

EUGENE WATER & ELECTRIC BOARD  
WORK SESSION  
EWEB BOARD ROOM  
500 E. 4<sup>TH</sup> AVENUE  
JULY 19, 2011

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

Others Present: General Manager Roger Gray, Clay Norris, Patty Boyle, Mel Damewood, Cathy Bloom, Mike McCann, Tom Buckhouse, Laurie Elliott, Suzanne Adkins, Karl Morgenstern, Kevin McCarthy, Felicity Fahy, Lance Robertson, Sybil Geiselman, Catherine Gray, Jeannine Parisi, Eric Hiaasen, Bill Welch, Wendy Schultz-Kerns, Greg Kelleher, Tommy Williams, Cindy McClaren, Mel Damewood, Jill Hoyenga, Erin Erben, Gary Lentsch and Taryn Johnson of the EWEB staff; Vicki Maxon, minutes recorder.

President Brown convened the Work Session of the Eugene Water & Electric Board (EWEB) at 5:30 p.m.

**CARMEN-SMITH LICENSE IMPLEMENTATION CAPITAL BUDGET UPDATE**

Clay Norris, Power Resources Division Director, said he will be presenting all three work session items this evening. He noted that the Carmen-Smith licensing implementation is a major initiative that the Board undertook many years ago. He said the current cost estimate is higher than it had been previously, and he told the Board he would like feedback on how well the project is being managed. He added that he is pleased with the job that Mike McCann, Hydro License Implementation Project Manager, is doing.

Mr. Norris added that during this process they have reviewed lessons learned from the Roosevelt Operations Center (ROC) by looking at things that can be done more efficiently and what the best practices are in order to control costs. He said Patty Boyle, Fiscal Services Manager, will be joining the project team soon and will focus on the business aspects. He added that staff will be hiring an owner's representative for the project, someone who has more experience than EWEB staff in large construction projects, and that a Request for Qualifications (RFQ) would be going out in a month or so.

Commissioner Ernst asked if the owner's representative will also be an advocate for EWEB ratepayers. Mr. Norris replied that the owner's representative will be someone who has construction experience but no allegiance to any certain firm and with no incentive tied to the project. He said some candidates for this type of position are retired people or people toward the end of their career who have extensive experience in construction or as an independent construction consultant. Mr. McCann added that they get paid for time and materials but not for any amount of cost-savings they realize for EWEB.

Commissioner Cunningham asked for a salary estimate for this position. Mr. McCann replied that he didn't have a salary figure but that the hourly rate is somewhere between \$100-150.

Mr. Norris continued, saying that the project team will take a hard look at all the alternatives. He noted that one example of a success story is the settlement agreement for the Carmen-Smith bypass, where the engineers concluded that if the bypass was smaller-scale, a lot of money would be saved, and indeed it resulted in \$1 million savings from the initial estimate.

President Brown asked how the Board will kept in the loop regarding any system revisions that might disturb the ecosystem. He said if it costs more money to have less risk, there is only one chance to make that happen. Mr. Norris explained how the valve system would bypass the powerhouse and that by doing so, staff will be able to run Smith River to Trailbridge without interrupting power and also protect habitat. He said the only question is the size of the valve, and that installing a 800 cfs valve vs. a 1000 cfs valve will save a lot of money. Using overheads, Mr. McCann then gave a more detailed presentation of the cost estimates, and further explained the valve system and what revisions will be made.

Commissioner Cunningham wondered what the project would cost if EWEB wasn't required to follow the settlement agreement and fulfilled only their own requirements. Mr. McCann replied that the federal fish agencies have scripted rights on fish passage and that EWEB would have had to follow those requirements regardless.

General Manager Gray added that without following the aquatic requirements of the licensing, neither the powerhouse nor the 50-year license could have been obtained, and that a 50/50 split of environmental vs. power requirements is not unusual

Commissioner Cunningham asked what the probability is that with the new design, the fish ladder will now work correctly. Mr. McCann replied that all criteria has been met and that he believes it will work very well.

Vice President Simpson asked what the top expenditures are for this project. Mr. McCann said these would be the turbine runners for the Carmen powerhouse and the salaries for two new additional staff positions along with the cost of building on-site homes for them.

Commissioner Cunningham asked how many contractors bid on the project and if there were any other local bidders. Mr. McCann replied that six proposals were received and four firms were interviewed, and that Wildish Construction had done an excellent job on their proposal and interview. He added that there were no other local bidders but that two other bidders were Oregon firms. He noted that Wildish is only allowed to perform up to 30% of the contract without competition and that past that point, Wildish must compete and EWEB will device who gets awarded the contracts.

