



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD



TO: Commissioners McRae, Barofsky, Schlossberg, Brown, and Carlson
FROM: Frank Lawson, CEO & General Manager
DATE: October 4, 2024 (Work Session October 15, 2024)
SUBJECT: Present State: Electric Utility Business Model
OBJECTIVE: Discussion

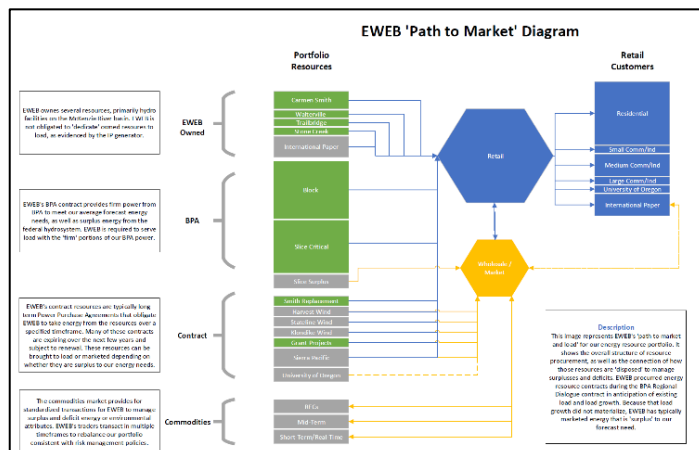
Issue

EWEB has been a vertically integrated utility since its inception. Related to electricity delivery, what does it mean to be vertically integrated, and to what extent might the Board be interested in exploring other business models in the future? To help answer that question, the October 15 work session will focus on where EWEB is today and the connections between primary business functions.

Discussion

Since its inception, EWEB has generated and delivered electricity to customers in the Southern Willamette Valley. Today, EWEB owns, operates, and maintains generation assets, mostly hydroelectric generation along with a portion of the generator at International Paper. EWEB also contracts for the purchase and delivery (transmission service) from the Bonneville Power Administration, a federal agency, who markets the energy, owns and operates regional transmission, acts as the area’s Balancing Authority, and provides ancillary services related to maintaining regional reliability. Additionally, EWEB contracts to procure output from generating facilities and purchases and sells commodities to other wholesale buyers/sellers in a “bi-lateral” (sell-to-buyer) market.

To aid in the work session discussion, the diagram below (enlarged as Attachment A) shows how EWEB acquires, generates, markets, and delivers electricity to our retail and wholesale customers.



During the October 15, 2024, Work Session, Commissioners are encouraged to inquire about the opportunities, limitations, and risks of moving, increasing, or decreasing the functional blocks within the “Path to Market” Diagram (i.e., EWEB’s present electric business model structure).

In a continuation of the first agenda topic of the work session (qualitative considerations for the BPA product decision), Commissioners are encouraged to contemplate the qualitative considerations of EWEB’s electric business model, including impacts on flexibility, portfolio cost risk, local resource development, local control, compatibility with EWEB programs and services, and alignment with our organizational values (safety, reliability, affordability, environmental, community).

Although some decisions related to EWEB’s future structure are eminent, it is important to recognize that some business model transitions can take years, especially when confronted with regulatory, contractual, and capital investment limitations, along with high community-based interest. Therefore, EWEB’s management and Board discussions will initially be exploratory, focusing on the impacts of upcoming decisions (e.g. BPA “Provider of Choice” Product Choice), and identifying critical areas that can be investigated strategically over time.

Recommendation/Requested Board Action

No action will be requested during this meeting. However, it is anticipated that follow-up actions may result with specific outcomes or answers to inquiries.

