

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
500 EAST 4TH AVENUE
SEPTEMBER 15, 2009
5:30 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, Jim Wiley, Jim Origliosso, Dean Ahlsten, Debra Smith, Cathy Bloom, Tom Buckhouse, Terry Bequette, Garilyn Johnston, Dick Helgeson, Gene Austin, Mark Freeman, Mel Damewood, Brenda Sirois, Eric Hiaasen, Catherine Gray, and Judy Chase of the EWEB staff; Ruth Atcherson, City of Eugene minutes recorder.

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

Electric Capital Improvement Project Update (2010-2014)

Dean Ahlsten, Systems Engineering & Substation Reliability Manager, reviewed the *Electric Utility 2010-2014 Capital Improvement Plan* with PowerPoint slides, hard copies of which were provided to everyone present. He said reserve levels would remain at approximately \$8 million in 2010 and \$7.5 million in the following four years. He pointed out that the five-year expenditures for the Carmen-Smith relicensing project were down approximately \$19 million. He reported that a little over 60 percent of the \$250 million in expenditures would be spent on the Roosevelt Building Project and the Carmen-Smith relicensing project. He said, excluding those two projects, 40 percent of the remainder would be allocated to infrastructure replacement.

Mr. Ahlsten related that a probable new load in the neighborhood of three to four megawatts was proposed for West Eugene. He said while most of the work would be reimbursable, it would affect the Capital Improvement Plan (CIP).

In response to a question from Commissioner Ernst, Mr. Ahlsten explained that the proposed facility was intended to shred and recycle automobiles. He said the dedicated facilities would be reimbursable, but transmission and substation improvements had already been included in the plan.

Vice President Brown ascertained from staff that the site of the facility was not yet known.

Commissioner Cunningham asked if there would be a reduction in interest for the Roosevelt bonding issue. EWEB Treasurer Jim Origliosso responded that most of the bonding had already been done. He said they had borrowed the money in 2008 but, depending on the final cost of the project, they anticipated borrowing another \$20 million.

Commissioner Cunningham asked how often EWEB was reevaluated by rating agencies. Mr. Origliosso replied that the next credit review was scheduled for October or November. He said the presentation was pretty involved – staff had to prepare a book of information. He related that generally the presentation was conducted by telephone, though they occasionally traveled to San Francisco to deliver it, and that usually a board member was present.

Commissioner Cunningham asked if EWEB was in a condition to be upgraded. Mr. Origliosso did not think so. He said EWEB had a high rating and he believed EWEB was in a good position to maintain it. He noted that Standard & Poor's gave EWEB an AA and Moody's had given EWEB an A-1 rating. He said there were really no AAA utilities and the best EWEB could hope for would be an AA+ or an upgrade from Moody's to AA. He stated that rating agencies viewed hydroelectric power as a risk.

President Farmer pointed out that though rating agencies viewed hydro as a risk, they had approved of the reduction in the hydro assumption to 85 percent that EWEB had implemented.

Referring to Attachment B from the memorandum Mr. Ahlsten provided, Vice President Brown asked for a general idea of what the line item Facilities Capital Improvements included. Mr. Origliosso replied that this mostly involved vehicles. He said it included money for only the maintenance the utility had to do for the current administration building in the next two years.

Vice President Brown asked if they had historically funded the replacement of the larger more expensive elements of the administration building. Mr. Origliosso replied that they had not made that decision at this point. Staff was waiting for the Board to determine how long the administrative functions would remain at this site before the more expensive maintenance needs would be addressed.

Commissioner Cunningham asked if the newer vehicles were lasting longer. Mr. Origliosso replied that most of the big ticket items were line trucks and other larger pieces of equipment that cost between \$300,000 and \$400,000 apiece. He said they were looking at using dual fuel or hybrid vehicles for those larger trucks, but this was still "a ways out." He did not believe that how vehicles were manufactured had much effect on EWEB's equipment purchases at this point.

General Manager Randy Berggren stated that when they had begun in 2001 and 2002, the average age of the fleet vehicles was relatively old. He said in the past four or five years, they had been working to catch up.

President Farmer noted that EWEB was trying to downsize the fleet. Mr. Origliosso confirmed this. He added that EWEB had some pieces of equipment with low time on them.

President Farmer understood that the price of transformers had dropped by 40 percent in the last year. Mr. Ahlsten responded that they were soliciting only "A-grade manufacturers" in this round as "you get what you pay for." He said they were about to open for bids in the next couple of weeks and he anticipated that they would come in somewhere between \$800,000 and \$1.1 million.

