

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
NOVEMBER 15, 2005
6:30 P.M.

Commissioners: Ron Farmer, Sandra Bishop, Mel Menegat, John Simpson, and Patrick Lanning.

Others Present: Randy Berggren, Dick Helgeson, Dick Varner, Jim Wiley, Marty Douglass, Jim Origliosso, Debra Smith, Tom Buckhouse, and Krista Hince of the EWEB staff; Ruth Atcherson, City of Eugene minutes recorder.

President Farmer convened the Work Session of the Eugene Water & Electric Board (EWEB) at 6:10 p.m.

2005 THIRD QUARTER BUDGET & FINANCIAL PERFORMANCE

Treasurer Jim Origliosso presented the Third Quarter Financial Statements for November 15, 2005. He stated that the electric utility had done very well, but the water utility had not. He reviewed the financial statement for the electric utility.

President Farmer said that it appeared that the electric utility budgeted for \$6 million less than it had in 2004. Mr. Origliosso responded that he would "run that down" and provide President Farmer with a response. He clarified that this report was specific to the third quarter.

In response to a question from President Farmer, Mr. Origliosso explained that lower capital budget expenditures were primarily due to deferred projects. He added that the electric utility had less than the authorized Full Time Equivalent (FTE) employees and was having some difficulty in recruiting new employees.

President Farmer surmised that money not expended on capital projects it was slated for had been pushed out to the next year.

General Manager Randy Berggren stated that a detailed variance analysis had been conducted on the operating budget since the Budget Workshop and it had been determined to have a \$1 million favorable variance. He said under the existing structure the \$1 million variance would go into the non-power operating reserve fund.

Commissioner Menegat asked how the positive variance had been attained. Mr. Origliosso replied that it had come from "many places," such as lower than expected operating costs and an increase in interest earnings.

Commissioner Menegat observed that rates had been increased to add to the Operation and Maintenance (O & M) budget, but now EWEB was saving \$1 million. Mr. Origliosso responded that it was attributable in part to the labor savings due to not having ramped up.

In response to a question from Vice President Bishop, Mr. Origliosso reiterated that a surplus from the non-power O & M budget would go into the non-power O& M reserve fund as money specified for a budget was retained by that budget if left unspent. Mr. Berggren added that this money would back up the utility for storms or other unexpected expenses.

President Farmer asked if interest earned on a reserve fund remained with the reserve fund. Mr. Origliosso replied that this was generally true.

Mr. Origliosso said the interest rate swap had netted \$122,000 in the first year of the contract. He stated that the crossover point had been reached and now the utility was paying from the \$122,000 it had reaped.

President Farmer asked if staff would recommend terminating the agreement. Mr. Origliosso responded that the termination fee was \$200,000. He underscored that the increased interest rates were helping the utility on the investment side, though it was a detriment to the interest swap. He said staff would not recommend adding more to the interest rate swap at this point.

Mr. Origliosso reviewed the third quarter financial performance report for the water utility.

President Farmer asked how long the working cash would cover the water utility's function. Mr. Origliosso replied that without including any reserve funds, the utility had approximately 20 to 25 days of working cash. He reiterated that the water utility was not in good financial shape at present.

Continuing, Mr. Origliosso stated that the third quarter was the time period that "makes or breaks" the water utility financially and this third quarter was not good. He did not anticipate that the situation would correct itself by year-end. He said the operating reserve would have to be transferred to the working capital account in order to start the next year with a "decent balance."

In response to a question from President Farmer, Mr. Origliosso said it had rained in the third quarter, but at inopportune times, and this had caused the revenue normally realized from irrigation to drop significantly.

Mr. Berggren declared the problems to be due primarily to weather-related consumption. He said this was part of the reason staff was recommending an adjustment in assumptions for the next budget.

Regarding Systems Development Charges (SDCs), Mr. Origliosso speculated that this revenue would increase as the SDC rates were about to be increased with the new year and quite likely there would be a small rush to get ahead of this increase.

Mr. Origliosso reviewed the third quarter report for the steam utility.

Commissioner Menegat asked what year-end projections were for the steam utility. Mr. Origliosso replied that staff anticipated approximately a \$200,000 decrease in net assets. He said its fuel hedge had marginally helped the utility.

Mr. Origliosso discussed the GM Financial Goal Status.

In response to a question from President Farmer, Mr. Origliosso attributed the increased contribution margin to the availability of more power to sell and higher prices the utility was able to get for it.

President Farmer remarked that the format did not mean much to him. He said it was hard to meet his fiduciary responsibility if he was unable to clearly delineate between gross and net revenue in the report.

President Farmer surmised from the information that operating expenses were up and he thought the utility's problem on a fundamental basis was related more to these operating expenses.

Water & Steam Division Director Tom Buckhouse said there were several vacancies in 2004 that were filled in 2005 and this had skewed the numbers for this year and made it appear that operating expenses had increased substantially.

President Farmer reiterated that he found it difficult, in looking at these numbers, not to perceive things as an operational problem as opposed to a revenue problem.

Mr. Origliosso suggested that staff take it off line and mount it in a different way by providing a quarterly revenue number, a quarterly expense number for each utility and quarter.

President Farmer called for a short break at 6:53 p.m. The meeting reconvened at 6:58 p.m.

