



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Brown, Carlson, Mital, Simpson and Helgeson
FROM: Jason Heuser, Policy/Government Affairs Program Manager
DATE: March 23rd, 2018
SUBJECT: 2018 State Legislative Session Summary
OBJECTIVE: Information Only

Issue:

The Oregon legislature adjourned Saturday, March 3rd. Generally, the “short” session (30 days in even numbered years) resulted in little proposed in the way of energy or water legislation, although serious consideration was given to carbon cap and trade legislation. Though unsuccessful, there is now a great deal of momentum heading towards the 2019 “regular” session (6 months in odd numbered years).

Background:

Prior to the start of each legislative session, the Board adopts general policy directives for advocacy at the Capitol which guide the work of EWEB’s lobbying activities.

Discussion:

The following is a summary of issues that were of interest to EWEB during the 2018 session:

SB 5007 and HB 4001 – Cap and Invest/Clean Jobs Bill

These two bills were virtually identical and would have enacted an economy wide cap and invest program for the state of Oregon.

A cap and invest program, also known as cap and trade, is a flexible, market-based mechanism that reduces greenhouse (GHG) emissions and has been found to be the least-cost GHG reduction policy. A cap is established based on state GHG reduction targets that lower over time. Regulated businesses are given three options to reduce and manage their emissions liability under the cap; 1) reduce internally, 2) purchase state issued allowances or 3) purchase emission reduction projects also known as offsets. Allowances are auctioned by the state, raising proceeds, and may be traded between regulated entities. Proceeds to the state from the sale of allowances can be reinvested to further reduce climate pollution, assist industry, create benefits for disproportionately impacted communities, retrain workers, and advance clean economic development.

SB 5007 and HB 4001 were the product of months of work group meetings in the Fall of 2017 (prior to that, committee hearings in the 2017 legislative session produced a straw proposal SB 1070 which was the starting point for the cap and invest work group meetings). Both bills had substantive multi-hour public hearings in packed committee rooms. Throughout the short session the bills mobilized one of the most robust grassroots citizen-led lobbying efforts seen in the Capitol in some time. The bills were both approved out of committee, but ultimately were not brought to a vote on the Senate or House floor. This result may have been a reluctance by a handful of legislators weary of passing such important legislation in a short session, despite the lengthy advance work designing the bills.

In the waning days of the legislative session, a few of these legislators, not least of all Senate President Peter Courtney, made statements about being committed to advancing the bills in the 2019 legislative session when they felt there would be more time to review the bills and parse the details correctly. Senator Courtney sponsored a \$1.4 million appropriation in the state budget, a day before the session adjourned, to fund a Joint Carbon Policy Task Force to begin work soon. The task force will be co-chaired by Senator Courtney himself along with House Speaker Tina Kotek. The task force will take up three studies on economic impact, potential for jobs and businesses to leave Oregon in specific industries, and issues specific to forestry.

While on paper the cap and invest bills do not appear to have advanced much farther than past legislative sessions, there are considerable signs that passage of a state cap and invest program is possible in 2019, especially given that now both Senate and House leadership have signaled that the bills are a top priority in their respective 2019 legislative agendas.

SB 1537 and HB 4148 – ODOE Restructuring – Failed

For the second consecutive session, legislation was proposed that would have revised the mission and scope of responsibilities for the Oregon Department of Energy (ODOE) as well as create a new Commission (SB 1537) or Board (HB 4148) to oversee the Department in the pursuit of greater transparency and accountability.

EWEB did not take a position on either bill but did continue to meet with legislators and stakeholders to express EWEB's view that ODOE underwent much growth in the 2000's and we are concerned there is redundancy now between the work ODOE does and work done at the Public Utility Commission, the Northwest Power and Conservation Planning Council, BPA, the Energy Trust of Oregon and the Northwest Energy Efficiency Alliance.

Furthermore, in the past decade the Energy Supplier Assessment (ESA) paid by EWEB and other utilities to support ODOE's budget has grown almost 500 percent. EWEB continues to recommend a fundamental change in funding the Department by reducing the use of the Energy Supplier Assessment paid by EWEB and other electric utilities and increasing the use of the State General Fund to pay for programs with little nexus to consumer-owned utilities like EWEB.

HB 4127 – Qualification Based Selection (QBS) Contracting Flexibility – Failed

HB 4127 would have created an optional, alternative process that EWEB and other local government contracting agencies could utilize for the procurement of architectural, engineering, photogrammetric, land surveying and transportation planning services. Under current law, contracting agencies may request qualifications only from potential firms, and are required to rank those firms from most-qualified to least-qualified. Once a ranked list is established, the contracting agency may only negotiate further with the top-ranked firm. Only after making that selection, based solely on qualifications, can the contracting agency take cost into consideration. If the contracting agency and firm are unable to come to an agreement on price or other factors, the contracting agency can terminate the negotiation and move on to the next highest ranked firm on the list. For that contract, the contracting agency is prohibited from reconsideration of any firm with which it has previously terminated negotiations. The contracting agency can continue to work through the list of firms, in a linear fashion, until they find one with which they can successfully negotiate a final deal.

