

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
SEPTEMBER 20, 2005
5:30 P.M.

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

Others present: Randy Berggren, Dick Helgeson, Dick Varner, Jim Wiley, Tom Buckhouse, Marty Douglass, Jim Origliosso, Dean Ahlsten, Brad Taylor, Mel Damewood, Roseanna McArthur, 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).

ELECTRIC CAPITAL PLAN

Electric Engineering Manager Dean Ahlsten reviewed the *2006-2010 Electric Capital Improvement Plan and 2006 Capital Budget*, utilizing a power point presentation. He indicated that the Willamette Substation rebuild was the “centerpiece” of the program over the next five years. He emphasized that the capital budget was still a “work in progress.” He noted that it was still running at a \$3 million deficit in the five-year plan over the course of the first three years, primarily due to the impact of the substation rebuild. He said he had met with all of the program managers in June and July, similar to past procedures, in order to get all of the emergent work on the table and only a minor amount of modifications had been made.

Mr. Ahlsten stated that much engineering and operations time in putting together a comprehensive schedule focused on the rest of 2005 and into 2006, primarily focused on maintenance work. Maintenance had been elevated in terms of work priorities and integrated all of the known projects of that type with all of the capital work that was planned. He said it also provided individual tasks for the future projects and for 2007 projects time would be scheduled for 30 percent design work. He noted some concern expressed regarding what could be accomplished and stressed that staff was trying to be conservative in assuming what work would be completed over the course of the next year. He reiterated staff’s concern that there would be enough engineering resources to get the work lined out so that it proceeded smoothly.

Regarding the metering strategy, Mr. Ahlsten said the project targeted meter replacement thought to provide a quick return from the investment and the total cost was slightly over \$1 million.

President Farmer remarked that backgrounders featured many acronyms and asked that more explanation be provided of what they stood for.

In response to a question from Commissioner Simpson, Mr. Ahlsten explained that WMS stood for Work Management Systems, and the software systems were the primarily what had been budgeted for in to support that work.

Mr. Ahlsten explained that reliability was the highest order of priority. He said precedence was then given to projects carried over from the current budget year and then other projects were pushed out in order to remain within EWEB's spending authority.

Commissioner Simpson asked what the online equipment was monitoring. Mr. Ahlsten responded that staff was budgeting to place gas level monitoring equipment on the transformers at the Carmen Smith facility. He explained that it gave an indication whether there was insipient or developing arcing issues. He said similar monitoring equipment was utilized on the McKenzie transformer, but this equipment was now approximately 50 years old.

Commissioner Simpson asked why the figure for the cost of generation projects was so much higher in 2006 than it was in 2008. Mr. Ahlsten replied that the 2006 figure had been a carryover from the Smith Falls project. He said the cost had been increased to incorporate unit #3, a small turbine. Electric Division Director Jim Wiley added that it was part of the relicensing work associated with Leaburg/Waltermville.

President Farmer observed an increase in the costs for Carmen Smith from \$3 million to \$8.5 million. Mr. Ahlsten explained that engineering and design costs were being brought into the total for project improvements.

Mr. Ahlsten called out the money targeted for aging infrastructure. He said it was largely due to increases in the Willamette Substation costs, the annual expenditures for which had gone up to over \$9 million on average over the next five years. He noted that this would exceed the rate increase for capital in 2004.

In response to a question from Vice President Bishop, Mr. Ahlsten clarified that charges for new growth such as that incurred by a new subdivision were directly allocatable to the customer, but substation upgrades or other work to meet increased capacity fell under the heading of enhancements for new growth and was not allocatable to the customer.

President Farmer asked what \$3.3 million in regulatory requirements was for. Mr. Wiley replied that there were ongoing projects such as the fish return channel that had been moved out of the relicensing program and into the generation program.

In response to a question from Commissioner Simpson, Mr. Ahlsten stated that new feeder facilities would be built to meet increased needs.

Regarding trading floor capital, Commissioner Simpson asked why the number had been split into two. Mr. Ahlsten explained that it was a two-year project, the first phase of which it intended to come up with design specifications and the scope of the upgrade in order to put it out to bid. He said the successful bidder would then be engaged to complete the project the following year.

