

EUGENE WATER & ELECTRIC BOARD
REGULAR BOARD MEETING
EWEB BOARD ROOM
SEPTEMBER 20, 2005
7:30 P.M.

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

Others present: Randy Berggren, Dick Varner, Jim Origliosso, Jim Wiley, Marty Douglass, Tom Buckhouse, Dick Helgeson, Mel Damewood, Will Bodioli, and Krista Hince of the EWEB staff; Ruth Atcherson, Minutes Recorder for the City of Eugene.

President Farmer convened the Regular Board Meeting of the Eugene Water & Electric Board (EWEB).

AGENDA CHECK

There were no changes to the agenda.

PUBLIC INPUT

Polly Nelson, 2470 Lawrence Street, said the community was waiting patiently for the Board's discussion on security issues at the College Hill Reservoir, scheduled for October 19. She asked that no placeholder be put in the budget for security measures until community agreement had been reached on how the reservoir should be kept secure.

APPROVAL OF CONSENT CALENDAR

Minutes

1. Minutes of the August 16, 2005 Regular Board Meeting

Business Service Agreements

2. Associated Heating & Air Conditioning, Inc. – HVAC Maintenance Program – Environmental Management Services – Power Resources Division - \$500,000.

Vice President Bishop pulled the minutes.

Commissioner Menegat, seconded by Commissioner Simpson, moved to approve the Consent Calendar with the exception of the minutes. The motion passed unanimously, 4:0.

ITEMS FROM BOARD MEMBERS

Commissioner Menegat reported that he and Commissioner Simpson had attended a one-day Work Session sponsored by the Inter-agency Diversity and Equity Coalition (IDEC). He related that the group had participated in role-playing and he had been assigned the role of an eight-year-old Korean girl. He thought the session was very enlightening.

Vice President Bishop stated that she had met with Mr. Bequette to go over the agreement that Commissioners were to sign for the use of EWEB computers. She said she read the agreement and deemed it inappropriate for commissioners as the agreement had largely been addressed to employees. Another issue had arisen while speaking with Information Services Manager Terry Bequette that of maintaining the integrity of documents sent by commissioners. She thought Mr. Bequette could find a procedural remedy to the problem.

Vice President Bishop said the *Register-Guard* had printed the article on the preliminary investigation of an allegation against her involving a conflict of interest issue. She predicted the allegation against her would be dismissed.

Vice President Bishop requested a memorandum on energy usage for the new courthouse. She said she was being asked about it.

Additionally, Vice President Bishop reported that she had received an invitation to the Region 2050 process. She asked if the other Commissioners had been invited and whether they planned to attend.

Commissioner Menegat indicated he would attend.

Vice President Bishop said she was unclear as to whether she was representing herself or the Board.

Commissioner Menegat commented that he intended to speak as either a citizen or an individual EWEB Commissioner, but he did not intend to speak on behalf of the Board.

Vice President Bishop noted that one of the Sunday noon shows on radio station KLCC addressed emergency preparedness. She thought it would be a good time for EWEB to disseminate information on what dams EWEB was responsible for and what emergency plans the utility had.

Commissioner Simpson commented that he sometimes felt awkward regarding EWEB's position on emergency preparedness and how prepared the utility really was. He was especially concerned regarding what would happen if the building became somehow uninhabitable on short notice. He asked if there was a back-up headquarters site and whether the utility backed up its information services data. He requested a report from staff on these concerns.

On a similar note, Commissioner Simpson related that he had contacted Electric Operations Manager Dave Koski shortly after the hurricane and asked him how EWEB would be positioned to send a crew down south to assist. He said Mr. Koski had been working with agencies that coordinate that type of request and at that time, the regions were so flooded with calls, that they had all the help they could use. Mr. Koski had indicated to him that EWEB was "keeping an ear to the ground" and would be able to consider a response should it be asked to help out.

Commissioner Simpson reported that he had also attended the Diversity Awareness Workshop. He noted that several EWEB staff members were present as well and that it was EWEB's intent to have all staff members participate in such a workshop. He related that he had been assigned the role of father of a Native American family. He said the workshop was presented with stressful and discriminatory incidents throughout the day. He felt the experience had opened his eyes to discrimination that occurred on a daily basis in our community. He shared that he had found most surprising that most of the incidents had actually happened in this community.

Continuing, Commissioner Simpson reminded the Board that he would be attending the Northwest Energy Coalition conference in Seattle on October 20 to 22nd. He planned to meet with staff to review issues prior to the conference.

