

EUGENE WATER & ELECTRIC BOARD
REGULAR BOARD MEETING
EWEB BOARD ROOM
APRIL 18, 2006
7:30 P.M.

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

Others present: Randy Berggren, Jim Wiley, Debra Smith, Ed Case, Dick Helgeson, Deborah Brewer, Patty Boyle, Jim Origliosso, Dick Varner, Marty Douglass, Gale Banry, Mel Damewood, Terry Bequette, Catrin Von Donkelaar, Steve Newcomb, Greg Gardner, and Krista Hince of the EWEB staff; Ruth Atcherson, City of Eugene Minutes Recorder, and members of the public.

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

AGENDA CHECK

There were no other changes to the agenda.

PUBLIC INPUT

Carrie Shaw, 42127 Holden Creek Lane, reminded the Board of her previous visits in regard to the difficulties she had experienced due to an electrical problem. She said it had been a year since the power surge that had destroyed several appliances and some wiring and nothing had been done to date. She asserted that EWEB was not willing to address this issue. She felt the Board was supposed to be the caretakers of the utility and should direct staff. She alleged that this situation had been brought on by EWEB, as EWEB had not paid attention to a problem she had reported and then had not repaired the damage. She blamed EWEB and asserted that EWEB did not care about her. She submitted her testimony in writing.

APPROVAL OF CONSENT CALENDAR

Minutes

1. Minutes of the January 23, 2006, Regular Board Meeting, the February 7, 2006, Work Session, and the March 21, 2006, Work Session and Regular Board Meeting.

Business Service Agreements

2. Litus, LLC – Vegetation Management & Water Source Protection – Environmental Management – Corporate Services Division - \$150,000
3. OBEC Consulting Engineers – Backwash System Upgrade & Finish Water Pumps Abandonment at Hayden Bridge – Water Division - \$9,798
4. RMG Financial Consulting, Inc. – Provide Analysis of the Creditworthiness of Power Trading Counter Parties – Facilities Services—Customer and Financial Services Division - \$30,000
5. Selectemp – Temporary Services in Water Management - Water Division - \$70,000

6. Springfield Utility Board (SUB) – Indefeasible Right to Use (IRU) for lease of SUB’s dark fiber in the Thurston-Willakenzie area – Electric Division - \$37,407.41
7. Stellar Processes, Inc. – Demand-Side Resource Assessment – Energy Management Services – Power Resources Division - \$156,860
8. U.S. Department of the Interior – USGS – Joint Funding Agreement –Source Protection Monitoring – Environmental Management—Corporate Services Division - \$65,400

Board Governance

9. Approval of Success Measures for Goal II-B in the 2006 General Manager’s Goals – Develop a post 30% design strategy that includes funding for new facilities, creation of a Master Plan for the Riverfront Site, sale and/or development of existing facilities, and meets the utilities’ long-term infrastructure needs

Weyerhaeuser Mdf Power Sales Agreement

10. Request for Board Approval to Execute New Power Sales Agreement for Service to Weyerhaeuser’s West Eugene MDF Facility – Power Resources Division

President Bishop removed Item 10 from the Consent Calendar.

Commissioner Simpson noted that he had submitted corrections to the minutes electronically. There were no objections to the corrections.

Vice President Menegat, seconded by Commissioner Lanning, moved to approve the Consent Calendar with the exception of Item 10, the Weyerhaeuser MDF Power Sales Agreement. The motion passed unanimously, 5:0.

ITEMS FROM BOARD MEMBERS

Vice President Menegat reported that the General Manager’s Compensation Subcommittee had met. He said they were working on policies that would improve the linkage between Board and staff as identified at the Board Retreat. He said the first three policies would be submitted to the Board for review in the next week.

Commissioner Lanning said he was uncertain whether he could attend the May 2 meeting as he was scheduled to give his doctoral dissertation.

