

Risky Business

Problems in the 'PUD, Part II

In the last couple months the Emerald People's Utility District (EPUD) has gotten quite a bit of news coverage, most of it bad. The utility that for many years ranked among Oregon's top 100 workplaces is now embroiled in controversy, beset on all sides by disgruntled former employees, claims of managerial incompetence, political intrigue, and allegations of shady financial dealings; the most recent of which was EPUD's decision to sue Symbiotics, a Utah-based firm that bought the utility's interest in two local hydroelectric projects.

In December of 2007 the EPUD board voted to move ahead on two hydroelectric projects, Dorena and Fall Creek. Partnering with Symbiotics, the plan was to diversify the utility's power portfolio, meeting the utility's increased electricity demands locally, rather than relying on outside sources. The initial cost estimate was \$22 million — \$8 million for Dorena and \$14 million for Fall Creek. According to the minutes from that initial meeting, General Manager Frank Lambe admitted there were several unknowns in the project, but that it was worth pursuing.

As time went on though it quickly became apparent that a mere \$22 million wasn't going to cut it. Filtration systems, fish screens, and a lack of government grants pushed the price through the roof. By 2010 the best estimates were around \$45 million — \$20 million for Dorena and \$24.5 million for Fall Creek, far more than the small local utility could handle.

"I remember when they first proposed the Dorena project," said Ron Davis, one of Emerald's founding members and a former board member. "I figured somebody must have done the math, but I guess not."

"The gut feeling that I have is that this has been mismanaged," he added. "But I don't know."

On Dec. 14, 2010 the board voted unanimously to sell EPUD's interest in the projects to Symbiotics, which had since been acquired by Toronto-based Riverbank Power, for \$2.47 million. This would recoup all the money EPUD had spent on the projects to date and allow it the right of first refusal to purchase the facilities or the power it generates in the future.

Symbiotics managed to scratch together about \$1.8 million for the July 1 payment deadline, enough to purchase the Dorena project, but was still short the \$664,000 for Fall Creek. On Aug. 4, Emerald announced it was suing Symbiotics for failing to meet the deadline.

"I didn't believe that this was a good investment for a utility of this size," said Pam Hewitt, a former employee who had been responsible for overseeing the projects during her time at the utility. She said there were "huge expenses, huge overhead ... we're one fifth the size of EWEB. It's just not sustainable."

Lambe "kept contending me and questioning me and working behind my back to get this thing through," she added.

A brief review of the board meeting minutes over the past four years does, however, show Lambe informing board members on numerous occasions of continuing complications with the projects, and increasing costs due to varying reasons. In late 2009 there was discussion between Lambe and the board over whether or not the projects were even viable, with him commenting at a Nov. 5 meeting that the cost of the projects "is going out of sight for Emerald."

The hydro facilities aren't the only controversial projects at EPUD. According to the utility, in October the Bonneville Power Administration is changing the way they provide power to all of their customers. Lambe explained that the BPA is now making its customers choose between a "load following" product and a "slice of the system" product, or Slice. While previously Emerald was guaranteed a set amount of power from Bonneville, they now only receive a percentage of the electricity on the grid at any given time. If the utility has more power than it needs, it can sell it. If the utility needs more power than it has, however, it needs to buy it. The difference between the two BPA products is how this risk is managed.

Under a load-following product Bonneville manages the account, providing a buffer between the utility and the open market. Under the Slice system however, the utility is responsible for buying and selling its own power. Emerald decided

to go with Slice after researching both options, opting for more local control in the hopes of integrating their "non-federal" (read: non-BPA) power resources.

"This is dangerous for a small little utility," said Jim Weaver, a former Oregon congressman and one of Emerald's founders. "I'm supportive of Slice to begin with, but not for a small utility like EPUD."

"This little electric utility ... has to gamble 24 hours a day on the open market," he said. "They should be getting a steady supply from Bonneville to meet their needs."

Weaver recalled the Western energy crisis of 2000 and 2001, an artificial energy shortage or "short squeeze" created to raise prices that ended up nearly bankrupting the state of California.

"You could have that today," he said. "Maybe not a short squeeze but a drought. The dams wouldn't produce, and EPUD would lose their shirts."

The utility points out that other utility districts have gone with slice without negative ramifications.

"We all have to sell and buy power as our loads demand," said Hillary McBride, EPUD community relations officer, via email. "It's just some are having that done by BPA and others are having it done by other companies. In regards to utility size, Franklin PUD is our size and went Slice, Kickitat PUD is much smaller and are also doing Slice. Their consumers are looking at the local control as being a positive thing."

EPUD has contracted with The Energy Authority, a Washington-based firm that specializes in handling Pacific Northwest public utility Slice contracts, to manage its account with BPA. While market research conducted by the utility during a five-year period from 2002-2007 peg the Slice product at about the same price as load following, some contend that the risk is not worth the potential benefit.

"There is unnamed, unknown risk associated with the Slice product," said Hewitt. "Because Bonneville is not taking responsibility for the risk. EPUD and their agent, The Energy Authority, are assuming responsibility for the risk of going on the market and having to buy and sell power."

"The Slice and the buying and selling is very dangerous and I'm entirely opposed," said Weaver. "The risks are too great; the costs are too great."

EW

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