Mr. Ahlsten reviewed some of the next steps, which included performing case studies and developing hazard functions in order to have a better understanding of future capital costs.

Commissioner Cunningham asked if staff would be advocating a larger rate increase. Mr. Ahlsten replied that they were considering a potential add-on for capital.

Commissioner Cunningham commented that he would be inclined to support using reserve funds before he would consider adding to the rate increase.

In response to a question from Commissioner Cassidy, Mr. Ahlsten explained that the modeling used a software program that established values for some of the more intangible elements to consider. He said the model tried to take subjectivity out of it wherever it could.

Water Capital Improvement Project Update (2010-2014)

Water Engineering Manager, Mel Damewood, provided the Board with paper copies of a PowerPoint presentation outlining the *Water Capital Improvement Project Update (2010-2014)*. He stated that the rate increases had bolstered rate capital revenue. He said they had added and moved jobs in the five year CIP for a total increase of \$22 million.

President Farmer asked what caused a water main to be relocated. Mr. Damewood replied that it was primarily caused by city street work. He explained that the mains were not moved to a different location, but were relocated on the same blocks by lowering them or making small adjustments.

In response to a question from Commissioner Cunningham, Mr. Damewood stated that the rate increases for 2010 and 2011 were assumed to be circa 7 percent.

Mr. Damewood stated that the CIP included \$53 million in spending in the first five years, \$46.2 million of which was for renewal and replacement of infrastructure. He said the rest of the money was Systems Development Charge (SDC) funded capacity improvements. He reported that the water utility planned to spend \$189 million in the remaining five years of the ten-year CIP, the bulk of which had to do with second-source development.

Commissioner Cunningham asked if it would be possible to lower water rates after the money had been spent over the ten-year CIP. Mr. Damewood did not believe he could predict this. He said the goal of the first five years was to completely modernize the Hayden Bridge Filtration Plant. He believed that the spending for the filtration facility would be dramatically reduced after that period of time. He stated that the plan for the next five years was to get water rights for a second source and to build a second water treatment facility. He underscored that EWEB would still have reservoir issues and water mains that would need to be replaced over time. He said the present projects were bond-funded and they intended to spread that money out over 30 years.

President Farmer did not see a projection that indicated that EWEB was keeping up with aging infrastructure replacement. Mr. Damewood agreed that it was an ongoing issue. He recalled that the financial plan indicated that rate increases were not projected for a few of the out years.

Vice President Brown ascertained from Mr. Damewood that the decommissioning referred to in the memorandum meant that the College Hill Reservoir would be shut down. He asked if EWEB would need a Metro Plan amendment to rezone and sell the properties. Mr. Damewood said the project had not reached that level of information. He noted that he had been conferring with EWEB Property Manager, Mark Oberle, about the properties.

Vice President Brown observed that the city of Bend had planned a \$71 million upgrade to their water system but would only be implementing an 8 percent rate increase. He understood that Bend was able to do this because the city was receiving 40 percent of the cost from federal funds. He asked if EWEB could tap into this money. Mr. Damewood replied that EWEB had competed with Bend for this stimulus money. He explained that Bend had an unfiltered water source and the Environmental Protection Agency had mandated that they do something about it.

Vice President Brown commented that there had been a fire and some ash had fallen into the water. He opined that he could not tell the difference between the river that Bend drew its water from and the McKenzie River. He wondered how Bend had been able to obtain that “incredible amount of money.” Mr. Damewood reiterated that it was from the stimulus package, adding that Bend had “hit the jackpot.”

Mr. Damewood stated that the areas of highest risk as far as cost went were the second source project and the transmission line river crossing at the Beltline Highway. Regarding the latter, he underscored that staff had no idea what this would cost at this point. He said it could be \$50,000 or \$2 million and staff would bring more information to the Board as it came to light.

President Farmer asked if staff was certain that the other transmission lines that crossed the river were stable. Mr. Damewood assured him they were; divers had verified it.

Commissioner Ernst asked if the transmission line in question had been damaged by the vehicle that had become lodged on it in the river earlier in the summer. Mr. Damewood replied that it had not been damaged, but it had brought to light that one of the utility’s major transmission lines had become completely exposed in the river.

Mr. Damewood provided a brief overview of the 2010 capital budget. He said the utility planned for \$12,150,000 in capital spending for that year.

In response to a question from Vice President Brown, Mr. Damewood stated that the Shasta 1150 project was the one located on Spring Boulevard. He said staff was currently working on property acquisition.

