

EUGENE WATER & ELECTRIC BOARD
WORK SESSION
EWEB BOARD ROOM
JANUARY 17, 2006
5:30 P.M.

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

Others Present: Randy Berggren, Dick Helgeson, Dick Varner, Marty Douglass, Jim Origliosso, Debra Smith, Roseanna McArthur, Mel Damewood, Jim Wiley, Steve Newcomb, Brad Taylor, Lance Robertson, Deborah Brewer, and Krista Hince of the EWEB staff; Ruth Atcherson, City of Eugene minutes recorder.

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

BOARD GOVERNANCE – EL 1 FINANCIAL CONTROLS POLICY

President Bishop asked Assistant to the General Manager Debra Smith to give a brief overview of the work to date on the policy.

Ms. Smith explained that the present policy went back to 2000. Because projects were developed in one-year increments, projects tended to generate budget amendments. She said after considering whether to raise the dollar threshold for budget amendments or whether to look at the work at a higher level, staff thought it would be helpful to track the work at more of a project level.

Treasurer Jim Origliosso stated that staff's objective was to bring forth something that would cover both large and small projects. He said from a governance perspective it was fairly common for governing bodies to approve of a five-year capital improvement plan (CIP). He related that EWEB staff thought that a five-year CIP could be the controlling document and then quarterly reports could keep the Board abreast of the "rolling" five-year project list as things changed.

Ms. Smith noted that quarterly reporting was a new concept for the proposed policy and had yet to be incorporated into the language. She reported that Commissioner Farmer wanted to ensure that projects were not always being pushed out further in time.

Mr. Origliosso related that Commissioner Farmer was concerned that, for instance, a \$100,000 project would be approved and if the project was not initiated or went on for a long time another project would be substituted for it.

President Bishop was uncertain what the parameters were of a "major capital project."

Ms. Smith said that the Carmen-Smith relicensing project was comprised of a number of jobs and it was clear that it was a major capital project, but it was less clear when considering water main replacements whether it could be replacement in general or whether it had to be specific to a certain location.

President Bishop said she thought having a CIP was a way to put money aside or plan for larger than ordinary operations expenses. Ms. Smith responded that a CIP helped the staff and Board see where there might be rate issues, what aging infrastructure issues lay ahead, and so on. She said the focus of the CIP would be on the projects in years one and two and the projects in the latter years would not be so firm.

Mr. Origliosso called it a “bankable document.” He thought of it as a basis for going to the public with a bond.

Mr. Berggren added that it also allocated all of the capital funding.

In response to a question from Commissioner Simpson, Mr. Origliosso clarified that currently a project that was funded for 2005 but was not undertaken in that year would have to return as a budget amendment in 2006 in order to be initiated because at the end of the year the funding that had been allocated to it was rolled back into the capital reserve fund. He averred that taking a broader view of the projects, as in a CIP, would reduce the frequency of budget amendments brought before the Board to address just such a situation.

Commissioner Simpson remarked that it would be nice to be able to approve of projects. Ms. Smith replied that the Board would be approving projects by approving a five-year CIP.

Commissioner Lanning asked how much additional work it would require to update the five-year plan when preparing budget amendments, as proposed in the governance policy. Mr. Origliosso replied that it would be more work. He said at this point the five-year plan was updated when staff was preparing the budget and the new policy would require that staff take the spreadsheets that engineers and managers were using for such updates and giving them some level of review with each proposed amendment.

Ms. Smith related that Commissioner Farmer felt that a change of more than 10 or 20 percent should be brought before the Board for review.

Commissioner Lanning liked the idea of a five-year CIP, but said it “would take a lot” to get his support for a quarterly review of the plan. However, he emphasized that the thresholds for budget amendments had to be reasonable.

President Bishop thought the review should be conducted on an annual basis.

President Bishop noted that Commissioner Farmer had indicated in his written comments that he wanted the ability to track or compare the actual capital expenses with the projected and approved expenses. She wondered if there was a way to capture that information without “extenuating” the capital project. Ms. Smith replied that it seemed this would be possible.

Mr. Origliosso remarked that it was not uncommon to gain a better understanding of the costs

of a project after initiating the work.