Commissioner Simpson also reported that the Compensation Subcommittee was now meeting bi-monthly and had a first draft of the General Manager's contract. He thought the contract was looking very good. He said the Subcommittee had consulted with EWEB attorney Win Calkins and planned to be studying comparables. He stated that the Subcommittee would soon provide the full Board with a report. General Manager Randy Berggren added that a placeholder for the report had been put on the November 1 agenda.

President Farmer reminded the Board that he would be absent for the Regular Meeting scheduled for October 4.

President Farmer reported that he had the honor in the previous week to attend the Executive Management Team meeting at which General Manager Randy Berggren had been presented his 20-year pin. He congratulated Mr. Berggren on a job well done.

Additionally, President Farmer stated that he and Mr. Berggren continued to meet with Eugene Mayor Kitty Piercy and City Manager Dennis Taylor. He said the most recent meeting had focused on the progress of the 30 percent design study. He indicated that a backgrounder had been included in the Board packets that recapped the meeting.

CORRESPONDENCE

Mr. Berggren reported the following:

- The Board had been sent a lengthy, detailed master plan update by Ms. Smith.
- EWEB had recently been recognized for its Low Income Energy Weatherization program.
- A meeting was scheduled for the McKenzie Valley residents on September 29, the topic of which was slated to be the need to make a determination about a boat landing as part of the recreation plan as part of the relicensing.

President Farmer asked if EWEB was required to build a boat landing. Mr. Berggren replied that the utility was required to identify a site. In response to a follow-up question from President Farmer, Mr. Wiley said plans were to be submitted in May 2006.

Mr. Berggren continued his report on correspondence:

- EWEB had approximately 60 people out in the community volunteering for the United Way Day of Caring on the day of the meeting.

Mr. Berggren stated that he had been in several recent discussions with President Farmer about the recent articles in the paper in regard to the utility's relationship with McKenzie-Willamette/Triad hospital and EWEB's own project. He said he had asked Public Affairs Manager Marty Douglass to develop a couple of draft proposals, including two draft opinion pieces to submit to the paper, one on rates and the other in regard to the utility's own specific needs. He thought the piece could speak somewhat generally about disaster preparedness, adding that the headquarters building did not meet seismic standards.

President Farmer suggested, and the Board agreed, to meet at 7 a.m. on October 14 to discuss these opinion pieces and find what the Board could present with a unified voice among them.

BOARD AGENDAS

Mr. Berggren reviewed the *Eugene Water & Electric Board Agenda Report for September 20, 2005*. He said there had been no changes in future agendas at this point.

Vice President Bishop stated that the City Club would feature the "Riparianistas," people talking on riparian zones, at its September 30 meeting and that it would be rebroadcast on Radio Station KLCC on October 3.

STEAM FUELS CHARGE

Fiscal Services Supervisor Dick Varner provided a power point presentation on the *Steam Rate Proposal*. He said that while preparing to discuss steam rates before the Board, staff had identified four primary issues:

- Fuel costs
- Operations and Management/Debt service increases
- A reduction in assumed sales
- How to deal with low-use or stand-by services.

Mr. Varner stated that it appeared that the fuel charges should be increased by seven percent.

President Farmer asked Mr. Varner to explain the difference between the fuel rate and the base rate. Mr. Varner said the steam utility had a three-part rate: \$6.25 per month as a basic customer charge, a three-tiered commodity charge that covered the operation and maintenance activities, and a fuels charge that covered the cost of the actual fuel used to produce the steam. He delineated the three tiers, as follows: the first 100,000 pounds per month was priced at one rate, the next 100,000 pounds was priced at another rate, and anything over that was priced at the third tier rate. He said the more a customer used, the less it would cost.

Mr. Varner affirmed, in response to a question from President Farmer, that steam fuels were 100 percent hedged, but there was a lag between when the rate had been approved in 2004 and the time when the utility had the hedges in place. He said this was what was driving the seven percent increase. He stated that unless Eugene experienced a particularly cold winter, EWEB was hedged. He noted that if EWEB did not use all of its hedged fuels, there would be some opportunity to remarket some of that hedge capability. He underscored that the Board would have a choice as to what to do when more information was known regarding a potential sale of hedged fuels.

President Farmer asked what the logic was behind the tiered steam rates. Mr. Varner replied that the larger steam customers were “easier to deal with” when dealing with line loss and other issues. He explained that the electric and water side of the utility included a conservation incentive.

President Farmer suggested that the same sort of logic could be made to support a reversal of the tiered approach in the steam utility to provide incentive to conserve natural gas. Mr. Varner agreed that such a case could be made. Mr. Berggren pointed out that the Board had never made a change in steam rate tiers a priority given the size disparity between that and the electricity and water utilities.