BPA Post-2011 Contract Amendments & Tier 2 Election

Dick Helgeson, Director of the Power Resources Division, provided a PowerPoint presentation on *BPA Post 2011 Contract Amendments & Tier 2 Decision*, hard copies of which were provided to everyone present. He said this item would come before the Board for action on October 6. He highlighted the timeline to date, noting that the process had begun in 2006 with the regional dialogue and policy development. He stated that the measurement period for the final Tier 1 allocation was slated to begin on October 1. He noted that the “clean-up” amendments that had been addressed in the present year were largely technical in nature and

reviewed them for the Board. He underscored that there was no advantage or disadvantage to EWEB to include the amendments in the language. He said the Bonneville Power Administration (BPA) was not offering the amendments as elective and they would have to be signed by all of the utilities.

Eric Hiaasen, Mid-Term Trader, reviewed the Power Sales Agreement (PSA). He reported that the BPA had allocated the existing low-cost Tier 1 resources and would require Tier 2 resources to be acquired at market prices. He explained that in the past the BPA had served any load growth at an average system cost. He said because the BPA had been “hammered” in the energy crisis with market energy costs, the plan moving forward was to serve load growth at an incremental cost. EWEB would be required to explain how it would meet its load growth after 2011.

President Farmer asked if a utility could purchase BPA legacy power generated in excess of the load growth requirements. Mr. Hiaasen replied that until the recession hit, it appeared that all of its legacy resources would be used and the BPA might even have to augment it. He said due to the recession it appeared that there was a possibility that all of the public customer loads would not total up to all of the BPA’s capability. He explained that the BPA’s methodology accounted for it; EWEB’s load would receive a percent of the BPA output and as the power needs grew, the utility would grow into its allocation. He stated that EWEB would be allocated approximately 2½ percent of the BPA’s system, though there was a slight chance the utility might receive more.

Mr. Helgeson stated that “high water marks” would be established so that utilities could grow into them until the full capability of the system was used.

Commissioner Cunningham asked what this would do for the ratepayers. Mr. Helgeson replied that this would allow EWEB not to have to subsidize load growth in Seattle. He noted that load growth in that area was increasing by 2 and 3 percent per year. He said each utility would be responsible for purchasing power to meet its need outside of its Tier 1 allocation.

President Farmer observed that the bottom line was that any community would be paying more for power to meet load growth. Mr. Helgeson added that the change also meant that the utility would no longer have the advantage of other utilities in the region picking up a share of that growth. Mr. Hiaasen noted that this would send the right price signal to people to turn to conservation to reduce the load.

Mr. Hiaasen explained that resources were designated either specified or unspecified; EWEB’s legacy hydro resources, with one exception, and the Foote Creek Rim wind project constituted its specified resources. He said unspecified resources included the hydro exception at Stone Creek, the International Paper (IP) cogeneration unit, EWEB’s two other existing wind projects, and the Wauna biomass cogeneration facility. Regarding the latter, he noted that it had been sold under a long-term contract to the BPA and in 2016 the resource would be returned to EWEB’s portfolio.

In response to a question from Commissioner Ernst, Mr. Hiaasen stated that the IP facility would no longer be part of EWEB in 2015.

Mr. Hiaasen outlined the options EWEB had for meeting its Tier 2 need. He noted that the BPA had broken the contract into four pieces in regard to purchasing and the Board would be considering the potential acquisition of Tier 2 resources in the first three years. He reviewed EWEB Load and Resources including Firm Resources and Expected Secondary from fiscal year (FY) 2009 through FY 2017 with the aid of a graph.

President Farmer asked if the graph was based in an assumption that there would be no load growth. Mr. Hiaasen replied that it was based on a low amount of growth and included embedded conservation programs.

In response to a question from Commissioner Cunningham, Mr. Hiaasen assured him that no other utilities would be receiving a different contract; all of the utilities were given the same arrangement. He said one reason staff supported entering into the contract for Tier 1 resources was that staff strongly felt that this would be a good deal for the utility.

Vice President Brown asked if the contract anticipated any of the potential increases in load growth associated with the increasing use of electric vehicles. Mr. Hiaasen replied that no uncertainties had been build into the chart.

Vice President Brown understood that the biggest fiscal impact would be caused by the period of time that the Carmen-Smith hydro facility would be down for the work associated with relicensing.

