

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
500 EAST 4TH AVENUE
MARCH 15, 2011
5:30 P.M.

Commissioners Present: John Brown, President; John Simpson, Vice President; Bob Cassidy, Joann Ernst, Rich Cunningham

Others Present: General Manager Roger Gray, Debra Smith, Lance Robertson, Clay Norris, Mark Freeman, Tom Buckhouse, Patty Boyle, Sheila Crawford, Greg Armstead, Dick Varner, Susan Adkins, Patty Boyle, and Taryn Johnson of the EWEB staff; Sara Patton and Wendy Gerlitz, Northwest Energy Coalition; Wade Hicks, minutes recorder.

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

NORTHWEST ENERGY COALITION PRESENTATION

Vice President Simpson welcomed Sara Patton and Wendy Gerlitz from the Northwest Energy Coalition (NVEC) to the EWEB meeting.

Ms. Patton briefed the Board on the NVEC. She provided a brochure that described the issues the coalition worked on and its membership, which consisted of 110 organizations, businesses, and utilities in Washington, Oregon, Idaho, Montana and British Columbia. She stated that they worked on four big issues: energy efficiency, renewable energy, consumer protection, and fish and wildlife in the Columbia Basin.

Ms. Patton stated that the NVEC used EWEB's programs as an example in the low income weatherization and low income assistance arena. She observed that EWEB's programs were leaders.

Ms. Patton described the 6th Power Plan, which she averred showed that they could meet a good portion of the region's energy needs with renewables and conservation. She believed that EWEB's practices touched all the parts of the plan.

Continuing, Ms. Patton described how the NVEC worked and its officer structure. She said EWEB had been very helpful when the NVEC had sought to get input from utilities on the Federal Base System endangered species questions that were under litigation at present. She noted that their primary goal was to get together multi-party stakeholder negotiations.

Commissioner Cunningham asked if EWEB's \$12,000 membership fee was average. Ms. Patton replied that utilities paid per kilowatt hour (kwh).

Commissioner Cunningham understood that the NVEC had supported opening some of the dams, but this was something that an organization such as EWEB did not support. He wondered why the NVEC had not consulted EWEB more on that issue. Ms. Patton responded

that the NVEC was a coalition and provided a chance to learn and know other agencies, in addition to offering the opportunity to weigh in on issues. She noted that EWEB had voted to support a resolution in the late 1990s that supported pursuing all options to restore endangered species that were at risk in the Columbia River including dam removal.

Vice President Simpson, seconded by Commissioner Cunningham, moved to extend the time allotted for the presentation by the NVEC by ten minutes by taking five minutes from Item 3 on the agenda and five minutes from the break. The motion passed unanimously, 5:0.

Commissioner Cassidy asked how big the caucuses were and what their duties were. Ms. Patton replied that all of the business and utility members in a state were members of a caucus and each one had one vote on caucus business. She said a caucus chair was elected every three years and caucuses met four times a year.

Commissioner Ernst did not have any questions, but she wanted to commend the NVEC for its great work.

President Brown asked how they envisioned the process for the biomass panel to work given that EWEB had only received one week's notice. Ms. Patton replied that at the last full conference and membership meeting in the fall in Portland, there had been a roundtable on this item. She related that they were getting into situations where several different points of view were being expressed by coalition members. She said the roundtable on biomass had been convened to talk about the issue and explore it without having to take a position. She explained that the process had made it clear that the NVEC needed to pull together a work group and this was the impetus for bringing the participants together in the teleconference on the topic.

President Brown ascertained that Ms. Patton was aware of EWEB's time constraints, in that the Board met twice a month and could not come up with a position on an issue with only one week's notice.

President Brown thanked Ms. Patton for coming before the Board.

ADVANCED METER INFRASTRUCTURE UPDATE

General Manager Gray explained that this would not be an action item; its purpose was solely to provide information. He introduced Greg Armstead, Information Technology Project Manager, and reviewed the "Road Map" diagram of EWEB's Strategic and Operational Planning Process.

Vice President Simpson asked what strategic goal tied into Advanced Meter Infrastructure (AMI). General Manager Gray responded that AMI contributed to several areas: it could help manage infrastructure more carefully, it could help manage rates and costs differently, it could help influence conservation and demand response. He believed that AMI would touch every area.

Commissioner Ernst considered it to be a tool to align EWEB with its mission, vision, and values.

Mr. Armstead explained that staff had outlined three scenarios, ranging from a "bare bones" scenario to a more far-reaching scenario involving demand-response and a lot of new technology. He said EWEB was looking at more of a middle ground, something that would be more strategic and would not anger customers.

Commissioner Cassidy said he had looked at the scenarios closely and his strong preference would be to go with the third scenario, the more far-reaching scenario. He thought that how it was "forced" on customers would be "another matter" and could be phased in, but this was a good business decision.

President Brown understood that the cost doubled from the middle ground scenario to the third scenario. He agreed with the staff recommendation. He asked what mistakes other utilities had made with the implementation of AMI. Mr. Armstead responded that they had gone to a number of conferences and had asked other utilities that had started implementing AMI what they would have done differently. They had developed the scenarios with the feedback in mind.

