MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

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

FROM: Cathy Bloom, Finance Manager and Gail Murray, Purchasing/Risk Manager

DATE: May 6, 2014

SUBJECT: Quarterly Contract Report for Q1 2014

OBJECTIVE: Information Only

Issue
The Board requested that staff provide a quarterly report of contracts between $20,000 and $150,000 which would have come to the board for approval under the previous threshold amounts.

Background
At the August 6, 2013 Board meeting, the Board ratified Resolution No. 1320, which increased the Board Approval Threshold for certain contracts to more closely align with solicitation thresholds. As a result, the processes and procedures were streamlined for the Board and staff. This change will result in the reduction of the number of items coming before the Board on the consent calendar and allow the Board to focus on higher level/higher risk contracts and other strategic initiatives. It will also allow purchasing staff to focus their energies on the higher risk/greater return projects and contracts.

The thresholds are:

Purchase of all Goods, Equipment, Services and Personal Services:	$ 150,000 or greater
Purchase of Construction Services:	$ 100,000 or greater

Discussion
Attached is the Contract report for the first quarter of 2014. The contracts listed are those that would have previously come to the Board for approval, but which are now below the Board approval threshold.

In addition, as a result of the Audit Management Letter citing a contract in breach of the small procurement threshold, those contracts (if any) will be listed and designated on this list in the future.

If you have any questions regarding the contracts, please contact the Purchasing Manager, Gail Murray.

Recommendation/Requested Board Action
None at this time. This information is provided for informational purposes only.

2014 First Quarter Contract Report

Contract Execution	Contract #	Contractor	City, State	Description	Contract Amt	Contract Term	Contract Process	LT Manager
1/20/2014	14-0001	USGS/US Dept. of Interior	Portland, OR	Monitoring for Source Water Protection McKenzie River	$ 62,900	1/14/14 - 12/31/14	IGA	Steve Newcomb
2/10/2014	1002-2014	Northside Truck	Portland, OR	19,000 GVWR, DRW, 4wd, Crew Cab/Chassis	$ 114,825	one time purchase	Request for Quote	Roger Kline
2/13/2014	2381	Christenson Electric	Portland, OR	Emergency Electrical Repairs - Storm/ICS	$ 60,000	2/12/14 - 6/30/14	Direct Negotiation	Todd Simmons
2/13/2014	2382	Sturgeon Electric	Portland, OR	Emergency Electrical Repairs - Storm/ICS	$ 60,000	2/12/14 - 6/30/14	Direct Negotiation	Todd Simmons
2/21/2014	2383	Loren Berry Architect	Springfield, OR	Carmen-Smith Duplex Design	$ 65,800	2/21/14 - 2/28/15	Direct Negotiation	Roger Kline
3/14/2014	2384	Glenn Landscape Services Inc.	Eugene, OR	Hayden Bridge Landscape Maintenance	$ 131,150	3/1/14 - 2/28/19	Informal ITB	Brad Taylor
3/20/2014	2385	Systems West Engineering	Eugene, OR	HQ Chilled Water Systems/DDC Control Systems Engineering Svs	$ 27,500	3/21/14-4/30/14	Direct Negotiation	Todd Simmons

Total number of Executed Contracts between $10,000 - $20,0000 = 2

EWEB association for all above contracts = None

M E M O R A N D U M

EUGENE WATER & ELECTRIC BOARD

Rely on us.

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

FROM: Mel Damewood, Engineering Manager

DATE: April 25, 2014

SUBJECT: EL1 Capital Report for Q1 2014

OBJECTIVE: Information Only

Issue

As per EWEB's EL1 Financial Policy that was approved on February 4, 2014, EWEB staff has prepared and attached the 1st Quarter Capital Report for Electric, Water, and Shared Services to the Board.

Background

According to Financial Policy EL1:

> Throughout the year, staff will provide the Board with quarterly financial reports that compare actual results with budget. Additionally, staff will provide the Board with quarterly updates for all current year projects on the Capital Improvement Plans. General Capital Renewal and Replacement projects (Type 1) will be reported by category (e.g., substations, shared IT infrastructure, transmission & distribution mains). Infrastructure Rehabilitation & Expansion (Type II) and Strategic Projects (Type III) will be reported individually. Type II and III projects are further defined as those that are projected to be greater than $1 million for the life of the project.

Management has attached three reports, Electric, Water and Shared Services Capital Q1 results for the Board's review. This is the inaugural effort at the new reporting format and staff is seeking feedback from the Board on the following:

1) Does the report provide the correct level of overall information for the Board to follow Type I, II and III capital projects?
2) Are there any columns that need to be better defined or explained?
3) Do the status lights align with your sense of what is being reported from a budget and schedule standpoint?
4) Do the notes provide clarifications of the status of projects at appropriate levels?

For this inaugural round, we included in the 2014 budget column the approved budget after the April true up. This was done to align future reports and to provide more clarity to where the project was today rather than on March 31. Also, some project reports are intentionally left "gray," primarily due to the current inability to ascertain the status of either scope, schedule and budget on certain projects.

Recommendation and Action

This is an information item only, no action required. If you have any questions or wish to make comments on the reports please contact Mel Damewood a 541-685-7145 or email at mel.damewood@eweb.org

ELECTRIC Capital Projects Quarterly Status Report
2014-Q1

Type 1 - General Capital

Capital Category	2014 Budget (Includes April Amendments)	2014 YTD Actual	2014 Year-End Projection	Status/Comments
Electric Infrastructure - Generation	$599,720	($15,199)	$750,000	Negative YTD actual includes a (-$96K) payment from a contractor (dispute resolution). Overall project list generally progressing on schedule and budget except an emergent problem with the attraction water supply for a fish ladder at Leaburg Dam that may lead to additional $100k+ in 2014, perhaps $250k+ more in 2015. Does not include Leaburg Roll Gate (Type 2) (ZINNIKER)
Electric Infrastructure - Substations & Telecom	$2,707,083	$104,005	$2,707,083	2014 includes upgrades at Jefferson substation (at the fairgrounds) in advance of upcoming Downtown Network refurbishments. (LAWSON)
Electric Infrastructure - Transmission & Distribution	$8,344,823	$1,360,365	$8,344,823	The February ice storm delayed some Q1 capital work in the 14 categories of T&D. Early forecasts predict recovery close to budget/scope by year-end. (LAWSON, HANKINS, OBERLE)

In the future, these categories will match the Capital Improvement Plans (CIPs) submitted by Water & Electric.

Type 1 - General Capital is budgeted Year-by-Year for recurring capital expenditures from January through December. Type 1 Capital includes categorized collections of projects of less than $1 million. Typical examples include "pole replacements" as part of Transmission & Distribution. This work typically involves many small projects that up to $1.2-$1.7 million per year.

Type 2 projects have "discrete" scopes, schedules (launch through completion), and cost over $1MM during the project life.

Type 2 Rehabilitation & Expansion Projects

Project	2014 Budget (Includes April Amendments)	2014 YTD Actual	2014 Year-End Projection	Project Total Initial Plan	Project Total To-Date Actual	Project Total Project-End Projection	Schedule Start	Schedule Initial Planned Completion	Schedule Projected Completion	Status/Comments
Leaburg Roll Gate #2 Re-Build	$2,857,000	$212,146	$2,857,000	$1,600,000	$526,710	$3,147,705	Jul-2012	Jun-2014	Dec-2014	Construction bids significantly exceeded engineer's estimates. Projection includes $1.67M April BAM. On schedule for return to service for 2014/15 wet weather season. (ZINNIKER)
LTD EmX Project (Electric)	$4,250,000	$254,117	$4,250,000	---	$254,117	$5,663,000	Sep-2013	---	Jun-2015	LTD and EWEB are working together to minimize EmX conflicts with existing EWEB facilities. Exploratory excavations, (potholes) will dictate the final costs for EWEB relocations. All EmX driven relocations are 100% reimbursable from LTD. EWEB is evaluating some facility upgrade work to be done along route at EWEB's expense . EWEB electric to start on relocations in September 2014 pending LTD acquires easements beyond existing right of way. Year end projection assumes 75% cost est. complete by year's end. Expect Budget Amendment later in Summer 2014. (THOMAS, OBERLE)+A1
Upriver Re-Configuration/Holden Ck. Substation	$500,000	$5,578	$500,000	$3,000,000	$5,578	$3,000,000	Jan-2014	Oct-2015	Jun-2016	Evaluating trade-offs between transmission rebuild versus de-commissioning a portion of upriver 69kV A&B lines between Leaburg and Walterville. (LAWSON)
Downtown Distribution Network	$2,500,000	$59,884	$2,500,000	$15,000,000	$3,456,282	$20,000,000	Sep-2010	Dec-2012	TBD	Evaluating impact of technology change that allows DG over-generation in Network system. Current funding planned for system maintenance. Future system decision in limbo during evaluation. (FRASER)