In response to a question from President Farmer, Mr. Wiley stated that the Electric Division was projecting to increase full time equivalent (FTE) employees by 13 to 14 positions, 80 percent of which would be engaged in capital work.

President Farmer noted that \$600,000 had been budgeted for “cars for 13 people.” Corporate Services Director Roseanna McArthur clarified that this amount included vehicles and equipment, which could include bucket trucks, a trouble-shooting truck, and pickup trucks. In response to a follow-up question from President Farmer, Ms. McArthur explained that the other \$1.3 million budgeted for fleet replacement included bucket trucks and many other pieces of equipment. She underscored that when new line technicians, foremen, and supervisors were hired, they needed vehicles.

Vice President Bishop asked if staff was looking into purchasing vehicles that used alternative fuels. She also asked if there were plans to “buy quality.” Ms. McArthur assured her that when buying larger equipment EWEB tried to buy top quality. She said EWEB was looking into bio-diesel fuels and ultra-low sulfur diesel and had bought a “couple of Priuse” vehicles.

President Farmer suggested that the Commissioners would benefit from a one-page spread sheet that showed the ages of the vehicles that were being driven around in order to be able to answer questions from the public accurately.

Commissioner Simpson commented that he would like to gain public relations mileage out of the use of alternate fuels.

Mr. Ahlsten summarized the report. He reiterated that the primary focus of the capital budget was on aging infrastructure and reliability projects. He said staff was looking for lower cost alternatives for the Willamette Substation. He averred it would be difficult to obtain a \$5 million balance at five years given the system needs and the amount of work to do. He underscored that the capital budget was still under development.

General Manager Randy Berggren remarked that one difficulty in determining the costs of the Willamette Substation lay in not knowing where it will be located.

Vice President Bishop observed that a lot of money had been set aside for 30 percent design work in the budget. She asked if staff was working from a formula? She said she was trying to understand the use of money for design and how it related to the total amount for a project. She asked if design work was being done to determine the cost of a project or if it was a percentage of the total that was already somewhat determined. Mr. Ahlsten replied that staff attempted to define the scope of a project and determine a good cost estimate prior to budgeting. Mr. Berggren elaborated, stating that planning and design work was needed in order to keep a project on budget and to keep staff from being forced to return before the Commissioners with a budget amendment. Mr. Ahlsten added that staff strongly believed that money spent on advance design work ultimately saved money because it cut down on cost overruns and inefficiencies.

In response to a question from Commissioner Simpson, Mr. Ahlsten confirmed that the increase in generation and transmission for Leaburg/Waltermville in 2010 was due to the rewire project.

Commissioner Simpson asked, regarding Demand Side Management (DSM) and retail services, if ConAug payments had been historically routed back toward customer conservation programs or if the numbers in the report were a one-time diversion. Power Resources Division Director Dick Helgeson responded that there was base level funding in the rates at five percent for conservation, which covered both the operations and management, and the capital outlays for the Demand-Side Management (DSM) programs. He said for some time all or portions of both the ConAug money and the conservation and renewables discount money were used to help supplement the five percent. He recalled a discussion at the Board level one year earlier in which strategies to replenish the reserves had called on staff to utilize the ConAug funds and the conservation renewables discount to offset what would have otherwise been a full five percent funding from rates. He said this bolstered the utility's ability to replenish reserves. He stated that the utility was still able to acquire its 2.5 average megawatts (AMw) consistent with the baseline acquisition in the Integrated Energy Resource Portfolio (IERP) for 2005-2006. He indicated there would still be questions in 2007 and forward as to what would be made available from the Bonneville Power Administration (BPA).

Mr. Varner pointed out that currently EWEB did not have a contract for the ConAug program for 2007 as the utility was uncertain whether to continue its participation. He said the conservation renewables discount would be a program EWEB would continue to use.

President Farmer asked what the current best guess for the cost of the Willamette Substation was. Mr. Ahlsten replied that the project would cost \$2 million less if a conventional station could be built and if it did not have to be built on the "MGP" site it would reduce the cost by an additional \$2 million.