President Bishop related that Robert Liberty had sent a letter to the EWEB Board regarding the potential of broadcasting the EWEB meetings through the local Metro Media cable channel. She explained that he did the broadcasting for the City Council and other government groups.

President Bishop reported that she had attended a conference on bio-mass in Klamath Falls. She found the conference to be “shocking” as well as informative. She thought it was “old-style logging in a new sustainable coat.”

President Bishop expressed appreciation for the Board and staff given what had recently transpired in City government.

CORRESPONDENCE

General Manager Randy Berggren passed around an Earth Day poster. He stated that EWEB was a sponsor of the event, scheduled for Saturday, April 22, on the EWEB Plaza. The event would include 450 booths.

Mr. Berggren reported the following pieces of correspondence:

- Human Resource Manager Jean Meyers had included a follow-up memorandum in Board packets regarding the General Manager's succession planning process.
- Senior Water Engineer Brad. Taylor sent a follow-up communication on the water supply work session.
- The bargaining team had included a memorandum on the progress of talks with the International Brotherhood of Electrical Workers Local 659.
- A copy of the draft memorandum to be sent to the Eugene City Council to answer some of the basic questions regarding the bonds. He noted that a map of what the project would look like and a map of the site showing what areas would be impacted was included.

BOARD AGENDAS

Mr. Berggren reviewed the *Board Agenda Report* dated *April 18, 2006*.

Commissioner Simpson understood that the Board intended to write a letter to the Bonneville Power Administration (BPA) and asked if that was on the "radar screen." Mr. Berggren replied that this would be a piece of correspondence. He stated that Mr. Helgeson was in the process of writing the letter.

Commissioner Simpson asked if staff intended to provide a memorandum regarding the subject of Ms. Shaw's public comment. Mr. Berggren affirmed that the Board would receive a confidential status report on the situation.

CONSTRUCTION CONTRACTS EXEMPTION

Purchasing/Risk Manager Ed. Case stated that the information, presented at a previous meeting, was contained in the memorandum entitled *Revised Exemption of the Class of Construction Contracts Less than \$40,000*. He reiterated that the exemption would remove these contracts from competitive bid requirements per Oregon Revised Statute (ORS) 279. He said a public hearing was required by law.

Commissioner Lanning asked if there was any further information to provide to the Board. Mr. Case indicated that there was none.

Commissioner Lanning stressed, for the public's benefit, that the Board had spent time discussing this change at the previous meeting.

PUBLIC HEARING ON CONTRACTS EXEMPTION

President Bishop opened the public hearing. Seeing no one who wished to testify, she closed the public hearing.

CONSTRUCTION CONTRACTS EXEMPTION

Vice President Menegat, seconded by Commissioner Simpson, moved adoption of Resolution No. 0607, a resolution affecting the construction contract exemption for contracts less than \$40,000.

President Bishop noted that few construction contracts were for less than \$40,000 and because of this she would support the motion.

The motion passed unanimously, 5:0.

BUDGET AMENDMENT NO. 3

Water Engineering Supervisor Mel Damewood explained that the City of Eugene was engaging in a large road replacement project on Hilyard Street and it was important that EWEB coordinate improvements needed to its infrastructure with such projects, in this case a water main replacement. He said the item had been in the previous year's budget as the City had indicated it planned for this project. Since then, the City had nearly doubled the scope of the project. Because of this, he related that the cost of EWEB's portion had increased from \$210,000 to \$596,000.

Treasurer Jim Origliosso stated that in this project EWEB would encumber additional funds rather than taking from other projects. He said funding would come from the Systems Development Charge (SDC) reserve, a restricted account made up of SDC receipts that could only be spent for certain infrastructure purposes.

Commissioner Simpson asked if there were a large number of revenue meters that tied straight into the pipe. Mr. Damewood replied that there was a significant amount and all of them would be replaced in this project.

