

EUGENE WATER & ELECTRIC BOARD
REGULAR BOARD MEETING
LEABURG FIRE TRAINING CENTER
42870 MCKENZIE HIGHWAY
LEABURG, OREGON
AUGUST 4, 2009
6:30 P.M.

Commissioners Present: Ron Farmer, President; John Brown, Vice President; Bob Cassidy, Rich Cunningham, Joann Ernst.

Others Present: General Manager Randy Berggren, Sheila Crawford, Lance Robertson, Cathy Bloom, Jim Origliosso, Tom Buckhouse, Jim Wiley, Dick Helgeson, Catrin van Donkelaar, Gene Austin, Susan Eicher, Terry Bequette, Taryn Johnson, Will Bondioli, Dave Koski, Karl Morgenstern, Jeannine Parisi, Lisa McLaughlin, Megan Capper, Mike Logan, and Judy Chase of the EWEB staff; Ruth Atcherson, City of Eugene minutes recorder.

President Farmer convened the Regular Meeting of the Eugene Water & Electric Board (EWEB).

AGENDA CHECK

President Farmer thanked the Leaburg Fire Department for the use of their facility. There were no changes to the agenda.

PUBLIC INPUT

Gene Cooper expressed concern regarding the weir box on Johnson Creek. He suspected that the investigation of the irrigation issue had been incomplete. He believed he should have been notified as he thought he had water rights through the weir box. He said he would like to see the original agreement on the weir box, crafted 80 years ago. He explained that the affected properties had been severed from Johnson Creek when the canal had gone in. He said the original agreement had been that it was the responsibility of EWEB to provide the delivery system. He disagreed with EWEB's recent direction to the property owners that they needed to install their own delivery systems. He recounted that he had been told that the water rights were non-transferable. He disagreed. He averred that according to the State Watermaster the water rights were in his name. He did not think that it was a legal option to cut off the water rights and fill the weir box with concrete. He preferred to settle the situation without engaging in litigation.

Chuck Durr, 42969 McKenzie Highway, stated that he had drawn water from the weir box on Johnson Creek for 37 years. He related that two years earlier there had been trouble with the box flooding with silt. He said they called EWEB and staff indicated that there were only two employees that could do it and they would be there when they could. He explained that they had put their own lock on the box, with permission from EWEB staff, and had cleaned the box as needed. He said this year they had an influx of silt – he was not sure of its origin – and the box filled up every day. He went and flushed the box every other day. He thought rather than filling

the box up with cement, they needed to come up with a better cycling system instead of drawing from the bottom of the canal. He suggested placing the pipe in the middle of the canal. Regarding erosion, he asserted that he had not seen any. He related that Johnson Creek Pond was filling with silt, which was drifting into the canal. He said if they had to install pumps, they would have to run electricity and build a box for the pump. He believed that if possible they needed to meet and come up with a solution that did not involve filling the box with cement.

Terry Littschwager, 97402 Fish Hatchery Road, provided his testimony in writing. He said he was only looking for a picnic table to be installed. He explained that there was a place that concentrated the fishermen. He walked through it every day cleaning up the trash. He said his handout included traffic counts at that location. He had observed that there were more cars at that location than there were in EWEB parks. He related that Mark Oberle had authorized the provision of a portable toilet and a garbage receptacle. He was concerned because increasingly families were coming and children were playing in the roadway. He suggested that the installation of a picnic table, made out of concrete, away from the road would encourage families to sit away from the roadway.

Robert Billings stated that he had been born in that area and was now 78 years old. He recalled that when the weir box had been installed the farmers and EWEB had agreed to maintain the flow of water year-round. He declared that there was “no such thing as erosion” there. He quipped that the Board was “smoking pot.” He related that he walked along the canal every day and had done so for the last 14 years and had never seen a nutria. He had read in the paper that there were nutria in the canal and EWEB was going to contract with a company to have them shot with bow and arrows. He called that “fantastic” and asked where EWEB staff got “this stuff” from. He averred that he had seen one muskrat in the past five years. He asserted that the canal was leaking and that it had flooded a field next to a nursery that had never been flooded before. He said EWEB staff had looked at it and declared the water to be coming from a spring. He disputed this. He alleged that he had found the source of the water and it was a leak. He thought EWEB was “out of line.”

Norm Carter, 439 Canyon Highway, related that his grandfather had run the hatchery from 1934 to 1965 and had owned all of the property next to the hatchery and three places above it on the canal. He said his grandfather had traded properties because it had “leaked so bad” and EWEB had not fixed the leaks and continued not to fix the leaks. He asserted that he had brought this issue to the attention of the Board and had never heard back from anyone. He said he had some records from 1928, when EWEB had purchased property from a landowner, that the water rights from the creek were supposed to be for the people and he asserted that EWEB was supposed to furnish ditches to the property lines of the people. He declared that his property was now lake frontage; he could not even mow his field or plant a garden until “half the summer” was over. He wanted someone to do something about it.