President Brown asked if any side work will be caused by the mobilization/transportation issues. Mr. McCann replied that he hadn't heard of any yet, but he knows that there will be a big impact on the local economy in that area because of the worker camp that will be created.

Commissioner Ernst mentioned the recent Register-Guard article regarding the new Lane Community College building in downtown Eugene and that they somehow were able to guarantee the cost of that project. She said she wondered how they could do that. Mr. McCann replied that next year at about this same time, he will return to the Board to present the guaranteed maximum price (GMP) from Wildish.

In answer to a question regarding the updated project cost summary slide, Mr. McCann noted that at the time the settlement agreement was signed, the construction of the Carmen Substation was not planned, but that with the code and environmental problems that were discovered, it was determined that building the substation would be cheaper than attempting to resolve those problems. He added that the

A brief discussion ensued with Mr. McCann explaining various elements of the project and answering questions from the Board.

Commissioner Cunningham asked if it's a done deal once the Federal Energy Regulatory Commission (FERC) issues the license and whether or not FERC could change their mind at a later time. Mr. McCann replied that it is a done deal with certain nuances—i.e., what kind of fish ladder will be built, how big the pools are, etc.

Commissioner Cunningham then asked if EWEB will be going to the City Council for a subsequent bond request and if the figures will have to be adjusted within the next two years. Mr. McCann replied that staff will be keeping a running total and providing updates to the Board along the way.

Commissioner Ernst asked if there will be anything salable or salvageable after the project is completed that could offset some of the cost. Mr. McCann said he hasn't taken a detailed look at that but that there are some items that EWEB will receive salvage value for, and that salvage value is definitely part of the overall plan.

Vice President Simpson asked if this upgrade and maintenance will enhance power efficiency. Mr. McCann replied that it would, primarily the efficiency of the turbine runners. Vice President Simpson then asked if the extracted turbine runners could be put on display either at EWEB headquarters or at Lloyd Knox Park. Mr. McCann replied that the social scientist who was just hired wants to retain one of the turbine runners at the Trailbridge Visitors Center.

Commissioner Ernst asked what the hiring criteria for the owner's representative will be. Mr. McCann replied that within the RFI and Request for Quotation (RFQ) process, they will be asked for their experience using the CM/GC process.

President Brown voiced his strong support for the owner's representative hiring process and thanked staff for their work.

Commissioner Cunningham thanked Messrs. Norris and McCann for their excellent preparation for this presentation and said he appreciated their ability to answer questions in a way that laymen can understand.

General Manager Gray noted that the owner's representative contract will be for \$20,000 and will be brought to the Board for approval.

Commissioner Ernst commented that the health of the river and bringing back more fish are probably EWEB's most important issues and that she is glad it's getting priority. She commended Messrs. Norris and McCann for their professional presentation that was easy to understand, and said she believes that the process will meet all federal regulations along the way.

Commissioner Ernst added that she realizes it is important for the owner's representative to have a construction background but that she hopes that person will be an EWEB ratepayer who lives in the local area.

Commissioner Simpson commented that he feels that preserving community control over local generation is the #1 priority for this project. He said he is proud of the settlement agreement and of EWEB's dedication to environmental stewardship and the environmental benefits that will benefit the community and the outdoors enthusiasts who will use the facility for recreational purposes. He said he is supportive of any and all educational pieces that will be tied into the project and that he appreciates all the hard work done by all staff involved in the project. He urged staff to keep the Board informed and try to stay on the low end of the cost scale in order to benefit EWEB's customers.

## **IERP ADVISORY PANEL PROGRESS UPDATE**

President Brown noted that the public input for this portion of the work session will be done earlier than the time listed so that those who wish to speak can leave the session earlier.

Clay Norris said he has been very pleased with the IERP process and that the members of the panel have shown tremendous capacity to absorb the material, and have asked great questions and made great comments.

Jeannine Parisi, Community & Local Government Outreach Coordinator, introduced two of the IERP panelists in the audience—Greg Dahn and Ethan Nelson. She thanked President Brown for adjusting the time of the public input portion.

Eric Hiaasen, Senior Energy Resource Analyst, commented that the panel is fabulous and that their backgrounds are very diverse. He noted that one member of the panel has taken a job in Arizona and is no longer with the group. Mr. Hiaasen then gave an overview of the IERP meetings that have been held so far and a summary of the topics covered in each.