Mr. Damewood noted that two blocks of the project held 16-inch pipe installed in 1953 that was five inches thick and made of cast iron. He explained that pipe was not made like this anymore. He stated that the pipe was in "extremely good shape" and that the pipe would be in service for longer "than we will be." He passed around a sample of the pipe for Commissioners to examine.

Commissioner Farmer asked if that reserve showed up on the balance sheet. Mr. Damewood affirmed that it did.

Mr. Origliosso explained that the SDC reserve had grown steadily as new services had been added to the system. He said the project was tied to the Capital Improvement Program (CIP) for the water system. He reminded the Board that the SDCs had been adjusted in 2005.

Commissioner Simpson, seconded by Vice President Menegat, moved to approve Budget Amendment No. 3, to increase the budget for Project No. 1439 to \$596,190 for the replacement of the water main and accessories to water service on Hilyard Street. The motion passed unanimously, 5:0.

CARMEN-SMITH LICENSE APPLICATION UPDATE

Electric Division Director Jim Wiley reported that the team, comprised of Public Affairs Manager Marty Douglass, Relicensing Coordinator Catrin Van Donkelaar, Relicensing Project Manager Gale Banry, Environmental Manager Steve Newcomb, and Relicensing Coordinator trainee Greg Gardner, had dedicated many hours over the past three years to the relicensing project. He commended Ms. Van Donkelaar in particular for her work and noted that she would be moving into a different position once the draft license application was completed. Mr. Gardner would be taking her place until the final license application was submitted.

Mr. Wiley stated that most of the elements discussed in the February recommendations had remained the same. He estimated the cost of the project at \$65 million, including the life extension work. He said this did not include any treatment of downstream passage of fish at the Trailbridge facility. He predicted this would cost \$30 to \$40 million and noted it would be included in Mr. Varner's long-term financial plan.

Mr. Banry began his portion of the presentation with a short commendation for Ms. Van Donkelaar, saying she had done "a heck of a job." He reviewed the schedule. He stated that EWEB staff had met with the interested parties on April 9 and 10 and laid out EWEB's proposals. Those parties had suggested three changes, one of which was a larger change. He hoped to have a public meeting no later than May 15. He pointed out that EWEB had engaged more public involvement than the Federal Energy Regulation Commissioner (FERC) required. The public meeting sought to make the draft application available to the public and to explain what the application contained. He said this triggered the 90-day period in which the interested agencies could submit written comments, which he predicted would focus on areas in which EWEB and the agencies had differences in perspectives and opinions. He explained that EWEB would then have a period of time to respond to those comments on whether the utility agreed or disagreed with those comments and why and then make modifications to the draft. The team wanted to submit the application by November 30, 2006. He said they also proposed to have some meetings with the public and agencies again midway through the process to see if they had further questions and comments.

Mr. Banry related that staff intended to participate with the agencies in further discussions on the outstanding issue of the downstream passage at the Trailbridge facility, with the first meeting scheduled for April 20.

Mr. Banry reported that the team had been transitioning from the research development phase to decision making. He said when the application was submitted another shift would take place, but FERC would be conducting the process, calling the meetings and setting the agendas. He explained that at some point FERC would state that the application met the agency's needs and was ready for environmental review, taking either the form of an Environmental Assessment (EA) or Environmental Impact Statement (EIS). He said at that time an Endangered Species Act (ESA) consultation would be triggered because of the number of threatened species in the area.

Mr. Banry stated that in theory FERC would have a license for the Carmen-Smith facility in November 2008. He said if it did not, EWEB would continue to operate the facility with an annual license.