President Farmer opened the floor for comments and questions from the Commissioners.

Commissioner Cassidy recalled hearing about the problems that the people who testified had brought to their attention in the previous year. He considered the issues to be something staff should address, but it did not seem to him that their problems were being addressed. He was interested in hearing from General Manager Randy Berggren regarding these issues.

General Manager Randy Berggren indicated that he would provide written background on each of the comments.

Commissioner Ernst thanked everyone for taking the time to come and give public comment. She did not have any direct comments to address the concerns raised, but she wished to assure them that she would bring the issues up for discussion with the Board. She asked them to keep the Board informed via letters and emails about whether they were able to achieve resolution.

Vice President Brown thanked everyone for testifying. He echoed the comments of his colleagues. He recommended that the people who had brought their concerns forward keep documentation of who they contacted at EWEB. He wanted to reaffirm that the Board rely upon staff and professional people to keep them informed about the nutria and the integrity of the walls of the canal. He underscored that they would ensure that the safety and integrity of the canal would be maintained, first and foremost.

Vice President Brown thought the picnic table was a great idea. He commented that he had been struck by the Forest Service decision to take away trash cans because the “trash cans would attract trash.” He added that the voices of the residents in the McKenzie Valley were “just as loud” and important to the Board as the voices of the residents of Eugene. He said the Board was charged with running the utility and doing the best job possible. He assured them that they could contact the Commissioners and the Commissioners would do their best to respond.

Commissioner Cunningham stated that the Board had a public report from the Federal Energy Regulation Commission (FERC) that indicated that the nutria population along the canal was out of control. He offered to provide residents with a copy. He also wished to recognize the Emergency Medical Technicians of the McKenzie Fire and Rescue Department. He explained that he had experienced a life threatening event and had been helped by the department. He wanted to thank them.

President Farmer suggested that the picnic table would be an issue for staff to resolve as it was not a policy issue. He recommended that Mr. Littschwager contact Mark Oberle about it.

Regarding the weir box issue on Johnson Creek, President Farmer encouraged the members of the public to read the reports that had been provided to the Board, which were accessible on line. He said if, after reviewing the information, they still did not agree with the actions proposed to be taken, they should come back and explain why. He underscored that at this point the Board had heard one thing from the professionals that researched the issues and another thing from the people who gave testimony. He stated that FERC set regulations for how EWEB had to operate its facilities. He stressed that none of the Commissioners had personally counted the nutria population, but they had to adhere to FERC requirements. He recalled some years earlier when FERC had required EWEB to clear many trees from the canal banks. He said there was not a person serving on the Board that wanted to cut the trees, but FERC had directed them to be cut or it would revoke EWEB’s license.

In response to a question from a member of the audience, both President Farmer and Vice President Brown confirmed that they had visited the canal and spent much time on the McKenzie River.

Another member of the audience asked if they had noticed any erosion around the canal. Vice President Brown responded that even if he did see it, he knew what he did not know. He stressed that EWEB paid good money to technical people with experience in engineering and geology, among others, for advice.

A third member of the public asserted that the bridge that had been replaced was not in danger of falling down. Vice President Brown pointed out that if he had been sitting on the Board and a structural engineer informed him that the bridge was in imminent danger of collapse and he ignored that warning and the bridge collapsed, it would create a huge liability.

President Farmer ascertained that one more person wished to provide comment.

Joe Halbert, 43706 McKenzie Highway, said he had owned the property for 30 years. He related that it was his observation that the canal was encroaching on his property. He had requested that EWEB staff take a look at it and the first staff members who came had said the septic system was failing. He asserted that if a septic system was under water it could not work. He said the next person from EWEB that had looked at the problem had suggested that his well was “pumping too much.” He averred that his house was slipping away from its foundation and was now leaning. He said when EWEB had filled the weir with concrete at the intake it had shut his water off. He alleged that every citizen was entitled to half an acre of irrigation water for a non-commercial garden and livestock. He believed that at least 20 households were due this water. He commented that the question now was whether they would “play hardball” and face a lawsuit or work together to find a solution.

