

EUGENE WATER & ELECTRIC BOARD  
REGULAR BOARD MEETING  
EWEB BOARD ROOM  
MARCH 7, 2006  
7:30 P.M.

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

Others present: Randy Berggren, Dick Helgeson, Lance Robertson, Jim Wiley, Debra Smith, Cathy Bloom, Dick Helgeson, and Judy Chase of the EWEB staff; Linda Henry, Minutes Recorder for the City of Eugene; and members of the public.

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

### **AGENDA CHECK**

Commissioner Lanning asked to move Item 8 before for Item 6. The Board was amenable to the change.

President Bishop suggested that the Board refrain from cross conversations and wait for recognition before speaking to facilitate discussions.

### **PUBLIC INPUT**

**Nancy Ellen Locke**, 1130 West 25<sup>th</sup> Avenue, stated that she lived down the hill from the EWEB College Hill Water System. Ms. Locke expressed frustration about the EWEB decision to construct a fence around the College Hill Water System to protect the property from terrorist acts because of the Homeland Security Act, without public input. She asserted that EWEB and the Friendly Area Neighborhood Association (FAN) had overlapping mission statements. She said she wanted to work to make the College Hill Water System safe and secure without losing the Open Green Space her neighborhood had enjoyed for many years, without lowering the local property values and without throwing the local quality of life out the window.

**Rick Grosscup**, 2540 Lincoln Street, thanked the Commissioners for their service. He distributed a memorandum from the FAN providing information about the association as well as identifying FAN's tasking from the Eugene City Council. Mr. Grosscup said there were overlapping interests at the College Hill Water System. He stated that FAN had been attempting to have a dialogue with EWEB staff to review security and use issues of the property. He expressed frustration that an email he had received dismissed many of the FAN's questions and concerns without discussing those concerns with the association. Mr. Grosscup stated that FAN's goal was to be able to work with EWEB to review the issues that concerned the City of Eugene as represented through the FAN.

President Bishop stated that copies of a February 28, 2006 memorandum from Intergovernmental Affairs Coordinator Deborrah Brewer entitled ***EWEB Staff Response to Rick Grosscup's February 28, 2006 re College Hill*** could be provided to Commissioners if needed.

## **APPROVAL OF CONSENT CALENDAR**

### **Minutes**

1. Minutes of the December 21, 2005 Work Session and Regular Board Meeting.

### **Business Service Agreements**

2. **Delta T, Inc.**— Energy Star Outreach Services—Energy Management Services—Power Resources Division - \$135,000
3. **Eureka Software**—Publications of FERC License Applications for the Carmen-Smith Hydro Plant Project—Electric Division - \$35,000
4. **United Pipe and Supply**—Ductile Iron Fittings (Inventory Items)—Water Division - \$400,000

### **Memorandum Of Understanding**

5. **TEREX Utilities**—Memorandum of Understanding for TEREX Equipment Purchases—International 7400 6 x 4 Chassis with a Telelect Aerial Devise—Shop Facilities—Corporate Services. - \$220,842

Commissioner Simpson, seconded by Commissioner Lanning, moved to approve the Consent Calendar. The motion passed unanimously, 5:0.

## **ITEMS FROM BOARD MEMBERS**

Commissioner Lanning reported that EWEB did an excellent job hosting the February 23, 2006 meeting of LCOG.

Commissioner Simpson announced that he had toured the College Hill Water System last week. He thanked staff for providing the tour.

President Bishop asked when new business cards would be issued to Commissioners. She said she would be appreciative if Commissioners could proof read the copy before it was printed in the future.

Judy Chase, EWEB Staff, replied that new cards would be available on March 10.

President Bishop expressed hope that new laptops would be provided for Commissioners in the near future.

President Bishop said she was concerned about the College Hill issues. She was concerned that staff would not meet with neighbors until June, and asked if an earlier time could be arranged.

General Manager Randy Berggren said staff felt it was reflecting the Board's direction, and suggested it would be beneficial to review the Board's policies to ensure that direction as being followed.