Type 3 - Strategic Projects & Programs

Project	2014 Budget (Prior to April Amendments)	2014 YTD Actual	2014 Year-End Projection (incl. April Admendments)	Project Total Initial Plan	Project Total To-Date Actual	Project Total Project-End Projection	Schedule Start	Schedule Initial Planned Completion	Schedule Projected Completion	Status/Comments
AMI Deployment - Meter Acquisition Costs	$0	$0	$0	$10MM	$0	See Comments	Jan, 2008	Jun, 2014	TBD	Status = Under Review (grey); Re-planning for opt-in approach; Meter costs are included in LTFP and CIP in T&D Type 1 funds @ $1MM/Year (ARMSTEAD)
Carmen Smith License Implementation	$2,953,241	$176,189	$2,541,241	$135,000,000	$33,219,478	$164,000,000	May-2009	Dec-2021	Dec-2025	Continued uncertainty regarding licensing date; renegotiation on downstream passage underway; powerhouse exhibiting aging infrastructure issues that are being evaluated. (MCCANN)

Water Capital Projects Quarterly Status Report
2014-Q1

Type 1 - General Capital

Project	2014 Budget*	2014 YTD Actual	2014 Year-End Projection	Status/Comments
Source - Water Intakes & Filtration Plant	$683,091	$110,633	$582,000	Includes 7 Type 1 jobs at Hayden Bridge - on track so far. Network upgrade could sway YE Projection up or down.
Mains - Replacements, Improvements, & Transmissio	$4,630,328	$1,185,301	$4,600,000	YE Projection is approximate, more definitive after Q2
Services and Meters	$666,674	$86,998	$666,000	Bulk of Type 1 is water meter replacements.
Pump Stations	$847,035	$20,719	$847,000	Includes new Shasta 1150 pump station and emergent work at Santa Clara.
Reservoirs	$84,396	$1,069	$82,000	On-going security and emergent work.

These categories will match the Capital Improvement Plans (CIPs) submitted by Water & Electric.

Type 1 - General Capital is budgeted Year-by-Year for recurring capital expenditures from January through December. Typical Type 1 Capital includes categorized collections of projects of less than $1 million.

Typical examples include "main replacements" . This work typically involves dozens of jobs that add up to $3-$3.5 million per year.

Type 2 Rehabilitation & Expansion Projects

Project	2014			Project Total			Schedule			Status/Comments
	Budget*	YTD Actual	Year-End Projection	Initial Plan	To-Date Actual	Project-End Projection	Start	Initial Planned Completion	Projected Completion	
Raw Water Intake Improvements	$3,672,048	$687,560	$3,672,000	$6,292,000	$4,397,028	$7,380,000	2011	YE-2013	Q1-2015	Intake 1 Upgrades near completion, Intake 2 Upgrades in design. One year permitting delay. (Initial Plan - 2011 CIP)
Hayden Bridge Filter S1-S6 Upgrades	$103,016	$247	$100,000	$7,713,000	$4,008,905	$7,660,000	2011	YE-2017	YE-2016	Upgrade of Filters N1-N6 Complete. Will design upgrades of S1-S6 this year for const. in 2015-2016. (Initial Plan - 2011 CIP)
Hayden Bridge Seismic Upgrades	$865,302	$18,241	$600,000	$1,215,529	$25,083	$920,000	2014	YE-2015	Q2-2015	Currently in design for construction start late summer. May shift to Type 1 job. (Initial Plan - 2013 CIP)
Terry to Green Hill Extension (Veneta)	$60,000	$7,535	$60,000	$1,545,000	$1,207,609	$1,260,000	2012	YE-2012	YE-2013	New transmission line is in operation. 2014 work is closeout instrumentation/communications. (Initial Plan - 2012 CIP)
WM River Crossing at Beltline	$380,000	$243,172	$390,000	$2,000,000	$2,273,510	$2,420,000	2011	YE-2012	Q1-2014	Crossing near completion. Final tie-ins remain. Early permitting issues pushed project into 2014. (Initial Plan 2011 CIP)
Distribution System Scada/PLC Upgrades	$150,000	$1,916	$150,000	$3,079,780	$22,338	$3,200,000	2013	YE-2016	YE-2019	Multi-Year upgrade project. 2014 first significant year of work. Cost will likely drop as we get into project. (Initial Plan 2013 CIP)
Dillard 800 Reservoir Repair/Structural Upgrade	$154,503	$14,822	$150,000	$1,745,850	$14,822	$1,700,000	2014	YE-2015	YE-2015	Structual evaluation better than anticipated. May shift priorities and begin design of another reservoir rehab. (Initial Plan 2014 CIP)
Willamette 800 Reservoir No.1 Replacement	$543,763	$160	$540,000	$1,639,760	$67,519	$1,610,000	2013	YE-2014	Q3-2015	After evaluation, project changed from rehab to a replacement. Construction pushed back one year. (Initial Plan 2013 CIP)
Willamette 1325 Reservoir Replacement	$65,000	$36,131	$40,000	$1,043,000	$1,777,058	$1,780,000	2011	YE-2012	YE-2013	New reservoir in operation. 2014 work was final closeout . Will not appear on Q2 Report. (Initial Plan 2011 CIP)
LTD EMX	$0	$108,668	$3,000,000	$0	$108,668	$3,450,000	2014	Jul-1905	Q2-2015	LTD and EWEB are working together to minimize conflicts with existing EWEB facilities. Exploratory excavations, (potholes) will dictate the final costs for EWEB relocations. All relocations are 100% reimbursable from LTD. EWEB water to start on relocations in May. BAM for EmX will occur this summer.

Type 3 - Strategic Projects & Programs

Project	2014			Project Total			Schedule			Status/Comments
	Budget*	YTD Actual	Year-End Projection	Initial Plan	To-Date Actual	Project-End Projection	Start	Initial Planned Completion	Projected Completion	
Alternative Water Supply	$51,665	$27,037	$52,000	$52,707,167	$27,037	$55,000,000	2014 with Planning	YE-2019	YE-2019	2013 CIP was used for Initial Plan. This was after costs were reduced by 50% from previous CIP Estimates.

SHARED SERVICES Capital Projects Quarterly Status Report
2014-Q1

Type 1 - General Capital

Capital Category	2014 Budget (Includes April Amendments)	2014 YTD Actual	2014 Year-End Projection (incl. April Admendments)	Status/Comments
General Plant - Information Technology (I.T.)	$2,350,555	$198,502	$2,350,555	Projection includes Metro E., Disaster Recovery; does not include WAM/WACFR or AMI; 67% of completed projects are on time and within budget. (SAYRE)
General Plant - Buildings & Land Management	$1,546,517	$263,076	$1,546,517	2014 includes completion of the ROC fuel tanks and completion of the HQ renovation of the HVAC system. (MCCARTHY)
General Plant - Fleet Capital	$1,743,629	$0	$1,743,629	Year-End Projection includes April BAM (LENTSCH)

In the future, these categories will match the Capital Improvement Plans (CIPs) submitted by Water & Electric.

Type 1 - General Capital is budgeted Year-by-Year for recurring capital expenditures from January through December. Type 1 Capital includes categorized collections of projects of less than $1 million. Typical examples include "pole replacements" as part of Transmission & Distribution. This work typically involves many small projects that up to $1.2-$1.7 million per year.

Type 2 projects have "discrete" scopes, schedules (launch through completion), and cost over $1MM during the project life.

Type 2 Rehabilitation & Expansion Projects

Project	2014 Budget (Includes April Amendments)	2014 YTD Actual	2014 Year-End Projection	Project Total Initial Plan	Project Total To-Date Actual	Project Total Project-End Projection	Schedule Start	Schedule Initial Planned Completion	Schedule Projected Completion	Status/Comments
Energy Insight Project (Electric Specific I.T.)	$209,294	$31,954	$209,294	---	$962,434	$1,139,774	Jan-2011	---	Jun-2014	The Energy Insight (EI) program is designed to web-initiate, manage, track, and report activity associated with the investments and returns (including BPA cost recovery) of incentivized conservation programs. The interface module being developed links EI with customer/contractor payables and incentives. EI Payment Interface uses a SOA platform, and is scheduled for June 2014. (FREEMAN, DENOUDEN)
Metro Ethernet (Shared I.T. Infrastructure)	$495,660	$47,314	$495,660	$5,725,000	$5,327,516	$5,775,862	Apr-2012	Jul-2013	Jul-2014	Closeout project progressing toward July completion. (WREN)
WAM/MWM Implementation	$4,508,408	$932,789	$4,508,408	$8,327,614	$4,498,554	$8,327,614	Jun-2013	Aug-2014	Oct-2014	Work Order and Asset Management and Mobile Work Management System is designed to provide real-time, utility-wide visibility into type, location and condition of our assets. This data will provide us the ability to forecast how and when to spend our capital and O&M funds. Establishes common processes; single asset repository; visibility of work across business units; creates/revises asset management policies and processes; reduces multiple systems and reduces/eliminates manual processes. (BLOOM, JOHNSTON)
Steam Plant De-Commissioning	$1,100,000	$107,977	$1,100,000	$1,250,000	$700,436	$1,692,459	Jan-2013	"2014"	Sep-2014	Demolition contractor is removing equipment, flues and piping from the building. The removal work is consistent with our plan with SHPO. Phase 1 abatement and removal of Boiler#3 near completion; Phase 2 abatement of Boiler #1, and abatement/removal of Boiler#2 bid received - to Board in May. (NEWCOMB)
AMI Information Technology & Integration	$280,000	$4,043	$400,000	---	$4,043	$3,700,000	Jan-2008	Jun-2014	Dec-2017	Status = Under Review (grey); In negotiations with MDM vendor. Forecast of $3.7MM covers AMI "Initial Opt-In Phase" through 2017. (ARMSTEAD)
River-Front Property Development	$350,000	$56,845	$350,000	n/a	$1,900,000	$2,400,000	Feb-2006	n/a	Dec-2019	Status = Under Review (grey); RFQ/I responses due 5/23. Forward costs related to subdivision, surveying, economic consulting with no cash incentives. Assumes revenues posted elsewhere. (BIERSDORFF)

