



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Brown, Mital, Helgeson, Manning and Simpson

FROM: Lance Robertson, Public Affairs Manager; Dave Churchman, Power Resources Manager; Jason Heuser, Legislative and Federal Affairs Coordinator; Jon Hart, Trading Floor Energy Analyst

DATE: March 24, 2014

SUBJECT: Update on 2014 Legislative Session and Regional Issues; Energy Portfolio Update

OBJECTIVE: Information Only

Issue

This memo is one of three updates you will receive in 2014 on legislative activity, regional affairs, or market conditions. Each update will emphasize one of these topics based on the time of year. At the conclusion of each state legislative session, Public Affairs provides the Board with an overview of the key bills, budget items and other measures that were considered and which had the most potential impact to EWEB and its customers. Late in the year, you will be asked to approve the legislative agenda for the 2015 session.

Once hydro conditions can be reasonably determined Power Operations provides the Board an overview of expected hydro generation, current market prices, and an overview of EWEB's energy portfolio for the next five years. The portfolio and market information in this memo will be updated in the fall and presented along with a report on Bonneville Power Administration issues and actions, as well as an overview of current regional and federal power policy issues.

Background and Discussion – Legislative Issues

The following is a summary of the key bills, budget items and issues from the 2014 legislative session, followed by an update of key federal issues and legislation:

HB 4126 -- Changes to Oregon's Renewable Portfolio Standard (RPS) – PASSED

The Legislature approved this bill in the February “short” session, following a series of special task force meetings to examine RPS implications for smaller utilities that have large data centers move into their service territories, which would result in the utility being subject to the large-utility standard of the RPS. The impetus for the task force was also to produce an alternative solution to a statewide ballot initiative that would make all hydropower a qualifying renewable for the RPS. This would have effectively gutted the 2007 law -- the goal is a 25 percent renewable portfolio by 2025 for large utilities, even though 40 percent of Oregon's electricity comes from hydropower. EWEB was selected to be represented on this task force and participated in each of the task force meetings.

HB 4126 represented a political compromise which ensured that the ballot initiative would be defunded. Under the bill, small utilities that find themselves boosted into the large standard of the RPS would have enhanced flexibility to use a higher percentage of "unbundled" renewable energy certificates (RECs) in their earlier compliance years. An "unbundled" REC is like a commodity that represents the environmental attributes of renewable energy, but is sold without the underlying energy. "Unbundled" RECs can be procured through the market at lower cost, so this change amounts to a mitigation of rate impacts to smaller utilities that enter the large RPS after taking in a large data center or similar load.

Additionally, at the request of Pacific Power and Portland General Electric, HB 4126 instructs the Oregon PUC to examine designs for a green tariff that the two investor-owned utilities could offer to customers voluntarily seeking a bundled renewable product. Current law prohibits the two investor-owned utilities from offering an alternative to their generation-system mix. A green tariff option would allow them to meet the business needs of major technology companies – Google, for example.

EWEB's primary principle in task force meetings were to maintain as level of a playing field as possible for RPS compliance obligations amongst utilities. EWEB staff vigorously advocated for an approach that upheld this principle while offering some rate protection for existing customers of small utilities. The proposal endorsed by EWEB and others on the task force was to partition off new large loads in calculating whether a utility was subject to the large utility standard. A partitioned large load would be subject on its own though to the same renewable percentage targets as large utilities. In this approach, existing customers of small utilities would be protected from rate impacts from new RPS compliance requirements. New large loads would still face RPS requirements though in this proposal and the compliance for these large loads would be the same most anywhere they located in Oregon, making for a level playing field for communities competing for economic development.

There was strong support from many task force members for the partition proposal, but it did not produce an agreement that would ensure the cessation of the proposed state ballot initiative. Only the compromises that ultimately evolved into HB 4126 seemingly provided assurances that the ballot initiative would be defunded. As the task force neared its final meeting, most parties were unwilling to risk the chance of a ballot initiative succeeding, and thus a reluctant near-consensus developed on the compromise ultimately reached in HB 4126. EWEB adopted a position of neutrality as the bill advanced through the legislative process.