President Bishop said a presentation at EWEB of the DVD version of Richard Fineberg's presentation on *Peak Oil* had been had been attended by about 50 people. She said she would meet with Energy Resource Manager Jim Maloney to discuss the issues that arose from the presentation.

## **CORRESPONDENCE**

Mr. Berggren reported the following correspondence:

- The Board had been provided with copies of a memorandum from Deborrah Brewer regarding the Update on College Hill reservoir issues.
- The cyber security agreement that needed to be signed by all Board members requisite to using EWEB issued laptop computers.
- Mr. Berggren concurred with President Bishop's comments regarding the Fineberg discussion.

President Bishop shared the following with the Board:

- A letter from a customer about the proposed rate increases, asking if tiered rates would be reviewed.
- A letter from the American Water Works Association announcing the 125<sup>th</sup> annual conference and exhibition June 11-15, 2006 in San Antonio, Texas.

Commissioner Lanning commended Mr. Berggren and the EWEB staff for the outstanding Carmen-Smith background they had provided him. He added that Patty Boyle had done a good job providing him with an orientation.

Commissioner Simpson reported that the process service analysis class he had taken had been very informative.

President Bishop stated that staff had cut back on the Carmen-Smith presentation at the direction from the Board, and asked Mr. Berggren to check with staff to ensure that it had been adequate.

Mr. Berggren said staff felt the presentations had been successful.

## **BOARD AGENDAS**

Mr. Berggren reviewed the *Eugene Water & Electric Board Agenda Report for March 7, 2006*.

President Bishop reminded Commissioners to schedule time for photographs next week.

## **ANNUAL AUDIT AND MANAGEMENT LETTER**

Assistant Treasurer Cathy Bloom introduced Trent Martin, a partner with Moss-Adams LLP, and Julie Desimone, EWEB's audit manager with Moss-Adams LLP.

Ms. Desimone stated that four documents had been provided in support of the Annual Audit and Management Letter:

- A bound copy of a document entitled, *Eugene Water & Electric Board Independent Auditor's Reports and Financial Statements, December 31, 2005*.
- A letter dated January 26, 2006, to Members of the Board of Directors, Eugene Water & Electric Board, referred to as the SAS 61 letter, a required communication.
- A letter dated January 26, 2006, to Members of the Board of Directors, Eugene Water & Electric Board, referred to as the "other matters" letter.
- Copies of a PowerPoint presentation entitled *Eugene Water and Electric Board* that served as an outline for the presentation were distributed.

Ms. Desimone and Mr. Martin provided the report, based upon the above mentioned documents and supported by the PowerPoint outline:

- **Auditor's Report**
  - Unqualified opinion on financial statements was a favorable review.
  - Stated that the Oregon Minimum Standards had been met, and no exceptions or noncompliance had been found.
- **Significant Reporting Changes**
  - Trojan reporting—this year's report reflects a comprehensive review of the Trojan project.
  - Single year presentation.
  - GASB 40—illustrates a true risk approach for investments.
- **Board Communications**
  - Moss—Adams' responsibilities were not to audit internal controls.
  - Significant account policies
  - New policies.
  - Changed policies.
  - Accounting Estimates
    - Unbilled revenue.
    - Allowance for doubtful accounts.
    - Recovery periods for the cost of plant.