M E M O R A N D U M

EUGENE WATER & ELECTRIC BOARD

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TO:	Commissioners Brown, Mital, Helgeson, Manning and Simpson
FROM:	Erin Erben, Power & Strategic Planning Manager;
	Lisa Atkin, Power & Strategic Planning Supervisor
DATE:	April 24, 2014
SUBJECT:	Quarterly R&D Programs Reporting Summary Q 1 2014
OBJECTIVE:	Information Only

Issue

The purpose and intent of this memorandum is to provide a quarterly summary report of the research & development work on load management pilot programs being undertaken by a cross-functional team of EWEB staff. This quarterly reporting period ended March 31, 2014.

Background

Staff continues to research an array of energy efficiency and demand response programs designed to provide flexibility and adaptability in EWEB's business model, power supply options, and conservation strategies in response to the direction laid out in EWEB's updated IERP. The proposed programs are also intended to better position EWEB to assist customers with bill savings opportunities in the future. Within EWEB's service territory there are currently six pilot programs in existence at various stages of operation, from the planning & design phase through to completion. Appendix 1 summarizes current status by pilot program, offering additional insight and context to the pilots being undertaken. Currently, a further BPA commercial & industrial demand response pilot initiative is also being explored.

Discussion

Many of the projects have been the result of collaborative efforts with other regional partners, often with shared funding provisions. For 2014, the implementation of the Residential TOU (R-TOU) program continues to be the flagship effort that EWEB staff has engaged upon for the residential sector as we believe a strong price signal is the platform needed to grow other offerings. With the October 1, 2013 approval by the EWEB Board of Commissioners of Resolution No. 1322, of the Advanced Metering Infrastructure (AMI) Project, staff are engaged in reviewing the R&D Pilot Programs roadmap, associated business assumptions, and prioritization of the delivery of future program offerings to support the defined AMI Project objectives in light of a preferred customer opt-in strategic approach to AMI. Through early identification of synergies between existing pilot programs and AMI, such as Beyond The Meter program offerings, and through focusing resources on additional future pilots that enhance AMI effectiveness, opt in rates and accessibility to the customer, EWEB will be better positioned to provide more cost-conscious and effective options for customer at all income levels who elect to opt into programs enabled by AMI technology.

Each potential pilot program under consideration is taken through a series of primary, secondary and general research questions prior to further exploration and scoping of the business requirements and associated impacts, which in essence provides a high level appraisal of the impacts anticipated from a TBL perspective. EWEB staff is exploring the opportunity to participate in BPA's Commercial & Industrial Demand Response (DR) Aggregation Demonstration Project to determine that a regional pool of controlled customers loads can act in aggregate as a Grid level demand response resource to decrease load during peak periods, capacity constraints, grid emergencies or during periods when renewable resources experience intermittency. Efforts to explore operational feasibility with EWEB's commercial customers and negotiation of terms with a third party vendor are underway following BPA's contract award to Energy Northwest through completion of its RFP process in Q1 2014.

The Carina Water Heater Pilot Program sites have now been fully decommissioned during April following the successful completion of this water heater management study. The evaluation of the impact of using residential water heaters to respond to a peak load shifting and thermal storage control strategy is slated for an end of Q2 2014 completion.

Requested Board Action

No action is required from the Board at this time.

Appendix 1: Research & Development Pilot Programs Status

	RESIDENTIAL PROGRAMS			COMMERICAL & INDUSTRIAL PROGRAMS		
	Residential Time Of Use (TOU)	**Carina Water Heater (Phase II)**	**Steffes Water Heater (Phase I)**	**EWEB Water Pumping & Storage**	**Metro Waste Water**	**SnoTemp Cold Storage**
						
Current Stage	Design/development	Initial pilot complete and in Evaluation stage	Pilot Complete	Scoping	Initial pilot complete and in Evaluation stage. Phase II underway	Initial pilot complete and in Evaluation stage. Phase II on hold
Implementation	L+G *First Article* meter configuration testing completed – to be deployed early Q2 for field testing. 450 meters ordered. Bill presentment bugs being fixed. Revised R-TOU rate approved by Board 3/5/14. Communications Plan in execution phase. Customer database development underway. Expect to launch in Fall 2014. Labor resource planning ongoing.	All pilot sites will be decommissioned by end of April 2014.	Pilot ended 9/12. Sites decommissioned.	Commercial TOU rate schedule required for cost/resource effective participation. Plan to design rate in 2014.	Interest shown in potential BPA commercial DR aggregator pilot program. Meeting to discuss further 4/28/2014.	Unlikely to participate in potential BPA commercial DR aggregator pilot program at this time. Facility expansion under progress and will reconsider after completion.
Evaluation	EM&V plan finalized – work sessions scheduled.	Process evaluation in final review; impact evaluation underway. Completion Q2 2014.	Final EM&V report completed Q1.	No change	Process and impact evaluation due for completion 6/30/2014.	Process and impact evaluation due for completion 6/30/2014.
External	Continued ongoing collaboration with EPRI on pilot design and evaluation.	Ongoing discussion with NEEA with regard to analysis.	No new activity to report.	No new activity to report.	Final report sent to BPA. Informational video in progress at BPA request.	No new activity to report.
Hypothesis & Findings	Determine how TOU participants can benefit from peak shifting strategies. Evaluation not yet commenced.	Determining the feasibility of using residential water heaters to respond to a peak load shifting and thermal storage control strategy. Testing complete; Evaluation in	Determine the feasibility of using residential water heaters to respond to wind balancing signals, together with testing peak shifting and thermal storage capability.	Demonstrate the ability to use price signals and/or DR incentives to both increase load when extra capacity exists, and decrease load	Demonstrate the ability to use DR to both increase load when extra capacity exists and decrease load during capacity	Demonstrate the ability to use DR to both increase load when extra capacity exists and decrease load during capacity constraints.

		progress.		during capacity constraints.	constraints.	
Eligible Population and/or Unit Savings	100% of the 78,000 residential customers would be eligible for a residential TOU rate. Unit savings to be determined in Evaluation phase. Participation in the pilot will be voluntary.	Approx. 80% of residential customers would be eligible for a water heater control program. Unit savings determined in Evaluation phase.	Approx. 80% of residential customers would be eligible for a water heater control program. Savings impact to be determined in Evaluation phase.	This would impact EWEB facilities only. Unit savings and cost effectiveness to be determined.	With a Commercial TOU in place, approx 10,000 C&I businesses would have accessibility to participate in peak load shifting initiatives.	

MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO:	Commissioners Brown, Mital, Helgeson, Manning and Simpson
FROM:	Cathy Bloom, Finance Manager; Susan Eicher, General Accounting and Treasury Supervisor
DATE:	April 15, 2014
SUBJECT:	2013 Audited Financial Statements for Western Generation Agency
OBJECTIVE:	Information only

Issue

The Eugene Water & Electric Board (EWEB) co-owns the Western Generation Agency (WGA) under an intergovernmental agreement. Attached are the WGA 2013 audited financial statements.

Background

WGA operates a co-generation facility at the Georgia Pacific Mill in Wauna, Oregon. During 2013, the turbine experienced an outage that resulted in significant damage to the turbine and surrounding equipment. Extensive repairs were required and the revenue stream from sales of power was interrupted.

Discussion

Due to the interruption of the revenue stream from sales of power, WGA experienced a net loss of $4.8 million. EWEB recorded a 50% share of the net income or loss of WGA in the EWEB 2013 financial statements. The recognition of the net loss from WGA decreases EWEB net income but does not result in a reduction in cash. In a normal operating year, the WGA owners are able to receive up to $400 thousand each in distributions if there is sufficient cash. There was insufficient cash to make distributions for 2013 and it is likely there will be no distributions in 2014.