EWEB remains concerned that the changes made by HB 4126 could create a permanent disadvantage for EWEB relative to smaller Oregon utilities with less stringent RPS targets. This point could materialize in our current efforts to attract a new load at the Hynix facility. The cost of RPS compliance could prove to be a material difference and if it does result in EWEB's service territory being less attractive due to an unlevel playing field for RPS compliance, EWEB staff will evaluate possible policy solutions. The implications of HB 4126 re-enforce the premise of EWEB's carbon pricing position, which posits that the RPS is not the best way to effectively manage carbon reductions.

SB 1520 -- Securities Exemption for Community Solar Projects – PASSED

This legislation was approved to exempt community renewable energy cooperatives from state securities registration. The legal and accounting fees on even a small project can cost \$50,000 to

\$100,000 and are a significant obstacle to the economics of a community solar project. Although a community solar project concept and effort has not ripened in Eugene thus far, it remains a topic being discussed by members of the community and internally among EWEB staff. SB 1520 likely would afford EWEB more flexibility on our role if we are approached by a community group or entity with a proposed community solar project.

HB 4119 -- Expanding Qualification Based Selection (QBS) in Procurement -- FAILED

EWEB was at the forefront of the lobbying effort against this legislation, which would have prohibited EWEB and other local governments from considering price until AFTER the selection in procuring design services over \$100,000, such as architecture and engineering services.

Proponents of SB 644 argued that prohibiting price from being considered until after the selection is made would result in the most qualified consultants being selected with the best value to taxpayers. In advocacy to explain why this is not true, local governments often used a car-purchase analogy:

"An individual would likely research on the internet and visit a car lot to determine vehicles that meet their needs. They would then negotiate with the dealership on delivery time, color options, special packages, etc. If they could only ask about price when they were in the dealership offices about to sign, they would have taken all this time not knowing thus far whether the cost was within their budget or if it was a fair price compared to other options. If they found the price was out of reach, they would have to start the search process over from scratch."

In the case of a utility such as EWEB, such delays and elongation of procurement could result in missing key opportunities or requirements in narrow construction seasons, such as limits on when we can do in-water work at our hydroelectric projects.

Budget Note for Willamette Basin Review -- Reservoir Study – PASSED

The Legislature included a budget note authorizing up to \$1.5 million of state match funding at the Oregon Water Resources Department for this critical federal study, which would provide essential review of issues needed for possible future municipal access to 1.7 million acre-feet of water stored in the 12 federal reservoirs of the Willamette Basin Project. EWEB requested the help of local state Sen. Chris Edwards in championing this Budget Note, and he deserves great credit for the inclusion of this important authorization needed for the state of Oregon to keep up with the momentum at the federal level of this once-stalled study.

Background and Discussion – Regional Issues

Proposed 10-Year Experimental Spill Test

The Oregon Department of Fish and Wildlife (ODFW) and the Nez Perce tribe have proposed a 10-year experimental test to dramatically increase spill at all 8 federal projects in the Federal Columbia River Power System (FCRPS), ostensibly to benefit fish. The proposed test would:

- Increase the total dissolved gas caps beyond current and state federal limits to levels that most scientists believe could seriously harm or kill salmon and other aquatic species.

