

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
SEPTEMBER 6, 2005
5:30 P.M.

Commissioners present: Ron Farmer, Sandra Bishop, Mel Menegat, and John Simpson. Commissioner Patrick Lanning was delayed.

Others present: Randy Berggren, Debra Smith, Dick Helgeson, Dick Varner, Jim Wiley, Tom Buckhouse, Marty Douglass, Jim Origliosso, Mark Freeman, Cathy Bloom, and Krista Hince of the EWEB staff; and Ruth Atcherson, City of Eugene Minutes Recorder.

President Farmer convened the Work Session of the Eugene Water & Electric Board (EWEB).

SECOND QUARTER 2005 BUDGET AND FINANCIAL PERFORMANCE

Assistant Treasurer Cathy Bloom explained that the intent of the report was to provide timely financial information. She said based on the changes in the financial plan money was now being moved from the cash account to the Power Reserve Fund. She pointed out that this increased the contribution margin to \$13 million and the cash in the working cash account was now \$20 million. She predicted that there would be more money in that account at the end of September based on positive contribution margin activity. She reviewed the *Second Quarter Financial Statements* with the aid of a power point presentation, copies of which were distributed to Commissioners.

Regarding the graph delineating the increase in the net operating revenue of the electric utility, President Farmer asked if there was a way to determine whether the increase came about because of new customers coming on line or from an increase in existing usage. Ms. Bloom replied that residential, industrial, and commercial customers grouped the data. She did not have data related to the increase in customers and how it related to the increase in operating revenue. President Farmer commented that it would be good information because if the revenue increase was correlated to increased usage by existing customers one would need to question the effectiveness of the conservation program.

Ms. Bloom noted that water utility revenues had increased by 10 percent in August, but this did not balance out the revenue loss of June and revenue of only \$89,000 in July, compared to \$1 million one year ago.

President Farmer opined that budgeting by the year did not “mean a whole lot” if 90 percent of the projects were to be completed in the last quarter, as an example. Ms. Bloom agreed that it was difficult to budget annually given the seasonal nature of revenues.

Regarding the steam utility, Ms. Bloom noted that Fiscal Services Supervisor Dick Varner would be coming before the next meeting to discuss a possible increase in steam rates.

Commissioner Simpson asked for clarification on the net fuel charge loss. Ms. Bloom explained that the steam utility tried to break apart the income and expenses and the income and expenses related to the cost of natural gas, etc. She said the actual revenue came from the customer and was related to the fuel. Mr. Berggren added that EWEB had a fuel adjustment clause.

In response to a question from President Farmer, Ms. Bloom clarified that figures on the slide entitled *GM Financial Goal Status* represented the year to date and not just from the second quarter. She said the 'projected' column and the 'budgeted' column applied to the whole year.

President Farmer asked what assumptions the numbers projected in the document were based on. General Manager Randy Berggren responded that EWEB had a series of fairly complicated models that it ran almost weekly as part of power management. He said the Risk Management Committee met every two weeks and took into account changes in water conditions, power prices, and generation availability. He called it a complicated model. He remarked that power prices were the primary driver of the increase in the contribution margin as they were "extraordinarily high." He indicated this was good for the utility in the context of hedging and the utility's ability to sell its "long" position.

In response to a question from Commissioner Simpson, Mr. Berggren clarified that the current projection was \$5.1 million more than the original projection had been.

Commissioner Simpson commented that many times he had seen statements that indicated numbers ahead of or behind the projection but without a context for them it was difficult to normalize the number or to understand if a number was typically behind or ahead at a given point in time. Mr. Berggren suggested that staff could provide a "pretty good" historical view of what was typical, on a percentage basis and under normal conditions, for revenues and expenses.

President Farmer preferred a budget based on the month rather than a budget based on a year and divided into twelfths. Mr. Berggren underscored that staff made a monthly financial report on an internal basis. Ms. Bloom added that if a large variance came to light, staff would prepare a budget amendment or another action.

President Farmer reiterated Commissioner Simpson's point that it was sometimes difficult for the Commissioners to understand whether a drop in certain numbers should be a cause for alarm or not. He averred that items that were seasonal or variable should be budgeted accordingly.