WGA received authorization to borrow funds for repair of capital equipment, but was unable to secure a loan since any borrowing would be subordinate to the WGA bonds, and there was no direct guarantee by the owners. Since then, WGA has been exploring alternatives to borrowing but nothing has been finalized at this time.

WGA initiated an insurance claim in 2013. The claim is large and complex and has not yet been settled. The WGA legal team, insurance brokers, and Board continue to work toward settling the claim, but the timing is uncertain.

As of January 25, 2014, the turbine is back in service and the power sales revenue stream has resumed. WGA estimates that the revenue from sales of power will be sufficient to meet needs for operating expenses and debt service, but additional resources will be required to pay remaining maintenance and repair bills.

Because the source of such resources was unknown at the time Moss Adams audited the 2013 financial statements, the WGA audit opinion includes what is known as an "Emphasis of a Matter" and notes that there is substantial doubt about WGA's ability to continue as a going concern. This paragraph of the audit opinion also references the plans of management to address that uncertainty. Despite the "going concern" comment, the audit opinion remains unmodified, meaning that Moss Adams has deemed the financial statements to be fairly stated. WGA intends to remain in operation as a going concern and is making every possible effort to address cash needs before the next audit cycle.

Recommendation and Requested Board Actions

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

Attachment: 2013 Audited Financial Statements

Report of Independent Auditors
and Financial Statements for

Western Generation Agency

December 31, 2013 and 2012

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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CONTENTS

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Western Generation Agency

Report on Financial Statements

We have audited the accompanying financial statements of Western Generation Agency (the Agency), which comprise the statements of net position as of December 31, 2013 and 2012 and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

REPORT OF INDEPENDENT AUDITORS (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Western Generation Agency as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the Agency will continue as a going concern. As discussed in Note 2 to the financial statements, the Agency has suffered significant losses from operations and has a net position deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures in the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements. The long-term bonded debt and interest payment requirements (including current portion) schedule is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The long-term bonded debt and interest payment requirements (including current portion) schedule has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the long-term bonded debt and interest payment requirements (including current portion) schedule is fairly stated in all material respects in relation to the financial statements as a whole.

REPORT OF INDEPENDENT AUDITORS (continued)

Report on Other Legal and Regulatory Requirements

In accordance with the Minimum Standards of Auditors of Oregon Municipal Corporations, we have issued our report dated March 31, 2014 on our consideration of the Agency's compliance with certain provisions of laws and regulations, including the provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

Julie Desimone

Julie Desimone, Partner for Moss Adams LLP
Portland, Oregon
March 31, 2014

This discussion and analysis is presented to provide an overview of Western Generation Agency's (Agency) financial activities for the years ended December 31, 2013, 2012, and 2011. This supplementary information should be read in conjunction with the Agency's financial statements.

Western Generation Agency was created in 1993 pursuant to an Intergovernmental Agency Agreement between Eugene Water & Electric Board (EWEB) and Clatskanie People's Utility District (CPUD) for the purpose to construct, own and operate an electric generation plant; the Wauna Cogeneration Project (Project), at the Wauna Mill (Mill) currently owned and operated by Georgia Pacific Corporation. The Agency is governed by a Board of Directors comprised of six appointed members, three each from both EWEB and CPUD, and as a separate legal entity, has no other association with either entity regarding financial reporting requirements. The Agency currently sells the energy from its generation to the Bonneville Power Administration (BPA) for a predetermined price.

Financial Summary and Analysis

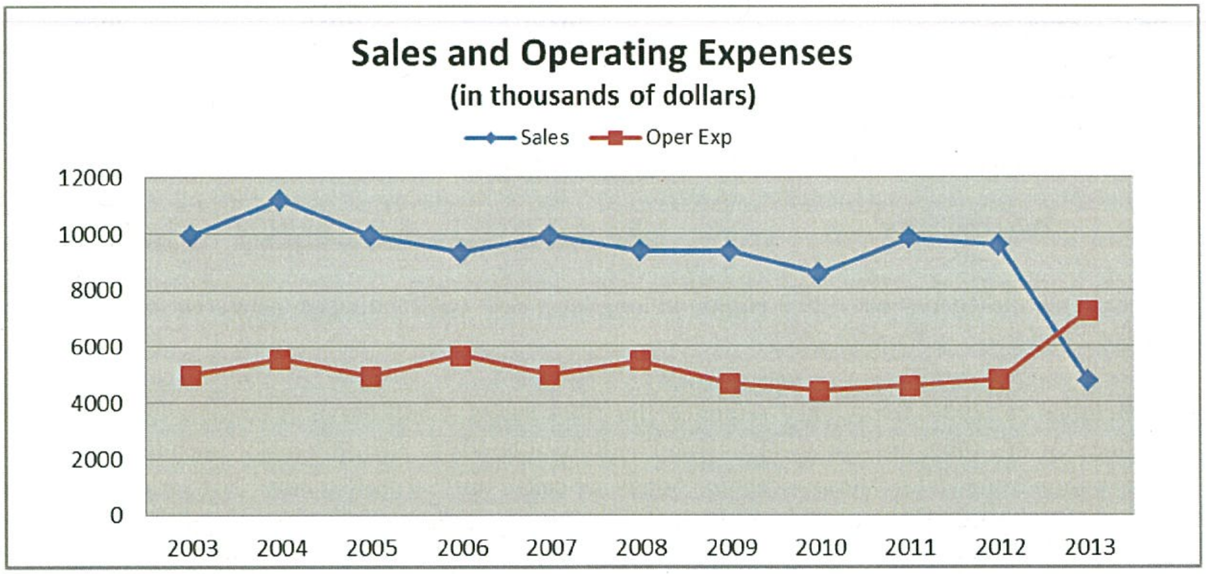
During 2013, the Agency's power sales decreased by 50.5%. Power sales decreased due to two major events, a planned major maintenance overhaul that was extended beyond the planned time and an event that had sufficient steam hammer pressure to the machine to move the turbine away from the generator. Both of these events caused outages totaling almost six months, where no power was generated. Overall, the Agency experienced a net decrease in income of approximately $7 million for the year. The primary factors influencing these results include:

- Decrease in power sales revenue of $4.8 million due to extended generation outages,
- Increase in maintenance costs of $3.5 million for the outages,
- Decrease in depreciation expense of $900,000 related to idle plant,
- Decrease in steam efficiency payment of $270,000 related to decreased generation during the year.

Selected Financial Data

(in thousands of dollars)	2013	2012	2011
Power sales	$ 4,743	$ 9,582	$ 9,459
Operating expenses	7,259	4,805	4,598
Operating income	(2,516)	4,777	5,226
Income (loss) (not including distributions to members)	(4,481)	2,648	2,924
Total assets and deferred outflows	32,250	39,465	41,649
Total liabilities	35,677	38,010	42,042
Net position			
Net investment in capital assets	(11,100)	(13,220)	(12,700)
Restricted	7,427	11,089	10,159
Unrestricted	246	3,586	2,148
Total net position	(3,427)	1,455	(393)
Total liabilities and net position	32,250	39,465	41,649

Power Sales and Operating Expenses



Capital Asset and Long-Term Debt Activity

Utility plant as of December 31, 2013, 2012, and 2011 consisted of the following:

(in thousands of dollars)	2013	2012	2011
Buildings	$ 10,797	$ 10,797	$ 10,797
Equipment	56,553	56,553	56,553
Total utility plant	$ 67,350	$ 67,350	$ 67,350

The Agency had not invested in any additions to plant in 2013, 2012, or 2011; therefore, plant values are consistent with previous years. Utility plant net of depreciation was $20.5 million, $22.3 million, and $25.0 million at the end of those years, respectively. This represents a decrease of $2.7 million (or 4.0%) for 2012 and 2011, relating to depreciation. For 2013 the decrease was $1.8 million, a difference of $900,000 over prior years due to the plant being idle for four months.