Regarding 2005 carryover work, President Farmer asked if funding for the work was carried over with it. Mr. Ahlsten responded that in all of the listed cases the assumption was that the money was coming forward.

In response to a question from President Farmer, Mr. Ahlsten said the network protectors to be replaced were relays or breakers on the network transformers in the downtown system, which was all on one network. Mr. Berggren remarked that it was a particular device exclusive to this sort of system. Mr. Ahlsten added that there were 100 of them in the system and many of them were 50 years old or older.

President Farmer noted the 50 percent increase in spending for underground cable and asked what this amount of money would pay for. Mr. Wiley explained that the utility planned to put in ties between the different underground systems so that a section could be taken out and replace the aging

capital. He said the utility was buying cable that would last much longer than the cable that was currently installed. Mr. Berggren pointed out that much of the underground cable had been installed in the early 1970s and was an earlier technology prone to problems and with a 20-year life expectancy.

In response to President Farmer, Mr. Berggren clarified that this money was budgeted to replace underground cable and not to put additional cable underground.

President Farmer commented that, from a policy standpoint, one year earlier customers had been hit with a permanent 5.7 percent increase in order to double the amount of money to pay for capital expenditures. He believed this to have made “a lot of sense,” especially given that at the end of 2009 EWEB was planned to have \$5 million in this reserve. He surmised that what he was being told now was that the capital program was still not able to “live within its means” even though the rate had been doubled and that the reserve would be wiped out and the utility would be faced with a deficit. He said he found this “difficult to swallow.” He challenged staff to keep the minimal reserve that had been targeted on the table. Otherwise, he felt it would be difficult to justify the rate increase to customers.

Mr. Berggren responded that staff was also concerned with the reserve. He said once the uncertainties around the Willamette Substation were resolved, the reserve amount would become more clear. He reiterated that the budget was a work in progress.

Vice President Bishop asked if there had been any consideration given to the idea of replacing the wooden utility poles with something other than wood. Mr. Wiley replied that staff was conducting a sustainability analysis to determine what sort of poles to use. He said at this time only wood and steel poles were considered because fiberglass and concrete were too expensive. In response to a follow-up question from Vice President Bishop, Mr. Wiley stated that environmental implications of the chemicals used to pressure treat the wood were taken into account as well as the economical implications due to disposal costs.

Vice President Bishop expressed concern regarding the lack of certainty on the location of the Willamette Substation. Mr. Berggren responded that the utility had been in conversations with the City and with the University but had not resolved whether the remedial action plan on the coal/gas side was acceptable or not. He stated that the substation could not be closed down. Mr. Ahlsten clarified that staff was looking into scaling it back and doing the upgrades to allow for this.

Vice President Bishop asked if any consideration had been given to the substation’s location in a flood plain. She thought the utility could, perhaps, get federal or grant money to take some of the load off the substation and move it to safer areas. Mr. Ahlsten responded that this had not been looked into.

Vice President Bishop expressed frustration that the location of the Willamette Substation was as yet unknown. She felt the hospital, the city, and the university were holding up the decision. She suggested that the Commissioners needed to look very carefully at how the Board proceeded in the next few months and the next year to see if some clarity could be found in what the utility was doing.

WATER CAPITAL PLAN

Water Engineering Manager Mel Damewood introduced the *2006-2010 Water Capital Improvement Plan and Capital Budget*. He noted that Water Resource and Systems Planner Brad Taylor had a large binder containing detailed descriptions of all of the projects, should more specific information be desired. He added that the Board had approved the water utility's master plan in 2005. The next master planning process was scheduled to begin in 2009.

Mr. Damewood provided an overview of the plan and budget accompanied by a power point presentation. He underscored that a major focus of the capital plan was the underground water rights. He observed that the electric division had to remain at the "program level" with its capital improvement plan while the water utility capital improvement plan could be kept at the project level. He reviewed the list of projects. He noted that the division was attempting to build a new reservoir one year and rebuild an old one the next in order to reduce the impact.