General Manager Gray related that one utility that had successfully put in AMI had not included a remote connect/disconnect switch and now was doing that as a retrofit. He said when EWEB began its AMI project, they would take a lesson from this and include the remote feature at the outset. He noted, in response to Commissioner Cassidy, that EWEB did not have the Information Technology (IT) infrastructure to support the third scenario at this point. He felt it would be very high risk to jump straight into that level of complexity. He said the other risk was from "blowback" from customers if they started with a scenario that depended on mandatory participation. He stated that EWEB had approximately \$15 million in unallocated reserves that could be applied to AMI.

Commissioner Cassidy considered AMI to be a "big item." He believed reserves should be for emergencies and the operation of AMI should be paid for by ratepayers and savings brought about by the elimination of meter checkers.

Commissioner Ernst supported the direction they were taking. She believed that AMI would empower ratepayers to get control of their own usage of electricity and water. She looked forward to hearing the results of the focus groups. She wanted to make sure that AMI was compatible with bringing new renewable resources on line. She added that in her opinion AMI was something that reserve funds were for. She likened it to saving money to put a down payment on a car.

Commissioner Cunningham understood that in order to get to the point where the utility could do remote connects and disconnects EWEB would have to pursue the third scenario. Mr. Armstead affirmed this. He said there would be some passive customer involvement in the second scenario.

General Gray stated that in scenario two EWEB could provide information to the ratepayers so that they could intervene and lower their own thermostat.

Commissioner Cunningham said he would like to go out for Request for Proposals (RFPs) for all three scenarios so that the Board could see exactly what the cost would be. Mr. Armstead replied that the goal of this conversation was to get general directions.

Commissioner Cunningham commented that he would like to see staff come with a recommendation.

Vice President Simpson favored AMI. He found the three scenarios to be very helpful in narrowing down the Board's decision. He asked for clarification on what staff meant by phases. General Manager Gray responded that in scenario one, there would be just one phase. He said scenario two would entail a two-phase process, but the third scenario would be one where all things would be done at once. He stated that the second scenario would be phased in so as to manage the technology risk and another one to manage the customer risk.

Vice President Simpson ascertained that scenario two would have a bi-directional meter infrastructure with a capability of load-shedding devices and demand management, but the latter would not necessarily be installed right away. He said distributed generation would be on the rise in the future and would make for "more red tags all over the distribution wall," so many that EWEB would not be able to manage it. He thought eventually EWEB would need the ability to disconnect generation sources for safety purposes. He asked if an automatic reconnect would be able to be entirely automatic or would it need to be reset by a person. General Manager Gray responded that there were ways to ensure that the meters were secure so that people would not be able to get into them and turn them on and the meters eventually would be able to be turned on remotely.

Vice President Simpson did not think the community would have issues with funding AMI; the community was willing to embrace technology. He understood that they would discuss funding at a later date but he wanted to go on the record as being in support of scenario two. He perceived reserve funds as "purely shock absorbers," though he was comfortable with a reserve fund to blunt the leading edge of expenditures. He foresaw the majority of AMI to be funded through bonding.

Commissioner Cassidy did not see the difference between the second phase of scenario two and scenario three. General Manager Gray replied that the principal difference between the two had to do with the sequencing and whether the changes would be optional or possibly mandatory. He added that the first scenario would be a "dead end."

Commissioner Cunningham related that he and Ms. Parisi had gone to the We Are Bethel celebration and had discussed AMI among other things. He said he would like to see AMI moved forward sooner rather than later, if possible.

Mike Logan, Principal Project Manager, said focus groups were one way that EWEB was getting feedback on AMI. He stated that they intended to provide an opportunity for a pilot project and EWEB planned to execute a pilot agreement with an AMI company. He explained that they would start by installing it in about 100 homes of EWEB employees. He related that they would start doing the installations as soon as the equipment arrived. He said they hoped to find out how big of a demographic area they could reach with 100 metering points. He shared

some slides of what home display equipment looked like.

Commissioner Ernst had not spoken with the neighborhood associations about AMI yet but wanted to do so as soon as possible. Mr. Logan responded that once they had the pilot program they would have a better sense of the kinds of devices available and the delivery of equipment. He said they would start engaging neighborhood groups at that point.

Commissioner Cassidy suggested that they interface with the Neighborhood Leadership Council, which could then offer the information to their individual neighborhood associations.

President Brown sought assurance that they were not "buying another eco-machine." Mr. Logan replied that this was a proven technology. He said the equipment they were looking at now had 4.5 million meters successfully deployed in the United States.

President Brown asked if there would be some kind of performance bond that would ensure that if something went wrong with the technology the utility would have some recourse. General Manager Gray replied that the meters in the demo projects that Mr. Logan were talking about were truly a demo project and would not preempt an RFP for another technology. He stressed that they would thoroughly test the technology.

Vice President Simpson ascertained from General Manager Gray that the utility would not implement AMI for both the water and electric meters simultaneously.