APPROVAL OF CONSENT CALENDAR

MINUTES

1. a. No minutes included

CONTRACTS

2. Ferguson Enterprises – Dry Barrel Fire Hydrants – Water Division \$451,820
3. Infor Global Solutions, Inc. – Professional Consulting and Production Support – Corporate Services \$72,000
4. Jim Turin & Sons, Inc. – Professional consulting and Production Support – Corporate Services \$155,390
5. McKinstry Essention, Inc. – Steam Customer Assessment and Alternative Fuel Conversion Services – Employee, Customer & Community Services Division \$245,259
6. Shelton Turnbull – Printed Envelopes – Corporate Services \$270,045
7. System Operations Success (SOS International) – Job Task Analysis and NERC Operator Training Program – Power Resources Division \$25,200
8. TEK Systems, Inc. – Temporary Programmer Services – Information Services – Corporate Services \$64,800

INTERGOVERNMENTAL AGREEMENT

9. University of Oregon Solar Monitoring Lab – Monitoring and Analysis of Solar Radiation – Power Resources Division \$125,000

RESOLUTION

- 10.** Resolution No. 0919 – Renaming of EWEB’s park at Leaburg Lake to Lloyd Knox Park.

Commissioner Cunningham pulled Item 6.

Commissioner Cassidy pulled Items 5 and 9.

Vice President Brown pulled Item 4.

Commissioner Cunningham, seconded by Commissioner Cassidy, moved to approve the Consent Calendar with the exceptions of Items 4, 5, 6, and 9. The motion passed unanimously, 5:0.

ITEMS REMOVED FROM THE CONSENT CALENDAR

Regarding Item 4, Vice President Brown asked why EWEB was paying \$150,000 to pave a forest service road. Catrin van Donkelaar, acting Generation Manager, explained that the Carmen-Smith facility had a historic problem with dust getting into the generator. She said this required pulling the roof off, which was expensive, so they were trying to mitigate the dust by paving the road.

Vice President Brown ascertained that EWEB was not the only user of the road.

President Farmer understood why they were paving the parking lot, but it seemed excessive to pave one-half mile in addition to the lot. Ms. Von Donkelaar replied that the power house was almost right next to the road and the dust billowed from the road into it.

President Farmer asked if they could pave only one-quarter of a mile. Ms. Von Donkelaar responded that the intent was to pave one-quarter of a mile in either direction from the power house.

Commissioner Cunningham, seconded by Vice President Brown, moved to approve Consent Calendar Item 4, a contract with Jim Turin & Sons, Inc. for paving services. The motion passed unanimously, 5:0.

Commissioner Cassidy explained that he was looking for more clarity on Item 5 regarding the two to five year shut down. He had heard that number one year earlier and was concerned that the time to shut down the steam utility was being moved out. He asked why the utility could not put a firmer time limit on it. Mike Logan responded that there were two more customers closer to the goal of being off the steam utility system. He underscored that they had given a broad range of time for the transition from the steam service because it had a lot to do with the customer actions. He said the engineering services that EWEB had solicited were funding applications to the small-scale energy loan program and the business energy tax credit program. He stated that with a funding source, given the continued tight capital market, customers did not have a financing alternative available and the contract would help get them started in the transition process.

General Manager Randy Berggren reiterated that the issue was that the utility did not have a financing option available for the steam transition. He said the Oregon Department of Energy (ODOE) had not yet made a decision on whether it would provide funding and EWEB had not received any stimulus money. He related that the last resort would be a decision by the Board as to how much money EWEB was willing to use to fund the transition. He stressed that with a funding determination, staff could begin to give a specific timeline.

Commissioner Cassidy, seconded by Commissioner Ernst, moved to approve Item 5, a contract with McKinstry Essention, Inc. for steam customer assessment and alternative fuel conversion services.

Vice President Brown ascertained from Mr. Logan that the site assessments would look for the presence of asbestos and abatement would be part of the cost estimates.

President Farmer remarked that the steam utility would have to be shut down with or without money. He underscored the importance of letting the Board know promptly if staff determined there were no other funding options. He did not want to put off the decision into the future.

Mr. Logan concurred. He said there was one other option with ODOE that remained open, a Research Design & Development (RD&D) application to create it as a single project under the Small Scale Energy Loan Program (SSELP). He explained that it would give access to potentially \$15 to \$20 million in 20-year financing to help the customers pay for the transition cost.

The motion passed unanimously, 5:0.

Commissioner Cunningham stated that the reason he had pulled Item 6 was the cost per year. Information Services Manager Terry Bequette clarified that the \$250,000 contract was spread over five years. Commissioner Cunningham responded that EWEB customers could now log on and access and print their bill. He thought they should develop some kind of enticement to encourage them to do so, such as offering a small reduction to the bills. He suggested that this could ultimately save EWEB money.

General Manager Randy Berggren agreed that if EWEB could eliminate 85,000 bills per month, it would save money.

Commissioner Ernst understood that EWEB would implement paperless billing soon.

President Farmer pointed out that the contract did not commit EWEB to spending the money in future years if it was not needed. Mr. Bequette underscored that they bought only what they needed.

Commissioner Cassidy, seconded by Commissioner Ernst, moved to approve Consent Calendar Item 6, a contract with Shelton Turnbull for printed envelopes. The motion passed unanimously, 5:0.