Vice President Bishop thought it would be impossible to anticipate the numbers. She did not want a greater level of detail brought before the Board.

Treasurer Jim Origliosso offered to provide the contribution margin data by the month. Vice President Bishop responded that she did not want such specific information. President Farmer and Commissioner Simpson expressed interest in having such a report.

Continuing her presentation, Ms. Bloom stated that the utility had begun the year with \$8.1 million in reserves and had a target of \$9.2 million. At this point, staff anticipated that \$16 million would be in the power reserve by year's end. She said the surplus would be part of the budget discussion scheduled for October and that Mr. Varner had some ideas of how it could be used.

Vice President Bishop surmised that the surplus could be used for "anything." Mr. Origliosso responded that the Commissioners had some decisions to make at the end of the year as to where the money should wind up in the reserves.

Mr. Berggren noted that the utility was looking "fairly good" at present and most of this was due to the high-energy prices. He reminded the Board that the original premise of the power operating reserve was to have one year of operation costs in the fund. He observed that the amount in reserve might need to be increased to reflect inflation.

In response to a question from President Farmer, Ms. Bloom explained that the increase in the amount of deferred charges was due to the increase in derivative activity related to power. She stated that most of the increase had been related to the Carmen Smith facility.

In response to a question from Commissioner Simpson, Ms. Bloom said the Western Generation Agency (WGA) was a co-generation project owned by EWEB and the Clatskanie People's Utility District (CPUD).

Vice President Bishop asked, regarding the possibility of a transfer from the operating reserve fund in the water utility, if it was tapped as needed or if a certain percentage was applied to the losses. Ms. Bloom responded that staff needed to see how September and October panned out to determine whether a transfer would be needed and how much it would be.

Vice President Bishop asked how the water utility operating reserve would be replenished. Mr. Origliosso replied that a dry summer with higher than projected water sales would re-fund the reserve.

In response to President Farmer, Mr. Origliosso said staff tried to assess the General Manager's goals from quarter to quarter. President Farmer asked to see a one-page memorandum that explained the historical perspective so that a current ratio of 3.0 would have a comparative benchmark, such as 2.5, in order to see where the ratio would fall in the next quarter. He felt the trend was more important than the benchmark itself.

SECOND QUARTER GENERAL MANAGER'S GOALS STATUS

Mr. Berggren reviewed the *Operational Performance Measures; General Manager Goal #1*. He noted the memorandum from Water & Steam Division Director Tom Buckhouse entitled *Chlorine OPM Target* and dated August 29. He explained that residual chlorine levels were low at

the ends of the system and as a result the chlorine level had to be increased to .7 milligrams per liter. He recommended a slight shift in the operating performance measure (OPM) regarding chlorine levels. He said the utility was dealing with an operating issue wherein the utility was not meeting previously set standards for chlorine residuals at the ends of the system after the new plant had been put into place at Hayden Bridge

Mr. Berggren pointed out that the Demand Side Management (DSM) acquisition was behind target but several large projects were expected to bring EWEB into its goals for conservation.

Regarding customer call availability, Mr. Berggren observed that EWEB was slightly off its goal. He attributed it to retirements and terminations, adding that a new set of people were being trained to step in. He commented that EWEB routinely struggled with retention in that position.

Mr. Berggren said staff usually provided a goals and initiative status report in the first and third quarters but staff was trying to get more “on the ground” in identifying questions and information needed. He explained that this was the report, entitled *Goals and Initiative Update Status as of June 30, 2005*, was included in Board packets.

Continuing, Mr. Berggren reviewed the *Eugene Water & Electric Board 2005 General Manager Goals Update; Quarter 2, 2005*.

Vice President Bishop remarked that people complained to her about the chlorine taste and smell in the utility’s water. She wondered what parts of the system had been determined to have less than adequate residual chlorine levels.

Commissioner Simpson asked which parts of the system might have higher residual chlorine levels.

Mr. Buckhouse responded that the change had only resulted in two or three calls regarding chlorine taste and/or smell. He stated that the problem areas had been in the College Hill Reservoir and at all of the upper elevations. He assured the Board that the problems had been mitigated by raising the chlorine level by .1 milligrams to .7 milligrams per liter.