HB 4127 was introduced in response to concerns expressed by many cities and other local governments that the current process is time consuming, lacks transparency, and does not lend itself to the best overall value for the spending of public dollars. The optional process authorized in HB 4127 would have allowed cities and other contacting agencies to engage in an initial qualifications-only screening process. After completing that first step of the process, the contracting agency would select up to three qualified firms with which to negotiate. The city could then ask those firms for pricing information, including the number of hours proposed for the service required, expenses, hourly rates and estimated overhead costs.

The bill, as originally introduced, would have allowed the local contracting agency to select up to five qualified firms. The bill was amended in the House to limit that number to three qualified firms. The amended HB 4127 passed the House and had a public hearing in the Senate, but did not advance to the Senate floor prior to adjournment. It is anticipated that EWEB will collaborate again with key partners, including the League of Oregon Cities, the City of Hillsboro, and the Oregon Municipal Electric Utilities Association to continue work in the interim to address concerns with the current QBS process so that legislation can be introduced again during the 2019 session addressing feedback given by key Oregon Senators.

Recommendation/Board Action:

This Memo is for informational purposes. No board action is requested.



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Brown, Carlson, Mital, Simpson, and Helgeson
FROM: Sue Fahey, Chief Financial Officer; Deborah Hart, Fiscal Services Supervisor
Adam Rue, Lead Financial Analyst
DATE: April 3, 2018
SUBJECT: Annual Report on Power Trading Compliance
OBJECTIVE: Information Only

Issue

Board Policy SD8, governing Power Risk Management, requires the Chief Financial Officer to present a report to the Board at least annually that covers trading and contracting compliance. This backgrounder provides that information for calendar year 2017.

Background

Oregon statutes stipulate the appropriate scope for a governmental agency's investment of "surplus funds." Accordingly, EWEB's activities in the power markets must be associated with the provision of electricity to meet anticipated sales and generation forecasts. The Risk Management Committee (RMC) is responsible for oversight and compliance with Board Policy SD8. This governance body sets limits and establishes Power Risk Management Procedures for power trading operations to protect the utility from financial instability and unacceptable risk.

Discussion

The eight specific responsibilities of the RMC outlined in Board Policy SD8 are listed below with a characterization of compliance status and instances in which compliance was maintained through exception.

SD 8.1 – Anti-speculation Statutes: In Compliance

In order to comply with Board policy and anti-speculation statutes, the Power Risk Management Procedures establish megawatt limits on market positions to monitor and reduce opportunities for speculation and to limit exposure to price volatility. However, occasionally changes to forecasts, load, and/or generation result in position limits being exceeded. In those events, the Power Risk Management Procedures require positions to be brought back into compliance no later than the next trading day unless preapproved by the Fiscal Services Supervisor and Portfolio Management Supervisor. EWEB was in compliance with this procedure in 2017.

The market position limit exceptions approved by the RMC or Fiscal Services Supervisor and Portfolio Management Supervisor are described below.

- RMC approved a strategy aimed at limiting the use of option purchases in an effort to reduce non-labor costs associated with EWEB's hedging program. Because of the reduction in the use of option purchases; on three occasions, an out of compliance position of less than two megawatts was held beyond the next trading day. This strategic shift resulted in a premium cost savings of approximately \$235,000, while maintaining a reasonable level of portfolio risk to the hedge program.
- In May, a shift in the Carmen-Smith project planned outage schedule created an out of compliance position for Q2 and Q3 of 2018. The Q3 position was brought into compliance in August and the Q2 firm short exception held through the rest of 2017 in order to maintain reduced option premium expenses. Exception was granted by the Fiscal Services Supervisor and Portfolio Management Supervisor.

SD 8.2 – Development of Detailed Control Procedures: In Compliance

SD8 requires that the RMC develop detailed Power Risk Management Procedures and review them on an ongoing basis. Within these procedures, processes are defined which govern roles and responsibilities, daily trade activity, and exception authorization.

Modifications to the Power Risk Management Procedures are approved by unanimous consent of the voting members. The modification to the procedures in 2017 is described below.

- The Power Risk Management Procedures and voting members were updated to reflect organizational changes and changes in the market related to renewable products.
- Subsequently, in 2018 the new Chief Energy Officer was added to the RMC voting membership and designated the Generation Manager as a voting member, and an update to the credit section of the Risk Management Policy was approved by the RMC.

SD 8.3 – Notification of changes to compliance limits: In Compliance

No changes to compliance limits were recommended or approved by the RMC during the 2017 calendar year.

SD 8.4 – Oversee control infrastructure and monitor compliance: In Compliance

The RMC meets monthly to monitor and review compliance limits. In addition, the RMC is updated on the status of short-term compliance measures weekly to provide insight in both current compliance status and market trends that may influence future compliance periods.