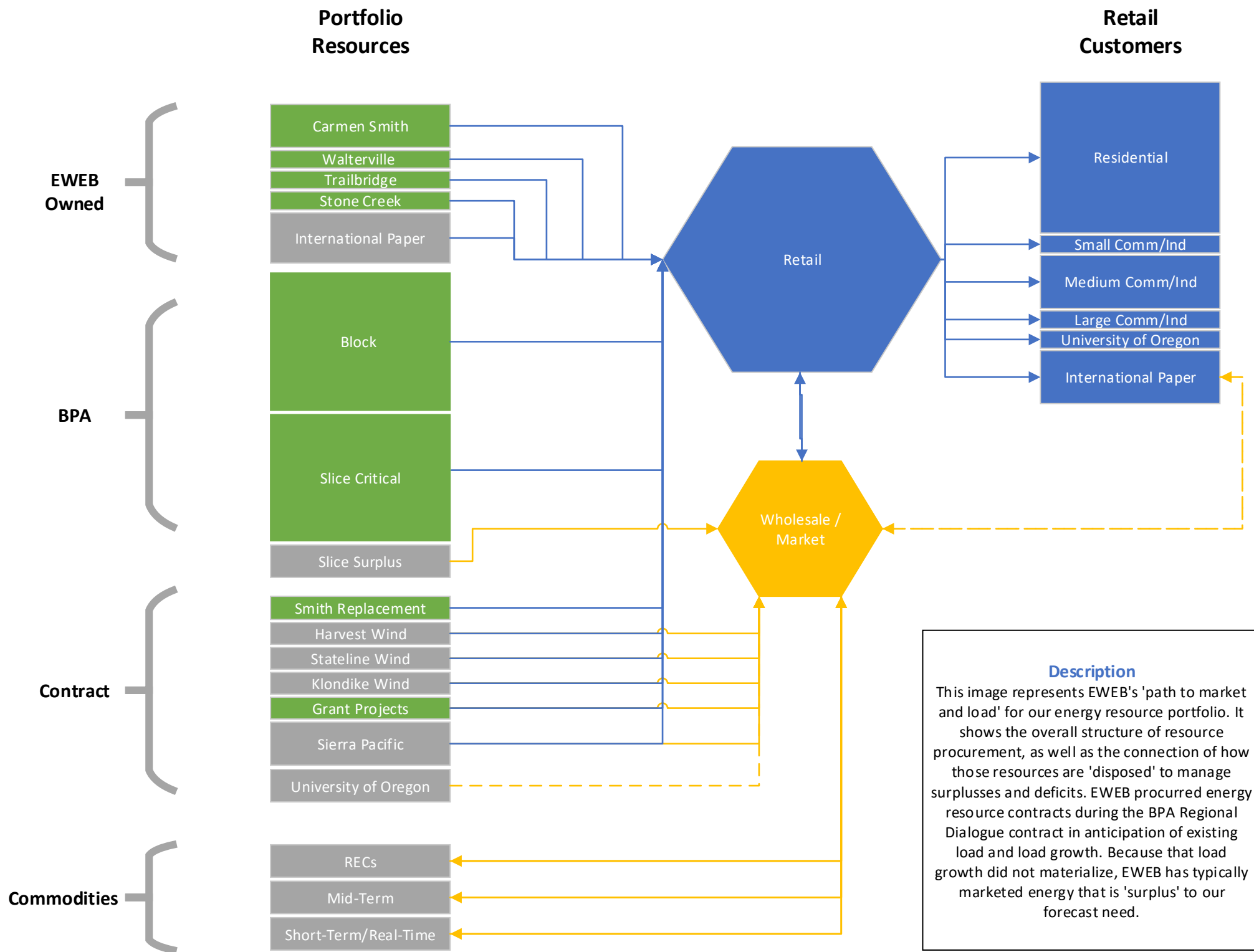
APPENDIX A: EWEB 'Path to Market' Diagram

EWEB owns several resources, primarily hydro facilities on the McKenzie River basin. EWEB is not obligated to 'dedicate' owned resources to load, as evidenced by the IP generator.

EWEB's BPA contract provides firm power from BPA to meet our average forecast energy needs, as well as surplus energy from the federal hydrosystem. EWEB is required to serve load with the 'firm' portions of our BPA power.

EWEB's contract resources are typically long-term Power Purchase Agreements that obligate EWEB to take energy from the resources over a specified timeframe. Many of these contracts are expiring over the next few years and subject to renewal. These resources can be brought to load or marketed depending on whether they are surplus to our energy needs.

The commodities market provides for standardized transactions for EWEB to manage surplus and deficit energy or environmental attributes. EWEB's traders transact in multiple timeframes to rebalance our portfolio consistent with risk management policies.



EWEB manages our portfolio to meet our total retail load. These retail customers can be broken out by type, and may receive different rate treatment from EWEB. Some customers, like International Paper, have unique contracts with EWEB that provide more direct connections to our wholesale power costs.

Legend

- Retail Blue indicates EWEB retail sales.
- Wholesale/Market Sales/Purchases Yellow indicates EWEB wholesale/market purchases/sales.
- Dedicated Resources Green indicates dedicated resources. Dedicated resources are specified in our BPA contract to serve EWEB load.
- Undedicated Resources Gray indicates undedicated resources. These resources can be used to serve load if needed.

Description
 This image represents EWEB's 'path to market and load' for our energy resource portfolio. It shows the overall structure of resource procurement, as well as the connection of how those resources are 'disposed' to manage surpluses and deficits. EWEB procured energy resource contracts during the BPA Regional Dialogue contract in anticipation of existing load and load growth. Because that load growth did not materialize, EWEB has typically marketed energy that is 'surplus' to our forecast need.

- Direction of market/wholesale transaction
- Market value true-up with generator or load.
- Direction of retail transaction.