Continuing, Mr. Banry explained that the changes suggested by the interested parties included the spillway passage downstream from Trailbridge. He recalled that EWEB had made a proposal for the upstream passage and had some concerns about how to transition fish into the reservoir. He said the biggest concern staff had was the "criteria screen," which meant meeting all of the agencies engineering criteria for a screen, including "major" concerns on the destructibility of it, the potential adverse impact it could have on the bull trout and other species in the reservoir because of the draw down necessary to conduct the work, and concerns about "overtopping" a large copper dam system. He said once built there would be a submerged screen and there were concerns regarding how it would be maintained and kept clean. He related that EWEB had proposed a spill of fish over the spillway, but this raised issues in regard to fish mortality and how efficient EWEB could be to remove fish from the intake to the powerhouse into the spillway. He stated that some studies to address those concerns had been proposed but the results would not be in until later in the year. FERC suggested, given time constraints that EWEB explain how it planned to work through the process of finding the right solution to this problem for the final application in the draft and the agencies agreed to this. The end result was that the application would explain the ladder upstream and would indicate EWEB was working with the interested agencies to resolve the issues raised regarding the downstream fish passage.

In addition, three tribes that were stakeholders had asked EWEB to determine if there were lamprey eels in the reservoir and, if not, whether they could be reintroduced to the area. He related that the tribes had also requested that EWEB include plantings of huckleberries in its vegetation plan and staff agreed to do so.

Commissioner Simpson asked if there was an annual cost for a year-to-year license. Mr. Banry replied that there was not.

Commissioner Lanning asked if there had been any major changes since staff had oriented the Board regarding the relicensing process. Mr. Banry responded that only the cost had changed.

Ms. Von Donkelaar clarified that initial cost projections had gone down, but then some new costs on the upstream passage on the ladder construction and the cost of redoing the velocity barrier had increased by \$1 million.

President Bishop asked if the EIS would come out in draft form prior to final submission and how long the process was predicted to take. Mr. Banry replied that the EIS on the Leaburg/Waltermville facility had taken approximately seven or eight months to draft and then another four to five months to be finalized.

Commissioner Farmer expressed concern about the fish testing. It seemed to him that this issue could “make or break” the project. He observed that the alternatives were so expensive that EWEB might find it economically unfeasible. Mr. Banry responded that EWEB would first look at the criteria screens, but if FERC were convinced there were some significant problems with the construction and maintenance of the facility there would be no point in building it. He thought in that case EWEB would want to look at the next best alternative, whatever that might be, and go through the same sort of process to determine if it was viable or not. He hoped that EWEB and FERC would be able to reach agreement on some option or combination of options. He commented that it was not a black and white situation given the variables in fish species and the different life stages of the various fish.

Mr. Berggren stressed that EWEB was not suggesting this mitigation work was unnecessary, only that half of the solution was not yet clear.

Commissioner Farmer also indicated concern that the physical transportation system for the fish had not been truly tested. He asked if there were any systems that were already in place and working. Ms. Von Donkelaar stated that from the upstream perspective, EWEB’s fish ladder was “pushing the limits” of dam height and ladder length. She said the downstream passage presented a number of challenges, such as the depth of the intake. These presented construction challenges in addition. She underscored that much of this technology was new and had not had the chance to develop a track record of success.

Commissioner Farmer reiterated that he did not wish to go down a path that the utility could not afford. Mr. Banry responded that for the utility to assume that this was where the path would lead could be disastrous. He felt the agencies were willing to work with EWEB to reach mutual agreement.

Electric Division Director Jim Wiley clarified that the cost of the project was an impact to Trailbridge and not to the Carmen-Smith facility.

In response to a question from Commissioner Lanning, Ms. Von Donkelaar stated that FERC knew the proposal included housing for Carmen-Smith personnel and it had not been a contentious issue thus far. She added that EWEB would have to do whatever was needed to get the appropriate permits for them.

President Bishop asked if it was known when the loss of generation would occur. Ms. Von Donkelaar replied that there were a couple of times that generation would be lost due to construction and also through the in-stream flows proposed from the Smith dam and from the Carmen diversion dam. She added that the water would come downstream and go into the bypass reaches for habitat enhancement. She thought the value of the loss of generation could be estimated in megawatts, but it would be more difficult to accurately predict the future cost of power. She said the proposed spill schedule for the Smith dam would amount to around 2300 megawatt hours each year.