Mr. Berggren underscored that a five-year CIP was a current attempt to assess risk and prioritize where the money should be spent. He felt it would be more prudent to review it annually rather than quarterly. He commented that a lot of projects were routine pieces of business, such as water main replacements, for which there was a set amount of money. He said EWEB had to be prepared to work on such projects as they arose through the City's street improvement projects. Other projects were more specifically designed and required a greater level of review.

Commissioner Menegat commented that it was not his job to oversee staff. This was the purview of the General Manager. He felt if he had concerns regarding a specific line item or project he would speak with Mr. Berggren about it. In general, he was pleased with staff and thought the reporting from staff to be objective and thorough. He said staff, to the best of his knowledge, had brought forth the issues the Board needed to respond to. He hoped that the Board would not make it so complicated that it would be "cheaper to hire some auditors" to give the report. He conveyed his appreciation for all the work that staff had done.

Commissioner Lanning expressed his agreement with Mr. Berggren. He said while he also agreed with Commissioner Menegat, he felt the projects in the five-year plan sometimes overlapped. He thought when looking at a five-year CIP only the first year was clear, given that needs arose and projects changed. He suggested the plan come back for review biannually because projects gained clarity as they progressed. He felt this helped to queue items up for the next budget cycle.

Commissioner Simpson echoed the comments of his colleagues. He stated his opposition to a quarterly system of project approval.

President Bishop wanted to avoid micro-managing the utility.

Commissioner Simpson said he wanted to have the information conveyed to the Board in the case of a project that had changed or grown, but he did not want it to be in the form of a report and/or an action item.

In response to a question from President Bishop, Ms. Smith explained that the change from a 20 percent to a 25 percent threshold for an unfavorable variance sought to bring the policy in line with the changes in contract laws recently made in the Oregon Revised Statutes (ORS).

President Bishop affirmed, in response to Ms. Smith, that she would prefer hearing a quarterly report on the CIP. Ms. Smith said she would put together an example of the quarterly report for the Board to review. She added that a more thorough review of the CIP would likely require that the Board have an all-day budget retreat in October.

Commissioner Simpson asked by what process staff had arrived at the new budget amendment threshold of \$500,000, which doubled the current threshold. Ms. Smith replied that staff had reviewed two year of major capital projects and had tried to come up with a line. Mr. Origliosso added that it only changed the number of projects by a few.

Commissioner Simpson asked how many projects would be over the \$500,000 range in a year. Mr. Origliosso thought eight projects in the electric division would top that amount.

Commissioner Simpson asked if staff would still generate an internal quarterly report even if it did not generate such a report for the Board.

Ms. Smith looked at the projects from 2005 and determined that of 25 total projects, the changes would have made the number drop to 16.

President Bishop said it seemed that it would not be a large burden on staff to capture the projected and actual costs and to keep it on a spreadsheet. Mr. Origliosso replied that staff would try to make a spreadsheet one of the features of the report.

GROUNDWATER AND 2006 WATER SUPPLY PLANNING UPDATE

Water Engineering Planning Analyst Brad Taylor provided a power point presentation on the Groundwater Project and the 2006 Water Supply Work Plan, outlined in a memorandum entitled *Groundwater and 2006 Water Supply Planning Update* dated *January 10, 2006*.

Commissioner Simpson asked if it was not EWEB's intent to have wells drilled by a flowing river. Mr. Taylor replied that it had been thought possible, but after testing it seemed the groundwater and wells were connected. EWEB's wells were interfering with existing wells owned by the Springfield Utility Board (SUB) and the Rainbow Water District. He reported that findings from the well review indicated that pumping EWEB's well field at the full mega-gallons per day (mgd) capacity could cause up to 1 million gallons to be lost from the SUB well and 1.2 million gallons to be lost from the Rainbow Water District. He said this represented a significant portion of the water rights of those two users.

In response to a question from Commissioner Menegat, Mr. Taylor clarified that the loss of 2.2 million mgd as mentioned before referred to the two entities' water rights and not what they were currently using.

He said the water rights gave SUB and the Rainbow Water District the authority to use the full water rights at some point in the future.

Mr. Taylor said once staff realized that the issue was that of a senior water user and the rights accorded to this seniority, they researched the laws. He reported that staff had determined that EWEB would have to come up with some type of water replacement for those adversely affected by its water usage from the well on a case-by-case basis.