2005 THIRD QUARTER GENERAL MANAGER'S GOAL STATUS

Mr. Berggren said there were two operational performance measures (OPMs) that were off target. One was demand side management (DSM), but he called this a "lumpy" number. He stated that there really was only one OPM that was experiencing a negative trend and this was the call center number. These were outlined in an attachment entitled

2005 General Manager Goals Update; Quarter 3, 2005 - Operational Performance Measures specific to the DSM Acquisition and Customer Service - Call Center Availability Rate. He reviewed the General Manager Goals contained on a separate attachment by the same title.

President Farmer was pleased with the employee safety numbers.

Referring to page 15 of the in-depth Goal and Initiative Update – Status as of September 30, 2005, President Farmer asked Mr. Berggren for a brief estimate on when the Board should have an expectation on when the groundwater project would move closer to culmination. Mr. Berggren replied that he thought the utility would be able to integrate a more exact strategy in the first or second quarters of 2006. He said there were still many pieces "floating around," but he hoped to have a more concrete sense of which direction it would take.

President Farmer commented that the Water Master Plan was a top priority. He thought, from a long-term perspective, that the water utility would become a more important resource than the electric utility. He predicted that EWEB would have fuel sources one day that would make the Bonneville Power Administration resources "obsolete," but water would one day be EWEB's most crucial resource.

President Farmer called attention to the last sentence of the first paragraph on page 20 and asked what was meant by the reluctance to disrupt long-standing methods of organizing and performing work. Electric Division Director Jim Wiley responded that there was a definite need to work on the resistance to change in some staff members.

GENERAL MANAGER'S GOALS FOR 2006

Mr. Berggren explained that it was hoped that the Board could take its top three priorities from the GM Goals for 2006 - Draft List Compiled by Executive Management Team and list them. He hoped to come back to the first meeting in December and further work on the Board priorities and then adopt the goals at the second meeting in December.

President Farmer asked commissioners to provide their top three priorities.

Commissioner Menegat said his top priorities were, as follows:

1. Water, as an overall area and no specific focus at this point;
2. The 30 percent design results;
3. Carmen-Smith relicensing;

Regarding the latter, he underscored that the utility needed to be in a position to carry through on what would ultimately be required to relicense.

Commissioner Menegat observed that the potential power decrement projected for 2011 was not among the priorities. He averred that it was important not to wait until 2010 to plan for this.

Vice President Bishop said she had written her priorities before having reviewed the draft list. She did not see on the list a master plan for the present EWEB site. She thought a strategic plan should be developed for the entire EWEB riverfront and adjacent land by integrating the results of the 30 percent design study into a comprehensive master plan for the area. She expected that one result would be a complete inventory by parcel with current and potential zoning, current uses, and a complete inventory of existing buildings.

Assistant to the General Manager Debra Smith remarked that this seemed to be a large piece of the post-30 percent design work.

Vice President Bishop wanted to make the formation of a strategy for meeting higher reserves and protecting capital assets to be a priority. She noted that the utility was "going in that direction anyway" and she was uncertain how to craft this into a goal.

Continuing, Vice President Bishop thought the utility should stabilize its energy sources by diversifying, especially to alternative sources of generation and developing a plan for more local self-reliance.

Mr. Berggren asked if this was work that was different from that which was accomplished in the Integrated Energy Resource Portfolio (IERP) process. Vice President Bishop replied that it was not.

Vice President Bishop also held water rights as a top priority. She averred that the utility had to be aggressive regarding getting back up sources for its water supply.

Commissioner Lanning listed his top priorities, as follows:

1. Water supply strategy;
- 2a. 30 percent design work;
- 2b. Communication: He averred that the communication regarding the 30 percent design work was essential.
3. Carmen-Smith relicensing.

He added that he thought it made sense to conduct a three-year study of the College Hill Reservoir issue.

Commissioner Simpson listed his top priorities, as follows:

1. Water supply strategy: from the perspective of the community it was important to have an adequate supply;

2. Communication: to get the word out of the positive attributes of the utility;
3. A comprehensive master plan of the riverfront property and a full report on the "value-best" use;
4. An emphasis on residential DSM and conservation mentalities.

He said the latter tied into the communication priority.

President Farmer shared Commissioner Menegat's priorities and in the same order. He said he would add a sharper focus on them. He conveyed his central concern, which was regional water. Regarding the Carmen-Smith facility, he thought the utility was in "pretty good shape." He was not as concerned about monitoring staff's actions pertaining to the Carmen-Smith facility, as he was concerned about the continued development of financial strategies to meet the impending need. He wished to see a plan in place that embraced what the utility would do with excess revenues, such as it would experience should there be three years with greater rainfall than had been budgeted for.

Ms. Smith commented that the Board had "not even begun" discussing Carmen-Smith. She underscored that there would be a great deal of discussion and strategizing at the Board level in this regard over the next several years.

President Farmer said, in regard to the 30 percent design work, he wanted to have a plan in place that had a planned approach to how the utility intended to proceed, whether the move was split or not.

President Farmer recommended that contingency planning begin on the potential power decrement the utility could face in its future contract with the BPA.

Vice President Bishop concurred.

President Farmer adjourned the meeting at 7:34 p.m.

Assistant Secretary

President