Mr. Hiaasen showed the Surplus Firm Resources with the aid of a graph and pointed out that after the period that Carmen-Smith would be off line the load was projected to be 20 average megawatts. He had concluded from the projections that EWEB did not need to buy the Tier 2 power from the BPA. He underscored that buying a flat annual block was not an effective way to address uncertainty. He said there were some winter months that staff could accurately predict EWEB would need to purchase power and he believed that it would make more sense to buy power for those months rather than buying an annual block from the BPA. He noted that being committed to a block purchase from the BPA would mean that EWEB would be long on power at times and it would expose EWEB to more market risk when EWEB attempted to sell the power.

Commissioner Ernst asked if staff thought the wholesale power price would increase. Mr. Hiaasen replied that it might and it might not. He underscored that there was a lot of uncertainty. General Manager Randy Berggren added that the price had been flat, if not just a little downward in the past six months. Mr. Helgeson said if they knew the answer and could lock in a good deal with the BPA, they could speculate on the difference and possibly make some money for EWEB. He felt that given the current state of the markets and the fact that the forwards were actually a little lower than they had been in the past few years, it was not a gamble he would advise them to take.

In response to a question from Commissioner Ernst, Mr. Hiaasen stated that there was no price for the Tier 2 power at present.

President Farmer asked if the BPA would have a buying advantage when purchasing power on the market. Mr. Hiaasen responded that it could go either way: the BPA could buy in a

volume that would net the agency a better price or the market could “see them coming” and increase prices. He said there were a lot of times that “small nimble EWEB” could get better prices than the BPA.

General Manager Randy Berggren commented that when the BPA was buying power on the market, there was no demonstrated evidence that the agency had buying power because of scale or that it was more effective in negotiating a deal.

Commissioner Ernst complimented staff on the presentation.

In response to a question from Commissioner Ernst, General Manager Randy Berggren said electric cars would not have the kind of penetration rate that would create a large impact over the next three years. He explained that the technology needed to move forward and infrastructure would have to be built to accommodate the technology before it would impact the power load.

President Farmer perceived that the risk was the same if EWEB was buying BPA Tier 2 power or buying power in the open market. Mr. Hiaasen affirmed this, but added that staff had not known which to put first – that EWEB did not need the power or that it was not a good deal for the power or vice versa. He said he would not be willing to come before the Board and suggest that EWEB sign a three-year contract that specified that EWEB would take the power or pay for it anyway without knowing the price.

In response to a question from Commissioner Ernst, Mr. Helgeson said the BPA had provided “indicative pricing” to try to give EWEB a sense of what the power would cost. He added that this looked comparable to what EWEB was experiencing in its own resource acquisition, which ranged by type of resource.

President Farmer asked if a flat annual rate established at the beginning of the year by the BPA would be able to be adjusted later in the year. Mr. Hiaasen replied that EWEB could get the flat amount of power for the three-year contract or it could get different amounts based on what the high water mark was from year to year, with the year defined as starting on October 1 and ending on September 30. Mr. Helgeson added that the price would be set in each year based on the BPA’s strategy for filling the order and the forward price curves. He was not aware of a short-term pricing strategy. He added that EWEB had access to the short-term pricing index from its trading floor every day. He reiterated that EWEB did not know the price going in, it would be set on a projected basis, there would be no “true up” within the two-year periods, and EWEB’s exposure was not so great that EWEB would need to buy insurance.

President Farmer asked how the BPA was managing its prices. Mr. Hiaasen responded that the BPA was getting utilities to commit to buying the power first and whatever the price turned out to be would be the price. He clarified that in November of this year all of the utilities would tell the BPA how much Tier 2 power they intended to buy and then the BPA would know the quantity. General Manager Randy Berggren explained that the BPA was asking EWEB to elect to participate two years in advance so that the BPA could go out and contract for the resources to meet the requirements. He said once the resources were bought, it would be in the rate case. Mr. Hiaasen added that the BPA was going to give a price cap to all utilities considering buying a vintage resource. He had extrapolated from this that the BPA would likely

set its price guarantee fairly high, because the agency would not want to be in a situation where they had committed to buying a resource and then faced the potential of losing money.

President Farmer observed that “at the end of the day” it would not make any difference how much EWEB’s demand went up, it was a matter of whether the BPA could actually buy the power any cheaper than EWEB could. Mr. Hiaasen noted that if loads went down, there would be no need to purchase the Tier 2 power.

Commissioner Ernst ascertained from staff that once the November deadline had passed, EWEB would not be able to purchase Tier 2 power from the BPA for two years.

Mr. Hiaasen stated that staff planned to return before the Board with an authorizing resolution for approval on October 6.

President Farmer adjourned the work session at 7:01 p.m.

Assistant Secretary

President