Total liabilities as of December 31, 2013, 2012, and 2011 consisted of the following:

(in thousands of dollars)	2013	2012	2011
Total current liabilities	$ 6,451	$ 4,633	$ 4,637
Preferred dividend payable	1,217	1,047	878
Total long-term debt	28,009	32,330	35,717
Total liabilities	$ 35,677	$ 38,010	$ 41,232

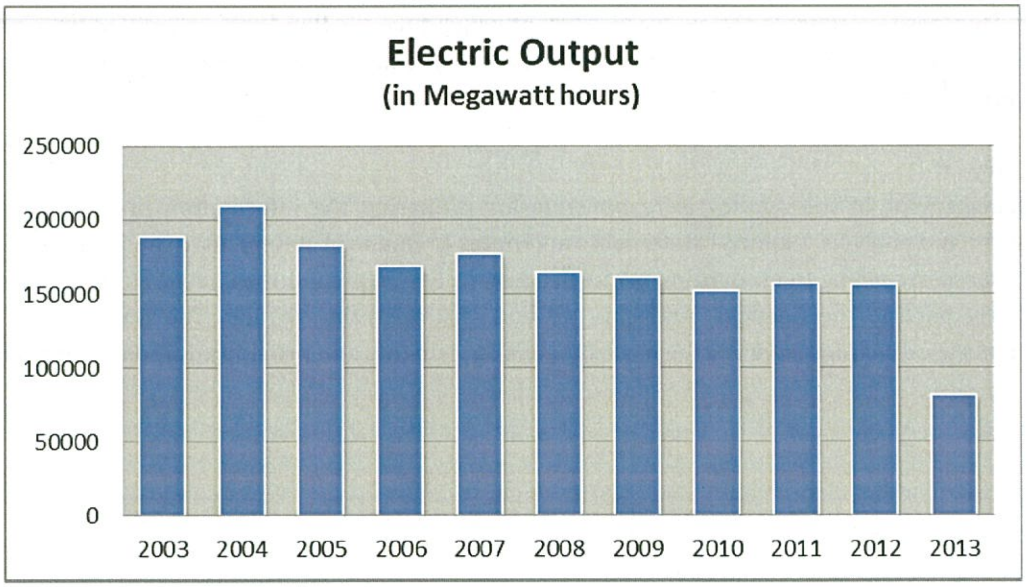
At year-end, the Agency had $28.0 million in long-term debt outstanding as compared to $32.3 million for 2012 and $36.5 million for 2011.

On October 26, 2006, the Agency refunded the 1994 Series A and Series B bonds with a new bond issuance. At this time, the Agency also issued additional bonds to pay off a major portion of the equity contribution from EWEB. These additional bonds are called the "Series C bonds." The Series C bonds are considered "Turbo" bonds and have a fixed debt service schedule as with the other bond issues. However, if earnings from the Agency are in excess of $400,000, on a semi-annual basis, the remaining earnings are used to pay-off the Series C bonds. Therefore, in years where excess funds are available to pay-off the Series C bonds, the trustee will transfer the excess funds to the Subordinate lien account to annually pay off bonds. The debt service schedule for the Series C bonds will then be recalculated. When the Series C bonds are paid in full, the remaining EWEB equity of $2,150,987 plus accrued interest will be paid as earnings are available. Earnings will be available after the $400,000 distribution to the members on a semi-annual basis.

Fuel Supply

The Agency uses high-pressure steam from the Mill to produce electricity and redelivers low-pressure steam to the Mill. A portion of that steam is produced using pulp/paper waste. Actual production for 2013 was 81,030 MWhrs or 52% less than 2012 production.

Generating Output



Economic Factors

In 2014, generation levels of electricity are budgeted to be 145,000 MWhrs. This is about 70,000 MWhrs more than production from the prior year. The 2014 budgeted amount for production includes a scheduled mill shutdown during the month of May, which will result in less steam to the turbine. The Agency expects the Mill to generally continue operation of the various paper machines in their current configuration.

Power Purchase Agreements

The Power Purchase Agreement between the Agency and EWEB will remain in effect for a period of 25 years from the Commercial Operation Date of the Project. Commercial operations commenced on April 6, 1996. The agreement requires EWEB to purchase Project output in an amount not to exceed 231,637 MWh annually. In the event Project output exceeds this amount, EWEB will notify the Agency of the prevailing fair market price for such excess output and, if the Agency agrees to accept the prevailing fair market price or if the parties agree to another price, EWEB may purchase all excess Project output at the agreed-upon price. If no agreement on price can be reached, the Agency can elect not to generate the excess output.

EWEB has agreed to suspend its Power Purchase Agreement in favor of a Power Purchase Agreement between the Agency and the BPA. The BPA Power Purchase Agreement will be in effect for a period of 20 years from the Commercial Operation Date of the Project. The BPA agreement requires the purchase of Project output not to exceed 236,000 MWh annually. In the event Project output exceeds this amount, the Agency will notify the BPA of the expected excess output and a proposed price, not to exceed the agreed upon price of the BPA's annual purchase commitment. If the Agency and the BPA agree upon the proposed price or another price, the BPA may purchase all excess Project output at the agreed-upon price. If no agreement on price can be reached, the Agency can sell the excess output to EWEB under a transmission agreement with the BPA.

Lease Agreement

The Agency leases the land from the Mill on which the Fluidized Bed Boiler (FBB) and steam turbine reside. This lease is scheduled to expire in 2021, at which time the Bonds are scheduled to be paid in full. The lease agreement contains an option for the Mill to buy the electric generation plant at the end of the lease term.

Summary

The management of the Agency is responsible for preparing the information in this management's discussion and analysis, financial statements and notes to financial statements. The financial statements are prepared according to accounting principles generally accepted in the United States of America, and they fairly portray the Agency's financial position and operating results. The notes to the financial statements are an integral part of the basic financial statements and provide additional information.

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WESTERN GENERATION AGENCY
STATEMENTS OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31, 2013	December 31, 2012
CURRENT ASSETS		
Cash and cash equivalents	$ 627,754	$ 1,224,861
Accounts receivable	-	1,710,674
Interest receivable	123	9,733
Prepayments and other current assets	187,868	182,080
Total current assets	815,745	3,127,348
RESTRICTED CASH AND INVESTMENTS		
Investments for debt service	3,765,080	4,673,024
Debt service reserve – Series A and B	4,815,250	4,815,250
Maintenance fund	-	2,738,838
Total restricted cash and investments	8,580,330	12,227,112
UTILITY PLANT		
Utility plant	67,350,057	67,350,057
Less accumulated depreciation	(46,875,602)	(45,079,602)
Net utility plant	20,474,455	22,270,455
OTHER NONCURRENT ASSETS		
Regulatory asset – unamortized bond issue costs	929,410	1,120,617
Regulatory asset – major maintenance costs	820,601	-
Total other noncurrent assets	1,750,011	1,120,617
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized loss on bond refunding	629,925	719,915
Total assets and deferred outflows of resources	$ 32,250,466	$ 39,465,447

 See accompanying notes.

LIABILITIES AND NET POSITION

	December 31, 2013	December 31, 2012
CURRENT LIABILITIES		
Accounts payable	$ 1,732,861	$ 334,371
Accrued interest	1,153,064	1,138,434
Bonds payable, current portion	3,565,000	3,160,000
Total current liabilities	6,450,925	4,632,805
PREFERRED DIVIDEND PAYABLE	1,216,824	1,047,434
LONG-TERM DEBT, net of current portion	28,009,189	32,330,492
Total liabilities	35,676,938	38,010,731
NET POSITION		
Net investment in capital assets	(11,099,734)	(13,220,037)
Restricted for		
Debt service and reserve	7,427,266	8,349,840
Maintenance	-	2,738,838
Unrestricted	245,996	3,586,075
Total net position	(3,426,472)	1,454,716
Total liabilities and net position	$ 32,250,466	$ 39,465,447

WESTERN GENERATION AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Years Ended December 31, 2013	2012
OPERATING REVENUES		
Power sales	$ 4,743,132	$ 9,581,686
OPERATING EXPENSES		
Production	4,850,677	1,367,595
Administrative and general	612,768	475,552
Depreciation	1,796,000	2,694,000
Steam efficiency payment	-	267,416
Total operating expenses	7,259,445	4,804,563
OPERATING INCOME (LOSS)	(2,516,313)	4,777,123
INTEREST ON INVESTMENTS	6,288	10,300
OTHER EXPENSE		
Interest expense and related amortization	1,692,643	1,881,643
DISTRIBUTIONS AND DIVIDENDS		
Preferred equity dividend	278,520	257,817
Distributions to members	400,000	800,000
Total distributions and dividends	678,520	1,057,817
NET INCOME (LOSS)	(4,881,188)	1,847,963
NET POSITION, beginning of year	1,454,716	(393,247)
NET POSITION, end of year	$ (3,426,472)	$ 1,454,716

See accompanying notes.

	Years Ended December 31, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Bonneville Power Administration	$ 6,453,805	$ 9,588,222
Receipts from Eugene Water & Electric Board	-	-
Payments to Georgia Pacific	(4,812,674)	(1,517,625)
Payments for administrative and general costs	(77,404)	(494,236)
Net cash from operating activities	1,563,727	7,576,361
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	-	(8,437,204)
Proceeds from investments	6,804,663	6,322,779
Interest received on investments	15,898	47,538
Net cash from investing activities	6,820,561	(2,066,887)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond principal payments	(3,780,000)	(4,160,000)
Interest payments	(1,642,250)	(1,840,750)
Equity distributions	(400,000)	(800,000)
Net cash from capital and related financing activities	(5,822,250)	(6,800,750)
CHANGE IN CASH AND CASH EQUIVALENTS	2,562,038	(1,291,276)
CASH AND CASH EQUIVALENTS, beginning of year	6,646,046	7,937,322
CASH AND CASH EQUIVALENTS, end of year	$ 9,208,084	$ 6,646,046
RECONCILIATION TO BALANCE SHEET		
Cash and cash equivalents	$ 627,754	$ 1,224,861
Restricted cash equivalents	8,580,330	5,421,185
	$ 9,208,084	$ 6,646,046

WESTERN GENERATION AGENCY
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2013	2012
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	$ (2,516,313)	$ 4,777,123
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation on utility plant	1,796,000	2,694,000
(Increase) decrease in assets		
Receivables	1,711,939	6,535
Prepayments and other current assets	(5,788)	(12,476)
Regulatory asset - major maintenance costs	(820,601)	-
Increase (decrease) in liabilities		
Accounts payable	1,398,490	111,179
Net cash from operating activities	$ 1,563,727	$ 7,576,361

 See accompanying notes.