President Brown asked if the replacement cost of conservation was factored in as part of the modeling process. Mr. Norris replied that the assumption was that if you get someone to, for example, install fluorescent lighting (CFLs), they're not going to go back to their previous inefficient lighting system. President Brown asked what would happen if people don't want to pay \$40 for a light bulb in the future. Bill Welch, Energy Management Department Manager, said the costs modeled were for the life of the asset and assumed that the item is replaced with whatever new technology is available at the time. He said the incremental savings depends on how much value there is, and that the subsidy wouldn't be carried out in perpetuity.

Using overheads, Ms. Parisi presented an overview of the panel's comments which contributed to the staff conservation strategy recommendation. She noted that there was not unanimity within the group for the staff recommendation, and she showed the areas of commonality vs. the areas of divergence. She added that while everyone agreed that conservation was a good thing, the question became was there such a thing as too much conservation? For panelists who felt that the staff recommendation didn't go far enough, there was a general sense that more conservation was an important climate adaptation strategy, and had other social and economic benefits to the community.

Vice President Simpson noted that using less energy can be viewed in different ways, for example, decreased usage or decreased efficiency. He asked if the panel discussed social engineering, i.e., reducing loads by turning off lights, etc. Ms. Parisi replied that program design was not a topic for the panel, but there was general support for incentivizing behavioral change as a way to increase conservation and reduce peak loads.

Commissioner Cassidy said he has attended many of the IERP meetings and was impressed with the panel and with Ms. Parisi's analysis. He added that he feels the Board needs a bit more precise information in order to measure what people in the community are thinking.

Ms. Parisi noted that it is her belief that the majority of the panel supports the staff recommendation, but that she is hesitant to report the exact number of votes in light of some members being absent from some of the meetings.

Mr. Hiaasen added that in the beginning, staff told the panelists that they mostly wanted to hear what their values were, and not necessarily technical information, and that he felt that where diversions exist is where people's values differ.

Ms. Parisi noted that another question that was posted to staff was whether the 20-year net present value (NPV) analysis was long enough to measure the value of resource investments. She thought this was a good assumption to challenge, and staff thought it through and decided that the 20-year NPV was the right time frame for financial analysis because that amount represents the approximate life of a conservation measure.

President Brown asked what the assumption is regarding growth since the service territory can change. He noted that the current population projection is for an additional 34,000

people in this area. He wondered if the assumption takes into account major users, industrial growth and population growth.

Mr. Hiaasen replied that staff followed City of Eugene projections, population research center forecasts, and developing trends. He noted that the best predictor for demand is population growth and that it isn't possible to forecast when or if the next Hynix will come to town.

Commissioner Cassidy said it is his understanding that if the growth territory expands, a portion would transfer to another utility. President Brown said that is correct, but that the population would change and a bigger load would have to be dealt with.

Commissioner Cassidy asked if the service area (city limits) is up for negotiation. General Manager Gray replied that on the water side, the city limits is the boundary, but on the electric side, it is governed by the Public Utility Commission. He added that the current belief is that the existing footprint will lie almost exclusively with EWEB, with some rare exceptions.

Commissioner Ernst noted that the addition of Hynix to EWEB's load was an exception. Mr. Hiaasen replied that the annexation of that service territory from Lane Electric Co-Op gave them a certain percentage of Hynix revenue, and that it was annexed specifically as an industrial development zone for the City of Eugene.

Commissioner Ernst asked how the impact of new conservation measures on an EWEB bill was calculated. Mr. Hiaasen replied that staff took total cost divided by total utility sales using the average cost/MWhr (currently \$40). He said the amount increased by almost 80% and that he will forward a more detailed calculation to the Board.

Ms. Parisi previewed the recent customer survey regarding level of interest in future conservation measures, noting that over 200 people had responded. She said that while a majority favored more conservation, people tended to prefer paying \$5 v. \$10 per month to support new programs. She said she will forward the results to the Board for their review.

Mr. Hiaasen then previewed the agendas for the final two IERP meetings (in August and September). Ms. Parisi noted that staff will be making a presentation to the City Club on July 22 and that the IERP is being considered as a potential topic for a future joint EWEB Board/City Council meeting, and that a public meeting regarding the IERP is planned for October or November.

Vice President Simpson asked if there has been much public input at the IERP meetings. Ms. Parisi replied that three or four people had provided public input, one speaking specifically to conservation acquisition and their understanding of the strategies, while others focused more on solar and photovoltaic technology.