SD 8.5 – Authorize and monitor risk reports for financial results, market positions and credit exposure: In Compliance

The RMC met in each month of 2017 with the exception of January, April, and December. In those instances, voting members received up to date compliance reporting materials in lieu of meeting. These materials provide the basis for monitoring financial results and compliance with market position limits and credit.

In addition to the market position exceptions mentioned above in SD 8.1 notes, there were also credit exceptions authorized by the Fiscal Services Supervisor and Portfolio Management Supervisor as required by the Power Risk Management Procedures.

- Tenor limit exceptions were granted on four occasions where transaction duration exceeded standing credit policy and a credit limit exception was granted on one occasion. These exceptions were provided on the grounds of either creditworthiness or supplemental credit support.

SD 8.6 – Review and approve contracts which impact EWEB’s power portfolio: In Compliance

The RMC provides cross-functional oversight and review of any contracts that may have an impact on EWEB’s portfolio to ensure that the Board mandate of risk mitigation and financial stability are maintained. Where contracts require Board approval, the RMC provides direction and preliminary review in advance of Board action.

The Board approves fixed price transactions that are both greater than 1 year in duration and exceeding \$3 million in nominal value. In 2017 the following contracts were approved by the RMC that did not meet the Board approval threshold.

- Two scheduling agreements, two REC sales, and a modification to a retail power sales and services agreement were approved by the RMC in 2017.

Recommendation and Requested Board Action

This item is information only and no Board action is being requested at this time.



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Brown, Carlson, Mital, Simpson and Helgeson
FROM: Mel Damewood, Chief Water Engineering and Operations Officer
Jason Carman, Water Distribution Operations Supervisor
DATE: March 19, 2018
SUBJECT: Phasing Out EWEB's Residential ATA Backflow Testing Services Program
OBJECTIVE: Information Only

Issue

This memo is to inform the Board of the upcoming phasing out of the EWEB-facilitated Residential ATA Backflow Testing Services Program and the re-focusing on an existing program that will lower costs and increase the freedom of choice for customers.

Background

Backflow prevention assemblies are a common and very important feature in drinking water systems. These assemblies prevent water or potential contaminants from flowing backwards through the customer's private line into the public drinking water system. Due to the threat of contamination, backflow prevention assemblies are critical to the safety of EWEB's water system.

Most commercial water services have backflow prevention assemblies installed after the meter. On the residential side, customers with irrigation systems, booster pumps, or other features that could result in a back-feed to the EWEB system are required to have a backflow prevention assembly.

The Oregon Administrative Rules require that the backflow prevention assemblies be tested annually. Water Operations ensures that required annual tests are completed on approximately 7,100 commercial and 9,400 residential backflow prevention assemblies each year. All of these assemblies are owned by the customer and typically installed on the customer side of the water service.

For over 10 years, EWEB has offered to facilitate this testing for both residential and commercial customers. This work by EWEB, referred to as "EWEB's Residential ATA Backflow Testing Services Program" consists of the following efforts:

- Maintaining a database of the installed backflow prevention assemblies.
- Assigning the tests to Oregon Health Authority (OHA) certified backflow assembly testers (Testers).
- Sending reminder post cards and emails to the Testers.
- Following up with the Testers for incomplete tests or required repairs.
- Processing the Tester's invoices and billing the customer for the test, which is included in their normal monthly EWEB bill.

The program was originally created to make the annual required testing activities easier for the customer. Without the program, customers with backflow prevention assemblies receive all of the reminder communications from EWEB and have to select a Tester on their own. Failure to complete the required tests could result in a discontinuation of water service. Reports from the backflow database are used to ensure that the testing is completed annually for all assemblies.

Discussion

From 2010 to 2017, the percentage of residential customers with backflow prevention assemblies participating in the facilitated EWEB program steadily declined from 37% to 26%. With the percentage of participants in the facilitated program dwindling in recent years, and an opportunity to streamline the process for customers, EWEB will discontinue the program. In its place, EWEB will re-focus on its Good As Gold program, where each customer will be able to designate a yearly tester and will be automatically placed in that Tester's work queue each year.

By enrolling in the Good As Gold Program, customers will:

- Continue to avoid multiple letters and other reminders from EWEB.
- Save money by contracting directly with the Tester.
- Have the freedom to choose which Tester completes their tests.
- Pay the Tester directly, not EWEB.

The main benefits to customers are lower cost and the ability to choose which Tester they work with, and they may change that at any time. Benefits to EWEB include reduced administration efforts and the ability to reallocate labor resources to providing improved customer service.

The Commercial ATA Backflow Testing Services program will remain in place due to commercial services having a much higher backflow risk associated per service due to the nature of the connected facilities.

Recommendation

This memo is for informational purposes only.

Requested Board Action

No board action is requested at this time. Please contact me at 541-685-7145 or mel.damewood@eweb.org with any questions.