Commissioner Simpson asked why the fuel rate was not integrated into the commodity charge. Mr. Varner replied that this dated back to the time when EWEB was looking to isolate that cost to customers to compare with the cost of converting to their own natural gas boilers. He called it an “artifact” from the late 1990s, a time when EWEB was concerned with retaining its competitive position.

President Farmer asked if the stand-by charge would be a fourth component. Mr. Varner responded that staff was proposing to increase the basic charge to \$25 so that EWEB could get some return from those customers operating in a stand-by service capacity during the summer months. He said that it costs EWEB money to keep the steam hot and ready for use even though some customers didn't use steam in the summer; hence the monthly stand-by charge.

In response to a question from Vice President Bishop, Mr. Bondioli stated that EWEB had approximately 15 to 20 customers that would have to pay a stand-by charge.

In response to a question from Commissioner Simpson, Steam Supervisor Will Bondioli indicated that the steam utility had around 90 customers.

Commissioner Menegat asked if customers had to pay the charge if the steam was turned off in the summer. Mr. Bondioli responded that those customers would be required to pay the service charge from this point forward should the recommended rate action gain Board approval.

In response to a question from Commissioner Simpson, Mr. Bondioli said the boiler was not turned off for the summer.

Mr. Varner outlined the changes in O&M and debt service. He stated that in the past EWEB had taken summer shut downs and bought steam from the University of Oregon, but it had reached a point at which it was costing EWEB as much or more to do so than it did to keep EWEB's boiler going over the summer. He said this had caused costs to increase over the last couple of years. He commended Mr. Bondioli for finding cost savings wherever he could.

Mr. Varner stated that the steam utility had experienced an operating loss and had borrowed money from the electric utility. This had caused the steam utility debt service costs to go up as it repaid the loan over the course of three years.

President Farmer asked how the three-year repayment period had been determined. Mr. Varner replied that this was the length of time of the Sacred Heart Hospital contract and the utility could be fairly certain that it would continue to "hold together over that period of time." He said it was not yet known what the customers were going to do. He surmised that the loss of a larger customer would bring the viability of the steam system into question.

In response to a follow-up question from President Farmer, Mr. Varner averred that it was difficult to tell at this point what the future needs of Sacred Heart Hospital would be. He noted that there had been some talk of maintaining that steam load over the long term, but the question remained as to whether they would run it off hospital boilers or if they would continue to purchase it from EWEB. He thought the steam utility would be in "pretty good shape" until 2008.

Mr. Varner reviewed the assumed sales, which were in a downward trend. He said in order to spread the increased costs over assumed sales a commensurate rate increase would be needed in the commodity charges.

Mr. Varner stated that Northwest Natural Gas had proposed a 13 to 18 percent. He thought this looked good in comparison of rates nation-wide. He felt EWEB's fuel charges looked competitive.

Mr. Varner indicated that to the extent staff received any feedback, the proposal would be revised and then presented for action at the Regular Meeting scheduled for October 19 and then the increase would be enacted in December.

Commissioner Simpson thanked Mr. Varner and Mr. Bondioli for their hard work on the rate proposal. He indicated that he favored raising base fees to more accurately reflect the overhead that went into supplying this service. However, he opposed charging a stand-by fee. He asked what the customer stood to gain from it.

Mr. Bondioli said the raise in fees was due to the loss incurred while steam was “sitting there.” He pointed out that, unlike electricity and water, there was a cost to other customers for unused steam. Mr. Varner concurred, adding that the utility had to keep a “lot of pipe warm.” Mr. Bondioli noted that one customer alone was served by a block-long length of three inch steam pipe.

President Farmer commented that the political issue lay in the lack of understanding of this loss by customers.

Vice President Bishop remarked that she was not concerned because the cost of steam heat was not a major expense for customers. She averred that a comparison of this heating source with others would lead one to conclude that it was reasonable.

Commissioner Simpson observed that at \$25 per month basic charge, a \$300 increase over the year for a small retailer was a 23 percent rate increase. He asked if steam was the cheapest heating method in the City. Mr. Bondioli responded that steam had a convenience factor. He stated that a heat pump would represent a cheaper BTU value in electricity or natural gas.

In response to President Farmer, Mr. Bondioli explained that the convenience factor was due to the simplicity of the machinery and capital costs to connect to the system and that it could be turned off at no additional charge.

President Farmer asked if people were hooking up to become new steam customers. Mr. Bondioli replied that new customers were hooking up when they moved into buildings that were already served by steam. Mr. Buckhouse commented that the biggest convenience was that it was already there.

Vice President Bishop opined that steam was a quality heat source.