Vice President Simpson then asked if the IERP group embraced or struggled with the triple bottom line. Ms. Parisi replied that the analysis tended to focus on cost-effectiveness, but

that was not because staff is ignoring the social and environmental criteria, but that the economic factors vary most between the strategies. She said she believes that if the triple bottom line framework were not in place, the panel would be less comfortable with the emphasis on cost-effectiveness. She added that with all triple bottom line analysis there is definitely tension around where the circle is drawn regarding regional, national or local impact.

Vice President Simpson asked for confirmation that the cycle for revisiting the IERP is every five years. Mr. Norris replied that five years would be the longest staff would want to wait before revisiting the plan unless there is major change.

President Brown then opened the public input session regarding the IERP.

**Ethan Nelson**, a member of the IERP panel, said he is the Green Building Program Manager for the City of Eugene, and is an EWEB ratepayer. He said the IERP process has been very engaging and staff-supportive, and that he appreciates EWEB staff for all the work they've done. He reiterated that he supports conservation and that he feels the staff recommendation of 2' and strategy 5 is substantial to ratepayers but will require greater conservation over a 20-year period. He said that the opportunity to bend load growth into a negative curve doesn't come along often and that it is a visionary opportunity for EWEB to continue great conservation work. He noted that hydroelectric power and low rates don't necessarily lessen environmental impact. He said that EWEB financial incentives are the reason that people build green and that the money put into those conservation programs has a tangible impact on the built environment. He urged the Board to consider not only the ratepayers and the financial market, but also affordable housing and the innovation opportunities to transition to passive energy housing and beyond.

**Greg Dahn** said he is one of the more conservative members of the IERP panel, and is a cogeneration engineer at the University of Oregon. He said he believes conservation is absolutely important but questions where the line should be drawn, and that he believes EWEB shouldn't shoulder the regional burden for climate change, as they can't really afford do that. He said that his home has ceiling heat and that one of his winter bills was \$600. He pointed out that when one sees the curve go above net positive value, there is a very sharp increase in the MWhr cost for conservation. He said he supports the 2' strategy and is impressed with what Eugene is doing as a community, but that he believes some resources can be better used in demand response and that the peak/average power curve needs to be flattened out. As an example, he said electric vehicles could be charged at night when there is typically lower power usage, and that he believes that is the way to go rather than looking for the most efficient lighting. He said the question is how much should be spent now when the technology is going to change.

## **ENERGY EFFICIENCY AND DEMAND RESPONSE STRATEGY**

Using overheads, Mr. Norris and Mr. Welch discussed the basis for the recommended strategy, why demand response and peak reduction have been added to the recommended strategy, and what is being asked of the Board this evening. Mr. Welch noted that what EWEB and the IERP group have accomplished is remarkable in the utility industry and that the group's comments show eloquence and a wide range of thoughts.

President Brown asked for the definition of “region.” Mr. Welch replied that the region includes the four Northwest states—Washington, Oregon, and parts of Idaho and Montana that are covered by the Northwest Public Power Council.

Regarding a graph showing economic value to EWEB customers, Commissioner Cassidy asked if this value is being compared to the price of natural gas, i.e., will there be more economic value to the EWEB customer if gas prices increase? Mr. Norris replied that the reason the curve peaks and then goes the other way is that once EWEB does enough to offset load growth, the value of the freed-up energy isn't in the marketplace anymore but offsets BPA, so the market value changes.

Commissioner Cassidy then asked if EWEB has any interest in opposing the relicensing of the Columbia nuclear plant next year. Mr. Norris replied that staff didn't specifically discuss that issue but considered what would happen if there was a large increase or decrease in load.

Vice President Simpson asked if EWEB's Water Operations Department is EWEB's largest water customer. Mr. Welch replied that he believes it is the 7<sup>th</sup>-9<sup>th</sup> largest customer.

Commissioner Cunningham asked if U.S. nuclear facilities are held to a higher standard regarding safety regulations than those in other countries. General Manager Gray replied that, for example, the basic design of Japanese and U.S. nuclear power plants is comparable, but there are geographical differences, i.e., tsunami response in Japan.

Mr. Welch asked the Board for a sense of whether or not they agree with the recommended strategy in order to obtain budget approval.

Commissioner Ernst said she needed at least 20 more minutes for her input on the presentation, as she wanted the Board to consider her comments before replying to the staff recommendation, and that she wants her comments to be on the record.

President Brown polled the other Commissioners on whether they were ready for general concurrence with the proposed strategy. A brief discussion ensued regarding whether or not an additional work session should be planned for further consideration before making their decision.

President Brown and Commissioner Cassidy said they concurred with the proposed strategy. Vice President Simpson said he concurred, but agreed that there is a need for more discussion, and said he would like to hear Commissioner Ernst's perspective. Commissioner Cunningham said he concurred but that he believes nuclear power will become a legitimate question in the future. Commissioner Ernst reiterated that she is not ready to make a decision until her comments are heard.