Note 1 – Summary of Significant Accounting Policies

Organization – Western Generation Agency (the Agency) was created pursuant to an Intergovernmental Agency Agreement, dated October 13, 1993, between Eugene Water & Electric Board (EWEB) and Clatskanie People's Utility District (CPUD) for the purpose to construct, own and operate an electric generation plant, the Wauna Cogeneration Project (Project).

The Agency has no employees. EWEB and CPUD will continue to provide, or cause to be provided, such technical, general and administrative services as the Agency may reasonably require.

The Project is comprised of both a Steam Turbine Generator (STG), with a nameplate rating of 36 megawatts (MW) capable of producing an average 26 MW of energy, and a Fluidized Bed Boiler (FBB). The FBB is utilized in the production of steam that is supplied to the STG. The steam production is accomplished by burning solid waste fuel generated by the existing pulp/paper manufacturing facility owned by Georgia Pacific, located in Wauna, Oregon. The Project is dependent on steam production from the Georgia Pacific manufacturing facility.

The Agency is governed by a Board of Directors which is comprised of three appointed members from both EWEB and CPUD, and as a separate legal entity has no other association with either entity regarding financial reporting requirements. The Agency has no component units and is not a part of a reporting entity of any other government.

Method of accounting – The Agency maintains its accounting records in accordance with accounting principles generally accepted in the United States of America for governmental proprietary funds.

Effective January 1, 2013, the Agency adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The Statement requires reclassification of certain items previously reported as assets or liabilities to deferred outflows of resources or deferred inflows of resources. In addition, certain items previously reported as assets and liabilities are now recognized as outflows of resources (expenses) or inflows of resources (revenues). GASB Concepts Statement No. 4, *Elements of Financial Statements*, specifies recognition of deferred outflows and deferred inflows should be limited to instances specifically identified in authoritative GASB pronouncements. Statement No. 65 amends items previously classified as assets and liabilities to be consistent with GASB Concept Statement No. 4. Statement No. 65 also limits the use of the term *deferred* in financial statement presentations. Implementation of Statement No. 65 resulted in the reclassification of unamortized bond issuance costs from an asset to a regulatory asset included in other assets on the Statements of Net Position and unamortized losses on bond refunding were reclassified from a liability to a deferred outflow at December 31 for the two years presented. There was no effect on income for 2013 or net position at the beginning of 2013.

Note 1 – Summary of Significant Accounting Policies (continued)

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash equivalents and restricted cash and cash equivalents – The Agency considers all highly-liquid investments with original maturities of three months or less when purchased to be cash equivalents (see Note 3). Restricted cash and cash equivalents are held within the bond funds.

Revenue recognition and receivables – The Agency recognizes revenue from power sales to Bonneville Power Administration (BPA) based on the metered amount of kilowatt hours (Kwh) provided to BPA each month at the contract rate, pursuant to the Power Purchase Agreement (the Agreement) between the Department of Energy (through BPA) and the Agency (see Note 7). Sales under the Agreement are judged collectible by the Agency, therefore, no reduction to revenues or income is provided.

In accordance with the Bond Indenture (Indenture), project revenues, including interest, received are restricted, to be placed in the revenue fund. The monies in the revenue fund are disbursed first to the operating fund for the budgeted monthly operating costs. Thereafter, monies from the revenue fund are used per the terms of the Indenture for the various fund types.

Utility plant – Plant facilities are recorded at original cost (see Note 4). Costs include labor, materials, and related indirect costs, such as engineering, design and allowance for funds used during construction. The cost of additions, renewals and betterments is capitalized. Routine repairs and replacements will be charged to operating expenses when incurred. Depreciation is computed using the straight-line method over the length of the Agreement (25 years), which is considered the useful life of the plant.

Asset retirement obligation – Upon termination of the Agency's Lease Agreement (See Note 7), at Georgia Pacific's discretion, the Agency could be requested to surrender possession of its facility or remove it from Georgia Pacific's premises and restore the land; however, alternatives are provided in the Lease Agreement, which provide a number of possible outcomes in the Agency's favor. In the Agency's judgment, the outcomes with the highest likelihood of coming to pass diminish the asset retirement obligation to immaterial levels.

Note 1 – Summary of Significant Accounting Policies (continued)

Regulatory assets – The Agency has established regulatory assets for the following items:

- **Unamortized bond issue costs** – Unamortized bond issue costs represent the remaining expense related to various debt issuances. The asset is amortized over the duration of the related debt and recognition of these costs is included in the rate making process.

- **Major maintenance costs** – Major maintenance costs represent the costs incurred to replace the control board for the Project. The asset is amortized over the remaining life of the lease with Georgia Pacific, as these costs are included in the rate making process.

Net position – Consist of the following components:

- **Net investment in capital assets** – This component of net position consists of (a) capital assets, (b) net of accumulated depreciation and outstanding balances of any bonds that are attributable to the acquisition, construction, or improvement of those assets.

- **Restricted** – This component consists of net position on which constraints are placed as to their use. Constraints include those imposed by creditors (such as through debt covenants), contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or through enabling legislation.

- **Unrestricted** – This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

Unamortized bond premiums, and loss on refunding – Premiums are capitalized and amortized over the term of the Indenture. Losses on refunding of bond issuances are amortized over the new or old bonds, whichever period is shorter.

Major customer – The Agency has entered into a Power Purchase Agreement with the Department of Energy, acting by and through BPA, to provide power to BPA for 20 years. The contract states that the Agency is not to provide more than 236,000 MWh (megawatt hours) during a year. This agreement was effective April 6, 1996, the date of substantial completion and commencement of operations. All power sales in 2013 and 2012 were to BPA.

Income taxes – The Agency is not subject to income taxes as it is a governmental agency.

Fair value of financial instruments – The carrying amounts of current assets, including restricted cash and investments, and current liabilities approximate fair value due to the short-term maturity of those instruments. The fair value of the Agency's investments and debt are estimated based on the quoted market prices for the same or similar issues.

Note 1 – Summary of Significant Accounting Policies (continued)

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Note 2 – Management's Plan

In August of 2013, the STG experienced an unplanned steam hammer event that caused significant damage to the turbine and surrounding equipment. As a result of the damage, the turbine was shipped out of state for repairs. The outage began August 28, 2013 and the unit was returned to service on January 25, 2014. During the outage, the Project generated no power, thus resulting in cash flow issues because the Agency has no other significant source of revenue beyond its power sales contract with BPA.

The Agency has utilized all of its restricted maintenance fund as well as a significant portion of its unrestricted cash to cover some of its ongoing operational and debt service costs as well as a portion of the expenses to repair the STG. The Agency's year end accounts payable have increased significantly because of unpaid bills to Georgia Pacific and other vendors for operating expenses. Also, on January 2, 2014, the Agency made its scheduled principal and interest payment.

During this time period, Agency management considered the generator to be idle equipment and halted depreciation expense until the generator was back online.

Since returning to service on January 25, 2014, the Project has been operational and normal power deliveries to BPA resumed. Management of the Agency projects that the power sales to BPA will generate sufficient cash flow to meet its ongoing operational costs and debt service obligations. Management also intends to secure short-term financing to assist in covering the unpaid costs from repairs following the steam hammer event plus remaining expenses from the major maintenance in May 2013 as well as replenish the restricted cash balances. No such financing was finalized as of the date the financial statements were available to be issued.

Note 3 – Cash and Investments

The Agency maintains cash and investments in several accounts in accordance with bond resolutions or designations by the Agency. In accordance with the Indenture, the Agency can invest in obligations of the U.S. Treasury, other U.S. agencies, New Housing Authority bonds, direct and general obligations of any state, collateralized certificates of deposit, repurchase agreements, reverse repurchase agreements, prime commercial paper rated at least P-1 by Moody's or at least A-1 by Standard & Poor's, mortgage-backed bonds and collateralized mortgage obligations, if such bonds or obligations are rated in one of the two highest ratings categories of either Moody's or Standard & Poor's, and the Oregon State Treasurer's Local Government Investment Pool (LGIP), as provided by Oregon Revised Statutes (ORS) 294. Descriptions of these fund account types are as follows:

- **Debt service reserve** – Monies required to be set aside to meet debt service needs in the event revenue is insufficient.