Mr. Taylor stated that staff had determined that there were 122 exempt water users who would also require some level of mitigation should EWEB pursue its groundwater project.

Regarding surface water, Mr. Taylor reported that Ayres Pond had been determined to be adversely affected by well field pumping.

Mr. Taylor said \$1.6 million had been spent on the project to date and estimated that it would cost \$13.1 million to complete it. In addition to the wells, piping, and contingencies on treatment there were new costs for the project associated with the mitigative actions that would need to be undertaken. He thought if the project proceeded one well would have to be dedicated to providing water to Ayres Pond during the dry months. He was certain the Oregon Water Resources Department (OWRD) would likely condition EWEB's permit in a way that would hold the utility accountable for that issue. He projected that EWEB would spend approximately \$800,000 to mitigate Ayres Pond, \$600,000 to mitigate for SUB and the Rainbow Water District, and \$2.5 million for senior users and exempt users.

Continuing, Mr. Taylor discussed the risks EWEB associated with the development of this water source. He said the first risk was the escalation of infrastructure costs tied to the uncertainty of what the mitigations would ultimately be. He stated that another risk lay in potential additional unanticipated capacity reductions. He noted that staff's impact estimates were low. He thought there could be permitting issues, as the OWRD was not completely persuaded that a "pump-back" mitigation solution for Ayres Pond would address the issue. He said staff was engaged in that discussion. He acknowledged uncertainty with the public review process associated with the permit. He related that EWEB was working very closely with SUB and the Rainbow Water District on how EWEB could develop partnerships around the issues regarding interference with their wells. In addition to the unpredictability of public review, there were hydrological uncertainties and potential water quality issues.

Mr. Taylor felt EWEB needed to do more water supply planning work in 2006 to ensure that they had some other metrics to compare the uncertainties of the development of this supply option with other water supply options. He said it made sense to move the project forward and continue to pursue obtaining the water right. He stated that EWEB intended to request a proposed final order (PFO) and hoped to submit the backup material for it in February.

Commissioner Simpson asked if this project was in the five-year CIP. Mr. Taylor answered that it was not. He said getting the permit was the first step. After the permit was secured, EWEB would have 20 years to develop the project.

Commissioner Simpson asked how the cost of the well water compared to the cost of water from EWEB's Hayden Bridge intake. Mr. Taylor replied that this was not known at this time. He thought he could compare the water production costs at the Hayden Bridge facility to potential groundwater production costs, should the Board request it, but that it would be more meaningful after more design work had been completed.

In response to a question from Commissioner Simpson, Mr. Taylor explained that exempt water use was for residential purposes or for a small amount of irrigation and a permitted use was associated with large irrigation use, industrial use, or municipal uses.

Commissioner Menegat asked what affect the low water years the area had recently experienced had on the Ayres Pond data and approval for some of the mitigation projects. Mr. Taylor responded that when EWEB finally arrived at the point of sitting down with the department and discussing permit conditions, it would have to make sure it tied its permit conditions to a larger than annual view. He said the data provided a guide but it was important to be reasonable with how this related to variations. He added that whether or not EWEB would cause the levels of Ayres Pond to drop, if area residents saw the level dropping and knew that EWEB could be a cause they would conclude that EWEB was at fault. He wanted to be prepared to mitigate the water level and to do the right thing in the eyes of the public.

Mr. Taylor discussed the history of EWEB, from its inception in 1906 to the present. He stressed the importance of being prepared in the event that something catastrophic happening to EWEB's water source. He stated that water supply diversity tied back to securing existing water rights while developing a diverse drinking water supply that may include regional partnerships where practical. He said the first step in the strategy was to develop a sophisticated and workable emergency inter-tie agreement with neighboring water utilities. He hoped to have a proposal for such an agreement by July for Board approval. He suggested that the next step would be to take the water supply plan and revise it, developing concepts of regional water provision in order to use it as a tool to facilitate and develop metro relationships and agreements to help meet a common purpose, that of providing safe water to our communities. He noted that March 11 was the 100-year anniversary of the advent of the water utility.

In closing, Mr. Taylor stressed the importance of protecting and developing the McKenzie River water rights and watershed as part of the long-term strategy looking forward to 2050.

President Bishop adjourned the meeting at 7:26 p.m.

Assistant Secretary

President