Commissioner Cassidy said Item 9 interested him and he was seeking further explanation of it. Director of the Power Resources Division, Dick Helgeson, explained that the document was prepared as a work scope by a University of Oregon student. He said the bullet points were supposed to elaborate. He offered to ask the people managing the project to provide more information.

Vice President Brown observed that it involved a consortium of entities and financial contributors. He asked what would happen if one of them decided not to opt in. Mr. Helgeson replied that the majority of the resources were coming from entities that had already secured funding. He said EWEB was one of the last participants to ratify the agreement. He added that if a partner opted out, the partners would have to work with the University of Oregon to re-scope the project or they would have to determine an alternative funding capability.

In response to a follow-up question from Vice President Brown, Mr. Helgeson said the Springfield Utility Board (SUB) and Blachly Lane Electric Cooperative and others paid a portion of the cost through the Bonneville Power Administration (BPA). He noted that the Emerald People's Utility District (EPUD) was one of the underwriters that was a direct participant.

Vice President Brown observed that EWEB was also paying the BPA and contributing indirectly in that way; this was akin to paying twice. He wondered why it was not more of an industry-wide contribution that was spread out. General Manager Randy Berggren replied that EWEB had always carried that burden because of its higher interest in solar power.

Commissioner Cassidy, seconded by Commissioner Cunningham, moved to approve Consent Calendar Item 9, an intergovernmental agreement with the University of Oregon for monitoring and analysis of solar radiation. The motion passed, 4:1; Vice President Brown voting in opposition.

ITEMS FROM BOARD MEMBERS

Commissioner Cunningham ascertained from General Manager Randy Berggren that the threshold that placed a personal services contract on the Consent Calendar was \$25,000. He asked that the Board add consideration of increasing that threshold as a future agenda item.

President Farmer related that the Board had changed the criteria several years earlier. He recalled that the Board had been provided with fairly extensive backgrounders on the criteria and he thought those backgrounders would be useful for the newer commissioners to read. He suggested that Commissioner Cunningham meet with EWEB Treasurer, Jim Origliosso, for more specific information.

Commissioner Cunningham said his chief concern was that things had become more expensive because of inflation.

General Manager Randy Berggren noted that the previous threshold had been \$3,000.

President Farmer added his observation that members of the Board did choose to discuss \$20,000 items. He thought if Commissioner Cunningham was still concerned after meeting with

Mr. Origliosso and reviewing the past information, he should bring it up as a future agenda item at the September meeting.

Vice President Brown asked for an update on the bid process for the Roosevelt building project. General Manager Randy Berggren thought Project Manager Ken Beeson was close to closing on the bids and making the formal awards.

Vice President Brown asked if EWEB had to pay for line relocation in the Oregon Department of Transportation (ODOT) project on Beltline Highway. General Manager Randy Berggren replied that typically if it was in an ODOT right of way, EWEB paid for it. He noted that the Coburg off ramp was somewhat different in that it included different parcels, but EWEB had committed to paying for the relocation.

Commissioner Ernst wanted to “put into light” the governance process. She commented that she had continually heard President Farmer state that the Board worked at a policy level. She had been on the Board since January and could not recall a discussion on any policy level. She said they had just spent time dealing with contracts, which she did not feel was on a policy level. She wanted to continue to encourage the Board to develop a governance process so that they could not get bogged down in the daily operations “of these contracts.” She did not want to discontinue seeing the contracts, but she thought they were on the Consent Calendar that the Board could pass through. She felt that a lot of the conversation did not need to happen during the meetings.

General Manager Randy Berggren noted that the Board had decided against the Carver governance process and staff had discontinued work on it. He said staff continued to work internally and would soon be bringing a proposal for proceeding with a governance approach.

President Farmer agreed that he would rather talk about policy and not operations. This had been why he had supported the Carver approach. He said when they made the decision not to take that route, it had left a void instead of charting a course of action. He observed that while they were the Commissioners, they were also legally the Contract Review Board. He stated that if they would not take time to discuss contracts, they would have to address who would take on this charge.

President Farmer pointed out the backgrounder provided to the Board by Christina Bennett, Human Resources Manager, talking about the Board Subcommittee for General Manager Replacement. He said it included some recommendations from the subcommittee, which would be on the agenda for the next Board meeting. He noted that the subcommittee had met subsequently to the July 21 meeting, but the summary of that meeting was still forthcoming.