Mr. Wiley pointed out that this was summarized in the economic table on page one of the draft application.

Commissioner Simpson questioned the high cost of bathrooms. Mr. Banry explained that it was part of the reconstruction of the campground. Ms. Von Donkelaar noted that the site was very inaccessible so staff had made a conservative estimate. She said it would be challenging to find a good way to tackle the project.

Commissioner Simpson expressed concern about the total dissolved gas (TDG) in the tail water. Ms. Von Donkelaar clarified that the TDG had to do with the Carmen powerhouse. She said under low flows there was an air valve that opened in the housing so no cavitations occurred. She stated that the amount of water that flowed through could be adjusted but staff was also looking into replacing the turbines. She predicted that after the work in the powerhouse, most likely monitoring would show that the problem had been resolved.

Regarding the locations that were stranding, dewatering, and managing through new ramping protocols, Commissioner Simpson asked how EWEB had permission to violate the protocols. Ms. Von Donkelaar noted that this was in the context of ramping below Trailbridge. She stated that this was something staff was exploring and at this point did not know if it could be included in the relicensing application.

In response to a question from Commissioner Simpson, Mr. Banry explained that the creek along side the transmission lines was being warmed because of a lack of shade. Ms. Von Donkelaar said staff was working on options that might cool the water before it reaches the transmission lines as well as options that included increasing vegetation.

Commissioner Farmer predicted that planting huckleberries would bring bears and then the bears would eat the fish and eels.

Public Affairs Manager Marty Douglass passed out the *Carmen-Smith Relicensing Public*

Involvement Plan. He said the Board should feel free to contact him with any questions or comments.

President Bishop thanked everyone for his or her work and, in particular, Ms. Von Donkelaar.

Commissioner Lanning, seconded by Vice President Menegat, moved to approve the proposals as documented in the attachment entitled **Draft License Application: Recommendations** for Carmen-Smith. The motion passed unanimously, 5:0.

FINANCIAL RESERVE TARGETS AND STATUS

Fiscal Services Supervisor Dick Varner provided a power point presentation on EWEB **Reserves**. He noted that staff had asked EWEB's auditors to comment on the reserves proposed by staff for the two utilities and post-retirement benefits and the comments were included in a memorandum from *Moss-Adams LLP* entitled **Comments on Reserves**. He said that after the actions requested from the Board, the electric utility would be two-thirds funded with a projection that EWEB would be closing in on the new funding level by the end of 2006. He predicted that by the end of 2007 EWEB would be funded at the new reserve targets and would be nearly three years ahead of the original schedule. The water utility, however, had no operating reserve and was not fully funded.

Regarding pension reserves, Mr. Varner stated that the reserves held enough money to cover approximately 10 percent of the unfunded actuarial liability (UAL). He reported that Government Accounting Standards Board Statement No. 45 now required the utility to address the future funding of this liability. Regarding the supplemental retirement fund, he recommended that EWEB use money that it had at present to at least fund the electric utility's portion of that UAL.

Mr. Varner recalled previous discussion on initiating a reserve fund for the Carmen-Smith relicensing, with a goal of having a 20 percent equity position.

In response to a question from Commissioner Simpson, Mr. Varner stated that the utility had not yet begun building the Carmen-Smith reserve.

Mr. Varner explained that the proposed new resource reserve intended to save money toward a future need, potentially to help fund some above market costs for renewable energy resources.

In response to a question from Commissioner Simpson, Mr. Varner stated that current thinking was that the earliest EWEB could get the license for Carmen-Smith would be 2008, design work would take approximately a year, and there would be long lead times for ordering equipment. He predicted that spring of 2011 would be the earliest any construction could begin.