In response to a follow-up question from Vice President Bishop, Mr. Buckhouse agreed that it was a higher level but assured her that EWEB’s chlorine levels were still lower than most.

Vice President Bishop recommended that EWEB share suggestions for mitigating chlorine levels with the public, such as pouring the water into a jug and letting it sit out to allow the chlorine to dissipate. Mr. Buckhouse replied that EWEB had done so in the past and would do so again.

In response to a question from Vice President Bishop, Mr. Buckhouse stated that the water utility had been operating at the higher chlorine level for two and a half months. Mr. Berggren pointed out that in two and a half months, only two or three customers out of 65,000 had complained.

At Vice President Bishop's request, Mr. Buckhouse defined heterotropic plate counts as a water test in which tap water was placed in a petri dish, kept under controlled conditions, and observed to determine how much bacteria would grow.

Commissioner Simpson asked what caused chlorine levels to decay. Mr. Buckhouse replied that anything that grew would eat up the chlorine and exposure to air would cause it to dissipate. Regarding the latter, he underscored that there should be no exposure to air within the system.

Commissioner Simpson asked if it was measured in all parts of the system. Mr. Buckhouse responded that there were detection points at all of the reservoirs and pump stations.

Commissioner Simpson asked if the .1 milligrams per liter involved a significant increase in cost. Mr. Buckhouse assured him that the increase was not great.

President Farmer wondered if he could tell the difference in taste between .6 milligrams per liter of chlorine and .7 milligrams per liter in a blind taste test. Mr. Buckhouse did not think President Farmer could discern the difference.

President Farmer asked if there were other issues that were growing in terms of strategic importance. Mr. Berggren responded that water rights were an up and coming concern. He was uncertain whether the Board would want to add goals about it in the current year, but he thought it was an "excellent candidate" for goal work in 2006.

LONG-TERM CONTINGENCY PLAN CHECK IN

Mr. Berggren stated that as part of Goal 2(c) of the General Manager's goals, the manager had been directed to develop a Long-Term Contingency Plan and recommendation relative to an equity funding target for the Carmen Smith relicensing work, currently projected to occur in 2010. He said as part of the goal a project team had been formed to take on the work with Ms. Smith as lead staff person. He asked Ms. Smith to discuss the recommendations and the context in which the team had arrived at a "most-likely scenario." He averred that staff was meeting this target by providing recommendations. He added that he and the team were seeking Board input. He stated that while the model itself would only be treated in a summary fashion at this meeting, it would be delved into further at the budget retreat scheduled for October.

Assistant to the General Manager Debra Smith provided an overview of the *Long-Term Contingency Plan* process to date with power points. She listed the project team members in addition to herself, as follows: Mr. Wiley, Mr. Banry, Mr. Berggren, Mr. Origliosso, Mr. Varner, Ms. Bloom, Mr. Helgeson, and Ms. Sirois. She added that Mr. Maloney had helped, though he was not participating in the meetings. She stated that the team had met weekly for six months and had provided a sense of the rate impacts of the different suggested scenarios. She explained that the team considered issues in isolation from one another and examined them to determine the rate impact. She said individual issues could not be added up because they all interacted.

Ms. Smith reviewed the Bonneville Power Administration (BPA) uncertainties, including an assumption of a 35 average megawatt (aMW) decrement.

Mr. Varner said EWEB did not want to be looking to the market to serve its firm load on a planning basis. He stated that a loss of 35 aMW would leave EWEB 15 to 20 aMW short on a planning basis, so the team looked for a good placeholder to use for that. From talking with Energy Resource Planning Manager Jim Maloney, he extrapolated that “a couple” of 25 MW nameplate wind project shares, approximately 16 aMW, would bring EWEB more closely in balance with the decrement, expected in the 2011 to 2015 timeframe. He averred that wind power appeared to be the most cost effective renewable resource available at this time.

President Farmer asked what impact a 35 aMW decrease in power from the BPA would cause and what dollar-for-dollar net gain could be attained through wind power. Ms. Smith responded that the 35 aMW decrease would create a 4 percent rate increase, in other words a \$6 million increase in costs. Mr. Varner stated that wind power would be more expensive but EWEB had several offers for wind projects that were competitive with the market.