CORRESPONDENCE

General Manager Randy Berggren highlighted the following items of correspondence:

- He had included a memorandum announcing that he had appointed Debra Smith, Director of the Employee, Customer, and Community Services Division, to be the Assistant Secretary to the Board, a corporate officer role;
- The memorandum, previously mentioned, from Ms. Bennett, dated July 30,2009;

- A memorandum from Ed Case, Dean Ahlsten, and George Zaczek on the alternative procurement process entitled U of O Substation Project Substantial Cost Savings Criteria and dated July 29, 2009;
- A memorandum from Electric Division Director, Jim Wiley, and Public Affairs Manager, Lance Robertson regarding the McKenzie River Valley Issues and Projects Update dated July 28, 2009;
- A memorandum from Sheila Crawford regarding the Second Quarter EWEB Performance Metric Report dated August 4, 2009.

Commissioner Cassidy referred to page 2, paragraph 3 of the memorandum provided by Mr. Bequette entitled Policy SD16 Board Update – Strategic Direction for Information Technology and asked what the approximate delay of the Automatic Metering Infrastructure Project (AMI) and the Enterprise System Planning Project (WACFR) was projected to be. It seemed to him that the auditors had been quite concerned about it. General Manager Randy Berggren clarified that the auditors had followed EWEB's own report; EWEB had initiated the investigation and asked for the consultant to come in. He said when they had notified the auditors, the auditors had followed up on it. He believed that EWEB was consistent and responsive to all of the issues that the auditors had provided in the Audit Management Letter.

Commissioner Cassidy thought the auditors had been placing a "certain amount of urgency" on the delay of the information technology. He thought it seemed a little vague. General Manager Randy Berggren could not recall the auditors expressing concern regarding the timing of the AMI project, though they had spoken to a number of other issues in process improvement – all of which had been addressed at this point. He clarified that the AMI project had to do more with a timing issue, given the financial issues that rose with the recession and the potential estimated cost of \$35 million to put in an automated meter reading system. He said at this point they were projecting that it would be delayed by two years, and potentially three.

General Manager Randy Berggren added that a copy of a letter of appreciation from former intern, Trevor Stroh, had been included in the correspondence to the Board. He related that Mr. Stroh had applied and been hired for one of the operator trainee positions at Hayden Bridge and was now a full-time employee as a result of his internship.

BOARD AGENDAS

General Manager Randy Berggren provided the *Board Agenda Report* dated August 4, 2009.

Commissioner Cunningham asked if it was known where the EWEB credit union would be in the Roosevelt building project. General Manager Randy Berggren replied that while there was an expectation that the credit union would be provided space there when the administrative arm of the utility moved to the Roosevelt location, the current level of design detail that Mr. Beeson was working with did not include this level of specificity.

Vice President Brown indicated a willingness to meet with Mr. Beeson regarding costs. General Manager Randy Berggren responded that the costs were not being represented as design level costs, it was a comparative analysis to determine whether it was more economic to stay with

a split operation or whether it would be more economic to move back to a consolidated operation. He believed that the costs were plus or minus 25 percent and should not represent the true cost of a move. He underscored that the idea was to decide when to move and whether the move should be undertaken at all. He thought they would find that the numbers suggested that it would be more prudent to reconsolidate but even this was dependent on some assumptions they would make.

Commissioner Ernst asked where the Integrated Energy Resource Plan (IERP) update would be scheduled in future agendas. General Manager Randy Berggren replied that the goal was to kick off the process in the fall. He explained that it was not on the Board agendas because it was a separate citizen process. He added that they were considering a different approach: instead of a pure power resource platform, they would use the soon-to-be-completed sustainability assessment of the organization in a more holistic way. He thought he would have more information on this in the next two to three weeks.

MCKENZIE RIVER FLOAT TRIP DEBRIEF

Vice President Brown thanked everyone for participating. He considered the river to be a precious and pristine resource. He averred that they had to be aware of protecting and doing right by the river when conducting the work at Carmen-Smith facility.

Commissioner Cassidy observed that the public did not know that EWEB was unable to protect the water resource. He was concerned about getting that message out to the public.

President Farmer was not certain that telling the public that the utility had no authority would accomplish much. He thought if he was speaking in terms of marshalling a change in their authority, it could make sense to raise awareness.

Commissioner Ernst thanked Vice President Brown for arranging the trip. She had been impressed by EWEB's stewardship and the work on building partnerships with others.

Vice President Brown shared Commissioner Cassidy's frustration. He related that the single-walled diesel fuel tank by Clear Lake had still not been moved though staff had taken creative steps to address it. He was grateful for the tenacity and expertise of the EWEB staff. He said if the staff members were not working to get the tank moved, the tank was at risk of being punctured or knocked into the lake and this would be unacceptable. He pointed to the clear cut on the island and other examples of actions that potentially threatened the river that they had witnessed on their river trip and reiterated his frustration. He agreed that there was no way to let the public know they were trying to do the right thing other than in the media. He cited, as an example of an item that should be publicized, that cell service would be provided to the residents in the upper river valley because of the construction at Carmen-Smith.