- **Investments for debt service** – Amounts required under the Indenture for the payment of principal and interest of the 2006 Series A, B, and C Revenue Bonds and any amounts accumulated for the redemption of the bonds.

- **Maintenance fund** – Consists of amounts required to be set aside to fund major repairs and/or major maintenance, absent a deficiency in the Debt Service Reserve or Investments for Debt Service.

Deposits with financial institutions are comprised of discount notes and money market accounts. $250,000 was covered by federal depository insurance. The full amount is collateralized with securities held by the pledging financial institution but not in the Agency's name.

As of December 31, 2013:

Investment Type	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Cash and money market accounts	$ 9,208,084		100.0%
	$ 9,208,084		100.0%

Note 3 – Cash and Investments (continued)

As of December 31, 2012:

Investment Type	Carrying Value	Weighted Average Maturity (Years)	% of Portfolio
Cash and money market accounts	$ 6,646,046	0.00	49.4%
Federal Home Loan Bank Discount Notes	1,991,000	0.01	14.8%
Financing Corporation Strip Series Zero Coupon Bonds	4,814,927	0.43	35.8%
	$ 13,451,973		100.0%

The "weighted average maturity in years" calculation assumes that all investments are held until maturity.

Custodial credit risk is that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the aforementioned cash and investments are held in the Agency's name by a third-party custodian.

Note 3 – Cash and Investments (continued)

	2013		
	Restricted Cash and Investments	Cash and Cash Equivalents	Total
Wells Fargo Government Money Market Fund	$ 8,580,330	$ 627,754	$ 9,208,084
	$ 8,580,330	$ 627,754	$ 9,208,084

Debt service reserve – Series A & B	$ 4,815,250
Maintenance fund	-
Investments for debt service	3,765,080
	$ 8,580,330

	2012		
	Restricted Cash and Investments	Cash and Cash Equivalents	Total
Wells Fargo Government Money Market Fund	$ 5,421,185	$ 1,224,861	$ 6,646,046
Federal Home Loan Bank Discount Notes	1,991,000	-	1,991,000
Financing Corporation Strip Series Zero Coupon Bond	4,814,927	-	4,814,927
	$ 12,227,112	$ 1,224,861	$ 13,451,973

Debt service reserve – Series A & B	$ 4,815,250
Maintenance fund	2,738,838
Investments for debt service	4,673,024
	$ 12,227,112

Note 4 – Utility Plant

	Balance at December 31, 2012	Additions	Retirements	Balance at December 31, 2013
Fluidized bed boiler				
Buildings	$ 8,202,497	$ -	$ -	$ 8,202,497
Equipment	29,097,226	-	-	29,097,226
Total fluidized bed boiler	37,299,723	-	-	37,299,723
Steam turbine				
Buildings	2,594,912	-	-	2,594,912
Equipment	27,455,422	-	-	27,455,422
Total steam turbine	30,050,334	-	-	30,050,334
Total utility plant	67,350,057	-	-	67,350,057
Accumulated depreciation	(45,079,602)	(1,796,000)	-	(46,875,602)
Net utility plant	$ 22,270,455	$ (1,796,000)	$ -	$ 20,474,455

	Balance at December 31, 2011	Additions	Retirements	Balance at December 31, 2012
Fluidized bed boiler				
Buildings	$ 8,202,497	$ -	$ -	$ 8,202,497
Equipment	29,097,226	-	-	29,097,226
Total fluidized bed boiler	37,299,723	-	-	37,299,723
Steam turbine				
Buildings	2,594,912	-	-	2,594,912
Equipment	27,455,422	-	-	27,455,422
Total steam turbine	30,050,334	-	-	30,050,334
Total plant in service	67,350,057	-	-	67,350,057
Accumulated depreciation	(42,385,602)	(2,694,000)	-	(45,079,602)
Net plant in service	$ 24,964,455	$ (2,694,000)	$ -	$ 22,270,455

During the unplanned outage, Agency management considered the generator to be idle equipment and halted depreciation expense from August through December 31, 2013.

Note 5 – Long-Term Debt

In October 2006, the Agency issued $55,565,000 of non-recourse Cogeneration Project Revenue Bonds, 2006 Series A, B, and C (Bonds) dated October 1, 2006. Series A bonds yield between 4.15% and 4.58% with final maturities from 2016 through 2021. Series B bonds yield between 4.45% and 4.63% with final maturities from 2008 through 2016. Series C bonds yield 5.00% with final maturity in 2021. The Bonds were issued to refund the Agency's 1994 Cogeneration Project Revenue Bonds, Series A and B and to pay EWEB a portion of outstanding preferred equity (see Note 6). The Bonds are non-recourse and are special, limited obligations of the Agency, and are collateralized solely by a pledge and assignment of the trust estate under the Indenture. The ability of the Agency to pay related principal and interest payments associated with the Bonds is contingent upon successful operation of the Project. A special redemption clause requires that excess amounts in the General Fund be transferred to the Redemption Account for the Series C bonds. Special redemption of the Series C bonds is mandatory if, but only if and only to the extent, funds are available to be transferred to the Redemption Account for such purposes. On January 1, 2013, and 2012, the Agency redeemed $925,000 and $1,275,000, respectively, of the Series C bonds, which is greater than the required payment due. The bonds were called at a redemption price equal to 100 percent of the principal amount plus interest accrued and unpaid through the date of redemption.

The following is a summary of long-term debt transactions:

	Principal			
Cogeneration Project Revenue Bonds	Outstanding January 1, 2013	Issued	Matured During Year	Outstanding December 31, 2013
2006 Series A, interest rates ranging from 4.15% to 4.58%; original issue of $20,575,000; maturing through 2021	$ 20,575,000	$ -	$ -	$ 20,575,000
2006 Series B, interest rates ranging from 4.45% to 4.63%; original issue of $23,390,000; maturing through 2016	10,770,000	-	2,855,000	7,915,000
2006 Series C, interest rate of 5.00%; original issue of $11,600,000; maturing through 2021	3,390,000	-	925,000	2,465,000
	34,735,000	$ -	$ 3,780,000	30,955,000
Unamortized premium	755,492			619,189
Total debt	35,490,492			31,574,189
Less: Current portion	3,160,000			3,565,000
Long-term debt	$ 32,330,492			$ 28,009,189

Note 5 – Long-Term Debt (continued)

Cogeneration Project Revenue Bonds	Principal Outstanding January 1, 2012	Issued	Matured During Year	Outstanding December 31, 2012
2006 Series A, interest rates ranging from 4.15% to 4.58%; original issue of $20,575,000; maturing through 2021	$ 20,575,000	$ -	$ -	$ 20,575,000
2006 Series B, interest rates ranging from 4.45% to 4.63%; original issue of $23,390,000; maturing through 2016	13,655,000	-	2,885,000	10,770,000
2006 Series C, interest rate of 5.0%; original issue of $11,600,000; maturing through 2021	4,665,000	-	1,275,000	3,390,000
	38,895,000	$ -	$ 4,160,000	34,735,000
Unamortized premium	891,796			755,492
Unamortized loss on refunding	(809,904)			(719,915)
Total debt	38,976,892			34,770,577
Less: Current portion	3,260,000			3,160,000
Long-term debt	$ 35,716,892			$ 31,610,577

The future annual requirements for bond payments, principal and interest, are as follows:

	Series 2006A		Series 2006B		Series 2006C	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ -	$ 1,028,750	$ 3,305,000	$ 313,125	$ 260,000	$ 146,125
2015	-	1,028,750	3,565,000	141,375	270,000	129,500
2016	2,785,000	959,125	1,045,000	26,125	285,000	112,125
2017	3,385,000	804,875	-	-	295,000	94,000
2018	3,185,000	640,625	-	-	315,000	74,875
2019–2021	11,220,000	865,750	-	-	1,040,000	99,750
	$ 20,575,000	$ 5,327,875	$ 7,915,000	$ 480,625	$ 2,465,000	$ 656,375

The resolutions authorizing the issuance of revenue bonds contain various covenants, sinking fund requirements and obligations with which the Agency must comply. The principal and interest requirements are reflected in the supplementary schedule, "Long-Term Bonded Debt and Interest Payment Requirements (Including Current Portion)." The interest payments are made semi-annually on January 1 and July 1, and principal payments on January 1.

Note 6 – Related Party Transactions

Eugene Water & Electric Board – EWEB, pursuant to the Intergovernmental Agency Agreement and an agreement between EWEB and the Agency (Equity Contribution Agreement), contributed equity during the construction of the Project in the amount of $15.1 million. In 2006, $12.1 million of this equity was repaid when the Agency refinanced its bonds. Pursuant to the Indenture of Trust, EWEB's equity contribution will be repaid from the revenue of the Project, including a preferred dividend at 7.875% per annum, compounded semi-annually, with unpaid interest amounts accruing interest at 7.875%, subject to the flow of funds as outlined in the Indenture, and payable over the life of an Agreement with EWEB (25 years).