Commissioner Cassidy was concerned about IT development. General Manager Gray said there was no short answer to this. He said staff planned to come and provide a longer IT update at a later date.

Commissioner Cunningham asked if it might be possible to include internet access with AMI. Mr. Armstead thought it could be possible.

Vice President Simpson commented that it could be possible to partner with the gas company.

RESIDENTIAL EXCHANGE SETTLEMENT DISCUSSION

Power Resources Division Director, Clay Norris, shared his skepticism of the success of the agreement in the days leading up to it but he had been very pleased with the outcome. He said it would greatly reduce risks and potential court actions, as well as potential Bonneville Power Administration (BPA) actions.

Power Resource Planning Manager, Dick Varner, provided the background information. He recalled that he had come before the Board nine months earlier for input and what they had wound up with was in large part pretty similar to what they had discussed at that time. He said essentially the settlement specified how much money the consumer owned utilities would pay to the BPA and then BPA would, in turn, pay the investor owned utilities (IOUs). He explained that it started at \$182 million and then went to about \$286 million for the last three years. He stated that it took away uncertainty around the court system and how the BPA would interpret the regional act.

Mr. Varner said what they had come up with was \$500 million in present value better than if there was no settlement at all. He noted that EWEB's share was approximately \$18 million in net present value. He stated that this settlement would provide peace between the consumer owned utilities and the IOUs and it would stop attorney fees. He related that one element the settlement dealt with was the overpayment by some utilities to the benefit of some IOUs during the 2002 to 2006 timeframe. He said the solution meant that instead of receiving \$3 million annually in credits on the BPA bill for the next four years, they would receive \$2.8 million per year in credits on the BPA bill for the next eight years. He reported that the IOUs wanted some recognition of the benefits from the environmental attributes of the Tier 1 BPA system and they had come to an agreement that they would receive 14 percent of the benefits such as the Renewable Energy Credits (RECs). He stated that the threshold of approval needed by the consumer owned utilities before the IOUs had enough certainty to go forward with this had been established at 91 percent of the load on the BPA, along with some of the big associations such as the Public Power Council, Northwest Requirements Utilities, and the Pacific Northwest Generating Co-op. He said it turned out that 70 percent of the northwest load was in the coalition that EWEB was part of; they were a "long ways" from meeting the 90 percent at the moment. He stated that they would measure it on April 15. He added that when the deficit commission had discussed moving away from cost-based rates to market-based rates some of the consumer owned utilities had gotten "spooked" and they had been able to work an agreement with the IOUs that if Congress were to take such an action a large number of the consumer owned utilities could back out of the settlement they could terminate the settlement at a future date. He stressed his feeling that EWEB could not have done better in this.

Commissioner Ernst asked if there would be any cost to the ratepayers. Mr. Varner replied that at this point it appeared that all benefit over what they would have seen without the settlement; it was a better deal for the ratepayers than having no settlement would have provided.

Commissioner Cassidy indicated his support for the settlement.

President Brown ascertained from Mr. Varner that they used the 8 percent discount rate for the net present value.

Vice President Simpson had read the BPA primer on the residential exchange. He supported the settlement.

Mr. Norris noted that Mr. Varner planned to retire and this was his last appearance as an employee at EWEB. He said he had been very impressed with Mr. Varner's knowledge and professionalism.

President Brown thanked Mr. Varner for his service on behalf of the Board, the community, and EWEB. He said Mr. Varner's shoes would be difficult to fill. He commended him for his work on the residential exchange settlement.

Mr. Varner received a round of applause.

Vice President Simpson wished Mr. Varner well and thanked him for his contributions to EWEB.

Commissioner Ernst echoed the words of her colleagues. She expressed her appreciation for Mr. Varner's work.

BPA 2011 POWER COST ALLOCATION

Debra Smith, Customer & Shared Services Division Director, explained that this item was intended to be a "check-in" in order to get Board guidance on allocating BPA legacy power. She said they currently allocated it across all of the customers, but going forward the BPA would require utilities to meet their own load growth. She stated that staff's recommendation was not to do so but instead to continue to meld EWEB's cost of power except for new loads of five megawatts or larger.

Mr. Norris stated that the recommendation was to proceed to negotiate with large customers and also with future rate designs with the premise that they would, from a power supply portfolio standpoint, use an overall EWEB portfolio. He said a new large customer would be expected to negotiate a contract. He related that they would utilize the sustainability policy which would provide discretion to the Board to weigh the impacts of the new customer in determining which power supply portfolio to use with that customer.

President Brown ascertained from Mr. Norris that this would not change anything with the large users at present.

In response to a question from Commissioner Ernst, Mr. Norris stated that EWEB had a state obligation to meet the Renewable Portfolio Standard (RPS) and this was something that would be factored into any contract negotiations. Ms. Smith clarified that it would factor into the triple bottom line analysis, but they would not require the customer to have its own Distributed Generation (DG), as an example.

Mr. Norris said EWEB had its preferred approach to conservation and when a new big customer came in they had to figure out how to deal with conservation. EWEB had to be flexible.

President Brown adjourned the Work Session at 7:10 p.m.

Assistant Secretary

President