- Significant audit adjustments
  - Contributions in lieu of taxes—\$600,000 additional expenses discovered by accounting staff during the audit process.
  - Conservation assets—approximately \$4 million reduction in asset and additional expense; discussions regarding assets started prior to the audit by management, resolution completed during audit.
- No disagreements with management
- No consultation with other independent accountants.
- Issues discussed prior to appointment—normal.
- No significant difficulties encountered—all personnel responsive and helpful.
- No reportable conditions or material weaknesses.
- Other matters
  - Utility plant—comprehensive review of work management process completed during 2005, with procedures to change existing processes to be implemented in 2006
  - Power trading—need for documentation of valuation methods.
  - Procurement.
    - ✧ Past due reports need documentation of policies and procedures.
    - ✧ Purchase orders process under development to prevent duplicate payments.
    - ✧ Credit cards—management to begin audit of controls and processes.
  - Best practices—management had worked and continued to work very hard on documenting key policies and procedures, to provide a method to understand internal controls. Upgrades to the Banner system would continue in 2006.
- **Accounting and Reporting Advisories**
  - Accounting standards update
    - GASB 34—enabling legislation could affect rate structure; will be watched closely.
      - ✧ GASB 44
      - ✧ GASB 45—would require recognition of liability of post employment benefits beginning in 2007; would have impact on financial statements; staff had begun developing policies and procedures to ensure compliance
      - ✧ GASB 47—would require recognition of liability of termination benefits in beginning 2007; would not affect EWEB under existing termination policies.
- **SAS 99—Fraud Risk**
  - Procedures to prevent fraud, including brainstorming and interviews with staff, and required audits in revenue and management override areas.
  - No instances of fraud noted.
- **Future Considerations**
  - Succession planning to ensure transfer of knowledge as management and line staff leaves the organization; EWEB does have plans for succession planning.
  - Forecasting and rate development—ten year plan in place for electric system; ten year plan for water system in process.

- Power Management and Load Growth—by Bonneville Power Administration (BPA) significant issue for the region; EWEB actively involved in monitoring.
- Federal Energy Act—could be implications for EWEB as current administration pushes for market based rates.

Mr. Martin commended Commissioner Farmer for his efforts in addressing significant issues with which EWEB was faced.

Commissioner Farmer proposed that the financial statements be prepared in a comparative year basis, rather than the single year basis as was done this year. He added that he was accustomed to seeing audited statements that represented two years, which provided more meaningful data.

Referring to page 3 of the *Independent Auditor's Reports and Financial Statements*, Commissioner Farmer noted that the water system bond ratings had been deteriorating for several years. He said he would be compelled to increase water rates by nine percent at its next meeting to solve the problem, and asked if such action would lead to a bond rating increase.

Ms. Desimone replied that it was difficult to forecast what would happen to the bond ratings, because EWEB was a regulated entity, with a Commission that had the ability to set rates.

Mr. Martin added that many factors other than financial, including management and Commission issues, contributed to bond ratings. In the case of the water system, the water supply would be taken into consideration.

Referring to page 5 graphs, Commissioner Farmer noted that volume had decreased slightly during each of the last three years. He observed that revenue increases were the result of rate increases, and expressed concern that expenses were increasing while sales decreased.

Ms. Desimone replied it was very important to monitor the BPA contract frequently due to the volatility of the market. She added that increased BPA profits may be directed to the Federal Reserve, and needed to be watched.

Referring to page 8 graphs, Commissioner Farmer asked why the Water System Financial Summary and Analysis illustrated dollars, but not water volume.

Mr. Berggren stated that the intent was not to hide anything, but to address the hard question of double-digit rate actions that had been raised as a concern by the Commission.

Commissioner Farmer said that the Commission was aware of the success in increasing reserves, and asked how they could be used effectively. He asked for an opinion on whether the reserve targets were appropriate.

Mr. Martin replied that reserves were critical, particularly in the current market. He opined that the current level of reserves did not appear to be too high, and were not inappropriate for the size of the utility. He said his firm would examine the issue and recommend an appropriate level of reserves for Commissioner consideration.

Mr. Berggren said that staff would be bringing a recommendation to the Commissioners on April 4, 2006 regarding targets for power operators, and asked if the Commissioners wanted opinions from the auditors at that time.

Commissioner Farmer expressed concern about a statement on page 17 of the document that said approximately 17.5 percent of the 2005 Electric System's retail revenues were the result of sales to two industrial customers, while approximately 4.7 percent of the Water System's operating revenues were the result of sales to one industrial customer. He stated that loss of those customers would result in a loss of \$30 million in revenue, imposing a major impact on the utility.