The equity accounts for CPUD and EWEB are as follows:

	Eugene Water & Electric Board		Clatskanie People's Utility District	
	Preferred Equity	Capital	Capital	Totals
BALANCE, December 31, 2011	$ 2,150,987	$ (1,272,118)	$ (1,272,116)	$ (393,247)
Preferred equity distributions	-	-	-	-
Other equity distributions	-	(400,000)	(400,000)	(800,000)
Income allocated to partners	-	1,323,982	1,323,981	2,647,963
BALANCE, December 31, 2012	2,150,987	(348,136)	(348,135)	1,454,716
Preferred equity distributions	-	-	-	-
Other equity distributions	-	(200,000)	(200,000)	(400,000)
Loss allocated to partners	-	(2,240,594)	(2,240,594)	(4,481,188)
BALANCE, December 31, 2013	$ 2,150,987	$ (2,788,730)	$ (2,788,729)	$ (3,426,472)

Georgia Pacific – Georgia Pacific owns and operates an existing pulp and paper manufacturing facility located in Wauna, Oregon.

Georgia Pacific has entered into agreements with the Agency (the Project Agreements), whereby Georgia Pacific is supplying steam to the STG for a period of 25 years beginning April 6, 1996 (Fuel Supply and Steam Sale Agreement). Georgia Pacific is leasing the site to the Agency on which the STG and FBB are located, and is providing FBB operating labor as well as maintaining the FBB at no expense to the Agency for a period of 25 years.

During 2013 and 2012, the Agency incurred expenses payable to Georgia Pacific for operating and maintaining the STG and for supplying steam. Payments for steam, Steam Efficiency Payments, are on a predetermined dollars-per-MMBtu basis in accordance with the Fuel Supply and Steam Sale Agreement. The full amount of Production and Steam Efficiency Payments listed on the statements of revenues, expenses, and changes in net position were billed to the Agency by Georgia Pacific. Since the Project did not attain the target threshold for output in the current year, no Steam Efficiency Payment was required to be paid for the year ended December 31, 2013. A Steam Efficiency Payment of $267,416 was required to be paid for the year ended December 31, 2012.

Note 7 – Commitments

The Agency has entered into a series of agreements to facilitate development, construction, and operation of the Project. These agreements are as follows:

Indenture of trust – The Agency has pledged all of its rights, title and interest in the Project, including all leasehold improvements, all Project revenue and Project agreements to the BNY Western Trust Company (Trustee).

The Trustee's responsibilities include managing all investments of the Agency in accordance with the terms of the Indenture, and the disbursement of funds during and after construction of the Project in accordance with the terms of the Indenture.

Lease agreement – The lease agreement between the Agency and Georgia Pacific is for the lease of the site, adjacent to the Wauna Pulp and Paper Mill, where the Project is located. The lease term runs from December 31, 1996 for a period of 25 years. The lease payment represents all insurance, taxes, assessments and fees relating to the leased land and is the obligation of the Agency. Upon termination of the lease, the Agency may be required, at the sole discretion of Georgia Pacific, to restore the land to its original condition. Additionally, during the term of the lease, the lease requires Georgia Pacific to operate the FBB and to supply fuel to the FBB at no cost to the Agency.

Fuel Supply and Steam Sale Agreement – The Agreement between the Agency and Georgia Pacific is for a term of 25 years through July 1, 2021. The Agreement requires Georgia Pacific to supply steam to the STG in sufficient quantities that allow the STG to generate electric energy and to be compensated for the supply of steam as indicated in the Agreement. The Agreement also allows for compensation to be paid to Georgia Pacific for certain costs of fuel and electricity supplied for the generation of steam to be supplied to the STG, as indicated in the Agreement. This obligation to furnish steam to the STG is conditioned upon the continued operation of the Wauna Mill. Pursuant to the Steam Sales Agreement, Georgia Pacific is only obligated to provide any amount of steam necessary to meet the then-current steam requirements of the Wauna Mill, if any.

Power Purchase Agreements – The Power Purchase Agreement between the Agency and EWEB will remain in effect for a period of 25 years from the Commercial Operation Date of the Project. Commercial operations commenced on April 6, 1996. The agreement requires EWEB to purchase Project output in an amount not to exceed 231,637 MWh annually. In the event Project output exceeds this amount, EWEB will notify the Agency of the prevailing fair market price for such excess output and, if the Agency agrees to accept the prevailing fair market price or if the parties agree to another price, EWEB may purchase all excess Project output at the agreed-upon price. If no agreement on price can be reached, the Agency can elect not to generate the excess output.

Note 7 – Commitments (continued)

EWEB has agreed to suspend its Power Purchase Agreement in favor of a Power Purchase Agreement between the Agency and the BPA. The BPA Power Purchase Agreement will be in effect for a period of 20 years from the Commercial Operation Date of the Project. The BPA agreement requires the purchase of Project output not to exceed 236,000 MWh annually. In the event Project output exceeds this amount, the Agency will notify the BPA of the expected excess output and a proposed price, not to exceed the agreed upon price of the BPA's annual purchase commitment. If the Agency and the BPA agree upon the proposed price or another price, the BPA may purchase all excess Project output at the agreed-upon price. If no agreement on price can be reached, the Agency can sell the excess output to EWEB under a transmission agreement with the BPA.

Note 8 – Subsequent events

Effective March 14, 2014, the Agency changed its Trustee from Wells Fargo to US Bank. This change did not have an effect on net position or the change in net position as of and for the year ended December 31, 2013.

WESTERN GENERATION AGENCY
LONG-TERM BONDED DEBT AND INTEREST PAYMENT REQUIREMENTS (INCLUDING CURRENT PORTION)
YEAR ENDED DECEMBER 31, 2013

	Series A		Series B		Series C		Totals		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Totals
2014	$ -	$ 1,028,750	$ 3,305,000	$ 313,125	$ 260,000	$ 146,125	$ 3,565,000	$ 1,488,000	$ 5,053,000
2015	-	1,028,750	3,565,000	141,375	270,000	129,500	3,835,000	1,299,625	5,134,625
2016	2,785,000	959,125	1,045,000	26,125	285,000	112,125	4,115,000	1,097,375	5,212,375
2017	3,385,000	804,875	-	-	295,000	94,000	3,680,000	898,875	4,578,875
2018	3,185,000	640,625	-	-	315,000	74,875	3,500,000	715,500	4,215,500
2019	3,500,000	473,500	-	-	330,000	54,750	3,830,000	528,250	4,358,250
2020	3,735,000	292,625	-	-	345,000	33,625	4,080,000	326,250	4,406,250
2021	3,985,000	99,625	-	-	365,000	11,375	4,350,000	111,000	4,461,000
	20,575,000	5,327,875	7,915,000	480,625	2,465,000	656,375	30,955,000	6,464,875	37,419,875
Less current	-	1,028,750	3,305,000	313,125	260,000	146,125	3,565,000	1,488,000	5,053,000
	$20,575,000	$ 4,299,125	$ 4,610,000	$ 167,500	$ 2,205,000	$ 510,250	$27,390,000	$ 4,976,875	$32,366,875

INDEPENDENT AUDITOR'S COMMENTS

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH OREGON MINIMUM STANDARDS

To the Board of Directors
Western Generation Agency

We have audited the accompanying financial statements of Western Generation Agency (the Agency) as of and for the year ended December 31, 2013 and have issued our report thereon dated March 31, 2014, which includes an emphasis of matter regarding the Agency's ability to continue as a going concern. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the minimum standards for Auditors of Oregon Municipal Corporations, prescribed by the Secretary of State. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Compliance

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including provisions of Oregon Revised Statutes as specified in Oregon Administrative Rules (OAR) 162-010-000 to 162-010-330, as set forth below, noncompliance with which could have a direct and material effect on the determination of financial statement amounts:

- The accounting records and related internal control structure.
- The amount and adequacy of collateral pledged by depositories to secure the deposit of public funds.
- The requirements relating to debt.
- The requirements relating to insurance and fidelity bond coverage.
- The appropriate laws, rules and regulations pertaining to programs funded wholly or partially by other governmental agencies.
- The statutory requirements pertaining to the investment of public funds.
- The requirements pertaining to the awarding of public contracts and the construction of public improvements.

The results of our tests disclosed no matters of noncompliance with those provisions that are required to be reported under Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH OREGON MINIMUM STANDARDS (continued)

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for determining our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the Agency's management, the Board of Directors, and the Secretary of State, Division of Audits of the State of Oregon and is not intended to be and should not be used by anyone other than these specified parties.

Julie Desimone

Julie Desimone, Partner for Moss Adams LLP
Portland, Oregon
March 31, 2014