Regarding maintenance, Mr. Damewood reported that the utility was currently replacing pipe at a rate of two miles per year, but the system contained 800 miles of pipe. He commented that the water system was not likely to last given the current 400-year pipe replacement program. He said the utility was working to strategize to move those dollars up over the next five to ten years.

In response to a question from Commissioner Simpson, Mr. Damewood affirmed that a water main was the pipe that ran under the street and delivered water to residences. He added that the old mains that were uncoated and unprotected as well as some cast iron mains were being targeted to prioritize.

Mr. Damewood affirmed, in response to another question from Commissioner Simpson, that the College Hill connector intended to provide connectivity with Crest Drive.

Mr. Damewood said the water utility tried to keep its capital improvement plan to approximately \$5 million per year. He listed the funding sources:

1. Rate based capital;
2. Systems Development Charges (SDCs) for capital building for capacity increases due to building, with rare exceptions;
3. Bond funds;
4. Developer paid projects.

President Farmer asked if the SDC reserves were slowly dropping. Mr. Damewood responded that currently the reserves were gaining but he anticipated that as the utility moved into the out years of the CIP and began to realize the effects of the potential Hayden Bridge plant expansion, the reserves would likely be drawn down.

President Farmer asked how the correct amount of SDC reserves should be. Mr. Damewood replied that staff tried to take a ten-year view at what projects needed investment and what bond funds were still owed repayment out of SDC reserves.

In response to a follow-up question from President Farmer, Mr. Damewood stated that the primary driver for expenses was Hayden Bridge improvements, which included filter expansion, and transmission lines and reservoirs.

President Farmer wondered how the reserve fund became \$7 million in the first place. Mr. Damewood replied that for this year, as an example, \$700,000 had been planned to pay for the Laurel Hill project and it had not happened. He said deferring the project inflated the SDC fund. He added that the economy had been good and more money was coming in.

Mr. Taylor noted that many SDC projects had fairly large rate components to them. He said the strategy behind the timing of the projects was difficult.

Mr. Damewood presented the financial issues for the CIP. He explained that there was approximately a \$2 million deficit between the expenditures versus what Fiscal Services Supervisor Dick Varner had provided in the *pro forma* for rate capital. Mr. Varner added that if the Board made a one-time three percent increase at the “front end” it would “just about cover it” over the five-year period.

Mr. Varner stated that it had been hoped that the water utility could accomplish a “significant catch-up” for rates for capital in 2006. He related that as the study work had been conducted over the previous summer, the sales growth trends had not met the forecasts. Because of this, he said the rate capability was directed toward covering for a much reduced retail sales forecast of the water utility. He anticipated a proposal for a rate increase of approximately 10 percent in the spring of 2006 to cover for the reduction in the sales forecast, increases in operations and management costs, and one percent for increases in capital. He underscored that this was different from the plan that had been made one year earlier.

President Farmer asked how SDC charges in the City of Eugene compared to other cities in Oregon. Mr. Varner replied that this would be part of Senior Financial/Rate Analyst John Yanov’s presentation on October 4.

Vice President Bishop asked what SDC indexing on an annual basis was comprised of. Mr. Damewood responded that it was a slight adjustment to the SDC based on cost of the construction indexing. He said rather than waiting from 2000 to 2005, as had previously happened, staff thought it would be wiser to consistently index on an annual basis.

In response to a question from Vice President Bishop, Mr. Varner stated that the

methodology allowed the Board to increase SDCs at the Board's discretion. Vice President Bishop asked for this item to be placed in the queue for a board level discussion.

Continuing the presentation, Mr. Damewood noted that in looking at the list of projects provided by the City of Eugene staff at EWEB had thought it would only incur \$100,000 in improvements. He explained that whenever the City did a full-depth replacement of a road, in addition to being an opportune time to replace a water main it was often required given that EWEB facilities were affected by such work. He related that EWEB had recently been informed that 4,000 feet of High Street would be rebuilt and this was projected to add \$250,000 to the CIP.