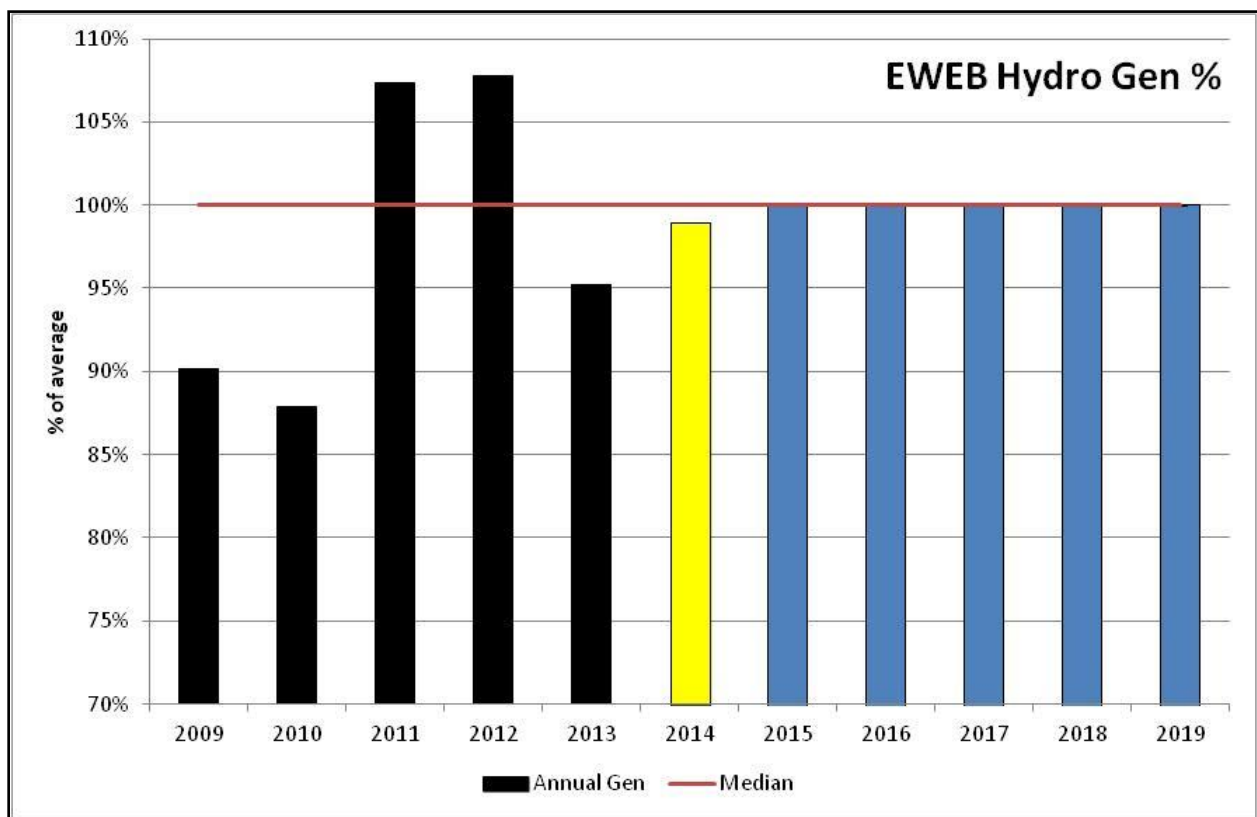
- Cost ratepayers \$110 annually for ten years and de-rate the hydropower system by another 600 average megawatts, hampering the ability to integrate intermittent renewable resources.
- Add up to 1.9 million additional tons of carbon dioxide into the atmosphere from combustion turbines needed to replace lost hydropower generation.

EWEB staff joined by 4 other representatives of public power in Oregon organized a March 10th meeting with Oregon members of the Northwest Power and Conservation Planning Council to share our serious concerns with this proposal. At the same time, EWEB Commissioners were in Washington DC briefing the Oregon Congressional delegation on the faults in this proposed test. The feedback from these meetings indicates that support for the proposed spill test is fading.