President Farmer asked what net increase in costs the utility was projected to face after factoring in the wind projects. Mr. Varner replied that there would still be a two or three percent increase.

President Farmer requested an explanation of the underlying basis for the decrement. Mr. Varner clarified that it was based on the firm output of the Federal Base System (FBS) compared with the projected loads of the public agencies in 2011. He said it appeared that BPA had a greater load than it had capacity for and should it continue to serve its customers with the FBS and no additional resources it would have to cut the allocations to individual utilities. He added that it was a *pro rata* decrement, but given that what would happen with the Snake River dams was as yet unknown, the team had shaded the results. A direct *pro rata* would have been a decrement of 25 aMW.

In response to a question from President Farmer, Ms. Smith explained that the general rate change was related to all cost increases in the non-power operation and management and a pass through was the result of a BPA rate adjustment.

President Farmer asked why BPA pass throughs were not included in the model. Mr. Varner said he did not try to model what those pass throughs would be. He indicated that for 2007 to 2009 BPA rate changes were projected to be relatively flat.

Commissioner Menegat asked if the models used to figure the 35 aMW decrement included the power coming on line from other power operators. He noted that Energy Northwest had a 600 MW plant planned to be on line between 2011 and 2012. Mr. Varner responded that the Energy Northwest project would not be available through the BPA system so it did not change how much power the BPA had available to serve its public customers.

Continuing, Ms. Smith stated that the project was initiated to address the cost burden placed on the utility by the Carmen Smith relicensing process but it had grown to encompass the other large financial drivers as well. She provided a high level review of the financial assumptions related to Carmen Smith. She noted that the draft application for relicensing would be filed in May 2006, and the formal application would be filed in November 2006. Until then, she stated that complete costs would not be clearly delineated.

Regarding the assumption for the cost of the environmental and life extension work, Mr. Berggren underscored that staff did not pull the figure \$110 million out of the air. He stated that a considerable amount of time had been devoted to trying to balance all sides of the financial requirements for the work.

President Farmer observed that the Board had approved several million dollars worth of expenditures yet the assumption was that the Carmen Smith relicensing was economically viable. He asked for an informational memorandum regarding the viability in order to provide more educated responses to concerned constituents.

Mr. Varner stated that the Board had approved \$13 million, but the project at today's market prices was worth \$10 or \$12 million per year in income.

Commissioner Simpson asked how much the facility would cost to decommission. Mr. Berggren advised against making that number public, though the utility had commissioned the studies to determine what the cost would be.

Vice President Bishop averred that the Carmen Smith facility was of such a great net value to the utility she did not wish to speak of decommissioning it at this point in time.

In response to a question from President Farmer, Mr. Varner explained that the Carmen Smith relicensing requirements, due to additional facilities and obligations, brought about the projected increase in operations and maintenance costs.

Mr. Varner explained that the assumption that there would be a 1 aMW decrease in power output from the Carmen Smith and Trailbridge generation facilities was based on the likelihood that some water would be bypassed for the fish, causing a loss in generation. He said the utility would be looking at efficiency improvements in the turbine and generator units to try to mitigate some of the loss. He noted that the Leaburg/Waltermville facility had experienced some loss because of the bypass flows that were added there, but the utility had also picked up approximately 1.5 MW during the peak months because of more efficient turbine/generator units.

Regarding construction outages, Ms. Smith underscored that the current assumption was that Carmen Smith would be down for a year while the relicensing work was completed, and Trailbridge was projected to be closed down for approximately 16 months. Mr. Varner added that this translated to a \$1 million per month drop in net value for Carmen Smith and “a couple hundred thousand dollars” drop per month for the Trailbridge facility.

Ms. Smith reviewed the Public Employee Retirement System (PERS) related costs. She stated that not much was expected to change, though once the utility had some information and was clear as to how PERS had interpreted the changes after the court decision, there might be an opportunity to buy down the bonds.