2ND QUARTER BUDGET/FINANCIAL STATUS

Susan Eicher, Senior Accountant, presented the Second Quarter Financial Statements with power points, hard copies of which were provided to everyone present. She stated that the cash reserves were "pretty stable," but she wanted the Board to keep in mind that much of the money was essentially "spoken for." She said cash and reserves were at \$96.5 million, up

approximately \$600,000 from the previous year. She attributed the stability to a combination of prudent use of reserves and the cost-cutting and budget reductions that staff had worked on, as well as some prudent power reserve hedging. She also noted that the closure of Hynix had affected the net operating revenue, which was down \$5 million from March of 2008. She said the rebates that had been given to the ratepayers had impacted the contribution margin. She added that consumption had decreased, though residential sales had been holding steady.

Commissioner Cunningham asked, given that EWEB had lost Hynix, what the utility was doing to reduce the cost of the power they no longer needed to produce. President Farmer responded that if EWEB could not sell the power on a commercial or retail basis, then it was sold into the wholesale market.

Ms. Eicher considered the present year to be a very unique circumstance. She explained that sometimes EWEB made more on the wholesale market than on the retail market, but at present the wholesale prices were generally lower than retail.

Commissioner Cunningham did not understand why EWEB would not slow its generation if it was not producing enough revenue on the market. General Manager Randy Berggren responded that while EWEB was not able to sell the power for as much on the wholesale market as it could on the retail market, EWEB was long on its Slice position and owned that generation whether or not it was sold in the retail market. He underscored that it still had positive value; any money they could get for it was better than nothing.

Commissioner Cunningham asked if EWEB was selling the power at a lower rate than it sold it to its consumers. Mr. Helgeson replied that they were selling it on the wholesale market for less than they would otherwise get on the retail market, if the load was there. He added that EWEB was not selling the power for less than its cost for generation because most of the resources had a fixed cost. He underscored that EWEB looked at its marginal running cost and this drove the dispatch decisions. He said they were better off, even at the lower prices, selling into the market because otherwise they would be spilling the water on the hydro side.

President Farmer understood that the wholesale dollars would not go up because the prices were lower, but he observed that the megawatt hours that were going into the wholesale market were also going down and wondered what this was attributed to. Ms. Eicher explained that he was seeing the difference in the shape of the water year; there had been a late run-off in 2008.

Mr. Helgeson said when market prices were high, the trading staff worked hard in real time on the trading floor to buy and sell power in the market that did not necessarily come from EWEB's own generation. He explained that they were able to make small margins on those turns and generate a lot of revenue, which pumped up the volume. He stated that when the market was soft, they were less in the market though they were still disposing with the surplus. He said they did not then turn as much in real time in buys and sells from the market to make those margins; the margins became thinner and sometimes the taxes that had to be paid to the city on those differences overwhelmed the opportunity they presented.

Ms. Eicher said one other factor had been that over the last couple of years there had been a trend in which there were more financial exchanges than physical exchanges, which saved a lot

of money on transmission. She explained that for a financial exchange, only the net was indicated rather than showing the gross sale.

Continuing, Ms. Eicher showed the graph of the Electric System Net Revenue. She reiterated that it was attributable to the rebates, the Hynix closure, and the rate decreases that had happened over the past couple of years.

Commissioner Cunningham asked if the retail customers were paying the majority of the utility's revenue. Ms. Eicher responded that from a rates perspective the commercial customers were paying their fair share based on the Cost of Service Analysis (COSA).

In response to a follow-up question from Commissioner Cunningham, General Manager Randy Berggren stated that commercial and retail customers did not pay the same amount for electricity because they had different load characteristics at different times of the day and they had different allocations of cost based on demand and energy use. He said they used a fairly sophisticated study that analyzed the use and then proportionally allocated cost to their demand on the system and their requirements for power.

Commissioner Ernst asked if the rate increases would affect everyone. General Manager Randy Berggren responded that it depended on the rate structures.

Commissioner Ernst asked what percentage of service each customer class comprised. Mr. Origliosso replied that financially one-third was wholesale, one-third was commercial and industrial, and one third was residential.

Commissioner Cunningham opined that EWEB should charge its wholesale customers a retail price.

Ms. Eicher reported that the projections for the contribution margin were "hovering" at a little below or a little above what they had budgeted.

President Farmer surmised that there had been a positive variance in the hydro year but it had been offset by less demand and lower prices.

Mr. Origliosso observed that from the "50,000 foot level" EWEB was on budget. He said there had been more water and more generation but the utility had been getting a lower price for it. General Manager Randy Berggren added that the hedging program had propped up the utility more than usual.

In response to a question from Commissioner Cassidy, Ms. Eicher explained that the operating budget was lower than had been anticipated for this time of year, but the utility was usually a little below in its operating budget at the end of the year.