President Brown said he recognized that the majority of the Board was not ready to concur with the proposed strategy. Commissioner Ernst expressed her desire to read her

comments and then submit them in writing for Board consideration. President Brown agreed. Commissioner Ernst then read her comments, as follows:

These are my observations from attending the IERP committee meetings. I thought we were going to give direction tonight on a conservation level. The earth is a precious community. Humans and non-humans must have clean air, land and water to live in a healthy way. We cannot continue to depend on dirty industries to provide electricity. This includes fossil fuel, natural gas and combustion technology. Conservation is the most renewable of all renewables. Even hydro has environmental impacts and the cost for this will continue to go up to remediate these impacts. We must as a region that has so much hydroelectric share that. I heard from some committee members and constituents in my wards that if that means paying a little more in our region to help another region, we all will benefit. Better health and a cleaner environment are two of the benefits.

I also heard from some of the committee and constituents that they would like to see EWEB meet the sixth energy plan put out by the Northwest Power and Conservation Council. The scenario that would meet this goal is number 3. In the board packet memo you will see that this is what the committee first recommended. I was a little disappointed to hear no thinking outside the box. EWEB staff came back not with ways to make number 3 scenario work, but with another plan of lesser conservation goals. As one committee member said, and these are not his exact words, he did not feel they were part of the EWEB committee to just accept staff's plan, but to develop their own. Can we do 3 and just ramp up slower as the economy comes back?

It would be easy to just go along with EWEB staff's recommendation, but I have attended all the IERP committee meetings and I believe scenario 3 is more the way to go. EWEB continues to speak about the fact that it has done so much more conservation than other utilities in the last 14 years, and it has done wonderful things in this area. But now other utilities are catching up fast and will do as much as EWEB in just a few years. The low-hanging fruit has been done, mostly to owner-occupied residential homes, but EWEB is 50% rentals so there is still a lot to do in residential as well as commercial and industrial. It is time to move from the past and into the future. Conservation again is the most renewable and does create the incentive to use less, though rate increases. But picking a conservation number is very complicated and you cannot talk about conservation without talking about budget and rates.

Right now EWEB has surplus power, but will be losing a chunk of that with the new BPA contract next year. This will and can be made up with renewables but will be more costly. We need to continue to look for lost opportunity. How do we define what is cost-effective and should we be looking at this in a new way? Should we be pushing ways to get more money from BPA, such as legislation that says if, say, Springfield is going to get the tier one power that EWEB does not use and continue bare bone rates, then should EWEB be able to get the money that Springfield should have gotten for its conservation? Does EWEB need to develop more collaborative efforts with the City, LCC, and U of O to bring the cost of conservation down? What will the utility need to look like if it does so much conservation that it has a net reduction?

What if a large load comes back on line? Can we do demand response without AMI? The trading floor is talking about being able to increase profits with some investment in it, but can this be done with a higher cost for purchased power? These are some of the questions the Board needs to start thinking about. Do we stay true to the TBL in times of economy hardship? I would like to know how EWEB comes up with the cost of conservation. What price does it put on conservation programs? The Board just had a financial planning retreat and I recall the direction given to Roger was scenario 1: the Strategic Plan with lots of suggestions on other programs to eliminate and include. The percent increase was listed at around 10% for electric and 5% for water. EWEB will maintain a program for low and fixed income so those who can pay will and those who cannot will be helped. Some may call this socialism. I call it reality.

As a follow-up to that, now that I have had more time to think about it, I think the Board needs to be clearer on the direction EWEB goes on the budget, rates and conservation. If scenario 3 for conservation is chosen and there are more costs involved, I think it is the responsibility of the Board to set a conservation number (what is scenario 3, 6 MW/year?), set a limit on how much to spend on conservation (it is currently around \$40/kWh), and give direction to Roger in setting a rate percentage limit, giving Roger the freedom on how to achieve this, whether it is by not filling retired positions, lay-offs, benefit changes, or changes in O&M and the CIP, taking more or less risk. It is a bigger decision than just picking a conservation goal, but we need to pick a conservation goal to start the process. My choice is scenario 3.

Demand response is also important but is a peaking strategy. It is part of the sixth energy plan and something I brought up at the Board strategic planning session as something EWEB needs to do more of. The trick here is to do it in a way that creates incentives to do this voluntarily.

President Brown adjourned the Work Session at 7:50 p.m.

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Assistant Secretary

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President