Mr. Varner said the utility had \$30 million in remaining bond authorization and if there was enough spread between what it would cost EWEB to borrow the money and the 8 percent that PERS was going to charge EWEB on its unfunded liability, it could be prudent to issue that amount in bond money. He felt that once the impact of the Carmen Smith project was better known, a better sense of whether adding PERS debt to the bond would be known. Ms. Smith added that this had not been included in the models.

In response to a question from President Farmer, Mr. Varner stated that he did not have enough information on the impact of the Carmen Smith relicensing project to take the PERS unfunded liability on the balance sheet in addition. President Farmer thought that if the liability was placed on the balance sheet and then it was decided that it should not be there, the reserves could be used to pay it or it could be hedged.

Regarding the post retirement medical Unfunded Accrued Liability (UAL), Ms. Smith related that EWEB attorneys predicted that it would be five years before there would be a definitive legal resolution of the issue.

President Farmer said, given that EWEB was speaking of \$50 to \$80 million, it would behoove the utility in the “big picture planning process” to think on how it would address this. Mr. Berggren indicated that staff was preparing this information for the budget retreat scheduled for October.

Regarding the headquarters relocation, Mr. Berggren assured the Board that it was noted that the Board had not come to terms with whether to split administration from operations or not.

Vice President Bishop objected to referring to this as “headquarters relocation.” She asked that it be called “utility relocation.”

Mr. Varner, speaking to new resource development, related that the staff had come to believe that going out and making a couple of “modest acquisitions” was a good idea, for both the longer term vision of resource make up and a mid-term solution to supplement resources to make up for the loss of part of the BPA entitlement.

In response to a question from President Farmer, Mr. Varner indicated that staff preferred acquisition because it did not encumber the balance sheet. He said staff was protective of the balance sheet. He noted there were some interesting components in the energy bill, such as the possibility of financing with energy bonds in which only the principal had to be paid and then EWEB would find a partner who would take the tax benefits equal to what would normally be made in interest payments. He stated that there was new legislation being passed that looked to be very advantageous for utilities.

Ms. Smith stated, regarding wholesale prices, that the team used the medium forecast in regard to power markets. She underscored that wholesale power prices were a major driver.

Mr. Varner reiterated that all of the financial analysis had been based on the assumption that the area would continue to receive 85 percent of its average hydro assumption.

Ms. Smith reviewed the other budget assumptions, including steam system relocation, general cost escalation, employee compensation increases, and staffing increases.

President Farmer observed that the one thing that was driving the model was that the 20 percent equity contribution for the Carmen Smith construction was that it would not begin to be funded until all of the reserve funds were fully funded. He commented that he had heard from the presentation that these reserve funds might need to be “moving targets” given cost increases. Ms. Smith responded that time would be spent at the October budget retreat discussing the approaches to operation of the power reserve and capital reserve funds so that it met the needs of the utility. President Farmer underscored that the needs of the Carmen Smith project should not be “put off forever.”

Commissioner Lanning arrived at 7:34 p.m.

Ms. Smith invited the Board to provide input on the contingency plan. She noted she would meet with Commissioner Lanning so that he would be briefed on the activity thus far.

In response to a question from Vice President Bishop, Mr. Berggren said at this point he could not predict how much it would cost to move the steam plant nor could he predict whether steam customers would remain steam generated electricity customers. He did however assume that EWEB would continue to generate a portion of its power with its steam-powered turbines.

President Farmer was happy to see that staff was taking this holistic approach to planning. He recognized that every one of the assumptions could change every six months and it would be an ongoing change. He said there would never be a definitive long-term contingency plan that would remain static for the next five years. He called the plan a planning tool.

Vice President Bishop thought it made sense to include the costs related to a possible move of the steam facility. Ms. Smith remarked that staff had been uncertain as to whether to include this possibility with the other cost assumptions because it was so much smaller than the other issues. She thought it had potential to move if the operations portion of the utility moved and it could be a potential capital contingency.

President Farmer averred that should the utility be successful in its water rights issue, there would be a sizable cost up front in order to be able to sell the water.

Ms. Smith noted that the plan under current discussion was related specifically to electricity generation. Mr. Varner added that he was starting to lay the groundwork for using the same model to apply to long-term planning for the water utility.

President Farmer adjourned the meeting at 7:37 p.m.

Assistant Secretary

President