President Farmer asked when the current ratio would be back on target. Mr. Origliosso replied that it should be corrected by the end of the year. Ms. Eicher added that in looking at the balance sheet there was a current liability in the bond anticipation notes. She said they anticipated borrowing in the fall and would be paying off the liability. Mr. Origliosso noted that all of the Harvest Wind debt was short-term.

Ms. Eicher reviewed the financial status of the water utility for the second quarter. She explained that the increase in the net operating revenue was attributable to the rate increase. She noted that pumping volume was down 4.5 percent, entirely because of the Hynix shutdown. She stated that the net income was nearly double the net income from the previous year.

In response to a question from Commissioner Cunningham, Mr. Origliosso stated that the spring water rate action was expected to be 7 percent.

Commissioner Cunningham asked why they would be raising rates if the utility was doing better. Mr. Origliosso replied that reserve levels were still down in the water utility and they were still adding to the capital program to address aging infrastructure.

President Farmer asked if the projections for revenue were “still good.” Ms. Eicher responded that the year might not be as big as had been anticipated. She noted that she had been informed earlier in the day that pumping numbers were lower than had been expected.

Vice President Brown observed that the Systems Development Charge (SDC) budget might be gone. He asked what would happen if they went through the entire reserve, how would increasing capacity be addressed. General Manager Randy Berggren responded that staff had just completed restructuring the water capital plan to address the fact that they did not have the SDC reserves for capacity.

Ms. Eicher did not see any upcoming financial issues for the water utility from the first quarter. She said the recession and when it would end would affect the commercial revenue, interest earnings and EWEB’s ability to borrow, how they would use the budget in 2009 and how they would prepare the budget for 2010 and future years.

President Farmer observed that while the use of borrowing might not be a good tool, the cost of borrowing at present was good.

In response to a question from President Farmer, Mr. Origliosso stated that EWEB did not have any floating rate debt, apart from the \$46.5 million for Harvest Wind. He explained that it was a short-term debt and the rate was currently 1.9 percent.

2ND QUARTER GM GOALS STATUS

General Manager Randy Berggren provided a brief overview of the *2009 GM Goals – 2nd Quarter Status Report*.

Commissioner Cassidy asked what other funding avenues there were for the steam transition costs if the ODOE options were not available to them, per General Manager (GM) Goal 4(d). General Manager Randy Berggren reiterated that EWEB would be the last resource for some kind of funding for property owners transitioning from the steam utility to another mode of heating. He said a rate action for the electric utility would be the “bottom line.”

President Farmer underscored that while they wanted to find a way to help the property owners, they were not obligated to do so.

Commissioner Ernst opined that it was interesting that the Board was not willing to support a feasibility study for a thermal option for the downtown area.

General Manager Randy Berggren reiterated his belief that this was not a viable option.

President Farmer observed that the philosophical underpinnings of a possible rate increase would involve how much someone who was not affected by the steam utility closure should have to pay to help with the transition.

Commissioner Cassidy felt that they should get feedback from the public about it.

In response to a question from Commissioner Cunningham, General Manager Randy Berggren estimated the total cost of the transition to be approximately \$10 million.

Mr. Logan stated that the SSEL P application and the Business Energy Tax Credit (BETC) would be the “ultimate deliverable” that EWEB could provide. He said that the fallback would be that they would be able to apply directly to ODOE under their existing program. He explained that the engineers would be preparing the applications. He related that they would start to determine the customers that were the most costly to serve on the system so that they could start looking to shut down the most expensive ones to operate. He cited the Parcade as an example of one. He noted that the city had received stimulus money for block grants and planned to take \$515,000 to apply to four buildings. He underscored that they were taking every step they could to try to target the monies to the most costly parts of the system to operate. He stated that they were making progress.

President Farmer asked who was receiving the \$400,000 that had been included in the budget. Mr. Logan replied that they were looking at employing the same approach as was used in the Energy Management Services Program, for assisting customers with transition loans.

President Farmer asked who they were thinking of lending this money to. Mr. Logan responded that they were working to identify them. In response to a follow-up question from President Farmer, Mr. Logan assured him that EWEB would not be loaning money to the city or the county. He noted that the county was working with its own funding, received through a bonding program in the federal stimulus money. He thought the other funding that the city and county could be receiving could become another resource.

General Manager Randy Berggren stressed that the focus would be on finding the customers who were on the ends of high loss lines so that they could “begin to creep” toward the core and get rid of the perimeter in order to make progress.

Vice President Brown estimated that transitioning the Parcade building would benefit ten people. He wondered if it would be more cost-effective to shut the building down. Mr. Logan replied that each building had its own set of circumstances. Vice President Brown noted that the building he was in was 70,000 square feet and served over 100 people and was “dying on the vine” because of the cost burden of steam heat.