Ms. Desimone stated that although dependency on large industrial customers presented a risk on the financial statements, it was not unusual in the industry. She stated the accounts should be closely monitored.

Mr. Martin said a key factor was how the account was serviced, and how the customers' needs interfaced with EWEB's power supply, in conjunction with the BPA contract.

In response to a question from Commissioner Farmer, Mr. Martin said the Board should consider market derivatives in managing its assets.

President Bishop observed that although the reporting method had changed with Trojan, there were no other changes in EWEB's relationship with BPA. She asked why that method had changed.

Mr. Martin explained that the new reporting method provided a more accurate reflection of the investment arrangement with BPA along with the related debt.

Ms. Desimone added that the new reporting method provided a more accurate measure of control exercised by the Commissioners in managing its assets and liabilities. She added that BPA and not EWEB had the majority of control over Trojan, which had not been accurately demonstrated in the previous reporting method. She said EWEB had a minor risk associated with its share of Trojan ownership and a separate financial statement would be issued for the Trojan report.

Mr. Martin said the previous reporting method put Trojan on the same footing as the Water and Electric Systems, which was not an accurate financial picture.

President Bishop expressed concern about the issues raised in the report about purchase orders, noting that it was not the purview of the Commissioners to intervene at this level.

Ms. Bloom replied the audit revealed that in some instances, work was completed and invoices issued before a contract was established. She said she was working with staff to ensure that proper procedures were followed.

Mr. Berggren added that he had identified contract compliance as a priority issue during the last year. He said actions often take place in the interests of efficiency in the dynamics of managing projects in the field when large amounts of staff and other resources were mobilized in time critical situations. He said a compliance work group was developing a set of recommendations that was responsive to people in the field, enabling them to work in an efficient and effective manner, while maintaining contract compliance. Mr. Berggren said contract compliance was a high priority for him. He asserted that it would be addressed from a variety of perspectives, including improved training and education for staff, communication, and policy changes with the contract review procedures.

President Bishop stated that she did not appreciate it when contracts were listed on the Consent Calendar as needing approval to prevent stoppage of work on major projects, while she did not want to create another layer of bureaucracy to address compliance issues.

Referring to page 33 of the *Independent Auditor's Reports and Financial Statements*, Commissioner Farmer asked why the expected costs for power supply contracts jumped from \$91,168,000 in 2006 to \$98,690,000 in 2007, reflecting a significant increase compared to years 2007 through 2010.

Ms. Desimone explained that was the 2006 "Slice" adjustment.

Fiscal Services Supervisor Dick Varner explained that the big jump between 2006 and 2007 was due to going from the first five years to the second five years of the contract. At the end of the first five years of the contract, there were 25 megawatts of very inexpensive pre-subscription power that would no longer be available. It was replaced with 25 megawatts of 50 percent more expensive block power, and 15 megawatts at a higher rate.

In response to a question from Commissioner Farmer, Mr. Varner explained that EWEB purchased 56 percent of its power from BPA because it was a relatively low water year, resulting in a low acquisition from "Slice".

In response to Commissioner Farmer, Mr. Martin said that under GASB 45, it was possible that the impacts of employee retirements to the balance sheet could impact the bond rating. He noted that bond ratings at organizations across the country were impacted by benefit obligations. He added that the standard was providing some phase-in time to enable organizations time to make funding decisions. It was potentially a large number and could affect EWEB's bond rating.

Responding to Commissioner Farmer, Ms. Bloom averred that GASB 45 would change some interest rate assumptions. She added EWEB's bond counsel was closely monitoring this type of liability that was an important issue for the utility. She would be bringing more information to the utility this year.

In response to Commissioner Farmer, Mr. Martin stated that \$4 million in conservation write-offs was against earnings.

Ms. Bloom, responding to Commissioner Farmer's question referring to page 3, *D. Procurement – Past Due Reports*, of the observation letter, stated that EWEB's Purchasing/Risk Manager Ed Case was seeking to ensure there was adequate staff to review the past due reports.

Mr. Martin added that documentation procedures needed to be more consistent.