President Farmer predicted that the Board would likely get feedback on the adjustment to the rates but that it would raise little notice given how few customers were served by the steam utility. He said he would prefer to collapse the three tiers and have only one rate. He questioned whether EWEB wanted to be in the steam business. Mr. Varner commented that a more operable question would be how EWEB could get out of the steam business.

President Farmer asked if it would be possible for EWEB to divest itself of the steam utility. Mr. Berggren responded that EWEB has had this conversation for the last 10 to 15 years. He thought it likely that EWEB would have some obligation to help people change over their heat service.

President Farmer asked if it would be possible to sell the steam utility. Mr. Berggren responded that it would not be possible. He clarified that EWEB could sell the utility but no one would want to buy it.

In response to another question from President Farmer, Mr. Bondioli stated that the steam utility had seven employees. Mr. Berggren noted that it use to employ 22 people.

Commissioner Menegat disclosed that he was treasurer of an organization in a building heated by steam. He asked staff to determine if that represented a conflict of interest.

2006 DRAFT BUDGET

Mr. Varner presented the *2006 Budget* with a power points presentation. He said the largest budgetary issues the utility faced lay in capital projects. He recalled the discussion that had resulted from the Integrated Electric Resource Plan (IERP) process in which the question of what rate increment the Board would be willing to exact to fund renewable resources. He related that the Board, at that time, had indicated approval of a possible one percent increase to help fund new resource acquisition. He said staff was at a point at which the lost opportunity projects were on the horizon and there were wind projects to pursue over the long term. He stated that EWEB was also looking at wanting to acquire resources as a hedge against the projected decrement from the Bonneville Power Administration (BPA) in 2011. He said staff would be bringing some recommendations for such acquisitions in the “not too distant future.” For the present, he indicated that staff was recommending inclusion of the one percent rate increment in the 2006 rate proposal so that money would be ready and available for new resource projects to be brought before the Board. He preferred doing this rather than bringing a project before the Board and then finding the funding mechanism.

President Farmer said he was unsure how much it cost to buy new resources. He asked staff to provide some context. He also wanted to know what would happen if the decrement did not happen. Mr. Berggren responded that the decrement was a secondary issue as the long-term contingency plan was being formulated. He averred that the philosophical set of recommendations that had come from the IERP process needed to be honored in the conversation.

President Farmer asked how pushing the utility’s position longer and longer would impact EWEB. He questioned, “doing the rate increase” to impact the utility in this way. Mr. Varner said he would bring this back for the larger discussion on October 19.

Mr. Varner conveyed staff’s recommendation to the Board that to the extent that the power operating reserve was funded by the end of 2006 that any excess be put in the non-power operating reserve to serve as a vehicle for funding higher costs that could arise from the aftermath of Hurricane Katrina.

Mr. Berggren recommended that the Board also consider establishment of an operating contingency fund. He related that he had already heard that there may be a 15 to 20 percent increase in lines because of the magnitude of the need created by the hurricane.

Mr. Varner reviewed the power reserve target, currently at \$11.2 million to cover a “worst year on record hydro” versus the worst year experienced thus far. He said given the increases in costs the target should be increased to \$20 million in order to plan forward. He asked the Board to consider changing the paradigm of how financial forecasts were made and how the power operating targets were set.

In response to a question from Vice President Bishop, Mr. Varner explained that staff was working from both a price assumption, which was dynamic, and a volume assumption, which was static. Mr. Berggren added that the utility either needed to be more conservative or more flexible with the target.

In response to a question from Commissioner Simpson, Mr. Varner clarified that the target represented what the utility needed to get through one bad hydro year without having to go immediately to ratepayers and demanding a rate increase.

Mr. Varner asked the Board to think about budget concerns in anticipation of the larger discussion scheduled for the October 19 meeting.

In response to a question from President Farmer, Mr. Varner stated that the water year was at 88 percent of normal at this point. He said while this was not a much better water year than was budgeted for, prices had been significantly higher. He projected that the prices the utility was receiving for surplus power would provide for a good contribution margin at year’s end.

ITEMS REMOVED FROM THE CONSENT CALENDAR

Vice President Bishop provided the following correction for the minutes from the Regular Board Meeting held on August 16, 2005:

- Page 4, paragraph 4: “She suggested that *since* the matter of fencing college Hill Reservoir could be addressed administratively *by staff* rather than going through a Board process, *the Board should discuss whether or not Board action was needed.*”

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Vice President Bishop moved to approve the minutes from the Regular Board Meeting held on August 16, 2005, as amended. Commissioner Simpson provided the second. The motion passed unanimously, 4:0.

President Farmer adjourned the meeting at 9:16 p.m.

Assistant Secretary

President