President Farmer asked how the process could be improved to avoid such surprises. Mr. Damewood observed that City projects sometimes shifted in a hurry. He cited the recent example of the rebuild project planned for River Avenue in which it had been slated to go forward, EWEB had prioritized funding, and then neighbors became up in arms and the project had a hold placed on it. Mr. Berggren noted that staff started to meet with the City on a somewhat regular basis three years earlier in order to review its project list. He felt this had improved EWEB's ability to predict capital projects.

President Farmer suggested that any ideas that staff had to further communication be brought back to the Board. Mr. Berggren indicated that the Commissioners and the General Manager meetings with City Councilors and the Mayor were being scheduled on a more regular basis than before.

Mr. Damewood said the City was doing a better job of making EWEB aware of projects that were being scheduled.

Commissioner Simpson asked if EWEB still incurred expenses in such a road rebuild if the main did not require replacement or to be moved. Mr. Damewood responded that some expenses were incurred because EWEB still had to adjust valves and meters and had to service the main.

Mr. Damewood said the division was updating its Systems Control and Data Acquisition (SCADA) equipment. He explained that SCADA had previously been run from several machines and now was centralized to one and run through the intranet.

Vice President Bishop asked if the groundwater was held up because of water rights issues or issues more geologic in nature. Mr. Damewood replied that both issues played into it. He said primarily staff had to satisfy the Water Resources Board and this involved several issues. He felt an end was in sight. He reported that staff was doing tactical work on the feasibility of what was presently known at a very high level, but what would have to be done to get through the process was not known at this point. He hoped that this would be known by the end of the year and to get to that point involved basically assessing mitigation strategies through any kind of surface water influence and addressing the "potential interference issues" with the wells of the Springfield Utility Board (SUB) and the Rainbow Water District.

Vice President Bishop asked what was meant by surface water interference. Mr. Damewood explained that EWEB had to prove through its computer model to the Water Resources Board that it

was not transferring any water from either the Willamette River or any other surface sources in the area through the groundwater and out and into the pipes.

In response to a follow-up question from Vice President Bishop, Mr. Taylor related that only recently staff had made significant progress with the feasibility component. He said it was unknown at this point how much longer this process would take. He commented that this process had been “dragging on” but he predicted that within a year it would be known whether EWEB should continue to pursue groundwater as an additional water source or to research another source.

Mr. Damewood said when more information was known staff would queue it up for a Board level presentation and discussion.

Mr. Taylor called finding another water source the most important issue in front of the Water Utility.

Vice President Bishop asked if it would be possible to end up in a situation whereby EWEB would end up pumping water for neighboring jurisdictions. She wondered if drawing down Springfield’s well, for example, would require EWEB to replace the water. Mr. Taylor responded that EWEB would have to replace the water, but he felt another possibility would be that the aquifer would pan out to be able to meet the needs of everyone. He said the aquifer was shaped like a bathtub with one end deeper than the other and the SUB well was at the shallower end of the “bathtub.”

President Farmer asked if 30 percent of expenditures attributed to debt service were high. Mr. Varner replied that the water utility was under the 40 percent debt to asset ratio. He stated that the annual debt service was down from the previous year.

Mr. Damewood remarked that this varied from year to year based on how much capital spending occurred in a given year.

President Farmer asked Mr. Damewood how the utility could change the reduction in sales that had caused the largest impact to revenue. Mr. Damewood observed that the weather patterns experienced over the past few years had hurt the division’s revenue. He underscored that 50 percent of the revenue occurred between June and September and wet weather in those months significantly impacted revenue.

President Farmer suggested that one way to “cure” the revenue problem was to sell water. He recalled that the Cities of Creswell and Junction City, among several others, had listed in their plans to meet future population growth in the Region 2050 process a bullet point suggesting that they would buy water from EWEB in the future. He remarked that this translated to revenue for him. He felt that continuing to push that as the Board and gaining the City’s approval to do so could result in the ability to sell. He thought this might be front-end loaded and might cost a lot, but the return would merit the investment.

Mr. Berggren commented that this work had already begun. He said it was a new issue and capital requirements were being looked into. He noted that this was a separate “stand alone” issue not reflected in current planning work.

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

Assistant Secretary

President