Commissioner Farmer expressed concern that issues identified in the 2004 audit report had been raised again in 2005, when staff had reported that the 2004 issues had been addressed. He said he would email the specific issues to Ms. Bloom.

President Bishop thanked Ms. Desimone and Mr. Martin for their report.

## **GENERAL MANAGER'S 2005 PERFORMANCE AND MERIT ADJUSTMENT**

President Bishop reported that there had been a good discussion in the Executive Session regarding the General Manager's evaluation, noting this was the third year the same evaluation tool had been used. She expressed her appreciation of the involvement of the Commissioners. She provided a highlight of the Commissioners' comments, noting high scores in implementation, foresight, and strategic planning, that was illustrated in financial related areas. President Bishop said the year ended in a good position, and EWEB had recovered from the energy crisis more quickly than had been anticipated.

President Bishop stated that an outcome of the General Manager's evaluation would be identification of opportunity areas for the Commissioners to examine in the governance setting. She said the evaluation illustrated a need for more work on the part of the Commissioners rather than a reflection of Mr. Berggren's work.

Jean Meyers, Human Resources Manager, summarized Mr. Berggren's 2005 Performance Review. She reported that Mr. Berggren's overall evaluation exceeded all expectations in all six goal areas. She added that there were no elements of his performance evaluation where he did not meet or exceed all expectations. She stated that Commissioners consistently recognized Mr. Berggren for his leadership and depth of management. Mr. Berggren got high marks for his on-going relationship with the Commissioners, his staff, customers, and his external involvements with officials in the industry.

Ms. Meyers reported that Mr. Berggren received high marks for his work on the Carmen-Smith relicensing project, ongoing governance, water rights and supply issues, internal reorganization, increased involvement at the regional level, securing an alternative site to relocate EWEB's operation, and building financial reserves through strong policy and good capital planning.

Ms. Meyers said areas of opportunity for further study and clarification had been identified that Mr. Berggren would integrate into his individual goals.

Commissioner Lanning saw Mr. Berggren as a strong, competent and capable leader. He said that Mr. Berggren's leadership was measured by the success of the organization, his executive management team, and the success of the Commissioners. He added that Mr. Berggren had done an outstanding job managing difficult issues.

Commissioners Simpson and Farmer concurred with Ms. Meyers and Commissioner Lanning's statements.

President Bishop emphasized Mr. Berggren's ability to plan and to empower people around him.

In response to President Bishop, Ms. Meyers reviewed the process that was used to develop the salary range for the General Manager based upon the American Public Power Association (APPA) data. Ms. Meyers asserted that the purpose of using the APPA salary matrix was to identify a reliable index that could be used every year to gauge the General Manager's salary. She distributed a copy of the salary range to Commissioners. She emphasized that Mr. Berggren's payment in 2006 was virtually identical to that paid in 2005, with the total outlay being a 1.5 percent increase.

President Bishop stated that an increase of between 5.5 percent and 8.4 percent would be appropriate based upon the APPA guidelines.

Commissioner Simpson asked why 2.5 percent was chosen as the low end of the salary range.

Ms. Meyers explained the range was determined by a number of factors, including the CPIW, which had been 2.5 percent for the first half of 2005, while the second half of the year was 3.0 percent.

Commissioners opined that the APPA figures would change annually, thus impacting the Commissioners' conversation regarding salary increases.

Commissioner Menegat, seconded by Commissioner Farmer, moved to approve a 7 percent salary increase to General Manager Randy Berggren.

Commissioner Simpson clarified that a 7 percent increase would equate to an annual salary of \$192,500 for Mr. Berggren.

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President Bishop stated that the proposal would bring Mr. Berggren's salary to the mean salary in 2004, and acknowledged his work to turn the utility around.

The motion passed unanimously, 4:1, with Commissioner Simpson voting no.

**ITEMS REMOVED FROM THE CONSENT CALENDAR**

There were no items removed from the Consent Calendar.

President Bishop adjourned the meeting at 9:28 p.m.

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Assistant Secretary

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President