely important for EWEB’s General Counsel to be “centered” in the reliability standards. He underscored that the standards presented a high dollar risk if a utility was flagrant in its violation.

Commissioner Cunningham understood that a snow plow had broken up at the Carmen-Smith facility. He wondered if this was something that was reportable given that not plowing the snow could prevent access to facilities. Mr. Ahlsten responded that the broken snowplow itself was not reportable. He said if it was attributable to a falling tree and there was an outage it could potentially be a violation of standards because utilities were responsible for managing their vegetation, but this did not apply to facilities below 200 kV.

In response to a question from Commissioner Cunningham, Mr. Ahlsten explained that FERC was a hierarchical organization and NERC was subject to FERC. He said as such it was not possible to be investigated by both.

Vice President Brown asked if the second violation was attributable to an operational oversight. Mr. Ahlsten replied that the relays were removed as part of a regional safety net program that was required.

Vice President Brown asked if a violation at the Raft River Geothermal project or other projects EWEB was partnering in would fall back on EWEB. Mr. Ahlsten replied that in some instances this was the case; Smith Falls and the Western Generation Agency (WGA) violations would fall on EWEB but a violation at the Harvest Wind facility would not. Mr. Berggren added that the Clatskanie People's Utility District (CPUD) would take liability for the WGA but EWEB was contractually committed to conducting required maintenance.

Mr. Berggren wished to elaborate on the violation related to frequency relays. He said there were many employees who did not have Mr. Ahlsten's sense of the subtleties of the standards and the uncertainties involved. He underscored the necessity of having a complex and comprehensive education program to go along with reliability standard enforcement. He averred that one of the main themes of the compliance program would be an effort to create a culture of compliance wherein people were encouraged to report issues as they arose. He emphasized his commitment to keep the Board advised of any violations, as they were uncovered on a good faith basis.

Mr. Ahlsten reviewed the settlement schedule, noting that staff had targeted the first Tuesday in March to go and negotiate the settlement. He stated that staff continued to work on implementation of the Internal Compliance Program (ICP) and an off-site audit was planned for October. He added that EWEB was moving in a direction with the Bonneville Power Administration (BPA) in which EWEB would register as a transmission operator and this would entail meeting roughly an additional 27 standards and 103 individual requirements.

Mr. Berggren remarked that it was a fair statement to say that the BPA appeared to be refusing to take the designation and EWEB would be the designated transmission operator by default. He explained that EWEB owned the facilities but the BPA was, for all practical purposes, the operator. He thought it would be more pragmatic for the BPA to register as the transmission operator but it created more risk for them. He added that the contemporary compliance standards issue was consuming staff resources.

Commissioner Cassidy asked what the implications of federal efforts to make changes in the standards for the "national grid" were for EWEB. Mr. Berggren replied that he did not think the standards they were reviewing would change much.

In response to a question from Vice President Brown, Mr. Ahlsten said it was his understanding that the statutory funding went back into the federal "general fund" and supported the program.

Mr. Berggren felt EWEB was in a reasonably good position. He thought the fact that EWEB voluntarily entered into a settlement boded well for the utility. He noted that the Chief Executive Officer of the WECC would be coming into Eugene later in the week and he and some senior staff were scheduled to meet with him for a half an hour.

SD 16 – INFORMATION TECHNOLOGY

Information Services Manager Terry Bequette, provided the semi-annual update on SD 16, the policy on Information Technology (IT) Strategic Direction with power points. He underscored the efforts to leverage technology to enhance efficiency, associated with Business Strategy (BS) 3. He highlighted the assessment conducted by the Gartner Group, an IT research and consulting organization. He said Gartner Group had conducted its assessment over the course of six weeks and found most of EWEB's IT organization and systems to be appropriately enabling EWEB to do its work and had made ten recommendations to address identified challenges, outlined in the memorandum entitled *Policy SD 16 Board Update – Strategic Direction for Information Technology*, dated *January 13, 2009*. He stated that staff accepted the recommendations as valid and was taking steps in all of the cited areas to achieve them.

Commissioner Cassidy observed that one gap had been in the processes and asked Mr. Bequette to elaborate. Mr. Bequette explained that projects had moved forward to the project list without having the business case developed. He said he would call it governance for managing the demand side of the projects coming into the pipeline. He added that this would be the work that the advisory committee would be doing.

Mr. Berggren stated that the culture of the organization in the past had been decentralized. He said one of the ongoing cultural initiatives was to try to create more centralized integration and resource management. He related that the IT function had been characterized as having too much autonomy. He added that at this point staff was going through an analysis by project to see where a project was and to the degree it did not have a business case justification or was not consistent with what they were proposing to do it would be stopped.

EWEB Treasurer, Jim Origliosso, added that the Executive Management Team (EMT) had put a lot of time into this in the last couple of months. He said they had focused on taking the work on and setting up an environment in which staff could successfully put forth the objectives of the strategy that sought to use technology to increase efficiency.

President Farmer asked whether the lack of centralization was systemic in the organization or was it unique to the IT department. Mr. Berggren replied that it had been systemic and a cultural characteristic of most of the activities or functions of EWEB. He believed that this had been corrected in most areas of EWEB. He related that they had found the same issue in safety; he believed that they had gotten everyone beginning to work from the same view and once the consolidated safety manual was completed there would be an integrated reference for the complete organization.

President Farmer adjourned the work session at 6:25 p.m.

Assistant Secretary

President