Regarding 3(a) of the memorandum entitled **Reserves** Commissioner Farmer did not believe the level of the *Working Cash* was high enough. He noted that currently the utility maintained 30 days worth of operations and maintenance costs budgeted and he recommended that this be increased to a 45- or 60-day reserve. He voiced his agreement with the comments from the auditors, but he thought the recommendations were “wishy-washy.” He encouraged Mr. Varner to ask the auditors for specific recommendations.

Commissioner Farmer asked how an increment from a rate increase for lost opportunity renewable resources could be spent on other things. Mr. Varner explained that unless a specific mechanism was set up, all money flowed into the working cash account. He said the mechanisms set up at that point were that money automatically flowed out for capital and for the power reserve and anything else remained in that account.

Commissioner Farmer declared that if the Board raised customers’ rates for a specific purpose then the money should remain in a fund dedicated to that purpose. Mr. Varner responded that this was staff’s recommendation.

Commissioner Farmer asked what the reason was for funding the pension reserve over other reserves. Mr. Varner replied that \$500,000 annually was budgeted between the electric and water utilities because EWEB was on a pay-as-you-go basis for the supplemental retirement program. He said once this was funded, at least on the electric side, the utility would get \$400,000 in relief annually in lower revenue requirements. He clarified that once the UAL was funded it would not be included every year in the revenue requirement and in the calculation of rates.

Commissioner Farmer wondered how large the rebate would be to customers if the Board did not choose to fund the reserves. Mr. Varner replied that approximately \$3.8 million would go back to customers, equaling about a 2 percent reduction in rates, should the Board decide not to increase the level of the power reserve.

Commissioner Farmer commented that much as he would like to do so, EWEB needed to get its reserve funds “in order.”

In response to a question from Commissioner Lanning, Mr. Varner stated that the electric utility’s reserves would increase from \$44 million to \$67 million.

Commissioner Simpson favored building the reserves over giving a refund to customers.

President Bishop concurred.

Vice President Menegat, seconded by Commissioner Simpson, moved the adoption of Resolution No. 0609, establishing Reserve Targets.

Commissioner Lanning indicated he would support the resolution but he did not want anyone to misinterpret his vote. He strongly supported giving a refund should this situation arise in the future.

The motion passed unanimously, 5:0

Vice President Menegat, seconded by Commissioner Simpson, moved the adoption of Resolution No. 0610 authorizing the following transfers:

- *Transfer \$644,000 from the Electric Working Cash to the Non-Power Operating reserve;*
- *Transfer \$2.4 million from the Electric Working Cash to the Supplemental Retirement Reserve.*

The motion passed unanimously, 5:0.

ITEMS REMOVED FROM THE CONSENT CALENDAR

President Bishop stated that she had pulled Item 10 (Weyerhaeuser MDF Power Sales Agreement) from the Consent Calendar because she did not believe it should have appeared on the Consent Calendar. She declared that it was a change in the way rates were set that brought rates more in line with the cost of service allocation (COSA). She also wondered if there were any sections that would be appended before the General Manager would sign the contract.

Power Resources Division Director Dick Helgeson stated that the terms of the contract were complete. He said it was not unusual in the final stages to find typographical errors or to have to clarify language. This was why staff was asking for the Board to authorize the General Manager to sign the contract. He stressed that there would be no substantial changes to the contract after Board approval.

Mr. Varner said the contract was designed in the same format as the contract that had been made with the University of Oregon. He explained that basically the cost of delivering power to the facility would be divided by 12 and paid in equal monthly payments for the delivery charge. And then, based on EWEB's budget and their COSA, staff would determine what the power rate should be based on certain assumptions. He stated that there would be a true up wherein the actual revenue was reviewed and whichever party was long would reimburse the other party.

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Vice President Menegat, seconded by Commissioner Lanning, moved to approve Item 10, (Weyerhaeuser MDF Power Sales Agreement) Board approval to execute a new power sales agreement for service to Weyerhaeuser's West Eugene MDF facility. The motion passed unanimously, 5:0.

President Bishop adjourned the meeting at 9:32 p.m.

Assistant Secretary

President