Background and Discussion – EWEB Portfolio Update

EWEB Hydro Generation

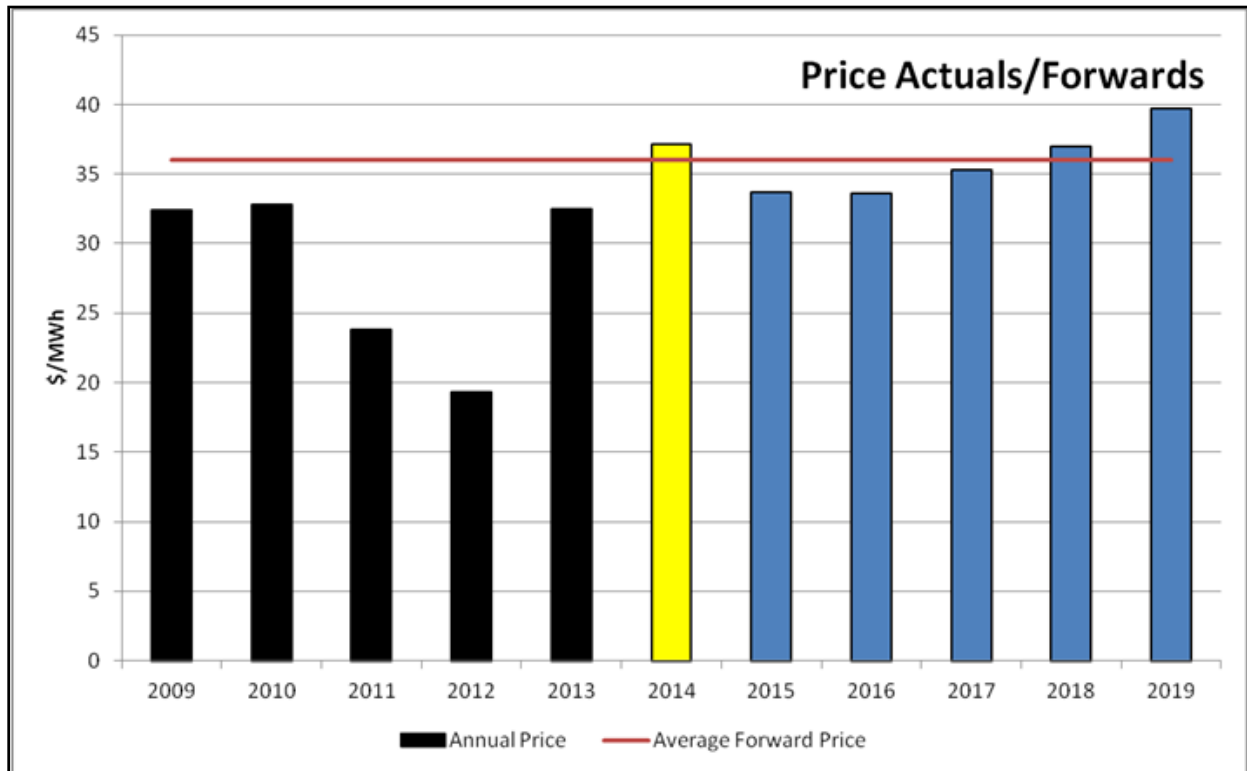
The EWEB hydro season has rebounded after a very poor start. Strong precipitation in February and March moved the hydro forecast back to to near normal levels for calendar year 2014. EWEB’s hydro gen forecast includes both EWEB owned generation (Carmen Smith, Trailbridge, Walterville, Leaburg, Stone Creek, and Smith Falls) and contracted Slice generation from Bonneville Power Administration. The Hydro forecast for the Federal projects on the Columbia and Snake Rivers hit their lowest point at the end of January at 82% of normal for the April – September period. Currently, that same forecast stands at 105%. The generation forecast is lower than the hydro forecast as some of this water will be spilled during the spring runoff period to assist in anadromous fish migration.



Note: The 100% expected percent of average for the forecast years of 2015 to 2019 is a physical expectation of output. For financial planning purposes, EWEB budgets at 90% expected hydro.