President Farmer said he was most concerned about the timelines that were “slipping.” He wanted to make sure they did not let the timelines slip too far off track for Goal 1(a) and (e), Goal 3(c) and (d), and Goal 4(c).

BUDGET AMENDMENT NO. 9

Mr. Helgeson reviewed the proposed budget amendment with power points, hard copies of which were available to all who were present. He explained that it was in two parts, an amendment to the Energy Trading and Risk Management (ETRM) project and an amendment for the contract with Structure Consulting Group, LLC. He underscored that the ETRM would support all of the aspects of the trading floor operation as well as the risk management functions and would support approximately \$200 million in power transactions annually. He anticipated that the system would have substantial staying power as they moved into the post-BPA contract period, after 2011.

ETRM Project Manager Megan Capper highlighted the *ETRM Project Timeline – Implementation Phase*. She noted that the go-live date was scheduled for October 1, 2009.

Commissioner Cunningham expressed support for the budget amendment.

Ms. Capper provided an overview of the *ETRM Capital Budget Amendment Original & Revised Estimate*.

President Farmer surmised that the amendment did not include additional cash flow. Ms. Capper affirmed that if it was not a capital project, it would be expensed.

In response to a question from Commissioner Ernst, President Farmer clarified that \$400,000 in work was going to be done, but \$100,000 of it would be done by staff. He said this still had to be reflected as a budget amendment, even though they would not actually pay staff an additional \$100,000.

Mr. Helgeson explained that the reason the budget amendment was presented in this way was because of Board policies. He said whenever a major capital project identified in the budget required an amendment over a certain amount, staff was required to bring it before the Board even if it involved a labor component.

In response to a question from Commissioner Ernst, Ms. Capper stated that part of the budget amendment was for additional functionality and it would include some hedge accounting and reporting. She said the original scope had not included interfacing with accounts received and accounts payable, and now it would include this interface.

In response to a follow-up question from Commissioner Ernst, Mr. Helgeson said he believed the value added on the trading floor for the margin sales would be sufficient over the life of the investment to recover the cost of \$3 to \$4 million. He added that they would also use the program to provide client services to other utilities. Commissioner Cunningham, seconded by Commissioner Cassidy, moved to approve Capital Budget Amendment #9 for the Energy Trading and Risk Management Implementation Project in the amount of \$400,000.

President Farmer averred that the project was worthy; he did not need to be sold on the value of the project. He found it frustrating to “bite off” on a project that would cost \$1.6 or \$1.7 million and then find out that it would cost 25 percent more. He did not believe they had researched the project enough ahead of time. He indicated his intention to vote for it, adding his hope that they could have more foresight in the future.

The motion passed unanimously, 5:0.

Commissioner Cunningham, seconded by Vice President Brown, moved to approve a contract amendment to the Structure Group Services contract in the amount of \$300,000. The motion passed unanimously, 5:0.

TRANSMISSION SERVICE AGREEMENT WITH PACIFICORP FORT STATELINE WIND

Mr. Helgeson stated that they had a 25-year contract for output from a portion of the Stateline Wind Project in Washington. He said when they had negotiated it for the first ten years, BPM Energy, an affiliate of PacifiCorp, had offered an integration and transmission agreement for the first ten years, expiring in 2011. He explained that they had to notify them in the present year of EWEB’s arrangements for transmission and integration for the latter 15 years of the contract. He said PacifiCorp was the only physical option to get power off the system. He related that they had applied for and received a standard form contract from PacifiCorp for transmission services. He considered it good news that they had decided that the capacity was available. He underscored that there was not much room to negotiate in this contract.

President Farmer asked what contingency there was in case something happened to Stateline and there was no more transmission. Mr. Helgeson responded that there were provisions and “off ramps” that would allow EWEB to negotiate and resolve the situation. He noted that if there were transmission upgrades involved, some kind of termination charge could be assessed. He said he would find out what that would be before executing the agreement. He stated that under the FERC schedule, PacifiCorp had 30 days to offer the contract and EWEB had 15 days to respond. If EWEB did not respond within 15 days, the contract process was required to start anew.

Commissioner Cunningham, seconded by Commissioner Cassidy, moved to approve Resolution No. 0920 authorizing a transmission services contract with PacifiCorp.

Commissioner Ernst asked if EWEB paid a premium for the service because PacifiCorp firmed the power up before it came to EWEB. Mr. Helgeson replied that EWEB would either have to find a way to do this with EWEB’s own resources and use of the Slice product to follow the intermittent nature of the resource or EWEB could buy services from the BPA or from other parties. He clarified that the agreement with PacifiCorp was for transmission only. He was reasonably certain that EWEB could find a way to firm it up. He noted that if this involved another party, it would come before the Board.

The motion passed unanimously, 5:0.

President Farmer adjourned the Regular Board Meeting at 9:25 p.m.

Assistant Secretary

President