Market Price

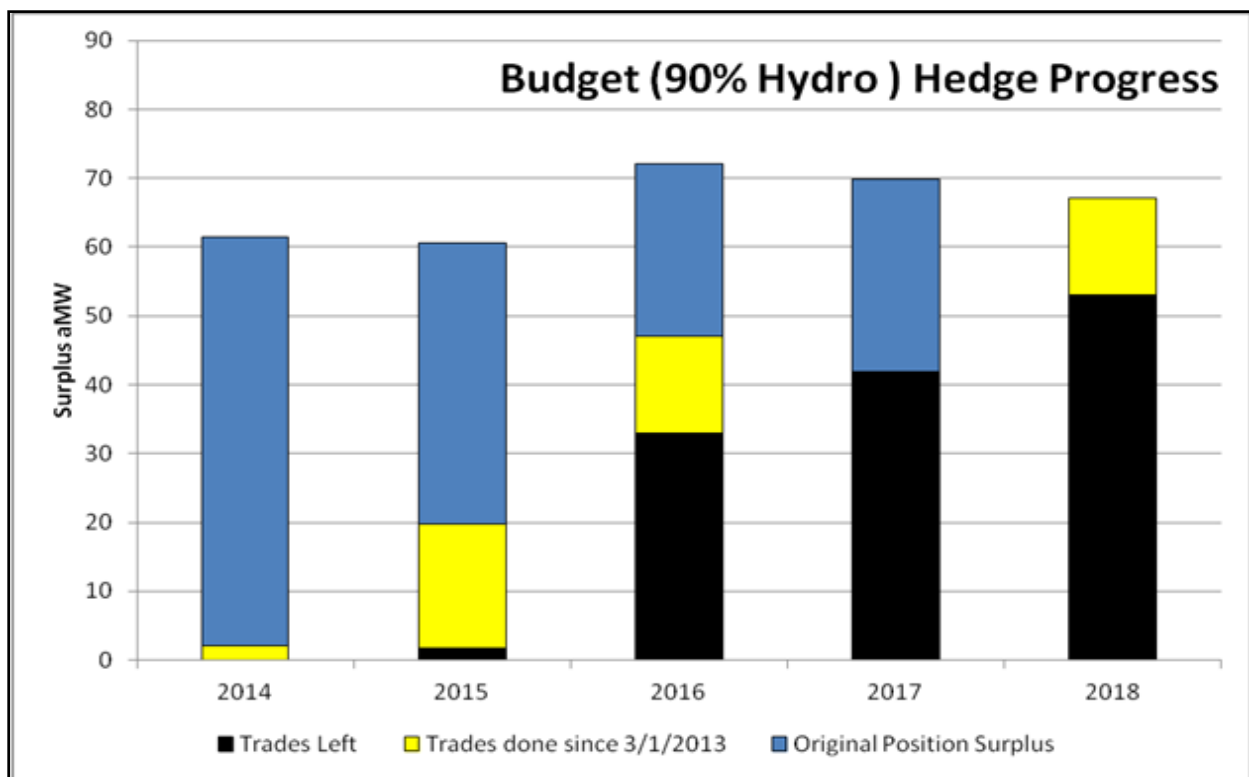
Market prices rebounded sharply in 2014 as natural gas moved upward in response to increased winter heating demand in the east, and subsequent lower gas storage levels. Prices through the first three months of the year have remained strong. EWEB saw some of the highest prices of the past three years during a brief runup at the start of February when day ahead energy traded as high as \$250/mwh. Though current 2014 prices are higher than 2013 and 2015, 2014 prices have moderated with increases in hydro generation. Prices in future years continue to trend upward. Prior prices are an average of daily prices throughout the course of the year. Future prices reflect the market price that can be currently transacted for those future years. While the generally lower long-term price of natural gas has contributed to continued lower power prices, the level of volatility in power prices has increased dramatically primarily due to volatility in the amount of wind power generated.



Surplus Position Hedging

The chart below shows EWEB’s surplus power position for 2014-2018. The top of the chart (blue band) indicates EWEB’s original surplus position. The yellow band represents sales made since in the last year since March, 2013. The black band represents unhedged energy surplus.

The Trading Floor sells a portion of EWEB’s surplus position up to five years in advance. This provides two benefits – 1) currently it gives EWEB the opportunity to sell a portion of its surplus at higher prices relative to near term years, and 2) it results in sales executed at various times which diversifies our sales price through dollar cost averaging through time. This strategy results in near term years being fully hedged while year five is the least hedged, with interim years somewhere in between. Beyond five years the Trading Floor does not hedge any surplus energy. This surplus energy forecast is based upon 90% hydro. If we receive hydro in excess of 90% those surpluses are sold within the current water year.



Requested Board Action

No action requested; this is an informational item only. Commissioners with questions about these issues, or any other questions related to the legislative session or regional issues should contact Jason Heuser at jason.heuser@eweb.org. Commissioners with questions related to the Energy Portfolio Update should contact Dave Churchman at dave.churchman@eweb.org.